

State of Florida



Public Service Commission
-M-E-M-O-R-A-N-D-U-M-

DATE: April 21, 2003
TO: Division of Economic Regulation (Lee)
FROM: Division of Auditing and Safety (Vandiver) *W*
RE: **Docket No.** 030001-EI ; **Company Name:** Progress Energy Florida, Inc. ;
Audit Purpose: Capacity Cost Recovery Clause; **Audit Control No.** 03-036-2-2

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 the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

James McGee
Progress Energy Florida, Inc.
P. O. Box 14042
St. Petersburg, FL 33733-4042

Mr. Paul Lewis, Jr.
Progress Energy Florida, Inc.
106 East College Avenue, Suite 800
Tallahassee, FL 32301-7740

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

TAMPA DISTRICT OFFICE

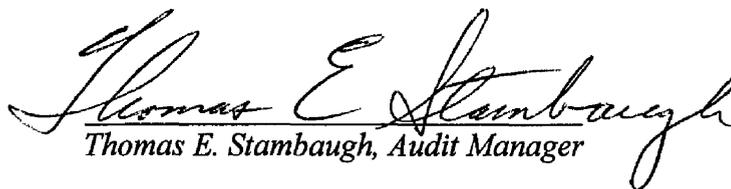
**PROGRESS ENERGY FLORIDA
(FORMERLY FLORIDA POWER CORPORATION)**

CAPACITY COST RECOVERY AUDIT

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2002

DOCKET NO. 030001-EI

AUDIT CONTROL NO. 03-036-2-2


Thomas E. Stambaugh, Audit Manager


Joseph W. Rohrbacher, Audit Staff

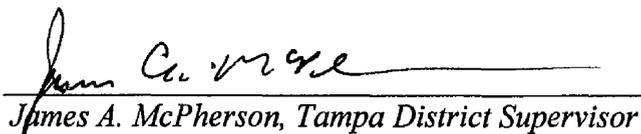

James A. McPherson, Tampa District Supervisor

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**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT**

March 5, 2003

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying Capacity Cost Recovery Clause True-up schedules for the historical twelve month period ended December 31, 2002 for Progress Energy Florida, formerly Florida Power Corporation (FPC). These schedules were prepared by the Utility as part of its petition for cost recovery in Docket 030001-EI. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Verify - The item was tested for accuracy, and substantiating documentation was examined.

REVENUE: Compiled CCR revenue and agreed to the filing. Recomputed CCR revenues using approved FPSC rate factors and company-provided KWH sales. Reconciled Utility "revenue recap" report to the general ledger on a test basis.

EXPENSES: Performed analysis of capacity costs based on prior years charges and verified variances. Compiled capacity costs. Agreed capacity costs to FPC billing statements. Performed audit test work of capacity cost payments to verify that Qualifying Facilities were paid according to contract for electric power supplied to the utility. Reconciled capacity charges to the General Ledger.

TRUE-UP: Recomputed CCRC true-up and interest using FPSC approved amounts and interest rates.

OTHER: Verified that security costs recovered in the capacity clause are incremental to the security costs included in base rates.

Disclosure No. 1

Subject: Security Costs

Statement of Fact: The Nuclear Regulatory Commission (NRC) issued Order No. EA-02-026, dated February 25, 2002, requiring electric utilities to implement certain security measures as a result of the September 11, 2001 attacks.

Progress Energy Florida (formerly Florida Power Corporation) recorded \$9,114,435 for security expenses on its books and records for 2001. In our audit of the 2001 base year costs, we determined this amount was overstated by \$921,509 and should be \$8,192,926. The utility incurred \$14,118,094 of security expenses in 2002, an increase of \$5,925,168 over the base year amount. The Utility is seeking to recover only \$4,831,124 in its 2002 Capacity Cost Recovery filing.

Audit Opinion: The 2002 incremental security expenses of \$4,831,124 were a result of the utility's compliance with NRC Order No. EA-02-026 and are properly recovered through the Capacity Cost Recovery Clause.

