

**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. 17-1224  
EXPANSION SERVICE OFFERINGS )  
(FILED DECEMBER 20, 2017) )**

**SETTLEMENT AGREEMENT**

On this 20<sup>th</sup> day of June, 2018, Chesapeake Utilities Corporation, a Delaware corporation (hereinafter "Chesapeake" or the "Applicant"), the Delaware Public Service Commission Staff (hereinafter "Staff"), and the Division of the Public Advocate (hereinafter "DPA"), representing all parties to the proceedings in this docket (collectively the "Settling Parties"), hereby propose a settlement ("Settlement Agreement") that, in the Settling Parties' view, appropriately resolves all issues raised in this proceeding.

**I. INTRODUCTION**

1. On November 5, 2013, the Public Service Commission (the "Commission") entered Order No. 8479 in Docket No. 12-292 that approved a settlement in which the Commission established Infrastructure Expansion Service ("IES") rates for a designated portion of Chesapeake's service territory in southeastern Sussex County, designated as an Expansion Area.<sup>1</sup> As approved by the Commission in Order No. 8479, the IES rates consist of an additional charge, added to and collected as part of Chesapeake's monthly customer charge, applicable to all new residential and small commercial customers in the Expansion Area.

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<sup>1</sup> Chesapeake's Expansion Area is defined as approved by the Commission in Order No. 8479 (Nov. 5, 2013), at Attachment A (the parties' Proposed Settlement Agreement), Paragraph 12 and Exhibit C.

2. The Settling Parties recognize that the Expansion Area program and IES rates have been both a success from a public policy perspective, by providing residents and businesses in southeastern Sussex County with access to an alternative and cheaper form of energy (which is presently less expensive than alternative fuels such as propane or fuel oil), and beneficial to the Applicant. As of the end of 2016, the implementation of IES rates allowed Chesapeake to add more than 1,500 new customers within its Expansion Area through capital investments exceeding \$8.5 million and the installation of nearly 49 miles of natural gas distribution main, investments the Applicant would not have been able to make under its existing tariff provisions and line extension policies without the additional revenue from the IES rates.

3. On December 20, 2017, Chesapeake filed an application with the Commission pursuant to 26 *Del. C.* §201, §301, and §304 for approval to apply IES rates throughout its service territory when necessary for economic expansion and requested by the customer to be served in lieu of an upfront contribution in aid of construction (“CIAC”) or advance.

4. On February 1, 2018, the Commission entered Order No. 9171 pursuant to its authority under 26 *Del. C.* §306(a)(1) and suspended Chesapeake’s application pending completion of evidentiary hearings into the justness and reasonableness of applying IES rates across Chesapeake’s entire service territory.

5. During the course proceedings in this docket, Chesapeake has responded to formal and informal discovery and data requests and has reviewed the expert witness testimony submitted by consultants on behalf of Staff and the DPA. With the benefit of this information, the Settling Parties met on two occasions and exchanged follow-up information and proposals in an effort to resolve all issues in this docket.

6. As a result of the aforesaid negotiations, the Settling Parties now enter into this Settlement Agreement on the terms and conditions set forth herein because they believe that this settlement will serve both the interest of the public and the Applicant, while meeting the statutory requirement that rates be both just and reasonable.

## **II. SETTLEMENT PROVISIONS**

### **Rates and Terms**

7. For areas of Chesapeake's service territory outside of its currently designated Expansion Area in southeastern Sussex County, the Settling Parties agree to three new rate classes, designated as Underserved Area ("USA") Rates, which Chesapeake may apply when necessary to make expansion projects economic and when voluntarily elected by the customer(s) to be initially served. The new rate classes are Underserved Area – Residential Service ("USA-R"),<sup>2</sup> Underserved Area – General Service ("USA-G"),<sup>3</sup> and Underserved Area – Medium Volume Service ("USA-M").<sup>4</sup> As with the Applicant's existing IES rates, USA rates will consist of an additional monthly charge that is added to and collected as part of the monthly customer charge. The Settling Parties agree to \$25.50 per month as the applicable additional charge for each USA rate class. A comparison of the new USA rates as opposed to Chesapeake's existing base rates for the same rate class is shown in the following table:

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<sup>2</sup> The USA-R rate will be available to individually metered customers who use natural gas in a residential dwelling or unit for space heating, cooking, water heating, or other domestic purpose.

<sup>3</sup> The USA-G rate will be available to any customer using gas for commercial and/or industrial purposes with an annual consumption of less than four thousand (4,000) Ccf.

<sup>4</sup> The USA-M rate will be available to any customer 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.

<b>Rate Classification</b>	<b>Monthly Customer Charge</b>	<b>Monthly USA Rate</b>	<b>Total Monthly Customer Charge</b>
Residential Service – 2	\$13.50	N/A	\$13.50
<b>Underserved Area – Residential Service</b>	<b>\$13.50</b>	<b>\$25.50</b>	<b>\$39.00</b>
General Service	\$34.00	N/A	\$34.00
<b>Underserved Area – General Service</b>	<b>\$34.00</b>	<b>\$25.50</b>	<b>\$59.50</b>
Medium Volume Service	\$80.00	N/A	\$80.00
<b>Underserved Area – Medium Volume Service</b>	<b>\$80.00</b>	<b>\$25.50</b>	<b>\$105.50</b>

The Settling Parties agree that Chesapeake’s existing IES rates and designated Expansion Area will remain the same until addressed by the Commission in a future rate case.

