

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:** May 11, 2010  
**TO:** Kenneth Franklin, Regulatory Analyst II, Division of Economic Regulation  
**FROM:** Dale N. Mailhot, Director, Office of Auditing and Performance Analysis *DM*  
**RE:** Docket No.: 100001-EI  
Company Name: Progress Energy Florida, Inc.  
Company Code: EI801  
Audit Purpose: Fuel Cost Recovery Clause  
Audit Control No: 10-004-2-1

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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.

DNM/ip  
Attachment: Audit Report

cc: (With Attachment)  
Office of Auditing and Performance Analysis (Mailhot, File Folder)  
Office of Commission Clerk  
Office of the General Counsel

(Without Attachment)  
Office of Auditing and Performance Analysis (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

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**FLORIDA PUBLIC SERVICE COMMISSION**

*OFFICE OF AUDITING AND PERFORMANCE ANALYSIS  
BUREAU OF AUDITING*

*TAMPA DISTRICT OFFICE*

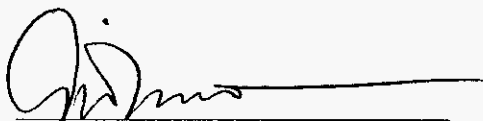
**PROGRESS ENERGY FLORIDA, INC.**

**FUEL ADJUSTMENT CLAUSE AUDIT**

**HISTORICAL YEAR ENDED DECEMBER 31, 2009**

**DOCKET NO. 100001-EI**

**AUDIT CONTROL NO. 10-004-2-1**

  
\_\_\_\_\_  
*Simon Ojada, Audit Manager*

  
\_\_\_\_\_  
*Clarence Prestwood, Chief of Auditing*

DOCUMENT NO.    DATE

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**OFFICE OF AUDITING AND PERFORMANCE ANALYSIS**

**AUDITOR'S REPORT**

**May 4, 2010**

**TO: FLORIDA PUBLIC SERVICE COMMISSION**

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request dated December 23, 2009. We have applied these procedures to the attached schedules prepared by Progress Energy Florida in support of its filing for fuel and purchased power cost recovery, Docket No. 100001-EI.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures and the report is intended only for internal Commission use.

## **OBJECTIVES AND PROCEDURES:**

### **REVENUES**

**Objective:** - Verify that Fuel Adjustment Clause (FAC) revenue and KWH sold were completely and properly recorded on the books of Progress Energy Florida (PEF).

**Procedures:** - We compiled FAC revenues and reconciled it to the filing. We computed FAC revenues using approved Florida Public Service Commission (FPSC) rate factors and company provided KWH sales and verified that the rates used comply with Commission Order. We tested two months of revenues by type and traced it to the appropriate general ledger account. We selected a group of customer bills for one month and recalculated each to verify that the FPSC approved rates were used in the customer billing system.

### **EXPENSES**

**Objective:**- Review expenses which Progress Energy Florida has included in the fuel clause filing to identify those that do not meet the criteria set forth in Order No. 14546, in Docket No. 850001-EI-B, issued July 8, 1985.

**Procedures:** - We tested filed expenses in the fuel expense work papers. We found those expenses we examined complied with the standards set forth in Order No. 14546.

**Objective:** - Review and verify amounts under new waterborne coal transportation contracts.

**Procedures:** -We reviewed and verified the amounts paid for waterborne coal transportation by comparing actual coal transportation invoices to contract amounts and verified the effective escalated base rate calculation used.

**Objective:** - Verify that Progress Energy Florida has credited vendor rebates and refunds to its 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.

**Objective:** - Verify that any adjustments 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 Order No. PSC-97-0359-FOF-EI, in Docket No. 970001-EI, issued March 31, 1997.

**Procedures:** - We reviewed all documentation supporting aerial survey calculations and recorded adjustments to determine compliance with PSC procedures established in Order No. PSC-97-0359-FOF-EI. We received a company letter which states that inventory procedures have not changed from the prior audit period.

**Objective:** - Reconcile heat rates as shown on the monthly Schedule A-4 for GPIF units with annual GPIF filings.

**Procedures:** - We reconciled the heat rates as shown on the monthly Schedule A-4 for GPIF units with the annual GPIF filings for consistency.

**Objective:** - Verify that Progress Energy Florida has credited generation-related gains derived from non-separated wholesale energy sales to the fuel clause as set forth in Order No. PSC-00-1744-PAA-EI, in Docket No. 991779-EI, issued September 26, 2000.

