

State of Florida



Public Service Commission

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

DATE: August 1, 2001
TO: Shevie Brown, Division of Competitive Services
FROM: Denise N. Vandiver, Division of Regulatory Oversight *DN*
RE: Docket No.010004-GU;Florida Division of Chesapeake Utilities Corp.;Energy Conservation Cost Recovery; Audit Control No. 01-068-03-01

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.

Attachment

cc: Division of Regulatory Oversight (Hoppe, Harvey, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services
Division of Legal Services

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

Orlando District Office

CHESAPEAKE UTILITIES CORPORATION
ENERGY CONSERVATION COST RECOVERY AUDIT
TWELVE-MONTH PERIOD ENDED DECEMBER 31, 2000

DOCKET NO. 010004-GU
AUDIT CONTROL NO. 01-068-3-1


Thomas E. Stambaugh, Audit Manager

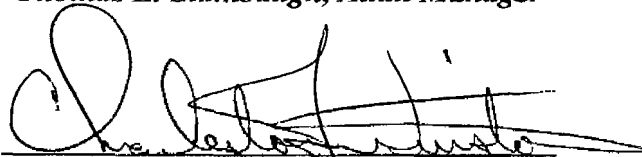

Charleston J. Winston, Audit Supervisor

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

JULY 24, 2001

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 twelve-month period ended December 31, 2000, for Chesapeake Utilities Corporation. These schedules were prepared by the company as part of its petition for Energy Conservation Cost Recovery (ECCR) in Docket No. 010004-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

The company's ECCR revenues were understated by \$35,388 in the ECCR filing. The cause is the use of incorrect rates for preparing the filing from February through July 2000. Ratepayers were billed accurately.

The company included in payroll expenses a \$1,000 payment to the Polk County Builders Association and a \$130 advertising expense which were not recoverable as ECCR expenses. Further, the utility included in payroll expense \$2,480 which should have been included in Residential Home Builder incentives and \$2,777 which should have been included in vehicle expense.

For 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 this company-designated FLA. All transactions posted to FLA are then cleared to projects. The USOA is not used in accounting for dollars of expense and revenue, assets and liabilities. 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 recomputed therm sales for the twelve-month period ended December 31, 2000. Quantified the understatement of ECCR revenue for the audited period. Verified that customers had been billed using the approved ECCR rates during the audited period.

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 twelve-month period ended December 31, 2000.

Exception No. 1

Subject: **Change in Accounting for the Years 2000 and 2001**

Statement of Fact: The company does not comply with Rule 25-17.015, Florida Administrative Code (F.A.C.), Energy Conservation Cost Recovery. Specifically, the non-compliance is 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).

In the 1999 ECCR audit, the company recorded its revenue and expense amounts for ECCR purposes in Revenue Account 495 and Expense Accounts 908.XX and 909.XX.

Beginning in 2000, the parent company instituted a new accounting system which was designed to classify costs using project accounting as well as financial accounting. Project accounting accumulates costs by month for a specified purpose, in contrast to financial accounting which presents information by cost category (payroll, supplies, incentives or advertising, for example).

The effect of the change on the audited company was to establish a clearing account designated FLA and to accumulate all revenues and expenses therein. 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/under recovery account **without passing through** the 908.XX and 909.XX accounts.

In 2000, the company classified all ECCR expenses by program but not by general ledger account. For example, all incentive payments were listed in detail by month but were not organized by program and account in the general ledger. To learn whether a particular batch of transactions was classified to the correct program would require reading the coding of 100 percent of the transactions within the FLA account.

For May 2001, Company documents show expenses by the 908.XX account and ECCR program only. Information was not classified by subaccount to identify a cost category.

Recommendation: The company should be instructed to reorganize its accounting system so that it will stand in compliance with Rule 25-17.015, F.A.C., and other applicable FPSC and Code of Federal Regulation accounting instructions. Expense and revenue transactions for ECCR or any other activity must be classified to the general ledger accounts for accounting and auditing purposes.