8. The Settling Parties agree to the following additional terms and provisions related to Chesapeake’s implementation of USA rates:

(a) For all projects outside of Chesapeake’s existing Expansion Area that require a new main extension to provide service, the economic criteria of the project will first be evaluated using either Chesapeake’s Internal Rate of Return Model (“IRRM”) or six (6) times net revenue test (“net revenue test”), whichever is applicable under the standard rate schedule. If the project fails to meet the return requirement under the standard tariff rates and economic test, then the project will be evaluated using the revenues estimated with the USA rate for the applicable rate class. If the project is economic using the USA rate, then the Customer may choose either to accept service under the applicable USA rate, elect to pay the required CIAC and pay the standard rate, or decline to accept service.

(b) Assessment and collection of the USA rate shall be limited to 13 years from when service is initiated (measured by the year when the premises first takes service), after which time the premises will be re-classified to standard tariff rates. Chesapeake will annually re-classify customers who have paid USA rates for the requisite 13 years to standard tariff rates at the same time it re-classifies customers to new rate schedules based on their usage.

(c) Any new customer whose premises is eligible to receive service from an existing main extension initially made economic through use of USA rates may elect to pay the USA rate applicable to the customer's rate class for a period of 13 years or decline to accept service.

(d) For all expansion projects where USA rates are utilized, if Chesapeake's actual annual distribution revenues (i.e. the number of new customers multiplied by their annual customer charge plus total annual weather normalized usage multiplied by the applicable distribution volumetric rate) in the aggregate are less than the assumed annual revenue levels projected by Chesapeake in its project feasibility analysis, then for ratemaking purposes, revenues will be imputed to equal the level of total distribution revenue from customer charges contained in Chesapeake's project feasibility analysis (either Chesapeake's IRRM or net revenue test).

(e) Chesapeake may not apply or utilize USA rates in the acquisition of community gas or other existing distribution systems currently supplied by propane unless the Commission approves the application of USA rates to such systems in a future proceeding.

(f) Chesapeake agrees that, no later than 39 months following the date of the final order in this docket approving this Settlement Agreement, it will file with the Commission a confidential comprehensive report detailing the revenues, number of new customers added and associated capital expenditures for each expansion project where USA rates are utilized, and the IRRM or net revenue test reports for each such expansion project. Specifically, the Company will provide the following information in a single Excel file format with all formulae intact for each expansion project where USA rates are utilized:

- i. Annual capital investment by FERC account;
  - The Company will utilize the average costing filed annually with the PSC for Service and meter costs;

- ii. Annual projected customers by rate class used in feasibility analysis (e.g. IRRM or net revenue test);
- iii. Actual customers by rate class;
- iv. Annual projected gas usage by rate class used in feasibility analysis;
- v. Actual usage by rate class;
- vi. Annual projected margin revenue by rate class used in feasibility analysis;
- vii. Actual annual margin revenue by rate class.

(g) Chesapeake agrees that it will include in its next base rate case testimony and support for its proposed methodology for the treatment of administrative and general (“A&G”) expenses in the models it uses for project feasibility analyses.

10. The Settling Parties agree that Chesapeake will file the draft tariff sheets for the USA-R, USA-G and USA-M rate classes attached as Exhibit A hereto with the Commission upon its approval of this Settlement Agreement.

### **III. ADDITIONAL PROVISIONS**

11. This Settlement Agreement is the product of extensive negotiation, and reflects a balancing by the parties of various issues and positions. It is therefore a condition of the Settlement Agreement that the Commission approves it in its entirety without modification, limitation or condition. If this Settlement Agreement is not approved by the Commission in its entirety, this Agreement shall be null and void.

12. This Settlement Agreement shall not set a precedent and no Settling Party shall be prohibited from arguing a different or contrary position or policy before the Commission in any future proceeding. No party to this Settlement Agreement necessarily agrees nor disagrees with the treatment of any particular item, procedure, or the resolution of any specific issue addressed in this Settlement Agreement other than as specified herein, except that each Settling Party

agrees that the Settlement Agreement may be submitted to the Commission for a determination of whether the Settlement Agreement is in the public interest and should be approved. Each Settling Party agrees that it will support approval of this Settlement Agreement before the Commission.

13. The terms of this Settlement Agreement will remain in effect until changed by an order of the Commission, and the Commission shall retain jurisdiction over this Settlement Agreement. All statutory procedures and remedies to ensure that rates are reasonable and just, including without limitation 26 *Del. C.* §304 and §§309-311, are preserved and shall be available to all Settling Parties.

