BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Request for rate increase by Florida Division of Chesapeake Utilities Corporation.	DOCKET NO. 000108-GU ORDER NO. PSC-00-1880-PHO-GU ISSUED: October 16, 2000

Pursuant to Notice and in accordance with Rule 28-106.209, Florida Administrative Code, a Prehearing Conference was held on September 28, 2000, in Tallahassee, Florida, before Commissioner E. Leon Jacobs, Jr., as Prehearing Officer.

APPEARANCES:

WAYNE SCHIEFELBEIN, ESQUIRE, Post Office Box 15856, Tallahassee, Florida 32317-5856
On behalf of Florida Division of Chesapeake Utilities Corporation.

WM. COCHRAN KEATING IV, ESQUIRE, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850
On behalf of the Commission Staff ("Staff").

PREHEARING ORDER

I. CONDUCT OF PROCEEDINGS

Pursuant to Rule 28-106.211, Florida Administrative Code, this Order is issued to prevent delay and to promote the just, speedy, and inexpensive determination of all aspects of this case.

II. CASE BACKGROUND

Pursuant to Sections 366.06 and 366.071, Florida Statutes, the Florida Division of Chesapeake Utilities Company ("Chesapeake" or "CUC" or "Company") filed on May 15, 2000, a Petition for Rate Increase. In its Petition, Chesapeake requested that the Petition be scheduled for a formal hearing, without recourse to proposed agency action procedures. Accordingly, the Petition is scheduled for an administrative hearing on October 16, 2000. To date, no person has intervened in this docket.

Staff and the Company have met on several occasions since the Prehearing Conference. As a result of these discussions, Chesapeake has agreed with Staff's position concerning many of the Issues. The Issues that remain contested are:

Issue 3 (Customer Growth and Therm Sales),
Issue 28 (Appropriate Return on Common Equity),
Issue 42 (Rate Case Expense), and
Issue 70 (Billing Determinants)

Fallout Issues:

Issue 2, Issue 12, Issue 13, Issue 26, Issue 27, Issue 35, Issue 39, Issue 56, Issue 60, Issue 61, Issue 62, Issue 63, Issue 64, Issue 67, Issue 68.

III. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

A. Any information provided pursuant to a discovery request for which proprietary confidential business information status is requested shall be treated by the Commission and the parties as confidential. The information shall be exempt from Section 119.07(1), Florida Statutes, pending a formal ruling on such request by the Commission, or upon the return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been used in the proceeding, it shall be returned expeditiously to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of the proceeding, it shall be returned to the person providing the information within the time periods set forth in Section 366.093, Florida Statutes.

B. It is the policy of the Florida Public Service Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 366.093, Florida Statutes, to protect proprietary confidential business information from disclosure outside the proceeding.

1. Any party intending to utilize confidential documents at hearing for which no ruling has been made, must be prepared to present their justifications at hearing, so that a ruling can be made at hearing.

2. In the event it becomes necessary to use confidential information during the hearing, the following procedures will be observed:

a) Any party wishing to use any proprietary confidential business information, as that term is defined in Section 366.093, Florida Statutes, shall notify the Prehearing Officer and all parties of record by the time of the Prehearing Conference, or if not known at that time, no later than seven (7) days prior to the beginning of the hearing. The notice shall include a procedure to assure that the confidential nature of the information is preserved as required by statute.

b) Failure of any party to comply with 1) above shall be grounds to deny the party the opportunity to present evidence which is proprietary confidential business information.

c) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the Court Reporter, in envelopes clearly marked with the nature of the contents. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.

d) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise the confidential information. Therefore, confidential information should be presented by written exhibit when reasonably possible to do so.

e) At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the Court Reporter shall be retained in the Division of Records and Reporting's confidential files.

IV. POST-HEARING PROCEDURES

Each party shall file a post-hearing statement of issues and positions. A summary of each position of no more than 50 words, set off with asterisks, shall be included in that statement. If a party's position has not changed since the issuance of the prehearing order, the post-hearing statement may simply restate the prehearing position; however, if the prehearing position is longer than 50 words, it must be reduced to no more than 50 words. If a party fails to file a post-hearing statement, that party shall have waived all issues and may be dismissed from the proceeding.

Pursuant to Rule 28-106.215, Florida Administrative Code, a party's proposed findings of fact and conclusions of law, if any, statement of issues and positions, and brief, shall together total no more than 60 pages, and shall be filed at the same time.

V. PREFILED TESTIMONY AND EXHIBITS; WITNESSES

Testimony of all witnesses to be sponsored by the parties and Staff has been prefiled. All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. After all parties and Staff have had the opportunity to object and cross-examine, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer.

