


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: April 18, 2005
TO: Daniel Lee, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief, Bureau of Auditing 
Division of Regulatory Compliance and Consumer Assistance
RE: **Docket No.** 050001-EI ; **Company Name:** Progress Energy Florida, Inc. ;
Audit Purpose: Capacity Cost Recovery Audit ;
Audit Control No. 05-031-2-2

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 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

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
BUREAU OF AUDITING*

TAMPA DISTRICT OFFICE


PROGRESS ENERGY FLORIDA

CAPACITY COST RECOVERY AUDIT

FOR THE TWELVE MONTHS ENDED DECEMBER 31 2004

DOCKET NO. 050001-EI

AUDIT CONTROL NO. 05-031-2-2


Thomas E. Stambaugh, Audit Manager



Joseph W. Rohrbacher, Tampa District Supervisor

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

April 6, 2005

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, 2004 for Progress Energy Florida (PEF). These schedules were prepared by the Utility as part of its petition for cost recovery in Docket 050001-EI. 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 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 Capacity Cost Recovery (CCR) revenue and agreed to the filing. Recomputed CCR revenues using approved Florida Public Service Commission (FPSC) rate factors and company provided KWH sales. Reconciled Utility "revenue recap" report to the general ledger on a test basis. Tested customer bills on a spot-check basis to verify that approved rates were in use during 2004.

EXPENSES: Performed analysis of capacity and incremental security costs based on prior years and current year charges. Compiled capacity costs and total security costs. Agreed capacity costs to Progress Energy Florida (PEF) 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. Verified that security costs recovered in the capacity clause are incremental to the security costs included in base rates.

TRUE-UP: Recomputed Capacity Cost Recovery Clause true-up and interest using FPSC approved amounts and interest rates.

OTHER: Analyzed the recoverable portion of the Nuclear Regulatory Commission fee. Performed analytical review.

Disclosure No. 1

Subject: Full and Incremental Security Costs

Statement of Fact: Electric utilities have been instructed to implement additional security measures since the September 11, 2001 attacks by authority of the Maritime Transportation Security Act and Nuclear Regulatory Commission (NRC) Order No. EA-02-026.

PEF has recorded the following amounts in its books and records for security expenses:

<u>Year</u>	<u>Full Amount</u>	<u>Incremental Amount</u>
2002	\$14,118,094	\$4,831,124
2003	\$10,185,626	\$1,497,319
2004	\$19,304,910	\$8,425,115

The previous audit stated that 2002 incremental security expenses of \$4,831,124 were the result of PEF's action to comply with NRC Order No. EA-02-026 and are properly recovered through the Capacity Cost Recovery Clause.

The auditor of the 2003 CCRC clause tested the security expenses and accepted the \$1,497,319 of incremental security costs as being properly recoverable through the CCRC clause.

Audit Opinion: In the 2004 audit, we find that PEF has claimed \$8,425,115 of incremental security costs. Of this total \$6,462,291 was expended for capital projects. Audit staff tested two large projects, the Manned Defensive Fighting Positions for \$1,184,786 and the Perimeter, Lighting, Systems (MTSA) for \$4,096,368.

Audit testing of these transactions has indicated they are properly recoverable for CCRC purposes in 2004.

