

ORIGINAL

MEMORANDUM

July 27, 2005

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05 JUL 27 PM 1:47

TO: DIVISION OF THE COMMISSION CLERK AND ADMINISTRATIVE SERVICES

COMMISSION CLERK

FROM: OFFICE OF THE GENERAL COUNSEL (BRUBAKER) JSB

RE: DOCKET NO.050078-EI Petition for rate increase by Progress Energy Florida, Inc.

Please file the attached DIRECT TESTIMONY OF THOMAS E. STAMBAUGH, in the above-referenced docket.

DATE ORDER SENT ELECTRONICALLY TO CCA 7/27/05

JSB/pz  
Attachment  
I:2005/050078.direct-Stambaugh

- CMP \_\_\_\_\_
- COM 5
- CTR org
- ECR \_\_\_\_\_
- GCL 1
- OPC \_\_\_\_\_
- RCA \_\_\_\_\_
- SCR \_\_\_\_\_
- SGA \_\_\_\_\_
- SEC 1
- OTH \_\_\_\_\_

ORIGINAL

*DOCKET NO.* 050078-EI: Petition for rate increase by Progress Energy Florida

*WITNESS:* Direct Testimony Of Thomas E. Stambaugh, Appearing On Behalf Of the Staff of the Florida Public Service Commission

*DATE FILED:* July 27, 2005

DOCUMENT NUMBER-DATE

07183 JUL 27 05

1 DIRECT TESTIMONY OF THOMAS E. STAMBAUGH

2 **Q. Please state your name and business address.**

3 A. My name is Thomas E. Stambaugh and my business address is 4950 West  
4 Kennedy Boulevard, Suite 310, Tampa, Florida, 33609.

5  
6 **Q. By whom are you presently employed and in what capacity?**

7 A. I am employed by the Florida Public Service Commission as a Regulatory Analyst  
8 IV in the Division of Auditing and Safety.

9  
10 **Q. How long have you been employed by the Commission?**

11 A. I have been employed by the Florida Public Service Commission since November  
12 1984.

13  
14 **Q. Please briefly review your educational and professional background.**

15 A. In 1965, I received a degree in Business Administration with a major in Industrial  
16 Management from Southern Methodist University. In 1976, I received a Degree in  
17 Accounting from the University of South Florida. I performed industrial accounting work  
18 until 1981, when I was hired by the Florida Department of Health and Rehabilitative  
19 Services (HRS) as an accountant. After three years with HRS, I began working for the  
20 Florida Public Service Commission (Commission). I attained the Certified Internal  
21 Auditor designation in 1989.

22

23 **Q. Please describe your current responsibilities.**

24 A. Currently, I am a Regulatory Analyst IV with the responsibilities of planning and  
25 directing the more complicated financial, program, special and investigative audits,

1 including audits of affiliate transactions. I also am responsible for creating audit work  
2 programs to meet a specific audit purpose and integrating electronic data processing (EDP)  
3 applications into these programs.

4  
5 **Q. Have you presented testimony before this Commission or any other**  
6 **regulatory agency?**

7 A. Yes. I testified in the Jasmine Lakes Utilities rate case, Docket No. 920148-S, and  
8 the Aloha Utilities, Inc. rate case, Docket No. 991643-SU.

9  
10 **Q. What is the purpose of your testimony today?**

11 A. The purpose of my testimony is to sponsor the staff audit report of Progress Energy  
12 Florida (PEF or utility), Docket No. 050078-EI. The audit report is filed with my  
13 testimony and is identified as TES-1.

