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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY

OF JAMES A. WILLIAMS

ON BEHALF OF THE FLORIDA DIVISION

OF CHESAPEAKE UTILITIES CORPORATION

DOCKET NO. 000108-GU

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

A. My name is James A. Williams, and I am the Finance Manager for the Florida Division of Chesapeake Utilities Corporation (the Company). My business address is 1015 Sixth Street, Winter Haven, Florida 33882-0960.

Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES AS FINANCE MANAGER?

A. As Finance Manager, I am responsible for the accounting and record keeping for all regulated and unregulated activities of the Company. I supervise the accounting staff and provide reports on the financial activities for the Company. I also prepare or supervise the preparation of reports to the Florida Public Service Commission (FPSC) and other agencies.

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATIONAL AND RELEVANT PROFESSIONAL BACKGROUND.

A. I have a Bachelors Degree from West Virginia University in Parks and Recreation with additional hours in Accounting, Business Law, and Management. I received my CPA certificate in West Virginia in 1982, though it is not currently active. I have been employed by the Company since April 1999. Prior to joining the Company I was employed for nearly two years by CC Pace Resources, an energy consulting firm based in Fairfax, Virginia, as Director of Energy Services. I was employed with the City of Leesburg as Finance Director for nine years, from 1987 through 1996, working on both natural gas and electric utility financial matters.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FPSC?

A. No.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY.

A. I will sponsor certain schedules of historical and projected data presented in the MFRs, as listed on the attached Exhibit JAW-1. These schedules were all prepared under my direction, supervision, and control.

Q. HOW DID YOU DERIVE THE HISTORICAL DATA?

A. All data related to the historical base year are taken from the books and records of the Company, located in Winter

Haven, Florida, except that data relating to settlements of corporate costs and cost of capital were provided by the Dover, Delaware offices of Chesapeake Utilities Corporation. These records are kept according to the recognized accounting practices and provisions of the Uniform System of Accounts as prescribed by the FPSC.

Q. PLEASE DESCRIBE HOW THE HISTORIC YEAR RATE BASE WAS CALCULATED.

A. For the historic base year, a 13 month average rate base was calculated for the period ended December 31, 1999. The historic base year also corresponds to the Company's fiscal year. MFR Schedule B-2 shows the calculation of historic base year rate base. Net plant is defined as the sum of 1) plant in service, less common plant allocated, 2) acquisition adjustments; and, 3) construction work in progress (CWIP), less accumulated depreciation, and amortization. Net plant during the historic year was $17,782,347. An allowance for working capital, after adjustments, in the amount of $498,227, was then added to net plant to calculate total rate base. As shown on MFR Schedule B-2, the total 13 month average rate base for the Company, after adjustments, was $18,280,574.

Q. PLEASE EXPLAIN THE ADJUSTMENTS TO RATE BASE.

A. The adjustments to rate base can be separated into two types: (1) adjustments required by the FPSC in the Company's most recent rate case in 1989 and (2) additional adjustments made by the Company. Adjustments required by the FPSC in the 1989 rate case (Order No. 23166) include eliminating 1) an acquisition adjustment in the amount of $546,776 from plant , and the related $461,266 of accumulated depreciation, 2) an adjustment in the amount of $23,702 for the second story of an existing office building from plant and the related $7,407 from accumulated depreciation, and 3) an adjustment of $5,143 from accumulated depreciation for Franchise and Consent. In addition, the Company has made an adjustment removing common plant allocated to unregulated activities for $87,326 and the related accumulated depreciation in the amount of $38,988, as shown in Schedules B-5 and B-11.

Q. WHAT ARE THE APPROPRIATE DEPRECIATION RATES FOR THE HISTORIC BASE YEAR AND THE PROJECTED TEST YEAR?

A. In Docket No. 970428-GU, by Order No. PSC-98-0379-FOF-GU, issued March 9, 1998, the Company's present depreciation rates were approved by the FPSC. These approved rates have been implemented and are the rates used for both the Historic Base Year and the Projected Test Year.

Q. **WHAT WAS THE METHODOLOGY USED TO DETERMINE COMMON PLANT ALLOCATED TO UNREGULATED ACTIVITIES?**

A. Common Plant allocations were based on the ratio of unregulated activities payroll, $133,777, to total payroll of $1,845,720 during the historic base year. This ratio was used because it accurately represents the proportion of time the Company's furniture, vehicles, and equipment were used for unregulated purposes. This percentage was then applied to Plant accounts 391-Office Furniture & Equipment, 392 - Autos and Trucks, and 397– Computer Equipment, as well as the related accumulated depreciation accounts. For additional discussion on the allocation of Common Plant, please refer to the direct testimony of Mr. Geoffroy.

Q. **PLEASE EXPLAIN THE ADJUSTMENTS TO WORKING CAPITAL.**

A. Three types of adjustments were made to working capital, consistent with those required by the FPSC in the Company's last rate case. These are 1) cost of capital adjustments, 2) non-utility adjustments, and 3) other adjustments.

