

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 25, 2006
TO: Peter H. Lester, Economic Analyst, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: **Docket No:** 060001-EI **Company Name:** Progress Energy Florida, Inc.
Audit Purpose: Fuel Clause Audit
Audit Control No: 06-046-2-2

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

DNV:bj
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

Mr. Paul Lewis, Jr.
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DOCUMENT NUMBER-DATE

03652 APR 25 08

FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

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

TAMPA DISTRICT OFFICE

PROGRESS ENERGY FLORIDA


FUEL ADJUSTMENT CLAUSE AUDIT

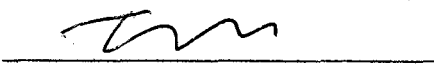
HISTORICAL YEAR ENDED DECEMBER 31, 2005

DOCKET NO. 060001-EI

AUDIT CONTROL NO. 06-046-2-2

Report Issued April 24, 2006


Thomas E. Stambaugh, Audit Manager


Tomer Kopelovich, Staff Auditor

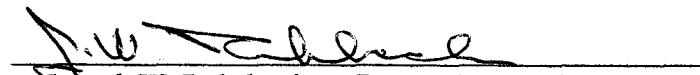

Joseph W. Rohrbacher, Tampa District Supervisor

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DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE

AUDITOR'S REPORT

April 24, 2006

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the attached schedules prepared by Progress Energy Florida in support of its filing for fuel cost recovery, Docket No. 060001-EI.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

OBJECTIVES AND PROCEDURES:

REVENUES

Objective: - To verify that Fuel Adjustment Clause (FAC) revenue and KWH sold as filed were completely and properly recorded on the books of Progress Energy Florida (PEF).

Procedures: - We recalculated revenue dollars by month and rate class, and compared these calculations to FAC revenue amounts to assure that FPSC-approved rates were in use. We investigated variances by month which equaled or exceeded plus or minus \$100,000. We selected a group of customer bills and recalculated each to verify that FPSC-approved recovery rates were in use in the customer billing system.

EXPENSES

Objective: - Reconcile lines 5, 12, 18,26, 28 and 29 of schedule A1, page 2 of 2, for December 2005 year to date with the general ledger and source documents.

Procedures: - We tested the indicated lines of the A1 schedule in the fuel expense and true-up work papers and referenced the work papers to the FAC A1. We traced line 5, Total Cost of Generated Power, and line 12, Total Cost of Purchased Power to the general ledger.

Objective:- List those expenses which Progress Energy Florida has recovered through the fuel clause that do not meet the criteria set forth in Order No. 14545, in Docket No. 850001-EI-B, issued July 8, 1985.

Procedures: - We tested recoverable expenses in the various fuel expense work papers. The standards set forth in Order No. 14545 were applied during field work.

Objective: - Verify that Progress Energy Florida has credited vendor rebates and refunds to its recoverable fuel costs.

Procedures: - We scanned invoices used in expense audit test work for discounts offered by the vendor and taken by PEF.

Objective: - Verify that any adjustments to coal inventory due to differences between the "per books" inventory quantities and the semi-annual coal inventory survey quantities have been performed as set forth in Order No. PSC-97-0359-FOF-EI, in Docket No. 970001-EI, issued March 31, 1997.

Procedures: - We tested the coal inventory adjustments to assure they did not exceed plus or minus three percent of the general ledger balance.

OBJECTIVES AND PROCEDURES: (Continued)

EXPENSES (Continued)

Objective: - Reconcile heat rates, service hours, reserve shutdown hours, and unavailable hours for GPIF units as shown on annual GPIF filings with source documents.

Procedures: - These items were compared on the FAC A-4 and the GPIF filings for consistency.

Objective: - Verify that Progress Energy Florida has credited generation-related gains derived from non-separated wholesale energy sales to the fuel clause as set for in Order No. PSC-00-1744-PAA-EI, in Docket No. 991779-EI, issued September 26, 2000.

Procedures: - We recalculated generation related gains on the A-6 schedule from PEF documentation and evaluated compliance with Commission Order No. PSC-00-1744-PAA-EI.

Objective: - Verify that energy payments to qualifying facilities are based on the appropriate standard offer or negotiated contract rate.

Procedures: - We traced amounts on the FAC A-8 schedule to journal entries and to contract payment amounts.

Objective: - Verify that amounts Progress Energy Florida has recovered for services provided by Progress Fuels for waterborne coal transportation are limited to those amounts set forth in Order No. PSC-05-1252-FOF-EI, in Docket No. 050001-EI, issued December 23, 2005.

