

ORIGINAL

DOCKET NO. 000108-GU - REQUEST FOR RATE INCREASE BY FLORIDA DIVISION OF
CHESAPEAKE UTILITIES CORPORATION

WITNESS: DIRECT TESTIMONY OF DAVID J. DRAPER APPEARING ON BEHALF OF THE
STAFF OF THE FLORIDA PUBLIC SERVICE COMMISSION

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DIRECT TESTIMONY OF DAVID J. DRAPER

1
2 Q. Please state your name and business address.

3 A. My name is David J. Draper. My business address is 2540 Shumard Oak
4 Boulevard, Tallahassee, Florida 32399-0865.

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by the Florida Public Service Commission, in the Finance and
7 Tax Section of the Division of Economic Regulation, as a Regulatory Analyst III.

8 Q. Please outline your education qualifications and work experience.

9 A. I graduated from Florida State University in 1994 with Bachelor of Science
10 degrees in Accounting and Finance. After graduation, I was employed full-time
11 at the Florida Department of Revenue where I reviewed and examined various tax
12 forms for accuracy and completeness. In addition, I corresponded with taxpayers
13 and researched account information to ensure proper compliance with Florida
14 Statutes. In 1995, I accepted an auditing position with the Florida Public
15 Service Commission in which I audited various regulated Florida utilities. In
16 1997, I took my present position with the Commission working in the Finance
17 Section analyzing return on equity, cost of capital and capital structures of
18 public utilities regulated by the Commission. I am currently pursuing a Master
19 of Business Administration degree at Florida State University.

20 Q. Have you previously testified on cost of capital?

21 A. No. I have, however, prepared and offered recommendations on cost of capital
22 issues before this Commission.

23 Q. What is the purpose of your testimony in this docket?

24 A. The purpose of my testimony is to establish the appropriate cost of common
25 equity for the Florida Division of the Chesapeake Utilities Corporation

1 (Chesapeake or Company) for use in determining an appropriate allowed rate of
2 return on equity.

3 Q. What principles provided the framework for your determination of a fair rate
4 of return?

5 A. The principles established by the Supreme Court of the United States in
6 Bluefield Water and Improvement Company v. Public Service Commission of West
7 Virginia, 262 U.S. 679 (1923) and Federal Power Commission v. Hope Natural Gas
8 Company 320 U.S. 591 (1944), provided the primary legal basis for my analysis.
9 The Supreme Court held in both the Hope and Bluefield decisions that the return
10 to the equity owner should be commensurate with returns on investments in other
11 enterprises having corresponding risks. The return, moreover, should be
12 sufficient to assure confidence in the financial integrity of the enterprise so
13 as to maintain credit and attract capital.

14 Q. In addition to the principles established by the Hope and Bluefield
15 decisions, what other conditions did you consider?

16 A. Based on my understanding of the Hope and Bluefield decisions, a regulated
17 utility should be allowed to recover all costs prudently incurred in the
18 provision of utility service, including an appropriate return on common equity
19 capital. Recovery of all prudently incurred costs, including capital costs,
20 effectively balances the interests of investors and ratepayers. Investors are
21 provided with a return commensurate with returns on investments of comparable
22 risk, while ratepayers pay the true cost for the service provided.

23 Q. How does your analysis of a fair rate of return on Chesapeake's common equity
24 meet these basic legal criteria?

25 A. My analysis of an appropriate rate of return on Chesapeake's common equity

1 capital is based upon an evaluation requirement for comparable risk common equity
2 investments as determined through the direct application of capital market
3 valuation models to current financial and economic data. In my opinion, a
4 market-based equity pricing analysis satisfies the comparable returns, capital
5 attraction, and financial integrity guidelines established by the Hope and
6 Bluefield decisions for determining a fair and reasonable rate of return on
7 common equity capital.

8 Q. What have you concluded is the cost of common equity capital for Chesapeake?

9 A. Based upon the results of my analysis, I conclude the current cost of common
10 equity capital for Chesapeake is 11.3%.

11 Q. Please describe your general approach to determine the cost of common equity
12 capital.

13 A. In order to properly evaluate the returns obtained through use of a market-
14 based equity pricing analysis, I first examined general economic conditions, as
15 well as industry and company factors, which drive capital market return
16 requirements. I then applied two generally accepted market rate of return models
17 to an index of comparable companies as a means to estimate the cost of common
18 equity capital for Chesapeake.

19 Q. How do general economic conditions impact capital market return requirements?

20 A. The interrelated factors of inflation and interest rates have a significant
21 impact on investor return requirements. Increases in the general level of prices
22 impact interest rates because investors are unwilling to commit their funds
23 unless they are adequately protected against future losses in purchasing power.
24 If investors anticipate a higher rate of inflation, they will adjust their return
25 requirements upward to guard against the erosion of purchasing power.

1 Q. Please discuss the current economic environment and current expectations
2 regarding inflation and interest rates.

3 A. The annual inflation rate, as measured by the change in the Consumer Price
4 Index (CPI), was 4.1% for the first quarter of 2000 and decreased to 3.6% by the
5 second quarter. The August 1, 2000, issue of the Blue Chip Financial Forecasts
6 projects the annual inflation rate will decrease to 2.8% by the third quarter of
7 2000. The drop in CPI is widely attributed to the Federal Reserve Board's action
8 to control inflation. The Federal Reserve has taken actions that have increased
9 the Federal Funds rate six times in the last 13 months in an effort to slow the
10 economy and ward off inflation. The Federal Funds rate, currently at 6.27% for
11 the second quarter, represents the rate banks charge on overnight loans to each
12 other and depends on the amount of reserves in the banking system. Typically,
13 the Federal Reserve targets the Federal Funds rate by increasing or decreasing
14 reserves in the banking system, which, in turn, controls the supply of money.
15 This is the most common way the Federal Reserve carries out monetary policy and
16 is one tool used to control inflation. Although the national economy is still
17 growing there are signs of a slowdown and economists generally believe that
18 inflation is under control.

19 Q. What is your analysis of conditions in the natural gas local distribution
20 company (LDC) industry?

21 A. The LDC industry faces risks and opportunities. Bypass of the LDC by large
22 industrial customers and competition from alternative fuels continue to be
23 significant risks. Flexible rate design mitigates these risks by allowing the
24 LDC to retain industrial customers and compete with other fuels available to
25 industrial customers. An additional concern is the effect of the industry

1 restructuring spurred by Order 636 of the Federal Energy Regulatory Commission
2 (FERC). Convergence of electric and gas companies within the industry is
3 happening quickly. According to Standard & Poor's Industry Surveys for Natural
4 Gas Distribution, it is expected that in the next several years we will see a
5 single industry that comprises fewer, larger, and more diversified companies
6 competing to sell gas, electric, and other energy products and services to
7 wholesale and retail customers alike. As competition within the energy market
8 intensifies, the success of the new energy companies will be determined not only
9 by the size of their customer base, but by the diversity of the products and
10 services offered to their customers.

11 Q. Please discuss the effect FERC Order 636 has had on natural gas local
12 distribution companies.

13 A. For interstate pipeline companies, Order 636 removed the obligation to
14 provide a supply of gas to end of use customers and it required unbundling of
15 pipeline rates for sales, transportation, and storage of gas. The supply
16 obligation, and the risks inherent in it, now resides with the LDCs, which must
17 purchase supplies of gas from producers and reserve pipeline capacity to
18 transport the gas. However, this risk carries less weight reduced because Order
19 636 does not represent a sudden change, but is instead the culmination of gradual
20 changes by FERC. Pipelines have been unbundling rates and LDCs have been
21 purchasing gas since FERC Order 436, which began open access, was issued in 1985.
22 Also, the proceedings that resulted in Order 636 began in 1991. Order 636 became
23 effective on November 1, 1993. LDCs adequately managed gas supplies during the
24 record-setting cold winter that followed, which was a good test of how LDC's can
25 manage in the post-Order 636 environment. Still, one extreme winter does not

1 constitute a complete test. I believe there remains some uncertainty regarding
2 the effects of Order 636 on LDCs.

