

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for increase in rates by Florida
Division of Chesapeake Utilities Corporation.

DOCKET NO. 090125-GU
ORDER NO. PSC-10-0029-PAA-GU
ISSUED: January 14, 2010

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman
LISA POLAK EDGAR
NANCY ARGENZIANO
NATHAN A. SKOP
DAVID E. KLEMENT

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING A GAS RATE INCREASE
AND
REQUIRING ADDITIONAL FILINGS
REGARDING THE CONSUMMATED MERGER

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

I. BACKGROUND

This proceeding commenced on July 14, 2009, with the filing of a petition for a permanent rate increase by Florida Division of Chesapeake Utilities Corporation. Florida Division of Chesapeake Utilities Corporation (Chesapeake or Company) is an operating division of Chesapeake Utilities Corporation (CUC). The Company is engaged in business as a public utility providing distribution and transportation of gas as defined in Section 366.02, Florida Statutes (F.S.), and is subject to the jurisdiction of this Commission. Chesapeake serves approximately 14,500 customers in Winter Haven, Plant City, St. Cloud, Inverness, Crystal River, and other nearby communities. The Company also provides service to industrial customers in DeSoto, Gadsden, Gilchrist, Holmes, Jackson, Liberty, Suwannee, Union, and Washington Counties, and is ready to provide service, pursuant to an approved territorial agreement, to customers in portions of Pasco County.

Chesapeake requested an increase in its retail rates and charges to generate an increase in annual revenues of \$2,965,398. This increase would allow Chesapeake to earn an overall rate of

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return of 7.15 percent or an 11.50 percent return on equity (range 10.50 to 12.50 percent). The Company based its request on a projected test year ending December 31, 2010. In its petition, Chesapeake stated that 2010 is the appropriate period to be utilized because it best represents expected future operations for use in analyzing the request for rate relief. Chesapeake elected to have its petition for rate relief processed under the proposed agency action (PAA) procedures authorized by Section 366.06(4), F.S.

In its last rate case, we granted Chesapeake a \$1,251,900 increase in additional revenues by Order No. PSC-00-2263-FOF-GU.¹ In that order, we found the Company's jurisdictional rate base to be \$21,088,311 for the projected test year ended December 31, 2001. The rate of return was found to be 8.60 percent for the test year using 11.50 percent return on equity.

In Docket No. 040956-GU by Order No. PSC-05-0208-PAA-GU, we granted in part and denied in part Chesapeake's petition's for New Customer Classifications and Restructuring of Rates.²

In the instant case, we granted Chesapeake, by Order No. PSC-09-0606-PCO-GU, an interim increase of \$417,555 in gross annual revenues.³ This increase would allow the Company to earn an overall rate of return of 6.88 percent or a 10.50 percent return on equity, which is the minimum of the currently authorized return on equity range of 10.50 to 12.50 percent. The Company based its interim request on a historical test year ended December 31, 2008. The interim rates became effective September 17, 2009, for all meter readings made on or after 30 days from the date of the vote approving the interim increase. In the same order, we suspended the final rates and associated tariff revisions proposed by the Company pending a final decision in this docket.

On September 1, 2009, the Office of Public Counsel (OPC) was granted intervention in this proceeding.⁴

Customer meetings were held in Winter Haven on October 14, 2009, and in Crystal River on October 15, 2009. A total of three customers attended the meetings.

On October 28, 2009, CUC and Florida Public Utilities Company (FPUC) announced their corporate merger, whereby FPUC became a wholly owned subsidiary of CUC. On November 5, 2009, pursuant to Rule 25-9.044(1), Florida Administrative Code (F.A.C.), CUC notified us of its acquisition of FPUC.

¹ Order No. PSC-00-2263-FOF-GU, issued November 28, 2000, in Docket No. 000108-GU, In re: Request for rate increase by Florida Division of Chesapeake Utilities Corporation.

² Order No. PSC-05-0208-PAA-GU, issued February 22, 2005, In re: Petition or authorization to establish new customer classifications and restructure rates, and for approval of proposed revised tariff sheets by Florida Division of Chesapeake Utilities Corporation.

³ Order No. PSC-09-0606-PCO-GU, issued September 8, 2009, In re: Petition for increase in rates by Florida Division of Chesapeake Utilities Corporation.

⁴ Order No. PSC-09-0590-PCO-GU, issued September 1, 2009, In re: Petition for increase in rates by Florida Division of Chesapeake Utilities Corporation.

Chesapeake's existing Florida Division, which provides service under the fictitious name "Central Florida Gas Company," will continue to operate its natural gas distribution utility using the rates, rules, and classifications on file with us.

The newly acquired subsidiary, FPUC, will continue to operate under the name "Florida Public Utilities Company," as well as the rates, rules, and classifications currently on file with us for both the natural gas utility business and the electric utility business. This proceeding does not affect the rates of FPUC's gas customers.

This recommendation addresses the requested permanent rate increase by Chesapeake. We have jurisdiction pursuant to Sections 366.041, 366.07, and 366.071, F.S.

II. TEST PERIOD

A. Projected Test Period

The Company used actual data for the 2008 historical base test year. This data served as a basis for developing its 2010 projected test year request. The 2010 projected test year was based on the projected level of customers, related revenues, expenses updated for cost changes and trending, capital expenditures, and the projected cost of capital. The projections through 2010 were reviewed and analyzed by our staff.

The purpose of the test year is to represent the financial operations of a company during the period in which the new rates will be in effect. We find that the projected test period of the 12 months ending December 31, 2010, as adjusted herein, is representative of the period in which the new rates will be in effect and is appropriate.

B. Bills and Therms

We reviewed the billing determinates contained in Minimum Filing Requirements (MFR) Schedule G-2, pages 6-8, for the base year plus one, and Schedule G-2, pages 10-12 for the projected test year 2010. We also reviewed the historical customer data, and the consistency of the projected values with the most recent actual data. According to the Company, the long-term historic trend of consumer data includes the boom years where customer growth rates of seven percent were seen in 2005 and 2006, which makes it difficult to rely on given the current market uncertainty. The annual average growth rate in the number of consumers fell to one percent in 2008 due to the limited building activity in the Company's service areas. The Company used Fishkind and Associates, Inc.'s projections from *Florida Econocast, April 2009*, which indicates that the Florida housing slump will bottom-out in 2009 and begin to recover in late 2010. Therefore, we find that the Company's assumption of 0.75 percent customer growth rate is not overly optimistic.

The Company used the 2000-2008 actual average therm usage of 253 therms for all residential customers for its projected usage for 2009 and 2010 of 258 therms. The Company attributes a modest gain in average projected usage to its effort to add premises with multiple gas appliances, with a large percentage of new residences having added gas appliances such as pool

heaters, fire logs, and outdoor kitchens. The large volume therm user forecast was based primarily on individual contacts with each customer and a discussion of consumption projections for 2009 and 2010.

We find that the billing determinants contained in the MFR Schedule G-2 are appropriate. We find that the projected number of bills and therms by rate class as contained in MFR Schedule G-2, pages 10-12, for test year 2010 are appropriate for this rate case.

III. QUALITY OF SERVICE

Customer meetings were held in Winter Haven on October 14, 2009, and in Crystal River on October 15, 2009. The purpose of the meetings was to gather information from customers regarding the Company's quality of service and its request for a permanent rate increase. No customer attended the meeting in Winter Haven and three customers attended the meeting in Crystal River. Two of the customers voiced opposition to the proposed rate increase.

Quality of service was reviewed by analyzing all complaints taken by our Division of Service, Safety, and Consumer Assistance, which is an exhibit provided by the Company. This exhibit summarizes complaints from January 1, 2000, to May 31, 2009. The numbers from the testimony exhibit match our records. Over this nine year period, there were a total of 80 complaints, of which 55 involved billing and 25 involved service. Of the 80 complaints, our complaint staff determined that 25 of the complaints should be designated as apparent infractions; 23 of the infractions related to Chesapeake's failure to timely respond to complaints within 15 days as required by Rule 25-22.032, F.A.C.; one violation involved the refund of a deposit, and one related to the crediting of an account. During 2008 and 2009, our complaint staff determined that three complaints should be classified as apparent infractions.

The number of complaints per customer compares favorably with other large Florida Natural Gas utilities. With respect to service quality, our records indicate that Chesapeake has not experienced a natural gas outage that would be reportable to this Commission per Rule 25-12.084, F.A.C.

Considering all of the above, we find that the Company's quality of service is satisfactory.

IV. RATE BASE

A. Adjustments for Unsupported Plant in Service

The Company's records reflected a \$32.75 million net increase to the plant in service accounts for the 9 year period ending December 31, 2008. As part of their work to verify the plant balances, our staff auditors requested supporting documentation for 244 plant in service transactions totaling \$6.19 million (Requests Nos. 7, 25, 41 and 45). The Company provided support for 165 of the 244 transactions, totaling \$4,052,190. During the audit, Chesapeake stated that documentation for the remaining 79 transactions totaling \$2,142,413 either could not be located or was not available.

Chesapeake filed an affidavit with us on August 31, 2009, attesting that Hurricane Jeanne struck Winter Haven, Florida in September 2004, and caused serious structural damage, including severe roof damage, to its office located in Winter Haven, Florida. As a result of the structural damage, some records were destroyed and others lost.

In its written response to Audit Finding No. 2, Chesapeake attached additional documentation totaling \$1,946,636. The Company stated that it obtained the support documentation by contacting vendors and asking them to provide duplicate invoices. As some of the missing invoices relate to plant installed 9 years ago, some vendors were no longer in business; as such, Chesapeake was unable to obtain invoices to support all plant. The remaining undocumented amount of plant in service additions is \$195,777 (\$2,142,413 - \$1,946,636). Chesapeake stated that virtually all of the records that remain outstanding and cannot be located are those records that were destroyed by Hurricane Jeanne.

Chesapeake did, however, provide secondary support documentation to justify the remaining plant in service amount of \$195,777 which has been verified by our staff. The secondary support documentation consisted of the Company's audited FERC Form 2 (annual report) filed with us, CUC's U.S. Corporate Tax returns, and CUC's audited Financial Statements. We have reviewed the reconciliation and find the balance of plant in service on the Company's books and shown in the MFRs reflects the assets that used in providing utility service.

As the \$195,777 represents .6 percent (.006) of the \$32,750,000 in plant additions over the nine-year period ending December 31, 2008, and the fact that Chesapeake provided secondary support documentation to justify the plant additions, we find that no adjustment is required. Thus, no adjustment is necessary to the 2010 Plant in Service balance because additional documents were provided by Chesapeake in its response to the audit report.

B. Adjustments for Unsupported Amounts in Account 473.1, Mains - Steel

We note that Rule 25-7.014(2), F.A.C., Records and Reports in General, requires that the records shall be maintained in such a manner as to meet the following objectives:

- a. An inventory of property record units which may be readily checked for proof of physical existence;
- b. The association of costs with such property record units to assure accurate accounting for retirements; and
- c. The determination of dates of installation and removal of plant to provide data for use in connection with depreciation studies.

The Company provided our staff auditors with its property records for a sample of fifteen utility accounts. Our staff auditors were able to reconcile the prior rate case balance as of December 31, 1999, with the current continuing property records (CPR), except for one material

difference of \$1,210,750 in Account No. 376.1. However, there was no difference between the Account No. 376.1 balance and the CPR balance as of December 31, 2003.

Chesapeake explained that it converted its records from a manual ledger to a computer-based system in 2005. The discrepancy in Account No. 376.1, which resulted from the change over, was not detected during the change over process. Based on our staff audit finding, Chesapeake researched the error and as a result, filed revised CPRs on October 27, 2009 reflecting the appropriate balance for Account 376.1 Mains-Steel and 376.2 Mains-Plastic of \$14,444,603. Based on the revised balances for Account Nos. 376.1 Mains-Steel and 376.2 Mains-Plastic, there is no difference in the net change between the FERC Annual Report balances and the CPR.

Based on the above, the revised continuing property records reflect the appropriate account balances for Account 376.1 - Mains-Steel and Account 376.2 - Mains-Plastic of \$14,444,603, as of December 31, 1999, and \$12,638,540, as of December 31, 2003, which agrees with the Federal Energy Regulatory Commission (FERC) Annual Report balances. Therefore, no adjustment is necessary to either Account 376.1 - Mains-Steel or Account 376.2 - Mains-Plastic.

C. AMR Communication Equipment - Establishment of Sub-Accounts 381.1, AMR Meters, and 382.1, AMR Meter Installations

Chesapeake asserted that the Company reviewed and evaluated various automatic meter reading (AMR) technology options that could reduce annual meter reading costs, and improve billing reliability and accuracy. After evaluating different technologies, Chesapeake chose the Aclara STAR AMR system. The Aclara system is designed for wireless transmission of billing data to the server without the need for hand-held devices. The Aclara system has three major components: the Meter Transmitter Unit (MTU), the Data Collection Unit (DCU), and the network server. The MTU attaches to an existing meter, and reads and transmits data to a DCU. The DCU receives billing data from multiple MTUs and transmits the information daily to the network server. The information received can provide a more accurate picture of consumers' consumption, useful information which can be provided to ratepayers and gas shippers.

Chesapeake asserted that from April 2007 through early 2008, it conducted a pilot program in Citrus County of Aclara's STAR AMR equipment. The pilot involved approximately 300 customers. During this pilot, Chesapeake continued to conduct on-site meter readings to verify the accuracy of the AMR system. The pilot showed high reliability and minimal problems. The Company decided to deploy the Aclara system throughout its Florida service territory. Chesapeake believes it will have completed installation by the end of October 2009.

Chesapeake originally proposed to establish Sub-Account 397.1, AMR Communication Equipment, to which the investment in the various AMR components would be booked. When questioned about why the Aclara system should be booked to the communication account rather than the meters account, the Company responded that it believed that a communications Sub-

Account was appropriate because the MTUs and DCUs are essentially wireless radio transmitters.

We note that in Docket No. 080163-GU, Florida City Gas requested authorization to establish a new Sub-Account to record the installation costs of its encoder receiver transmitters (ERTs). While Florida City Gas had booked the investment in ERTs to a Sub-Account of Account 381, Meters, they had been expensing the installation costs. We ruled that the ERT installation costs should be booked to Sub-Account 382.1, AMR Meter Installations.⁵ The ERTs used by Florida Gas are similar in function to the MTUs used by Chesapeake. Each device transmits measurements to a collection device. However, the ERT collection device is a mobile-based unit, whereas the MTU transmits to a fixed location-based DCU.

Chesapeake subsequently altered its position regarding the establishment of Sub-Account 397.1. Chesapeake has agreed that the costs of the AMR system should be booked to in Sub-Account 381.1, AMR Meters, and Sub-Account 382.1, AMR Meter Installations. Chesapeake indicated in response to a data request that:

. . . it appears that the purchased cost of the MTU's should be properly recorded in Account 381, Meters. In addition, the Company upon closer review of commission Order PSC-08-0623-PAA-GU concurs that it did not record the MTU's appropriately on its books of record or in this filing. The installation cost of the MTU's should be recorded consistent with how the Company books meter and regulator installation costs, in Account 382, Meter Installations. The Company is prepared to make the necessary adjustments to record these items in the correct Plant Accounts.

However, Chesapeake was silent regarding the account to which the investment in DCUs should be booked. The Code of Federal Regulations describes Account 381, Meters, stating, "this account shall include the cost installed of meters or devices appurtenances thereto, for use in measuring gas delivered to users, whether actually in service or held in reserve." Based on this definition, we find that all of the investments in the Aclara system are properly booked to Sub-Account 381.1, AMR Meters, and associated installation costs shall be booked to Sub-Account 382.1, AMR Meter Installations.

We therefore determine that Sub-Account 397.1, AMR Communication Equipment, shall not be established. Instead, we determine that Sub-Accounts 381.1, AMR Meters, and 382.1, AMR Meter Installations, shall be established.

⁵ Order No. PSC-08-0623-PAA-GU, issued September 24, 2008, in Docket No. 080163-GU, In re: Petition for approval to create regulatory subaccount of meter installation to capitalize all incurred and future costs associated with installation of encoder receiver transmitters (ERTs) under provisions of Statement of Financial Accounting Standard No. 71, Accounting for the Effects of Certain Types of Regulation (SFAS 71); and requesting depreciation of installation costs of ERTs over 15-year period beginning January 1, 2008, by Florida City Gas.

D. Average Service Life, Net Salvage, and Depreciation Rate for Sub-Accounts 381.1, AMR Meters, and 382.1, AMR Meter Installations

For its proposed sub-account 397.1, addressed above, the Company proposes an average service life of twenty years for the AMR equipment, which is based on the manufacturer's estimated life for the MTU's battery. In response to a data request, the Company provided work papers regarding the battery life of the MTU and supplied Aclara literature that supports the twenty-year life of the lithium-ion battery contained in the MTU. We find that the Company's proposed average service life of twenty years is reasonable and appropriate for Sub-Account 381.1, AMR Meters, and Sub-Account 382.1, AMR Meter Installations, as referenced above.

Chesapeake indicates that when the MTU battery expires, the MTU will be replaced. Refurbishment of the unit or replacement of the battery is not expected. Little resale value other than junk is expected from the retired MTUs. For this reason, we find that a zero net salvage value is appropriate for Sub-Accounts 381.1, AMR Meters, and 382.1, AMR Meter Installations. Pursuant to Rule 25-7.045(8)(a), F.A.C., a gas utility is required to file a depreciation study for our review at least once every five years. When Chesapeake files its next study, the depreciation parameters for the AMR system components can be revisited and revised, if warranted.

New Sub-Accounts 381.1, AMR Meters, and 382.1, AMR Meter Installations, shall have a twenty-year average service life, zero net salvage, resulting in a five percent depreciation rate.

E. Level of Rate Base

Based on the foregoing, the appropriate 13-month average rate base for the 2010 projected test year shall be \$46,683,296, as shown in Schedule 1.

V. COST OF CAPITAL

A. Accumulated Deferred Income Taxes (ADITs)

In MFR Schedule G-3, page 2, Chesapeake proposed \$7,454,209 of accumulated deferred income taxes (ADITs) to include in the Company's capital structure for the 2010 projected test year. The 13-month average balance of ADITs was calculated, as shown on Schedule G-1, page 8. ADITs represent the deferred tax liability that arises from timing differences between pretax accounting income and taxable income. A temporary difference originates in one period and reverses in one or more subsequent periods. ADITs are also a component of the capital structure.

Chesapeake has utilized the "bonus" depreciation allowed on its Federal tax returns which has increased the level of Deferred Income Taxes, thus lowering the overall cost of capital. We agree that the methodology used by Chesapeake to calculate ADIT is proper and is consistent with SFAS 109, Internal Revenue Code, and Income Tax Regulations covering the projected test year. Based on the foregoing, the appropriate amount of accumulated deferred taxes to include in the capital structure of Chesapeake for the 2010 projected test year is \$7,454,209, as shown on Schedule 2.

B. Unamortized Investment Tax Credits (ITCs)

In its MFR Schedule G-3, Chesapeake proposed a balance of \$123,004 of unamortized ITCs to be included in the Company's capital structure for the 2010 projected test year. The ITC balance has been amortized over the life of the assets that generated the credits. As a result of the 2007 Depreciation Study (Docket No. 070322-GU), we ordered the Company to reflect the effect of the approved changes in the remaining lives of the related assets on the current amortization of the ITC and on the flowback of excess deferred income taxes.⁶

The Company performed the review and determined that the above items were not impacted as a result of the Depreciation Study. The annual amortization of the ITCs in the amount of \$19,523 has remained unchanged since the Company's 2000 rate case (Docket No. 000108-GU). We find that Chesapeake's methodology for calculating the balance of the ITCs is appropriate and is in accordance with IRS requirements. Based on the foregoing, the appropriate amount and cost of unamortized ITCs to include in Chesapeake's capital structure for the 2010 projected test year are \$123,004 and zero percent, respectively.

C. Reconciliation of Rate Base and Capital Structure

To reconcile capital structure to rate base, Chesapeake first removed the amounts for customer deposits, deferred taxes, and ITCs from rate base. The remaining rate base balance was reconciled over investor sources of capital at the same ratios maintained by CUC. The full amounts for customer deposits, deferred taxes, and ITCs were then added to the capital structure. These adjustments are consistent with Chesapeake's last rate case.⁷ Accordingly, we find that rate base and capital structure have been reconciled appropriately.

D. Capital Structure

On MFR Schedule G-3, page 2, Chesapeake filed a projected capital structure based on a 13-month average. This capital structure as filed reflects an equity ratio of 54.11 percent as a percentage of investor capital. First, Chesapeake included customer deposits in the amount of \$1,580,224, deferred income taxes in the net amount of \$7,454,209, and ITCs in the amount of \$123,004 in the capital structure. The Company then made pro rata adjustments to common equity, long-term debt, and short-term debt to reflect the same capital structure ratios maintained by CUC. Historically, we have determined the appropriate capital structure, in part, based upon the relationship between the regulated utility and its parent company. In a divisional relationship, as in this case, we have used the consolidated capital structure of the parent company.⁸ This methodology is also consistent with the Company's last rate case.⁹

⁶ Order No. PSC-08-0364-PAA-GU, issued June 2, 2008, in Docket No. 070322-GU, In re: 2007 depreciation study by Florida Division of Chesapeake Utilities Corporation, p. 4

⁷ Order No. PSC-00-2263-FOF-GU, issued November 28, 2000, in Docket No. 000108-GU, In re: Request for rate increase by Florida Division of Chesapeake Utilities Corporation.

⁸ Order No. PSC-08-0327-FOF-EI, issued May 19, 2008, in Docket No. 070304-EI, In re: Petition for rate increase by Florida Public Utilities Company, p. 38

⁹ Order No. PSC-00-2263-FOF-GU, issued November 28, 2000, in Docket No. 000108-GU, In re: Request for rate increase by Florida Division of Chesapeake Utilities Corporation, p. 7.

Accordingly, we find that the appropriate capital structure for the purposes of setting rates in this proceeding is the capital structure detailed on Schedule 2.

E. Cost Rate for Short-Term Debt

We agree with the Company's methodology and calculation of short-term debt. The current Blue Chip Financial Forecast (Blue Chip) issued November 1, 2009, indicates projected cost rates for short-term debt ranging from the three month London Interbank Offered Rate (LIBOR) of 0.6 percent to the prime bank rate of 3.2 percent for the first quarter of 2010. These projected rates increase to a LIBOR rate of 1.3 percent and a prime bank rate of 4.0 percent by the fourth quarter of 2010. The Company's cost of short-term debt for historic year 2008 was 2.89 percent. Based upon the Company's recent experience and the projected cost rates for short-term debt published by Blue Chip, we find that the proposed cost rate for short-term debt of 2.90 percent is reasonable. Thus, the appropriate cost rate for short-term debt for the projected test year is 2.90 percent.

F. Cost Rate for Long-Term Debt

We agree with the Company's methodology and calculation of the cost rate for long-term debt for the projected test year. Chesapeake is an operating division of CUC. Neither CUC nor Chesapeake has a corporate bond rating. The current Blue Chip Financial Forecast (Blue Chip) issued November 1, 2009, reports projected yields on Aaa-rated bonds of 5.3 to 5.7 percent through the fourth quarter of 2010. Blue Chip projects cost rates for Baa-rated bonds of 6.5 to 6.9 percent for this same time period. Based upon the Company's recent experience and the projected cost rates for long-term debt published by Blue Chip, we agree that the Company's proposed long-term debt rate of 5.76 percent is reasonable. Thus, the appropriate cost rate for long-term debt for the projected test year is 5.76 percent.

G. Return on Equity (ROE)

Chesapeake requested an ROE of 11.5 percent. The Company's current authorized ROE of 11.5 percent was approved in Order No. PSC-00-2263-FOF-GU, issued November 28, 2000.¹⁰

Chesapeake requested that we handle its request for a rate increase as a PAA, and consequently, we have not held a hearing on this matter. To support its requested ROE of 11.5 percent, Chesapeake provided the computations and results of four cost of equity valuation methods: the Discounted Cash Flow (DCF) model, the Risk Premium (RP) analysis method, the Capital Asset Pricing Model (CAPM), and the Comparable Earnings (CE) approach. No other parties submitted pre-filed testimony or comments in this docket regarding the appropriate ROE.

