



STATE OF DELAWARE

**PUBLIC SERVICE COMMISSION**

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**MEMORANDUM**

**TO:** The Chairman and Members of the Commission

**FROM:** Joshua Bowman, Public Utility Analyst

**DATE:** August 12, 2020

**SUBJECT:** IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION REGARDING ITS ACQUISITION AND CONVERSION OF PROPANE COMMUNITY GAS SYSTEMS (FILED AUGUST 20, 2019) – PSC DOCKET NO. 19-0529

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**Background**

On August 20, 2019, Chesapeake Utilities Corporation (“Chesapeake”) filed an Application with the Delaware Public Service Commission (“Commission”) seeking an Order to establish the regulatory accounting treatment and replacement value methodology for Chesapeake’s acquisition of community propane gas systems (“CGSs”) from the Company’s affiliate, Sharp Energy, Inc. (“Sharp”) and the conversion of the Sharp-owned CGSs to natural gas service. The Application also requested that the Commission waive the asymmetric pricing rule contained in the Company’s Code of Conduct, which would require the Company to record for ratemaking purposes only its affiliate’s net book value, rather than the actual price paid by Chesapeake for the assets.

On June 17, 2020, the Commission entered Order No. 9594, which approved a Settlement Agreement executed by the four (4) parties in this case: the Commission Staff (“Staff”), the Division of the Public Advocate (“DPA”), Chesapeake, and the Board of Directors of the Hart’s Landing community (“Hart’s Landing”).

The provisions of the Settlement Agreement outlined and explained: 1) the Valuation Methodology; 2) the Behind-the-Meter Conversation Costs; 3) the CGS Community 5-year

Surcharge; 4) the Economic Model Applicable to CGS Systems; 5) the 3-Year CGS Conversion Plan; and 6) the Asymmetric Pricing Waiver.

### **Tariff Revision**

On July 17, 2020, Chesapeake filed a compliance filing (the “Filing”) requesting approval to revise its tariff to include a proposed Tariff Sheet 45.5. The proposed Tariff Sheet 45.5 is a rate schedule for the CGS Surcharge. Currently, the only community that will be assessed a CGS Surcharge is the Hart’s Landing community. According to the Filing, Chesapeake has calculated the levelized 5-year CGS Surcharge for the Hart’s Landing community to be \$0.2205 per CCF and has requested the Commission approve this CGS Surcharge with an effective date of September 1, 2020.

### **Review and Recommendation**

Staff has reviewed Chesapeake’s Filing for compliance with the approved Settlement Agreement. The primary concern relating to Chesapeake undertaking CGS conversions is ensuring that the conversions are not being subsidized by Chesapeake’s existing customers. To ensure that Chesapeake’s existing customers are not subsidizing the conversion of Hart’s Landing, the full cost of the Hart’s Landing conversion has to meet Chesapeake’s Internal Rate of Return Model (“IRRM”) as adjusted in PSC Order No. 9594. Staff is of the opinion that the full cost of the Hart’s Landing conversion meets Chesapeake’s IRRM and the confidential results are attached as Exhibit A to Chesapeake’s Filing.

Staff also reviewed the calculation of the levelized 5-year CGS Surcharge for the Hart’s Landing community and found that the CGS Surcharge amount of \$0.2205 per CCF for the Hart’s Landing community to be in compliance with the Settlement Agreement. The confidential details of this calculation are included as Exhibit B to Chesapeake’s Filing.

After having reviewed the Filing, Staff recommends that the Commission approve Chesapeake’s CGS Surcharge for the Hart’s Landing community in the amount of \$0.2205, effective September 1, 2020. Staff also recommends that the Commission approve the modifications to Chesapeake’s tariff as outlined in Exhibit C to the Filing.