Cost of capital adjustments include eliminating a) Receivables From Associated Companies in the amount of $5,052,965, b) Customer Deposits in the amount of $627,767, c) Refunds of Customer Deposits in the amount of $1,231, d) Accumulated Deferred Income Taxes in the amount of $1,370,750, and e) Deferred Investment Tax Credits in the amount of $346,024.

The non-utility adjustment eliminates Accounts Receivable-Service in the amount of $93,388.

Other adjustments include eliminating a) Accounts Receivable-Area Expansion Program in the amount of $470,142, b) Miscellaneous Deferred Debits in the amount of $120,404, c) Conservation in the amount of $83,886, d) Miscellaneous Current Liabilities in the amount of $478,598, and e) Customer Advances For Construction in the amount of $196,399.

Unrecovered Gas Costs in the amount of $10,549, Accrued Interest in the amount of $99,611, Health Insurance Reserve in the amount of $44,290, and Self Insurance Reserve in the amount of $130,205 were adjustments increasing Working Capital. The amounts of

Health Insurance Reserve and Self-Insurance Reserve were determined using CUC's year-end balance at December 31, 1999, multiplied by the Company's percentage of net plant to the total net plant of CUC. The balances for Health Insurance Reserve and Self-Insurance Reserve are only recorded at year-end to reflect the Florida Division's share of total company Reserves.

Q. PLEASE EXPLAIN THE ADJUSTMENTS TO NET OPERATING INCOME AS IDENTIFIED ON MFR SCHEDULE C-2.

A. There are two types of adjustments to Net Operating Income: adjustments consistent with the Company's last rate case and other adjustments made by the Company. Adjustments consistent with the last rate case include eliminating customer installation revenues in the amount of $430,745, and unregulated housepiping revenues in the amount of $307,265. Expenses related to customer installations and housepiping, including payroll and materials in the amount of $361,270, were also eliminated. Civic and charitable expenses in the amount of $25,877, memberships and dues in the amount of $2,304, and advertising in the amount of $18,330 were eliminated as determined in the last rate case. FNGA-PAC expenses for lobbying in the amount of $2,000 were also eliminated. Non-recurring consulting fees of $73,559 for market research and an ad valorem tax review were eliminated. Other depreciation expense eliminated was based on the previously mentioned adjustment to acquisition adjustments in the amount of $33,961, the 2nd story of the Company's office building in the amount of $593, and amortization of organization costs $424, as determined in the last rate case. Adjustments to income taxes in the amount of $104,028 were calculated based on the adjustments to operating revenues and expenses noted above. Other adjustments include eliminating depreciation expense for Common Plant allocated to non-regulated activities in the amount of $3,737, per Schedule C-19, and out-of-period adjustments as noted on Schedule C-15 in the amount of $11,558. For additional discussion on the allocation of common plant, please refer to the prefiled direct testimony of Mr. Geoffroy.

Q. HAS THE COMPANY PROPERLY IDENTIFIED AND EXCLUDED FROM O & M THOSE COSTS OF ITS UNREGULATED OPERATIONS?

A. Yes. Revenues and expenses associated with the Peninsula Energy Services Company (PESCO), an unregulated marketing affiliate, as well as housepiping and service functions, have been excluded from the projections for the Historic Base Year and Projected Test Year.

Q. **PLEASE EXPLAIN THE OUT-OF-PERIOD ADJUSTMENTS MADE IN THIS CASE.**

A. Net out-of-period Adjustments increase expenses by $11,558. Adjustments increasing expenses include $16,070 to reverse bonus accruals for 1998, $1,155 to reverse an Accounts Payable accrual for consulting fees, and a $136 expense for an electric bill.

Adjustments decreasing expenses include a $474 elimination to meter repairs and a $5,329 decrease for bonus checks from 1998.

Q. **WHAT IS THE PROJECTED RATE CASE EXPENSE FOR THIS CASE AS SHOWN IN MFR SCHEDULE C-13?**

A. Total rate case expenses are projected to be $243,500. The Company requests a four year amortization which will result in a projected test year rate case expense of $60,875. Additional information regarding rate case expenses can be found in the prefiled direct testimony of Mr. Geoffroy.

Q. **PLEASE EXPLAIN THE SOURCE OF DATA FOR THE O & M COMPOUND MULTIPLIER CALCULATION ON MFR SCHEDULE C-37.**

A. The Company's FERC Form 2's were used to determine the number of customers at year end. From June 30, 1989 through December 31,1999, customers increased by 2,530, or 36%. The CPI data was obtained from the Annual and Monthly Report from the US Bureau of Labor Statistics. The CPI increased from 124.1 on June 30, 1989 to 168.3 on December 31, 1999, for an increase of 36%.

