

State of Florida



## Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** September 5, 2007  
**TO:** Shevie B. Brown, Regulatory Analyst III, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance  
**RE:** Docket No: 070004-GU; Company Name: Chesapeake Utilities Corporation;  
Audit Purpose: Energy Conservation Cost Recovery Audit;  
Audit Control No: 07-074-2-1

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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 Commission Clerk. There are no confidential work papers associated with this audit.

DNV:bj  
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)  
Division of Commission Clerk(2)  
Division of Competitive Markets and Enforcement (Harvey)  
General Counsel  
Office of Public Counsel

Mr. Thomas A. Geoffroy  
Chesapeake Utilities Corp.  
P.O. Box 960  
Winter Haven, FL 33882

Akerman Law Firm  
Beth Keating  
106 E. College Ave., Suite 1200  
Tallahassee, FL 32301

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FLORIDA PUBLIC SERVICE COMMISSION  
*DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE*  
*BUREAU OF AUDITING*

*Tampa District Office*

CHESAPEAKE UTILITIES CORPORATION  
FLORIDA DIVISION  
ENERGY CONSERVATION COST RECOVERY  
TRUE-UP INVESTIGATION

AS OF DECEMBER 31, 2006

DOCKET NO. 070004-GU  
AUDIT CONTROL NO. 07-074-2-1

A handwritten signature in black ink, appearing to read "Jeffery A. Small".

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*Jeffery A. Small, Audit Manager*

A handwritten signature in black ink, appearing to read "Joseph W. Rohrbacher".

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*Joseph W. Rohrbacher, District Audit  
Supervisor*

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**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE  
AUDITOR'S REPORT**

**July 20, 2007**

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

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated March 14, 2007. We have applied these procedures to the attached schedules prepared by the Florida Division of Chesapeake Utilities Corporation in support of its filing for Energy Conservation Cost Recovery in Docket No. 070004-GU.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

## OBJECTIVES AND PROCEDURES

### General

*Objective:* To determine that the company's filing is in compliance with its Commission authorized Conservation program.

*Procedures:* We reconciled the following individual component energy conservation cost recovery (ECCR) balances to the company's general ledger for the 12-month period ended December 31, 2006 and performed the procedures described below.

### ECCR Revenues

*Objective:* To determine that the company has applied the approved ECCR factor to actual therm sales during the audit period and that ECCR revenues are representative of company activity and are properly computed and recorded on the books of the company.

*Procedures:* We traced the company's ECCR revenues recorded in the filing to the company's general ledger and recalculated a sample of customer bills to verify that the appropriate ECCR factors were charged.

### ECCR Expenses

*Objective:* To determine that the actual ECCR program expenses filed by the company for the 12-month period are representative of company activity and are properly computed and recorded on the books of the company.

*Procedures:* We traced the company's ECCR expenses recorded in the filing to the general ledger. We tested the allocation of company salaries and benefits to ECCR expense to verify that only conservation activity was included. We tested the company's ECCR advertising expenses for compliance with Rule 25-17.015 (5), Florida Administrative Code, guidelines. We sampled ECCR incentive rebates to verify that they complied with its Commission authorized Conservation program.

Audit Finding No. 1 discusses our adjustment to correct the company's advertising expense balance by removing an incorrect company adjustment and by removing insufficiently supported, unsupported and disallowed advertising expense amounts.

### ECCR True-Up

*Objective:* To determine that the true-up calculation and interest provision as filed was properly calculated using Commission approved interest rates.

*Procedures:* We recomputed the company's ECCR true-up balance for the 12-month period ended December 31, 2006 and reconciled the beginning true-up balance to the prior Commission order. We also traced the interest rate used to calculate the monthly true-up ending balance to the Wall Street Journal rate.

ECCR Other

*Objective:* To determine that all executed company builder agreements are in compliance with Commission rules and the company's approved ECCR program.

*Procedures:* We reviewed all builders agreements executed in 2006 to ensure that the incentives offered to the builders reconciled to the company's approved conservation programs.

## AUDIT FINDING NO. 1

### SUBJECT: ADJUSTMENT TO ADVERTISING EXPENSE

**AUDIT ANALYSIS:** The company's filing reflects advertising expenses totaling \$41,777 for the following approved ECCR programs.

