

State of Florida



**Public Service Commission**

Office of Auditing and Performance Analysis  
Bureau of Auditing  
Miami District Office

**Auditor's Report**

Florida Division of Chesapeake Utilities Corporation  
Gas Conservation Cost Recovery

**Twelve Months Ended December 31, 2013**

Docket No. 140004-GU  
Audit Control No. 14-017-4-3  
**May 28, 2014**

A blue ink signature of Jeffery A. Small, written in a cursive style.

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Jeffery A. Small  
Audit Staff

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Donna D. Brown  
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Iliana H. Piedra  
Reviewer

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## Purpose

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 Economics in its audit service request dated January 14, 2014. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Florida Division of Chesapeake Utilities Corporation in support of its 2013 filing for the Gas Conservation Cost Recovery in Docket No. 140004-GU.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

## Objectives and Procedures

### **General**

#### Definition

CUC/Utility refers to Florida Division of Chesapeake Utilities Corporation.  
GCCR refers to Gas Conservation Cost Recovery.

### **Revenue**

**Objectives:** The objectives were to determine the actual therms sold for the period January 1, 2013, through December 31, 2013, and whether the Utility applied the Commission approved gas conservation cost recovery factor to actual therm sales.

**Procedures:** We computed revenues using the factors in Order No. 12-0612-FOF-EI, issued November 15, 2012 and actual therm sales from the Gross Margin Report and reconciled them to the general ledger and the GCCR filing. We selected a sample of residential and commercial customers' bills for the period and recalculated each to verify the use of the correct tariff rate. Finding No. 1 discusses our adjustment to the Utility's Conservation Revenue balance.

### **Expense**

**Objectives:** The objectives were to determine whether Operation and Maintenance (O&M) Expense listed on Schedule CT-3 of the Utility's GCCR filing was supported by adequate documentation and that the expenses are appropriately recoverable through the GCCR clause.

**Procedures:** We traced expenses in the filing to the general ledger. We judgmentally selected a sample of O&M Expenses for testing. The source documentation for selected items was reviewed to ensure the expense was for the current period, charged to the correct account and appropriately recoverable through the GCCR clause. We traced cash incentive payments to allowances approved in Order No. PSC-10-551-PAA-EG, issued September 2, 2010. Advertising expenses were reviewed for compliance with Rule 25-17.015(5), Energy Conservation Cost Recovery, Florida Administrative Code. No exceptions were noted.

### **True-up**

**Objective:** The objective was to determine if the True-Up and Interest Provision as filed on Schedule CT-3 was properly calculated.

**Procedures:** We traced the December 31, 2012, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2013, using the Commission approved beginning balance as of December 31, 2012, the Non-Financial Commercial Paper rates, and the 2013 GCCR revenues and costs. Finding No. 1 discusses our adjustment to the Utility's Net True-Up recovery balance.

## **Analytical Review**

**Objective:** The objective was to perform an analytical review of the Utility's GCCR revenues and expenses to determine if there were any material changes or inconsistencies from the prior year.

**Procedures:** We compared 2013 to 2012 revenues and expenses. We requested explanations from the Utility for significant variances. Explanations provided were sufficient. No exceptions were noted.

## Audit Findings

### **Finding 1: Conservation Revenues**

**Audit Analysis:** The Utility's filing reflects Conservation Revenues of \$625,820 for 2013.

The Utility's Conservation Revenue balance is overstated by \$15,700 based on the following.

1. Staff's audit of the Utility's 2012 Conservation filing, in Docket No. 130004-GU, discovered that the Utility improperly booked \$15,700 of incentive rebates as a debit to Revenues in 2012. The error was not disclosed in staff's audit report because the net effect of reducing revenues and increasing expenses was zero and the change to the Total Net True-Up balance was immaterial for the Utility's 2012 filing.
2. The Utility's 2013 general ledger includes prior period adjustments to its Conservation Revenue account and Conservation Expense account for \$15,700, each, to correct the error discussed above. The Utility's 2013 Conservation filing includes the \$15,700 (credit) prior period adjustment to revenues. The corresponding prior period adjustment to expense was properly removed for filing purposes.

