

State of Florida



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DATE: June 11, 2007
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: 070001-EI; Company Name: Progress Energy Florida;
Audit Purpose: Fuel Adjustment Clause;
Audit Control No: 07-022-2-1;

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. 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.
Progress Energy Florida
106 E. College Ave., Suite 800
Tallahassee, FL 32301

Mr. John T. Burnett
Progress Energy Svs. Company, LLC
P.O. Box 14042
St. Petersburg, FL 33733

DOCUMENT NUMBER-DATE

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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, 2006

DOCKET NO. 070001-EI

AUDIT CONTROL NO. 07-022-2-1

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 8, 2007

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. 070001-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: - 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 by month and rate class, and compared these calculations to FAC revenue amounts in the filing to assure that all FAC revenues were recorded. We tested two months of revenues by type in order to match utility revenues by general ledger account. We selected a group of customer bills for one month and recalculated each to verify that FPSC approved recovery rates were in use in the customer billing system.

EXPENSES

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 recovered amounts for services for waterborne coal transportation that are limited to those amounts set forth in Order No. PSC-04-0713-AS-EI, in Docket No. 031057-EI, issued July 20, 2004.

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 are consistent with Order No. PSC-02-1484-FOF-EI, in Docket No. 011605-EI.

Procedures: - We traced these amounts to the A-5 Schedule, contracts and general ledger. Also, we tested the contracts for consistency with FPSC Order PSC-02-1484-FOF-EI.

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

Procedures: - We reviewed Schedule A-2 for refunds and then we traced these refunds from Fuel Stock Details Report to account 1511000 Oil Receipts and from there to the general ledger.

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 recorded 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.

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 Schedule 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 Schedule A-8 to invoices, cogeneration purchase power report and contracts.

Objective: - Reconcile FAC schedule A-5 and Form 423 for coal and oil purchases for 2006.

Procedures: - We reconciled oil purchases on the FAC Schedule 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 due to time constraints. We will follow up on this later this year.

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 2006 FAC filing compared to previous years. We did not see any need to change the audit scope.

TRUE-UP

Objective: - 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 2006

	\$				MWH				CENTS/KWH			
	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT	%	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT	%	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT	%
1 FUEL COST OF SYSTEM NET GENERATION (SCH A3)	1,430,384,794	1,693,893,744	(263,508,950)	(15.6)	35,918,673	37,240,450	(1,321,777)	(3.6)	3.9823	4.5485	(0.5662)	(12.5)
2 SPENT NUCLEAR FUEL DISPOSAL COST	6,010,389	6,228,904	(218,515)	(3.5)	6,382,175	6,636,378	(254,203)	(3.8)	0.0942	0.0939	0.0003	0.3
3 COAL CAR INVESTMENT	1,057,675	10,413,156	(9,355,481)	(89.8)	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
3a NUCLEAR DECOMMISSIONING AND DECONTAMINATION	2,004,539	0	2,004,539	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
4 ADJUSTMENTS TO FUEL COST - MISCELLANEOUS	36,067,543	38,332,621	(2,265,079)	(5.9)	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
4a 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
5 TOTAL COST OF GENERATED POWER	1,475,524,940	1,748,868,426	(273,343,486)	(15.6)	35,918,673	37,240,450	(1,321,777)	(3.6)	4.1080	4.6962	(0.5882)	(12.5)
6 ENERGY COST OF PURCHASED POWER - FIRM (SCH A7)	141,270,912	114,125,596	27,145,316	23.8	4,913,747	4,915,525	(1,778)	(0.0)	2.8750	2.3217	0.5533	23.8
7 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
8 ENERGY COST OF ECONOMY PURCH - NON-BROKER (SCH A9)	91,935,463	55,641,111	36,294,352	65.2	1,075,355	777,200	298,155	38.4	8.5493	7.1592	1.3901	19.4
9 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
10 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
11 PAYMENTS TO QUALIFYING FACILITIES (SCH A8)	164,780,871	145,301,280	19,479,591	13.4	4,393,925	4,663,000	(269,076)	(5.8)	3.7502	3.1160	0.6342	20.4
12 TOTAL COST OF PURCHASED POWER	397,987,246	315,067,987	82,919,259	26.3	10,383,026	10,355,725	27,301	0.3	3.8331	3.0425	0.7906	26.0
13 TOTAL AVAILABLE MWH					46,301,699	47,596,175	(1,294,476)	(2.7)				
14 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)	(17,107,129)	(45,615,405)	28,508,276	(62.5)	(312,762)	(759,138)	446,375	(58.8)	5.4697	6.0088	(0.5391)	(9.0)
15a GAIN ON OTHER POWER SALES - 100% (SCH A6)	(1,990,442)	(5,856,036)	3,865,594	(66.0)	(312,762)	(759,138)	446,375	(58.8)	0.6364	0.7714	(0.1350)	(17.5)
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	(122,214,946)	(129,373,189)	7,158,243	(5.5)	(2,750,965)	(2,496,445)	(254,520)	10.2	4.4426	5.1823	(0.7397)	(14.3)
18 TOTAL FUEL COST AND GAINS ON POWER SALES	(141,312,517)	(180,844,630)	39,532,113	(21.9)	(3,063,727)	(3,255,583)	191,855	(5.9)	4.6124	5.5549	(0.9425)	(17.0)
19 NET INADVERTENT AND WHEELED INTERCHANGE					29,236	0	29,236					
20 TOTAL FUEL AND NET POWER TRANSACTIONS	1,732,199,669	1,883,091,783	(150,892,114)	(8.0)	43,267,208	44,340,592	(1,073,385)	(2.4)	4.0035	4.2469	(0.2434)	(5.7)
21 NET UNBILLED	(4,555,615)	(8,498)	(4,547,117)	53,508.1	113,791	1,582	112,209	7,091.0	(0.0112)	0.0000	(0.0112)	0.0
22 COMPANY USE	6,596,882	5,072,250	1,524,632	30.1	(164,778)	(120,000)	(44,778)	37.3	0.0162	0.0122	0.0040	32.8
23 T & D LOSSES	98,385,602	109,172,312	(10,786,710)	(9.9)	(2,457,494)	(2,570,699)	113,205	(4.4)	0.2414	0.2621	(0.0207)	(7.9)
24 ADJUSTED SYSTEM KWH SALES (SCH A2 PG 1 OF 2)	1,732,199,669	1,883,091,783	(150,892,114)	(8.0)	40,758,727	41,651,476	(892,749)	(2.1)	4.2499	4.5211	(0.2712)	(6.0)
25 WHOLESALE KWH SALES (EXCLUDING STRATIFIED SALES)	(56,667,920)	(68,127,896)	11,459,976	(16.8)	(1,346,454)	(1,503,234)	156,780	(10.4)	4.2087	4.5321	(0.3234)	(7.1)
26 JURISDICTIONAL KWH SALES	1,675,531,749	1,814,963,887	(139,432,138)	(7.7)	39,412,273	40,148,242	(735,969)	(1.8)	4.2513	4.5207	(0.2694)	(6.0)
27 JURISDICTIONAL KWH SALES ADJUSTED FOR LINE LOSS - 1.00382	1,681,727,515	1,818,720,862	(136,993,347)	(7.5)	39,412,273	40,148,242	(735,969)	(1.8)	4.2670	4.5300	(0.2630)	(5.8)
28 PRIOR PERIOD TRUE-UP	315,692,056	315,692,056	(0)	0.0	39,412,273	40,148,242	(735,969)	(1.8)	0.8010	0.7863	0.0147	1.9
28a MARKET PRICE TRUE-UP	0	0	0	0.0	39,412,273	40,148,242	(735,969)	(1.8)	0.0000	0.0000	0.0000	0.0
28b RECOVERY OF PRIOR PERIOD NUCLEAR REPLACEMENT COST	0	0	0	0.0	39,412,273	40,148,242	(735,969)	(1.8)	0.0000	0.0000	0.0000	0.0
29 TOTAL JURISDICTIONAL FUEL COST	1,997,419,571	2,134,412,918	(136,993,347)	(6.4)	39,412,273	40,148,242	(735,969)	(1.8)	5.0680	5.3163	(0.2483)	(4.7)
30 REVENUE TAX FACTOR									1.00072	1.00072	0.0000	0.0
31 FUEL COST ADJUSTED FOR TAXES									5.0716	5.3201	(0.2485)	(4.7)
32 GPIF	532,353	532,353			39,412,273	40,148,242			0.0014	0.0013	0.0001	92.9
33 TOTAL FUEL COST FACTOR ROUNDED TO THE NEAREST .001 CENTS/KWH									5.073	5.321	(0.248)	(4.7)

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PROGRESS ENERGY FLORIDA
CALCULATION OF TRUE-UP AND INTEREST PROVISION
DECEMBER 2006

	CURRENT MONTH				YEAR TO DATE			
	ACTUAL	ESTIMATED	DIFFERENCE	PERCENT	ACTUAL	ESTIMATED	DIFFERENCE	PERCENT
C. TRUE UP CALCULATION								
1. JURISDICTIONAL FUEL REVENUE	\$151,126,016	\$159,602,522	(\$8,476,506)	(5.3)	\$2,080,551,333	\$2,134,945,272	(\$54,393,939)	(2.6)
2. ADJUSTMENTS: PRIOR PERIOD ADJ	0	0	0	0.0	0	0	0	0.0
2a. TRUE UP PROVISION	(26,307,671)	(26,307,675)	4	0.0	(315,692,056)	(315,692,056)	0	0.0
2b. INCENTIVE PROVISION	(44,363)	(44,360)	(3)	0.0	(532,353)	(532,353)	0	0.0
2c. OTHER: MARKET PRICE TRUE UP	0	0	0	0.0	0	0	0	0.0
3. TOTAL JURISDICTIONAL FUEL REVENUE	124,773,982	133,250,487	(8,476,505)	(6.4)	1,764,326,924	1,818,720,862	(54,393,939)	(3.0)
4. ADJ TOTAL FUEL & NET PWR TRNS (LINE A7)	115,636,906	132,781,604	(17,144,698)	(12.9)	1,732,199,669	1,883,091,783	(150,892,114)	(8.0)
5. JURISDICTIONAL SALES % OF TOT SALES (LINE B4)	96.70	96.57	0.13	0.1	96.70	96.39	0.31	0.3
6. JURISDICTIONAL FUEL & NET POWER TRANSACTIONS (LINE C4 * LINE C5 * 1.00382 LOSS MULTIPLIER)	112,248,044	128,492,522	(16,244,478)	(12.6)	1,681,727,515	1,818,720,862	(136,993,347)	(7.5)
7. TRUE UP PROVISION FOR THE MONTH OVER(UUNDER) COLLECTION (LINE C3 - C6)	12,525,938	4,757,965	7,767,973	163.3	82,599,409	0	82,599,409	100.0
8. INTEREST PROVISION FOR THE MONTH (LINE D10)	243,897	(56,153)	300,050	(534.3)	(6,869,481)	(5,793,513)	(1,075,968)	18.6
9. TRUE UP & INT PROVISION BEG OF MONTH/PERIOD	36,267,366	(36,803,000)	73,070,367	(198.5)	(316,077,111)	(315,692,056)	(385,055)	0.1
10. TRUE UP COLLECTED (REFUNDED)	26,307,671	26,307,675	(4)	0.0	315,692,056	315,692,056	(0)	0.0
11. END OF PERIOD TOTAL NET TRUE UP (LINES C7 + C8 + C9 + C10)	75,344,873	(5,793,513)	81,138,385	(1,400.5)	75,344,873	(5,793,513)	81,138,385	(1,400.5)
12. OTHER:								
13. END OF PERIOD TOTAL NET TRUE UP (LINES C11 + C12)	\$75,344,873	(5,793,513)	81,138,385	(1,400.5)	\$75,344,873	(5,793,513)	81,138,385	(1,400.5)
D. INTEREST PROVISION								
1. BEGINNING TRUE UP (LINE C9)	\$36,267,366	N/A	--	--				
2. ENDING TRUE UP (LINES C7 + C8 + C10 + C12)	75,100,976	N/A	--	--				
3. TOTAL OF BEGINNING & ENDING TRUE UP	111,368,342	N/A	--	--				
4. AVERAGE TRUE UP (50% OF LINE D3)	55,684,171	N/A	--	--				
5. INTEREST RATE - FIRST DAY OF REPORTING MONTH	5.250	N/A	--	--				
6. INTEREST RATE - FIRST DAY OF SUBSEQUENT MONTH	5.270	N/A	--	--				
7. TOTAL (LINE D5 + LINE D6)	10.520	N/A	--	--				
8. AVERAGE INTEREST RATE (50% OF LINE D7)	5.260	N/A	--	--				
9. MONTHLY AVERAGE INTEREST RATE (LINE D8/12)	0.438	N/A	--	--				
10. INTEREST PROVISION (LINE D4 * LINE D9)	\$243,897	N/A	--	--				

NOT

APPLICABLE