<u>Program Name</u>	<u>Amount</u>
Residential Homebuilder	\$20,561
Residential Appliance Replacement	8,660
Residential Water Heater Retention	802
Conservation Education	<u>11,754</u>
Total Advertising	\$41,777

Rule 25-17.015 (5) F.A.C. states that in determining whether an advertisement is "directly related to an approved conservation program", the Commission shall consider, but is not limited to, whether the advertisement or advertising campaign:

- (a) Identifies a specific problem;
- (b) States how to correct the problem; and
- (c) Provides direction concerning how to obtain help to alleviate the problem.

The company's advertising expenses are understated by \$1,245 (\$9,237 - \$7,992) for the 12-month period ended December 31, 2006 based on the following two issues discussed below. See Schedule A that follows for our calculations.

#### Issue One

Our review of the company's advertising expenses indicates that the company's actual advertising expenses totaled \$51,014 for the 12-month period ending December 31, 2006. The difference of \$9,237 (\$51,015 - \$41,777) is attributed to a company adjustment to its 2006 advertising expense for an analyst's adjustment to its 2005 ECCR filing in Docket No. 060004-GU. In that docket, the company requested a final true-up amount of \$262,210 which the analyst reduced by \$9,974 to the Commission approved amount of \$252,236. The company posted \$9,237 of the \$9,974 adjustment to its 2006 advertising expense account. See Schedule B that follows for details.

We have determined that the company's adjustment discussed above should be removed because in the current ECCR filing the company begins with the adjusted final true-up amount of \$252,236. This balance already includes the \$9,974 adjustment from the prior docket. The company's adjustment of \$9,237 to its 2006 advertising expense account would double book a substantial portion of the prior docket's adjustment.

Issue Two

Our review of the company's advertising expenses, the Commission rule cited above and the analyst determination in the prior docket indicates that the company's actual advertising expense of \$51,014, which we determined above, is overstated by \$7,992 for the 12-month period ended December 31, 2006 based on the following. See Schedule A that follows for details.

- 1) The company's supporting documentation for the following vendor invoices indicates that they are not "directly related" because they satisfied only two of the three requirements identified in the Commission rule cited above. We have removed 75% of the invoiced amount which is consistent with the analyst adjustment in the prior ECCR docket.
  - (a) Builders Association of North Central Florida
  - (b) R. H. Donnelley
  - (c) St. Petersburg Times
  - (d) Yellow Pages, Inc.
  
- 2) The company's supporting documents for advertising expense from the following vendors were insufficient to allow us to determine compliance with the Commission rule cited above and should be removed.
  - (a) Citrus County Builders Association
  - (b) Inverness Seratoma
  - (c) Osceola Chamber of Commerce
  
- 3) The company's advertising expense included a duplicate payment to Marketing Solutions, LLC that should be removed.
  
- 4) The company did not provide adequate supporting documentation for advertising expense paid to the following vendors.
  - (a) Plant City Chamber of Commerce
  - (b) Plantation Inn
  - (c) School District Publications

**EFFECT ON GENERAL LEDGER:** Advertising expense should be increased by \$9,237 to remove the company's adjustment that was already included in the final true-up balance. The second adjustment does not effect the general ledger because it is for ECCR filing purposes only.

**EFFECT ON THE FILING:** The company's final true-up balance should be reduced by \$1,245 from an over-recovery balance of \$10,999 to an over-recovery balance of \$9,754 for the 12-month period ended December 31, 2006.