14  
15 **Q. Was this audit report prepared by you?**

16 A. Yes, I was the audit manager in charge of this audit.

17  
18 **Q. Please review the work you and the audit staff performed in this audit.**

19 A. For rate base, we compiled plant in service, accumulated depreciation and working  
20 capital accounts for 2004, and reconciled these to the Minimum Filing Requirements  
21 (MFRs). We also verified plant additions and retirements. For net operating income  
22 (NOI), we compiled NOI accounts and reconciled these to the MFRs. We also calculated  
23 the rate of return, and verified the amounts of revenue and expense which were removed  
24 from NOI for Fuel Adjustment, Capacity Cost Recovery, Energy Conservation Cost  
25 Recovery, and Environmental Cost Recovery Clauses. We compiled revenue and

1 reconciled it to the MFRs and recomputed revenues using Commission approved rates and  
2 company provided KWH sales. We also reconciled the utility "revenue recap" report to  
3 the general ledger on a test basis and tested customer bills on a spot-check basis. We  
4 analyzed a shared-revenue refund prescribed by Commission Order PSC-02-0655-AS-EI,  
5 and the Allowance for Doubtful Accounts. We compiled Operating And Maintenance  
6 (O&M) Expenses and reconciled them to the MFRs. We also tested O&M expenses by  
7 tracing to vendor invoices. We traced the MFR income tax amounts to the general ledger  
8 and recomputed taxable income and income tax. We verified that sales tax discounts  
9 (collection and remitting expense) were stated "above the line" and reviewed property  
10 taxes and regulatory assessment fees.

11

12 **Q. Please review the audit disclosures in the audit report.**

13 A. Audit Disclosure No. 1 discusses Accretion Expense. In its MFR Schedule C-6,  
14 page 6 of 7, PEF states 2004 actual Accretion Expense to be \$17,369,000. Accretion  
15 Expense is designed to be offset by the amounts in general ledger accounts 4031001,  
16 Nuclear Decommissioning Expense, and 4073002, Nuclear Decommissioning Regulatory  
17 Liability Amortization. At the end of 2004, the three accounts carried a balance of  
18 \$184,933. Because this balance should be zero, I recommend that O&M expense for 2004  
19 should be reduced by \$184,933. The general ledger account 4110101 should be adjusted  
20 by (\$184,933) to correct the expense amount.

21 Audit Disclosure No. 2 discusses Taxes Other than Income. PEF incurred  
22 \$2,285,510 in Regulatory Assessment Fees (RAFs) during 2004. The general ledger  
23 reflected \$2,278,632 for RAFs in general ledger account 408113J, for a difference of  
24 \$6,878. For the Historical Base Year 2004, the MFRs recorded \$2,279 (rounded in  
25 thousands). In addition, PEF incurred \$77,016,181 for Gross Receipts Tax during 2004.

1 The general ledger reflected \$76,898,361 in general ledger account 408125J, for a  
2 difference of \$117,820. For the Historical Base Year 2004, the MFRs recorded \$76,898  
3 (rounded in thousands). I recommend that Taxes Other Than Income are understated by  
4 \$124,698 (\$6,898 + \$117,820) in Historical Base Year 2004.

5

6 **Q. Does this conclude your testimony?**

7 A. Yes.

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*DOCKET NO. 050078-EI: Petition for rate increase by Progress  
Energy Florida*

*WITNESS: Direct Testimony Of Thomas E. Stambaugh, Appearing On  
Behalf Of Staff of the Florida Public Service Commission*

*EXHIBIT TES-1: Audit Report*



**FLORIDA PUBLIC SERVICE COMMISSION**

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

*TAMPA DISTRICT OFFICE*


**PROGRESS ENERGY FLORIDA**

**RATE CASE AUDIT**

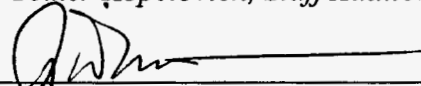
**FOR THE PERIOD ENDED DECEMBER 31 2004**

**DOCKET NO. 050078-EI**

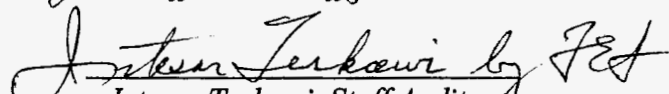
**AUDIT CONTROL NO. 05-125-2-1**


  
Thomas E. Stambaugh, Audit Manager

  
Tomer Kopelovich, Staff Auditor

  
Simon Ojada, Staff Auditor

  
Jeff Small, Staff Auditor

  
Intesar Terkawi, Staff Auditor

  
Joseph W. Rohrbacher, Tampa District Supervisor



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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE**

