

State of Florida



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# Public Service Commission

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COMMISSION  
CLERK

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**DATE:** August 12, 2009  
**TO:** Mr. John Slemkewicz, Public Utilities Supervisor, Economic Regulation  
**FROM:** Dale N. Mailhot, Assistant Director, Division of Regulatory Compliance *DNM*  
**RE:** Docket No.: 090079-EI  
Company Name: Progress Energy Florida, Inc.  
Company Code: EI801  
Audit Purpose: A1a; Rate Case  
Audit Control No: 09-110-2-1

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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 the Commission Clerk. There are no confidential work papers associated with this audit.

DNM/ch

Attachment: Audit Report

cc: (With Attachment)  
Division of Regulatory Compliance (Salak, Mailhot, File Folder)  
Office of Commission Clerk  
Office of the General Counsel

(Without Attachment)  
Division of Regulatory Compliance (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

DOCUMENT NUMBER-DATE

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**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF REGULATORY COMPLIANCE  
BUREAU OF AUDITING*

*TAMPA DISTRICT OFFICE*

**PROGRESS ENERGY FLORIDA**

**PETITION FOR RATE INCREASE**

**HISTORICAL YEAR ENDED DECEMBER 31, 2008**

**DOCKET NO. 090079-EI**

**AUDIT CONTROL NO. 09-110-2-1**

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DOCUMENT NUMBER-DATE

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**DIVISION OF REGULATORY COMPLIANCE  
AUDITOR'S REPORT**

**JULY 31, 2009**

**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 April 16, 2009. We have applied these procedures to the attached schedules prepared by Progress Energy Florida in support of its Petition for Rate Increase in Docket No. 090079-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. The report is intended only for internal Commission use.

## **OBJECTIVES AND PROCEDURES**

### **RATE BASE**

#### General

##### *Objectives:*

- To determine that the utility's filing represents its recorded results from continuing operations.
- To verify that all adjustments to rate base are consistent with the Commission's findings in prior cases and are calculated correctly.
- To review intercompany charges to and from affiliated companies and nonregulated operations to determine if an appropriate amount of costs were allocated pursuant to Rule 25-6.1351, Florida Administrative Code (F.A.C.) .
- To review allocation methodology used by the utility. To determine reasonableness of this methodology and of the amounts to be allocated.

##### *Procedures:*

- We reconciled the individual component rate base balances listed below to the utility's general ledger as of December 31, 2008
- We determined that the company made adjustments to its rate base balances that were properly calculated and consistent with prior approved Commission rate case adjustments
- We reviewed and tested the allocation methodology used by Progress Energy Service Company (Service) and Progress Energy Carolina (PEC) to charge costs to PEF. We reviewed and analyzed the costs recorded on the books of Service and PEC.

#### Plant in Service

##### *Objectives:*

- To determine that additions to Plant have adequate supporting documentation, are recorded at original costs and are properly classified in accordance with Rule 25-6.014, F.A.C. and the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts.
- To determine that the proper retirements of Plant were made when a replacement item was put in service.
- To determine that the treatment of Plant Held for Future Use (PHFU) is consistent with the treatment in the prior rate case.
- To determine that the 13-month average balance for each plant account was properly computed.

##### *Procedures:*

- We scheduled and analyzed plant additions, adjustments/reclassifications and retirements for the period January 2005 through December 2008 using the FERC Form 1 Annual Reports.
- Agreed annual balances from the FERC Form 1 to the general ledger.

- Requested and received a reconciliation of the Form 1 balances to the Power Plant System.
- Judgmentally selected plant account activity for further analysis and verification.
- Performed verification of plant activity using third party documentation.
- Determined compliance to company procedures for plant in service.
- Verified general ledger balance for PHFU at December 31, 2008.
- Determined that the company removed PHFU in its entirety from rate base consideration.
- On a test basis, we recalculated 13-month average balance of plant accounts.

### Construction Work in Progress (CWIP)

#### *Objectives:*

- To determine the nature and purpose of utility projects recorded as CWIP.
- To determine that the company has included in rate base only those projects on which no Allowance for Funds Used During Construction (AFUDC) has been charged.

#### *Procedures:*

- We agreed CWIP recorded in the MFR with general ledger balances.
- We received a reconciliation of CWIP balances as of December 31, 2008 with the balances recorded in the Power Plant System.
- We judgmentally selected a sample of open workorders and reconciling entries charged to CWIP and recorded in the Power Plant System as of December 31, 2008.
- We verified that the work order pertained to an authorized and approved construction project.
- We reviewed supporting source documents for authenticity.
- We determined that AFUDC was not charged to any workorders included in CWIP.
- We recalculated the 13-month average balances for CWIP.

