

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-09-0606-PCO-GU  
ISSUED: September 8, 2009

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman  
LISA POLAK EDGAR  
KATRINA J. McMURRIAN  
NANCY ARGENZIANO  
NATHAN A. SKOP

ORDER SUSPENDING PROPOSED FINAL RATES AND  
APPROVING INTERIM RATES SUBJECT TO REFUND

BY THE COMMISSION:

**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 (Chesapeake or Company). The Company is engaged in business as a public utility providing distribution and transportation for gas as defined in Section 366.02, Florida Statutes (F.S.), and is subject to the jurisdiction of the Commission. Chesapeake serves gas to 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 in additional gross annual revenues. This increase would allow the Company to earn an overall rate of 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 has elected to have its petition for rate relief processed under the proposed agency action (PAA) procedures authorized by Section 366.06(4), F.S.

Chesapeake has also requested an interim rate increase in its retail rates and charges to generate an additional \$417,555 in gross annual revenues.<sup>1</sup> This increase would allow the

<sup>1</sup> Chesapeake has entered into merger talks with Florida Public Utilities Company. This proposed merger will have no effect on any interim rates approved in this proceeding.

DOCUMENT NUMBER-DATE

09270 SEP-8 09

FPSC-COMMISSION CLERK

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.

We last granted Chesapeake a \$1,251,900 rate increase by Order No. PSC-00-2263-FOF-GU.<sup>2</sup> 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 allowed rate of return was found to be 8.60 percent for the year using an 11.50 percent return on equity.

This order addresses the suspension of the requested permanent rate increase and the requested interim rate increase. We have jurisdiction pursuant to Sections 366.06(2) and (4), and 366,071, F.S.

### **Suspension of Proposed Final Rates**

Chesapeake filed its petition, testimony, and minimum filing requirements (MFR Schedule G-1) on July 14, 2009. The Company has requested a total permanent base rate increase of \$2,965,398 based on a projected test year ending December 31, 2010.

Historically, especially when a projected test year has been involved, we have suspended the requested permanent rate schedules in order to adequately and thoroughly examine the basis for the new rates. The suspension of the rate increase is authorized by Section 366.06(3), F.S., which provides:

Pending a final order by the commission in any rate proceeding under this section, the commission may withhold consent to the operation of all or any portion of the new rate schedules, delivering to the utility requesting such increase, within 60 days, a reason or written statement of good cause for withholding its consent.

Because Chesapeake's requested permanent rate relief is based on a projected test year, we suspend the requested permanent rate schedules to allow staff, and any intervenors, sufficient time to adequately investigate whether the request for permanent rate relief is appropriate.

### **Test Year**

On MFR Schedule F-4, the proposed interim test year rate base of \$37,868,590 is the thirteen-month average amount for the period ended December 31, 2008. We have reviewed the rate base adjustments made in the current interim filing for consistency with the findings made in the Company's last rate case order. Based on review, it appears that Chesapeake has made the applicable and appropriate adjustments that are consistent with the previous rate case. Therefore, we find that \$37,868,590 is the appropriate amount of rate base for the 2008 interim test year. The calculation is shown on Attachment A.

---

<sup>2</sup> Order No. PSC-00-2263-FOF-GU, issued November 28, 2000, in Docket No. 000108-GU, In re: Application for rate increase by Florida Division of Chesapeake Utilities Corporation.

It should be noted that 2008 is also the historical base year that was used to develop the 2010 projected test year for the requested permanent base rate increase. The 2008 historical test year data is currently being audited as part of the normal ratemaking review process in this docket.

#### **Interim Return on Equity**

Pursuant to Section 366.071(2)(a), F.S., the appropriate return on equity (ROE) for purposes of determining an interim rate increase is the minimum of the Company's currently authorized ROE range. Chesapeake's currently authorized ROE is 11.50 percent with a range of plus or minus 100 basis points. We set the return and range in Order No. PSC-00-2263-FOF-GU. For its interim request, Chesapeake used an ROE of 10.50 percent. We find that the resulting overall cost of capital is appropriate for calculating interim rates. Attachment B details the calculation of the Company's overall cost of capital.

#### **Interim Test Year Net Operating Income**

On MFR Schedule F-4, the proposed interim test year net operating income of \$2,346,483 is the twelve month amount for the year ended December 31, 2008. We have reviewed the net operating income adjustments made in the current interim filing for consistency with the findings made in the Company's last rate case. Based on our preliminary review, it appears that Chesapeake has made the applicable and appropriate adjustments that are consistent with the previous rate case. Therefore, we determine that \$2,346,483 is the appropriate 2008 interim test year net operating income.