**AUDITOR'S REPORT**

**June 30, 2005**

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

We have applied the procedures described later in this report to audit the accompanying rate case Minimum Filing Requirements (MFRs) for the historical period ended December 31, 2004 for Progress Energy Florida (PEF). These schedules were prepared by the Utility as part of its petition for rate relief in Docket 050078-EI. 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

In 2004, PEF stated Accretion Expense at a net positive expense of \$184,933. Accretion expense is supposed to have a neutral effect, ie, net zero in the income statement. Operations and Maintenance expense for ratemaking purposes and the general ledger for 2004 should be reduced by \$184,933 to properly state the net balance of Accretion Expense.

Further, Taxes Other than Income was understated by \$6,878 for Regulatory Assessment Fees, and by \$117,820 for Gross Receipts Tax for a total of \$124,698.

## 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.

**RATE BASE:** Compiled plant in service, accumulated depreciation and working capital accounts for 2004 and agreed same to the Minimum Filing Requirements. Verified plant additions and retirements.

**NET OPERATING INCOME (NOI):** Compiled NOI accounts and agreed same to the Minimum Filing Requirements (MFR). Calculated the rate of return. Verified the amounts of revenue and expense which were removed from NOI for Fuel Adjustment, Capacity Cost Recovery, Energy Conservation Cost Recovery and Environmental Cost Recovery Clauses.

**REVENUE:** Compiled revenue and agreed it to the MFR. Recomputed revenues using FPSC-approved rates 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. Analyzed a shared-revenue refund prescribed by FPSC Order PSC-02-0655-AS-EI, and the Allowance for Doubtful Accounts.

**OPERATING AND MAINTENANCE (O&M) EXPENSES:** Compiled O&M expense and agreed it to the MFR. Tested O&M expense by tracing to vendor invoices.

**TAXES:** Traced MFR income tax amounts to the general ledger. As of the end of audit field work, the 2004 tax return had not been filed with the Internal Revenue Service. Recomputed taxable income and income tax. Verified that sales tax discounts (collection and remitting expense) were stated "above the line". Reviewed property tax and regulatory assessment fees.

## **SUMMARY OF SIGNIFICANT PROCEDURES (Continued)**

**OTHER:** Performed analytical review. Analyzed accumulated provision accounts 228.1, 228.2 and 228.4. Used the information gleaned from the previous rate case audit (historical year 2000) as a starting point for the present audit field work.

**Disclosure No. 1**

**Subject: Accretion Expense**

**Statement of Fact:** In its MFR C-6, page 6 of 7, PEF states 2004 actual Accretion Expense to be \$17,369,000 (\$17,369, expressed in thousands).

**Audit Opinion:** Accretion Expense is designed to be offset by the amounts in general ledger accounts 4031001, Nuclear Decommissioning Expense, and 4073002, Nuclear Decommissioning Regulatory Liability Amortization. At the end of 2004, the three accounts carried the following balances and had the indicated net effect in the general ledger:

Account 4031001	\$1,494,017
Account 4073002	(\$18,677,749)
Account 4110101	\$17,368,665
Net Total	<u>\$184,933</u>

**Audit Conclusion:** Operations and Maintenance expense for 2004 should be reduced by \$184,933. The general ledger account 4110101 should be adjusted by (\$184,933) to correct the expense amount.

**Disclosure No. 2**

**Subject: Taxes Other than Income**

**Statement of Fact:** PEF incurred \$2,285,510 in Regulatory Assessment Fee (RAF) during 2004. The general ledger reflected \$2,278,632 for RAF in general ledger account 408113J, for a difference of \$6,878. For the Historical Base Year 2004, the MFR recorded \$2,279 (rounded in thousands).

