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-M-E-M-O-R-A-N-D-U-M-

DATE: September 28, 2009
TO: Kathy Kaproth, Professional Accountant Specialist, Division of Economic Regulation
FROM: Dale N. Mailhot, Assistant Director, Division of Regulatory Compliance *DM*
RE: Docket No.:090125-GU
Company Name: Chesapeake Utilities Corporation
Company Code: GU616
Audit Purpose: File & Suspend Rate Case
Audit Control No: 09-222-1-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send a response to the Office of the Commission Clerk. There are no confidential work papers associated with this audit.

DNM/ch

Attachment: Audit Report

cc: (With Attachment)
Division of Regulatory Compliance (Salak, Mailhot, File Folder)
Office of Commission Clerk
Office of the General Counsel

(Without Attachment)
Division of Regulatory Compliance (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

DOCUMENT NUMBER-DATE

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FLORIDA PUBLIC SERVICE COMMISSION

**DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING**

Tallahassee District Office

**CHESAPEAKE UTILITY CORPORATION
FILE & SUSPEND RATE CASE APPLICATION
CENTRAL FLORIDA GAS OPERATIONS**

AS OF DECEMBER 31, 2008

**DOCKET NO. 090125-GU
AUDIT CONTROL NO. 09-222-1-1**

Handwritten signature of Jeffery A. Small in black ink.

Jeffery A. Small, Audit Manager

Handwritten signature of Intesar Terkawi in black ink.

Intesar Terkawi, Staff

Handwritten signature of Charleston Winston in black ink.

Charleston Winston, Staff

Handwritten signature of Lynn M. Deamer in black ink.

Lynn M. Deamer, District Audit Supervisor

DOCUMENT NUMBER-DATE

09994 SEP 29 8

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TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE	2
II. OBJECTIVES AND PROCEDURES.....	3
III. FINDINGS	
1. LOST ACCOUNTING RECORDS	8
2. UNSUPPORTED PLANT IN SERVICE TRANSACTIONS	10
3. CONTINUING PROPERTY RECORDS	13
IV. EXHIBITS	
1. 2008 RATE BASE	16
2. 2009 AND 2010 PROJECTED RATE BASE	17
3. 2008 NET OPERATING INCOME.....	18
4. 2009 AND 2010 PROJECTED NET OPERATING INCOME.....	19
5. 2008 CAPITAL STRUCTURE	20
6. 2009 PROJECTED CAPITAL STRUCTURE.....	21
7. 2010 PROJECTED CAPITAL STRUCTURE.....	22

**DIVISION OF REGULATORY COMPLIANCE
AUDITOR'S REPORT**

SEPTEMBER 21, 2009

TO: FLORIDA PUBLIC SERVICE COMMISSION

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated August 7, 2009. We have applied these procedures to the attached schedules prepared by Chesapeake Utility Corporation in support of its petition for rate relief in Docket No. 090125-GU.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures and the report is intended only for internal Commission use.

OBJECTIVES AND PROCEDURES

Our overall objective was to verify that the company's petition and accompanying filing are consistent and in compliance with Sections 366.06 and 366.071, F.S., and Rule 25-7.039, F.A.C. Our more specific objectives and the procedures we performed are illustrated below.

RATE BASE

General

Objective: To determine that the utility's rate base filing represents the recorded results from continuing operations.

Procedures: We reconciled the following individual component rate base balances to the utility's general ledger as of December 31, 2008. We verified utility adjustments to rate base balances and reconciled the adjustments to the utility's other Commission filings for the 2008 historical test year or to the Commission rule or prior order that required the specific adjustment. We recalculated the projected 2009 and 2010 rate base filings. Audit Findings Nos. 2 and 3 recommend specific adjustments to the utility's 2010 13-month average rate base balance presented in its filing.

Plant-in-Service (PIS)

Objective: To determine that property exists and is owned by the utility. To determine that additions to PIS are authentic, recorded at original cost, and properly classified in compliance with Commission rules and the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts. To determine that the proper retirements of PIS were made when a replacement item was put in service. To determine the 13-month average balances for each PIS account.

Procedures: We verified, based on a sample of utility plant additions, retirements and adjustments for select PIS accounts, that the company's PIS is properly recorded per the objectives stated above for the period January 1, 2000 through December 31, 2008. We recalculated a sample of 13-month average balances for selected PIS accounts. Audit Finding No. 1 provides information on utility accounting records that were destroyed in the 2004 hurricane season. Audit Finding No. 2 recommends specific adjustments to the utility's 2008 PIS account balances because of unavailable PIS source documentation or unsupported PIS additions, adjustments or reclassifications. Audit Finding No. 3 recommends a specific adjustment to the utility's PIS account balance because of a difference between the utility's general ledger account balance and its continuing property records account balance.

Construction Work in Process (CWIP)

Objective: To determine the nature and purpose of utility projects recorded as CWIP.

Procedures: We verified the utility's CWIP balance as of December 31, 2008. We reviewed utility documents describing CWIP accruals. We recalculated the 13-month average balances for CWIP.

Working Capital

Objective: To determine that the utility's working capital balance is properly calculated in compliance with Commission rules and is consistent with the utility's prior rate case in Docket No. 000108-GU.¹

Procedures: We verified, based on a sample of utility transactions for select working capital accounts, that the utility's 2008 working capital balance is properly stated, utility in nature, non-interest bearing, does not include non-utility items and is consistent with the docket cited above. We recalculated a sample of 13-month average balances for select working capital accounts.

Accumulated Depreciation

Objective: To determine that accruals, retirements and adjustments to accumulated depreciation are properly recorded in compliance with Commission rules and the FERC Uniform System of Accounts.

Procedures: We verified, based on a sample of utility transactions for select accumulated depreciation reserves, that the accumulated depreciation is properly recorded per the objectives stated above for the period January 1, 2000 through December 31, 2008. We recalculated a sample of 13-month average balances for selected reserve accounts. Audit Findings No. 2 and 3 recommend corresponding adjustments to the utility's 2008 accumulated depreciation account balances based on recommended adjustments to the utility's PIS accounts.

NET OPERATING INCOME

General

Objective: To determine that the utility's filing represents its recorded results from continuing operations.

Procedures: We reconciled the individual component net operating income balances to the utility's general ledger as of December 31, 2008. We verified utility adjustments to net operating income balances and reconciled the adjustments to the utility's other Commission filings during the test year or to Commission rules or prior orders that required the specific adjustment. We recalculated the projected 2009 and 2010 net operating income filings. Audit Finding No. 2 recommends a corresponding adjustment to the utility's 2010 net operating income balance based on our adjustments to projected depreciation expense.

