

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-

DATE: June 22, 2017
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 170004-GU
Company Name: Florida Public Utilities/Division of Chesapeake Utilities Corporation (Consolidated Companies)
Company Code: GU603, GU606, GU616, GU618
Audit Purpose: A3e: Natural Gas Conservation Cost Recovery
Audit Control No: 17-024-1-3

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 a response to the Office of Commission Clerk. There are no confidential work papers associated with this audit.

LMD/cmm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tallahassee District Office

Auditor's Report

Florida Public Utilities Company/
Division of Chesapeake Utilities Corporation
(Consolidated Companies)
Gas Conservation Cost Recovery Clause

Twelve Months Ended December 31, 2016

Docket No. 170004-GU
Audit Control No. 17-024-1-3
June 19, 2017

A handwritten signature in blue ink, appearing to read "Marisa Glover", written over a horizontal line.

Marisa Glover
Audit Manager

A handwritten signature in blue ink, appearing to read "Lynn Deamer", written over a horizontal line.

Lynn Deamer
Reviewer

Table of Contents

Purpose..... 1

Objectives and Procedures..... 2

Audit Findings

 1: Expenses 4

Exhibit

 1: True-Up..... 5

Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Economics in its audit service request dated January 24, 2017. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Florida Public Utilities Company in support of its 2016 filing for the Gas Conservation Cost Recovery Clause in Docket No. 170004-GU.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definition

Utility refers to the entity formed by consolidating the filings of Florida Public Utilities Company, Florida Public Utilities Company-Indiantown Division, Florida Public Utilities Company-Fort Meade Division, and the Florida Division of Chesapeake Utilities Corporation.

GCCR refers to the Gas Conservation Cost Recovery Clause.

Revenue

Objectives: The objectives were to determine the actual therms sold for the period January 1, 2016, through December 31, 2016, and whether the Utility applied the Commission approved gas cost recovery factors to actual therm sales.

Procedures: We computed revenues using the factors in Order No. PSC-15-0541-FOF-GU, issued November 23, 2015, and actual therm sales from the Gross Margin Report, and reconciled them to the general ledger and the GCCR filing. We selected a random sample of residential and commercial customers' bills and recalculated each to verify the use of the correct tariff rate. No exceptions were noted.

Expense

Objectives: The objectives were to determine whether Operation and Maintenance (O&M) Expense listed on Schedule CT-3 of the Utility's GCCR filing was supported by adequate documentation and that the expenses are appropriately recoverable through the GCCR.

Procedures: We traced expenses in the filing to the general ledger. We judgmentally selected a sample of O&M Expenses for testing. The source documentation for selected items was reviewed to ensure the expense was for the current period, charged to the correct account, and appropriately recoverable through the GCCR. We traced cash incentive payments to allowances approved in Order No. PSC-10-0551-PAA-EG, issued September 2, 2010 and in Order No. PSC-14-0039-PAA-EG, issued January 14, 2014. Advertising expenses were reviewed for compliance with Rule 25-17.015(5), Energy Conservation Cost Recovery, Florida Administrative Code. See Finding 1.

True-up

Objective: The objective was to determine whether the True-Up and Interest Provision as filed on Schedule CT-3 was properly calculated.

Procedures: We traced the December 31, 2015, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2016, using the Commission approved beginning balance as of December 31, 2015, the Non-Financial Commercial Paper rates, and the 2016 GCCR revenues and costs. No exceptions were noted.

Analytical Review

Objective: The objective was to perform an analytical review of the Utility's GCCR Revenues and Expenses to determine if there were any material changes or inconsistencies from the prior year.

Procedures: We compared 2016 to 2015 revenues and expenses. We requested explanations from the Utility for significant variances. Explanations provided were sufficient. Further follow-up was not required.

Audit Findings

Finding 1: Expenses

Audit Analysis: Audit staff sampled cash incentive payments for 2016. Based on our sample we determined that the payments are in compliance with the amounts approved by the Commission. We also reconciled the general ledger to the True-up schedules without exception for all 12 months.

However, we did find the following errors.

1. There was a duplicate rebate in the amount of \$350 booked to the General Ledger in the month of September 2016 in the Residential Appliance Replacement Program. The True-up should be adjusted to reflect the removal from recovery of this amount.
2. There was a merchandise item in the amount of \$1,369 booked in the General ledger in June 2016. This item although booked to the Commercial Conservation Service Program, is unrelated to Conservation, thus not allowed to be recoverable. The True-up should be adjusted to reflect the removal from recovery of this amount.

Effect on the General Ledger: The utility should determine the effect on the general ledger.