Based on the statutory principles for determining the appropriate rate of return for a regulated utility set forth by the U.S. Supreme Court in its Hope and Bluefield decisions,

¹⁰ Order No. PSC-00-2263-FOF-GU, issued November 28, 2000, in Docket No. 000108-GU, In re: Request for rate increase by Florida Division of Chesapeake Utilities Corporation.

Chesapeake developed two groups of comparable risk utilities to determine its proposed ROE.¹¹ Chesapeake's first group (Gas Group) consisted of eight gas companies from the twelve gas companies contained in The Value Line Investment Survey (Value Line). The Company's second group consisted of the Standard & Poor's Public Utilities (S&P Utilities). Chesapeake applied the cost of equity valuation methods and models using the average data for the Gas Group and S&P Utilities.

Chesapeake conducted a fundamental risk analysis to determine the Company's relative risk position within the gas industry by comparing the financial data for the Company, the Gas Group, and the S&P Utilities. Chesapeake compared the capitalization size, market ratios, common equity ratios, return on book equity, operating ratios, coverage ratio, quality of earnings, internally generated funds, and beta. Based on this analysis, the Company concluded that due to its smaller size and higher earnings variability, Chesapeake was more risky than the Gas Group.

Chesapeake's ROE Valuation Methods and Models

DCF. Chesapeake used a simplified form of the Gordon Model in its DCF analysis to estimate an ROE of 11.49 percent. This DCF model defines the cost of equity as the sum of the adjusted dividend yield and expectations of future growth in cash flows to investors, including dividends and future appreciation in stock price. The Company added a leverage adjustment and flotation cost adjustment to the results from the DCF model. This analysis resulted in an adjusted dividend yield of 4.6 percent, a growth rate of 6.0 percent, a leverage adjustment of 0.66 percent, and a flotation cost adjustment of 23 basis points for a sum of 11.49 percent ($4.6 + 6.0 + 0.66 + 0.23 = 11.49$).

Chesapeake's dividend yield of 4.6 percent was based on the average dividend yield of 4.45 percent for the Gas Group during the six-month period November 2008 through April 2009. The Company adjusted the average 4.45 percent dividend yield upwards by 3.0 percent to account for an expected higher yield in the future which resulted in a dividend yield of 4.6 percent.

The Company's growth rate of 6 percent was derived from the 5-year projected growth rates of earnings per share (EPS) for the Gas Group from IBES/First Call, Zacks, and Value Line. Those growth rates ranged from 4.88 percent to 6.99 percent. Chesapeake disregarded the Value Line projection of 4.88 percent because Value Line's EPS projection is greater than its dividends per share projection of 4.0 percent which indicates a declining dividend payout ratio for the future. The Company's growth rate of 6.0 percent was based on its opinion of investor expectations and not on a mathematical formula.

The third component of Chesapeake's DCF-based ROE calculation is a leverage adjustment of 0.66 percent. The Company explained the leverage adjustment is needed when the results of the DCF model are to be applied to a capital structure that is different than indicated by

¹¹ Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 591 (1944) and Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia, 262 U.S. 679 (1923).

the market price. Chesapeake explained that the capital structure ratios measured at the utility's book value show more financial leverage and higher risk than the capitalization measured at its market value. Hence, it is necessary to develop a cost of equity that reflects the higher financial risk related to the book value capitalization used for rate setting purposes. Using the Modigliani and Miller theory, the Company calculated that the cost of equity increases by 0.66 percent when the book value of equity (57 percent), rather than the market value of equity (70 percent), is used for rate setting purposes.

To adjust for the cost of raising new common equity capital, Chesapeake multiplied a flotation cost adjustment factor of 1.02 (an increase of 2 percent) to the unadjusted DCF result of 11.26 percent for a final DCF result of 11.49 percent. The flotation cost adjustment equates to an addition of 23 basis points. The Company explained that flotation costs are shown to be 4 percent for public offerings of common stocks by gas companies from 2003 to 2007. Chesapeake believes that because flotation costs are not recovered elsewhere, they must be recognized in the rate of return. Chesapeake explained that it used a flotation cost adjustment factor of 1.02 because it applied the flotation cost adjustment to the entire unadjusted DCF result, not just a portion of the DCF model, such as the dividend yield.

RISK PREMIUM. In the risk premium approach, Chesapeake added a premium for the Company's financial risk to a prospective yield for long-term public utility debt, plus an adjustment for flotation costs. Chesapeake used a forecasted yield on A-rated public utility bonds of 6.5 percent for its prospective yield for long-term public utility debt. The Company added an equity risk premium of 5.5 percent to the forecasted yield on A-rated public utility bonds for a sum of 12.0 percent. Chesapeake added 23 basis points for flotation costs for a result of 12.23 percent.

To estimate the forecasted yield on A-rated public utility bonds, the company combined the forecasted yields on long-term Treasury bonds published in the Blue Chip Financial Forecasts (Blue Chip) issued on April 1, 2009, plus a yield spread of 2.5 percent. Chesapeake based its yield spread of 2.5 percent on the average yield spread between A-rated public utility bonds and 20-year Treasury bonds over the twelve-month period from May 2008 through April 2009.

Chesapeake calculated its equity risk premium by comparing the earned returns on utility stocks to the earned returns on utility bonds. The Company used the S&P Public Utility index to measure the market returns for utility stocks and used the annual yields on public utility bonds to measure the returns on public utility bonds. Chesapeake analyzed four time periods and determined the central tendency of the historical returns for each period. The Company calculated the risk difference or spread between the results to arrive at risk premiums for the four periods of 5.51, 6.58, 6.08, and 6.37 percent. From those four results Chesapeake reasoned that 6.23 percent represents a reasonable risk premium for the S&P Public Utilities. Chesapeake explained that the risk premium of the Gas Group is approximately 88 percent of the risk premium of the S&P Public Utilities based on various differences in the financial fundamentals between the Gas Group and the S&P Public Utilities. The Company opined that a lower risk premium of 5.5 percent for the Gas Group is reasonable in this case.

CAPM. Chesapeake also used a CAPM approach that consisted of three components: a risk-free rate of return, the beta measure of systematic risk, and the market risk premium. The Company used a risk-free rate of 4 percent, a beta of 0.77, and a market risk premium of 8.66 percent. This equates to a cost of equity of 10.67 percent ($4.0\% + (0.77 \times 8.66\%) = 10.67\%$). Chesapeake added a size premium adjustment of 0.94 percent to account for the smaller market capitalization of the Gas Group and added an adjustment of 23 basis points for flotation costs. The Company's CAPM result for the Gas Group was 11.84 percent ($4.0\% + (0.77 \times 8.66\%) + 0.94\% + 0.23\% = 11.84\%$).

Chesapeake based its 4.0 percent risk-free rate on the historical yields of 20-year Treasury bonds and the forecasts for the yields on 30-year Treasury bonds published in the April 1, 2009, Blue Chip. The twelve-month average yield for 20-year Treasury bonds from May 2008 through April 2009 was 4.14 percent. The Company indicated the yields for the 30-year Treasury bonds are expected to increase from 3.5 percent in the second quarter of 2009 to 4.3 percent in the third quarter of 2010. Chesapeake contends that forecasts of interest rates should be emphasized to recognize the trend of increasing yields into the future.

The Company used a beta of 0.77 for the Gas Group in its CAPM calculation. Chesapeake based its beta on the average of the betas for the companies in the Gas Group listed in the March 13, 2009, edition of Value Line, which was 0.66. The Company explained that the Value Line betas are based on market value and should be adjusted to reflect the financial risk associated with the rate setting capital structure that is measured at book value. Chesapeake used the Hamada formula to calculate a leveraged beta of 0.77 for the book value capital structure of the Gas Group.

The Company's market premium in its CAPM was calculated from the total return on the market of equities using forecast and historical data. For the forecast data, Chesapeake used the September 12, 2008, edition of Value Line to determine the forecasted total return of 1,700 stocks in the Value Line Survey. The result was 17.22 percent. For the historical data, the Company calculated the DCF return on the S&P 500 Composite index as of April 30, 2009. The result for the historical market return was 13.29 percent. Chesapeake calculated the average of the 17.22 percent and 13.29 percent result for a combined total market return of 15.26 percent. The Company then subtracted the risk-free rate of 4.0 percent from the total market return of 15.26 percent to arrive at a market premium of 11.26 percent.

Chesapeake added 0.94 percent to its CAPM calculation to account for the smaller size of the Gas Group as compared to the market as a whole. The Company contends that the CAPM could understate the cost of equity according to a company's size. Chesapeake explained that as the market capitalization of a company decreases, its risk and required return increases. Although the average market capitalization for the Gas Group was in the small-cap range, the Company adopted an adjustment for companies in the mid-cap range to provide a more conservative representation of the size adjustment.

COMPARABLE EARNINGS. Chesapeake applied the comparable earnings approach to analyze returns earned by other non-regulated firms of comparable risk. The Company selected twelve companies from the Value Line universe of 1,700 companies that it believed have similar

risk parameters to the Gas Group. Chesapeake used six Value Line rankings criteria to select the comparable companies. The criteria were: timeliness rank, safety rank, financial strength, price stability index, beta, and technical rank. The Company calculated the median rates of return for the comparable earnings group of companies over a ten-year period including five historical years and five projected years. The median rate of return for the comparable earnings group over the five-year historical period from 2003 through 2007 was 14.6 percent. The median rate of return over the forecasted period from 2011 through 2013 is 12.8 percent. Chesapeake used the average rates of return for the historical and forecasted periods to compute a cost of equity of 13.7 percent. Chesapeake indicated that it used the results from its comparable earnings method to confirm the results of the Company's market based models. A summary of the results of Chesapeake's ROE models is as follows:

<u>Model</u>	<u>Gas Group</u>
DCF	11.49%
RP	12.23%
CAPM	11.84%
Comparable Earnings	13.70%

The Company concluded that based on the application of a variety of methods and models a reasonable cost of common equity for Chesapeake is 11.5 percent.

Commission Analysis

The Company's ROE analysis relied on the evaluation of a group of eight gas companies (the Gas Group) selected from Value Line. Chesapeake used four different methodologies to estimate a cost of equity for the Gas Group. In many instances, the Company used dated information for estimates of the inputs for the models. In both the CAPM and the DCF models, the Company made an upward market-to-book value adjustment to the results of both models. In its final analysis, Chesapeake used subjective judgment to interpret the results of those models to derive an estimate for the required ROE.

The indicated return from Chesapeake's DCF model appears higher than the data suggests. The Company eliminated the Value Line EPS from its data supporting the 5-year projected growth rates. If the Value Line EPS data was considered, the average projected growth rate would be 5.84 percent. Chesapeake added a leverage adjustment to its DCF computation based on its estimate of market value equity ratio of 70 percent for the Gas Group. The Company did not provide any data to support its 70 percent market value ratio. According to AUS, Inc., the average book value equity ratio of the Gas Group is 52 percent compared to Chesapeake's equity ratio of 54 percent. Hence, a leverage adjustment is not appropriate in this case. Using 4.60 percent for the dividend/price component, 5.84 percent for the growth component, and allowing a flotation factor of 1.02 equates to a DCF result of 10.65 percent ($4.60\% + 5.84\% = 10.44\% \times 1.02 = 10.65\%$).

The indicated return from the risk premium model also appears overstated. Chesapeake's risk premium model assumed a yield spread between A-rated public utility bonds over 20-year treasury bonds of 2.5 percent. The Company's yield spread is based on a twelve month period

during which the credit markets experienced higher than normal volatility. This caused the yield spreads to be much wider than recent history showed. The average yield spread from December 1998 through April 2009 is only 1.6 percent. The forecasted yields on 30-year Treasury bonds published in the November 1, 2009, Blue Chip averages 4.6 percent for the four quarters in 2010. Adding a yield spread of 1.6 percent to the 30-year Treasury bond rate of 4.6 percent results in a prospective yield for long-term public utility debt of 6.2 percent. In addition, there is considerable academic research and empirical evidence documenting that risk premiums based on historical earned returns are poor predictors of current market expectations. Putting aside the issue of how the market risk premium was estimated, adding the 5.5 percent risk premium to the prospective yield on longer-term utility bonds of 6.2 percent indicates a return of 11.7 percent.

The Company's CAPM was based partially on forecasted data from the September 12, 2008, edition of Value Line. Using the most current issue dated November 6, 2009, the market premium component in the CAPM would decrease from 8.66 percent to 7.99 percent. However, the academic criticism of using historical earned returns to estimate the prospective risk premium also applies to the Company's CAPM analysis. In addition, the Company increased the beta by again using a market-to-book adjustment based on a 70 percent market value equity ratio. Putting aside the issue of how the market risk premium was established, using a current market premium component and the actual Value Line beta measurements, the CAPM indicates a return of 10.44 percent.

The Company chose twelve companies for its Comparable Earnings approach. Based on Value Line data, the Comparable Earnings group is more risky than the Gas Group. The average beta for the Comparable Earnings Group is 0.88 compared to the average beta of 0.66 for the Gas Group. Both the average Timeliness Rank and average Safety Rank for the Comparable Earnings Group are slightly greater than the Gas Group. The Value Line ranking criteria collectively indicate that an investment in the Comparable Earnings Group is riskier than an investment in the Gas Group, and thus the expected ROE would be less for the Gas Group.

It is generally accepted that earned or realized returns can and do differ significantly from investor required returns. Investors' required returns are a function of investors' expectations of risk and return on a prospective basis. It is reasonable to assume that investors recognize that historical returns are not necessarily a good indicator of future expected returns. There is little doubt that the recent financial crisis and disruption in the capital markets has exerted some degree of upward pressure on current expectations for the market risk premium. However, we believe the incremental increase in required return, whatever the appropriate amount may be, should be applied to a more up-to-date estimate of the investor-required return.

The Company believes Chesapeake is more risky than the Gas Group because of Chesapeake's smaller size and higher earnings variability. The Company believes that the cost of equity for the Gas Group provides a conservative measure for Chesapeake and would only partially compensate for its higher risk.

It is evident that Chesapeake is smaller than the companies in the Gas Group. The average market capitalization of the Gas Group is approximately \$1.75 billion compared to \$220 million for CUC. Chesapeake provided only 4.5 percent of CUC's annual revenue in 2008.

Market capitalization is a measure of a company's share price multiplied by the total number of shares outstanding. We believe that Chesapeake's smaller size argument is disingenuous based on the fact that Chesapeake is a division of CUC and does not issue its own stock. Hence, Chesapeake does not have a market capitalization measure.

The Company based its earnings variability evaluation solely on the annual returns on book equity for the five years from 2003 through 2007 for the Gas Group, the S&P Public Utilities, and Chesapeake. This evaluation consisted of calculating the coefficient of variation on five data points which statistically is insignificant. Further, the coefficient of variation is based on return over book equity. The level of equity for Chesapeake is determined by the management of CUC, not the market, thus rendering the data less meaningful for comparison purposes. We believe that the Company has not provided convincing evidence that Chesapeake is riskier than the Gas Group.

According to AUS Inc., the authorized ROE for the companies in the Gas Group ranges from 10.0 percent to 11.67 percent. The average authorized ROE for the Gas Group is 10.45 percent. The average book value common equity ratio for the Gas Group is 52 percent as compared to 54 percent for CUC as reported by AUS, Inc. Chesapeake's equity ratio for the projected 2010 test year is also 54 percent as discussed above. We do not believe the investor-required ROE for Chesapeake is 105 basis points greater than the average authorized ROE for the Company's Gas Group. Finally, it is reasonable to consider recent Commission decisions in other rate cases for natural gas companies. On May 27, 2009, we authorized a ROE of 10.85 percent with an equity ratio of 48.13 percent for Florida Public Utilities Company.¹² On June 9, 2009, we authorized an ROE of 10.75 percent with an equity ratio of 54.74 percent for Peoples Gas System.¹³

Conclusion

We find that an authorized ROE of 10.8 percent is appropriate. This return is above the average authorized ROE for a group of gas companies identified by the Company as having comparable business traits and risk parameters as Chesapeake. We find this level of ROE also compensates for the financial risk associated with Chesapeake's capital structure. For the reasons discussed above, the authorized ROE for Chesapeake shall be set at 10.8 percent with a range of plus or minus 100 basis points.

H. Rule 25-7.014(5), F.A.C., Records and Reports in General

Chesapeake filed an affidavit with us on August 31, 2009, attesting that Hurricane Jeanne struck Winter Haven, Florida in September 2004, and caused serious structural damage, including severe roof damage, to its office located in Winter Haven, Florida. As a result of the structural damage, some records were destroyed and others lost. As addressed earlier in this

¹² Order No. PSC-09-0375-PAA-GU, issued May 27, 2009, in Docket No. 080366-GU, In re: Petition for rate increase by Florida Public Utilities Company.

¹³ Order No. PSC-09-0411-FOF-GU, issued June 9, 2009, in Docket No. 080318-GU, In re: Petition for rate increase by Peoples Gas System.

order, the Company was unable to provide primary support documentation for all of its plant additions. Chesapeake did provide sufficient secondary evidence to support its plant additions; however, secondary evidence is still less compelling than duplicate backup documents.

Rule 25-7.014(5), F.A.C., states that a utility shall furnish us with any information concerning the facilities or operations which we may request and require for determining rates and judging the practices of the utility. The intention of this rule is to ensure that a utility can justify the level of plant that is being used to provide utility service.

Hurricane Jeanne destroyed primary documentation necessary to support Chesapeake's plant additions. Section 120.542, F.S., allows a utility to request a rule waiver when compliance with the rule would create a substantial hardship or would violate principles of fairness. Therefore, once the loss was discovered, Chesapeake should have filed a petition for rule waiver based on the destruction of the records by a natural disaster, requesting that plant additions be supported by secondary documents.

Currently, the utility is implementing an electronic document program called DocLink, which provides an original electronic document that the Company will retain in accordance with the Commission regulations. Even though the Company has taken steps to comply with Rule 25-7.014(5), F.A.C., on a going-forward basis, Chesapeake failed to request a rule waiver for not having primary support documentation to support the Company's plant additions.

Based on the foregoing, we determine that Chesapeake's ROE shall be reduced by five basis points for not adequately preserving and maintaining plant records as required by Rule 25-7.014(5), F.A.C. The effect of the five basis point reduction to the approved ROE of 10.80 percent is an ROE of 10.75 percent. The five basis point ROE reduction is only for the purpose of calculating the appropriate amount of the revenue requirement. The approved 10.80 percent ROE shall be used for all other purposes. The five basis point ROE reduction results in a \$15,045 reduction in the revenue requirement.

We have the authority to reduce ROE for mismanagement, and in this case, the failure to maintain back-up records for primary documentation, as required by Commission rules, was a poor management decision by the utility. See Order No. 16549, issued September 5, 1986, in Docket No. 850503-GU, In re: Petition of West Florida Natural Gas Corporation for an increase in rates and charges, at 7 (reducing ROE by 50 basis points for mismanagement and misrepresentation regarding a take-or-pay contract with the utility's largest customer; in addition, reducing ROE by 10 basis points for failing to maintain adequate continuing property records as required by rule and noting the utility's failure to seek waiver of that rule);¹⁴ Gulf Power Co. v. Wilson, 597 So. 2d 270, 272-74 (Fla. 1992) (upholding the Commission's decision to reduce ROE by 50 basis points for past utility mismanagement).

¹⁴ West Florida Natural Gas Corporation's Petition for Reconsideration this decision was denied by Order No. 16878, issued November 21, 1986.

I. Weighted Average Cost of Capital

The weighted average cost of capital is dependent upon several issues, including, but not limited to, accumulated deferred income taxes, unamortized investment tax credit, capital structure, cost rate for short-term debt, cost rate for long-term debt, the appropriate return on equity, and adjustments for not preserving and maintaining company records.

The net effect of these adjustments is a decrease in the overall cost of capital from the 7.15 percent requested by Chesapeake to a return of 6.83 percent as discussed herein. Schedule 2 shows the test year capital structure. Based upon the proper components, amounts, and cost rates associated with the capital structure for the test year, we find that the appropriate weighted average cost of capital for Chesapeake for purposes of setting rates is 6.83 percent, as shown on Schedule 2.

VI. NET OPERATING INCOME

A. Inflation, and Payroll Trend Factors Used in Test Year Budget Forecasting:

The Company proposed the following trend factors:

Table - 2
Chesapeake's Proposed Trend Factors for 2009 and 2010

Trend Factors	Historic Base Year +1 12/31/2009	Projected Test Year 12/31/2010
Payroll Only	3.50%	3.50%
Customer Growth & Inflation	3.47%	3.47%
Inflation Only	2.70%	2.70%
Customer Growth	0.75%	0.75%

In MFR Schedule G-6, page 239, the Company chose as a major assumption the inflation factor of 2.7 percent, for both the historic base year and the projected test year. At the time of the filing of the MFRs in July 2009, Blue Chip Economic Indicators (51 top national forecasters) had a consensus June average of -0.6 percent CPI rate for 2009 and 1.8 percent for 2010. Although the CPI was predicted to be negative for 2009, it would be unrealistic to roll back the current budget near the end of the year. Therefore, we choose a 0.0 percent inflation rate for 2009 and 1.9 percent (the current consensus) for the 2010 inflation rate as more appropriate. We note that inflation trend factors of 0 percent for 2009 and 1.90 percent for 2010, would result in a decrease of \$187,442 to Chesapeake's proposed 2010 operation and maintenance expenses.

In the MFRS, on pages 203 - 210, the Company requested an increase in payroll expense using trend factors of 3.5 percent in 2009 and 3.5 percent in 2010. In response to Staff Data Request No. 117, the Company explained that it utilized the four-year average wage increases for the Florida Division employees as the basis for the trend factor for both 2009 and 2010.

Based on the Company's historic payroll increases, the four-year average payroll increase is 3.74 percent.

Table - 2
 Utility Support for 3.5 percent trend factor
 Applied to 2009 and 2010

Year	% Increase
2005	3.11%
2006	3.28%
2007	3.57%
2008	5.00%
Four-Year Avg.	3.74%

In review of the four-average wage increase, we note that the average has increased each year and significantly in 2008, at five percent. The five percent payroll increase did not go into effect until October 1, 2008. However, the Company did request a 3.50 trend factor, which is less than the four-year average salary increase of 3.74 percent.

We believe that the requested 3.50 percent trend factors for payroll for 2009 and 2010 are reasonable. To maintain a quality work force, it is imperative to attract and maintain experienced personnel. In June 2009, we approved payroll trend factors for Peoples Gas System of 3.50 percent and 4.00 percent, for 2008 and 2009, respectively.¹⁵ The Peoples Gas System rate case did go to hearing; Chesapeake chose to have its case processed using the Proposed Agency Action procedure. While our decision in the Peoples Gas System case was based on an evidentiary record and should not serve as the primary basis upon which to approve Chesapeake's trend factors, we have included this information for comparative purposes as Chesapeake and Peoples operate in close proximity to each other.

Based on our review of the trending factors, the appropriate approved trend factors shall be as follows in the table below:

Table - 1
 Appropriate Trend Factors for 2009 and 2010

Trend Factors	Historic Base Year +1	Projected Test Year
	12/31/2009	12/31/2010
Payroll Only	3.50%	3.50%
Customer Growth & Inflation	0.75%	2.66%
Inflation Only	0.00%	1.90%
Customer Growth	0.75%	0.75%

¹⁵ Order No. PSC- 09-0411-FOF-GU, issued June 9, 2009, in Docket No. 080318-GU, In re: Petition for Rate increase by Peoples Gas System.

B. Amortization Period of Positive Acquisition Adjustment

Chesapeake Utilities Corporation (CUC) acquired Florida Public Utilities Company (FPUC) on October 28, 2009 in a corporate transaction, whereby FPUC became a wholly-owned subsidiary of CUC. Unlike FPUC, Florida Division of Chesapeake Utilities (Chesapeake) is an operating division of CUC. In the instant case, Chesapeake did not request recovery of dollars related to the positive acquisition adjustment resulting from the purchase of FPUC by CUC. Chesapeake has, however, requested we allow it to defer amortization of the proposed acquisition adjustment, until such time that the regulatory treatment of the acquisition adjustment has been voted on by us. That decision would occur if and when Chesapeake filed a petition requesting recovery of the acquisition adjustment.

Chesapeake informed us that if it was allowed to defer amortization of its proposed acquisition adjustment, it would adjust the appropriate books and records to properly reflect whatever we determine to be the appropriate treatment of the positive acquisition adjustment and the amortization period.

