



Public Service Commission

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

DATE: May 3, 2010
TO: Jenny Wu, Economic Analyst, Division of Economic Regulation
FROM: Clarence Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis CP
RE: Docket No.: 100007-EI
Company Name: Progress Energy Florida, Inc.
Company Code: EI801
Audit Purpose: Environmental Cost Recovery Clause
Audit Control No: 09-363-2-1

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

CP/ip

Attachment: Audit Report

cc: (With Attachment)
Office of Auditing and Performance Analysis (Mailhot, File Folder)
Office of Commission Clerk
Office of the General Counsel

(Without Attachment)
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

DOCUMENT NUMBER-DATE

03688 MAY-3 0

FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*OFFICE OF AUDITING AND PERFORMANCE ANALYSIS
BUREAU OF AUDITING*

TAMPA DISTRICT OFFICE

PROGRESS ENERGY FLORIDA, INC.

ENVIRONMENTAL COST RECOVERY CLAUSE AUDIT

HISTORICAL YEAR ENDED DECEMBER 31, 2009

DOCKET NO. 100007-EI

AUDIT CONTROL NO. 09-363-2-1



Simon Ojada, Audit Manager



Clarence Prestwood, Chief of Auditing

TABLE OF CONTENTS

AUDITOR'S REPORT	PAGE
I. PURPOSE	1
II. OBJECTIVES AND PROCEDURES.....	2
III. EXHIBITS	
 CALCULATION OF FINAL TRUE-UP & INTEREST FOR 2009.....	5

OFFICE OF AUDITING AND PERFORMANCE ANALYSIS

AUDITOR'S REPORT

April 16, 2010

TO: FLORIDA PUBLIC SERVICE COMMISSION

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the attached schedules prepared by Progress Energy Florida, Inc. (PEF) in support of its filing for Environmental Cost Recovery Clause in Docket No. 100007-EI.

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 and the report is intended only for internal Commission use.

OBJECTIVES AND PROCEDURES:

REVENUES

Objective: - To verify that Environmental Cost Recovery Clause (ECRC) revenue and KWH sold as filed were completely and properly recorded on the books of the Company.

Procedures: - We compiled ECRC revenues and reconciled it to the filing. We computed ECRC revenues using approved Florida Public Service Commission (FPSC) rate factors and company provided KWH sales and verified that the rates used comply with Commission Order. We tested two months of revenues by type and traced it to the appropriate general ledger account. We selected a group of customer bills for one month and recalculated each to verify that the FPSC approved rates were used in the customer billing system.

EXPENSES

Objective: - To verify that the environmental costs per the Company's ECRC filing agree to the general ledger and reconcile to the books and records of the Company.

Procedures: - We traced environmental costs accounts to the general ledger and reconciled the filing balances to the general ledger.

Objective: - To reconcile actual O&M projects costs for a statistical sample or a judgmental sample of the O&M projects listed in Form 42-5A.

Procedures: - We judgmentally selected a sample of invoices from the Company report of all amounts charged to O&M projects listed on Form 42-5A. We examined the invoices to determine that the following properties were correct: amount, account and time period.

Objective: - To verify that the appropriate amount of offsets, if any, due to retirements and replacements of plant-in-service that are being recovered through base rates, have been included in the Company's ECRC monthly depreciation expense, as required by Order No. PSC-99-2513-FOF-EI.

Procedures: - We reviewed the ECRC filing to verify that the appropriate amount of offsets, if any, due to retirements and replacements of plant-in-service that are being recovered through base rates, have been included in the Company's ECRC monthly depreciation expense, as required by Order No. PSC-99-2513-FOF-EI. We did not find any replacement or retirement of existing plant assets that would require an offset as required by Order No. PSC-99-2513-FOF-EI.

Objective: - To verify that where an ECRC project involves the replacement of existing plant assets, the Company is retiring the installed costs of replaced units of property according to Rule 25-6.0142(4)(b), F.AC.

Procedures: - We reviewed the ECRC filing and verified that there was no replacement of existing plant assets related to ECRC projects.

Objective: - To review Project No. 5, SO₂/NO_x Emission Allowances, and verify the revenues, the inventory, the expensed amounts, and the amounts included in working capital (lines 1a through 1c, Form 42-8A).

Procedures: - We reviewed the monthly SO₂/NO_x Emission Allowances, and verified the revenues, the inventory, the expensed amounts and the amounts included in working capital in the filing. We traced each of these to the Company's transaction detail reports and the general ledger.

