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Public Service Commission

May 20, 1999

Mr. James A. McGee
Florida Power Corporation
P. O. Box 14042
St. Petersburg, FL 33733-4042

**Re: Docket No. 990001-EI; Florida Power Corporation
Fuel Adjustment Clause Audit Report; Nine Months Ended December 31, 1998**

Mr. McGee:

The enclosed audit report is forwarded for your review. If you desire to file a response to the audit, please file one with the Division of Records and Reporting so it may be forwarded for consideration by the staff analysts in their review of the audit.

Sincerely,

Denise N. Vandiver
Bureau Chief - Auditing Services

DNV/

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- cc: Division of Records and Reporting
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FLORIDA PUBLIC SERVICE COMMISSION

**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING**

TAMPA DISTRICT OFFICE

FLORIDA POWER CORPORATION

FUEL ADJUSTMENT CLAUSE AUDIT

NINE MONTHS ENDED DECEMBER 31, 1998

**DOCKET NO. 990001-EI
AUDIT CONTROL NO. 99-033-2-1**


Jocelyn Y. Stephens, Audit Manager


James A. McPherson, Tampa District Supervisor

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**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDITOR'S REPORT**

MAY 6, 1999

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying Schedule A-1: Cost Recovery Clause Calculation and Schedule A-2: True-Up Calculation for the historical nine-month period ended December 31, 1998, for Florida Power Corporation. These schedules were prepared by the utility as part of Docket 990001-EL. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

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

In our opinion, the schedules referred to above present fairly, in all material respects, the utility's books and records, maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission.

SUMMARY OF SIGNIFICANT FINDINGS

Florida Power Corporation has entered into an alliance agreement with Dynegy (formerly known as Electric Clearinghouse Inc. for the purpose of maximizing the benefits of Power Marketing.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

Scanned - The documents or accounts were read quickly looking for obvious errors.

Examined - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

Verify - The item was tested for accuracy, and substantiating documentation was examined.

TRUE-UP: Verified True-Up Calculation - Schedule A-2.

REVENUES: Examined Fuel Revenues. Recalculated Fuel Revenues using KWH and PSC approved rates, for each applicable customer class. Verified one month's customer billing for compliance to billing factors approved by PSC Order No. 98-1223. Obtained and scanned company's procedures for verifying correct input of billing factors.

EXPENSES: Reconciled Schedule A-1 to applicable general ledger accounts. Recalculated Generation Expense. Examined Recoverable Fuel Expense for No. 2 Oil, No. 6 Oil, and Coal. Analyzed oil and coal inventory schedules for selected months. Reconciled fuel receipts to accounts payable activity for selected months. Tested selected invoices for accuracy and proper classification. Analyzed adjustments to fuel.

Examined Recoverable Fuel Expense for Nuclear Fuel. Verified amortization for nuclear fuel costs from April 1998 to December 1998. Recalculated nuclear fuel disposal costs. Obtained and analyzed invoices pertaining to the preparation of Batch 13, which was placed in the nuclear assembly in May 1996. Recalculated amortization of cost and MMBTU of Batch 13, from May 1996 to April 1998. Obtained and scanned documentation which recorded generation entitlement shares for those participants of the nuclear fuel plant.

Examined Recoverable Fuel Expense for Natural Gas. Tested selected invoices for accuracy and proper classification. Analyzed computation of fuel savings and start-up costs, resulting from Hines testing.

POWER SALES: Verified Power Sales (broker and non-broker). Traced billings to company invoices for a selected month. Scanned company invoices.

PURCHASED POWER: Examined Purchased Power (Sch A-7) transactions. Performed an analysis of current month listing and adjustments (from subsequent month Sch A-7 listing) and made a comparison to third party invoices, for selected months. Scanned third party invoices. Obtained reconciliation where applicable.

Examined Energy Payments to Qualifying (Cogen) Facilities (Sch A-8). For selected months: performed an analysis of current month expense calculation; and traced current payments to third party invoices. Scanned third party invoices.

Examined Economy Energy Purchases (Sch A-9). Performed an analysis of current month listing and adjustments (from subsequent month Sch A-9 listing) and made a comparison to third party invoices, for selected months. Scanned third party invoices. Obtained reconciliations where applicable.

