



December 20, 2017

Ms. Donna Nickerson, Secretary
Delaware Public Service Commission
861 Silver Lake Boulevard
Cannon Building, Suite 100
Dover, Delaware 19904

Re: Chesapeake Utilities Corporation – Application for Approval of Natural Gas Expansion Service Offerings

Dear Ms. Nickerson:

Enclosed for filing with the Delaware Public Service Commission is an original copy of the Application for Approval of Natural Gas Expansion Service Offerings of Chesapeake Utilities Corporation.

Also enclosed is the Commission's "Filing Cover Sheet."

If you have any questions with respect to the above, please do not hesitate to contact me at 302.226.8702.

Sincerely,

/s/ James D. Nutter

James D. Nutter, Esq.
Parkowski, Guerke & Swayze P.A.

Counsel for:
Chesapeake Utilities Corporation

Enclosures

Cc (by email): Robert Howatt, PSC Executive Director
Matthew Hartigan, PSC Deputy Director
Jason R. Smith, Public Utilities Analyst
Robert Willard, Deputy Attorney General
Thomas D. Walsh, Deputy Attorney General
Andrew Slater, Public Advocate
Regina A. Iorii, Deputy Attorney General
Andrea Maucher, Public Utilities Analyst



<u>For PSC Use Only:</u>	
Docket No.	_____
Filing Date:	_____
Reviewer:	_____
Given to:	_____

**DELAWARE PUBLIC SERVICE COMMISSION
FILING COVER SHEET**

1. NAME OF APPLICANT: Chesapeake Utilities Corporation
2. TYPE OF FILING:
- | | |
|----------------------|----------|
| RATE CHANGE | ___ |
| FUEL ADJUSTMENT | ___ |
| ADMINISTRATIVE | ___ |
| CPCN | ___ |
| NEW SERVICE OFFERING | <u>X</u> |
| OTHER | ___ |

IF A TELECOMMUNICATIONS FILING, WHAT TYPE OF SERVICE IS IMPACTED?
(PLEASE CHECK)

BASIC___ COMPETITIVE___ DISCRETIONARY

3. PROPOSED EFFECTIVE DATE: Upon PSC Approval

IS EXPEDITED TREATMENT REQUESTED? YES ___ NO X

4. SHORT SYNOPSIS OF FILING: Chesapeake Utilities requests approval of natural gas expansion service offerings.

5. DOES THIS FILING RELATE TO PENDING DOCKETS? YES___ NOX

IF SO, PLEASE LIST DOCKET(S) NO(S):

6. IS PUBLIC NOTICE REQUIRED? YES X NO
IF YES, PLEASE ATTACH COPY OF PROPOSED PUBLIC NOTICE.

7. APPLICANT'S CONTACT PERSON:
- | | |
|-------------|---------------------------|
| (NAME) | Bill O'Brien |
| (TITLE) | Associate General Counsel |
| (TELE. NO.) | 302.270.7923 |
| (FAX NO.) | 302.734.6750 |

8. DID YOU PROVIDE A COMPLETE COPY OF THE FILING TO THE PUBLIC ADVOCATE?

YES X NO ___ IF SO, WHEN? December 20, 2017

9. FILING FEE ENCLOSED: \$100.00
(AMOUNT)

NOTE: House Bill 681, enacted into law 7/13/98, authorizes the Commission to recover the cost of time spent by in-house staff to process all filings initiated after the date of enactment. You may be required to reimburse the Commission for staff time.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons listed below in accordance with the requirements of 26-1000-1001 Del. Admin. Code § 1.6.6.

VIA ELECTRONIC MAIL

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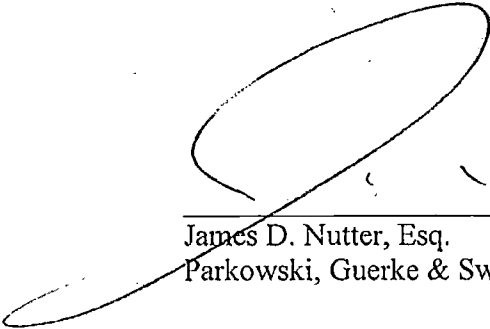
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Date: December 20, 2017



James D. Nutter, Esq.
Parkowski, Guerke & Swayze P.A.

Counsel for:
Chesapeake Utilities Corporation
jnutter@pgslegal.com

“DRAFT”

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

**IN THE MATTER OF THE APPLICATION OF)
CHESAPEAKE UTILITIES CORPORATION)
FOR APPROVAL OF NATURAL GAS) P.S.C. DOCKET NO. 17-
EXPANSION SERVICE OFFERINGS)
(FILED DECEMBER 20, 2017))**

PUBLIC NOTICE

**TO: ALL NATURAL GAS CUSTOMERS OF CHESAPEAKE UTILITIES
CORPORATION AND ANY OTHER INTERESTED PERSONS**

Pursuant to 26 Del. C. 201, Chesapeake Utilities Corporation (“Chesapeake”) has filed with the Delaware Public Service Commission (“the Commission”) an application proposing natural gas expansion service offerings outside its existing Expansion Area in southeastern Sussex County to expand the availability of natural gas to residents, communities, and businesses throughout the rest of its service territory in Delaware, where natural gas service is not widely available. In this application Chesapeake has requested approval to apply the Infrastructure Expansion Service (“IES”) rates approved by the Commission in Order 8479 entered in PSC Docket No. 12-292 (the “Expansion Docket”) to residents and businesses within Chesapeake’s service territory if elected by the residents or businesses and where it is not otherwise economical for Chesapeake to provide service.

The effect on the charges, for those projects that are not otherwise economical, and where the customers elect the IES monthly charges, is outlined below:

Rate Schedule	Current Monthly Customer Charge	Proposed Monthly Customer Charge (if elected)
RS-1	\$13.50	\$16.50
RS-2	\$13.50	\$31.75
GS	\$31.50	\$56.00
MVS	\$80.00	\$158.75

At its meeting on _____, the Commission determined to open a proceeding to

investigate the application and will render a decision pending public evidentiary hearings which will be conducted upon due public notice. The Commission's actions in this matter will be based upon the evidence presented at such hearing(s).

