

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: July 24, 2008
TO: James E. Breman, Senior Analyst - PSC, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance *DN*
RE: Docket No: 080009-EI; Company Name: Progress Energy Florida, Inc.;
 Audit Purpose: Nuclear Cost Recovery Clause for Levy; Company Code: EI801;
 Audit Control No: 08-087-2-1; Record # 5791:

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
 (Salak, District Offices, File Folder-6)
 Division of Commission Clerk -2
 Division of Regulatory Compliance (Harvey)
 General Counsel
 Office of Public Counsel

Mr. Paul Lewis, Jr.
 Progress Energy Florida
 106 E. College Ave., Suite 800
 Tallahassee, FL 32301-7740

Mr. John T. Burnett
 Progress Energy Svs Co., LLC
 P.O. Box 14042
 St. Petersburg, FL 33733-4042

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 P.O. Box 3239
 Tampa, FL 33601-3239

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

Tampa District Office

PROGRESS ENERGY FLORIDA, INC.

NUCLEAR COST RECOVERY CLAUSE

LEVY COUNTY UNITS 1 & 2
PRE-CONSTRUCTION COST

AS OF DECEMBER 31, 2007

DOCKET NO. 080009-EI
AUDIT CONTROL NO. 08-087-2-1

A handwritten signature in black ink, appearing to read "J. A. Small", written over a horizontal line.

Jeffery A. Small, Audit Manager

A handwritten signature in black ink, appearing to read "J. W. Rohrbacher", written over a horizontal line.

*Joseph W. Rohrbacher, District
Supervisor*

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¹ Schedules included in the company's filing that did not contain information reviewed by the audit staff is not incorporated in this report.

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

JULY 17, 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 March 27, 2008. We have applied these procedures to the attached schedules prepared by Progress Energy Florida, Inc. in support of its 2007 filings for Nuclear Cost Recovery Clause relief in Docket No. 080009-EI.

This audit was 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

GENERAL

To verify that the company's 2007 Nuclear Cost Recovery Clause (NCRC) filings in Docket No. 080009-EI are consistent and in compliance with Section 366.93, F.S. and Chapter 25-6.0423, F.A.C.

SPECIFIC

- Objective:* Verify that the company's filing is properly recorded on its books and records according to the Code of Federal Regulations (CFR) Uniform System of Accounts. (USoA)
Procedures: We reconciled the company's filing to the general ledger and verified that the costs incurred were posted to the proper USoA account.
- Objective:* Verify that Schedule T-1 is accurately calculated and that it includes the correct balances from the supporting schedules of the company's 2007 NCRC filing.
Procedures: We reconciled and recalculated a sample of the monthly revenue requirement accruals displayed on Schedule T-1 to the supporting schedules in the company's 2007 NCRC filing.
- Objective:* Verify that the carrying cost amounts displayed on Schedule T-3, which rolls forward to Schedule T-1, are accurately calculated and that they include the correct balances from the supporting schedules of the company's 2007 NCRC filing.
Procedures: We reconciled and recalculated a sample of the carrying cost accruals displayed on Schedule T-3 to the supporting schedules in the company's 2007 NCRC filing. We recalculated a sample of the Allowance for Funds Used During Construction (AFUDC) balances displayed as Other Adjustments in the filing and reconciled the rates applied by the company to its approved AFUDC rates in Order No. PSC-05-0945-FOF-EI, issued September 28, 2005.
- Objective:* Verify that the Deferred Tax Return Requirement amount displayed on Schedule T-3A, which rolls forward to Schedule T-1, is accurately calculated and that it includes the correct balances from the supporting schedules of the company's 2007 NCRC filing.
Procedures: We reconciled and recalculated a sample of the monthly deferred tax carrying cost accruals displayed on Schedule T-3A to the supporting schedules in the company's 2007 NCRC filing. We recalculated a sample of the monthly carrying cost balances for deferred tax assets based on the equity and debt components established in Order No. PSC-05-0945-FOF-EI.
- Objective:* Verify that the Construction Period Interest (CPI) amount displayed on Schedule T-3B, which rolls forward to Schedule T-3A, is accurately calculated and that it includes the correct balances from the supporting schedules of the company's 2007 NCRC filing.

Procedures: We reconciled and recalculated a sample of the monthly CPI accruals displayed on Schedule T-3B to the supporting schedules in the company's 2007 NCRC filing. We recalculated the company's CPI rate and reconciled the component balances to the company's general ledger.

6. *Objective:* Verify that the jurisdictional nuclear construction amounts, displayed on Schedule T-6 of the company's 2007 filing, which rolls forward to Schedule T-3, are accurately calculated and are supported by original source documentation.

Procedures: We recalculated a sample of monthly jurisdictional nuclear construction expenditures displayed on Schedule T-6 of the company's 2007 NCRC filing. We sampled and verified the construction and transmission cost expenditures and traced the invoiced amounts to supporting documentation. We reconciled the jurisdictional factors applied by the company to the eligible carrying cost to the factors approved in Order No. PSC-06-0972-FOF-EI, issued November 22, 2006, in Docket No. 060007-EI. Audit Finding No. 1 discusses our analysis and discloses additional information concerning the company's balances for generation, transmission and future use land.

AUDIT FINDING NO. 1

SUBJECT: LAND AND LAND RIGHTS

AUDIT ANALYSIS:

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

EXHIBIT 1

Levy County Nuclear Filing
Pre-Construction Costs and Carrying Costs on Construction Cost Balance
True-up Filing: Retail Revenue Requirements Summary

[Section (5)(c)1.a.]

Schedule T-1

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Provide the calculation of the actual true-up of total retail revenue requirements based on actual expenditures for the current year and the previously filed expenditures for such current year.

For the Year Ended 12/31/2007

COMPANY:

Progress Energy - FL

DOCKET NO.:

080149-EI

Witness:

Line No.		(H)	(I)	(J)	(K)	(L)	(M)	(N)
		Actual July	Actual August	Actual September	Actual October	Actual November	Actual December	12 Month Total
Jurisdictional Dollars								
1.	Preconstruction Revenue Requirements (Schedule T-2, line 7)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2.	Construction Carrying Cost Revenue Requirements (Schedule T-3, line 7)	-	-	224,666	460,558	483,321	544,736	1,713,284
3.	Recoverable O&M Revenue Requirements (Schedule T-4, line 24)	-	-	-	-	-	-	-
4.	Deferred Tax Liability Carrying Cost (Schedule T-3A, line 8)	-	-	(70)	(285)	(581)	(904)	(1,841)
5.	Other Adjustments	-	-	-	-	-	-	-
6.	Total Period Revenue Requirements (Lines 1 through 5)	-	-	224,596	460,273	482,739	543,835	1,711,443
7.	Total Return Requirements from most recent Projections	-	-	-	-	-	-	-
8.	Difference (Line 6 - Line 7)	\$ -	\$ -	\$ 224,596	\$ 460,273	\$ 482,739	\$ 543,835	\$ 1,711,443

EXHIBIT 2

Levy County Nuclear Filing
Pre-Construction Costs and Carrying Costs on Construction Cost Balance
True-up Filing: Construction

[Section (5)(c)1 a.]

Schedule T-3

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION:

Provide the calculation of the final true-up of carrying costs on construction expenditures, based on actual carrying costs on construction expenditures for the prior year and previously filed carrying costs on construction expenditures for such prior year.

For the Year Ended 12/31/2007

COMPANY:

Progress Energy - FL

DOCKET NO.:

080149-EI

Witness:

Line No.	(I) Beginning of Period	(J) Actual July	(K) Actual August	(L) Actual September	(M) Actual October	(N) Actual November	(O) Actual December	(P) 12 Month Total
Jurisdictional Dollars								
1.		\$ -	\$ -	\$ 42,706,524	\$ 1,831,101	\$ 1,875,060	\$ 9,148,386	\$ 56,561,072
2.		-	-	-	-	-	-	-
3.		-	-	-	161,386	310,354	325,893	787,441
4.		-	-	42,706,524	44,689,020	46,874,434	56,348,513	50,348,513
5.		-	-	21,353,262	43,773,469	45,936,904	61,774,320	nia
6.		-	-	-	-	-	-	-
a.		-	-	116,674	239,178	250,999	282,895	889,747
b.		-	-	189,946	389,383	406,627	480,563	1,448,509
c.		-	-	34,720	71,176	74,683	84,185	264,776
7.		-	-	224,666	480,558	483,321	544,738	1,713,284
8.		-	-	-	-	-	-	-
9.		\$ -	\$ -	\$ 224,666	\$ 480,558	\$ 483,321	\$ 544,738	\$ 1,713,284

Notes:

(a) The monthly Equity Component of 5.85% reflects an 11.75% return on equity.

(b) Requirement for the payment of income taxes is calculated using a Federal Income Tax rate of 38.575%.

(c) AFUDC actual monthly rate is calculated using the formula $M = [(1 + A/100)^{1/12} - 1] \times 100$; resulting in a monthly accrual rate of 0.005464 (Equity) and 0.001626 (Debt), which results in the annual rate of 8.648%.

(d) Return on average net Construction Work in Progress (CWIP) additions that is being included in the Levy costs until such time as these costs are recovered under the Capacity Cost Recovery (CCR) rate.

EXHIBIT 3

Schedule T-3A Lavy County Nuclear Filing [Section (5)(c)1.a.]
 Pre-Construction Costs and Carrying Costs on Construction Cost Balance
 True-up Filing: Deferred Tax Carrying Costs

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION:

Provide the calculation of the Actual deferred tax Carrying Costs for the current year.

For the Year Ended 12/31/2007

COMPANY:
 Progress Energy - FL
 DOCKET NO.:
 080149-EI

Witness:

Line No.	(I) Beginning of Period	(J) Actual July	(K) Actual August	(L) Actual September	(M) Actual October	(N) Actual November	(O) Actual December	(P) 12 Month Total
Jurisdictional Dollars								
1.	Construction Period Interest (Schedule T-3B, Line 7)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2.	Recovered Costs Excluding AFUDC (Schedule T-2, Line 1+ Line 3)	-	-	-	-	-	-	-
3.	Other Adjustments (d)	-	-	(34,720)	(71,178)	(74,880)	(84,186)	(264,776)
4.	Tax Basis Less Book Basis (Prior Mo Balance + Line 1 + 2 + 3)	-	-	(34,720)	(105,898)	(189,889)	(264,776)	n/a
5.	Deferred Tax Liability (DTL) on Tax Basis in Excess of Book (Line 4 * Tax Rate)	-	-	(13,393)	(40,849)	(68,862)	(102,137)	n/a
6.	Average Accumulated DTA	-	-	(8,897)	(7,121)	(54,296)	(88,900)	
7.	Carrying Costs on DTA (c)							
a.	Equity Component (a)	-	-	(37)	(148)	(302)	(480)	(966)
b.	Equity Comp. grossed up for taxes (b)	-	-	(80)	(241)	(492)	(704)	(1,516)
c.	Debt Component	-	-	(11)	(44)	(90)	(140)	(285)
8.	Total Return Requirements (Line 7b + 7c)	-	-	(70)	(285)	(581)	(904)	(1,841)
9.	Total Return Requirements from most recent Projections	-	-	-	-	-	-	-
10.	Difference (Line 8 - Line 9)	\$ -	\$ -	\$ (70)	\$ (285)	\$ (581)	\$ (904)	\$ (1,841)

Notes:

- (a) The monthly Equity Component of 8.85% reflects an 11.75% return on equity.
- (b) Requirement for the payment of income taxes is calculated using a Federal Income Tax rate of 38.575%.
- (c) AFUDC actual monthly rate is calculated using the formula $M = [(1 + AFUDC)^{12} - 1] \times 100$; resulting in a monthly accrual rate of 0.005464 (Equity) and 0.001626 (Debt), which results in the annual rate of 6.848%.
- (d) Return on average net Construction Work in Progress (CWIP) additions that is being included in the Levy costs until such time as these costs are recovered under the Capacity Cost Recovery (CCR) rate.

EXHIBIT 4

Levy County Nuclear Filing
Pre-Construction Costs and Carrying Costs on Construction Cost Balance
True-up Filing: Construction Period Interest

Schedule T-3B [Section (5)(c)1.a]

FLORIDA PUBLIC SERVICE COMMISSION

COMPANY: Progress Energy - FL

DOCKET NO.: 080149-E1

EXPLANATION: Provide the calculation of the Actual Construction Period Interest for the current year.

For the Year Ended 12/31/2007

Witness:

Line No.	(I) Beginning of Period	(J) Actual July	(K) Actual August	(L) Actual September	(M) Actual October	(N) Actual November	(O) Actual December	(P) 12 Month Total
Jurisdictional Dollars								
1. Beginning Balance		\$ -	\$ -	\$ 42,483,547	\$ 42,706,524	\$ 44,537,825	\$ 46,412,885	
2. Additions Site Selection & Preconstruction (Schedule T-2, line 1)		-	-	-	-	-	-	
3. Additions Construction (Schedule T-3, line 1)		-	42,483,547	212,977	1,831,901	1,875,000	9,148,388	55,561,072
4. Other Adjustments		-	-	-	-	-	-	
5. Average Balance Eligible for CPI		-	21,248,774	42,800,036	43,822,075	45,475,155	50,986,878	
6. Monthly CPI Rate (a)		-	-	-	-	-	-	
7. Construction Period Interest for Tax (CPI)		-	-	-	-	-	-	
8. Ending Balance Excluding CPI		\$ -	\$ -	\$ 42,483,547	\$ 42,706,524	\$ 44,537,825	\$ 46,412,885	\$ 55,561,072

(a) CPI is not calculated until construction starts for tax purposes.

EXHIBIT 5

Schedule T-4		Levy County Nuclear Filing Pre-Construction Costs and Carrying Costs on Construction Cost Balance Tracking Filing: Monthly Expenditures												[Section (D)(1)(A)] [Section (E)(4)]		
FLORIDA PUBLIC SERVICE COMMISSION		EXPLANATION: Provide the actual monthly expenditures by major tests performed and on Site Solution and Construction categories for the prior year.												For the Year Ended 12/31/2007		
COMPANY: Progress Energy - FL														Witness:		
DOCKET NO. 080148-E1																
Category	(A) Actual January	(B) Actual February	(C) Actual March	(D) Actual April	(E) Actual May	(F) Actual June	(G) Actual July	(H) Actual August	(I) Actual September	(J) Actual October	(K) Actual November	(L) Actual December	(M) 12 Month Total			
Preconstruction:																
Generation:																
1. License Application	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	
2. Engineering & Design																
3. Permitting																
4. Clearing, Grading and Excavation																
5. On-Site Construction Facilities																
6. Total Generation Costs	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	
7. Less Adjustments:																
8. Non-Cash Accruals																
9. Other																
10. Net Generation Costs																
11. Jurisdictional Factor	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	
12. Total Jurisdictional Generation Costs	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	
Transmission:																
13. Line Engineering	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	
14. Substation Engineering																
15. Clearing																
16. Other																
17. Total Transmission Costs	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	
18. Less Adjustments:																
19. Non-Cash Accruals																
20. Other																
21. Net Transmission Costs																
22. Jurisdictional Factor	0.70507	0.70507	0.70507	0.70507	0.70507	0.70507	0.70507	0.70507	0.70507	0.70507	0.70507	0.70507	0.70507	0.70507		
23. Total Jurisdictional Transmission Costs	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	
24. Total Jurisdictional Preconstruction Costs	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	
Construction:																
Generation:																
25. Real Estate Acquisitions	\$	-	\$	-	\$	-	\$	45,325,000	\$	227,968	\$	1,853,112	\$	2,000,000	\$	3,024,979
26. Project Management																
27. Personnel Staff/Travel																
28. Site Preparation																
29. On-Site Construction Facilities																
30. Power Block Engineering, Procurement, etc.																
31. Non-Power Block Engineering, Procurement, etc.																
32. Total Generation Costs	\$	-	\$	-	\$	-	\$	45,325,000	\$	227,968	\$	1,853,112	\$	2,000,000	\$	3,024,979
33. Less Adjustments:																
34. Non-Cash Accruals								48,325,000	(48,325,000)							
35. Other																
36. Net Generation Costs	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
37. Jurisdictional Factor	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	0.83753	
38. Total Jurisdictional Generation Costs	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
Transmission:																
39. Line Engineering	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
40. Substation Engineering																
41. Real Estate Acquisitions																
42. Line Construction																
43. Substation Construction																
44. Other																
45. Total Transmission Costs	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
46. Less Adjustments:																
47. Non-Cash Accruals																
48. Other																
49. Net Transmission Costs	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
50. Jurisdictional Factor	0.70507	0.70507	0.70507	0.70507	0.70507	0.70507	0.70507	0.70507	0.70507	0.70507	0.70507	0.70507	0.70507	0.70507	0.70507	
51. Total Jurisdictional Transmission Costs	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
52. Total Jurisdictional Construction Costs	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-