

Ruth Nettles

090079-EJ

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Sent: Friday, August 21, 2009 8:07 AM
To: Filings@psc.state.fl.us
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Subject: PEF Responses to Rate Case Audit Findings - Dkt# 090079
Attachments: PEF Response to RC Audit Findings 1-4.pdf

This electronic filing is made by:

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Docket No. 090079-EI

On behalf of Progress Energy Florida

Consisting of 10 pages.

**The attached document for filing is PEF's
Response to FPSC Rate Case Audit Findings
(Audit Control No. 09-110-2-1) in the above
referenced docket.**

Lisa Stright

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8/21/2009

FPSC-COMMISSION CLEAR



August 21, 2009

VIA ELECTRONIC FILING

Ms. Ann Cole, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Petition for increase in rates by Progress Energy Florida, Inc.; Docket No. 090079-EI

Dear Ms. Cole:

Attached for filing is Progress Energy Florida, Inc.'s ("PEF") responses to the FPSC's Rate Case Audit findings (Audit Control No. 09-110-2-1) in the above-referenced docket.

Please acknowledge your receipt of the above filing as provided in the Commission's electronic filing procedures. Thank you for your assistance in this matter.

Sincerely,

s/ John T. Burnett

JTB/lms
Attachment

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08726 AUG 21 08
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished via electronic mail to the following this 21st day of August, 2009.

s/ John T. Burnett
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PROGRESS ENERGY FLORIDA

Response to Rate Case Audit, Docket No. 090079-EI, Audit Control No. 09-110-2-1

AUDIT FINDING NO. 1

The Code of Federal Regulations (CFR) 18, Pt. 101, Electric Plant Instructions, Land and Land Rights states that the accounts for land and land rights shall include the cost of leaseholds, easements, rights-of-way and other like interests in land.

During a review of work orders recorded in PEF's Power Plant system, it was noted that charges for "Order of Taking" on land easements were recorded in Plant in Service accounts 355 and 356, Poles and Fixtures and Overhead Conductors and Devices.

The following charges were recorded:

Crawford Owens Hines PA	\$ 144,400
	95,600
Sachs & De Young PA	1,725,030
Robert Dennis & Mary Nutt	<u>140,000</u>
	\$2,105,030

Information was requested on any other Land and Land Rights items recorded in plant and was informed by PEF employees that this was an isolated error and no depreciation was recorded. Audit staff verified that no depreciation was charged on the above. Since work orders and invoices were judgmentally selected for review, audit staff is unable to verify if there were any other miscoding errors.

EFFECT ON GENERAL LEDGER

PEF should reclassify the charges to the correct accounts.

EFFECT ON FILING

None, since rate base is not affected.

PEF Response:

PEF agrees with the Audit finding that the charges were misclassified and should be moved to account 350. PEF reviewed the charges identified above and noted that the work order charged was placed in service on June 24, 2008. Depreciation expense of \$28,415 and \$30,600 was recorded in 2008 and 2009 year to date, respectively. For August 2009 accounting close, the charges will be reclassified to

DOCUMENT NUMBER-DATE

08726 AUG 21 8

FPSC-COMMISSION CLERK

account 350 (Land and Land Rights) and depreciation expense will be adjusted accordingly. Annual depreciation expense included in 2010 projections is \$52,458 system and \$37,034 retail, and the 13 month average impact on rate base is a decrease of (\$85,244) system and (\$60,180) retail. The following table provides the calculations:

2010 Dep Expense	System	Jurisdictional Factor	Retail
Acct 355	\$ 3,429	0.70597	\$ 2,421
Acct 356	\$ 49,029	0.70597	\$ 34,613
Total	\$ 52,458	0.70597	\$ 37,034
2010 Rate Base Impact	13 Mo Avg System	Jurisdictional Factor	13 Mo Avg Retail
Acct 355	\$ (5,572)	0.70597	\$ (3,933)
Acct 356	\$ (79,672)	0.70597	\$ (56,246)
Total	\$ (85,244)	0.70597	\$ (60,180)

AUDIT FINDING NO. 2

SUBJECT: COST OF CAPITAL

AUDIT ANALYSIS

We performed an analysis of the company prepared Capital Structure. We compared prorata adjustments included in the capital structure with corresponding adjustments included in the Rate Base Schedule and noted several variances.

