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July 14, 2009

VIA HAND DELIVERY

Ms. Ann Cole
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 090125-GU - Petition for Rate Increase by Florida Division of Chesapeake Utilities Corporation

Dear Ms. Cole:

Enclosed for filing on behalf of the Florida Division of Chesapeake Utilities Corporation ("Chesapeake") in the above styled docket are the original and 20 copies of the following:

1. Chesapeake's Petition for Rate Increase and Request for Interim Relief;
2. Direct Testimony and Exhibits of Chesapeake's witnesses Jeff Householder, Thomas A. Geoffroy, Matthew Dewey, Jeffrey S. Sylvester, William Pence, Randy Taylor, and Paul Moul;
3. Minimum Filing Requirements ("MFRs"), as required by Rule 25-7.039, Florida Administrative Code;
4. New and revised tariff sheets in legislative form, as well as a clean version, which are included as Exhibit JMH-9 to Mr. Householder's testimony; and
5. A CD containing Chesapeake's Petition.

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Ms. Ann Cole
July 14, 2009
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Please acknowledge receipt of this filing by stamping the duplicate copy of this cover letter and returning said copy to our deliver person.

Thank you for your assistance in this matter. Should you have any questions whatsoever, please do not hesitate to contact me.

Sincerely,



Beth Keating
AKERMAN SENTERFITT
106 East College Avenue, Suite 1200
Tallahassee, FL 32302-1877
Phone: (850) 224-9634
Fax: (850) 222-0103

Enclosures

cc: Mr. J.R. Kelly, Public Counsel

Florida Division of Chesapeake Utilities Corporation
1015 Sixth Street, NW
Winter Haven, FL 33881

3. The Company is a corporation organized and existing under the laws of the State of Delaware. The Company was incorporated on November 12, 1947. The Company is duly authorized to transact business in Florida as a foreign corporation, and is also qualified to do business in Maryland and Pennsylvania. The Company's headquarters are located at 909 Silver Lake Boulevard, Dover, Delaware 19904. On December 3, 1985, the Company purchased all of the outstanding stock of Central Florida Gas Company, and Central Florida Gas Company was merged into the Company effective December 4, 1985. On January 17, 1988, Plant City Natural Gas Company was acquired by and merged into the Company. By Order No. 23166, issued on July 10, 1990, the Commission acknowledged the consolidation of Central Florida Gas Company and Plant City Natural Gas Company, as the Florida Division of Chesapeake Utilities Corporation, for all ratemaking, accounting, and related purposes. The Company conducts business in the State of Florida under the registered, fictitious name of Central Florida Gas Company.

4. Chesapeake is a "public utility" within the meaning of Section 366.02, Florida Statutes, and therefore, is subject to the regulatory jurisdiction of the Commission as established by Chapter 366, Florida Statutes.

5. Having exited the gas merchant function in 2002, pursuant to its tariff on file with the Commission, the Company defines "customers" as both Consumers and Shippers. The Company is providing service to approximately 14,500 consumers in Winter Haven, Plant City, St. Cloud, Inverness, Crystal River, and other nearby communities. The Company also provides service to industrial consumers in DeSoto, Gadsden, Gilchrist, Holmes, Jackson, Liberty,

Suwannee, Union, and Washington Counties, and is poised to provide service, pursuant to an approved territorial agreement, to consumers in portions of Pasco County. The Company also provides service to nine (9) CI Shippers and two (2) TTS Shippers.

6. By this filing, the Company seeks approval of interim rates, the determination of an appropriate cost of equity capital, the determination of a fair and reasonable overall rate of return, the approval of new and revised rate schedules, and permanent increase in rates and charges. The Company also seeks approval to modify the discount recovery allocation associated with its Competitive Rate Adjustment (CRA) surcharge mechanism and to establish a new environmental surcharge to address environmental remediation costs at a former Manufactured Gas Plant (MGP) in lieu of recovery through base rates. Finally, the Company is requesting certain deferred accounting treatment that will more appropriately align the timing of the benefits of the merger, should it be consummated, with the accounting treatment for costs and expenses associated with the merger. Such a request will be made in a separate filing to be discussed later herein.

7. The Company last filed for a general rate increase with the Commission on May 15, 2000, using a projected test year of 2001. The Commission approved Chesapeake's request for an increase by Order No. PSC-00-0263-FOF-GU, issued November 28, 2000, setting an overall rate of return (ROR) for the Company of 8.60% based upon a return on equity (ROE) of 11.50%. The Company's last rate case prior to the 2000 case (Docket No. 00108-GU) was filed on November 15, 1989, using a projected test year ended June 30, 1991. By Order No. 23166, the Commission partially granted the Company's request, setting a return on common equity of

13.00% and an overall rate of return of 9.93%.¹ Thereafter, pursuant to Order No. PSC-93-1772-FOF-GU, issued on December 10, 1993, the Company's authorized ROE was set at 11.00%, plus or minus 100 basis points. In addition, by Order No. PSC-98-0455-FOF-GU, issued March 31, 1998, the Commission allowed Chesapeake to restructure its rates in a revenue neutral manner that assured that the rates for each rate class more accurately reflected the actual cost of service to those customers.

8. As mentioned above, the Company exited the gas merchant function in 2002. Specifically, by Order No. PSC-02-1646-TRF-GU, issued November 25, 2002, the Commission authorized the Company to implement Phase I of its experimental Transitional Transportation Service (TTS) pilot program, whereby the Company assigned 9,587 residential customers and 552 small commercial customers to a gas marketer, Infinite Energy. Thereafter, pursuant to Order No. PSC-03-0890-TRF-GU, issued August 4, 2003, the Company reduced rates to better allocate the costs and benefits of Phase I of the implementation of the Company's transportation program. By Order No. PSC-07-0427-TRF-GU, the Commission authorized the Company to proceed to Phase II of the TTS program, wherein the retained two Shippers and assigned customers to the shippers on a random and equitable basis. As part of this second Phase, an open enrollment period occurred between the sixth and twelfth month of Phase II, in which customers could elect a different Shipper, as well as choose from different pricing options. Under Phase II, open enrollment periods will occur annually, and a second such open enrollment has recently been completed. In addition, as part of Phase II, the Commission approved the Company's offering of an experimental, fixed rate option for customers.

¹ By Order No. 92-0817-FOF-GU, issued August 14, 1992, the Commission reduced the Company's authorized return on equity from 13.00% to 12.00%, and subsequently, further reduced the Company's authorized ROE to 11.00%, plus or minus 100 basis points by Order No. PSC-93-1772-FOF-GU. As noted, the current authorized midpoint ROE for the Company is 11.50%.

9. On March 13, 2009, Chesapeake notified the Commission, pursuant to Rule 25-7.140, Florida Administrative Code, that it intended to seek a rate increase, and that it had selected the 12-month period ending December 31, 2010, as the projected test year for this rate proceeding. The test period for the requested interim rates is the historical 12-month period ended December 31, 2008.

10. By letter dated May 15, 2009, the Company requested an extension until June 30, 2009, in which to submit its minimum filing requirements (MFRs), testimony, and exhibits. By letter dated May 22, 2009, Commission Chairman Matthew M. Carter, II, acknowledged the requested extension. By subsequent letter dated June 30, 2009, the requested an additional extension until July 15, in which to submit its MFRs, testimony, and exhibits.

II. Request for Use of Proposed Agency Action Procedures

11. Pursuant to Section 366.06(4), Florida Statutes, the Company asks that the Commission proceed with this request using the Commission's proposed agency action (PAA) procedures.

12. Concurrent with this Petition and MFRs, the Company is filing the prefiled testimony of seven witnesses in support of its request. The Company is filing consistent with the directions in Chairman Carter's letter of May 22, 2009. In providing this prefiled testimony with its petition, the Company respectfully emphasizes that it is not and does not intend to waive its right to submit additional testimony later in this proceeding addressing any issues that may be raised in a protest of the Commission's PAA Order by any party to this proceeding, including the Company. A summary of the Contents of this Case is included with the Petition as Attachment E.

III. Request for General Rate Increase

13. The Company is entitled by law to receive a reasonable return on its property used and useful in public service. The Company's rates should be sufficient to yield reasonable compensation for the services rendered.