You are invited to review Chesapeake's application and supporting documents to determine how your interests may be affected by going to DelaFile (<https://delafile.delaware.gov>), the Commission's file management system, and by searching for Docket No. 17-_____.

Interested persons or entities are afforded the opportunity to file comments or objections to the proposed change in the ER rate. Such comments or objections shall be filed *on or before* _____, 2018 using DelaFile.

If you wish to formally participate as a party in this matter, with the right to present evidence and be represented by counsel, you must file with the Commission a petition asking for leave to intervene in accordance with the requirements of the Commission's Rules of Practice and Procedure (26 Del. Admin. C. §1001-2.9) *on or before* _____, 2018. All such petitions should be also be filed in DelaFile according to the Commission's Rules ((26 Del. Admin. C. §1001-1.6.4). Petitions for intervention that are not received by the Commission *on or before* _____, 2018, will not be granted unless good cause is shown. If intervention status is granted, any intervenor wishing to oppose the Application must file pre-filed testimony with the Commission on or before **January 12, 2018**. Any submissions sent by an intervenor that are not received by the Commission *on or before* _____, 2018 will not be considered. Such submissions shall be filed using DelaFile to be served on the persons identified in **Order No. XXXX** in this docket.

On _____, 2018, *starting at 1:00 p.m.*, the Commission will consider whether to grant Chesapeake's Application. The evidentiary hearing will be held at the Commission's office located at 861 Silver Lake Boulevard, Cannon Building, Suite 100, Dover, Delaware 19904. The Commission will render a decision based upon the evidence presented to it at this evidentiary hearing. In addition, the Commission will accept public comments on the

Application immediately prior to the commencement of the evidentiary hearing on February 20, 2018.

If you would like to review documents at the Commission's offices, please contact Donna Nickerson at (302) 736-7500 or by sending an email addressed to donna.nickerson@state.de.us. You may also review copies of Chesapeake's application and supporting documents at the office of the Division of the Public Advocate located at either 820 North French Street, 4th Floor, Wilmington, Delaware 19801 or 29 South State Street, Dover, Delaware 19901. Please call either (302) 577-5077 or (302) 241-2555 to arrange for a time to review the documents at either of those locations.

If you wish to request copies of documents in this matter, please submit a Freedom of Information Act Request Form. The link to this form can be found on the Commission's website, <https://depsec.delaware.gov>, or by visiting this web address https://delaware.gov/help/foia_request.shtml?subj=DOS. The Commission will respond to your request in accordance with the Delaware Freedom of Information Act, 29 *Del. C. ch.* 100.

If you have a disability and wish to participate or to review the materials in this matter, please contact the Commission to discuss any auxiliary aids or services you might need to help you. You may contact the Commission in person, by writing, by telephone (including text telephone), by Internet e-mail, or other means.

If you have questions about this matter, you may call the Commission at 1-800-282-8574 (toll-free in Delaware) or (302) 736-7500 (voice and text telephone). You may also send questions regarding this matter by Internet e-mail addressed to jason.r.smith@state.de.us.

APPLICATION

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE**

**IN THE MATTER OF THE APPLICATION OF)
CHESAPEAKE UTILITIES CORPORATION)
FOR APPROVAL OF NATURAL GAS) P.S.C. DOCKET NO. 17-
EXPANSION SERVICE OFFERINGS)
(FILED DECEMBER 20, 2017))**

**APPLICATION FOR APPROVAL OF
NATURAL GAS EXPANSION SERVICE OFFERINGS**

Chesapeake Utilities Corporation (hereinafter “Chesapeake” or “Applicant”) hereby makes application to the Public Service Commission of the State of Delaware (the “Commission”) pursuant to 26 *Del. C.* §§201, 301, and 304, for approval to apply the Infrastructure Expansion Service (“IES”) rates approved by the Commission in Order 8479, entered in PSC Docket No. 12-292 (the “Expansion Docket”), throughout its service territory when such rates are elected by the customers to be served and necessary to allow for economic expansion. In support of this Application, Chesapeake provides the written testimony of Shane Breakie, Director, Energy Services, attached hereto as Attachment “A”, and respectfully states the following:

1. Chesapeake is a Delaware corporation duly authorized by its articles of incorporation to engage in the business of transporting, distributing and selling natural gas in the State of Delaware.¹ All communications should be addressed to the Applicant as follows: Attention: Shane Breakie, Director, Energy Services, 350 South Queen Street, P.O. Box 1769, Dover, Delaware 19904, or at the following e-mail address:

¹ The voting stock of Chesapeake is publicly owned and traded on the New York Stock Exchange. Shares of Chesapeake’s common stock, 16,303,499 of which were outstanding as of September 31, 2017, are the only voting securities of Chesapeake.

sbreakie@chpk.com. All communications should also be addressed to Heidi Wagner, Regulatory Analyst III, 350 South Queen Street, P.O. Box 1769, Dover, Delaware 19904, and at the following e-mail addresses: hwagner@chpk.com and RegulatoryAffairs@chpk.com.

2. Counsel for the Applicant is James D. Nutter, Esquire, Parkowski, Guerke & Swayze P.A., 19354C Miller Road, Rehoboth Beach, Delaware 19971. Correspondence and other communications concerning this application should be directed to counsel at the foregoing address, or at the following e-mail address: jnutter@pgslegal.com. The respective phone number and fax number for counsel are 302.226.8702 and 302.226.8704.

3. Pursuant to 26 *Del. C.* §102, Chesapeake is a Commission-regulated public utility authorized to sell and distribute natural gas in portions of New Castle County and throughout Kent and Sussex County, Delaware. Chesapeake, through its Delaware Division, serves approximately 51,000 natural gas customers in Delaware pursuant to rates heretofore approved by the Commission. Chesapeake's distribution rates currently in effect were approved by the Commission in Order 8982, entered in PSC Docket No. 15-1734, on December 20, 2016.

