CHESAPEAKE
UTILITIES CORPORATION

Public Company Accounting Oversight Board
Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

December 13, 2011

Re: PCAOB Rulemaking Docket Matter No. 37 – Concept Release on Auditors Independence and Audit Firm Rotation ("Concept Release")

Dear Chairman, Board Members and Staff of the PCAOB,

I appreciate the opportunity to comment on the PCAOB Concept Release. It is important that you thoughtfully gather and evaluate viewpoints from audit committees, company management, auditing firms and the investor community on the important topics of auditor independence and audit quality.

I am writing as Chairman of the Audit Committee of Chesapeake Utilities Corporation, a NYSE-traded company engaged in natural gas distribution and transmission, propane distribution, energy marketing and information services. At a recent Audit Committee meeting we discussed the concept of mandatory audit firm rotation. It is our opinion that mandatory audit firm rotation will not result in a more independent or higher quality audit. Furthermore, mandatory audit firm rotation would certainly result in higher audit fees and internal costs. Lastly, we believe that the audit committee is in the best position to select the independent auditor, evaluate the auditor's independence, oversee the quality of work performed by the auditor and decide whether a change in auditors would benefit the company and its shareholders. Mandatory audit firm rotation undermines the audit committee's ability to perform those functions.

<u>Audit Quality</u>

To conduct an effective audit, the audit firm must have a thorough understanding of each client's industry, business model, operations, risk environment, internal control environment, and financial management and accounting staff capabilities. The auditor must also understand current accounting policies and estimating techniques used by their client and evaluate those against alternative policies and estimating techniques. It is our belief that this knowledge develops and strengthens over a period of years, and it may take 2 to 4 years to build this cumulative knowledge base. The example of a mandatory auditor rotation after 10 years would mean that a significant part of that 10 year period involves building the necessary knowledge base, rather than having the auditor function at a high level of understanding of the company and its industry. It is hard to conclude that the audit would be of higher quality in years 1 and 2 after a mandatory audit firm rotation, compared to years 11 and 12 without mandatory audit firm rotation, provided that the auditor and the audit committee are both doing their jobs.

In addition, many companies are in specialized industries that are regulated and have unique accounting principles. As a natural gas utility Chesapeake Utilities is one of those companies. When we last changed our audit firm in 2007, finding the requisite industry experience in the new audit firm was of major importance. We have concerns that mandatory auditor rotation could force us to use an audit firm that is less than optimum for our company. Audit firm consolidation over time could potentially make this a more likely issue. To select the "next" audit firm that is right for Chesapeake Utilities, would we have to return to the higher cost Big Four to find adequate industry expertise? Could we find a smaller, high quality audit firm with expertise in the utility sector, but who may not be able to service our growing and acquisitive business?

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Could we be forced to settle for an audit firm that has less utility expertise than we would like, because there are only a few firms available that have the expertise? We do not know the answers to these questions, but mandatory auditor rotation could bring challenges to those of us operating in specialized or regulated industries.

Audit Cost

The additional costs of more frequent auditor rotation cannot be ignored. The additional "first time" costs due to auditor learning curve and ramp up are real and your Concept Release refers to estimates of an additional 20% or more. That would appear to reflect only direct audit costs. You need to also consider the impact on the company's management and accounting staff, as they must spend more time educating the new audit firm, and providing the necessary records and documentation to get the new firm grounded in the policies and procedures of their new client.

It is one thing for the Audit Committee to decide that a change in audit firm is in order and have the company incur this additional investment for the long-term benefit of the shareholders. It is quite another to have the shareholders absorb this cost because an arbitrary time limit for engaging an audit firm has been reached.

The Decision to Change Audit Firms

It is our opinion that the audit committee is best positioned to decide whether the company should continue their relationship with its current audit firm, or seek a change. We believe the vast, vast majority of audit committees are taking seriously the responsibility to insure that their audit firm is independent. We believe that the audit committee is uniquely positioned to determine whether the quality of audit and level of service provided by the audit firm meet the needs of the company and its investors.

At Chesapeake Utilities we changed audit firms in 2007 and are happy with that decision. We are also prepared to periodically "test the market" to find out what other audit firms may offer in terms of competence, service and cost. But we wish to be free to make the decision to retain our current audit firm, "test the market" or change auditors based on what we think is best for the company and its shareholders, on our terms and timetable, and not have a mandatory auditor rotation forced upon us.

Again, thank you for the opportunity to comment on this important issue.

Sincerely,

Thomas J. Bresnan
Chairman of the Audit Committee
Chesapeake Utilities Corporation

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