It should be noted that 2008 is also the historical base year that was used to develop the 2010 projected test year for the requested permanent base rate increase. The 2008 historical test year data is currently being audited as part of the normal ratemaking review process in this docket.

#### **Appropriate Net Operating Income Multiplier**

On MFR Schedule F-6, the Company calculated a net operating income multiplier of 1.6114 using a 34.0 percent federal income tax rate and a 5.5 percent state income tax rate. Additionally, the Company applied a 0.50 percent factor for regulatory assessment fees. We have reviewed the Company's calculation of the net operating income multiplier and is not proposing any adjustments. Therefore, we determine that 1.6114 is the appropriate net operating income multiplier. The calculation is shown below.

<u>Line</u>	<u>Description</u>	
1	Revenue Requirement	100.000%
2	Gross Receipts Tax	0.000%
3	Regulatory Assessment Fee	(0.500)%
4	Bad Debt Rate	<u>(0.000)%</u>
5	Net Before Income Taxes	99.500%
6	Combined State/Federal Income Tax @ 37.63 %	(37.442)%
7	Revenue Expansion Factor	<u>62.058%</u>
8	Net Operating Income Multiplier (100%/Line 7)	<u>1.6114</u>

**Interim Rate Increase**

On MFR Schedule F-7, Chesapeake's requested interim rate relief of \$417,555 for the historical test year ended December 31, 2008. This would allow the Company to earn an overall rate of return of 6.88 percent and the minimum of the range of return on equity of 10.50 percent. After a determination of the permanent rate increase has been made, the interim rate increase will be reviewed to determine if any portion should be refunded to the ratepayers.

The calculation of the \$417,555 of interim rate relief and the percentage increase factor is shown below.

Jurisdictional Adjusted Rate Base	\$37,868,590
Overall Rate of Return Requested	x <u>6.88%</u>
Jurisdictional Net Operating Income Requested	\$2,605,610
Jurisdictional Adjusted Net Operating Income	<u>(2,346,483)</u>
Income Deficiency/(Excess)	\$259,127
Net Operating Income Multiplier	x <u>1.6114</u>
Interim Revenue Increase/(Decrease)	\$417,555
Base Rate Revenues	-:- <u>10,242,330</u>
Percentage Increase Factor	<u>4.08%</u>

### **Approved Interim Rates**

As shown on Attachments C and D, we determined the cents-per-therm increases to be applied to each rate class based on our approved interim increase of \$417,555. The increases were calculated using the methodology contained in Rule 25-7.040, F.A.C., which requires that any increase be applied evenly across the board to all rate classes based on their base rate revenues. A residential customer using 20 therms taking service under the FTS-1 rate will see the bill increase from \$23.81 to \$24.79 or by \$0.98. The bills do not include the cost of gas, as Chesapeake does not purchase gas for its customers. Rather, customers purchase gas from gas marketers, or shippers. We also note the Chesapeake classifies its customers based on annual therm usage, and does not distinguish between residential and commercial customers.

In Order No. PSC-07-0427-TRF-GU,<sup>3</sup> 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. 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. 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 interim rate adjustment for these customers. Chesapeake states that it will absorb the resulting revenue shortfall and thus the general body of ratepayers is not impacted by that decision.

The interim rates shall be made effective for all meter readings made on or after 30 days from the date of our vote approving any interim increase. Chesapeake shall give appropriate notice to customers commencing with the first bill for service that reflects the approved interim increase that explains the nature, purpose, and effect of the increase. A copy of the notice shall be submitted to staff for approval prior to distribution to the customers.

### **Interim Rates Subject to Refund**

Chesapeake requested that all funds collected subject to refund during the interim period be secured by a corporate undertaking. The criteria for a corporate undertaking include sufficient liquidity, ownership equity, profitability, and interest coverage to guarantee any potential refund. The Company is an operating division of Chesapeake Utilities Corporation (CUC).

We reviewed the financial statements included in the 2006, 2007, and 2008 Form 10-K Annual Reports CUC filed with the Securities and Exchange Commission to determine if Chesapeake can support a corporate undertaking in the amount of \$174,000. For 2006, 2007, and 2008, CUC has maintained net working capital in excess of \$22 million and an interest coverage ratio greater than 4.0 times. CUC's average equity ratio over the three-year period has

---

<sup>3</sup> Order No. PSC-07-0427-TRF-GU, issued May 15, 2007, 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.

been stable at an average of 50.7 percent. CUC's net income has increased in each of the previous three years and the average net income over the three-year period is seventy-two times the requested interim amount. Based on the analysis of CUC's financial condition, we determine that the Company can support a corporate undertaking in the amount of \$174,000 contingent upon the receipt of the written guarantee by CUC.

