BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF	)	
CHESAPEAKE UTILITIES CORPORATION	)	
FOR APPROVAL OF A CHANGE IN ITS	)	PSC DOCKET NO. 17-1021
GAS SALES SERVICE RATES ("GSR")	)	
TO BE EFFECTIVE NOVEMBER 1, 2017	)	
(FILED SEPTEMBER 1, 2017)	)	

ORDER NO. 9218

I. PROCEDURAL HISTORY

1. On September 1, 2017, Chesapeake Utilities Corporation ("Chesapeake" or "the Company") filed with the Commission the above-captioned application (the "Application") seeking approval to change its Gas Sales Service Rates ("GSR") effective for usage on or after November 1, 2017, as follows: (1) increase the Company's current GSR rate from $0.818 per Ccf to $1.023 per Ccf for customers served under rate schedules RS-1, ERS-1, RS-2, ERS-2, GS, EGS, MVS, EMVS, and LVS; (2) increase the Company's current GSR rate from $0.360 per Ccf to $0.468 per Ccf for customers served under rate schedules GLR and GLO; (3) increase the Company's current GSR rate from $0.628 per Ccf to $0.782 per Ccf for customers served under rate schedule HLFS; (4) increase the Company's firm balancing rate for transportation customers served under rate schedule GS and EGS from $0.076 per Ccf to $0.093 per Ccf; (5) increase the Company's firm balancing rate for transportation customers served under rate schedule MVS and EMVS from $0.100 per Ccf to $0.111 per Ccf; (6) decrease the Company's firm balancing rate for transportation customers served under rate schedule LVS from $0.089 per Ccf to $0.084 per Ccf; (7) decrease the Company's firm balancing rate

for transportation customers served under rate schedule HLFS from $0.017 per Ccf to $0.014 per Ccf; and (8) decrease the Company's interruptible balancing rate for transportation customers served under rate schedule ITS from $0.012 per Ccf to $0.011 per Ccf. With its Application, the Company also requested a tariff revision which, if approved, would permit the Company to file for an out-of-cycle adjustment to its GSR when its estimated over- or under-collection exceeds three percent.

2. On September 28, 2017, the Commission issued Order No. 9119 after determining, pursuant to 26 *Del. C.* §§304 and 306, that the proposed GSR changes should be permitted to become effective for usage on and after November 1, 2017, subject to refund and pending the Commission's further review and final decision.

3. In addition, Order No. 9119 designated R. Campbell Hay as the Hearing Examiner for this proceeding pursuant to 26 *Del. C.* §502 and 29 *Del. C.* ch. 101. The Commission also ordered that it may rescind the designation of a Hearing Examiner for this proceeding if no petitions to intervene, material objections, or written comments raising significant issues were received prior to the established intervention and comment deadline of October 31, 2017.

4. The Delaware Division of the Public Advocate ("DPA") filed its Statutory Notice of Intervention on October 16, 2017.

5. Chesapeake published notice of the filing of its Application in *The News Journal* newspaper on October 10, 2017 and the *Delaware State News* on October 11, 2017. (Hearing Exhibit 1.) The Commission did not receive any other petitions to intervene nor any comments raising significant issues from any person or entity.

6. On December 7, 2017, by Order No. 9153, the Commission rescinded the designation of R. Campbell Hay as the Hearing Examiner for this docket. Order No. 9153 stated that the Commission would consider whether or not to approve the proposed changes to the GSR rates, firm and interruptible balancing rates, and the accompanying proposed tariff revisions set forth in the Application, after a duly noticed evidentiary hearing at a future regularly-scheduled Commission meeting.

7. The Commission scheduled the public evidentiary hearing for May 22, 2018. On April 13, 2018, and April 17, 2018, Chesapeake published notice of the evidentiary hearing in the *Delaware State News* and *The News Journal* newspapers, respectively. (Hearing Exhibit 1.)