Revenues

Objective: To determine that revenues are properly calculated and recorded in compliance with Commission rules and are based on the utility's Commission approved tariff rates.

Procedures: We reconciled utility revenues for the 12-month period ended December 31, 2008 to the general ledger. We reviewed the Commission audits of the utility's cost recovery clauses for the historical test year, which included recalculations of a sample of customer bills, to ensure that the utility was using the rates authorized in its approved tariff and displayed in its filing. We verified that unbilled revenues were

¹ See Order No. PSC-00-2263-FOF-GU, issued November 28, 2000, Docket No. 000108-GU.

calculated correctly.

Operation and Maintenance Expenses (O&M)

Objective: To determine that operation and maintenance expenses are properly recorded in compliance with Commission rules and were reasonable and prudent for ongoing utility operations.

Procedures: We verified, based on a sample of utility transactions for select O&M expense accounts, that utility 2008 O&M expense balances are adequately supported by source documentation, prudent, utility in nature and do not include non-utility items and are recorded consistent with Commission rules. We reviewed additional samples of utility advertising expenses, legal fees, outside service expenses, sales expenses, customer service expenses and administrative and general service expenses to ensure that amounts supporting non-utility operations were removed. We reviewed intercompany allocations and charges between affiliated companies and non-utility operations to determine if expenses allocated were prudent and supported by adequate company documentation.

Depreciation Expense

Objective: To determine that depreciation expense is properly recorded in compliance with Commission rules and that it accurately represents the depreciation of PIS assets for ongoing utility operations. To determine that historical test year depreciation expense accruals are calculated using the Commission authorized rates in Docket No. 070322-GU.²

Procedures: We recalculated a sample of 2008 depreciation expense accruals for the historical test year to verify that the utility is using the correct depreciation rates authorized in the docket cited above. Audit Finding No. 2 and 3 recommends corresponding adjustments to the utility's 2008 depreciation expense account balances based on our adjustments to the utility's PIS accounts.

Taxes-Other-Than-Income (TOTI)

Objective: To determine that taxes other than income tax expense is properly recorded in compliance with Commission rules.

Procedures: We verified, based on a sample of utility transactions for select TOTI accounts that the 2008 TOTI expense balances are adequately supported by source documentation and are recorded consistent with Commission rules.

CAPITAL STRUCTURE

General

Objective: To determine the components of the utility's capital structure and that the respective cost rates used to arrive at the overall weighted cost of capital are properly recorded in compliance with Commission rules and that it accurately represents the ongoing utility operations. To determine that utility's capital structure adjustments are appropriate and correspond to the utility's rate base adjustments in the filing.

² See Order No. PSC-08-0364-FOF-GU, issued June 2, 2008, Docket No. 070322-GU.

Procedures: We reconciled the following individual component capital structure balances to the utility's general ledger as of December 31, 2008. We verified that the capital structure adjustments reconciled with the rate base adjustments in the filing. We recalculated the 13-month average balances and the weighted average cost of capital for the utility's historical test year capital structure. We recalculated the projected 2009 and 2010 capital structure filings.

Equity

Objective: To determine that owners' equity balances represent actual equity of the utility and that they are properly recorded in compliance with Commission rules.

Procedures: We traced the 2008 equity balances to the general ledger. We verified retained earnings by reconciling a sample of dividend distributions to the dividend declarations of the Chesapeake Utility Corporation Board of Directors meeting minutes.

Long-Term-Debt

Objective: To determine that long-term debt balances represent actual obligations of the utility and that they are properly recorded in compliance with Commission rules.

Procedures: We traced the 2008 long-term debt balances and the unamortized loss on reacquired debt balance to the original documents and verified the terms, conditions, redemption provisions and interest rates for each bond or note payable. We recalculated the weighted average cost of long-term debt.

Short-Term-Debt

Objective: To determine that short-term debt balances represent actual obligations of the utility and that they are properly recorded in compliance with Commission rules.

Procedures: We traced the 2008 short-term debt balances to supporting documents and verified the terms, conditions and interest rates for an affiliated account receivable securitization balance. We verified the average cost of short-term debt. We traced the computation of the average cost of short-term debt to utility documentation.

Customer Deposits

Objective: To determine that customer deposit balances represent actual obligations of the utility and are properly recorded in compliance with Commission rules.

Procedures: We reconciled the 2008 customer deposit balances to the general ledger.

Accumulated Deferred Taxes

Objective: To determine that accumulated deferred income taxes are properly stated and calculated based on the recorded differences between utility book and taxable income.

Procedures: We reconciled the 2008 deferred tax balances to the general ledger and the 2007 deferred tax balances to the utility's federal tax returns.

AUDIT FINDING NO. 1

SUBJECT: LOST ACCOUNTING RECORDS

AUDIT ANALYSIS: The utility's rate base was last established in Docket No. 000108-GU.³ In that docket, the utility's plant in service was \$26.5 million as of December 31, 1999. The utility's filing, for this proceeding, indicates a net increase of \$32.8 million for a requested plant in service balance of \$59.2 million as of December 31, 2009.

Our audit procedures were designed to sample and verify the utility's plant in service additions, retirements, reclassifications and adjustments over the nine year period since its last rate proceeding. During our fieldwork, the utility informed us that accounting records prior to 2005 were destroyed when a hurricane severely damaged its Florida office located in Winter Haven in September 2004.

We have determined that accounting records supporting 53.74 percent or \$17.6 million of the utility's \$32.8 million net increase to plant in service identified above were lost as a result of the hurricane damage suffered and are illustrated below.

<i>Total PIS transaction activity for the period 12/31/99 to 12/31/2008</i>					
<i>Total Records to Review</i>		<i>Records that no longer exist</i>		<i>Records Available for Review</i>	
12/31/1999	\$26,482,697	12/31/1999	\$26,482,697	12/31/2004	\$0
Additions	38,816,559	Additions	21,154,556	Additions	17,662,003
Retirements	(3,839,683)	Retirements	(1,556,897)	Retirements	(2,282,786)
Reclass	0	Reclass	0	Reclass	0
CIAC	(1,749,188)	CIAC	(1,685,998)	CIAC	(63,190)
Adj/Transfers	(473,238)	Adj/Transfers	(307,873)	Adj/Transfers	(165,365)
12/31/2008	\$59,237,147	12/31/2004	\$44,086,487	12/31/2008	\$15,150,660
Net PIS Change	\$32,754,450		\$17,603,788		\$15,150,662

