

State of Florida



Public Service Commission

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COMMISSION
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DATE: July 20, 2012
TO: Office of Commission Clerk
FROM: Patti Daniel, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 120004-GU
Company Name: Florida Division of Chesapeake Utilities Corporation
Company Code: GU616
Audit Purpose: A3e Gas Conservation Cost Recovery
Audit Control No: 12-010-4-5

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 were no confidential work papers associated with this audit.

PD/lmd

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER DATE

04856 JUL 20 12

FPSC-COMMISSION CLERK

State of Florida



Public Service Commission

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

Auditor's Report

Florida Division of Chesapeake Utilities Corporation
Gas Conservation Cost Recovery

Twelve Months Ended December 31, 2011

Docket No. 120004-GU
Audit Control No. 12-010-4-5

July 18, 2012

Handwritten signature of Kathy L. Welch in cursive script.

Kathy L. Welch
Audit Manager

Handwritten signature of Iliana H. Piedra in cursive script.

Iliana H. Piedra
Reviewer

Table of Contents

Purpose.....	1
Objectives and Procedures.....	2
Audit Findings	
1: Industrial Customer Revenue.....	4
Exhibits	
1: True-Up.....	5

Purpose

To: Florida Public Service Commission

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 January 12, 2012. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Florida Division of Chesapeake Utilities Corporation in support of its 2011 filing for the Gas Conservation Cost Recovery Clause in Docket No. 120004-GU.

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

Objectives and Procedures

General

Definition

Utility refers to the Florida Division of Chesapeake Utilities Corporation.
GCCR refers to the Gas Conservation Cost Recovery.

Revenue

Operating Revenues

Objectives: The objectives were to determine the actual therms sold for the period January 1, 2011, through December 31, 2011, and whether the Utility applied the Commission approved cost recovery factor to actual therm sales for the GCCR.

Procedures: We reconciled the 2011 filing to the Utility's monthly Revenue Reports. We computed the factors by rate code and compared them to the last Commission Order No. PSC 10-0705-FOF-GU. We selected a random sample of residential and commercial customers' bills and recalculated each to verify the use of the correct tariff rate. We calculated revenue using the statistics report times the ordered rates and determined there was a difference. See Audit Finding No. 1.

Expense

Operation and Maintenance Expense

Objectives: The objectives were to verify that Operation and Maintenance (O&M) Expense listed on the Utility's Schedule CT-3 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 related to the GCCR and that the expense was charged to the correct accounts. All adjustments were corrected by the Utility in an amended filing.

True-up

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

Procedures: We traced the December 31, 2010, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2011, using the Commission approved beginning balance as of December 31, 2010, the Financial Commercial Paper rates, and the 2011 GCCR revenues and costs. No exceptions were noted.

Audit Findings

Finding 1: Industrial Customer Revenue

Audit Analysis: A comparison of therms, from a Utility statistics report, times the ordered conservation rates showed a material difference between the computation and the 2011 conservation filing revenues. It was determined that several of the customers in Rate Class FTS-11 on the statistics report did not have a line on the bill for conservation charges and, therefore, no conservation revenue was recorded in the ledger for these customers. The billing system showed these customers as FTS-11. The December bills were reviewed for these customers. The bills have a rate class that indicates they were hand billed and only show amounts under a category called "Other Charges". Commission Order No. PSC 10-0705-FOF-GU shows a conservation rate for FTS-11 of .624 cents per therm. The Utilities Tariff sheet No. 88 for FTS-11 states:

"The above rates shall be subject to the applicable MRAs and FTs as set forth on Sheet Nos. 98-106."

Tariff Sheet 98 and 99 list the conservation rates which include rate class FTS-11.

The Utility responded that although these customers are in Rate Class FTS-11 in the billing system, they are billed under Tariff Sheet No. 91, the Contract Firm Transportation Service Rider which allows a reduction to a bill based on an evaluation of competitive conditions. The bills are computed by hand and do not use the rates for FTS-11. This rider does not discuss the conservation tariff. The revenues related to these customers were not included in the Utilities projections. Therefore, they believe that the customers should not be charged.