4. Chesapeake's distribution rates include four IES rates applicable only within Chesapeake's Commission-approved "Expansion Area"² in southeastern Sussex County. The IES rates are an additional charge, added to and collected as part of the monthly customer charge, applicable to all new residential and small commercial customers in the Expansion Area taking service under the following rate classes:

² Defined as approved by the Commission in the Expansion Docket, PSC Order 8479 (Nov. 5, 2013), Attachment A ("Proposed Settlement") at paragraph 12. The Proposed Settlement also includes a map of the Expansion Area, at Exhibit C.

Expansion Area Residential Service - 1; Expansion Area Residential Service - 2; Expansion Area General Service; and Expansion Area Medium Volume Service. The difference between Chesapeake's IES rates and the monthly customer charge applicable outside of Chesapeake's Expansion Area is shown in the following table:

RATE CLASSIFICATION	MONTHLY CUSTOMER CHARGE
Residential Service - 1	\$13.50
Expansion Area Residential Service - 1	\$16.50
Residential Service - 2	\$13.50
Expansion Area Residential Service - 2	\$31.75
General Service	\$34.00
Expansion Area General Service	\$56.00
Medium Volume Service	\$80.00
Expansion Area Medium Volume Service	\$158.75

5. Chesapeake's designated Expansion Area and IES rates were approved by the Commission in the Expansion Docket following a settlement agreement adopted and memorialized in Order 8479, entered on November 5, 2013. The Expansion Docket was initiated in response to considerable interest from residents, businesses and developers seeking distribution service of natural gas – a lower cost and cleaner fuel source. In order to provide service to these customers more rapidly than Chesapeake's existing tariff rates would otherwise allow, Chesapeake sought Commission approval to collect higher monthly customer charges – through IES rates - as a way to offset the need to collect an upfront Contribution in Aid of Construction (“CIAC”) or advance from new customers in the Expansion Area. Chesapeake's applicable tariff rates and line extension policies, when applied to the amount of its initial capital investment, require that service extension projects be economical and satisfy Chesapeake's approved financial test. Consequently, in many areas of eastern Sussex County where Chesapeake did not have existing distribution infrastructure, Chesapeake's tariff provisions and line extension policies limited its ability to undertake expansion projects without collecting an upfront

CIAC or advance from the customers to be served. The additional revenue from the IES rates, however, greatly increases the number of projects that satisfy the Chesapeake's financial model, thereby allowing Chesapeake to extend its distribution system as much as three times further without requiring an upfront payment or other financial guarantee from new customers.

6. Order 8479 approving Chesapeake's Expansion Area and IES rates contains an explicit finding by the Commission that approval is "in the public interest" and will result in "just and reasonable rates that will enable Chesapeake to expand the availability of natural gas in Sussex County, thereby providing Sussex County residents and businesses with an additional alternative form of energy."³ In addition, Order 8479 required Chesapeake to file annual reports with the Commission, and a confidential comprehensive report 39 months after entry of the final order, setting forth the revenues collected under the IES rates and Chesapeake's associated capital expenditures in the Expansion Area. Chesapeake has annually filed these reports with the Commission and filed its comprehensive report on February 6, 2017. As noted in the comprehensive report, Chesapeake has successfully implemented the IES program in southeastern Sussex County, adding more than 1,500 customers while increasing levels of customer satisfaction. Chesapeake now proposes to expand this success beyond its designated Expansion Area.

7. The substantial interest in natural gas distribution service that precipitated Chesapeake's filing of the Expansion Docket exists with respect to other communities and customers within Chesapeake's service territory outside of the Expansion Area. In particular, there is one community, Hunters Ridge near Magnolia in Kent County,

³ Order 8479 at Ordering Paragraph 1.

Delaware, whose residents have persistently requested Chesapeake to extend distribution service to the community. As was the case with the Expansion Docket, however, Chesapeake's existing tariff rates and line extension policies restrict its ability to extend service without the residents paying a substantial up-front contribution or advance.

8. In order to provide natural gas service to Hunters Ridge and other communities and customers outside of the Expansion Area that request service where its otherwise not presently economical for Chesapeake to extend its distribution system, Chesapeake is hereby requesting authorization to utilize the IES rates and other line extension polices adopted in the Expansion Docket for such projects, subject to the terms and conditions set forth herein. The IES rates have already been determined by the Commission to be "just and reasonable" within the Expansion Area. Chesapeake submits that application of the IES rates outside the Expansion Area is also just and reasonable for those projects that would otherwise be uneconomic and where the residents or businesses request service under the IES rate.

9. For the reasons set forth in the pre-filed testimony submitted with this Application, Chesapeake believes there are a number customers outside of the Expansion Area that would voluntarily consent to IES rates (in lieu of a substantial upfront CIAC or advance) in order to have access to lower cost, lower emission natural gas service. As to such expansion projects, Chesapeake proposes to evaluate the economics of extending service using its approved economic test (with inputs updated to reflect the rate of return authorized by the Commission in PSC Docket No. 15-1734) and the manner of projecting conversions approved by the Commission in the Expansion Docket. Where the evaluation indicates that service can be provided under the IES rates and a sufficient

number of customers consent to the rates such that the project meets Chesapeake's internal rate of return model (or otherwise applicable economic test), Chesapeake would move forward with the project and charge IES rates to the particular community or customer. If requested, Chesapeake will annually report to the Commission, on a confidential basis, the revenues collected under the IES rates and associated capital expenditures made to extend service to each project outside of the Expansion Area.

10. Application of IES rates to projects outside of the Expansion Area as proposed herein is in the public interest and will not result in unjust or unreasonable rates, will not adversely affect the availability, cost, or quality of service to existing or future ratepayers, and will not result in existing customers subsidizing future customers. Attached as Exhibit "SB-1" to the pre-filed testimony is clean and redlined copies of Chesapeake's tariff that would allow application of IES rates outside the Expansion Area as described herein.

