

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: June 9, 2006
TO: Ralph J. Von Fossen, Economic Analyst, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: **Docket No:** 060007-EI **Company Name:** Progress Energy Florida, Inc.
Audit Purpose: Environmental Cost Recovery Clause (ECRC)
Audit Control No: 06-044-2-1

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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DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

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

TAMPA DISTRICT OFFICE

PROGRESS ENERGY FLORIDA

ENVIRONMENTAL COST RECOVERY AUDIT

HISTORICAL YEAR ENDED DECEMBER 31, 2005

**DOCKET NO. 060007-EI
AUDIT CONTROL NO. 06-044-2-1
Report Issued May 22, 2006**

A handwritten signature in black ink, appearing to read "Tomer Kopelovich".

Tomer Kopelovich, Audit Manager

A handwritten signature in black ink, appearing to read "Joseph W. Rohrbacher".

Joseph W. Rohrbacher, Tampa District Supervisor

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

May 22, 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 the Environmental Cost Recovery Clause in Docket No. 060007-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 Environmental Cost Recovery Clause (ECRC) revenue and KWH sold as filed were completely and properly recorded on the books of the company.

Procedures: - We compiled Environmental Cost Recovery revenues and agreed to the filing. We recomputed ECRC revenues using approved FPSC rate factors and company provided KWH sales and verified that the rates used comply with Commission Order. We reconciled the filing to the General Ledger and recalculated the energy charge for customer bills selected from various rate classes and determined that the company used the rates approved by the Commission.

EXPENSES

Objectives: - To verify that the Environmental Costs agree to the general ledger and reconcile to the books and records of the company.

Procedures: We traced Environmental Costs accounts to the general ledger.

Objectives: To verify that all negative depreciation expense is shown on Form 42-8A.

Procedures: We reviewed Form 42-8A, and found the company did not have negative depreciation.

Objectives: To reconcile Plant in Service and depreciation expense for the capital project.

Procedures: We recalculated depreciation expense.

Objectives: To verify that the most recent Commission approved depreciation rates are used.

Procedures: We compared the rates approved in Commission Order No. PSC-99-2513-FOF to the rates used in the filing and verified that the most recent Commission rates were used.

Objectives: To verify that dismantlement expense is not included in depreciation expense.

Procedures: We verified that dismantlement expense is not included in depreciation expense.

Objectives: To verify that where an ECRC project involves the replacement of existing plant assets, the company is retiring the installed costs of replaced units of property according to Rule 25-6.0142(4)(b).

Procedures: We reviewed the ECRC filing and did not find any replacement of existing plant assets.

Objectives: To verify calculation of monthly depreciation expense offsets required by Order No. PSC-99-2513-FOF-EI to adjust ECRC costs for retirements and replacements recovered through base rates.

Procedures: We recalculated the monthly depreciation amounts in the 2005 ECRC filing.

Objectives: To reconcile actual O&M projects costs for a statistical sample or a judgment sample of the O&M projects listed in Form 42-4A.

Procedures: We selected a sample of invoices and then traced those invoices to the original documents. We examined the invoices to determine that the following properties were correct: amount, account and time period.

Objectives: To report the monthly SO₂ allowance expenses for 2005 including revenues, inventory amounts, expensed amounts, and the amount included in working capital.

Procedures: We reviewed the monthly SO₂ allowance expenses, and traced it to a transactions detail report, invoices and general ledger. We found that the SO₂ is included in working capital account.

Objectives: To verify that PEF complied with the netting requirements for the costs of environmental studies on power plant cooling water intake structures pursuant to Order No. PSC-04-0990-PAA-EI.

Procedures: We verified that PEF did not record cooling water costs in the 2005 ECRC filing.

TRUE-UP

Objectives: - To determine if the True-up Calculation and interest provision as filed was properly calculated using the FPSC approved interest rates.

Procedures: - We recomputed 2005 ECRC true-up and interest using the FPSC approved recoverable true-up amount, interest rates and jurisdictional separation factor.

PROGRESS ENERGY FLORIDA
Environmental Cost Recovery Clause (ECRC)
Calculation of the Final True-up Amount
January 2005 to December 2005

Form 42-2A

End-of-Period True-Up Amount
(In Dollars)

Description	Actual January 05	Actual February 05	Actual March 05	Actual April 05	Actual May 05	Actual June 05	Actual July 05	Actual August 05	Actual September 05	Actual October 05	Actual November 05	Actual December 05	End of Period Total
CRC Revenues (net of Revenue Taxes)	\$3,665,715	\$3,397,380	\$3,274,402	\$3,393,444	\$3,404,541	\$4,062,281	\$4,740,710	\$4,914,625	\$5,020,882	\$4,294,103	\$3,663,803	\$3,308,705	\$47,130,652
True-Up Provision	(\$18,075,829)	(1,506,319)	(1,506,319)	(1,506,319)	(1,506,319)	(1,506,319)	(1,506,319)	(1,506,319)	(1,506,319)	(1,506,319)	(1,506,319)	(1,506,319)	(18,075,830)
CRC Revenues Applicable to Period (Lines 1 + 2)	2,149,395	1,891,061	1,768,083	1,887,125	1,898,222	2,555,962	3,234,391	3,408,306	3,514,563	2,787,784	2,157,484	1,802,386	29,054,822
Jurisdictional ECRC Costs													
- Activities (Form 42-5A, Line 9)	744,678	1,491,612	2,238,587	2,963,092	4,005,052	3,741,815	4,428,671	3,183,939	3,686,697	3,292,824	4,098,221	3,599,409	36,294,595
- Investment Projects (Form 42-7A, Line 9)	108,442	120,812	146,982	280,960	381,135	337,418	298,894	258,646	230,337	234,494	185,220	113,897	2,697,244
- Jurisdictional ECRC Costs	853,118	1,612,424	2,385,569	3,264,058	4,386,187	4,079,233	4,727,566	3,442,585	3,917,034	3,527,318	6,083,441	3,713,306	40,991,838
var/(Under) Recovery (Line 3 - Line 4c)	1,296,277	278,637	(617,486)	(1,376,933)	(2,487,965)	(1,523,271)	(1,493,174)	(34,279)	(402,472)	(739,534)	(2,925,897)	(1,910,920)	(11,937,016)
Interest Provision (Form 42-3A, Line 10)	(21,640)	(18,147)	(18,095)	(15,909)	(17,818)	(20,032)	(21,231)	(20,321)	(17,425)	(15,332)	(17,303)	(21,208)	(222,461)
Beginning Balance True-Up & Interest Provision	(18,075,829)	(15,294,872)	(13,528,083)	(12,655,325)	(12,541,847)	(13,541,312)	(13,578,295)	(13,500,361)	(12,134,662)	(11,048,239)	(10,290,786)	(11,733,667)	(18,075,829)
Deferred True-Up from January 2004 to December 2004 (Order No. PSC-04-1187-FOF-EI)	6,961,886	5,961,886	5,961,886	5,961,886	5,961,886	5,961,886	5,961,886	5,961,886	5,961,886	5,961,886	5,961,886	5,961,886	5,961,886
True-Up Collected/(Refunded) (see Line 2)	1,506,320	1,506,319	1,506,319	1,506,319	1,506,319	1,506,319	1,506,319	1,506,319	1,506,319	1,506,319	1,506,319	1,506,319	18,075,830
End of Period Total True-Up (Lines 5+6+7+7a+8)	(9,332,966)	(7,566,178)	(6,693,439)	(6,579,962)	(7,579,426)	(7,616,410)	(7,624,495)	(8,172,776)	(5,086,354)	(4,334,900)	(5,771,782)	(6,197,591)	(6,197,591)
Adjustments to Period Total True-Up Including Interest	0	0	0	0	0	0	0	0	0	0	0	0	0
End of Period Total True-Up (Lines 9 + 10)	(\$9,332,966)	(\$7,566,178)	(\$6,693,439)	(\$6,579,962)	(\$7,579,426)	(\$7,616,410)	(\$7,624,495)	(\$8,172,776)	(\$5,086,354)	(\$4,334,900)	(\$5,771,782)	(\$6,197,591)	(\$6,197,591)