

State of Florida



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: July 25, 2000  
 TO: Division of Competitive Services - (Brown)  
 FROM: Division of Regulatory Oversight (Vandiver) *W*  
 RE: Docket No. ~~00-082-3-1~~; Chesapeake Utilities Corporation  
 Audit Report; Conservation - Nine-month Period Ended December 31, 1999  
 Audit Control No. 00-082-3-1

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, they should send it to the Division of Records and Reporting. There are no confidential work papers associated with this audit.

DNV/sp

Attachment

cc: Division of Regulatory Oversight (Hoppe/Harvey/File Folder)  
 Orlando District Office (Winston)  
 Division of Legal Services  
*R & R (2)*  
 Office of Public Counsel

Thomas A. Geoffroy  
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 Winter Haven, FL 33882-0960

- APP \_\_\_\_\_
- CAF \_\_\_\_\_
- CMP \_\_\_\_\_
- COM \_\_\_\_\_
- CTR \_\_\_\_\_
- ECR \_\_\_\_\_
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- OPC \_\_\_\_\_
- PAI \_\_\_\_\_
- RGO \_\_\_\_\_
- SEC
- SER \_\_\_\_\_
- OTH \_\_\_\_\_

Wiggins Law Firm  
 P. O. Drawer 1657  
 Tallahassee, FL 32302

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

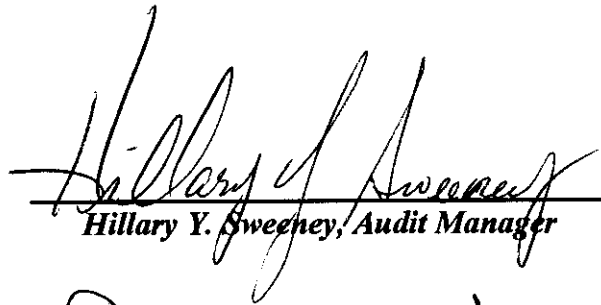


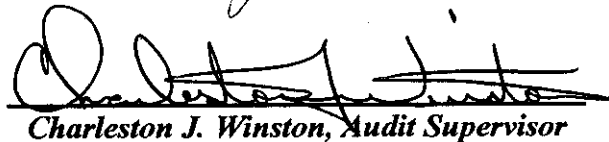
**FLORIDA PUBLIC SERVICE COMMISSION**  
*DIVISION OF REGULATORY OVERSIGHT*  
*BUREAU OF AUDITING SERVICES*

*Orlando District Office*

**CHESAPEAKE UTILITIES CORPORATION**  
**ENERGY CONSERVATION COST RECOVERY AUDIT**  
**NINE-MONTH PERIOD ENDED DECEMBER 31, 1999**

**DOCKET NO. 000002-GU**  
**AUDIT CONTROL NO. 00-082-3-1**

  
*Hillary Y. Sweehey, Audit Manager*

  
*Charleston J. Winston, Audit Supervisor*

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**DIVISION OF REGULATORY OVERSIGHT  
AUDITOR'S REPORT**

**JULY 18, 2000**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to audit the accompanying conservation 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 conservation cost recovery in Docket No. 000002-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**

Company's revenues are overstated by \$4,931.

The company did not include energy conservation cost recovery (ECCR) amounts for its Water Heater Replacement and Heating Programs totaling \$3,913.

## **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 recomputed therm sales for the nine-month period ended December 31, 1999. Reconciled revenues to the billing registers.

**Program Cost** - Compiled and recomputed program costs. Verified company methodology for allocations. Verified a judgmental sample of the program expenses.

**True-up** - Verified that the correct interest rates were applied to under or over recovered amounts for the nine-month period ended December 31, 1999.

**Exception No. 1**

**Subject: Revenues**

**Statement of Fact:** The company reported ECCR revenues of \$239,742 for the nine-month period ended December 31, 1999.

Commission Order PSC-99-0421-FOF-EG, issued March 1, 1999, established ECCR factors for Chesapeake as follows:

	<b>ECCR Factors</b>	<b>Net of Tax</b>
<b>Residential</b>	.06517	.06484
<b>Commercial</b>	.01881	.01871
<b>Commercial LV I</b>	.01307	.01300
<b>Industrial (Commercial LV II)</b>	.00605	.00602
<b>Firm Transportation</b>	.00544	.0054

The company's April through June revenue calculations used an ECCR factor (net of tax) of .1300 for its Plant City industrial customers.

The company initially calculated December 1999 therms sold to firm transportation customers of 2,007,830. The company's revised (as of 2/15/00) calculations of December therms sold to firm transportation customers are 1,698,140.

**Recommendation:**

**April 1999 through June 1999**

The company should be required to calculate revenues using the Commission-approved ECCR rate (net of taxes) of .00602 for industrial customers to calculate its ECCR revenues.

**December 1999**

The company should be required to recalculate December ECCR revenues using the revised December therms sold to firm transportation customers of 1,698,140.