### Accumulated Depreciation/Amortization

#### *Objectives:*

- To determine that accruals, retirements and adjustments to accumulated depreciation and accumulated amortization are properly recorded in compliance with Rule 25-06.014, Florida Administrative Code and the FERC Uniform System of Accounts.

#### *Procedures:*

- On a sample basis, we verified that accumulated depreciation and amortization as of December 31, 2008, were properly recorded, using rates in the depreciation study approved by the Commission for the period January 1, 2006 through December 31, 2008.

### Working Capital

#### *Objectives:*

- To verify that the working capital calculation is consistent with the last rate case.
- To determine if any working capital accounts (WCA) are interest bearing.

- To review transactions in selected WCA for non-utility items.

*Procedures:*

- We reviewed the Commission order for the prior rate case and determined the treatment of working capital items.
- We determined that the company's adjustments for the current working capital were consistent with the adjustments in the prior Commission order.
- We reviewed a sample of the transactions recorded in clearing accounts, stores expenses, prepayments, deferred debits and credit and accrued liabilities to determine if they were proper, utility in nature and that expenses were not overstated.
- We reviewed transactions in Materials and Supplies and Other Accounts Receivable to determine if non-utility items were posted.
- We determined that no interest bearing accounts were included in the calculation of working capital.
- We recalculated the 13-month average balances for all accounts included in the working capital computation.

## **NET OPERATING INCOME**

### General

*Objectives:*

- To determine that the utility's filing represents its recorded results from continuing operations.
- To verify that all adjustments to Net Operating Income are consistent with the Commission's findings in prior cases and are calculated correctly.
- To review allocation methodology used by the utility.
- To determine reasonableness of this methodology and of the amounts to be allocated

*Procedures:*

- We reconciled the individual component net operating income balances listed below to the utility's general ledger as of December 31, 2008.
- We verified utility adjustments to net operating income balances and reconciled the adjustments to the utility's other Commission filings during the test year or to prior orders that required the specific adjustment.
- We reviewed and tested the allocation methodology used by Progress Energy Service Company (Service) and Progress Energy Carolina (PEC) to charge costs to PEF.
- We reviewed and analyzed the costs recorded on the Income Statement of Service and PEC.
- We verified that adjustments to NOI were accurately calculated, agreed to amounts calculated in the general ledger and were included in clause filings.

## Revenues

### *Objectives:*

- To determine that revenues are properly calculated and are based on the utility's Commission approved tariff rates.

### *Procedures:*

- We reconciled utility revenues for the 12-month period ended December 31, 2008 to the general ledger.
- We determined that revenues for all clause audits were removed in the proper amounts from the historical base year.
- We verified the calculation of unbilled revenues.
- We tested customer bills to determine that customers were charged rates in accordance with the Commission approved tariff sheets.

## Operation and Maintenance Expenses (O&M)

### *Objectives:*

- To determine that operation and maintenance expenses are properly recorded in compliance with the Uniform System of Accounts, were reasonable, prudent for ongoing utility operations and adequately supported by documentation.
- To determine that advertising charged to O&M is not image enhancing in nature, promotional, recoverable through the Energy Conservation Cost Recovery Clause or related to non-utility operations.
- Determine that adjustments to O&M expense are consistent with the Commission approved adjustments in the prior rate case.

### *Procedures:*

- We verified, based on a sample of utility transactions for select O&M expense accounts, that utility O&M expense balances are adequately supported by source documentation, prudent, utility in nature and do not include non-utility items.
- We reviewed additional samples of utility advertising expenses, industry dues, economic development expenses, outside services, sales expenses, customer service expenses and administrative and general service expenses to ensure that amounts supporting non-utility operations were removed.
- We reviewed intercompany allocations and charges between affiliated companies and non-utility operations to determine if expenses were properly allocated.

## Depreciation Expense

### *Objectives:*

- To determine that depreciation expense is properly recorded in compliance with Rule 25-6.0436, F.A.C. and that it accurately represents the depreciation of Plant assets verified in rate base.
- To determine that historical test year depreciation expense accruals are calculated using the authorized rates in Order No. PSC-05-0945-S-EI.



