

State of Florida



# Public Service Commission

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

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**DATE:** June 14, 2011

**TO:** Office of Commission Clerk

**FROM:** Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis *CJP*

**RE:** Docket No.: 110001-EI  
 Company Name: Progress Energy Florida, Inc.  
 Company Code: EI801  
 Audit Purpose: Fuel and Purchased Power Cost Recovery Clause  
 Audit Control No: 11-006-2-3

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 no confidential work papers associated with this audit.

CJP/ir

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

04090 JUN 14 =

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.  
Fuel and Purchased Power Cost Recovery Clause

**12 Month Period Ending December 31, 2010**

Docket No. 110001-EI  
Audit Control No. 11-006-2-3

**May 4, 2011**

A handwritten signature in black ink, appearing to read "Simon O. Ojada", written over a horizontal line.

Simon O. Ojada  
Audit Manager

A handwritten signature in black ink, appearing to read "Linda Hill-Slaughter", written over a horizontal line.

Linda Hill-Slaughter  
Reviewer

DOCUMENT NUMBER-DATE  
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## Purpose

To: Florida Public Service Commission

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 January 6, 2011. We have applied these procedures to the attached summary exhibits prepared by Progress Energy Florida, Inc. (PEF) and to several of its related schedules in support of its filing for Fuel and Purchased Power Cost Recovery Clause in Docket No. 110001-EL.

This audit was performed following general standards and fieldwork standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

## Objectives and Procedures

### **Revenues**

**Objectives:** Our objectives were to verify that Fuel Adjustment Clause (FAC) revenue and KWH sold, as filed, agreed with the amounts that were recorded on the books of the Utility, and that these amounts were completely and properly recorded.

**Procedures:** We compiled FAC revenues and reconciled it to the filing. We computed FAC revenues using approved Florida Public Service Commission (FPSC) rate factors and utility provided KWH sales and verified that the rates used comply with the Commission Order. We tested two months of revenues by type and traced it to the appropriate general ledger account. We selected a group of customer bills for one month and recalculated each to verify that the FPSC approved rates were used in the customer billing system.

### **Expenses**

**Objective:** Our objective was to review expenses which PEF has included in the fuel clause filing to identify those that do not meet the criteria set forth in Order No. 14546, in Docket No. 850001-EI-B, issued July 8, 1985.

**Procedures:** We tested expenses in the fuel expense supporting schedules. We found those expenses examined complied with the standards set forth in Order No. 14546.

**Objectives:** Our objectives were to review and verify amounts under new waterborne coal transportation contracts.

**Procedures:** We reviewed and verified the amounts paid for waterborne coal transportation by comparing actual coal transportation invoices to contract amounts and verified the effective escalated base rate calculation used.

**Objective:** Our objective was to verify that PEF has credited vendor rebates and refunds to its fuel costs.

**Procedures:** We verified that there were no vendor rebates and refunds except for re-bills which are demurrage charges. We traced a sample of the demurrage charges to supporting source documentation.

**Objective:** Our objective was to verify that any adjustments to coal inventory due to differences between the "per books" inventory quantities and the semi-annual coal inventory survey quantities have been recorded as set forth in Order No. PSC-97-0359-FOF-EI, in Docket No. 970001-EI, issued March 31, 1997.

**Procedures:** We reviewed all documentation supporting aerial survey calculations and recorded adjustments to determine compliance with FPSC procedures established in Order No. PSC-97-0359-FOF-EI. We received a company letter which states that inventory procedures have not changed from the prior audit period.

**Objective:** Our objective was to reconcile heat rates as shown on the monthly Schedule A-4 for GPIF units with annual GPIF filings.

**Procedure:** We reconciled the heat rates as shown on the monthly Schedule A-4 for GPIF units with the annual GPIF filings for consistency.

**Objective:** Our objective was to verify that PEF has credited generation-related gains derived from non-separated wholesale energy sales to the fuel clause as set forth in Order No. PSC-00-1744-PAA-EI, in Docket No. 991779-EI, issued September 26, 2000.

**Procedure:** We recalculated generation related gains on the FAC Schedule A-6 from PEF documentation to ensure the Company was in compliance with Commission Order No. PSC-00-1744-PAA-EI.

**Objective:** Our Objective was to verify that energy payments to qualifying facilities are based on the appropriate standard offer or negotiated contract rate.

**Procedures:** We traced amounts on the FAC Schedule A-8 to invoices, cogeneration purchase power reports and contracts.