Q. PLEASE EXPLAIN THE TRENDING FACTORS ON MFR SCHEDULE G-2, page 10.

A. A payroll trend rate of 4% was used for both the Historic Base Year + 1 and the projected test year. This payroll trend rate was based on the Company's estimated payroll growth. Customer growth was estimated for expense projection purposes at 5% for both the Historic Base Year + 1, and the Projected Test Year. Inflation was estimated at 2.5% for both the Historic Base Year + 1,and the projected test year.

The overall trend for the future will reflect outside influences, including inflation, the Company's growth rate, the marketplace for qualified personnel, and the Company's efforts to meet the challenge of the unbundled competitive market.

As a consequence of applying the trend rates that reflect our estimates of costs, coupled with recognizing the specific changes in staffing levels, the Company's projected O & M reflects an 8% increase in payroll costs from the historic base year to the projected test year. Other trended O & M costs reflect a 9% increase from the historic base year to the projected test year.

Q. PLEASE DISCUSS THE BENCHMARK VARIANCES FOR OPERATIONS & MAINTENANCE EXPENSE AS SHOWN ON MFR SCHEDULE C-34.

A. Although certain individual operating and maintenance accounts have grown at a rate faster than the benchmark would predict, overall costs are about 22% below the benchmark projections from the last rate case to the present. The two areas, Sales Expense and Distribution Operations, that have grown faster than what the benchmark would suggest are directly related to the Company's accelerated growth. The total variance for O & M Expenses is a favorable variance of $1,098,578. This total favorable variance includes individual favorable variances for Maintenance Expenses, Customer Accounts, Customer Service and Information, and Administration & General of $7,883, $81,984, $11,647, and $1,414,857, respectively, and unfavorable variances of $251,888 for Distribution Expenses and $165,905 for Sales Expenses.

Q. PLEASE EXPLAIN THE UNFAVORABLE VARIANCE FOR DISTRIBUTION OPERATIONS.

A. The reasons that expenses for the Distribution Operations area are above the benchmark are directly related to the growth of the system and the increase in regulatory requirements brought on by the regulatory restructuring of interstate pipelines. The Company currently has sixteen city gate stations that require necessary operations and maintenance expenses to comply with FPSC rules. The open access rules implemented by the Federal Energy Regulatory Commission (FERC) have created many opportunities in the marketplace. These rules have also placed an additional burden on the Company. The Company now purchases gas from the wellhead, either directly from the producer or from a marketer, and manages significant capacity holdings on the interstate pipeline system. The Company must also perform many new functions related to scheduling, delivery and accounting for gas supply and interstate pipeline capacity. These costs were non-existent in the last case, but are reflected appropriately within this case.

Distribution Expenses have an unfavorable variance of $251,888. This unfavorable variance includes individual account variances for Accounts 870 to 881. For Account 871, Distribution and Load Dispatch, the variance is $83,407. Account 871 expenses were increased beyond the benchmark due to higher payroll and communications costs. This is to be expected, because after the start-up of Open Access in the early 1990's on the FGT Pipeline, the Florida Division must nominate and manage supply on a daily basis, while in the last rate case these were all pipeline functions.

In Account 874, Mains and Services, the variance is $54,661. The benchmark is exceeded due to increases in corrosion control costs. The Company's corrosion control efforts were minimal prior to the last rate case. Since the last rate case, the Company has devoted more resources to corrosion control. However, as you can see from MFR Schedule I-2, the Company has been cited for deficiencies related to corrosion protection of its steel distribution facilities. The expenses incurred during the historic test year reflect the Company's commitment to providing adequate levels of protection for its distribution system. Increased focus by the Company on corrosion control work has demanded an increase in labor costs as well as costs associated with the maintenance of the corrosion control system as it was put into place. An increase in the use of rectifiers, well drilling costs and the addition of corrosion control personnel have all contributed to the cost increases above the benchmark. In addition, the costs associated with the Sunshine One-Call System, which was established in 1993 by Florida Statute, are for line locations of buried facilities. The One-Call System's requirements were not in force at the time of the last rate case.

In Account 877, Meters & Regulators-City Gate, the variance is $21,682. Odorization costs account for the increase. These odorization costs are another new cost resulting from FGT's Open Access Tariff. FGT provided the odorization of natural gas at the time of the last case. The Company must now inject odorant into the natural gas at every interconnection with the interstate pipeline.

In Account 878, Meter & House Regulator Expense is $132,373 over the benchmark. This unfavorable benchmark variance for Account 878 (36%), is attributable to an increase in the number of customers which has driven the employee-related costs up as more employees' time is needed to service those customers. In addition the company now directly assigns depreciation expense and other vehicle expenses directly to the department to which the driver is assigned. In the prior rate case, the vehicle expenses were carried in a plant account for depreciation or a vehicle cost accumulation account. In Account 880, Other Expenses, the variance is $38,394 over the benchmark. In Account 880, costs relating to obtaining building permits, rights-of-way, and other City, County, and State permits, including employee-related expenses, have increased substantially as the Company has added new customers. Account 881, Rents, has increased due to renting space for operations and customer service in a new territory, Citrus County, and increased rents paid to railroads. Rents for railroad rights-of –way are increasing with no ability on the Company's part to mitigate these costs. The charges for railroad rights-of-way is a statewide issue for all utilities that utilize these corridors and crossings.