14. In addition, the Company must have fair and reasonable earnings so that investors will have confidence in the Company's financial integrity, particularly in these challenging economic times. The financial integrity of the Company bears directly upon the Company's ability to raise new capital as may be needed to provide service, and upon the Company's ongoing ability to provide reliable, efficient service to current and future customers. Without the authority to charge rates that, under efficient and prudent management, would produce earnings sufficient to reasonably compensate investors and encourage them to invest in the business, there will be a direct, detrimental impact on the Company's financial integrity.

15. The Company's existing rates and charges are inadequate and insufficient to allow it to realize fair and reasonable compensation for the services it provides to the public.

16. The Company's current authorized rate of return, as noted herein, is 8.6%, with an approved midpoint ROE of 11.50%. As of December 31, 2008, the Company's achieved rate of return was 6.20%. Without rate relief, the Company's rate of return will decline to 4.74% by year's end, and will further decline to 3.21% by December 31, 2010, based upon the Company's projections. This decline signals the need for immediate rate relief that will allow the Company to earn a fair rate of return on its used and useful property in providing service to the public and enable the Company to continue to provide efficient, reliable service to all of its customers.

17. The Company needs to seek an increase due, largely, to three factors. First, since its last rate case, the Company has experienced significant increases in rate base to provide

PETITION

service to meet the needs stemming from tremendous consumer growth, which can be attributed, in part, to the population increase in the Company's territory. Second, the Company had taken significant steps to enhance reliability through distribution system upgrades, to support consumer and load growth in areas such as Citrus County, Plant City, and Auburndale, and also various relocation projects related to road widening projects needed to meet the transportation needs of the population growth. Finally, the recent harsh economic conditions have had a negative impact on the Company's growth, a trend projected to last at least until the end of 2010. In conjunction with reduced growth, the loss of several of the Company's large industrial consumers over the past year, including Golden Aluminum, Clark Environmental, International Paper and Smithfield Lykes, has resulted in an annual loss of approximately five million therms and \$450,000 of annual revenues for the Company. Moreover, other industrial consumers are projecting reduced natural gas usage levels for the year ahead.

18. The Company seeks approval to increase its rates and charges in an amount that will allow it to generate increased annual revenues of \$2,965,398 or approximately 25%, which is below the compounded inflation rate of 29% from the historic base year of the Company's last rate case. This requested increase would provide the Company with an opportunity to earn a fair and reasonable rate of return. In addition, the Company is proposing to maintain its currently authorized midpoint ROE of 11.50%, which would generate an overall rate of return of 7.15%. A Summary of the Calculation of Projected Test Year Revenue Deficiency is included as Attachment A to this Petition, while Attachment B is a Comparison of Present Rates to Proposed Rates.

19. The Company has taken every reasonable step to avoid a general rate increase, and has been successful in doing so for almost 10 years, having last filed for a rate increase on

May 15, 2000. Specifically, the Company has implemented several cost containment programs, including the Company's Automated Meter Reading program, that have resulted in 2008 expenses being below benchmark levels. The Company also implemented a strategy to expand its focus beyond industrial consumers to include residential and commercial consumers, as well. A significant part of this expanded vision has been the implementation of the Company's gas unbundling program, whereby the Company transitioned from gas merchant to gas transporter.

IV. Request for Interim Rate Relief

20. Further deterioration of the Company's earnings is likely unless interim rate relief is granted by the Commission in accordance with Section 366.071, Florida Statutes. Therefore, the Company requests that interim rate relief be granted in the amount of \$417,555 based on the historical test year ending December 31, 2008, which represents a 4.08% increase to base rates. The Company will allocate the interim rate increase in accordance with Rule 25-7.040(2)(a), Florida Administrative Code. Accordingly, any approved interim rate increase will be applied across all rate classes with the exception of those consumers being served pursuant to special contracts.

21. The calculation of the Company's interim revenue deficiency is summarized on Attachment C, which is attached and incorporated into this Petition. A comparison of the existing and proposed interim rates is provided in Attachment D, which is also attached and incorporated into this Petition. In addition, the calculation of the revenue required to achieve the required rate of return is included in Section F of the Minimum Filing Requirements filed in conjunction with this Petition.

22. The Company makes this request for interim relief in full recognition that any interim relief collected must be held subject to refund, with interest, as required by Rule 25-

7.040(3), Florida Administrative Code, pending entry of the Final Order addressing the Company's request for a permanent rate increase. The Company understands that it must refund any portion of the interim relief that the Commission determines is not justified. The Company is prepared to provide the Commission with a corporate undertaking relating to its interim rate request at the appropriate time.

V. Regulatory Surcharges

A. *COMPETITIVE RATE ADJUSTMENT (CRA)*

23. In addition to the requested rate relief, the Company is seeking Commission approval of certain regulatory surcharges, or changes to current regulatory surcharges, that will better enable the Company to match expenses with the appropriate cost causer or beneficiaries.

24. The Company currently has a Competitive Rate Adjustment (CRA) surcharge mechanism in its tariff on file with the Commission. This CRA is designed to help the Company recover revenues otherwise lost when the Company agrees to provide service at discounted rates to industrial accounts that would otherwise seek service from other viable alternatives. Currently, the difference in revenues is divided and absorbed on a 50/50 basis by the Company's ratepayers and its shareholders through application of the CRA surcharge.

25. The Company now proposes to modify the allocation of the discounted rates so that its shareholders will no longer be required to absorb 50% of the lost revenues. In prior years, the 50/50 split between ratepayers and shareholders made sense, because most alternative fuels were more expensive than natural gas; thus, the Company had the ability to raise rates above its approved tariff rates and share the premium with its ratepayers. The Company is, however, no longer able to charge a premium, and no longer offers an interruptible rate for

industrial consumers. Thus, the Company proposes to fully allocate the difference in revenues arising from discounted rates to industrial consumers to ratepayers.

26. All ratepayers benefit when large-use consumers, who could obtain service elsewhere, are retained on the Company's system, because these large consumers absorb significant fixed system costs otherwise borne by the general body of ratepayers. The current tariff includes protections that will ensure that the alternative fuel price considered is legitimate and that the Company's other ratepayers do not unduly bear additional costs associated with the discounted rate for the industrial consumer. Moreover, the modification of the CRA will enable the Company to earn its authorized rate of return from industrial consumers who would otherwise take advantage of available fuel alternatives. Finally, the Commission has approved a similar proposal for Florida City Gas's CRA by Order No. PSC-04-0128-PAA-GU, issued in Docket No. 030569-GU. For all these reasons, the Company asks that the Commission approve the revised discount allocation structure for its CRA surcharge mechanism.

27. The Company expects no immediate effect to the general body of ratepayers, as there are currently no industrial consumers receiving a discounted rate.

B. ENVIRONMENTAL SURCHARGE

28. The Company has worked, and continues to work, closely with the Florida Department of Environmental Protection to remediate a former manufactured gas plant (MGP) site in Winter Haven.

29. The Commission originally allowed recovery of costs related to the MGP remediation by Order No. 18202, issued on September 25, 1987. Thereafter, through a series of Orders, the Commission authorized the Company to amortize the remediation related expenses at

an annual rate of \$71,114, and in certain circumstances, allowed the Company to partially offset the expenses with overearnings.²

30. The remediation activities at the MGP site are nearing completion, but the Company still expects to incur costs of approximately \$600,000 over the next three to four years to complete the remediation. These cost assumptions have been discussed with the environmental consultant performing work at the Winter Haven MGP site and are believed to be reasonable in light of work that is being conducted at similar sites throughout Florida and the rest of the country. These assumptions include identification of: (i) estimated volume of impacted soils to be remediated; (ii) most likely soil remediation alternatives; (iii) capital costs for construction of groundwater treatment systems; (iv) projected operation and maintenance costs of the groundwater treatment systems for the life of the remediation projects; and (v) performance monitoring costs.

31. In addition to the costs associated with the remaining years of the project, the Company has, to date, under-recovered \$268,257 in actual expenses associated with the MGP site. If the Company were simply to continue applying the existing \$71,114 in annual rates, it would take the Company over twelve years to accumulate full recovery of the approximately \$868,000 in costs associated with this cleanup project.