3 Q. What opportunities exist for LDCs?

4 A. Natural gas has a very high and growing market share in the U.S. energy
5 market. It is a clean, efficient, competitively-priced fuel in ample supply.
6 In addition, both the Clean Air Act Amendments passed in 1990 and the National
7 Energy Policy Act of 1992 encouraged the use of natural gas. Many LDCs face
8 attractive prospects for expanding their share in residential, commercial, and
9 industrial markets as well as developing markets for fleet vehicles, residential
10 and commercial gas cooling, and cogeneration.

11 Q. What potential risks does Chesapeake face?

12 A. In his testimony, Jeff Householder lists six primary business risk factors
13 facing Chesapeake today. The first risk factor concerns the Company's ability
14 to respond to the needs of its customers by providing the product and services
15 they demand. Second, economic downturns in the primary industries served by the
16 Company can have a significant impact on earnings. Third, if the Company is
17 unable to grow its earning base by feasibly expanding into new service areas,
18 rates will ultimately become non-competitive. The fourth risk is becoming too
19 dependent on non-captive, cyclical, and in some cases, declining industrial
20 accounts. The fifth risk is competition from alternate fuel providers, which
21 pose an increasing risk to the Company's market share. Lastly, over the past two
22 years, three gas pipeline companies have proposed major gas pipeline expansions
23 targeted to large customers and electric power plants. Two of these planned
24 projects extend across the Gulf of Mexico and come ashore around South Florida.

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1 More than 90% of Chesapeake's thorough-put comes from large customers.
2 Many of these customers are located near the proposed pipeline projects. The
3 greatest risk faced by Chesapeake is that these customers may bypass the Company
4 and connect directly to the pipeline. In addition, the Commission's recent
5 decision to allow all non-residential customers to choose their natural gas
6 supplier should raise competition between marketers and LDC's, in turn exerting
7 a downward pressure on natural gas prices (Docket No. 960725-GU, Order No. PSC-
8 00-0630-FOF-GU).

9 Q. What opportunities exist for Chesapeake?

10 A. Access to a new pipeline may promote economic development and allow
11 Chesapeake to increase its customer base. Chesapeake's customer base is expected
12 to show reasonable growth in the coming years and the Company is expanding its
13 pipeline into new areas to capture a growing market of industrial and residential
14 customers.

15 Q. What financial models did you use to determine the required return on common
16 equity for Chesapeake?

17 A. To determine the required return on common equity for Chesapeake, I used a
18 two-stage annually compounded discounted cash flow (DCF) model and a Capital
19 Asset Pricing Model (CAPM). I applied these models to the common stocks of the
20 companies in the Value Line LDC index. This procedure allowed me to determine
21 the general cost of equity for natural gas LDCs. Relying on an index of
22 comparable companies, instead of a single company, helps reduce forecasting
23 errors and should provide more reliable information for use in measuring the cost
24 of equity. Use of an index of companies mitigates the impact of abnormal
25 conditions that might be associated with one company. In addition, I applied the

1 two-stage annually compounded DCF model to the common stocks of an index of
2 electric companies.

3 Q. Please describe the companies included in the Value Line LDC and electric
4 indices.

5 A. The companies in the Value Line LDC Index are representative of the LDC
6 industry. Companies whose gas operating revenues represented less than 80% of
7 revenues in 1998 (according to C.A. Turner Utility Reports of Public Utilities),
8 were removed from the index. Gas operating revenues as a percentage of the total
9 revenues averaged 94% for group. Since Chesapeake had 100% of its revenues from
10 gas sales in 1998, using an index with an average of 94% ensures the index is
11 representative of Chesapeake's business risks. Being in the same industry, these
12 companies face similar risks and are subject to similar economic and regulatory
13 influences. I have listed the companies and their investment characteristics in
14 Exhibit DJD-1. The investment risk characteristics for the index have an average
15 Value Line safety ranking of 2, an average Value Line beta of 0.60, a range of
16 bond ratings from "AA-" to "BBB-", and an average equity ratio of 53.3%.

17 The companies used in the comparable electric index, all had a Value Line
18 beta of .60, paid dividends and each had projected dividends and earnings per
19 share growth rates above zero. In addition, the index had an average S&P bond
20 rating of "A." As with the natural gas index, I believe that this index of
21 electric companies faces the same risks and opportunities, and are subjected to
22 comparable economic and regulatory influences similar to Chesapeake. I have
23 listed the index of electric companies and their investment characteristics in
24 Exhibit DJD-1A.

25 Q. What is the theory behind a DCF model?

1 A. The DCF model is based on two principles. First, investors value an asset
2 based on the future cash flows they expect to receive. Second, investors value
3 a dollar today more than a dollar received in the future, meaning that they
4 assume the time value of money. Therefore, in a DCF analysis, the cost of equity
5 is the discount rate that equates the present value of expected cash flows
6 associated with a share of stock to the present market price of the stock. In
7 Exhibit DJD-2, I have provided the basic DCF equation and defined the terms. The
8 basic model has three simplifying assumptions: 1) dividends are paid annually and
9 grow at a constant rate; 2) the price of the stock is determined on the dividend
10 payment date; and 3) dividends increase once a year starting one year from the
11 dividend payment date.

12 Q. What DCF model have you used in your analysis?

13 A. I have used a two-stage annually compounded DCF model. An assumption behind
14 the basic DCF model is that dividends grow at a constant rate. However, growth
15 in dividends can vary from period to period. A two-stage DCF model, also known
16 as a non-constant growth model, allows for two periods of dividend growth: a near
17 term period during which dividends are specifically forecasted and a subsequent
18 period of sustainable growth. In Exhibit DJD-3, I have presented the equation
19 for my two-stage annually compounded DCF model and defined the terms. This model
20 is consistent with the valuation practices of institutional investors and
21 financial analysts. An additional advantage of the two-stage model is that it
22 can use the specific dividend forecast from Value Line, and then use a
23 sustainable growth rate. The two-stage model allows for more precision than the
24 basic model.

25 Q. What are the inputs for your DCF model?

1 A. I used current stock prices for the companies in the Value Line index,
2 specific dividend forecasts for the initial growth period, and a sustainable or
3 long-term growth rate. For current stock prices, I first calculated the average
4 of each company's high and low stock prices for July 2000. From these
5 computations, I then calculated an average stock price for the index, which is
6 the input to my model. I used Value Line's forecasted dividends for the years
7 2001 and 2004. I assumed a constant growth rate between these years to estimate
8 dividends for the initial growth period. I then calculated the long-term growth
9 rate using the earnings retention method, also known as the $b \times r$ approach. The
10 inputs for my earnings retention method are Value Line's expected earned return
11 on equity (r) and the expected retention rate (b) for 2004.

12 Q. Have you included an allowance for issuance costs in your DCF model?

13 A. Yes. My DCF model includes an allowance for issuance cost, calculated as 3%
14 of the stock price. An allowance for issuance cost enables the utility to
15 recover the costs incurred when issuing common stock. Issuance costs include
16 registration fees, legal fees, underwriter fees, and printing and mailing
17 expenses. Investors could not earn the required return on their investment
18 without an issuance cost adjustment. The sales price of the stock will exceed
19 the net proceeds to the company because it will incur issuance costs. A company
20 can incur these costs whether the stock is publicly traded or privately held.
21 Conceptually, this situation with common stock is similar to that of bonds and
22 preferred stock. With bonds, for example, the cost charged to ratepayers
23 reflects issuance costs and is recovered over the life of the bond. The cost to
24 the company for a specific bond issue is the interest expense plus the
25 amortization of issuance costs divided by the principal value less the

1 unamortized issuance costs. The result is that the cost to the utility is
2 greater than the return to the creditor. Unlike bonds, common stock does not
3 have a finite life. Therefore, issuance costs cannot be amortized and must be
4 recovered by an upward adjustment to the allowed return on equity. This
5 adjustment reflects the fact that, due to the issuance costs, the utility earns
6 a return on an equity balance that is less than the actual amount paid by
7 investors. Historically, utility underwriting expenses associated with issuing
8 common stock have averaged 3 percent of gross proceeds.

