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AUDITING & FINANCIAL ANALYSIS
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Public Service Commission

June 18, 1999

Mr. Thomas A. Geoffroy
Florida Division of Chesapeake Utilities Corporation
P. O. Box 960
Winter Haven, FL 33882-0960

**Re: Docket No. 990003-GU; Chesapeake Utilities Corporation
PGA Audit Report; Audit Control No. 99-049-3-1**

Mr. Geoffroy:

The enclosed audit report is forwarded for your review. If you desire to file a response to the audit, please file one with the Division of Records and Reporting so it may be forwarded for consideration by the staff analysts in their review of the audit.

Sincerely,

Denise N. Vandiver
Bureau Chief - Auditing Services

- AFA _____ DNV/
- APP _____
- CAF _____
- CMU _____ cc: Division of Records and Reporting
- CTR _____ Division of Auditing and Financial Analysis (Devlin/Causseaux/File Folder)
- EAG _____ Division of Electric and Gas (Makin)
- LEG _____ Orlando District Office (Winston)
- MAS _____ Division of Legal Services
- CPC _____
- RRR _____
- SEC _____ Office of Public Counsel
- WAW _____ Research and Regulatory Review (Harvey)
- OTH _____

DOCUMENT NUMBER - DATE
07486 JUN 21 99
DSSO-RECORDS-REPORTING



FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING SERVICES

Orlando District Office

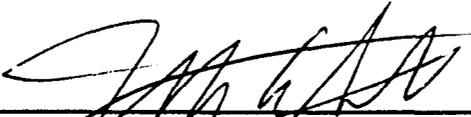
CHESAPEAKE UTILITIES CORPORATION

PURCHASED GAS ADJUSTMENT AUDIT

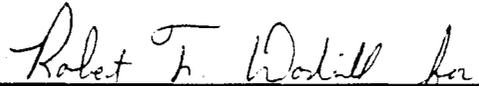
NINE-MONTH PERIOD ENDED DECEMBER 31, 1998

DOCKET NO. 990003-GU

AUDIT CONTROL NO. 99-049-3-1



Jeffery A. Small, Audit Manager



Charleston J. Winston, Audit Supervisor

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**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDITOR'S REPORT**

JUNE 10, 1999

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying Purchased Gas Adjustment schedules for the nine-month period ended December 31, 1999, for Chesapeake Utilities Corporation. These schedules were prepared by the company as part of its petition for purchased gas adjustment true-up in Docket No. 990003-GU. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

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.

In our opinion, the schedules referred to above present fairly, in all material respects, the company's books and records, maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission. The attached findings discuss all differences and any other matters which were noted in our examination.

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:

Verify - The item was tested for accuracy, and substantiating documentation was examined.

Schedules A-1 through A-6 - Recomputed an auditor-determined sample of the company's Schedules A-1 through A-6 for the period April 1998 through December 1998.

PGA Revenues - Traced and recomputed therm sales for the above-mentioned period to the company's monthly billing registers and recomputed.

Cost of Gas - Verified therms and cost of gas purchased to the company-provided invoices.

True-Up - Verified true-ups to Commission Order Numbers PSC-98-0401-FOF-GU. Verified that the correct interest rates were applied to under or over-recovered amounts for the nine month period ended December 31, 1998.

Audit Exception No. 1

Subject: Purchased Gas Cost True-Up Calculation

Statement of Facts: The company's filing for the month of June 1998 reports actual fuel revenues of \$639,024 in Schedule A-2, Line 4.

The company calculates actual fuel revenues (AFR) as the product of actual therm sales (ATS) times the difference between the blended fuel rate (BFR) less the true-up (TU) factor.

$$ATS \times (BFR - TU) = AFR$$

The AFRs are used to calculate the total true-up and interest provision on Schedule A-2, Line 11 for each filing period.

The company's filing for the month of June 1998 reports a total true-up and interest provision of \$29,897 on Schedule A-2, Line 11. This amount is carried forward into the subsequent months' PGA filing.

Opinion/Recommendation: Audit staff has determined, and company work papers confirm, that the company has overreported its June 1998 actual fuel revenues by \$3,816. See audit staff's calculations below.

<u>Per</u>	<u>Sales Type</u>	<u>ATS</u>		<u>BFR</u>		<u>TU</u>		<u>AFR</u>
Company	Firm	967,886	x (	0.33513	less	0.0000	) =	324,368
	Interruptible	<u>1,395,618</u>	x (	0.22546	less	0.0000	) =	<u>314,656</u>
		2,363,504						639,024
Audit	Firm	967,886	x (	0.33513	less	0.00161	) =	322,809
	Interruptible	<u>1,395,618</u>	x (	0.22546	less	0.00161	) =	<u>312,409</u>
		2,363,504						<u>635,218</u>
Over (Under)								\$3,816

The effect of this error on the true-up factor for Schedule A-2 Line 11 in the June 1998 and all subsequent months of the company filing are illustrated on the following page.

Audit Exception No. 1, continued

<u>Month</u>	<u>(\$) Per Company True-up Over (Under) Recover Schedule A-2 Line 11</u>	<u>(\$) Per Audit True-up Over (Under) Recover Schedule A-2 Line 11</u>	<u>(\$) Cumulative Over (Under) Recover Difference(1)</u>
JUN 98	29,897	26,082	(3,815)
JUL 98	(7,154)	(10,987)	(3,833)
AUG 98	(10,307)	(14,158)	(3,851)
SEP 98	(8,341)	(12,209)	(3,868)
OCT 98	(72,126)	(76,010)	(3,884)
NOV 98	(45,407)	(49,308)	(3,901)
DEC 98	(89,933)	(93,850)	(3,917)

Note 1: The cumulative difference represents the initial \$3,816 error and its effect on the interest provision for all true-up calculations in subsequent months.

The Commission should require the company to increase the December 1998 true-up and interest provision by (\$3,917).

COMPANY: FL DIV CUC

COMPARISON OF ACTUAL VERSUS ORIGINAL ESTIMATE
OF THE PURCHASED GAS ADJUSTMENT COST RECOVERY FACTOR

SCHEDULE A-1
DOCKET NO. 990003-GU
CHESAPEAKE UTILITIES CORP.
AVW-1
PAGE ____ OF ____

TOTAL COMPANY

ESTIMATED FOR THE PERIOD OF:

APRIL 98 Through DEC 98

	CURRENT MONTH:		DECEMBER		PERIOD TO DATE		DIFFERENCE		
	ACTUAL	REVISED ESTIMATE	AMOUNT	%	ACTUAL	REVISED ESTIMATE	AMOUNT	%	
COST OF GAS PURCHASED									
1 COMMODITY (Pipeline)	4,518	5,258	(742)	-14.11	84,348	87,728	(3,382)	-4.89	
2 NO NOTICE SERVICE	3,043	3,043	0	0.00	17,439	17,498	(59)	-0.34	
3 SWING SERVICE	0	0	0	0.00	34,442	3,652	30,790	843.10	
4 COMMODITY (Other)	432,236	372,521	59,715	18.03	3,804,848	3,852,319	(47,871)	-1.24	
5 DEMAND	288,221	288,222	(1)	-0.00	1,727,050	1,755,288	(28,238)	-1.61	
6 OTHER	(200)	0	(200)	0.00	(8,566)	(8,316)	(250)	3.01	
LESS END-USE CONTRACT									
7 COMMODITY (Pipeline)	0	0	0	0.00	0	0	0	0.00	
8 DEMAND	0	0	0	0.00	0	0	0	0.00	
9	0	0	0	0.00	0	0	0	0.00	
10 Second Prior Month Purchase Adj. (OPTIONAL)	0	0	0	0.00	0	0	0	0.00	
11 TOTAL COST (1+2+3+4+5+6+10)-(7+8+9)	707,816	848,044	58,772	8.06	5,839,359	5,888,187	(48,808)	-0.88	
12 NET UNBILLED	0	0	0	0.00	0	0	0	0.00	
13 COMPANY USE	0	0	0	0.00	0	0	0	0.00	
14 TOTAL THERM SALES	663,564	810,743	52,841	8.85	5,838,863	5,704,357	(65,894)	-1.15	
THERMS PURCHASED									
15 COMMODITY (Pipeline) BILLING DETERMINANTS ONLY	1,887,170	1,728,780	(82,590)	-3.82	18,043,040	17,043,120	(1,000,080)	-5.87	
16 NO NOTICE SERVICE BILLING DETERMINANTS ONLY	815,840	815,840	0	0.00	2,955,840	2,965,840	(10,000)	-0.34	
17 SWING SERVICE COMMODITY	0	0	0	0.00	78,880	8,480	71,400	843.97	
18 COMMODITY (Other) COMMODITY	1,888,053	1,728,780	136,293	7.88	17,148,108	17,865,916	(518,810)	-2.94	
19 DEMAND BILLING DETERMINANTS ONLY	4,571,280	4,571,280	0	0.00	30,307,480	30,292,000	15,480	0.05	
20 OTHER COMMODITY	0	0	0	0.00	0	0	0	0.00	
LESS END-USE CONTRACT									
21 COMMODITY (Pipeline)	0	0	0	0.00	0	0	0	0.00	
22 DEMAND	0	0	0	0.00	0	0	0	0.00	
23	0	0	0	0.00	0	0	0	0.00	
24 TOTAL PURCHASES (-+17+18+20)-(21+23)	1,888,053	1,728,780	136,293	7.88	17,225,968	17,874,378	(448,410)	-2.54	
25 NET UNBILLED	0	0	0	0.00	0	0	0	0.00	
26 COMPANY USE	377	800	(223)	-37.17	5,188	5,748	(560)	-10.09	
27 TOTAL THERM SALES	2,028,303	1,730,090	298,213	17.24	18,208,275	18,306,330	(98,055)	-0.54	
CENTS PER THERM									
28 COMMODITY (Pipeline) (1/18)	0.271	0.304	-0.033	-10.88	0.401	0.397	0.004	0.93	
29 NO NOTICE SERVICE (2/18)	0.590	0.590	0.000	0.00	0.590	0.590	-0.000	-0.00	
30 SWING SERVICE (3/17)	0.000	0.000	0.000	0.00	43.128	43.188	-0.040	-0.09	
31 COMMODITY (Other) (4/18)	23.183	21.538	1.627	7.56	22.190	21.807	0.383	1.78	
32 DEMAND (5/19)	5.888	5.888	-0.000	-0.00	5.898	5.795	-0.098	-1.68	
33 OTHER (6/20)	0.000	0.000	0.000	0.00	0.000	0.000	0.000	0.00	
LESS END-USE CONTRACT									
34 COMMODITY Pipeline (7/21)	0.000	0.000	0.000	0.00	0.000	0.000	0.000	0.00	
35 DEMAND (8/22)	0.000	0.000	0.000	0.00	0.000	0.000	0.000	0.00	
36	0.000	0.000	0.000	0.00	0.000	0.000	0.000	0.00	
37 TOTAL COST OF PURCHASES (11/24)	37.931	37.522	0.409	1.09	32.738	32.183	0.554	1.72	
38 NET UNBILLED (12/25)	0.000	0.000	0.000	0.00	0.000	0.000	0.000	0.00	
39 COMPANY USE (13/26)	0.000	0.000	0.000	0.00	0.000	0.000	0.000	0.00	
40 TOTAL COST OF THERMS SOLD (11/27)	34.897	37.515	-2.818	-8.88	30.970	31.089	-0.099	-0.32	
41 TRUE-UP (E-2)	-0.181	-0.181	0.000	0	-0.181	-0.181	0.000	0	
42 TOTAL COST OF GAS (40+41)	34.736	37.354	-2.818	-7.01	30.808	30.808	-0.099	-0.32	
43 REVENUE TAX FACTOR	1.00376	1.00376	0.00000	0	1.00376	1.00376	0.00000	0	
44 PGA FACTOR ADJUSTED FOR TAXES (42x43)	34.887	37.494	-2.828	-7.01	30.925	31.024	-0.099	-0.32	
45 PGA FACTOR ROUNDED TO NEAREST .001	34.887	37.494	-2.827	-7.01	30.925	31.024	-0.099	-0.32	

