

State of Florida



Public Service Commission

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COMMISSION
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DATE: May 17, 2012
TO: Office of Commission Clerk
FROM: Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 120009-EI
Company Name: Progress Energy Florida, Inc.
Company Code: EI801
Audit Purpose: A3f Nuclear CR3 Uprate
Audit Control No: 12-010-2-2

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.

CJP/klh

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

03141 MAY 17 2012

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.
Nuclear Cost Recovery Clause
Crystal River Unit 3 Uprate

As of December 31, 2011

Docket No. 120009-EI
Audit Control No. 12-010-2-2
May 9, 2012

Handwritten signature of Jeffery A. Small in black ink.

Jeffery A. Small
Audit Manager

Handwritten signature of Ronald Mavrides in black ink.

Ronald Mavrides
Audit Staff

Handwritten signature of Linda Hill-Slaughter in black ink.

Linda Hill-Slaughter
Reviewer

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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 11, 2012. We have applied these procedures to the attached schedule prepared by Progress Energy Florida, Inc. and to several of its related schedules in support of its 2011 Nuclear Cost Recovery Clause for its construction cost expenditures for the Crystal River 3 Uprate activity in Docket No. 120009-EI.

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

Information

Definitions

“Construction Costs” are costs that are expended to construct the nuclear power plant, but not limited to, the costs of constructing power plant buildings and all associated permanent structures, equipment and systems.

Abbreviations

CCRC	Capacity Cost Recovery Clause
NCRC	Nuclear Cost Recovery Clause
PEF/Company	Progress Energy of Florida, Inc.

General

Objective: Our overall objective in this engagement was to verify that the Company’s 2011 NCRC filings in Docket No. 120009-EI are consistent and in compliance with Section 366.93, F.S., and Rule 25-6.0423, F.A.C.

Procedures: We performed the following specific objectives and procedures to satisfy the overall objective identified above.

Specific

Objective: Our objective was to verify that the Company’s filing is properly recorded on its books and records according to the Uniform System of Accounts (USoA).

Procedures: We reconciled the Company’s filing to its general ledger and verified that the costs incurred were posted to the proper accounts.

Objectives: Our objectives were to verify that: 1) Schedule T-1 – Summary of Jurisdictional Recovery Amounts is accurately calculated, and, 2) They include the correct balances from the supporting schedules of the Company’s 2011 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 2011 NCRC filing.

Objectives: Our objectives were to verify that: 1) Schedule T-2.3 – Construction Plant Additions, Expenditures, and Carrying Cost is accurately calculated, and, 2) They include the correct balances from the supporting schedules of the Company’s 2011 NCRC filing.

Procedures: We reconciled the monthly construction carrying cost balances displayed on Schedule T-2.3 to the supporting schedules in the Company’s 2011 NCRC filing. We

recalculated the schedule and reconciled the Allowance for Funds Used During Construction (AFUDC) rates applied by the Company to the rates approved in Order No. PSC-05-0945-FOF-EI, issued September 28, 2005.

Objectives: Our objectives were to verify that: 1) The Deferred Tax Return Requirement amounts displayed on Schedule T-3A.3 – Construction Carrying Cost on Deferred Tax Asset which roll forward to Schedule T-1, are accurately calculated, and, 2) They include the correct balances from the supporting schedules of the Company’s 2011 NCRC filing.

Procedures: We reconciled the monthly construction deferred tax carrying cost accruals displayed on Schedule T-3A.3 to the supporting schedules in the Company’s 2011 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.

Objectives: Our objectives were to verify that: 1) The Construction Period Interest (CPI) amounts displayed on Schedule T-3B.3, which roll forward to Schedule T-3A.3, are accurately calculated, and, 2) They include the correct balances from the supporting schedules of the Company’s 2011 NCRC filing.

Procedures: We reconciled and recalculated a sample of the monthly CPI accruals displayed on Schedule T-3B.3 to the supporting schedules in the Company’s 2011 NCRC filing. We recalculated the Company’s CPI rate and reconciled the component balances to the Company’s general ledger.

Objectives: Our objectives were to verify that: 1) The CCRC Recoverable Operation and Maintenance (O&M) Expenditure amounts displayed on Schedule T-4, which roll forward to Schedule T-1, are accurately calculated, and, 2) The O&M expenditures are supported by adequate source documentation.

Procedures: We recalculated a sample of the monthly recoverable O&M expenditures displayed on Schedule T-4 of the Company’s 2011 NCRC filing. We sampled and verified the O&M cost expenditures and traced the invoiced amounts to supporting documentation. We verified a sample of salary expense accruals and recalculated the respective overhead burdens the Company applied.

