

State of Florida



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**-M-E-M-O-R-A-N-D-U-M-**

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**DATE:** June 17, 2009  
**TO:** Jenny Wu, Economic Analyst, Division of Economic Regulation  
**FROM:** Dale N. Mailhot, Assistant Director, Division of Regulatory Compliance *DM*  
**RE:** Docket No. 090007-EI - Company Name: Progress Energy Florida, Inc.  
Audit Purpose: Environmental Cost Recovery Clause; Company Code: EI801  
Audit Control No: 09-012-2-1

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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 a response to the Office of the Commission Clerk. There are no confidential work papers associated with this audit.

DNM/sh

Attachment: Audit Report and Audit Work Papers (Analyst Copy)

cc: Division of Regulatory Compliance (Salak, Mailhot, Harvey,  
Miami District Office, Tampa District Office, File Folder)  
Office of Commission Clerk (2)  
Office of the General Counsel

Mr. Paul Lewis, Jr.  
Progress Energy Florida, Inc.  
106 East College Avenue, Suite 800  
Tallahassee, FL 32301-7740

DOCUMENT NUMBER-DATE

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**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF REGULATORY COMPLIANCE  
BUREAU OF AUDITING*

*TAMPA DISTRICT OFFICE*

**PROGRESS ENERGY FLORIDA, INC.**

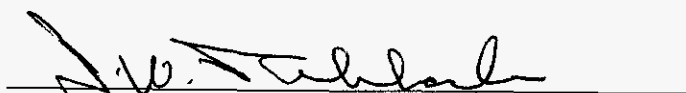
**ENVIRONMENTAL COST RECOVERY CLAUSE AUDIT**

**HISTORICAL YEAR ENDED DECEMBER 31, 2008**

**DOCKET NO. 090007-EI**

**AUDIT CONTROL NO. 09-012-2-1**

  
*Ron Mavrides, Audit Manager*

  
*Joseph W. Rohrbacher, Tampa District Supervisor*

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06068 JUN 18 8

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**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 2008.....</b>	<b>4</b>

DOCUMENT NUMBER-DATE

06068 JUN 18 8

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**DIVISION OF REGULATORY COMPLIANCE  
AUDITOR'S REPORT**

**June 11, 2009**

**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. 090001-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 and the report is 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 it to the filing. We computed ECRC revenues using approved Florida Public Service Commission rate factors and company provided KWH sales and verified that the rates used comply with Commission Order PSC -07-0922-FOF-EI. 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 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 all negative depreciation was reported on Form 42-8A, page 7. In May 2008 the company made an adjustment to the CAIR/CAMR project to reflect the correct depreciation rate for the period Nov. 2007 through April 2008.

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

**Procedures:** - We reconciled Plant in Service to the company'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 approved 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 or retirement of plant assets.

**Objective:** - To verify that the 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 retirements or replacements recovered through base rate.

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

**Procedures:** - We selected a sample of invoices from the company's business activity 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 2008 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.

## **ANALYTICAL REVIEW**

**Objective:** - Perform an 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 2008 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 2008 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 2008 through December 2008

Form 42-2A

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

Line	Description	Actual January 08	Actual February 08	Actual March 08	Actual April 08	Actual May 08	Actual June 08	Actual July 08	Actual August 08	Actual September 08	Actual October 08	Actual November 08	Actual December 08	End of Period Total
1	ECRC Revenues (net of Revenue Taxes)	\$3,064,100	\$2,828,489	\$2,803,681	\$2,981,102	\$3,193,738	\$3,940,477	\$3,744,710	\$4,053,314	\$4,406,756	\$3,468,274	\$3,183,014	\$3,509,067	\$41,176,721
2	True-Up Provision	(886,816)	(73,901)	(73,901)	(73,901)	(73,901)	(73,901)	(73,901)	(73,901)	(73,901)	(73,901)	(73,901)	(73,901)	(886,816)
3	ECRC Revenues Applicable to Period (Lines 1 + 2)	2,990,199	2,754,588	2,729,779	2,907,200	3,119,837	3,866,576	3,670,809	3,979,412	4,332,855	3,394,372	3,109,112	3,435,165	40,289,905
4	Jurisdictional ECRC Costs													
a	O & M Activities (Form 42-5A, Line 9)	2,910,716	2,908,273	3,793,525	3,692,843	3,874,070	4,308,114	4,399,539	4,477,670	3,345,481	2,894,941	2,236,403	3,049,480	41,891,055
b	Capital Investment Projects (Form 42-7A, Line 9)	626,711	854,785	725,996	912,241	1,058,163	1,168,028	1,188,324	1,187,205	1,187,536	1,185,334	1,199,029	1,248,031	12,539,382
c	Total Jurisdictional ECRC Costs	3,537,427	3,763,058	4,519,521	4,605,084	4,932,233	5,476,142	5,587,863	5,664,875	4,533,017	4,080,275	3,435,432	4,295,511	54,430,437
5	Over/(Under) Recovery (Line 3 - Line 4c)	(547,228)	(1,008,470)	(1,789,742)	(1,697,884)	(1,812,396)	(1,609,566)	(1,917,054)	(1,685,463)	(200,162)	(685,903)	(326,319)	(860,346)	(14,140,532)
6	Interest Provision (Form 42-3A, Line 11)	14,916	9,638	5,794	1,757	(2,000)	(5,173)	(8,655)	(12,196)	(21,114)	(23,821)	(14,256)	(6,996)	(62,106)
7	Adjustments to Period Including Interest	0	0	0	0	0	0	0	0	9,603	0	(9,603)	9,603	9,603
8	Beginning Balance True-Up & Interest Provision	(886,816)	(1,345,227)	(2,270,158)	(3,980,204)	(5,602,430)	(7,342,924)	(8,883,761)	(10,735,569)	(12,359,327)	(12,497,099)	(13,132,921)	(13,409,198)	(886,816)
a	Deferred True-Up from January 2007 to December 2007 (Order No. PSC-07-0922-FOF-EI)	5,562,717	5,562,717	5,562,717	5,562,717	5,562,717	5,562,717	5,562,717	5,562,717	5,562,717	5,562,717	5,562,717	5,562,717	5,562,717
9	True-Up Collected/(Refunded) (see Line 2)	73,901	73,901	73,901	73,901	73,901	73,901	73,901	73,901	73,901	73,901	73,901	73,901	886,816
10	End of Period Total True-Up (Lines 5+6+7+8+8a+9)	4,217,490	3,292,560	1,582,512	(39,712)	(1,780,207)	(3,321,045)	(5,172,852)	(6,796,610)	(6,943,985)	(7,570,204)	(7,846,481)	(8,630,318)	(8,630,318)
11	Adjustments to Period Total True-Up Including Interest (a)	0	0	0	0	0	0	0	0	0	0	0	0	0
12	End of Period Total True-Up (Lines 9 + 10)	\$4,217,490	\$3,292,560	\$1,582,512	(\$39,712)	(\$1,780,207)	(\$3,321,045)	(\$5,172,852)	(\$6,796,610)	(\$6,943,985)	(\$7,570,204)	(\$7,846,481)	(\$8,630,318)	(\$8,630,318)
	Change in Deferred Balance	458,411	924,930	1,710,048	1,622,224	1,740,495	1,540,838	1,851,807	1,623,758	147,375	826,219	276,277	783,837	0

Page 4