

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: June 1, 2012

TO: Office of Commission Clerk *CJP*

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

RE: Docket No.: 120001-EI
 Company Name: Progress Energy Florida, Inc.
 Company Code: EI801
 Audit Purpose: A3a Fuel Cost Recovery Clause
 Audit Control No: 12-013-2-4

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/klh

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

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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

Twelve Months Period Ended December 31, 2011

Docket No. 120001-EI
Audit Control No. 12-013-2-4
May 22, 2012

A handwritten signature in blue ink, appearing to read "Tomer".

Tomer Kopelovich
Audit Manager

A handwritten signature in black ink, appearing to read "Linda Hill-Slaughter".

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 13, 2012. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Progress Energy Florida, Inc. in support of its 2011 filing for the Fuel and Purchased Power Cost Recovery Clause in Docket No. 120001-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

General

Utility or PEF refers to Progress Energy Florida, Inc.
FAC refers to the Fuel and Purchased Cost Recovery Clause.

Revenues

Operating Revenues

Objectives: The objectives were to determine the actual Kilowatt Hours (KWH) sold for the period January 1, 2011, through December 31, 2011, and whether the Utility applied the Commission approved cost recovery factor to actual KWH sales for the FAC.

Procedures: We reconciled the 2011 filing to the Utility's monthly Fuel Revenue Reports. We computed the factors by rate code and compared them to the last Commission Order No. PSC 10-0734-FOF-EI. We selected a random sample of residential and commercial customers' bills for the month of April 2011 and recalculated each to verify the use of the correct tariff rate. No exceptions were noted.

Expenses

Recoverable Expenses

Objective: The objective was to review expenses which PEF has included in the FAC filing to ensure those expenses were properly recoverable through the FAC per Commission Order No. 14546, in Docket No. 850001-EI-B, issued July 8, 1985.

Procedure: We reviewed supporting schedules for fuel expense and found those expenses complied with the Commission Order. No exceptions were noted.

Objective: The objective was to verify that PEF has credited generation-related gains derived from non-separated wholesale energy sales to the FAC as set forth in Commission 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 Utility was in compliance with Commission Order. No exceptions were noted.

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

Procedures: We prepared a schedule showing total KWHs purchased and energy costs for 2011. We traced amounts on the FAC Schedule A-8 to invoices, cogeneration purchase power reports and contracts. No exceptions were noted.

Objective: The objective was to determine the amounts of gas storage expense recovered through the fuel clause by gas storage facility for 2011.

Procedures: We reviewed journal entries and invoices for the months of April and August 2011. We reviewed a contract between Bay Gas Storage Co., LTD. and PEF. We checked the invoices for proper MMBTU and approved rate. No exceptions were noted.

Electric Issues

Objective: The objective was to reconcile heat rates as shown on the monthly Schedule A-4 for Generating Performance Incentive Factor (GPIF) units with the annual GPIF filings.

Procedure: We reconciled the heat rates with the annual GPIF filings. No exceptions were noted.

Objective: The objective was to reconcile service hours, reserve shutdown hours, and unavailable hours for GPIF units as shown on annual GPIF filings with source documents.

Procedure: We reconciled service hours, reserve shutdown hours, and unavailable hours for GPIF units as shown on annual GPIF filings with Actual Unit Performance Data report. No exceptions were noted.

Nuclear Electric

Objective: The objective was to verify incremental power costs incurred due to the outage of the Crystal River Nuclear Plant Unit 3.

Procedures: We requested and received from PEF the incremental power 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. The incremental power costs are calculated by a computer model. We traced the summary schedule of the incremental power cost back to the output of the model on a sample basis. Staff did not audit the input to the model or the calculations performed by the model.

Objective: The objective was to reconcile and verify the amount of payments received by PEF from the Nuclear Electric Insurance Limited (NEIL) for the year 2011.

Procedures: We verified that as of December 31, 2011, PEF received \$45 million from NEIL and \$32.9 million of the amount has been allocated to the FAC. The \$10.9 million unallocated as of December 31, 2011, has been booked as a regulatory liability, and the retail portion is accruing interest at the 30-day Financial Commercial Paper rate, consistent with Commission policy. No exceptions were noted.

Inventory Cost

Objective: The objective was to verify that any adjustments made 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 Commission Order No. PSC-97-0359-FOF-EI, in Docket No. 970001-EI, issued March 31, 1997.

Procedure: We reviewed all documentation supporting aerial survey calculations and recorded adjustments to determine compliance with Commission Order. No exceptions were noted.

Objective: The objective was to verify that vendor rebates and refunds are credited to 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. No exceptions were noted.

Objectives: The objectives were to review and verify amounts for new waterborne coal transportation contracts.

Procedures: We reviewed waterborne coal transportation contracts for the months of April and August 2011. We verified contract amounts against invoices. We verified the accuracy of the effective escalated base rate calculation used. No exceptions were noted.

True-up

Objective: The objective was to determine if the True-Up and Interest Provision as filed on Form A-1 was properly calculated.

