



ORIGINAL

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-
COMMISSION CLERK

DATE: January 23, 2006
TO: John Slemkewicz, Public Utilities Supervisor, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: **Docket No:** 041272-EI; **Company Name:** Progress Energy Florida, Inc.
Audit Request: Audit of 2004 Storm Damage Cost Recovery;
Audit Control No: 05-270-2-1

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 Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV:sbj
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of Commission Clerk & 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

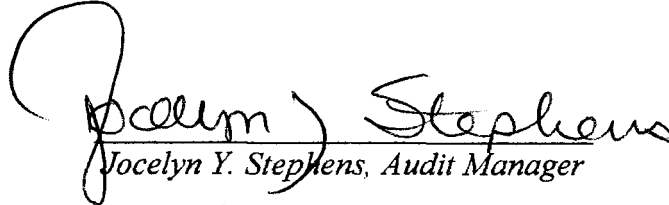
PROGRESS ENERGY FLORIDA , INC.

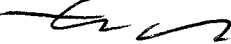
STORM DAMAGE COST RECOVERY AUDIT

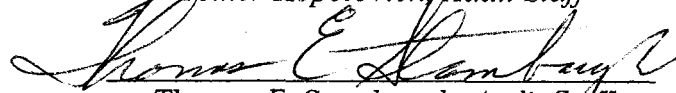
FOR THE PERIOD AUGUST 2004 THRU JUNE 2005

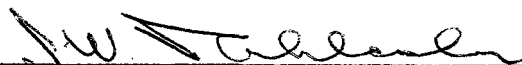
DOCKET NO. 041272-EI

AUDIT CONTROL NO. 05-270-2-1


Jocelyn Y. Stephens, Audit Manager


Tomer Kopelovich, Audit Staff


Thomas E. Stambaugh, Audit Staff


Joseph W. Rohrbacher, Tampa District Supervisor

DOCUMENT NUMBER-DATE

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

January 9, 2006

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying 2004 Storm Damage Expense Report for the historical period August 2004 through June 2005 for Progress Energy Florida, Inc. (PEF). This schedule was prepared by the utility as part of its petition for the recovery of storm damage cost in Docket 041272-EI. There is no confidential information associated with this audit and there are no staff minority opinions.

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.

CAPITAL EXPENDITURES: Analyzed capital charges to Account 1861900 – clearing account for costs incurred during the 2004 hurricane season. Requested summary detail for capital expenditures. Identified transactions of +/- \$10,000 or greater to determine pertinence to storm recovery. Requested documentation of selected plant additions. Reconciled detail of capital expenditures to amount requested by company in its filing (Exhibit No. JP-2). Tested 56% of capital material cost. Determined that all burdens were formula derived based upon capital material costs. Burdens are the dollars used to capture overhead costs associated with the acquisition, application and delivery of material and are classified as Material loading, Minor Material & Labor cost, Engineering & Supervision, Fleet, Travel and Other Miscellaneous expense. Recalculated burdens applied to material and other capital costs to determine accuracy of formulas. Determined that company complied with appropriate capitalization methodology of capital expenditures as approved in Order No. PSC-05-0748-FOF-EI. Summarized capital expenditures, for storm costs, by FERC account number.

EXPENSES: Analyzed storm charges to Account 1861900 - Clearing account for costs incurred during the 2004 hurricane season. Judgementally selected 26% of O&M expenses for further analysis. Traced detail of selected items to supporting documentation. Determined whether charges to storm clearing account were storm related and incurred for damage restoration activities.

OTHER: Requested a reconciliation of costs charged to the storm clearing account (A/C 1861900) by the following categories: capital expenditure (Electric Plant), retail recoverable O&M costs, wholesale recoverable costs, non-recoverable costs and removal costs. Determined that company recorded final adjustments to above classifications as of Year ended December 31, 2005. Reviewed calculation of Total Jurisdictional storm costs, as presented on Exhibit No. JP-1 (p 1 of 10). Performed analytical review.

Disclosure No. 1

Subject: Recalculation of Burdening Cost

Statement of Fact: PEF calculated formula-driven amounts for Minor Materials, Labor on minor Materials, Engineering and Supervision Loading, Travel expenses, Fleet expenses and Other Miscellaneous expenses as components of its plant property recoverable through the storm audit.