**Procedures:** -We recalculated generation related gains on the FAC schedule A-6 from PEF documentation to ensure the company was in compliance with Commission Order No. PSC-00-1744-PAA-EI.

**Objective:** - Verify that energy payments to qualifying facilities are based on the appropriate standard offer or negotiated contract rate.

**Procedures:** - We traced amounts on the FAC Schedule A-8 to invoices, cogeneration purchase power report and contracts.

**Objective:** Verify that FTS (firm transportation service) charges for natural gas transportation agree with the appropriate FTS rate schedules from pipeline company tariffs.

**Procedure:** We traced FTS charges for natural gas transportation for April and August 2008 invoices to FTS rate schedules and found that the correct rates were used.

## **ANALYTICAL REVIEW**

**Objective:** - Perform analytical review to identify any matter which might influence the scope of the audit.

**Procedures:** - We performed analytical review of the 2008 FAC filing compared to previous years. We did not see any need to change the audit scope.

## **TRUE-UP**

**Objective:** - Verify that the true-up and interest were properly calculated.

**Procedures:** - We verified that the beginning true-up equaled the end of the previous year. We recalculated the true-up to verify that the correct commercial paper interest rates were used and that each monthly true-up was calculated accurately.

**PROGRESS ENERGY FLORIDA  
FUEL AND PURCHASED POWER  
COST RECOVERY CLAUSE CALCULATION  
YEAR TO DATE - DECEMBER 2009**

	\$				MWH			
	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT	%	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT	%
1 FUEL COST OF SYSTEM NET GENERATION (SCH A3)	1,903,562,913	2,469,134,230	(565,571,317)	(22.9)	35,724,239	41,084,062	(5,359,823)	(13.1)
2 SPENT NUCLEAR FUEL DISPOSAL COST	4,657,191	4,863,947	(206,756)	(4.3)	4,944,898	5,174,412	(229,514)	(4.4)
3 COAL CAR INVESTMENT	438,164	422,370	15,795	3.7	0	0	0	0.0
3a NUCLEAR DECOMMISSIONING AND DECONTAMINATION	0	0	0	0.0	0	0	0	0.0
4 ADJUSTMENTS TO FUEL COST - MISCELLANEOUS	7,190,785	5,621,247	1,569,538	27.9	0	0	0	0.0
4a ADJUSTMENTS TO FUEL COST - DISPOSAL COST REFUND	0	0	0	0.0	0	0	0	0.0
5 TOTAL COST OF GENERATED POWER	1,915,849,053	2,480,041,794	(564,192,741)	(22.8)	35,724,239	41,084,062	(5,359,823)	(13.1)
6 ENERGY COST OF PURCHASED POWER - FIRM (SCH A7)	175,467,964	273,912,158	(98,444,194)	(35.9)	4,242,204	5,261,501	(1,019,297)	(19.4)
7 ENERGY COST OF SCH C,X ECONOMY PURCH - BROKER (SCH A9)	0	0	0	0.0	0	0	0	0.0
8 ENERGY COST OF ECONOMY PURCH - NON-BROKER (SCH A9)	31,939,815	52,731,456	(20,791,641)	(39.4)	512,860	643,339	(130,479)	(20.3)
9 ENERGY COST OF SCH E PURCHASES (SCH A9)	0	0	0	0.0	0	0	0	0.0