*Procedures:*

- We verified, based on a sample of depreciation expense accruals, that the company is using correct depreciation rates as authorized in Commission Order No. PSC-05-0945-S-EI .

Taxes Other Than Income (TOTI)

*Objectives:*

- To determine that Taxes Other Than Income is properly recorded and supported by adequate documentation.

*Procedures:*

- We verified, based on a sample of utility transactions for select TOTI accounts, that utility TOTI expense balances are adequately supported by source documentation.

**CAPITAL STRUCTURE**

General

*Objectives:*

- To determine the components of the utility's capital structure and that the respective costs rates used to arrive at the overall weighted cost of capital are properly recorded and that they accurately represent the ongoing utility operations.
- To determine that the utility's capital structure adjustments are appropriate and correspond to the utility's rate base adjustments in the filing.

*Procedures:*

- We reconciled the individual component capital structure balances listed below to the utility's general ledger as of December 31, 2008.
- We verified that non-utility assets supported by the utility's capital structure were removed and that the capital structure adjustments reconciled with the rate base adjustments in the filing.
- We recalculated the 13-month average balances and the weighted average cost of capital for the utility's historical test year capital structure.
- We verified that adjustments to Capital Structure were accurately calculated and agreed to amounts calculated in the general ledger.

Equity:

*Objectives:*

- To determine that owner's equity balances represent actual equity of the utility.

*Procedures:*

- We traced equity balances to the general ledger.

### Long-Term Debt

#### *Objectives:*

- To determine that long-term debt balances represent actual obligations of the utility and that they are properly recorded.

#### *Procedures:*

- We traced the long-term debt and reacquired debt acquisition cost balances to the original documents and verified the terms, conditions, redemption provisions and interest rates for each bond or note payable.
- We determined Discount on Debt and Debt Issue Costs and recalculated the amortization of Discount and Debt issue cost and Interest expense.
- On a judgmental basis, we traced Debt Issue Costs to source documentation.
- We recalculated the weighted average cost of long-term debt.

### Short Term Debt

#### *Objectives:*

- To determine that short-term debt balances represent actual obligations of the utility and that they are properly recorded.

#### *Procedures:*

- We traced the short-term debt balances to supporting documents and verified interest rates.
- We traced the computation of the average cost of short-term debt to utility documentation.

### Customer Deposits

#### *Objectives:*

- To determine that customer deposit transactions represent actual obligations of the utility and are properly recorded.

#### *Procedures:*

- We reconciled the customer deposit balances to the general ledger.
- We verified that customer deposits are charged in accordance with the tariff rates.
- We verified that interest is credited to customer bills, at the Commission approved rate as designated in the tariff.
- We recalculated interest expense on Customer Deposits.

### Accumulated Deferred Taxes

#### *Objectives:*

- To determine that accumulated deferred income taxes are properly stated and calculated based on the recorded differences between utility book and taxable income.

#### *Procedures:*

- We reconciled the deferred tax balances to the general ledger and to the utility's federal tax returns.

## Investment Tax Credits

### *Objectives:*

- To determine that Investment Tax Credits balances are properly stated and are being properly amortized.

### *Procedures:*

- We reconciled net Investment Tax Credits to the General Ledger.
- We reconciled the ending balance of Investment Tax Credits in the prior audit to the beginning balance in the current audit.
- We verified the calculation of the annual amortization of investment tax credits.

**AUDIT FINDING NO. 1**

**SUBJECT: LAND EASEMENTS**

**AUDIT ANALYSIS**

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.

**EFFECT ON GENERAL LEDGER**

PEF should reclassify the charges to the correct accounts.

**EFFECT ON FILING**

None, since rate base is not affected.

**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-Rata 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 Whise	\$ (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 FILING:**

None

### AUDIT FINDING NO. 3

#### SUBJECT: NET OPERATING INCOME ADJUSTMENTS (NOI)

#### 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 Asse	(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 Depreciati	(738)	(738)	-
Income Tax Interest Synchroniz	7,788	9,083	(1,295)
	(25)	(25)	-
Total	<u>\$ (2,969,893)</u>	<u>\$ (2,968,598)</u>	<u>\$ (1,295)</u>