Audit staff obtained applicable rates from PEF and recalculated the above indicated amounts.

Audit Opinion: Staff determined that all burden amounts stated for the specific hurricanes (Charley, Frances, Ivan and Jeanne) were calculated according to the applicable burdening rates. Staff determined that differences existed when recalculating burden amounts related to Sweeps. Sweeps are those charges that overlap storms and are not identifiable with any one storm.

The Company's explanation is that the calculation of burdens applicable to sweeps has errors in the formula used to calculate the same. The formula omitted rows 2-178.

Staff recalculation using the correct formula provides the following differences:

| | <u>Staff</u> | <u>PEF</u> | <u>Difference</u> |
|---------------------|------------------|-----------------|-------------------|
| Minor Material Cost | (\$5,678) | (\$18,778) | \$13,100 |
| Minor Labor Cost | (\$29,496) | (\$1,404) | (\$28,092) |
| Engr/Supv Loading | (\$1,465) | \$7,971 | (\$9,436) |
| Travel Time | \$21,233 | \$25,029 | (\$3,796) |
| Fleet Cost | \$6,547 | \$12,856 | (\$6,308) |
| Other Miscellaneous | \$3,928 | \$7,713 | (\$3,785) |
| Total | <u>(\$4,931)</u> | <u>\$33,385</u> | <u>(\$38,316)</u> |

PEF's calculation for burdens, applicable to sweeps capital costs, was overstated by \$38,316.

Recommendation: Since the \$38,316 are capital costs and were included in base rates set after the most recent rate case, these dollars should be removed from recoverable O&M expenses for the storm recovery proceeding.

Disclosure No. 2

Subject: Test of plant additions

Statement of Fact: In its storm costs filing, PEF included an amount for plant, of \$53,754,655 to be recovered through base rates. Of this total \$27,931,877 pertained to Charley; \$13,534,770 pertained to Frances; (\$455,617) pertained to Ivan; \$8,548,809 pertained to Jeanne and \$4,179,307 pertained to Sweeps. Sweeps are those charges that overlap storms and are not identifiable with any one storm.

Audit Opinion: During audit test work, PEF did not provide documentation for twenty-four transactions selected for testing. The total of these dollars was \$388,353. The amount which pertained to each storm is as follows:

| | |
|---------|-----------|
| Charley | \$215,689 |
| Frances | 73,509 |
| Jeanne | 110,389 |
| Sweeps | (11,234) |

Since the plant dollars were included in base rates set after the most recent rate case, these undocumented dollars should be removed from recoverable O&M expenses for the storm recovery proceeding. If PEF provides these items to Tallahassee Staff and they are deemed to be sufficient to support the plant additions, then the effects of this disclosure may be set aside.

Audit Conclusion: Total recoverable expenses should be reduced by \$388,353.

Disclosure No. 3

Subject: Compliance with approved methodology

Statement of Fact: PEF stated in the direct testimony of Javier J. Portuondo that it had complied with FPSC Order PSC-05-0748-FOF-EI by booking to plant in service only the normal cost of new plant additions under normal operating conditions, and by booking to the reserve (as extraordinary O&M) only the costs of new plant additions that exceed those normal amounts. For tax purposes, PEF estimated the amount of extraordinary O&M that is being classified as capital to be \$30,098,372.

Audit Opinion: As of the audit due date, the company had not responded to staff request for verification of the methodology and amount(s) used to determine appropriate capitalization of capital expenditures and the booking of “normal” expenses.

Disclosure No. 4

Subject: Hotel Room Attrition Costs

Statement of Fact: PEF housed storm restoration crews at the Gaylord Palms Resort and Convention Center from August 12th through August 21st, 2004. Total cost was \$2,274,806.13. Of this total, Gaylord Palms charged PEF an attrition fee of \$142,932 for hotel rooms not used. This amount is 6.28% of the total.

Audit Opinion: All hotel bills rendered to PEF during the 2004 hurricane season for storm restoration should be audited for attrition costs or any similar term which describes an assessment for unused hotel rooms. These costs should be removed as a storm cost which is recoverable from the ratepayers.

Audit Recommendation: Remove costs of \$142,932 from storm restoration as a result of over-booking at Gaylord Palms Resort. Initiate an investigation into lodging costs charged to storm recovery expenses to determine the prudence, relevance and reasonableness of these dollars.

