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January 27, 2000

The Honorable Joe Garcia, Chairman
The Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

000108-GU

Re: Test Year Notification Pursuant to Rule 25-7.140, F.A.C.

Dear Chairman Garcia:

The Florida Division of Chesapeake Utilities Corporation (the "Florida Division") intends to file a Petition for a general rate increase proceeding with the Commission on March 31, 2000 and submits this letter in compliance with the notice requirements set forth in Rule 25-7.140, Florida Administrative Code.

As part of its notification, the Florida Division submits the following information:

A. **Test Year**

The Florida Division intends to use the projected twelve-month period ending December 31, 2001, as the appropriate test year in the general rate increase proceeding. This period represents both a calendar year period and the Florida Division's fiscal accounting period. The Florida Division also prepares internal budgets on a calendar year basis and has utilized its budget process to project revenues and expenses for the projected test year. The Florida Division also believes that the projected test year is more representative of financial conditions that will be present when new rates are approved for implementation than any historical period.

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B. **Major Factors Necessitating an Increase in Rates**

The following factors have significantly contributed to the need for a general rate increase proceeding with the Commission:

1. It has been over 10 years since the Florida Division has sought an increase in the overall revenue requirements of its operation. Its last general rate increase proceeding with the Commission was filed on December 1, 1989 in Docket No. 891179-GU. Over the ensuing time period, attrition has eroded the achieved earnings of the Florida Division to the point that the return is well below the range

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Central Florida Gas Company
A Division of Chesapeake Utilities Corporation

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of the established allowed return. The current established range for allowed rate of return for its last Surveillance Reporting period of September 30, 1999 is between 7.96% and 8.93%. The Florida Division's actual earned rate of return for the same period was only 5.98%. The Florida Division projects that, absent rate relief, the earned rate of return will continue to fall below the range established as reasonable.

The inability of the Florida Division to earn a fair and reasonable return on its investment adversely impacts its ability to maintain the financial strength to attract capital at reasonable costs and sustain the ability to expand its system to reliably meet the needs of the general public.

2. The Florida Division has experienced a decline in the natural gas usage of its industrial customers, primarily the phosphate and citrus industries. Consolidation and other competitive pressures have resulted in plants being shutdown and dismantled. These conditions appear to be long-term or permanent. For example, the IMC Nichols plant has been permanently closed and is being dismantled. Other IMC plants, including the Mulberry and Noralyn sites, have reduced their consumption levels from over 4 million therms consumed in 1997 to less than 1.5 million therms in 1999. Citrus plant reductions have also occurred, having reduced their consumption from about 4.75 million therms in 1997 to 3.2 million therms in 1999.

3. The Florida Division has invested approximately $2 million in infrastructure to bring natural gas service to Citrus County. This area is rapidly becoming popular with retirees from the north who are very familiar with and are accustomed to using natural gas for their domestic needs. The Florida Division has secured franchises with both the City of Crystal River and the City of Inverness and is currently constructing the natural gas distribution system to bring service to these communities. The backbone distribution system is expected to be in operation during the second quarter of 2000. The Florida Division is prepared to demonstrate that its investment in the expansion satisfies reasonable criteria of economic feasibility.

4. The Florida Division's existing service territories have experienced significant population growth that has had an impact on transportation infrastructure. Frequent road-widening projects have significantly impacted the Florida Division's natural gas distribution system by requiring the physical relocation of distribution mains within the public right-of-way. Major relocation of facilities projects recently completed includes the widening of I-4 through Plant City and the SR 540 expansion. The Cypress Gardens Boulevard widening project is about to begin in earnest and the SR 17 road work in Winter Haven and US 27 road widening project are expected to occur during the projected test period.

5. Several large volume users, which make up over 90% of the throughput of the Florida Division, have demanded competitive pricing options from the utility.

The Florida Division has responded with Special Contracts, a Rate Restructuring in 1997 and the implementation of new tariff offerings, including various Firm and Contract transportation services, an Off-System Sales Service schedule and the Flexible Gas Service Tariff. These efforts have had a positive impact on the Florida Division's ability to retain these large customers but at rates lower than the 1990 approved rates. Thus, the market forces that have lowered industrial margins combined with the subsidized rates that smaller customers have historically enjoyed are not generating sufficient revenues to overcome earnings attrition that has occurred since the previous rate case.

The major cost items and their estimated impacts on revenue requirements are as follows:

1.	O & M expense, including Depreciation and Taxes Other Than Income, increases since the last general rate proceeding:	$2.0 million
2.	Increase in Rate Base (Growth, System Improvements, etc):	$0.9 million
3.	Offsetting increase in Revenues:	$(1.8 million)

C. **Steps Taken to Avoid an Increase**

1. Since its previous rate case, specifically in 1993 and 1995, the Florida Division has lowered its cost of capital by issuing new long-term debt at an interest rate that was approximately 2.5% and 4% lower, respectively, than existing long-term debt. The proceeds from the new issues were used to retire the higher cost debt.

2. The Florida Division undertook a Property Tax Audit in 1999 that resulted in a reduction of approximately $75,000 per year in property taxes.

3. In 1999, the Florida Division implemented a change out of Electronic Flow Measurement equipment at our large customer and city gate station locations. The Florida Division expects the change out to reduce O & M expenses by about $30,000 per year.

D. **Procedure**

The Florida Division is **not** requesting that the Commission process its petition for rate increase using the proposed agency action process authorized in Section 366.06, Florida Statutes.

Sincerely,

THE FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION

Thomas A. Geoffroy

By: Thomas A. Geoffroy
Assistant Vice President

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