10 CAPACITY COST OF ECONOMY PURCHASES (SCH A9)	0	0	0	0.0	0	0	0	0.0
11 PAYMENTS TO QUALIFYING FACILITIES (SCH A8)	170,094,232	145,818,592	24,275,640	16.7	3,951,100	3,658,234	292,866	8.0
12 TOTAL COST OF PURCHASED POWER	377,502,011	472,462,206	(94,960,195)	(20.1)	8,706,164	9,563,074	(856,910)	(9.0)
13 TOTAL AVAILABLE MWH					44,430,403	50,647,136	(6,216,733)	(12.3)
14 FUEL COST OF ECONOMY SALES (SCH A6)	0	0	0	0.0	0	0	0	0.0
14a GAIN ON ECONOMY SALES - 100% (SCH A6)	0	0	0	0.0	0	0	0	0.0
15 FUEL COST OF OTHER POWER SALES (SCH A6)	(12,092,916)	(18,430,755)	6,337,839	(34.4)	(345,217)	(221,119)	(124,098)	56.1
15a GAIN ON OTHER POWER SALES - 100% (SCH A6)	(1,219,086)	(2,320,221)	1,101,135	(47.5)	(345,217)	(221,119)	(124,098)	56.1
15b GAIN ON TOTAL POWER SALES - 20% (SCH A6)	0	0	0	0.0	0	0	0	0.0
16 FUEL COST OF SEMINOLE BACK-UP SALES (SCH A6)	0	0	0	0.0	0	0	0	0.0
17 FUEL COST OF STRATIFIED SALES	(116,690,613)	(278,951,305)	162,260,692	(58.2)	(2,399,441)	(4,891,221)	2,491,780	(50.9)
18 TOTAL FUEL COST AND GAINS ON POWER SALES	(130,002,614)	(299,702,281)	169,699,667	(56.6)	(2,744,658)	(5,112,340)	2,367,682	(46.3)
19 NET INADVERTENT AND WHEELED INTERCHANGE					38,702	0	38,702	
20 TOTAL FUEL AND NET POWER TRANSACTIONS	2,163,348,450	2,652,801,720	(489,453,269)	(18.5)	41,724,448	45,534,796	(3,810,348)	(8.4)
21 NET UNBILLED	(3,944,113)	13,803,704	(17,747,817)	(128.6)	76,070	(223,006)	299,076	(134.1)
22 COMPANY USE	8,021,837	8,377,441	(355,604)	(4.2)	(154,717)	(144,000)	(10,717)	7.4
23 T & D LOSSES	130,907,931	152,339,480	(21,431,549)	(14.1)	(2,524,818)	(2,614,112)	89,294	(3.4)
24 ADJUSTED SYSTEM KWH SALES (SCH A2 PG 1 OF 2)	2,163,348,450	2,652,801,720	(489,453,269)	(18.5)	39,120,983	42,553,678	(3,432,695)	(8.1)
25 WHOLESALE KWH SALES (EXCLUDING STRATIFIED SALES)	(71,503,622)	(115,960,499)	44,456,878	(38.3)	(1,296,730)	(1,866,211)	569,481	(30.5)
26 JURISDICTIONAL KWH SALES	2,091,844,829	2,536,841,220	(444,996,392)	(17.5)	37,824,252	40,687,467	(2,863,215)	(7.0)
27 JURISDICTIONAL KWH SALES ADJUSTED FOR LINE LOSS - 1.00192	2,095,852,712	2,541,585,113	(445,732,402)	(17.5)	37,824,252	40,687,467	(2,863,215)	(7.0)
28 PRIOR PERIOD TRUE-UP	145,154,866	146,154,866	0	0.0	37,824,252	40,687,467	(2,863,215)	(7.0)
28a MARKET PRICE TRUE-UP	0	0	0	0.0	37,824,252	40,687,467	(2,863,215)	(7.0)
28b RECOVERY OF PRIOR PERIOD NUCLEAR REPLACEMENT COST	0	0	0	0.0	37,824,252	40,687,467	(2,863,215)	(7.0)
29 TOTAL JURISDICTIONAL FUEL COST	2,242,007,578	2,687,739,979	(445,732,401)	(16.6)	37,824,252	40,687,467	(2,863,215)	(7.0)
30 REVENUE TAX FACTOR								
31 FUEL COST ADJUSTED FOR TAXES								
32 GPIF	2,167,933	2,167,933			37,824,252	40,687,467		
33 TOTAL FUEL COST FACTOR ROUNDED TO THE NEAREST .001 CENTS/KWH								

