

State of Florida



Public Service Commission

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

DATE: July 24, 2003
TO: Division of Competitive Markets and Enforcement (Brown)
FROM: Division of Auditing and Safety (Vandiver) *AV*
RE: **Docket No.** 030004-GU; **Company Name:** Chesapeake Utilities Corp., Florida Division; **Audit Purpose:** Energy Conservation Cost Recovery Audit; **Audit Control No.** 03-037-4-1

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)
Division of the Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
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DOCUMENT # 030004-GU-0001

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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, 2002

DOCKET NO. 030004-GU

AUDIT CONTROL NO. 03-037-3-1

A handwritten signature in cursive script, appearing to read "Richard F. Brown".

Richard F. Brown, Audit Manager

A handwritten signature in cursive script, appearing to read "Charleston J. Winston".

Charleston J. Winston, Audit Supervisor

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**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT**

July 18, 2003

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, 2002, for Chesapeake Utilities Corporation. The attached schedule was prepared by the company as part of its petition for Energy Conservation Cost Recovery (ECCR) in Docket No. 030004-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 filing for the 12 months ended December 31, 2002, reflected \$48,346.48 applicable to vehicle expense that was categorized as payroll.

The utility has not established separate accounts for each of its conservation programs as required by Rule 25-17.015, Florida Administrative Code (F.A.C.)

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:

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 traced conservation revenues to the General Ledger. Recalculated a sample of bills to verify that the customers were billed in accordance with the latest approved ECCR rates.

Conservation Expenses: Sampled expenses from each conservation program in order to ascertain that the costs were conservation-related, reasonable, and prudent.

True-Up: Recalculated the conservation true-up at December 31, 2002.

Exception No. 1

Subject: Vehicle Expense

Statement of Fact: The utility's ECCR filing for the 12 months ended December 31, 2002, reflected \$48,346.48 applicable to vehicle expense that was categorized as payroll.

Recommendation: Payroll expense of \$410,668.00 for the 12-month period ended December 31, 2002, should be reduced by \$48,346.48 and apportioned to the various conservation programs as vehicle expense.

Exception No. 2

Subject: Conservation Program Accounts

Statement of Fact: The net effect of conservation revenues and expenses is recorded by the utility in a deferred over/under-recovery account without utilizing the designated Accounts 908, Customer Assistance Expenses and 909, Informational and Instructional Advertising Expenses.

Recommendation: The audit staff determined in the preceding conservation audit for the 12 months ended December 31, 2001, that the utility was not in compliance with Rule 25-17.015e(2) and e(3), F.A.C., which cites 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.

The utility representatives have informed the audit staff that utilization of the cited 908 and 909 accounts to reflect conservation activity will commence July 1, 2003. The utility closes its books monthly, and as of the date of this audit the books were not closed. Therefore, the audit staff was unable to verify the utilization of these designated accounts as of the date of this audit.

EXHIBIT

SCHEDULE CT-3
PAGE 2 OF 3

COMPANY: Chesapeake Utilities Corporation
Docket No. 030004-GU
Exhibit BSB-1
Page 6 of 17

ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION
JANUARY 2002 THROUGH DECEMBER 2002

CONSERVATION REVENUES	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
1. RGS AUDIT FEES	0	0	0	0	0	0	0	0	0	0	0	0	0
2. OTHER PROGRAM REVS	0	0	0	0	0	0	0	0	0	0	0	0	0
3. CONSERV. ADJ REVS	(110,539)	(94,112)	(94,973)	(79,039)	(71,496)	(62,967)	(61,987)	(64,836)	(62,021)	(65,264)	(61,393)	(60,102)	(928,729)
4. TOTAL REVENUES	(110,539)	(94,112)	(94,973)	(79,039)	(71,496)	(62,967)	(61,987)	(64,836)	(62,021)	(65,264)	(61,393)	(60,102)	(928,729)
5. PRIOR PERIOD TRUE-UP NOT APPLICABLE TO THIS PERIOD	18,474	18,474	18,474	18,474	18,474	18,474	18,474	18,474	18,474	18,474	18,474	18,474	221,691
6. CONSERVATION REVS APPLICABLE TO THE PERIOD	(92,065)	(75,638)	(76,499)	(60,565)	(53,022)	(44,493)	(43,513)	(46,362)	(43,547)	(46,790)	(62,919)	(61,628)	(707,038)
7. CONSERVATION EXPS (FROM CT-3, PAGE 1)	49,884	54,636	109,188	78,053	86,402	59,685	66,985	65,643	51,511	84,308	73,057	74,357	853,720
8. TRUE-UP THIS PERIOD	(42,161)	(21,001)	32,689	17,489	33,380	15,202	23,472	19,281	7,964	37,518	10,139	12,729	146,683
9. INTER. PROV. THIS PERIOD (FROM CT-3, PAGE 3)	283	208	191	201	210	219	216	220	215	218	195	165	2,542
10 TRUE-UP & INTER. PROV. BEGINNING OF MONTH	221,691	161,319	122,051	136,457	135,673	150,789	147,735	162,951	153,977	143,682	162,944	154,804	
11 PRIOR TRUE-UP COLLECTED/(REFUNDED)	(18,474)	(18,474)	(18,474)	(18,474)	(18,474)	(18,474)	(18,474)	(18,474)	(18,474)	(18,474)	(18,474)	(18,474)	
12 TOTAL NET TRUE-UP (SUM LINES 8+9+10+11)	161,319	122,051	136,457	135,673	150,789	147,735	162,951	153,977	143,682	162,944	154,804	149,224	149,225