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July 27, 2005

Ms. Blanca S. Bayo, Director  
Division of Commission Clerk  
and Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Re: Docket No. 050078-EI  
Rate Case Audit  
Audit Control No. 05-125-2-1

Dear Ms. Bayo:

Enclosed is Progress Energy Florida's response to the recent Staff audit of the Rate Case.

If you have any questions, please feel free to contact me at (727) 820-5835.

Sincerely,

Javier Portuondo  
Director, Regulatory Services - Florida

JJP:dc  
Enclosure

cc: Ms. Denise Vandiver, Division of Auditing and Safety  
Ms. Lisa Harvey, Division of Competitive Markets and Enforcement  
Harold McLean, Esquire, General Counsel

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PROGRESS ENERGY FLORIDA

Response to Rate Case Audit, Docket No. 05-0078-El, Audit Control No. 05-125-2-1

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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 | <u>17,368,665</u> |
| 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.

PEF Response: The amount of accretion expense is also offset by account 4036000, Non-Rad Expense. The inclusion of this account results in a net expense of \$223,585. Of this amount, \$217,140 represents the FERC approved wholesale expense. The remaining \$6,445 difference is due to an error in the September 2004 calculation in account 4073002. Progress Energy Florida will make a journal entry in 2005 to correct this error.

Reconciliation of Decommissioning Expenses to Allowed Cost of Service Expense for the year ending 12/31/04:

|   |                     |
|---|---------------------|
| Account 4036000 Non-Rad Expense-System      | \$ 38.650           |
| Account 4110101 Accretion Expense-System    | 17,368.663          |
| Account 4031001 Nuclear Decomm. Exp.-System | 1,494.017           |
| Account 4073002 Regulatory Liability-Retail | <u>(18,677.748)</u> |
|   | \$ 223.585          |
| Allowed Wholesale Expense                   | <u>217.140</u>      |
| Adjustment - Difference                     | <u>\$ 6.445</u>     |

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.

PEF Response: After the returns were prepared, a prior period adjustment was booked in 2005 for \$6,878 and \$117,830 respectively.

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.

PEF Response: The amount reflected in the detail of the 228 accounts on schedule B-21 is incorrect. The amount should have been \$7,153,634 as shown in the general ledger. The sum of all of the 228 accounts as shown on schedule B-3 is correct and the amount included in rate base as reflected on the December 2004 surveillance is also correct.