II. PRE-HEARING TESTIMONY

8. With the Application (Hearing Exhibit 2), the Company filed the written direct testimony and schedules of Matthew M. Everngam, a Regulatory Analyst III with the Company (Hearing Exhibit 3). Mr. Everngam described the mechanics of the three GSR charges, explained the development of the firm and interruptible sales volumes and total system requirements, and discussed the development of the unaccounted for gas volumes. In addition, Mr. Everngam supported the overall calculation of the three proposed GSR charges, as well as the mechanics of the proposed balancing rates for transportation service. Mr. Everngam also illustrated the impact of the proposed GSR charges on an average residential customer’s bill and demonstrated the Company’s compliance with the gas cost provisions outlined in previous Commission orders.

9. Mr. Everngam testified that compared to the rates that were in effect November 1, 2016, an average RS-2 customer using 700 Ccf per year

will experience an annual increase of approximately 15.13%, or $11.96 per month, under the proposed rates. During the winter heating season, a typical RS-2 customer on Chesapeake's system using 110 Ccf per month will experience an increase of approximately 17.08%, or $22.55 per winter month. A typical RS-2 customer using 120 Ccf per winter month will experience an increase of approximately 17.38%, or $24.60 per winter month.

10. Mr. Everngam also addressed the Company's request for a tariff revision which, if approved, would permit the Company to file for an out-of-cycle adjustment to its GSR when its estimated over- or under-collection exceeds three percent. He noted that the existing over- and under-collection thresholds of 4.5 percent and six percent respectively, which *require* an out-of-cycle adjustment, would remain in place. The proposed revision would allow the Company to manage the over/under collection balance more proactively, which could reduce the size of the rate swings that customers experience when the over/under collection amount is rolled into the GSR annual adjustment.

11. Also with the Application, the Company filed the written direct testimony of William R. Kriss, Manager of Gas Supply and Transportation Services (Hearing Exhibit 4.) Mr. Kriss provided support for the gas costs used in the calculation of the three proposed GSR rates to be effective with service rendered on and after November 1, 2017. Mr. Kriss also discussed the Company's gas supply and procurement activities as required by Commission Order No. 4767, issued on April 14, 1998 in the Company's GSR filing in Docket No. 97-294F.

12. On February 28, 2018, Commission Staff ("Staff") filed the

written direct testimony of Jason R. Smith, Public Utility Analyst III, and Staff and DPA ("Staff/DPA") filed the written direct testimony of Jerome D. Mierzwa, a Principal and Vice President of Exeter Associates, Inc. (Hearing Exhibits 5 and 6, respectively.) Mr. Smith testified that he examined the Application and supporting schedules; Chesapeake's responses to data requests; prior GSR dockets, orders, and settlement agreements; and Chesapeake's quarterly hedging reports and Long-Term Supply and Demand Strategic Plans ("Supply Plans") for the last five years. Mr. Smith concluded that the proposed rates are just and reasonable and in the public interest and he therefore recommended that the Commission approve the GSR and firm balancing rates as filed.

13. Mr. Mierzwa testified that he reviewed Chesapeake's Application and its gas procurement practices and policies. Based on his review, Mr. Mierzwa made four recommendations:

> (a) in its next GSR application, the Company should modify the design and calculation of the balancing charges assessed to transportation customers to (i) reflect the annualized costs associated with the Eastern Shore Natural Gas Company ("ESNG") capacity utilized to provide balancing service; (ii) include actual liquefied natural gas peaking service an propane costs; (iii) exclude upstream non-storage related pipeline transportation capacity; and (iv) reflect the recent changes in ENSG's rate design structure;
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> (b) several provisions of the settlement agreement approved in the Company's 2016 GSR proceeding should be extended for an additional year;
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> (c) the Company should not be authorized to acquire additional ESNG capacity until it demonstrates that its design day demand forecasts are reasonable; and
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> (d) the Company should not retire any of its on-system propane facilities unless it can demonstrate that retirement of a facility is in

the best interest of its ratepayers.

Mr. Mierzwa also stated that Staff/DPA did not oppose the Company's proposed tariff revision that would provide the Company with the option to file to revise its rates if the over- or under-collection balance exceeds three percent. He recommended, however, that the Company consult with Staff/DPA prior to making such a filing.

