State of Florida



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CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE:	July 24, 2008
то:	James E. Breman, Senior Analyst - PSC, Division of Economic Regulation
FROM:	Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance
RE:	Docket No: 080009-EI; Company Name: Progress Energy Florida, Inc.; Audit Purpose: Nuclear Cost Recovery Clause for Levy; Company Code: EI801; Audit Control No: 08-087-2-1; Record # 5791:

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 Commission Clerk. There are confidential work papers associated with this audit.

DNV:sbj Attachments

Copy: Division of Regulatory Compliance (Salak, District Offices, File Folder-6) Division of Commission Clerk -2 Division of Regulatory Compliance (Harvey) General Counsel Office of Public Counsel Mr. Paul Lewis, Jr. Progress Energy Florida 106 E. College Ave., Suite 800 Tallahassee, FL 32301-7740 Mr. John T. Burnett

Progress Energy Svs Co., LLC P.O. Box 14042 St. Petersburg, FL 33733-4042

Carlton Fields Law Firm J. Michael Watts / Diane M. Tripplett P.O. Box 3239 Tampa, FL 33601-3239 ECR _____ GCL _____ OPC _____ RCP _____ SSC _____ SGA ____ ADM ____ CLK Magnete ENED-FPSC

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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE BUREAU OF AUDITING

Tampa District Office

PROGRESS ENERGY FLORIDA, INC.

NUCLEAR COST RECOVERY CLAUSE

LEVY COUNTY UNITS 1 & 2 PRE-CONSTRUCTION COST

AS OF DECEMBER 31, 2007

DOCKET NO. 080009-EI AUDIT CONTROL NO. 08-087-2-1

Jeffery A. Small, Audit Manager

Joseph W. Rohrbacher, District Supervisor

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¹ Schedules included in the company's filing that did not contain information reviewed by the audit staff is not incorporated in this report.

DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE AUDITOR'S REPORT

JULY 17, 2008

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

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 March 27, 2008. We have applied these procedures to the attached schedules prepared by Progress Energy Florida, Inc. in support of its 2007 filings for Nuclear Cost Recovery Clause relief in Docket No. 080009-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 which are only for internal Commission use.

OBJECTIVES AND PROCEDURES

GENERAL

To verify that the company's 2007 Nuclear Cost Recovery Clause (NCRC) filings in Docket No. 080009-EI are consistent and in compliance with Section 366.93, F.S. and Chapter 25-6.0423, F.A.C.

SPECIFIC

- Objective: Verify that the company's filing is properly recorded on its books and records according to the Code of Federal Regulations (CFR) Uniform System of Accounts. (USoA)
 Procedures: We reconciled the company's filing to the general ledger and verified that the costs incurred were posted to the proper USoA account.
- 2. Objective: Verify that Schedule T-1 is accurately calculated and that it includes the correct balances from the supporting schedules of the company's 2007 NCRC filing. *Procedures:* We reconciled and recalculated a sample of the monthly revenue requirement accruals displayed on Schedule T-1 to the supporting schedules in the company's 2007 NCRC filing.
- 3. Objective: Verify that the carrying cost amounts displayed on Schedule T-3, which rolls forward to Schedule T-1, are accurately calculated and that they include the correct balances from the supporting schedules of the company's 2007 NCRC filing. *Procedures:* We reconciled and recalculated a sample of the carrying cost accruals displayed on Schedule T-3 to the supporting schedules in the company's 2007 NCRC filing. NCRC filing. We recalculated a sample of the Allowance for Funds Used During Construction (AFUDC) balances displayed as Other Adjustments in the filing and reconciled the rates applied by the company to its approved AFUDC rates in Order No. PSC-05-0945-FOF-EI, issued September 28, 2005.
- 4. Objective: Verify that the Deferred Tax Return Requirement amount displayed on Schedule T-3A, which rolls forward to Schedule T-1, is accurately calculated and that it includes the correct balances from the supporting schedules of the company's 2007 NCRC filing. Procedures: We reconciled and recalculated a sample of the monthly deferred tax carrying cost accruals displayed on Schedule T-3A to the supporting schedules in

carrying cost accruals displayed on Schedule T-3A to the supporting schedules in the company's 2007 NCRC filing. We recalculated a sample of the monthly carrying cost balances for deferred tax assets based on the equity and debt components established in Order No. PSC-05-0945-FOF-EI.

5. *Objective:* Verify that the Construction Period Interest (CPI) amount displayed on Schedule T-3B, which rolls forward to Schedule T-3A, is accurately calculated and that it includes the correct balances from the supporting schedules of the company's 2007 NCRC filing.