Chesapeake also requested that it be allowed to begin amortization should it experience earnings in excess of the high point of its authorized return on equity, inclusive of the positive acquisition adjustment, transaction costs, and transition costs. Moreover, Chesapeake believes the overearnings calculation should be based on the "combined company." As the assets and operations of FPUC and Chesapeake have not been combined, overearnings based on a "combined company" would be inappropriate. We do not find it appropriate that Chesapeake begin amortizing the deferred costs in order to offset potential overearnings, either on a stand alone basis, or on a combined basis. Further, as we have no basis to approve of the recovery of the acquisition adjustment, transition costs, or transaction costs, the inclusion of these items to calculate overearnings is improper. The calculation and disposition of any potential overearnings shall be determined by us should such overearnings occur.

We believe there is insufficient information available upon which to base a determination on the appropriate amortization period. Further, the final amount of the acquisition adjustment, if any, has yet to be determined. As a result, we find that it would be more appropriate to determine the appropriate amortization period if and when Chesapeake seeks our approval of the positive acquisition adjustment.

Based on Chesapeake's agreement that it will adjust its books to properly reflect our future decision on the appropriate treatment of the acquisition adjustment, we determine that Chesapeake shall be permitted to defer amortization of the positive acquisition adjustment. However, Chesapeake shall not be allowed to begin amortizing the acquisition adjustment for any reason, without our prior approval. Deferred amortization does not imply future rate recovery of these deferred costs.

C. Transaction and Transition Costs

As stated above, Chesapeake Utilities Corporation (CUC) purchased Florida Public Utilities Company (FPUC) on October 28, 2009 in a corporate transaction, whereby FPUC became a wholly-owned subsidiary of CUC. Unlike FPUC, Florida Division of Chesapeake Utilities (Chesapeake) is an operating division of CUC. In the instant case, Chesapeake did not request recovery of dollars related to the Regulatory Assets associated with the transaction and transition costs resulting from the purchase of FPUC by CUC. Chesapeake has, however, requested we allow it to defer amortization of the Regulatory Assets, until such time that the regulatory treatment of the transition and transaction costs has been voted on by us. That decision would occur if and when Chesapeake files a petition requesting recovery of the transition and transaction costs.

Chesapeake informed us that if it was allowed to defer amortization of the Regulatory Assets, it would adjust the appropriate books and records to properly reflect our vote on the establishment of the Regulatory Assets.

Chesapeake also requested that it be allowed to begin amortization should it experience earnings in excess of the high point of its authorized return on equity, inclusive of the positive acquisition adjustment, transaction costs, and transition costs. Moreover, Chesapeake believes the overearnings calculation should be based on the "combined company." As the assets and operations of FPUC and Chesapeake have not been combined, overearnings based on a "combined company" would be inappropriate. We do not find it appropriate that Chesapeake begin amortizing the deferred costs in order to offset potential overearnings, either on a stand alone basis, or on a combined basis. Further, as we have no basis to approve the recovery of the acquisition adjustment, transition costs, or transaction costs, the inclusion of these items to calculate overearnings is improper. The calculation and disposition of any potential overearnings shall be determined by us should such overearnings occur.

Based on Chesapeake's agreement that it will adjust its books to properly reflect the Commission's future decision on the appropriate treatment of the transition and transaction costs, we determine that Chesapeake shall be permitted to record the transaction and transition costs as Regulatory Assets and defer amortization of these costs. However, Chesapeake shall not begin amortizing the Regulatory Assets for any reason, without our prior approval. Deferred amortization does not imply future rate recovery of these deferred costs.

D. Environmental Clean-up Costs, Recovery Period and Recovery Mechanism

In Witness Pence's prefiled testimony, he stated that Chesapeake is and was the owner/operator of the Manufactured Gas Plant (MGP) in Winter Haven when it was in operation from approximately 1928 to 1953. Witness Pence explained that the routine operations at the MGPs resulted in releases of MGP's waste materials. It was not until the enactment of the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), in 1980, that the Federal government began regulating such releases. Florida enacted legislation similar to CERCLA in 1983. According to the Company, under CERCLA, all the federal government

needed to show is that the property is contaminated and that the defendant is within the class of persons deemed responsible under the CERCLA for the entity to be responsible for the clean-up.

Chesapeake began remediation at its site on May 19, 2001, when the Florida Department of Environmental Regulation approved the Utility's proposal to implement air spurge/soil vapor extraction ("AS/SVE") as a remedy for the MFP-hydrocarbon impacts present in soil and groundwater in the northern and central portions of the site. AS/SVE is a form of *in situ* remedy that provides for all soil and groundwater remediation "in ground" by introduction of forced air into the groundwater and extraction of vapors from the overlying soils.

On December 22, 2006, Chesapeake's consultants reported that an off-site soil and sediment assessment was successful. In addition, excavation and removal of petroleum-impacted solids related to the former underground petroleum storage tank system for off-site treatment was performed April/May 2008. The Company recently completed four post-removal quarterly groundwater sampling events to confirm that the excavation and off-site treatment of the petroleum-impacted soil was successful. On June 10, 2009, Polk County notified the Company that a minimum of two additional quarterly sampling events would be required for one of the wells to complete the Company's post-active remediation monitoring obligation for the petroleum impacts.

The Company has calculated the cost to complete solid and groundwater remediation utilizing certain assumptions. The assumptions have been discussed with the environmental consultant performing work at the Winter Haven MGP site; the consultant believes the assumptions are 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:

1. estimated volume of impacted soils to be remediated;
2. most likely soil remediation alternatives;
3. capital costs for construction of groundwater treatment systems;
4. projected operation and maintenance costs of the groundwater treatment systems for the life of the remediation projects; and,
5. performance monitoring costs.

The Company estimated the costs to be \$600,000 as follows:

1. Estimated cost to complete remediation of impacted soils and groundwater being treated by the AS/SVE treatment system is projected to be approximately \$150,000;
2. Estimated costs to complete an assessment of the southwest portion of the site and to remediate the impacted soils present at that location is projected to be approximately \$270,000;
3. Remaining costs to address all remaining environmental impacts at the site to the former MGP (excluding off-site soils and sediments, but including legal fees and other consulting fees) of \$180,000 for a total estimated cost of \$600,000.

In response to Staff Data Request No. 100, Chesapeake increased the estimated cost to complete the remediation to \$688,000; the cost was updated to include the actual costs of the operation of the AS/SVE treatment system for the first seven months of 2009. Also, the updated costs include an estimate of one year of post remediation groundwater monitoring that is anticipated to be required by the Florida Department of Environmental Protection after the projected termination of the AS/SVE treatment system in 2012. We believe the updated costs are appropriate.

The Company, in its petition, also requested that it be allowed to recoup monies it spent for remediation that were in excess of the monies it collected from its ratepayers. In its last rate case,¹⁶ we granted Chesapeake authority to collect \$71,114 annually from its ratepayers for its projected remediation costs. However, this amount has failed to cover the costs incurred by the Company. The Company calculation of its under recovery of \$268,257 as of December 31, 2008, is as follows:

**Summary of Amounts Collected Through Rates and Cost incurred for
the Remediation of the Manufactured Gas Plant Site**

<u>Date</u>	<u>Amounts Collected</u>	<u>Costs Incurred</u>	<u>Over(Under) Collected</u>
Beginning bal. @ 12/31/1999			\$504,710
12/31/2000	\$71,114	\$17,443	\$558,381
12/31/2001	\$71,114	\$106,773	\$522,722
12/31/2002	\$71,114	\$318,663	\$275,173
12/31/2003	\$71,114	\$137,185	\$209,102
12/31/2004	\$71,114	\$97,782	\$182,434
12/31/2005	\$71,114	\$96,117	\$157,431
12/31/2006	\$71,114	\$138,671	\$89,874
12/31/2007	\$71,114	\$176,438	(\$15,450)
12/31/2008	\$71,114	\$323,921	(\$268,257)

Chesapeake requested the environmental clean-up cost be recovered over a four year period. A four year recovery of the environmental clean up costs of \$956,257 (\$268,257 past costs plus its projected costs of \$688,000) would be \$239,064 a year. We verified that the Company did not include the \$71,114 yearly expense in calculation of the revenue requirement. We reviewed the costs difference between a four year and five year amortization period for the FTS-1 rate class. Under a four-year amortization period, the surcharge for FTS-1 is \$0.62, while under a five-year amortization period, the surcharge is \$0.50, a \$0.12 difference. The reduction of the surcharge for a five-year period of recovery would be minimal compared to the amortization of the costs ending completely after four years. Also, we find that these environmental costs need to be removed from the books and recovered by the Company in a timely manner. Therefore, we determine that the environmental clean-up costs shall be recovered over a four-year period.

¹⁶ Order No. PSC-00-2263-FOF-GU, issued November 28, 2000, in Docket No. 000108-GU, In re: Request for rate increase by Florida Division of Chesapeake Utilities Corporation.

Based on the above, we find that the recovery of \$956,257 (\$688,000 + \$268,257) in environmental clean-up costs and a recovery period of four years. The mechanism for the recovery will be addressed later in this order.

VII. REVENUE REQUIREMENT

A. Income Tax Expense

Chesapeake proposed a total Income Tax Expense of \$317,168 for the 2010 projected test year. Total Income Tax expense consists of income taxes currently payable and deferred income taxes. As shown on MFR Schedule G-2, page 35, Chesapeake applied the currently effective State and Federal income tax rate to compute the current portion of income tax expense. Current taxable income was derived from subtracting the interest expense inherent in the cost of capital from the projected test year net operating income before taxes and from adjusting the net operating income for other permanent and timing differences. Deferred Income Tax Expense was computed for timing differences as shown on Schedule G-2, page 36.

We agree that the methodology used by Chesapeake to calculate Income Tax Expense is consistent with SFAS 109, Internal Revenue Code, and Income Tax Regulations covering the projected test year. However, this is a fallout issue. As shown on Schedule 3, the Income Tax expense is a result of other adjustments made by us. Based on the foregoing, we find the requested total Income Tax expense of \$317,168 (current, deferred, and ITC amortization) shall be increased by \$70,534, resulting in an adjusted total of \$387,702 for the 2010 projected test year.

Amount Requested	\$317,168
Our Adjustments	<u>70,534</u>
Total Income Tax Expense	<u>\$387,702</u>

B. Net Operating Income

Based on the adjustments described above, the appropriate Net Operating Income is \$1,614,492, as shown in Schedule 3.

C. Net Operating Income Multiplier

The appropriate Revenue Expansion Factor is 62.0582 percent and the appropriate Net Income Multiplier is 1.6114, as shown on Schedule 4. The calculation for the appropriate Revenue Expansion Factor and Net Operating Income Multiplier is shown below:

Line No.	Description	Commission
1	Revenue Requirement	100.0000%
2	Gross Receipts Tax Rate	0.0000%
3	Regulatory Assessment Rate	(0.5000)%
4	Bad Debt Rate	0.0000%
5	Net Before Income Taxes (1)-(2)-(3)-(4)	99.5000%
6	State Income Tax Rate	5.5000%
7	State Income Tax (5x6)	5.4725%
8	Net Before Federal Income Tax (5-7)	94.0275%
9	Federal Income Tax Rate	34.0000%
10	Federal Income Tax (8x9)	31.9694%
11	Revenue Expansion Factor (8)-(10)	62.0582%
12	Net operating Income Multiplier 100%/Line 11	1.6114

D. Operating Revenue

Based on the foregoing, the appropriate annual operating revenue increase is \$2,536,307, as shown in Schedule 5. In addition to the base rate increase of \$2,536,307, we determine that a four-year surcharge of \$239,064 annually shall be implemented to recover environmental clean-up costs. This results in a total annual revenue increase of \$2,775,371 during the four-year surcharge period.

VIII. COST OF SERVICE AND RATE DESIGN

A. Cost of Service Methodology

The appropriate cost of service methodology to be used in allocating costs to the various rate classes is reflected in our staff's cost of service study contained in Schedule 6, pages 1-26. Pages 24 and 25 of Schedule 6 show the present and approved rates.

The purpose of a cost of service study is to allocate the total costs of the utility system among the various rate classes. The results of the cost of service study are used to determine how any revenue increase granted by us will be allocated to the rate classes. Once this determination is made, base rates are designed for each rate class that recover the total revenue requirement attributable to that class. Base rates for Chesapeake include the fixed monthly transportation charge which is addressed below under the section entitled Firm Transportation Charges, and the variable per-therm usage charge, which is addressed under the section entitled Per Therm Usage Charges. In rate design, the transportation charge is typically determined first, with the per-therm energy charge being the fall-out charge.

The Company's proposed cost of service study is contained in MFR Schedule H. Our staff's study differs from the Company's filed study. Our staff's study reflects our adjustments to rate of return, operations and maintenance expenses, and resulting operating revenue increase as shown above. The approved rates are designed to recover \$2,536,307 for the 2010 projected test year, as shown in Schedule 5.

B. Solar Water Heating Administrative and Billing Service Tariff

Overview

As part of its petition for an increase in rates, Chesapeake is proposing a new three-year experimental tariff to be called the Solar Water-Heating Administrative and Billing Service Tariff (SWHS). This initiative would involve the installation of thermal solar water heating systems in combination with high efficiency gas-fired water heaters. Chesapeake states that it intends to absorb the costs of the pilot initiative, except for the marketing and customer information costs which Chesapeake proposed to recover through the Gas Conservation Cost Recovery clause. The costs and revenues from fees were not included in the utility's determination of revenue requirements in the rate case.

Chesapeake states that its motivation for implementing this pilot initiative is to promote the state's renewable energy public policy goals. The utility is hopeful that these combination systems would attract additional customers, leading to increased appliance connections, once the gas infrastructure is installed to serve the solar option. Chesapeake estimates that the replacement of 1,000 electric water heaters with combination solar/gas systems would have the potential to reduce approximately 0.718 MW of winter peak demand and approximately 5,925,000 pounds of carbon emissions. Chesapeake asserts the solar component of the installation would provide approximately 70 percent of the hot water produced, with the gas unit(s) providing the backup heating requirements. These installations would improve the energy efficiency and reduce total fuel cycle carbon emissions of existing gas water heating systems.

Pilot description

Because of the high initial costs for the available technologies for residential and small commercial solar water heating as compared to traditional systems, Chesapeake has engineered the pilot initiative to overcome the initial financial barriers for customers, while allowing them to experience the overall positive cost benefits of increased energy efficiency and reduced carbon emissions over the life of the system. The customer would enter into a commercial agreement with a predetermined third-party contractor for the financing, installation, and maintenance of the system. Chesapeake would provide marketing, consumer education services, billing services, and general oversight of the customer service practices of the third parties, for which Chesapeake would receive approximately 20 percent of the customer's monthly charge to participate. If the third party does not perform as expected by Chesapeake, Chesapeake would have the ability to discontinue billing services for the third party.

Under the proposed pilot initiative, the third-party contractor would finance, install, and maintain the systems for a monthly fee from the customer, estimated to total approximately \$35 to \$40 per customer, depending on the terms of the contract. This is comparable to a similar program provided by Lakeland Electric, which charges its customers \$34.95 monthly. In exchange for marketing, consumer education, billing and oversight activities, Chesapeake would retain a \$7.50 administrative fee from each monthly customer payment before remitting the

remainder to the third-party contractor. This \$7.50 fee was determined based on the utility's current Shipper Administrative and Billing Services tariff, the commodity billing and collection service for gas marketers, and was not designed to recover the cost of providing the billing and collection services proposed for the pilot initiative. Chesapeake expects to re-evaluate this fee based on actual data in the event it later petitions for permanent program status. If the combination solar/gas combination system is the customer's only gas appliance, the customer would be responsible for any Contributions in Aid of Construction (CIAC) charges to extend gas services to the premises. Other than the billing fee and any tariffed rates for gas utility services, Chesapeake will impose no other charges on the participating customers. All other costs of participation would be governed by the terms of the customer's contract with the third party contractor.

Chesapeake would not participate in, nor have a stake in, the customer's agreement with the third party contractor. Any modifications of the home structure to enable the system would be the responsibility of the customer and completed under applicable building codes and inspected by local building departments. In the event a participating customer moves, the new homeowner would have the option to continue the program at the going rate, or could opt out of the program without penalty. Unless otherwise negotiated between the customer and the third-party contractor, all Renewable Energy Certificates (RECs) generated by the solar/gas combination system would belong to the entity making the investment in the system that produces the carbon reduction, namely, the third-party contractor.

Should a customer elect to cancel his participation in the pilot, a \$250 fee would be charged by the third party provider for removal of the system from the customer's roof. Liability relating to the customer's roof would be negotiated between the customer and the third-party contractor within the terms of the agreement, with the responsibility for roof repairs belonging to the third-party contractor.

A typical annual maintenance visit for the combination system is estimated by Chesapeake to require approximately one hour of labor at a cost of approximately \$80 - \$100, which would be absorbed by the third-party contractor. No costs related to maintenance would be charged to the customer, barring those caused intentionally or through the negligence of the homeowner. The installed costs of the system, borne completely by the third-party contractor, are estimated to range between \$4,500 and \$5,000. According to Chesapeake, a typical, properly maintained thermal solar water heating system should operate for decades. Certain component parts would, of course, require replacement and/or maintenance during that time, including pumps, valves, piping insulation, glycol for freeze protection, etc. Conversely, a tankless gas water heater should experience a service life of approximately twenty years. The life of the combination system would likely fall within these time frames.

Chesapeake has identified at least two non-affiliated third parties that are interested in financing, installing, and maintaining the combination systems. While the utility has not disclosed the names of the interested parties while still in negotiations, it does indicate that appropriate business licensing, insurance and demonstrated technical competency would be

required of the third-party contractor. Such demonstrations may involve participation in training programs offered by the Florida Solar Energy Center or other recognized solar training centers.

Chesapeake's optimal projection for this pilot initiative is that, at the end of the three-year experimental period, it could attract or retain customers it might otherwise have lost, expand into new areas, and meet the environmentally-friendly expectations of existing and potential customers. Chesapeake defines optimal success with the pilot initiative as consisting of a minimum of 50 customers volunteering by the end of the three-year period. Should this occur, Chesapeake would petition to convert the pilot to permanent program status and establish a cost-based billing service rate. If the pilot attracts more customers than projected, prior to the three-year period, Chesapeake would accelerate petitioning for permanent program status. Chesapeake used a working estimate target of 25 installations in 2010, building to a minimum of 50 installations in subsequent years for its planning purposes.

Costs

As noted above, Chesapeake is not seeking any increase in revenue requirements in this case to recover costs associated with this pilot. Chesapeake anticipates that the initial cost to modify its customer information and billing system will be approximately \$20,000, with additional undefined expenses necessary to establish and administer the internal customer accounting procedures. Because Chesapeake expects 25 or fewer installations in 2010, recovery of this \$20,000 from these initial participants would not be practical. Chesapeake projects that if it achieves 25 installations in 2010, it would receive, at most, \$2,250 from fees, leaving a minimum of \$17,750 unrecovered.

The Company notes that it also expects to lose an average of approximately \$53 in base rate revenue for each combination system installed, offset by the \$90 in revenue per system per year as a result of the monthly billing service fees, resulting in a net increase of approximately \$37 annually per system. At the end of the three-year period, Chesapeake plans to assess the actual costs to provide this service, and would petition us to convert the experimental rate to a permanent cost based rate to be determined at that time.

Chesapeake proposed that consumer education and water heater rebate payments related to the promotion or installation of combination solar/gas water heaters would be recovered through the usual Conservation Cost Recovery clause process, not as part of the proposed billing service fee. The utility estimates that it will expend approximately \$25,000 to \$30,000 in 2010 for conservation advertising to promote the program in its service areas, primarily through direct mail. Chesapeake states that replacement of existing storage tank electric water heaters with solar/gas combination systems would yield \$525 in approved water heater rebates per installation. If the estimated 25 installations are completed in 2010, the total rebate amount would equal \$13,125. The material development costs associated with the promotion of the program are estimated at \$5,000, with approximately \$20,000 for postage. Chesapeake anticipates that its marketing costs during 2010 will increase by approximately \$25,000 to \$30,000.

Conclusion

The gas/solar pilot project is an innovative approach to encouraging solar energy usage. It is a small scale pilot which can gauge the interest in such joint programs in the future. Chesapeake is not requesting recovery of any of the costs associated with the pilot through base rates. It specifically stated that the revenue requirements requested in this case do not include any costs associated with the renewable pilot. Instead, Chesapeake plans to seek approval for recovery of some costs through the Natural Gas Conservation Cost Recovery factor (Docket No. 100004-GU).

We approve the tariff as proposed in this filing, but we do not approve the amounts cited by Chesapeake for recovery through the Natural Gas Conservation Cost Recovery clause because these costs are not adequately supported at this time. As Chesapeake gets further into the pilot, it will be better able to assess the actual costs. The conservation factors for 2010 were approved by us during the November clause proceedings in Order No. PSC-09-0733-FOF-GU, and Chesapeake has not proposed changing those factors in this filing.¹⁷ Chesapeake has stated that the cost impact is minimal because the program will take some time to ramp up. Chesapeake should not be at a significant disadvantage financially if it chooses to begin the pilot prior to the 2010 clause hearings. Therefore, the tariff initiating this gas/solar pilot project shall be approved in this docket, but approval of the actual costs shall be deferred until the annual clause proceedings in 2010.

C. Environmental Surcharges

Chesapeake proposed a temporary environmental surcharge to collect costs related to the environmental remediation of the Company's former Manufactured Gas Plant (MGP) site. The temporary surcharge would be a fixed monthly charge included in each customer's bill for the FTS-A through the FTS-12 rate classes. The FTS-13 and Special Contract Consumers will be excluded from the environmental surcharge because of special negotiated contracts. Costs related to the environmental remediation are currently being collected through base rates in the amount of \$71,114 annually. Because the temporary surcharge was approved earlier in this order, this amount would be removed from base rates and the approved recovery amount will be collected through the surcharge and amortized over a period of four years.

Chesapeake states that the environmental surcharge has been calculated as a monthly fixed surcharge rate, as opposed to a variable cents per therm rate, that will be applied to the respective rate classes. A fixed surcharge provides for more certainty regarding the revenues generated, and should produce only a minimal true-up amount at the end of the recovery period. The surcharge was designed to cover a pro-rata distribution of the recommended annual amount of \$239,064. As discussed previously, we are approving a recovery amount of \$956,257. A four year amortization period results in the recommended annual amount of \$239,064.¹⁸ To derive the monthly surcharge amount by rate class, the 2010 annual therm quantities for each rate class

¹⁷ Order No. PSC-09-0733-FOF-GU, issued November 4, 2009, in Docket No. 090004-GU, In re: Natural gas conservation recovery.

¹⁸ $\$956,257 \div 4 = \$239,064$

were divided by the total therm quantities for all applicable classes. After the resulting recovery amount ratios were determined, they were divided by the number of 2010 bills for each class to determine the monthly fixed surcharge amount for each rate class. Below is a chart showing the monthly fixed surcharge to be applied to each of the applicable rate classes.

<u>Rate Schedule</u>	<u>Fixed Surcharge</u> <u>Amount</u>
FTS-A	\$0.37
FTS-B	\$0.49
FTS-1	\$0.62
FTS-2	\$1.04
FTS-2.1	\$1.86
FTS-3	\$3.44
FTS-3.1	\$5.58
FTS-4	\$9.55
FTS-5	\$17.47
FTS-6	\$28.85
FTS-7	\$45.48
FTS-8	\$79.51
FTS-9	\$127.43
FTS-10	\$186.61
FTS-11	\$332.54
FTS-12	\$598.88

We find the temporary surcharge is an appropriate method of collecting costs associated with the environmental remediation of the MGP site. First, it allows the Company to recoup necessary costs and expenses associated with the remediation of the MGP site in a timely manner. Under the current recovery method, it would take the Company an estimated 13 years to recoup the estimated full cost of \$956,257, on an annual basis of \$71,114. In addition to timely collection, the surcharge has the advantage over collection through base rates because once the costs have been recovered, Chesapeake can remove the charge from customer bills without having to file a rate proceeding for modification to its base rates.

We have previously approved temporary surcharges to collect known costs for Gulf Power Company (Gulf)¹⁹ and Progress Energy Florida, Inc. (PEF).²⁰ Specifically for Gulf, we approved the recovery of \$51 million related to restoration activities resulting from Hurricane Ivan; and, for PEF, we approved the recovery of \$231 million for storm-related costs for

¹⁹ Order No. PSC-05-0250-PAA-EI, issued March 4, 2005, in Docket No. 050093-EI, In re: Petition for approval of stipulation and settlement for special accounting treatment and recovery of costs associated with Hurricane Ivan's impact on Gulf Power Company.