Objectives: Our objectives were to verify that: 1) The jurisdictional nuclear construction expenditures, displayed on Schedule T-6.3, which roll forward to Schedule T-2.3, are accurately calculated, and, 2) The capital additions are supported by adequate source documentation.

Procedures: We recalculated a sample of monthly jurisdictional nuclear construction accruals displayed on Schedule T-6.3 of the Company’s 2011 NCRC filing. We sampled and verified the capital cost expenditures and traced the invoiced amounts to supporting documentation. We verified a sample of salary expense accruals and recalculated the respective overhead burdens that the Company applied.

Audit Findings

Finding 1: Operations and Maintenance Expense

Audit Analysis: The Company's Final True-Up Filing includes \$498,775 (\$460,738 jurisdictional) as Recoverable O&M Expenditures on Schedule T-4. The \$498,775 represents the net of \$543,443 in O&M costs after deducting a joint owners' credit of \$44,668.

<u>Description</u>	<u>Amount</u>	<u>Percent</u>
Accounting	\$63,349	11.7%
Corporate Planning	114,225	21.0%
Legal	351,915	64.8%
Tax	<u>13,953</u>	<u>2.6%</u>
Total	\$543,443	100.0%
Joint-Owner Credit	<u>(44,668)</u>	
Adjusted Total	\$498,775	

The \$351,915 in legal costs listed above is further defined below.

<u>Description</u>	<u>Amount</u>
Legal Invoices	\$338,619
Employee Labor	8,654
Employee Benefits	<u>4,642</u>
Total	\$351,915

We requested the Company to provide supporting documentation for 14 legal invoices totaling the \$338,619 identified above.

The Company's initial response was followed by our request for additional information for specific line charges on 10 of the 14 legal invoices that we reviewed. Subsequent discussions resulted in the Company stating that \$12,683 (\$11,716 jurisdictional) of legal fees would be removed from the 2011 CR3 Uprate filing. The company stated that it would account for this correction in its 2012 filing.

We will revisit this issue in the CR3 Uprate filing for year 2012 to ensure that the adjustment was made and properly posted.

Effect on the General Ledger: None

Effect on the Filing: None

Exhibit

Exhibit 1: Summary of Jurisdictional Recovery Amounts

CRYSTAL RIVER UNIT 3 UPRATE Site Selection, Preconstruction Costs, and Carrying Costs on Construction Cost Balance Final True-Up Filing: Summary of Jurisdictional Recovery Amounts							
Line No.	(A) Actual January	(B) Actual February	(C) Actual March	(D) Actual April	(E) Actual May	(F) Actual June	(G) 6 Month Total
Jurisdictional Dollars							
<p>EXPLANATION: Provide summary calculation of the monthly Final True-up Amount for each cost category: 1. Site Selection, 2. Preconstruction, and 3. Construction. In the event that no costs were approved for recovery and no costs are being requested, state so. For each category with costs, list and describe the components and levels, identify supporting schedule and line. Include in the final true-up calculation applicable Commission approved projection and estimated true-up amounts for the reported year and identify such orders.</p>							
<p>COMPANY: Progress Energy - FL</p>						<p>[25-6.0423(5)(c)(1),F.A.C.] [25-6.0423 (8)(d),F.A.C.]</p>	
<p>DOCKET NO.: 120009-EI</p>						<p>Witness: Will Garrett For Year Ended 12/31/2011</p>	
1.	Final Site Selection Costs for the Period [25-6.0423(2)(f),F.A.C.]						
a.	Additions (Schedule T-2.1, line 1)						
b.	Carrying Costs on Additions (Schedule T-2.1, line 7)						
c.	Carrying Costs on Deferred Tax Asset (Schedule T-3A.1, line 12)						
d.	Total Site Selection Amount (Lines 1.a through 1.c)						
2.	Final Preconstruction Costs for the Period [25-6.0423(2)(g),F.A.C.]						
a.	Additions (Schedule T-2.2, line 1)						
b.	Carrying Costs on Additions (Schedule T-2.2, line 9)						
c.	Carrying Costs on Deferred Tax (Schedule T-3A.2, line 12)						
d.	Total Preconstruction Amount (Lines 2.a through 2.c)						
3.	Final Construction Costs for the Period [25-6.0423(2)(i),F.A.C.]						
	Avg. Net Additions Balance (Schedule T-2.3, line 8)						
a.	Carrying Costs on Additions (Schedule T-2.3, line 10)						
b.	Carrying Costs on Deferred Tax (Schedule T-3A.3, line 12)						
c.	Total Construction Amount (Lines 3.a through 3.b)						
4.	Allocated or Assigned O&M Amounts (Schedule T-4, line 43)						
5.	Other Adjustments						
6.	Total Final Period Amount (Lines 1.d + 2.d + 3.c + 4 + 5)						
7.	Projected Amount for the Period (Order No. PSC 11-0095-FOF-EI)						
8.	Estimated True-up Amount for the Period (Order No. PSC 11-0547-FOF-EI)						
9.	Final True-up Amount for the Period (Line 6 - line 8)						