**Schedule A**

Date	Vendor	Activity	Department	Per Company					Rule 25-17.015 compliance					Per Audit				
				909A	909C	909E	909G	Directly Related	(a) Identify problem	(b) Correct Problem	(c) Additional Help	Audit Action	909A	909C	909E	909G		
				Balance	Conservation Education	Appliance Replacement	Res Home Builder						Water Heater	Balance	Conservation Education	Appliance Replacement	Res Home Builder	Water Heater
09/30/06	Builders Assoc Of N Central Florida	909E	SA107	\$200.00	-	-	\$200.00	-	no	no	no	yes	25%	\$50.00	-	-	\$50.00	-
04/28/06	Citrus County Builders Association	909E	SA107	1,000.00	-	-	1,000.00	-	-	-	-	-	-	-	-	-	-	-
11/30/06	Citrus County Builders Association	909E	SA107	50.00	-	-	50.00	-	-	-	-	-	0%	-	-	-	-	-
12/31/06	Citrus County Builders Association	909A	SA107	600.00	600.00	-	-	-	-	-	-	-	0%	-	-	-	-	-
	Citrus Publishing Inc	uncontested		4,336.10	3,336.10	430.00	570.00	-	yes	yes	yes	yes	100%	4,336.10	3,336.10	430.00	570.00	-
	Heron Publishing	uncontested		205.00	-	-	205.00	-	yes	yes	yes	yes	100%	205.00	-	-	205.00	-
10/30/06	Inverness Sertoma	909E	SA107	280.00	-	-	280.00	-	-	-	-	-	0%	-	-	-	-	-
03/15/06	Marketing Solutions LLC	909A	SA107	600.00	600.00	-	-	-	-	-	-	-	0%	-	-	-	-	-
03/31/06	Marketing Solutions LLC	909E	SA107	600.00	-	-	600.00	-	yes	yes	yes	yes	100%	600.00	-	-	600.00	-
	MTN, Inc.	uncontested		19,533.30	7,182.64	5,809.67	6,540.99	-	yes	yes	yes	yes	100%	19,533.30	7,182.64	5,809.67	6,540.99	-
	Naylor Publication	uncontested		2,184.50	-	-	2,184.50	-	yes	yes	yes	yes	100%	2,184.50	-	-	2,184.50	-
	O'Connell Graphics Inc	uncontested		3,400.00	-	-	3,400.00	-	yes	yes	yes	yes	100%	3,400.00	-	-	3,400.00	-
04/28/06	Osceola Chamber Of Commerce	909C	SA106	1,250.00	-	1,250.00	-	-	-	-	-	-	0%	-	-	-	-	-
04/28/06	Osceola Chamber Of Commerce	909E	SA102	1,250.00	-	-	1,250.00	-	-	-	-	-	0%	-	-	-	-	-
	Phoenix Graphics	uncontested		255.00	-	-	255.00	-	yes	yes	yes	yes	100%	255.00	-	-	255.00	-
01/18/06	Plant City Chamber Of Commerce	909C	SA101	25.00	-	25.00	-	-	-	-	-	-	0%	-	-	-	-	-
01/12/06	Plantation Inn	909E	SA107	79.50	-	-	79.50	-	-	-	-	-	0%	-	-	-	-	-
	Polk County Builders Association	uncontested		750.00	375.00	-	375.00	-	yes	yes	yes	yes	100%	750.00	375.00	-	375.00	-
	Reclass Sales & Use Tax Audit	uncontested		14.18	14.18	-	-	-	yes	yes	yes	yes	100%	14.18	14.18	-	-	-
06/26/06	R H Donnelley	909A	SA102	248.81	248.81	-	-	-	no	no	no	yes	25%	62.20	62.20	-	-	-
06/26/06	R H Donnelley	909A	SA107	214.25	214.25	-	-	-	no	no	no	yes	25%	53.56	53.56	-	-	-
07/25/06	R H Donnelley	909A	SA107	214.25	214.25	-	-	-	no	no	no	yes	25%	53.56	53.56	-	-	-
07/25/06	R H Donnelley	909A	SA102	124.00	124.00	-	-	-	no	no	no	yes	25%	31.00	31.00	-	-	-
08/24/06	R H Donnelley	909A	SA102	124.00	124.00	-	-	-	no	no	no	yes	25%	31.00	31.00	-	-	-
08/24/06	R H Donnelley	909A	SA107	214.25	214.25	-	-	-	no	no	no	yes	25%	53.56	53.56	-	-	-
10/04/06	R H Donnelley	909A	SA102	124.82	124.82	-	-	-	no	no	no	yes	25%	31.21	31.21	-	-	-
10/04/06	R H Donnelley	909A	SA107	215.64	215.64	-	-	-	no	no	no	yes	25%	53.91	53.91	-	-	-
10/23/06	R H Donnelley	909A	SA107	214.25	214.25	-	-	-	no	no	no	yes	25%	53.56	53.56	-	-	-
10/23/06	R H Donnelley	909A	SA102	125.88	125.88	-	-	-	no	no	no	yes	25%	31.47	31.47	-	-	-
11/30/06	R H Donnelley	909A	SA102	124.82	124.82	-	-	-	no	no	no	yes	25%	31.21	31.21	-	-	-
11/28/06	R H Donnelley	909A	SA107	217.53	217.53	-	-	-	no	no	no	yes	25%	54.38	54.38	-	-	-
12/31/06	R H Donnelley	909A	SA107	214.25	214.25	-	-	-	no	no	no	yes	25%	53.56	53.56	-	-	-
12/31/06	R H Donnelley	909A	SA102	124.00	124.00	-	-	-	no	no	no	yes	25%	31.00	31.00	-	-	-
12/31/06	Reclass Unapproved Cons Expense	909A	SA107	(9,236.95)	(3,946.64)	-	(5,290.31)	-	-	-	-	-	0%	-	-	-	-	-
04/04/06	School District Publications	909A	SA102	495.00	495.00	-	-	-	-	-	-	-	0%	-	-	-	-	-
08/11/06	St Petersburg Times	909C	SA107	36.27	-	36.27	-	-	no	no	no	yes	25%	9.07	-	9.07	-	-
08/11/06	St Petersburg Times	909E	SA107	36.27	-	-	36.27	-	no	no	no	yes	25%	9.07	-	-	9.07	-
08/11/06	St Petersburg Times	909G	SA107	36.27	-	-	-	36.27	no	no	no	yes	25%	9.07	-	-	-	9.07
09/25/06	St Petersburg Times	909E	SA107	54.00	-	-	54.00	-	no	no	no	yes	25%	13.50	-	-	13.50	-
10/23/06	St Petersburg Times	909E	SA107	108.81	-	-	108.81	-	no	no	no	yes	25%	27.20	-	-	27.20	-
	The Ledger	uncontested		10,536.89	-	1,108.49	8,662.34	766.06	yes	yes	yes	yes	100%	10,536.89	-	1,108.49	8,662.34	766.06
	Thornburg Communications Inc	uncontested		420.00	420.00	-	-	-	yes	yes	yes	yes	100%	420.00	420.00	-	-	-
01/18/06	Transwestern Publishing	909A	SA102	2,184.00	2,184.00	-	-	-	-	-	-	-	0%	-	-	-	-	-
03/31/06	Recls Dec AP Accrual Reversal	909A	SA102	(2,184.00)	(2,184.00)	-	-	-	-	-	-	-	0%	-	-	-	-	-
12/31/06	Yellow Pages, Inc.	909A	SA107	177.00	177.00	-	-	-	no	no	no	yes	25%	44.25	44.25	-	-	-
<b>Total Advertising Expense</b>				<b>\$41,776.89</b>	<b>\$11,754.03</b>	<b>\$8,659.43</b>	<b>\$20,561.10</b>	<b>\$802.33</b>						<b>\$43,022.31</b>	<b>\$11,997.36</b>	<b>\$7,357.23</b>	<b>\$22,892.60</b>	<b>\$775.13</b>
														<b>\$1,245.42</b>	<b>\$243.33</b>	<b>(\$1,302.20)</b>	<b>\$2,331.50</b>	<b>(\$27.20)</b>