²⁰ Order No. PSC-05-0748-FOF-EI, issued 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.

restoration and operation and maintenance expenses resulting from Hurricanes Charley, Frances, Jeanne, and Ivan. Once the costs were collected, Gulf and PEF discontinued the surcharge.

Therefore, we approve the temporary environmental surcharge to collect costs related to the environmental remediation of the Company's former MGP site over a four-year period, and any over/under-recovery be included in the Company's true-up at the conclusion of the four-year period. A residential customer taking service on the FTS-1 rate schedule, will pay an additional \$0.62 on their monthly bill for a 4-year period.

D. Competitive Firm Transportation Service Discounts

Chesapeake's Contract Firm Transportation Service (CFTS) is available to any FTS-6 or higher customer consuming 50,000 or more therms per year, who can show they have alternative fuel capabilities or a viable bypass option. Customers taking service under the CFTS can receive discounted service through the use of the Competitive Rate Adjustment (CRA) mechanism, which allows the Company to recover revenue shortfalls that occurs from discounted rates offered to any FTS-6 or higher customer who meets the criteria. Currently, the revenue shortfall that occurs from the discounted rate is split 50/50 between shareholders and all other customers not receiving service under the discounted rate mechanism, as shown in the chart below for the CRA differential.

Having industrial customers on the system greatly benefits all users, particularly the residential customers. Customers benefit because large load users are able to absorb a greater portion of the fixed cost necessary to provide the service; as a result, rates are lower, especially for small load users. Conversely, losing industrial customers who have alternative fuel sources or viable bypass options would pose a greater burden on all ratepayers, and could result in higher rates. As discussed in the Company's response to Staff's Data requests No. 195, the Company currently has no customers utilizing the CRA mechanism, and hasn't since February 17, 2009. Therefore, this change poses no immediate effect to ratepayers because there currently are no industrial customers utilizing the discounted rate mechanism.

Listed below is a chart detailing the CRA differential for a five year period.²¹

<u>Year</u>	<u>Differential</u>	<u>50% Recovery Amount</u>
2005	\$223,702	\$111,851
2006	\$158,852	\$79,426
2007	\$211,728	\$105,864
2008	\$189,338	\$94,669
2009	\$110,279	\$55,140

The Company asserts that the previous sharing mechanism of shortfalls was rational because the Company had several industrial customers utilizing an interruptible rate, and as a result, was able to charge a premium for service. However, today, the Company is no longer

²¹ This data was provided by Thomas A. Geoffroy in response to Staff Data Request No. 1-B and No. 198.

able to charge a premium due to the elimination of the interruptible rate class. When a premium was charged, the Company shared 50 percent of that premium with ratepayers. Conversely, now that there are no premiums, the Company believes it should no longer absorb 50 percent of the revenue shortfall from the discounted rate for industrial customers.

After reviewing the information provided by the Company, we find the general body of ratepayers benefits from the retention of industrial customers. Requiring the Company to continue absorbing 50 percent of the revenue shortfall may serve as a disincentive to offer discounted service to an industrial customer, who would otherwise leave the system. We further find it appropriate to allow the Company to recover 100 percent of the revenue shortfall associated with CFTS discounts offered to industrial customers from ratepayers, as opposed to the 50 percent allowed currently. Allowing the Company to recoup 100 percent of the revenue shortfall associated with CFTS is consistent with treatment of similar gas companies such as Florida City Gas, Peoples Gas, and Sebring Gas, who all currently collect revenue shortfalls associated with Competitive Rate Adjustments from its ratepayers. Thus, Chesapeake shall be allowed to recover 100 percent of the revenue shortfall associated with Contract Firm Transportation Service discounts offered to industrial customers.

E. Miscellaneous Service Charges

The miscellaneous service charges are fixed charges that are paid when a customer requests a specific one-time service. The miscellaneous service charges are designed to recover the Company’s costs associated with the specific activity. The difference in the cost of this service and the proposed charge will be recovered through base rates for all ratepayers.

The following table of miscellaneous service charges show the current and proposed charges, the cost to the Company, and our approved charges.

Miscellaneous Service Charge	Current Charge	Company Proposed Charge	Company Cost (MFR E-3)	Commission Approved
Connection Charge				
FTS-A through FTS-3.1	\$30.00	\$52.00	\$69.45	\$52.00
FTS-4 through FTS-6	\$60.00	\$75.00	\$89.45	\$75.00
FTS-7 and above	\$60.00	\$220.00	\$195.40	\$200.00
Change of Account Charge	\$15.00	\$13.00	\$11.94	\$13.00
Return Check Charge	Greater of \$25 or 5% of check	Greater of \$25 or 5% of check		Greater of \$25 or 5% of check
Collection in Lieu of Discontinuance Charge	\$20.00	\$40.00	\$39.60	\$40.00

As shown in the table, we approve the same miscellaneous service charges as the Company has proposed except for the Connection Charge for FTS-7 and above classes. During our analysis of the cost studies in MFR Schedule E-3, it was found that the cost to the Company for this service is \$195.40. The Company proposed a charge of \$220.00 in its initial filing. In Staff Data Request No. 122, the Company stated that the proposed charge should have been filed as \$200.00. The Company further states that the Company will produce a corrected tariff page to reflect the \$200.00 Connection Charge for these rate classes. We agree that a charge of \$200.00 is appropriate. This charge would allow for the Company to cover the costs it incurs through providing this service to the FTS-7 and above classes. As noted earlier, the other miscellaneous service charges are approved.

F. Failed Trip Charge

Chesapeake Gas proposed a new miscellaneous service charge for a failed trip when a customer fails to keep a scheduled appointment. The Failed Trip Charge is proposed by the Company to recover the cost of dispatching an employee or contractor to a consumer location where the consumer fails to keep the appointment.

In response to Staff Data Requests Nos. 7-9, the Company explained how the customer will be made aware of the penalty for not meeting an appointment and the guidelines that surround the charge. The Company stated that it will include the proposed new Failed Trip Charge fee in its rate case notices to customers. At the time a customer schedules an appointment, the customer would be notified by the Company's customer service representative that a failed trip charge will be assessed in the event the customer fails to keep the appointment and has not contacted the Company to cancel. The Company further explained that a customer could cancel the appointment up to two hours prior to the original appointment time and avoid the charge. The proposed charge for this service is \$20.00.

We have previously approved Failed Trip Charges for Peoples Gas System²² and Florida Public Utilities Company.²³ Chesapeake's proposed charge is similar in both requirements to collect the charge as well as the amount of the charge.

We have reviewed the cost information submitted in MFR Schedule E-3 and determine that the proposed charge is cost-based and appropriate. Therefore, the new Failed Trip Charge for Chesapeake shall be \$20.00.

G. Meter Re-Read at Consumer Request Charge

The meter re-read at consumer request charge was proposed by the Company to recover the cost of dispatching an employee or contractor to a consumer premise to physically read a meter at a consumer's request. The Company is in the process of installing Automated Meter

²² Order No. PSC-09-0411-FOF-GU, issued June 9, 2009, in Docket No. 080318-GU, In re: Petition for Rate Increase by Peoples Gas System.

²³ Order No. PSC-09-0375-PAA-GU, issued May 27, 2009, in Docket No. 080366, In re: Petition for Rate Increase by Florida Public Utilities Company.

Reading (AMR) technology on each consumer premise. Once the process of installation is completed, the Company will then rely on the electronic reads the devices transmit to a central computer via radio and telephone for billing. The meter re-read charge would only be assessed when the consumer contests an electronic read and requests a physical re-read. If the meter re-read shows the electronic read was incorrect, no charge will be assessed.

We have reviewed the cost information submitted in MFR Schedule E-3 and determine that the proposed charge is cost-based and appropriate. Therefore, the new meter re-read at consumer request charge shall be \$28.00.

H. Temporary Disconnect Charge

The Temporary Disconnect Charge was proposed by the Company to recover the cost of temporary service discontinuation at the request of a consumer for pest control tenting, remodeling, or other purpose from the consumer causing the cost. In the Company's cost study, the cost of the service to the Company was computed as \$21.63. The proposed temporary disconnect charge is \$21.00 for all classes.

We have reviewed the cost information submitted in MFR Schedule E-3 and determine that the temporary disconnect charge is cost-based and appropriate. Therefore, the new temporary disconnect charge shall be \$21.00.

I. Elimination of Cash as a Payment Option

Cash deposits. The number of customers who paid their deposit by cash has declined from 2007 to July 2009. In response to Staff's Data Request No. 86, Chesapeake stated that in 2007, 72 residential customers paid their deposit with cash; in 2008, 12 residential customers paid their deposit with cash, and as of July 2009, no residential customers have paid their deposit with cash. Only three commercial customers paid their deposit by cash in 2007, and no commercial customers have paid their deposit with cash since then.

Customers have the option to pay their initial deposit by check, money order, credit card, or debit card. Chesapeake's tariff also provides for certain creditworthiness criteria. If the customer satisfies any of the criteria, then Chesapeake does not require an initial deposit. For example, residential customers who demonstrate creditworthiness through a letter from another utility showing a good payment history do not have to pay a deposit. Finally, residential customers may request that the deposit amount be included on their first bill. Chesapeake stated that the vast majority of commercial customers pay the deposit by check.

Since no customers have paid their initial deposit with cash in 2009, Chesapeake's proposal to eliminate cash as a payment option for initial deposits shall be approved.

Cash bill payments. The number of customers who pay bills with cash has decreased in recent years. Chesapeake stated that in 2007, 3,274 residential and 60 commercial customers paid their bills with cash; in 2008, 144 residential and 20 commercial customers paid with cash; and as of July 2009, 59 residential and 13 commercial customers paid with cash. Customers can

pay their bills with check, money orders, credit cards, debit cards, direct debit, and online payments through the Company's website. In response to Staff's Data Request No. 204, Chesapeake stated that other online payment options through Fidelity, Paypal, and Check Free are also available. Credit card payments are also accepted by telephone. No transaction fee is charged for any of these payment options.

Chesapeake projects that it will receive approximately 176,827 bill payments in 2010. To support its position, Chesapeake stated that if the total cash payments received in 2008 (164) were received in 2010, they would only represent .00092% of the total payments. While the number of cash payments is small, Chesapeake stated in response to Staff's Data Request No. 87, that there is no material difference in collecting cash than in processing other payment methods.

Chesapeake stated that it closed its Winter Haven and Citrus County offices to public access in September 2007. Chesapeake explained that it closed its Citrus County office because it had virtually no walk-in traffic; and, the Winter Haven office was closed because it was located in an area of elevated crime and Chesapeake was concerned about the safety of its employees. In response to Staff's Data Request No. 86, Chesapeake stated that if it was to return to a public access office to accept cash payments, the Company would incur costs. At least one additional staff person would be required at each office, at an estimated annual cost of \$66,560. Both facilities would also require remodeling to provide security for employees and limit public access to the remaining portions of the buildings.

Since the closing of the two offices to public access, Chesapeake explained that some customers still use cash to pay their bill under the two following circumstances. First, customers use cash to pay a field representative who is at the customer's premises to disconnect for non-payment, and the customer pays the bill in lieu of getting disconnected. Second, Chesapeake stated that occasionally customers put cash in the mail box at the Winter Haven office.

Chesapeake stated that customers have the option to pay with cash at other locations, such as Western Union, Amscot, grocery stores, and other small businesses that accept cash payments and remit the payments to the utility. However, those locations charge a transaction fee. In response to Staff's Data Request No. 204, Chesapeake stated that Western Union charges \$1.00 per payment, Amscot charges \$1.50 per payment, and the other local businesses charge similar amounts.

In summary, while we agree with Chesapeake that the cash bill payment option is rarely used, we do not believe it is appropriate to eliminate that option completely. Elimination may result in hardship for those customers who do not maintain a checking account or credit card and thus have no other payment option, which may be low income customers who can ill afford another charge to pay their utility bill. Chesapeake also has not shown that occasionally accepting cash is burdensome to the Company. Since Chesapeake closed its local offices to public access, it should make arrangements with at least as many payment locations that do not charge a transaction fee to customers as were available prior to the closure of the local offices. This was the restriction we placed on Florida Power & Light Company (FPL) in 1994, when FPL chose to close its local offices and entered into a contract with Jack Eckerd Corporation (Eckerds)

to collect bill payments for a \$0.35 fee.²⁴ We believe that to require customers to pay a processing fee if they choose to pay cash for a regulated service is inappropriate.

Conclusion. Chesapeake shall be allowed to eliminate cash as a payment option for initial deposits since no customers are using this option, and Chesapeake's tariff allows for other payment options, including establishment of creditworthiness, which would require no deposit, or payment of deposit on the first bill. However, Chesapeake shall continue to accept cash as a bill payment method since customers are still using this option. Chesapeake shall make arrangements for a minimum of two payment locations which accept cash payments without requiring a transaction fee to process the payment. Finally, the Company currently accepts money orders even though the tariff does not specify this, so the Company shall include the acceptance of money orders in its tariff.

J. Deposit Charges

Rule 25-7.083(1), F.A.C., requires that each company's tariff contains specific criteria for determining the amount of initial deposit. Chesapeake's tariff provides fixed amounts for the initial deposit for customers in all rate classes. Customers that satisfy Chesapeake's creditworthiness criteria do not have to pay an initial deposit. Due to Chesapeake's proposal to divide the existing FTS-2 and FTS-3 rate classes into four rate classes, discussed below, the newly-created rate classes require the calculation of deposit amounts. Specifically, Chesapeake proposed to divide the FTS-2 and FTS-3 classes into FTS-2, FTS-2.1, FTS-3, and FTS-3.1. There are no revisions to the deposit charges to any other classes.

Chesapeake calculated the deposit charges based on the proposed target revenue for the FTS-2, FTS-2.1, FTS-3, and FTS-3.1, rate classes. To calculate the proposed deposit charges, the proposed target revenue for each of those rate classes, minus any other operating revenue, was divided by the number of bills and multiplied by two. The proposed deposit amounts were rounded down so that the deposit charges are a little less than two months of average revenue for the class. This is consistent with Rule 25-7.083(3), F.A.C., which states that the amount of the deposit shall not exceed an amount equal to the average charges for gas service for two months.

The Company provided the calculations of the proposed deposits in response to Staff Second Data Request No. 89. The FTS-2 class deposit is changing from \$170 to \$75, while the FTS-3 class deposit is changing from \$465 to \$300. The FTS-2.1 and FTS-3.1 classes are new, and the proposed initial deposit for those classes is \$150 and \$500, respectively.

We therefore find that the Company's proposed revisions to its deposit charges, as described above, are appropriate and are hereby approved.

²⁴ Order No. PSC-94-0151-FOF-EI, issued February 8, 1994, in Docket No. 931034-EI, In re: Investigation on plan by Florida Power and Light Company to close local offices and contract with Eckerd Drugs to accept payments.

K. Existing FTS-2 and FTS-3 Rate Classes

Chesapeake's rate schedules are based on annual gas volume consumed. Chesapeake proposed to divide the existing FTS-2 and FTS-3 rate classes into four rate classes: FTS-2, FTS-2.1, FTS-3, and FTS-3.1 to provide for great stratification among the classes.

Currently, the FTS-2 class is available for customers whose annual consumption is greater than 500 therms and up to 3,000 therms. The FTS-3 class is available to customers whose annual consumption is greater than 3,000 therms and up to 10,000 therms. Chesapeake proposed annual therm ranges for the four new rate schedule are shown in the table below:

<u>Proposed Rate Class</u>	<u>Applicability (annual therms)</u>
FTS-2	> 500 – 1,000
FTS-2.1	> 1,000 – 2,500
FTS-3	> 2,500 – 5,000
FTS-3.1	> 5,000 – 10,000

Chesapeake proposed different monthly firm transportation charges and per therm charges for each class, which are separately addressed below. Witness Householder stated that the cost of the meter, regulator type and size, and service line size typically distinguish one service class from another. MFR Schedule E-7, shows Chesapeake's costs of service for service line, meter, and regulator. The investment cost for that equipment changes at the 2,500 annual therm level, which is the proposed breakpoint between the FTS-2.1 and FTS-3 class. The current break-point between FTS-2 and FTS-3 is 3,000 annual therms, which does not align with the cost of service. While Chesapeake stated that there are no initial investment cost differences between the FTS-2 and FTS-2.1 and FTS-3 and FTS-3.1 rate classes, Chesapeake provided other reasons for a greater class stratification in addition to moving the break-point from 3,000 to 2,500 therms annually. Chesapeake stated greater class stratification allows Chesapeake the opportunity to design rates that recover a higher percentage of the Company's fixed costs from the fixed transportation charge, since Chesapeake experiences very little variable costs in providing distribution service. This change will also mitigate the rate increase for smaller users. This proposed division of classes allows a more direct cost recovery method than the broader rate class divisions.

We approve that Chesapeake's proposal to divide the existing FTS-2 and FTS-3 rate classes into four rate classes. We believe that smaller annual therm ranges within a particular rate class allow for a better matching of cost and rates, and reduce any intra-class subsidization.

L. Service under Rate Schedules and Usage Decline

The FTS-A (0-130 therms) and FTS-B (131-250 therms) rate schedules were closed to new customers in Docket No. 040956-GU, because they were found to be non-cost effective.²⁵

²⁵ Order No. PSC-05-0208-PAA-GU, issued February 22, 2005, in Docket No. 040956-GU, In re: Petition for authorization to establish new customer classifications and restructure rates, and for approval of proposed revised tariff sheets by Florida Division of Chesapeake Utilities Corporation.

In Docket No. 040956-GU, we allowed any customers who reside in premises that are being served under the FTS-A and FTS-B rate schedules to remain on those rates, because requiring those customers to take service under the FTS-1 rate would result in large percentage increases. Any new customer using between 0-500 therms is served under the FTS-1 rate. Once an existing FTS-B customer's usage exceeds 250 therms per year, the customer will be permanently classified as an FTS-1 customer.

In addition, customers whose annual therm usage caused them to move to the FTS-1 rate schedule were prohibited from moving back to the FTS-A or FTS-B rate schedules. This change was necessary because Chesapeake's rate structure for low-usage FTS-A or FTS-B customers, i.e., customers with one or two gas appliances, does not recover the costs to serve the customers. Order No. PSC-05-0208-PAA-GU was silent on whether FTS-B customers whose usage declined could revert to the FTS-A rates.

Chesapeake proposes to discontinue its practice that allows FTS-B customers to return to the FTS-A rate schedule based on a decrease in annual consumption. Chesapeake stated that, historically, the FTS-A class rate structure has not recovered the cost to provide service. In the current tariff filing, the FTS-A class produces a rate of return that is slightly less than the overall system average return. However, the FTS-A class also received a \$140,000 operation and maintenance (O&M) expense reduction as a Special Assignment, to avoid a significant rate increase for the low-use customers in the FTS-A class. If customers are allowed to return to the FTS-A class, the historic problem of under-recovering the cost to serve this class will be perpetuated. The remaining rate classes will have to absorb the reduction.

In 2008, Chesapeake served approximately 5,500 FTS-A and FTS-B customers. In 2008, 516 customers, or less than 10 percent, were reclassified from FTS-B to FTS-A. Even for the customers who move between these two classes who this reclassification rule would affect, the monthly increase would be minimal. Under the recommended rates, a customer using 11 therms per month (132 therms annually, which is near the breakpoint between FTS-A and FTS-B), their monthly bill (excluding gas) would be \$20.92 under the FTS-B rate versus \$18.10 under the FTS-A rate, a difference of \$2.82.

Since the FTS-A rate is set below cost and is already closed to new customers, we believe it is appropriate to discontinue allowing FTS-B customers to return to the FTS-A rate schedule if their annual usage falls below 130 therms. Therefore, existing customers taking service under rate schedule FTS-A, who qualify for FTS-B, shall not be allowed to return to FTS-A if their usage declines in the future.

M. Firm Transportation Charges

The Firm Transportation Charge (transportation charge), also referred to as customer charge, is a fixed monthly charge that applies to each customer's bill, no matter the quantity of gas used for the month. For any given class revenue requirement, any costs that are not recovered through the transportation charge are recovered through the per-therm usage charge. Therefore, a higher transportation charge results in a lower therm charges.

For certain rate classes, Chesapeake’s proposed higher transportation charge results in a reduction in the usage charge when compared to the usage charge in effect prior to interim. To illustrate, the total target revenue for the FTS-B rate class is \$627,358, as shown in Schedule 6, page 24 of 25, line 1. Chesapeake proposed to increase the transportation charge from \$12.50 to \$16.50. To generate the \$627,358 target revenue, the usage charge needs to be set at 42.471 cents per therm. That charge is lower than the current 44.073 cents per therm charge. Larger users benefit from a higher transportation charge, since those users can offset the overall bill increase due to the higher transportation charge with lower per therm charges. Small users, however, cannot benefit to the same extent from the lower therm charge. Small customers may see larger increases overall, from shifting cost recovery from the variable therm charge to the fixed transportation charge, than larger customers. The shift to a higher fixed charge also reduces the small customer’s ability to affect the overall bill. We therefore approve a \$15.50 transportation charge for the FTS-B rate class, which results in a 49.286 cents per therm charge. We believe it is appropriate, since we granted Chesapeake a revenue increase, that both the transportation and usage charge shall increase to impact small and large users within a rate class in a more equitable manner.

We approve the transportation charges contained in the table below. The table also shows the present transportation charges and the Company-proposed charges. Chesapeake classifies its customers based on annual therm usage, and does not distinguish between residential and commercial customers.

<u>Proposed Rate Class Titles</u>	<u>Current Transportation Charge (\$/month)</u>	<u>Company Proposed Transportation Charge (\$/month)</u>	<u>Approved Transportation Charge (\$/month)</u>
FTS – A	10	13	13
FTS - A Experimental	15.20	18.05	17
FTS – B	12.50	16.50	15.50
FTS - B Experimental	20.40	24	23
FTS – 1	15	21	19
FTS - 1 Experimental	28	30	29
FTS – 2	27.50	35	34
FTS - 2 Experimental	55.25	50	48
FTS – 2.1	27.50	45	40
FTS – 2.1 Experimental	55.25	90	87
FTS – 3	90	108	108
FTS – 3 Experimental	189	166	162
FTS – 3.1	90	134	134
FTS – 3.1 Experimental	189	269	263
FTS – 4	165	230	210
FTS – 5	275	425	380
FTS – 6	450	700	600
FTS – 7	475	975	700
FTS – 8	750	1,800	1,200

<u>Proposed Rate Class Titles</u>	<u>Current Transportation Charge (\$/month)</u>	<u>Company Proposed Transportation Charge (\$/month)</u>	<u>Approved Transportation Charge (\$/month)</u>
FTS – 9	900	2,775	2,000
FTS – 10	1,500	4,400	3,000
FTS – 11	3,000	8,000	5,500
FTS – 12	4,000	14,400	9,000
FTS - 13	13,333.33	16,692.25	16,692.25

The Company asserts that its transportation charges are designed to recover a greater proportion of the total revenue requirement for each class than under the current transportation charges, especially for the larger volume rate classes. The Company stated that Chesapeake currently recovers approximately 65 percent of its total revenues from the small volume FTS-A through FTS-2 classes through the transportation charge. The larger volume classes contribute a significantly lower percentage, about 10 to 20 percent, of total revenue through the transportation charge. Therefore, Chesapeake proposed smaller increases in the transportation charge to the small volume classes, and larger increases for the larger volume classes. The Company’s proposed transportation charges for the large volume classes increase the revenue received from the transportation charge from about 20 percent to 45 to 50 percent. The Company provided an exhibit that shows a comparison of fixed rate revenues by class under the Company’s present and proposed rates.

While we believe it is appropriate to take steps towards correcting the fixed revenue inequity in the larger volume classes, we believe that the proposed increases in the transportation charge for the large volume rate classes are too drastic. Our approved transportation charges result in an approximate 40 percent recovery of total revenues through the fixed transportation charge for the FTS-4 through FTS-12 rate classes. The percentage of revenues achieved from the transportation charge are found in Schedule 6, pages 24 and 25 of 26, line 6a, attached hereto.