WHEREFORE, Applicant prays as follows:

A. That the Commission file this Application, set the form of public notice to be provided, and schedule the Application for hearing;

B. That the Commission authorize Chesapeake to charge and collect in areas outside of its Expansion Area the Infrastructure Expansion Service ("IES") rates approved by the Commission in Order 8479 where necessary to allow for economic expansion and the customers to be served agree to the IES rates, as set forth in the tariff provisions attached to this Application as Exhibit "SB-1";

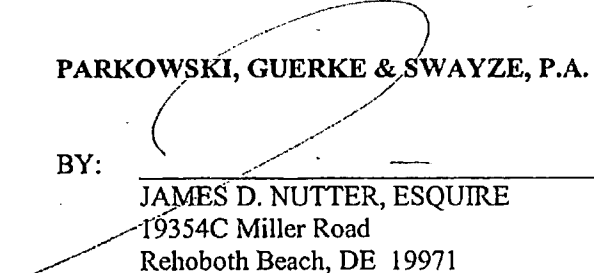
C. That the Commission grant such other relief as deemed appropriate to enable the Company to implement the above tariff revisions on a timely basis.

CHESAPEAKE UTILITIES CORPORATION

BY: **Aleida Socarras** Digitally signed by Aleida Socarras
Date: 2017.12.19 10:48:43 -05'00'

ALEIDA F. SOCARRAS
VICE PRESIDENT

PARKOWSKI, GUERKE & SWAYZE, P.A.

BY: 

JAMES D. NUTTER, ESQUIRE
19354C Miller Road
Rehoboth Beach, DE 19971
(302) 226-8702
(302) 226-8704 {Fax}

Counsel for Applicant

DATED: December 20, 2017

Cc: Delaware Public Advocate

ATTACHMENT A

BEFORE THE DELAWARE PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF)
CHESAPEAKE UTILITIES CORPORATION)
FOR APPROVAL OF NATURAL GAS) P.S.C. DOCKET NO.
EXPANSION SERVICE OFFERINGS)
(FILED DECEMBER 2017))

DIRECT TESTIMONY OF SHANE BREAKIE

On Behalf of Chesapeake Utilities Corporation

Delaware Division

Submitted for Filing: December 20, 2017

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Shane Breakie, and my business address is Chesapeake Utilities Corporation
3 (“Chesapeake”), 350 South Queen Street, Dover, Delaware 19904.

4 Q. PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE AND EDUCATIONAL
5 BACKGROUND.

6 A. I hold Bachelor of Science Degrees from the University of Delaware in Accounting and
7 in Finance and a Master’s Degree in Business Administration from Wilmington
8 University (formerly “Wilmington College”). I began my career at Chesapeake in 1993
9 and have held various positions, including Accountant, Accounting Manager, Regional
10 Distribution Customer Service Manager, Director of Consumer Services, and Director
11 of Operations. My current position title is Director of Energy Services and I have held
12 this position since 2009. In this position I support Chesapeake’s natural gas distribution
13 businesses in Delaware and Maryland, as well as Sandpiper Energy, Inc.

14 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

15 A. Yes. I previously testified before the Delaware Public Service Commission on behalf of
16 Chesapeake’s Delaware Division in a Gas Sales Service Rate proceeding and most
17 recently testified in P.S.C. Docket No. 15-1734 involving Chesapeake’s natural gas base
18 rates and tariff provisions.

19 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

20 A. The primary purpose of my direct testimony is to explain and support the development of
21 Chesapeake’s proposal to expand its natural gas service offerings for residential and
22 small commercial customers located in areas of Chesapeake’s service territory where it is
23 not currently economical for Chesapeake to extend service. My testimony will

1 summarize Chesapeake's proposal and detail the investments Chesapeake has made to
2 date in its Commission-designated Expansion Area (as defined in PSC Docket 12-292,
3 Order 8479) pursuant to the Infrastructure Expansion Service ("IES") rates previously
4 approved by the Commission. My testimony will further discuss how Chesapeake's tariff
5 and line extension policies impact its ability to provide service to residential and small
6 commercial customers located outside of the Expansion Area, and will explain how the
7 application of the IES rates in areas outside the Expansion Area will allow Chesapeake to
8 bring natural gas service to communities and customers that have repeatedly requested
9 Chesapeake to provide service and who are willing to consent to application of the IES
10 rates. Finally, my testimony will explain the economic analysis Chesapeake would apply
11 in determining whether to extend service through application of IES rates to projects
12 outside of Chesapeake's designated Expansion.

13 Q. ARE THERE ANY EXHIBITS ATTACHED TO YOUR TESTIMONY?

14 A. Yes. Exhibit SB-1 shows the proposed changes to the IES rate tariff language that had
15 been previously approved by the Commission. Exhibit SB-2 is a copy of a letter received
16 from a residential development in support of the application.

17 Q. HOW IS CHESAPEAKE PROPOSING TO EXPAND ITS NATURAL GAS SERVICE
18 OFFERINGS IN AREAS OUTSIDE THE EXPANSION AREA?

19 A. For areas where service cannot be economically provided at current rates, Chesapeake is
20 proposing to extend natural gas distribution service through application of the IES rates
21 the Commission has already approved. This would be a voluntary service offering where
22 the customer, community or business requesting service would have to consent to
23 application of the IES rate. The project must still be economical and meet Chesapeake's

1 Commission-approved financial model, so there would be no burden on Chesapeake's
2 existing rate payers.

3 Q. WOULD YOU PLEASE BRIEFLY DESCRIBE THE HISTORY OF CHESAPEAKE'S
4 IES RATES AND DESIGNATED EXPANSION AREA?

5 A. Yes. Chesapeake has been actively working for many years to enhance and expand the
6 availability of natural gas distribution service in order to better serve the energy needs of
7 residents, communities and businesses throughout its service territory. As part of this
8 effort, Chesapeake filed an application in June 2012 (PSC Docket No. 12-292) for
9 approval of various natural gas expansion service offerings that would allow Chesapeake
10 to extend its natural gas distribution facilities within a designated "Expansion Area" in
11 eastern Sussex County more quickly and effectively than would otherwise be practical
12 under Chesapeake's approved tariff provisions and line extension policies. Chesapeake
13 brought this application in response to substantial interest and demand from residents,
14 businesses and developers in eastern Sussex County for natural gas service. Among the
15 natural gas expansion service offerings for which Chesapeake sought approval was a
16 request for IES rates. IES rates are fixed charges collected through the monthly customer
17 charge.