## Schedule B

Date	Vendor	Activity	Natural Account	Territory	Department	Adjusted Amount	Original Amount
12/31/06	Reclass Unapproved Cons Expense	909A	7030	CF20	SA107	(\$137.56)	\$183.41
12/31/06	Reclass Unapproved Cons Expense	909A	7030	CF20	SA107	(139.20)	185.60
12/31/06	Reclass Unapproved Cons Expense	909A	7030	CF10	SA102	(184.91)	246.55
12/31/06	Reclass Unapproved Cons Expense	909A	7030	CF10	SA102	(91.87)	122.50
12/31/06	Reclass Unapproved Cons Expense	909A	7030	CF10	SA102	(490.67)	1,962.69
12/31/06	Reclass Unapproved Cons Expense	909A	7030	CF10	SA102	(177.35)	236.47
12/31/06	Reclass Unapproved Cons Expense	909A	7030	CF10	SA102	(91.87)	122.50
12/31/06	Reclass Unapproved Cons Expense	909A	7030	CF20	SA107	(137.56)	183.41
12/31/06	Reclass Unapproved Cons Expense	909A	7030	CF20	SA107	(1,579.19)	2,105.59
12/31/06	Reclass Unapproved Cons Expense	909A	7030	CF20	SA107	(148.60)	198.13
12/31/06	Reclass Unapproved Cons Expense	909A	7030	CF20	SA107	(92.42)	123.23
12/31/06	Reclass Unapproved Cons Expense	909A	7030	CF20	SA107	(91.87)	122.50
12/31/06	Reclass Unapproved Cons Expense	909A	7030	CF20	SA107	(92.48)	123.31
12/31/06	Reclass Unapproved Cons Expense	909A	7030	CF20	SA107	(125.00)	250.00
12/31/06	Reclass Unapproved Cons Expense	909A	7030	CF10	SA102	(87.60)	116.80
12/31/06	Reclass Unapproved Cons Expense	909A	7030	CF20	SA107	(278.49)	371.32
12/31/06	Reclass Unapproved Cons Expense	909E	7030	CF20	SA107	(36.94)	147.75
12/31/06	Reclass Unapproved Cons Expense	909E	7030	CF10	SA102	(1,279.45)	1,705.93
12/31/06	Reclass Unapproved Cons Expense	909E	7030	CF10	SA102	(1,224.63)	1,632.84
12/31/06	Reclass Unapproved Cons Expense	909E	7030	CF10	SA102	(1,460.26)	1,947.01
12/31/06	Reclass Unapproved Cons Expense	909E	7030	CF10	SA102	<u>(1,289.03)</u>	1,718.71
						(\$9,236.95)	
	Final under-recovered amount in company filing					\$262,210.00	
	Analyst adjustments to company filing					(\$9,974.00)	
	Final under-recovered amount in Order PSC-06-0996-FOF-GU					\$252,236.00	