<i>Percent of PIS transactions for the period 12/31/99 to 12/31/2008</i>					
<i>Total % of Records to Review</i>		<i>% of Records that no longer exist</i>		<i>% of Records Available for Review</i>	
12/31/1999	100.00%	12/31/1999	100.00%	12/31/2004	0.00%
Additions	100.00%	Additions	54.50%	Additions	45.50%
Retirements	100.00%	Retirements	40.55%	Retirements	59.45%
Reclass	100.00%	Reclass	0.00%	Reclass	100.00%
CIAC	100.00%	CIAC	96.39%	CIAC	3.61%
Adj/Transfers	100.00%	Adj/Transfers	65.06%	Adj/Transfers	34.94%
12/31/2008	100.00%	12/31/2004	74.42%	12/31/2008	25.58%
Net PIS Change	100.00%		53.74%		46.26%

Our rules require a utility to notify the Commission when its records are destroyed or lost before the expiration of the prescribed records retention period.⁴ We requested a copy of the utility's notification letter to the Commission and the Federal Electric Regulatory Commission (FERC). The utility responded that it could not find its original

³ See Order No. PSC-00-2263-FOF-GU, issued November 28, 2000, Docket No. 000108-GU.

⁴ See Rule 25-7.015 (3), F.A.C., Location and Preservation of Records

notification letter and subsequently provided the Commission Clerk a notarized affidavit from the Vice President of the Florida Division of Chesapeake Utility's Corporation that it complied with the requirements of the Commission rule cited above.⁵ The affidavit included a restatement of the damages suffered and an index of the accounting records lost.

Subsequent to the above series of events, some accounting records were discovered for years 2002 and 2003. However, the bulk of the accounting information that we requested in our audit sample of the utility's plant in service additions for calendar years 2000 through 2004 remains unavailable and was not reviewed.

We proffer no opinion that the additions to plant in service are authentic, recorded at original cost, or properly classified in compliance with Commission rules for the time periods discussed above, except for the few records that were subsequently discovered and provided before the end of field work in our audit engagement.

EFFECT ON THE FILING: To be determined by analyst in Tallahassee.

EFFECT ON THE GENERAL LEDGER: None – Informational only.

⁵ See Docket No. 090125-GU, Document No. 09042-09 Letter dated 8/31/09 with attached affidavit submitted in response to staff auditor regarding records lost in 2004 as a direct result of Hurricane Jeanne

AUDIT FINDING NO. 2

SUBJECT: UNSUPPORTED PLANT IN SERVICE ADDITIONS

AUDIT ANALYSIS: The utility's records reflect a \$32.75 million net increase to its plant in service accounts for the nine year period ending December 31, 2008.⁶ Our audit procedures were designed to sample and verify the utility's plant in service additions, retirements, reclassifications and adjustments since its last rate case proceeding in Docket No. 000108-GU.

We issued four document requests which asked for supporting documentation⁷ for 244 plant in service transactions, totaling \$6.19 million, as part of our work to verify the utility's balance displayed in its filing. In response, the utility provided support for 165 plant in service transactions totaling \$4.05 million. The remaining 78 transactions totaling \$2.14 million were not provided and identified by the utility as "unable to locate" or "not available"⁸ in the amounts of \$1.06 million and \$1.08, respectively. A summary of the transactions we requested and the transactions the utility provided is illustrated below.

Document Req. No.	Requested		Provided		Not Provided	
	Amount	Transactions	Amount	Transactions	Amount	Transactions
07	\$774,474	43	\$603,886	33	\$170,588	10
25	2,537,059	119	930,556	60	1,606,503	58
41	2,456,841	70	2,130,969	63	325,872	7
45	<u>426,229</u>	<u>12</u>	<u>386,779</u>	<u>9</u>	<u>39,450</u>	<u>3</u>
	\$6,194,603	244	\$4,052,190	165	\$2,142,413	78

The utility has the burden to support its filing in a rate case proceeding and the balances reflected in its books and records. We recommend reducing the utility's 13-month average rate base balance displayed in the filing by \$1.6 million to remove the unsupported plant in service transactions identified above and the corresponding cumulative affect on accumulated depreciation for the projected year ending December 31, 2010. (\$2,142,413 - \$520,669) Additionally, the projected 2010 depreciation expense balance should be reduced by \$96,535 to remove accruals calculated for the associated projected 2010 test year. Our calculations are displayed on the schedule that follows.

⁶ See Audit Finding No. 1 of this report.

⁷ Supporting documentation includes copies of original invoices, journal entries, construction project files and memorandums or studies to support each transaction/reclassification/adjustment/correction.

⁸ "Not available" is the term used by the utility in its response to identify the lost documents discussed in Audit Finding No. 1 of this report.

EFFECT ON THE FILING: The utility's projected 2010 13- month average Rate Base and 2010 Net Operating Income balance should be adjusted by the following amounts.

- Reduce Plant in Service by \$2,142,413 *
- Reduce Accumulated Depreciation by \$472,402 **
- Reduce Deprecation Expense by \$96,535

* 13-month average balance equals year end balance because audit adjustments occurred prior to 2009

** 13-month average balance equals 2009 – 2010 simple average balance because of equal monthly accruals.

$$((\$520,669 - \$96,535) + \$520,669)/2 = \$472,402$$

EFFECT ON THE GENERAL LEDGER: The general ledger should be adjusted by the amounts displayed below for each plant in service, accumulated depreciation and depreciation expense account as of December 31, 2008.

Acct. No	Account Description	Debit	Credit
101 3750	Structure and Improvements		\$7,480
108 3750	A/D Structure and Improvement	\$942	
408 3750	Dep Exp Structure and Improvement		\$209
101 3761	Mains - Plastic		\$325,872
108 3761	A/D Mains - Plastic	\$45,623	
408 3761	Dep Exp Mains - Plastic		\$10,754
101 3780	M&R Equipment - General		\$76,788
108 3780	A/D M&R Equipment - General	\$13,706	
408 3780	Dep Exp M&R Equipment - General		\$2,688
101 3790	M&R Equipment - City Gate		\$491,955
108 3790	A/D M&R Equipment - City Gate	\$88,351	
408 3790	Dep Exp M&R Equipment - City Gate		\$15,705
101 3810	Meters		\$646,199
108 3810	A/D Meters	\$33,226	
408 3810	Dep Exp Meters		\$16,814
101 3870	Other Distribution Equipment		\$17,024
108 3870	A/D Other Distribution Equipment	\$7,201	
408 3870	Dep Exp Other Distribution Equipment		\$953
101 3900	Structures and Improvements		\$56,539
108 3900	A/D Structure and Improvement	\$5,682	
408 3900	Dep Exp Structure and Improvement		\$1,131
101 3960	Power Operated Equipment		\$128,995
108 3960	A/D Power Operated Equipment	\$66,533	
408 3960	Dep Exp Power Operated Equipment		\$9,933
101 3970	Communication Equipment		\$391,561
108 3970	A/D Communication Equipment	\$66,334	
408 3970	Dep Exp Communication Equipment		\$19,313
	Equity Account	\$1,892,315	
	Totals	\$2,219,913	\$2,219,913

The 2008 accumulated depreciation adjustments above were determined by using the 2010 calculated accumulated depreciation balance on the following schedule for each account and removing the projected 2009 and 2010 depreciation accruals. Small differences are the result of rounding errors.

(Example: Acct 108 3761 adjustment of \$45,623 = \$67,131 - \$10,754 - \$10,754)

Schedule for Audit Finding No. 2

Acct. No.	Adj. Year	Adj. Amount	Approved Depreciation Rates			2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total	
			1998	2003	2008													
3750	2004	(\$7,480)	3.00%	2.80%	2.80%					(\$105)	(\$209)	(\$209)	(\$209)	(\$209)	(\$209)	(\$209)	(\$1,361)	
3761	2004	(241,978)	3.50%	3.30%	3.30%					(3,993)	(7,985)	(7,985)	(7,985)	(7,985)	(7,985)	(7,985)		
3761	2005	(83,893)	3.50%	3.30%	3.30%					-	(1,384)	(2,768)	(2,768)	(2,768)	(2,768)	(2,768)		
		(\$325,872)								(\$3,993)	(\$9,370)	(\$10,754)	(\$10,754)	(\$10,754)	(\$10,754)	(\$10,754)	(\$67,131)	
3780	2003	(\$62,078)	3.60%	3.50%	3.50%					(\$1,086)	(\$2,173)	(\$2,173)	(\$2,173)	(\$2,173)	(\$2,173)	(\$2,173)		
3780	2004	(3,054)	3.60%	3.50%	3.50%					-	(53)	(107)	(107)	(107)	(107)	(107)		
3780	2005	(7,294)	3.60%	3.50%	3.50%					-	-	(128)	(255)	(255)	(255)	(255)		
3780	2006	(4,363)	3.60%	3.50%	3.50%					-	-	(76)	(153)	(153)	(153)	(153)		
		(\$76,788)								(\$1,086)	(\$2,226)	(\$2,407)	(\$2,611)	(\$2,688)	(\$2,688)	(\$2,688)	(\$19,081)	
3790	2003	(\$410,299)	3.50%	3.60%	3.50%					(\$7,385)	(\$14,771)	(\$14,771)	(\$14,771)	(\$14,771)	(\$14,360)	(\$14,360)	(\$14,360)	
3790	2004	(4,277)	3.50%	3.60%	3.50%					-	(77)	(154)	(154)	(154)	(150)	(150)	(150)	
3790	2005	(80,591)	3.50%	3.60%	3.50%					-	-	(1,451)	(2,901)	(2,901)	(2,821)	(2,821)	(2,821)	
3790	2007	89,697	3.50%	3.60%	3.50%					-	-	-	1,615	3,139	3,139	3,139		
3790	2008	(86,485)	3.50%	3.60%	3.50%					-	-	-	-	(1,513)	(3,027)	(3,027)		
		(\$491,955)								(\$7,385)	(\$14,848)	(\$16,375)	(\$17,826)	(\$16,211)	(\$15,705)	(\$17,218)	(\$17,218)	(\$122,788)
3810	2003	(\$39,647)	4.50%	3.90%	4.00%					(\$773)	(\$1,546)	(\$1,546)	(\$1,546)	(\$1,546)	(\$1,586)	(\$1,586)	(\$1,586)	
3810	2004	(50,168)	4.50%	3.90%	4.00%					-	(978)	(1,957)	(1,957)	(1,957)	(2,007)	(2,007)	(2,007)	
3810	2006	(14,499)	4.50%	3.90%	4.00%					-	-	(283)	(565)	(580)	(580)	(580)		
3810	2007	(90,175)	4.50%	3.90%	4.00%					-	-	-	(1,758)	(3,607)	(3,607)	(3,607)		
3810	2008	(451,710)	4.50%	3.90%	4.00%					-	-	-	-	(9,034)	(18,068)	(18,068)		
		(\$646,199)								(\$773)	(\$2,525)	(\$3,503)	(\$3,786)	(\$5,827)	(\$16,814)	(\$25,848)	(\$25,848)	(\$84,922)
3870	2001	(\$17,024)	16.80%	2.30%	5.60%		(\$1,430)	(\$2,860)	(\$392)	(\$392)	(\$392)	(\$392)	(\$392)	(\$953)	(\$953)	(\$953)	(\$9,108)	
3900	2004	(\$56,539)	2.30%	2.30%	2.00%					(\$650)	(\$1,300)	(\$1,300)	(\$1,300)	(\$1,131)	(\$1,131)	(\$1,131)	(\$7,944)	
3960	2000	(96,763)	7.80%	6.00%	7.70%	(\$3,774)	(\$7,547)	(\$7,547)	(\$5,806)	(\$5,806)	(\$5,806)	(\$5,806)	(\$5,806)	(\$7,451)	(\$7,451)	(\$7,451)		
3960	2003	(32,232)	7.80%	6.00%	7.70%	-	-	-	(967)	(1,934)	(1,934)	(1,934)	(1,934)	(2,482)	(2,482)	(2,482)		
		(\$128,995)				(\$3,774)	(\$7,547)	(\$7,547)	(\$6,773)	(\$7,740)	(\$7,740)	(\$7,740)	(\$7,740)	(\$9,933)	(\$9,933)	(\$9,933)	(\$86,398)	
3970	2003	(\$135,806)	6.80%	7.60%	7.10%					(\$5,161)	(\$10,321)	(\$10,321)	(\$10,321)	(\$10,321)	(\$9,642)	(\$9,642)	(\$9,642)	
3970	2006	764	6.80%	7.60%	7.10%					-	-	-	29	58	54	54		
3970	2007	(17,427)	6.80%	7.60%	7.10%					-	-	-	(662)	(1,237)	(1,237)	(1,237)		
3970	2008	(239,092)	6.80%	7.60%	7.10%					-	-	-	-	(8,488)	(16,976)	(16,976)		
		(\$391,561)								(\$5,161)	(\$10,321)	(\$10,321)	(\$10,292)	(\$10,925)	(\$19,313)	(\$27,801)	(\$27,801)	(\$121,936)
@12/31/2010		(\$2,142,413)				(\$3,774)	(\$8,977)	(\$10,407)	(\$21,570)	(\$42,799)	(\$51,617)	(\$54,910)	(\$56,046)	(\$77,499)	(\$96,535)	(\$96,535)	(\$520,669)	

Annual depreciation accruals were calculated using the approved depreciation rate for the corresponding period and the half-year convention methodology for the first year an asset is placed in service.

AUDIT FINDING NO. 3

SUBJECT: CONTINUING PROPERTY RECORDS

AUDIT ANALYSIS: Commission rules require utility's to maintain their records in such a manner as to meet the following basic objectives.⁹

1. An inventory of property record units which may be readily checked for proof of physical existence.
2. The association of costs with such property record units to assure accurate accounting for retirements; and
3. The determination of dates of installation and removal of plant to provide data for use in conjunction with depreciation studies.

Our review of the utility's plant in service balance reported in its filing included a sample of transactions posted to the following fifteen utility accounts. We requested detailed transaction activity for each account for us to pick our sample. The utility, in its response, provided the continuing property records ledger (CPR) in a data file format. Our attempts to reconcile the beginning balance for each plant in service account to the prior rate case order approved balance is detailed below.

Ending Balance @12/31/1999				
Acct	Acct. Description	Prior Rate Case	Difference	CPR Records
374.0	Land	\$28,635	-	\$28,635
375.0	Structures & Improvements	\$233,056	-	\$233,056
376.1	Mains-Steel	\$10,444,401	\$1,210,750	\$11,655,151
376.2	Mains-Plastic	\$4,000,401	\$41,846	\$4,042,247
378.0	M&R Equipment-General	\$574,617	\$905	\$575,522
379.1	M&R Equipment-City	\$1,098,891	(\$2,000)	\$1,096,891
380.1	Dist. Plant Services-Plastic	\$2,052,978	\$6,173	\$2,059,151
381.0	Meters	\$1,053,519	-	\$1,053,519
382.0	Meter Installations	\$672,495	\$149,886	\$822,381
387.0	Other Equipment	(\$147,019)	\$412,723	\$265,704
390.0	Structures & Improvements	\$334,386	-	\$334,386
394.0	Tools & Work Equipment	\$77,215	-	\$77,215
396.0	Power Operated Equipment	\$291,935	-	\$291,935
397.0	Communication Equipment	\$60,110	-	\$60,110
398.0	Misc. Equipment	\$48,083	-	\$48,083

All of the differences above, except Acct. No. 376.1 Mains-Steel were adequately explained and reconciled by the utility or deemed immaterial by us to pursue.

The utility changed its CPR recording system from a manual ledger to a computer data based system in 2005. The number of accounts with balance discrepancies identifies an area of concern with the utility's CPR accounting system that needs to be

⁹ See Rule 25-7.014 (3) F.A.C., Records and Reports in General.

addressed by the utility to bring it into full compliance with the Commission rule cited above.

The discrepancy for Acct No. 376.1 Mains- Steel is illustrated below on an annual basis. As shown, the beginning balance difference of \$1.2 million at year end 1999 is gone by year end 2003. However, the sum of the net activity between the FERC annual report and the CPR records still includes the \$1.2 difference. This represents the net activity posted to the general ledger that was not included in the CPR and thus not subject to our audit sample and review for this rate case proceeding.

Balance @	FERC A/R	Difference	CPR Record
12/31/1999	\$10,444,399	(\$1,210,752)	\$11,655,151
12/31/2000	\$10,524,753	(\$1,038,042)	\$11,562,795
12/31/2001	\$12,595,103	\$1,033,245	\$11,561,858
12/31/2002	\$12,538,185	\$873,021	\$11,665,164
12/31/2003	\$12,638,540	\$0	\$12,638,540
12/31/2004	\$12,672,816	(\$1)	\$12,672,817
12/31/2005	\$13,002,699	(\$1)	\$13,002,700
12/31/2006	\$13,448,107	(\$32,919)	\$13,481,026
12/31/2007	\$13,435,023	\$0	\$13,435,023
12/31/2008	\$12,890,096	\$0	\$12,890,096
	FERC A/R	Difference	CPR Record
12/31/2008	\$12,890,096	\$0	\$12,890,096
12/31/1999	<u>10,444,399</u>	<u>(1,210,752)</u>	<u>11,655,151</u>
Net Change	\$2,445,697	\$1,210,752	\$1,234,945

unaudited

Since the \$1.2 million was not subject to our review we recommend that it be treated as unsupported utility transactions and that it should be removed from the projected test year ending 2010. A corresponding adjustment to reduce accumulated depreciation by \$435,871 and depreciation expense by \$39,955 for the test year 2010 is calculated below.

Acct. No.	Adjust. Year	Adjust. Amount	Approved 1998	Dep. Rates 2003	2008	2000 to 2002	2003 to 2007	2008	2009	2010	Total Acc/Dep
376.1	1999	\$1,210,752	3.20%	3.30%	3.30%	\$116,232	\$199,774	\$39,955	\$39,955	\$39,955	\$435,871

EFFECT ON THE FILING: The utility's projected 2010 13- month average Rate Base and 2010 Net Operating Income balance should be adjusted by the following amounts.

- Reduce Plant in Service by \$1,210,752 *
- Reduce Accumulated Depreciation by \$415,894**
- Reduce Depreciation Expense by \$39,955

* 13-month average balance equals year end balance because audit adjustments occurred prior to 2009

** 13-month average balance equals 2009 – 2010 simple average balance because of equal monthly accruals.
 $((\$435,871 - \$39,955) + \$435,971)/2 = \$415,894$

EFFECT ON THE GENERAL LEDGER: The general ledger should be adjusted by the amounts displayed below for plant in service, accumulated depreciation and depreciation expense as of December 31, 2008.

Acct. No	Account Description	Debit	Credit
101	376.1 Mains - Steel		\$1,210,752
108	376.1 A/D Mains -Steel	\$355,961	
408	376.1 Dep Exp Mains - Steel		\$39,955
	Equity Account	\$894,746	
	Totals	\$1,250,707	\$1,250,707

The 2008 accumulated depreciation adjustment above was determined by using the 2010 calculated accumulated depreciation balance and removing the projected 2009 and 2010 depreciation accruals. Small differences are the result of rounding errors. (Example: Acct 108 3761 adjustment of \$355,961 = \$435,871 - \$39,955 - \$39,955)

EXHIBIT 1

SCHEDULE B-2

RATE BASE - 13 MONTH AVERAGE

PAGE 1 OF 1

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE A SCHEDULE CALCULATING A 13-MONTH
AVERAGE RATE BASE AS ADJUSTED FOR THE HISTORIC BASE YEAR

