



Public Service Commission

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DATE: May 10, 2004

TO: Daniel Lee, Division of Economic Regulation

FROM: Denise N. Vandiver, Chief, Bureau of Auditing *W*
Division of Regulatory Compliance and Consumer Assistance

RE: **Docket No.** 040001-EI ; **Company Name:** Progress Energy Florida, Inc. ;
Audit Purpose: Capacity Cost Recovery ; **Audit Control No.** 04-022-2-2

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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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

TAMPA DISTRICT OFFICE


PROGRESS ENERGY FLORIDA, INC.


CAPACITY COST RECOVERY AUDIT

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003

DOCKET NO. 040001-EI

AUDIT CONTROL NO. 04-022-2-2


Jocelyn Y. Stephens, Audit Manager


Simon O. Ojada, Audit Staff


Joseph W. Rohrbacher, Regulatory Analyst Supervisor

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

April 6, 2004

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying Capacity Cost Recovery Clause True-up schedules for the historical twelve month period ended December 31, 2003 for Progress Energy Florida, Inc. These schedules were prepared by the Utility as part of its petition for cost recovery in Docket 040001-EI. 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 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 CCR revenue and agreed to the filing. Recomputed CCR 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: Performed analysis of capacity costs based on prior years charges and reviewed variances. Compiled capacity costs. Agreed capacity costs to FPC billing statements. Performed audit test work of capacity cost payments to verify that Qualifying Facilities were paid according to contract for electric power supplied to the utility. Reconciled capacity charges to the General Ledger.

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

OTHER: Verified that security costs recovered in the capacity clause are incremental to the security costs included in base rates. Verified NRC fee paid.

Disclosure No. 1

Subject: Incremental Security Costs

Statement of Fact: The Nuclear Regulatory Commission (NRC) issued Order No. EA-02-026, dated February 25, 2002, requiring electric utilities to implement certain security measures as a result of the September 11, 2001 attacks.

In accordance with the Commission Order PSC 03-1461-FOF-EI, utilities seeking recovery of incremental security costs through the capacity clause shall provide a breakdown of those costs by project groups and identify any base rate items that were removed. Progress Energy Florida, Inc. is seeking to recover \$1,497,319 as incremental security expenses in its 2003 Capacity Cost Recovery filing. Below is the breakdown of the incremental security cost as provided by the utility.

Additional Manpower (Security Guards)		\$1,655,193
Maintenance/Upkeep of New ACP Facilities		12,485
Incremental NRC related to Homeland Security		<u>442,214</u>
Total O&M		\$2,109,892
<u>Capital Modifications:</u>		
Security fencing & Adversary delays	288,241	
Gas Masks	31,575	
Secondary Firing Positions (Bullet resistant)	114,457	
Communications Building and equipments	76,871	
Less 2002 credits for over accruals	(194,736)	316,408
Less Base Rate Components		<u>(928,981)</u>
Total Incremental Security O&M and capital		<u>\$1,497,319</u>

Audit Opinion: The 2003 incremental security expenses of \$1,180,911 (\$2,109,892 - \$928,981) were a result of the utility's compliance with the NRC Order No. EA-02-026 and are properly recovered through the Capacity Cost Recovery Clause. However, the auditor defers to the analyst as to the recovery through the Capacity Cost Recovery Clause of the \$316,408 Capital Modification. According to the utility representative, the capital modifications were reclassified to expense accounts based on the Commission's approval.

PROGRESS ENERGY FLORIDA, INC.
 CAPACITY COST RECOVERY CLAUSE
 TRUE-UP CALCULATION
 FOR THE PERIOD JANUARY - DECEMBER 2003

