

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-**

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**DATE:** April 29, 2013  
**TO:** Office of Commission Clerk  
**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 130001-EI  
Company Name: Progress Energy Florida, Inc.  
Company Code: EI801  
Audit Purpose: A3a Fuel Cost Recovery Clause  
Audit Control No.: 13-016-2-1

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RECEIVED-FPSC  
13 APR 30 AM 10:20  
COMMISSION  
CLERK

Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of 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.

LD/th

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

02301 APR 30 2

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

**Twelve Months Ended December 31, 2012**

Docket No. 130001-EI  
Audit Control No. 13-016-2-1  
**April 25, 2013**

  
\_\_\_\_\_  
Jeffery A. Small  
Audit Manager

  
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Ronald Mavrides  
Audit Staff

  
\_\_\_\_\_  
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 Accounting and Finance in its audit service request dated January 16, 2013. We have applied these procedures to the attached summary exhibits and to several related schedules prepared by Progress Energy Florida, Inc. in support of its 2012 filing for the Fuel and Purchased Power Cost Recovery Clause in Docket No.130001-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**

#### Definitions

FPSC refers to Florida Public Service Commission.

PEF/Utility refers to Progress Energy Florida, Inc.

FAC refers to the Utility's 2012 Fuel and Purchased Power Cost Recovery Clause Filing.

### **Revenues**

#### Operating Revenue

**Objectives:** The objectives were to determine the actual Kilowatt Hours (KWH) sold for the 12-month period ending December 31, 2012, and whether fuel revenues were calculated using the recovery factors authorized in Docket No. 120001-EI.

**Procedures:** We reconciled the fuel revenues reported in the 2012 FAC Filing to the Utility's monthly revenue reports which were reconciled to the general ledger. We recalculated 2012 fuel revenues using the KWH sold in the Utility's monthly revenue reports and the fuel factors authorized in the Utility's last FAC proceeding. A sample of residential and commercial customers' bills were recalculated to verify the use of the correct tariff rates in the Utility's Environmental Cost Recovery Clause proceeding, Docket No. 130007-EI. No exceptions were noted.

### **Expenses**

#### Recoverable Expenses

**Objectives:** The objectives were to review fuel expenses for coal, oil, and natural gas included in the FAC Filing and determine whether those expenses are properly recoverable based on the requirements established in Order No. 14546, issued July 8, 1985, in Docket No. 850001-EI.

**Procedures:** We reviewed and sampled fuel expenses reported on supporting Schedules A-1 and A-2 and other supporting documentation to determine that the fuel expense included in the FAC Filing complied with the requirements established in Order No. 14546. No exceptions were noted.

**Objective:** The objective was to determine whether the Utility has credited generation-related gains derived from non-separated wholesale energy sales to the FAC Filing as set forth in Order No. PSC-00-1744-PAA-EI, issued September 26, 2000, in Docket No. 991779-EI.

**Procedure:** We reviewed and scheduled the generation related gains reported on supporting Schedule A-6 of the FAC Filing to verify that the Utility was in compliance with Order No. PSC-00-1744-PAA-EI. No exceptions were noted.

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

**Procedures:** We scheduled total KWH purchased and energy costs for 2012. We traced a sample of the transactions on supporting Schedule A-8 to supporting invoices, cogeneration purchase power reports and vendor contracts. No exceptions were noted.

**Objectives:** The objectives were to determine whether natural gas transportation fees agree with approved tariffs, and natural gas storage expense is separated between firm and non-firm storage.

**Procedures:** We scheduled natural gas transportation and storage expense for 2012. We verified that all of the natural gas storage expense included in the Utility's filing was firm gas storage. We traced a sample of the transportation and storage expenses in the FAC Filing to supporting invoices and vendor contracts. No exceptions were noted.

**Objective:** The objective was to determine whether adjustments made to coal inventory due to the semi-annual coal inventory survey have been recorded as set forth in Order No. PSC-97-0359-FOF-EI, issued March 31, 1997, in Docket No. 970001-EI.

**Procedure:** We reviewed the documentation that supports the Utility's aerial survey calculations and adjustments to coal inventory balances to determine compliance with Order No. PSC-97-0359-FOF-EI. No exceptions were noted.