Effect on the Filing: The True-up should be adjusted to reflect the removal of these two expenses from recovery.

Exhibit

Exhibit 1: True-Up

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY AND FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION CONSOLIDATED NATURAL GAS COMPANIES

SCHEDULE CT-3
PAGE 1 OF 3

ENERGY CONSERVATION ADJUSTMENT CALCULATION OF TRUE-UP AND INTEREST PROVISION
SUMMARY OF EXPENSES BY PROGRAM BY MONTH

FOR MONTHS		January-16 THROUGH December-16												
A. CONSERVATION EXPENSE BY PROGRAM		JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1	Full House Residential New Construction	63,211	34,232	31,183	69,431	25,826	167,880	111,368	95,026	27,835	95,232	20,226	32,662	814,111
2	Residential Appliance Replacement	40,262	28,478	26,529	38,732	57,020	28,686	37,348	59,221	29,828	23,278	68,341	18,244	485,964
3	Conservation Education	5,782	10,128	13,848	9,982	5,585	13,378	26,685	9,236	10,600	7,854	7,555	11,288	132,414
4	Space Conditioning									268				268
5	Residential Conservation Survey	125		1,675	1,406	468		14,530	8,290	18,627	2,697	3,375	1,836	51,328
6	Residential Appliance Retention	73,727	63,448	57,022	55,400	62,866	67,372	62,201	93,081	43,599	65,353	50,628	42,642	612,132
7	Commercial Conservation Survey				1,687	935				858				4,150
8	Residential Service Reactivation	350	350	(350)					350			350		1,049
9	Common	65,385	82,777	128,782	100,936	101,713	110,038	109,677	107,093	121,409	104,036	100,483	157,326	1,329,855
10	Conservation Demonstration and Development	(2,450)	15,000	1,338	3,000		4,237				581			21,706
11	Commercial Small Food Program	185,609	256,101	126,893	63,608	62,977	36,746	21,965	28,045	20,331	43,534	21,639	27,397	684,945
12	Commercial Large Non-Food Service Program	10,353	7,020	5,839	3,112	11,413	2,307	2,736	3,432	3,648	11,837	3,168	1,454	65,838
13	Commercial Large Food Service Program	70,181	23,403	7,001	15,017	1,411	18,282	3,474	9,860	11,256	9,010	19,189	1,454	169,548
14	Commercial Large Hospitality Program	10,353	3,470	10,221	17,153	19,208	611	5,114	15,856	32,265	28,726	26,317	21,160	192,474
15	Commercial Large Cleaning Service Program	20,360	7,132	5,769	3,112	1,411	13,560	3,898	8,680	910	29,685	4,667	13,110	112,472
16	Residential Propane Distribution Program													
5. TOTAL ALL PROGRAMS		583,447	631,639	415,849	392,478	370,633	483,079	419,412	444,227	318,761	442,261	357,497	329,275	5,096,245
6. LESS AMOUNT INCLUDED IN RATE BASE														
7. RECOVERABLE CONSERVATION EXPENSES		583,447	631,639	415,849	392,478	370,633	483,079	419,412	444,227	318,761	442,261	357,497	329,275	5,096,245

EXHIBIT NO. _____
DOCKET NO. 170004-GU
FLORIDA PUBLIC UTILITIES CO.
(CDY-1)
PAGE 6 OF 24

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY AND FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION CONSOLIDATED NATURAL GAS COMPANIES