FOR THE PERIOD JANUARY 2002 THROUGH DECEMBER 2002

Exhibit No. (JS-2)
Sheet 2 of 3

Description	2002	2002	2002	2002	2002	2002	2002	2002	2002	2002	2002	2002	2002	(g)
	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	12 Months Cumulative	
Base Production Level Capacity Charges:														
1 Auburndale Power Partners, L.P. (AUBRDLAS)	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
2 Auburndale Power Partners, L.P. (AUBRDLCF)	394,230	419,050	419,050	419,050	419,050	419,050	419,050	419,050	419,050	419,050	419,050	419,050	419,050	\$5,003,790
3 Auburndale Power Partners, L.P. (AUBSET)	1,667,798	2,069,680	2,069,680	2,069,680	2,069,680	2,069,680	2,069,680	2,069,680	2,069,680	2,069,680	2,069,680	2,069,680	2,069,680	\$24,974,275
4 Bay County (BAYCOUNT)	194,700	206,910	206,910	206,910	206,910	206,910	206,910	206,910	206,910	206,910	206,910	206,910	206,910	\$2,470,710
5 Cargill Fertilizer, Inc. (CARGILLF)	412,050	432,750	432,750	432,750	432,750	432,750	432,750	432,750	432,750	432,750	432,750	432,750	432,750	\$5,172,200
6 Central Power & Lime (FLACRUSH)	18,000	18,000	16,740	18,000	15,480	0	0	0	0	0	0	0	0	\$86,220
7 Citrus World	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
8 Jefferson Power LC (JEFFPOWER)	0	0	0	0	0	0	0	136,000	65,349	55,836	58,878	58,878	58,878	\$374,941
9 Lake County (LAKCOUNT)	369,823	392,955	392,955	392,955	392,955	392,955	392,955	392,955	392,955	392,955	392,955	392,955	392,955	\$4,692,128
10 Lake Cogen Limited (LAKECOGL)	2,069,277	2,311,590	2,205,434	2,205,434	2,203,237	2,206,532	2,092,070	2,125,407	2,152,556	2,099,067	2,167,376	2,164,224	2,164,224	\$26,031,204
11 Metro-Dade County (METRDADE)	757,267	811,410	795,837	757,588	835,122	765,648	758,363	744,179	740,381	753,340	742,240	778,817	778,817	\$9,240,192
12 Metro-Dade County (METRDDAS)	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
13 Orange Cogen (ORANGEAS)	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
14 Orange Cogen (ORANGECC)	1,785,040	1,873,899	1,873,899	1,873,899	1,873,899	1,873,899	1,873,899	1,873,899	1,873,899	1,873,899	1,873,899	1,873,899	1,873,899	\$22,397,933
15 Orlando Cogen Limited (ORLACOGL)	1,564,857	1,666,192	1,666,192	1,666,192	1,666,192	1,666,192	1,666,192	1,666,192	1,666,192	1,666,192	1,666,192	1,666,192	1,666,192	\$19,886,257
16 Orlando Cogen Limited (ORLACOGAS)	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
17 Pasco Cogen Limited (PASCOGL)	2,779,800	2,907,448	2,907,448	2,907,448	2,907,448	2,907,448	2,907,448	2,907,448	2,907,448	2,907,448	2,907,448	2,907,448	2,907,448	\$34,761,727
18 Pasco County Resource Recovery (PASCOUNT)	666,540	708,860	708,860	708,860	708,860	708,860	708,860	708,860	708,860	708,860	708,860	708,860	708,860	\$8,464,000
19 PCS Phosphate (OCSWFCRK)	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
20 PCS Phosphate (OCSWSPRS)	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
21 Perpetual Energy (PRPETUAL)	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