It was determined that these variances were the result of errors made in calculating the allocation of the Rate Base adjustments to be applied in the Cost of Capital schedule. The table below summarizes the errors.

<u>Pro-Rate Adjustment Items</u>	<u>As Filed</u>	<u>Difference</u>	<u>Per Staff</u>
Gain/Loss on Sale of Plant	(8,382)		(8,382)
CWIP bearing AFUDC	(1,404,906)	(153,090)	(1,557,996)
Capital Lease	(226,683)		(226,683)
Capital Lease - Work Cap	227,274		227,274
Nuc Decomm Unfunded Whle	(2,286)	4,572	2,286
	<u>(1,414,983)</u>	<u>(148,518)</u>	<u>(1,563,501)</u>

We recalculated the Cost of Capital schedule and determined that the Jurisdictional factor to be applied to the System Adjusted Capital Structure changed from 76.54% to 78.21%. There was no change to the Weighted Cost Rate.

EFFECT ON GENERAL LEDGER:

None

EFFECT ON THE FILING:

None

PEF Response:

PEF agrees that the two items shown in the table are different between MFR B-2, page 5, column C and MFR D-1b, page 2, column C. The variance in CWIP Bearing AFUDC was due to reflecting a retail amount of \$1,404,906 rather than a system amount of \$1,557,995 on MFR D-1b, page 2, column C, row 26. The variance in Nuclear Decommission Unfunded Wholesale was due to reflecting a negative adjustment rather than a positive adjustment on MFR D-1b, page 2, column C, row 28 of \$2,286,000.

PEF also agrees that increasing the pro-rata adjustment on MFR D-1a, page 3 to \$1,563,501 results in an increase in the jurisdictional factor to 78.21%. The reason there is no change in the WACC is that

the increase in the pro-rata adjustment, which reduces total capital, completely offsets the increase in the jurisdictional factor which increases total capital. Since we end up with the same overall jurisdictional capital, which ties to jurisdictional rate base, and both the pro-rata and jurisdictional adjustments impact the components of capital at the same ratio, the result is no change in WACC.

Audit Finding No. 3

Subject: Net Operating Income Adjustments (NOI)

Page 4

Audit Analysis:

In the analysis of NOI, we determined that NOI expense adjustments, per the filing, totaled (\$9,542,000). Staff calculation of NOI expense adjustments totaled (\$10,837,000). This variance results in net operating expenses being overstated by \$1,295,000.

A utility representative stated that this variance was due to a correction being made to the income tax synchronization amount recorded in the Surveillance report. The Minimum Filing Requirement (MFR) used the original amount that was recorded in the Surveillance Report prior to correction. Due to this error, the NOI jurisdictional adjustments need to be increased to \$10,837,000.

Table amounts are in Thousands (000's)

	Per Utility	Per Audit	Difference
Recoverable Fuel	\$ (2,607,629)	\$ (2,607,629)	\$ -
Recoverable ECCR	(69,071)	(69,071)	-
Recoverable ECRC	(35,088)	(35,088)	-
Recoverable ARO	(4)	(4)	-
Recoverable SCRS	(65,766)	(65,766)	-
Recoverable Capacity-Nuclear	1,705	1,705	-
Corporate Aircraft	(1,821)	(1,821)	-
Franchise & Gross Receipts	(193,108)	(193,108)	-
Gain/Loss on Sale of Plant Assets	(1,303)	(1,303)	-
Promotional Advertising	(2,137)	(2,137)	-
Interest on Tax Deficiency	(2,737)	(2,737)	-
Miscellaneous Interest Expense	74	74	-
Industry Association Dues	(13)	(13)	-
Economic Development	(20)	(20)	-
Sebring Revenue and Depreciation	(738)	(738)	-
Income Tax Interest Synchronization	7,788	9,083	(1,295)
Deferred Tax AFUDC Debt	(25)	(25)	-
Total	<u>\$ (2,969,893)*</u>	<u>\$ (2,968,598)</u>	<u>\$ (1,295)</u>

*Differences in table and MFR C-2 is due to rounding.

EFFECT ON GENERAL LEDGER

None

EFFECT ON FILING

If finding is accepted, NOI will increase by \$1,295,000.

