

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-

DATE: July 11, 2005
TO: Denise Greene, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief, Bureau of Auditing *DNV*
Division of Regulatory Compliance and Consumer Assistance
RE: Docket No. 050078-El.; Company Name: Progress Energy Florida, Inc.; Audit Purpose: Rate Case Audit Control No. 05-125-2-1

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 confidential work papers associated with this audit.

DNV/jcp
Attachment

cc: Division of Regulatory Compliance and Consumer Assistance (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

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DOCUMENT NUMBER-DATE

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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
BUREAU OF AUDITING*

TAMPA DISTRICT OFFICE


PROGRESS ENERGY FLORIDA


RATE CASE AUDIT

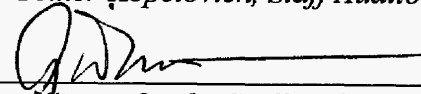
FOR THE PERIOD ENDED DECEMBER 31 2004

DOCKET NO. 050078-EI

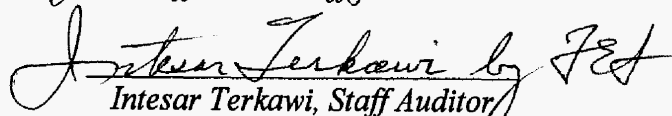
AUDIT CONTROL NO. 05-125-2-1


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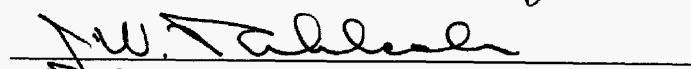

Joseph W. Rohrbacher, Tampa District Supervisor

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DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE

AUDITOR'S REPORT

June 30, 2005

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying rate case Minimum Filing Requirements (MFRs) for the historical period ended December 31, 2004 for Progress Energy Florida (PEF). These schedules were prepared by the Utility as part of its petition for rate relief in Docket 050078-EI. Confidential information is associated with this audit.

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 FINDINGS

In 2004, PEF stated Accretion Expense at a net positive expense of \$184,933. Accretion expense is supposed to have a neutral effect, ie, net zero in the income statement. Operations and Maintenance expense for ratemaking purposes and the general ledger for 2004 should be reduced by \$184,933 to properly state the net balance of Accretion Expense.

Further, Taxes Other than Income was understated by \$6,878 for Regulatory Assessment Fees, and by \$117,820 for Gross Receipts Tax for a total of \$124,698.

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.

RATE BASE: Compiled plant in service, accumulated depreciation and working capital accounts for 2004 and agreed same to the Minimum Filing Requirements. Verified plant additions and retirements.

NET OPERATING INCOME (NOI): Compiled NOI accounts and agreed same to the Minimum Filing Requirements (MFR). Calculated the rate of return. Verified the amounts of revenue and expense which were removed from NOI for Fuel Adjustment, Capacity Cost Recovery, Energy Conservation Cost Recovery and Environmental Cost Recovery Clauses.

REVENUE: Compiled revenue and agreed it to the MFR. Recomputed revenues using FPSC-approved rates and company provided KWH sales. Reconciled Utility "revenue recap" report to the general ledger on a test basis. Tested customer bills on a spot-check basis. Analyzed a shared-revenue refund prescribed by FPSC Order PSC-02-0655-AS-EI, and the Allowance for Doubtful Accounts.

OPERATING AND MAINTENANCE (O&M) EXPENSES: Compiled O&M expense and agreed it to the MFR. Tested O&M expense by tracing to vendor invoices.

TAXES: Traced MFR income tax amounts to the general ledger. As of the end of audit field work, the 2004 tax return had not been filed with the Internal Revenue Service. Recomputed taxable income and income tax. Verified that sales tax discounts (collection and remitting expense) were stated "above the line". Reviewed property tax and regulatory assessment fees.

SUMMARY OF SIGNIFICANT PROCEDURES (Continued)

OTHER: Performed analytical review. Analyzed accumulated provision accounts 228.1, 228.2 and 228.4. Used the information gleaned from the previous rate case audit (historical year 2000) as a starting point for the present audit field work.

Disclosure No. 1**Subject: Accretion Expense**

Statement of Fact: In its MFR C-6, page 6 of 7, PEF states 2004 actual Accretion Expense to be \$17,369,000 (\$17,369, expressed in thousands).