Objective: - Review the capital investment project No. 7.4 CAIR/CAMR Crystal River AFUDC – Base and other projects on Form 42-7A. (i) verify that the investment amounts are recorded in the correct plant accounts; (ii) reconcile the corresponding Plant-in-Service/Depreciation Base (line 2, Form 42-8A); (iii) verify the calculations of the CWIP-Non Interest bearing (line 4); (iv) verify that the most recent Commission approved depreciation rates and amortization periods are used in calculating the depreciation and amortization expenses (line 8a, 8b); (v) verify that dismantlement expense (line 8c) is not included in depreciation/amortization expenses (line 8a, line 8b).

Procedures: - We reviewed the capital investment project No. 7.4 CAIR/CAMR Crystal River AFUDC – Base and other projects on Form 42-7A. We verified that the investment amounts are recorded in the correct plant accounts. We recalculated the amount of CWIP-Non Interest bearing and our calculation agrees with the Company's filing. We reconciled Plant in Service to last year's filing. We recalculated depreciation expense. Our calculation agrees with the Company's filing. We compared the rates approved in Commission Order No. PSC-05-0945-S-EI to the rates used in the filing and verified that the most recent Commission rates were used. We verified that dismantlement expense is not included in depreciation expense.

Objective: - To report the deferred accounting treatments, if any, that the Company may have implemented for the expenses incurred for any approved ECRC projects.

Procedures: - We verified that the Company did not implement any deferred accounting treatment for the expenses incurred for any approved ECRC projects.

ANALYTICAL REVIEW

Objective: - Perform analytical review to identify any matter which might influence the scope of the audit.

Procedures: - We performed an analytical review of the 2009 ECRC filing compared to previous years. We requested further explanation of any cost category which varied from the overall trend. We evaluated these responses as part of determining the scope of the audit.

TRUE-UP

Objective: - To verify that the true-up and interest were properly calculated.

Procedures: - We recomputed 2009 ECRC true-up and interest using FPSC approved recoverable true-up amount, interest rates, and jurisdictional separation factor. Our calculation agrees with the Company's filing.

PROGRESS ENERGY FLORIDA
 Environmental Cost Recovery Clause (ECRC)
 Calculation of the Final True-Up Amount
 January 2009 through December 2009

Form 42-2A

End-of-Period True-Up Amount
 (in Dollars)

Line	Description	Actual January 09	Actual February 09	Actual March 09	Actual April 09	Actual May 09	Actual June 09	Actual July 09	Actual August 09	Actual September 09	Actual October 09	Actual November 09	Actual December 09	End of Period Total
1	ECRC Revenues (net of Revenue Taxes)	\$9,341,113	\$10,005,241	\$8,865,089	\$8,944,162	\$9,976,839	\$11,667,770	\$12,845,627	\$12,042,371	\$12,557,861	\$11,662,999	\$10,940,709	\$9,417,604	\$128,267,385
2	True-Up Provision	(\$359,943)	(359,943)	(359,943)	(359,943)	(359,943)	(359,943)	(359,943)	(359,943)	(359,943)	(359,943)	(359,943)	(359,943)	(4,319,314)
3	ECRC Revenues Applicable to Period (Lines 1 + 2)	\$8,981,170	9,645,298	8,505,146	8,584,219	9,616,897	11,307,827	12,485,685	11,682,428	12,197,918	11,303,056	10,580,766	9,057,661	123,948,071
4	Jurisdictional ECRC Costs													
	a. O & M Activities (Form 42-5A, Line 9)	\$5,079,858	4,901,564	4,490,452	4,178,262	6,932,023	7,553,417	7,256,290	6,325,897	4,221,578	4,952,805	3,177,699	4,094,704	63,164,549
	b. Capital Investment Projects (Form 42-7A, Line 9)	\$1,293,974	\$1,301,474	\$1,295,301	\$1,267,463	\$1,256,962	\$1,874,230	\$2,851,501	\$3,186,962	\$3,139,510	\$3,103,734	\$3,077,243	\$8,527,080	32,175,434
	c. Other													0
	c. Total Jurisdictional ECRC Costs	\$6,373,832	6,203,038	5,785,753	5,445,725	8,188,985	9,427,647	10,107,791	9,512,859	7,361,088	8,056,539	6,254,942	12,621,784	95,339,982
5	Over/(Under) Recovery (Line 3 - Line 4c)	\$2,607,339	3,442,260	2,719,393	3,138,494	1,427,911	1,880,180	2,377,893	2,169,569	4,836,830	3,246,517	4,325,824	(3,564,122)	28,608,090
6	Interest Provision (Form 42-3A, Line 10)	(\$3,936)	(2,416)	(182)	1,181	1,623	2,055	2,728	2,930	3,321	3,782	4,529	4,404	20,019
7	Beginning Balance True-Up & Interest Provision	(\$4,319,314)	(1,355,969)	2,443,818	5,522,972	9,022,591	10,812,068	13,054,246	15,794,810	18,327,252	23,527,346	27,137,587	31,827,884	(4,319,314)
	a. Deferred True-Up from January 2008 to December 2008 (Order No. PSC-08-0775-FDF-EI)	(\$4,320,606)	(4,320,606)	(4,320,606)	(4,320,606)	(4,320,606)	(4,320,606)	(4,320,606)	(4,320,606)	(4,320,606)	(4,320,606)	(4,320,606)	(4,320,606)	(4,320,606)
8	True-Up Collected/(Refunded) (see Line 2)	\$359,943	359,943	359,943	359,943	359,943	359,943	359,943	359,943	359,943	359,943	359,943	359,943	4,319,314
9	End of Period Total True-Up (Lines 5+6+7+7a+8)	(\$5,676,575)	(1,876,788)	1,202,366	4,701,986	6,491,464	8,733,643	11,474,207	14,006,646	19,206,740	22,816,981	27,507,278	24,307,503	24,307,503
10	Adjustments to Period Total True-Up Including Interest (a)	\$0	0	0	0	0	0	0	0	0	0	0	0	0
11	End of Period Total True-Up (Lines 9 + 10)	(\$5,676,575)	(1,876,788)	1,202,366	4,701,986	6,491,464	8,733,643	11,474,207	14,006,646	19,206,740	22,816,981	27,507,278	24,307,503	24,307,503

