

State of Florida



Public Service Commission

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

DATE: April 14, 2000
 TO: Division of Electric and Gas (Bohrman)
 FROM: Division of Auditing and Financial Analysis (Vandiver) *W*
 RE: 000001-EI; Florida Power Corporation
 Audit Report; Fuel - 12 Months Ended December 31, 1999
 Audit Control No. 00-020-2-3

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, they should send it to the Division of Records and Reporting. There are no confidential work papers associated with this audit.

DNV/sp

Attachment

cc: Division of Auditing and Financial Analysis (Devlin/Causseaux/Harvey/File Folder)
 Tampa District Office (McPherson)
 ✓ Division of Records and Reporting
 Division of Legal Services

James A. McGee
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 St. Petersburg, FL 33733-4042

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FLORIDA PUBLIC SERVICE COMMISSION

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

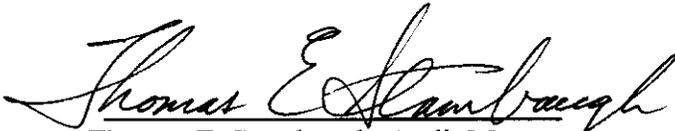
TAMPA DISTRICT OFFICE

FLORIDA POWER CORPORATION

FUEL ADJUSTMENT CLAUSE AUDIT

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1999

**DOCKET NO. 000001-EI
AUDIT CONTROL NO. 00-020-2-3**


Thomas E. Stambaugh, Audit Manager


Vincent C. Aldridge, Staff Auditor

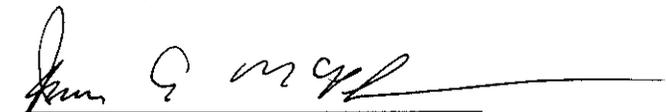

James A. McPherson, Audit Supervisor

TABLE OF CONTENTS

I.	AUDITOR'S REPORT	PAGE
	PURPOSE	1
	DISCLAIM PUBLIC USE	1
	SUMMARY OF SIGNIFICANT FINDINGS.....	2
	SUMMARY OF SIGNIFICANT PROCEDURES.....	2
II.	AUDIT DISCLOSURES	
	1. NEW FUEL MANAGEMENT SYSTEM.....	3
	2. UNDER-RECOVERY OF PASCO COGEN CONTRACT BUY-OUT COSTS.....	4
	3. PURCHASE OF NON-FIRM WHOLESALE ENERGY.....	5
III.	EXHIBITS	
	COST RECOVERY CLAUSE CALCULATION AS OF 12/31/1999.....	6
	CALCULATION OF FINAL TRUE-UP AND INTEREST AS OF 12/31/1999	7

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

MARCH 14, 2000

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying Fuel Adjustment Clause True-up schedules for the historical twelve month period ended December 31, 1999 for Florida Power Corporation. These schedules were prepared by the Utility as part of its petition for cost recovery in Docket 000001-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 would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

SUMMARY OF SIGNIFICANT FINDINGS

The Utility understated costs included in its filing by \$1,005,324 by omitting recoverable costs authorized by FPSC Order No. PSC-97-0523-FOF-EQ relating to the buy-out of the Pasco CoGen contract. The Utility stated that it would amend its Fuel Adjustment Clause (FAC) filing to include the effect of these corrections.

The Utility replaced the its fuel accounting system with new software. The new installation, a vendor-supplied package, was designated the Fuel Management System.

During the audited period, the Utility purchased non-firm wholesale energy at prices greater than the avoided cost of generation. The total net amount paid for this energy over the avoided cost of generation was \$796,525.

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:

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

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

REVENUE: Compiled Fuel Adjustment Clause (FAC) revenue and agreed to the filing. Recomputed FAC revenues using approved FPSC rate factors and company-provided KWH sales. Reconciled Utility "revenue recap" report to the general ledger on a test basis.

EXPENSES: Compiled fuel and purchased power costs. Agreed coal purchase costs to Electric Fuels Corporation invoices on a test basis.

TRUE-UP: Recomputed FAC true-up and interest using FPSC approved amounts and interest rates.