The rate schedules designated as “experimental” are a fixed charge rate design alternative to the existing FTS-A, FTS-B, FTS-1, FTS-2, and FTS-3 rate schedules.²⁶ Those rate schedules are applicable to customers using 10,000 therms or less annually. Customers who opt to take service under the fixed rate design pay a fixed monthly transportation charge and no variable per-therm usage charge. The optional fixed rates are elected by customers during an annual open enrollment period. The proposed monthly fixed charge is based on the target revenue for each respective class divided by the number of bills. Our approved charges are lower than the Company-proposed charges because of the reduction in target revenues for the classes that have a fixed charge rate design alternative. Chesapeake provided a calculation of the fixed charge rates in Response to Staff’s Data Request No. 84. We adjusted Chesapeake’s calculation to reflect the revised target revenues.

²⁶ Order No. PSC-07-0427-TRF-GU, issued May 15, 2007, in Docket No. 060675-GU, In re: Petition for authority to implement phase two of experimental transitional transportation service pilot program and for approval of new tariff to reflect transportation service environment, by Florida Division of Chesapeake Utilities Corporation.

The FTS-13 rate is based on unique circumstances. The FTS-13 rate class includes only one customer, the Mosaic phosphate company. The charge established for this customer is based on the customer's cost to bypass the Company's distribution system. The Florida Gas Transmission (FGT) transmission pipeline traverses the customer's property; thus, the customer has the ability to directly interconnect with FGT. It is fairly common in the gas industry for large volume industrial customers who have alternative fuel options to receive a rate or special contract that is designed to retain the customers. In the St. Joe Natural Gas Company, Inc., (St. Joe) rate case, we approved base rates for St. Joe's largest customer based on the customer's cost to by-pass St. Joe, since the customer is located less than 1,000 feet from a FGT pipeline lateral.²⁷ The Company stated that the FTS-13 rates recovers Chesapeake's cost to provide service to Mosaic; thus, the remaining body of ratepayers does not subsidize Mosaic. The transportation charges as shown in the table above shall be approved.

N. Per Therm Usage Charges

The usage charge does not include the actual gas commodity, as that is shown separately on the bill. Chesapeake does not purchase gas for its customers, rather, customers purchase gas from shippers as discussed in this order. The usage charges are calculated to recover the class revenue requirement that remains after subtracting the revenues generated by the transportation charges.

The table below shows the usage charges that were in effect prior to the interim increase, the interim charges (effective September 17, 2009), Chesapeake's proposed charges, and the our approved charges. All charges are shown in dollars per therm.

<u>Rate Class</u>	<u>Prior to interim</u>	<u>Interim</u>	<u>Company Proposed</u>	<u>Commission Approved</u>
FTS - A	0.44073	0.51060	0.56126	0.46358
FTS - B	0.44073	0.49422	0.48483	0.49286
FTS - 1	0.44073	0.48965	0.41331	0.46310
FTS - 2	0.29356	0.31907	0.35776	0.31960
FTS - 2.1	0.29356	0.31907	0.29692	0.30827
FTS - 3	0.19781	0.21351	0.26004	0.24102
FTS - 3.1	0.19781	0.21351	0.21414	0.20383
FTS - 4	0.17907	0.19185	0.18255	0.18900
FTS - 5	0.16627	0.17710	0.15717	0.16580
FTS - 6	0.14664	0.15587	0.13976	0.15137
FTS - 7	0.11094	0.11680	0.10591	0.12300
FTS - 8	0.10232	0.10787	0.09003	0.11024
FTS - 9	0.08957	0.09405	0.07923	0.09133
FTS - 10	0.08314	0.08783	0.06880	0.08318
FTS - 11	0.06868	0.07225	0.05815	0.06977
FTS - 12	0.06278	0.06612	0.04848	0.06123
FTS - 13	0.00000	0.00000	0.00000	0.00000

²⁷ Order No. PSC-08-0436-PAA-GU, issued July 8, 2008, in Docket No. 070592-GU, In re: Petition for rate increase by St. Joe Natural Gas Company, Inc.

Some of the approved usage charges are higher than the Company-proposed charges because we approved lower transportation charges for certain rate classes. For any given class revenue requirement, any costs that are not recovered through the transportation charge are recovered through the per-therm usage charge. Therefore, a lower transportation charge results in higher usage charges.

Bill Impact. The majority of residential customers take service under the FTS-1 rate schedule. Prior to interim rates, an FTS-1 customer using 20 therms per month paid \$23.81. Under the approved rates, the base rate portion of the bill will increase by \$4.45, to \$28.26. As discussed above, we approve herein a temporary environmental surcharge for a four-year period. Including the surcharge of \$0.62 for the FTS-1 rate class increases the 20-therm bill from \$23.81 to \$28.88, or by \$5.07. As noted previously, the customer bills do not include the cost of gas.

O. Charges for SABS and SAS Shipper Rate Classes

Chesapeake does not purchase gas for its customers. Shippers deliver gas to Chesapeake's distribution system and Chesapeake subsequently transports the gas to the end-use customers. Chesapeake currently provides service to 11 shippers who provide gas supply to Chesapeake's consumers. The shipper rate schedules are a tariff applicable to shippers and allow Chesapeake to recover its costs from providing certain administrative and billing services to the shippers, which are defined in Chesapeake's tariff. In addition, Chesapeake provides service related to the administration of the shipper's delivery of gas on interstate pipeline systems to Chesapeake's distribution system

Chesapeake exited the natural gas merchant (or gas sales) function and transferred all customers to transportation service in November 2002.²⁸ In a transportation service environment, Chesapeake does not purchase gas for its customers. Rather, shippers obtain natural gas for Chesapeake's customers and deliver it to Chesapeake's distribution system via an interstate pipeline. Chesapeake then transports the gas to the customer's meter using its distribution system. Chesapeake is the supplier of last resort. Shippers are selected through competitive bid and contract with Chesapeake to provide gas to Chesapeake's distribution system. During annual open enrollment periods, customers have the opportunity to choose a shipper and further select from gas supply pricing options offered by each shipper. The shippers adjust the market price of gas on a monthly basis or more frequently for large volume customers depending on their supply contract.

In Docket No. 040956-GU, Chesapeake established two shipper rate schedules and their associated charges: the Shipper Administrative and Billing Service (SABS) rate schedule, and

²⁸ Order No. PSC-02-1646-TRF-GU, issued November 25, 2002, in Docket No. 020277-GU, In re: Petition of Florida Division of Chesapeake Utilities to convert all remaining sales customers to transportation service and to exit the merchant function.

he Shipper Administrative Service (SAS) rate schedule.²⁹ SABS shippers serve 96.1 percent of Chesapeake’s customers, while SAS shippers serve the remaining 3.9 percent.

Shippers who take service under the SABS rate schedule utilize Chesapeake for billing the cost of gas to the customers and Chesapeake provides all customer account functions such as billing, payment tracking, and related administrative services. Chesapeake currently is contracted with three SABS shippers who purchase the gas for all residential and most small volume commercial customers.

Shippers who take service under the SAS rate schedule do not utilize Chesapeake for billing the cost of gas, but bill their customers directly. Chesapeake contracted with eight SAS shippers. Typically, Chesapeake’s largest commercial customers or new commercial customers chose shippers that provide their own billing services.

The table below shows Chesapeake’s current and proposed shipper charges:

<u>Rate Schedule</u>	<u>SABS</u>		<u>SAS</u>	
	<u>Current</u>	<u>Approved</u>	<u>Current</u>	<u>Approved</u>
Monthly Shipper Administration Charge	\$100	\$300	\$172.5	\$300
Consumer Charge (per consumer in shipper pool)	\$3.0	\$5.50	\$0	\$7.50

In addition to the costs currently included in the shipper charges, the Company stated that Chesapeake is proposing to recover its initial investment in Automated Meter Reading (AMR) technology through the shipper charges, as opposed to allocating the AMR costs to Chesapeake’s other customers. As shown in MFR Schedule H-2, page 4 of 10, and in response to Staff’s Data Request No. 203, Chesapeake assigned \$2,767,241 in AMR investment costs to the SABS shipper class, and \$110,987 to the SAS shipper rate class. The AMR costs were divided between the SABS and SAS classes based on the ratio of the number of customers served by shippers in each class. While the resulting consumer charge is higher for the SAS rate schedule, Chesapeake stated that this is appropriate since the SAS shippers serve the high-volume commercial or industrial customers, and will therefore benefit to a great extent from the AMR daily readings.

In support of assigning the AMR investment cost to the shipper classes, Chesapeake stated that, since it operates in a transportation service environment, the benefit of the daily read data would be related to the gas supply services provided by shippers. Access to daily electronic meter reads will enable shippers to better manage gas deliveries to Chesapeake’s distribution system and minimize imbalance charges. On a monthly basis, Chesapeake compares the gas quantities scheduled by a shipper to the actual amount of gas consumed by customer’s in a shipper’s pool. Any difference between the gas scheduled and the gas consumed is called an imbalance. To correct any imbalances, Chesapeake either sells gas to or purchases gas from the

²⁹ Order No. PSC-05-0208-PAA-GU, issued February 22, 2005, in Docket No. 040956-GU, In re: Petition for authorization to establish new customer classifications and restructure rates, and for approval of proposed revised tariff sheets by Florida Division of Chesapeake Utilities Corporation.

shippers based on gas prices reported in *Platts Gas Daily*, a publication offering continuous coverage of gas prices. Net imbalance amounts are billed or credited to the shippers and passed on to the customers. Chesapeake stated that the AMR program will provide daily consumption data to the shippers and consumers, which will enable shippers to better keep scheduled gas deliveries in balance with consumption. The Company stated that the potential savings to consumers if deliveries are in balance are significant.

We have reviewed the proposed shipper charges and find that the charges are appropriate and shall be approved. The approved charges are shown below:

<u>Rate Schedule</u>	<u>SABS</u>	<u>SAS</u>
Monthly Shipper Administration Charge	\$300	\$300
Consumer Charge (per consumer in shipper pool)	\$5.50	\$7.50

P. Effective Date for New Rates and Charges

The revised rates and charges shall become effective for meter readings on or after 30 days following the date of our vote approving the rates and charges. This will insure that customers are aware of the new rates before they are billed for usage under the new rates. Under the current schedule the revised rates will be effective for meter readings on or after January 14, 2010. If our vote is protested by anyone other than the utility, the rates may go into effect subject to refund pending resolution of the protest.

Chesapeake proposed to allow any customer who opted to take service under the experimental rate during the March 2009 open enrollment period to retain the rate until the April 2010 open enrollment. In Order No. PSC-07-0427-TRF-GU,³⁰ Chesapeake received approval for a fixed charge rate design alternative to the existing FTS-A, FTS-B, FTS-1, FTS-2, and FTS-3 rate schedules. Customers who opt to take service under the fixed rate design pay a fixed monthly transportation charge and no variable per-therm usage charge. The optional fixed rates are elected by customers during an annual open enrollment period. Chesapeake states that customers selecting that option expect that the fixed rates will not change for a period of one year. Therefore, Chesapeake is proposing to retain the current fixed rate and make no rate adjustment for these customers. Chesapeake states that it will absorb any resulting revenue shortfall and thus the general body of ratepayers is not impacted by that decision. Chesapeake estimates the revenue shortfall to be \$3,582.

Therefore, Chesapeake shall file revised tariffs reflecting the approved final rates and charges for administrative approval within five (5) business day of issuance of the PAA order. Pursuant to Rule 25-22.0406(8). F.A.C., customers shall be notified of the revised rates in their first bill containing the new rates. A copy of the notice shall be submitted to our staff for approval prior to use.

³⁰ Order No. PSC-07-0427-TRF-GU, issued May 15, 2007, in Docket No. 060675-GU, In re: Petition for authority to implement phase two of experimental transitional transportation service pilot program and for approval of new tariff to reflect transportation service environment, by Florida Division of Chesapeake Utilities Corporation.

IX. OTHER ISSUES

A. Interim Rate Increase Refund

By Order No. PSC-09-0606-PCO-GU, issued September 8, 2009, we authorized the collection of interim rates, subject to refund, pursuant to Section 366.071, F.S. The approved interim total revenue requirement was \$12,206,558, which resulted in an interim base rate increase of \$417,555, or 4.08 percent. The interim collection period is September 2009 through January 2010.

According to Section 366.071, F.S., any refund shall be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect shall be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of the interim rate increase was the 12-month period ending December 31, 2008. Chesapeake's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the lower limit of the last authorized range for return on equity.

To establish the proper refund amount, if any, we have calculated a revised interim total revenue requirement utilizing the same data used to establish final rates for the 2010 projected test year. Rate case expense was excluded because this item is prospective in nature and did not occur during the interim collection period. Using the principles discussed above, because the \$12,206,558 revenue requirement granted in Order No. PSC-09-0606-PCO-GU for the December 2008 interim test year is less than the revenue requirement for the interim collection period of \$13,532,608, we determine that no refund is required. Further, upon issuance of the Consummating Order in this docket, the corporate undertaking shall be released.

B. Description of all Entries or Adjustments to Various Reports, Books and Records

Chesapeake shall file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of our findings in this rate case.

C. Filing of Merger Data

In the second quarter of 2009, prior to the filing of the Florida Division of Chesapeake Utilities Corporation's (Chesapeake or Company) rate case petition, Chesapeake Utilities Corporation (CUC) and Florida Public Utilities Company (FPUC) announced plans to merge in the fourth quarter of 2009. In Docket No. 080366-GU, FPUC's gas division filed for a proposed agency action (PAA) rate case. By Order No. PSC-09-0375-PAA-GU, issued May 27, 2009, approving in part a gas rate increase for FPUC and requiring additional filings in the event the

planned merger with CUC was consummated. By that order, we required the following of FPUC, and by extension, Chesapeake:

1. a new docket will be opened;
2. the Company shall 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 [Order No. PSC-09-0375-PAA-GU] shall be held subject to refund from the date that the merger is consummated.

By Order No. PSC-09-0375-PAA-GU, FPUC and Chesapeake were essentially required to file a rate case within 180 days of the merger. The Office of Public Counsel (OPC) protested that FPUC order on other grounds and a full administrative hearing was scheduled.

On October 27, 2009, FPUC filed a motion to approve a stipulation and settlement (Stipulation) between FPUC and OPC. This proposed Stipulation was approved by us at our December 15, 2009, Agenda Conference, and Order No. PSC-09-0848-S-GU, approving the stipulation, was issued on December 28, 2009. In paragraph 5 of the Stipulation, "the parties agree[d] that any issues associated with the recently approved merger of Chesapeake Utilities and FPUC will be resolved in the pending Chesapeake rate case (Docket No. 090125-GU) and applied to [Docket No. 080366-GU]." On October 28, 2009, the merger between CUC and FPUC was consummated, with FPUC becoming a wholly owned subsidiary of CUC.

On November 19, 2009, our staff, Chesapeake, and OPC met to discuss Chesapeake's rate case. Among the items discussed were the effects of this merger on the gas operations of both Chesapeake and FPUC and the time frame for filing the rate case required by Order No. PSC-09-0375-PAA-GU. Chesapeake indicated it would be prepared to file a rate case, should the Commission require it, but thought 18 months from the time of the merger would be more realistic than 180 days. A longer period of time between the merger and the required filing would allow Chesapeake the opportunity to more fully analyze the effects of the merger. Chesapeake indicated that after a period of 18 months, it would more fully be able to show us the actual synergies and cost savings resulting from the merger which in turn would support its future request that we grant it an acquisition adjustment premium for the newly acquired FPUC. The acquisition adjustment is discussed earlier in this order.

At this same meeting, OPC indicated that it was also interested in knowing the benefits and synergies of the merger as well as the cost savings which could be passed along to the ratepayers of the merged gas utilities. However, OPC strongly indicated that it was not in favor of this Commission requiring a rate case either in 180 days or 18 months because it did not want to be in a position of supporting a rate case, which could lead to a rate increase for Chesapeake's ratepayers. OPC indicated that Chesapeake should be required to make a report to us at a date certain which provides this Commission with the ability to determine what cost savings, if any, resulted from the merger, but not a rate case.

We note that Chesapeake is a transport gas utility and FPUC is a merchant gas utility, and the merged utilities will have to account for these operational differences. In addition, CUC is proposing to restructure its corporate structure to account for its acquisition of FPUC.

There are two relevant issues related to the requirement to file post-merger data that must be addressed: the length of time between the merger and required filing, and what should be filed with this Commission. First, we find that an 18 month period for filing with the Commission is more reasonable than 180 days. This longer period would allow for greater analysis of the resulting synergies and costs savings. We find that Chesapeake and OPC's request for a longer time period between the merger and the subsequent merger data filing is reasonable, and it is hereby approved. Chesapeake and FPUC shall submit post-merger data with us no later than April 29, 2011 (18 months of the merger date of October 2009).

Second, we determine that Chesapeake and FPUC shall be required to file post-merger data that details all known benefits, synergies, and cost savings that have resulted from the merger. If costs have risen from the merger, those increases shall also be identified. Requiring Chesapeake and FPUC to file data that sets forth the detailed cost savings will allow us the opportunity to determine whether any action should be taken by us to initiate a change in rates.

Therefore, since we approved the Stipulation by Order No. PSC-09-0848-S-GU, issued on December 28, 2009, in Docket No. 080366-GU, Chesapeake and FPUC shall submit data to us no later than April 29, 2011 (18 months of the merger date of October 2009), that details all known benefits, synergies, and cost savings that have resulted from the merger. If costs have risen from the merger, those increases shall also be identified.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Division of Chesapeake Utilities Corporation's application for increased rates and charges is hereby approved in part and denied in part as set forth in the body of this Order. It is further

ORDERED that all findings set forth in the body of this Order are hereby approved in every respect. It is further

ORDERED that all matters contained in the attachments and schedules attached hereto are incorporated herein by reference. It is further

ORDERED that Sub-Accounts 381.1, AMR Meters, and 382.1, AMR Meter Installations, shall be established. It is further

ORDERED that the tariff initiating the gas/solar pilot project shall be approved, but any costs associated with the pilot shall not be approved at this time, and any costs Florida Division of Chesapeake Utilities Corporation seeks to recover through the Natural Gas Conservation Cost Recovery Clause shall be filed in the 2010 clause proceeding. It is further

ORDERED that the temporary environmental surcharge to recover costs related to environmental remediation of the Florida Division of Chesapeake Utilities Corporation's former Manufactured Gas Plant site in Winter Haven, over a four-year period, is approved. It is further

ORDERED that any over-/under-recovery for the temporary environmental surcharge shall be included in the Florida Division of Chesapeake Utilities Corporation's true-up at the conclusion of the four-year period. It is further

ORDERED that Florida Division of Chesapeake Utilities Corporation's proposal to divide the existing FTS-2 and FTS-3 rate classes into four rate classes is approved. It is further

ORDERED that the appropriate annual operating revenue increase is \$2,536,307 for Florida Division of Chesapeake Utilities Corporation. It is further

ORDERED that no refund of the interim rate increase approved by Order No. PSC-09-0606-PCO-GU, issued September 8, 2009, shall be required. It is further

ORDERED that upon issuance of the Consummating Order in this docket, the corporate undertaking shall be released. It is further

ORDERED that Florida Division of Chesapeake Utilities Corporation shall file revised tariffs reflecting the increased rates and charges, the change in rate structure, and all other provisions approved in this Order and all other documents described herein. It is further

ORDERED that the rates and charges approved in this Order shall be effective for billings rendered for all meter readings taken on or after January 14, 2010, which is 30 days from the date of the final Commission vote approving the rates and charges; and pursuant to Rule 25-22.0406(8), Florida Administrative Code, customers shall be notified of the revised rates in their first bill containing the new rates. It is further

ORDERED that Florida Division of Chesapeake Utilities Corporation shall file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of our findings in this rate case. It is further

ORDERED that Florida Division of Chesapeake Utilities Corporation and Florida Public Utilities Company shall submit data to this Commission no later than April 29, 2011, that details all known benefits, synergies, and cost savings that have resulted from the merger, and if costs have risen from the merger, those increases shall also be identified. It is further

ORDERED that the provisions of this Order are issued as proposed agency action, and shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee,

Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order.

By ORDER of the Florida Public Service Commission this 14th day of January, 2010.



ANN COLE
Commission Clerk

(SEAL)

ELS

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on February 4, 2010.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

CHESAPEAKE UTILITIES CORPORATION
DOCKET NO. 090125-GU
13-MONTH AVERAGE CAPITAL STRUCTURE
DECEMBER 2010 TEST YEAR

SCHEDULE 2

<u>Company As Filed</u>	(\$) Amount	Ratio	Cost Rate	Weighted Cost
Common Equity	20,303,677	43.49%	11.50%	5.00%
Long-term Debt	14,299,387	30.63%	5.76%	1.76%
Short-term Debt	2,922,795	6.26%	2.90%	0.18%
Preferred Stock	0	0.00%	0.00%	0.00%
Customer Deposits	1,580,224	3.38%	6.29%	0.21%
Deferred Income Taxes	7,454,209	15.97%	0.00%	0.00%
Tax Credits - Zero Cost	123,004	0.26%	0.00%	0.00%
Tax Credits - Weighted Cost	0	0.00%	0.00%	0.00%
Total	46,683,296	100.00%		7.15%
Equity Ratio	<u>54.11%</u>			

<u>Commission Adjusted</u>	(\$) Amount	(\$) Specific Adjustments	(\$) Pro Rata Adjustments	(\$) Staff Adjusted	Ratio	Cost Rate	Weighted Cost
Common Equity	20,303,677	0	0	20,303,677	43.49%	10.75%	4.68%
Long-term Debt	14,299,387	0	0	14,299,387	30.63%	5.76%	1.76%
Short-term Debt	2,922,795	0	0	2,922,795	6.26%	2.90%	0.18%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	1,580,224	0	0	1,580,224	3.38%	6.29%	0.21%
Deferred Income Taxes	7,454,209	0	0	7,454,209	15.97%	0.00%	0.00%
Tax Credits - Zero Cost	123,004	0	0	123,004	0.26%	0.00%	0.00%
Tax Credits - Weighted Cost	0	0	0	0	0.00%	0.00%	0.00%
Total	46,683,296	0	0	46,683,296	100.00%		6.83%
Equity Ratio	<u>54.11%</u>				<u>54.11%</u>		

<u>Interest Synchronization</u>	(\$) Adjustment Amount	(\$) Cost Rate	(\$) Effect on Interest Exp.	(\$) Tax Rate	(\$) Effect on Income Tax
<u>Dollar Amount Change</u>					
Long-term Debt	0	5.76%	0	38.575%	0
Short-term Debt	0	2.90%	0	38.575%	0
Customer Deposits	0	6.29%	0	38.575%	0
					<u>0</u>
<u>Cost Rate Change</u>					
Short-term Debt	2,922,795	0.00%	0	38.575%	0
Tax Credits - Weighted Cost	0	0.00%	0	38.575%	0
					<u>0</u>
TOTAL					<u><u>0</u></u>

SCHEDULE 4

CHESAPEAKE UTILITIES CORPORATION
DOCKET NO. 090125-GU
DECEMBER 2010 PROJECTED TEST YEAR
NET OPERATING INCOME MULTIPLIER

Line No.	(%) <u>As Filed</u>	(%) Commission <u>Adjusted</u>
1 Revenue Requirement	100.0000	100.0000
2 Gross Receipts Tax	0.0000	0.0000
3 Regulatory Assessment Fee	(0.5000)	(0.5000)
4 Bad Debt Rate	<u>0.0000</u>	<u>0.0000</u>
5 Net Before Income Taxes	99.5000	99.5000
6 Income Taxes (Line 5 x 37.63%)	<u>(37.4419)</u>	<u>(37.4419)</u>
7 Revenue Expansion Factor	<u>62.0582</u>	<u>62.0582</u>
8 Net Operating Income Multiplier (100%/Line 7)	<u>1.6114</u>	<u>1.6114</u>

SCHEDULE 5

CHESAPEAKE UTILITIES CORPORATION
DOCKET NO. 090125-GU
DECEMBER 2010 PROJECTED TEST YEAR
REVENUE REQUIREMENTS CALCULATION

<u>Line No.</u>	<u>As Filed</u>	<u>Commission Adjusted</u>
1. Rate Base	\$46,683,296	\$46,683,296
2. Overall Rate of Return	<u>7.15%</u>	<u>6.83%</u>
3. Required Net Operating Income (1)x(2)	3,337,856	3,188,469
4. Achieved Net Operating Income	<u>1,497,585</u>	<u>1,614,492</u>
5. Net Operating Income Deficiency (3)-(4)	1,840,271	1,573,978
6. Net Operating Income Multiplier	<u>1.61140</u>	<u>1.61140</u>
7. Operating Revenue Increase (5)x(6)	<u>\$2,965,398</u>	2,536,307
8. Annual Environmental Clean-Up Cost Surcharge (Issue 28)		<u>239,064</u>
9. Total Annual Revenue Increase		<u>\$2,775,371</u>