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Base Production Level Capacity Charges:													
1 Auburndale Power Partners, L.P. (AUBRDLFC)	419,050	497,250	445,740	445,740	445,740	445,740	445,740	445,740	445,740	445,740	445,740	445,740	5,373,700
2 Auburndale Power Partners, L.P. (AUBSET)	2,089,680	2,562,443	2,195,991	2,195,991	2,195,991	2,195,991	2,195,991	2,195,991	2,195,991	2,195,991	2,195,991	2,195,991	26,612,032
3 Bay County (BAYCOUNT)	206,910	267,300	219,890	219,890	219,890	219,890	219,890	219,890	219,890	219,890	219,890	219,890	2,673,110
4 Cargill Fertilizer, Inc. (CARGILLF)	432,750	537,000	454,950	454,950	454,950	454,950	454,950	454,950	454,950	454,950	454,950	454,950	5,519,250
5 Jefferson Power L.C. (JEFFPOWER)	54,298	55,677	58,883	54,680	89,743	52,335	42,893	0	17,000	17,000	17,000	17,000	477,509
6 Lake County (LAKCOUNT)	392,955	508,725	417,818	417,818	417,818	417,818	417,818	417,818	417,818	417,818	417,818	417,818	5,079,855
7 Lake Cogen Limited (LAKORDER)	2,174,703	2,425,765	2,263,142	2,300,521	2,305,627	2,305,627	2,305,627	2,305,627	2,305,627	2,305,627	2,305,627	2,305,627	27,609,143
8 Metro-Dade County (METRDADE)	775,309	944,077	823,326	806,820	831,675	852,690	852,690	852,690	852,690	852,690	834,070	797,841	10,076,568
9 Orange Cogen (ORANGECO)	1,873,899	2,307,184	1,966,690	1,966,690	1,966,690	1,966,690	1,966,690	1,966,690	1,966,690	1,966,690	1,966,690	1,966,690	23,847,984
10 Orlando Cogen Limited (ORLACOGL)	1,665,192	2,067,067	1,750,958	1,750,958	1,750,958	1,750,958	1,750,958	1,750,958	1,750,958	1,750,958	1,750,958	1,750,958	21,242,843
11 Pasco Cogen Limited (PASCOOGL)	2,827,455	2,685,623	2,950,375	2,950,375	2,950,375	2,950,375	2,950,375	2,950,375	2,950,375	2,950,375	2,950,375	2,950,375	35,016,828
12 Pasco County Resource Recovery (PASCOUNT)	708,860	917,930	753,710	753,710	753,710	753,710	753,710	753,710	753,710	753,710	753,710	753,710	9,163,890
13 Pinellas County Resource Recovery (PINCOUNT)	1,687,395	2,185,073	1,794,158	1,794,158	1,794,158	1,794,158	1,794,158	1,794,158	1,794,158	1,794,158	1,794,158	1,794,158	21,814,043
14 Polk Power Partners, L.P. (MULBERRY)	1,954,617	1,998,578	2,015,715	2,007,561	2,050,506	2,233,902	2,425,238	2,425,238	2,425,238	2,425,238	2,425,238	2,425,238	26,812,305
15 Polk Power Partners, L.P. (ROYSTER)	792,293	917,042	825,061	821,544	839,119	910,922	910,922	910,922	910,922	910,922	910,922	910,922	10,571,514
16 DG Telogia, LLC (TIMBER)	137,500	(63,336)	137,500	137,500	136,242	136,500	134,063	129,031	127,879	128,255	128,555	130,404	1,400,093
17 U.S. Agri-Chemicals (AGRICHEM)	41,626	51,668	43,758	43,758	43,758	43,758	43,758	43,758	43,758	43,758	43,758	43,758	530,874
18 Wheelabrator Ridge Energy, Inc. (RIDGEGEN)	686,450	483,023	614,850	608,277	591,309	588,733	581,020	578,493	594,369	582,852	621,307	621,028	7,151,712
19 Tiger Bay Limited Partnership (ECOPEAT)	1,213,028	1,213,028	1,213,028	1,213,028	1,213,028	1,213,028	1,213,028	1,213,028	1,213,028	0	0	0	10,917,252
20 Tiger Bay Limited Partnership (GENPEAT)	4,499,352	4,499,352	4,499,352	4,499,352	4,499,352	4,499,352	4,499,352	4,499,352	4,499,352	0	0	0	40,494,168
21 Tiger Bay Limited Partnership (TIMBER2)	157,320	157,320	157,320	157,320	157,320	157,320	157,320	157,320	157,320	0	0	0	1,415,880
22 Tiger Bay (EcoPeat lease credit)	(66,667)	(66,667)	(66,667)	(416,667)	(66,667)	(66,667)	(66,667)	(66,667)	(66,667)	0	0	0	(950,003)
23 UPS Purchase (409 total mw) - Southern	4,051,119	4,265,922	3,788,442	3,925,202	3,701,633	3,967,206	4,600,651	4,111,954	3,772,505	4,072,858	4,123,154	4,059,771	48,440,417
24 Incremental Security (5060001 & 5240001)	0	0	0	197,728	0	0	289,444	0	0	339,821	0	0	1,497,319
25 Subtotal - Base Level Capacity Charges	28,776,095	31,417,044	29,324,988	29,306,903	29,342,924	29,844,985	30,939,618	30,111,025	29,803,299	24,629,299	24,359,910	24,932,194	342,788,285