The Commission frequently administers the testimonial oath to more than one witness at a time. Therefore, when a witness takes the stand to testify, the attorney calling the witness is directed to ask the witness to affirm whether he or she has been sworn. The testimony and associated exhibits of each witness whose name is preceded by an asterisk has been stipulated and will be inserted into the record, and the witness excused from appearing.

VI. ORDER OF WITNESSES

Witness	Proffered By	Issues #
Direct		
Thomas A. Geoffroy	CUC	1, 2, 6, 28, 42, 47, 58, 62, 65, 69, 71-86
James A. Williams	CUC	4, 5, 7-27, 29-41, 43-46, 48-57, 59-64, 66-69
Jeff Householder	CUC	3, 65, 70-73, 79-80, 82, 84, 85
Paul R. Moul	CUC	28
*William L. Pence	CUC	58
*Hillary Y. Sweeney	Staff	
David J. Draper	Staff	28
Rebuttal		
Paul R. Moul	CUC	28

VII. BASIC POSITIONS

CUC: CUC's basic position is that it achieved an overall rate of return of 5.70 percent during the historic base year ended December 31, 1999; that based on its projections, absent any relief, the overall rate of return is expected to drop to 3.79 percent by December 31, 2001, and that under its existing gas rates and charges, the Florida Division does not have an opportunity to earn a fair rate of return on its property used and useful in serving the public. The Florida Division requests approval to permanently increase its gas rates and charges so as to generate increased annual revenues of $1,826,569. The requested permanent revenue increase would permit the Florida Division an opportunity to earn a fair and reasonable rate of return of 8.89 percent, including a return on equity of 12.00 percent, plus or minus 100 basis points, on a projected 2001 average rate base of $21,321,700. CUC believes that the rates under its proposed rate design and rate structure, and the proposed increased operating revenue charges, are fair and reasonable.

CUC believes that its proposed unbundled transportation service offering is reasonable and in compliance with Rule No. 25-7.0335, F.A.C., and should therefore be approved. CUC also seeks approval of a reconfigured tariff, including several tariff revisions designed to better position it to compete in the energy marketplace in Florida, such as replacing the traditional interruptible customer designation with alternative fuel customer designations; modification of CUC's Firm Rate Adjustment; eliminating the practice of allowing customers to split their total volumes between transportation and sales service; replacing its Residential Load Enhancement Sales Service Rate Schedule with a Load Profile Enhancement Rider; and modifying its Maximum Allowable Construction Cost calculation that is used to determine the feasibility of extensions of its distribution facilities.

STAFF: Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions.

VIII. ISSUES AND POSITIONS

STIPULATED
ISSUE 1: Is Chesapeake's quality of service adequate?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. Chesapeake's quality of service is satisfactory.

ISSUE 2: Is Chesapeake's test year request for permanent rate relief based on a historical test period ending December 31, 1999, and a projected test period ending December 31, 2001, appropriate?

POSITIONS:

CUC: Yes, as per the MFR's, or as adjusted through stipulation by the parties.

STAFF: Yes. With the adjustments recommended by Staff in the following issues, the 1999 and 2001 test years are appropriate.

ISSUE 3: Are the customer growth and therm forecasts by rate class appropriate?

POSITIONS:

CUC: Yes, as per the MFR's, modified as indicated in the Company's Supplemental Testimony filed by Mr. Householder or as adjusted through stipulation by the parties.

STAFF: No position pending the evidence adduced at hearing.

STIPULATED
ISSUE 4: **Should an adjustment be made to Plant, Accumulated Depreciation, and Depreciation Expense for canceled and delayed projects?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: No.

STIPULATED
ISSUE 5: **Should an adjustment be made to plant retirements for the projected test year?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: No. No adjustment should be made to plant retirements for the projected test year.

STIPULATED
ISSUE 6: **Should rate base be reduced to remove inactive service lines that have been inactive for more than five years?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: No.

STIPULATED
ISSUE 7: **Were certain invoices included in Accounts 376, Mains, and 381, Meters, erroneously charged twice for sales tax, and, if so, should these accounts be reduced for the erroneous charge?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. Accounts 376, Mains, and 381, Meters, should be reduced by $2,324 and $575, respectively.

STIPULATED
ISSUE 8: **Should a portion of the second story of the Winter Haven office building be allowed in rate base?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. Thirty-six percent of the second story of the Winter Haven office building should be allowed in rate base. Adjustments should be made to reduce Plant, Depreciation Reserve, and Depreciation Expense by $82,805, $22,166, and $2,450, respectively, for the nonutility portion of the second story.