SCHEDULE H-1

COST OF SERVICE

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PAGE 1 OF 5

FLORIDA PUBLIC SERVICE COMMISSION
COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION
DOCKET NO: 090125-GU

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED
COST OF SERVICE STUDY

PROJECTED TEST YEAR: 12/31/10

CLASSIFICATION OF RATE BASE - PLANT

LINE NO.		TOTAL	CUSTOMER	CAPACITY	COMMODITY	REVENUE	CLASSIFIER
1	INTANGIBLE PLANT:	\$1,289,065	\$1,289,065	\$0	\$0	\$0	100% customer
2	DISTRIBUTION PLANT:						
3	374 Land and Land Rights	\$278,278	\$0	\$278,278	\$0	\$0	100% capacity
4	375 Structures and Improvements	\$340,898	\$0	\$340,898	\$0	\$0	100% capacity
5	376 Mains	\$34,804,008	\$0	\$34,804,008	\$0	\$0	100% capacity
6	377 Corp.Sta.Eq.	\$0	\$0	\$0	\$0	\$0	100% capacity
7	378 Meas.& Reg.Sta.Eq.-Gen	\$1,030,789	\$0	\$1,030,789	\$0	\$0	100% capacity
8	379 Meas.& Reg.Sta.Eq.-CG	\$4,612,554	\$0	\$4,612,554	\$0	\$0	100% capacity
9	380 Services	\$9,164,459	\$9,164,459	\$0	\$0	\$0	100% customer
10	381-382 Meters	\$4,905,954	\$4,905,954	\$0	\$0	\$0	100% customer
11	383-384 House Regulators	\$1,393,030	\$1,393,030	\$0	\$0	\$0	100% customer
12	385 Industrial Mees. & Reg.Eq.	\$1,737,311	\$0	\$1,737,311	\$0	\$0	100% capacity
13	386 Property on Customer Premises	\$0	\$0	\$0	\$0	\$0	ac 374-385
14	387 Other Equipment	\$486,152	\$131,673	\$364,479	\$0	\$0	ac 374-386
15	387.1 AMR Equipment	\$2,978,080	\$2,978,080	\$0	\$0	\$0	100% Customer
16	Total Distribution Plant	\$61,739,514	\$18,571,188	\$43,168,316	\$0	\$0	
17	GENERAL PLANT:	\$4,546,510	\$1,367,567	\$3,178,924	\$0	\$0	Dist Plant
18	PLANT ACQUISITIONS:	\$0	\$0	\$0	\$0	\$0	
19	GAS PLANT FOR FUTURE USE:	\$0	\$0	\$0	\$0	\$0	
20	CWIP:	\$0	\$0	\$0	\$0	\$0	
21	TOTAL PLANT	\$67,576,109	\$21,227,867	\$46,347,242	\$0	\$0	

SCHEDULE H-1
 FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION
 DOCKET NO. 090125-GU
 COST OF SERVICE
 EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED COST OF SERVICE STUDY
 PROJECTED TEST YEAR: 12/31/10

LINE NO.	TOTAL	CUSTOMER	CAPACITY	COMMODITY	REVENUE	CLASSIFIER
1	(81,274,853)	(81,274,853)	\$0	\$0	\$0	Retained Plant Acct.
INTANGIBLE PLANT:						
2	(1,258,818)	\$0	(1,258,818)	\$0	\$0	\$0
DISTRIBUTION PLANT:						
3	374 Land and Land Rights	\$0	(10,674,000)	\$0	\$0	\$0
4	375 Structures and Improvements	\$0	(5,405,003)	\$0	\$0	\$0
5	376 Meters	\$0	(1,085,270)	\$0	\$0	\$0
6	377 Compressors Sta. Eq.	\$0	(2,430,156)	\$0	\$0	\$0
7	378 Meters & Reg. Sta. Eq.-Gen	\$0	(1,002,063)	\$0	\$0	\$0
8	379 Meters & Reg. Sta. Eq.-CG	\$0	(857,081)	\$0	\$0	\$0
9	380 Services	\$0	(81,156)	\$0	\$0	\$0
10	381-382 Meters	\$0	(8,441,328)	\$0	\$0	\$0
11	383-384 House Regulators	\$0	(827,828)	\$0	\$0	\$0
12	385 Indust. Meters & Reg. Sta. Eq.	\$0	(178,034)	\$0	\$0	\$0
13	386 Property on Customer Premises	\$0	(64,865)	\$0	\$0	\$0
14	387 Other Equipment	\$0	(27,520)	\$0	\$0	\$0
15	Total A.D. on Dist. Plant	(84,341,264)	(12,068,893)	\$0	\$0	\$0
16	GENERAL PLANT:	(82,006,607)	(603,595)	(91,403,021)	\$0	\$0 general plant
17	PLANT ACQUISITIONS:					
18	RETIREMENT WORK IN PROGRESS:	\$0	\$0	\$0	\$0	\$0 84-378
19	TOTAL ACCUMULATED DEPRECIATION	(81,209,848)	(86,318,853)	(814,389,813)	\$0	\$0
20	NET PLANT (Plus less Accum. Dep.)	\$48,365,251	\$14,407,934	\$31,997,237	\$0	\$0
21	less-CUSTOMER ADVANCES	\$0	\$0	\$0	\$0	\$0 50%-50% cost-cap
22	plus-WORKING CAPITAL	\$319,034	\$217,131	\$100,903	\$0	\$0 oper. and maint. exp.
23	equi: TOTAL RATE BASE	\$48,684,285	\$14,625,065	\$32,098,140	\$0	\$0

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COST OF SERVICE

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED
 COST OF SERVICE STUDY
 PROJECTED TEST YEAR: 12/31/10

SCHEDULE H-1
 FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION
 DOCKET NO: 090125-GU

CLASSIFICATION OF EXPENSES AND
 DERIVATION OF COST OF SERVICE BY COST CLASSIFICATION

LINE NO.	TOTAL	CUSTOMER	CAPACITY	COMMODITY	REVENUE	CLASSIFIER
1 OPERATIONS AND MAINTENANCE EXPENSES						
2 LOCAL STORAGE PLANT:						
DISTRIBUTION:						
3	\$312,863	\$166,872	\$143,821	\$0	\$0	\$0 ac 871-479
4	\$0	\$0	\$0	\$0	\$0	\$0
5	\$0	\$0	\$0	\$0	\$0	\$0
6	\$0	\$0	\$0	\$0	\$0	\$0
7	\$0	\$0	\$0	\$0	\$0	\$0
8	\$380,023	\$81,918	\$311,104	\$0	\$0	\$0 ac 378-ac380
9	\$263,619	\$0	\$263,619	\$0	\$0	\$0 ac 378
10	\$50,291	\$0	\$50,291	\$0	\$0	\$0 ac 385
11	\$21,022	\$0	\$21,022	\$0	\$0	\$0 ac 379
12	\$398,408	\$0	\$398,408	\$0	\$0	\$0 ac 381-ac383
13	\$18,094	\$18,094	\$0	\$0	\$0	\$0 100% customer
14	\$198,116	\$50,102	\$88,017	\$0	\$0	\$0 ac 870-873 + ac 881-884
15	\$15,520	\$0	\$15,520	\$0	\$0	\$0 100% capacity
16	\$6,521	\$0	\$6,521	\$0	\$0	\$0 100% capacity
17	\$1,813	\$0	\$1,813	\$0	\$0	\$0 100% capacity
18	\$176,804	\$0	\$176,804	\$0	\$0	\$0 ac 378
19	\$0	\$0	\$0	\$0	\$0	\$0
20	\$22,835	\$0	\$22,835	\$0	\$0	\$0 ac 378
21	\$43,474	\$0	\$43,474	\$0	\$0	\$0 ac 385
22	\$29,178	\$0	\$29,178	\$0	\$0	\$0 ac 379
23	\$18,964	\$18,964	\$0	\$0	\$0	\$0 ac 380
24	\$72,847	\$72,847	\$0	\$0	\$0	\$0 ac 381-383
25	\$15,314	\$15,314	\$0	\$0	\$0	\$0 ac 387
26	\$17,957	\$815,368	\$941,889	\$0	\$0	\$0
CUSTOMER ACCOUNTS:						
27	\$94,110	\$94,110	\$0	\$0	\$0	\$0 100% customer
28	\$94,316	\$94,316	\$0	\$0	\$0	\$0 100% customer
29	\$919,814	\$918,814	\$0	\$0	\$0	\$0 100% customer
30	\$41,824	\$41,824	\$0	\$0	\$0	\$0 100% customer
31	\$0	\$0	\$0	\$0	\$0	\$0
32	\$1,009,074	\$1,009,074	\$0	\$0	\$0	\$0
33	\$0	\$0	\$0	\$0	\$0	\$0
34	\$0	\$0	\$0	\$0	\$0	\$0 100% customer
35	\$218,491	\$218,491	\$0	\$0	\$0	\$0 100% customer
36	\$12,033	\$12,033	\$0	\$0	\$0	\$0 general plant
37	\$3,384,968	\$2,296,126	\$1,088,842	\$0	\$0	\$0 O&M acct. TAG
38	\$8,288,733	\$4,381,052	\$3,907,681	\$0	\$0	\$0

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SCHEDULE H-1
 FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION
 DOCKET NO. 090125-GU
 COST OF SERVICE
 EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED COST OF SERVICE STUDY
 PROJECTED TEST YEAR: 12/31/10

LINE NO.	CLASSIFICATION OF EXPENSES AND DERIVATION OF COST OF SERVICE BY COST CLASSIFICATION					
	TOTAL	CUSTOMER	CAPACITY	COMMODITY	REVENUE	CLASSIFIER
1	DEPRECIATION AND AMORTIZATION EXPENSE:					
2	\$2,369,297	\$736,323	\$1,630,974	\$0	\$0	net plant
3	\$0	\$0	\$0	\$0	\$0	
4	\$0	\$0	\$0	\$0	\$0	
5	\$0	\$0	\$0	\$0	\$0	
6	\$0	\$0	\$0	\$0	\$0	
7	\$0	\$0	\$0	\$0	\$0	
8	\$2,369,297	\$736,323	\$1,630,974	\$0	\$0	
9	TAXES OTHER THAN INCOME TAXES:					
10	\$71,550	\$0	\$0	\$0	\$71,550	100% revenue
11	\$1,046,531	\$324,208	\$721,323	\$0	\$0	net plant
12	\$1,118,081	\$324,208	\$795,873	\$0	\$1,550	
13	REV.CROT TO COS(NEG. OF OTHER OP/PR REV)	(\$287,393)	(\$138,897)	\$0	(\$148,496)	\$0 50% customer, 50% commodity
14	RETURN (REQUIRED NOI)	\$3,169,409	\$999,892	\$2,169,517	\$0	\$0 rate base
15	INCOME TAXES	\$1,317,342	\$418,896	\$898,446	\$0	\$0 return(net)
16	OTHER	\$0	\$0	\$0	\$0	\$0
17	OTHER	\$0	\$0	\$0	\$0	\$0
18	TOTAL OVERALL COST OF SERVICE	\$14,052,529	\$6,850,895	\$7,458,981	(\$178,897)	\$71,550

SCHEDULE H-1
 FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION
 DOCKET NO. 090125-GU

COST OF SERVICE

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED COST OF SERVICE STUDY
 PROJECTED TEST YEAR: 12/31/10

SUMMARY

LINE NO.	TOTAL	CUSTOMER	CAPACITY	COMMUNITY	REVENUE
SUMMARY:					
ATTRITION					
1	\$4,301,002	\$4,301,002	\$1,906,731	\$0	\$0
2	\$2,306,277	\$2,306,277	\$1,830,874	\$0	\$0
3	\$0	\$0	\$0	\$0	\$0
4	\$0	\$0	\$0	\$0	\$0
5	\$0	\$0	\$0	\$0	\$0
TOTAL TAXES OTHER THAN INCOME					
6	\$1,119,081	\$325,209	\$721,329	\$0	\$71,550
7	\$2,190,480	\$949,952	\$2,190,577	\$0	\$0
8	\$1,337,242	\$419,568	\$918,576	\$0	\$0
9	(\$257,262)	(\$128,697)	\$0	(\$128,697)	\$0
10	\$14,052,529	\$5,950,000	\$7,439,361	(\$128,697)	\$71,550
11	\$44,083,243	\$14,025,066	\$32,059,211	\$0	\$0
KNOWN DIRECT & SPECIAL ASSIGNMENTS:					
RATE BASE ITEMS-PLANT-ACC-DEP:					
12	\$3,303,001	\$3,303,001	\$0	\$0	\$0
13	\$630,249	\$630,249	\$0	\$0	\$0
14	\$1,220,186	\$0	\$1,220,186	\$0	\$0
15	\$21,127,005	\$0	\$21,127,005	\$0	\$0
16	\$873,200	\$873,200	\$0	\$0	\$0
17	\$623,796	\$0	\$623,796	\$0	\$0
PLANT-ACC-DEP:					
18	\$18,964	\$18,964	\$0	\$0	\$0
19	\$59,281	\$59,281	\$59,281	\$0	\$0
20	\$388,428	\$388,428	\$0	\$0	\$0
21	\$43,474	\$0	\$43,474	\$0	\$0
22	\$72,847	\$72,847	\$0	\$0	\$0
23	\$83,023	\$81,919	\$311,104	\$0	\$0
24	\$178,006	\$0	\$178,006	\$0	\$0

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SCHEDULE H-2
 COST OF SERVICE
 EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED
 COST OF SERVICE STUDY
 PROJECTED TEST YEAR: 12/31/10

FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION
 DOCKET NO: 090125-GU

DEVELOPMENT OF ALLOCATION FACTORS

LINE NO.	TOTAL	FIS-A	FIS-B	FIS-1	FIS-2	FIS-3.1	FIS-3	FIS-3.1	FIS-4	FIS-5	FIS-6	FIS-7
1												
CUSTOMER COSTS												
2	176,865	37,304	25,334	87,069	11,400	7,032	2,688	2,676	1,898	372	204	770
3	NA	1.00	1.00	1.00	2.88	2.80	3.60	3.80	6.00	6.00	14.98	20.14
4	280,057	37,304	25,334	87,069	32,669	20,355	10,214	10,168	11,378	3,200	3,280	4,722
5	100.00%	14.34%	9.74%	33.48%	12.69%	7.83%	3.93%	3.81%	4.37%	1.24%	1.25%	2.30%
CAPACITY COSTS												
7	7,042,701	66,560	60,239	412,805	113,487	224,844	110,342	302,448	433,897	180,983	163,841	538,273
8	100.00%	0.951%	1.142%	3.881%	1.611%	3.192%	1.574%	4.284%	6.162%	2.570%	2.350%	7.615%
COMMODITY COSTS												
10	\$2,828,167	323,102	\$71,711	1,877,367	477,724	1,052,805	597,141	1,696,112	2,282,810	987,784	1,008,729	3,172,854
11	100.00%	0.81%	0.70%	3.35%	0.90%	2.01%	1.13%	3.18%	4.52%	1.87%	1.80%	5.99%
REVENUE-RELATED COSTS												
13	\$71,650	\$3,078	\$3,709	\$18,470	\$3,503	\$3,902	\$2,780	\$4,434	\$5,723	\$2,058	\$1,851	\$3,730
14	100.00%	5.86%	5.18%	23.62%	4.90%	5.46%	3.89%	6.20%	8.00%	2.86%	2.59%	5.21%

Schedule 6 - Page 7 of 26
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COST OF SERVICE

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED COST OF SERVICE STUDY

PROJECTED TEST YEAR: 12/31/10

SCHEDULE H-3

FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORP
 DOCKET NO: 090125-GU

DEVELOPMENT OF ALLOCATION FACTORS

LINE NO.	FTS-8	FTS-9	FTS-10	FTS-11	FTS-12	FTS-13	Special Contract	SAS	SAS	OS-DPO
1	CUSTOMER COSTS									
2	192	144	38	36	34	12	98	168,966	7,739	1
3	22.01%	26.78%	32.30%	43.37%	51.42%	81.08%	Direct	Direct	Direct	Direct
4	4,328	3,857	1,183	1,574	1,234	973	Direct	Direct	Direct	Direct
5	1.82%	1.48%	0.46%	0.81%	0.47%	0.37%	Assignment	Assignment	Assignment	Assignment
6	CAPACITY COSTS									
7	754,123	1,068,443	480,539	954,323	1,149,088	Direct	Direct	Direct	Direct	Direct
8	10.708%	15.171%	6.539%	13.591%	15.316%	Assignment	Assignment	Assignment	Assignment	Assignment
9	COMMODITY COSTS									
10	4,338,209	6,121,096	2,405,252	4,972,443	7,164,278	14,000,727	Direct	Direct	Direct	Direct
11	8.18%	11.55%	4.64%	9.39%	15.83%	29.44%	Assignment	Assignment	Assignment	Assignment
12	REVENUE-RELATED COSTS									
13	\$4,537	\$5,234	\$1,961	\$3,470	\$4,219	Direct	Direct	Direct	Direct	Direct
14	8.34%	7.31%	2.74%	4.85%	5.85%	Assignment	Assignment	Assignment	Assignment	Assignment

COST OF SERVICE

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED
 COST OF SERVICE STUDY
 PROJECTED TEST YEAR: 12/31/10

FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHEESAPEAKE UTILITIES CORPORATION
 DOCKET NO.: 090125-GU

ALLOCATION OF RATE BASE TO CUSTOMER CLASSES

LINE NO.	RATE BASE BY CUSTOMER CLASS	FTS-A	FTS-B	FTS-1	FTS-2	FTS-2.1	FTS-3	FTS-3.1	FTS-4	FTS-5	FTS-6	FTS-7
TOTAL		\$3,263,901	\$235,453	\$774,848	\$293,862	\$181,143	\$90,895	\$90,489	\$107,238	\$28,740	\$29,000	\$50,503
1	Customer	\$331,977	\$235,453	\$774,848	\$293,862	\$181,143	\$90,895	\$90,489	\$107,238	\$28,740	\$29,000	\$50,503
2	Meters	\$119,430	\$81,370	\$279,897	\$108,000	\$66,386	\$32,899	\$32,899	\$38,543	\$10,374	\$10,471	\$18,385
3	House Regulators	\$977,540	\$690,288	\$2,254,507	\$847,327	\$522,482	\$262,173	\$261,002	\$322,006	\$82,897	\$83,872	\$149,309
4	Services	\$109,592	\$74,427	\$256,783	\$95,344	\$59,768	\$30,008	\$29,872	\$33,431	\$9,466	\$9,578	\$16,814
5	General Plant	\$24,063	\$16,505	\$56,210	\$21,303	\$13,141	\$6,564	\$6,564	\$7,344	\$2,086	\$2,104	\$3,886
6	All Other	\$1,543,022	\$1,047,002	\$3,601,475	\$1,364,038	\$841,950	\$422,477	\$420,581	\$479,551	\$133,854	\$134,332	\$238,735
7	Capacity	\$1,220,186	\$12,115	\$83,172	\$17,089	\$33,894	\$16,819	\$16,551	\$66,384	\$27,260	\$29,164	\$80,788
8	Industrial Meter & Reg. Sta. Eq.	\$625,796	\$4,222	\$31,855	\$5,856	\$11,000	\$5,791	\$5,873	\$22,777	\$9,499	\$10,163	\$28,146
9	Max. & Reg. Sta. Eq. - Com.	\$1,128,099	\$234,998	\$1,205,855	\$331,446	\$68,784	\$322,316	\$983,470	\$1,287,796	\$508,688	\$555,038	\$1,306,744
10	Metro	\$1,775,802	\$18,839	\$83,388	\$22,470	\$40,008	\$22,824	\$82,590	\$99,771	\$37,438	\$40,064	\$110,928
11	General Plant	\$23,384	\$18,032	\$78,009	\$45,105	\$26,323	\$13,783	\$13,883	\$18,032	\$7,733	\$8,094	\$22,743
12	All Other	\$251,385	\$32,046	\$1,850,089	\$408,083	\$844,279	\$414,231	\$1,135,678	\$1,839,841	\$678,828	\$727,113	\$1,833,936
13	Commodity	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
14		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
15		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
16		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
17	Total	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
18	TOTAL	\$48,883,285	\$1,794,417	\$1,348,848	\$5,161,544	\$1,791,001	\$1,686,228	\$838,008	\$2,100,192	\$813,212	\$881,846	\$2,070,871

Customer Related Rate Base	Capacity Related Rate Base	Commodity Related Rate Base
100%	95%	0%
10.56%	0.78%	0%
1.17%	0.94%	0%
24.83%	4.64%	0%
3.33%	1.33%	0%
6.76%	2.83%	0%
2.88%	1.89%	0%
2.86%	3.54%	0%
3.22%	6.08%	0%
0.91%	2.12%	0%
0.97%	2.27%	0%
1.82%	5.72%	0%

COST OF SERVICE

SCHEDULE H-2

FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPO
 DOCKET NO: 090125-GU

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED
 COST OF SERVICE STUDY

PROJECTED TEST YEAR: 12/31/10

ALLOCATION OF RATE BASE TO CUSTOMER CLASSES

LINE NO.	RATE BASE BY CUSTOMER CLASS	FTS-8	FTS-9	FTS-10	FTS-11	FTS-12	FTS-13	Special Contract	SABS	SAS	OS-DPO
1	Customer	\$37,504	\$34,321	\$10,349	\$14,008	\$10,883	\$4,690	\$16,105	\$935,949	\$37,538	\$0
2	Meters	\$19,574	\$12,385	\$3,735	\$5,059	\$3,984	\$3,128	\$0	\$0	\$0	\$0
3	House Regulators	\$106,464	\$96,694	\$29,849	\$40,604	\$31,878	\$24,978	\$0	\$0	\$0	\$0
4	Services	\$12,414	\$11,330	\$2,415	\$4,824	\$3,638	\$2,859	\$0	\$0	\$0	\$0
5	General Plant	\$2,728	\$2,490	\$751	\$1,018	\$797	\$625	\$376	\$2,787,241	\$110,957	\$0
6	All Other	\$174,784	\$159,324	\$48,101	\$55,108	\$37,047	\$40,251	\$19,483	\$3,703,186	\$148,528	\$0
7	Total	\$113,378	\$100,917	\$29,379	\$39,663	\$29,312	\$11,306	\$25,619	\$4,641,792	\$159,480	\$0
8	Capacity	\$39,378	\$36,074	\$10,883	\$14,570	\$11,306	\$4,690	\$16,105	\$935,949	\$37,538	\$0
9	Industrial Meas.& Reg. Sta. Eq.	\$1,960,090	\$1,800,000	\$544,170	\$720,000	\$544,170	\$211,306	\$256,109	\$2,745,051	\$0	\$0
10	Meters	\$156,598	\$142,004	\$42,881	\$57,398	\$42,881	\$17,398	\$21,144	\$319,144	\$0	\$0
11	General Plant	\$319,711	\$289,967	\$86,245	\$113,667	\$86,245	\$34,745	\$42,881	\$1,350,038	\$0	\$0
12	All Other	\$2,578,633	\$2,353,843	\$717,943	\$928,861	\$717,943	\$281,306	\$344,192	\$4,041,792	\$0	\$0
13	Total	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
14	Commodity	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
15	Total	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
16	TOTAL	\$2,753,719	\$2,519,267	\$729,044	\$938,669	\$729,044	\$281,306	\$344,192	\$4,641,792	\$307,686	\$0

Customer Related Rate Base	1.20%	1.09%	0.39%	0.46%	0.25%	0.28%	0.11%	25.32%	1.00%	0.00%
Capacity Related Rate Base	0.04%	11.40%	4.91%	10.18%	12.28%	2.53%	14.48%	0.00%	0.50%	0.00%
Commodity Related Rate Base	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Schedule B - Page 10 of 26
 PAGE 6 OF 10