**Objective:** The objective was to determine whether vendor rebates and refunds are credited to fuel costs.

**Procedure:** We verified that there were no vendor rebates and refunds received during 2012 included in the FAC Filing.

**Objectives:** The objectives were to review and verify payments the Utility paid for waterborne coal and rail coal transportation contracts.

**Procedures:** We reviewed the waterborne and rail coal transportation contracts. We traced the contract rates to our sample of the Utility's coal fuel expense and reconciled the contract rates to the invoices selected in our sample. No exceptions were noted.

#### Other Issues

**Objective:** The objective was to reconcile the heat rate as shown on the 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 the monthly coal and oil purchases reflected on FPSC Form 423 with Schedule A-5, general ledger, vendor contract and source documentation.

**Procedures:** We reconciled the FPSC Form 423 for 2012 to the supporting Schedule A-5 of the Utility's FAC Filing. We reconciled the volumes, invoice price and transportation charges reflected on Form 423 to the supporting documentation obtained in conjunction with our sample of coal and oil fuel expense. No exceptions were noted.

**Objective:** The objective was to determine the amount of insurance proceeds received by PEF from the Nuclear Electric Insurance Limited (NEIL) for the year 2012.

**Procedures:** We verified and scheduled all insurance proceeds received from NEIL due to the Crystal River 3 outage. PEF received \$ 10,928,571 from NIEL in 2012. No exceptions were noted.

### **True-up**

**Objectives:** The objective was to determine whether the True-Up and Interest Provision as filed on Schedule A-2 for the period January 2012 through December 2012 was properly calculated.

**Procedures:** We traced the December 31, 2011 True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2012, using the Commission approved beginning balance as of December 31, 2011, the Financial Commercial Paper rates, and the 2012 Fuel revenues and costs. No exceptions were noted.

### **Analytical Review**

**Objectives:** The objective was to perform an analytical review of the Utility's FAC revenues and expenses.

**Procedures:** We developed a three-year analytical review that compared the annual percentage change of the Utility's Fuel Revenue, KWH sales and fuel, and purchased power expense. No differences requiring follow-up investigation were noted.

Audit Findings

**None**



## Exhibits

### Exhibit 1: Schedule A-2 Calculation of True-Up and Interest Provision

**PROGRESS ENERGY FLORIDA  
CALCULATION OF TRUE-UP AND INTEREST PROVISION  
DECEMBER 2012**

Docket No. 130001-EI  
Witness: Foster  
Exhibit No. (TGF-3T)  
Schedule A2-1  
Sheet 3 of 9