OTHER: Performed analytical review on fuel and purchased power costs and recovery revenues as an aid in determining scope and level of risk of the audit. Reviewed notes from reading Board of Director's Minutes and outside auditor work papers.

AUDIT DISCLOSURE NO. 1

SUBJECT: NEW FUEL MANAGEMENT SYSTEM

STATEMENT OF FACT: *The Utility previously used the Fuel Inventory Tracking System (FITS) for the purpose of tracking dollars and quantities of oil and coal inventory.*

According to the Utility's Information Technology (IT) department, the FITS was determined not to be Year 2000 compliant. The cost of assuring such compliance was calculated to be \$129,000. Further, the FITS would not be supported internally by IT within two to five years.

The Utility decided to replace FITS with an off the shelf, fully integrated, PC based, client server system of mix and match modules designed to provide a comprehensive solution for managing and reducing fuel costs and improve staff productivity and efficiency.

The Utility determined system requirements in January 1998 and solicited vendors for the software. Two vendors responded, SCT Utility Systems, Inc., and Innovative Business Solutions (IBS). The SCT system was still under development while the IBS system was in use by thirteen clients. Cost from each vendor was almost identical. The new Fuel Management System (FMS) was purchased from IBS for \$300,000 and was classified as a capital purchase.

The FMS provides real time daily average burn cost as opposed to average month-end fuel cost per barrel of oil or ton of coal. The system tracks daily purchases, burns, and ending inventory valuations versus manually calculated month-end valuations.

The FMS and FITS were run in parallel from May 1998 until October 1999 for the Fuel Supply Department. In November, 1999, FMS went into production and was fully integrated with Accounts Payable. During November and December, 1999, FMS transactions were tested by Accounts Payable and Fuel Accounting. Programming modifications will be implemented as needed.

OPINION AND CONCLUSION: *The auditors have analyzed the fuel filing for the twelve months ended December 31, 1999. For ten months, fuel consumption was transacted through FITS and for two months through FMS. Auditor encountered no problems with FMS during the Fuel Adjustment Clause audit.*

AUDIT DISCLOSURE NO. 2

SUBJECT: UNDER RECOVERY OF PASCO COGEN CONTRACT BUY-OUT COSTS

STATEMENT OF FACT: Florida Power Corporation (FPC) presented its Fuel Adjustment Clause (FAC) filing by month for the twelve months ended December 31, 1999. FPC understated its filing cost by \$191,614 per month for the months June through December because Pasco CoGen costs were not included in its FAC filing. In May, the Utility included the fuel recovery amount, \$191,614, but removed the Capacity Cost Recovery amount, \$492,722, for an error of (\$301,108).

AUDIT OPINION: The difference affects the filing by month as follows:

<u>Month</u>	<u>Payment</u>	<u>Jurisdictional Percent</u>	<u>Net Payment</u>	<u>Calculated Interest</u>	<u>Total Under recovered</u>
May	\$(301,108)	.97490	\$(293,550)		
June	191,614	.96520	184,946		
July	191,614	.96550	185,003		
August	191,614	.96930	185,731		
September	191,614	.96010	183,969		
October	191,614	.95550	183,087		
November	191,614	.95430	182,857		
<u>December</u>	<u>191,614</u>	<u>.95150</u>	<u>182,321</u>		
Total	<u>\$1,040,190</u>		<u>\$994,364</u>	<u>\$10,960</u>	<u>\$1,005,324</u>

The contract buy-out is the result of a controversy between the Utility and Pasco CoGen over the method of pricing purchased power. The contract, which originally extended to July, 2013, will end in December, 2008, or 55 months early. Each year, the final 55 months of the contract will be "bought-out" at a monthly amount which changes from one calendar year to the next. By FPSC Order No. PSC-97-0523-FOF-EQ, dated May 7, 1997, the total amount is apportioned between Fuel and Capacity on a basis of 28% and 72%, respectively. In 1999, the monthly buy out amount was \$684,336. Through Fuel, \$191,614 was paid and should have been recovered each month. Through Capacity, \$492,722 was paid and should have been recovered each month.