Audit Opinion: Accretion Expense is designed to be offset by the amounts in general ledger accounts 4031001, Nuclear Decommissioning Expense, and 4073002, Nuclear Decommissioning Regulatory Liability Amortization. At the end of 2004, the three accounts carried the following balances and had the indicated net effect in the general ledger:

Account 4031001	\$1,494,017
Account 4073002	(\$18,677,749)
Account 4110101	\$17,368,665

Net Total	\$184,933
	=====

Audit Conclusion: Operations and Maintenance expense for 2004 should be reduced by \$184,933. The general ledger account 4110101 should be adjusted by (\$184,933) to correct the expense amount.

Disclosure No. 2

Subject: Taxes Other than Income

Statement of Fact: PEF incurred \$2,285,510 in Regulatory Assessment Fee (RAF) during 2004. The general ledger reflected \$2,278,632 for RAF in general ledger account 408113J, for a difference of \$6,878. For the Historical Base Year 2004, the MFR recorded \$2,279 (rounded in thousands).

PEF incurred \$77,016,181 for Gross Receipts Tax during 2004. The general ledger reflected \$76,898,361 in general ledger account 408125J, for a difference of \$117,820. For the Historical Base Year 2004, the MFR recorded \$76,898 (rounded in thousands).

Audit Conclusion: Taxes Other Than Income are understated by \$124,698 (\$6,898 + \$117,820) in Historical Base Year 2004.

Disclosure No. 3

Subject: Minimum Filing Requirement Error

Statement of Fact: PEF's MFR B-21 presents information about accumulated amortization accounts in the general ledger. Account 2283151, Minimum Pension Liability Adjustment, showed a December 2004 balance of \$6,032,000 (rounded to thousands) in MFR B-21. The general ledger balance at the same time period was \$7,153,634, a difference of \$1,121,634. PEF stated "MFR B-21 inadvertently used the previous estimate of the minimum pension liability the schedule should have shown \$7,153,634."

Audit Opinion: In the general ledger, PEF did state the offsetting regulatory asset, account 1823050, Florida Minimum Pension Liability, with a December 2004 balance of \$7,153,634. The MFR is not correct but the general ledger accounts are correct.

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:

☒ Projected Test Year Ended 12/31/2006
☐ Prior Year Ended 12/31/2005
☐ Historical Year Ended 12/31/2004
 Witness: Portuondo

Company: PROGRESS ENERGY FLORIDA INC.

Docket No. 050078-EI

		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)
Line No.	Class of Capital	Co Total Per Books	Specific Adjustments	Pro Rata Adjustments	System Adjusted	Jurisdictional Factor	Jurisdictional Capital Structure	Ratio	Cost Rate	Weighted Cost Rate
1										
2	Common Equity	\$2,715,814	\$874,683	(8,126)	\$3,582,371	74.93%	\$ 2,684,417	57.83%	12.80%	7.40%
3	Preferred Stock	33,497	\$0	(100)	33,397	74.99%	25,044	0.54%	4.51%	0.02%
4	Long Term Debt - Fixed	2,131,302	(\$97,379)	(6,377)	2,027,546	75.00%	1,520,653	32.76%	5.73%	1.88%
5	Short Term Debt *	72,288	(\$38,652)	(216)	33,420	75.25%	25,148	0.54%	4.04%	0.02%
6	Customer Deposits									
7	Active	136,401	\$0	(408)	135,993	74.99%	101,979	2.20%	5.92%	0.13%
8	Inactive	-	\$0		-		-	0.00%		
9	Investment Tax Credit									
10	Post '70 Total	26,572	\$1,587	(80)	28,079		-			
11	Equity **			-		74.98%	13,485	0.29%	12.70%	0.04%
12	Debt **			-		74.98%	7,568	0.16%	5.38%	0.01%
13	Deferred Income Taxes	407,236	\$6,596	(1,218)	412,614	74.99%	309,400	6.67%		
14	FAS 109 DIT - Net	(56,547)	(\$5,098)	169	(61,476)	74.97%	(46,088)	-0.99%		
15										
16	Total	\$5,466,563	\$741,737	(\$16,356)	\$6,191,944	74.96%	\$ 4,641,606	100.00%		9.50%
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Supporting Schedules:

Recap Schedules: