State of Florida

Public Service Commission
-M-E-M-O-R-A-N-D-U-M-

DATE: July 31, 2002
TO: Division of Competitive Markets and Enforcement (Brown)
FROM: Division of Auditing and Safety (Vandiver)
RE: **Docket No.** 020004-GU; **Company Name:** Chesapeake Utilties Corp., Florida Division; **Audit Purpose:** Energy Conservation Cost Recovery Audit; **Audit Control No.** 02-057-3-1

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 the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
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Division of Competitive Markets and Enforcement (Harvey)
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FPSC-COMMISSION CLERK

FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING

Orlando District Office

CHESAPEAKE UTILITIES CORPORATION

ENERGY CONSERVATION COST RECOVERY AUDIT

12-MONTH PERIOD ENDED DECEMBER 31, 2001

DOCKET NO. 020004-GU
AUDIT CONTROL NO. 02-057-3-1

Thomas E. Stambaugh, Audit Manager

Charleston J. Winston, Audit Supervisor

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DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT

JULY 16, 2002

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying conservation schedule for the 12-month period ended December 31, 2001, for Chesapeake Utilities Corporation. This schedule was prepared by the audit staff as part of its petition for Energy Conservation Cost Recovery (ECCR) in Docket No. 020004-GU.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

SUMMARY OF SIGNIFICANT FINDINGS

Revenue in the company's ECCR filing was overstated by $10,198. The cause is the use of an incorrect rate for commercial and industrial customers in January and February. Ratepayers were billed accurately.

The ECCR filing included $187,771 in payroll and benefits and zero dollars in vehicle and other expense. The actual totals should be $151,956 for payroll and benefits expense, $25,929 for vehicle expense, and $9,886 for other expense. In advertising, $1,304 was disallowed because it did not directly pertain to an approved ECCR program.

In 2000, the company changed its accounting procedures. Instead of posting transactions to the traditional Uniform System of Accounts (USOA) for ECCR (or other purposes), the parent company used an accumulation account for Central Florida Gas Company. This system was changed in 2001 to use the USOA in a modified form.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all the financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

Scanned - The documents or accounts were read quickly looking for obvious errors.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Verify - The item was tested for accuracy and compared to the substantiating documentation.

Conservation Revenues - Compiled and tested therm sales. Adjusted ECCR revenue as indicated by testing. Verified that customers had been billed using the approved ECCR rates.

Program Cost - Compiled and tested program costs and allocation methodology.

True-up - Verified that the correct interest rates were applied for the audited period. Adjusted the true-up for the effect of revenue and expense adjustments.

Exception No. 1

Subject: Change in Accounting System Beginning in 2000

Statement of Fact: In the 2000 ECCR audit report, the FPSC auditor's opinion was that the utility did not comply with Rule 25-17.015, Florida Administrative Code, (F.A.C.), Energy Conservation Cost Recovery. The citation for noncompliance was stated in paragraphs (e)(2) and (e)(3), respectively, as follows:

> Each utility shall establish separate accounts or subaccounts for each conservation program for purposes of recording the costs incurred for that program. Each utility shall also establish separate subaccounts for any revenues derived from specific customer charges associated with specific programs.
>
> A complete list of all account and subaccount numbers used for conservation cost recovery shall accompany each filing in paragraph (1)(a).

The utility established a clearing account designated FLA to accumulate all revenues and expenses. At the end of a month, the company "clears" this account by a journal entry to project numbers within its accounting information system. For ECCR purposes, the net effect of expense and revenue was carried to the deferred over/underrecovery account **without passing through** the 908.XX and 909.XX accounts.

For the year 2001, the utility produced a summary trial balance for Central Florida Gas Company stated in the FERC summary account order but with no subaccounts.

Recommendation: Further refinement by the utility of the classification of department charges reduced the amount charged to payroll and benefits and increased the amounts charged to vehicle expense and other expense. Total recoverable ECCR expense did not change.

The 909 account should be used to record ECCR advertising expenses separate from other ECCR expenses which are classified to the 908 account. Further, the fourth available digit in the FERC account field should be used as an ECCR program designator. Both of these accounts are listed in the Uniform System of Accounts with types of transactions listed which imply the use of subaccounts for ECCR programs.

While the utility changes are an improvement, further refinement in the use of subaccounts for ECCR programs should be implemented to meet the requirements of Rule 25-17.015 F.A.C.

Disclosure No. 1

Subject: **Revenues**

Statement of Fact: The company reported ECCR revenues of $366,553 before true-up for the 12-month period ended December 31, 2001.

Commission Order No. PSC-00-2536-TRF-EG, issued December 29, 2000, established ECCR factors for Chesapeake as follows:

	Gross Factors	**Net of Tax**
GS-1/TS-1	.04578	.04555
GS-2/TS-2	.01734	.01725
GS-3/TS-3	.01680	.01672
GS-4/TS-4	.01595	.01587
GS-5/TS-5	.02061	.02051
GS-6/TS-6	.009630	.009580
GS-7/TS-7	.005990	.005960
GS-8/TS-8	.005150	.005124
GS-9/TS-9	.004710	.004686

The company's January and February revenue calculations for the filings used the ECCR factors (net of tax) which had been approved for **2000** instead of 2001 for some of its commercial and industrial customers. A firm transportation factor for 2000, .00726, net of tax .00722, was used instead of the 2001 factors. A similar occurrence was noted in the previous ECCR audit.

The effect of using the incorrect 2000 rates caused the company to overstate revenues (in its ECCR filing **only**) for 2001 by $5,204 in January and $4,994 in February.

A spot-check of customer bills revealed that rate payers had been billed accurately.

A verification of revenues between the ECCR filing and the general ledger led to the recognition that the ECCR revenue account had been understated in the general ledger by $4,242. This understatement was caused by revenue postings which should have gone to the over/underrecovery account.

Recommendation: Recoverable ECCR revenue for 2001 should be reduced from $366,553 by $10,198 to $356,335.

Disclosure No. 2

Subject: **Program Costs**

Statement of Fact: The company filed conservation expenses of $581,444 for the 12-month period ended December 31, 2001. The program costs reported for payroll, vehicle, and other expense did not accurately state these cost categories for ECCR recovery purposes. During the 2000 audit, a similar action was cited in which $2,777 of payroll costs should have been classified as vehicle expenses.

Recommendation: In the present audit, the utility recorded $187,771 in payroll and benefits and zero dollars in vehicle expense and other expense. When asked why no expense had been charged to the vehicle and other categories, the utility responded that it "did not break out vehicle expenses due to the fact that they were imbedded in the department charges." Further utility refinement and audit analysis of department charges revealed that included in the $187,771 total was $25,928 of vehicle expense and $9,886 of other expense. The actual payroll and benefits remainder is $151,956. The utility was able to bring a greater level of refinement to department charges after auditor inquiry. It should do so every year to provide sufficient particularity in its accounting system to identify ECCR transactions by more descriptive cost categories.

The $187,771 total consisted of $61,949 and $125,822. Each number represents approximately six months of transactions. In the first half of 2001, the utility had classified $61,949 as department charges but had not identified these dollars by cost category. The $61,949 which had been identified as ECCR was later classified by cost category on the same allocation basis as the $125,822 from the second half of the year. The utility classified the $61,949 of transactions in the same proportions to cost categories as it had classified the $125,822.

Department charges should be analyzed carefully to assure that they are (a) recoverable for ECCR purposes and (b) classified for ECCR purposes to the most descriptive cost category.

Disclosure No. 3

Subject: **Utility Billing System**

Statement of Fact: During the 2000 audit, the utility had five ECCR rates to be applied to the various classes of customers. Commission Order No. PSC-00-2536-TRF-EG approved the realignment of the ECCR rates to nine individual rates and eighteen rate classes, both general service and transportation, to be applied to all classes of customers based on levels of consumption.

Recommendation: The audit staff inquired whether the current billing system was capable of properly billing customers, since the number of separate rates had increased from five to eighteen. The utility responded:

> The billing system can bill the multiple conservation rates effectively as they pertain to current rates. However, as we move forward in offering our customers choice in who they purchase their gas from, these needs will exceed the current system ability to store and provide information and bill accurately. Currently we are working to patch our current system so that we can provide customer service and billing through the transition phase of unbundling. We will need to identify future resources as soon as possible in order to meet the next unbundling time line as directed by the Commission.

Disclosure No. 4

Subject: **Advertising Expense**

Statement of Fact: During 2001, the utility classified $127,320 as advertising expense. These charges took the form of print media, signs and radio announcements. A reclassification by the utility for ($975) reduced the amount to $126,345.

Recommendation: An Internet website for the Residential Home Builder program (Energy Plus Homes) cost $4,350. A line in the website text mentioned a competing energy source. The statement mentioned that a gas customer would not have to endure "rolling blackouts" from the "power company." This statement should be deleted.

Audit test work of actual transactions for February, March, September, and October revealed that $1,304 of transactions did not directly pertain to an approved conservation program as required in Rule 25-17.015(5) F.A.C. In March, $351 dollars had been incurred. In September, the remaining $953 was recorded.

The recoverable total of advertising expense should be reduced from $126,345 by $1,304 to $125,041.

EXHIBIT

Chesapeake Gas Corp.	**Filename:**	Chesapeake Audit Summary
Twelve Months Ended 12/31/01	**Range:**	A1..G84
Summary of Adjustments	**Auditor:**	Tom Stambaugh

Cost Category	Per Gen Ledger	Utility Adjustments	Per Filing	Program Costs Reclassified	Effect of Audit Testwork	Per Audit
Payroll and Benefits	187,771	0	187,771	(35,815)	0	151,956
Vehicles	0	0	0	25,928	0	25,928
Incentives	224,071	975	225,046	0	0	225,046
Materials and Supplies	17,218	0	17,218	0	0	17,218
Other Expense	0	0	0	9,886	0	9,886
Advertising	127,320	(975)	126,345	0	(1,304)	125,041
Outside Services	25,063	0	25,063	0	0	25,063
Total Program Costs	581,443	0	581,443	(0)	(1,304)	580,139
Less:						
Conservation Revenues	362,311	4,242	366,553	(10,198)		356,355
True-up Before Interest			214,890	10,198	(1,304)	223,784
Prior Period True-Up Collected			(3,560)	0	0	(3,560)
Interest Provision			1,135	333	0	1,468
End of Period True-Up			212,465	10,531	(1,304)	221,692