Audit staff's recalculation reflects revenues of \$234,811, thus resulting in a \$4,931 overstatement by the company.

**Exception No. 2**

**Subject: Program Costs**

**Statement of Fact:** The company filed conservation expenses of \$280,485 for the nine-month period ended December 31, 1999. The program costs reported did not include costs for the company's Water Heater Replacement nor its Heating Programs

**Recommendation:** The company's conservation costs are understated by \$3,913. The 1999 General Ledger reflects conservations costs incurred for the amounts listed below.

***Water Heater Replacement***

908.26	Allowances	2,300
909.12	Advertising	1,140

***Heating***

909.13	Advertising	<u>473</u>
		3,913

The company should increase ECCR program costs by \$3,913.

**Exception No. 3**

**Subject: Interest Provision**

**Statement of Fact:** The company recorded beginning interest rates of 6.000 percent and 5.630 percent for November and December 1999, respectively, in its calculation of interest provisions. Also, the company recorded ending interest rates of 6.000 percent, 5.630 percent, and 5.800 percent for October, November, and December 1999, respectively.

*The Wall Street Journal* posts beginning interest rates of 5.300 percent and 5.550 percent for November and December 1999, respectively, and 5.600 percent for January 2000.

**Recommendation:** The company used the wrong rates to calculate interest provisions for October, November, and December 1999. Audit staff recalculated the interest provisions implementing the corrections recommended in this and prior exceptions. The result of this recalculation is an interest provision for the nine-month period ended December 31, 1999, of \$3,399.70.



ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION  
APRIL 1999 THROUGH DECEMBER 1999

CONSERVATION REVENUES	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
1. RCS AUDIT FEES	0	0	0	0	0	0	0	0	0	0
2. OTHER PROGRAM REVS	0	0	0	0	0	0	0	0	0	0
3. CONSERV. ADJ REVS	<u>(34,178.53)</u>	<u>(27,535.19)</u>	<u>(23,928.11)</u>	<u>(22,151.79)</u>	<u>(21,464.83)</u>	<u>(20,528.03)</u>	<u>(23,126.83)</u>	<u>(27,694.70)</u>	<u>(39,133.76)</u>	<u>(239,741.77)</u>
4. TOTAL REVENUES	<u>(34,178.53)</u>	<u>(27,535.19)</u>	<u>(23,928.11)</u>	<u>(22,151.79)</u>	<u>(21,464.83)</u>	<u>(20,528.03)</u>	<u>(23,126.83)</u>	<u>(27,694.70)</u>	<u>(39,133.76)</u>	<u>(239,741.77)</u>
5. PRIOR PERIOD TRUE-UP NOT APPLICABLE TO THIS PERIOD	<u>5,391.75</u>	<u>5,391.75</u>	<u>5,391.75</u>	<u>5,391.75</u>	<u>5,391.75</u>	<u>5,391.75</u>	<u>5,391.75</u>	<u>5,391.75</u>	<u>5,391.75</u>	<u>48,525.75</u>
6. CONSERVATION REVS APPLICABLE TO THE PERIOD	<u>(28,786.78)</u>	<u>(22,143.44)</u>	<u>(18,536.36)</u>	<u>(16,760.04)</u>	<u>(16,073.08)</u>	<u>(15,136.28)</u>	<u>(17,735.08)</u>	<u>(22,302.95)</u>	<u>(33,742.01)</u>	<u>(191,216.02)</u>
7. CONSERVATION EXPS (FROM CT-3, PAGE 1)	32,770.59	14,813.43	59,950.78	28,899.56	22,007.78	15,156.27	30,584.05	22,095.67	54,205.63	280,483.76
8. TRUE-UP THIS PERIOD	3,983.81	(7,330.01)	41,414.42	12,139.52	5,934.70	19.99	12,848.97	(207.28)	20,463.62	89,267.74
9. INTER. PROV. THIS PERIOD (FROM CT-3, PAGE 3)	248.64	220.46	275.14	373.69	401.08	399.87	432.27	451.49	468.43	3,271.08
10. TRUE-UP & INTER. PROV. BEGINNING OF MONTH	62,349.76	61,190.46	48,689.16	84,986.97	92,108.43	93,052.46	88,080.58	95,970.06	90,822.52	
11. PRIOR TRUE-UP COLLECTED/(REFUNDED)	<u>(5,391.75)</u>	<u>(5,391.75)</u>	<u>(5,391.75)</u>	<u>(5,391.75)</u>	<u>(5,391.75)</u>	<u>(5,391.75)</u>	<u>(5,391.75)</u>	<u>(5,391.75)</u>	<u>(5,391.75)</u>	
12. TOTAL NET TRUE-UP (SUM LINES 8+9+10+11)	<u>61,190.46</u>	<u>48,689.16</u>	<u>84,986.97</u>	<u>92,108.43</u>	<u>93,052.46</u>	<u>88,080.58</u>	<u>95,970.06</u>	<u>90,822.52</u>	<u>106,362.83</u>	<u>92,538.82</u>