

State of Florida



Public Service Commission

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

DATE: January 22, 2002
TO: Division of Economic Regulation (Revell)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: Docket No. 000824-EI ; Florida Power Corporation; Audit Purpose: Audit the company MFR filing; Audit Control No. 01-207-2-2

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 Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services
Division of Competitive Markets and Enforcement (Harvey)
General Counsel

Carolton Fields Law Firm
Gary L. Sasso / James M. Walls
P. O. Box 2861
St. Petersburg, FL 33731

Mr. Paul Lewis, Jr.
Florida Power Corporation
106 East College Avenue, Suite 800
Tallahassee, FL 32301-7740

DOCUMENT NUMBER-DATE

00826 JAN 23 2002

FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

Tampa District Office

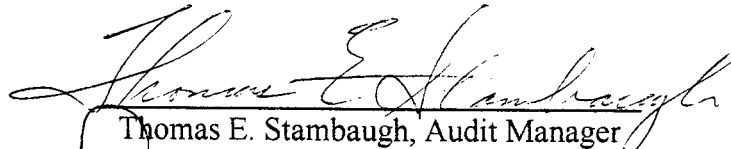
FLORIDA POWER CORPORATION

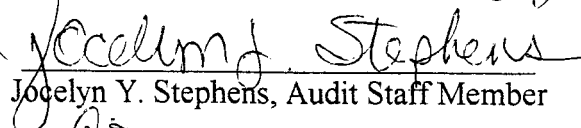
RATE CASE AUDIT

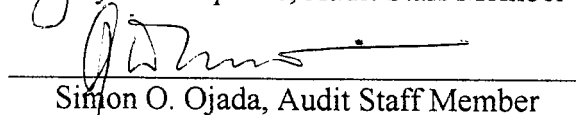
AS OF DECEMBER 31, 2000

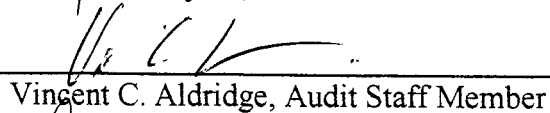
Docket Number 000824-EI

Audit Control Number 01-207-2-2


Thomas E. Stambaugh, Audit Manager


Jocelyn Y. Stephens, Audit Staff Member


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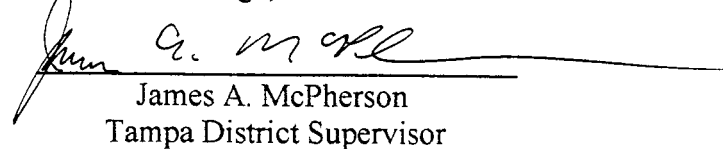

James A. McPherson
Tampa District Supervisor

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**DIVISION OF AUDITING AND SAFETY
AUDIT REPORT**

January 4, 2002

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the schedules of Rate Base, Net Operating Income and Capital Structure as of December 31, 2000 for Florida Power Corporation, a subsidiary of Progress Energy, Inc. These schedules were prepared by the Utility in support of Docket No. 000824-EI. No confidential information is associated with this audit.

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:

For the historical year 2000, the thirteen month average of Rate Base on MFR B-3, page 3, should be increased by \$110,636 in Plant in Service and increased by \$20,302 in working capital, for a total rate base increase of \$130,938. Operations and Maintenance Expense should be decreased by \$225,000 for 2000.

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.

RATE BASE: Compiled Rate Base. Tested the balance of Plant in Service from the previous rate case to the end of year 2000 by reviewing a sample of new plant additions. Analyzed Accumulated Depreciation by verifying that FPSC-approved rates and depreciation bases were in use. Verified that the calculation of working capital was based on the proper accounts by tracing accounts and balances to the general ledger. Compared historic and projected year Working Capital components for consistency by account and amount.

NET OPERATING INCOME: Compiled year 2000 Revenue and Expense amounts. Analyzed the calculation of Unbilled Revenue. Tested expense accounts selected by the use of frequency distributions, dollar ranges and total dollar amount. Verified the applicability of selected expense transactions for rate making purposes. Analyzed the Utility calculations of Federal and State income tax. Tested taxes other than income by tracing amounts to tax returns and supporting documentation.

CAPITAL STRUCTURE: Compiled year 2000 Capital Structure and agreed to the filing. Traced all components of Capital Structure to the general ledger. Verified interest rates by referencing the rates to debt instruments and FPSC orders.