22 Pinellas County Resource Recovery (PINCOUNT)	1,586,855	1,687,395	1,687,395	1,687,395	1,687,395	1,687,395	1,687,395	1,687,395	1,687,395	1,687,395	1,687,395	1,687,395	1,687,395	\$20,148,000
23 Polk Power Partners, L.P. (MULBERTY)	2,238,020	2,329,911	2,329,911	2,329,911	2,329,911	2,202,441	1,922,398	1,913,589	1,901,540	1,894,402	1,879,783	1,878,508	1,878,508	\$25,150,337
24 Polk Power Partners, L.P. (ROYSTER)	824,504	866,637	866,637	866,637	866,637	866,637	866,637	779,243	770,784	787,903	761,985	761,985	761,985	\$9,774,753
25 St Joe Forest Products (ST JOEFOR)	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
26 Tiger Bay Limited Partnership (ECOPEAT)	1,160,133	1,160,133	1,160,133	1,160,133	1,160,133	1,160,133	1,160,133	1,160,133	1,160,133	1,160,133	1,160,133	1,160,133	1,160,133	\$13,921,598
27 Tiger Bay Limited Partnership (GENPEAT)	4,229,940	4,229,940	4,229,940	4,229,940	4,229,940	4,229,940	4,229,940	4,229,940	4,229,940	4,229,940	4,229,940	4,229,940	4,229,940	\$50,759,280
28 Tiger Bay Limited Partnership (TIMBERZ)	147,900	147,900	147,900	147,900	147,900	147,900	147,900	147,900	147,900	147,900	147,900	147,900	147,900	\$1,774,800
29 Timber Energy Resources, Inc. (TIMBER)	380,780	380,780	380,780	380,780	0	0	137,500	137,500	137,500	137,500	137,500	136,568	136,568	\$2,347,168
30 U S Agri-Chemicals (AGRICHEM)	39,288	40,960	41,628	41,628	41,628	41,628	41,628	41,628	41,628	41,628	41,628	41,628	41,628	\$496,490
31 Wheelabrator Ridge Energy, Inc. (RIDGEGEN)	784,290	769,012	783,963	757,570	749,282	733,503	727,298	744,715	750,298	743,042	704,123	747,882	747,882	\$9,975,079
32 Tiger Bay (EcoPeal lease credit)	(66,667)	(66,667)	(66,667)	(66,667)	(66,667)	(66,667)	(66,667)	(66,667)	(66,667)	(66,667)	(66,667)	(66,667)	(66,667)	\$(5,150,004)
33 UPS Purchase (409 total mw)	2,009,338	3,805,481	3,737,097	3,839,683	3,548,022	3,785,324	3,639,784	4,034,604	3,711,595	3,803,443	3,828,366	3,927,657	3,927,657	\$43,668,544
34 Incremental Security Costs (5060001 & 5240001)	0	0	0	0	0	0	0	0	0	0	0	0	0	\$4,831,124
35 Subtotal - Base Level Capacity Charges	26,393,443	29,190,227	28,894,441	28,703,874	28,445,763	28,458,156	27,954,707	28,509,740	28,128,084	28,151,603	28,149,522	33,183,195	33,183,195	344,252,855
36 Base Production Jurisdictional Responsibility	95 957%	95 957% #	95 957%	95 957%	95 957%	95 957%	95 957%	95 957%	95 957%	95 957%	95 957%	95 957%	95 957%	105 880%
37 Base Level Jurisdictional Capacity Charges	25,318,761	28,010,066	27,822,195	27,543,473	27,295,700	27,307,593	26,824,498	27,357,091	26,990,865	27,013,434	27,011,437	31,841,596	31,841,596	330,334,712
Intermediate Production Level Capacity Charges:														
38 TECO Power Purchase (80 mw)	565,567	565,567	565,567	565,567	565,567	565,567	565,567	565,567	565,567	565,567	565,567	565,567	565,567	\$6,786,804
39 Schedule H Capacity Sales	(3,506)	(6,577)	(3,506)	(3,395)	(3,393)	(3,477)	(3,593)	(3,593)	(3,477)	(3,593)	(3,477)	(3,593)	(3,593)	\$(45,484)
40 FP&L - Ready Crk	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
41 Subtotal - Intermediate Level Capacity Charges	562,059	558,990	562,059	562,172	561,974	562,090	561,974	562,090	561,974	562,090	561,974	562,090	561,974	6,741,320