OTHER: Read Board of Director's minutes.

AUDIT DISCLOSURE NO. 1

SUBJECT: FLORIDA POWER CORPORATION ALLIANCE WITH DYNEGY CORP

STATEMENT OF FACT:

On May 12, 1998, Florida Power Corporation (FPC) entered into an Alliance Agreement with Dynegy (formerly Electric Clearinghouse, Inc.) for the stated purpose of maximizing the benefits of Power Marketing. Per FPC's 1998 Annual Report, Power Marketing "... means participating in the wholesale energy marketplace, utilizing sophisticated skills and technology to buy and sell electricity and energy fuels..."

Additional information contained in the 1998 Annual Report states that the alliance "leverages Florida Power's generating assets with Dynegy's position in the energy markets to form a potent trading and sales combination."

Company stated that because Dynegy operates in a market much larger than FPC's regional broker market, Dynegy's market base enables it to negotiate with power producers nationwide. As a result, Dynegy has more opportunity to negotiate and obtain power at a lower cost (including transmission) than FPC, on occasion, can produce power.

As a result of Dynegy's ability to obtain cheaper power for FPC, FPC in turn, pays a commission per transaction, once an agreed upon threshold of net revenues has been earned by FPC. Net Revenues is defined as the net revenues resulting from any Alliance Transaction.

Dynegy is located in Houston, Texas.