This brief financial analysis is only appropriate for deciding if Chesapeake can support a corporate undertaking in the amount proposed and shall not be considered a finding regarding our position on other issues in this proceeding.

This docket shall remain open pending our final resolution of the Company's rate increase.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the \$2,965,398 permanent base rate increase and the associated tariff revisions requested by the Florida Division of Chesapeake Utilities Corporation shall be suspended pending a final decision in this docket. It is further

ORDERED that the Florida Division of Chesapeake Utilities Corporation's 2008 interim test year rate base of \$37,868,590 is appropriate. It is further

ORDERED that the Florida Division of Chesapeake Utilities Corporation's return on equity of 10.50 percent and its overall cost of capital of 6.88 percent for purposes of determining interim rates are appropriate. It is further

ORDERED that the Florida Division of Chesapeake Utilities Corporation's 2008 interim test year net operating income of \$2,346,483 is appropriate. It is further

ORDERED that the Florida Division of Chesapeake Utilities Corporation's appropriate net operating income multiplier for interim rate purposes is 1.6114. It is further

ORDERED that the Florida Division of Chesapeake Utilities Corporation's interim rate increase of \$417,555 and percentage increase factor of 4.08 percent shall be granted. It is further

ORDERED that any interim revenue increase approved shall be applied evenly across the board to all rate classes based on their base rate revenues, as required by Rule 25-7.040, F.A.C., and shall be recovered on a cents-per-therm basis. It is further

ORDERED that the interim rates shall be made effective for all meter readings made on or after 30 days from the date of the vote approving any interim increase. It is further

ORDERED that the Florida Division of Chesapeake Utilities Corporation shall give notice to customers of the interim increase commencing with the first bill for service that reflects the increase. It is further

ORDERED that the appropriate security to guarantee the funds collected subject to refund is a corporate undertaking contingent upon receipt of the written guarantee by Chesapeake Utilities Corporation. It is further

ORDERED that this docket shall remain open pending the final resolution of the Florida Division of Chesapeake Utilities Corporation's rate increase.

By ORDER of the Florida Public Service Commission this 8th day of September, 2009.



ANN COLE  
Commission Clerk

( S E A L )

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 or judicial review of Commission orders that is available under Sections 120.57 or 120.68, 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 or judicial review will be granted or result in the relief sought.

Any party adversely affected by this order, which is non-final in nature, may request (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Office of Commission Clerk, in the form prescribed by Rule 25-22.0376, Florida Administrative Code. Citizens of the State of Florida v. Mayo, 316 So.2d 262 (Fla. 1975), states that an order on interim rates is not final or reviewable until a final order is issued. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

Florida Division of Chesapeake Utilities Corporation  
Docket No 090125-GU  
INTERIM TEST YEAR  
DECEMBER 31, 2008

ATTACHMENT A

	As Filed by Company	Interim Adjustments	Total Adjusted Rate Base
<b><u>RATE BASE</u></b>			
Plant in Service	\$56,114,259	\$0	\$56,114,259
Common Plant Allocated	0	(613,981)	(613,981)
Flexible Gas Service Adjustment	0	(259,136)	(259,136)
Customer Advances for Construction	(5,085)	0	(5,085)
Retirement Work in Progress	26,905	0	26,905
Construction Work in Progress	467,654	0	467,654
Deductions	(18,243,905)	0	(18,243,905)
Accumulated Depreciation - Common Plant	0	207,702	207,702
Accumulated Depreciation - Flexible Gas Service	0	38,847	38,847
Eliminate Franchise & Consent	0	8,959	8,959
Working Capital	<u>(16,157,443)</u>	<u>16,283,814</u>	<u>126,371</u>
Total Rate Base	<u>\$22,202,385</u>	<u>\$15,666,205</u>	<u>\$37,868,590</u>
<b><u>INCOME STATEMENT</u></b>			
Operating Revenues	<u>\$13,153,832</u>	<u>(\$1,364,829)</u>	<u>\$11,789,003</u>
O & M Gas Expense	0	0	0
Operation & Maintenance - Gas	6,853,752	(1,083,308)	5,770,444
Depreciation & Amortization	1,910,439	(53,763)	1,856,676
Taxes other than Income	1,161,232	(189,243)	971,989
Income Taxes - Federal & State	(622,563)	17,962	(604,601)
Deferred Income Taxes - Net	1,467,535	0	1,467,535
Investment Tax Credit - Net	<u>(19,523)</u>	<u>0</u>	<u>(19,523)</u>
Total Operating Expenses	<u>10,750,872</u>	<u>(1,308,352)</u>	<u>9,442,520</u>
Net Operating Income	<u>\$2,402,960</u>	<u>(\$56,477)</u>	<u>\$2,346,483</u>
<b><u>Overall Rate of Return</u></b>	10.82%		6.20%