Disclosure No. 1

Subject: Revenues

Statement of Fact: The company reported ECCR revenues of \$408,199 for the twelve-month period ended December 31, 2000.

Commission Order PSC-99-2504-FOF-EG, issued December 21, 1999, established ECCR factors for Chesapeake as follows:

	ECCR Factors	Net of Tax
Residential	.07132	.07096
Commercial	.02248	.02237
Commercial LV I	.01363	.01356
Industrial (Commercial LV II)	.00753	.00749
Firm Transportation	.00726	.00722

The company's February through July revenue calculations for the filings used the ECCR factors (net of tax) which had been approved for 1999 instead of 2000 for all of its customers.

The effect of using the 1999 rates caused the company to understate its ECCR revenues for 2000 by \$35,388.44.

A spot-check of company customer bills during the audited period revealed that rate payers had been billed accurately. The error in revenue calculation was confined to the ECCR filing.

Recommendation:

February 2000 through July 2000

The company inadvertently used the 1999 rates beginning in February, but corrected its error in August and used the correct rates for the remainder of 2000.

Audit staff's recalculation reflects revenues of \$443,738, less rounding differences of \$150, thus resulting in a \$35,388 understatement by the company. The company can also eliminate the rounding difference by using the gross factor divided by the revenue tax factor and not truncated to four decimal places.

Disclosure No. 2

Subject: Program Costs

Statement of Fact: The company filed conservation expenses of \$349,255 for the twelve-month period ended December 31, 2000. The program costs reported for payroll expense did not accurately state payroll for ECCR recovery purposes.

Examination of company records for payroll expense revealed that a \$1,000 payment to the Polk County Builders Association was not recoverable for ECCR purposes. Further, \$2,480 classified as payroll expense should have been classified as Residential Home Builder incentive payments. Finally, \$2,777 of payroll costs should have been classified as vehicle expenses. A charge to advertising expense for \$130 must be disallowed because it does not have a direct relationship to an approved ECCR program. Only the \$1,000 and \$130 payments should be removed from recoverable ECCR costs.

Recommendation: All of the indicated errors except the \$130 transaction were in the payroll of the only employee to charge time to ECCR, the ECCR administrator. The payroll expenses should be monitored more carefully to assure that all costs are properly classified or that non-recoverable costs are excluded from ECCR and classified to accounts which are recoverable through base rates. Total recoverable ECCR expenses should be decreased by \$1,130.

