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Hopping Green & Sams

Attorneys and Counselors  
Writer's Direct Dial No.  
(850) 425-2359

August 6, 2004

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COMMISSION  
CLERK

Blanca Bayó  
Director Records and Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399

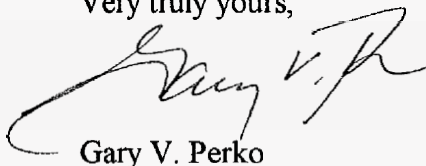
Re: Docket No. 03<sup>4</sup>0007-EI

Dear Ms. Bayó:

On July 27, 2004, the Commission Staff filed a final audit report (Audit Control No. 04-044-2-2) for Progress Energy Florida, Inc. ("PEF") in this docket (the "Audit Report"). The Staff transmittal memorandum advised that, if FPL wished to respond to the Audit Report, it should file the response with your office. Accordingly, I am enclosing for filing FPL's response to the Audit Report.

If there are any questions regarding this transmittal, please contact me at (850)425-2359.


Very truly yours,



Gary V. Perko

Enclosures

- CMP \_\_\_\_\_
- COM \_\_\_\_\_
- CTR \_\_\_\_\_
- ECR \_\_\_\_\_
- GCL \_\_\_\_\_
- OPC \_\_\_\_\_
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FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

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**Progress Energy Florida Inc.**  
**Docket No. 040007**  
**Audit Control No. 04-444-2-2**

**Response to Audit Disclosures For**  
**Twelve Months Ended December 31, 2002**

**Disclosure #1**

In regards to the ECRC revenue calculation correction for the period January – December, 2003 in the amount of \$335,200 and the computed interest in the amount of \$1,732. PEF concurs and made the \$335,200 adjustment plus applicable interest in July 2004.

**Disclosure #2**

Of the \$3.8 million paid to QORE in 2003, \$3.5 million was attributable to TRIP (Distribution) program and \$0.3 million was attributable to Substation (Transmission) program. Of the total \$3.8 million, the Company estimates approximately 46% (i.e., \$1.75 million) were for sub-contractor services provided by SWS. SWS actually performs the soil remediation activities.

Although it may appear that QORE only provides services attributed to professional geologist certification, QORE actually provides resources that carry out specific provisions of the FDEP approved TRIP Environmental Remediation Strategy (ERS). These include but are not limited to: performing pre-clean-up site assessment activities (including monitoring and data analysis), post clean-up confirmation sampling and data analysis, and site specific data compilation for required record keeping and analysis. These services are accomplished by having a trained QORE representative assigned to each TRIP crew.

PEF disagrees with the Auditor's suggestion that there may be "overlap of services/responsibilities being performed", as discussed below, the areas of responsibilities for QORE and the PEF supervisor are distinct and separate:

- With regard to the first point raised by the Auditor – "QORE provides coordination and scheduling activities" specific to each individual site clean-up and the associated TRIP crew. By contrast, the PEF Supervisor establishes the overall guidelines for each functional area of responsibility applicable to PEF personnel, QORE personnel, SWS personnel, and other associated resources.
- Secondly – QORE identifies crew specific tasks as part of the site remediation activities, while the PEF Supervisor provides guidance on unique or unusual site remediation issues that are necessary to comply with the TRIP ERS.
- Thirdly – Documents prepared by QORE are specific to each individual site remediation, whereas the documents managed by PEF's Supervisor provide overall project information based, at least in part, on the site-specific documents.

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prepared by QORE. Both are required by the TRIP ERS and must be completed within a timely manner and in accordance with FDEP criteria. In addition, PEF's Supervisor is accountable for all required submittals to the FDEP.

In summary, QORE primarily performs site-specific activities to ensure and document that on-the ground contractors perform the work required by the DEP approved ERS in accordance with the overall guidelines established by the PEF supervisor. Although PEF's supervisor on occasion visits various remediation sites, he cannot visit each site to oversee each contractor or prepare site-specific documents in light of his other responsibilities. Rather, he provides overall oversight, direction, and coordination with DEP. Thus, the roles performed by QORE and the PEF Supervisor are distinct and do not overlap.

Finally, the Auditor refers to the "period January – April, 2003" where it is noted "nothing in the way of problems or concerns came to the attention of the Auditor...". The reason for this is, work did not begin until April 2003, thus no cause for problems or concerns could have existed.

In summary, the services provided by QORE are cost effective, are required for compliance with environmental requirements, and are prudent. These services do not overlap those of PEF's Supervisor, but are indeed an integral element to the success of the TRIP program.

#### **Disclosure #3**

Invoices for emergency response services are not typically charged to the ECRC clause. If PEF discovers an invoice for emergency response services that is charged to the clause, then PEF will make a journal entry to reclass that expense to the appropriate account. PEF has already identified a number of invoices that were erroneously charged to the ECRC clause, however if there are others in question that Staff would like to provide, then PEF will research them to determine whether or not a reclass has already occurred.

#### **Disclosure #4**

PEF considers the delay charges incurred by the electrical contractor while waiting for completion of soil remediation activities, as reflected on the PIKE invoicing, to be appropriately charged as O&M expenses to the ECRC because these charges are incremental and would not have been incurred had it not been necessary to perform the soil remediation in order to comply with environmental requirements.

To the Auditor's point concerning delay charges incurred during various scenarios of transformer repair/replacement, these charges are only expensed to the ECRC to the extent the delay is attributable to soil remediation activities occurring at that site. Where no soil remediation occurred, no delay charge would have been expensed to ECRC.

Based on the facts stated above, PEF believes that it is proper to record these delay charges as ECRC O&M expenses when attributable to soil remediation.

**Disclosure #5**

The Company is not aware of any double billing for equipment rental. However, if the FPSC has documentation showing that double billing has occurred, then PEF will act accordingly.

**Disclosure #6**

This expense was incremental and was directly attributable to soil remediation activities and would not have otherwise occurred. Therefore, the Company deems it is appropriate to expense this to the ECRC.