STIPULATED
ISSUE 9: **Should an adjustment be made to reduce Plant, Accumulated Depreciation, Depreciation Expense, and other expenses to reflect non-utility operations?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. Plant should be reduced by $202,851, Accumulated Depreciation should be reduced by $98,203, and Depreciation Expense should be reduced by $3,916 to reflect non-utility operations. O & M expenses should be reduced by $70,646.

STIPULATED
ISSUE 10: **Should an adjustment be made to the costs allocated by Chesapeake Utilities Corporation to its Florida Division?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: No adjustment is necessary.

STIPULATED
ISSUE 11: **What is the appropriate amount of Construction Work in Progress (CWIP) for the projected test year?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Zero is the appropriate amount of CWIP for the projected test year. However, the company should include CWIP in its future earnings surveillance reports.

ISSUE 12: **What is the appropriate projected test year Total Plant?**

POSITIONS:

CUC: The appropriate test year Total Plant is as per the MFRs, modified as indicated in the Company's positions in the preceding issues, or as adjusted through stipulation by the parties.

STAFF: No position at this time; this issue requires a calculation based upon the resolution of preceding issues.

ISSUE 13: What is the appropriate projected test year Depreciation Reserve?

POSITIONS:

CUC: The appropriate projected test year Depreciation Reserve is as per the MFRs, modified as indicated in the Company's positions in the preceding issues, or as adjusted through stipulation by the parties.

STAFF: No position at this time; this issue requires a calculation based upon the resolution of preceding issues.

STIPULATED
ISSUE 14: Should an adjustment be made to allocate working capital based on updated factors?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: No. No adjustment is necessary.

STIPULATED
ISSUE 15: Should an adjustment be made to working capital to allocate Materials and Supplies to nonregulated operations?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. Working Capital should be reduced by $58,688 to reflect non-utility Materials and Supplies.

STIPULATED
ISSUE 16: Has Chesapeake properly removed all nonregulated activity in Accounts Receivable-Services from working capital?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: No. An adjustment should be made to increase Accounts Receivable Service by $1,982. This represents an increase in the portion of nonregulated activity in this account from 62.9% to 71% offset by an error made by the Company in trending the test year amount.

STIPULATED
ISSUE 17: Has Chesapeake removed the appropriate amount of Miscellaneous Current Liabilities from working capital?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: No. In addition to the $525,478 removed by Chesapeake, an additional $10,305 of Flex Rate Liability should be removed, increasing working capital allowance.

STIPULATED
ISSUE 18: What is the appropriate accounting and ratemaking treatment for the Flexible Rate Adjustment?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: The appropriate accounting and ratemaking treatment is as filed by the Company in its MFRs.

STIPULATED

ISSUE 19: Is Chesapeake recording conservation revenues and expenses appropriately?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: No. Chesapeake is currently recording conservation as a Miscellaneous Deferred Debit; the company should record conservation as revenues and expenses. In addition, over and under recoveries should be netted so that there is a balance in only one account at any particular time. Net over recoveries should be recorded in Account 253, Other Deferred Credits and net under recoveries should be recorded in Account 186, Miscellaneous Deferred Debits. For ratemaking purposes, net over recoveries should remain in working capital and the interest expense recorded below-the-line; net under recoveries should be removed from working capital and the interest income recorded below-the-line.

STIPULATED

ISSUE 20: Is the health insurance reserve and expense appropriate?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. No adjustment is necessary.

STIPULATED

ISSUE 21: Is Chesapeake using the appropriate allocation methodology to allocate health insurance costs?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. The company is using the appropriate allocation methodology to allocate health insurance costs.

STIPULATED
ISSUE 22: Is the self insurance reserve and expense appropriate?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Account 925, Injuries and Damages, should be reduced by $12,995, for ratemaking purposes. This adjustment is based on average actual charges to the Reserve. There is no adjustment necessary to the reserve.

STIPULATED
ISSUE 23: Is the pensions and benefits reserve and expense appropriate?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: The pensions and benefit expense is overstated and should be reduced by $31,080 related to the $138,579 of non-utility payroll removed by the Company. In addition, expenses should be decreased by $4,923 for a portion of the nonutility payroll identified in Issue 9. There is no adjustment necessary to the reserve.

STIPULATED
ISSUE 24: Should an adjustment be made to include Customer Deposits-Refunds in Working Capital?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: No. In the projected test year, Customer Deposits-Refunds were combined with other Customer Deposits and appropriately included in the capital structure. The effective interest rate of Customer Deposits was then derived taking into consideration the combined accounts; hence, no adjustments to the balance, its location or the effective interest rate are required.

STIPULATED

ISSUE 25: Should an adjustment be made to increase Interest Accrued in Working Capital?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. Interest Accrued should be increased in the same proportion as 2001 interest expense reconciled to rate base exceeds 1999 interest expense reconciled to rate base.

ISSUE 26: What is the appropriate projected test year Working Capital Allowance?

POSITIONS:

CUC: The appropriate projected test year Working Capital Allowance is as per the MFRs, modified as indicated in the Company's positions in the preceding issues, or as adjusted through stipulation by the parties.

STAFF: No position at this time; this issue requires a calculation based upon the resolution of preceding issues.

ISSUE 27: What is the appropriate projected test year Rate Base?

POSITIONS:

CUC: The appropriate projected test year Rate Base is as per the MFRs, modified as indicated in the Company's positions in the preceding issues, or as adjusted through stipulation by the parties.

STAFF: No position at this time; this issue requires a calculation based upon the resolution of preceding issues.

ISSUE 28: What is the appropriate return on common equity for the projected test year?

POSITIONS:

CUC: The appropriate return on common equity is 12.0%.

STAFF: The appropriate return on common equity is 11.3%, with a range of plus or minus 100 basis points for all regulatory purposes.

STIPULATED
ISSUE 29: What is the appropriate flex rate liability amount and cost rate?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: The appropriate flex rate liability amount is $57,185, and the appropriate cost rate is 5.16%.

STIPULATED
ISSUE 30: What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Chesapeake included $1,392,213 of accumulated deferred taxes in its capital structure. Analysis of the Miscellaneous Deferred Debits and the Miscellaneous Current Liabilities disclosed that Chesapeake had adjusted out of its projected working capital allowance, $120,404 of Miscellaneous Deferred Debits and $276,379 of Miscellaneous Current Liabilities, both FAS 109 balance sheet Regulatory Tax Accounts. Although these amounts were correctly adjusted to its capital structure, they were incorrectly reconciled pro rata over investor sources of capital. The net $155,975 credit ($276,379 less $120,404) should have been included in the capital structure as an increase to accumulated deferred income taxes at a zero cost rate. To correct this error, an adjustment was made in the capital structure, reversing the company's adjustment and correctly reflecting the net FAS 109 Regulatory Tax Liability as an increase to accumulated deferred income taxes.

The result is an increase of $155,975 to Accumulated Deferred Income Taxes, concluding in total accumulated deferred income taxes of $1,548,188.

STIPULATED

ISSUE 31: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: The appropriate amount is $306,978 and the appropriate cost rate is zero, as filed in the MFRs. Investment Tax Credits are specifically identified for the Florida Division of Chesapeake. No adjustments are recommended. Chesapeake is an Option 1 company and as such, its cost rate for Investment Tax Credits is zero.

STIPULATED

ISSUE 32: Has FAS 109 been appropriately reflected in the capital structure, such that it is revenue neutral?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: No. However, with Staff's adjustment of $155,975 to increase Accumulated Deferred Income Taxes in capital structure that is addressed in Issue 30, FAS 109 is now appropriately reflected in the capital structure such that it is revenue neutral.

STIPULATED

ISSUE 33: Have rate base and capital structure been reconciled appropriately?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: No. Staff recommends that the Commission remove an amount for non-regulated propane capital investment, $292,311, directly from common equity in reconciling rate base and capital structure. This amount is the 13-month average for 2001 propane capital investment on the Florida Division's books. In addition, any other staff adjustments to rate base or capital structure will lead to fall out adjustments to the reconciliation of rate base and capital structure. The amount for propane capital investment was added to common equity, long-term debt, and short-term debt on a pro rata basis and then removed solely from common equity.

STIPULATED

ISSUE 34: Is it appropriate for the Florida Division to adjust its capital structure to reflect that of its parent Chesapeake Utilities Corporations's capital structure?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes.

ISSUE 35: What is the appropriate weighted average cost of capital for the projected test year?

POSITIONS:

CUC: The appropriate weighted average cost of capital for the projected test year is as per the MFRs, modified as indicated in the Company's positions in the preceding issues, or as adjusted through stipulation by the parties.

STAFF: Except for the correction of the long term debt cost rate to 7.75%, no position at this time. This issue requires a calculation based upon the resolution of preceding issues.

STIPULATED
ISSUE 36: Has Chesapeake properly removed PGA revenues, expenses, and taxes-other from the projected test year?

POSITIONS:

CUC: The Company agrees with Staff's Position.

STAFF: No. Chesapeake has not removed PGA revenues and expenses from the projected test year. An adjustment should be made to remove $5,790,925 from PGA Revenues and $5,790,925 from Cost of Gas. Additionally, the company has not projected a PGA over or under recovery. However, for ratemaking purposes, net over recoveries should remain in working capital and the interest expense recorded below-the-line; net under recoveries should be removed from working capital and the interest income recorded below-the-line.

