

State of Florida



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

DATE: July 15, 2003
TO: Division of Economic Regulation (Breman)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: **Docket No.** 030007-E1 ; **Company Name:** Progress Energy Florida, Inc. ;
Audit Purpose: Environmental Cost Recovery Clause Audit;
Audit Control No. 03-030-2-2

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

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DOCUMENT NUMBER DATE

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

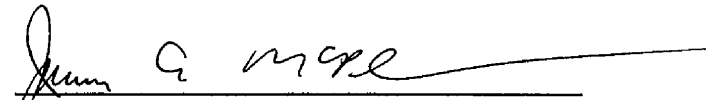
Tampa District Office

PROGRESS ENERGY FLORIDA, INC.

ENVIRONMENTAL COST RECOVERY CLAUSE AUDIT

TWELVE MONTHS ENDED DECEMBER 31, 2002

**DOCKET 030007-EI
AUDIT CONTROL NO. 03-030-2-2**


James A. McPherson, Audit Manager

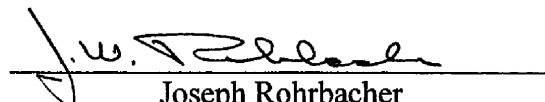

Joseph Rohrbacher
Professional Accountant Specialist

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

JUNE 27, 2003

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the Environmental Cost Recovery Clause (ECRC) schedules for the historical twelve month period ending December 31, 2002 for Progress Energy Florida, Inc. These schedules were prepared by the utility in support of Docket 030007-EI. There is no confidential information associated with this audit and there are no 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 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 the 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.

EXPENSES: Compiled ECRC expenses and agreed to the filing. Performed judgmental testing of invoices and other supporting documentation. Verified that costs complied with ECRC approved programs. Reviewed direct testimony of company personnel.

DISCLOSURES

Disclosure No. 1

Subject: Employee Salaries

Statement of Fact: Progress Energy Florida (PEF) was authorized to allocate certain environmental investigation, remediation and pollution prevention activity costs to be recovered through its Environmental Cost Recovery Clause (ECRC) beginning October 1, 2002. There is \$6,560 of payroll and related fringe benefit costs including \$603 of overtime that PEF allocated to the ECRC. All of these employees were employed prior to 2002.

Also, one new employee was hired in December 2002 as Supervisor, Environmental Services. This employee had \$2,604 of his salary allocated to the ECRC in December 2002.

Opinion / Recommendation: Employees who were employed prior to 2002 or replaced employees that were employed prior to 2002 should not have any of their salary allocated to the ECRC because these costs are already being recovered through base rates. Overtime wages were paid and included in the costs recovered during the last rate case. Therefore, it should not make a difference if the payroll costs are for overtime or regular time.

Since the Supervisor of Environmental Services is a new position, it would be appropriate to allocate a portion of this persons salary to the ECRC.

Disclosure No. 2

Subject: Oil Spill Clean Up Costs

Statement of Fact: The company included \$20,633 of outside services and \$6,560 of payroll expense (Disc. No. 1) relating to the “emergency response” and cleanup of oil spills at a company transformer and at a substation. The company stated that there had been previous oil spills at other substations and transformers prior to 2002 and that the cost of cleanup and remediation of these oil spills was in compliance with State environmental laws. In previous years, these costs were recovered through base rates, either as capitalized replacement plant or through Operating and Maintenance expense.

The Florida Statutes (F.S.), Chapters 376 and 403, that were cited in the utility’s Direct Testimony of James Timothy Silar as reasons for performing environmental compliance activities, are not new. The 1999 F.S. Chapter 376 requires that any person discharging pollutants shall immediately undertake to contain, remove, and abate the discharge to the satisfaction of the Department of Environmental Protection. The 1999 F. S., Chapter 403 provides that it is prohibited to cause pollution so as to harm or injure human health or welfare, animal, plant, or aquatic life or property. This is the same language used by Mr. Silar in his testimony.

The company describes its new compliance costs that it wants recovered through the ECRC as environmental investigation, remediation and pollution prevention activities to ensure that its substation and distribution system continues to comply with applicable law and regulations. The substation and distribution system is evaluated to determine the existence of pollutants and if present, their removal and remediation.

Opinion / Recommendation: The utility should not be allowed to recover expenses through the ECRC that are already being recovered through base rates. Based on discussions with utility personnel, we believe the approved ECRC programs relate to the systematic investigation of substations and transformers looking for contamination that may have occurred in the past and may not be evident without soil samples. The costs of cleaning up current oil spills or actively leaking equipment should continue to be recovered through base rates as they previously were.

We recommend that the \$20,633 of outside services as well as the previously mentioned payroll expense be removed from the ECRC filing.

Progress Energy Florida, Inc.
Environmental Cost Recovery Clause (ECRC)
Calculation of the Estimated/Actual True-Up Amount for the Period
October 2002 through December 2002

Form 42-2A

End-of-Period True-Up Amount
(In Dollars)

Line	January 02	February 02	March 02	April 02	May 02	June 02	July 02	August 02	September 02	October 02	November 02	December 02	End of Period Total
1 ECRC Revenues (net of Revenue Taxes)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2 True-Up Provision	0	0	0	0	0	0	0	0	0	0	0	0	0
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	0	0	0	0	0	0	0	0	0	0	0	0	0
4 Jurisdictional ECRC Costs													
a O & M Activities (Form 42-5A, Line 9)	0	0	0	0	0	0	0	0	0	0	0	0	38,833
b Capital Investment Projects (Form 42-7A, Line 9)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
c Total Jurisdictional ECRC Costs	0	0	0	0	0	0	0	0	0	0	0	0	38,833
5 Over/Under Recovery (Line 3 - Line 4c)	0	0	0	0	0	0	0	0	0	0	0	0	(38,833)
6 Interest Provision (Form 42-3A, Line 10)	0	0	0	0	0	0	0	0	0	0	0	0	0
7 Beginning Balance True-Up & Interest Provision	0	0	0	0	0	0	0	0	0	0	0	0	0
a Deferred True-Up from January 2001 to December 2001	0	0	0	0	0	0	0	0	0	0	0	0	0
8 True-Up Collected/(Refunded) (see Line 2)													
9 End of Period Total True-Up (Lines 5+6+7+7a+8)	0	0	0	0	0	0	0	0	0	0	0	0	(38,833)
10 Adjustments to Period Total True-Up Including Interest													
11 End of Period Total True-Up (Lines 9 + 10)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$38,833)