CENTRAL FLORIDA GAS

ORIGINAL

September 6, 2000

Ms. Blanca S. Bayo
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

RE: DOCKET NO. 000108-GU
CHESAPEAKE UTILITIES CORPORATION
COMPANY RESPONSE TO AUDIT REPORT

Dear Ms. Bayo:

The Florida Division of Chesapeake Utilities Corporation makes the following response to the Florida Public Service Commission regarding the Final Audit Report dated August 14, 2000.

Exception No. 1

Account 376 Mains (Plastic)

The 1999 ending balance is overstated by $2,324. The utility charged additional sales tax of $1,114 (18,571 * .06) and $1,210 ($20,161 * .06) on the total amount of two invoices. The utility should reduce Account 376 by $2,324 ($1,114 + $1,210).

Account 381 Meters

The utility charged additional sales tax of $575 ($9,582.07 * .06) on the total amount of an invoice. The utility should reduce Account 381 by $575.

Company Response: The Company does not oppose the adjustments in Exception No. 1.

Exception No. 2

Per Commission Order No. 23166, the utility should remove $509,422 from Account 114.1, Excess Cost of Acquisition – New – CFG Adjustments.

Central Florida Gas Company
A Division of Chesapeake Utilities Corporation
1015 Sixth Street, NW • P.O. Box 960 Winter Haven, Florida 33881 • 863.293.2125 • 863.294-

Company Response: The Company does not oppose the Adjustments in Exception No. 2. The Company will make the appropriate adjustments to its books.

Exception No. 3

The utility included the following PGA revenues, PGA expenses, and PGA taxes in its MFRs.

	1999	2000	2001
PGA revenues	$7,806,424	$7,195,543	$5,790,925
PGA expenses	$7,665,881	$7,159,530	$5,761,942
PGA-related taxes	$39,070	$36,013	$28,983

The above amounts should be removed from the MFRs as shown above.

Company Response: The Company does not oppose the adjustments in Exception No. 3.

Exception No. 4

The 2000 opening balance of common equity reflects an adjustment to include net income. The utility should be required to make these journal entries to the general ledger accounts as part of its end of year closing entries. Closing and adjusting entries posted for the purpose of recording net operating income should be visible in the utility's general ledger accounts.

Company Response: The Company agrees with the recommendation of the Commission staff.

Exception No. 5

Working Capital

An additional $10,305 should be removed from the current liabilities section of working capital. This adjustment reflects an amount, $66,981, included in the 13-month average as a debit instead of a credit amount. This change will have the effect of increasing the 13-month average balance of working capital from $498,227 to $508,532.

Cost of Capital

The flex-rate liability, a zero-cost component of the capital structure, should be increased by $10,305. This will not change the weighted average cost of capital, 8.26 percent, because of its small size.

Company Response: The Company does not oppose the adjustments in Exception No. 5; however, the Company takes the position that the flex-rate liability is not a zero-cost component of the capital structure. The flex-rate liability is accounted for by the Company similarly to the Purchased Gas Adjustment (PGA) and the Energy Conservation Cost Recovery (ECCR) clauses. As is the case with the PGA and ECCR clauses, interest is calculated on the shortfall or surplus in interruptible revenues that is accumulated during the year and either refunded to or collected from the firm customers in the subsequent year. The interest rate that is used is the same rate that is used for the PGA and ECCR clauses, the "Dealer Commercial Paper" rate as published in the Wall Street Journal. In 1999, the Company refunded to its firm customers about $3,007 in interest through the flex-rate adjustment mechanism. The Company has included the flex-rate liability in the MFR's with the 13-month average Dealer Commercial Paper rate of 6.30 percent as this items' cost of capital.

Sincerely,

Thomas A. Geoffroy

Thomas A. Geoffroy
Assistant Vice President

Cc: Wayne L. Schiefelbein, Esquire