STIPULATED
ISSUE 37: Has Chesapeake properly removed conservation revenues, expenses, and taxes-other from the projected test year?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: No. An adjustment should be made to remove $2,627 for conservation advertising.

STIPULATED
ISSUE 38: Should an adjustment be made to increase revenues for the amount of interest earned on cash in working capital?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. An adjustment should be made to increase revenues by $20,000 for the amount of interest earned on cash in working capital.

ISSUE 39: What is the appropriate amount of projected test year total Operating Revenues?

POSITIONS:

CUC: The appropriate amount of projected test year total Operating Revenues is as per the MFRs, modified as indicated in the Company's positions in the preceding issues, or as adjusted through stipulation by the parties.

STAFF: No position pending the evidence adduced at hearing.

STIPULATED
ISSUE 40: Should an adjustment be made to expenses for certain memberships and dues?

POSITION:

CUC: The Company agrees with Staff's position.

STAFF: Yes. The company removed 100% of its chamber of commerce dues. Expenses should be increased by $6,666 to add back 95% of chamber of commerce dues allowed by Rule 25-7.042, F.A.C. In addition, expenses should be reduced by $1,124 to remove civic club dues and by $5,049 to remove 45.10% of American Gas Association dues. The net adjustment is a $493 increase to expenses.

STIPULATED
ISSUE 41: Should an adjustment be made for lobbying expenses?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: No. No further adjustment is necessary. The company has removed the appropriate amount.

ISSUE 42: What is the appropriate amount of rate case expense and what is the appropriate amortization period for that expense?

POSITIONS:

CUC: The appropriate amount of rate case expense is $279,264, and the appropriate amortization period is 4 years, beginning 30 days after the Commission vote approving the raters and charges.

STAFF: The appropriate amount of rate case expense is $243,500, and the appropriate amortization period is 4 years, beginning 30 days after the Commission vote approving the rates and charges.

STIPULATED
ISSUE 43: Should an adjustment be made to bad debt expense?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Bad Debt Expense, Account 904, should be reduced by $8,229 based on a four year average of net write-offs as a percent of revenues.

STIPULATED
ISSUE 44: Should an adjustment be made for charitable contributions?

POSITIONS:

CUC: The Company agrees with Staff's Position.

STAFF: No further adjustment is necessary. The company has removed the appropriate amount.

STIPULATED
ISSUE 45: Should an adjustment be made to remove image building or other inappropriate advertising expenses?

POSITIONS:

CUC: The Company agrees with Staff's Position

STAFF: No further adjustment is necessary. The company has removed the appropriate amount.

STIPULATED
ISSUE 46: Should an adjustment be made to remove expenses for company parties, picnics, or similar social company activities?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. An adjustment should be made to remove $1,534 for social activities.

STIPULATED
ISSUE 47: Should an adjustment be made to Account 923, Outside Services?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: No further adjustment is necessary. The company has removed the appropriate amount.

STIPULATED
ISSUE 48: Should an adjustment be made to expenses for new employees hired and related moving expenses?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. Expenses should be reduced by $32,517 for the non-utility portion of new employees' salaries and benefits plus $10,181, for the replacement of various employees.

STIPULATED
ISSUE 49: Are the trend rates used by Chesapeake to calculate projected O&M expenses appropriate?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. The trend rates used by Chesapeake to calculate projected O&M expenses are appropriate.

STIPULATED
ISSUE 50: Has Chesapeake used the appropriate trend basis for each O&M account?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: No. The $211,450 and the $2,000 "other trended" amounts in Account 920, Administrative & General Salaries, should be trended by payroll and by inflation only, respectively. The "other trended" amounts in Accounts 928, Regulatory Commission Expenses, and 932, Maintenance of General Plant, should be trended by inflation only.

STIPULATED
ISSUE 51: Should the projected test year O&M expense be adjusted for the effect of any changes to the trend factors?

POSITION:

CUC: The Company agrees with Staff's position.

STAFF: Yes. O & M expense should be reduced by $19,031 for the effect of changing the trend bases as discussed in Issue 50.

STIPULATED
ISSUE 52: Should an adjustment be made to rent expense?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. An adjustment should be made to increase Account 881, Rents, by $82,490 for an omission by the company in the projected test year related to the lease of new pipeline capacity.

STIPULATED
ISSUE 53: **Should an adjustment be made to periodic meter and regulator change-out expense?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. Account 878, Meters and House Regulator Expenses, should be reduced by $7,484 based on the historic test year number of meters changed out times the projected test year change out price.

STIPULATED
ISSUE 54: **Should an adjustment be made for odorizing costs?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: No adjustment is necessary for odorizing costs.

STIPULATED
ISSUE 55: **Has Chesapeake justified its benchmark variances?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. Chesapeake has justified its benchmark variances.