18 The merits of Chesapeake's proposal was the subject of proceedings before the
19 Commission that resulted in a Settlement Agreement, memorialized and adopted by the
20 Commission in Order 8479, entered on November 5, 2013. Order 8479 granted
21 Chesapeake the ability to charge IES rates to all new residential and small commercial
22 customers in the Expansion Area. The IES rates approved by the Commission in the
23 Company's most recent base rate proceeding under Docket No. 15-1734 are shown in the

1 table below as compared to the non-expansion monthly customer charges:

RATE CLASSIFICATION	MONTHLY CUSTOMER CHARGE
Residential Service – 1	\$13.50
Expansion Area Residential Service – 1	\$16.50
Residential Service – 2	\$13.50
Expansion Area Residential Service – 2	\$31.75
General Service	\$34.00
Expansion Area General Service	\$56.00
Medium Volume Service	\$80.00
Expansion Area Medium Volume Service	\$158.75

2 Q. CAN YOU DESCRIBE THE CAPITAL INVESTMENTS CHESAPEAKE HAS MADE
3 AND THE CUSTOMERS CHESAPEAKE HAS ADDED IN THE EXPANSION AREA
4 SINCE THE IES RATES WERE APPROVED?

5 A. The IES rates have been extremely successful in allowing Chesapeake to expand its
6 natural gas distribution system in and throughout eastern Sussex County. Prior to the
7 Commission's adoption of Order 8479, Chesapeake served approximately 100 customers
8 in the Expansion Area. As of December 31, 2016, Chesapeake now serves more than
9 1600 customers in the Expansion Area. The customers added include local residents,
10 large and small businesses, religious institutions and government facilities. Chesapeake
11 has been able to add these customers through capital investments that now total more
12 than \$11 million in the Expansion Area, including the installation of nearly 55 miles of
13 natural gas distribution main. On average, the customers Chesapeake is now able to
14 serve in the Expansion Area are experiencing fuel cost savings of approximately 30%
15 relative to comparable fuel costs.

16 Q. WOULD CHESAPEAKE HAVE BEEN ABLE TO MAKE THIS LEVEL OF
17 INVESTMENT OR ADD THIS MANY NEW CUSTOMERS IN THE EXPANSION
18 AREA WITHOUT THE IES RATES?

1 A. No. Chesapeake's approved tariff provisions and line extension policies require that
2 distribution service expansion projects satisfy Chesapeake's financial model. This
3 assures that Chesapeake's existing ratepayers are not forced to subsidize the cost of
4 extending service to new customers. The requirement that projects be economic restricts
5 the amount of Chesapeake's initial capital investment in new service extension projects.
6 For projects that are not economic, Chesapeake's tariff provisions and line extension
7 policies prohibit the extension of service unless the customer is willing to pay the cost
8 difference in the form of an upfront contribution-in-aid-of-construction ("CIAC") or
9 advance, which can often be substantial. The additional revenue from the IES rate,
10 however, greatly increases the number of projects in the Expansion Area that satisfy the
11 economic test, allowing Chesapeake to extend its distribution system much further
12 without requiring an upfront payment from customers. A substantial number of the
13 projects undertaken in the Expansion Area would not have been completed without the
14 additional revenue from the IES rates.

15 Q. WHY IS CHESAPEAKE NOW SEEKING AUTHORIZATION TO APPLY IES RATES
16 TO PROJECTS OUTSIDE OF THE EXPANSION AREA?

17 A. The same factors that led Chesapeake to request IES rates within the designated
18 Expansion Area in eastern Sussex County exist with respect to other areas of
19 Chesapeake's service territory. There is substantial consumer and developer interest in
20 natural gas distribution service. This includes communities and developments that have
21 repeatedly requested natural gas service but which Chesapeake cannot economically
22 serve under existing tariff provisions and line extension policies. Chesapeake's
23 experience in the Expansion Area has demonstrated that many customers prefer paying

1 the higher IES rates in order to receive natural gas service, since even with the higher IES
2 rates, the customers' energy costs are normally less when compared to other fuels. In
3 addition, Chesapeake's cost analyses indicate that the capital costs required to extend
4 service to the areas requesting it are similar to the costs necessary to complete new
5 projects in the Expansion Area. Chesapeake, therefore, proposes to utilize IES rates
6 throughout its service territory where needed to allow for economic expansions and the
7 customer agrees to the IES rates in lieu of a CIAC or other form of financial guarantee.

8 Q. CAN YOU PROVIDE AN EXAMPLE OF A COMMUNITY OR AREA OUTSIDE OF
9 THE EXPANSION AREA THAT IS REQUESTING NATURAL GAS SERVICE AND
10 WILLING TO PAY IES RATES?

11 A. Yes. Hunters Ridge is a residential subdivision of approximately 65 homes near
12 Magnolia, Delaware. Attached as exhibit SB-2 to this testimony is a letter from the
13 President and Board of Directors of the Hunters Ridge homeowners' association. As
14 detailed in exhibit SB-2, Hunters Ridge has been working with Chesapeake for several
15 years to bring natural gas to the community. A survey conducted by the HOA showed
16 that 100% of the community's residents preferred natural gas as a fuel source to their
17 current service. The project is not currently economic for Chesapeake and cannot be
18 completed without a substantial CIAC of several thousand dollars per property, which
19 does not include the additional costs necessary to convert appliances and HVAC systems
20 to natural gas. The large upfront CIAC and conversion costs are more than most
21 residents are willing or able to pay. Similar to what Chesapeake has experienced with
22 customers in the Expansion Area, however, many of the residents of Hunters Ridge are
23 willing to pay the higher IES rates in order to receive the benefits of natural gas service.