FUEL AND PURCHASED POWER
COST RECOVERY CALCULATION
NINE MONTH PERIOD ENDING DECEMBER, 1996

ACCOUNT	MWH				CENT/KWH							
	ACTUAL	ESTIMATE	DIFFERENCE	%	ACTUAL	ESTIMATE	DIFFERENCE	%				
	AMOUNT	AMOUNT	AMOUNT		AMOUNT	AMOUNT	AMOUNT					
1 FUEL COST OF SYSTEM NET GENERATION (SCH 1)	498,895,345	340,348,112	158,547,233	39.9	24,727,261	20,897,895	4,829,366	23.2	1,7717	1,8468	(6,914)	-3.8
2 SPENT NUCLEAR FUEL DISPOSAL COST	4,431,805	4,355,311	76,494	1.7	4,471,758	4,457,879	13,879	0.3	0.0001	0.0005	(0.0004)	-8.0
3 COAL OIL PURCHASES	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
4 NUCLEAR DECOMMISSIONING AND FLOOD MITIGATION	1,523,607	0	1,523,607	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
5 ADJUSTMENTS TO FUEL COST - UNUSUALS	(24,685,681)	4,204,488	(28,890,169)	(100.0)	228,700	0	228,700	0.0	2.0000	0.0000	2.0000	0.0
6 ADJUSTMENTS TO FUEL COST - DISPOSAL COST - REFUND	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
7 TOTAL COST OF GENERATED POWER	479,744,476	344,703,911	135,040,565	29.2	25,427,719	21,355,774	4,071,945	19.1	1.7511	1.8467	(0.0956)	-5.2
8 ENERGY COST OF PURCHASED POWER FROM (SCH 1)	30,000,000	28,000,000	2,000,000	7.1	1,000,000	1,000,000	0	0.0	1.0000	1.0000	0.0000	0.0
9 ENERGY COST OF (SCH 1) ECONOMY PURCHASES - BROWN (SCH 1)	10,000,000	12,000,000	(2,000,000)	(20.0)	1,000,000	1,200,000	(200,000)	(20.0)	1.0000	1.2000	(0.2000)	-16.7
10 ENERGY COST OF (SCH 1) ECONOMY PURCHASES - MINNAPOLIS (SCH 1)	20,000,000	14,000,000	6,000,000	30.0	2,000,000	1,800,000	200,000	10.0	2.0000	1.8000	0.2000	11.1
11 ENERGY COST OF (SCH 1) ECONOMY PURCHASES - OTHER (SCH 1)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
12 CAPACITY COST OF ECONOMY PURCHASES (SCH 1)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
13 PAYMENTS FOR QUALITY ENERGY (SCH 1)	90,000,000	120,000,000	(30,000,000)	(33.3)	4,000,000	5,000,000	(1,000,000)	(20.0)	4.0000	5.0000	(1.0000)	(20.0)
14 TOTAL COST OF PURCHASED POWER	120,000,000	142,000,000	(22,000,000)	(15.5)	5,000,000	6,200,000	(1,200,000)	(19.3)	5.0000	6.2000	(1.2000)	(19.3)
15 TOTAL AVAILABLE MWH	31,200,000	31,200,000	0	0.0	31,200,000	31,200,000	0	0.0				
16 FUEL COST OF ECONOMY SALES (BROWN (SCH 1))	10,000,000	10,000,000	0	0.0	1,000,000	1,000,000	0	0.0	1.0000	1.0000	0.0000	0.0
17 FUEL COST OF ECONOMY SALES (MINNAPOLIS (SCH 1))	10,000,000	12,000,000	(2,000,000)	(20.0)	1,000,000	1,200,000	(200,000)	(20.0)	1.0000	1.2000	(0.2000)	(16.7)
18 FUEL COST OF OTHER POWER SALES (SCH 1)	10,000,000	10,000,000	0	0.0	1,000,000	1,000,000	0	0.0	1.0000	1.0000	0.0000	0.0
19 FUEL COST OF OTHER POWER SALES (MINNAPOLIS (SCH 1))	10,000,000	10,000,000	0	0.0	1,000,000	1,000,000	0	0.0	1.0000	1.0000	0.0000	0.0
20 FUEL COST OF OTHER POWER SALES (OTHER (SCH 1))	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
21 FUEL COST OF SUPPLEMENTAL SALES	20,000,000	18,000,000	2,000,000	11.1	2,000,000	1,800,000	200,000	11.1	2.0000	1.8000	0.2000	11.1
22 TOTAL FUEL COST AND OTHER POWER SALES	120,000,000	128,000,000	(8,000,000)	(6.6)	12,000,000	11,200,000	800,000	6.7	12.0000	11.2000	0.8000	6.7
23 NET FUEL COST AND OTHER POWER SALES	120,000,000	128,000,000	(8,000,000)	(6.6)	12,000,000	11,200,000	800,000	6.7	12.0000	11.2000	0.8000	6.7
24 TOTAL FUEL AND NET POWER TRANSACTIONS	519,744,476	476,703,911	43,040,565	8.3	37,427,719	32,555,774	4,871,945	13.1	3.7511	3.8467	(0.0956)	-2.5
25 NET FUEL	520,000,000	477,000,000	43,000,000	9.0	37,700,000	32,800,000	4,900,000	15.0	3.7700	3.8800	(0.1100)	-2.8
26 COMPANY USE	2,000,000	2,000,000	0	0.0	200,000	200,000	0	0.0	2.0000	2.0000	0.0000	0.0
27 FUEL LOSSES	20,000,000	20,000,000	0	0.0	2,000,000	2,000,000	0	0.0	2.0000	2.0000	0.0000	0.0
28 ADJUSTMENTS TO NET FUEL SALES (SCH 1) TO (SCH 1)	518,000,000	475,000,000	43,000,000	9.0	37,500,000	32,600,000	4,900,000	15.0	3.7500	3.8600	(0.1100)	-2.9
29 WHOLESALE FUEL SALES (EXCLUDING SUPPLEMENTAL SALES)	117,000,000	119,000,000	(2,000,000)	(1.7)	11,700,000	11,900,000	(200,000)	(1.7)	11.7000	11.9000	(0.2000)	(1.7)
30 DISPOSITIONAL FUEL SALES	400,000,000	356,000,000	44,000,000	12.4	25,800,000	20,700,000	5,100,000	19.8	4.0000	3.9000	0.1000	2.5
31 DISPOSITIONAL FUEL SALES AT (SCH 1) TO (SCH 1)	500,000,000	480,000,000	20,000,000	4.0	20,000,000	20,000,000	0	0.0	2.0000	2.0000	0.0000	0.0
32 FUEL PRICE PREMIUM	5,000,000	5,000,000	0	0.0	20,000,000	20,000,000	0	0.0	20.0000	20.0000	0.0000	0.0
33 MARKET PRICE PREMIUM	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
34 RECOVERY OF FUEL COST NUCLEAR REPLACEMENT COST	20,000,000	20,000,000	0	0.0	20,000,000	20,000,000	0	0.0	20.0000	20.0000	0.0000	0.0
35 TOTAL DISPOSITIONAL FUEL COST	532,000,000	512,000,000	20,000,000	3.9	32,000,000	28,000,000	4,000,000	14.3	3.2000	2.8000	0.4000	12.5
36 REVENUE TAX ADJUST	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
37 FUEL COST ADJUSTED FOR TAXES	532,000,000	512,000,000	20,000,000	3.9	32,000,000	28,000,000	4,000,000	14.3	3.2000	2.8000	0.4000	12.5
38 TOTAL FUEL COST FACTOR (ROUNDING TO NEAREST .001 CENTS/KWH)	3.7511	3.8467	(0.0956)	(2.5)	3.7511	3.8467	(0.0956)	(2.5)				