Tallahassee staff has indicated that all customers should be charged the conservation rate and that some companies include the rate in the price determined by the rider. If these customers had been charged the FTS-11 rate, additional revenue of \$650,927 would be included in conservation in 2011.

The Utility also has a Rate Class FTS-13 which does not have a rate in Commission Order No. PSC 10-0705-FOF-GU, or in the Tariff Sheets 98 or 99. This rate class billed 14,209,812 therms in 2011 and because there was no ordered rate, no conservation fees were billed and therefore, staff did not calculate or include any revenue for this rate class in the above amount of \$650,927.

Effect on the General Ledger: If the Commission determines that these customers fall under the conservation tariff, revenues of \$650,927 should be transferred from base rate revenues to conservation revenues.

Effect on the Filing: If the Commission determines that these customers fall under the conservation tariff, revenues of \$650,927 should be included in the CT-3 schedules for 2011. This amount plus additional interest of \$399 would increase the over-recovery by \$651,326 to \$681,055.

Exhibits

Exhibit 1: True-Up

COMPANY: FLORIDA DIVISION OF CHEESAPEAKE UTILITIES CORPORATION

SCHEDULE CT-3
PAGE 1 OF 3

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

FDR MONTHS		January-11 THROUGH December-11												
A. CONSERVATION EXPENSE BY PROGRAM		JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1.	Residential Home Builder	6,774	7,865	11,791	40,178	84,076	83,368	50,784	16,868	14,807	25,180	20,780	(41,211)	321,860
2.	Residential Appliance Replacement	11,411	8,087	8,018	5,725	452	12,424	6,288	17,882	14,264	19,380	17,115	38,081	158,125
3.	Residential Propane Distribution													
4.	Residential Water Heater Retention	4,457	3,337	4,158	4,402	3,198	2,025	2,630	8,056	14,486	30,583	16,947	83,110	178,589
5.	NG Space Conditioning For Res Homes													
6.	Gas Space Conditioning	3,831	6,765	11,427	4,732	3,446	1,160	3,875	2,806	11,809	3,814	4,994	2,893	60,805
7.	Conservation Education													
8.	CFG Common	(1,113)	98	1,829	845	(3,716)	1,194	481	4,333	(4,856)	1,827	6,788	(4,577)	2,833
5. TOTAL ALL PROGRAMS		25,460	25,942	36,922	55,682	88,354	100,191	63,258	49,948	50,883	79,984	65,602	78,096	720,322
6. LESS AMOUNT INCLUDED IN RATE BASE														
7. RECOVERABLE CONSERVATION EXPENSES		25,460	25,942	36,922	55,682	88,354	100,191	63,258	49,948	50,883	79,984	65,602	78,096	720,322

COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION

SCHEDULE CT-3
PAGE 2 OF 3

CALCULATION OF TRUE-UP AND INTEREST PROVISION

FOR MONTHS January-11 THROUGH December-11

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
B. CONSERVATION REVENUES													
1. RESIDENTIAL CONSERVATION													
2. CONSERVATION ADJ. REVENUES	(77,178)	(60,860)	(58,328)	(53,628)	(43,898)	(42,801)	(38,937)	(36,088)	(40,898)	(47,088)	(49,680)	(50,884)	(605,624)
3. TOTAL REVENUES	(77,178)	(60,860)	(58,328)	(53,628)	(43,898)	(42,801)	(38,937)	(36,088)	(40,898)	(47,088)	(49,580)	(58,864)	(685,824)
4. PRIOR PERIOD TRUE-UP ADJ. NOT APPLICABLE TO THIS PERIOD	(12,009)	(12,014)	(12,014)	(12,014)	(12,014)	(12,014)	(12,014)	(12,014)	(12,014)	(12,014)	(12,014)	(12,014)	(144,163)
5. CONSERVATION REVENUE APPLICABLE	(89,185)	(72,874)	(71,342)	(65,640)	(55,912)	(54,815)	(50,951)	(47,102)	(52,912)	(59,102)	(61,574)	(68,878)	(749,787)
6. CONSERVATION EXPENSES (FROM CT-3, PAGE 1, LINE 23)	25,460	25,942	36,922	65,682	89,354	100,191	83,258	49,848	60,883	79,994	85,602	79,088	720,322
7. TRUE-UP THIS PERIOD (LINE 6 - 8)	(63,725)	(46,732)	(34,420)	(9,958)	32,342	45,676	12,307	2,846	(2,029)	20,882	4,028	9,418	(28,466)
8. INTEREST PROVISION THIS PERIOD (FROM CT-3, PAGE 3, LINE 10)	(35)	(44)	(45)	(41)	(33)	(24)	(16)	(9)	(5)	(9)	(4)	(3)	(284)
9. TRUE-UP AND INTEREST PROVISION BEGINNING OF MONTH	(144,163)	(196,914)	(230,676)	(253,127)	(251,112)	(208,789)	(148,223)	(124,918)	(110,087)	(100,087)	(87,198)	(51,158)	(144,163)
9A. DEFERRED TRUE-UP BEGINNING OF PERIOD													
10. PRIOR TRUE-UP COLLECTED (REFUNDED)	12,009	12,014	12,014	12,014	12,014	12,014	12,014	12,014	12,014	12,014	12,014	12,014	144,163
11. TOTAL NET TRUE-UP (LINES 7+8+9A-10)	(196,914)	(230,676)	(253,127)	(251,112)	(208,789)	(148,223)	(124,918)	(110,087)	(100,087)	(87,198)	(51,158)	(29,729)	(28,729)

COMPANY: FLORIDA DIVISION OF CHESAPEAKE UTILITIES CORPORATION

SCHEDULE C7-3
PAGE 3 OF 3

CALCULATION OF TRUE-UP AND INTEREST PROVISION

FOR MONTHS January-11 THROUGH December-11

C. INTEREST PROVISION	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	TOTAL
1. BEGINNING TRUE-UP (LINE B-6)	(144,163)	(195,914)	(230,878)	(253,127)	(251,112)	(206,786)	(148,223)	(124,818)	(110,067)	(100,007)	(67,198)	(61,159)	(144,163)
2. ENDING TRUE-UP BEFORE INTEREST (LINES B7+B9+B9A+B10)	(196,879)	(230,632)	(253,062)	(251,071)	(209,786)	(149,199)	(124,802)	(110,058)	(100,082)	(67,191)	(61,154)	(29,728)	(29,453)
3. TOTAL BEG. AND ENDING TRUE-UP	(340,042)	(426,546)	(483,768)	(504,198)	(467,898)	(356,086)	(274,125)	(234,876)	(210,149)	(167,278)	(118,360)	(80,894)	(173,628)
4. AVERAGE TRUE-UP (LINE C-3 X 60%)	(176,021)	(213,273)	(241,879)	(252,099)	(220,634)	(177,904)	(137,063)	(117,438)	(105,075)	(83,639)	(59,175)	(40,442)	(86,814)
5. INTEREST RATE - FIRST DAY OF REPORTING BUSINESS MONTH	0.25%	0.25%	0.25%	0.20%	0.19%	0.16%	0.16%	0.12%	0.07%	0.04%	0.09%	0.09%	
6. INTEREST RATE - FIRST DAY OF SUBSEQUENT BUSINESS MONTH	0.25%	0.25%	0.20%	0.19%	0.16%	0.16%	0.12%	0.07%	0.04%	0.09%	0.09%	0.07%	
7. TOTAL (LINE C-6 + C-8)	0.00%	0.50%	0.45%	0.39%	0.35%	0.32%	0.28%	0.19%	0.11%	0.13%	0.16%	0.16%	
8. AVG INTEREST RATE (C-7 X 50%)	0.25%	0.25%	0.23%	0.20%	0.19%	0.16%	0.14%	0.13%	0.06%	0.07%	0.09%	0.08%	
9. MONTHLY AVERAGE INTEREST RATE	0.021%	0.021%	0.019%	0.016%	0.016%	0.013%	0.012%	0.009%	0.005%	0.006%	0.005%	0.007%	
10. INTEREST PROVISION (LINE C-4 X C-9)	(35)	(44)	(46)	(41)	(33)	(24)	(18)	(9)	(5)	(5)	(4)	(3)	(294)