ORIGINAL

SUPPLEMENTAL DIRECT TESTIMONY
OF
THOMAS A. GEOFFROY
FLORIDA DIVISION OF
CHESAPEAKE UTILITIES CORPORATION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Thomas A. Geoffroy and my business address is P.O. Box 960, Winter Haven, Florida 33882.

Q. WHAT IS YOUR POSITION WITH THE COMPANY?

A. I am the Assistant Vice President of the Florida Division of Chesapeake Utilities Corporation.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. The purpose of my supplemental testimony is to correct an error made by the Company in its original Minimum Filing Requirements (MFR's) filed with the Commission on May 15, 2000 that has been assigned Docket No. 000108-GU.

Q. WHAT IS THE NATURE OF THE ERROR?

A. The Company made an erroneous adjustment on Schedule G-2 page 1 of 31 (Bates-stamped page 205) in an amount of ($217,321) for interest synchronization. The Company should not have made any adjustment in the Projected Test Year for interest synchronization.

DOCUMENT NUMBER-DATE
11161 SEP-8 8
FPSC-RECORDS/REPORTING

Q. PLEASE EXPLAIN WHAT "INTEREST SYNCHRONIZATION" IS?

A. It is my understanding that Interest Synchronization is a regulatory adjustment that is made when (i) the Company's actual amount of interest expense deducted from regulated earnings to determine income tax expense is different than (ii) the amount of interest expense derived from the utility's adjusted capital structure. The Company, as required, reconciles its capital structure with rate base by making the appropriate adjustments to equalize these two items. Each component of the capital structure has an associated cost. For all debt components (long-term debt, short-term debt, customer deposits, flex-rate liability, etc.), a calculation is made, taking the 13-month average for each debt item and multiplying it by its cost rate. The result is the amount of interest expense applicable to the regulated portion of the company. The difference in the two said amounts of interest expense times the applicable State and Federal Income Tax rates equals the adjustment amount for Interest Synchronization.

The amount of interest deducted from earnings could be different from the amount of interest calculated from the capital structure because of innumerable reasons, a few of which are:

1) The total interest expense of the company may include interest on debt used to finance non-utility activities;
2) A projected test year is used and additional plant is projected, resulting in an increased rate base and increased investor sources of funds in the capital structure;
3) The embedded historic cost of debt is not reflective of the most recent debt cost or the projected debt cost that will be in effect when rates are in effect; and,

4) The company has plans to retire/obtain new debt.

Q. WHY IS IT INAPPROPRIATE FOR THE UTILITY TO MAKE AN ADJUSTMENT TO THE PROJECTED TEST YEAR FOR INTEREST SYNCHRONIZATION?

A. The Company, as is reflected on Schedule G-2, page 30 of 31 (Bates-stamped page 236), used the amount of interest expense derived from the utility's adjusted capital structure in the calculation of income taxes; therefore, no interest synchronization adjustment is required.

Q. WHY DID THE COMPANY MAKE THE ORIGINAL ADJUSTMENT FOR INTEREST SYNCHRONIZATION?

A. The Company last filed for a general rate increase in 1989. Since that time, the entire Florida Division staff responsible for filing rate cases is different than the staff from the previous case and has limited experience with the concept of interest synchronization. The current staff responsible for preparing the current rate case noted that an interest synchronization adjustment was made in the 1989 case and believed that they understood the rationale behind the adjustment. It appeared that in the 1989 case the amount of interest shown on Schedule G-2, page 30 of 31 (Bates-stamped page 131), times the applicable State and Federal income tax rates was, within a reasonable, minor difference, equal to the amount of interest synchronization adjustment shown on Schedule G-2, page 1 of 31 (Bates-stamped page 102). The current staff simply duplicated what it thought was the appropriate methodology for calculating the interest synchronization adjustment.

The Company first became aware of the error during the discovery process when the Commission Staff inquired into this specific adjustment and it became apparent that the adjustment, as reflected in the MFRs, was inappropriate.

Q. WHAT IMPACT DOES THE CORRECTION OF THE INTEREST SYNCHRONIZATION ADJUSTMENT HAVE ON THE REVENUE DIFFICIENCY?

A. The removal of the interest synchronization adjustment from Schedule G-2, page 1 of 31 (Bates-stamped page 205), would reduce the achieved Net Operating Income (NOI) by $217,321, thus increasing the revenue deficiency by $364,752, using the Company-filed multiplier of 1.6784 or $350,191, using a multiplier of 1.6114 as used by the Commission in setting interim rates.

Q. IS THE COMPANY PROPOSING TO INCREASE THE AMOUNT OF ITS OVERALL PROPOSED ANNUAL REVENUE INCREASE BY $350,191?

A. No. The Company is only proposing that the Commission consider this correction to the extent that the Commission determines that the original $1,826,569 amount should in fact be reduced. Then, and only then, would the Company request that the Commission allow an increase in the revenue deficiency due to the correction of the interest synchronization adjustment up to a maximum of the original request of $1,826,569.

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes, it does.