CALCULATION OF TRUE-UP AND INTEREST PROVISION
 FLORIDA POWER CORPORATION
 DECEMBER 1988

SCHEDULE A2
 PAGE 3 OF 4

REVISED

	CURRENT MONTH				PERIOD TO DATE			
	ACTUAL	ESTIMATED	DIFFERENCE	PERCENT	ACTUAL	ESTIMATED	DIFFERENCE	PERCENT
D. TRUE UP CALCULATION								
1. JURISDICTIONAL FUEL REVENUE (LINE B1c)	53,029,165	\$51,409,503	\$1,583,462	3.1	\$551,144,348	\$528,253,292	\$22,891,056	4.3
2. ADJUSTMENTS: PRIOR PERIOD ADJ	0	0	0	0.0	0	0	0	0.0
2a. TRUE UP PROVISION + RECOVERABLE NUC REPL FUEL	(5,255,816)	(5,255,816)	0	0.0	(32,161,345)	(32,161,344)	(1)	0.0
2b. INCENTIVE PROVISION	0	0	0	0.0	(1,172,147)	(1,171,175)	(972)	0.1
2c. OTHER: MARKET PRICE TRUE UP	0	0	0	0.0	0	0	0	0.0
3. TOTAL JURISDICTIONAL FUEL REVENUE	47,757,349	46,173,687	1,583,662	3.4	517,810,858	494,620,773	22,890,085	4.6
4. ADJ TOTAL FUEL & NET PWR TRNS (LINE A7)	42,181,050	48,245,412	(6,064,362)	(12.6)	518,958,179	495,825,408	21,130,771	4.3
5. JURISDICTIONAL SALES % OF TOT SALES (LINE C4)	97.34	97.19	0.15	0.2				
6. JURISDICTIONAL FUEL & NET POWER TRANSACTIONS (LINE D4 * LINE D5 * .11% (LINE LOSSES))	41,104,199	46,941,349	(5,837,150)	(12.4)	500,443,352	480,005,248	20,438,106	4.3
7. TRUE UP PROVISION FOR THE MONTH OVER(UNDER) COLLECTION (LINE D3 - D6)	6,653,150	(757,862)	7,420,812	0.0	17,367,504	14,915,527	2,451,977	0.0
8. INTEREST PROVISION FOR THE MONTH (LINE E10)	87,412				(743,687)			
9. TRUE UP & INT PROVISION BEG OF MONTH/PERIOD	9,809,021				(27,169,785)			
10. TRUE UP COLLECTED (REFUNDED)	5,255,816				32,161,345	32,161,344	1	0.0
11. END OF PERIOD TOTAL NET TRUE UP (LINES D7 + D8 + D9 + D10)	21,595,399				21,595,398			
12. OTHER:								
13. END OF PERIOD TOTAL NET TRUE UP (LINES D11 + D12)	21,595,399				21,595,398			

MAILING AND LIAISON INFORMATION

AS OF 05/19/1999

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MAILING AND LIAISON INFORMATION

AS OF 05/19/1999

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