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FL DIV CUC

CALCULATION OF TRUE-UP AND INTEREST PROVISION

SCHEDULE A-2

FOR THE PERIOD OF:

APRIL 98 Through DEC 98

EXHIBIT NO _____

DOCKET NO. 990003-GU

CHESAPEAKE UTILITIES CORP

AWW-1

PAGE ____ OF ____

	CURRENT MONTH: DECEMBER				PERIOD TO DATE			
	ACTUAL	ESTIMATE	DIFFERENCE		ACTUAL	ESTIMATE	DIFFERENCE	
			AMOUNT	%			AMOUNT	%
TRUE-UP CALCULATION								
1 PURCHASED GAS COST (A-1 lines 3,4)	432,236	372,521	(59,715)	-16.030%	3,840,948	3,857,828	16,880	0.438%
2 TRANSPORTATION COST (A-1 lines 1,2,5 plus A-1(2) line 33,35,36)	275,581	276,523	942	0.341%	1,798,412	1,830,339	31,927	1.744%
3 TOTAL	707,817	649,044	(58,773)	-9.055%	5,639,360	5,688,167	48,807	0.858%
4 FUEL REVENUES (NET OF REVENUE TAX)	663,584	610,743	(52,841)	-8.652%	5,638,663	5,704,357	65,694	1.152%
5 TRUE-UP (COLLECTED) OR REFUNDED	3,713	3,713	0	0.000%	33,416	33,416	0	0.000%
6 FUEL REVENUE APPLICABLE TO PERIOD (LINE 4 (+ or -) LINE 5)	667,297	614,456	(52,841)	-8.600%	5,672,080	5,737,773	65,694	1.145%
7 TRUE-UP PROVISION - THIS PERIOD (LINE 6 - LINE 3)	(40,520)	(34,588)	5,932	-17.15%	32,720	49,607	16,887	34.042%
8 INTEREST PROVISION-THIS PERIOD (21)	(293)	(246)	47	-19.171%	(560)	(288)	272	-94.187%
9 BEGINNING OF PERIOD TRUE-UP AND INTEREST	(45,407)	(34,226)	11,181	-32.668%	(88,675)	(88,675)	0	-0.000%
10 TRUE-UP COLLECTED OR (REFUNDED) (REVERSE OF LINE 5)	(3,713)	(3,713)	0	0.000%	(33,416)	(33,416)	0	0.000%
10a FLEX RATE REFUND (if applicable)	0	0	0	0.000%	0	0	0	0.000%
11 TOTAL ESTIMATED/ACTUAL TRUE-UP (7+8+9+10+10a)	(89,933)	(72,772)	17,160	-23.581%	(89,931)	(72,773)	17,158	-23.578%
INTEREST PROVISION								
12 BEGINNING TRUE-UP AND INTEREST PROVISION (9)	(45,407)	(34,226)	11,181	-32.668%				
13 ENDING TRUE-UP BEFORE INTEREST (12+7-5)	(89,640)	(72,527)	17,113	-23.595%				
14 TOTAL (12+13)	(135,047)	(106,753)	28,294	-26.504%				
15 AVERAGE (50% OF 14)	(67,524)	(53,376)	14,147	-26.504%				
16 INTEREST RATE - FIRST DAY OF MONTH	5.500%	5.520%	0.0002	0.362%				
17 INTEREST RATE - FIRST DAY OF SUBSEQUENT MONTH	4.900%	5.520%	0.006	11.232%				
18 TOTAL (16+17)	10.400%	11.040%	0.0064	5.797%				
19 AVERAGE (50% OF 18)	5.200%	5.520%	0.0032	5.797%				
20 MONTHLY AVERAGE (19/12 Months)	0.433%	0.460%	0.00027	5.797%				
21 INTEREST PROVISION (15x20)	(293)	(246)	47	-19.171%				

* If line 5 is a refund add to line 4
If line 5 is a collection () subtract from line 4

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