1 For this reason and others, the President and Board of Directors Hunters Ridge have
2 provided exhibit SB-2 detailing their support for Chesapeake's present application.

3 Q. CAN YOU DESCRIBE THE ECONOMIC ANALYSIS CHESAPEAKE WOULD USE
4 IN DETERMINING WHETHER TO APPLY IES RATES TO PROJECTS OUTSIDE
5 OF THE EXPANSION AREA?

6 A. Chesapeake would evaluate the economics of extending service using its approved
7 financial model authorized by the Commission in Docket 15-1734. The IES rates would
8 only be used where needed to allow for economic expansions, and only where the
9 customers consent to the rate so that the project meets the internal rate of return model or
10 otherwise applicable economic test.

11 Q. CAN YOU SUMMARIZE WHY CHESAPEAKE BELIEVES THE PRESENT
12 APPLICATION IS IN THE PUBLIC INTEREST AND SHOULD BE APPROVED?

13 A. Yes. The Commission expressly found in Order 8479 that IES rates are just and
14 reasonable and in the public interest in the Expansion Area. Chesapeake has seen
15 significant customer growth and greatly increased the availability of its natural gas
16 infrastructure throughout eastern Sussex County as a result of the IES rates. This has
17 allowed Chesapeake to spread its fixed costs over a greater customer base and provided
18 energy consumers with greater choice and more access to natural gas. Allowing
19 Chesapeake to utilize IES rates outside of the Expansion Area will provide the same
20 benefit, at no cost to existing customers. Chesapeake is proposing a completely
21 voluntary service offering. Consumers that cannot access natural gas service today will,
22 to the extent IES rates make a particular expansion project economic, now have that
23 option. Even with the higher IES rate, the average customer receiving service under the

1 “Expansion Area Residential Service – 2” rate class will experience fuel cost savings of
2 approximately 30%. These fuel cost savings lead to increased disposable income for
3 customers, thus providing a direct positive impact on the local economy. Many
4 consumers also like natural gas because it is an environmentally cleaner fuel and, as
5 expressed in Exhibit SB-2, prefer the regulated and uninterrupted character of natural gas
6 to their current service which is provided at rates that are un-regulated and subject to
7 cyclical and seasonal pricing. In addition, allowing Chesapeake to utilize IES rates
8 throughout its entire service territory will accelerate the overall build-out of
9 Chesapeake’s distribution system. As Chesapeake’s distribution system is expanded,
10 more projects become economic, making it easier for Chesapeake to provide natural gas
11 to customers that want it, which aligns with the State of Delaware’s energy and economic
12 development policies supporting natural gas expansion. Finally, as more customers are
13 added, the Company’s fixed costs will be spread over a greater base.

14 Q. ONCE A CUSTOMER AGREES TO THE HIGHER IES RATES, HOW LONG WILL
15 THEY BE IN EFFECT?

16 A. Just as with the current approved IES rates, such rates will remain in effect at the meter
17 location until the IES rates are changed by the Commission.

18 Q. WHEN IS CHESAPEAKE PROPOSING FOR THIS TARIFF LANGUAGE TO
19 BECOME EFFECTIVE?

20 A. Chesapeake is proposing that it be able to charge the IES rates to applicable customers as
21 soon as possible. As evidenced by Exhibit SB-2, there is an existing residential
22 development that is anxious to convert to natural gas as soon as possible so that its
23 residents can begin saving money as compared to their current fuel. The Company’s

1 history in eastern Sussex County has shown that customers are willing to pay these
2 charges for natural gas service. As the Company is proposing to merely apply rates that
3 have already been approved in another area, it is requested that the Commission approve
4 the application as soon as possible.

5 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

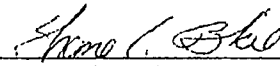
6 A. Yes, it does.

DATED: DECEMBER 19, 2017

STATE OF DELAWARE)
)
COUNTY OF KENT)

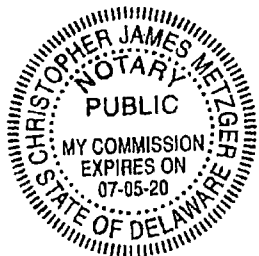
AFFIDAVIT OF SHANE BREAKIE

SHANE BREAKIE, being first duly sworn according to law, on oath deposes and says that he is the witness whose testimony appears as "Chesapeake Utilities Corporation, Delaware Division, Direct Testimony of Shane Breakie"; that, if asked the questions which appear in the text of the direct testimony, he would give the answers that are therein set forth; and that he adopts this testimony as his sworn direct testimony in these proceedings.



Shane Breakie

Then personally appeared this 19th day of December 2017 the above-named Shane Breakie and acknowledged the foregoing Testimony to be his free act and deed.
Before me,





Notary Public
My Commission Expires:
July 05, 2020

EXHIBIT SB-1

RATE SCHEDULE "ERS-1"

EXPANSION AREA RESIDENTIAL SERVICE – 1

AVAILABILITY

This Rate Schedule is available to any individually metered Customer within the southeastern Sussex County, Delaware expansion area, or any individually metered Customer outside the southeastern Sussex County, Delaware expansion area that elects to utilize this rate schedule as a condition of service, that is using gas in a residential dwelling or unit for space heating, cooking, water heating, or other domestic purpose with an annual consumption of two hundred forty (240) Ccf or less. The southeastern Sussex County, Delaware, expansion area is defined as the area east of Chesapeake's district regulator station located on Route 9 in Lewes, Delaware, that is connected to Chesapeake's distribution main and any area that is connected to Chesapeake's distribution main behind the three (3) Eastern Shore Natural Gas transmission pipeline City Gates located in Dagsboro, Frankford, and Selbyville, Delaware. The Company will annually review those Customers receiving service under this Rate Schedule in order to determine the appropriate firm residential Rate Schedule should their annual consumption warrant such a change. A Customer on ERS-1 Service will be moved to Rate Schedule ERS-2 with annual consumption equal to or greater than two hundred sixty-four (264) Ccf. This annual review process will be based on the twelve (12) months ended August. Customers will not be shifted between Rate Schedules due to changes in annual consumption other than at the annual review time.