**Objective:** Our objective was to verify that Firm Transportation Service (FTS) charges for natural gas transportation agree with the appropriate FTS rate schedules from pipeline company tariffs.

**Procedure:** We traced FTS charges for natural gas transportation for April and August 2010 invoices to FTS rate schedules and found that the correct rates were used.

**Objectives:** Our objectives were to verify and state the amount of replacement power costs incurred by PEF due to the outage of Crystal River Nuclear Unit 3.

**Procedures:** We requested and received from PEF the estimated incremental fuel costs. According to PEF, the incremental fuel costs are embedded in the recoverable generation and purchased power expense accounts as they represent a portion of the monthly fuel and capacity costs.

**Objective:** Our objective was to reconcile and verify the amount of payments received by PEF from the Nuclear Electric Insurance Limited (NEIL) for the year 2010.

**Procedures:** We verified that as of December 31, 2010, PEF received \$117 million from NEIL and \$111.9 million of the amount has been allocated to the clauses (\$108.2 Million to fuel and \$3.7 million to capacity). The \$5.1 million unallocated as of December 31, 2010 has been booked as a regulatory liability, and the retail portion is accruing interest at the 30-day dealer commercial paper rate, consistent with Commission policy.

## **True-up**

**Objective:** Our objective was to verify that the true-up and interest were properly calculated.

**Procedures:** We verified that the beginning true-up equaled the end of the previous year. We recalculated the true-up to verify that the correct commercial paper interest rates were used and that each monthly true-up was calculated accurately.