3RESS ENERGY FLORIDA, INC.
EDULE A12 - CAPACITY COSTS
THE PERIOD JANUARY - DECEMBER 2004
E 1 OF 2

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Base Production Level Capacity Charges:													
Aubumdale Power Partners, L.P. (AUBDOLFC)	445,740	473,960	473,960	473,960	473,960	473,960	473,960	473,960	473,960	458,793	479,174	475,856	5,651,243
Aubumdale Power Partners, L.P. (AUBSET)	2,195,991	2,308,947	2,308,947	2,308,947	2,308,947	2,308,947	2,308,947	2,308,947	2,308,947	2,235,060	2,334,345	2,318,182	27,555,154
Bay County (BAYCOUNT)	219,890	233,640	233,640	233,640	233,640	233,640	233,640	233,640	233,640	233,640	233,640	233,640	2,789,930
Cargill Fertilizer, Inc. (CARGILLF)	454,950	478,200	478,200	478,200	478,200	478,200	478,200	478,200	478,200	478,200	478,200	478,200	5,715,150
Jefferson Power L.C. (JEFFPOWR)	17,000	17,000	16,544	13,819	11,070	0	0	0	0	0	0	0	75,433
Lake County (LAKCOUNT)	417,818	444,337	444,337	444,337	444,337	444,337	444,337	444,337	444,337	444,337	444,337	444,337	5,305,525
Lake Cogen Limited (LAKORDER)	2,305,627	2,411,783	2,411,783	2,411,783	2,411,783	2,411,783	2,411,783	2,411,783	2,411,783	2,411,783	2,411,783	2,411,783	28,835,240
Metro-Dade County (METRDADE)	761,493	779,285	768,810	787,880	744,712	739,096	716,145	699,149	685,124	685,135	676,543	713,361	8,756,733
Orange Cogen (ORANGECO)	1,966,690	2,064,199	2,064,199	2,064,199	2,064,199	2,064,199	2,064,199	2,053,878	2,064,199	2,074,520	2,064,199	2,064,199	24,672,879
Orlando Cogen Limited (ORLACOGL)	1,750,958	1,841,023	1,841,023	1,841,023	1,841,023	1,841,023	1,841,023	0	1,538,940	1,754,297	1,752,755	2,064,199	20,333,374
Orlando Cogen Limited (ORLCOGAS)	0	0	0	0	0	0	0	0	0	218,482	0	0	218,482
Pasco Cogen Limited (PASCCOGL)	2,905,273	3,035,285	3,035,285	3,035,285	3,035,285	3,035,285	3,035,285	3,035,285	3,035,285	3,035,285	3,035,285	3,035,285	36,293,408
Pasco County Resource Recovery (PASCOUNT)	753,710	801,550	801,550	801,550	801,550	801,550	801,550	801,550	801,550	801,550	801,550	801,550	9,570,760
Pinellas County Resource Recovery (PINCOUNT)	1,794,158	1,908,037	1,908,037	1,908,037	1,908,037	1,908,037	1,908,037	1,908,037	1,908,037	1,908,037	1,908,037	1,908,037	22,782,565
Polk Power Partners, L.P. (MULBERRY)	2,425,238	2,524,858	2,524,858	2,524,858	2,524,858	2,520,588	2,233,548	2,256,377	2,293,139	709,934	2,524,858	2,524,858	27,587,972
Polk Power Partners, L.P. (ROYSTER)	910,922	957,360	957,360	957,360	957,360	957,360	922,718	932,149	947,336	37,326	957,360	957,360	10,451,971
JG Telogia, LLC (TIMBER)	128,177	119,801	115,659	110,393	111,141	(26,917)	0	0	0	0	0	0	558,254
J.S. Agri-Chemicals (AGRICHEM)	43,758	46,002	46,002	46,002	46,002	46,002	46,002	46,002	46,002	46,002	45,916	45,152	548,844
Wheelabrator Ridge Energy, Inc. (RIDGEGEN)	663,499	735,378	760,415	771,910	800,946	800,946	800,946	819,284	800,946	779,320	800,946	800,946	9,335,482
IPS Purchase (414 total mw) - Southern	4,281,772	4,750,723	3,894,737	3,841,737	3,993,872	4,099,574	4,121,419	3,581,625	4,052,107	3,983,360	4,016,064	4,150,251	48,767,241
Incremental Security (5060001, 5240001 & 5490001)	0	17,831	7,667	192,984	33,033	140,821	1,058,349	776,425	562,144	2,053,229	1,231,068	2,351,584	8,425,115
Subtotal - Base Level Capacity Charges	24,442,664	25,949,199	25,093,013	25,247,864	25,223,955	25,278,431	25,900,088	23,260,628	25,085,676	24,348,290	26,196,060	28,204,867	304,230,755
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%