CONCLUSION: The FAC filing for the twelve months ended December 31, 1999, was understated by \$1,005,324 as a result of not including the Pasco CoGen contract buy out costs.

AUDIT DISCLOSURE NO. 3

SUBJECT: PURCHASE OF NON-FIRM WHOLESALE ENERGY AT A PRICE GREATER THAN FLORIDA POWER'S AVOIDED UNIT COSTS

STATEMENT OF FACT: The Utility occasionally purchased non-firm wholesale energy at a price greater than the avoided unit cost of generation. The yearly difference between the avoided unit cost of generation and the purchase price of the energy was \$796,525. The Utility stated that these purchases were made to meet system reliability or to respond to a difference in system conditions from what was forecast compared to actual operating conditions at the time of purchase. The Utility's avoided unit cost changes hourly and is a function of real time load forecast deviations and the Utility's generating unit availability.

The Utility processed the following number of these transactions and associated dollars by month:

<u>Month</u>	<u>Number of Transactions</u>	<u>Net Dollars</u>
April	5	\$ 3,815
May	10	104,089
June	31	273,649
July	17	328,762
August	20	37,470
September	9	5,926
October	14	15,067
November	3	8,387
December	7	19,360
Total	<u>116</u>	<u>\$ 796,525</u>

OPINION AND CONCLUSION: This information is provided by the auditor for further study by Electric and Gas staff.