All other accounts in Distribution have a favorable variance of $98,420. Distribution Maintenance Accounts, consisting of Accounts 885 through 894, have a favorable variance of $7,883. Customer Accounts, consisting of Accounts 901 through 905, have a favorable variance of $81,984.

Customer Service & Information, consisting of Accounts 908 and 909, have a favorable variance of $11,647.

Q. **PLEASE EXPLAIN THE UNFAVORABLE VARIANCE FOR SALES EXPENSE.**

A. Sales Expense has an unfavorable variance of $165,905. This total variance consists of individual account variances in Accounts 912, 913 and 916. Demonstration and Sales Expense, Account 912, has an unfavorable variance of $185,309. Changes in expenses appear to be more than that attributable to growth and inflation because of our effort to increase and diversify our customer base. In 1989 our Sales Department consisted of only two people. The annual customer growth increases from 1989 through 1995 averaged only 2.09% per year. As the region began to grow rapidly, additional staffing and related expenses were needed to keep pace. Furthermore, today the Company has operations in several new areas around the State, including Citrus, Gadsden, and other counties. Since the last rate case, the Company has developed a sales staff that extends to each level of our customer base. Staffing now includes three Sales Representatives, a Commercial Specialist, a Business Development Manager, assigned the task of pursuing new industrial and start-up natural gas systems around the State, a Marketing Manager, a Director of Marketing and Sales and support personnel. The results of the current staffing level are as follows. The customer base has expanded at a rate of over 4% per year from 1996 through 1999 (compared with the national average for natural gas companies of about 2% per year). Customer growth is projected to be about 10% per year through the projected test year. Since 1996, the Company has established or is in the process of establishing natural gas operations in 7 additional counties in Florida. Further explanation of the growth and sales strategy for the Company may be found in the pre-filed direct testimony of Mr. Geoffroy.

Finally, Account 913, Advertising, and Account 916, Miscellaneous Sales Expense, have favorable variances of $18,660 and $743, respectively.

Q. PLEASE EXPLAIN THE ACCOUNTING OF COSTS BETWEEN CHESAPEAKE UTILITIES CORPORATION (CUC) AND THE COMPANY.

A. Expenses are settled to the Company from CUC based on various methodologies, depending on the expense. The settlements are designed to flow costs to those departments receiving the benefits of the services and products provided.

Expenses are generally settled by one of these methods: 1) direct payroll, 2) adjusted net plant, and\or 3) number of customers. The settlement methods should reflect the relative size of the individual division that benefits from the service, since most corporate services, which are provided on a centralized basis, do not vary with the volume of business.

For example, indirect corporate expenses and interest expense from CUC are settled based on the ratio of the Florida Division's adjusted net plant at the end of the prior year to CUC's net plant. The total CUC net plant for 1998 was $97,757,392. The Florida Division's adjusted net plant for 1998 was $17,406,191, or 18% of CUC's total. The percentage of these expenses allocated to the Florida Division for 1999 was therefore 18%.

Examples of how direct corporate expenses are settled are as follows. Human Resource and Safety costs are allocated based on the total number of employees in the Florida Division vs. the total number of employees with CUC. Costs are allocated for information services based on the systems and equipment they support. Internal audit costs are allocated based on the audit plan for each business unit. The costs associated with conducting the audit for each business unit are charged to that business unit. Additional comments on the benefits that the Company and it's customers receive due to the affiliation with CUC are given in the prefiled direct testimony of Mr. Geoffroy.

Q. HOW WAS INCOME TAX EXPENSE DETERMINED?

A. Total income tax expense consists of income taxes currently payable and deferred income taxes. The current portion of income tax expense, as shown on MFR Schedule G-2, page 30, for the projected test year, was calculated by simply multiplying the currently effective Federal income tax rate by the income that is currently taxable. Currently taxable income was calculated by deducting from the projected test year net operating income before taxes, the interest expense inherent in the cost of capital and adjusting for other permanent and timing differences. Deferred income tax expense was then calculated separately for timing differences that are originating and for differences that are reversing. Deferred taxes were calculated for timing differences as shown on MFR Schedule G-2, page 31.

Q. PLEASE EXPLAIN THE ADJUSTMENTS TO HISTORIC BASE YEAR CAPITAL PER MFR SCHEDULE D-1.

A. There are two types of adjustments made to the capital accounts. First, flex rate liability in the amount of $46,880, customer deposits in the amount of $627,767, and deferred income taxes in the amount of $119,250, were adjusted out of working capital to properly reflect these costs in the capital structure of the Company. Next, common equity in the amount of $2,766,674, long term debt in the amount of $5,432,674, and short term debt in the amount of $1,805,478 were adjusted to reflect the same ratio to total capital of Chesapeake Utilities Corporation as a whole.