TYPE OF DATA SHOWN:
HISTORICAL BASE YEAR DATA: 12/31/08
WITNESS: DEWEY

COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION

DOCKET NO.: 090125-GU

LINE NO	UTILITY PLANT	AVERAGE PER BOOKS	ADJUSTMENT	ADJUSTED AVERAGE
1	PLANT IN SERVICE	\$56,114,259		\$56,114,259
2	COMMON PLANT ALLOCATED	\$0	(\$613,981)	(\$613,981)
3	FLEXIBLE GAS SERVICE ADJUSTMENT	\$0	(\$259,136)	(\$259,136)
4	CUSTOMER ADVANCES FOR CONSTRUCTION	(\$5,085)	\$0	(\$5,085)
5	RETIREMENT WORK IN PROGRESS	\$26,905	\$0	\$26,905
6	CONSTRUCTION WORK IN PROGRESS	\$467,654	\$0	\$467,654
7	TOTAL PLANT	\$56,603,733	(\$873,117)	\$55,730,616
DEDUCTIONS				
8	ACCUM. DEPR. - UTILITY PLANT	(\$18,243,905)	\$0	(\$18,243,905)
9	ACCUM. DEPR. - COMMON PLANT	\$0	\$207,702	\$207,702
10	ACCUM. DEPR. - FLEXIBLE GAS SERVICE	\$0	\$38,847	\$38,847
11	ELIM. FRANCHISE & CONSENT	\$0	\$8,959	\$8,959
12		\$0	\$0	\$0
13		\$0	\$0	\$0
14	TOTAL DEDUCTIONS	(\$18,243,905)	\$255,508	(\$17,988,397)
15	PLANT NET	\$38,359,828	(\$617,609)	\$37,742,219
ALLOWANCE FOR WORKING CAPITAL				
16	BALANCE SHEET METHOD	(\$16,157,443)	\$16,283,813	\$126,370
17	TOTAL RATE BASE	\$22,202,385	\$15,666,204	\$37,868,589
18	NET OPERATING INCOME	\$2,402,960	(\$56,477)	\$2,346,483
19	RATE OF RETURN	10.82%		6.20%

EXHIBIT 2

SCHEDULE G-1

CALCULATION OF THE PROJECTED TEST YEAR RATE BASE

PAGE 1 OF 26

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE A SCHEDULE CALCULATING A 13-MONTH AVERAGE RATE BASE FOR THE HISTORIC BASE YEAR, THE HISTORIC BASE YEAR PLUS ONE, AND THE PROJECTED TEST YEAR

TYPE OF DATA SHOWN:

HISTORICAL BASE YEAR: 12/31/08

HISTORICAL BASE YEAR +1: 12/31/08

PROJECTED TEST YEAR: 12/31/10

COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION

WITNESS: DEWEY

DOCKET NO.: 090125-GU

LINE NO.	DESCRIPTION	BASE YEAR		BASE YEAR	BASE YEAR +1	PROJECTED		PROJECTED TEST YEAR ADJUSTED
		12/31/2008	COMPANY	ADJUSTED	12/31/2009	TEST YEAR	PROJECTED	
		PER BOOKS	ADJUSTMENT	AVERAGE	AVERAGE	UNADJUSTED	TEST YEAR	
<u>UTILITY PLANT</u>								
1	PLANT IN SERVICE	\$56,114,259		\$56,114,259	\$61,197,004	\$68,141,584	\$0	\$68,141,584
2	COMMON PLANT ALLOCATED	\$0	(\$613,981)	(\$613,981)	(\$270,957)	\$0	(\$307,339)	(\$307,339)
3	FLEXIBLE GAS SERVICE ADJUSTMENT	\$0	(\$259,136)	(\$259,136)	(\$259,136)	\$0	(\$259,136)	(\$259,136)
4	CUSTOMER ADVANCES FOR CONSTRUCTION	(\$5,085)	\$0	(\$5,085)	\$0	\$0	\$0	\$0
5	RETIREMENT WORK IN PROGRESS	\$26,905	\$0	\$26,905	\$0	\$0	\$0	\$0
6	CONSTRUCTION WORK IN PROGRESS	<u>\$467,654</u>	<u>\$0</u>	<u>\$467,654</u>	<u>\$38,592</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
7	TOTAL PLANT	\$56,603,733	(\$873,117)	\$55,730,616	\$60,705,502	\$68,141,584	(\$566,475)	\$67,575,109
<u>DEDUCTIONS</u>								
8	ACCUM. DEPR. - UTILITY PLANT	(\$18,243,905)	\$0	(\$18,243,905)	(\$19,643,735)	(\$21,391,806)	\$0	(\$21,391,806)
9	ACCUM. DEPR. - COMMON PLANT	\$0	\$207,702	\$207,702	\$99,562	\$0	\$113,097	\$113,097
10	ACCUM. DEPR. - FLEXIBLE GAS SERVICE	\$0	\$38,847	\$38,847	\$48,951	\$0	\$59,055	\$59,055
11	ELIM. FRANCHISE & CONSENT	\$0	\$8,959	\$8,959	\$9,383	\$0	\$9,807	\$9,807
12		<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
13	TOTAL DEDUCTIONS	(\$18,243,905)	\$255,508	(\$17,988,397)	(\$19,485,838)	(\$21,391,806)	\$181,959	(\$21,209,847)
14	PLANT NET	<u>\$38,359,828</u>	<u>(\$617,609)</u>	<u>\$37,742,219</u>	<u>\$41,219,664</u>	<u>\$46,749,778</u>	<u>(\$384,516)</u>	<u>\$46,365,262</u>
<u>ALLOWANCE FOR WORKING CAPITAL</u>								
15	BALANCE SHEET METHOD	(\$16,157,443)	\$16,283,813	\$126,370	\$53,544	(\$22,661,210)	\$22,979,244	\$318,034
16	TOTAL RATE BASE	<u>\$22,202,385</u>	<u>\$15,666,204</u>	<u>\$37,868,589</u>	<u>\$41,273,208</u>	<u>\$24,088,568</u>	<u>\$22,594,728</u>	<u>\$46,683,296</u>
17	NET OPERATING INCOME	<u>\$2,402,960</u>	<u>(\$56,477)</u>	<u>\$2,346,483</u>	<u>\$1,791,037</u>	<u>\$1,483,584</u>	<u>\$14,002</u>	<u>\$1,497,585</u>
18	RATE OF RETURN		<u>10.82%</u>		<u>6.20%</u>		<u>6.16%</u>	<u>3.21%</u>

EXHIBIT 3

SCHEDULE C-1

NET OPERATING INCOME

PAGE 1 OF 1

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE THE CALCULATION OF NET OPERATING
INCOME PER BOOKS FOR THE HISTORIC BASE YEAR
AND THE PRIOR YEAR

