

State of Florida



## Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

---

**DATE:** July 27, 2004  
**TO:** Lee Colson, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief, Bureau of Auditing *DNV*  
Division of Regulatory Compliance and Consumer Assistance  
**RE:** **Docket No.** 040002-EG ; **Company Name:** Progress Energy Florida, Inc. ; **Audit Purpose:** Energy Conservation Cost Recovery ;  
**Audit Control No.** 04-070-2-1

---

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 Regulatory Compliance and Consumer Assistance (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.  
106 East College Avenue, Suite 800  
Tallahassee, FL 32301-7740

Bonnie E. Davis  
Progress Energy Florida, Inc.  
106 East College Avenue, Suite 800  
Tallahassee, FL 32301-7740

Javier Portuondo, Manager Reg. Services  
Progress Energy Florida, Inc.  
100 Central Avenue  
St. Petersburg, FL 33701

James McGee  
Progress Energy Florida, Inc.  
100 Central Avenue  
St. Petersburg, FL 33733-4042

DOCUMENT NUMBER-DATE

08253 JUL 29 3

FPSC-COMMISSION CLERK



**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE*

*BUREAU OF AUDITING*

*TAMPA DISTRICT OFFICE*

**PROGRESS ENERGY FLORIDA, INC.**

**ENERGY CONSERVATION COST RECOVERY AUDIT**

**TWELVE MONTH PERIOD ENDED DECEMBER 31, 2003**

**Docket No. 040002-EG  
Audit Control Number 04-070-2-1**

A handwritten signature in black ink, appearing to read "Simon O. Ojada", is written over a horizontal line.

***Simon O. Ojada***  
***Audit Manager***

A handwritten signature in black ink, appearing to read "Joseph W. Rohrbacher", is written over a horizontal line.

***Joseph W. Rohrbacher***  
***Regulatory Analyst Supervisor***

## TABLE OF CONTENTS

<b>I.</b>	<b>AUDIT REPORT</b> .....	<b>Page</b>
	<b>PURPOSE</b> .....	<b>1</b>
	<b>DISCLAIM PUBLIC USE</b> .....	<b>1</b>
	<b>SUMMARY OF SIGNIFICANT FINDINGS</b> .....	<b>2</b>
	<b>SUMMARY OF SIGNIFICANT PROCEDURES</b> .....	<b>2</b>
<b>II.</b>	<b>AUDIT DISCLOSURES</b>	
	<b>I. REVENUES</b> .....	<b>3</b>
	<b>2. PAYROLL EXPENSE ALLOCATION</b> .....	<b>4</b>
<b>III.</b>	<b>EXHIBITS</b>	
	<b>ECCR PROGRAM COSTS (CT-2, P2 OF 4)</b> .....	<b>5</b>
	<b>CALCULATION OF TRUE-UP (CT-3, P2 OF 3)</b> .....	<b>6</b>

**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE  
AUDITOR'S REPORT**

**JULY 9, 2004**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to audit the Energy Conservation Cost Recovery (ECCR) schedules for the twelve month period ended December 31, 2003, prepared by Progress Energy Florida, Inc. in support of Docket No. 040002-EG. 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:** Progress Energy Florida Inc. understated its ECCR revenues by \$335,567 in its 2003 filing.

**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.

---

**REVENUES:** Compiled Energy Conservation Cost Recovery (ECCR) revenue and agreed to the filing. Recomputed revenues using approved FPSC rate factors and company provided KWH sales. Reconciled ECCR revenues per filing to the General Ledger.

**EXPENSES:** Compiled ECCR expenses and agreed to the filing. Scheduled expenses by program and by categories of expense. Judgmentally tested advertising charges to verify that they were properly recoverable through the ECCR and that they did not compare electric vs. gas technologies. Analyzed expenses of Energy Conservation Administration and Qualifying Facility programs.

**TRUE-UP:** Computed ECCR true-up and interest calculation using FPSC approved amounts and interest rates.

**OTHER:** Identified conservation programs that exceeded the budgeted amount and analyzed expenditures for compliance with program requirements.

**DISCLOSURE NO. 1**

**SUBJECT: REVENUES**

**STATEMENT OF FACT:** Progress Energy Florida, Inc. understated its revenues by \$335,567 in its 2003 Energy Conservation Cost Recovery (ECCR) filings.

Total revenues per filing .....	\$60,683,534
Total revenues per audit .....	61,019,101
Difference .....	<u>\$335,567</u>

According to company staff, ECCR and Environmental (ECRC) revenues were combined in one report. In preparing the filing, the company used wrong rates in some of the rate classes to multiply KWH in order to separate ECCR revenues from the total combined revenues. Therefore, most of the differences resulted from using the wrong rates.

