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(850) 413-6900

Public Service Commission

December 3, 2007

Mr. Brian Bilinski, Rates and Finance Manager
Florida Division of Chesapeake Utilities Corporation
1015 6th Street N.W.
Winter Haven, Florida 33881

Re: Docket No. 070322-GU

Dear Mr. Bilinski:

Enclosed is the Staff Report regarding your current depreciation study filed in the above-referenced docket. The Company's response to this report is due on December 21, 2007, in order to meet the targeted recommendation date of January 16, 2008. In your response, please provide us with any concurrences, differences, and/or additional input.

Should you have any questions, or need further information, please do not hesitate to contact Betty Gardner at (850) 413-6742.

Sincerely,

John Slemkewicz

John Slemkewicz
Public Utilities Supervisor

JS/BG:sc
Attachment
cc: Office of the General Counsel (Fleming)
Office of Commission Clerk
Office of Public Counsel
Division of Economic Regulation (Devlin, Willis, Bulecza-Banks)
Akerman Senterfit (Keating)

Chesapeake Utilities Corporation
2007 Depreciation Study
Docket No. 070322-GU
December 3, 2007

Staff Report

General

This depreciation study uses the company's December 31, 2007 estimated investment and reserves to calculate the revised depreciation rates with an effective date of January 1, 2008. Staff is requesting the company to reconcile each plant account due to errors found during the initial review.

The staff's recommended average service and remaining lives are rounded to one decimal point up to 20 years and the nearest whole year is used thereafter.

Reference: Attachment B - Calculation of Average Age of Plant as of December 31, 2007, and Attachment D Central Florida Gas - 2007 Capital Budget

For this depreciation study, the calculated average age for each plant account is based upon the company data filed May, 2007. The company used plant additions/investments estimated through December 31, 2007 to determine the average age. In the previous depreciation studies, the estimated additions used were two to three times more than the actual amounts shown in the Annual Status Reports. Staff is requesting that the company provide an updated "Attachment B" showing the most current 2007 plant additions/investments for the period ending December 31, 2007 in the recalculation of the average age of plant.

Inactive Service Lines

According to Rule 25-12.045(1)(c), "after five years of inactivity, service lines shall be retired and physically abandoned within six months." Please provide a list of all service lines that have been inactive for over five years.

Analysis of Accounts

The company's response to the initial review for some of the plant accounts reflect corrections needed due to posting/recording errors. Please provide staff with an updated 2007 projection of investments and reserves (Schedule 1) resulting from the corrections of all posting/recording errors.

For the plant accounts not shown in this analysis, staff proposes the continuation of the currently approved Iowa curves, average service lives, and net salvage amounts. The average remaining life for the plant accounts will be completed upon the receipt of an updated Attachment B - Calculation of Average Age of Plant as of December 31, 2007.

Account 376.1 (Mains - Plastic): For this plant account, the company's response to the initial review included an ongoing research for a retirement entry. Please provide the results of your research and update the appropriate plant accounts.

Mains – Steel (Account 376.2): For the 2002 depreciation study, the company used $64,751 as the estimated amount of gross additions. Please explain why for the 2002 Annual Status report, the actual 2002 additions were a negative $42,480. Also, the company should correct the depreciation reserve for removal cost charged in error in the amount of $107,142.

Measuring and Regulating (Account 378): For the estimated 2007 additions in the amount of $95,481, a .5 year for in service produced a weighted average of $47,741 instead of the company proposed $1,216,063. This created a recalculation of the average age which changed from 10.4 to 9.3 years. Also, the company's response to the initial review showed incorrect recording of removal costs. Please reconcile the appropriate accounts.

Services - Steel (Account 380.1): The initial review showed the recording of removal costs in error to this account. Please reconcile the appropriate accounts.

Meters (Account 381): It appears reasonable for the company to continue to use the 25 year average service life, R4 curve, and net salvage of zero as previously prescribed in the last depreciation study. Also, the company's October 16, 2007 response to the retirement of meters indicated an established relationship with a third party contractor to handle meter inspection, testing, and recommendation for meter removal.

a. Please provide staff with a copy of the company's meter change-out procedures.
b. Provide the name and function of the third party contractor and how the contractor is paid.
c. Who handles the removal and installation of meters? Also, what accounts are billed for the removal costs?

Measuring and Regulating Equipment (Account 385): Staff proposes the continuation of the prescribed life parameters of a 30 year average service life, the R3 Iowa Curve, and net negative salvage of five percent. Based upon the company's response to the initial review, the industrial meter set was removed from Dart Industries and no retirement occurred. Please explain why it was removed, if it was not retired.

Transportation Equipment (Account 392.1): The company booked $173 as an adjustment to this account, but in its response to the initial review, it is uncertain as to why it occurred, but believes it to be immaterial. Even though the company believes this adjustment of $173 to be immaterial, staff would like an explanation of why it occurred. Please check and make sure it is not a part of a much larger amount charged to another account.

The company stated that the 2006 transaction in the amount of $24,581 was a transfer-in from the company's Treasure Coast Propane division. Is the reserve a portion of the $24,581? If so, please provide a breakdown of the amount. If not, please explain why the reserves were not transferred with the investment.