14. Mr. Mierzwa outlined his analysis of the Company's design day demand projections and found that the projections appear to exceed actual and recent experience. Using data from December 2017, which was the most recent data available at the time, Mr. Mierzwa projected that the Company's design day demand was 7,186 Dth fewer, or eight percent less, than the Company's projection. He recommended, therefore, that before the Company acquire additional ENSG capacity or retire one of its propane peak shaving facilities, it should re-evaluate its forecasting procedures and demonstrate that its design day demand projections are reasonable.

15. Mr. Mierzwa also testified that the following aspects of the settlement agreement approved in the Company's 2016 GSR proceeding, PSC Docket No. 16-0908, should be continued:

> **Item 1**. The Company should continue to monitor the level of its over/under collection balance to determine whether a change in the methodology used to calculate its GSR rate is necessary. The Company should hold quarterly discussions with the Staff and DPA, at their request, for the purpose of review the Company's over/under collection balances, hedging program, and other areas of interest to the Settling Parties, such as what measure could be implemented in the Company's annual GSR filing to reduce the volatility of GSR

rates caused by the amortization of gas cost over-and-under collections.

Item 2. The Company should continue to utilize its annual Supply Plan as a mechanism by which to notify the Settling Parties of the need for all new capacity additions. When the Company needs to acquire capacity that was not previously identified in its most recent Supply Plan, the Company should provide the information agreed to in the Settlement Agreements to PSC Docket Nos. 08-269F and 09-398F regarding ESNG capacity acquisitions and to continue to provide this information for potential upstream capacity additions as well.[1] The Company should provide this information for both ESNG and upstream capacity on a confidential basis only. The Company should continue to review its design day forecasting methodology each year at the time the Supply Plan is developed to ensure its validity. The Company should also review and comment on any alternative design day forecasting methodology proposals submitted by either Staff or the DPA during the course of any review of the Company's Supply Plan.

Item 3. Chesapeake should continue to provide Staff and DPA with periodic updates regarding any intervention by the Company in Federal Energy Regulatory Commission ("FERC") proceedings and actions taken by the Company on behalf of the Company's ratepayers, including, but not limited to, an enumeration of each issue and the position that the Company is actively pursuing. The Company should provide such periodic updates to Staff and DPA subject to the Company's ability to provide this information on a confidential basis when appropriate.

Item 4. As agreed in prior dockets, the Company

[1] In the Settlement Agreements in Docket Nos. 08-269F and 09-398F, the Company agreed to provide (on a confidential basis and for informational purposes only) an evaluation of the need for the new capacity addition. The evaluation would include, but not be limited to, an analysis of the options considered by the Company, any applicable cost benefit analysis, and support for any updated design day projections. Staff and DPA would have an opportunity to comment on the Company's evaluation, provided that all such comments would be submitted to the Company within fifteen (15) business days after receipt of the Company's evaluation. *See* PSC Docket No. 08-269F Proposed Settlement at Paragraph 8 (attached as Attachment "B" to Order No. 7607, dated July 7, 2009) and PSC Docket No. 09-398F Proposed Settlement at Paragraph 7 (attached as Attachment "B" to Order No. 7837, dated September 7, 2010).

> should continue with the following practices: (a) the Company will notify Staff and the DPA of any supplier refunds that may impact the GSR charges; (b) the Company should continue to include in future GSR applications an update on steps taken to mitigate the effects of changes in gas costs; (c) the Company should provide information on the total sales volumes, costs, and margins by month for Interruptible Gas Transportation sales as part of its GSR applications; and (f) the Company will calculate the impact on its proposed GSR rates had a thirty-year average degree days been used and provide such information as part of the discovery process, when and if requested.

16. On April 6, 2018, the Company filed the written rebuttal testimonies of Christopher Redd and Mr. Kriss (Hearing Exhibits 7 and 8, respectively). Mr. Redd is the Director of Gas Operations, Engineering and Supply for the Company's natural gas distribution businesses in Delaware and Maryland. Mr. Redd testified that the Company plans to retire its propane peak shaving facility located at its Queen Street headquarters when it relocates its headquarters to a new office building. Mr. Redd stated that the retirement of the facility is necessary because: (a) repairs and maintenance are costly due to the advanced age of the facility; and (b) the facility needs significant safety and security upgrades. Mr. Kriss provided additional support for the assumptions used in the Company's demand forecasting model and noted that data from January 2018, which were unavailable at the time Mr. Mierzwa submitted testimony, showed that projected demand was only 2,349 Dth higher than actual demand.