Q. **PLEASE EXPLAIN WHY FLEX RATE LIABILITY IS INCLUDED IN CAPITAL.**

A. The flex rate liability is a liability created when the Company adjusts it's flexible rates above the base non-fuel interruptible rates. The Company's tariff, First Revised Sheet No. 59, allows the Company to charge above the base rate when the comparable alternative fuel is priced above the cost of natural gas. Similarly, the Company may reduce the rate in order to compete with a lower-priced alternate fuel. Our existing tariff requires that we refund 50% of all surplus revenues over the base price. Conversely, the Company may collect 50% of any shortfall from firm gas ratepayers. These over\under recoveries are booked into the flex rate liability account and a refund per therm is calculated annually and applied to the base rate for the next twelve-month period. The flex rate liability account holds customer funds similar to customer deposits and is therefore considered capital.

Q. PLEASE EXPLAIN HOW COMMON EQUITY, LONG TERM DEBT AND SHORT TERM DEBT ARE ALLOCATED TO THE COMPANY.

A. The13-month average total capital as determined from the trial balance for Chesapeake Utilities Corporation at December 31, 1999, was $104,741,463. This consisted of $35,553,982 or 33.94% long term debt, $11,816,252 or 11.28% short term debt, and $57,371,230 or 54.77% in common equity. Applying these same ratios to the Florida Division's rate base of $18,476,909, less the customer deposits of $627,767, deferred income tax of $1,370,750, deferred ITC of $346,024, and flex rate liability of $46,880 leaves a total of $15,966,238 against which the ratios are applied to calculate common equity and debt for the Florida Division.

Q. WHAT IS THE PROJECTED TEST YEAR FOR THIS RATE CASE?

A. The projected test year is the calendar year ending December 31, 2001. The adjusted projected test year data presented in this case is representative of the conditions expected during the period in which the proposed rates will be in effect, and results in matching revenues and related expenses for that period. Additional information on how test year revenues and expenses were calculated is presented in the prefiled direct testimony of Mr. Householder.

Q. WHAT IS THE APPROPRIATE ADJUSTED RATE BASE FOR THE PROJECTED TEST YEAR?

A. The appropriate adjusted rate base for the projected test year is $21,321,700, reflecting utility plant after the deduction of depreciation and amortization reserves and customer advances for construction plus the working capital allowance. This amount is shown on Schedule G-1, page 1. Additional information on capital additions for rate base for the projected test year is provided in the prefiled direct testimony of Mr. Geoffroy.

Q. WHAT IS THE APPROPRIATE AMOUNT OF OPERATING REVENUES FOR THE PROJECTED TEST YEAR?

A. The appropriate amount of operating revenue for the projected test year is $13,481,994, reflecting the gas demand forecast and the application of the projected rates as sponsored by Mr. Householder in his prefiled direct testimony and the related MFR Schedules. The calculation of the appropriate amount of operating revenue is included on MFR Schedules G-2, pages 9-11.

Q. HAVE YOU PREPARED AN EXHIBIT SHOWING THE COMPANY'S CAPITAL STRUCTURE FOR THE PROJECTED TEST YEAR?

A. Yes, The information appears on Schedule G-3, page 2.

Q. HAVE YOU PREPARED THE COMPANY'S CAPITAL STRUCTURE FOR RATEMAKING PURPOSES CONSISTENT WITH THE MANNER IN WHICH IT WAS APPROVED IN THE LAST RATE CASE?

A. Yes. The components that are included in capital are consistent with the components of capital in the last rate case. Total capital for the projected test year is $21,321,700. The adjustments made to reconcile capital to rate base are also consistent with the adjustments made in the last rate case. The adjustments for common equity, long term debt, and short term debt are calculated as described earlier in this testimony regarding adjustments to historic base year capital. Additional testimony regarding cost of equity for the projected test year is in the prefiled direct testimony of Mr. Paul Moul.

Q. WHAT DEBT TO EQUITY RATIO DID YOU EMPLOY?

A. The calculation of capital structure reflects investor sources of capital as follows: equity, 54.8%; long term debt, 33.9%; and short term debt, 11.3%. Chesapeake Utilities Corporation has an established goal of maintaining a 60% equity to 40% debt ratio.

Q. DESCRIBE THE CAPITAL STRUCTURE FOR THE PROJECTED TEST YEAR AS SHOWN ON MFR SCHEDULE G-3, PAGE 2.

A. The capital structure for the projected test year consists of common equity in the amount of $10,289,296, or 48.26%, with a cost rate of 12%; long term debt of $6,377,973, or 29.91%, with a cost rate of 7.52%; short term debt in the amount of $2,119,103, or 9.94%, with a cost rate of 6.03%; customer deposits in the amount of $789,257, or 3.70%, with a cost rate of 6.44%; flex rate liability in the amount of $46,880, or .22%, with a cost rate of 6.30%; and accumulated deferred taxes and ITC tax credits in the amount of $1,392,213 and $306,978, at 6.53% and 1.44%, respectively, with a cost rate of zero for both.