14. This Settlement Agreement may be executed in counterparts by any of the signatories hereto and transmission of an original signature by facsimile or email shall constitute valid execution of this Settlement, provided that the original signature of each Settling Party is delivered to the Commission's offices before its consideration of this Settlement Agreement. Copies of this Settlement Agreement executed in counterpart shall constitute one agreement. Each signatory executing this Settlement Agreement warrants and represents that he or she has been duly authorized and empowered to execute this Settlement Agreement on behalf of the respective Settling Party.

IN WITNESS WHEREOF, intending to legally bind themselves and their successors and assigns, the undersigned parties have caused this Settlement Agreement to be signed by their duly authorized representatives.

Chesapeake Utilities Corporation

Dated: 6/21/2018

By: *Glenn J. ...*



Delaware Public Service Commission Staff

Dated: 4/21/18

By: 

Dr. Rajnish Barua  
Executive Director

Division of the Public Advocate

Dated: 6/20/18

By: Andrew Slah

**RATE SCHEDULE "USA-G"**

**UNDERSERVED AREA - GENERAL SERVICE**

**AVAILABILITY**

This Rate Schedule is available to any Customer using gas for commercial and/or industrial purposes with an annual consumption of less than four thousand (4,000) Ccf, and who choose to utilize the USA-G rate to make the estimated costs and revenues of the extension to serve economic.

For all projects, outside of the Company's existing southeastern Sussex County, DE expansion area, that require a new main extension to provide service, the economic criteria of the project will be evaluated using the Internal Rate of Return Model ("IRRM") at the Company's standard tariff rates. Should the project fail to meet the return requirement under those conditions, the IRRM will be evaluated utilizing the revenues estimated with USA-G rates. If the project is economic utilizing USA-G rates, the Customer can choose to accept service under the USA-G rates, or pay a Contribution In Aid of Construction ("CIAC").

The premises will be assessed the Underserved Area rate for a period of 13 years, after which time they will be reclassified to the applicable standard tariff residential rate class during the Company's annual rate class review period. All premises receiving service from a main extension that is initially made economic through the use of Underserved Area rates will also be assessed the Underserved Area rate for a period of 13 years.

**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:	\$59.50 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 served under this Rate Schedule are subject to the gas cost rate applicable to Rate Schedule "USA-G" provided on Sheet No. 42.

**PAYMENT TERMS**

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

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**Issue Date:**

**Effective Date: July 1, 2018**

**Authorization:**

**RATE SCHEDULE "USA-R"**

**UNDERSERVED AREA - RESIDENTIAL SERVICE**

**AVAILABILITY**

This Rate Schedule is available to individually metered Customers who use gas in a residential dwelling or unit for space heating, cooking, water heating, or other domestic purpose, and who choose to utilize the USA-R rate to make the estimated costs and revenues of the extension to serve economic.

For all projects, outside of the Company's existing southeastern Sussex County, DE expansion area, that require a new main extension to provide service, the economic criteria of the project will be evaluated using the Internal Rate of Return Model ("IRRM") at the Company's standard tariff rates. Should the project fail to meet the return requirement under those conditions, the IRRM will be evaluated utilizing the revenues estimated with USA-R rates. If the project is economic utilizing USA-R rates, the Customer can choose to accept service under the USA-R rates, or pay a Contribution In Aid of Construction ("CIAC").

The premises will be assessed the USA-R rate for a period of 13 years, after which time they will be reclassified to the applicable standard tariff residential rate class during the Company's annual rate class review period. All premises receiving service from a main extension that is initially made economic through the use of Underserved Area rates will also be assessed the Underserved Area rate for a period of 13 years.

**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:	\$39.00 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 "USA-R" provided on Sheet No. 42.

**PAYMENT TERMS**

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

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**Issue Date:**  
**Effective Date:** July 1, 2018  
**Authorization:**

**RATE SCHEDULE "USA-M"**

**UNDERSERVED AREA – MEDIUM VOLUME SERVICE**

**AVAILABILITY**

This Rate Schedule is available to any Customer 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, and who choose to utilize the USA-M rate to make the estimated costs and revenues of the extension to serve economic.

For all projects, outside of the Company's existing southeastern Sussex County, DE expansion area, that require a new main extension to provide service, the economic criteria of the project will be evaluated using the Internal Rate of Return Model ("IRRM") at the Company's standard tariff rates. Should the project fail to meet the return requirement under those conditions, the IRRM will be evaluated utilizing the revenues estimated with USA-M rates. If the project is economic utilizing USA-M rates, the Customer can choose to accept service under the USA-M rates, or pay a Contribution In Aid of Construction ("CIAC").

The premises will be assessed the Underserved Area rate for a period of 13 years, after which time they will be reclassified to the applicable standard tariff residential rate class during the Company's annual rate class review period. All premises receiving service from a main extension that is initially made economic through the use of Underserved Area rates will also be assessed the Underserved Area rate for a period of 13 years.

**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:	\$105.50 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 served under this Rate Schedule are subject to the gas cost rate applicable to Rate Schedule "USA-M" provided on Sheet No. 42.

**PAYMENT TERMS**

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

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**Issue Date:**  
**Effective Date:** July 1, 2018  
**Authorization:**