17. On May 3, 2018, after conducting substantial written discovery on the Company's rebuttal testimony, Staff/DPA reached an agreement in principle with the Company which, if approved by the Commission, will resolve all issues in this docket.

III. EVIDENTIARY HEARING

18. On May 22, 2018, the Commission conducted a duly-noticed public evidentiary hearing at its regularly scheduled meeting. No members of the public appeared or otherwise offered comment. At the start of the hearing, the Commission Chair admitted the eight exhibits referenced above into the record without objection.

19. In opening remarks, the Company, Staff and DPA each recommended approval of the GSR and balancing rates as filed and each indicated their agreement to continue the identified provisions of the settlement agreement approved by the Commission in the last GSR proceeding, PSC Docket No. 16-0908, as recommended by Staff/DPA witness Mierzwa. In addition, the Company stated that it will propose, in its next GSR application, transportation service balancing charges consistent with the approach described in Mr. Mierzwa's testimony and further refined in rebuttal discovery responses. Staff and DPA agreed that the Company's design day projections and capacity resources as reflected in its 2017-2018 Gas Supply Plan for the 2018-2019 winter season are reasonable, including the proposed retirement of the Queen Street propane-air facility. Staff and DPA also indicated their agreement with the Company's proposed tariff revision allowing for out-of-cycle adjustments when the over- or under-collection exceeds three percent, so long as the Company consults with Staff/DPA seven calendar days prior to making such a filing.

20. Staff witness Smith testified at the evidentiary hearing that the proposed GSR and balancing rates are just and reasonable and adoption thereof would be in the public interest. Mr. Smith also testified that

adoption of the agreements reached by the parties, as described in opening remarks, would also be in the public interest.

III. FINDINGS

21. The Commission has reviewed the Application and the parties' written and oral testimonies and has determined that it is just and reasonable and appropriate for the proposed GSR and firm balancing rates to be approved as final; for Chesapeake to continue to comply with the four items from prior settlement agreements identified above in Paragraph 15 and footnote 1; for the Company to propose in its next GSR application transportation balancing rates consistent with Mr. Mierzwa's recommendations; and for the Company to revise its tariff to permit an out-of-cycle GSR application when the over- or under-collection balance exceeds three percent (provided that the Company consults with Staff and DPA seven calendar days prior to making such a filing), all as recommended by the parties.

IV. ORDER

AND NOW, THEREFORE, THIS 22nd DAY OF MAY, 2018, BY THE AFFIRMATIVE VOTE OF NOT FEWER THAN THREE COMMISSIONERS, IT IS HEREBY ORDERED AS FOLLOWS:

1. That Chesapeake's proposed Gas Sales Service Rates are approved as just and reasonable rates, effective on and after November 1, 2017, as set forth below:

Service	Gas Sales Service Rate
RS-1, ERS-1, RS-2, ERS-2, GS, EGS, MVS, EMVS, LVS	$1.023 per Ccf
GLR, GLO	$0.468 per Ccf
HLFS	$0.782 per Ccf

2. That Chesapeake's proposed Firm Balancing Rates are approved as just and reasonable rates, effective on and after November 1, 2017, as set forth below:

Service	Firm Balancing Rate
GS,EGS	$0.093 per Ccf
MVS, EMVS	$0.111 per Ccf
LVS	$0.084 per Ccf
HLFS	$0.014 per Ccf
ITS	$0.011 per Ccf

3. That Chesapeake shall continue to comply with the four items from prior settlement agreements as described above in Paragraph 15 and footnote 1.

4. That all Tariff revisions filed by Chesapeake on September 1, 2017, and the revised rates and charges therein are approved as described above, and shall be effective for gas service rendered on or after November 1, 2017 at the rates set forth above, until further Order of the Commission. No later than five (5) business days from the date of this Order, the Company shall file revised Tariffs which comply with the Order.

5. That the Commission reserves jurisdiction and authority to enter such further orders in this matter as may be necessary or proper.

BY ORDER OF THE COMMISSION:

Chair

Commissioner

Commissioner

Commissioner

Commissioner

ATTEST:

Secretary