SCHEDULE CT-3
PAGE 2 OF 3

CALCULATION OF TRUE-UP AND INTEREST PROVISION

FOR MONTHS January-16 THROUGH December-16

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
B. CONSERVATION REVENUES													
1. RESIDENTIAL CONSERVATION													
2. CONSERVATION ADJ. REVENUES	(770,897)	(780,288)	(724,242)	(819,972)	(534,696)	(499,337)	(468,148)	(448,991)	(484,704)	(505,608)	(572,747)	(668,474)	(7,056,191)
3. TOTAL REVENUES	(770,897)	(780,288)	(724,242)	(819,972)	(534,696)	(499,337)	(468,148)	(448,991)	(484,704)	(505,608)	(572,747)	(668,474)	(7,056,101)
4. PRIOR PERIOD TRUE-UP ADJ. NOT APPLICABLE TO THIS PERIOD	224,519	224,515	224,515	224,515	224,515	224,515	224,515	224,515	224,515	224,515	224,515	224,515	2,694,184
5. CONSERVATION REVENUE APPLICABLE	(546,378)	(555,771)	(499,727)	(595,457)	(310,181)	(274,822)	(241,633)	(224,476)	(260,189)	(281,093)	(348,232)	(443,959)	(4,361,917)
6. CONSERVATION EXPENSES (FROM CT-3, PAGE 1, LINE 23)	593,447	631,639	415,649	392,476	370,633	483,078	419,412	444,227	318,761	442,261	357,497	329,275	5,098,245
7. TRUE-UP THIS PERIOD (LINE 5 - 6)	47,069	(24,232)	(84,079)	(2,981)	60,452	208,257	177,779	219,752	70,572	161,166	9,265	(114,684)	736,328
8. INTEREST PROVISION THIS PERIOD (FROM CT-3, PAGE 3, LINE 10)	736	688	590	524	508	482	453	490	489	454	445	308	6,171
9. TRUE-UP AND INTEREST PROVISION BEGINNING OF MONTH	2,694,184	2,517,472	2,269,413	1,961,410	1,734,438	1,570,884	1,555,108	1,508,825	1,404,552	1,369,063	1,296,195	1,081,391	2,694,184
9A. DEFERRED TRUE-UP BEGINNING OF PERIOD													
10. PRIOR TRUE-UP COLLECTED (REFUNDED)	(224,519)	(224,515)	(224,515)	(224,515)	(224,515)	(224,515)	(224,515)	(224,515)	(224,515)	(224,515)	(224,515)	(224,515)	(2,694,184)
11. TOTAL NET TRUE-UP (LINES 7+8+9+9A+10)	2,517,472	2,289,413	1,961,410	1,734,438	1,570,884	1,555,108	1,508,825	1,504,552	1,359,095	1,286,195	1,081,391	742,499	742,499

EXHIBIT NO. _____
DOCKET NO. 170004-GU
FLORIDA PUBLIC UTILITIES CO.
(C0Y-1)
PAGE 6 OF 24

COMPANY: FLORIDA PUBLIC UTILITIES COMPANY AND FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION CONSOLIDATED NATURAL GAS COMPANIES

SCHEDULE CT-3
PAGE 3 OF 3

CALCULATION OF TRUE-UP AND INTEREST PROVISION

FOR MONTHS January-16 THROUGH December-16

C. INTEREST PROVISION	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1. BEGINNING TRUE-UP (LINE B-0)	2,694,184	2,617,472	2,289,413	1,961,410	1,734,438	1,570,884	1,555,108	1,508,825	1,304,552	1,359,098	1,298,195	1,081,391	2,694,184
2. ENDING TRUE-UP BEFORE INTEREST (LINES B7+B9+B9A+B10)	2,616,734	2,269,725	1,900,820	1,733,914	1,570,375	1,554,826	1,500,372	1,504,002	1,358,609	1,285,741	1,080,645	742,191	738,328
3. TOTAL BEG. AND ENDING TRUE-UP	5,210,918	4,786,198	4,230,233	3,695,324	3,304,813	3,125,711	3,063,481	3,012,827	2,663,161	2,654,838	2,377,139	1,823,582	3,430,512
4. AVERAGE TRUE-UP (LINE C-3 X 50%)	2,605,459	2,393,099	2,115,117	1,847,662	1,652,407	1,562,755	1,531,740	1,506,414	1,331,580	1,327,419	1,188,570	911,791	1,715,258
5. INTEREST RATE - FIRST DAY OF REPORTING BUSINESS MONTH	0.34%	0.34%	0.35%	0.32%	0.36%	0.38%	0.36%	0.36%	0.43%	0.39%	0.43%	0.47%	
6. INTEREST RATE - FIRST DAY OF SUBSEQUENT BUSINESS MONTH	0.34%	0.35%	0.32%	0.36%	0.38%	0.38%	0.35%	0.43%	0.39%	0.43%	0.47%	0.34%	
7. TOTAL (LINE C-5 + C-6)	0.68%	0.69%	0.67%	0.68%	0.74%	0.74%	0.71%	0.79%	0.82%	0.82%	0.90%	0.81%	
8. AVG. INTEREST RATE (C-7 X 50%)	0.34%	0.35%	0.34%	0.34%	0.37%	0.37%	0.36%	0.39%	0.41%	0.41%	0.45%	0.41%	
9. MONTHLY AVERAGE INTEREST RATE	0.028%	0.029%	0.028%	0.028%	0.031%	0.031%	0.030%	0.033%	0.034%	0.034%	0.038%	0.034%	
10. INTEREST PROVISION (LINE C-4 X C-9)	738	688	590	524	509	482	453	490	489	454	446	305	6,171

EXHIBIT NO. _____
DOCKET NO. 170004-GJ
FLORIDA PUBLIC UTILITIES CO.
(CDY-1)
PAGE 7 OF 24