**PROGRESS ENERGY FLORIDA  
CALCULATION OF TRUE-UP AND INTEREST PROVISION  
DECEMBER 2009**

	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	\$137,483,536	197,160,664	(\$59,677,128)	(30.3)	\$1,903,562,913	\$2,469,134,230	(\$565,571,317)	(22.9)
1a. NUCLEAR FUEL DISPOSAL COST	-	180,480	(180,480)	(100.0)	4,657,191	4,863,947	(206,756)	(4.3)
1b. NUCLEAR DECOM & DECON	-	0	0	100.0	0	0	0	100.0
1c. COAL CAR INVESTMENT	30,026	28,120	1,907	6.8	438,164	422,370	15,795	3.7
2. FUEL COST OF POWER SOLD	(843,867)	(2,069,582)	1,225,715	(59.2)	(12,092,916)	(18,430,755)	6,337,839	(34.4)
2a. GAIN ON POWER SALES	(120,177)	(193,265)	73,088	(37.8)	(1,219,086)	(2,320,221)	1,101,135	(47.5)
3. FUEL COST OF PURCHASED POWER	7,687,922	15,761,679	(8,093,757)	(51.4)	175,467,964	273,912,158	(98,444,194)	(35.9)
3a. ENERGY PAYMENTS TO QUALIFYING FAC.	14,168,549	13,401,620	766,929	5.7	170,094,232	145,818,592	24,275,640	16.7
3b. DEMAND & NON FUEL COST OF PURCH POWER	0	0	0	0.0	0	0	0	0.0
4. ENERGY COST OF ECONOMY PURCHASES	224,467	2,886,966	(2,662,499)	(92.2)	31,939,815	52,731,456	(20,791,641)	(39.4)
5. TOTAL FUEL & NET POWER TRANSACTIONS	158,610,457	227,156,682	(68,546,225)	(30.2)	2,272,848,278	2,926,131,777	(653,283,499)	(22.3)
6. ADJUSTMENTS TO FUEL COST:								
6a. FUEL COST OF STRATIFIED SALES	(4,573,884)	(19,276,158)	14,702,274	(76.3)	(116,690,613)	(278,951,305)	162,260,692	(58.2)
6b. OTHER- JURISDICTIONAL ADJUSTMENTS (see detail below)	4,291,624	470,418	3,821,206	812.3	7,190,785	5,621,247	1,569,538	27.9
6c. OTHER - PRIOR PERIOD ADJUSTMENT	0	0	0	0.0	0	0	0	0.0

7. ADJUSTED TOTAL FUEL & NET PWR TRNS 1

\$158,328,197    \$208,350,942    (\$50,022,745)    (24.0)    \$2,163,348,450    \$2,652,801,720    (\$489,453,269)    (18.5)

FOOTNOTE: DETAIL OF LINE 6b ABOVE

INSPECTION & FUEL ANALYSIS REPORTS (Wholesale Portion)	\$180	\$0	\$180		\$9,670	\$0	\$9,670
INEFFICIENT USE OF BARTOW CC	0	0	0		(6,557,774)	0	(6,557,774)
UNIV. OF FL STEAM REVENUE ALLOCATION (Wholesale Portion)	3,170	0	3,170		39,800	0	39,800
ADJUSTMENT FOR NUCLEAR DECOM & DECON	0	0	0		0	0	0
TANK BOTTOM ADJUSTMENT	0	0	0		1,003,706	0	1,003,706
AERIAL SURVEY ADJUSTMENT (Coal Pile)	3,517,768	0	3,517,768		3,517,768	0	3,517,768
COGEN ADJUSTMENT INTEREST (GROSSED UP)	0	0	0		0	0	0
RETURN ON COAL INVENTORY IN TRANSIT (GROSSED UP)	1,048,657	470,418	578,240		9,964,288	5,621,247	4,343,041
OPC Refund	0	0	0		0	0	0
Rail Car Sale Gain	0	0	0		0	0	0
Net Meter Settlement	0	0	0		563	0	563
OTHER - CR-3 outage (Jan 09) replacement power	0	0	0		(1,382,775)	0	(1,382,775)
Derivative Collateral Interest	29,222	0	29,222		2,387,540	0	2,387,540
Joint Owner CR3 Replacement Power (Capacity Factor Agreement)	(307,373)	0	(307,373)		(1,792,000)	0	(1,792,000)
<b>SUBTOTAL LINE 6b SHOWN ABOVE</b>	<b>\$4,291,624</b>	<b>\$470,418</b>	<b>\$3,821,206</b>		<b>\$7,190,785</b>	<b>\$5,621,247</b>	<b>\$1,569,538</b>

Note: Return on Coal Inventory in Transit based on: Avg Investment: \$97,938,030    Avg tons: 1,226,642

**B. KWH SALES**

1. JURISDICTIONAL SALES	2,628,739,698	3,040,404,137	(411,664,439)	(13.5)	37,824,252,296	40,687,467,184	(2,863,214,888)	(7.0)
2. NON JURISDICTIONAL (WHOLESALE) SALES	85,932,349	124,543,000	(38,610,651)	(31.0)	1,296,730,468	1,866,211,000	(569,480,532)	(30.5)
3. TOTAL SALES	2,714,672,047	3,164,947,137	(450,275,090)	(14.2)	39,120,982,764	42,553,678,184	(3,432,695,420)	(8.1)
4. JURISDICTIONAL SALES % OF TOTAL SALES	96.83	96.06	0.77	0.8	96.69	95.61	1.08	1.1