Base Level Jurisdictional Capacity Charges	23,454,447	24,900,073	24,078,502	24,227,112	24,204,151	24,256,424	24,852,947	22,320,201	24,071,462	23,363,889	25,136,953	27,064,644	291,930,705
Intermediate Production Level Capacity Charges:													
ECO 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
Schedule H Capacity Sales	(3,593)	(3,381)	(3,593)	(3,477)	(79,195)	(117,060)	(4,195)	(4,195)	(4,060)	(4,195)	(4,060)	(4,195)	(235,179)
Subtotal - Intermediate Level Capacity Charges	561,974	562,206	561,974	562,090	486,372	448,507	561,372	561,372	561,507	561,372	561,507	561,372	6,551,625
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%
Intermediate Level Jurisdictional Capacity Charges	486,523	486,724	486,523	486,624	421,072	388,290	486,002	486,002	486,119	486,002	486,119	486,002	5,672,003
Peaking Production Level Capacity Charges:													
Waltahocchee	4,839	11,541	13,066	12,231	12,366	12,218	12,782	12,500	12,634	13,866	12,634	12,366	143,033
Leedy Creek	100,000	100,000	0	0	0	0	0	0	0	0	0	100,000	300,000
Reliant	0	0	0	0	0	0	0	0	0	0	0	797,900	797,900
allahassee Capacity Sales (Sch B)	0	0	0	(120,000)	(400,000)	0	0	0	0	0	0	0	(520,000)
Subtotal - Peaking Level Capacity Charges	104,839	111,541	13,066	(107,769)	(387,634)	12,218	12,782	12,500	12,634	13,866	12,634	12,366	720,933
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%
Peaking Level Jurisdictional Capacity Charges	78,170	83,167	9,735	(80,355)	(289,028)	9,110	9,531	9,320	9,420	10,339	9,420	678,713	537,542
Other Capacity Charges:													
Mail Wheeling	(353,548)	(232,511)	(146,789)	(126,892)	(81,256)	(4,004)	(365)	(3,199)	(9,253)	(4,125)	(26,581)	(54,422)	(1,044,945)
Other Jurisdictional Capacity Charges	23,665,593	25,237,453	24,427,971	24,504,489	24,254,939	24,649,820	25,348,115	22,812,324	24,557,748	23,856,105	25,608,912	28,174,837	297,095,306
Capacity Cost Recovery Revenues (net of tax)	23,661,189	20,668,671	21,039,724	20,087,370	22,534,692	28,521,089	30,855,867	28,099,607	27,960,716	26,337,506	23,193,536	22,294,572	295,254,538
Current Period True-Up Provision	275,762	275,762	275,762	275,762	275,762	275,762	275,762	275,762	275,762	275,762	275,762	275,762	9,395,829
Current Period Revenues (net of tax) (line 39 + 40)	23,936,951	20,944,433	21,315,486	20,363,132	22,810,454	28,796,851	31,131,629	28,375,369	28,236,478	26,613,268	23,469,298	28,657,019	304,650,367
True-Up Provision													
True-Up Provision - Over/(Under) Recov (line 41-38)	271,358	(4,293,020)	(3,112,485)	(4,141,357)	(1,444,485)	4,147,031	5,783,514	5,563,045	3,678,730	2,757,163	(2,136,614)	482,181	7,555,061
Interest Provision for the Month	8,182	5,977	2,577	(636)	(3,291)	(2,727)	2,261	9,385	16,361	22,702	25,435	20,105	106,330
Current Cycle Balance - Over/(Under) (line 42 + 43)	279,540	(4,007,503)	(7,117,411)	(11,259,405)	(12,707,181)	(8,562,877)	(2,777,102)	2,795,328	6,490,419	9,270,284	7,159,105	7,661,391	7,661,391
Plus Prior Period Balance	9,395,829	9,396,829	9,395,829	9,395,829	9,395,829	9,395,829	9,395,829	9,395,829	9,395,829	9,395,829	9,395,829	9,395,829	9,395,829
Plus Cumulative True up Provision	(275,762)	(551,524)	(827,286)	(1,103,048)	(1,378,810)	(1,654,572)	(1,930,334)	(2,206,096)	(2,481,858)	(2,757,620)	(3,033,382)	(3,395,829)	
True-Up Over/(Under) (lines 44 through 46)	9,399,607	4,836,802	1,451,132	(2,966,624)	(4,690,162)	(821,620)	4,688,393	9,985,061	13,404,390	15,908,493	13,521,552	7,661,391	7,661,391