BEFORE THE DELAWARE PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE SUPPLEMENTAL APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL OF A CHANGE IN ITS GAS SALES SERVICE RATES ("GSR") TO BE EFFECTIVE NOVEMBER 1, 2013	)	P.S.C. DOCKET NO. 13-351F

SUPPLEMENTAL TESTIMONY OF SARAH E. HARDY

On Behalf of Chesapeake Utilities Corporation

Delaware Division

Submitted for filing: February 19, 2014

1 Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

2 A. My name is Sarah E. Hardy and I am a Regulatory Analyst II with
3 Chesapeake Utilities Corporation ("Chesapeake" or the "Company"). My
4 business address is 350 S. Queen Street, Dover, Delaware 19904.

5

6 Q. HAVE YOU PRESENTED PRIOR TESTIMONY IN THIS DOCKET?

7 A. Yes. I presented direct testimony on September 3, 2013, in support of the
8 Company's original Gas Sales Service Rate ("GSR") application.

9

10 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY IN
11 THIS PROCEEDING?

12 A. The purpose of my supplemental testimony in this GSR application is to
13 support the overall calculation of the Delaware Division's three proposed
14 "out-of-cycle" GSR charges to be effective with service rendered on and after
15 April 1, 2014. Additionally, I will be providing testimony regarding the
16 reasoning behind the Company's request for the updates to its GSR charges.

17

18

19 Q. ARE THERE ANY SCHEDULES INCLUDED WITH YOUR SUPPLEMENTAL
20 TESTIMONY?

21 A. Yes. My supplemental testimony includes Schedules A.1, A.2, B, C.1, C.2,
22 D.1, D.2, E, and F.

1 Q. PLEASE EXPLAIN WHY THE DELAWARE DIVISION IS MAKING AN "OUT-
2 OF-CYCLE" GAS SALES SERVICE RATE FILING.
3 A. According to the Delaware Division's natural gas tariff, specifically Sheet No.
4 42, if the Company's latest estimated under collection exceeds six percent
5 (6%) of the actual firm gas costs incurred to date along with the Company's
6 latest firm gas cost estimates for the remainder of the over / under collection
7 period, the Company shall apply to the Delaware Public Service Commission
8 ("Commission") for revised GSR charges to be effective until the next annual
9 adjustment in rates. Based on information available through January 2014,
10 the Delaware Division currently estimates that the under collection level will
11 be approximately 13.35% for the over / under collection period of the twelve
12 months ending October 31, 2014.
13
14 Q. WHAT GAS SALES SERVICE RATE LEVELS ARE YOU PROPOSING IN
15 THIS PROCEEDING TO BE EFFECTIVE WITH SERVICE RENDERED ON
16 AND AFTER APRIL 1, 2014?
17 A. The Company proposes the following Gas Sales Service Rates to be
18 effective with service rendered on and after April 1, 2014: $1.132 per Ccf for
19 customers served under rate schedules RS, GS, MVS, and LVS, $0.656 per
20 CCf for customers served under rate schedules GLR and GLO, and $0.941
21 per Ccf for customers served under rate schedule HLFS.

1 Q. PLEASE DESCRIBE HOW YOU CALCULATED THE PROPOSED GAS
2 SALES SERVICE RATE LEVELS TO BE IMPLEMENTED BY THIS
3 SUPPLEMENTAL FILING.
4 A. The rates were calculated based on the estimated purchased gas costs and
5 estimated sales volumes for the twelve months ending October 31, 2014 and
6 are summarized on Schedule A.1. As shown on Schedule A.1, total
7 projected firm gas costs recoverable through the gas cost recovery
8 mechanism are $42,179,583. This total is comprised of $21,160,430 of fixed
9 costs and $21,019,153 of variable costs. The three gas cost rates shown at
10 the top of Schedule A.1, which include a fixed rate (used to calculate
11 separate demand rates), a variable / commodity rate, and a total rate or
12 system average rate, are the key components for calculating separate Gas
13 Sales Service Rates for different services.
14
15 Q. CAN YOU BRIEFLY SUMMARIZE THE REASONS WHY THE THREE GSR
16 CHARGES ARE INCREASING FROM THE COMPANY'S ORIGINAL FILING
17 IN THIS DOCKET?
18 A. The analysis of the change in gas costs and Gas Sales Service Rates from
19 the Company's original gas cost recovery filing with rates effective November
20 1, 2013 is summarized on Schedule E. As shown on this schedule, variable
21 or commodity gas costs are anticipated to increase by $4,234,044 since the
22 Company's original GSR filing. The increased variable costs contained in

this filing are a reflection of the current natural gas market and the increase in commodity gas prices that has occurred since the Delaware Division filed its previous GSR filing on September 3, 2013. The Company develops commodity price projections based upon forward month NYMEX contract prices recorded at the close of a recent trading day and assumes that the weather during the projection period will be equivalent to the most recent 10 year average. These baseline projections may be adjusted if there is an indication that recent history for a similar period appears to justify modifications. For the current GSR period, the Company made no such adjustments. As the winter season of 2013-2014 began, however, the Company's service territory experienced colder than normal weather cumulatively in November and December, as did a large portion of the eastern United States. Demand increased significantly, which led to increased withdrawals from storage and upward pressure on market prices. In January 2014, temperatures dropped even further in the South, Mid-West, Mid-Atlantic and Northeast portions of the country and prices continued to increase in both the cash and forward markets .

Q. PLEASE DESCRIBE THE PROCESS THE COMPANY USED TO DETERMINE ITS GSR LEVELS AND THE VARIOUS COMPONENTS OF THE DELAWARE DIVISION'S GSR CALCULATIONS AS SHOWN ON SCHEDULE A.1.

A. Schedule A.1 is a summary of the calculation of the three proposed GSR levels. The calculations of the proposed GSR levels have been made in accordance with the provisions set forth in the Delaware Division's GSR tariff clause. The process to determine the GSR charges consists of three major steps:

1. Develop the sales and associated gas supply requirements forecast.
2. Forecast supplier rates and calculate annual purchased gas costs associated with serving the Company's firm customers.
3. Derive the GSR charges utilizing the results of the first two steps and the process below:

Step 3 is summarized on Schedule A.1. Initially, three gas cost rates must be established to calculate the three separate GSR charges: a fixed rate, a commodity rate and a system average rate. Based on total firm gas costs recoverable through the gas cost recovery mechanism for the GSR levels to be effective April 1, 2014, the three gas cost rates are calculated as follows:

Fixed Rate - $24.85 / Ccf	(Total fixed costs of $21,160,430 divided by the firm peak day capacity requirements of 851,380 Ccf)
Commodity Rate - $0.588 / Ccf	(Total firm commodity costs of $21,019,153 divided by firm sales volumes of 35,717,985 Ccf for the

	period November 2013 through October 2014)
System Average Rate - $1.181 / Ccf	(Divide total firm gas costs of $42,179,583 by the firm sales volume of 35,717,985 Ccf)

From these three rates, different methodologies are applied in order to calculate the Gas Sales Service Rates that more closely align the Gas Sales Service Rates with actual gas costs identified for providing services associated with different rate schedules or customer classes.

Q. PLEASE EXPLAIN THE THREE METHODOLOGIES UTILIZED TO CALCULATE THREE SEPARATE GAS SALES SERVICE RATES USING THE FIXED RATE, COMMODITY RATE AND SYSTEM AVERAGE RATE AS PREVIOUSLY DESCRIBED.

A. Schedule A.1 also provides a summary of the development of the three separate Gas Sales Service Rates by applying the tariff language described in the Delaware Division's tariff on Sheet No. 42.2.

<u>Rate Schedule HLFS</u>

This GSR charge, applicable to any customer qualifying for High Load Factor Service (HLFS), is calculated based on the combination of a weighted average demand and commodity rate developed on an overall 60.83% load factor for the customer class and the overall system weighted average cost

rate. This means that the fixed gas cost rate of $24.85 per Ccf, as previously described, is divided by 222 days to calculate a demand rate of $0.112 per Ccf. This rate is then added to the commodity rate, as previously described, of $0.588 per Ccf to calculate a volumetric rate of $0.700 per Ccf. The arithmetic average of this volumetric rate ($0.700 per Ccf) and the system average rate ($1.181 per Ccf) is $0.941 per Ccf, which equals the GSR charge for HLFS customers. Total costs associated with HLFS ($2,513,659) are projected by multiplying the GSR charge ($0.941 per Ccf) by the projected sales volumes for HLFS (2,671,263 Ccf).