ISSUE 56: **What is the appropriate amount of projected test year O&M Expense?**

POSITIONS:

CUC: The appropriate amount of projected test year O&M Expense is as per the MFRs, modified as indicated in the Company's positions in the preceding issues, or as adjusted through stipulation by the parties.

STAFF: No position at this time; this issue requires a calculation based upon the resolution of preceding issues.

STIPULATED

ISSUE 57: Should an adjustment be made to remove $424 in franchise and consent amortization?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. The company made an adjustment to remove the Accumulated Amortization, based on the last rate case, but failed to remove the amortization expense.

STIPULATED

ISSUE 58: What is the appropriate accounting treatment and annual amortization to recover estimated clean-up costs of Chesapeake's manufactured gas plant site?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Environmental clean-up costs should be reclassified from Account 362, Gas Holders, to Account 253, Other Deferred Credits. Future accruals and actual clean-up costs should be recorded in Account 253. The company should continue its $71,114 annual accrual to recover estimated clean-up costs.

STIPULATED

ISSUE 59: What is the appropriate amortization amount and amortization period for Miscellaneous Intangibles?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: The appropriate amount of amortization expense is $100,262 and the amortization period is 10 years, therefore, no adjustment is necessary.

ISSUE 60: What is the appropriate amount of projected test year Depreciation and Amortization Expense?

POSITIONS:

CUC: The appropriate amount of projected test year Depreciation and amortization Expense is as reflected in the MFRs, modified as indicated in the Company's positions in the preceding issues, or as adjusted through stipulation by the parties.

STAFF: No position at this time; this issue requires a calculation based upon the resolution of preceding issues.

ISSUE 61: What is the appropriate amount of Taxes Other Than Income Taxes?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: The appropriate amount of Taxes Other Than Income Taxes is $XX,XXX (this is a calculation based on the resolution of other pending issues). Payroll taxes should be reduced by $15,674. Regulatory assessment fees should be recalculated at .005 of revenues prior to increase that are subject to regulatory assessment fees and that number should be compared to $79,957 company filed amount for the appropriate adjustment. Staff's adjustment corrects for a $5.8 million adjustment to remove PGA revenues and other company errors. Property taxes should be reduced by $4,871 for Issue 8 and by $2,457 for Issue 9. Gross Receipts Taxes should be reduced by $272,938 to zero. Franchise Fees should be reduced by $200,922 to zero. Miscellaneous Taxes should be reduced by $7,568 to $19,311. The revenues associated with the Gross Receipts Taxes and Franchise Fees were excluded from revenues by the company. However, the company failed to remove the associated expense. Since these items are separately stated on the customers' bills, it is appropriate to make the above referenced adjustments.

ISSUE 62: What is the appropriate Income Tax Expense, including current and deferred income taxes, ITC amortization, and interest synchronization?

POSITIONS:

CUC: The Company agrees with staff's position.

STAFF: The appropriate income tax expense, including current and deferred income taxes, ITC amortization and interest synchronization is $ XXX,XXX (this is a calculation based on the resolution of other pending issues). Income tax expense should be increased by $217,321 to reverse the Company's Interest Synchronization Adjustment, by $1,097 for other adjustments and to reflect a 34% federal income tax rate. Further, income tax expense should be adjusted for Staff's Interest Synchronization Adjustment to reconcile capital structure and rate base and for the tax effect of Staff's adjustments to revenues and expenses.

ISSUE 63: What is the appropriate level of Total Operating Expenses for the projected test year?

POSITIONS:

CUC: The appropriate level of Total Operating Expenses for the projected test year is as reflected in the MFRs, modified as indicated in the Company's positions in the preceding issues, or as adjusted through stipulation by the parties.

STAFF: No position at this time; this issue requires a calculation based upon the resolution of preceding issues.

ISSUE 64: What is the appropriate amount of projected test year Net Operating Income?

POSITIONS:

CUC: The appropriate amount of projected test year Net Operating Income is as reflected in the MFRs, modified as indicated in the Company's positions in the preceding issues, or as adjusted through stipulation by the parties.

STAFF: No position at this time; this issue requires a calculation based upon the resolution of preceding issues.

STIPULATED
ISSUE 65: Should the Commission adopt the Transportation Cost Recovery mechanism proposed by Chesapeake to recover non-recurring costs related to transportation service from transportation classes?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: No. A Transportation Cost Recovery mechanism is appropriate for the recovery of non-recurring costs related to transportation service, however, such costs should be recovered from all non-residential customers except for special contract customers, not just from the transportation-only customers. While the concept of a recovery clause is a sound one, and should be approved, the specifics regarding how the costs should be recovered from the rate classes and the level of costs to be recovered should be addressed in a subsequent proceeding.

