

State of Florida



Public Service Commission
-M-E-M-O-R-A-N-D-U-M-

DATE: March 21, 2003
TO: Division of Economic Regulation (Bohrman)
FROM: Division of Auditing and Safety (Vandiver)
RE: **Docket No.** 030001-EI (formerly 020001-EI); **Company Name:** Progress Energy Florida, Inc. (formerly Florida Power Corporation); **Audit Purpose:** Audit base year costs for security and hedging costs to be allowed in Fuel Cost Recovery Clause; **Audit Control No.** 02-340-2-2

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 (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

Mr. Paul Lewis, Jr.
Progress Energy Florida, Inc. (formerly Florida Power Corporation)
106 East College Avenue, Suite 800
Tallahassee, FL 32301-7740

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

TAMPA DISTRICT OFFICE

**PROGRESS ENERGY FLORIDA
(FORMALLY FLORIDA POWER CORPORATION)**

BASE YEAR SECURITY AND HEDGING COST AUDIT

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2001

DOCKET NO. 030001-EI

AUDIT CONTROL NO. 02-340-2-2

A handwritten signature in cursive script, appearing to read "J. W. Rohrbacher".

Joseph W. Rohrbacher, Audit Manager

A handwritten signature in cursive script, appearing to read "James A. McPherson".

James A. McPherson, Tampa District Supervisor

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**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT**

March 17, 2003

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the base year security and hedging costs to be used in the fuel and capacity cost recovery clause proceedings for the historical twelve month period ended December 31, 2001 for Progress Energy Florida (formerly Florida Power Corporation). There is no confidential information 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 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.

HEDGING: The utility stated it did not incur hedging costs until 2003. Therefore, no further audit work was performed to determine base year costs.

SECURITY: Obtained security costs by function for the years 2000, 2001 and 2002. Determined base year costs on calendar year 2001 and also on year ending September 30, 2001 and 2002 for comparative purposes. Tested a randomly selected sample of security charges to supporting documentation.

DISCLOSURES

Disclosure No. 1

Subject: Hedging Costs

Statement of Fact: Commission Order No. PSC - 02 -1484 -FOF -EI recognized the importance of managing price volatility in the fuel and purchased power that each investor-owned electric utility purchases to provide electric service to its customers.

The settlement further allowed that each investor-owned electric utility shall be authorized to recover through the fuel and purchased power cost recovery clause its non-speculative, prudently-incurred gains and losses and incremental operating and maintenance expenses associated with financial and/or physical hedging programs.

In response to Staff's Second Set of Interrogatories, Number 36, the utility responded it would not incur hedging costs until 2003.

Auditor Opinion: Since the utility stated it did not incur hedging costs during 2002, we did not perform any audit work on hedging costs.