Exhibit 1: (continued)

CRYSTAL RIVER UNIT 3 UPRATE
Site Selection, Preconstruction Costs, and Carrying Costs on Construction Cost Balance
Final True-Up Filing: Summary of Jurisdictional Recovery Amounts

Schedule T-1

EXPLANATION: Provide summary calculation of the monthly Final True-up Amount for each cost category: 1. Site Selection, 2. Preconstruction, and 3. Construction. In the event that no costs were approved for recovery and no costs are being requested, state so. For each category with costs, list and describe the components and levels, identify supporting schedule and line. Include in the final true-up calculation applicable Commission approved projection and estimated true-up amounts for the reported year and identify such orders.

[25-6.0423(5)(c)1.b., F.A.C.]
 [25-6.0423 (8)(d), F.A.C.]

COMPANY:
 Progress Energy - FL

Witness: Will Garrett

DOCKET NO.:
 120009-EI

For Year Ended 12/31/2011

Line No.	(H) Actual July	(I) Actual August	(J) Actual September	(K) Actual October	(L) Actual November	(M) Actual December	(N) 12 Month Total
Jurisdictional Dollars							
1. Final Site Selection Costs for the Period [25-6.0423(2)(f), F.A.C.]							
a. Additions (Schedule T-2.1, line 1)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
b. Carrying Costs on Additions (Schedule T-2.1, line 7)	0	0	0	0	0	0	0
c. Carrying Costs on Deferred Tax Asset (Schedule T-3A.1, line 12)	0	0	0	0	0	0	0
d. Total Site Selection Amount (Lines 1.a through 1.c)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2. Final Preconstruction Costs for the Period [25-6.0423(2)(g), F.A.C.]							
a. Additions (Schedule T-2.2, line 1)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
b. Carrying Costs on Additions (Schedule T-2.2, line 9)	0	0	0	0	0	0	0
c. Carrying Costs on Deferred Tax (Schedule T-3A.2, line 12)	0	0	0	0	0	0	0
d. Total Preconstruction Amount (Lines 2.a through 2.c)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3. Final Construction Costs for the Period [25-6.0423(2)(h), F.A.C.]							
Avg. Net Additions Balance (Schedule T-2.3, line 8)	\$126,128,047	\$128,680,673	\$132,632,580	\$136,632,101	\$140,090,760	\$143,694,365	
a. Carrying Costs on Additions (Schedule T-2.3, line 10)	1,327,044	1,353,901	1,395,481	1,437,561	1,473,951	1,511,866	16,671,696
b. Carrying Costs on Deferred Tax (Schedule T-3A.3, line 12)	36,708	40,829	43,041	45,320	47,644	50,028	456,177
c. Total Construction Amount (Lines 3.a through 3.b)	\$1,365,752	\$1,394,730	\$1,438,521	\$1,482,881	\$1,521,595	\$1,561,894	\$16,127,875
4. Allocated or Assigned O&M Amounts (Schedule T-4, line 43)	17,749	49,170	37,171	16,694	15,756	26,671	461,200
5. Other Adjustments (a)	(260,226)	(265,460)	(270,746)	(276,084)	(455,430)	(294,376)	(3,348,641)
6. Total Final Period Amount (Lines 1.d + 2.d + 3.c + 4 + 5)	\$1,123,275	\$1,178,440	\$1,204,947	\$1,223,480	\$1,081,921	\$1,294,190	\$13,242,434
7. Projected Amount for the Period (Order No. PSC 11-0095-FOF-EI)	\$1,389,217	\$1,210,977	\$1,240,947	\$1,299,412	\$1,546,149	\$1,414,325	\$13,871,684
8. Estimated True-up Amount for the Period (Order No. PSC 11-0547-FOF-EI)	\$814,667	\$810,644	\$808,454	\$805,939	\$798,073	\$793,240	\$9,744,309
9. Final True-Up Amount for the Period (Line 6 - line 8)	\$308,608	\$367,795	\$396,493	\$417,542	\$282,848	\$500,949	\$3,498,125

(a) included in January to December: inservice revenue requirement for depreciation and taxes which represents a monthly refund to customers. November also contains the revenue requirement adjustment of the 2009 \$500k of project management costs which resulted in an adjustment of \$170k in carrying charges.