Q. WHAT IS THE APPROPRIATE COST OF CAPITAL?

A. The appropriate Cost of Capital for the projected test year is 12% for equity and 8.89% for the overall weighted Cost of Capital.

Q. WHAT IS THE APPROPRIATE REVENUE EXPANSION FACTOR FOR THE PROJECTED TEST YEAR?

A. The appropriate revenue expansion factor is 1.6784 as calculated on MFR Schedule G-4.

Q. WHAT IS THE APPROPRIATE REVENUE DEFICIENCY FOR THE PROJECTED TEST YEAR?

A. The appropriate Revenue Deficiency for the projected test year is calculated on Schedule G-5 of the MFRs. The amount is $1,826,569.

Q. PLEASE DISCUSS HOW INTERIM RATES WERE DERIVED.

A. Rate base, net operating income and cost of capital were derived by using the December 31, 1999 year end balances, or 13 -month average balances where applicable. All adjustments to rate base and NOI were consistent with interim adjustments required in the last rate case. Certain adjustments to NOI for non-regulated activities were also made as indicated on MFR Schedule F-5. The minimum of the range of the last authorized rate of return on equity of 10%, as required by Florida Statutes Sec. 366.071 (5)(b)3, was used in calculating the weighted cost of capital of 7.86% (MFR Schedule F-8). A revenue deficiency of $830,330 was calculated on MFR Schedule F-7, using the adjusted rate base of $18,514,618, the weighted cost of capital of 7.86% and an adjusted NOI of $960,540. The revenue deficiency of $830,330 was then divided by the total revenues, as calculated on MFR Schedule F-10, to determine the interim rate increase percentage of 13.01%. The total revenues of each applicable rate class was then multiplied by 13.01% to determine the revenue dollar increase per customer class. The revenue dollar increase was then divided by the therm sales by customer class to determine the revenue increase per therm. The Special Contract Customers and Large Volume Contract Customers were not included in this calculation because their rates are determined by contract rather than rate schedule, subject to approval by the FPSC on a case-by-case basis.

Q. DOES THAT COMPLETE YOUR DIRECT TESTIMONY?

A. Yes.

Exhibit No. JAW-1
Florida Division of Chesapeake Utilities Corp.
Docket No. 000108-GU

LIST OF MFR SCHEDULES SPONSORED BY JAMES A. WILLIAMS

Schedule		Title
A-1	P. 1	SUMMARY
A-2	P. 1	SUMMARY
A-3	P. 1	SUMMARY-RATE BASE
A-4	P. 1	SUMMARY-NET OPERATING INCOME
A-5	P. 1	SUMMARY
A-6	P. 1	SUMMARY
B-1	PP. 1-2	RATE BASE-HISTORIC BALANCE SHEET
B-2	P. 1	RATE BASE-RATE BASE
B-3	P. 1	RATE BASE-ADJUSTMENTS
B-4	P. 1	RATE BASE-PLANT BALANCES-TEST YEAR
B-5	PP. 1-3	RATE BASE-ALLOCATION OF COMMON PLANT
B-6	P. 1	RATE BASE-ACQUISITION ADJUSTMENT
B-7	PP 1-2	RATE BASE-PROPERTY HELD FOR FUTURE USE
B-8	P. 1	RATE BASE-CONSTRUCTION WORK IN PROGRESS
B-9	P. 1	RATE BASE-HISTORIC DEPRECIATION RESERVE BALANCES
B-10	P. 1	RATE BASE-AMORTIZATION/RECOVERY RESERVE BALANCES
B-11	P. 1	RATE BASE-DEPRECIATION/AMORTIZATION RESERVE-COMMON PLANT
B-12	P. 1	RATE BASE-CUSTOMER ADVANCES FOR CONSTRUCTION
B-13	PP. 1-2	RATE BASE-WORKING CAPITAL
B-14	P. 1	RATE BASE-MISCELLANEOUS DEBITS
B-15	P. 1	RATE BASE-DEFERRED CREDITS
B-16	P. 1	RATE BASE-ADDITIONAL RATE BASE COMPONENTS
B-17	PP. 1-4	RATE BASE-INVESTMENT TAX CREDITS

Exhibit No. JAW-1
Florida Division of Chesapeake Utilities Corp.
Docket No. 000108-GU