FUEL AND PURCHASED POWER
COST RECOVERY CLAUSE CALCULATION
TWELVE MONTH PERIOD ENDING - DECEMBER, 1999

	\$				MWH				CENTS/KWH			
	ACTUAL	ESTIMATED	DIFFERENCE	%	ACTUAL	ESTIMATED	DIFFERENCE	%	ACTUAL	ESTIMATED	DIFFERENCE	%
	AMOUNT	AMOUNT	AMOUNT		AMOUNT	AMOUNT	AMOUNT		AMOUNT	AMOUNT	AMOUNT	
1 FUEL COST OF SYSTEM NET GENERATION (SCH A3)	596,411,148	474,154,716	122,256,433	25.8	32,140,177	28,784,780	3,355,397	11.7	1.8557	1.6472	0.2085	12.7
2 SPENT NUCLEAR FUEL DISPOSAL COST	5,438,852	5,094,564	344,088	6.8	5,220,894	5,448,733	(227,839)	(4.2)	0.1042	0.0935	0.0107	11.4
3 COAL CAR INVESTMENT	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
3b NUCLEAR DECOMMISSIONING AND DECONTAMINATION	1,584,854	1,548,000	38,854	2.5	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
4 ADJUSTMENTS TO FUEL COST - MISCELLANEOUS	(33,972,617)	3,350,000	(37,322,617)	(1,114.1)	(1,193,356)	0	(1,193,356)	0.0	2.8488	0.0000	2.8488	0.0
4a 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
6 TOTAL COST OF GENERATED POWER	569,461,837	484,145,279	85,316,558	17.8	30,946,821	28,784,780	2,162,041	7.5	1.8401	1.6819	0.1582	9.4
8 ENERGY COST OF PURCHASED POWER - FIRM (SCH A7)	43,258,802	42,715,880	543,142	1.3	2,587,159	2,239,893	327,166	14.6	1.8851	1.9070	(0.2219)	(11.6)
7 ENERGY COST OF SCH C,X ECONOMY PURCHASES - BROKER (SCH A9)	2,388,131	24,214,110	(21,845,879)	(90.2)	56,325	740,000	(683,675)	(92.4)	4.2044	3.2722	0.9322	28.5
8 ENERGY COST OF ECONOMY PURCHASES - NON-BROKER (SCH A8)	20,704,914	1,418,360	19,286,554	1,359.8	476,541	41,580	434,961	1,046.1	4.3448	3.4112	0.9336	27.4
9 ENERGY COST OF SCH E PURCHASES (SCH A8)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
10 CAPACITY COST OF ECONOMY PURCHASES (SCH A9)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
11 PAYMENTS TO QUALIFYING FACILITIES (SCH A8)	126,463,894	182,173,748	(55,709,854)	(22.0)	6,446,758	7,526,711	(1,079,953)	(14.4)	1.9617	2.1546	(0.1829)	(9.0)
12 TOTAL COST OF PURCHASED POWER	192,785,740	230,521,878	(37,726,138)	(16.4)	9,546,783	10,548,284	(1,001,501)	(9.5)	2.0195	2.1854	(0.1659)	(7.6)
13 TOTAL AVAILABLE MWH					40,493,604	39,333,064	1,160,540	3.0				
14 FUEL COST OF ECONOMY SALES (BROKER) (SCH A6)	(816,844)	(17,487,400)	16,670,556	(95.3)	(50,267)	(1,080,000)	1,009,733	(95.3)	1.6250	1.8498	(0.2248)	(1.5)
14a GAIN ON ECONOMY SALES (BROKER) - 80% (SCH A6)	(240,707)	(2,270,980)	2,030,253	(89.4)	(50,267)	(1,080,000)	1,009,733	(95.3)	0.4789	0.2142	0.2647	123.8
16 FUEL COST OF OTHER POWER SALES (SCH A6)	(33,610,518)	(6,978,580)	(26,631,968)	381.6	(1,538,284)	(282,875)	(1,256,389)	444.2	2.1835	2.4670	(0.2835)	(11.5)
16a GAIN ON OTHER POWER SALES - 100% (SCH A6)	0	(4,060,000)	4,060,000	(100.0)	(1,538,284)	(282,875)	(1,256,389)	444.2	0.0000	1.4317	(1.4317)	(100.0)
16 FUEL COST OF SEMI-MOLE BACK-UP SALES (SCH A6)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
17 FUEL COST OF SUPPLEMENTAL SALES	(55,302,890)	(33,227,981)	(22,074,909)	68.4	(2,059,271)	(1,548,090)	(510,181)	32.8	2.8656	2.1450	0.5406	25.2
18 TOTAL FUEL COST AND GAINS ON POWER SALES	(89,970,959)	(84,014,901)	(25,956,068)	40.6	(3,648,902)	(2,891,965)	(756,837)	26.2	2.4658	2.2135	0.2523	11.4
19 NET INADVERTENT AND WHEELED INTERCHANGE					33,861	0	33,861					
20 TOTAL FUEL AND NET POWER TRANSACTIONS	672,288,618	650,652,256	21,634,362	3.3	36,878,662	36,441,098	437,563	1.2	1.8230	1.7855	0.0375	2.1
21 NET UNBILLED	4,590,606	846,396	3,744,211	442.4	(251,816)	(144,368)	(107,447)	74.4	0.0132	0.0025	0.0107	428.0
22 COMPANY USE	2,295,590	3,241,059	(945,469)	(29.2)	(125,924)	(181,800)	55,876	(30.7)	0.0066	0.0095	(0.0029)	(30.5)
23 T & D LOSSES	33,483,734	36,878,407	(3,494,673)	(8.5)	(1,836,738)	(2,069,098)	232,360	(11.2)	0.0966	0.1066	(0.0120)	(11.1)
24 ADJUSTED SYSTEM KWH SALES (SCH A2 PG 1 OF 4)	672,288,618	650,652,256	21,634,362	3.3	34,664,194	34,045,832	618,352	1.8	1.8394	1.9111	0.0283	1.5
25 WHOLESALE KWH SALES (EXCLUDING SUPPLEMENTAL SALES)	(24,497,395)	(19,631,822)	(4,865,573)	24.8	(1,181,146)	(1,027,430)	(163,716)	16.9	2.0666	1.9108	0.1458	7.6
26 JURISDICTIONAL KWH SALES	647,789,223	631,020,434	16,768,789	2.7	33,473,038	33,018,402	454,636	1.4	1.9353	1.9111	0.0242	1.3
27 JURISDICTIONAL KWH SALES ADJUSTED FOR LINE LOSS - 1.0011	648,501,791	631,714,559	16,787,232	2.7	33,473,038	33,018,402	454,636	1.4	1.8374	1.9132	0.0242	1.3
28 PRIOR PERIOD TRUE-UP	(29,838,109)	(14,837,877)	(15,100,232)	101.8	33,473,038	33,018,402	454,636	1.4	(0.0894)	(0.0448)	(0.0446)	99.1
28a MARKET PRICE TRUE-UP	0	(263,847)	263,847	(100.0)	33,473,038	33,018,402	454,636	1.4	0.0000	(0.0008)	0.0008	(100.0)
28b RECOVERY OF PRIOR PERIOD NUCLEAR REPLACEMENT COST	8,346,289	8,346,290	(1)	0.0	33,473,038	33,018,402	454,636	1.4	0.0249	0.0253	(0.0004)	(1.6)
29 TOTAL JURISDICTIONAL FUEL COST	826,908,971	624,958,125	1,950,846	0.3	33,473,038	33,018,402	454,636	1.4	1.8729	1.8928	(0.0199)	(1.1)
30 REVENUE TAX FACTOR									1.0063	1.0063	0.0000	0.0
31 FUEL COST ADJUSTED FOR TAXES									1.8745	1.8944	(0.0199)	(1.1)
32 GPF	(436,954)	(436,639)			33,473,038	33,018,402			(0.0013)	(0.0013)	0.0000	100.0
33 TOTAL FUEL COST FACTOR ROUNDED TO THE NEAREST .001 CENTS/KWH									1.873	1.893	(0.020)	(1.1)