STIPULATED

ISSUE 66: **What is the appropriate projected test year revenue expansion factor to be used in calculating the revenue deficiency including the appropriate elements and rates?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: The appropriate projected test revenue expansion factor to be used in calculating the revenue deficiency is 1.6114. The appropriate elements are Regulatory Assessment Fees of .005, State Income Taxes of .055 and Federal Income Taxes of .34.

ISSUE 67: **What is the appropriate projected test year revenue deficiency?**

POSITIONS:

CUC: The appropriate projected test year revenue deficiency is as reflected in the MFRs, modified as indicated in the Company's positions in the preceding issues, or as adjusted through stipulation of the parties.

STAFF: No position at this time; this issue requires a calculation based upon the resolution of preceding issues.

ISSUE 68: **Should any portion of the $591,579 interim increase granted by Order No. PSC-00-1416-PCO-GU, issued on August 3, 2000, be refunded to customers?**

POSITIONS:

CUC: No.

STAFF: This issue is dependent on the resolution of the adjustments to the projected test year 2001.

STIPULATED
ISSUE 69: **Should Chesapeake be required to submit, within 75 days after the date of the final order in this docket, a description of all entries or adjustments to its future annual reports, rate of return reports, published financial statements, and books and records that will be required as a result of the Commission's findings in this rate case?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. Chesapeake should be required to fully describe the entries and adjustments that will be either recorded or used in preparing reports submitted to the Commission.

ISSUE 70: **What are the appropriate billing determinants to be used in the projected test year?**

POSITIONS:

CUC: The appropriate billing determinants to be used in the projected test year are reflected in the MFRs, modified as indicated in the Company's Supplemental Testimony filed by Mr. Householder or as adjusted through stipulation by the parties.

STAFF: No position at this time pending the evidence adduced at hearing.

STIPULATED
ISSUE 71: **What is the appropriate cost of service methodology to be used in allocating costs to the various rate classes?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: The appropriate cost of service methodology is staff's cost of service model adjusted for market conditions, value of service, and customer acceptance considerations, subject to the final determination of adjustments to rate base, operations and maintenance expense, and net operating income.

STIPULATED
ISSUE 72: **Is Chesapeake's proposal to eliminate certain existing rate classes and replace them with the company's proposed new rate classes appropriate?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. Chesapeake's proposed rate classes are appropriate, with the adjustments to the applicability provisions of the GS-1/TS-1 (0-500 Therms annually) and GS-2/TS-2 (501-3000 Therms annually) rate classes.

STIPULATED
ISSUE 73: **If any revenue increase is granted, what are the appropriate rates and charges for the Florida Division of Chesapeake Utilities Corporation resulting from the allocation of the increase among customer classes?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: The rates and charges should be designed to recover from each customer class the allocated costs in the cost of service study. The customer charges as proposed by the Company in its MFRs are appropriate, with the exception of the customer charges for GS-1, TS-1, GS-2, and TS-2 rate classes. The appropriate customer charges for these classes are as follows:

GS-1: $10.00
TS-1: $15.00
GS-2: $17.50
TS-2: $27.50

The appropriate miscellaneous charges and fees are those proposed by the Company in the MFRs. The energy charges should be designed to recover the balance of the costs that are not recovered through the customer charges and the miscellaneous charges and fees.

STIPULATED
ISSUE 74: Is Chesapeake's proposed General Sales Service (GSS) rate adjustment appropriate?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. Chesapeake is not proposing to modify its existing General Sales Service rate adjustment.

STIPULATED
ISSUE 75: Should the Residential Annual Contract Service (RACS) Rate Schedule be eliminated?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. The Residential Annual Contract Service (RACS) has been closed to new customers for several years, and should be eliminated.

STIPULATED
ISSUE 76: Should customers who take service under special contracts be subject to a change in rates?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: No.

STIPULATED
ISSUE 77: Should the Residential Load Enhancement Sales Service (RLES) be eliminated?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. The RLES is currently offered only to residential customers. The utility is proposing to expand the Rider LE to include residential customers and to eliminate the RLES rider (See Issue 78).

STIPULATED
ISSUE 78: **Should the existing Load Profile Enhancement Rider (Rider LE) be available to customers under all Rate Schedules?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. Chesapeake's proposal to expand the Rider LE to include all customers in appropriate.

STIPULATED
ISSUE 79: **Should the current interruptible classification of customers be eliminated, except for those customers who lack alternate fuel capabilities and are located on the system such that their service could have an effect of system operations?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. However, certain customers who lack alternative fuel capabilities and who may provide system reliability benefits if interrupted should be offered interruptible service pursuant to special contracts.

