

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Eastern Shore Natural Gas Company)

Docket No. RP07-

**PREPARED DIRECT TESTIMONY OF
AMANDA CHI**

1 **Q. Please state your name, occupation and business address.**

2 A. My name is Amanda Chi, and I am the Accounting Manager for the regulated
3 operations of Chesapeake Utilities Corporation (“Chesapeake”). My business
4 address is 909 Silver Lake Boulevard, Dover, Delaware 19904.

5

6 **Q. Describe briefly your education and relevant professional background.**

7 A. I received my Bachelor of Science in Management from Goldey-Beacom College in
8 1997. I joined Chesapeake in 1999 as a Staff Accountant for the Maryland Division
9 and have also served as the Staff Accountant for Eastern Shore Natural Gas
10 Company (“Eastern Shore”). In 2004, I was promoted to Accounting Manager for
11 the regulated operations of Chesapeake. In my current role, I supervise the
12 accounting for Eastern Shore and for the three natural gas distribution divisions of
13 Chesapeake that operate in Delaware, Maryland and Florida as well as two non-
14 regulated entities operating in the State of Florida.

15 **Q. What is the purpose of your direct testimony in this proceeding?**

1 A. The purpose of my testimony is to describe and support the test period
2 adjustments relating to Eastern Shore's operation and maintenance expenses and
3 taxes other than income.
4

5 **Q. Please briefly explain the overall cost settlement process.**

6 A. Charges that can be directly identified to a business unit, like Eastern Shore, are
7 directly charged to that business unit and are not part of the settlement process.
8 Examples of items that are directly charged include accounts payable vouchers,
9 prepaid insurance journal entries, inventory issues, etc. Other charges that cannot be
10 directly charged to the business unit are allocated in the cost settlement process. The
11 cost settlement process is the process of allocating costs to the business unit that
12 either causes the cost to be incurred or benefits from the cost being incurred. Costs
13 are accumulated by operational departments. Employee-based departments include
14 payroll, benefits, payroll taxes, vehicle costs and other employee-related expenses.
15 Non-employee departments are used to accumulate costs for shared facilities,
16 information systems, mailroom expenses, etc. The costs are then allocated to the
17 business units, including Eastern Shore, using department- specific settlement rates.
18

19 **Q. Please Describe the operation and maintenance expenses included in this filing?**

20 A. As shown in Statement A, the operation and maintenance expenses are \$6,891,013.
21 Statement H-1 of the rate filing consists of four pages. It shows the results for the

1 twelve months ended June 30, 2006, adjustments, and total adjusted operation and
2 maintenance expenses for the test period. Statement H-1 ties to the Operation and
3 Maintenance Expense amount on Statement A. Schedule H-1, Adjust, summarizes
4 the fifteen adjustments the Company is making to base period operation and
5 maintenance expenses.

6
7 **Adjustment No. 1 – Forecasts**

As stated earlier, the base period
8 consists of the actual expenses for the twelve months ended June 30, 2006. The
9 unadjusted test period consists of the actual three months ended June 30, 2006 and
10 nine months projected. The forecast adjustment of \$370,870 reflects the change in
11 the base period level of expenses to an expense amount equivalent to three months
12 actual and nine months forecast, exclusive of any other adjustments. The Company
13 will update the test period for the nine (9) months projected, as the actual data
14 becomes available.

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16 **Adjustment No. 2 – Settlement Rate Adjustment**

Eastern Shore has
17 included an adjustment of (\$55,012) to the Company's costs due to organizational
18 changes or changes in the department settlement rates effective in the Test Period.
19 Of the (\$55,012), (\$58,409) is due to an organizational change effective November 1,
20 2006. In the past, the draft, design and locate departments have done work for both
21 Eastern Shore and the natural gas distribution divisions of Chesapeake. In

1 November, these departments will no longer support Eastern Shore and a newly
2 formed department will take over these duties. Due to this change, the existing draft,
3 design and locate departments and related management and support departments will
4 no longer be allocating costs to Eastern Shore. This will be offset by costs included
5 in other adjustments (including payroll, benefits, etc.) for the new department in
6 Eastern Shore. Due to the organizational change above and the planned move of
7 Eastern Shore employees to a new building, (\$19,041) has been eliminated from the
8 allocation of shared facilities departments, since they will no longer be used to
9 support Eastern Shore. The remaining \$22,438 comprises adjustments to settlement
10 rates to bring the rates to the March 2007 level.