COST OF SERVICE

FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESEBROUGH UTILITIES CORPORATION
 DOCKET NO. 090125-GU

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED COST OF SERVICE STUDY
 PROJECTED TEST YEAR: 12/31/10

SCHEDULE H-2

FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESEBROUGH UTILITIES CORPORATION
 DOCKET NO. 090125-GU

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSES

LINE NO.	TOTAL	FIS-A	FIS-B	FIS-1	FIS-2	FIS-2.1	FIS-3	FIS-3.1	FIS-4	FIS-5	FIS-6	FIS-7
OPERATIONS AND MAINTENANCE EXPENSE:												
Customer												
1	\$285,409	\$64,232	\$26,650	\$128,379	\$47,873	\$29,962	\$14,264	\$14,782	\$10,238	\$4,085	\$4,729	\$9,320
2	\$12,847	\$10,050	\$7,707	\$3,339	\$9,244	\$5,702	\$2,281	\$2,948	\$1,187	\$605	\$913	\$1,003
3	\$81,919	\$11,251	\$7,860	\$37,427	\$10,265	\$6,412	\$3,272	\$3,203	\$1,583	\$1,017	\$1,027	\$1,803
4	\$10,864	\$2,720	\$1,847	\$3,349	\$2,406	\$1,684	\$745	\$741	\$530	\$236	\$238	\$437
5	\$3,728,866	\$45,178	\$250,748	\$1,018,317	\$418,731	\$237,268	\$248,261	\$247,751	\$243,142	\$69,259	\$52,958	\$42,881
6	\$744,987	(\$140,000)	\$57,100	\$289,879	(\$240,000)	\$10,000	\$9,800	\$15,408	\$183,000	\$69,000	\$35,000	\$53,411
7	\$5,043,388	\$374,271	\$386,063	\$1,982,941	\$248,740	\$171,046	\$273,023	\$384,732	\$417,280	\$138,112	\$84,872	\$100,218
Capacity												
8	\$59,291	\$508	\$908	\$3,718	\$657	\$1,598	\$535	\$5,284	\$3,378	\$1,387	\$1,462	\$4,050
9	\$43,474	\$371	\$448	\$2,288	\$872	\$1,248	\$412	\$1,078	\$2,405	\$1,003	\$1,072	\$2,972
10	\$11,104	\$331	\$246	\$1,243	\$242	\$1,113	\$346	\$1,487	\$1,460	\$688	\$688	\$2,055
11	\$716,088	\$1,081	\$2,378	\$10,368	\$2,770	\$1,646	\$2,770	\$7,383	\$10,885	\$4,344	\$4,681	\$13,483
12	\$1,468,088	\$10,971	\$19,060	\$82,443	\$27,682	\$44,308	\$52,682	\$93,465	\$88,877	\$26,149	\$30,674	\$107,104
13	\$742,923											
14	\$1,234,384	\$10,360	\$10,338	\$100,238	\$27,548	\$24,807	\$28,799	\$73,853	\$158,004	\$43,858	\$47,029	\$130,244
Commodity												
15	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
16	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
17	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
18	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
19	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
19	TOTAL O&M	\$490,031	\$408,140	\$1,783,798	\$274,308	\$388,853	\$299,822	\$458,187	\$522,864	\$179,072	\$141,901	\$268,460
DEPRECIATION EXPENSE:												
20	Customer	\$74,183	\$60,368	\$271,100	\$88,604	\$40,487	\$20,306	\$20,218	\$23,618	\$8,421	\$8,481	\$11,378
21	Capacity	\$1,550,874	\$12,308	\$65,247	\$18,209	\$59,083	\$13,075	\$48,257	\$59,548	\$29,088	\$31,075	\$84,081
22	Total	\$2,295,057	\$72,676	\$336,347	\$206,813	\$149,570	\$33,381	\$68,475	\$83,166	\$37,509	\$39,556	\$95,459
AMORT. OF GAS PLANT												
23	Capacity	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
AMORT. OF E&S												
24	Customer	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
AMORTIZATION OF ACQ. ADJUSTMENT												
25	Commodity	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

SCHEDULE H-2 COST OF SERVICE

FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPO
 DOCKET NO: 090125-GU

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED COST OF SERVICE STUDY

PROJECTED TEST YEAR: 12/31/10

ALLOCATION OF COST OF SERVICE TO CUSTOMER CLASSES

LINE NO.	FTS-9	FTS-10	FTS-11	FTS-12	FTS-13	Special Contract	SABS	SAS	OS-DPO
OPERATIONS AND MAINTENANCE EXPENSE:									
Customer									
1	\$6,143	\$5,807	\$1,981	\$2,288	\$1,784	\$0	\$19,558	\$784	\$0
2	\$1,184	\$1,060	\$326	\$441	\$273	\$0	\$0	\$0	\$0
3	\$1,251	\$1,215	\$368	\$486	\$307	\$0	\$0	\$0	\$0
4	\$308	\$281	\$85	\$115	\$71	\$0	\$0	\$0	\$0
5	\$33,000	\$34,007	\$11,118	\$18,238	\$13,479	\$0	\$280,664	\$14,889	\$500
6	\$24,951	\$26,000	\$8,000	\$10,000	\$8,070	\$0	\$105,000	\$8,050	\$0
7	\$86,817	\$78,191	\$19,583	\$13,131	\$3,068	\$0	\$413,320	\$21,702	\$500
Capacity									
8	\$5,098	\$5,089	\$3,478	\$7,208	\$4,378	\$0	\$0	\$0	\$0
9	\$4,178	\$4,921	\$2,352	\$5,289	\$6,368	\$0	\$0	\$4,443	\$0
10	\$3,733	\$3,289	\$2,280	\$4,724	\$5,088	\$0	\$270,242	\$0	\$0
11	\$18,832	\$20,823	\$11,682	\$23,956	\$38,347	\$0	\$0	\$0	\$0
12	\$150,813	\$213,386	\$91,878	\$190,987	\$229,481	\$0	\$0	\$0	\$0
13		(\$124,457)	(\$43,919)	(\$239,000)	(\$285,000)	\$0	\$0	\$0	\$0
14	(\$163,153)	\$136,040	\$19,304	(\$7,228)	(\$4,328)	\$0	\$278,242	\$0	\$10,534
Commodity									
15	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
16	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
17	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
18	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
19	\$248,970	\$413,331	\$38,519	(\$7,358)	(\$4,820)	\$24,447	\$278,242	\$415,220	\$32,236
DEPRECIATION EXPENSE:									
Customer									
20	\$8,401	\$7,687	\$2,312	\$4,129	\$2,454	\$0	\$201,547	\$16,782	\$0
21	\$121,021	\$171,483	\$73,807	\$153,150	\$184,402	\$0	\$0	\$0	\$0
22	\$120,422	\$178,131	\$79,219	\$168,279	\$184,855	\$0	\$424,153	\$201,547	\$0
Capacity									
23	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Customer									
24	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
25	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

Schedule 6 - Page 12 of 26
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COST OF SERVICE

FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION
 DOCKET NO: 090125-GU
 EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED
 COST OF SERVICE STUDY
 PROJECTED TEST YEAR: 12/31/10

SCHEDULE H-2

ALLOCATION OF COST OF SERVICE
 TO CUSTOMER CLASSES

LINE NO.	TOTAL	FIS-A	FIS-B	FIS-1	FIS-2	FIS-2.1	FIS-3	FIS-3.1	FIS-4	FIS-5	FIS-6	FIS-7
TAXES OTHER THAN INCOME TAXES:												
1	Customer	\$26,208	\$35,147	\$62,033	\$31,090	\$19,176	\$6,923	\$9,980	\$10,718	\$3,043	\$3,071	\$5,362
2	Capacity	\$721,323	\$5,895	\$7,187	\$16,109	\$20,033	\$8,631	\$25,947	\$38,807	\$16,196	\$17,453	\$47,780
4	Subtotal	\$1,046,531	\$41,112	\$118,815	\$47,200	\$39,210	\$15,554	\$35,927	\$49,525	\$19,239	\$20,524	\$53,172
5	Revenue	\$71,950	\$3,078	\$16,470	\$3,503	\$3,502	\$2,780	\$4,434	\$6,723	\$2,056	\$1,851	\$17,320
6	Total	\$1,118,481	\$46,087	\$135,285	\$50,703	\$43,112	\$22,234	\$40,361	\$56,248	\$21,295	\$22,375	\$70,492
BELTHER (IND)												
7	Customer	\$998,862	\$102,146	\$99,370	\$95,736	\$27,068	\$27,068	\$27,843	\$31,150	\$8,843	\$8,928	\$15,672
8	Capacity	\$2,189,577	\$13,408	\$19,513	\$26,115	\$31,748	\$38,306	\$59,008	\$99,865	\$41,856	\$44,567	\$133,424
10	Commodity	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
11	Total	\$2,188,439	\$117,554	\$118,883	\$121,851	\$107,494	\$105,374	\$107,851	\$131,015	\$50,699	\$53,495	\$149,096
INCOME TAXES												
12	Customer	\$418,068	\$43,035	\$68,547	\$68,112	\$22,937	\$11,509	\$11,438	\$12,810	\$3,839	\$3,873	\$6,449
13	Capacity	\$918,378	\$5,623	\$4,722	\$8,547	\$18,916	\$8,284	\$25,447	\$36,519	\$19,228	\$19,282	\$46,120
14	Commodity	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
15	Total	\$1,336,446	\$48,658	\$73,269	\$76,659	\$41,853	\$20,793	\$36,885	\$49,329	\$23,067	\$23,155	\$52,569
16	Customer	(\$27,385)	(\$31,479)	(\$102,857)	(\$25,730)	(\$25,730)	\$0	\$0	\$0	\$0	\$0	\$0
REVENUE CREDITED TO CUS (REQUESTED):												
TOTAL COST OF SERVICE:												
17	Customer	\$7,286,266	\$578,264	\$607,277	\$448,244	\$423,824	\$342,428	\$453,828	\$484,625	\$167,057	\$117,023	\$147,107
18	Capacity	\$6,714,814	\$64,011	\$83,824	\$91,538	\$181,269	\$88,017	\$243,884	\$380,126	\$148,014	\$156,216	\$432,626
19	Commodity	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
20	Subtotal	\$13,991,080	\$642,275	\$691,101	\$539,782	\$605,093	\$430,445	\$697,712	\$864,751	\$315,071	\$273,239	\$579,733
21	Revenue	\$71,950	\$3,078	\$16,470	\$3,503	\$3,502	\$2,780	\$4,434	\$6,723	\$2,056	\$1,851	\$17,320
22	Total	\$14,063,030	\$645,353	\$707,571	\$543,285	\$608,595	\$433,225	\$702,146	\$871,474	\$317,127	\$275,090	\$597,053

Schedule 6 - Page 13 of 28
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COST OF SERVICE

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDED
 COST OF SERVICE STUDY
 PROJECTED TEST YEAR: 12/31/10

SCHEDULE H-2
 FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESPERAKE UTILITIES CORPO
 DOCKET NO: 090125-GU

ALLOCATION OF COST OF SERVICE
 TO CUSTOMER CLASSES

LINE NO.	FTS-8	FTS-9	FTS-10	FTS-11	FTS-12	FTS-13	Special Connect	SMS	SAS	OS-DPO
TAXES OTHER THAN INCOME TAXES:										
1	\$3,981	\$3,834	\$1,098	\$1,483	\$1,183	\$917	\$0	\$74,034	\$6,157	\$0
2	\$67,189	\$75,194	\$41,032	\$85,028	\$102,377	\$9,892	\$85,566	\$0	\$0	\$0
4	\$71,170	\$68,827	\$42,128	\$66,509	\$103,540	\$6,188	\$85,366	\$74,034	\$6,157	\$0
5	\$4,537	\$5,234	\$1,861	\$3,470	\$4,212	\$0	\$0	\$0	\$0	\$0
6	\$75,707	\$104,081	\$44,998	\$80,980	\$107,753	\$9,198	\$85,966	\$74,034	\$6,157	\$0
7	\$11,571	\$10,560	\$3,184	\$4,310	\$3,378	\$2,685	\$0	\$284,778	\$22,021	\$0
8	\$173,983	\$245,905	\$105,894	\$219,840	\$284,481	\$56,094	\$410,560	\$0	\$0	\$0
10	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
11	\$185,134	\$258,465	\$109,178	\$223,950	\$287,840	\$68,789	\$510,560	\$284,778	\$22,021	\$0
RETURN/INCL										
12	\$4,762	\$4,346	\$1,310	\$1,774	\$1,381	\$1,097	\$0	\$118,256	\$9,689	\$0
13	\$83,448	\$89,865	\$28,748	\$68,294	\$86,879	\$26,536	\$300,263	\$0	\$0	\$0
14	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
15	\$88,211	\$94,241	\$40,659	\$82,067	\$88,049	\$26,632	\$300,263	\$118,256	\$9,689	\$0
16	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
REVENUE CREDITED TO COS (PROHIBITED)										
17	\$95,831	\$104,888	\$27,487	\$10,665	\$11,484	\$29,655	\$0	\$1,071,606	\$78,311	\$600
18	\$608,375	\$737,497	\$278,616	\$530,286	\$638,091	\$170,227	\$1,586,844	\$0	\$10,534	\$0
19	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
20	\$104,907	\$41,086	\$268,103	\$341,450	\$454,475	\$199,952	\$1,865,344	\$1,071,835	\$85,845	\$500
21	\$4,337	\$5,234	\$1,861	\$3,470	\$4,212	\$0	\$0	\$0	\$0	\$0
22	\$708,443	\$847,128	\$308,024	\$544,920	\$654,658	\$199,882	\$1,586,844	\$1,071,835	\$88,045	\$600

SCHEDULE H-2

COST OF SERVICE

Schedule H - Page 14 of 28
 PAGE 9 OF 10

FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION
 DOCKET NO: 090125-GU

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED
 COST OF SERVICE STUDY

PROJECTED TEST YEAR: 12/31/10

SUMMARY

LINE NO.	SUMMARY	TOTAL	FTS-A	FTS-B	FTS-1	FTS-2	FTS-2.1	FTS-3	FTS-3.1	FTS-4	FTS-5	FTS-6	FTS-7
1	RATE BASE	\$46,683,295	\$1,794,417	\$1,349,948	\$5,151,544	\$1,731,001	\$1,686,229	\$936,806	\$1,536,259	\$2,100,192	\$913,212	\$981,946	\$2,070,671
2	ATTRITION	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3	OBM	\$6,299,733	\$390,531	\$406,140	\$1,785,798	\$274,308	\$365,853	\$299,822	\$459,167	\$522,584	\$179,072	\$141,901	\$238,460
4	DEPRECIATION	\$2,398,297	\$84,907	\$93,275	\$239,347	\$63,813	\$78,560	\$38,013	\$69,752	\$92,284	\$39,497	\$37,556	\$97,439
5	AMORTIZATION EXPENSES AND ADJUSTMENTS	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6	TAXES OTHER THAN INCOME - OTHER	\$1,046,531	\$41,112	\$31,036	\$118,613	\$41,200	\$39,210	\$19,454	\$38,527	\$49,385	\$19,189	\$20,324	\$53,172
7	TAXES OTHER THAN INCOME - REV. RELATED	\$71,560	\$3,976	\$3,709	\$16,470	\$3,503	\$3,902	\$2,780	\$4,434	\$5,723	\$2,058	\$1,651	\$3,730
8	INCOME TAXES TOTAL	\$1,337,342	\$47,668	\$35,316	\$132,844	\$46,731	\$41,854	\$20,793	\$39,905	\$49,334	\$18,867	\$19,965	\$51,569
9	REVENUE CREDITED TO COS:	(\$257,393)	(\$51,479)	(\$51,479)	(\$102,957)	(\$29,739)	(\$29,739)	\$0	\$0	\$0	\$0	\$0	\$0
10	TOTAL COST - CUSTOMER	\$7,266,386	\$576,284	\$507,277	\$2,174,243	\$448,244	\$423,624	\$342,428	\$453,826	\$494,583	\$157,067	\$117,023	\$147,107
11	TOTAL COST - CAPACITY	\$6,714,814	\$54,011	\$64,893	\$333,024	\$91,538	\$181,389	\$98,017	\$243,994	\$360,120	\$148,014	\$156,216	\$432,829
12	TOTAL COST - COMMODITY	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
13	TOTAL COST - REVENUE	\$71,550	\$3,976	\$3,709	\$16,470	\$3,503	\$3,902	\$2,780	\$4,434	\$5,723	\$2,058	\$1,651	\$3,730
14	NO. OF CUSTOMERS (BILLS)	176,695	37,304	25,334	87,069	11,400	7,032	2,698	2,676	1,898	372	204	276
15	PEAK MONTH THROUGHPUT	7,942,791	66,950	80,439	412,806	113,467	224,844	110,342	302,448	433,997	160,995	193,641	636,273
16	ANNUAL THROUGHPUT	\$2,959,157	322,102	\$71,711	1,877,387	477,734	1,062,806	697,141	1,686,112	2,392,910	987,784	1,008,729	3,172,854

COST OF SERVICE

SCHEDULE H-2
 FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHEAPEAKE UTILITIES CORPO
 DOCKET NO. 090125-GU

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED
 COST OF SERVICE STUDY

PROJECTED TEST YEAR: 12/31/10

SUMMARY

LINE NO.	FTS-8	FTS-9	FTS-10	FTS-11	FTS-12	FTS-13	Special Contract	SABS	SAS	OS-OPD
1	\$2,753,719	\$3,813,367	\$1,823,044	\$3,328,699	\$3,880,609	\$952,187	\$4,848,276	\$3,703,198	\$307,866	\$0
2	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3	\$248,870	\$213,231	\$38,519	(\$7,355)	(\$8,830)	\$24,447	\$278,242	\$415,220	\$32,238	\$600
4	\$129,422	\$179,131	\$76,216	\$156,278	\$186,895	\$79,548	\$424,153	\$201,547	\$16,782	\$0
5	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6	\$71,170	\$98,827	\$42,128	\$86,509	\$103,540	\$9,198	\$85,698	\$74,034	\$6,157	\$0
7	\$4,537	\$5,234	\$1,981	\$3,470	\$4,213	\$0	\$0	\$0	\$0	\$0
8	\$88,211	\$94,241	\$40,059	\$62,067	\$80,008	\$26,832	\$200,293	\$118,258	\$9,669	\$0
9	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
10	\$85,831	\$104,398	\$27,487	\$10,265	\$11,464	\$29,855	\$0	\$1,071,835	\$78,311	\$900
11	\$608,576	\$737,487	\$276,616	\$530,885	\$638,981	\$170,027	\$1,538,844	\$0	\$10,534	\$0
12	\$4,537	\$5,234	\$1,981	\$3,470	\$4,213	\$0	\$0	\$0	\$0	\$0
13	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
14	182	144	36	36	24	12	96	168,968	7,739	1
15	754,123	1,058,443	480,539	954,325	1,148,098	Direct	Direct	N/A	N/A	N/A
16	4,356,209	6,121,986	2,408,252	4,872,443	7,164,270	14,000,727	71,072,018	N/A	N/A	N/A

COST OF SERVICE

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED
 COST OF SERVICE STUDY
 PROJECTED TEST YEAR: 12/31/10

FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHEESAPEAKE UTILITIES CORPORATION
 DOCKET NO: 090125-GU

SCHEDULE H-3

DERIVATION OF REVENUE DEFICIENCY

LINE NO.	TOTAL	FTS-A	FTS-B	FTS-1	FTS-2	FTS-3.1	FTS-3	FTS-3.1	FTS-3	FTS-3.1	FTS-4	FTS-5	FTS-6	FTS-7
1	\$1,288,266	\$278,284	\$607,277	\$2,174,283	\$445,844	\$429,624	\$542,428	\$453,628	\$494,583	\$137,057	\$117,023	\$137,057	\$117,023	\$147,107
2	\$8,714,814	\$4,011	\$4,093	\$333,024	\$97,036	\$181,388	\$98,017	\$241,094	\$351,120	\$148,014	\$196,216	\$148,014	\$196,216	\$432,828
3	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4	\$71,650	\$3,978	\$3,769	\$19,410	\$3,883	\$3,902	\$2,780	\$1,434	\$3,723	\$2,058	\$1,651	\$2,058	\$1,651	\$3,720
5	\$14,052,528	\$634,271	\$575,878	\$2,628,737	\$540,285	\$608,915	\$434,225	\$702,258	\$830,428	\$306,132	\$275,090	\$306,132	\$275,090	\$562,465
6	\$11,628,434	\$518,000	\$480,489	\$2,133,456	\$453,744	\$508,377	\$380,841	\$574,370	\$741,338	\$288,538	\$239,770	\$288,538	\$239,770	\$483,098
7	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8	\$2,428,085	\$119,271	\$85,380	\$360,288	\$88,641	\$103,537	\$74,184	\$127,886	\$100,088	\$38,563	\$35,370	\$38,563	\$35,370	\$100,388
9	\$108,200	\$14,181	\$28,729	\$28,382	\$23,729	\$23,729	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
10	\$2,838,289	\$138,452	\$109,581	\$419,644	\$112,281	\$129,377	\$74,184	\$127,886	\$106,088	\$38,563	\$35,370	\$38,563	\$35,370	\$100,388
11	\$41,124	\$15,448	\$20,024	\$34,971	\$39,257	\$60,242	\$127,382	\$168,582	\$268,858	\$422,197	\$273,641	\$422,197	\$273,641	\$532,987
12	\$0,137	\$0,108	\$0,175	\$0,177	\$0,182	\$0,171	\$0,148	\$0,145	\$0,148	\$0,148	\$0,155	\$0,148	\$0,155	\$0,136
13	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000
14	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000

UNIT COSTS:
 Customer
 Capacity
 Commodity

SCHEDULE H-3 COST OF SERVICE
 FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPO
 DOCKET NO. 090125-GU
 EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED COST OF SERVICE STUDY
 PROJECTED TEST YEAR: 12/31/10

LINE NO.	DERIVATION OF REVENUE DEFICIENCY										SAS	OB-DPO
	FTS-9	FTS-10	FTS-11	FTS-12	FTS-13	Special Contracts	SABS	SAS	OB-DPO			
1	\$95,531	\$104,388	\$27,487	\$10,963	\$11,484	\$28,556	\$0	\$1,071,835	\$76,311	\$600		
2	\$808,375	\$737,487	\$278,418	\$530,883	\$438,981	\$170,027	\$1,698,844	\$0	\$10,534	\$0		
3	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
4	\$4,337	\$5,234	\$1,981	\$3,470	\$4,213	\$0	\$0	\$0	\$0	\$0		
5	\$708,443	\$847,128	\$508,064	\$844,020	\$654,368	\$199,562	\$1,598,844	\$1,071,835	\$88,845	\$600		
6	\$587,681	\$277,947	\$283,873	\$419,607	\$546,773	\$180,000	\$1,598,845	\$582,468	\$16,650	\$0		
7	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
8	\$120,763	\$106,181	\$54,191	\$85,413	\$108,915	\$39,682	(\$1)	\$489,367	\$70,285	(\$0)		
9	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
10	\$120,763	\$106,181	\$54,191	\$85,413	\$108,915	\$39,682	(\$1)	\$489,367	\$70,285	(\$0)		
11	\$487,529	\$724,983	\$783,530	\$293,484	\$475,581	\$2,482,912	N/A	N/A	N/A	N/A		
12	\$0,140	\$0,120	\$0,116	\$0,107	\$0,088	\$0,012	N/A	N/A	N/A	N/A		
13	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	N/A	N/A	N/A	N/A		
14	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	\$0,000	N/A	N/A	N/A	N/A		

less: REVENUE AT PRESENT TARIFF RATES
 plus: ENVIRONMENTAL REVENUES IN TARIFF RATES
 (in the projected test year)
 equals: REVENUE DEFICIENCY
 plus: DEFICIENCY IN OTHER OPERATING REV.
 equals: TOTAL BASE - REVENUE DEFICIENCY
 UNIT COSTS:
 Customer
 Capacity
 Commodity