32. The Company is proposing to implement an environmental surcharge, in lieu of recovery through base rates, as a means to recover the costs associated with this remediation project in a more timely manner. In addition to allowing more timely recovery, the use of a surcharge mechanism, instead of recovery through base rates, will allow the Company to

² See Order No. PSC-93-0025-FOF-GU, issued January 5, 1993 (authorized amortization); Order No. PSC-93-0520-FOF-GU, issued April 6, 1993 (allowed to offset with overearnings); Order No. PSC-95-0160-FOF-GU, issued February 6, 1995, (resumed accrual, and allowed Company to offset with overearnings); Order NO. PSC-97-0136-FOF-GU, issued February 10, 1997 (allowed to offset with 1995 overearnings); and Order No. PSC-00-2263-FOF-GU (reaffirmed annual accrual to the environmental cleanup site).

immediately cease recovery of these costs from its ratepayers once all costs have been incurred and recorded. Otherwise, the Company would need to make an expensive rate filing with the Commission to remove these costs from base rate revenues.

33. The initial level of the surcharge would recover \$200,000 annually and would be implemented as of January 1, 2010. All costs and recovery amounts would continue to be subject to Commission audit, and a final true-up filing would be made after all expenses have been incurred and recorded, with a proposal to dispose of any over or under recovery. The corresponding monthly fixed surcharge rate is reflected in the Exhibit JMH-5 to the Testimony of Mr. Householder.

34. It is within the Commission's authority to approve this proposal and allow the Company to recover the environmental remediation costs through a surcharge, rather than continued recovery through base rates. Florida Statutes are clear that the Commission has authority to fix "just, reasonable, and compensatory rates, charges, fares, tolls, or rentals" under Section 366.041(1), Florida Statutes. Likewise, the Commission has the power to prescribe "fair and reasonable rates and charges [and] classifications" in accordance with Section 366.05(1), Florida Statutes. Moreover, in Section 366.041(2), Florida Statutes, the Legislature has provided that the "power and authority herein conferred upon the commission shall . . . be construed liberally to further the legislative intent that adequate service be rendered by public utilities."

35. More specifically, the Florida Supreme Court has upheld the Commission's authority to establish a rider or surcharge in The Action Group v. Deason, 615 So. 2d 683 (Fla. 1993) (establishing a rider to recover debt associated with purchased bankrupt system).

36. Furthermore, the environmental surcharge proposed here by Chesapeake is not unlike cost recovery surcharges approved for Florida Power & Light Company³ and Progress Energy Florida, Inc. (PEF)⁴ during the 2004 storm season pursuant to the broad rate-making authority granted to the Commission in Sections 366.04, 366.05, and 366.06, Florida Statutes. The Company asks, therefore, that its proposed environmental surcharge be approved, so that the Company can remove the costs associated with the MGP site from base rates and recover them in a more timely manner.

VI. Proposed Revisions to the Company's Tariff - Original Volume No. 4

37. The Company is proposing several tariff changes in conjunction with this rate filing as outlined in this section and asks that the Commission approve the implementation of these tariff changes. If these tariff changes are approved, the Company asks for an effective date of the Commission's vote on this Petition, with the exception of the Environmental Surcharge, as outlined above at Paragraph 33, and the experimental fixed Firm Transportation Charges, as explained in Section VII below. To be clear, the Company's projections and assumptions regarding sales and revenue for its requested rate increase, as reflected in the MFRs included with this filing, account for the proposed revisions to the tariff and customer classifications set forth below.

A. SOLAR WATER-HEATING ADMINISTRATIVE AND BILLING SERVICE (SWHS)

38. The Company seeks approval of a new experimental tariff to be called the Solar Water-Heating Administrative and Billing Service (SWHS), in accordance with Section 366.075,

³ See Order No. PSC-05-0937-FOF-EI, issued on September 21, 2005, in Docket No. 041291-EI, In re: Petition for authority to recover prudently incurred storm restoration costs related to 2004 storm season that exceed storm reserve balance, by Florida Power & Light.

⁴ See Order No. PSC-05-0748-FOF-FI, issued on July 14, 2005, in Docket No. 041272-EI, In re: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

Florida Statutes. This program will include an experimental third party billing service and rate designed to encourage the use of solar water heating with natural gas as a back up fuel source.

39. This SWHS program was developed by the Company, because of its interest in increasing thermal solar installations, particularly combination solar/gas water heaters, by removing the principal market barriers that currently exist. Through this program, the Company would provide a service similar to the tariff service currently provided to Shippers in the Transitional Transportation Service Program through the SABS rate schedule. Likewise, the rate proposed for the SWHS, \$7.50 per month per bill for those that opt for this service, mirrors the SABS rate.

40. The way this program works is that non-affiliated third parties would finance, install and maintain the solar/gas combination systems. Consequently, consumers would be able to avoid the up-front expense of purchasing and installing the system, which is often otherwise prohibitive. The third party would also be responsible for on-going maintenance. The Company would have no investment in the consumer's system. Instead, the Company would provide marketing and consumer education services, primarily through its existing energy conservation program activities, a consumer billing service and a general oversight of the customer service practices of the third parties.

41. The monthly fee for the system would be listed as separate charge on the Company's utility statement to the consumer. The Company would retain a portion of the revenue for the billing and administrative services provided and remit the remaining portion to the third party installer. The Company would seek recovery of any consumer education or water heater rebate payments related to the promotion or installation of combination solar/gas water

heaters through the Environmental Conservation Cost Recovery (ECCR) process, not as part of the proposed billing service fee.

42. The solar/gas water heater program itself, which is still in development, is intended to remove the traditional barriers to solar installations. By associating a public utility with the installations through its marketing and incentive programs, the Company believes it can encourage consumer participation. The third party financing, installation and maintenance responsibilities limit the Company's (and its ratepayers) financial risk. If the program is successful the Company may be able to add or retain customers it otherwise would have lost, expand to serve new areas, and meet the "green" expectations of existing and potential consumers. The installation of 1,000 combination solar/gas water heating systems has the potential to reduce electric demand by approximately 2.0 MW and eliminate 100,000 pounds of carbon emissions. The proposed billing service rate class would enable the Company to initiate, on an experimental basis, a pilot program to encourage the installation of renewable energy water heating systems. The Company, therefore, seeks approval to implement the Solar Water-Heating Administrative and Billing Service (SWHS) as of the date of the Commission's vote on the Petition and includes with this filing the appropriate new tariff pages reflecting this proposed experimental program, asking that they be accepted as filed.

B. RESTRUCTURED RATE CLASSES

43. The Company is also proposing to divide its existing FTS-2 class (>500 - 3,000 annual therms) and FTS-3 class (>3,000 – 10,000 annual therms) into four (4) classes: FTS-2, FTS-2.1, FTS-3, and FTS-3.1. The proposed classes would reflect a reduction in the annual therm range established as an eligibility threshold for each respective class.

44. The Company is also proposing to adopt four (4) experimental rate classes that parallel the proposed permanent rate classes. The experimental classes would offer optional fixed charge rates of the type currently approved in the Company's tariff for consumers in the applicable classes.

45. The charges for the new experimental classes were established consistent with the rate design outlined in Section VIII of this Petition, as are the increases to the current experimental fixed charge rates across FTS-A through FTS-3.1 rate classes. The charges were developed using a methodology similar to that which was used to develop the original experimental rates that were authorized by the Commission. Specifically, the proposed monthly fixed charge rates are based on the average revenue requirement produced by each respective class divided by 12, as more fully explained in the Testimony of Mr. Householder. The Company did not separately identify the experimental rate classes in its cost study, and did not develop separate costs or revenue requirements for the experimental classes.

46. The Company is proposing to bifurcate FTS-2 and FTS-3 classes because there are discernible cost of service levels that can be identified within the FTS-2 and FTS-3 classes. Meter and regulator type and size, service line size, and on-going maintenance costs are among the cost items that distinguish classes from one another. In addition, there are cost differences associated with the Automated Meter Reading (AMR) equipment installed by the Company.

47. Moreover, the Company is urging consumers to add gas appliances through a series of consumer education and conservation programs. Providing additional stratification in the FTS-2 and FTS-3 classes will enable the Company to design rates that provide incentives to install additional gas appliances, and reduce concerns that increase gas consumption levels will create a spike in costs.

48. The Company also believes that there is merit from a rate design perspective in dividing any volumetric rate class in a manner that will promote more uniformity or homogeneity among the consumers assigned to a particular class. Since the unit cost per therm is based on average usage, a level of subsidization exists within virtually all volumetric classes. To the extent the therm range for a given volumetric class is reduced (the class becomes more homogeneous), intra-class subsidization is reduced. Increasing class homogeneity contributes to pricing fairness and mitigates both cross-class and intra-class subsidization.

