FLORIDA PUBLIC SERVICE COMMISSION

AUDIT REPORT

TWELVE MONTHS ENDED MARCH 31, 1997

Field Work Completed

May 16, 1997

FLORIDA POWER CORPORATION

St. Petersburg, Florida

Pinellas County

Capacity Cost Recovery Clause

Docket Number 970001-EI

Audit Control Number 97-076-2-2

Thomas Stambaugh
Audit Manager

Audit Staff

Jocelyn Y. Stephens

Minority Opinion

Yes ___ No JYS

James McPherson
Regulatory Analyst Supervisor
Tampa

INDEX

I. Executive Summary

Audit Purpose: We have applied the procedures described in Section II of this report to audit the appended Capacity Cost Recovery Clause Filing, Exhibits JS-2, filed by Florida Power Corporation (FPC) in support of Docket 970001-EI for the six months ended September 30, 1996, and the six months ended March 31, 1997, respectively. There are no confidential workpapers associated with this audit.

Disclaim Public Use: This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

Opinion: The appended exhibits, Exhibits JS-2, for the six months ended September 30, 1996 and the six months ended March 31, 1997, represent utility books and records maintained in substantial compliance with Commission Directives. The expressed opinions extend only to the scope of work described in Section II of this report.

Summary Findings:

FPC erroneously used Estimated instead of Actual Jurisdictional Factors when computing its Jurisdictional Capacity Charges for the six month period ended September 30, 1997.

FPC retroactively adjusts some general service customers' power bills if FPC determines that the customer could have been billed at a lower rate and the customer has given notice, to FPC, that their use characteristics have changed, even when a billing error has not occurred.

II Audit Scope:

The opinions contained in this report are based on the audit work described below. When used in this report, COMPILED means that audit work includes:

> COMPILED - Means that the audit staff reconciled exhibit amounts with the general ledger; visually scanned accounts for error or inconsistency; disclosed any unresolved error, irregularity or inconsistency; and, except as otherwise noted, performed no other audit work.

CAPACITY COST RECOVERY REVENUES: Recalculated capacity revenues using authorized rates and reconciled to the CCRC filing for both six month periods. Traced authorized rates to judgementally selected sample of customer bills for the months September and October 1996. Reconciled selected revenue differences.

CAPACITY COST RECOVERY EXPENSES: Compiled capacity cost recovery expense for each of the two six month audited periods and traced to journal entries. Agreed reconcilable differences on Company schedules to supporting Company records. Vouched Purchase Capacity and Unit Power Capacity invoices and Billing Statements to Company filing for both six month periods. Read Capacity contracts for two judgementally selected vendors to determine compliance of invoice billing to contract terms. Summarized audited costs for both six-month periods and agreed to Filing.

CAPACITY COST RECOVERY TRUE-UP: Recalculated the CCRC true-up and interest provision using Commission Approved beginning True-up amounts and interest rates; and, audit-determined revenues and expenses.

OTHER: Performed analytical review to aid in determining the level of risk and the scope of the audit. Read notes from the reading of the Board of Directors minutes. Read notes from the reading of the KPMG audit.

AUDIT DISCLOSURE NO. 1

SUBJECT: DIFFERENCES BETWEEN CAPACITY CHARGES IN G/L AND IN FILING

STATEMENT OF FACT:

The Jurisdictional Capacity Charges included in the CCRC filing for the period April - September 1996 did not agree to the Capacity Charges recorded in the general ledger (G/L).

The Company gave the following explanation for this difference:

> When recording the capacity charges, for the period April 1996 to September 1996, Florida Power erroneously used the percentages from direct testimony of Karl H. Weiland's on the Levelized Fuel Cost Factors filed January 22, 1996 and not the more current numbers from the Jurisdictional Separation study, filed February 15, 1996.
>
> It is the Company's policy to use the levelized fuel factor in Weiland's testimony when calculating the Jurisdictional Capacity Charges. And in the past, that factor has always been the same as the one in the separations study.
>
> However, when the Jurisdictional Separation Study for the 12 month period ending 1995 was filed with the Public Service Commission, the percentages were slightly different than the ones presented in the Levelized Fuel Cost Factors.
>
> The variance between the two percentages was not discovered until September of 1996.