#### EFFECT ON GENERAL LEDGER

None

#### EFFECT ON FILING

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

**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 rate making.

<b>FERC Acct</b>	<b>Supplier</b>	<b>Voucher/ Invoice #</b>	<b>Amount</b>	<b>Description</b>	<b>Reason For Adjustment</b>
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	BBash2008	1,000.00	Sponsorship	Non utility function
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 #8	Non utility related
580	Arnold Palmer Invitational		15,000.00	Suite - Bay Hill Chalet #8	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 function
923	George F Young	28732	22,880.31	Survey & engineering work	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 Anniversary book	Non utility related - \$585,000 total
921	City of Archer		5,000.00	Archer Community Center Project 4 yr 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		<u>8,500.00</u>	Dues	Non utility related
			<u>267,486.15</u>		

  

<b>A/C No.</b>	<b>Amount</b>
908	32,333.09
912	2,779.00
921	21,653.15
923	170,468.20
930.2	8,500.00
580	<u>31,752.71</u>
	<u>267,486.15</u>

**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 the test period or should have been capitalized.

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



## **AUDIT FINDING NO. 5**

### **SUBJECT: CHARGES BILLED BY PROGRESS ENERGY SERVICE COMPANY**

#### **AUDIT ANALYSIS:**

According to company testimony provided to the Florida Public Service Commission in Docket No. 090079-EI, Progress Energy Service Company (PESC) provides processing, reporting and management oversight for a variety of areas, including: financial services, human resources, corporate communications, legal, regulatory affairs, audit and compliance, real estate and facility services, information technology and telecommunications. The cost for these services is 100% distributed to all affiliates of Progress Energy - Electric Fuels, Progress Telecom, Florida Progress, Progress Capital Holding, Progress Ventures, PGN, Progress Energy Carolina (PEC) and Progress Energy Florida (PEF).

Total costs incurred by PESC, as recorded in its Income Statement for the 12-month period ended December 31, 2008 were \$360,626,435. This includes Operation and Maintenance Expenses, Depreciation/Amortization, Income Taxes and Other Income and Deductions.

We determined that the amounts distributed by PESC are for both direct charges and indirect charges. Direct costs are specifically identified with a particular service or product. Indirect allocated costs are not specifically identified with a particular service or product and are based upon various allocation factors as described in the Cost Allocation Manual (CAM). Both direct and indirect costs include employee labor costs, payroll tax, benefits, pensions and exceptional hours overhead costs.

In addition to costs incurred, PESC also bills its subsidiaries for pass-through amounts and for payroll benefits. The total costs billed to affiliates of Progress Energy for the 12-month period ended December 31, 2008 were \$450,934,460. The difference between the amount incurred and amount billed of \$90,308,125 represents pass-through charges of \$22,810,880 and Payroll benefits of \$67,497,245. Pass-through charges are for items for which PESC acts as a pay agent. Pay agent items are intercompany/cash transactions. An example of a pass-through item is employee benefits.

A summary of PESC costs billed by department to the affiliates is shown below:

**Summary of Service Company Cost by Dept**

Sum of Grand Total	
Department	Total
Accounting	22,334,128
Audit	6,326,125
Corporate Communications	18,534,341
Corporate Planning	7,991,919
Corporate Services	34,563,619
External Relations	14,969,959
Human Resources	85,491,189
Investor Relations	1,341,762
IT&T	113,511,534
Legal	22,549,887
Misc Svc Co - Client Driven	2,538,781
Svc Co Corporate Costs	68,766,780
Svc Co Executive	8,908,674
Svc Co Group Managed	13,810,971
Svc Company Controllers	13,646,996
Tax	7,318,935
Treasury & Risk Mgmt	8,328,860
<b>Grand Total</b>	<b>450,934,460</b>

Of the \$450,934,460 billed by PESC to its subsidiaries in 2008, PEF received \$118,575,452 (Indirect) and \$47,902,321 (Direct) for a total of \$166,477,773. Costs billed by PESC to PEF in prior years is provided in the following chart.

In 000's	<b><u>PESC costs allocated to PEF</u></b>		
	<b><u>In Prior Years</u></b>		
	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>
2003	44,428	101,375	145,803
2004	59,119	100,887	160,006
2005	44,432	122,671	167,103
2006	45,106	121,329	166,435
2007	50,583	124,612	175,195
2008	47,902	118,575	166,477

We could not determine the amount of pass-through and payroll benefits included in the billed amount from PESC for the years 2003-2007.

This documentation is provided for informational purposes only.