Audit Findings

**None**

# Exhibits

## Exhibit 1: Fuel and Purchased Power Cost Recovery 2010

SCHEDULE A1  
PAGE 7 OF 7

**PROGRESS ENERGY FLORIDA  
FUEL AND PURCHASED POWER  
COST RECOVERY CLAUSE CALCULATION  
YEAR TO DATE - DECEMBER 2010**

	\$				MWH				CENTS/KWH			
	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT	%	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT	%	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT	%
1 FUEL COST OF SYSTEM NET GENERATION (SCH A3)	1,068,481,985	1,741,518,203	227,967,762	13.1	36,870,191	37,678,298	(708,107)	(1.9)	5.3417	4.6346	0.7071	15.3
2 SPENT NUCLEAR FUEL DISPOSAL COST	0	4,369,613	(4,369,613)	(100.0)	0	4,775,184	(5,775,184)	(100.0)	0.0000	0.0940	(0.0940)	(100.0)
3 COAL CAR INVESTMENT	229,816	234,312	(4,494)	(1.9)	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
3a NUCLEAR DECOMMISSIONING AND DECONTAMINATION	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
4 ADJUSTMENTS TO FUEL COST - MISCELLANEOUS	(132,350,636)	(8,488,049)	(123,862,586)	1,457.4	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
4a ADJUSTMENTS TO FUEL COST - DISPOSAL COST REFUND	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
5 TOTAL COST OF GENERATED POWER	1,837,361,165	1,738,624,073	97,737,092	5.6	36,870,191	37,576,298	(706,107)	(1.9)	4.9432	4.9285	0.0147	2.9
6 ENERGY COST OF PURCHASED POWER - FIRM (SCH A7)	229,447,434	188,844,342	34,603,092	18.3	4,293,543	3,230,272	1,063,271	32.9	5.2043	5.8461	(0.6418)	(11.0)
7 ENERGY COST OF SOFT C & X ECONOMY PURCH - BROKER (SCH A3)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
8 ENERGY COST OF ECONOMY PURCH - NON-BROKER (SCH A3)	78,131,287	33,951,525	44,179,762	150.1	1,110,823	533,367	577,456	108.3	7.0336	6.3656	0.6680	10.5
9 ENERGY COST OF SOFT E PURCHASES (SCH A8)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
10 CAPACITY COST OF ECONOMY PURCHASES (SCH A8)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
11 PAYMENTS TO QUALIFYING FACILITIES (SCH A8)	187,767,973	150,885,967	36,871,996	24.4	4,041,188	3,587,460	453,728	13.3	4.6464	4.2236	0.4228	9.9
12 TOTAL COST OF PURCHASED POWER	485,386,694	373,691,834	111,694,860	31.0	9,445,514	7,351,095	2,114,419	28.8	5.1867	5.0974	0.0893	1.8
13 TOTAL AVAILABLE MWH					48,315,706	44,907,393	3,408,312	3.1				
14 FUEL COST OF ECONOMY SALES (SCH A6)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
14a GAIN ON ECONOMY SALES - 100% (SCH A6)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
15 FUEL COST OF OTHER POWER SALES (SCH A8)	(7,236,516)	(25,027,003)	17,790,487	(71.1)	(197,880)	(424,833)	226,953	(53.4)	3.8570	5.8910	(2.0340)	(37.9)
15a GAIN ON OTHER POWER SALES - 100% (SCH A8)	(1,196,387)	(2,935,828)	1,839,441	(82.0)	(197,880)	(424,833)	226,953	(53.4)	0.5642	0.6910	(0.1268)	(18.4)
15b GAIN ON TOTAL POWER SALES - 30% (SCH A8)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
16 FUEL COST OF SCHEDULE BACK UP SALES (SCH A8)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
17 FUEL COST OF STRATIFIED SALES	(90,827,104)	(183,267,321)	92,440,217	(51.0)	11,708,228	(3,837,186)	1,525,057	(12.8)	5.7650	5.0937	0.6713	3.9
18 TOTAL FUEL COST AND GAINS ON POWER SALES	(89,175,008)	(213,230,452)	114,055,444	(53.5)	(1,914,109)	(4,062,019)	2,147,910	(52.9)	5.1832	5.2984	(0.0952)	(1.3)
19 NET ADVERTENT AND WHEELER INTERCHANGE	0	0	0	0.0	42,112	0	42,112					
20 TOTAL FUEL AND NET POWER TRANSACTIONS	2,227,532,831	1,900,085,481	327,447,350	17.2	44,443,797	40,845,374	3,598,423	8.8	5.0120	4.8519	0.1601	7.7
21 NET UNBILLED	31,292,822	(18,738,908)	50,031,730	(267.0)	(824,354)	40,287	(864,641)	(1.645.9)	0.0789	(0.0488)	0.1257	(257.6)
22 COMPANY USE	8,576,962	7,149,559	1,427,403	20.0	137,110	(144,000)	(27,110)	(6.6)	0.0211	0.0188	0.0023	13.4
23 T & LOSSES	147,073,107	109,785,949	37,287,158	34.5	(2,948,372)	(2,303,050)	(645,322)	(27.9)	0.3628	0.2858	0.0770	27.0
24 ADJUSTED SYSTEM KWH SALES (SCH A2 PG 1 OF 2)	2,227,532,831	1,900,085,481	327,447,350	17.2	40,701,670	38,438,701	2,262,969	5.9	5.4728	4.9432	0.5296	10.7
25 WHOLESALE KWH SALES (EXCLUDING STRATIFIED SALES)	(84,788,497)	(162,285,851)	77,497,354	(7.4)	(1,776,804)	(2,078,731)	301,927	(14.5)	5.3348	4.9245	0.4103	8.3
26 JURISDICTIONAL KWH SALES	2,142,744,334	1,737,799,630	404,944,704	18.6	38,925,066	36,359,970	2,565,096	7.1	5.4781	4.9442	0.5339	10.8
27 JURISDICTIONAL KWH SALES ADJUSTED FOR LINE LOSS - 1.0017%	2,126,596,741	1,801,170,246	325,426,495	18.6	38,925,066	36,359,970	2,565,096	7.1	5.4880	4.9531	0.5349	10.9
28 PRIOR PERIOD TRUE-UP	(14,256,732)	(14,256,732)	0	0.0	38,925,066	36,359,970	2,565,096	7.1	(0.0366)	(0.0392)	0.0026	(6.6)
28a MARKET PRICE TRUE-UP	0	0	0	0.0	38,925,066	36,359,970	2,565,096	7.1	0.0000	0.0000	0.0000	0.0
28b RECOVERY OF PRIOR PERIOD NUCLEAR REPLACEMENT COST	0	0	0	0.0	38,925,066	36,359,970	2,565,096	7.1	0.0000	0.0000	0.0000	0.0
29 TOTAL JURISDICTIONAL FUEL COST	2,122,341,009	1,786,914,514	335,426,495	18.8	38,925,066	36,359,970	2,565,096	7.1	5.4524	4.9145	0.5379	11.0
30 REVENUE TAX FACTOR									1.00072	1.00072	0.0000	0.0
31 FUEL COST ADJUSTED FOR TAXES									6.4563	4.9180	0.5383	11.0
32 GPF	(531.156)	(531.150)	0.006	0.0	38,925,066	36,359,970	2,565,096	7.1	(0.0014)	(0.0015)	0.0001	(0.1)
33 TOTAL FUEL COST FACTOR ROUNDED TO THE NEAREST .001 CENTS/KWH									5.455	4.917	0.538	11.0