	CURRENT MONTH				YEAR TO DATE			
	ACTUAL	ESTIMATED	DIFFERENCE	PERCENT	ACTUAL	ESTIMATED	DIFFERENCE	PERCENT
<b>A. FUEL COSTS AND NET POWER TRANSACTIONS</b>								
1. FUEL COST OF SYSTEM NET GENERATION	\$98,398,929	114,052,660	(\$15,653,731)	(13.7)	\$1,488,511,720	\$1,605,097,411	(\$116,585,692)	(7.3)
1a. NUCLEAR FUEL DISPOSAL COST	-	0	0	0.0	0	0	0	0.0
1b. NUCLEAR DECOM & DECON	-	0	0	0.0	0	0	0	0.0
1c. COAL CAR INVESTMENT	-	0	0	0.0	51,948	12,108	39,840	329.0
2. FUEL COST OF POWER SOLD	(52,724)	(25,495)	(27,229)	106.8	(1,426,863)	(2,314,799)	887,936	(38.4)
2a. GAIN ON POWER SALES	(6,766)	(2,804)	(5,962)	212.6	(298,813)	(254,628)	(44,185)	17.4
3. FUEL COST OF PURCHASED POWER	8,622,088	17,969,695	(9,347,607)	(52.0)	137,112,849	242,324,799	(105,211,950)	(43.4)
3a. ENERGY PAYMENTS TO QUALIFYING FAC.	24,687,666	17,373,434	7,314,231	42.1	188,578,313	184,587,542	3,990,771	2.2
3b. DEMAND & NON FUEL COST OF PURCH POWER	-	0	0	0.0	0	0	0	0.0
4. ENERGY COST OF ECONOMY PURCHASES	166,973	1,032,097	(865,124)	(83.8)	14,174,973	14,547,829	(372,856)	(2.6)
5. TOTAL FUEL & NET POWER TRANSACTIONS	131,814,166	150,399,587	(18,585,421)	(12.4)	1,826,704,127	2,044,000,262	(217,296,135)	(10.6)
6. ADJUSTMENTS TO FUEL COST:								
6a. FUEL COST OF STRATIFIED SALES	(2,632,853)	(6,153,502)	3,520,649	(57.2)	(50,711,317)	(101,826,174)	51,114,857	(50.2)
6b. OTHER- JURISDICTIONAL ADJUSTMENTS (see detail below)	(274,818)	0	(274,818)	0.0	(23,333,391)	(118,285,714)	94,952,323	(80.3)
6c. OTHER - PRIOR PERIOD ADJUSTMENT	0	0	0	0.0	0	0	0	0.0
7. ADJUSTED TOTAL FUEL & NET PWR TRNS	\$128,906,495	\$144,246,085	(\$15,339,590)	(10.6)	\$1,752,659,418	\$1,823,888,374	(\$71,228,956)	(3.9)
<b>FOOTNOTE: DETAIL OF LINE 6b ABOVE</b>								
INSPECTION & FUEL ANALYSIS REPORTS (Wholesale Portion)	\$7	\$0	\$7		\$232	\$0	\$232	
INEFFICIENT USE OF BARTOW CC	0	0	0		0	0	0	
UNIV OF FL STEAM REVENUE ALLOCATION (Wholesale Portion)	830	0	830		8,820	0	8,820	
ADJUSTMENT FOR NUCLEAR DECOM & DECON	0	0	0		0	0	0	
TANK BOTTOM ADJUSTMENT	426,922	0	426,922		417,151	0	417,151	
AERIAL SURVEY ADJUSTMENT (Coal Pile)	0	0	0		(657,920)	0	(657,920)	
NEIL Replacement Power Reimbursement	0	0	0		(10,928,571)	(118,285,714)	107,357,143	
E-Schedule Adjustment (2012)	0	0	0		0	0	0	
(Gain)/Loss on Sale of #6 Oil	416,762	0	416,762		(474,571)	0	(474,571)	
Prior Period Retail/Wholesale Allocation Correction for NEIL Refund	0	0	0		371,964	0	371,964	
NET METER SETTLEMENT	0	0	0		13,921	0	13,921	
St. George Island Emergency Fuel	0	0	0		0	0	0	
Derivative Collateral Interest	2,789	0	2,789		509,735	0	509,735	
Joint Owner CR3 Replacement Power (Capacity Factor Agreement)	(1,122,128)	0	(1,122,128)		(12,594,152)	0	(12,594,152)	
<b>SUBTOTAL LINE 6b SHOWN ABOVE</b>	<b>(\$274,818)</b>	<b>\$0</b>	<b>(\$274,818)</b>		<b>(\$23,333,391)</b>	<b>(\$118,285,714)</b>	<b>\$94,952,323</b>	
<b>B. KWH SALES</b>								
1. JURISDICTIONAL SALES	2,514,087,039	2,772,292,000	(258,204,961)	(9.3)	36,381,457,114	36,913,251,000	(531,793,886)	(1.4)
2. NON JURISDICTIONAL (WHOLESALE) SALES	20,934,762	64,431,000	(43,496,238)	(67.5)	271,877,765	873,034,000	(601,156,235)	(68.9)
3. TOTAL SALES	2,535,021,801	2,836,723,000	(301,701,199)	(10.6)	36,653,334,879	37,786,285,000	(1,132,950,121)	(3.0)
4. JURISDICTIONAL SALES % OF TOTAL SALES	99.17	97.73	1.44	1.5	99.26	97.69	1.57	1.6

PROGRESS ENERGY FLORIDA  
 CALCULATION OF TRUE-UP AND INTEREST PROVISION  
 DECEMBER 2012

Docket No. 130001-EI  
 Witness: Foster  
 Exhibit No. (TGF-3T)  
 Schedule A2-2  
 Sheet 4 of 9