49. Moreover, splitting the FTS-2 and FTS-3 classes and developing new rates for the proposed classes will enable the Company to more effectively compete in both the residential and commercial markets with propane and electricity.

50. Finally, by narrowing the class therm range, a significant percentage of fixed costs can be recovered through fixed charges without unfairly impacting any given consumer. The Company's proposed class stratification ensures that the fixed rate charge for each class results in a fair and reasonable effective average unit cost per therm for each consumer.

51. The proposed reclassification would continue to assign approximately 950 consumers to the modified FTS-2 class (>500 – 1,000); approximately 561 consumers would be assigned to the new FTS-2.1 class (>1,000 – 2,500); approximately 224 would be assigned to the modified FTS-3 class (>2,500 – 5,000) and approximately 223 would be assigned to the new FTS – 3.1 class (>5,000 – 10,000).

52. The existing annual therm range for the FTS-12 and FTS-13 rate classes would also be modified to expand the top of the range for FTS-12 from 10 million therms to 12.5 million therms. FTS-13 would then be modified to begin at greater than 12.5 million therms. There is no upper end of the range for FTS-13.

53. With regard to the changes to FTS-12 and FTS-13, the only customer in FTS-13 is Mosaic. The rates in that class are appropriate for recovering the cost to serve Mosaic taking into account their cost to by-pass the Company's distribution system. These rates are, however, in all likelihood, not appropriate for any other customer. Increasing the bottom of the range at which a customer would be classified as FTS-13 should ensure that no other customers become part of this rate class and served under a rate that was not designed for their service.

54. If approved, the proposed new or revised classes would be as follows:

<u>Proposed Rate Schedule</u>	<u>Applicability (annual therms)</u>
Firm Transportation Service-2 (FTS-2)	>500 - 1,000
Firm Transportation Service-2 Experimental (FTS-2 Exp)	>500 - 1,000
Firm Transportation Service-2.1 (FTS-2.1)	>1,000 - 2,500
Firm Transportation Service-2.1 Experimental (FTS-2.1 Exp)	>1,000 - 2,500
Firm Transportation Service-3 (FTS-3)	>2,500 - 5,000
Firm Transportation Service-3 Experimental (FTS-3 Exp)	>2,500 - 5,000
Firm Transportation Service-3.1 (FTS-3.1)	>5,000 - 10,000
Firm Transportation Service-3.1 Experimental (FTS-3.1 Exp)	>5,000 - 10,000
Firm Transportation Service-12 (FTS-12)	>2.5M - 12.5M
Firm Transportation Service-13 (FTS-13)	>12.5M
Solar Water-Heating Administrative and Billing Service	

C. CLOSED CLASSES

55. Currently, the Company's FTS-A and FTS-B are closed to new consumers. Closing these classes was an important step towards ensuring that all future small volume consumer additions provide appropriate cost recovery, and do not unduly impact ratepayers.

56. The Company is proposing to modify the existing provisions applicable to these closed classes to discontinue the language that currently allows consumers to move between the FTS-A and FTS-B classes as their annual therm usage changes. Under this proposal, an FTS-A or FTS-B premise that is reclassified to a higher rate class during the Company's annual rate class review process would not be eligible to return to a lower classification in a subsequent annual review.

D. INCREASED FIRM TRANSPORTATION CHARGE

57. In support of this request, the Company states that, to the extent the monthly Firm Transportation Charge represents a significant portion of a consumer's overall transportation cost, it provides a reasonable price signal related to the impact of receiving service from the Company's distribution system. The price signal consumers receive from increased fixed charges would discourage encourage inefficient consumption practices.

58. Increasing the Company's fixed Firm Transportation Charge will result in a relative decrease in the variable Usage Charge required to recover the authorized projected test year target revenue, and would not change the overall average cost to consumers resulting from this proceeding.

59. Furthermore, gas commodity and interstate pipeline transportation costs combined account for 60-75% of the total gas cost for most consumers, while the Company's gas delivery cost for most consumers represents only 25-40% of the total cost of gas. The third party Shippers that sell gas to all of the Company's consumers adjust the market price of gas on a monthly basis (more frequently for large volume consumers depending on their supply contract). Thus, the commodity price signal provided by the third party Shippers is in tune with actual market pricing and is billed by Shippers on a volumetric basis. Consequently, reductions in

consumer usage through efficiency improvements or conservation in response to the change in commodity price results in actual fuel cost savings.

60. Moreover, the greater the proportion of the Company's fixed costs recovered through consumption based variable charges, the greater the likelihood that intra-class subsidies will exist as larger consumers pay a disproportionate share of such costs.

61. Greater reliance on fixed charges provides the Company with benefits as well. Specifically, increasing the Firm Transportation Charge for each rate class provides a greater degree of revenue stability for the Company by allowing it to recover its fixed costs through fixed charges.

62. Under present rates in the Projected Test Year the Company would collect approximately 46% of total revenue from the FTS-A through FTS-13 classes from its fixed rate monthly Firm Transportation Charges. The Company's proposed rates are designed to recover approximately 66% of the total target revenues for all rate classes, including Special Contracts, SAS and SABS, from the fixed charges in the Projected Test Year.

63. The Commission has approved similar rate restructurings and fixed rate proposals for the Company over the years, including the 2000 base rate case (Order No. PSC-00-2263-FOF-GU, issued on November 28, 2000) and the rate reductions in 2003 (Order No. PSC-03-0890-TRF-GU, issued on August 4, 2003) and 2005 (Order No. PSC-05-0208-PAA-GU, issued on February 22, 2005).

64. Likewise, the Commission has approved the use of fixed charges for recovery of a significant portion of the approved revenue requirement for St. Joe Natural Gas Company (Order No. PSC-08-0436-PAA-GU, issued July 8, 2008), Peoples Gas System (Order No. PSC-09-0411-FOF-GU, issued June 9, 2009) and Florida Public Utilities Company (Order No. PSC-09-

0375-PAA-GU, issued May 27, 2009). Similarly, the Commission has authorized demand rates that effectively establish a fixed rate component Indiantown Gas Company, by Order No. PSC-04-0565-PAA-GU, and Florida City Gas, by Order No. PSC-04-0128-PAA-GU, issued February 9, 2004.

VII. Delayed Application of Experimental Rates

65. As indicated herein, the Company conducted an open enrollment period during March of this year, wherein consumers were given an opportunity to select a new rate which was indicated to be for a one-year term. While the Company did not guarantee no rate change would occur, it is likely that consumers would be confused and dissatisfied with a rate change occurring before the end of the one-year term. Thus, the Company is asking for a slight delay in implementation of the experimental rates until April 1, 2010. Any consumer with an experimental rate will thereby have the full benefit of the rate they selected during the March 2009 open enrollment until the March 2010 open enrollment commences.

VIII. Overall Rate Design

66. While the basic rate structure proposed for all volumetric rate classes includes the continuation of the structure approved in the Company's current tariff, the Company's proposed rate design shifts toward a greater recovery of fixed costs through fixed charges. The proposed increase in fixed charges would not change the overall average cost to consumers resulting from this proceeding. Increasing the Company's fixed Firm Transportation Charge for any rate class will result in a relative decrease in the variable Usage Charge required to recover the authorized Projected Test Year target revenue. The proposed rate design results in a modest increase in the fixed charge for the small volume FTS-A through FTS-3 rate classes, while the fixed charges for

larger volume classes receive larger increases. The rate design takes a step toward correcting the fixed revenue inequity in the larger volume classes.

67. The Company is proposing these changes in an effort to address the remaining disparity between the percentage of revenue recovered from fixed charges between small volume and large volume classes.

IX. Miscellaneous Charges

68. The Company is proposing increases to all of its currently approved Miscellaneous Charges, with the exception of the "returned check" charge. A cost study was performed by the Company to determine the actual cost to provide each service, and a comparison of the current and proposed rates for these miscellaneous services is reflected in Exhibit JM7-7 to the Testimony of Mr. Householder.

69. The Company is also proposing to rename certain currently tariffed Miscellaneous charges. Specifically, the Company proposes to rename the Residential and Commercial Connection and Reconnection Charge as the "Connection Charge."

