

State of Florida



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DATE: April 16, 2008

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: 080001-EI; Company Name: Progress Energy Florida, Inc.;
Audit Purpose: 2007 Hedging Activities; Company Code: EI801;
Audit Control No: 07-353-2-1;

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 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

- CMP _____ Mr. Paul Lewis, Jr.
- COM _____ Progress Energy Florida
- CTR _____ 106 E. College Ave., Suite 800
- ECR _____ Tallahassee, FL 32301-7740
- GCL _____ Mr. John T. Burnett
- OPC _____ Progress Energy Svs Co., LLC
- RCA _____ P.O. Box 14042
- SCR _____ St. Petersburg, FL 33733-4042
- SGA _____
- SEC _____
- OTH Margenle -

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FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING
Tampa District Office

PROGRESS ENERGY FLORIDA, INC.
2007 HEDGING ACTIVITIES
HISTORICAL YEAR ENDED DECEMBER 31, 2007

DOCKET NO. 080001-EI
AUDIT CONTROL NO. 07-353-2-1

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, District Audit Supervisor

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

APRIL 4, 2008

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated December 19, 2007. We have applied these procedures to the Hedging Activities in 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

Objectives: To verify that accounting treatment for futures, options, and swap contract between Progress Energy Florida and counterparties are consistent with Order No PSC-02-1484-FOF-EI in Docket No. 011605-EI, issued October 30, 2002, and applicable FASB statements. Also, verify the level of losses/gains associated with each financial hedging instrument that PEF implemented consistent with Order No. PSC-02-1484-FOF-EI in Docket No. 011605-EI, issued October 30, 2002, and applicable FASB statements.

Procedures: We requested a listing of each futures, options, and swap contract executed by PEF in 2007, by month. We requested the volumes of each fuel the utility actually hedged using fixed price contract or instrument. In addition, we requested the types of hedging instrument the utility used and the average period of each hedge, options premiums, futures gains and losses and swap settlements. We reviewed the listing and seventeen contracts. Finally we recalculated the gains/losses by multiplying volume by the difference between fixed price and settlement price.

Objectives: To verify that the transactions costs associated with each financial hedging instrument, to the extent that such costs can reasonably be identified, are properly accounted for in the books and records of the Company.

Procedures: We requested the utility provide us with the total cost (including fees, and commissions) associated with each type of hedging instrument, and where there was no stated cost, we requested the implied cost collected by the financial provider. A utility representative responded in writing that the utility did not have transactions costs (fees, commissions, premiums) for hedges executed in 2007, and that PEF is not privileged to the financial provider profit strategy.

Objectives: To reconcile the monthly hedging costs/credits to the 2007 hedging results reported in the utility's Final True-up Testimony filed in 2008 for any two months of the 2007 year.

Procedures: We reviewed the transaction details for April and June that show the flow of hedging gains/losses to the natural gas expense work sheet and we traced the natural gas expense to the filing.

Objectives: To ensure that any allocation of hedging expenses/costs/credits between PEF and any PEF affiliates are properly executed.

Procedures: According to the utility PEF did not execute any hedging transactions with its affiliates, only third-parties were involved. We reviewed a document that shows the PEF corporate legal entity structure and we compared the entities listed to the list of parties that executed hedging transactions with PEF.