(from page 156 of Interim Rate Request MFR)

Cost of Capital for Interim Rate Relief

Line No.	Description	Per Books	Adjustments		Adjusted	Ratio	Cost Rate	Weighted Cost
			Specific	Pro Rata				
1	Common Equity	\$ 22,207,471	\$0	\$ (5,838,063)	\$16,369,408	43.23%	10.50%	4.54%
2	Long Term Debt	\$ -	\$0	\$ 10,004,881	\$10,004,881	26.42%	6.40%	1.69%
3	Short Term Debt	\$ -	\$0	\$ 5,123,620	\$5,123,620	13.53%	2.89%	0.39%
4	Customer Deposits	\$ 1,553,528	\$0	\$ -	\$1,553,528	4.10%	6.31%	0.26%
5	Deferred Taxes	\$ 4,655,100	\$0	\$ -	\$4,655,100	12.29%	0%	0.00%
6	ITC Tax Credits	\$ 162,051	\$0	\$ -	\$162,051	0.43%	0%	0.00%
7	Flex Rate Liability	\$ -	\$0	\$ -	\$0	0.00%	0%	0.00%
8	TOTAL	\$ 28,578,150	\$0	\$ 9,290,438	\$37,868,588	100.00%		6.88%

May differ slightly due to rounding.

CHESAPEAKE UTILITIES CORPORATION  
 ALLOCATION OF INTERIM RATE INCREASE  
 DOCKET NO. 090125-GU

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
RATE CODE	BILLS	THERM SALES	TOTAL BASE REVENUE AT PRESENT RATES	\$ INTERIM INCREASE	% INCREASE	TOTAL BASE REVENUE AT INTERIM RATES	INCREASE DOLLAR PER THERM
FTS-A	38,438	301,927	\$517,448	\$21,095	4.08%	\$538,543	\$0.06987
FTS-B	27,060	388,206	\$509,344	\$20,765	4.08%	\$530,109	\$0.05349
FTS-1	80,969	1,599,569	\$1,919,513	\$78,254	4.08%	\$1,997,767	\$0.04892
FTS-2	19,893	1,646,481	\$1,030,398	\$42,007	4.08%	\$1,072,405	\$0.02551
FTS-3	4,370	2,101,028	\$808,904	\$32,977	4.08%	\$841,881	\$0.01570
FTS-4	2,016	2,476,730	\$776,148	\$31,642	4.08%	\$807,790	\$0.01278
FTS-5	396	1,095,461	\$291,042	\$11,865	4.08%	\$302,907	\$0.01083
FTS-6	203	1,144,724	\$259,212	\$10,567	4.08%	\$269,779	\$0.00923
FTS-7	288	4,170,853	\$599,514	\$24,441	4.08%	\$623,955	\$0.00586
FTS-8	186	4,114,271	\$560,472	\$22,849	4.08%	\$583,321	\$0.00555
FTS-9	123	5,477,993	\$601,364	\$24,516	4.08%	\$625,880	\$0.00448
FTS-10	44	2,073,522	\$238,393	\$9,719	4.08%	\$248,112	\$0.00469
FTS-11	84	13,313,366	\$1,166,362	\$47,550	4.08%	\$1,213,912	\$0.00357
FTS-12	12	2,500,743	\$204,997	\$8,357	4.08%	\$213,354	\$0.00334
FTS-13	12	15,404,941	\$160,000	\$6,523	4.08%	\$166,523	\$543.57 *
SABS	35	190,235	\$574,205	\$23,409	4.08%	\$597,614	\$0.12 **
SAS	145	0	\$25,013	\$1,020	4.08%	\$26,033	\$7.03 ***
<b>TOTAL</b>	<b>174,274</b>	<b>58,000,050</b>	<b>\$10,242,329</b>	<b>\$417,555</b>	<b>4.08%</b>	<b>\$6,361,181</b>	