9 Q. What are the results of your DCF analysis?

10 A. The results of my DCF analysis show that the cost of equity for the
11 comparable natural gas index is 10.3% and 10.9% for the comparable electric
12 index. Exhibits DJD-4 and DJD-4A show the inputs and results of my analysis.

13 Q. What is the theory behind the CAPM?

14 A. The CAPM was first introduced by William Sharpe in 1964. It extended modern
15 portfolio theory to introduce the notions of systematic and specific risk. CAPM
16 divides the risk of holding risky assets into systematic and specific risk.
17 Systematic risk is the risk of holding the market portfolio. As the market moves,
18 each individual asset is more or less affected. To the extent that any asset is
19 affected by such general market moves, that asset entails systematic risk.
20 Systematic risk can be measured using beta, which is defined below.

21 Specific risk is the risk which is unique to an individual asset. It
22 represents the component of an asset's volatility which is uncorrelated with
23 general market moves. The expected excess return of an investment above the
24 risk-free rate is just the investment's beta multiplied by the expected excess
25 return on the broad market index. According to CAPM, the marketplace compensates

1 investors for taking systematic risk, but not for taking specific risk. This is
2 because specific risk can be diversified away. When an investor holds the market
3 portfolio, each individual asset in that portfolio entails specific risk, but
4 through diversification, the investor's net exposure is just the systematic risk
5 of the market portfolio. The theory underlying the CAPM is quite simple. The
6 expected return on common equity depends on the beta of that company's equity.
7 The beta is a measurement of stock price volatility relative to a broad market
8 index. If a stock moves up or down twice as much as the market, it has a beta of
9 2. If it moves one half as much as the market, its beta is 0.5. The CAPM models
10 the systemic risk in a particular asset. Systemic risk is associated with the
11 movement of a market or market segment as opposed to distinct elements of risk
12 associated with a specific security.

13 Q. Please describe your Capital Asset Pricing Model.

14 A. In Exhibit DJD-5, I have listed the equation and the components of the CAPM.
15 There are three basis components to the CAPM: 1) the expected risk-free rate of
16 return; 2) the stock's expected relevant market risk called "beta;" and 3) the
17 expected return on the stock market taken as a whole. The risk-free rate (R_f)
18 is derived from the average projected yield of the 30-year Treasury bond.
19 Treasury bonds are a recognized bench mark for risk-free rates, since there is
20 little risk of the U.S. Government defaulting on its bonds. The required market
21 return (R_m) was determined by using Value Line's database of listed companies and
22 then screening those companies to remove anomalies. In my opinion, removing
23 anomalies such as companies that don't pay dividends, having negative dividend
24 growth, negative projected earnings growth or either growth greater than twenty-
25 percent, is an accurate representation of the market return. The characteristics

1 of companies used in the index required that dividends be paid to shareholders
2 and have both projected dividend growth and projected earnings per share of less
3 than twenty-percent, but greater than zero. For each of the screened companies,
4 a basic DCF analysis was performed, then an average of all the DCF results were
5 used as the required market return. In my opinion, the average beta for the
6 Value Line LDC index is a reasonable proxy for the assumed beta for Chesapeake's
7 Florida Division.

8 Q. What is the cost of equity for the LDC index based on your CAPM analysis?

9 A. Based on my CAPM analysis, the cost of equity for the LDC index is 9.5%.
10 Exhibit DJD-5 presents the results of my CAPM analysis and definitions.

11 Q. Given the results of your DCF and CAPM analyses, what range did you determine
12 as the cost of equity?

13 A. Based on the results of my CAPM and DCF analyses, I have determined that the
14 range for the cost of equity should be from 9.5% to 10.3%.

15 Q. Is this range of return appropriate for Chesapeake?

16 A. No. While the range I calculated is an appropriate starting point,
17 Chesapeake faces greater risks than the companies in the index and should be
18 allowed a higher cost of equity.

19 Q. Why is Chesapeake's risks higher than the companies in the index?

20 A. To determine Chesapeake's specific risk, I compared the average Net Plant and
21 Net Income of the companies in the gas index to that of Chesapeake. Exhibit DJD-
22 1 shows that Chesapeake has significantly less net plant and net income than the
23 companies in the index. As such, Chesapeake is less diverse with respect to its
24 markets and may be more severely affected by economic changes. Studies suggest
25 that smaller firms are generally riskier than larger firms and have higher costs

1 of equity. Small firms experience more business failures and have a less liquid
2 market for their shares. In addition, Chesapeake is a regulated company in a
3 very competitive and diverse energy service market. Chesapeake must compete with
4 alternate fuel service providers, such as propane and fuel oil, in order to
5 maintain and expand its customer base. Chesapeake must also compete with the
6 electric companies in providing energy and services to new and existing
7 customers.

8 Q. How did you adjust the cost of equity that you calculated to estimate the
9 cost of equity for Chesapeake?

10 A. As I noted earlier, the bond ratings for the companies in the Value Line
11 comparable index of natural gas LDCs range from "AA" to "BBB" (See Exhibit DJD-
12 1). Using Standards & Poor's (S&P) system as an example, bonds in the top four
13 categories of bond ratings, "AAA", "AA", "A", and "BBB", are considered
14 investment grade and are eligible for bank investment under the regulations of
15 the Controller of the Currency. In addition, laws of various states restrict
16 investments by banks, insurance companies, pension funds and fiduciaries
17 generally to investment grade bonds. Bonds rated "BB" or lower are considered
18 speculative and may not have the ability to make timely interest and principal
19 payments. As a public utility providing an essential service, and given
20 efficient management and a sound regulatory environment (S&P considers Florida
21 a supportive regulatory environment), Chesapeake's credit should be considered
22 investment grade. I used the historic spread between the yields on "A" and "BBB"
23 public utility bonds as a proxy for the higher return required for Chesapeake.
24 The median and average of the companies in the Value Line index have a bond
25 rating of single A ("A"). Therefore, I have used a "A" rating as a

1 representative bond rating for the index. The "BBB" rating is the lowest level
2 of investment grade. By using the spread between "A" rating and a "BBB" rating,
3 a proper adjustment for Chesapeake's smaller size should be ensured.

4 Q. How did you calculate the historic spread between "A" rated and "BBB" rated
5 public utility bonds?

6 A. I subtracted the yield on "A" rated public utility bonds from the yield on
7 "BBB" rated public utility bonds as reported in Moody's Bond Survey for the last
8 120 months and averaged the results. Exhibit DJD-6 presents the data and
9 results. For June 2000, the spread between "A" and "BBB" public utility bonds
10 over the past 120 months is 37 basis points.

11 Q. What was the resulting cost of equity range for Chesapeake when adjusting for
12 the bond yield differential?

13 A. Adding the 37 basis points to my indicated range for the cost of equity
14 resulted in a range from 9.9% to 10.7%.

15 Q. Does this range appropriately take into account the risk faced by Chesapeake?

16 A. No. As I discussed earlier, the natural gas industry is under increasing
17 competitive pressures from electric utilities. According to the S&P's Industry
18 Survey, it is expected that within the next several years, we will see a single
19 energy industry that comprises fewer, larger, and more diversified companies
20 competing to sell gas, electric and other energy products and services to
21 wholesale and retail customers alike. Since the start of the new year, six major
22 mergers have occurred between electric and gas companies and eleven major mergers
23 occurred in 1999. It will become increasingly difficult for a small LDC, like
24 the Chesapeake Division, to compete with these larger energy providers in the
25 coming years.

1 | Q. How would you compensate for this risk?

2 | A. In order to compensate for the risk of increased competition, I would add a
3 | premium for risk to the range of indicated model results.

4 | Q. How would you calculate this premium for competitive risk?

5 | A. I would add the point difference between the DCF results of the electric
6 | index and DCF results of the LDC index to the range of the model results
7 | indicated. The difference between the two DCF models is 65 basis points.

8 | Q. What is the appropriate cost of equity for Chesapeake?