Rate Schedules GLO and GLR

All customers served under the Gas Lighting rate schedules will be subject to the same GSR charge. This rate is calculated using weighted average demand and commodity rates through a single gas cost rate per Ccf, based on a 100% load factor. The demand rate of $0.068 per Ccf ($24.85 / 365) plus the commodity rate of $0.588 per Ccf, produces a GSR charge of $0.656 per Ccf. Total costs associated with Gas Lighting Services of $748 are a result of multiplying the $0.656 per Ccf GSR charge by the annual sales volumes for these services of 1,140 Ccf.

Rate Schedules RS, GS, MVS and LVS

These rate schedules are assigned the remaining firm purchased gas costs after the firm purchased gas costs have been calculated for the above mentioned rate schedules ($42,179,583 - $2,513,659 - $748 = $39,665,176).

1 Associated costs are divided by the remaining volume (35,717,985 –
2 2,671,263 – 1,140 = 33,045,581) to develop a rate of $1.200 per Ccf, less
3 the portion of any shared margins ($0.068 per Ccf) as shown on Schedule
4 A.2. All customers served under rate schedules RS, GS, MVS and LVS will
5 be charged $1.132 per Ccf for service rendered on and after April 1, 2014.
6
7 Q. HAS ANY OTHER COMPONENT OF THE SUPPLEMENTAL GSR RATES
8 CHANGED AS COMPARED TO THE ORIGINAL GSR FILING WITH RATES
9 EFFECTIVE NOVEMBER 1, 2013?
10 A. Yes. The margin sharing credit has decreased from $0.069 per Ccf to
11 $0.068 per Ccf as a result of updating Schedule A.2 to reflect the actual
12 amount of the margins received for the first three months of the
13 determination period.
14
15 Q. HAS THE COMPANY INCLUDED ANY SUPPLIER REFUNDS IN THIS
16 SUPPLEMENTAL GAS SALES SERVICE RATE FILING?
17 A. Yes. The Company has included supplier refunds in the amount of $435,000
18 in this GSR calculation for the determination period. This amount is the
19 same as included in the Company's original GSR filing with rates effective
20 November 1, 2013. Any actual supplier refunds received to date will be
21 credited against any under recovery of gas costs in the Company's next
22 annual filing.

1 Q. HAS THE COMPANY INCLUDED ANY ADDITIONAL CHANGES IN THIS
2 SUPPLEMENTAL GAS SALES SERVICE RATE FILING THAT WERE NOT
3 IN THE ORIGINAL FILING?
4 A. Yes. The 1,100 Dts of Eastern Shore Natural Gas ("ESNG") firm
5 transportation capacity (reference the Direct Testimony of Marie E, Kozel;
6 page 5, lines 4-5) that went into service November 1, 2013, is at a slightly
7 different rate than forecasted in the original filing (actual of $26.1053 per Dt,
8 versus $23.9689 in the original filing). This is due to ESNG receiving
9 approval from the Federal Energy Regulatory Commission for an incremental
10 rate filing that was pending at the time of the Company's original GSR filing.
11 The total increase in fixed natural gas costs related to this change, for the
12 period November 2013 through October 2014, is $27,651.
13
14 Q. PLEASE EXPLAIN THE CHANGE IN THE PROJECTED FIRM COST OF
15 GAS FOR THE TWELVE MONTHS ENDING OCTOBER 31, 2014 AS
16 SHOWN ON SCHEDULE B IN THIS SUPPLEMENTAL FILING AS
17 COMPARED TO THE ORIGINAL GSR FILING WITH RATES EFFECTIVE
18 NOVEMBER 1, 2013.
19 A. Schedule F compares the projected firm cost of gas for the twelve months
20 ending October 31, 2014 utilized in this supplemental filing to the original
21 GSR filing with rates effective November 1, 2013. In addition, for
22 informational purposes, the actual firm cost of gas for the four prior

determination periods ended October 2013, October 2012, October 2011 and October 2010 are shown. Chesapeake anticipates an increase in firm gas cost per Mcf from $10.4854 per Mcf to $11.5150 per Mcf or a $1.0296 per Mcf increase for the twelve months ending October 31, 2014. As indicated on Schedule F, the $1.0296 per Mcf increase is primarily attributable to a projected increase in variable gas costs per Mcf based on higher natural gas commodity prices experienced for this determination period as well as projected for the remainder of the period.