TYPE OF DATA SHOWN:

HISTORICAL BASE YEAR DATA: 12/31/08

COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION

HISTORICAL BASE YEAR DATA - 1: 12/31/07

WITNESS: DEWEY

DOCKET NO.: 090125-GU

LINE NO.		(1)	(2)	(3)	(4)	(5)	(6)
		PRIOR YEAR ENDED TOTAL COMPANY PER BOOKS (BASE YEAR -1) 12/31/2007	CURRENT HISTORIC BASE YEAR ENDED TOTAL COMPANY PER BOOKS 12/31/2008	ADJUSTMENT	COMPANY ADJUSTED (2) - (3)	ADJUSTMENT	JURISDICTIONAL AMOUNT (4) - (5)
1	OPERATING REVENUES	\$13,072,295	\$13,153,832	(\$1,364,829)	\$11,789,003	\$0	\$11,789,003
	OPERATING EXPENSES						
2	GAS EXPENSE	\$0	\$0	\$0	\$0	\$0	\$0
3	OPERATION & MAINTENANCE	\$7,042,369	\$6,853,752	(\$1,083,308)	\$5,770,444	\$0	\$5,770,444
4	DEPRECIATION & AMORTIZATION	\$1,782,281	\$1,910,439	(\$53,763)	\$1,856,676	\$0	\$1,856,676
5	TAXES OTHER THAN INCOME TAXES	\$832,726	\$1,161,232	(\$189,243)	\$971,989	\$0	\$971,989
	INCOME TAXES:						
6	- FEDERAL	\$777,466	(\$538,437)	\$15,574	(\$522,863)	\$0	(\$522,863)
7	-STATE	\$106,585	(\$84,126)	\$2,388	(\$81,738)	\$0	(\$81,738)
	DEFERRED INCOME TAXES						
8	- FEDERAL	\$23,287	\$1,257,993	\$0	\$1,257,993	\$0	\$1,257,993
9	-STATE	\$3,874	\$209,542	\$0	\$209,542	\$0	\$209,542
10	INVESTMENT TAX CREDIT - NET	(\$19,523)	(\$19,523)	\$0	(\$19,523)	\$0	(\$19,523)
11	TOTAL OPERATING EXPENSES	<u>\$10,549,065</u>	<u>\$10,750,872</u>	<u>(\$1,308,352)</u>	<u>\$9,442,520</u>	<u>\$0</u>	<u>\$9,442,520</u>
12	OPERATING INCOME	<u>\$2,523,230</u>	<u>\$2,402,960</u>	<u>(\$56,477)</u>	<u>\$2,346,483</u>	<u>\$0</u>	<u>\$2,346,483</u>

EXHIBIT 4

SCHEDULE G-2

NET OPERATING INCOME

PAGE 1 OF 36

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE THE CALCULATION OF NET OPERATING INCOME PER BOOKS
FOR THE HISTORIC BASE YEAR, THE PROJECTED NET OPERATING INCOME FOR THE
HISTORIC BASE YEAR +1, AND THE PROJECTED TEST YEAR

TYPE OF DATA SHOWN:
HISTORICAL BASE YEAR: 12/31/08
HISTORICAL BASE YEAR +1: 12/31/09
PROJECTED TEST YEAR: 12/31/2010
WITNESS: DEWEY

COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION

DOCKET NO.: 090125-GU

LINE NO		HISTORIC BASE YEAR PER BOOKS	COMPANY ADJUSTMENTS	HISTORIC BASE YEAR ADJUSTED	HISTORIC BASE YEAR +1 2009	PROJECTED TEST YEAR 2010	PROJECTED TEST YEAR ADJUSTMENTS	PROJECTED TEST YEAR AS ADJUSTED
OPERATING REVENUES								
1	OPERATING REVENUES	\$13,153,832	(\$1,357,732)	\$11,796,100	\$11,762,705	\$11,773,624	\$0	\$11,773,624
2	REVENUE RELIEF	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3	CHANGE IN UNBILLED REVENUES	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4	REVENUES DUE TO GROWTH	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
5	TOTAL REVENUES	\$13,153,832	(\$1,357,732)	\$11,796,100	\$11,762,705	\$11,773,624	\$0	\$11,773,624
OPERATING EXPENSES								
6	COST OF GAS	\$0	\$0	\$0	\$0	\$0	\$0	\$0
7	OPERATION & MAINTENANCE	\$6,853,752	(\$1,083,308)	\$5,770,444	\$6,212,813	\$6,487,176	\$0	\$6,487,176
8	DEPRECIATION & AMORTIZATION	\$1,910,439	(\$53,763)	\$1,856,676	\$2,125,001	\$2,388,746	(\$22,449)	\$2,366,297
9	AMORTIZATION - OTHER	\$0	\$0	\$0	\$0	\$0	\$0	\$0
10	TAXES OTHER THAN INCOME	\$1,161,232	(\$189,243)	\$971,989	\$1,056,773	\$1,105,399	\$0	\$1,105,399
11	TAXES OTHER THAN INCOME - GRWTH	\$0	\$0	\$0	\$0	\$0	\$0	\$0
12	INCOME TAXES FEDERAL	(\$538,437)	\$18,119	(\$520,318)	(\$658,600)	(\$389,975)	\$7,213	(\$382,762)
13	INCOME TAXES STATE	(\$84,126)	\$2,778	(\$81,348)	(\$116,081)	(\$70,098)	\$1,235	(\$68,863)
14	INCOME TAXES GROWTH FEDERAL	\$0	\$0	\$0	\$0	\$0	\$0	\$0
15	INCOME TAXES GROWTH STATE	\$0	\$0	\$0	\$0	\$0	\$0	\$0
16	INTEREST SYNCHRONIZATION	\$0	\$0	\$0	\$0	\$0	\$0	\$0
17	DEFERRED TAXES - FEDERAL	\$1,257,993	\$0	\$1,257,993	\$1,175,768	\$675,918	\$0	\$675,918
18	DEFERRED TAXES - STATE	\$209,542	\$0	\$209,542	\$195,517	\$112,398	\$0	\$112,398
19	INVESTMENT TAX CREDITS	<u>(\$19,523)</u>	<u>\$0</u>	<u>(\$19,523)</u>	<u>(\$19,523)</u>	<u>(\$19,523)</u>	<u>\$0</u>	<u>(\$19,523)</u>
20	TOTAL OPERATING EXPENSES	\$10,750,872	(\$1,305,417)	\$9,445,456	\$9,971,668	\$10,290,041	(\$14,002)	\$10,276,039
21	OPERATING INCOME	<u>\$2,402,960</u>	<u>(\$52,315)</u>	<u>\$2,350,644</u>	<u>\$1,791,037</u>	<u>\$1,483,584</u>	<u>\$14,002</u>	<u>\$1,497,585</u>