Procedures: We reconciled and recalculated a sample of the monthly CPI accruals displayed on Schedule T-3B to the supporting schedules in the company's 2007 NCRC filing. We recalculated the company's CPI rate and reconciled the component balances to the company's general ledger.

6. Objective: Verify that the jurisdictional nuclear construction amounts, displayed on Schedule T-6 of the company's 2007 filing, which rolls forward to Schedule T-3, are accurately calculated and are supported by original source documentation. *Procedures:* We recalculated a sample of monthly jurisdictional nuclear construction expenditures displayed on Schedule T-6 of the company's 2007 NCRC filing. We sampled and verified the construction and transmission cost expenditures and traced the invoiced amounts to supporting documentation. We reconciled the jurisdictional factors applied by the company to the eligible carrying cost to the factors approved in Order No. PSC-06-0972-FOF-EI, issued November 22, 2006, in Docket No. 060007-EI. Audit Finding No. 1 discusses our analysis and discloses additional information concerning the company's balances for generation, transmission and future use land.

AUDIT FINDING NO. 1

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SUBJECT: LAND AND LAND RIGHTS

AUDIT ANALYSIS:

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Le Pre-Construction C Schedule T-1 True-up Fill				Nuclear F arrying Co Revenue	(Section (5)(c)1.a.)					
COMPANY:			i retail	e calculatio revenue ri rent year a	For the Year Ended 12/31/200					
DOCK	Progress Energy - FL ET NO.: 080149-EI		uch c	Wilness:						
Line No.			(H) ctual July	(I) Actual August	(J) Actual September	(K) Actual October	(L) Actual November	(M) Actual December	(N) 12 Month Total	
					Jurisdiction	Jurisdictional Dollars				
1.	Preconstruction Revenue Requirements (Schedule T-2, line 7)	\$	-	s .	\$ -	\$ -	\$ -	s .	\$ -	
2.	Construction Carrying Cost Revenue Requirements (Schedule T-3, line T	7	-	-	224,665	460,558	483,321	544,738	1,713,284	
3.	Recoverable O&M Revenue Requirements (Schedule T-4, line 24)		-			-	-	-	-	
4.	Deferred Tax Liability Carrying Cost (Schedule T-3A, line 8)		•		(70)	(285)) (581)	(004)) (1,841)	
5.	Other Adjustments		-	-	-	•		-	•	
6.	Total Period Revenue Requirements (Lines 1 though 5)				224,596	460,273	482,739	543,635	1 711,443	
7.	Total Return Requirements from most recent Projections		•				•			
8.	Difference (Line 6 - Line 7)	\$		\$ -	\$ 224,595	\$ 460,273	\$ 482,739	\$ 543,835	\$ 1,711,443	

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Schedu	i a <u>7-3</u>	Levy County Pre-Construction Cost True-up Filing		[Section (5)(c)1.a.]							
COMP		EXPLANATION:	on con on con	siruci siruci	calculation lion expension expension g costs on	year.	For the Year Ended 12/31/200				
	060149-EI	0					-			Wilness:	
Line No.		() Baginning of Period	(J) Actus July	al	(K) Actual August	(L) Actual September	(M) Actual October	(N) Actual November	(O) Actual December	(P) 12 Month Total	
						Jurisdictional	Dollars				
1.	Nuclear CWIP Additions (Schedule T-6, line 48)		\$	- :	s -	\$ 42,706,524	\$ 1,831,101	\$ 1,875,966	\$ 9,148,386	\$ 55,561,072	
2,	Transfers to Plant in Service			•	-			-	-		
3.	Other Adjustments (d)			•		-	161,386	3 10,364	125,693	787,441	
4.	CWIP Base Eligible for Return (PM CWIP Bal, + Line 1 -	2 + 3)		-		42,708,624	44,689,020	46,874,434	56.348,513	50,348,513	
5	Average Net CWIP Additions					21,353,262	43,773,460	45,938,904	61,774,320	nka	
6.	Return on Average Net CWIP Additions (c)										
a.	Equity Component (a)			•	•	116,574	239,178	250,999	282,895	889,747	
b.	Equity Comp. grossed up for laxes (b)			•	-	189,946	389,383	408,627	480,553	1,448,509	
c.	. Debt Component				•	34,720	71,176	14,683	84,186	264,776	
7.	Total Return Requirements (Line 6b + 6c)		 	-		224,006	400,550	453,321	544,738	1,713,284	
8 .	Total Return Requirements from most recent Projections			-		-	-	·		•	
9.	Difference (Line 7 - Line 8)		\$	•	<u>s</u> -	\$ 224.666	\$ 460,558	\$ 463,321	\$ 644,738	\$ 1,713,284	

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Notes:

(a) The monihity Equity Component of 5.85% reflacts an 11.75% return on equily.