**AUDIT FINDING NO. 6**

**SUBJECT: CHARGES BILLED BY PROGRESS ENERGY CAROLINA**

**STATEMENT OF FACT:**

During 2008, Progress Energy Carolina (PEC) allocated costs for a variety of services it provided to Progress Energy Florida (PEF). The attached chart lists FERC expense accounts used to charge these costs to PEF.

**DIRECT CHARGES FROM PEC 2008-SUMMARY**

	<u>Direct Chgs</u>	<u>Indirect Charges</u>
9350REC - MAINT OF GEN PLT-PROJ SUPT NCR	5,450	
9230REC OUTSIDE SVCS EMP-PROJ SUPT NCR	51,151	
9210REC - OFF SUPPLIES&EXP-PROJ SUPT NCR	64,723	
9200REC - SALARIES&WAGES-PROJ SUPT NCR	(4,000)	
5660REC - TRANS MISC EXP-PROJ SUPT NCR	199	
-1071000 CWIP-CONST WORK IN PROGRESS	37,841,376	
-1071110 CWIP-RECOVERABLE ECRC	1,212,081	
-1511010 Fuel Stock		1,264,195
-1630004 Stores Expense Undistributed		831,237
-1830100 NUCLEAR COLA	-	887,005
-1830200 NUC FIRE PROT ANALYSIS	1,187,083	
-1830300 POG-FEASIBILITY STUDY COSTS	3,098	
-1861900 JOB ORDERS WORK IN PROGRESS	29,808	
-4081101 PAYROLL TAX	96,970	
-4171001 EXPENSES OF NONUTILITY OPER	261,423	
-4210701 MNI-OTHER ENERGY SERVICES-MISC	18,916	
-5000000 FOS OPER SUPER AND ENGINEER	4,312	
-5012000 Fuel		204,594
-5020000 FOS STEAM EXPENSES	5,906	
-5060000 FOS MISC STEAM POWER EXP	208	4,843,770
-5110000 FOS MAINT OF STRUCT	1,968	
-5120000 FOS MAINT OF BOILER PLANT	1,400	
-5130000 FOS MAINT OF ELECTRIC PLANT	2,094	
-5140000 FOS MAINT OF MISC STEAM PLANT	19,331	293,920
-5140001 FOS MAINT OF MISC STEAM PT-REC	6,396	
-5170000 NUC OPER SUPER AND ENGINEER	-	1,366,239
-5182300 Nuclear Fuel Expense		742,983
-5190000 NUC COOLANTS AND WATER	331	
-5200000 NUC STEAM EXPENSES	802	459,340
-5240000 NUC MISC NUCLEAR POWER EXP	490,493	993,766
-5280000 NUC MAINT SUPER AND ENGIN	8,779	1,454,542
-5290000 NUC MAINT OF STRUCTURES	1,195	
-5300000 NUC MAINT OF REAC PLANT EQUIP	70,985	
-5310000 NUC MAINT OF ELECTRIC PLANT	61,929	
-5320000 NUC MAINT OF MISC NUC PLANT	11,285	
-5320001 NUC MAINT OF MISC NUC PLT-REC	6,396	
-5460000 CT OPER SUPER AND ENGINEER	12,726	