9 | A. After adding the premium for competitive risk, I have determined that the
10 | appropriate range for the cost of equity for the Florida Division of Chesapeake
11 | Utilities Corporation, is from 10.6% to 11.3%. In my opinion, the top of the
12 | range should be used for the cost of equity for Chesapeake. Exhibit DJD-7
13 | presents the range for Chesapeake. Determining the appropriate point estimate
14 | is a difficult but necessary decision in estimating the cost of equity and
15 | ultimately, it rests on judgment. Chesapeake has exposure to the remaining
16 | uncertainty surrounding FERC Order 636 similar to the companies in the index, but
17 | unlike those companies only one pipeline currently serves Chesapeake. As
18 | discussed earlier, three large gas pipeline companies are proposing a second
19 | pipeline to serve South Florida. There are potential benefits to Chesapeake when
20 | the pipeline is built, but I believe there are greater risks in that existing
21 | customers may bypass and connect directly to the second pipeline. With the
22 | increased consolidation of electric and gas companies, competitive pressures will
23 | increase, causing financial margins to decrease for LDCs. In addition, the
24 | Commission's recent decision to allow small businesses to choose their natural
25 | gas supplier should raise competition between marketers and LDC's, in turn

1 | exerting a downward pressure on natural gas prices. In my opinion, the top of
2 | the range for the cost of equity is reasonable and will compensate Chesapeake
3 | appropriately for the remaining uncertainty and risks that I have just discussed.
4 | Historically, the Florida Public Service Commission has allowed a range around
5 | the authorized cost of equity. Therefore, I recommend a return on common equity
6 | for Chesapeake of 11.3% for all regulatory purposes, with a range of plus or
7 | minus 100 basis points.

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Chesapeake Utilities Corporation
Index of Natural Gas Distribution

Company Name	S&P BOND RATING	1998 DATA C.A. TURNER UTILITIES REPORT % OF REV FROM GAS	Value Line Data				
			Equity Ratio	Safety Rank	Beta	Net Income (,000)	Net Plant (,000)
1 AGL RESOURCES	BBB+	100%	49.0%	2	0.60	51.8	1598.9
2 ATMOS ENERGY	A-	89%	51.0%	3	0.55	22.4	965.8
3 CTG RESOURCES	A-	94%	45.0%	2	0.50	17.2	341.2
4 CASCADE NATURAL GAS	BBB+	100%	51.0%	3	0.55	16.87	282.3
5 ENERGEN CORP.	A	81%	51.0%	2	0.80	43.7	861.1
6 LACLEDE GAS	AA-	100%	56.0%	1	0.55	27.4	519.4
7 NICOR INC.	A+	87%	70.0%	1	0.60	124.1	1735.2
8 NEW JERSEY RESOURCES	A	81%	59.5%	2	0.55	47.4	705.4
9 NORTHWEST NAT. GAS	A	100%	50.5%	2	0.60	49.9	895.9
10 PEOPLES ENERGY	A+	98%	61.0%	1	0.70	90.2	1519.8
11 PIEDMONT NATURAL GAS	A	100%	61.0%	2	0.60	64.5	1047.0
12 PROVIDENCE ENERGY	BBB+	98%	51.5%	3	0.55	8.4	218.2
13 SOUTH JERSEY INDS.	BBB+	94%	48.5%	2	0.50	23.3	533.3
14 SOUTHWEST GAS	BBB-	84%	36.5%	3	0.70	36.2	1581.1
15 WASHINGTON GAS LIGHT	AA-	100%	58.0%	1	0.60	84.1	1402.7
AVERAGE	A-	94%	53.3%	2	0.60	47.16	947.2
MEDIAN	A	98%	51.0%	2	0.60	43.70	895.9
MIN	BBB-	81%	36.5%	1	0.50	8.40	218.2
MAX	AA-	100%	70.0%	3	0.80	124.10	1735.2
CHESAPEAKE UTILITIES CORP. (FLORIDA DIV.)		100%	54.5%			1.2	19.6

SOURCE:

S&P Stock Guide: April 2000 March Stock Prices

Value Line Issue: Ed. 3 - June 23, 2000

Value Line CD, Ver. 2.0 - July 2000

Blue Chip Financial Forecasts, July 1, 2000

Chesapeake Utilities Corporation
Index of Comparable Electric Utilities

Value Line Data

UTILITY NAME	S&P BOND RATING	Value Line Data			
		Equity Ratio	Beta	Proj Dividend Growth Rate	Proj EPS Growth Rate
1 Allegheny Energy	A+	44.0%	0.60	2.00	9.50
2 DTE Energy	A-	50.0%	0.60	0.50	5.50
3 Energy East Corp.	A	57.5%	0.60	5.00	10.00
4 FirstEnergy Corp.		43.5%	0.60	3.00	7.50
5 Kansas City Power & Lt.	A	43.0%	0.60	1.00	7.50
6 LG&E Energy Corp.	A	43.5%	0.60	3.00	7.00
7 Otter Tail Power	AA-	54.0%	0.60	3.00	6.50
8 PPL Corp.	A-	30.0%	0.60	2.00	9.00
9 Reliant Energy	BBB+	47.0%	0.60	2.00	11.50
10 TXU Corp.	BBB+	30.5%	0.60	4.00	5.00
Average		44.3%	0.60	2.55	7.90
CHESAPEAKE UTILITIES CORP. (FLORIDA DIV.)		54.5%	--		

Source:

Value Line CD, Ver. 2.0 - July 2000

Basic DCF Equation

$$P_o = \frac{D_1}{(1+K)} + \frac{D_2}{(1+K)^2} + \frac{D_3}{(1+K)^3} + \dots + \frac{D_\infty}{(1+K)^\infty}$$

Where:

D_t = Dividends paid at the end of period t.

K = Investor's required rate of return.

P_o = The current price of the stock.

This can also be written as,

$$P_o = \sum_{t=1}^n \frac{D_t}{(1+k)^t} \quad \text{as "n" approaches } \infty.$$

Assuming constant growth in dividends and $g < K$, these equations reduce to,

$$K = \frac{D_1}{P_o} + g$$

where g is the constant growth rate in dividends.

TWO STAGE ANNUALLY COMPOUNDED DCF MODEL

$$P_o(1-FC) = \frac{D_1}{(1+K)} + \frac{D_2}{(1+K)^2} \dots + \frac{D_n}{(1+K)^n} + \frac{D_n(1+g)}{K-g} \frac{1}{(1+K)^n}$$

Where

P_o = The current stock price.

D₁, D₂, . . . D_n = Expected dividends each year.

FC = Flotation costs.

K = Investors required rate of return.

g = The constant growth rate after year n.

Chesapeake Utilities Corporation
 Index of Natural Gas Distribution
 Discounted Cas Flow Model