DELIVERY SERVICE RATES

The following rates for delivering gas to the Customer's location apply to all Customers served under this Rate Schedule.

Customer Charge:	\$16.50 per month
First 20 Ccf	\$0.627 per Ccf
Next 30 Ccf	\$0.300 per Ccf
Over 50 Ccf	\$0.190 per Ccf

GAS SALES SERVICE

In addition to the above Delivery Service rates, Customers served under this Rate Schedule are subject to the gas cost rate applicable to Rate Schedule "ERS" provided on Sheet No. 42.

PAYMENT TERMS

Bills are due within twenty (20) days of their date.

Issue Date: ~~December 20, 2016~~
Effective Date: ~~January 1, 2017~~
Authorization: Order No. 8982 dated December 20, 2016 in Docket No. 15-1734

RATE SCHEDULE "ERS-2"

EXPANSION AREA RESIDENTIAL SERVICE – 2

AVAILABILITY

This Rate Schedule is available to any individually metered Customer within the southeastern Sussex County, Delaware expansion area, or any individually metered Customer outside the southeastern Sussex County, Delaware expansion area that elects to utilize this rate schedule as a condition of service, that is using gas in a residential dwelling or unit for space heating, cooking, water heating, or other domestic purpose with annual consumption of greater than two hundred forty (240) Ccf. The southeastern Sussex County, Delaware, expansion area is defined as the area east of Chesapeake's district regulator station located on Route 9 in Lewes, Delaware, that is connected to Chesapeake's distribution main and any area that is connected to Chesapeake's distribution main behind the three (3) Eastern Shore Natural Gas transmission pipeline City Gates located in Dagsboro, Frankford, and Selbyville, Delaware. The Company will annually review those Customers receiving service under this Rate Schedule in order to determine the appropriate firm residential Rate Schedule should their annual consumptions warrant such a change. A Customer on ERS-1 Service will be moved to this Rate Schedule with annual consumption equal to or greater than two hundred sixty-four (264) Ccf. A Customer on this Rate Schedule will be moved to ERS-1 Service with annual consumption less than two hundred sixteen (216) Ccf. This annual review process will be based on the twelve (12) months ended August. Customers will not be shifted between Rate Schedules due to changes in annual consumption other than at the annual review time.

DELIVERY SERVICE RATES

The following rates for delivering gas to the Customer's location apply to all Customers served under this Rate Schedule.

Customer Charge:	\$31.75 per month
First 20 Ccf	\$0.621 per Ccf
Next 30 Ccf	\$0.362 per Ccf
Over 50 Ccf	\$0.175 per Ccf

GAS SALES SERVICE

In addition to the above Delivery Service rates, Customers served under this Rate Schedule are subject to the gas cost rate applicable to Rate Schedule "ERS" provided on Sheet No. 42.

PAYMENT TERMS

Bills are due within twenty (20) days of their date.

Issue Date: December 20, 2016
Effective Date: January 1, 2017
Authorization: Order No. 8982 dated December 20, 2016 in Docket No. 15-1734

RATE SCHEDULE "EGS"

EXPANSION AREA GENERAL SERVICE

AVAILABILITY

This Rate Schedule is available to any Customer within the southeastern Sussex County, Delaware expansion area, or any individually metered Customer outside the southeastern Sussex County, Delaware expansion area that elects to utilize this rate schedule as a condition of service, that is using gas for commercial and/or industrial purposes with an annual consumption of less than four thousand (4,000) Ccf. The southeastern Sussex County, Delaware, expansion area is defined as the area east of Chesapeake's district regulator station located on Route 9 in Lewes, Delaware, that is connected to Chesapeake's distribution main and any area that is connected to Chesapeake's distribution main behind the three (3) Eastern Shore Natural Gas transmission pipeline City Gates located in Dagsboro, Frankford, and Selbyville, Delaware. The Company will annually review those Customers receiving service under this Rate Schedule in order to determine the appropriate firm commercial and/or industrial rate schedule should their annual consumption warrant such a change. A Customer on Rate Schedule EGS will be moved to Rate Schedule EMVS with annual consumption equal to or greater than four thousand four hundred (4,400) Ccf This annual review process will be based on the twelve (12) months ended August. Customers will not be shifted between Rate Schedules due to changes in annual consumption other than at the annual review time.

DELIVERY SERVICE RATES

The following rates for delivering gas to the Customer's location apply to all Customers served under this Rate Schedule.

Customer Charge:	\$56.00 per month
First 20 Ccf	\$0.426 per Ccf
Next 30 Ccf	\$0.257 per Ccf
Over 50 Ccf	\$0.119 per Ccf

GAS SALES SERVICE

In addition to the above Delivery Service rates, Customers purchasing their natural gas supply from the Company are subject to the gas cost rate applicable to Rate Schedule "EGS" provided on Sheet No. 42.