STIPULATED
ISSUE 80: **Should customers be required to take 100% of their service as either sales or transportation service and not a combination of the two?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. Many customers currently split their total volumes between transportation and sales service. These customers essentially use sales gas to balance their own usage requirements. This practice leads to additional costs being incurred by the company and the general body of ratepayers, and should be eliminated.

STIPULATED

ISSUE 81: **Should the Maximum Allowable Construction Cost (MACC) be modified from five years to six years?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. A six-year MACC is appropriate, and has been approved for other investor-owned gas utilities.

STIPULATED

ISSUE 82: **Should Chesapeake's proposed Contract Sales Service and Contract Transportation Service riders be approved?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes.

STIPULATED

ISSUE 83: **What is the appropriate effective date for any new rates and charges approved by the Commission?**

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: With the exception of Chesapeake's proposed aggregated transportation service (See Issue 85), any new rates and charges should become effective for all meter readings on or after 30 days from the Commission's vote approving such rates and charges.

STIPULATED

ISSUE 84: Should the Commission approve Chesapeake's proposed transportation tariff which was filed as part of this rate case to implement Rule 25-7.0335, Florida Administrative Code?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Yes. The Commission should approve Chesapeake's proposed transportation tariff as reflected in the MFRs.

STIPULATED

ISSUE 85: What is the appropriate effective date for Chesapeake's proposed transportation tariff?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: Individual transportation service should become effective for all meter readings on or after 30 days from the Commission's vote approving the rates. The appropriate effective date for Chesapeake's proposed aggregated transportation service is the first day of the month following 70 days after the Commission order.

STIPULATED

ISSUE 86: Should this docket be closed?

POSITIONS:

CUC: The Company agrees with Staff's position.

STAFF: This docket should be closed after the Commission has issued its final order and the time for filing an appeal has expired.

IX. EXHIBIT LIST

Witness	Proffered By	I.D. No.	Description
Direct			
Thomas A. Geoffroy	CUC	(TAG-1)	List of sponsored MFR schedules.
		(TAG-2)	Proposed Tariff, Original Vol. 3.
		(TAG-3)	Summary of Reserve for MGP plant site clean-up.
James A. Williams	CUC	(JAW-1)	List of sponsored MFR schedules.
Jeff M. Householder	CUC	(JMH-1)	Composite Exhibit A. List of sponsored MFR schedules. B. Comparison of present and proposed rates by rate classification. C. Analysis of competitive fuel costs. D. Map of Citrus County Distribution system expansion.

Witness	Proffered By	I.D. No.	Description
Paul R. Moul	CUC	________ (PRM-1)	Composite Exhibit - Financial Exhibits.
		________ (PRM-2)	Composite Exhibit - Appendices.
William L. Pence	CUC	________ (WLP-1)	Composite Exhibit - A. Resume. B. Excerpts from EPA Survey. C. March 25, 1986 letter from FDEP to FPSC. D. Consent Order.
Hillary Y. Sweeney	STAFF	________ (HYS-1)	Staff Audit Report.
David J. Draper	STAFF	________ (DJD-1)	Comparable Natural Gas LDCs and Investment Characteristics.
		________ (DJD-1A)	Comparable Electric Companies and Investment Characteristics Basic DCF Equation.
		________ (DJD-2)	Basic DCF Equation.
		________ (DJD-3)	Two-Stage Annually Compounded DCF Model.

Witness	Proffered By	I.D. No.	Description
Draper	STAFF	(DJD-4)	Results of DCF Analysis for Comparable Natural Gas LDCs.
		(DJD-4A)	Results of DCF Analysis for Comparable Electric Companies.
		(DJD-5)	Capital Asset Pricing Models.
		(DJD-6)	Spread between "A" and "BBB" Rated Public Utility Bonds.
		(DJD-7)	Range for Cost of Equity.
		(STAFF-1)	Staff's Composite Exhibit.
Rebuttal			
Paul R. Moul	CUC	(PRM-3)	Composite Exhibit - Financial Exhibits.

The Company and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

X. PROPOSED STIPULATIONS

Chesapeake has agreed to the positions shown in the issues identified as stipulated issues, as set forth above. There are no other proposed stipulations at this time.

XI. PENDING MOTIONS

None.

XII. PENDING CONFIDENTIALITY MATTERS

There are no pending confidentiality matters at this time.

It is therefore,

ORDERED by Commissioner E. Leon Jacobs, Jr., as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Commissioner E. Leon Jacobs, Jr. as Prehearing Officer, this 16th Day of October, 2000.

E. LEON JACOBS, JR.
Commissioner and Prehearing Officer

(S E A L)

WCK

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.

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.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, if issued by a Prehearing Officer; (2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or (3) 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 Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.