**EXHIBIT
PAGE 1 OF 2**

SCHEDULE CT-3
PAGE 3 OF 3

COMPANY: Chesapeake Utilities Corporation
Docket No. 010004-GU
Amended Exhibit BA8-1
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CALCULATION OF TRUE-UP AND INTEREST PROVISION FOR MONTHS: JANUARY 2000 THROUGH DECEMBER 2000													
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
INTEREST PROVISION BEGINNING TRUE-UP	92,168.00	44,304.25	12,777.04	12,615.11	7,485.01	6,092.85	(5,888.32)	7,212.10	23,571.44	18,055.12	41,147.14	47,750.83	
ENDING TRUE-UP BEFORE INTEREST	<u>43,980.89</u>	<u>12,839.42</u>	<u>12,652.47</u>	<u>7,413.89</u>	<u>6,058.93</u>	<u>(5,886.88)</u>	<u>7,208.50</u>	<u>23,488.42</u>	<u>17,942.86</u>	<u>40,987.36</u>	<u>47,508.13</u>	<u>34,436.31</u>	
TOTAL BEGINNING & ENDING TRUE-UP	136,148.89	86,943.67	25,329.51	20,029.00	13,521.94	205.97	1,322.18	30,700.52	41,514.30	59,042.48	88,855.28	82,187.14	
AVERAGE TRUE-UP (LINE 3 TIMES 50%)	<u>68,074.45</u>	<u>28,471.84</u>	<u>12,664.75</u>	<u>10,014.50</u>	<u>6,760.97</u>	<u>102.98</u>	<u>861.09</u>	<u>15,350.26</u>	<u>20,757.15</u>	<u>29,521.24</u>	<u>-327.64</u>	<u>41093.~7</u>	
INTER. RATE - 157 DAY OF REPORTING MONTH	5.600%	5.800%	5.800%	6.070%	6.180%	6.570%	6.580%	6.500%	6.480%	6.500%	6.490%	6.650%	
INTER. RATE - 1ST DAY OF SUBSEQUENT MONTH	<u>5.800%</u>	<u>5.800%</u>	<u>6.070%</u>	<u>6.180%</u>	<u>6.570%</u>	<u>6.580%</u>	<u>6.500%</u>	<u>6.480%</u>	<u>6.500%</u>	<u>6.490%</u>	<u>6.650%</u>	<u>6.500%</u>	
TOTAL (SUM LINES 5 & 8)	<u>11.400%</u>	<u>11.600%</u>	<u>11.870%</u>	<u>12.250%</u>	<u>12.750%</u>	<u>13.150%</u>	<u>13.080%</u>	<u>12.980%</u>	<u>12.980%</u>	<u>12.990%</u>	<u>13.140%</u>	<u>13.150%</u>	
AVG INTEREST RATE (LINE 7 TIMES 50%)	<u>5.700%</u>	<u>5.800%</u>	<u>5.935%</u>	<u>6.125%</u>	<u>6.375%</u>	<u>6.575%</u>	<u>6.540%</u>	<u>6.490%</u>	<u>6.490%</u>	<u>6.495%</u>	<u>6.570%</u>	<u>6.575%</u>	
MONTHLY AVG INTEREST RATE	<u>0.475%</u>	<u>0.483%</u>	<u>0.495%</u>	<u>0.510%</u>	<u>0.531%</u>	<u>0.548%</u>	<u>0.545%</u>	<u>0.541%</u>	<u>0.541%</u>	<u>0.541%</u>	<u>0.548%</u>	<u>0.548%</u>	
INTEREST PROVISION (LINE 4 TIMES LINE 9)	\$323.35	\$137.61	\$62.64	\$51.12	\$35.92	\$0.56	\$3.60	\$83.02	\$112.26	\$159.78	\$242.69	\$225.16	\$1,437.72

**EXHIBIT
PAGE 2 OF 2**

SCHEDULE CT-3
3E 2 OF 3

COMPANY: Chesapeake Utilities Corporation
Docket No. 010004-GU
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ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION
JANUARY 2000 THROUGH DECEMBER 2000