Procedures: We traced the December 31, 2010, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2011, using the Commission approved beginning balance as of December 31, 2010, the Financial Commercial Paper rates, and the 2011 FAC revenues and costs. No exceptions were noted.

Analytical Review

Objective: The objective was to perform an analytical review of the Utility's FAC Revenues and Expenses to determine if there were any material changes or inconsistencies from the prior years.

Procedures: We compared 2011 to 2010 and 2009 revenues and expenses. Further follow-up was not required.

Audit Findings

None

Exhibit

Exhibit 1: True-Up

PROGRESS ENERGY FLORIDA
CALCULATION OF TRUE-UP AND INTEREST PROVISION
DECEMBER 2011

	CURRENT MONTH				YEAR TO DATE			
	ACTUAL	ESTIMATED	DIFFERENCE	PERCENT	ACTUAL	ESTIMATED	DIFFERENCE	PERCENT
C. TRUE UP CALCULATION								
1. JURISDICTIONAL FUEL REVENUE	\$120,131,547	\$127,100,957	(\$6,969,410)	(5.5)	\$1,779,113,778	\$1,746,495,346	\$32,618,432	1.9
2. ADJUSTMENTS: PRIOR PERIOD ADJ	0	0	0	0.0	0	0	0	0.0
2a. TRUE UP PROVISION	(5,041,764)	(5,041,761)	(3)	0.0	(60,501,165)	(60,501,165)	(0)	0.0
2b. INCENTIVE PROVISION	56,358	56,358	0	0.0	676,296	676,296	0	0.0
2c. OTHER: MARKET PRICE TRUE UP	0	0	0	0.0	0	0	0	0.0
3. TOTAL JURISDICTIONAL FUEL REVENUE	115,146,141	122,115,554	(6,969,413)	(5.7)	1,719,288,909	1,686,670,478	32,618,431	1.9
4. ADJ TOTAL FUEL & NET PWR TRNS (LINE A7)	126,367,278	122,131,741	4,235,537	3.5	1,904,527,017	1,723,776,108	180,750,909	10.5
5. JURISDICTIONAL SALES % OF TOT SALES (LINE B4)	99.23	97.86	1.37	1.4	98.38	97.65	0.73	0.8
6. JURISDICTIONAL FUEL & NET POWER TRANSACTIONS (LINE C4 * LINE C5 * 1.00236 LOSS MULTIPLIER)	125,690,180	119,732,059	5,958,121	5.0	1,879,584,269	1,686,670,478	192,913,791	11.4
7. TRUE UP PROVISION FOR THE MONTH OVER(UNDER) COLLECTION (LINE C3 - C6)	(10,544,039)	2,383,495	(12,927,534)	(542.4)	(160,295,360)	(0)	(160,295,360)	100.0
8. INTEREST PROVISION FOR THE MONTH (LINE D10)	(15,937)	(1,097)	(14,840)	1,352.8	(382,311)	(118,199)	(264,112)	223.5
9. TRUE UP & INT PROVISION BEG OF MONTH/PERIOD	(312,986,932)	(7,542,357)	(305,444,575)	4,049.7	(219,326,886)	(60,501,165)	(158,825,721)	262.5
10. TRUE UP COLLECTED (REFUNDED)	5,041,764	5,041,761	3	0.0	60,501,165	60,501,165	0	0.0
11. END OF PERIOD TOTAL NET TRUE UP (LINES C7 + C8 + C9 + C10)	(318,505,145)	(118,199)	(318,386,946)	269,365.2	(319,503,391)	(118,199)	(319,385,192)	270,209.7
12. OTHER	(6,017,051)				(5,018,805)		(5,018,805)	
13. END OF PERIOD TOTAL NET TRUE UP (LINES C11 + C12)	(\$324,522,196)	(118,199)	(324,403,997)	274,455.8	(\$324,522,196)	(118,199)	(324,403,997)	274,455.8
D. INTEREST PROVISION								
1. BEGINNING TRUE UP (LINE C9)	(\$312,986,932)	N/A	-	-				
2. ENDING TRUE UP (LINES C7 + C9 + C10 + C12)	(324,506,259)	N/A	-	-				
3. TOTAL OF BEGINNING & ENDING TRUE UP	(637,493,191)	N/A	-	-				
4. AVERAGE TRUE UP (50% OF LINE D3)	(318,746,596)	N/A	-	-				
5. INTEREST RATE - FIRST DAY OF REPORTING MONTH	0.080	N/A	-	-				
6. INTEREST RATE - FIRST DAY OF SUBSEQUENT MONTH	0.030	N/A	-	-				
7. TOTAL (LINE D5 + LINE D6)	0.110	N/A	-	-				
8. AVERAGE INTEREST RATE (50% OF LINE D7)	0.055	N/A	-	-				
9. MONTHLY AVERAGE INTEREST RATE (LINE D8/12)	0.005	N/A	-	-				
10. INTEREST PROVISION (LINE D4 * LINE D9)	(\$15,937)	N/A	-	-				