Issue Date: ~~December 20, 2016~~
Effective Date: ~~January 1, 2017~~
Authorization: Order No. 8982 dated December 20, 2016 in Docket No. 15-1734

RATE SCHEDULE "EMVS"

EXPANSION AREA MEDIUM VOLUME SERVICE

AVAILABILITY

This Rate Schedule is available to any Customer within the southeastern Sussex County, Delaware expansion area, or any individually metered Customer outside the southeastern Sussex County, Delaware expansion area that elects to utilize this rate schedule as a condition of service, that is using gas for commercial and/or industrial purposes with an annual consumption generally equal to or greater than four thousand (4,000) Ccf and less than fifteen thousand (15,000) Ccf. The southeastern Sussex County, Delaware, expansion area is defined as the area east of Chesapeake's district regulator station located on Route 9 in Lewes, Delaware, that is connected to Chesapeake's distribution main and any area that is connected to Chesapeake's distribution main behind the three (3) Eastern Shore Natural Gas transmission pipeline City Gates located in Dagsboro, Frankford, and Selbyville, Delaware. The Company will annually review those Customers receiving service under this Rate Schedule in order to determine the appropriate firm commercial and/or industrial Rate Schedule should their annual consumption warrant such a change. A Customer on Rate Schedule EGS will be moved to this Rate Schedule with annual consumption equal to or greater than four thousand four hundred (4,400) Ccf. A Customer on this Rate Schedule will be moved to Rate Schedule EGS with annual consumption less than three thousand six hundred (3,600) Ccf. The annual review process will be based on the twelve (12) months ended August. Customers will not be shifted between Rate Schedules due to changes in annual consumption other than at the annual review time.

DELIVERY SERVICE RATES

The following rates for delivering gas to the Customer's location apply to all Customers served under this Rate Schedule.

Customer Charge:	\$158.75 per month
First 200 Ccf	\$0.242 per Ccf
Over 200 Ccf	\$0.130 per Ccf

GAS SALES SERVICE

In addition to the above Delivery Service rates, Customers purchasing their natural gas supply from the Company are subject to the gas cost rate applicable to Rate Schedule "EMVS" provided on Sheet No. 42.

Issue Date: ~~December 20, 2016~~

Effective Date: ~~January 1, 2017~~

Authorization: Order No. 8982 dated December 20, 2016 in Docket No. 15-1734

RATE SCHEDULE "ERS-1"

EXPANSION AREA RESIDENTIAL SERVICE – 1

AVAILABILITY

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Authorization: Order No. 8982 dated December 20, 2016 in Docket No. 15-1734

RATE SCHEDULE "ERS-2"

EXPANSION AREA RESIDENTIAL SERVICE – 2

AVAILABILITY

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RATE SCHEDULE "EGS"

EXPANSION AREA GENERAL SERVICE

AVAILABILITY

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Issue Date:

Effective Date:

Authorization: Order No. 8982 dated December 20, 2016 in Docket No. 15-1734

RATE SCHEDULE "EMVS"

EXPANSION AREA MEDIUM VOLUME SERVICE

AVAILABILITY

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GAS SALES SERVICE

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Issue Date:

Effective Date:

Authorization: Order No. 8982 dated December 20, 2016 in Docket No. 15-1734

EXHIBIT SB-2

Hunters Ridge Homeowners Association
101 Byrneberry Court
Magnolia, DE 19962

Delaware Public Service Commission
861 Silver Lake Blvd.
Dover, DE 19904

Dear Commissioners,

15 October 2017

We are writing on behalf of 65 homeowners we represent in our Association. For several years we have been working with Chesapeake Natural Gas in order to bring natural gas to our community and rid ourselves of propane. I am sure you are well aware of the cyclical nature of propane pricing, as well as the financial liabilities of propane served homes when the storage tank is leased.

The situation we find ourselves in involves high costs of propane with a leased tank and subject to the whims of the un-regulated propane providers in our state. Many homeowners are unable to purchase their tanks in order to help bring their costs under control somewhat. In addition, we face all kinds of spikes in costs due to weather and availability. These problems are not associated with natural gas. In addition every homeowner who owns their tank must have liability insurance for the storage tank; which is an underground bomb should something go woefully wrong. Also, natural gas offers an uninterrupted supply of fuel for every home, which propane does not. Critically important during winter months when roads are closed due to a storm. The natural gas pipeline does not shutdown due to weather!

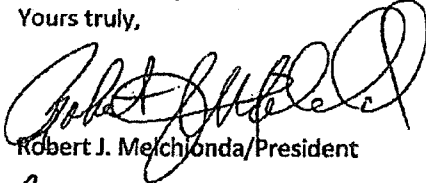
A couple years ago we surveyed our community in cooperation with Chesapeake Natural Gas. We had a 100% vote favoring natural gas as our fuel of choice. We took our community survey before Chesapeake Natural Gas and asked for the financial costs associated with bringing the gas main from approximately Nascar Lane to Hunters Ridge Way, about 1/3 of a mile and then installing a network in our community. The costs were too high for most if not all homeowners to bear, approximately \$325-350,000. This would equate to approximately \$5,000.00 per home plus the cost of conversion. There had to be a better way forward.

Again, we asked Chesapeake Natural Gas for an alternative solution that would enable us to join the pipeline and receive an uninterrupted, low cost supply of gas. After much deliberation a solution was offered. This solution was the "Expansion Program" currently in use in Sussex County, which you are familiar with. Without the high upfront costs associated with construction, this would enable most if not all homeowners to afford the cost of conversion of their home systems from propane to natural gas and allow us to join the pipeline.

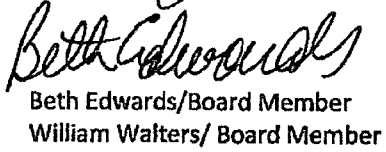
We understand there is a petition before the board on behalf of Chesapeake natural gas to enlarge the "Expansion Program" catchment area to include Kent County as well. Therefore we would like to join our voice with Chesapeake Natural Gas in requesting the enlargement of this program. As homeowners, we cannot understand why this program is not in use state-wide! We can understand the use of propane for remote and rural applications. However, we are not remote, nor rural. Please consider favorably the request of Chesapeake Natural Gas to enlarge this program not only for us, but for the entire state. We need to move our state and community forward with infrastructure for the 21st century

and beyond. This is a critical step in that direction that will serve our community and state for many, many years to come.

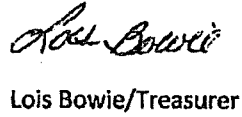
Thank you for your attention and consideration.
Yours truly,



Robert J. Melchionda/President



Beth Edwards/Board Member
William Walters/ Board Member



Lois Bowie/Treasurer



Douglas Darling/Board Member