COMPANY	DIV0	DIV1	DIV2	VALUE LINE ISSUE: Ed. 3, 06/23/2000				JULY					
				DIV3	DIV4	EPS4	ROE4	GR1-4	GR4+	HI-PR	LO-PR	VER-PR	
1 AGL RESOURCES	1.08	1.08	1.10	1.13	1.15	1.75	12.50	1.0212	1.0429	18.188	16.063	17.125	
2 ATMOS ENERGY	1.14	1.18	1.23	1.29	1.35	2.40	14.50	1.0459	1.0634	20.625	17.750	19.188	
3 CTG RESOURCES	1.04	1.08	1.12	1.16	1.20	2.45	12.50	1.0357	1.0638	37.688	36.000	36.844	
4 CASCADE NATURAL GAS	0.96	0.97	0.98	0.99	1.00	1.80	14.00	1.0102	1.0622	17.063	15.813	16.438	
5 ENERGEN CORP.	0.67	0.70	0.73	0.77	0.80	2.00	11.50	1.0455	1.0690	24.500	21.000	22.750	
6 LACLEDE GAS	1.36	1.40	1.43	1.47	1.50	2.50	14.00	1.0233	1.0560	20.125	19.188	19.656	
7 NICOR INC.	1.62	1.70	1.79	1.89	2.00	4.00	18.00	1.0557	1.0900	35.500	32.125	33.813	
8 NEW JERSEY RESOURCES	1.72	1.76	1.80	1.84	1.88	3.60	15.50	1.0222	1.0741	40.688	37.625	39.156	
9 NORTHWEST NAT. GAS	1.24	1.25	1.27	1.28	1.30	2.30	11.00	1.0132	1.0478	24.000	21.625	22.813	
10 PEOPLES ENERGY	2.00	2.04	2.08	2.11	2.15	3.60	12.00	1.0177	1.0483	33.500	31.250	32.375	
11 PIEDMONT NATURAL GAS	1.44	1.50	1.55	1.61	1.67	2.80	12.50	1.0364	1.0504	29.125	26.875	28.000	
12 PROVIDENCE ENERGY	1.08	1.08	1.19	1.31	1.45	2.10	10.50	1.1032	1.0325	42.250	40.750	41.500	
13 SOUTH JERSEY INDS.	1.46	1.47	1.50	1.52	1.55	2.65	11.50	1.0178	1.0477	27.563	26.063	26.813	
14 SOUTHWEST GAS	0.82	0.82	0.85	0.89	0.92	1.70	9.00	1.0391	1.0413	18.563	16.875	17.719	
15 WASHINGTON GAS LIGHT	1.24	1.26	1.31	1.35	1.40	2.50	13.00	1.0357	1.0572	25.500	23.938	24.719	
AVERAGE	1.2580	1.2860	1.3290	1.3741	1.4213 1.5016	2.5433	12.8000	1.0349	1.0564			26.5938	
				COST OF EQUITY									
				Annual	10.28%								
25.79594													
25.79594	0.3119	0.3043	0.2968	0.2960	0.2888	0.2817	0.2748 0.2469	0.2771 0.2408	0.2703 0.2430	0.2637 0.2371	0.2572 0.2313	0.2594 0.2256	0.2531 20.7362
25.79594	1.170225	1.089758	1.0214118	0.9577703	0.9064704	20.650308							

Source:
 S&P STOCK GUIDE: August 2000 with July Stock Prices
 Value Line Ed. - 3, June 23, 2000

Chesapeake Utilities Corporation

Comparable Index of Electric Utilities

Discounted Cas Flow Model

Exhibit DJD-4A (Page 1 of 1)

COMPANY	S&P BOND RATING	DIV0	DIV1	DIV2	DIV3	DIV4	EPS4	ROE4	GR1-4	GR4+	JULY		
											HI-PR	LO-PR	AVER-PR
1 Allegheny Energy	A+	1.74	1.78	1.54	1.33	1.15	1.75	12.50	0.8645	1.0429	31.875	27.750	29.813
2 DTE Energy	A-	2.06	2.06	1.79	1.55	1.35	2.40	14.50	0.8686	1.0634	32.688	30.438	31.563
3 Energy East Corp.	A	0.88	0.92	1.01	1.10	1.20	2.45	12.50	1.0926	1.0638	20.250	17.938	19.094
4 FirstEnergy Corp.		1.50	1.50	1.31	1.14	1.00	1.80	14.00	0.8736	1.0622	25.750	23.563	24.656
5 Kansas City Power & Lt. A		1.66	1.66	1.30	1.02	0.80	2.00	11.50	0.7840	1.0690	26.125	23.563	24.844
6 LG&E Energy Corp.	A	1.29	1.33	1.38	1.44	1.50	2.50	14.00	1.0409	1.0560	24.313	23.875	24.094
7 Otter Tail Power	AA-	1.02	1.05	1.30	1.61	2.00	4.00	18.00	1.2396	1.0900	22.500	20.750	21.625
8 PPL Corp.	A-	1.06	1.18	1.38	1.61	1.88	3.60	15.50	1.1680	1.0741	27.188	21.938	24.563
9 Reliant Energy	BBB+	1.50	1.50	1.43	1.36	1.30	2.30	11.00	0.9534	1.0478	34.000	29.063	31.531
10 TXU Corp.	BBB+	2.43	2.53	2.40	2.27	2.15	3.60	12.00	0.9472	1.0483	32.563	29.813	31.188
AVERAGE	A	1.5140	1.5510	1.4836	1.4445	1.4330 1.5215	2.6400	13.5500	0.9832	1.0618			26.2969

COST OF EQUITY

25.50797

Annual **10.93%**

25.50974	0.3752	0.3655	0.3561	0.3554	0.3463	0.3373	0.3286	0.3063	0.2984	0.2907	0.2832	0.2686	0.2617
							0.2484	0.2400	0.2339	0.2278	0.2220	20.2845	0.2550

25.50797	1.4028	1.2592	1.0937	0.9675	0.8904	19.8943
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Sources:

VALUE LINE CD - JULY 2000

S&P STOCK GUIDE: AUGUST 2000 WITH JULY STOCK PRICES

C. A. TURNER UTILITY REPORT

Chesapeake Utilities Corporation
 Index of Natural Gas Distribution
 CAPITAL ASSET PRICING MODEL

Exhibit DJD-5 (Page 1 of 1)

CAPITAL ASSET PRICING MODEL

$$\begin{aligned}
 \text{CAPM} &= R_f + B * (R_m - R_f) \\
 &= 6.02\% + (.60 \times (11.89\% - 6.02\%)) \\
 &= 6.02\% + 3.52\% \\
 &= \mathbf{9.54\%}
 \end{aligned}$$

Where:

R_f = Risk-Free Rate = 6.02%

R_m = Required Market Return = 11.89%

B = Average Beta of Gas Index = 0.60

INDEX OF COMPANIES

BETA

1	AGL RESOURCES	0.60
2	ATMOS ENERGY	0.55
3	CTG RESOURCES	0.50
4	CASCADE NATURAL GAS	0.55
5	ENERGEN CORP.	0.80
6	LACLEDE GAS	0.55
7	NICOR INC.	0.60
8	NEW JERSEY RESOURCES	0.55
9	NORTHWEST NAT. GAS	0.60
10	PEOPLES ENERGY	0.70
11	PIEDMONT NATURAL GAS	0.60
12	PROVIDENCE ENERGY	0.55
13	SOUTH JERSEY INDS.	0.50
14	SOUTHWEST GAS	0.70
15	WASHINGTON GAS LIGHT	0.60

AVERAGE 0.60

SOURCE:

VALUE LINE ISSUE: Ed. 3, JUNE 23, 2000

Blue Chip Financial Forecasts, July 1, 2000

BOND YIELD DIFFERENTIALS

Public Utility Long Term Bond Yield Averages

Source: Moody's Credit Perspectives

120 Month Average -

Long-Term Corporate Bond Yield Averages - Avg. Public Utility

Exhibit DJD-6 (Page 1 of 2)