	CURRENT MONTH				YEAR TO DATE			
	ACTUAL	ESTIMATED	DIFFERENCE	PERCENT	ACTUAL	ESTIMATED	DIFFERENCE	PERCENT
<b>C. TRUE UP CALCULATION</b>								
1. JURISDICTIONAL FUEL REVENUE	\$121,933,264	\$143,165,657	(\$21,232,393)	(14.8)	\$1,848,023,948	\$1,906,260,179	(\$58,236,231)	(3.1)
2. ADJUSTMENTS: PRIOR PERIOD ADJ	0	0	0	0.0	0	0	0	0.0
2a. TRUE UP PROVISION	(10,263,267)	(10,263,265)	(2)	0.0	(123,159,202)	(123,159,202)	(0)	0.0
2b. INCENTIVE PROVISION	248,341	248,339	2	0.0	2,980,090	2,980,090	0	0.0
2c. OTHER: MARKET PRICE TRUE UP	0	0	0	0.0	0	0	0	0.0
3. TOTAL JURISDICTIONAL FUEL REVENUE	111,918,338	133,150,732	(21,232,393)	(16.0)	1,727,844,836	1,786,081,067	(58,236,231)	(3.3)
4. ADJ TOTAL FUEL & NET PWR TRNS (LINE A7)	128,906,495	144,246,085	(15,339,590)	(10.6)	1,752,659,418	1,823,888,374	(71,228,956)	(3.9)
5. JURISDICTIONAL SALES % OF TOT SALES (LINE B4)	99.17	97.73	1.44	1.5	99.26	97.69	1.57	1.6
6. JURISDICTIONAL FUEL & NET POWER TRANSACTIONS (LINE C4 * LINE C5 * 1.00122 LOSS MULTIPLIER)	127,992,532	141,304,392	(13,311,860)	(9.4)	1,742,109,320	1,786,078,923	(43,969,603)	(2.5)
7. TRUE UP PROVISION FOR THE MONTH OVER/(UNDER) COLLECTION (LINE C3 - C6)	(16,074,194)	(8,153,661)	(7,920,533)	97.1	(14,264,485)	2,144	(14,266,629)	100.0
8. INTEREST PROVISION FOR THE MONTH (LINE D10)	(19,240)	(138)	(19,101)	13,795.0	(337,717)	(64,145)	(273,573)	426.5
9. TRUE UP & INT PROVISION BEG OF MONTH/PERIOD	(209,994,415)	(2,171,466)	(207,822,949)	9,570.6	(324,522,196)	(123,159,202)	(201,362,995)	163.5
10. TRUE UP COLLECTED (REFUNDED)	10,263,267	10,263,265	2	0.0	123,159,202	123,159,202	0	0.0
11. END OF PERIOD TOTAL NET TRUE UP (LINES C7 + C8 + C9 + C10)	(215,824,581)	(62,001)	(215,762,581)	348,001.1	(215,965,197)	(62,001)	(215,903,196)	348,227.9
12. OTHER:	(1,753,018)				(1,612,403)		(1,612,403)	
13. END OF PERIOD TOTAL NET TRUE UP (LINES C11 + C12)	(\$217,577,600)	(62,001)	(217,515,599)	350,828.5	(\$217,577,600)	(62,001)	(217,515,599)	350,828.5
<b>D. INTEREST PROVISION</b>								
1. BEGINNING TRUE UP (LINE C9)	(\$209,994,415)	N/A	--	--				
2. ENDING TRUE UP (LINES C7 + C9 + C10 + C12)	(217,558,360)	N/A	--	--				
3. TOTAL OF BEGINNING & ENDING TRUE UP	(427,552,774)	N/A	--	--				
4. AVERAGE TRUE UP (50% OF LINE D3)	(213,776,387)	N/A	--	--				
5. INTEREST RATE - FIRST DAY OF REPORTING MONTH	0.160	N/A	--	--				
6. INTEREST RATE - FIRST DAY OF SUBSEQUENT MONTH	0.050	N/A	--	--				
7. TOTAL (LINE D5 + LINE D6)	0.210	N/A	--	--				
8. AVERAGE INTEREST RATE (50% OF LINE D7)	0.105	N/A	--	--				
9. MONTHLY AVERAGE INTEREST RATE (LINE D8/12)	0.009	N/A	--	--				
10. INTEREST PROVISION (LINE D4 * LINE D9)	(\$19,240)	N/A	--	--				