The Utility's adjustment should be removed because it overstates 2013 revenues.

The effect of our adjustment on the Utility's 2013 True-up filing is calculated and displayed on Table 1.

**Effect on the General Ledger:** None.

**Effect on the Filing:** Decrease Conservation Revenues by \$15,700 which would increase the Utility's Net True-Up amount by \$15,704 to an under recovery of \$96,514.

**Table 1**  
**Calculation of Net True-Up Adjustment**

*Schedule CT-3, pg2*

<b>Conservation Program</b>	<b>May-13</b>	<b>Jun-13</b>	<b>Jul-13</b>	<b>Aug-13</b>	<b>Sep-13</b>	<b>Oct-13</b>	<b>Nov-13</b>	<b>Dec-13</b>	<b>Total</b>
Residential Conservation	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Adjustments	0	0	0	0	0	0	0	0	0
Total Revenues (See June adjustment below)	(46,453)	(42,514)	(42,375)	(39,263)	(37,529)	(43,908)	(47,855)	(54,326)	(610,120)
Prior Period True-Up	(2,981)	(2,981)	(2,981)	(2,981)	(2,981)	(2,981)	(2,981)	(2,981)	(35,777)
Applicable Conservation Revenue	(49,434)	(45,495)	(45,356)	(42,244)	(40,510)	(46,889)	(50,836)	(57,307)	(645,897)
Conservation Expenses	<u>79,423</u>	<u>53,405</u>	<u>58,709</u>	<u>54,452</u>	<u>67,798</u>	<u>81,144</u>	<u>45,544</u>	<u>49,982</u>	<u>742,412</u>
True-Up This Period	29,989	7,910	13,353	12,208	27,288	34,255	(5,292)	(7,325)	96,515
Interest Provision This Period	(1)	(0)	1	1	2	3	5	3	(3)
True-Up & Interest Provision Beg Month	(39,734)	(6,765)	4,126	20,460	35,651	65,921	103,160	100,854	(35,777)
Deferred True-Up	0	0	0	0	0	0	0	0	0
Prior True-Up Collected	<u>2,981</u>	<u>2,981</u>	<u>2,981</u>	<u>2,981</u>	<u>2,981</u>	<u>2,981</u>	<u>2,981</u>	<u>2,981</u>	<u>35,777</u>
<b>Total Net True-Up (Audit Calculation)</b>	<b>(\$6,765)</b>	<b>\$4,126</b>	<b>\$20,460</b>	<b>\$35,651</b>	<b>\$65,921</b>	<b>\$103,160</b>	<b>\$100,854</b>	<b>\$96,513</b>	<b>\$96,514</b>
Total Net True-Up (Utility Filing)	(6,765)	(11,575)	4,759	19,949	50,219	87,458	85,151	80,810	80,810
<b>Audit Adjustment (No change in Jan-Apr 2013)</b>	<b>\$0</b>	<b>\$15,700</b>	<b>\$15,701</b>	<b>\$15,702</b>	<b>\$15,702</b>	<b>\$15,703</b>	<b>\$15,704</b>	<b>\$15,704</b>	<b>\$15,704</b>

*Schedule CT-3, pg3*

<b>Conservation Program</b>	<b>May-13</b>	<b>Jun-13</b>	<b>Jul-13</b>	<b>Aug-13</b>	<b>Sep-13</b>	<b>Oct-13</b>	<b>Nov-13</b>	<b>Dec-13</b>	<b>Total</b>
Beginning True-Up	(\$39,734)	(\$6,765)	\$4,126	\$20,460	\$35,651	\$65,921	\$103,160	\$100,854	(\$35,777)
Ending True-Up Before Interest	(6,764)	4,126	20,460	35,649	65,920	103,157	100,849	96,510	96,510
Total Beg & End True-Up	(46,498)	(2,639)	24,586	56,110	101,570	169,079	204,010	197,364	60,733
Average Beg & End True-Up	(23,249)	(1,320)	12,293	28,055	50,785	84,539	102,005	98,682	30,367
Interest Rate (1st day of month)	0.09%	0.05%	0.08%	0.05%	0.05%	0.03%	0.06%	0.05%	
Interest Rate (Last day of month)	0.05%	0.08%	0.05%	0.05%	0.03%	0.06%	0.05%	0.03%	
Total (Ln5+Ln6)	0.14%	0.13%	0.13%	0.10%	0.08%	0.09%	0.11%	0.08%	
Average Interest Rate	0.07%	0.07%	0.07%	0.05%	0.04%	0.05%	0.06%	0.04%	
Monthly Average Interest Rate	0.006%	0.005%	0.005%	0.004%	0.003%	0.004%	0.005%	0.003%	
Interest Provision	(\$1)	(\$0)	\$1	\$1	\$2	\$3	\$5	\$3	(\$3)
Audit Adjustment to June 2013	Per Utility		Adjustment		Per Audit				
Total Revenues	(\$58,214)		\$15,700		(\$42,514)				

## Exhibits

### Exhibit 1: True Up

COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION

SCHEDULE CT-3  
PAGE 1 OF 3

ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION  
SUMMARY OF EXPENSES BY PROGRAM BY MONTH

FOR MONTHS		January-13	THROUGH December-13											
A. CONSERVATION EXPENSE BY PROGRAM		JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1.	Residential Home Bulder	21,323	2,224	5,192	7,163	21,948	4,415	3,600	4,920	30,634	20,915	2,829	6,571	132,043
2.	Residential Appliance Replacement	7,369	11,420	12,787	15,961	13,087	12,450	12,264	11,943	8,450	8,258	9,178	10,024	133,219
3.	Residential Propane Distribution													
4.	Residential Water Heater Retention	9,014	30,449	3,231	21,798	19,041	15,542	13,961	14,831	8,951	13,335	8,018	9,321	169,492
5.	NG Space Conditioning For Res Homes								225	56				281
6.	Gas Space Conditioning													
7.	Conservation Education	4,335	4,171	7,079	6,049	8,506	3,514	4,663	6,160	5,217	7,496	4,337	2,056	63,200
8.	CFG Common	21,237	14,040	15,124	19,543	19,489	14,134	20,572	12,031	13,140	27,797	17,833	18,001	213,005
9.	Conservation Demonstration and Develop.		5,972	2,980	4,440	3,349	3,350	3,349	4,323	3,350	3,349	3,349	3,349	41,168
5. TOTAL ALL PROGRAMS		65,278	66,285	46,399	73,994	79,423	53,405	58,709	54,452	67,798	81,144	45,544	49,982	742,412
6. LESS AMOUNT INCLUDED IN RATE BASE														
7. RECOVERABLE CONSERVATION EXPENSES		65,278	66,285	46,399	73,994	79,423	53,405	58,709	54,452	67,798	81,144	45,544	49,982	742,412

EXHIBIT NO. \_\_\_\_\_  
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COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION

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CALCULATION OF TRUE-UP AND INTEREST PROVISION

FOR MONTHS January-13 THROUGH December-13

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
<b>B. CONSERVATION REVENUES</b>													
1. RESIDENTIAL CONSERVATION													
2. CONSERVATION ADJ. REVENUES	(85,471)	(83,488)	(73,712)	(58,216)	(48,453)	(58,214)	(42,375)	(38,283)	(37,520)	(43,008)	(47,855)	(54,326)	(625,620)
3. TOTAL REVENUES	(85,471)	(83,488)	(73,712)	(58,216)	(48,453)	(58,214)	(42,375)	(38,283)	(37,520)	(43,008)	(47,855)	(54,326)	(625,620)
4. PRIOR PERIOD TRUE-UP ADJ. NOT APPLICABLE TO THIS PERIOD	(2,988)	(2,981)	(2,981)	(2,981)	(2,981)	(2,981)	(2,981)	(2,981)	(2,981)	(2,981)	(2,981)	(2,981)	(35,777)
5. CONSERVATION REVENUE APPLICABLE	(88,457)	(86,470)	(76,693)	(61,197)	(51,434)	(61,195)	(45,356)	(41,264)	(40,501)	(46,000)	(50,836)	(57,307)	(661,597)
6. CONSERVATION EXPENSES (FROM CT-3, PAGE 1, LINE 23)	83,278	85,285	68,399	73,994	78,423	53,405	58,729	54,452	87,788	81,144	45,544	49,082	732,417
7. TRUE-UP THIS PERIOD (LINE 5 - 6)	(5,179)	4,808	(30,294)	14,797	26,989	(7,790)	13,353	12,208	27,288	34,255	(5,292)	(7,325)	80,815
8. INTEREST PROVISION THIS PERIOD (FROM CT-3, PAGE 3, LINE 10)	(4)	(4)	(4)	(4)	(1)			1	1	3	4	3	(5)
9. TRUE-UP AND INTEREST PROVISION BEGINNING OF MONTH	(35,777)	(37,974)	(30,191)	(57,508)	(33,734)	(8,765)	(11,575)	4,759	10,949	60,219	87,458	85,151	(35,777)
9A. DEFERRED TRUE-UP BEGINNING OF PERIOD													
10. PRIOR TRUE-UP COLLECTED (REFUNDED)	2,988	2,981	2,981	2,981	2,981	2,981	2,981	2,981	2,981	2,981	2,981	2,981	35,777
11. TOTAL NET TRUE-UP (LINES 7+8+9+9A+10)	(37,374)	(30,191)	(57,508)	(38,734)	(6,765)	(11,575)	4,759	10,949	50,219	87,458	85,151	80,810	80,810

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COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION

SCHEDULE CT-3  
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CALCULATION OF TRUE-UP AND INTEREST PROVISION

FOR MONTHS January-13 THROUGH December-13

C. INTEREST PROVISION	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1 BEGINNING TRUE-UP (LINE B-8)	(35,777)	(37,074)	(30,181)	(57,508)	(39,734)	(6,765)	(11,575)	4,759	19,949	50,219	97,456	85,151	(35,777)
2 ENDING TRUE-UP BEFORE INTEREST (LINES B7+B9+B8A+B12)	(37,070)	(30,187)	(57,504)	(39,730)	(6,764)	(11,575)	4,759	19,948	50,218	97,455	85,147	80,807	80,815
3 TOTAL BEG. AND ENDING TRUE-UP	(73,747)	(68,191)	(87,095)	(97,236)	(46,498)	(18,340)	(6,816)	24,707	70,167	137,974	172,605	165,958	45,038
4 AVERAGE TRUE-UP (LINE C-3 X 50%)	(36,874)	(34,091)	(43,447)	(48,019)	(23,249)	(9,170)	(3,408)	12,354	35,084	68,937	86,303	82,979	22,519
5 INTEREST RATE - FIRST DAY OF REPORTING BUSINESS MONTH	0.10%	0.15%	0.14%	0.09%	0.09%	0.06%	0.08%	0.05%	0.05%	0.33%	0.08%	0.05%	
6 INTEREST RATE - FIRST DAY OF SUBSEQUENT BUSINESS MONTH	0.15%	0.14%	0.09%	0.09%	0.06%	0.06%	0.05%	0.05%	0.03%	0.36%	0.05%	0.03%	
7 TOTAL (LINE C-5 + C-6)	0.25%	0.29%	0.23%	0.18%	0.14%	0.13%	0.13%	0.10%	0.08%	0.39%	0.11%	0.08%	
8 AVG. INTEREST RATE (C-7 X 50%)	0.13%	0.15%	0.12%	0.09%	0.07%	0.07%	0.07%	0.05%	0.04%	0.35%	0.06%	0.04%	
9 MONTHLY AVERAGE INTEREST RATE	0.010%	0.012%	0.010%	0.008%	0.008%	0.006%	0.005%	0.004%	0.003%	0.034%	0.005%	0.003%	
10 INTEREST PROVISION (LINE C-4 X C-9)	(5)	(4)	(4)	(4)	(1)			1	1	3	4	3	(5)

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