PROGRESS ENERGY FLORIDA
 Environmental Cost Recovery Clause (ECRC)
 Calculation of the Final True-up Amount
 January 2009 through December 2009

Form 42-3A

Line	Description	Interest Provision (in Dollars)												End of Period Total
		Actual January 09	Actual February 09	Actual March 09	Actual April 09	Actual May 09	Actual June 09	Actual July 09	Actual August 09	Actual September 09	Actual October 09	Actual November 09	Actual December 09	
1	Beginning True-Up Amount (Form 42-2A, Line 7 + 7a + 10)	(\$8,639,920)	(\$5,676,575)	(\$1,876,788)	\$1,202,366	\$4,701,985	\$6,491,462	\$8,733,640	\$11,474,204	\$14,006,646	\$19,206,740	\$22,816,981	\$27,507,278	
2	Ending True-Up Amount Before Interest (Line 1 + Form 42-2A, Lines 5 + 8)	(5,672,639)	(1,874,372)	1,202,548	4,700,804	6,489,839	8,731,585	11,471,476	14,003,716	19,203,419	22,813,199	27,502,749	24,303,098	
3	Total of Beginning & Ending True-Up (Lines 1 + 2)	(14,312,559)	(7,550,946)	(674,239)	5,903,170	11,191,824	15,223,047	20,205,116	25,477,920	33,210,064	42,019,939	50,319,730	51,810,375	
4	Average True-Up Amount (Line 3 x 1/2)	(7,156,280)	(3,775,473)	(337,120)	2,951,585	5,595,912	7,611,524	10,102,558	12,738,960	16,605,032	21,009,970	25,159,865	25,905,188	
5	Interest Rate (First Day of Reporting Business Month)	0.54%	0.79%	0.75%	0.55%	0.40%	0.30%	0.35%	0.30%	0.25%	0.22%	0.22%	0.20%	
6	Interest Rate (First Day of Subsequent Business Month)	0.79%	0.75%	0.55%	0.40%	0.30%	0.35%	0.30%	0.25%	0.22%	0.22%	0.20%	0.20%	
7	Total of Beginning & Ending Interest Rates (Lines 5 + 6)	1.33%	1.54%	1.30%	0.95%	0.70%	0.65%	0.65%	0.55%	0.47%	0.44%	0.42%	0.40%	
8	Average Interest Rate (Line 7 x 1/2)	0.665%	0.770%	0.650%	0.475%	0.350%	0.325%	0.325%	0.275%	0.235%	0.220%	0.210%	0.200%	
9	Monthly Average Interest Rate (Line 8 x 1/12)	0.055%	0.064%	0.054%	0.040%	0.029%	0.027%	0.027%	0.023%	0.020%	0.018%	0.018%	0.017%	
10	Interest Provision for the Month (Line 4 x Line 9)	(\$3,936)	(\$2,416)	(\$182)	\$1,181	\$1,623	\$2,055	\$2,728	\$2,930	\$3,321	\$3,782	\$4,529	\$4,404	\$20,019