<u>CONSERVATION VENUES</u>	<u>JAN</u>	<u>FEB</u>	<u>MAR</u>	<u>APR</u>	<u>MAY</u>	<u>JUN</u>	<u>JUL</u>	<u>AUG</u>	<u>SEP</u>	<u>OCT</u>	<u>NOV</u>	<u>DEC</u>	<u>TOTAL</u>
<u>RCSAUDITFEES</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>OTHERPROGRAMREVS</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>CONSERV. ADJ REVS</u>	<u>(51,022.82)</u>	<u>(48,725.54)</u>	<u>(35,964.93)</u>	<u>(33,195.10)</u>	<u>(27,462.29)</u>	<u>(24,811.20)</u>	<u>(21,298.98)</u>	<u>(24,357.83)</u>	<u>(24,958.80)</u>	<u>(29,261.81)</u>	<u>(35,844.44)</u>	<u>(51,295.19)</u>	<u>(408,198.93)</u>
<u>TOTAL REVENUES</u>	<u>(51,022.82)</u>	<u>(48,725.54)</u>	<u>(35,964.93)</u>	<u>(33,195.10)</u>	<u>(27,462.29)</u>	<u>(24,811.20)</u>	<u>(21,298.98)</u>	<u>(24,357.83)</u>	<u>(24,958.80)</u>	<u>(29,261.81)</u>	<u>(35,844.44)</u>	<u>(51,295.19)</u>	<u>(408,198.93)</u>
<u>PRIOR PERIOD TRUE-UP NOT APPLICABLE TO THIS PERIOD</u>	<u>7,681.00</u>	<u>7,680.00</u>	<u>7,681.00</u>	<u>7,680.00</u>	<u>7,681.00</u>	<u>7,680.00</u>	<u>7,681.00</u>	<u>7,680.00</u>	<u>7,681.00</u>	<u>7,680.00</u>	<u>7,681.00</u>	<u>7,682.00</u>	<u>92,168.00</u>
<u>CONSERVATION REVS APPLICABLE TO THE PERIOD</u>	<u>(43,341.82)</u>	<u>(41,045.54)</u>	<u>(28,283.93)</u>	<u>(25,515.10)</u>	<u>(19,781.29)</u>	<u>(17,131.20)</u>	<u>(13,617.98)</u>	<u>(16,677.83)</u>	<u>(17,277.80)</u>	<u>(21,581.81)</u>	<u>(28,163.44)</u>	<u>(43,613.19)</u>	<u>(316,030.93)</u>
<u>CONSERVATION EXPS (FROM CT-3, PAGE 1) TRUE-UP THIS PERIOD</u>	<u>2,835.71</u> <u>(40,506.11)</u>	<u>17,060.71</u> <u>(23,984.83)</u>	<u>35,739.36</u> <u>7,455.43</u>	<u>27,994.88</u> <u>2,479.78</u>	<u>26,053.21</u> <u>6,271.92</u>	<u>12,832.47</u> <u>(4,298.73)</u>	<u>34,393.79</u> <u>20,775.81</u>	<u>40,634.15</u> <u>23,956.32</u>	<u>19,330.22</u> <u>2,052.42</u>	<u>52,194.05</u> <u>30,612.24</u>	<u>42,205.43</u> <u>14,041.99</u>	<u>37,980.67</u> <u>(5,632.52)</u>	<u>349,254.67</u> <u>33,223.74</u>
<u>INTER. PROV. THIS PERIOD (FROM CT-3, PAGE 3)</u>	<u>323.35</u>	<u>137.61</u>	<u>62.64</u>	<u>51.12</u>	<u>35.92</u>	<u>0.56</u>	<u>3.60</u>	<u>83.02</u>	<u>112.26</u>	<u>159.78</u>	<u>242.69</u>	<u>225.16</u>	<u>1,437.72</u>
<u>TRUE-UP & INTER. PROV. BEGINNING OF MONTH PRIOR TRUE-UP COLLECTED/(REFUNDED)</u>	<u>92,168.00</u> <u>(7,681.00)</u>	<u>44,304.25</u> <u>(7,680.00)</u>	<u>12,777.04</u> <u>(7,680.00)</u>	<u>12,615.11</u> <u>(7,681.00)</u>	<u>7,465.01</u> <u>(7,680.00)</u>	<u>6,092.85</u> <u>-</u>	<u>(5,886.32)</u> <u>(7,681.00)</u>	<u>7,212.10</u> <u>(7,680.00)</u>	<u>23,571.44</u> <u>(7,681.00)</u>	<u>18,055.12</u> <u>(7,680.00)</u>	<u>41,147.14</u> <u>(7,681.00)</u>	<u>47,750.83</u> <u>(7,682.00)</u>	<u>34,661.47</u> <u>-----</u>
<u>TOTAL NET TRUE-UP (SUM LINES 8+9+10+11)</u>	<u>44,304.25</u>	<u>12,777.04</u>	<u>12,615.11</u>	<u>7,465.01</u>	<u>6,092.85</u>	<u>(5,886.32)</u>	<u>7,212.10</u>	<u>23,571.44</u>	<u>18,055.12</u>	<u>41,147.14</u>	<u>47,750.83</u>	<u>34,661.47</u>	<u>34,661.47</u>