PEF incurred \$77,016,181 for Gross Receipts Tax during 2004. The general ledger reflected \$76,898,361 in general ledger account 408125J, for a difference of \$117,820. For the Historical Base Year 2004, the MFR recorded \$76,898 (rounded in thousands).

**Audit Conclusion:** Taxes Other Than Income are understated by \$124,698 (\$6,898 + \$117,820) in Historical Base Year 2004.

**Disclosure No. 3**

**Subject: Minimum Filing Requirement Error**

**Statement of Fact:** PEF's MFR B-21 presents information about accumulated amortization accounts in the general ledger. Account 2283151, Minimum Pension Liability Adjustment, showed a December 2004 balance of \$6,032,000 (rounded to thousands) in MFR B-21. The general ledger balance at the same time period was \$7,153,634, a difference of \$1,121,634. PEF stated "MFR B-21 inadvertently used the previous estimate of the minimum pension liability the schedule should have shown \$7,153,634."

**Audit Opinion:** In the general ledger, PEF did state the offsetting regulatory asset, account 1823050, Florida Minimum Pension Liability, with a December 2004 balance of \$7,153,634. The MFR is not correct but the general ledger accounts are correct.

FLORIDA PUBLIC SERVICE COMMISSION

Explanation: Provide the Company's 13-month average cost of capital for the test year, the prior year, and historical base year.

Type of data shown:

- Projected Test Year Ended 12/31/2006
- Prior Year Ended 12/31/2005
- Historical Year Ended 12/31/2004
- Witness: *Portuondo*

Company: PROGRESS ENERGY FLORIDA INC.

Docket No. 050078-EI

Description	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
	Co Total Per Books	Specific Adjustments	Pro Rata Adjustments	System Adjusted	Jurisdictional Factor	Jurisdictional Capital Structure	Ratio	Cost Rate	Weighted Cost Rate
Common Equity	\$2,715,814	\$874,683	(8,126)	\$3,582,371	74.93%	\$ 2,684,417	57.83%	12.80%	7.40%
Preferred Stock	33,497	\$0	(100)	33,397	74.99%	25,044	0.54%	4.51%	0.02%
Long Term Debt - Fixed	2,131,302	(\$97,379)	(6,377)	2,027,546	75.00%	1,520,653	32.76%	5.73%	1.88%
Short Term Debt *	72,288	(\$38,652)	(216)	33,420	75.25%	25,148	0.54%	4.04%	0.02%
Customer Deposits									
Active	136,401	\$0	(408)	135,993	74.99%	101,979	2.20%	5.92%	0.13%
Inactive	-	\$0	-	-	-	-	0.00%	-	-
Investment Tax Credit									
Post '70 Total	26,572	\$1,587	(80)	28,079	-	-	-	-	-
Equity **	-	-	-	-	74.98%	13,485	0.29%	12.70%	0.04%
Debt **	-	-	-	-	74.98%	7,568	0.16%	5.38%	0.01%
Deferred Income Taxes	407,236	\$6,596	(1,218)	412,614	74.99%	309,400	6.67%	-	-
FAS 109 DIT - Net	(56,547)	(\$5,098)	169	(61,476)	74.97%	(46,088)	-0.99%	-	-
<b>Total</b>	<b>\$5,466,563</b>	<b>\$741,737</b>	<b>(\$16,356)</b>	<b>\$6,191,944</b>	<b>74.96%</b>	<b>\$ 4,641,606</b>	<b>100.00%</b>	<b>9.50%</b>	

Supporting Schedules:

Recap Schedules:

Docket No. 050078-EI  
 Exhibit TES-1  
 Page 9 of 9



BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Progress  
Energy Florida, Inc.

DOCKET NO. 050078-EI

DATED: JULY 27, 2005

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of DIRECT TESTIMONY OF THOMAS E. STAMBAUGH has been served by U. S. Mail to **Carlton Fields Law Firm**, Gary Sasso, Esq./James Walls, Esq./John Burnett, Esq. at P.O. Box 3239, Tampa, Florida 33601-3239, and that a copy of same was furnished to the following, by U.S. Mail, on this 27th day of July, 2005.

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