**DIRECT CHARGES FROM PEC 2008-SUMMARY (con't)**

	<u>Direct Chgs</u>	<u>Indirect Charges</u>
-5472000 Fuel		1,799,449
-5480000 CT GENERATION EXPENSES	(2,833)	
-5490000 CT MISC OTHER POWER GEN EX	8,570	2,777,771
-5520000 CT MAINT OF STRUCTURES	832	
-5530000 CT MAINT OF GEN AND ELEC PLANT	6,120	
-5540000 CT MAINT MISC OTH PWR GEN PL	74,492	
-5560000 SYS CONTROL AND LOAD DISPATCH	81,269	
-5600000 TRANS OPER SUPER AND ENGINEER	356,507	
-5610000 TRANS LOAD DISPATCHING	4,228	
-5611000 LOAD DISPATCH-RELIABILITY	26,641	
-5612000 LD DISPTCH-MONITOR&OP TRNS SYS	4,228	
-5617000 GEN INTERCONNECTION STUDIES	4,619	
-5620000 TRANS STATION EXPENSES	7,524	
-5660000 TRANS MISC EXPENSES	358,944	
-5680000 TRANS MAINT SUPER AND ENGINEER	22,314	
-5700000 TRANS MAINT OF STATION EQUIP	26,428	
-5710000 TRANS MAINT OF OVERHEAD LINES	3,702	
-5730000 TRANS MAINT OF MISC EQPT	(5,141)	
-5800000 DIST OPER SUPER AND ENGINEER	368,534	
-5830000 DIST OVERHEAD LINE EXPENSES	11,021	
-5840000 DIST UNDER LINE EXPENSES	4,485	
-5860000 DIST METER EXPENSES	(47)	
-5880000 DIST MISC EXP	246,938	592,845
-5920000 DIST MAINT OF STATION EQUIP	21,585	
-5930000 DIST MAINT OF OVERHEAD LINES	13	
-5940000 DIST MAINT OF UNDER LINES	26	
-9010000 CUST. ACCOUNTS SUPER.	70,727	
-9010000 Supervision		196,205
-9030000 CUST ACCTS RECORDS & COLLEC EX	90,903	
-9050000 CUST ACCOUNTS MISC EXP	3,080	1,307,841
-9080000 CUSTOMER ASSIST EXPENSES	1,575	
-9080100 CUST ASST EXP-CONSERVATION PRG	13,127	
-9090100 INFO&INSTRUC ADJ-CONSERV PROG	1,478	
-9120000 DEMONSTRATING AND SELLING	28,278	
-9130000 ADVERTISING	12,211	
-9160000 MISCELLANEOUS SALES EXPENSES	50,182	
-9200000 SALARIES AND WAGES	13,559	4,865,631
-9210000 A&G OFF SUPPLIES AND EXPENSES	107,720	
-9230000 A&G OUTSIDE SERVICES EMP	92,103	
-9260001 A&G EMPLOYEE PENS AND BEN	375,464	
-9302000 MISC GENERAL EXPENSES	448,380	
Grand Total	<u>44,414,608</u>	<u>24,881,334</u>

The total costs charged to PEF by PEC for 2008 were \$69,295,942. We were provided monthly invoices for costs billed by PEC to PEF. These invoices totalled \$82,476,937. The difference is \$13,180,995. Audit time did not allow for investigation of this difference.

PEC, like Progress Energy Service Company, bills PEF for both direct charges and indirect charges. A Company representative explained that even though PEC received direct and allocated costs from PESC, none of these costs are further allocated to PEF

Costs charged by PEC to PEF for the period 2003 through 2008 are shown below.

	PEC costs allocated to PEF		
	Direct	Indirect	Total
2003	9,707	22,869	32,576
2004	20,415	25,306	45,721
2005	30,288	5,201	35,489
2006	13,890	27,099	40,989
2007	106,146	32,199	138,345
2008*	44,414	24,881	69,295
	<u>224,860</u>	<u>137,555</u>	<u>362,415</u>

\* - Direct includes \$37,841 for Construction Work In Progress

This documentation is being provided for informational purposes only.

## **AUDIT FINDING NO. 7**

### **SUBJECT: PAYROLL EXPENSE**

#### **AUDIT ANALYSIS:**

In response to a Document Request, it was determined that Progress Energy Florida employed approximately 4,100 employees during the 12-month period ended December 31, 2008. These employees were distributed among seven (7) departments: Power Generation Florida, Generation & Transmission Construction, Nuclear Generation, Financial Services, Customer and Market Services, Transmission and Distribution. Total costs incurred for the operation of these departments for 2008 was \$1,489,902,182.

The services provided by PEF are for: corporate security, customer service, generation and transmission construction, power operations, nuclear operations, projects and construction, financial services, fleet maintenance, real estate – land development, property/projects, EIT, distribution, transmission, CIG accounting, IT&T - nuclear, Executives and administration, and, external relations. Salaries and Wages incurred in providing these services is \$366,211,044 or 24.57% of total costs. The amount for Salaries and Wages do not include payroll burdening costs which historically account for an additional 45%-50% of base Salaries and Wages.

During 2008, employees were granted merit increases. Bargaining/Union employees received a 3.05% increase while Non-bargaining/non-union employees received a 3.75% increase. This impacts expenses by \$3,699,875 and \$5,015,413 respectively. The 2008 merit pay increases are being paid over a 12-month period and impact expenses during both 2008 and 2009. For Union employees, the increased expenses affect one month in 2008 and 11 months in 2009. For Non-union employees, the increase impacts 3 ½ months in 2008 and 8 ½ months in 2009.

The 2007 merit increases impact 2007 and 2008 in the same manner as the 2008 merit increases impact 2008 and 2009. During 2007, PEF union and non-union employees received merit increases of 3.14% and 3.5%, respectively. The dollar impact of the 2007 increases was \$3,749,296 (non-union) and \$4,255,447 (union).