Period	0.0906		0.0906		0.0503		0.0503		0.0503		0.0933		0.0933		0.0933		0.0933		
	Aaa	SPREAD	Aa1	SPREAD	Aa2	SPREAD	Aa3	SPREAD	A1	SPREAD	A2	SPREAD	A3	SPREAD	Baa1	SPREAD	Baa2	SPREAD	Baa3
JUNE	7.96	0.07	8.03	0.07	8.10	0.09	8.19	0.09	8.27	0.09	8.36	0.04	8.40	0.04	8.43	0.04	8.47	0.04	8.51
MAY	8.22	0.11	8.33	0.11	8.44	0.09	8.53	0.09	8.61	0.09	8.70	0.05	8.75	0.05	8.81	0.05	8.86	0.05	8.91
APR	7.95	0.11	8.08	0.11	8.17	0.06	8.23	0.06	8.29	0.06	8.35	0.02	8.37	0.02	8.38	0.02	8.40	0.02	8.42
MAR	7.87	0.06	7.93	0.06	7.99	0.10	8.09	0.10	8.18	0.10	8.28	0.04	8.32	0.04	8.36	0.04	8.40	0.04	8.44
FEB	7.82	0.09	7.91	0.09	7.99	0.09	8.08	0.09	8.16	0.09	8.25	0.03	8.28	0.03	8.30	0.03	8.33	0.03	8.36
JAN 2000	7.95	0.11	8.06	0.11	8.17	0.06	8.23	0.06	8.29	0.06	8.35	0.02	8.37	0.02	8.38	0.02	8.40	0.02	8.42
DEC	7.74	0.13	7.87	0.13	8.00	0.05	8.05	0.05	8.09	0.05	8.14	0.05	8.19	0.05	8.23	0.05	8.28	0.05	8.33
NOV	7.56	0.13	7.69	0.13	7.82	0.04	7.86	0.04	7.90	0.04	7.94	0.06	8.00	0.06	8.06	0.06	8.12	0.06	8.18
OCT	7.73	0.11	7.85	0.11	7.96	0.03	7.99	0.03	8.03	0.03	8.06	0.09	8.15	0.09	8.23	0.09	8.32	0.09	8.41
SEP	7.55	0.14	7.69	0.14	7.82	0.04	7.86	0.04	7.89	0.04	7.93	0.09	8.02	0.09	8.10	0.09	8.19	0.09	8.28
AUG	7.54	0.14	7.68	0.14	7.82	0.03	7.85	0.03	7.88	0.03	7.91	0.08	7.99	0.08	8.08	0.08	8.16	0.08	8.24
JULY	7.34	0.14	7.48	0.14	7.62	0.03	7.65	0.03	7.68	0.03	7.71	0.09	7.80	0.09	7.88	0.09	7.97	0.09	8.06
JUNE	7.37	0.15	7.52	0.15	7.67	0.02	7.69	0.02	7.72	0.02	7.74	0.10	7.84	0.10	7.93	0.10	8.03	0.10	8.13
MAY	7.09	0.15	7.24	0.15	7.38	0.03	7.41	0.03	7.44	0.03	7.47	0.09	7.56	0.09	7.65	0.09	7.74	0.09	7.83
APR	6.80	0.16	6.96	0.16	7.11	0.04	7.15	0.04	7.18	0.04	7.22	0.10	7.32	0.10	7.41	0.10	7.51	0.10	7.61
MAR	6.78	0.17	6.95	0.17	7.11	0.05	7.16	0.05	7.21	0.05	7.26	0.10	7.36	0.10	7.45	0.10	7.55	0.10	7.65
FEB	6.56	0.19	6.75	0.19	6.94	0.05	6.99	0.05	7.04	0.05	7.09	0.11	7.20	0.11	7.30	0.11	7.41	0.11	7.52
JAN 1999	6.41	0.21	6.62	0.21	6.82	0.05	6.87	0.05	6.92	0.05	6.97	0.11	7.08	0.11	7.19	0.11	7.30	0.11	7.41
DEC	6.43	0.18	6.61	0.18	6.78	0.04	6.82	0.04	6.87	0.04	6.91	0.11	7.02	0.11	7.13	0.11	7.24	0.11	7.35
NOV	6.59	0.15	6.74	0.15	6.89	0.05	6.94	0.05	6.98	0.05	7.03	0.09	7.12	0.09	7.22	0.09	7.31	0.09	7.40
OCT	6.64	0.08	6.72	0.08	6.80	0.05	6.85	0.05	6.91	0.05	6.96	0.06	7.02	0.06	7.07	0.06	7.13	0.06	7.19
SEP	6.66	0.06	6.72	0.06	6.78	0.05	6.83	0.05	6.88	0.05	6.93	0.07	7.00	0.07	7.06	0.07	7.13	0.07	7.20
AUG	6.75	0.06	6.81	0.06	6.87	0.04	6.91	0.04	6.96	0.04	7.00	0.07	7.07	0.07	7.13	0.07	7.20	0.07	7.27
JULY	6.80	0.06	6.86	0.06	6.91	0.04	6.95	0.04	6.99	0.04	7.03	0.07	7.10	0.07	7.16	0.07	7.23	0.07	7.30
JUNE	6.80	0.06	6.86	0.06	6.91	0.04	6.95	0.04	6.99	0.04	7.03	0.06	7.09	0.06	7.15	0.06	7.21	0.06	7.27
MAY	6.94	0.04	6.98	0.04	7.02	0.05	7.07	0.05	7.11	0.05	7.16	0.06	7.22	0.06	7.28	0.06	7.34	0.06	7.40
APR	6.94	0.04	6.98	0.04	7.02	0.05	7.07	0.05	7.11	0.05	7.16	0.07	7.23	0.07	7.30	0.07	7.37	0.07	7.44
MAR	6.96	0.04	7.00	0.04	7.04	0.04	7.08	0.04	7.12	0.04	7.16	0.07	7.23	0.07	7.30	0.07	7.37	0.07	7.44
FEB	6.91	0.04	6.95	0.04	6.99	0.04	7.03	0.04	7.08	0.04	7.12	0.08	7.20	0.08	7.28	0.08	7.36	0.08	7.44
JAN 1998	6.85	0.05	6.90	0.05	6.94	0.04	6.98	0.04	7.01	0.04	7.05	0.08	7.13	0.08	7.20	0.08	7.28	0.08	7.36
DEC	6.99	0.04	7.03	0.04	7.07	0.03	7.10	0.03	7.13	0.03	7.16	0.08	7.24	0.08	7.33	0.08	7.41	0.08	7.49
NOV	7.09	0.03	7.12	0.03	7.15	0.03	7.18	0.03	7.22	0.03	7.25	0.08	7.33	0.08	7.41	0.08	7.49	0.08	7.57