COST OF SERVICE

FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION
 DOCKET NO: 090125-GU

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED
 COST OF SERVICE STUDY

PROJECTED TEST YEAR: 12/31/10

RATE OF RETURN BY CUSTOMER CLASS
 PRESENT RATES

LINE NO.	TOTAL	FTS-A	FTS-B	FTS-1	FTS-2	FTS-2.1	FTS-3	FTS-3.1	FTS-4	FTS-5	FTS-6	FTS-7
REVENUES:												
1	\$11,634,434	\$516,000	\$480,489	\$2,133,456	\$453,744	\$606,377	\$360,041	\$574,370	\$741,336	\$288,539	\$238,720	\$463,096
2	\$149,180	\$37,298	\$74,595	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3	\$11,773,624	\$553,298	\$557,797	\$2,208,051	\$453,744	\$606,377	\$360,041	\$574,370	\$741,336	\$288,539	\$238,720	\$463,096
EXPENSES:												
4	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5	\$0,296,753	\$30,331	\$40,140	\$1,763,788	\$274,308	\$365,653	\$209,432	\$408,187	\$522,684	\$178,072	\$141,061	\$238,460
6	\$2,366,237	\$44,907	\$83,275	\$28,347	\$83,813	\$19,550	\$38,013	\$68,752	\$62,264	\$38,487	\$37,556	\$7,439
7	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8	\$1,046,531	\$11,112	\$31,236	\$18,813	\$41,200	\$38,210	\$10,454	\$38,527	\$48,385	\$18,189	\$29,324	\$53,172
9	\$71,550	\$3,976	\$3,709	\$18,470	\$3,303	\$3,902	\$2,780	\$4,434	\$3,723	\$2,058	\$1,851	\$3,736
10	\$9,784,111	\$520,526	\$504,180	\$2,180,426	\$493,822	\$448,315	\$380,098	\$667,900	\$970,057	\$233,763	\$207,632	\$382,800
11	\$206,145	\$47,668	\$35,315	\$132,844	\$46,731	\$41,654	\$20,765	\$36,905	\$48,334	\$18,867	\$18,965	\$51,569
12	\$1,763,367	(\$15,817)	(\$21,477)	(\$85,222)	\$4,191	(\$21,782)	(\$30,821)	(\$30,436)	\$21,948	\$11,207	\$18,123	\$38,727
13	\$48,883,255	\$1,794,417	\$1,348,946	\$5,151,544	\$1,701,001	\$1,686,229	\$338,806	\$1,556,266	\$2,100,182	\$813,212	\$681,946	\$2,070,571
14	3.63%	-0.89%	-1.81%	-1.68%	0.23%	-1.29%	-2.49%	-1.96%	1.05%	1.46%	2.10%	1.87%

COST OF SERVICE

SCHEDULE H-3

FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPO
 DOCKET NO: 090125-GU
 EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED
 COST OF SERVICE STUDY
 PROJECTED TEST YEAR: 12/31/10

LINE NO.	FTS-6	FTS-9	FTS-10	FTS-11	FTS-12	FTS-13	Special Contracts	SAUS	SNS	OS-DPO
REVENUES:										
1	\$667,681	\$677,947	\$233,973	\$449,207	\$545,773	\$180,000	\$1,598,845	\$662,468	\$16,560	\$500
2	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3	\$667,681	\$677,947	\$233,973	\$449,207	\$545,773	\$180,000	\$1,598,845	\$662,468	\$16,560	\$500
EXPENSES:										
4	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5	\$249,870	\$213,231	\$36,519	(\$7,355)	(85,030)	\$24,447	\$276,248	\$416,220	\$32,236	\$500
6	\$129,422	\$179,131	\$76,319	\$156,779	\$181,055	\$76,548	\$424,153	\$201,547	\$16,792	\$0
7	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8	\$71,170	\$98,827	\$42,128	\$98,509	\$103,440	\$6,199	\$26,596	\$74,034	\$6,197	\$0
9	\$4,537	\$5,234	\$1,361	\$3,870	\$4,213	\$0	\$0	\$0	\$0	\$0
10	\$455,890	\$496,433	\$159,827	\$228,933	\$298,778	\$112,182	\$765,981	\$690,871	\$55,105	\$500
11	\$68,211	\$9,241	\$40,059	\$62,067	\$98,088	\$26,632	\$300,293	\$116,256	\$9,969	\$0
12	\$64,371	\$87,264	\$69,987	\$128,337	\$158,825	\$21,177	\$510,091	(\$24,598)	(\$49,264)	\$0
13	\$2,763,719	\$3,813,367	\$1,623,044	\$3,328,889	\$3,940,809	\$82,187	\$4,358,275	\$3,703,186	\$307,968	\$0
14	2.34%	2.29%	3.39%	3.85%	3.99%	2.48%	10.96%	-6.08%	-15.87%	

RATE OF RETURN BY CUSTOMER CLASS
 PRESENT RATES

SCHEDULE H-3

COST OF SERVICE

Schedule 6 - Page 20 of 26
 PAGE 5 OF 11

FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION
 DOCKET NO: 090125-GU

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED
 COST OF SERVICE STUDY

PROJECTED TEST YEAR: 12/31/10

RATE OF RETURN BY CUSTOMER CLASS
 APPROVED RATES

LINE NO.	TOTAL	FTS-A	FTS-B	FTS-1	FTS-2	FTS-2.1	FTS-3	FTS-3.1	FTS-4	FTS-5	FTS-6	FTS-7	
REVENUES:													
1	Revenues	\$14,052,529	\$634,271	\$575,879	\$2,523,737	\$540,285	\$608,915	\$434,225	\$702,256	\$850,426	\$305,132	\$275,090	\$583,465
2	Other Operating Revenue	\$257,393	\$51,479	\$51,479	\$102,957	\$25,739	\$25,739	\$0	\$0	\$0	\$0	\$0	
3	Total	\$14,309,922	\$685,749	\$627,358	\$2,626,695	\$566,024	\$634,654	\$434,225	\$702,256	\$850,426	\$305,132	\$275,090	\$583,465
EXPENSES:													
4	Purchased Gas Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
5	O&M Expenses	\$6,299,733	\$390,531	\$406,140	\$1,785,798	\$274,306	\$365,653	\$299,822	\$458,187	\$522,684	\$179,072	\$141,901	\$238,460
6	Depreciation Expenses	\$2,366,297	\$84,907	\$63,275	\$239,347	\$83,813	\$76,550	\$38,013	\$88,752	\$92,284	\$35,467	\$37,556	\$97,439
7	Amortization Expenses and Adjustments	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
8	Taxes Other Than Income—Fixed	\$1,046,531	\$41,112	\$31,036	\$118,813	\$41,200	\$39,210	\$19,454	\$36,527	\$49,385	\$19,169	\$20,324	\$53,172
9	Taxes Other Than Income—Revenue	\$71,550	\$3,976	\$3,709	\$16,470	\$3,503	\$3,902	\$2,780	\$4,434	\$5,723	\$2,058	\$1,851	\$3,730
10	Total Expes excl. Income Taxes	\$9,784,111	\$520,526	\$504,160	\$2,160,428	\$402,822	\$485,315	\$380,069	\$567,900	\$670,057	\$235,765	\$201,632	\$392,800
11	PRE TAX NOI:	\$4,525,811	\$165,223	\$123,198	\$466,266	\$163,203	\$149,339	\$74,156	\$134,356	\$180,369	\$69,367	\$73,458	\$190,665
12	INCOME TAXES:	\$1,337,342	\$47,668	\$35,315	\$132,844	\$46,731	\$41,854	\$20,793	\$36,905	\$49,334	\$18,867	\$19,965	\$51,569
13	NET OPERATING INCOME:	\$3,188,469	\$117,555	\$87,883	\$333,422	\$116,472	\$107,484	\$53,363	\$97,452	\$131,035	\$50,499	\$53,493	\$139,096
14	RATE BASE:	\$46,663,295	\$1,794,417	\$1,349,948	\$5,151,544	\$1,791,001	\$1,686,229	\$636,808	\$1,556,269	\$2,100,192	\$813,212	\$861,946	\$2,070,671
15	RATE OF RETURN	6.83%	6.55%	6.51%	6.47%	6.50%	6.37%	6.38%	6.26%	6.24%	6.21%	6.21%	6.72%

SCHEDULE H-3		COST OF SERVICE									
FLORIDA PUBLIC SERVICE COMMISSION		EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED									
COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION		COST OF SERVICE STUDY									
DOCKET NO: 090125-GU		PROJECTED TEST YEAR: 12/31/10									
RATE OF RETURN BY CUSTOMER CLASS APPROVED RATES											
LINE NO.		FTS-8	FTS-9	FTS-10	FTS-11	FTS-12	FTS-13	Special Contracts	SABS	SAS	OS-DPO
REVENUES:											
1	Revenues	\$708,443	\$847,128	\$308,064	\$544,920	\$654,688	\$199,582	\$1,596,845	\$1,071,835	\$86,845	\$500
2	Other Operating Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3	Total	\$708,443	\$847,128	\$308,064	\$544,920	\$654,688	\$199,582	\$1,596,845	\$1,071,835	\$86,845	\$500
EXPENSES:											
4	Purchased Gas Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5	O&M Expenses	\$249,970	\$213,231	\$38,519	(\$7,355)	(\$5,830)	\$24,447	\$278,242	\$415,220	\$32,236	\$500
6	Depreciation Expenses	\$129,422	\$179,131	\$76,219	\$156,279	\$186,855	\$78,546	\$424,153	\$201,547	\$16,762	\$0
7	Amortization Expenses and Adjustments	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8	Taxes Other Than Income—Fixed	\$71,170	\$88,827	\$42,128	\$86,509	\$103,540	\$9,199	\$85,566	\$74,034	\$6,157	\$0
9	Taxes Other Than Income—Revenue	\$4,537	\$5,234	\$1,961	\$3,470	\$4,213	\$0	\$0	\$0	\$0	\$0
10	Total Expns excl. Income Taxes	\$455,099	\$496,423	\$158,827	\$238,903	\$288,779	\$112,192	\$785,961	\$680,801	\$55,155	\$500
11	PRE TAX NOI:	\$253,344	\$350,708	\$149,237	\$306,017	\$365,909	\$87,390	\$810,884	\$381,034	\$31,690	\$0
12	INCOME TAXES:	\$68,211	\$94,241	\$40,059	\$82,067	\$98,069	\$26,632	\$300,293	\$118,256	\$9,669	\$0
13	NET OPERATING INCOME:	\$185,134	\$256,465	\$109,178	\$223,950	\$267,840	\$60,759	\$510,591	\$264,778	\$22,021	\$0
14	RATE BASE:	\$2,753,719	\$3,813,367	\$1,623,044	\$3,328,689	\$3,980,609	\$852,187	\$4,658,275	\$3,703,186	\$307,988	\$0
15	RATE OF RETURN	6.72%	6.73%	6.73%	6.73%	6.73%	7.13%	10.96%	7.15%	7.15%	0.00%

SCHEDULE H-3

COST OF SERVICE

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FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION
 DOCKET NO: 090125-GU

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED
 COST OF SERVICE STUDY

PROJECTED TEST YEAR: 12/31/10

APPROVED RATE SUMMARY

LINE NO.		TOTAL	FTS-A	FTS-B	FTS-1	FTS-2	FTS-2.1	FTS-3	FTS-3.1	FTS-4	FTS-5	FTS-6	FTS-7
PRESENT RATES													
1	REVENUES	\$11,824,434	\$515,000	\$480,499	\$2,133,456	\$453,744	\$505,377	\$360,041	\$574,370	\$741,338	\$266,539	\$239,720	\$483,096
2	OTHER OPERATING REVENUE	\$149,190	\$37,298	\$37,298	\$74,595	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3	TOTAL	\$11,773,624	\$552,298	\$517,797	\$2,208,051	\$453,744	\$505,377	\$360,041	\$574,370	\$741,338	\$266,539	\$239,720	\$483,096
4	RATE OF RETURN	3.82%	-0.89%	-1.61%	-1.65%	0.23%	-1.29%	-2.49%	-1.96%	1.05%	1.46%	2.10%	1.87%
5	INDEX	100.00%	-23.19%	-42.04%	-43.30%	6.13%	-33.83%	-65.13%	-51.19%	27.36%	38.33%	55.04%	48.96%
APPROVED RATES													
6	REVENUES	\$14,052,529	\$634,271	\$575,879	\$2,523,737	\$540,285	\$606,915	\$434,225	\$702,256	\$850,426	\$305,132	\$275,090	\$583,465
7	OTHER OPERATING REVENUE	\$257,393	\$51,479	\$51,479	\$102,957	\$25,739	\$25,739	\$0	\$0	\$0	\$0	\$0	\$0
8	TOTAL	\$14,309,922	\$685,749	\$627,358	\$2,626,695	\$566,024	\$634,654	\$434,225	\$702,256	\$850,426	\$305,132	\$275,090	\$583,465
9	RATE OF RETURN	6.83%	6.55%	6.51%	6.47%	6.50%	6.37%	6.38%	6.26%	6.24%	6.21%	6.21%	6.72%
10	INDEX	100.00%	95.92%	95.32%	94.78%	95.21%	93.33%	93.37%	91.68%	91.35%	90.92%	90.86%	98.35%
11	TOTAL REVENUE INCREASE	\$2,536,298	\$133,452	\$109,561	\$418,644	\$112,281	\$129,277	\$74,184	\$127,888	\$109,088	\$38,593	\$35,370	\$100,369
12	PERCENT INCREASE	21.54%	24.16%	21.16%	18.96%	24.75%	25.58%	20.60%	22.27%	14.71%	14.48%	14.75%	20.78%

SCHEDULE H-3

COST OF SERVICE

FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION
 DOCKET NO: 090125-GU

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED
 COST OF SERVICE STUDY

PROJECTED TEST YEAR: 12/31/10

APPROVED RATE SUMMARY

LINE NO.		FTS-8	FTS-9	FTS-10	FTS-11	FTS-12	FTS-13	Special Contracts	SABS	SAS	OS-DPO
PRESENT RATES											
1	REVENUES	\$587,681	\$677,947	\$253,973	\$449,507	\$545,773	\$160,000	\$1,596,845	\$582,468	\$18,560	\$500
2	OTHER OPERATING REVENUE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3	TOTAL	\$587,681	\$677,947	\$253,973	\$449,507	\$545,773	\$160,000	\$1,596,845	\$582,468	\$18,560	\$500
4	RATE OF RETURN	2.34%	2.29%	3.39%	3.86%	3.99%	2.48%	10.96%	-6.06%	-15.67%	0.00%
5	INDEX	61.19%	59.92%	88.85%	101.08%	104.51%	65.05%	286.83%	-158.76%	-410.22%	0.00%
APPROVED RATES											
6	REVENUES	\$708,443	\$847,128	\$308,064	\$544,920	\$654,688	\$199,582	\$1,596,845	\$1,071,835	\$86,845	\$500
7	OTHER OPERATING REVENUE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8	TOTAL	\$708,443	\$847,128	\$308,064	\$544,920	\$654,688	\$199,582	\$1,596,845	\$1,071,835	\$86,845	\$500
9	RATE OF RETURN	6.72%	6.73%	6.73%	6.73%	6.73%	7.13%	10.96%	7.15%	7.15%	0.00%
10	INDEX	98.43%	98.47%	98.49%	98.50%	98.52%	104.39%	160.48%	104.69%	104.69%	0.00%
11	TOTAL REVENUE INCREASE	\$120,763	\$169,181	\$54,091	\$95,413	\$108,915	\$39,582	\$0	\$489,367	\$70,285	(\$0)
12	PERCENT INCREASE	20.55%	24.95%	21.30%	21.23%	19.96%	24.74%	0.00%	84.02%	424.43%	0.00%

SCHEDULE H-3

COST OF SERVICE

FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION
 DOCKET NO: 090125-GU

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED
 COST OF SERVICE STUDY

PROJECTED TEST YEAR: 12/31/10

APPROVED RATE DESIGN

LINE NO.		TOTAL	FTS-A	FTS-B	FTS-1	FTS-2	FTS-2.1	FTS-3	FTS-3.1	FTS-4	FTS-5	FTS-6	FTS-7
\$1	APPROVED TOTAL TARGET REVENUES	\$14,309,922	\$685,749	\$627,358	\$2,626,695	\$566,024	\$634,854	\$434,225	\$702,256	\$850,428	\$305,132	\$275,090	\$583,465
2	LESS: OTHER OPERATING REVENUE	(\$257,393)	(\$51,479)	(\$51,479)	(\$102,957)	(\$25,739)	(\$25,739)	\$0	\$0	\$0	\$0	\$0	\$0
	LESS: FIRM TRANSPORTATION CHARGE REVENUES												
3	APPROVED FIRM TRANSPORTATION CHARGES		\$13.00	\$15.50	\$19.00	\$34.00	\$40.00	\$108.00	\$134.00	\$210.00	\$380.00	\$600.00	\$700.00
4	NUMBER OF BILLS	176,827	37,304	25,334	87,069	11,400	7,032	2,688	2,678	1,896	372	204	276
5	NUMBER OF SHIPPER CUSTOMERS												
6	TOTAL FIRM TRANSPORTATION CHARGE REV.	\$7,582,487	\$484,952	\$392,677	\$1,654,311	\$387,600	\$281,280	\$290,304	\$358,584	\$398,160	\$141,360	\$122,400	\$193,200
6a	% Firm Charge Revenue	82%	76%	68%	66%	72%	46%	67%	51%	47%	46%	44%	33%
7	LESS: OTHER NON-USAGE RATE REVENUES	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8	EQUALS: USAGE CHARGES TARGET REVENUES	\$6,470,042	\$149,319	\$183,202	\$869,426	\$152,685	\$327,635	\$143,921	\$343,672	\$452,266	\$183,772	\$152,690	\$390,265
9	DIVIDED BY: NUMBER OF THERMS	52,958,167	322,102	371,711	1,877,387	477,734	1,062,805	597,141	1,688,112	2,392,910	987,784	1,008,729	3,172,854
10	USAGE CHARGES PER-THERM (UNROUNDED)		\$0.463576	\$0.492862	\$0.463104	\$0.319602	\$0.308273	\$0.241016	\$0.203825	\$0.189003	\$0.165797	\$0.151368	\$0.123001
11	USAGE CHARGES PER-THERM (ROUNDED)		\$0.46358	\$0.49286	\$0.46310	\$0.31960	\$0.30827	\$0.24102	\$0.20383	\$0.18900	\$0.16580	\$0.15137	\$0.12300
12	USAGE CHARGE REVENUES (ROUNDED RATES)	\$6,470,046	\$149,320	\$183,201	\$869,418	\$152,684	\$327,631	\$143,923	\$343,680	\$452,260	\$163,775	\$152,691	\$390,261
	SUMMARY: APPROVED TARIFF RATES												
13	FIRM TRANSPORTATION CHARGES		\$13.00	\$15.50	\$19.00	\$34.00	\$40.00	\$108.00	\$134.00	\$210.00	\$380.00	\$600.00	\$700.00
14	USAGE CHARGES (CENTS PER THERM)		46.358	49.286	46.310	31.960	30.827	24.102	20.383	18.900	16.580	15.137	12.300
15	SHIPPER ADMINISTRATION CHARGE												
16	CONSUMER CHARGE												
	SUMMARY: PRESENT TARIFF RATES												
17	FIRM TRANSPORTATION CHARGES		\$10.00	\$12.50	\$15.00	\$27.50	\$27.50	\$90.00	\$90.00	\$165.00	\$275.00	\$450.00	\$475.00
18	USAGE CHARGES (CENTS PER THERM)		44.073	44.073	44.073	29.356	29.356	19.781	19.781	17.907	16.627	14.664	11.094
19	SHIPPER ADMINISTRATION CHARGE												
20	CONSUMER CHARGE												

SCHEDULE H-3		COST OF SERVICE									
FLORIDA PUBLIC SERVICE COMMISSION		EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED								Schedule 6 - Page 25 of 26	
COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION		COST OF SERVICE STUDY								PAGE 10 OF 11	
DOCKET NO: 090125-GU										PROJECTED TEST YEAR: 12/31/10	
APPROVED RATE DESIGN											
LINE NO.		FTS-8	FTS-9	FTS-10	FTS-11	FTS-12	FTS-13	Special Contracts	SABS	SAS	OS-DPO
\$1	APPROVED TOTAL TARGET REVENUES	\$708,443	\$847,128	\$308,064	\$544,920	\$654,688	\$199,582	\$1,596,845	\$1,071,835	\$86,845	\$500
2	LESS: OTHER OPERATING REVENUE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	LESS: FIRM TRANSPORTATION CHARGE REVENUES										
3	APPROVED FIRM TRANSPORTATION CHARGES	\$1,200.00	\$2,000.00	\$3,000.00	\$5,500.00	\$9,000.00	\$16,692.25	various	\$300.00	\$300.00	\$41.67
4	NUMBER OF BILLS	192	144	36	36	24	12	96	36	96	12
5	NUMBER OF SHIPPER CUSTOMERS								192,956	7,739	
6	TOTAL FIRM TRANSPORTATION CHARGE REV.	\$230,400	\$288,000	\$108,000	\$198,000	\$218,000	\$200,307	\$1,596,845	\$10,800	\$28,800	\$500
6a	% Firm Charge Revenue	33%	34%	35%	36%	33%	100%	n/a	1%	33%	100%
7	LESS: OTHER NON-USAGE RATE REVENUES	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8	EQUALS: USAGE CHARGES TARGET REVENUES	\$478,043	\$559,128	\$200,064	\$346,920	\$438,688	(\$725)		\$1,061,035	\$58,045	\$0
9	DIVIDED BY: NUMBER OF THERMS	4,336,209	6,121,996	2,405,252	4,972,443	7,164,270	14,000,727				
10	USAGE CHARGES PER-THERM (UNROUNDED)	\$0.110245	\$0.091331	\$0.083178	\$0.069769	\$0.061233	(\$0.000052)		\$5.50	\$7.50	\$0
11	USAGE CHARGES PER-THERM (ROUNDED)	\$0.11024	\$0.09133	\$0.08318	\$0.06977	\$0.06123	(\$0.00005)		\$5.50	\$7.50	\$0
12	USAGE CHARGE REVENUES (ROUNDED RATES)	\$478,024	\$559,122	\$200,069	\$346,927	\$438,668	(\$700)		\$1,061,035	\$58,045	\$0
SUMMARY: APPROVED TARIFF RATES											
13	FIRM TRANSPORTATION CHARGES	\$1,200.00	\$2,000.00	\$3,000.00	\$5,500.00	\$9,000.00	\$16,692.25				\$41.67
14	USAGE CHARGES (CENTS PER THERM)	11.024	9.133	8.318	6.977	6.123	0.000				
15	SHIPPER ADMINISTRATION CHARGE								\$300.00	\$300.00	
16	CONSUMER CHARGE								\$5.50	\$7.50	
SUMMARY: PRESENT TARIFF RATES											
17	FIRM TRANSPORTATION CHARGES	\$750.00	\$900.00	\$1,500.00	\$3,000.00	\$4,000.00	\$13,333.33				\$41.67
18	USAGE CHARGES (CENTS PER THERM)	10.232	8.957	6.314	6.868	6.278	0.000				
19	SHIPPER ADMINISTRATION CHARGE								\$100.00	\$172.50	
20	CONSUMER CHARGE								\$3.00	\$0.00	

SCHEDULE H-3

COST OF SERVICE

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FLORIDA PUBLIC SERVICE COMMISSION
 COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION
 DOCKET NO: 090125-GU

EXPLANATION: PROVIDE A FULLY ALLOCATED EMBEDDED
 COST OF SERVICE STUDY

PROJECTED TEST YEAR: 12/31/10

OTHER OPERATING REVENUE SUMMARY

SUMMARY: OTHER OPERATING REVENUE		PRESENT REVENUE	APPROVED REVENUE
1	Res Connection Charge	\$82,080	\$0
2	Non-Res Connection Charge	\$7,200	\$0
3	Res Re-Connection Charge	\$33,840	\$0
4	Non-Res Re-Connection Charge	\$900	\$0
5	Connection Charge		
6	FTS-A, FTS-B, FTS-1, FTS-2, FTS-3	\$0	\$200,828
7	FTS-4, FTS-5, FTS-6	\$0	\$10,125
8	FTS-7 and Above	\$0	\$0
9	Subtotal Connection Charges	<u>\$124,020</u>	<u>\$211,053</u>
10	Collection In Lieu Of Disconnect	\$0	\$0
11	Change Of Account Charge	\$0	\$0
12	Return Check Charge	\$11,400	\$11,400
13	Temporary Disconnect Charge - (New)	\$0	\$1,050
14	Failed Trip Charge - (New)	\$0	\$4,500
15	Meter Re-Read at Consumer Request Charge - (New)	\$0	\$5,600
16	Overtime Charge (1.5 x applicable Misc. Charge)	\$13,770	\$23,790
17		<u>\$149,190</u>	<u>\$257,393</u>