Q. PLEASE EXPLAIN SCHEDULES D.1 AND D.2 IN THIS GSR FILING.

A. Schedule D.1 sets forth the calculation of the purchased gas over/under collection by month for the twelve-month period ended October 31, 2013. The under collection balance at October 31, 2013 that is carried forward into this annual filing is $2,607,520.

Schedule D.2 reflects the shared margins over/under refund for the twelve-month determination period ended October 31, 2013. Based on this twelve-month determination period, the Company's under refunded shared margins are $292,161. This amount is also included in the shared margin calculation on Schedule A.2

Q. WHAT EFFECT WILL THIS PROPOSED INCREASE IN THE GSR HAVE UPON THE AVERAGE RESIDENTIAL HEATING CUSTOMER?

1 A. An average residential heating customer using 700 Ccf per year will
2 experience an annual increase of approximately 8% or an average of $7 per
3 month as compared to the original GSR with rates effective November 1,
4 2013. During the winter heating season, an average residential heating
5 customer using 120 Ccf per month will experience an increase of
6 approximately 9% or $15 per winter month and an average residential
7 heating customer using 110 Ccf per month will experience an increase of
8 approximately 9% or $14 per winter month.
9
10 Q. PLEASE EXPLAIN WHY THE COMPANY HAS REQUESTED A WAIVER
11 OF THE TARIFF PROVISION REQUIRING IT TO MAINTAIN AN UNDER
12 COLLECTION OF SIX PERCENT (6%) OR LOWER FOR THE REMAINDER
13 OF THIS GSR DETERMINATION PERIOD?
14 A. The Company's proposed rates are designed to reflect current market prices
15 during the remaining months of the determination period in which the
16 proposed rates will be in effect (April 2014 through October 2014); however
17 the increase may not be significant enough to maintain the Company's
18 projected under collection balance inside the threshold detailed in its natural
19 gas tariff due to the fact that the proposed rates will be put into effect after
20 the conclusion of the winter season. It is the not the Company's intent to
21 burden its customers with a significant increase in lower usage months to
22 bring the under collection balance within the six percent (6%) band. The

made the same request during a supplemental filing in July 2008 in PSC Docket No. 07-246F, which was approved by the Commission by Order No. 7416 dated July 8, 2008. In accordance with the gas cost recovery mechanism, the Company will include any projected under collection balance into its regularly scheduled GSR filing to be submitted on or around September 1, 2014, with rates effective November 1, 2014.

Q. DOES THE COMPANY HAVE ANY ADDITIONAL COMMENTS?

A. Yes. In the Company's application, it requested a waiver of the sixty (60) day notice requirement for putting rates into effect. Under 26 Del. C. Section 304(a), the Commission may waive the 60-day requirement for "good cause shown." "Good cause" exists here because delaying the implementation of the proposed rates would cause the under collection balance to continue to increase, under current market conditions. In addition, because consumption generally decreases as the temperatures increase, any delay in changing the rate will likely result in the need for a larger increase because the costs will be spread over fewer billing units. Therefore, the Company believes it is necessary to put revised rates into effect as soon as reasonably practical.

Q. IS THE INFORMATION SET FORTH IN SCHEDULES A.1, A.2, B, C.1, C.2, D.1, D.2, E, AND F TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE AND BELIEF?

1 A. Yes, it is.

2

3 Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

4 A. Yes, it does.

DATED: FEBRUARY 19, 2014

STATE OF DELAWARE)
)
COUNTY OF KENT)

AFFIDAVIT OF SARAH E. HARDY

SARAH E. HARDY, being first duly sworn according to law, on oath deposes and says that she is the witness whose testimony appears as "Chesapeake Utilities Corporation, Delaware Division, Supplemental Testimony of Sarah E. Hardy"; that, if asked the questions which appear in the text of the supplemental testimony, she would give the answers that are therein set forth; and that she adopts this testimony as her sworn supplemental testimony in these proceedings.

Sarah E. Hardy

Then personally appeared this 19th day of February 2014 the above-named Sarah E. Hardy and acknowledged the foregoing Testimony to be her free act and deed. Before me,

REBECCA K. GRIER
NOTARY PUBLIC
MY COMMISSION EXPIRES ON 08-07-14
STATE OF DELAWARE

Notary Public
My Commission Expires: 8-7-14