70. Coinciding with this change, the Company is proposing new Connection Charges for three (3) groups of Consumer rate schedules: FTS-A through FTS-3; FTS-4 through FTS-6; and FTS-7 and above. These Connection Charges reflect the differing costs incurred to initiate service to differently sized consumers.

71. In addition, the Company is proposing three (3) new charges: A Temporary Disconnect Charge, a Failed Trip Charge, and an on-site Meter Re-Read and Consumer Request Charge.

72. The Temporary Disconnect Charge would help the Company recover the cost of temporary service discontinuation at the request of a consumer for such things a pest control

tenting, remodeling, or other reasons initiated by the consumer. Similarly, the Failed Trip Charge would allow the Company to recover the cost of sending an employee or contractor to a consumer's location in situations where the consumer fails to keep the appointment to meet the Company employee. The Meter Re-Read Charge is designed to recover the cost of sending an employee or contractor to a consumer's premises to physically re-read a meter at a consumer's request.

73. Specifically, with regard to the Re-Read Charge, this charge would apply only when a customer contests the electronic reading obtained from installed Automated Meter Reading technology (AMR) and the physical re-read indicates that the AMR reading was correct. If the AMR reading is shown to be incorrect by the physical re-read, no charge would apply.

X. Additional Tariff Modifications

74. The Company is also proposing the following modifications to its tariff, in addition to those outlined in the preceding sections:

Section II. Consumer Rules and Regulations

a) Assignment of Rates Schedules (Section II. F. 2. – Original Sheet No. 30)

The Company proposes to modify this section to base the reclassification assessment on the usage recorded at the "premise". This will eliminate the current problem arising from multiple tenants occupying the same premises during the year.

b) Consumer's Installation (Section II. G. 5.- Original Sheet No. 31)

Clarifies the limits of the Company's liability.

c) Deposit Requirements (Section II. I. 1. a. and b. – Original Sheet No. 32)

the Company is proposing to discontinue the receipt of cash as a deposit payment method. Checks, credit cards, or debit cards would be accepted.

d) Billing (Section II. 1.2.4.5. – Original Sheet No. 34 and 35)

The billing period in the current tariff assumes that meters will be read at monthly intervals. The Company proposes to modify this language to clarify that the Company intends to bill customers based upon an AMR reading, consistent with the Company's installation of the AMR system. The Company does not intend to modify the consumer's current billing cycle.

e) Payments (Section II. M. 1. – Original Sheet No. 37)

The Company proposes to discontinue receipt of cash for bill payments. Checks, credit cards, debit cards, direct debit, and electronic fund transfers will be accepted.

Section III. Shipper Rules and Regulations

a) Scheduling and Nominations (Section III. L. – Original Sheet No. 62)

The current tariff language requires Shippers to communicate daily scheduled gas quantity volumes to the Company's distribution system for each consumer with electronic metering equipment whose annual usage exceeds 100,000 therms. If the Company's proposal outlined below for Operational Order penalties is approved, the Company no longer will need the individual customer data, and this section can be deleted.

b) Operational Controls (Section III. N. – Original Sheet No. 63)

The Company serves as the Delivery Point Operator (DPO) at any point where its distribution system is interconnected with an upstream pipeline

(Transporter). Operational Control Orders are issued by Transporters during periods when the Transporter's pipeline is having difficulties. When such Orders are issued, Shippers have to deliver gas in the quantities specified in the Order, and consumers served by these Shippers must consume gas in the quantities identified in the Order. The Company is then responsible for assessments that result from non-compliance with the Operational Control Order. Because the Company now provides transportation service only, all such assessments are passed on to the Shippers. The Company proposes to modify its current tariff process of recovering these charges from Shippers to:

- i) eliminate the current direct assignment of Operational Control charges to large volume telemetered consumers; ii) eliminate the allocation of remaining Operational Control Order charges through the Operational Balancing Account (OBA) based on a Shipper's prorated scheduled quantities; and iii) assign future Operational Control Order charges to those Shippers whose consumers actually caused the cost to be incurred.

c) Operational Balancing Account (Section III. Q. 3.– Original Sheet No. 68)

The current tariff includes a provision that ensure that the Company does not allocate any portion of a remaining Operational Order penalty charge applied to the Operational Balancing Account to a large volume customer who has already been charged during the period disposition of the OBA. The Company proposes to remove this language, because the Company's AMR system will allow the Company to directly assign such penalties to the Shipper serving the consumer that caused the penalty.

d) Capacity Release (Section III. E. 3. d. – Original Sheet No. 54)

The Company is proposing language that would clarify that when a consumer discontinues service, the capacity associated with that consumer will revert to the TTS pool.

e) Firm Delivery Requirements (Section III. J. 4. a. – Original Sheet No. 60)

This change will remove the word "all" from the first sentence of this section in order to clarify that Shipper's are not required to deliver to each and every Company delivery point on each day.

f) Warranty, Control and Indemnification (Section III. O. 3. – Original Sheet No. 64)

Clarifies the limits of the Company's liability.

XI. Potential Merger Issues

75. On April 20, 2009, the Company and Florida Public Utilities Company (FPU) announced in a press release that a definitive agreement had been approved by the Board of Directors for both companies. The Company is looking forward to the potential merger with FPU and the many benefits that this transaction should produce for all stakeholders.

76. In light of this potential merger, the Company is requesting certain deferred accounting treatment that will more appropriately align the timing of the benefits of the merger, should it be consummated, with the accounting treatment for costs and expenses associated with the merger.

77. To be clear, however, the Company believes that it is premature to assume that the merger definitely will be consummated. Moreover, it is impossible to determine at this point in time the full scope, details, and impact of the merger, assuming it is consummated. Several

approvals must still be obtained before the closing of this potential transaction can occur. In the meantime, the Company, as a going concern, is in need of immediate rate relief and is entitled to such relief as supported in the instant case. As such, the Company's MFRs reflect only the facts and projections of the Company as a stand-alone entity.

78. The Company is also aware that in the Commission's Order addressing FPU's recent rate case, Order No. PSC-09-0375-PAA-GU, issued May 27, 2009, a "contingency provision" was included requiring actions by FPU applicable in the event the merger is completed. The "contingency provisions" in the Commission's Order provided that: 1) a new docket would be opened; 2) FPU would file MFRs and testimony (reflecting at a minimum, the effect of the merger, the synergies of the merger, and the change in capital structure), within 180 days from the date the merger is consummated, based on a 2011 test year; and, 3) the increased revenues granted by the Commission in Order No. PSC-09-0375-PAA-GU would be held subject to refund from the date that the merger is consummated. The Company is likewise aware that on June 17, 2009, the Office of Public Counsel (OPC) filed a protest to the Commission's Proposed Agency Action (FPU PAA) Order. It is the Company's understanding that OPC's protest of Order No. PSC-09-0375-PAA-GU likely renders the "contingency provisions" set forth therein a nullity.

79. While the Company would be willing to accept a "contingency provision" such as outlined in the FPU PAA Order, and understands the Commission's and OPC's concerns, the Company respectfully offers an alternative proposal that might better address the concerns raised by the Commission and OPC at the Commission's May 5, 2009, Agenda Conference. The Company emphasizes that the alternative proposal suggested herein and in the prefiled Direct Testimony of Mr. Thomas Geoffroy, filed contemporaneously with this Petition, is offered in

good faith to address the concerns raised. The Company welcomes suggestions and input from both Public Service Commission staff and the OPC on this proposal. The proposal is described below.

A. PROPOSED "COME BACK" PROVISION

80. The Company's alternative proposal would apply to the combined company (FPU and Chesapeake) in lieu of the "contingency provisions" approved in the FPU rate case. The alternative proposal, or "come back" proposal, as proposed by the Company, is as follows:

COMPANY'S 2009 RATE CASE

The Company's 2009 rate filing would remain as a stand-alone case, without any merger related information or assumptions, except as provided below. Specifically, the Company's alternative contingency plan seeks Commission approval of five (5) primary components:

1. Shift the "come-back" rate case filing from 180 days to 18 months following closing;
2. Authorize Chesapeake to suspend the amortization of the positive acquisition adjustment recorded in Account 114 – Gas Plant Acquisition Adjustments until final disposition in the "come-back" filing;
3. Authorize Chesapeake to record transaction and transition costs as Regulatory Assets and suspend the amortization of these costs until final disposition in the "come-back" filing;
4. In the interim between the merger closing and the final order in the "come-back" case, direct the combined company to file quarterly

surveillance reports, as required by Commission Rule 25-7.1552, clearly indicating the effects of the merger; and,

5. In the interim between the merger closing and the final order in the “come-back” case, authorize the combined company, if its earnings level exceeds the high point of the authorized Return on Equity, inclusive of the positive acquisition adjustment, transaction costs and transition costs as part of rate base, to begin amortizing the positive acquisition adjustment and Regulatory Assets at such amounts to reduce the earnings level to the high point of the authorized Return on Equity for the combined company.

