

State of Florida



RECEIVED-FPSC

08 OCT -1 PM 4:05

COMMISSION **Public Service Commission**
CLERK CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: October 1, 2008
TO: Peter H. Lester, Economic Analyst, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance
RE: Docket No. 080001-EI; Company Name: Progress Energy Florida, Inc.;
Audit Purpose: Hedging Activities January – July, 2008; Company Code:
EI801; Audit Control No.: 08-221-2-1

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 Office of Commission Clerk. There are confidential work papers associated with this audit.

Attachment

cc: Division of Regulatory Compliance (Salak, Mailhot, Harvey, District Offices, File Folder)
Office of Commission Clerk (2)
General Counsel
Office of Public Counsel

Mr. Paul Lewis, Jr.
Progress Energy Florida, Inc.
106 East College Avenue, Suite 800
Tallahassee, FL 32301-7740

John T. Burnett
Progress Energy Service Company, LLC
P.O. Box 14042
Saint Petersburg, FL 33733-4042

DOCUMENT NUMBER-DATE

09285 OCT-1 8

FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

***DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING***

Tampa District Office

PROGRESS ENERGY FLORIDA, INC.

2008 HEDGING ACTIVITIES

PERIOD JANUARY 1 THROUGH JULY 31, 2008

**DOCKET NO. 080001-EI
AUDIT CONTROL NO. 08-221-2-1**

A handwritten signature in black ink, appearing to read "Tomer", written over a horizontal line.

Tomer Kopelovich, Audit Manager

A handwritten signature in black ink, appearing to read "J. W. Rohrbacher", written over a horizontal line.

Joseph W. Rohrbacher, District Audit Supervisor

DOCUMENT NUMBER-DATE

09285 OCT-1 8

FPSC-COMMISSION CLERK

TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE.....	1
II. OBJECTIVES AND PROCEDURES	2

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

SEPTEMBER 12, 2008

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 August 5, 2008. We have applied these procedures to the Hedging Activities in Docket No. 080001-EI.

This audit is 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

Objectives: Review and verify the information presented in PEF's Hedging Information Report filed on August 15, 2008.

Procedures: We reviewed the information presented in the utility's Hedging Information Report that was filed on August 15, 2008.

Objectives: To verify that the accounting treatment for futures, options, and swap contracts between Progress Energy Florida and counterparties are consistent with Order No PSC-02-1484-FOF-EI..

Procedures: We requested listing of all futures, options, and swap contracts executed by PEF for the period of January 1, 2008 through July 31, 2008. Also, we requested the volumes of each fuel the utility actually hedged using fixed price contract or instrument. In addition, we requested the types of hedging instrument the utility used and the average period for all hedges, options premiums, futures gains and losses and swap settlements. We reviewed the listing and fifteen contracts. The contracts were given to us and marked confidential. Also, we recalculated the gains and losses by multiplying volume by the difference between fixed price and settlement price.

Objectives: To reconcile the data included in the Hedging Information Report of August 15, with the books and records of the utility. This includes the gains (losses), options premiums, swap settlements, as well as fees, commissions, and other transaction costs associated with each financial hedging instrument.

Procedures: We traced selected savings and costs on hedges to journal entries and the general ledger..

Objectives: To verify that quantities of gas, residual oil, and purchased power hedged are within the limits, the percentage range, specified in the 2007 PEF Risk Management Plan.

Procedures: We reviewed the PEF hedging plan and we found that PEF exceeded the limit of hedging for No. 6 oil by eight percent. Next, we requested an explanation of the deviation from the hedging plan. A utility representative responded by saying that the reason the utility hedged more No. 6 oil was because the utility burned more natural gas and less No. 6 oil.

Objectives: To verify that the individual and group limits and authorization set forth in the PEF's 2007 Risk Management Plan have been followed.

Procedures: We reviewed the Progress Energy Florida Risk Management Plan regarding transaction limits and found the company followed its plan.

Objectives: To verify that PEF has followed utility procedures for separating duties related to hedging activities (front office, middle office, and back office) per its Hedging Plan.

Procedures: We reviewed an internal audit review document that relates to front office, middle office, and back office, and found that the company has followed its procedure.

Objectives: To verify that the hedging operating and maintenance expenses associated with maintaining a non-speculative financial and/or physical hedging program are incremental in nature as set forth in Order No. PSC-02-1484-FOF-EI.

Procedures: We requested a breakdown of operating and maintenance expenses for hedging that are included in the Fuel Clause and verified that the expenses are incremental.

Objectives: To check that swap transaction price can be checked against the market futures price as of the date the utility entered the swap.

Procedures: We checked the swap transactions against the market future price as the date the utility entered the swap and found that the prices were generally the same.