For 2009, PEF has approved merit increases of 2% - 3% for its non-union employees totaling \$4,179,818. Because of the timing of the approval of merit increases for union employees (November 2009) the approved percentage cannot be provided. However, PEF has projected a 3% increase in the 2009 budget. PEF provided the following payroll data for 2009 and 2010.

	<u>2009</u>	<u>% Inc</u>		<u>2010</u>	<u>% Inc</u>
Base Payroll	\$ 306,758,806	-9.42%	\$	329,276,263	7.34%
Total Payroll	342,813,837	-10.30%		365,331,258	6.57%
Total Fringe Benefits	149,381,201	55.89%		149,625,061	0.16%
Total Payroll & Fringe Benefits	492,195,038	2.97%		514,956,355	4.62%
Average Regular Full Time Employees	4,297			4,416	

**Notes:**

The above amounts do not include bonuses, salary adjustments due to reorganization.  
 Union employee increases are agreed upon in bargaining unit labor contracts

This documentation is being provided for informational purposes only.

FLORIDA PUBLIC SERVICE COMMISSION

Explanation: Provide a schedule of the 13-month average adjusted rate base for the test year, the prior year and the most recent historical year. Provide the details of all adjustments on Schedule B-2.

Type of Data Shown:

Company: PROGRESS ENERGY FLORIDA INC.

Projected Test Year Ended 12/31/2010

Prior Year Ended 12/31/2009

Historical Test Year Ended 12/31/2008

Docket No: 090079-EI

Witness: Toomey/Skusser

(Thousands)

Line No.	(A) Plant in Service	(B) Accumulated Provision for Depreciation & Amortization	(C) Net Plant in Service (A-B)	(D) CWIP - No AFUDC	(E) Plant Held for Future Use	(F) Nuclear Fuel - No AFUDC (Net)	(G) Net Utility Plant	(H) Working Capital Allowance	(I) Other Rate Base Items	(J) Total Rate Base
1	\$10,236,948	\$4,625,527	\$5,611,421	\$1,740,650	\$35,090	\$86,294	\$7,473,454	(183,177)		\$7,290,278
2	Adjustments to System Per Books:									
3		(11,855)	21,644	(33,499)			(33,499)	411,900		\$378,401
4		(741)	(204)	(537)	(723)		(1,260)	3,441		\$2,181
5		(19,896)	(970)	(18,926)	(2,065)		(20,990)	(73,439)		(\$94,426)
6		(52,910)	(30,744)	(22,167)	0		(22,167)	(58,454)		(\$80,621)
7		0	0	0			0	112,507		\$112,507
8		0	0	0	0		0	(21,584)		(\$21,584)
9		(19,099)	0	(19,099)			(19,099)	0		(\$19,099)
10		(10,325)	(4,697)	(5,627)			(5,627)	8,979		\$1,352
11				0			0	0		\$0
12				0			0	(1,641)		(\$1,641)
13				0			0	(559,406)		(\$559,406)
14				0			0	(54,213)		(\$54,213)
15				0			0	(5,257)		(\$5,257)
16				0			0	0		\$0
17				0			0	82,404		\$82,404
18				0			0	34,193		\$34,193
19				0			0	104,391		\$104,391
20				0			0	(257)		(\$257)
21				0			0	30,216		\$30,216
22			(61,178)	61,178			61,178	0		\$61,178
23				0			0			\$0
24	10,122,121	4,549,378	5,572,744	1,737,863	35,090	86,294	7,431,990	(161,394)	0	7,270,597
25	0.89654	0.93238	0.90235	0.90223	0.75742	0.88581	0.90144	1.11877		0.89662
26	9,272,567	4,244,024	5,028,543	1,567,953	26,578	76,439	6,699,513	(180,562)		6,518,952
27	Jurisdictional Company/FPSC Adjustments:									
28	(207,799)		(207,799)				(207,799)	203,942		(\$3,858)
29			0				0	0		\$0
30			0	(1,329,985)			(1,329,985)	0		(\$1,329,985)
31			0	(80,925)			(80,925)	0		(\$80,925)
32			0	0			0	0		\$0
33			0	0			0	(7,706)		(\$7,706)
34		(2,286)	2,286				2,286	0		2,286
35	(207,799)	(2,286)	(205,513)	(1,410,810)	0	0	(1,616,423)	196,236	0	(1,420,187)
36	\$9,064,768	\$4,241,738	\$4,823,029	\$157,043	\$26,578	\$76,439	\$5,083,090	\$15,675	\$0	\$5,098,765