“COME-BACK” RATE CASE

1. Following the merger, the combined company would submit a rate case filing that enables the Commission (and OPC) to review the impacts of the merger. Such filing would be made no later than eighteen (18) months after the closing date of the merger. The proposed filing timeframe would allow the combined company to identify any actual or anticipated savings, synergies, recurring and non-recurring costs and other merger results;
2. The combined company would file a full rate case, inclusive of MFRs and Testimony, and would use 2010 as its Historic Base Year, the first full year after the anticipated closing date, and 2012 as the Projected Test Year;
3. In the proposed filing, the combined company would consolidate their respective tariffs into one common tariff;

4. All actual and projected savings, synergies, recurring and non-recurring costs and other results of the merger through 2012 shall be included in the rate filing;
5. The combined company would propose to begin recording the amortization of the positive acquisition adjustment in Account 406 – Amortization of Gas Plant Acquisition Adjustments and demonstrate the appropriateness of such accounting through the Commission five-factor test;
6. The combined company would propose a specific disposition of the Regulatory Assets (transaction and transition costs); and
7. Any recurring savings presented in the 2012 projected test year above the amount required to recover the amortization of the acquisition adjustment and Regulatory Assets would have the effect of reducing consumer rates.

B. ADDITIONAL SUPPORT FOR DEFERRED ACCOUNTING TREATMENT

81. As indicated in the "come back" proposal outlined above, the Company does plan on seeking an acquisition adjustment in the "come back" filing.⁵ In this proceeding, however, the Company is only requesting that the acquisition adjustment amortization, as well as amortization for the regulatory assets associated with the transaction and transition costs, be deferred for disposition until the "come back" rate case. If the Commission ultimately approves the "come back" proposal in this proceeding, the Commission's approval would not constitute

⁵ For such filing, the Company fully recognizes that it will bear the burden of proof, and that the Commission's standing policy is that "[a]cquisition adjustments have [only] been allowed in extraordinary circumstances if a company could demonstrate that customers will derive certain benefits attributable to the acquisition." See Order No. PSC-07-0913-PAA-GU.

approval for the Company to recover these regulatory assets in the current rate filing of the Company. To the contrary, the combined company would have the burden of proving its case for recovery of the acquisition adjustment, in accordance with Commission policy and the five-factor test historically used by the Commission, in the “come back” case.

82. If the Company's "come back" proposal set forth above is rejected, it is the Company's understanding that Generally Accepted Accounting Principles would require the Company to expense all transaction and transition costs when incurred. The acquisition adjustment premium would be recorded as an asset (“goodwill”), which would not be amortized but would instead be subject to periodic impairment assessments based on future fair value of the combined company. The amount and timing of impairment charges from “goodwill,” if any, would depend on, among other things, future state of capital markets and the combined company’s future operating results, including the combined company’s ability to generate increased earnings from anticipated synergies.

83. The Company believes that this approach does not match the benefits of the merger with the costs of the transaction, which could unnecessarily and irreparably harm the combined company’s shareholders and could serve as a disincentive to the merger despite the Company’s belief that the merger would benefit customers.

84. To address the timing "mismatch" if the merger is, indeed, consummated, the Company is asking, as set forth in the "come back" proposal above, for deferred accounting treatment for acquisition adjustment and the regulatory assets established for transaction and transition costs, whereby both the consumers and the combined company will be “held harmless” until disposition of the “come back” rate case. In that "come back" rate case, the burden of proof will clearly rest upon the combined company to demonstrate that this transaction does indeed

produce significant benefits to customers and that the five-factor test of the Commission for authorization to amortize the acquisition adjustment "above the line" is met.

85. The Company's proposal holds all stakeholders "harmless" pending the Commission's final determinations in the "come-back" proceeding. The proposal has no immediate affect on customers, because the Company is not asking for changes in customer rates associated with the merger activities. Protections would also be in place so that the combined company cannot over-earn in the transition period between the instant case and the "come back" Likewise, the amortization of the acquisition adjustment and the regulatory assets established for transaction and transition costs would be suspended until the disposition of the "come back" filing, which would protect the Company's shareholders pending the Commission's decisions in the "come back" filing proceeding.

86. It is the Company's desire and intent to reach an agreement upon the most efficient and reasonable means to ensure that all stakeholders appropriately share the benefits of the merger between Chesapeake and FPU should that transaction be consummated. Thus, the Company looks forward to further discussing this proposal in the hope and expectation that this proposal, or a variation thereof, will be amenable to all stakeholders and ultimately approved the Commission.

WHEREFORE, the Company respectfully requests that the Commission provide the following requested relief:

- a) authorize the Company to recover interim rates in the amount of \$417,555, subject to refund;

- b) approve a permanent rate increase for the Company of \$2,965,398;
- c) provide continued authorization for the Company's current mid-point ROE of 11.5%, with an overall rate of return of 7.15%;
- d) determine that the Company's proposed rates are fair, just, and reasonable;
- e) authorize the Company to revise its Competitive Rate Adjustment rider as set forth herein;
- f) authorize the Company to implement an Environmental Surcharge, as requested herein;
- g) authorize the proposed experimental rates and services as set forth herein;
- h) authorize the proposed rate class restructuring requested herein;
- i) authorize the tariff modifications requested herein;
- j) authorize the Company's alternative "come back" provisions, including, but not limited to the proposed deferred accounting treatment; and
- k) grant any other such relief as the Commission may deem necessary and appropriate.

Respectfully submitted this 14th day of July, 2009.



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*Attorneys for the Florida Division of Chesapeake
Utilities Corporation*

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Increase in Rates by Florida) Docket No. 090125-GU
Division of Chesapeake Utilities Corporation.)
_____) Filed: July 14, 2009

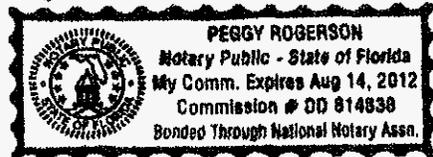
Affidavit

STATE OF FLORIDA)
)
COUNTY OF POLK)

BEFORE ME, the undersigned authority, personally appeared THOMAS A. GEOFFROY, personally known to me, who being by me first duly sworn, affirms that he is Vice President of the Florida Division of Chesapeake Utilities Corporation, and duly qualified and acting in that capacity, and is authorized to make this oath that the matters and things stated in said Petition are, insofar as they come within his knowledge and belief, true; and that insofar as they are derived from or are dependent upon the knowledge of others, he verily believes them to be true.

SWORN TO AND SUBSCRIBED before me this 10th day of July, 2009.

Peggy Rogerson
Notary Public



Typed, Printed, or Stamped Name
My Commission Expires: _____

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Increase in Rates by Florida) Docket No. 090125-GU
Division of Chesapeake Utilities Corporation.)
_____) Filed: July 14, 2009

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Petition for Rate Increase and Request for Interim Rate Relief, the Minimum Filing Requirements, and the Direct Testimony and Exhibits to Thomas A. Geoffroy, Jeffrey S. Sylvester, Matthew Dewey, Jeff Householder, Randy Taylor, Paul R. Moul, and William Pence filed in the above referenced docket on behalf of Florida Division of Chesapeake Utilities Corporation, has been furnished by hand delivery this 14th day of July, 2009, to J.R. Kelly, Public Counsel, Office of the Public Counsel c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400.



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*Attorneys for the Florida Division of Chesapeake
Utilities Corporation*

**FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION
CALCULATION SUMMARY
PROJECTED TEST YEAR REVENUE DEFICIENCY
TWELVE MONTHS ENDED DECEMBER 31, 2010, AS ADJUSTED**

ADJUSTED RATE BASE	\$46,683,296
REQUESTED RATE OF RETURN	7.15%
N.O.I. REQUIREMENTS	\$3,337,856
LESS: ADJUSTED N.O.I.	<u>\$1,497,585</u>
N.O.I. DEFICIENCY	\$1,840,271
EXPANSION FACTOR	<u>1.6114</u>
REVENUE DEFICIENCY	<u><u>\$2,965,398</u></u>

**Florida Division of Chesapeake Utilities Corporation
Comparison of Present and Proposed Rates by Class**

<u>Proposed Rate Class</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
FTS-A (0 - 130 Therms/yr)		
Firm Transportation Charge per Month	\$10.00	\$13.00
Usage Charge per therm	\$0.44073	\$0.56126
FTS-A EXP (0 - 130 therm/yr)		
Firm Transportation Charge per Month	\$15.20	\$18.05
Usage Charge per therm	n/a	n/a
FTS-B (>130 - 250)		
Firm Transportation Charge per Month	\$12.50	\$16.50
Usage Charge per therm	\$0.44073	\$0.48483
FTS-B EXP (>130 - 250)		
Firm Transportation Charge per Month	\$20.40	\$24.00
Usage Charge per therm	n/a	n/a
FTS-1 (0 - 500)		
Firm Transportation Charge per Month	\$15.00	\$21.00
Usage Charge per therm	\$0.44073	\$0.41483
FTS-1 EXP (0 - 500)		
Firm Transportation Charge per Month	\$28.00	\$30.00
Usage Charge per therm	n/a	n/a
FTS-2 (>500 - 1,000)		
Firm Transportation Charge per Month	\$27.50	\$35.00
Usage Charge per therm	\$0.29356	\$0.35776
FTS-2 EXP (>500 - 1,000)		
Firm Transportation Charge per Month	\$55.25	\$50.00
Usage Charge per therm	n/a	n/a
FTS-2.1 (>1,000 - 2,500)		
Firm Transportation Charge per Month	\$27.50	\$45.00
Usage Charge per therm	\$0.29356	\$0.29692
FTS-2.1 EXP (>1,000 - 2,500)		
Firm Transportation Charge per Month	\$55.25	\$90.00
Usage Charge per therm	n/a	n/a
FTS-3 (>2,500 - 5,000)		
Firm Transportation Charge per Month	\$90.00	\$108.00
Usage Charge per therm	\$0.19781	\$0.26004
FTS-3 EXP (>2,500 - 5,000)		
Firm Transportation Charge per Month	\$189.00	\$166.00
Usage Charge per therm	n/a	n/a
FTS-3.1 (>5,000 - 10,000)		
Firm Transportation Charge per Month	\$90.00	\$134.00
Usage Charge per therm	\$0.19781	\$0.21414
FTS-3.1 EXP (>5,000 - 10,000)		
Firm Transportation Charge per Month	\$189.00	\$269.00
Usage Charge per therm	n/a	n/a

<u>Proposed Rate Class</u>	<u>Present Rates</u>	<u>Proposed Rates</u>
FTS-4 (>10,000 - 25,000)		
Firm Transportation Charge per Month	\$165.00	\$230.00
Usage Charge per therm	\$0.17907	\$0.18255
FTS-5 (>25,000 - 50,000)		
Firm Transportation Charge per Month	\$275.00	\$425.00
Usage Charge per therm	\$0.16627	\$0.15717
FTS-6 (>50,000 - 100,000)		
Firm Transportation Charge per Month	\$450.00	\$700.00
Usage Charge per therm	\$0.14664	\$0.13976
FTS-7 (>100,000 - 200,000)		
Firm Transportation Charge per Month	\$475.00	\$975.00
Usage Charge per therm	\$0.11094	\$0.10591
FTS-8 (>200,000 - 400,000)		
Firm Transportation Charge per Month	\$750.00	\$1,800.00
Usage Charge per therm	\$0.10232	\$0.09003
FTS-9 (>400,000 - 750,000)		
Firm Transportation Charge per Month	\$900.00	\$2,775.00
Usage Charge per therm	\$0.08957	\$0.07923
FTS-10 (>750,000 - 1M)		
Firm Transportation Charge per Month	\$1,500.00	\$4,400.00
Usage Charge per therm	\$0.08314	\$0.06880
FTS-11 (>1M - 2.5M)		
Firm Transportation Charge per Month	\$3,000.00	\$8,000.00
Usage Charge per therm	\$0.06868	\$0.05815
FTS-12 (>2.5M - 12.5M)		
Firm Transportation Charge per Month	\$4,000.00	\$14,400.00
Usage Charge per therm	\$0.06278	\$0.04848
FTS-13 (>12.5M)		
Firm Transportation Charge per Month	\$13,333.33	\$16,692.25
Usage Charge per therm	n/a	\$0.00
SAS		
Shipper Administrative Charge	\$172.50	\$300.00
Consumer Charge per bill	\$0.00	\$5.50
SABS		
Shipper Administrative Charge	\$100.00	\$300.00
Consumer Charge per bill	\$3.00	\$7.50
OSDPO Service		
Up to 500 Dt	\$41.67	\$41.67
501 - 1,000 Dt	\$83.34	\$83.34
1,001 - 2500 Dt	\$208.34	\$208.34
2,501 - 5,000 Dt	\$416.67	\$416.67
5,001 - 10,000 Dt	\$833.34	\$833.34
10,001 - 25,000 Dt	\$1,250.00	\$1,250.00
Over 25,000 Dt	\$1,666.67	\$1,666.67

FTS-A , FTS-A EXP, FTS-B and FTS-B EXP are closed to new service additions.

FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION
CALCULATION SUMMARY
INTERIM RATE REVENUE DEFICIENCY
TWELEV MONTHS ENDED DECEMBER 31, 2008, AS ADJUSTED

ADJUSTED RATE BASE	\$37,868,590
REQUESTED RATE OF RETURN	6.88%
N.O.I. REQUIREMENTS	\$2,605,610
LESS: ADJUSTED N.O.I.	<u>\$2,346,483</u>
N.O.I. DEFICIENCY	\$259,127
EXPANSION FACTOR	<u>1.6114</u>
REVENUE DEFICIENCY	<u><u>\$417,555</u></u>

FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION
SUMMARY OF PROPOSED INTERIM RATE INCREASE
(CENTS PER THERM)

<u>Present Rate Class</u>	<u>Present Rates</u>	<u>Proposed Increase</u>	<u>Interim Rates</u>
FTS-A (0 - 130 Therms/yr)			
Usage Charge per therm	\$0.44073	\$0.06990	\$0.51063
FTS-B (>130 - 250)			
Usage Charge per therm	\$0.44073	\$0.05350	\$0.49423
FTS-1 (0 - 500)			
Usage Charge per therm	\$0.44073	\$0.04890	\$0.48963
FTS-2 (>500 - 3,000)			
Usage Charge per therm	\$0.29356	\$0.02550	\$0.31906
FTS-3 (>3,000 - 10,000)			
Usage Charge per therm	\$0.19781	\$0.01570	\$0.21351
FTS-4 (>10,000 - 25,000)			
Usage Charge per therm	\$0.17907	\$0.01280	\$0.19187
FTS-5 (>25,000 - 50,000)			
Usage Charge per therm	\$0.16627	\$0.01080	\$0.17707
FTS-6 (>50,000 - 100,000)			
Usage Charge per therm	\$0.14664	\$0.00920	\$0.15584
FTS-7 (>100,000 - 200,000)			
Usage Charge per therm	\$0.11094	\$0.00590	\$0.11684
FTS-8 (>200,000 - 400,000)			
Usage Charge per therm	\$0.10232	\$0.00560	\$0.10792
FTS-9 (>400,000 - 700,000)			
Usage Charge per therm	\$0.08957	\$0.00450	\$0.09407
FTS-10 (>700,000 - 1M)			
Usage Charge per therm	\$0.08314	\$0.00470	\$0.08784
FTS-11 (>1M - 2.5M)			
Usage Charge per therm	\$0.06868	\$0.00360	\$0.07228
FTS-12 (>2.5M - 10M)			
Usage Charge per therm	\$0.06278	\$0.00330	\$0.06608
FTS-13 (>10M)			
Usage Charge per therm	\$13,333.33	\$543.57	\$13,876.90
SABS			
Consumer Charge per bill	\$3.00	0.12*	\$3.12
SAS			
Shipper Administration Charge (per mo.)	\$100.00	7.03**	\$107.03

* Per Consumer in the SABS pool

** Per CI Shipper

CASE CONTENTS

1) **Petition for Rate Increase:** Petition of the Florida Division of Chesapeake Utilities Corporation seeking approval to increase its rates and charges in an amount that will allow it to generate increased annual revenues of \$2,965,398, which constitutes an increase of approximately 25%. The Company is proposing to maintain its currently authorized midpoint ROE of 11.50%, which would generate an overall rate of return of 7.15%. Without rate relief, the Company's rate of return will decline to 4.74% by year's end, and will further decline to 3.21% by December 31, 2010, based upon the Company's projections. Chesapeake asks that interim rate relief be granted in the amount of \$417,555. In addition to the requested rate relief, the Company is seeking Commission approval of certain regulatory surcharges, or changes to current regulatory surcharges. The Company is also proposing several tariff changes in conjunction with this rate filing, including, but not limited to, a new experimental tariff called the Solar Water-Heating Administrative and Billing Service (SWHS) and four (4) experimental classes that would offer optional fixed charge rates of the type currently approved in the Company's tariff. Overall, the Company's proposed rate design shifts toward a greater recovery of fixed costs through fixed charges. Finally, the Company offers an alternative "come back" proposal to address concerns regarding the announced merger with Florida Public Utilities. As part of the proposed "come back" proposal, the Company seeks approval to defer amortization of the acquisition adjustment until the "come back" rate case outlined in its proposal and to record transaction and transition costs as regulatory assets with amortization of these costs also suspended until disposition in the "come back" rate case. Herein, the Company does not seek approval of the acquisition adjustment, but intends to do so through its subsequent "come back" filing in 2011, if the merger is consummated.

2) **Minimum Filing Requirements (MFR) Section A – I:** Accounting, Financial, Engineering, Statistical and Rate Data filed in accordance with Rule 25-7.039, Florida Administrative Code.

3) **New and Revised Rate Schedules and Tariff Sheets:** Schedules of proposed rates and charges filed in legislative format in accordance with Section 366.06(3), Florida Statutes.

4) **Mr. Thomas A. Geoffroy, Vice President of the Florida Division of Chesapeake Utilities Corporation**, outlines the organization of the Company's filing and presents the witnesses who are providing testimony on the Company's behalf in this proceeding. He also provides an overview of Chesapeake Utilities Corporation and the Florida Division, and describes the requested rate increase that the Company, summarizing the necessity of seeking rate relief at this time. In addition, Mr. Geoffroy addresses the Company's request to modify the allocations methodology associated with its Competitive Rate Adjustment mechanism, and explains the Company's request for an Environmental Surcharge to address ongoing environmental remediation efforts. Finally, Mr. Geoffroy outlines a proposal to address concerns that have been raised by the Public Service Commission and by the Office of Public Counsel regarding the announced merger with Florida Public Utilities. Mr. Geoffroy is sponsoring the following Exhibits:

- ✦ **Exhibit TAG-1:** Summary of Customer Complaints Submitted to FPSC
- ✦ **Exhibit TAG-2:** Fuel Price Comparison – Company PGA
- ✦ **Exhibit TAG-3:** Fuel Price Comparison -- TTS Program
- ✦ **Exhibit TAG-4:** Summary of the Activity in the Amortization Reserve for the MGP Site Clean-up

5) **Mr. Matthew Dewey, Director of Business Unit Accounting**, will provide testimony on general accounting issues, current and deferred income taxes and corporate and business unit allocation methods.

- ✦ **Exhibit MD-1:** certain schedules of historical and projected data presented in the MFRs:
 - a. Schedule A-1(1) through A-6(1) – Executive Summary
 - b. Schedule B-1 (1-2) through B-19 (1-3) – Rate Base
 - c. Schedule C-1(1) through C-38 (1-3) – Net Operating Income
 - d. Schedule D-1 (1-2) through D-12 (1) – Rate of Return
 - e. Schedule F-1(1) through F-9(1) – Interim Rate Relief

- f. Schedule G-1(1-8, 11-18) through G-6 (1-2) –
Projected Test Year

6) **Mr. Randy Taylor, Director of Operations and Engineering**, will provide testimony on the reorganization of the Company's operations department, the Company's projected 2009 and 2010 capital expenditures and certain system improvement projects.

✦ **Exhibit RT-1:** certain schedules of historical and projected data presented in the MFRs:

- a. Schedule E-7 through E-8 – Cost of Service
- b. Schedule G-1 (9-10, 18-26) – Projected Test Year
- c. Schedule I-1 through I-4 – Engineering Schedules

7) **Mr. Jeffrey S. Sylvester, Assistant Florida Regional Manager**, will provide testimony regarding customer and volume forecasts, general business climate, and customer service enhancements.

✦ **Exhibit JSS-1:** certain schedules of historical and projected data presented in the MFRs:

- a. Schedule E-1 (1-3) – Cost of Service
- b. Schedule G-2 (6-9 and 10-13) – Projected Test Year

8) **Mr. Jeff Householder, of Jeff Householder & Company, Inc.** will provide testimony regarding interim rates, miscellaneous revenues and charges, cost of service study, rate classification changes, rate design issues and tariff changes. Mr. Householder is sponsoring the following exhibits:

✦ **Exhibit JMH-1:** certain schedules of historical and projected data presented in the MFRs:

- a. Schedule E-2 (1-3) – Cost of Service
- b. Schedule E-3 (1-8), E-4 (1-2), E-5 (1-17), and
E-6 (1-5) – Cost of Service
- c. Schedule E-9 (1) – Cost of Service
- d. Schedule F-10 (1) – Interim Rate Relief
- e. Schedule H-1 (1-5) through H-3 – Cost of Service

- ✦ **Exhibit JMH-2:** Cost-of-Service Study (MFR Schedule H) prior to the Company's market based cost adjustments
- ✦ **Exhibit JMH-3:** Comparison of revenues by class for the Projected Test Year under current and proposed rates, and the proposed percentage increase in revenues for each class.
- ✦ **Exhibit JMH-4:** Comparison of the rates of return by class for the Projected Test Year under current and proposed rates.
- ✦ **Exhibit JMH-5:** Comparison of fixed rate revenues by class under the Company's present and proposed rates.
- ✦ **Exhibit JMH-6:** Comparison of the Company's present and proposed Miscellaneous Charges (Connection Fees, etc).
- ✦ **Exhibit JMH-7:** Comparison of present and proposed permanent rates by rate classification.
- ✦ **Exhibit JMH-8:** Proposed tariff revisions in both legislative and final formats.

9) Mr. Paul R. Moul, of P. Moul and Associates, Inc., will provide testimony on the appropriate cost of capital and return on equity for the Company.

- ✦ **Exhibit PRM-1:** Composite Exhibit of the following twelve ("12") schedules:

- a. Overall Rate of Return
- b. Historical Capitalization and Financial Statistics
- c. Gas Group Historical Capitalization and Financial Statistics
- d. Standard & Poor's Public Utilities Historical Capitalization and Financial Statistics
- e. Dividend Yields
- f. Historical Growth Rates
- g. Projected Growth Rates
- e. Analysis of Public Offerings of Common Stock
- f. Interest Rates for investment Grade Public Utility Bonds

- g. Long-Term, Year-by-Year Total Returns for the S&P Composite Index, S&P Public Utility Index, and Long-Term Corporate Bonds and Public Utility Bonds
- h. Component Inputs for the Capital Market Pricing Model
- i. Comparable Earnings Approach

‡ **Appendices**, included and incorporated in Testimony:

- a. Educational Background, Business Experience, and Qualifications
- b. Rate Setting Principles
- c. Evaluation of Risk
- d. Cost of Equity – General Approach
- e. Discounted Cash Flow Analysis
- f. Flotation Cost Adjustment
- g. Interest Rates
- h. Risk Premium Analysis
- i. Capital Asset Pricing Model
- j. Comparable Earnings Approach

10) **Mr. William Pence, of Baker and Hostetler**, will provide testimony on the Company's environmental remediation site and the status of future requirements, timing and costs. Mr. Pence is sponsoring the following composite exhibit:

‡ **WLP-1:**

- a. Resume of William L. Pence
- b. Excerpts of EPA Survey
- c. March 25, 1986, FPEP Letter to FPSC
- d. Consent Order Dated February 5, 1990