26 Base Production Jurisdictional Responsibility	95.957%	95.957%	95.957%	95.957%	95.957%	95.957%	95.957%	95.957%	95.957%	95.957%	95.957%	95.957%	95.957%
27 Base Level Jurisdictional Capacity Charges	27,612,678	30,146,853	28,139,379	28,122,025	28,156,590	28,838,353	29,688,729	28,893,636	28,598,352	23,633,537	23,375,039	23,924,185	328,929,354
Intermediate Production Level Capacity Charges:													
28 TECO Power Purchase (60 mw)	565,567	565,567	565,567	565,567	565,567	565,567	565,567	565,567	565,567	565,567	565,567	565,567	6,786,804
29 Schedule H Capacity Sales	(3,593)	(3,245)	(3,593)	(3,477)	(3,593)	(3,477)	(3,593)	(3,593)	(3,477)	(3,593)	(3,477)	(3,593)	(42,304)
30 Subtotal - Intermediate Level Capacity Charges	561,974	562,322	561,974	562,090	561,974	562,090	561,974	561,974	562,090	561,974	562,090	561,974	6,744,500
31 Intermediate Production Jurisdictional Responsibility	86.574%	86.574%	86.574%	86.574%	86.574%	86.574%	86.574%	86.574%	86.574%	86.574%	86.574%	86.574%	86.574%
32 Intermediate Level Jurisdictional Capacity Charges	486,523	486,824	486,523	486,624	486,523	486,624	486,523	486,523	486,624	486,523	486,624	486,523	5,838,983
Peaking Production Level Capacity Charges:													
33 Roedy Creek	150,000	200,000	0	0	0	0	0	0	0	0	0	100,000	450,000
34 Reliant	884,800	884,800	0	0	0	0	0	0	0	0	0	0	1,769,600
35 Subtotal - Peaking Level Capacity Charges	1,034,800	1,084,800	0	0	0	0	0	0	0	0	0	100,000	2,219,600
36 Peaking Production Jurisdictional Responsibility	74.562%	74.562%	74.562%	74.562%	74.562%	74.562%	74.562%	74.562%	74.562%	74.562%	74.562%	74.562%	74.562%
37 Peaking Level Jurisdictional Capacity Charges	771,568	808,849	0	0	0	0	0	0	0	0	0	74,562	1,654,978
Other Capacity Charges:													
38 Retail Wheeling	(361,936)	(835,914)	(182,755)	(113,525)	(48,143)	(26,384)	(13,938)	(29,176)	(38,789)	(5,532)	(124,746)	(238,691)	(2,019,529)
39 Total Jurisdictional Capacity Charges	28,508,833	30,606,611	28,443,147	28,495,124	28,594,970	29,098,593	30,161,315	29,350,984	29,046,186	24,114,528	23,736,916	24,246,580	334,403,787
40 Capacity Cost Recovery Revenues (net of tax)	30,746,795	28,983,600	24,247,953	24,296,838	27,928,411	32,162,523	32,763,177	32,098,676	34,244,504	29,061,760	26,419,218	25,297,620	348,251,076
41 Prior Period True-Up Provision	(742,168)	(742,168)	(742,168)	(242,404)	(242,404)	(242,404)	(242,404)	(242,404)	(242,404)	(242,404)	(242,404)	(242,404)	(4,408,138)
42 Current Period Revenues (net of tax) (line 40 + 41)	30,004,627	28,241,432	23,505,785	24,054,434	27,686,008	31,920,119	32,520,774	31,856,273	34,002,100	28,819,356	26,176,814	25,055,216	343,842,938
True-Up Provision													
43 True-Up Provision - Over/(Under) Recov (line 42-39)	1,495,794	(2,365,179)	(4,937,362)	(4,440,690)	(908,963)	2,821,527	2,359,459	2,505,289	4,955,914	4,704,828	2,439,898	808,636	9,439,151
44 Interest Provision for the Month	(3,510)	(3,134)	(5,956)	(9,999)	(12,543)	(10,448)	(7,254)	(5,162)	(1,671)	2,792	5,942	7,622	(43,322)
45 Current Cycle Balance - Over/(Under) (line 43 + 44)	1,492,284	(876,029)	(5,819,347)	(10,270,037)	(11,191,542)	(8,380,463)	(6,028,258)	(3,528,131)	1,426,112	6,133,732	8,579,571	9,395,829	9,395,829
46 Plus Prior Period Balance	(4,408,138)	(4,408,138)	(4,408,138)	(4,408,138)	(4,408,138)	(4,408,138)	(4,408,138)	(4,408,138)	(4,408,138)	(4,408,138)	(4,408,138)	(4,408,138)	(4,408,138)
47 Plus Cumulative True up Provision	742,168	1,484,336	2,226,504	2,468,908	2,711,311	2,953,715	3,196,119	3,438,522	3,680,926	3,923,330	4,165,733	4,408,138	4,408,138
48 Net True-up Over/(Under) (lines 45 through 47)	(2,173,686)	(3,799,831)	(8,000,981)	(12,209,267)	(12,888,369)	(9,834,886)	(7,240,277)	(4,497,747)	698,900	5,648,923	8,337,167	9,395,829	9,395,829