



Implementing a Market Based Regulatory Strategy at a Small LDC

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Chesapeake Utilities Corporation Florida Division (CUCF)

- 13 Florida Counties.
- Primary Operations in Citrus and Phosphate areas between Tampa and Orlando.
- 15,000 Customers.
- 100 Industrial Accounts.
- 1000 Commercial Accounts.
- 125,000,000 therm/yr throughput.
- Residential throughput 3% of total.



CUCF Situation in 2000

- Booming residential growth service area.
- Inability to extend distribution system.
- Extensions fail feasibility tests.
- Low use – low base rate residential margins.
- Negative residential class returns.
- Industrial margins shrinking – pressure to reduce cross class subsidization.
- Customers migrating to transportation service.
- Significant potential stranded capacity costs.
- Regulators concerned over low use RES customers.
- ROE under 3%.



CUCF Regulatory Actions to Increase Residential Market Opportunities

- Strategic Regulatory Plan developed in 2000.
- Diversify revenues – profitably grow residential business.
- Emulate FERC pipeline rate design model.
- Seven regulatory filings over six years.



CUCF Regulatory Actions to Increase Residential Market Opportunities

- Rate classes based on volume not customer type.
- Increased rate class stratification.
 - Produced 13 classes – 4 with RES customers.
 - Isolated politically sensitive small use classes.
 - Rates for new RES accounts up over 50%.
 - Closed two smallest volume classes to new accounts.
 - Competitive improvement in commercial classes.
- Interruptibles to firm cost based rates.
- Continually proposed SFV rate design to regulators.
- Restructured Energy Conservation Programs



CUCF Regulatory Actions to Increase Residential Market Opportunities

- Unbundled the entire system.
- Reallocated Transporter capacity.
- Reduced overall gas supply costs – room for margin increases to residential customers.
- Defined Gas Marketers as Customers.
- Some embedded costs recovered from Marketers.
- New RES customers \$15 fixed monthly charge.
- Marketers pay \$172 month + \$3 per customer.



CUCF Results

- Annual RES margins increased \$150 per customer.
- New construction project IRRs now feasible.
- RES customer additions - 200 to over 1200 per year.
- No increase in existing RES customer loss.

- 60+% total margins from fixed charges.
- COM/IND margins up overall – competitive by class.
- 2006 ROE over 11%.
- Worked hard to strengthen relationships with regulators – pave the way for the next round.



Next Steps

- Decoupling
 - SFV Rate Restructuring
 - Experimental RES fixed charges approved
 - Revenue Normalization Mechanism
- Gas on Gas Conservation Programs
 - Recovery of lost revenues if full decoupling not approved
- Link Gas to Renewable Technologies (Solar)
 - Seek regulatory approval for Btu rates (hot water sales)