\* FTS-13 rate contains no therm charge, thus increase will be applied to customer charge (\$6,523 / 12 = \$543)

\*\* Per Consumer in SABS Pool (\$23,409 / 190,235 = \$0.12)

\*\*\* Per Shipper (\$1,020 / 145 = \$7.03)

CHESAPEAKE UTILITIES CORPORATION  
PRESENT AND INTERIM RATES  
DOCKET NO. 090125-GU

RATE CODE	ANNUAL THERM USAGE	PRESENT RATES	INTERIM INCREASE	INTERIM RATES
FTS-A	<u>0-130 therms (closed rate)</u>			
	FIRM TRANSPORTATION CHARGE	\$10.00	n/a	\$10.00
	USAGE CHARGE (\$/therm)	0.44073	0.06987	0.51060
FTS-B	<u>130-250 therms (closed rate)</u>			
	FIRM TRANSPORTATION CHARGE	\$12.50	n/a	\$12.50
	USAGE CHARGE (\$/therm)	0.44073	0.05349	0.49422
FTS-1	<u>0-500 therms</u>			
	FIRM TRANSPORTATION CHARGE	\$15.00	n/a	\$15.00
	USAGE CHARGE (\$/therm)	0.44073	0.04892	0.48965
FTS-2	<u>500-3,000 therms</u>			
	FIRM TRANSPORTATION CHARGE	\$27.50	n/a	\$27.50
	USAGE CHARGE (\$/therm)	0.29356	0.02551	0.31907
FTS-3	<u>3,000-10,000 therms</u>			
	FIRM TRANSPORTATION CHARGE	\$90.00	n/a	\$90.00
	USAGE CHARGE (\$/therm)	0.19781	0.01570	0.21351
FTS-4	<u>10,000-25,000 therms</u>			
	FIRM TRANSPORTATION CHARGE	\$165.00	n/a	\$165.00
	USAGE CHARGE (\$/therm)	0.17907	0.01278	0.19185
FTS-5	<u>25,000-50,000 therms</u>			
	FIRM TRANSPORTATION CHARGE	\$275.00	n/a	\$275.00
	USAGE CHARGE (\$/therm)	0.16627	0.01083	0.17710
FTS-6	<u>50,000-100,000</u>			
	FIRM TRANSPORTATION CHARGE	\$450.00	n/a	\$450.00
	USAGE CHARGE (\$/therm)	0.14664	0.00923	0.15587
FTS-7	<u>100,000-200,000 therms</u>			
	FIRM TRANSPORTATION CHARGE	\$475.00	n/a	\$475.00
	USAGE CHARGE (\$/therm)	0.11094	0.00586	0.11680
FTS-8	<u>200,000-400,000 therms</u>			
	FIRM TRANSPORTATION CHARGE	\$750.00	n/a	\$750.00
	USAGE CHARGE (\$/therm)	0.10232	0.00555	0.10787
FTS-9	<u>400,000-700,000 therms</u>			
	FIRM TRANSPORTATION CHARGE	\$900.00	n/a	\$900.00
	USAGE CHARGE (\$/therm)	0.08957	0.00448	0.09405
FTS-10	<u>700,000-1,000,000 therms</u>			
	FIRM TRANSPORTATION CHARGE	\$1,500.00	n/a	\$1,500.00
	USAGE CHARGE (\$/therm)	0.08314	0.00469	0.08783
FTS-11	<u>1,000,000-2,500,000 therms</u>			
	FIRM TRANSPORTATION CHARGE	\$3,000.00	n/a	\$3,000.00
	USAGE CHARGE (\$/therm)	0.06868	0.00357	0.07225
FTS-12	<u>2,500,000-10,000,000 therms</u>			
	FIRM TRANSPORTATION CHARGE	\$4,000.00	n/a	\$4,000.00
	USAGE CHARGE (\$/therm)	0.06278	0.00334	0.06612
FTS-13	<u>&gt; 10,000,000 therms</u>			
	FIRM TRANSPORTATION CHARGE	\$13,333.33	\$543.57	\$13,876.90
	USAGE CHARGE (\$/therm)	0.00000	n/a	0.00000
SABS	<u>Shipper Administrative and Billing Service</u>			
	SHIPPER ADMINISTRATION CHARGE	\$100.00	n/a	\$100.00
	CONSUMER CHARGE (\$ per consumer)	\$3.00	0.12	\$3.12
SAS	<u>Shipper Administrative Service</u>			
	SHIPPER ADMINISTRATION CHARGE	\$172.50	\$7.03	\$179.53