Audit Disclosure No. 1

Subject: Capital Lease (Computation of thirteen-month average balance)

Statement Of Fact: FPC prepared an adjustment in MFR B-4, page 4, to remove an amount from its Rate Base for the purpose of treating a capital lease as an operating lease. In its computation, FPC included the thirteen month average balance based on the general ledger account balance for account 101.16 (Capital Leases-Corporate). Staff analysis of this account revealed that an entry of \$1,438,265 was posted to this account in November 2000. FPC reversed the entry in December 2000 because the lease was determined to be an operating lease.

Recommendation: The lease is properly classified as an operating lease, not a capital lease. FPC was correct in removing this item from its general ledger balance. However, the presence of the \$1,438,265 in this account for one month caused a distortion of the thirteen-month average balance as of December 31, 2000.

Audit staff is proposing that the FPC adjustment to rate base should be changed from (\$277,244) to (\$166,909). This change will serve to increase plant in service by \$110,636.

Audit Disclosure No. 2

Subject: Working Capital

Statement Of Fact: The Utility calculated its working capital on the Balance Sheet method. The thirteen-month average of Working Capital as of December 31, 2000, on a system basis was (\$22,852,000) as stated in MFR B-14.

FPC removed employee accounts receivable from its calculation of Working Capital. FPC used estimates to determine these year-end account balances for rate case preparation.

Based on actual amounts in its general ledger accounts, the difference between the actual and the estimate is, in total, \$263,933. The effect on the thirteen-month average in year 2000 was to increase Working Capital by \$20,302. Since the actual amounts are smaller, the reduction in working capital for these accounts should be made smaller by \$20,302. The effect is to make the negative net working capital thirteen-month average smaller, but still negative.

Recommendation: The thirteen-month average balance of working capital for year 2000 should be increased by \$20,302.

Audit Disclosure No. 3

Subject: Operation and Maintenance Expense (O&M)

Statement Of Fact: During 2000, FPC classified \$548,459,241, net of adjustments, to O&M expense. The FPSC staff auditor analyzed these transactions on a sample basis and identified the following recommended adjustments.

In year 2000, FPC paid \$175,000 to be a sponsor of the Verizon Classic golf tournament (formerly GTE Classic) for the year 2001. FPC's basis for this expense is that the Verizon Classic provides access for conducting business with the executives of electric utility industrial and commercial customers.

As part of year 2000 O&M expense, FPC paid \$50,000 of a \$200,000 total pledge for the EDC Vision 20/20 Pledge to the Economic Development Commission of Mid-Florida, Inc. FPC stated that its Economic Development Department is responsible for attracting new customers. Customers who would use FPC's product year round would help spread fixed costs over a larger base.

Recommendation: In regard to the Verizon Classic expense, our opinion is that other methods of negotiation between customers and FPC exist. Business letters, in-office conferences, conference telephone calls and internet communications would be less expensive than the Verizon Classic

According to FPC, the EDC Vision 20/20 payment is an economic development cost. Rule 25-6.0426, FAC, does provide for recovery of Economic Development expenses. However, the invoice which was supplied by FPC read "**Thank You for your commitment to the EDC! Together we are building the Metro Orlando Business Community**". The FPC service area does not include energy supply responsibility within the city limits of Orlando. On its face, this invoice does not describe any benefits to FPC customers as rate payers.

The expenditures for the Verizon Classic and EDC Vision 20/20 should be disallowed for the previously-stated reasons.

Audit Disclosure No. 4

Subject: Regional Transmission Organization (RTO)

Statement of Fact: From the inception of RTO formation talks in year 2000 through October 31, 2001, FPC has incurred \$2,373,391 in RTO expenses. All costs have been recorded in account 186.40, a miscellaneous deferred debit, in compliance with the ruling of the Federal Energy Regulatory Commission. The dollars were classified as follows.

		<u>2000</u>	<u>2001</u>
Legal Fees	\$1,784,614		1,784,614
Payroll	262,243	235,464	26,779
Travel and Meetings	165,769	165,744	25
Consultant	86,904		86,904
Negotiator	64,455	64,455	
Other	9,406	4,386	5,020
Total	<u>\$2,373,391</u>	<u>470,049</u>	<u>1,903,342</u>

Legal fees were paid to LeBoeuf, Lamb, Green and MacRae, L.L.P., a law firm. LeBoeuf, et al, researched such matters as transmission expansion by independent system operators, reviewed independent system operator filings, and revised Florida independent system administrator principles to be consistent with Federal Energy Regulatory Commission rulings.

The payroll dollars were associated with various FPC employees and include associated benefit loading.