**RECOMMENDATION:** Progress Energy Florida should be required to correct its true-up amount as of December 31, 2003 by increasing ECCR revenues by \$335,567 plus interest of \$1,737. The company should also calculate the applicable interest from January 2004 to July 2004. According to company staff, the adjustment will be made in the July 2004 filing.

**DISCLOSURE NO. 2**

**SUBJECT: PAYROLL EXPENSE ALLOCATION**

**STATEMENT OF FACT:** In December 2003, Progress Energy Florida reclassified \$66,603 from Deal Structuring Labor and \$55,056 from FL Account Management labor from Regulated O&M to an ECCR program, Qualifying Facilities (CoGen Florida). Below is the company's calculation on how they arrived at the above amount.

YTD Actual Total Labor as of November .....	\$770,461
December Estimated Total Labor based on November .....	<u>\$ 62,071</u>
Total Estimated Labor for 2003 .....	\$832,532
Percent of all Structuring Employees time spent on ECCR .....	8%
Total amount of Reclassification to ECCR .....	\$ 66,602
Total Labor Budget .....	\$ 304,097
Less: November YTD Actual Labor .....	\$(224,281)
Less: December Estimated Labor based on November .....	<u>\$( 24,760)</u>
Total amount of Reclassification to ECCR .....	\$ 55,056.

**RECOMMENDATION:** Based on the above calculation, the auditor determined that the above amounts used by the company in its filings were not actual amount of expenses, rather based on budgets and estimates. Therefore, payroll expenses for Qualifying Facilities should be reduced by \$121,658 in the ECCR Filings for the twelve months ending December 31, 2003.

Additional information received from the company after the end of audit field work shows a total adjustment of \$40,699 instead of the \$121,658. The \$40,699 amount was not verified by the auditor due to time constraint. We defer to the analyst as to the follow up. No adjustment was made to the true-up regarding the above changes.

PROGRESS ENERGY FLORIDA

ACTUAL ENERGY CONSERVATION PROGRAM COSTS PER PROGRAM  
 FOR THE PERIOD JANUARY 2003 THROUGH DECEMBER 2003

LINE NO.	PROGRAM	DEPRECIATION AMORTIZATION & RETURN	PAYROLL & BENEFITS	MATERIALS & SUPPLIES	OUTSIDE SERVICES	ADVERTISING	INCENTIVES	VEHICLES	OTHER	SUB-TOTAL	PROGRAM REVENUES (CREDIT)	TOTAL
1	BETTER BUSINESS	0	26,122	242	0	3,832	209,263	0	0	239,459	0	239,459
2	RESIDENTIAL NEW CONSTRUCTION	0	447,819	14,078	7,586	176,680	1,309,898	0	91,806	2,047,667	0	2,047,667
3	HOME ENERGY IMPROVEMENT	0	460,124	8,314	13,216	85,972	<b>2,447,185</b>	0	31,804	3,046,615	(6,355)	3,040,260
4	COMM / IND NEW CONSTRUCTION	0	0	0	0	2,535	30,800	0	4	33,339	0	33,339
5	HOME ENERGY CHECK	4,504	1,780,450	144,278	<b>32,397</b>	<b>1,997,903</b>	0	0	<b>310,449</b>	<b>4,269,981</b>	0	4,269,981
6	LOW INCOME	0	34,392	240	3,000	76	35,580	0	26,218	99,506	0	99,506
7	BUSINESS ENERGY CHECK	938	536,255	5,853	42	49,747	0	0	69,787	662,622	0	662,622
8	QUALIFYING FACILITY	0	432,629	1,767	0	0	0	0	110,501	544,897	0	544,897
9	INNOVATION INCENTIVE	0	0	0	0	0	0	0	0	0	0	0
10	TECHNOLOGY DEVELOPMENT	0	53,272	6,357	53,136	0	845	0	7,609	121,219	0	121,219
11	STANDBY GENERATION	0	37,745	6,783	13,511	0	773,940	0	12,575	844,554	0	844,554
12	INTERRUPT LOAD MANAGEMENT	0	89,697	5,990	0	0	17,255,056	0	10,993	17,361,736	0	17,361,736
13	CURTAIL LOAD MANAGEMENT	0	7,925	0	0	0	703,172	0	87	711,184	0	711,184
14	RESIDENTIAL LOAD MANAGEMENT	952,071	1,805,702	30,482	1,564,557	99,241	22,559,493	0	215,577	27,227,123	0	27,227,123
15	COMMERCIAL LOAD MANAGEMENT	0	11,855	253	0	0	673,831	0	855	686,794	0	686,794
16	CONSERVATION PROGRAM ADMIN	1,241	<b>2,359,123</b>	170,359	158,079	94,012	0	0	1,464,973	4,247,787	0	4,247,787
17	TOTAL ALL PROGRAMS	956,754	<b>8,083,110</b>	<b>394,996</b>	<b>1,845,524</b>	<b>2,509,998</b>	<b>45,999,063</b>	<b>0</b>	<b>2,353,038</b>	<b>62,144,483</b>	<b>(6,355)</b>	<b>62,138,128</b>