LIST OF MFR SCHEDULES SPONSORED BY JAMES A. WILLIAMS

Schedule		Title
B-18	PP. 1-3	RATE BASE-ACCUMULATED DEFERRED INCOME TAXES
C-1	P. 1	NET INCOME
C-2	PP. 1-2	NET INCOME-ADJUSTMENTS
C-3	P. 1	OPERATING REVENUES
C-4	P. 1	UNBILLED REVENUES
C-5	PP. 1-2	OPERATION AND MAINTENANCE EXPENSES
C-6	P. 1	ALLOCATION OF EXPENSES
C-7	P. 1	CONSERVATION REVENUES AND EXPENSES
C-8	PP. 1-2	UNCOLLECTIBLE ACCOUNTS
C-9	PP. 1-2	ADVERTISING EXPENSES
C-10	P. 1	CIVIC AND CHARITABLE CONTRIBUTIONS
C-11	P. 1	INDUSTRY ASSOCIATION DUES
C-12	P. 1	LOBBYING AND OTHER POLITICAL EXPENSES
C-13	P. 1	TOTAL RATE CASE EXPENSE AND COMPARISONS
C-14	P. 1	MISCELLANEOUS GENERAL EXPENSE
C-15	P. 1	OUT OF PERIOD ADJ TO REVENUES AND EXPENSES
C-16	P. 1	GAIN AND LOSSES ON DISPOSITION OF PLANT OR PROPERTY
C-17	P. 1	MONTHLY DEPRECIATION EXPENSE-HISTORIC BASE YEAR
C-18	P. 1	AMORTIZATION/RECOVERY-HISTORIC BASE YEAR
C-19	P. 1	ALLOCATION OF DEPRECIATION/AMORTIZATION-COMMON PLANT
C-20	P. 1	RECONCILIATION OF TOTAL INCOME TAX PROVISION
C-21	P. 1	STATE AND FEDERAL INCOME TAX CALCULATION-HISTORIC YEAR
C-22	P. 1	INTEREST IN TAX EXPENSE

Exhibit No. JAW-1
Florida Division of Chesapeake Utilities Corp.
Docket No. 000108-GU

LIST OF MFR SCHEDULES SPONSORED BY JAMES A. WILLIAMS

Schedule		Title
C-23	P. 1	BOOK/TAX DIFFERENCES-PERMANENT
C-24	P. 1	DEFERRED INCOME TAX EXPENSE
C-25	PP. 1-2	DEFERRED TAX ADJUSTMENT
C-26	P. 1	PARENT DEBT INFORMATION
C-27	P. 1	INCOME TAX RETURNS
C-28	P. 1	MISCELLANEOUS TAX INFORMATION
C-29	P. 1	CONSOLIDATED RETURN
C-30	PP. 1-2	OTHER TAXES
C-31	P. 1	OUTSIDE PROFESSIONAL SERVICES
C-32	P. 1	TRANSACTIONS WITH AFFILIATED COMPANIES
C-33	P. 1	WAGE AND SALARY INCREASES
C-34	P. 1	O & M BENCHMARK COMPARISON
C-35	P. 1	O & M ADJUSTMENTS BY FUNCTION
C-36	P. 1	BASE YEAR RECOVERABLE O & M EXPENSES
C-37	P. 1	O & M COMPOUND MULTIPLIER CALCULATION
C-38	PP. 1-3	O & M BENCHMARK VARIANCE BY FUNCTION
D-1	PP. 1-2	COST OF CAPITAL
D-2	PP. 1-2	LONG-TERM DEBT OUTSTANDING
D-3	P. 1	SHORT TERM DEBT
D-4	P. 1	PREFERRED STOCK
D-5	P. 1	COMMON STOCK
D-6	P. 1	CUSTOMER DEPOSITS
D-7	P. 1	SOURCES AND USES OF FUNDS

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LIST OF MFR SCHEDULES SPONSORED BY JAMES A. WILLIAMS

Schedule		Title
D-8	P. 1	ISSUANCE OF SECURITIES
D-9	P. 1	SUBSIDIARY INVESTMENTS
D-10	P. 1	RECONCILIATION OF AVG CAPITAL STRUCTURE TO AVG JURISDICTIONAL RATE BASE
D-11	PP. 1-3	FINANCIAL INDICATORS
D-12	P. 1	APPLICANT'S MARKET DATA
F-1	P. 1	INTERIM RATE RELIEF
F-2	PP. 1-2	INTERIM RATE RELIEF-WORKING CAPITAL
F-3	PP. 1-3	INTERIM RATE RELIEF-ADJ TO RATE BASE
F-4	P. 1	INTERIM RATE RELIEF-NET OPERATING INCOME
F-5	PP. 1-2	INTERIM RATE RELIEF-NET OPERATING INCOME ADJUSTMENTS
F-6	P. 1	INTERIM RATE RELIEF-REVENUE EXPANSION FACTOR
F-7	P. 1	INTERIM RATE RELIEF-REVENUE DEFICIENCY
F-8	P. 1	INTERIM RATE RELIEF-COST OF CAPITAL
F-9	P. 1	RECONCILIATION OF AVG CAP. STRUCTURE TO AVG. JURISDICTIONAL RATE BASE
F-10	P. 1	INTERIM RATE RELIEF-DEFICIENCY ALLOCATION
G-1	P. 1	CALCULATION OF PROJECTED TEST YEAR RATE BASE
G-1	PP. 2-3	CALCULATION OF PROJECTED TEST YEAR RATE BASE-WORKING CAPITAL
G-1	P. 4	RATE BASE ADJUSTMENTS
G-1	PP. 5-6	HISTORIC BASE YEAR + 1-BALANCE SHEET
G-1	PP. 7-8	PROJECTED TEST YEAR-BALANCE SHEET
G-1	PP. 9-10	CALCULATION OF THE PROJECTED TEST YEAR RATE BASE
G-1	PP. 11-12	DEPRECIATION RESERVE BALANCES
G-1	PP. 13-14	AMORTIZATION/RECOVERY RESERVE BALANCES