CALCULATION OF TRUE-UP AND INTEREST PROVISION
 FLORIDA POWER CORPORATION
 DECEMBER 1999

	CURRENT MONTH				PERIOD TO DATE			
	ACTUAL	ESTIMATED	DIFFERENCE	PERCENT	ACTUAL	ESTIMATED	DIFFERENCE	PERCENT
D . TRUE UP CALCULATION								
1. JURISDICTIONAL FUEL REVENUE (LINE B1c)	45,713,578	\$46,901,896	(\$1,188,318)	(2.5)	\$627,162,112	\$624,525,923	\$2,636,189	
2. ADJUSTMENTS: PRIOR PERIOD ADJ	0	0	0	0.0	0	0	0	
2a. TRUE UP PROVISION + RECOVERABLE NUC REPL FUEL	16,336,721	1,236,487	15,100,234	1,221.2	21,591,821	6,491,586	15,100,235	231
2b. INCENTIVE PROVISION	36,387	36,382	5	0.0	436,641	436,329	312	
2c. OTHER: MARKET PRICE TRUE UP	0	0	0	0.0	0	0	0	
3. TOTAL JURISDICTIONAL FUEL REVENUE	62,086,685	48,174,765	13,911,920	28.9	649,190,574	631,453,838	17,736,736	
4. ADJ TOTAL FUEL & NET PWR TRNS (LINE A7)	49,589,354	49,958,752	(369,398)	(0.7)	672,286,617	650,852,256	21,634,361	
5. JURISDICTIONAL SALES % OF TOT SALES (LINE C4)	95.15	97.25	(2.10)	(2.2)				
6. JURISDICTIONAL FUEL & NET POWER TRANSACTIONS (LINE D4 * LINE D5 * .11% "LINE LOSSES")	47,236,173	48,638,530	(1,402,357)	(2.9)	649,957,462	633,714,558	16,242,904	
7. TRUE UP PROVISION FOR THE MONTH OVER/(UNDER) COLLECTION (LINE D3 - D6)	14,850,512	(463,765)	15,314,277	0.0	(766,888)	(2,260,720)	1,493,832	
8. INTEREST PROVISION FOR THE MONTH (LINE E10)	3,929				869,117			
9. TRUE UP & INT PROVISION BEG OF MONTH/PERIOD	1,588,086				21,595,398			
10. TRUE UP COLLECTED (REFUNDED)	(16,336,721)				(21,591,821)	(6,491,586)	(15,100,235)	
11. END OF PERIOD TOTAL NET TRUE UP (LINES D7 + D8 + D9 + D10)	105,806				105,806			
12. OTHER:								
13. END OF PERIOD TOTAL NET TRUE UP (LINES D11 + D12)	105,806				105,806			