OCT	7.18	0.05	7.23	0.05	7.28	0.02	7.30	0.02	7.33	0.02	7.35	0.11	7.46	0.11	7.58	0.11	7.67	0.11	7.78
SEP	7.45	0.04	7.50	0.04	7.54	0.01	7.55	0.01	7.57	0.01	7.58	0.09	7.67	0.09	7.75	0.09	7.84	0.09	7.93
AUG	7.39	0.04	7.43	0.04	7.46	0.02	7.48	0.02	7.49	0.02	7.51	0.14	7.65	0.14	7.79	0.14	7.93	0.14	8.07
JUL	7.29	0.07	7.36	0.07	7.43	0.02	7.45	0.02	7.46	0.02	7.48	0.13	7.61	0.13	7.74	0.13	7.87	0.13	8.00
JUN	7.55	0.06	7.62	0.06	7.68	0.01	7.69	0.01	7.71	0.01	7.72	0.13	7.85	0.13	7.99	0.13	8.12	0.13	8.25
MAY	7.72	0.06	7.79	0.06	7.85	0.01	7.86	0.01	7.88	0.01	7.89	0.13	8.02	0.13	8.15	0.13	8.28	0.13	8.41
APR	7.87	0.06	7.94	0.06	8.00	0.01	8.01	0.01	8.02	0.01	8.03	0.13	8.16	0.13	8.29	0.13	8.42	0.13	8.55
MAR	7.70	0.07	7.77	0.07	7.84	0.01	7.85	0.01	7.86	0.01	7.87	0.13	8.00	0.13	8.13	0.13	8.26	0.13	8.39
FEB	7.47	0.08	7.54	0.08	7.60	0.01	7.61	0.01	7.63	0.01	7.64	0.13	7.77	0.13	7.89	0.13	8.02	0.13	8.15
JAN 1997	7.53	0.07	7.61	0.07	7.68	0.03	7.71	0.03	7.74	0.03	7.77	0.14	7.91	0.14	8.04	0.14	8.18	0.14	8.32
DEC	7.33	0.06	7.39	0.06	7.44	0.05	7.49	0.05	7.54	0.05	7.59	0.13	7.72	0.13	7.85	0.13	7.98	0.13	8.11
NOV	7.21	0.06	7.27	0.06	7.32	0.06	7.38	0.06	7.43	0.06	7.49	0.13	7.62	0.13	7.74	0.13	7.87	0.13	8.00
OCT	7.50	0.05	7.55	0.05	7.60	0.06	7.66	0.06	7.71	0.06	7.77	0.13	7.90	0.13	8.02	0.13	8.15	0.13	8.28
SEPT	7.76	0.04	7.80	0.04	7.84	0.06	7.90	0.06	7.95	0.06	8.01	0.13	8.14	0.13	8.28	0.13	8.41	0.13	8.54
AUG	7.59	0.04	7.63	0.04	7.66	0.06	7.72	0.06	7.78	0.06	7.84	0.14	7.98	0.14	8.11	0.14	8.25	0.14	8.39
JULY	7.78	0.02	7.81	0.02	7.83	0.06	7.89	0.06	7.96	0.06	8.02	0.14	8.16	0.14	8.30	0.14	8.44	0.14	8.58
JUNE	7.83	0.02	7.85	0.02	7.87	0.06	7.93	0.06	8.00	0.06	8.06	0.15	8.21	0.15	8.36	0.15	8.51	0.15	8.66
MAY	7.73	0.03	7.78	0.03	7.79	0.06	7.85	0.06	7.92	0.06	7.98	0.16	8.14	0.16	8.29	0.16	8.45	0.16	8.61
APR	7.60	0.05	7.65	0.05	7.70	0.06	7.76	0.06	7.83	0.06	7.89	0.14	8.03	0.14	8.18	0.14	8.32	0.14	8.46
MAR	7.45	0.05	7.50	0.05	7.55	0.06	7.61	0.06	7.67	0.06	7.73	0.14	7.87	0.14	8.01	0.14	8.15	0.14	8.29
FEB	7.11	0.04	7.16	0.04	7.20	0.06	7.26	0.06	7.31	0.06	7.37	0.14	7.51	0.14	7.64	0.14	7.78	0.14	7.92
JAN 1996	6.92	0.05	6.97	0.05	7.02	0.07	7.09	0.07	7.15	0.07	7.22	0.14	7.36	0.14	7.50	0.14	7.64	0.14	7.78
DEC	6.94	0.04	6.99	0.04	7.03	0.07	7.10	0.07	7.16	0.07	7.23	0.13	7.36	0.13	7.50	0.13	7.63	0.13	7.76
NOV	7.13	0.04	7.18	0.04	7.22	0.07	7.29	0.07	7.36	0.07	7.43	0.13	7.56	0.13	7.68	0.13	7.81	0.13	7.94
OCT	7.23	0.03	7.27	0.03	7.30	0.05	7.35	0.05	7.41	0.05	7.46	0.12	7.58	0.12	7.70	0.12	7.82	0.12	7.94
SEPT	7.42	0.03	7.45	0.03	7.48	0.05	7.53	0.05	7.57	0.05	7.62	0.12	7.74	0.12	7.86	0.12	7.98	0.12	8.10
AUG	7.66	0.02	7.69	0.02	7.71	0.04	7.75	0.04	7.79	0.04	7.83	0.14	7.97	0.14	8.10	0.14	8.24	0.14	8.38
JULY	7.51	0.04	7.56	0.04	7.60	0.03	7.63	0.03	7.67	0.03	7.70	0.14	7.84	0.14	7.97	0.14	8.11	0.14	8.25
JUNE	7.39	0.05	7.44	0.05	7.49	0.04	7.53	0.04	7.56	0.04	7.60	0.14	7.74	0.14	7.87	0.14	8.01	0.14	8.15
MAY	7.71	0.04	7.76	0.04	7.80	0.04	7.84	0.04	7.87	0.04	7.91	0.13	8.04	0.13	8.17	0.13	8.30	0.13	8.43
APR	8.08	0.04	8.13	0.04	8.17	0.03	8.20	0.03	8.24	0.03	8.27	0.13	8.40	0.13	8.54	0.13	8.67	0.13	8.80
MAR	8.18	0.05	8.24	0.05	8.29	0.03	8.32	0.03	8.34	0.03	8.37	0.13	8.50	0.13	8.63	0.13	8.76	0.13	8.89
FEB	8.33	0.06	8.39	0.06	8.45	0.02	8.47	0.02	8.50	0.02	8.52	0.14	8.66	0.14	8.79	0.14	8.93	0.14	9.07
JAN 1995																			

BOND YIELD DIFFERENTIALS

Public Utility Long Term Bond Yield Averages

Source: Moody's Credit Perspectives

120 Month Average -

Long-Term Corporate Bond Yield Averages - Avg. Public Utility																		Exhibit DJD-6 (Page 2 of 2)		
Period	0.0906		0.0906		0.0503		0.0503		0.0503		0.0933		0.0933		0.0933		0.0933			
	Aaa	SPREAD	Aa1	SPREAD	Aa2	SPREAD	Aa3	SPREAD	A1	SPREAD	A2	SPREAD	A3	SPREAD	Baa1	SPREAD	Baa2	SPREAD	Baa3	
DEC	8.55	0.07	8.82	0.07	8.89	0.02	8.71	0.02	8.74	0.02	8.76	0.13	8.89	0.13	9.03	0.13	9.16	0.13	9.29	
NOV	8.77	0.07	8.84	0.07	8.90	0.03	8.93	0.03	8.95	0.03	8.98	0.12	9.10	0.12	9.23	0.12	9.35	0.12	9.47	
OCT	8.65	0.06	8.72	0.06	8.78	0.03	8.81	0.03	8.83	0.03	8.86	0.13	8.99	0.13	9.11	0.13	9.24	0.13	9.37	
SEP	8.41	0.08	8.49	0.08	8.56	0.03	8.59	0.03	8.61	0.03	8.64	0.11	8.75	0.11	8.87	0.11	8.98	0.11	9.09	
AUG	8.15	0.09	8.24	0.09	8.32	0.03	8.35	0.03	8.38	0.03	8.41	0.11	8.52	0.11	8.63	0.11	8.74	0.11	8.85	
JUL	8.21	0.09	8.30	0.09	8.38	0.03	8.41	0.03	8.44	0.03	8.47	0.11	8.58	0.11	8.69	0.11	8.80	0.11	8.91	
JUN	8.07	0.07	8.14	0.07	8.21	0.03	8.24	0.03	8.28	0.03	8.31	0.11	8.42	0.11	8.53	0.11	8.64	0.11	8.75	
MAY	8.11	0.07	8.18	0.07	8.24	0.03	8.27	0.03	8.30	0.03	8.33	0.09	8.42	0.09	8.52	0.09	8.61	0.09	8.70	
APR	8.00	0.06	8.06	0.06	8.12	0.03	8.15	0.03	8.19	0.03	8.22	0.08	8.30	0.08	8.39	0.08	8.47	0.08	8.55	
MAR	7.80	0.07	7.87	0.07	7.94	0.04	7.98	0.04	8.01	0.04	8.04	0.09	8.12	0.09	8.21	0.09	8.29	0.09	8.37	
FEB	7.19	0.07	7.27	0.07	7.34	0.04	7.38	0.04	7.43	0.04	7.47	0.10	7.57	0.10	7.66	0.10	7.76	0.10	7.86	
JAN 1994	7.05	0.06	7.12	0.06	7.18	0.05	7.23	0.05	7.28	0.05	7.33	0.11	7.44	0.11	7.55	0.11	7.66	0.11	7.77	
DEC	7.06	0.06	7.12	0.06	7.18	0.05	7.23	0.05	7.29	0.05	7.34	0.13	7.47	0.13	7.60	0.13	7.73	0.13	7.86	
NOV	7.06	0.06	7.12	0.06	7.17	0.04	7.21	0.04	7.26	0.04	7.30	0.13	7.43	0.13	7.56	0.13	7.69	0.13	7.82	
OCT	6.75	0.07	6.82	0.07	6.89	0.05	6.94	0.05	6.98	0.05	7.03	0.08	7.11	0.08	7.19	0.08	7.27	0.08	7.35	
SEP	6.76	0.06	6.83	0.06	6.89	0.05	6.94	0.05	6.99	0.05	7.04	0.10	7.14	0.10	7.25	0.10	7.35	0.10	7.45	
AUG	6.94	0.06	7.01	0.06	7.07	0.06	7.13	0.06	7.19	0.06	7.25	0.11	7.36	0.11	7.48	0.11	7.59	0.11	7.70	
JUL	7.25	0.06	7.32	0.06	7.38	0.05	7.43	0.05	7.49	0.05	7.54	0.13	7.67	0.13	7.80	0.13	7.93	0.13	8.06	
JUN	7.37	0.09	7.46	0.09	7.54	0.07	7.61	0.07	7.68	0.07	7.75	0.10	7.85	0.10	7.95	0.10	8.05	0.10	8.15	
MAY	7.44	0.10	7.54	0.10	7.64	0.07	7.71	0.07	7.79	0.07	7.86	0.11	7.97	0.11	8.07	0.11	8.18	0.11	8.29	
APR	7.50	0.07	7.57	0.07	7.64	0.06	7.70	0.06	7.75	0.06	7.81	0.10	7.91	0.10	8.01	0.10	8.11	0.10	8.21	
MAR	7.64	0.06	7.70	0.06	7.76	0.05	7.81	0.05	7.85	0.05	7.90	0.07	7.97	0.07	8.03	0.07	8.10	0.07	8.17	
FEB	7.75	0.09	7.84	0.09	7.92	0.04	7.96	0.04	8.00	0.04	8.04	0.09	8.13	0.09	8.22	0.09	8.31	0.09	8.40	
JAN 1993	7.94	0.10	8.04	0.10	8.14	0.04	8.18	0.04	8.23	0.04	8.27	0.10	8.37	0.10	8.47	0.10	8.57	0.10	8.67	
DEC	8.01	0.16	8.17	0.16	8.32	0.04	8.36	0.04	8.39	0.04	8.43	0.09	8.52	0.09	8.60	0.09	8.69	0.09	8.78	
NOV	8.11	0.20	8.31	0.20	8.51	0.04	8.55	0.04	8.59	0.04	8.63	0.08	8.71	0.08	8.78	0.08	8.86	0.08	8.94	
OCT	8.06	0.18	8.24	0.18	8.42	0.04	8.46	0.04	8.50	0.04	8.54	0.07	8.61	0.07	8.69	0.07	8.76	0.07	8.83	
SEP	8.04	0.12	8.16	0.12	8.28	0.04	8.32	0.04	8.36	0.04	8.40	0.05	8.45	0.05	8.49	0.05	8.54	0.05	8.59	
AUG	8.04	0.13	8.17	0.13	8.30	0.05	8.35	0.05	8.39	0.05	8.44	0.05	8.49	0.05	8.53	0.05	8.58	0.05	8.63	
JUL	8.12	0.17	8.29	0.17	8.45	0.04	8.49	0.04	8.53	0.04	8.57	0.04	8.61	0.04	8.65	0.04	8.69	0.04	8.73	
JUN	8.26	0.19	8.45	0.19	8.63	0.05	8.68	0.05	8.73	0.05	8.78	0.04	8.82	0.04	8.86	0.04	8.90	0.04	8.94	
MAY	8.32	0.18	8.51	0.18	8.69	0.06	8.75	0.06	8.81	0.06	8.87	0.05	8.92	0.05	8.96	0.05	9.01	0.05	9.06	
APR	8.38	0.20	8.56	0.20	8.76	0.06	8.82	0.06	8.87	0.06	8.93	0.06	8.99	0.06	9.05	0.06	9.11	0.06	9.17	
MAR	8.39	0.22	8.61	0.22	8.82	0.05	8.87	0.05	8.92	0.05	8.97	0.06	9.03	0.06	9.10	0.06	9.16	0.06	9.22	
FEB	8.30	0.23	8.53	0.23	8.76	0.06	8.82	0.06	8.87	0.06	8.93	0.05	8.98	0.05	9.04	0.05	9.09	0.05	9.14	
JAN 1992	8.22	0.21	8.43	0.21	8.63	0.07	8.70	0.07	8.77	0.07	8.84	0.05	8.89	0.05	8.93	0.05	8.98	0.05	9.03	
DEC	8.38	0.17	8.55	0.17	8.71	0.06	8.77	0.06	8.82	0.06	8.88	0.06	8.94	0.06	9.01	0.06	9.07	0.06	9.13	
NOV	8.52	0.17	8.70	0.17	8.87	0.06	8.93	0.06	8.99	0.06	9.05	0.08	9.13	0.08	9.20	0.08	9.28	0.08	9.38	
OCT	8.57	0.17	8.75	0.17	8.92	0.07	8.99	0.07	9.05	0.07	9.12	0.07	9.19	0.07	9.25	0.07	9.32	0.07	9.39	
SEP	8.65	0.15	8.80	0.15	8.95	0.07	9.02	0.07	9.09	0.07	9.16	0.06	9.22	0.06	9.28	0.06	9.34	0.06	9.40	
AUG	8.81	0.13	8.94	0.13	9.06	0.08	9.14	0.08	9.21	0.08	9.29	0.06	9.35	0.06	9.41	0.06	9.47	0.06	9.53	
JUL	9.10	0.08	9.18	0.08	9.28	0.10	9.36	0.10	9.45	0.10	9.55	0.05	9.60	0.05	9.64	0.05	9.69	0.05	9.74	
JUN	9.10	0.09	9.19	0.09	9.28	0.10	9.38	0.10	9.49	0.10	9.59	0.07	9.66	0.07	9.72	0.07	9.79	0.07	9.86	
MAY	8.93	0.12	9.05	0.12	9.16	0.09	9.25	0.09	9.35	0.09	9.44	0.07	9.51	0.07	9.57	0.07	9.64	0.07	9.71	
APR	8.95	0.10	9.05	0.10	9.14	0.11	9.25	0.11	9.35	0.11	9.46	0.06	9.52	0.06	9.58	0.06	9.64	0.06	9.70	
MAR	9.04	0.10	9.14	0.10	9.23	0.11	9.34	0.11	9.44	0.11	9.55	0.06	9.61	0.06	9.68	0.06	9.74	0.06	9.80	
FEB	8.92	0.12	9.04	0.12	9.16	0.10	9.26	0.10	9.37	0.10	9.47	0.07	9.54	0.07	9.61	0.07	9.68	0.07	9.75	
JAN 1991	9.17	0.11	9.28	0.11	9.39	0.11	9.50	0.11	9.60	0.11	9.71	0.08	9.79	0.08	9.88	0.08	9.96	0.08	10.04	
DEC	9.18	0.12	9.30	0.12	9.42	0.10	9.52	0.10	9.63	0.10	9.73	0.08	9.81	0.08	9.88	0.08	9.96	0.08	10.04	
NOV	9.43	0.08	9.51	0.08	9.59	0.10	9.69	0.10	9.80	0.10	9.90	0.07	9.97	0.07	10.05	0.07	10.12	0.07	10.19	
OCT	9.68	0.05	9.72	0.05	9.77	0.09	9.86	0.09	9.96	0.09	10.05	0.08	10.13	0.08	10.20	0.08	10.28	0.08	10.36	
SEP	9.73	0.07	9.80	0.07	9.87	0.08	9.95	0.08	10.04	0.08	10.12	0.07	10.19	0.07	10.25	0.07	10.32	0.07	10.39	
AUG	9.54	0.12	9.66	0.12	9.78	0.05	9.83	0.05	9.87	0.05	9.92	0.07	9.99	0.07	10.05	0.07	10.12	0.07	10.19	
JUL	9.36	0.13	9.49	0.13	9.61	0.05	9.66	0.05	9.70	0.05	9.75	0.06	9.81	0.06	9.86	0.06	9.92	0.06	9.98	

RANGE FOR CHESAPEAKE GAS

Natural Gas Index:

Two-Stage DCF Results	10.3%
CAPM Results	9.5%

Electric Utility Index:

Two-Stage DCF Results	10.9%
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Bond-Yield Adjustment: 0.37%

Risk Premium Adjustment 0.65%

Suggested Range: 10.6% to 11.3%

Suggested ROE Mid-Point 11.3%

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request for rate increase
by Florida Division of
Chesapeake Utilities
Corporation.


DOCKET NO. 000108-GU
FILED:

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Direct Testimony of David E. Draper has been filed in the above referenced docket and a true and correct copy has been furnished by U. S. Mail this 28th day of August, 2000, to the following:

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