Procedures: - We tested the amounts paid for waterborne transportation and recovered through the FAC by testing invoices for coal and tracing the transportation amounts to the contracts.

Objective: - Verify that accounting treatment for futures, options and swap contracts between Progress Energy Florida and one or more counterparties are consistent with Order No. PSC-02-1484-FOF-EI, in Docket No. 011605-EI, issued October 30, 2002, and applicable FASB statements. Verify gains (losses) for each financial hedging instrument that Progress Energy Florida implemented consistent with order No. PSC-02-1484-FOF-EI, in Docket No. 011605-EI.

Procedures: - We traced these amounts to the general ledger. Further, we tested the contracts for consistency with FPSC Order PSC-02-1484-FOF-EI.

Objective: - Reconcile FAC schedule A-5 and Form 423 for coal and oil purchases for 2005.

Procedures: - We reconciled oil purchases on the FAC A-5 and Form 423. However, as found in previous audits, coal purchases involve many shipments which PEF owns but which are not actually received until subsequent months. In order to reconcile the numbers on the two forms would require extensive investigation into each shipment, whether the shipment is purchased at the mine or upon delivery, and the status of shipments in transit. These steps were not taken in this audit.

OBJECTIVES AND PROCEDURES (CONTINUED)

ANALYTICAL REVIEW

Objective: - Perform analytical review to identify any matter which might influence the scope or level of risk of the audit.

Procedures: - We performed analytical review of the 2005 FAC filing compared to previous years. The only anomalous item was the purchase of a nuclear fuel batch. This purchase was analyzed in the nuclear expense work papers.

TRUE-UP

Objective: - To verify that the true-up and interest were properly calculated.

Procedures: - We verified that the beginning true-up equaled the end of the previous year. We recalculated the true-up to verify that the correct commercial interest rates were in use and that each monthly true-up was calculated accurately.

PROGRESS ENERGY FLORIDA
FUEL AND PURCHASED POWER
COST RECOVERY CLAUSE CALCULATION
YEAR TO DATE - DECEMBER 2005

	\$				MWH				CENTS/KWH			
	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT	%	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT	%	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT	%
FUEL COST OF SYSTEM NET GENERATION (SCH A3)	1,471,645,332	1,429,852,257	41,793,075	2.9	37,229,462	39,262,465	(2,033,003)	(5.2)	3.9529	3.6418	0.3111	8.5
SPENT NUCLEAR FUEL DISPOSAL COST	5,463,200	5,730,430	(267,230)	(4.7)	5,828,926	6,128,802	(299,876)	(4.9)	0.0937	0.0935	0.0002	0.2
COAL CAR INVESTMENT	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
a NUCLEAR DECOMMISSIONING AND DECONTAMINATION	1,849,912	0	1,849,912	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
ADJUSTMENTS TO FUEL COST - MISCELLANEOUS	36,547,984	39,438,402	(2,890,418)	(7.3)	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
a ADJUSTMENTS TO FUEL COST - DISPOSAL COST REFUND	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
TOTAL COST OF GENERATED POWER	1,515,506,429	1,475,021,089	40,485,340	2.7	37,229,462	39,262,465	(2,033,003)	(5.2)	4.0707	3.7568	0.3139	8.4
ENERGY COST OF PURCHASED POWER - FIRM (SCH A7)	102,873,490	93,895,836	8,977,654	9.6	4,136,756	4,196,258	(59,502)	(1.4)	2.4868	2.2376	0.2492	11.1
ENERGY COST OF SCH C,X ECONOMY PURCH - BROKER (SCH A9)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
ENERGY COST OF ECONOMY PURCH - NON-BROKER (SCH A9)	144,140,481	23,678,334	120,462,147	508.7	1,531,636	471,160	1,060,476	225.1	9.4109	5.0255	4.3854	87.3
ENERGY COST OF SCH E PURCHASES (SCH A9)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
0 CAPACITY COST OF ECONOMY PURCHASES (SCH A9)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
1 PAYMENTS TO QUALIFYING FACILITIES (SCH A8)	134,602,305	120,730,408	13,871,897	11.5	4,211,225	4,728,731	(517,506)	(10.9)	3.1963	2.5531	0.6432	25.2
2 TOTAL COST OF PURCHASED POWER	381,616,275	238,304,578	143,311,697	60.1	9,879,616	9,396,149	483,469	5.2	3.8627	2.5362	1.3265	52.3
3 TOTAL AVAILABLE MWH					47,109,080	48,658,614	(1,549,534)	(3.2)				
4 FUEL COST OF ECONOMY SALES (SCH A6)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
14a GAIN ON ECONOMY SALES - 100% (SCH A6)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
15 FUEL COST OF OTHER POWER SALES (SCH A6)	(15,216,798)	(52,847,025)	37,630,227	(71.2)	(260,848)	(1,157,150)	896,302	(77.5)	5.8336	4.5670	1.2666	27.7
15a GAIN ON OTHER POWER SALES - 100% (SCH A6)	(1,703,378)	(6,891,443)	5,188,065	(75.3)	(260,848)	(1,157,150)	896,302	(77.5)	0.6530	0.5956	0.0574	9.6
15b GAIN ON TOTAL POWER SALES - 20% (SCH A6)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
16 FUEL COST OF SEMINOLE BACK-UP SALES (SCH A6)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
17 FUEL COST OF STRATIFIED SALES	(99,333,366)	(81,110,043)	(18,223,323)	22.5	(2,394,969)	(2,243,088)	(151,881)	6.8	4.1476	3.6160	0.5316	14.7
18 TOTAL FUEL COST AND GAINS ON POWER SALES	(116,253,542)	(140,848,511)	24,594,970	(17.5)	(2,655,817)	(3,400,238)	744,421	(21.9)	4.3773	4.1423	0.2350	5.7
19 NET INADVERTENT AND WHEELED INTERCHANGE					16,969	0	16,969					
20 TOTAL FUEL AND NET POWER TRANSACTIONS	1,780,869,162	1,572,477,156	208,392,007	13.3	44,470,231	45,258,376	(788,145)	(1.7)	4.0046	3.4744	0.5302	15.3
21 NET UNBILLED	(8,714,160)	(978,925)	(7,735,235)	790.2	217,602	34,972	182,630	522.2	(0.0208)	(0.0023)	(0.0185)	804.4
22 COMPANY USE	5,437,213	4,952,409	484,804	9.8	(135,773)	(144,000)	8,227	(5.7)	0.0130	0.0116	0.0014	12.1
23 T & D LOSSES	103,127,566	91,562,538	11,565,028	12.6	(2,575,207)	(2,635,435)	60,228	(2.3)	0.2457	0.2154	0.0303	14.1
24 ADJUSTED SYSTEM KWH SALES (SCH A2 PG 1 OF 2)	1,780,869,162	1,572,477,156	208,392,007	13.3	41,976,853	42,513,913	(537,060)	(1.3)	4.2425	3.6987	0.5438	14.7
25 WHOLESALE KWH SALES (EXCLUDING STRATIFIED SALES)	(118,742,654)	(81,810,023)	(36,932,631)	45.1	(2,800,268)	(2,221,216)	(579,052)	26.1	4.2404	3.6831	0.5573	15.1
26 JURISDICTIONAL KWH SALES	1,662,126,508	1,490,667,133	171,459,375	11.5	39,176,585	40,292,697	(1,116,112)	(2.8)	4.2427	3.6996	0.5431	14.7
27 JURISDICTIONAL KWH SALES ADJUSTED FOR LINE LOSS - 1.00207	1,665,460,687	1,496,331,668	169,129,019	11.3	39,176,585	40,292,697	(1,116,112)	(2.8)	4.2512	3.7137	0.5375	14.5
28 PRIOR PERIOD TRUE-UP	91,248,180	76,802,024	14,446,156	18.8	39,176,585	40,292,697	(1,116,112)	(2.8)	0.2329	0.1906	0.0423	22.2
28a MARKET PRICE TRUE-UP	0	0	0	0.0	39,176,585	40,292,697	(1,116,112)	(2.8)	0.0000	0.0000	0.0000	0.0
28b RECOVERY OF PRIOR PERIOD NUCLEAR REPLACEMENT COST	0	0	0	0.0	39,176,585	40,292,697	(1,116,112)	(2.8)	0.0000	0.0000	0.0000	0.0
29 TOTAL JURISDICTIONAL FUEL COST	1,756,708,867	1,573,133,692	183,575,175	11.7	39,176,585	40,292,697	(1,116,112)	(2.8)	4.4841	3.9043	0.5798	14.9
30 REVENUE TAX FACTOR									1.00072	1.00072	0.0000	0.0
31 FUEL COST ADJUSTED FOR TAXES									4.4873	3.9071	0.5802	14.9
32 GPIF	2,139,695	2,139,695			39,176,585	40,292,697			0.0055	0.0053	0.0002	96.4
33 TOTAL FUEL COST FACTOR ROUNDED TO THE NEAREST .001 CENTS/KWH									4.493	3.912	0.580	14.8