Travel and meeting expense was associated with the travel and lodging of visitors and the rental of meeting rooms.

The consultant fees were paid to Mr. William C. Slusser, a retired FPC executive.

The \$64,454 was paid to FSU to procure the services of Robert Jones of the FSU Conflict Resolution Consortium. According to the invoice, Mr. Jones acted as a professional facilitator during the collaborative process of the Florida RTO formation.

The "Other" category was for temporary office and technical employees.

Recommendation: None. Provided for information only.

FLORIDA PUBLIC SERVICE COMMISSION

Explanation: Provide a schedule of 13 month average rate base as adjusted for the test year, and the prior year if the test year is projected. Provide detail of all adjustments on schedule B-4.

Type of data shown:

Company: FLORIDA POWER CORPORATION

Projected Test Year Ended 12/31/02

XX Prior Year Ended 12/31/00

Docket No. 000824-E1

Witness: Myers / Slusser

Adjusted 13 month Average Rate Base
(Thousands)

Line No.	Description	(A) Total Company Per Books	(B) Non-Electric Utility	(C) Total Electric	(D) Commission Adjustments Schedule B-4	(E) Utility Adjusted per Commission
1						
2	Elec Plant in Service	6,840,676	-	6,840,676	5,498	6,846,174
3	Acc Provision for Depreciation and Amortization	3,474,056	-	3,474,056	-	3,474,056
4						
5	Net Plant in Service	3,366,620	-	3,366,620	5,498	3,372,118
6	Construction Work in Progress	163,248	-	163,248	(60,904)	102,344
7	Elec Plant Held for Future Use	8,233	-	8,233	-	8,233
8	Nuclear Fuel (Net)	51,475	-	51,475	-	51,475
9						
10	Net Utility Plant	3,589,576	-	3,589,576	(55,406)	3,534,170
11	Working Capital Allowance	(2,210)	-	(2,210)	(9,047)	(11,257)
12	Unamortized Gain on Sale of Property	-	-	-	-	-
13	Regulatory Practices Reconciliation	-	-	-	-	-
14						
15	Rate Base Total	<u>3,587,366</u>	<u>-</u>	<u>3,587,366</u>	<u>(64,453)</u>	<u>3,522,913</u>
16						
17	Net Operating Income	<u>338,796</u>		<u>338,796</u>		
18						
19	Rate of Return	<u>9.44%</u>		<u>9.44%</u>		
20						
21						
22						
23						
24						
25						

Supporting Schedules:

Recap Schedules:

FLORIDA PUBLIC SERVICE COMMISSION

Explanation: Provide a schedule of 13 month average rate base as adjusted for the test year, and the prior year if the test year is projected. Provide detail of all adjustments on schedule B-4

Type of data shown:

Company: FLORIDA POWER CORPORATION

Projected Test Year Ended 12/31/02

XX Prior Year Ended 12/31/00

Docket No. 000824-EI

Witness: Myers / Slusser

Adjusted 13 month Average Rate Base
(Thousands)

Line No.	Description	(A) Company Adjustments Schedule B-4	(B) Total Utility with Comission & Company Adjs.	(C) Jurisdictional Separation Factor	(D) Juris Utility Adjusted per Company & Comm
1					
2	Elec. Plant in Service	(15,518)	6,830,656	Various	6,254,046
3	Acc Provision for Depreciation and Amortization	(277,554)	3,196,502	Various	2,855,930
4					
5	Net Plant in Service	262,036	3,634,154		3,398,116
6					
7	Construction Work in Progress	-	102,344	Various	93,064
8	Pland Purchased or Sold & Held for Future Use	-	8,233	0.7697	6,337
9	Nuclear Fuel (Net)	-	51,475	Various	48,867
10					
11	Net Utility Plant	262,036	3,796,206		3,546,384
12					
13	Working Capital Allowance	3,980	(7,277)	Various	(12,279)
14	Unamortized Gain on Sale of Property	-	-	-	-
15	Regulatory Practices Reconciliation	-	-	-	-
16					
17	Rate Base Total	<u>266,016</u>	<u>3,788,929</u>		<u>3,534,105</u>
18					
19	Net Operating Income		<u>374,702</u>		<u>328,447</u>
20					
21	Rate of Return		<u>9.89%</u>		<u>9.29%</u>
22					
23					
24					
25					

Supporting Schedules:

FLORIDA PUBLIC SERVICE COMMISSION

Explanation:

List all proposed company adjustments to net operating income for the test year, and the prior year if the test year is projected.