42 Intermediate Production Jurisdictional Responsibility	86 574%	86 574% #	86 574%	86 574%	86 574%	86 574%	86 574%	86 574%	86 574%	86 574%	86 574%	86 574%	86 574%	93 598%
43 Intermediate Level Jurisdictional Capacity Charges	486,597	483,853	486,597	486,695	486,523	486,624	486,523	486,624	486,523	486,624	486,523	486,624	486,523	5,836,230
44 Peaking Production Level Capacity Charges	55,822	55,922	0	0	0	0	0	142,768	0	0	0	0	0	988,897
45 Sabring Base Rate Credits	(414,761)	(293,899)	(321,892)	(338,309)	(2,292)	0	0	0	0	0	0	0	0	(1,366,961)
46 Adjustments - 2001 FPSC AUDIT														(2,292)
47 Retail Wheeling	(155,543)	(43,253)	(148,242)	(98,253)	(35,881)	(15,079)	(14,385)	(8,982)	(124,915)	(41,639)	(377,702)	(357,962)	(357,962)	(1,420,035)
48 Jurisdictional Capacity Charges	25,289,975	29,212,689	27,840,558	27,593,313	27,748,343	27,779,138	27,296,637	27,977,400	27,352,574	27,458,119	27,120,358	32,704,447	32,704,447	334,370,551
49														
50 Capacity Cost Recovery Revenues (net of tax)	27,852,583	22,780,326	23,440,863	24,054,016	30,742,150	29,019,255	32,054,161	32,267,337	33,381,531	30,823,903	29,000,310	26,261,805	26,261,805	341,858,242
51 Capacity Cost Revenues Adjustment (Net of Tax)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
52 Prior Period True-Up Provision	(309,344) #	(309,344)	(309,344)	(309,344)	(309,344)	(309,344)	(309,344)	(309,344)	(309,344)	(309,344)	(309,344)	(309,344)	(309,344)	(11,499,856)
53 Current Period Capacity Cost Recovery Revenues (net of tax) (sum of lines 46 through 48)	27,543,239	22,450,981	23,131,518	23,744,674	30,432,806	28,709,911	31,744,817	31,957,993	33,072,187	30,514,559	28,690,966	18,164,936	18,164,936	330,158,588
54 True-Up Provision - Over/(Under) Recovery (line 49 - line 45)	2,254,264	(5,761,708)	(4,708,039)	(3,848,639)	2,686,463	930,773	4,448,180	3,980,583	5,719,613	3,056,440	1,570,608	(14,539,511)	(14,539,511)	(4,211,965)
55 Interest Provision for the Month	(15,112)	(17,178)	(24,598)	(30,510)	(30,748)	(27,660)	(22,995)	(18,242)	(9,011) #	(2,167) #	1,346 #	(1,280)	(1,280)	(196,173)
56 Current Cycle Balance (line 50 + line 51) Cumulative	2,239,151	(3,539,733)	(8,273,371)	(12,152,520)	(9,496,805)	(8,593,712)	(4,168,527)	(204,176)	5,508,426	8,560,699	10,132,653	(4,408,138)	(4,408,138)	
57 True-Up & Interest Provision (beginning)	(11,499,856)	(11,499,856)	(11,499,856)	(11,499,856)	(11,499,856)	(11,499,856)	(11,499,856)	(11,499,856)	(11,499,856)	(11,499,856)	(11,499,856)	(11,499,856)	(11,499,856)	
58 Prior Period True-Up Collected/(Refunded) Cumulative	309,344	818,689	828,033	1,287,377	1,546,722	1,856,068	2,165,410	2,474,754	2,784,099	3,093,443	3,402,787	11,499,856	11,499,856	
59 Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0
60 End of Period Net True-Up (lines 50 through 55) Over / (Under)	(\$8,951,161)	(\$14,420,701)	(\$18,844,994)	(\$22,414,799)	(\$19,449,740)	(\$18,237,302)	(13,502,773.06)	(\$9,229,079)	(\$3,209,132)	\$154,486	\$2,035,784	(\$4,408,138)	(\$4,408,138)	\$0