PROGRESS ENERGY FLORIDA  
 ENERGY CONSERVATION ADJUSTMENT  
 CALCULATION OF TRUE-UP  
 FOR THE PERIOD JANUARY 2003 THROUGH DECEMBER 2003

LINE NO.	JAN 03	FEB 03	MAR 03	APR 03	MAY 03	JUN 03	JUL 03	AUG 03	SEP 03	OCT 03	NOV 03	DEC 03	TOTAL FOR THE PERIOD
1A BETTER BUSINESS	0	0	0	0	0	0	0	0	0	0	0	0	0
1B HOME ENERGY IMPROVEMENT	670	1,000	0	420	0	300	645	30	1,140	1,430	0	720	6,355
1C HOME ENERGY CHECK	0	0	0	0	0	0	0	0	0	0	0	0	0
1D SUBTOTAL - FEES	670	1,000	0	420	0	300	645	30	1,140	1,430	0	720	6,355
2 CONSERVATION CLAUSE REVENUES	5,026,808	4,748,004	3,999,123	4,320,462	4,950,651	5,697,120	5,796,974	5,677,995	6,064,056	5,158,440	4,699,514	4,544,387	60,683,534
2A CURRENT PERIOD GRT REFUND													
3 TOTAL REVENUES	5,027,478	4,749,004	3,999,123	4,320,882	4,950,651	5,697,420	5,797,619	5,678,025	6,065,196	5,159,870	4,699,514	4,545,107	60,689,889
4 PRIOR PERIOD TRUE-UP OVER/(UNDER)	728,611	728,611	728,611	728,611	728,611	728,611	728,611	728,611	728,611	728,611	728,611	728,608	8,743,329
5 CONSERVATION REVENUES APPLICABLE TO PERIOD	5,756,089	5,477,615	4,727,734	5,049,493	5,679,262	6,426,031	6,526,230	6,406,636	6,793,807	5,888,481	5,428,125	5,273,715	69,433,218
6 CONSERVATION EXPENSES (CT-3, PAGE 1, LINE 73)	5,493,437	5,693,467	4,689,081	4,089,916	4,553,760	5,203,480	5,196,404	5,130,519	4,901,877	6,021,906	5,496,611	5,674,025	62,144,483
7 TRUE-UP THIS PERIOD (O)U	(262,852)	215,852	(38,653)	(959,577)	(1,125,502)	(1,222,551)	(1,329,826)	(1,278,117)	(1,892,130)	133,425	68,898	400,310	(7,286,735)
8 CURRENT PERIOD INTEREST	(9,078)	(8,205)	(7,093)	(6,698)	(7,103)	(6,958)	(6,928)	(7,642)	(8,440)	(8,540)	(7,596)	(6,813)	(91,094)
9 ADJUSTMENTS PER AUDIT \ RDC Order		0	0	0	0	0	0	0	0	0	0	0	0
10 TRUE-UP & INTEREST PROVISIONS BEGINNING OF PERIOD (O)U	(8,743,330)	(8,286,449)	(7,350,191)	(6,667,326)	(6,904,990)	(7,308,984)	(7,809,882)	(8,418,025)	(8,973,173)	(10,145,132)	(9,291,636)	(8,501,935)	(8,743,330)
10 A CURRENT PERIOD GRT REFUNDED	0	0	0	0	0	0	0	0	0	0	0	0	0
11 PRIOR TRUE-UP REFUNDED/ (COLLECTED)	728,611	728,611	728,611	728,611	728,611	728,611	728,611	728,611	728,611	728,611	728,611	728,608	8,743,329
12 END OF PERIOD NET TRUE-UP	(8,286,449)	(7,350,191)	(6,667,326)	(6,904,990)	(7,308,984)	(7,809,882)	(8,418,025)	(8,973,173)	(10,145,132)	(9,291,636)	(8,501,935)	(7,379,830)	(7,379,830)