The company posted the analyst adjustment for 2005 ECCR disallowed advertising expenses to its 2006 account. They did not, however, post the entire amount. The above schedule displays the company adjustments that were posted. The entire \$9,237 needs to be removed because the company filing in 2006 begins with the final order amount of \$252,236 which included the analyst's adjustment in the prior docket.

**EXHIBIT**  
Page 1 of 2

SCHEDULE CT-1	COMPANY: Chesapeake Utilities Corporation	
	Docket No. 070004-GU	
	Exhibit BSB-1	
	Page 1 of 17	
ADJUSTED NET TRUE-UP		
FOR MONTH JANUARY 2006 THROUGH DECEMBER 2006		
END OF PERIOD NET TRUE-UP		
	PRINCIPLE	(15,031)
	INTEREST	<u>4,032</u>
		(10,999)
LESS PROJECTED TRUE-UP		
	PRINCIPLE	1,684
	INTEREST	<u>4,464</u>
		<u>6,148</u>
	ADJUSTED NET TRUE-UP	<u>(17,147)</u>
() REFLECTS OVER-RECOVERY		

**EXHIBIT**

Page 2 of 2

SCHEDULE CT 2 PAGE 1 OF 3		COMPANY: Chesapeake Utilities Corporation Docket No. 070004-GU Exhibit BSB-1 Page 2 of 17	
ANALYSIS OF ENERGY CONSERVATION PROGRAM COSTS ACTUAL VERSUS ESTIMATED JANUARY 2006 THROUGH DECEMBER 2006			
	<u>ACTUAL</u>	<u>PROJECTED*</u>	<u>DIFFERENCE</u>
CAPITAL INVESTMENT	0	0	0
PAYROLL & BENEFITS	390,742	408,911	(18,169)
MATERIALS & SUPPLIES	37,867	29,022	8,845
ADVERTISING	41,777	43,912	(2,135)
INCENTIVES	441,915	438,795	3,120
OUTSIDE SERVICES	1,222	1,832	(610)
VEHICLES	34,944	40,617	(5,673)
OTHER	18,786	15,463	3,323
SUB-TOTAL	967,263	978,552	(11,290)
PROGRAM REVENUES	0	0	0
TOTAL PROGRAM COSTS	967,263	978,552	(11,290)
LESS			
PAYROLL ADJUSTMENTS	0	0	0
AMOUNTS INCLUDED IN RATE BASE	0	0	0
CONSERVATION REVENUES APPLICABLE TO THE PERIOD	(962,293)	(976,869)	(5,424)
ROUNDING ADJUSTMENT	0	0	0
TRUE UP BEFORE INTEREST	(15,031)	1,684	(16,715)
INTEREST PROVISION	4,032	4,464	(432)
END OF PERIOD TRUE UP	(10,895)	6,148	(17,043)
( ) REFLECTS OVER-RECOVERY * 6 MONTHS ACTUAL AND 4 MONTHS PROJECTED			