For the period April 1996 thru September 1996, the use of estimated and not actual factors resulted in a difference of ($152,983) for the 6-month period ended 9/30/96.

In September, 1996, Company made an adjustment to its Jurisdictional Capacity Charges to correct for this difference.

AUDIT OPINION:

Company should make certain that it is using the correct and final Jurisdictional factor when preparing both its monthly G/L entry and its CCRC filing.

AUDIT DISCLOSURE NO. 2

SUBJECT: TRUE-UP OF RATE CODE (GENERAL SERVICE CUSTOMER)

STATEMENT OF FACT:

Florida Power Corp (FPC) performs an annual rate review of General Service Rate Customers. The stated objective is to have the customer on the lowest qualifying applicable rate.

The Customer Service System (CSS) program recommends the best rate for each customer. This computer software program has the capability to automatically change the customer's account to the proper rate code for which they qualify. However, FPC currently over-rides this capability in order to have field personnel manually review the accounts for proper action. The new rate code could cause the customer to be placed on a lower-priced rate, or even a higher-priced rate.

We were informed by the FPC spokesperson that they are "not required to retroactively adjust the account, but to projectively change the rate." The rate code is based on the most current year activity which causes a customer to qualify for a lower rate.

Initially, the customer and Florida Power sign off on the best possible rate available, based on the customers intended use. If with hindsight, FPC determines that this rate code caused an overbilling, "FPC will make it right by entitling the customer [to] a refund" back to when this rate was first used "provided that customer did not change his use characteristics without giving notice to Florida Power". If the customer has changed his use characteristics without giving notice to FPC, then the customer is not considered as having been misbilled, therefore will not be eligible for a refund.

"...If the customer was underbilled, the customer would be placed on the correct rate for all future billings. FPC does not backbill under this condition....because the lower rate is not considered an error. At the time the customer was set up both parties believed it was the best available rate."

Using company documentation, customer will receive a refund for up to a two year period. If a customer has documentation extending beyond two years, a refund would be granted based upon an analysis of the customer's records.

AUDIT OPINION:

The Company has responded that the customer and Florida Power initially sign off on what the best possible rate will be, based on the customers intended use. This rate is a "best guess" estimate and should not be considered an error if, in hindsight, it is determined not to have been the best available rate.

Disclosure No. 2 (cont.)

By refunding an overbilling but not charging for an underbilling, the Company appears to be inconsistent in its billing practices. If the Company refunds overbillings, then they should also charge those customers that were underbilled.

The actual dollar impact, that resulted due to the company's practices, was not determined for the period under audit. But the implications of this practice would be an underearnings for the period in which the action occurred with a subsequent effect on the true-up calculation.

Auditor surmises that based on the Statement of Facts, an error was not made and the customer's past billing should not be adjusted. However, if Company continues to adjust for overbillings, then Company should either: adjust customer bills for any underbillings; eliminate refunds for overbillings; or, charge the resultant refund from overbilling to a non-regulated, "below the line" expense account.

State of Florida

DIVISION OF RECORDS &
REPORTING
BLANCA S. BAYÓ
DIRECTOR
(904) 413-6770

Public Service Commission

June 23, 1997

Mr. James P. Fama
Florida Power Corporation
Post Office Box 14042
St. Petersburg, Florida 33733-4042

Re: Docket No. 970001-EI -- Florida Power Corporation
Capacity Cost Audit Report - Period Ended March 31, 1997
Audit Control # 97-076-2-2

Dear Mr. Fama:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above date will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

Thank you for your cooperation.

Sincerely,

Blanca S. Bayó

Blanca S. Bayó

BSB/DNV/cls
Enclosure
cc: Public Counsel
James McGee, Esquire