11
12 **Adjustment No. 3 – Payroll**

13 Eastern Shore has included a \$439,419
14 adjustment to the Company's labor costs in order to reflect a level of staffing salary
15 and wage expense expected by March 2007. Included in this adjustment are the
16 following new positions: Two pipeline locator technicians, a pipeline integrity and
17 corrosion specialist, a business development and planning manager, a customer
18 service and regulatory manager, an engineering specialist, a contract administrator, a
19 gas control dispatcher, an internal auditor and an applications analyst. The two
20 pipeline locator technicians' costs are offset by the elimination of the technicians that
21 previously did work for both Eastern Shore and the natural gas distribution divisions
of Chesapeake.

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Adjustment No. 4 – Workers’ Compensation Adjustment Eastern Shore has included a \$4,600 adjustment to annualize workers’ compensation expenses to the March 2007 level. The costs are based on the adjusted payroll and the current workers’ compensation rates.

Adjustment No. 5 – Benefits Adjustment Eastern Shore has included a \$127,213 adjustment for benefits. This adjustment includes the annualized expense of health, dental and prescription claims, and administration fees at the projected March 2007 expense level and the March 2007 staffing level. This adjustment also includes the annualized expense for life, long-term disability and accidental death and dismemberment insurance and 401(k) expenses at the most current rates and the adjusted payroll. Additionally, this adjustment includes the annualized expense of OPRB and 401(k) forfeitures at the March 2007 level.

Adjustment No. 6 – Insurance Adjustment Eastern Shore has included a (\$2,505) adjustment for insurance expenses. This adjustment is to annualize the insurance expenses effective March 2007. It does not include payroll-related insurance or vehicle insurance. Payroll-related insurance is included in the benefit adjustment, and vehicle insurance is included in the vehicle adjustment.

Adjustment No. 7 – Vehicle-Related Adjustment

Eastern Shore has included a \$10,116 adjustment to annualize the vehicle depreciation and insurance expenses to the expense level effective March 2007.

Adjustment No. 8 – Office Building Adjustment

Eastern Shore has included a \$135,116 adjustment to annualize the projected new facility costs and eliminate the corresponding costs for the current building. The current building no longer has sufficient space for all of Eastern Shore's existing and proposed staff. The move will occur before March 2007.

Adjustment No. 9 – Operations Adjustment

Eastern Shore has included an adjustment totaling \$81,424 to annualize or normalize five items. First, Eastern Shore adjusted \$34,999 to annualize dues for the INGAA Foundation that will not start until January 2007. Second, Eastern Shore adjusted \$23,175 to annualize the expense of the interactive web site, expected to begin in November 2006. Third, Eastern Shore adjusted \$14,585 to annualize the expense of corrosion surveys, expected to begin in November 2006. Fourth, Eastern Shore adjusted \$1,615 to annualize the expense of pipeline inspection flights. Fifth, Eastern Shore adjusted \$7,050 to annualize the expense of increased operating costs for recent plant additions.

Adjustment No. 10 – Maintenance

Eastern Shore has included an adjustment totaling \$56,230 to normalize three maintenance items. First, Eastern Shore adjusted \$45,000 to normalize the maintenance for the pipeline bridge not included in the test period. Second, Eastern Shore adjusted \$9,430 to normalize the expense for underwater crossing inspections that were not included in the test period. Third, Eastern Shore adjusted \$1,800 to normalize the expense of increased maintenance costs for recent plant additions.

