

State of Florida



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-

DATE: July 30, 2007
TO: Daniel Q. Lee, Engineering Specialist IV, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance and Consumer Assistance
RE: Docket No: 070007-EI; Company Name: Progress Energy Florida Inc.
Audit Purpose: Environmental Cost Recovery Clause;
Audit Control No: 07-071-2-2

RECEIVED - FPSC
07 JUL 31 AM 10:57
COMMISSION CLERK

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 (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

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

DOCUMENT NUMBER-DATE

06506 JUL 31 8

FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

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

TAMPA DISTRICT OFFICE

PROGRESS ENERGY FLORIDA, INC.

ENVIRONMENTAL COST RECOVERY CLAUSE AUDIT

HISTORICAL YEAR ENDED DECEMBER 31, 2006

DOCKET NO. 070007-EI

AUDIT CONTROL NO. 07-071-2-2

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

July 13, 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, Inc. (PEF) in support of its filing for Environmental Cost Recovery Clause in Docket No. 070007-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 Clause revenues and agreed to the filing. We computed 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

Objective: - 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.

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

Procedures: - We reviewed the general ledger and verified that there was no negative depreciation to be reported on Form 42-8A.

Objective: - To reconcile Plant in Service and depreciation expense for the capital projects.

Procedures: - We reconciled Plant in Service to last year's filing. We recalculated depreciation expense.

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

Procedures: - We compared the rates approved in Commission Order No. PSC-05-0945-S-EI to the rates used in the filing and verified that the most recent Commission rates were used.

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

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

Objective: - 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), F.AC.

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

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

Objective: - To reconcile actual O&M projects costs for a statistical sample or a judgment sample of the O&M projects listed in Form 42-5A.

Procedures: - We selected a sample of invoices from company report. We examined the invoices to determine that the following properties were correct: amount, account and time period.

Objective: - To report the monthly SO2 allowance expenses for 2006 including revenues, inventory amounts, expensed amounts, and the amount included in working capital.

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

Objective: - 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-EL.

Procedures: - Effective January 1, 2006, PEF no longer removes a portion of its costs for environmental studies to reflect a "netting adjustment" as described in Commission Order No. PSC-04-0990-PAA-EI. The company states that based on Commission Order No. PSC-05-0945-S-EI, the environmental costs are no longer included in base rates, therefore, no netting adjustment is necessary. The company recorded \$14,305 and \$676,418 in 2006 for Phase II Cooling Water Intake 316(b) – base, and Phase II Cooling Water Intake 316(b) – Intrm respectively in O & M expenses (Form 42-5A).

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 an analytical review of the 2006 ECRC filing compared to previous years. We requested further explanation of any cost category which varied from the overall trend. We evaluated these responses as part of determining the scope and level of risk of the audit.

TRUE-UP

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

Procedures: - We recomputed 2006 ECRC true-up and interest using 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 2006 through December 2006

Form 42-2A

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

Line	Description	Actual January 06	Actual February 06	Actual March 06	Actual April 06	Actual May 06	Actual June 06	Actual July 06	Actual August 06	Actual September 06	Actual October 06	Actual November 06	Actual December 06	End of Period Total
1	ECRC Revenues (net of Revenue Taxes)	\$1,767,804	\$1,635,734	\$1,605,790	\$1,623,584	\$1,870,429	\$2,142,142	\$2,158,030	\$2,471,950	\$2,319,709	\$1,969,325	\$1,798,306	\$1,907,464	\$23,270,268
2	True-Up Provision	(496,702)	(496,702)	(496,702)	(496,702)	(496,702)	(496,702)	(496,702)	(496,702)	(496,702)	(496,702)	(496,702)	(496,702)	(5,960,421)
3	ECRC Revenues Applicable to Period (Lines 1 + 2)	1,271,102	1,139,033	1,109,088	1,126,882	1,373,727	1,645,441	1,661,329	1,975,248	1,823,007	1,472,623	1,301,604	1,410,762	17,309,847
4	Jurisdictional ECRC Costs													
a	O & M Activities (Form 42-5A, Line 9)	1,396,747	913,381	1,540,366	2,437,223	2,099,691	3,351,208	2,130,934	2,052,156	1,795,654	2,234,712	7,447,049	3,008,975	30,408,097
b	Capital Investment Projects (Form 42-7A, Line 9)	103,918	97,601	92,694	88,784	73,441	56,795	50,114	42,664	47,422	33,352	32,299	119,077	838,161
c	Total Jurisdictional ECRC Costs	1,500,665	1,010,982	1,633,060	2,526,007	2,173,132	3,408,004	2,181,048	2,094,820	1,843,076	2,268,064	7,479,348	3,128,052	31,246,258
5	Over/(Under) Recovery (Line 3 - Line 4c)	(229,562)	128,050	(523,972)	(1,399,125)	(799,405)	(1,762,563)	(519,719)	(119,572)	(20,069)	(795,441)	(6,177,744)	(1,717,290)	(13,936,411)
6	Interest Provision (Form 42-3A, Line 10)	(22,255)	(21,264)	(20,808)	(23,745)	(26,870)	(31,257)	(35,350)	(34,642)	(32,608)	(32,360)	(45,524)	(60,838)	(387,521)
7	Beginning Balance True-Up & Interest Provision	(5,960,421)	(5,715,537)	(5,112,049)	(5,160,127)	(6,086,295)	(6,415,868)	(7,712,986)	(7,771,354)	(7,428,866)	(6,984,841)	(7,315,940)	(13,042,506)	(5,960,421)
a	Deferred True-Up from January 2005 to December 2005 (Order No. PSC-05-1251-FOF-EI)	(237,170)	(237,170)	(237,170)	(237,170)	(237,170)	(237,170)	(237,170)	(237,170)	(237,170)	(237,170)	(237,170)	(237,170)	(237,170)
8	True-Up Collected/(Refunded) (see Line 2)	496,702	496,702	496,702	496,702	496,702	496,702	496,702	496,702	496,702	496,702	496,702	496,702	5,960,421
9	End of Period Total True-Up (Lines 5+6+7a+8)	(5,952,707)	(5,349,219)	(5,397,297)	(6,323,465)	(6,653,038)	(7,950,156)	(8,008,524)	(7,666,036)	(7,222,011)	(7,553,110)	(13,279,676)	(14,561,102)	(14,561,102)
10	Adjustments to Period Total True-Up Including Interest (a)	0	0	0	0	0	0	0	0	0	0	0	0	0
11	End of Period Total True-Up (Lines 9 + 10)	(\$5,952,707)	(\$5,349,219)	(\$5,397,297)	(\$6,323,465)	(\$6,653,038)	(\$7,950,156)	(\$8,008,524)	(\$7,666,036)	(\$7,222,011)	(\$7,553,110)	(\$13,279,676)	(\$14,561,102)	(\$14,561,102)