Type of data shown:

Company: FLORIDA POWER CORPORATION

Projected Test Year Ended xx/xx/xx
 Prior Year Ended 12/31/2000
 Witness: Myers/Slusser

Docket No 00824-EI

Line No.	(Thousands) (Description)	(A) Total Company Per Books	(B) Remove Recoverable Fuel	(C) Remove Recoverable ECCR	(D) Gain/Loss on sale of plant	(E) Franchise & gross receipt taxes	(F) Regulatory Practices	(G) Interest on Tax Deficiency	(H) Inst./ Promotional Advertising	(I) Remove Economic Development	(J) 2000 Sub-total Page 1
1	Operating Revenues:										
2	Sales of Electric Energy										
3	Sales to Ultimate Customers	\$ 2,502,163	\$ (1,226,261)	\$ (65,223)		\$ (118,813)					\$ 1,091,866
4	Sales for Resale	275,583									275,583
5		2,777,746	(1,226,261)	(65,223)	-	(118,813)	-	-	-	-	1,367,449
6	Other Operating Revenues:										
7	Deferred Fuel Revenue	(9,234)									(9,234)
8	Unbilled Revenues	30,095									30,095
9	Other Operating Revenues	92,578									92,578
10	Total Operating Revenues	2,891,185	(1,226,261)	(65,223)	-	(118,813)	-	-	-	-	1,480,888
11											
12	Operating Expenses:										
13	Operation and Maintenance Expense:										
14	Fuel and Purchased Power -										
15	Recoverable Fuel Used for Elec. Gen.	1,282,768	(1,282,768)								-
16	Deferred Fuel Expense	(102,556)	102,556								-
17	Electric Energy Purchased for Resale	16,401									16,401
18	Fuel Handling Expense	5,321									5,321
19		1,201,934	(1,180,212)								21,722
20	Other Operation and Maintenance Exp -										
21	Energy Conservation Cost Recovery Exp	65,041		(65,041)							-
22	Other	522,104					6,998	(2,325)	(40)		526,737
23	Total Operation and Maintenance	1,789,079	(1,180,212)	(65,041)	-	-	6,998	(2,325)	(40)		548,459
24											
25	Depreciation and Amortization	402,625	(24,624)	(275)							377,726
26	Taxes Other Than Income	213,280	(750)	(11)		(118,588)					93,931
27	Current Income Taxes - Federal/State	206,954	46,337	145	845	(87)		897	15		255,106
28	Provision for Deferred Income Taxes - Net	(51,693)	(46,726)	(105)							(98,524)
29	Charge Equivalent to Investment Tax Credit	(7,857)									(7,857)
31	(Gain)/Loss on Disposal of Utility Property	-			(2,189)						(2,189)
32	(Gain)/Loss on Reacquired Bonds	-									-
33	Regulatory Practices Reconciliation	-									-
34	Total Operating Expenses	2,552,388	(1,205,975)	(65,287)	(1,344)	(118,675)	-	6,998	(1,428)	(25)	1,166,652
35											
36	Net Operating Income	\$ 338,797	\$ (20,286)	\$ 64	\$ 1,344	\$ (138)	\$ -	\$ (6,998)	\$ 1,428	\$ 25	\$ 314,236
37											

Supporting Schedules:

Recap Schedules:

FLORIDA PUBLIC SERVICE COMMISSION

Explanation:

List all proposed company adjustments to net operating income for the test year, and the prior year if the test year is projected.

Type of data shown:

Company: FLORIDA POWER CORPORATION

___ Projected Test Year Ended

xxxxxxx

XX Prior Year Ended

12/31/2000

Docket No. 00824 EI

Witness:

Myers/Slusser

Line No.	(Thousands) (Description)	(A) Sub-total Page 1	(B) Merger Related Costs	(C) Interest Synch	(D) Remove Def Tax AFUDC Debt	(E) Remove Assoc/Org Dues	(F) Misc Interest Expense	(G) Sebring - Revenue	(H) Sebring - Depreciation	(I) Capital Lease	(J) 2000 Fully Adjusted
1	Operating Revenues:										
2	Sales of Electric Energy										
3	Sales to Ultimate Customers	\$ 1,091,866						\$ (3,209)			\$ 1,088,657
4	Sales for Resale	275,583									275,583
5		1,367,449						(3,209)			1,364,240
6	Other Operating Revenues:										
7	Deferred Fuel Revenue	(9,234)									(9,234)
8	Unbilled Revenues	30,095									30,095
9	Other Operating Revenues	92,578									92,578
10	Total Operating Revenues	1,480,888						(3,209)			1,477,679
11											
12	Operating Expenses:										
13	Operation and Maintenance Expense:										
14	Fuel and Purchased Power										
15	Recoverable Fuel Used for Elec. Gen.										
16	Deferred Fuel Expense										
17	Electric Energy Purchased for Resale	16,401									16,401
18	Fuel Handling Expense	5,321									5,321
19		21,722									21,722
20	Other Operation and Maintenance Exp -										
21	Energy Conservation Cost Recovery Exp										
22	Other	526,737	(90,923)			(3)	1,883		2		437,696
23	Total Operation and Maintenance	548,459	(90,923)			(3)	1,883		2		459,418
24											
25	Depreciation and Amortization	377,726							(1,841)		375,885
26	Taxes Other Than Income	93,931									93,931
27	Current Income Taxes - Federal/State	255,106	26,378	1,941		1		(1,238)	710	(1)	282,898
28	Provision for Deferred Income Taxes - Net	(98,524)			(585)						(99,109)
29	Charge Equivalent to Investment Tax Credit	(7,857)									(7,857)
31	(Gain)/Loss on Disposal of Utility Property	(2,189)									(2,189)
32	(Gain)/Loss on Reacquired Bonds										
33	Regulatory Practices Reconciliation										
34	Total Operating Expenses	1,166,652	(64,545)	1,941	(585)	(2)	1,883	(1,238)	(1,129)	(1)	1,102,977
35											
36	Net Operating Income	\$ 314,236	\$ 64,545	\$ (1,941)	\$ 585	\$ 2	\$ (1,883)	\$ (1,971)	\$ 1,129	\$ 1	\$ 374,702
37											

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FLORIDA PUBLIC SERVICE COMMISSION	Explanation: Provide the Company's 13-month average cost of capital for:	Type of data shown:
	1) the last year.	
Company: FLORIDA POWER CORPORATION	2) the prior year if the test year is projected, and	___ Projected Test Year Ended xx/xx/xxxx
	3) the last year of the last rate case.	XX Prior Year Ended 12/31/2000
Docket No 000824-EI		Witness: Myers

Line No	(Thousands)	(A) System Per Books	(B) Non- Utility (1)	(C) Net Elect Sys Per Books	(D) Proforma Adjs. (2)	(E) Adjusted System	(F) Pro Rata Adjustments	(G) FPSC Adj'd Retail	(H) Ratio	(I) Cost Rate	(J) Weighted Cost
1											
2											
3	Common Equity	\$1,951,095	(\$24,456)	\$1,926,639	\$109,589	\$2,036,228	(\$194,927)	\$1,841,302	52.10%	12.00%	6.25%
4	Preferred Stock	33,497		33,497	-	33,497	(3,207)	30,290	0.86%	4.51%	0.04%
5	Long-Term Debt										
6	Fixed Rate Debt	1,287,937		1,287,937	(293,696)	994,241	(95,191)	899,050	25.44%	7.28%	1.85%
7	Variable Rate Debt	200,000		200,000	(109,041)	90,959	(8,709)	82,250	2.33%	6.41%	0.15%
8	Short Term Debt	129,767		129,767	(9,643)	120,124	(11,501)	108,623	3.07%	6.52%	0.20%
9	Revenue Decoupling	286		286	-	286	(27)	259	0.01%	5.55%	0.00%
10	Customer Deposits										
11	Active	103,737		103,737	-	103,737	-	103,737	2.94%	6.21%	0.18%
12	Inactive	447		447	-	447	-	447	0.01%	0.00%	0.00%
13	Investment Tax Credit	65,554		65,554	-	65,554	(6,276)				
14	Post '70 - Equity							38,892	1.10%	11.88%	0.13%
15	Post '70 - Debt							20,386	0.58%	7.21%	0.04%
16	Deferred Income Taxes	431,416		431,416	9,933	441,349	(42,256)	399,093	11.29%	0.00%	0.00%
17	FAS 109 Liability - Net	(24,040)		(24,040)	(5,190)	(29,230)	2,799	(26,431)	-0.75%	0.00%	0.00%
18	Deferred Earnings	36,208		36,208	-	36,208	-	36,208	1.02%	6.35%	0.06%
19	Total Capital Structure	\$4,215,905	(\$24,456)	\$4,191,449	(\$298,048)	\$3,893,401	(\$359,296)	\$3,534,105	100.00%		8.90%
20											
21											
22											
23											
24											
25											
26	(1), (2) See notes on attached pages.										
27											

11