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LIST OF MFR SCHEDULES SPONSORED BY JAMES A. WILLIAMS

Schedule		Title
G-1	P. 15	ALLOCATION OF COMMON PLANT-HISTORIC BASE YEAR + 1
G-1	PP. 16-17	DETAIL OF COMMON PLANT-HISTORIC BASE YEAR + 1
G-1	P. 18	ALLOCATION OF COMMON PLANT-PROJECTED TEST YEAR
G-1	PP. 19-20	DETAIL OF COMMON PLANT-PROJECTED TEST YEAR
G-1	P. 21	ALLOCATION OF DEPR./AMORT. RESERVE-COMMON PLANT-BASE YEAR + 1
G-1	P. 22	ALLOCATION OF DEPR./AMORT. RESERVE-COMMON PLANT-PROJECTED TEST YR.
G-2	P. 1	PROJECTED TEST YEAR NOI-SUMMARY
G-2	PP. 2-3	PROJECTED TEST YEAR-NOI ADJUSTMENTS
G-2	P. 4	NOI-HISTORIC BASE YEAR + 1
G-2	P. 5	NOI-PROJECTED TEST YEAR
G-2	PP. 6-7	REVENUES AND COST OF GAS-HISTORIC BASE YEAR + 1
G-2	PP. 8-9	REVENUES AND COST OF GAS-PROJECTED TEST YEAR
G-2	PP. 10-19	O & M HISTORIC BASE YEAR +1 AND PROJECTED
G-2	P. 20	PROJECTED TEST YEAR-DEPR. AND AMORT.
G-2	P. 21	AMORTIZATION/RECOVERY-HISTORIC BASE YEAR +1
G-2	P. 22	ALLOCATION OF DEPR./AMORT. EXPENSE-COMMON PLANT-BASE YEAR +1
G-2	P. 23	DEPR AND AMORT-PROJECTED TEST YEAR
G-2	P. 24	AMORTIZATION/RECOVERY-PROJECTED TEST YEAR
G-2	P. 25	ALLOCATION OF DEPR./AMORT. EXPENSE-COMMON PLANT-PROJ. TEST YEAR
G-2	P. 26	RECONCILIATION OF TOTAL INCOME TAX PROVISION-HISTORIC BASE YR + 1
G-2	P. 27	STATE AND FEDERAL INCOME TAX CALCULATION-CURRENT-HISTORIC BASE YR + 1
G-2	P. 28	DEFERRED INCOME TAX EXPENSE-HISTORIC BASE YR + 1
G-2	P. 29	RECONCILIATION OF TOTAL INCOME TAX PROVISION-PROJECTED TEST YEAR

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LIST OF MFR SCHEDULES SPONSORED BY JAMES A. WILLIAMS

Schedule		Title
G-2	P. 30	STATE AND FEDERAL INCOME TAX CALCULATION-PROJECTED TEST YEAR
G-2	P. 31	DEFERRED INCOME TAX EXPENSE-PROJECTED TEST YEAR
G-3	P. 1	COST OF CAPITAL-HISTORIC BASE YEAR + 1
G-3	P. 2	COST OF CAPITAL-PROJECTED TEST YEAR
G-3	P. 3	LONG-TERM DEBT OUTSTANDING
G-3	P. 4	SHORT TERM DEBT
G-3	P. 5	PREFERRED STOCK
G-3	P. 6	COMMON STOCK ISSUES-ANNUAL DATA
G-3	P. 7	CUSTOMER DEPOSITS
G-3	P. 8	FINANCING PLANS-STOCK AND BOND ISSUES
G-3	PP. 9-11	FINANCIAL INDICATORS
G-4	P. 1	REVENUE EXPANSION FACTOR-PROJECTED TEST YEAR
G-5	P. 1	REVENUE DEFICIENCY-PROJECTED TEST YEAR
G-6	P. 1-3	MAJOR ASSUMPTIONS-PROJECTED TEST YEAR