Note: Differences are due to rounding



FLORIDA PUBLIC SERVICE COMMISSION  
 Explanation: Provide the calculation of jurisdictional net operating income for the test year, the prior year and the most recent historical year.  
 Type of data shown:  
 - Projected Test Year Ended 12/31/2010  
 - Prior Year Ended 12/31/2009  
 X Historical Year Ended 12/31/2008  
 Witness: Toomey / Slusser

Docket No. 090079-EI

(Thousands)

Line No.	(A) Total Company Per Books	(B) Non- Electric Utility	(C) Total Electric (A) - (B)	(D) Jurisdictional Factor (1)	(E) Juris. Amount (C) * (D)	(F) Juris. Adjustments (Sched C-2)	(G) Adjusted Juris. Amt (E) + (F)
1							
2	Operating Revenues:						
3	4,549,980		4,549,980	various	4,358,011	(2,979,435)	1,378,576
4	180,911		180,911	various	130,674	-	130,674
5							
6	4,730,891	-	4,730,891		4,488,685	(2,979,435)	1,509,250
7							
8	Operating Expenses:						
9	2,628,138		2,628,138	various	2,612,508	(2,605,339)	7,169
10	816,441		816,441	various	755,490	(178,815)	576,675
11	299,544		299,544	various	272,703	4,874	277,577
12	309,269		309,269	various	300,115	(195,136)	104,979
13	184,322		184,322	various	180,069	(1,144)	158,945
14	(5,940)		(5,940)		(5,460)	-	(5,460)
15	-		-		(7,788)	5,667	(2,120)
16	-		-		-	-	-
17	-		-		-	-	-
18							
19	4,231,774	-	4,231,774		4,087,656	(2,969,892)	1,117,764
20							
21							
22	499,117	-	499,117		401,028	(9,543)	391,486
23							
24							
25	(1) Jurisdictional factor has been rounded to four places.						
26							
27							

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FLORIDA PUBLIC SERVICE COMMISSION

Explanation: Provide the Company's 13-month average cost of capital for the test year, the prior year and historical base year.

Type of data shown:

Company: PROGRESS ENERGY FLORIDA INC.

— Projected Test Year Ended 12/31/2010  
 — Prior Year Ended 12/31/2009  
X Historical Year Ended 12/31/2008  
 Witness: Toomey

Docket No. 090079-EI

(Thousands)

		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
Line No.	Class of Capital	Co Total	Specific Adjustments	Pro Rata Adjustments	System Adjusted	Jurisdictional Factor	Jurisdictional Capital Structure	Ratio	Cost Rate	Weighted Cost Rate
1										
2	Common Equity	3,207,197	844,577	(718,576)	3,333,198	76.54%	2,551,396	50.04%	11.75%	5.880%
3	Preferred Stock	33,497	0	(5,941)	27,556	76.54%	21,093	0.41%	4.51%	0.019%
4	Long Term Debt - Fixed	3,506,938	(110,173)	(602,411)	2,794,354	76.54%	2,138,938	41.95%	6.27%	2.630%
5	Short Term Debt	57,531	1,791	(10,521)	48,801	76.54%	37,355	0.73%	3.87%	0.028%
6	Customer Deposits Active	180,135	0	(31,947)	148,188	76.54%	113,431	2.22%	6.23%	0.139%
7	Customer Deposits Inactive	1,001	0	(177)	823	76.54%	630	0.01%		
8	Investment Tax Credit Post '70 (Wtd Cost)	14,477	0	(2,567)	11,909	76.54%	9,116	0.18%	9.23%	0.017%
9	Deferred Income Taxes	442,296	32,524	(84,209)	390,611	76.54%	298,993	5.86%		
10	FAS 109 DIT - Net	(114,638)	0	20,331	(94,307)	76.54%	(72,187)	-1.42%		
11										
12	<b>Total</b>	<b>\$7,328,432</b>	<b>\$768,719</b>	<b>(\$1,436,017)</b>	<b>\$6,661,134</b>	<b>76.54%</b>	<b>\$5,098,785</b>	<b>100.00%</b>		<b>8.713%</b>
13										
14										
15										
16										
17										
18										
19										

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Supporting Schedules:

Recap Schedules: