



# Public Service Commission

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## -M-E-M-O-R-A-N-D-U-M-

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COMMISSION CLERK

**DATE:** JULY 11, 2002

**TO:** DIRECTOR, DIVISION OF THE COMMISSION CLERK  
ADMINISTRATIVE SERVICES (BAYÓ)

**FROM:** DIVISION OF ECONOMIC REGULATION (D. DRAPER) *JD DM T*  
OFFICE OF THE GENERAL COUNSEL (A. VINING) *AEV next*

**RE:** DOCKET NO. 011345-GU - APPLICATION FOR AUTHORIZATION TO  
ISSUE COMMON STOCK, PREFERRED STOCK AND SECURED AND/OR  
UNSECURED DEBT AND TO EXCEED LIMITATION PLACED ON SHORT-  
TERM BORROWINGS IN 2002, BY FLORIDA DIVISION OF CHESAPEAKE  
UTILITIES CORPORATION.

**AGENDA:** 07/23/02 - REGULAR AGENDA - INTERESTED PERSONS MAY  
PARTICIPATE

**CRITICAL DATES:** NONE

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\011345.RCM

### CASE BACKGROUND

On October 8, 2001, Chesapeake Utilities Corporation (CUC or Company) filed its application for authority to issue common stock, preferred stock, secured and/or unsecured debt, and to exceed limitation placed on short-term borrowings in 2002. By Commission Order No. PSC-01-2274-FOF-GU, issued November 19, 2001, and Amendatory Order No. PSC-01-2274A-FOF-GU, issued December 5, 2001, in this docket, the Commission granted CUC's application and authorized the Company to issue equity and debt securities, and to exceed limitation placed on short-term borrowings in 2002. The

On June 20, 2002, CUC filed an application for modification of authority to issue secured and/or unsecured debt during the twelve months ended December 31, 2002. Notice that the Commission will take final action on the Company's application was published on

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PSC-COMMISSION CLERK

July 5, 2002, in the Florida Administrative Weekly, pursuant to Section 366.04(1), Florida Statutes. Commission has jurisdiction pursuant to Sections 366.04, 366.05, and 366.06, Florida Statutes.

### DISCUSSION OF ISSUES

**ISSUE 1:** Should the Commission grant Chesapeake Utilities application to modify Order No. PSC-01-2274-FOF-GU, issued November 19, 2001, in order to allow the Company to enter into interest rate swaps on its authorized long-term debt?

**RECOMMENDATION:** Yes. The Commission should allow the modification to Order No. PSC-01-2274-FOF-GU, in order to allow the Company to enter into interest rate swaps on its authorized long-term debt.  
(D. DRAPER)

**STAFF ANALYSIS:** In its petition, the Company is seeking a modification in its authority to issue secured and/or unsecured debt during the twelve months ended December 31, 2002. This requested modification does not change the amounts or types of security instruments authorized by this Commission in Order No. PSC-01-2274-FOF-GU, but only the type of financial agreement entered into between the Company and financial institutions. The Company requests authorization to enter into interest rate swaps on its authorized long-term debt. An interest rate swap is an agreement between two parties to exchange a series of interest payment cash flows, for a certain period of time, based on a certain notional principal amount. Typically, in an interest rate swap, the principal amount is not exchanged. Only the net interest payments are exchanged. Interest rate swaps can be used to convert a fixed interest payment obligation into a variable interest payment obligation and vice versa.

Interest rate swaps can be a prudent financial action and is a commonly accepted business practice. Therefore, staff recommends that the Commission grant CUC's application request to modify Commission Order No. PSC-01-2274-FOF-GU, and allow the Company to enter into interest rate swaps on its authorized long-term debt with financial institutions.

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**ISSUE 2:** Should this docket be closed?

**RECOMMENDATION:** No. For monitoring purposes, this docket must remain open until April 15, 2003, to allow the Company time to file the required Consummation Report. (VINING)