

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-**

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**DATE:** May 13, 2008  
**TO:** Jenny X. Wu, Economic Analyst, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance  
**RE:** Docket No: 080007-EI; Company Name: Progress Energy Florida, Inc.;  
Audit Purpose: ECRC 2007; Company Code; EI801:  
Audit Control No: 08-029-2-1;

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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:sbj  
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

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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, INC.**

**ENVIRONMENTAL COST RECOVERY CLAUSE AUDIT**

**HISTORICAL YEAR ENDED DECEMBER 31, 2007**

**DOCKET NO. 080007-EI**

**AUDIT CONTROL NO. 08-029-2-1**

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

*Tomer Kopelovich, Audit Manager*

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

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*Joseph W. Rohrbacher, Tampa District Supervisor*

**TABLE OF CONTENTS**

<b>AUDITOR'S REPORT</b>	<b>PAGE</b>
<b>I. PURPOSE .....</b>	<b>1</b>
<b>II. OBJECTIVES AND PROCEDURES.....</b>	<b>2</b>
<b>III. EXHIBITS</b>	
<b>    CALCULATION OF FINAL TRUE-UP &amp; INTEREST FOR 2007.....</b>	<b>5</b>

**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE**

**AUDITOR'S REPORT**

**May 5, 2008**

**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 in Docket No. 080007-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 same 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. We 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 Cost 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.A.C.

**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 project costs for judgment sample of the O&M projects listed in Form 42-5A.

**Procedures:** - We selected a sample of invoices from company Business Object 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 2007 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.

## **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 2007 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 2007 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 2007 through December 2007**

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

Line	Description	Actual January 07	Actual February 07	Actual March 07	Actual April 07	Actual May 07	Actual June 07	Actual July 07	Actual August 07	Actual September 07	Actual October 07	Actual November 07	Actual December 07	End of Period Total
1	ECRC Revenues (net of Revenue Taxes)	\$3,589,145	\$3,791,302	\$3,828,304	\$3,682,405	\$3,938,399	\$4,420,870	\$4,988,287	\$5,739,189	\$5,247,851	\$4,811,852	\$4,168,469	\$3,831,366	\$51,595,321
2	True-Up Provision	(1,417,318)	(1,417,318)	(1,417,318)	(1,417,318)	(1,417,318)	(1,417,318)	(1,417,318)	(1,417,318)	(1,417,318)	(1,417,318)	(1,417,318)	(1,417,318)	(17,007,816)
3	ECRC Revenues Applicable to Period (Lines 1 + 2)	\$2,171,827	\$2,373,984	\$2,410,986	\$2,265,087	\$2,521,081	\$3,003,552	\$3,570,969	\$4,321,871	\$3,830,533	\$3,394,534	\$2,751,151	\$2,414,048	\$34,587,505
4	Jurisdictional ECRC Costs													
a.	O & M Activities (Form 42-6A, Line 9)	1,291,085	1,157,215	2,405,128	2,509,070	3,324,031	3,548,188	2,832,878	3,241,242	2,707,579	3,588,078	2,965,741	(1,838,540)	29,731,475
b.	Capital Investment Projects (Form 42-7A, Line 9)	78,435	145,258	157,483	177,326	184,044	189,455	182,548	174,483	181,519	171,156	264,029	401,265	2,264,879
c.	Total Jurisdictional ECRC Costs	1,369,520	1,302,473	2,562,611	2,686,396	3,488,075	3,717,623	3,015,224	3,415,705	2,889,098	3,759,234	3,229,770	(1,437,275)	31,996,454
5	Over/(Under) Recovery (Line 3 - Line 4c)	804,307	(928,489)	(351,625)	(441,308)	(966,994)	(714,271)	533,746	906,166	241,533	(384,700)	(478,620)	3,651,324	2,591,051
6	Interest Provision (Form 42-3A, Line 10)	(59,047)	(53,235)	(50,064)	(45,812)	(42,889)	(40,643)	(34,916)	(28,568)	(15,819)	(7,590)	(3,463)	6,600	(371,466)
7	Beginning Balance True-Up & Interest Provision	(17,007,816)	(14,845,238)	(14,409,644)	(13,394,015)	(12,463,817)	(12,058,383)	(11,393,979)	(9,477,831)	(7,180,954)	(4,837,920)	(3,792,893)	(2,857,857)	(17,007,816)
a.	Deferred True-Up from January 2006 to December 2006 (Order No. PSC-06-0972-FOF-EI)	2,446,714	2,446,714	2,446,714	2,446,714	2,446,714	2,446,714	2,446,714	2,446,714	2,446,714	2,446,714	2,446,714	2,446,714	2,446,714
8	True-Up Collected/(Refunded) (see Line 2)	1,417,318	1,417,318	1,417,318	1,417,318	1,417,318	1,417,318	1,417,318	1,417,318	1,417,318	1,417,318	1,417,318	1,417,318	17,007,816
9	End of Period Total True-Up (Lines 5+6+7a+8)	(12,398,524)	(11,962,930)	(10,947,301)	(10,017,103)	(9,809,869)	(8,947,285)	(7,031,117)	(4,734,240)	(2,391,208)	(1,346,179)	(410,943)	4,875,901	4,875,901
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)	(\$12,398,524)	(\$11,962,930)	(\$10,947,301)	(\$10,017,103)	(\$9,809,869)	(\$8,947,285)	(\$7,031,117)	(\$4,734,240)	(\$2,391,208)	(\$1,346,179)	(\$410,943)	\$4,875,901	\$4,875,901