EXHIBIT 5

SCHEDULE C-1

COST OF CAPITAL 13-MONTH AVERAGE

PAGE 1 OF 1

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE THE COMPANY'S 13-MONTH AVERAGE RECONCILED JURISDICTIONAL CAPITAL STRUCTURE AND COST RATES FOR EACH CLASS OF CAPITAL FOR THE HISTORIC BASE YEAR OF THE CURRENT CASE AND THE HISTORIC BASE YEAR OR TEST YEAR OF THE LAST RATE CASE

TYPE OF DATA SHOWN: HISTORICAL BASE YEAR: 12/31/08 PRIOR RATE CASE YR: 12/31/01 WITNESS: DEWEY

COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION

DOCKET NO.: 090125-GU

LINE NO	CLASS OF CAPITAL (1)	LAST RATE CASE - TEST YEAR OR HISTORIC BASE YEAR ENDED 12/31/01				PRESENT RATE CASE - HISTORIC BASE YEAR ENDED 12/31/08					
		DOLLARS (2)	RATIO (3)	COST RATE APPROVED (4)	WEIGHTED COST APPROVED (5)	AMOUNT PER BOOKS (6)	ADJUSTMENTS SPECIFIC (7)	PRORATA (8)	NET (9)	RATIO (10)	COST RATE (11)
1	COMMON EQUITY	\$9,939,914	47.13%	11.50%	5.42%	\$22,207,471	\$0	(\$5,838,063)	\$16,369,408	43.23%	11.50%
2	LONG TERM DEBT	\$6,340,227	30.07%	7.75%	2.33%	\$0	\$0	\$10,004,881	\$10,004,881	26.42%	6.40%
3	SHORT TERM DEBT	\$2,106,562	9.99%	6.03%	0.60%	\$0	\$0	\$5,123,620	\$5,123,620	13.53%	2.89%
4	CUSTOMER DEPOSITS	\$789,257	3.74%	6.44%	0.24%	\$1,553,528	\$0	\$0	\$1,553,528	4.10%	6.31%
5	DEFERRED TAXES	\$1,548,188	7.34%	0.00%	0.00%	\$4,655,100	\$0	\$0	\$4,655,100	12.29%	0.00%
6	ITC TAX CREDITS	\$306,978	1.46%	0.00%	0.00%	\$162,051	\$0	\$0	\$162,051	0.43%	0.00%
7	FLEX RATE LIABILITY	<u>\$57,185</u>	<u>0.27%</u>	5.16%	<u>0.01%</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>0.00%</u>	0.00%
8	TOTAL	\$21,088,311	100.00%		8.60%	\$28,578,150	\$0	\$9,290,438	\$37,868,588	100.00%	
										Common Equity Ratio:	51.97%

EXHIBIT 6

SCHEDULEG-3

CALCULATION OF THE PROJECTED TEST YEAR - COST OF CAPITAL

PAGE 1 OF 11

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE THE COMPANY'S 13-MONTH AVERAGE COST
OF CAPITAL FOR THE HISTORIC BASE YEAR +1

TYPE OF DATA SHOWN:

HISTORICAL BASE YEAR +1: 12/31/09

COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION

WITNESS: DEWEY

DOCKET NO.: 09D125-GU

LINE NO.	CLASS OF CAPITAL	PER BOOKS	SPECIFIC	COST RATE PRO RATA	COST ADJUSTED	RATIO	COST RATE	WEIGHTED COST
1	COMMON EQUITY	\$23,445,405	(\$194,242)	(\$5,261,902)	\$17,989,261	43.79%	11.50%	5.04%
2	LONG TERM DEBT	\$0	\$0	\$12,669,344	\$12,669,344	30.84%	5.76%	1.78%
3	SHORT TERM DEBT	\$0	\$0	\$2,589,614	\$2,589,614	6.30%	2.90%	0.18%
4	CUSTOMER DEPOSITS	\$1,576,660	\$0	\$0	\$1,576,660	3.84%	6.29%	0.24%
5	DEFERRED TAXES	\$6,111,559	\$0	\$0	\$6,111,559	14.88%	0.00%	0.00%
6	ITC TAX CREDITS	\$142,527	\$0	\$0	\$142,527	0.35%	0.00%	0.00%
7	FLEX RATE LIABILITY	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
8	TOTAL	<u>\$31,276,151</u>	<u>(\$194,242)</u>	<u>\$9,997,056</u>	<u>\$41,078,966</u>	100.00%		<u>7.24%</u>

Common Equity Ratio: 54.11%

EXHIBIT 7

SCHEDULE G-3

CALCULATION OF PROJECTED TEST YEAR - COST OF CAPITAL

PAGE 2 OF 11

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: PROVIDE THE COMPANY'S 13-MONTH AVERAGE COST OF CAPITAL FOR THE PROJECTED TEST YEAR

TYPE OF DATA SHOWN:

PROJECTED YEAR: 12/31/10

COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION

WITNESS: DEWEY

DOCKET NO.: 090125-GU

LINE NO.	CLASS OF CAPITAL	PER BOOKS	SPECIFIC	COST RATE PRO RATA	COST ADJUSTED	RATIO	COST RATE	WEIGHTED COST
1	COMMON EQUITY	\$24,088,568	(\$194,242)	(\$3,590,649)	\$20,303,677	43.49%	11.50%	5.00%
2	LONG TERM DEBT	\$0	\$0	\$14,299,387	\$14,299,387	30.63%	5.76%	1.76%
3	SHORT TERM DEBT	\$0	\$0	\$2,922,795	\$2,922,795	6.26%	2.90%	0.18%
4	CUSTOMER DEPOSITS	\$1,580,224	\$0	\$0	\$1,580,224	3.38%	6.29%	0.21%
5	DEFERRED TAXES	\$7,454,209	\$0	\$0	\$7,454,209	15.97%	0.00%	0.00%
6	ITC TAX CREDITS	\$123,004	\$0	\$0	\$123,004	0.26%	0.00%	0.00%
7	FLEX RATE LIABILITY	\$0	\$0	\$0	\$0	0.00%	0.00%	0.00%
8	TOTAL	<u>\$33,246,005</u>	<u>(\$194,242)</u>	<u>\$13,631,533</u>	<u>\$46,683,296</u>	100.00%		<u>7.15%</u>

Common Equity Ratio: 54.11%