PEF Response:

PEF agrees with the audit report that the interest synchronization adjustment to income tax expense was incorrect in MFR C-2, page 6 of 6, for 2008. The variance in income tax interest synchronization was due to the fact that numbers in the Surveillance report changed after the MFR was completed, and the adjustment in the MFR was taken directly from the Surveillance report in 2008 rather than calculating it based on the jurisdictional rate base and weighted cost of debt in the MFRs . However, PEF does not agree that the adjustment reflected in the audit report of \$1,295,000 should increase NOI. Rather, the adjustment should decrease NOI. This adjustment reduces interest expense (from system to retail), which increases income tax expense and decreases NOI. Therefore, an increase in the adjustment from \$7,788,000 to \$9,083,000 increases income tax expense, which decreases NOI.

Audit Finding No. 4

Subject: Operation & Maintenance Expenses

Audit Analysis: Operation and Maintenance (O&M) expenses were judgmentally selected for review and testing. Our testing included reviewing invoices for proper account, amount, period, authorization and if deductible for ratemaking.

FERC Acct	Supplier	Voucher / Invoice #	Amount	Description	Reason For Adjustment
908	Andretti Green Promotions	227	8,025.00	1/2 Pit lane VIP Suite	Non utility related
908	Catering by SMG	5115	2,099.72	Food for Honda Grand Prix	Non utility related
908	Catering by SMG	5147	3,193.90	Food for Honda Grand Prix	Non utility related
908	Catering by SMG	5113	1,387.54	Food for Honda Grand Prix	Non utility related
912	Catering by SMG	5147	779.00	Food for Honda Grand Prix	Non utility related
921	Catering by SMG	5147	311.60	Food for Honda Grand Prix	Non utility related
921	Catering by SMG	5113	126.14	Food for Honda Grand Prix	Non utility related
580	Catering by SMG	5147	779.00	Food for Honda Grand Prix	Non utility related
921	CFHLA Educational Trust Fund	Bbash 2008	1,000.00	Sponsorship	Non utility related
908	Arnold Palmer Invitational	8129	4,705.80	Hospitality beverages	Non utility related
908	Arnold Palmer Invitational		2,921.13	Hospitality beverages	Non utility related
908	Arnold Palmer Invitational	8064	10,000.00	Suite - Bay Hill Chalet #8	Non utility related
921	Arnold Palmer Invitational		10,000.00	Suite - Bay Hill Chalet #9	Non utility related
580	Arnold Palmer Invitational		15,000.00	Suite - Bay Hill Chalet #10	Non utility related
580	Arnold Palmer Invitational	8129	4,673.36	Hospitality beverages	Non utility related
580	Gooding's Catering		10,136.17	Arnold Palmer Invitational catering	Non utility related
580	Gooding's Catering		1,164.18	Arnold Palmer Invitational catering	Non utility related
912	Foundation for Seminole Co Public	AA200814	2,000.00	Tickets for Arts Alive in Seminole	Non utility related
923	George F Young	28732	22,880.31	Survey & Engineering	Should be capitalized
923	Hewitt Associates	922842	18,803.16	Consultant Service Nov-Dec 2007	Out of Period
923	Projects 3403105;A 351890		128,784.73	100th Anniversity book	Non utility related
921	City of Archer		5,000.00	Archer Community Center Project 4yr commitment \$20K (2007-2010) 2nd installment renovation of school	Non utility related
921	The Florida Council of 100		3,215.41	Dues and Meeting	Non utility related
921	The Florida Council of 100		2,000.00	Dues	Non utility related
930.2	Florida TaxWatch		8,500.00	Dues	Non utility related
			<u>267,486.15</u>		

267,486.15

EFFECT ON GENERAL LEDGER

None

EFFECT ON FILING

Audit staff determined that the expenses reflected in the above schedule were either non-utility related, image enhancing, out of test period or should have been capitalized.

O&M expenses allowed for ratemaking purposes should be reduced by \$267,486.

PEF Response:

PEF agrees with the audit finding that the 2008 O&M expense allowed for ratemaking purposes should be reduced by \$267,486. In addition to making the 2008 adjustment, PEF proposes to include an adjustment to reduce A&G, O&M expense in 2010 by \$544,000 (system) and \$482,479 (retail). To jurisdictionalize this adjustment, we used the WTD A&G Expense allocator of 0.88691 from Schedule 13 in the Jurisdictional Separation Study, as revised based on the May 2009 sales forecast.