Adjustment No. 11 – Pipeline Integrity Adjustment

Eastern Shore has included a \$283,000 adjustment to annualize operation and maintenance expenses to comply with new pipeline integrity standards. These costs are expected to begin in November 2006.

Adjustment No. 12 – Rate Case Adjustment

The rate case adjustment consists of two adjustments totaling (\$160,624). The first is the elimination of (\$22,571) of rate case amortization from the last rate case. The second is the normalization of the current rate case costs. An additional (\$138,053) was eliminated to average the rate case expenditures over a five-year period.

Adjustment No. 13 – Reclassification Adjustment

Eastern Shore has included a \$252,418 adjustment to eliminate a reclassification entry applicable to

1 prior periods. In June 2006, a journal entry was made to reclassify outside service
2 costs from expense to Construction Work in Process. The charges that were
3 reclassified were incurred over the entire base period. The credit is in the three-
4 months actual period included in the forecast period, but the charges incurred in July
5 2005 through March 2006 were not forecasted. As a result, the portion of the
6 reclassification entry pertaining to the charges from July 2005 to March 2006 was
7 eliminated.

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9 **Adjustment No. 14 – Eliminations Adjustment** Eastern Shore eliminated

10 Other Gas Supply and the ACA accrual from the Cost of Service. The adjustment for
11 these expenses was (\$363,132).

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13 **Adjustment No. 15 – Miscellaneous Adjustment** Eastern Shore made a

14 \$61,685 adjustment for miscellaneous items. This included a \$55,038 adjustment for
15 annualizing specific items to the March 2007 level. Examples of the items include
16 prepaid software maintenance, tax fees, audit fees, depreciation for information
17 system hardware and software, new departmental costs for the new positions, etc. It
18 also included \$27,137 to eliminate out of period adjustments or true up expenses in
19 the three-month actual information included in the forecast.

20
21 **Q. Please describe taxes other than income included in this filing?**

1 A. As shown on Schedule H-4 the taxes other than income are \$1,008,550 for the test
2 period. The basis for the taxes other than income is the actual, “per book”, expense
3 of \$850,534 for the twelve months ended June 30, 2006. Five adjustments were
4 added or subtracted from the actual results to get to the test period expense level.

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6 **Adjustment No. 1 – Forecast Adjustments** Eastern Shore has included a
7 \$94,895 adjustment for payroll taxes, due to the change in the base period level of
8 expenses, to an expense amount equivalent to three months actual and nine months
9 forecast, exclusive of any other adjustments. The Company will update the test
10 period for the nine months projected, as the actual data becomes available.

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12 **Adjustment No. 2 – Settlement Rate Adjustment** Eastern Shore has
13 included a (\$2,524) adjustment for payroll taxes due to changes resulting from the
14 settlement rate operations and maintenance adjustment as described previously.

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16 **Adjustment No. 3 – Payroll Adjustment** Eastern Shore has included a
17 \$35,156 adjustment to adjust payroll taxes in order to reflect the level of staffing,
18 salary and wage expense expected by March 2007.

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20 **Adjustment No. 8 – Office Building Adjustment** Eastern Shore has
21 included a \$10,000 adjustment to annualize the projected property taxes associated

1 with the new facility.

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3 **Adjustment No. 15 – Miscellaneous Adjustment** Eastern Shore has
4 included a \$20,488 adjustment to annualize property taxes, franchise taxes and other
5 taxes.

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7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 A. Yes, it does.

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AFFIDAVIT OF AMANDA CHI

Amanda Chi, being duly sworn according to law, on oath deposes
and says: that she is the witness whose testimony appears on the preceding
pages entitled "PREPARED DIRECT TESTIMONY OF AMANDA CHI" in
this proceeding; that, if asked the questions which appear in the text of the
aforesaid testimony, affiant would give the answers that are therein set forth;
and that affiant adopts the aforesaid testimony as her sworn testimony in these
proceedings.

Amanda Chi

Subscribed and sworn to before me this _____ day of October, 2006.

Notary Public