PROGRESS ENERGY FLORIDA
Storm Cost Recovery Surcharge (SCRS)
Total O&M Storm Costs Incurred and Proposed Recovery

PROGRESS ENERGY FLORIDA
DOCKET NO. 041272
EXHIBIT NO. ____ (JP-1)
PAGE 1 OF 10

| Line | Total Storm Costs 2004 & 2005 | Percent of Total | | |
|--|-------------------------------------|---------------------------------|-----------------------|-----------------------|
| 1 Total O&M Storm Costs Incurred by Function | | | | |
| a Transmission Costs | 67,225,009 | 20.34% | | |
| b Distribution Costs | 256,962,048 | 77.76% | | |
| c Production Demand Related - Base | 607,806 | 0.18% | | |
| d Production Demand Related - Intermediate | - | 0.00% | | |
| e Production Demand Related - Peaking | 475,719 | 0.14% | | |
| f Production Energy Related | 5,198,999 | 1.57% | | |
| 2 Total Costs Incurred | <u>\$ 330,469,581</u> | <u>100.00%</u> | | |
| 3 Insurance Proceeds | | | | |
| a Amount Claimed | 0 | 0 | | |
| b Less Deductible | 0 | 0 | | |
| c Net Proceeds | <u>0</u> | <u>0</u> | | |
| 4 Storm Damage Reserve Funds (balance @ 12/31/04) | 46,915,219 | | | |
| 5 FPSC Adjustments to Incurred Costs | (27,316,897) | | | |
| 6 Total Recoverable Storm Costs (A) | | | | |
| | Total Costs Incurred | Application of Storm Reserve | FPSC Adjusts | Total Recoverable |
| a Transmission Costs | 67,225,009 | (9,643,620) | (5,556,876) | \$ 52,124,513 |
| b Distribution Costs | 256,962,048 | (36,479,699) | (21,240,702) | 199,241,648 |
| c Production Demand Related - Base | 607,806 | (86,287) | (50,242) | 471,277 |
| d Production Demand Related - Intermediate | 0 | 0 | 0 | - |
| e Production Demand Related - Peaking | 475,719 | (67,536) | (39,323) | 368,860 |
| f Production Energy Related | 5,198,999 | (738,078) | (429,754) | 4,031,168 |
| Total | <u>330,469,581</u> | <u>(46,915,219)</u> | <u>(27,316,897)</u> | <u>\$ 256,237,465</u> |
| 7 Jurisdictional Storm Costs | | | | % of Total |
| a Transmission Costs | | | \$ 37,589,592 | 15.63% |
| b Distribution Costs | | | 198,303,220 | 82.47% |
| c Production Demand Related - Base | | | 452,223 | 0.19% |
| d Production Demand Related - Intermediate | | | - | 0.00% |
| e Production Demand Related - Peaking | | | 275,030 | 0.11% |
| f Production Energy Related | | | 3,820,552 | 1.59% |
| Total | | | <u>\$ 240,440,617</u> | <u>100.00%</u> |
| 8 Recovery of Costs by Period Based on Sales - MWH | | | MWH | % of Total |
| a Retail Sales Aug 2005-Dec 2005 | | | 17,310,623 | 21.52% |
| b Retail Sales Jan 2006-Dec 2006 | | | 40,148,242 | 49.92% |
| c Retail Sales Jan 2007-Jul 2007 | | | 22,972,687 | 28.56% |
| d Retail Sales Aug 2005-Jul 2007 | | | <u>80,431,552</u> | <u>100.00%</u> |
| 9 2005 Beginning Deferred Cost | | | 240,440,617 | |
| a Less Amount Recovered in 2005 | | | 47,504,617 | |
| b Ending Deferred Costs | | | <u>192,936,000</u> | |
| 10 2006 Beginning Deferred Cost | | | 192,936,000 | |
| a Less Amount Recovered in 2006 | | | 122,723,816 | |
| b Ending Deferred Costs | | | <u>70,212,183</u> | |
| 11 2007 Beginning Deferred Cost | | | 70,212,183 | |
| a Less Amount Recovered in 2007 | | | 70,212,183 | |
| b Ending Deferred Costs | | | <u>0</u> | |
| 12 Amortization for Jan - Dec 2006 | | | | |
| Amortization prior to interest (Line 7 * Line 8a) | | | \$122,723,816 | |
| Interest Provision | | | \$1,900,663 | |
| Total Amortization for 2006 | | | <u>\$124,624,479</u> | |
| 13 Amortization for Jan - Dec 2006 by Function (E) | | | | |
| a Transmission Costs | | | 19,483,328 | |
| b Distribution Costs | | | 102,783,947 | |
| c Production Demand Related - Base | | | 234,395 | |
| d Production Demand Related - Intermediate | | | - | |
| e Production Demand Related - Peaking | | | 142,553 | |
| f Production Energy Related | | | 1,980,258 | |
| | | | <u>\$ 124,624,479</u> | |

Notes: (A) Reserve Funds and FPSC Adjustments allocated to function based on percent of total costs incurred on Line 1
(B) Annual Amortization allocated to function based on percent of jurisdictional costs incurred on Line 7

Revised Exhibit No. JP-2

| | Based on Filing | | | | Based on June YTD 2005 Actuals | | |
|---|---------------------|------------------------|------------------------|-----------------------------|--------------------------------|------------------------|------------------------|
| | Capital | O&M | Total | | Capital | O&M (1) | Total |
| PEF Estimated 2004 Storm Damage Expense | \$ 54,926,450 | \$ 311,411,476 | \$ 366,337,926 | | \$ 53,754,654 | \$ 330,469,582 | \$ 384,224,236 |
| Staff Adjustments | | | | | | | |
| Issue 2. Non-Mgmt Payroll Expense | | (5,140,639) | | | | (6,094,639) | |
| Issue 3. Managerial Payroll Expense | | (6,197,565) | | | | (6,470,611) | |
| Issue 6. Tree Trimming Expense | | (1,400,000) | | | | (1,400,000) | |
| Issue 7. Vehicle Expense | | (3,043,014) | | | | (3,188,352) | |
| Issue 8. Call Center Costs | | (625,852) | | | | (307,225) | |
| Issue 9. Advertising & Public Relations Exp | | (1,496,270) | | | | (1,456,070) | |
| Issue 12. Cost of Removal Transfer | 8,400,000 | (8,400,000) | | | 8,400,000 | (8,400,000) | |
| Total Staff Adjustments | 8,400,000 | (26,303,340) | (17,903,340) | | 8,400,000 | (27,316,898) | (18,916,898) |
| Adjusted Total | 63,326,450 | 285,108,136 | 348,434,586 | | 62,154,654 | 303,152,684 | 365,307,338 |
| Less: Reserve Balance as of 12/31/2004 | | (46,915,219) | (46,915,219) | | | (46,915,219) | (46,915,219) |
| Less: Wholesale Portion of Storm Costs per staff 0.952189225 | | (11,388,188) | (11,388,188) | revised rate 0.938350746 | | (15,796,849) | (15,796,849) |
| Staff Recommended Recovery base on org est. | 63,326,450 | 226,804,729 | 290,131,179 | | 62,154,654 | 240,440,616 | 302,595,270 |
| PEF Request based on original estimate | 54,926,450 | 251,850,486 | 306,776,936 | | 53,754,654 | 266,073,447 | 319,828,101 |
| | \$ 8,400,000 | \$ (25,045,757) | \$ (16,645,757) | | \$ 8,400,000 | \$ (25,632,831) | \$ (17,232,831) |
| Impact to 2005 Net Income | | | \$ (10,224,656) | \$ 256,138 | | | \$ (10,585,267) |
| | | | | 0.061649254 | | | |

| 2004 Storm Costs - Revised True-up | | | |
|---|-------------------|---------------------|---------------------|
| | Capital | O&M (1) | Total |
| Total Storm Costs | \$ 53,754,654 | \$ 330,469,582 | \$ 384,224,236 |
| Less: Reserve Balance as of 12/31/2004 | - | (46,915,219) | (46,915,219) |
| Cost of Removal Adjustment | 8,400,000 | (8,400,000) | - |
| Unrecovered 2004 Storm Costs | 62,154,654 | 275,154,363 | 337,309,017 |
| Wholesale Portion of O&M Costs | | 16,963,061 | 16,963,061 |
| Retail Storm Costs | 62,154,654 | 258,191,302 | 320,345,956 |
| FPSC Adjustments - System | | | |
| Issue 2. Non-Mgmt Payroll Expense | - | (6,094,639) | (6,094,639) |
| Issue 3. Managerial Payroll Expense | - | (6,470,611) | (6,470,611) |
| Issue 6. Tree Trimming Expense | - | (1,400,000) | (1,400,000) |
| Issue 7. Vehicle Expense | - | (3,188,352) | (3,188,352) |
| Issue 8. Call Center Costs | - | (307,225) | (307,225) |
| Issue 9. Advertising & Public Relations Exp | - | (1,456,070) | (1,456,070) |
| Total System | - | (18,916,898) | (18,916,898) |
| Retail | | (17,750,685) | (17,750,685) |
| Adjusted Retail Recovery | 62,154,654 | 240,440,617 | 302,595,271 |
| Wholesale Portion per original true-up | | 15,796,849 | |
| Revised Wholesale Portion | | 16,963,061 | |
| Difference | | 1,166,212 | |

| | | |
|---|---------|-------------|
| Journal entry made December 2005 to transfer wholesale portion of FPSC adjustments left in Retail 182 account | | |
| Dr. Wholesale Recoverable Storm Costs | 1821050 | 1,684,066 |
| Cr. Retail Recoverable Storm Costs | 1821055 | (1,684,066) |

| | |
|--|------------|
| Total Commission Proposed O&M Adjustments | 18,916,898 |
| Separation Factor | 93.8% |
| Retail portion of Commission Adjustments | 17,750,685 |
| Amount to Charge to Account 5930000 | 17,232,831 |
| Adjustment to Account 5930000 | 517,854 |
| Journal entry made December 2005 to transfer wholesale portion of Cost of Removal adjustment | |
| Dr O&M 5930000 | 517,854 |
| Cr. Wholesale Recoverable Storm Costs | (517,854) |

Reconciliation of Capital Costs between Exhibit JP-2 and Company books

| | 1861900 | 2281300 | 1821055 | 1821050 | 5930000 | 1010100 | 1070000 | 1080100 | Total Check |
|--|---------------|------------|-------------|------------|------------|--------------|--------------|-------------|----------------|
| | (312,074,481) | 46,915,219 | 243,993,320 | | 16,645,757 | | | 4,520,185 | - |
| | (32,256,534) | | | | | 32,256,534 | | | - |
| | (2,668,523) | | | | | | | 2,668,523 | - |
| | (13,963,722) | | | 13,963,722 | | | | | - |
| | | | 1,677,450 | | | | | (1,677,450) | - |
| | | | (965,271) | | 965,271 | | | | - |
| | | | (1,832,721) | 1,832,721 | | | | | - |
| | | | 378,197 | | (378,197) | | | | - |
| | | | (1,125,885) | | | 1,125,885 | | | - |
| | (23,260,974) | | | | | 20,372,235 | (20,372,235) | 23,260,974 | - |
| | | | | | | | | | - |
| | (384,224,234) | 46,915,219 | 242,125,090 | 15,796,443 | 17,232,831 | 53,754,654 | 2,888,739 | 5,511,258 | - |
| December 2005 True-up entry | | | (1,684,066) | 1,684,066 | | | | | - |
| December 2005 True-up entry | | | | (517,854) | 517,854 | | | | - |
| Distribution Capital - ADJ True-up Entry | (34,496,761) | | | | | 34,496,761 | | | - |
| Adjust Jeanne number for formula error | 34,042 | | | | | | (34,042) | | - |
| June Entry - Joan Borger | | | | | | | 6,398,085 | (6,398,085) | - |
| Dec - Reverse June Entry | | | | | | | (6,398,085) | 6,398,085 | - |
| November Power Plant | | | | | | 23,260,974 | (23,260,974) | | - |
| Dec Reverse Joan Borger Entry | | | | | | (20,372,235) | 20,372,236 | | - |
| Dec. Entry to Adjust Removal - Transmission | | | | | | (2,952,307) | | 2,952,307 | - |
| ADJ to reverse June ADI for Distribution Capital | 34,925,056 | | | | | (32,256,533) | | (2,668,523) | - |
| | (383,761,897) | 46,915,219 | 240,441,024 | 16,962,655 | 17,750,685 | 55,931,314 | (34,041) | 5,795,042 | - |

-9-