

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: September 30, 2010
TO: Michael Barrett, Regulatory Analyst IV, Division of Economic Regulation
FROM: Clarence Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 100001-EI
Company Name: Progress Energy Florida, Inc.
Company Code: EI801
Audit Purpose: Hedging Activities – August 2009 – July 2010
Audit Control No: 10-130-2-1

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 a response to the Office of Commission Clerk. There were confidential work papers associated with this audit.

CP/ip

Attachment: Audit Report

cc: (With Attachment)
Office of Auditing and Performance Analysis (Mailhot, Prestwood, File Folder)
Office of Commission Clerk
Office of the General Counsel

(Without Attachment)
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

DOCUMENT NUMBER DATE
08183 SEP 30 2010
FPSC-COMMISSION CLERK

State of Florida



PUBLIC SERVICE COMMISSION

*OFFICE OF AUDITING AND PERFORMANCE ANALYSIS
BUREAU OF AUDITING*

TAMPA DISTRICT OFFICE

AUDITOR'S REPORT

PROGRESS ENERGY FLORIDA, INC.

HEDGING ACTIVITIES

12 Month Period Ended July 31, 2010

DOCKET NO. 100001-EI

AUDIT CONTROL NO. 10-130-2-1


Ron Mavrides
Ron Mavrides, Audit Manager


Linda Hill-Slaughter
Linda Hill-Slaughter, Tampa District Supervisor

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**OFFICE OF AUDITING AND PERFORMANCE ANALYSIS
AUDITOR'S REPORT**

September 13, 2010

TO: FLORIDA PUBLIC SERVICE COMMISSION

Purpose

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 dated May 14, 2010. We have applied these procedures to the hedging activities of Progress Energy Florida, Inc. (PEF) in Docket No. 100001-EI for the 12-month period ended July 31, 2010.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards of Attestation Engagements. This report is based on agreed upon procedures and the report is intended only for internal Commission use.

OBJECTIVES AND PROCEDURES:

ACCOUNTING TREATMENT

Objectives: - To review and verify the information presented in Progress Energy Florida's Hedging Information Report filed on April 16, 2010. To verify that accounting treatment from futures, options, and swap contracts 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 as clarified by Order No. PSC-08-0316-PAA-EI.

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Procedures: - We reviewed PEF's Hedging Information Report as filed on August, 16, 2010. We examined the report for reasonableness and used it as a basis for our sample tests. We requested a listing of each futures, options, and swap contracts executed by PEF for the 12-month period covered by the Hedging Information Report. We requested the volumes of each fuel PEF actually hedged using a fixed price contract or instrument. We tested 35 sample transactions, choosing an array of transaction types throughout the 12-month period for each hedged fuel type. We traced the transactions to the general ledger and trade tickets. No exceptions were noted.

GAINS AND LOSSES

Objective: - Verify that the gains/losses associated with each financial hedging instrument that PEF implemented is consistent with Order No. PSC-02-1484-FOF-EI in Docket No. 011605-EI, issued October 30, 2002.

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Procedures: - Using the trade tickets, we recalculated the gains/losses by multiplying the volume by the difference between the fixed price and the settlement price, and compared them to the recorded gains/ losses per the general ledger. We determined they flowed through the fuel and purchased power cost recovery clause as either a charge or a credit as required in Order No. PSC-02-1484-FOF-EI. When there was existing inventory, the inventory account was adjusted, and when there was no existing inventory, the gains/losses flowed through the fuel expense account.

HEDGED VOLUME AND LIMITS

Objective: - Verify that the quantities of gas, residual oil, and purchased power hedged are within the percentage range, as represented in PEF's Risk Management Plan.

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Procedures: - We obtained and reviewed PEF's Risk Management Plan. We compared the percentage limits of purchased power hedged in the Risk Management Plan with the actual volumes of hedged burns. The actual volumes of hedged burns fall within the percentage limits delineated in the Risk Management Plan.

SEPARATION OF OFFICE

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Objective: - Review the PEF's procedures for separation of duties related to hedging activities: Front Office, Middle Office, and Back Office.

Procedures: - We reviewed PEF's written procedures for separation of duties related to hedging activities. We reviewed the internal and external auditor's workpapers addressing the separation of duties. No exceptions were noted.

DIESEL FUEL AND TRANSPORTATION FUEL SURCHARGES

47-3

Objective: - Review and verify the hedging information for diesel fuel and transportation fuel surcharges that are part of its coal transportation agreements.

Procedures: - We randomly chose four transactions for the diesel fuel used to transport coal. We traced the invoices to the inventory adjustment per the general ledger, and recalculated the gain/loss. There was one error by PEF that was subsequently corrected. See Finding 1.

TOLLING ARRANGEMENTS

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Objective: - To determine if there are any tolling arrangements, and if there are, review them. A tolling arrangement involves providing natural gas to generators under purchased power agreements, and receiving back the generated power for a fee.

Procedures: - We reviewed the existing tolling arrangements and tested all tolling transactions for one vendor for one month by tracing the invoices to the general ledger.

Audit Finding 1

Subject: Diesel Fuel and Transportation Fuel Surcharges

47-3
Audit Analysis: In our analysis of #2 oil used to transport coal, we sampled a fixed swap from April 2010 and independently recalculated a gain that was greater than that recorded on the trade invoice by the amount of \$252. PEF informed us this was an error due to PEF incorrectly using a waterborne settlement price, rather than the correct pipeline settlement price. PEF made and provided a copy of an adjusting journal entry to correct this error.

Effect on the General Ledger: None

Effect on the Filing: None