(b) Requirement for the payment of income taxes is calculated using a Federal income Tax rate of 38.575%.

(c) AFUDC actual monthly role is calculated using the formula M = [(1 + A/100)1/12- 1] x 100; resulting in a monthly accrual rate of 0.005464 (Equity) and 0.001626 (Cebi), which results in the annual rate of 8.648%. (d) Return on average net Construction Work in Progress (CWIP) additions that is being included in the Levy costs unit such time as these costs are recovered under the Page 2 of 2

Capacity Cost Recovery (CCR) rate.

Schedu	ile T-3A	Lavy County Nucle Pre-Construction Cos True-up Filing: Defem		[Section (5)(c)1.a.]						
COMP	DA PUBLIC SERVICE COMMISSION ANY: Progress Energy - FL ET NO.;	EXPLANATION:	Provide the deferred ta: year.		For the Year Ended 12/31/20					
	080149-51								Witnesa:	
Line No.		(1) Beginning of Period	(J) Actual July	(X) Actual Aucust	(L) Actual September	(M) Actual October	(N) Actual November	(O) Actual December	(P) 12 Month Total	
					Jurisdictional					·····
1,	Construction Period Interest (Schedule T-38, Line 7)		s .	s .	s . :	i -	s -	\$ -	\$.	
2.	Recovered Costs Excluding AFUDC (Schedule T-2, Line 1+ Line 3)		•	-	-	-	,			
3.	Other Adjustments (d)	-	•	•	(34,720)	(71,178)	(74,663)	(84,186)	(264,775)	
4.	Tax Basis Less Book Basis (Prior Mo Balance + Line 1 + 2 + 3)			-	(34,720)	(105,608)	(169,589)	(254,775)	M2	
5	Deferred Tax Liability (DTL) on Tax Basis in Excess of Book (Line 4 * Tax Rate				(13.393)	(40,849)	(69,662)	(102, 137)	۸ <u>۵</u>	
3.	Average Accumulated DTA		-	-	(8 ,867)	(77,121)	(54,256)	(88.900)		
7.	Carrying Costs on DTA (c)									
a	Equity Component (a)				(77)	(148)	(302)	(40-ü)	(556)	
b	Equity Comp. grossed up for laxes. (b)		•		(60)	(241)	(492)	(764)	(1,566)	
¢	Debt Component			-	(1*)	(44)	(90)	(140)	(285)	
8.	Total Return Requirements (Line 7b + 7c)		······		(70)	(206)	(581)	(904)	(1.841)	
9.	Total Return Requirements from most recent Projections		-							
10.	Difference (Line 6 - Line 9)		\$	k -	\$ (70)	š (20 5)	\$ (581)) \$ (904)	\$ (1,841)	

Notes:

(a) The monthly Equity Component of 8.85% reflects an 11.75% return on equily.

(b) Requirement for the payment of income taxes is calculated using a Federal Income Tax rate of 38.575%.

(c) AFUDC schuel monthly relia is celculated using the formula M = [(1 + ArID0)⁵¹⁵ 1) x 100; resulting in a monthly account rate of 0.005464 (Equity) and 0.001626 (Debt), which results in the annual rate of 0.048%.

(d) Return on average net Construction Work in Progress (CWIP) additions that is leaving included in the Levy costs until such time as these costs are recovered under the Capacity Cost Recovery (ICCR) rate.

Page 2 of 2

Sched	Jule 7-3B	clear Fil Costs a neiructi	nd Ca	rrying Costs rriod Interes	[Section (5)(c)1.a.)					
COMP	IDA PUBLIC SERVICE COMMISSION PANY: Progress Energy - FL ET NO.: 080149-EI	EXPLANATION:	Provid Const year.	de the	·	For the Year Ended 12/31/2007 Witness:				
iline No.		(I) Beginnin al Perloc		ual	(K) Actual August	(L) Actual September	(M) Actual October	(N) Actual November	(O) Actual December	(P) 12 Month Total
1. 2.	Beginning Balance Additions Site Selection & Preconstruction (Schedule T-2		\$		\$.	Jurisdictiona \$ 42,493,547		\$ 44,537,625	\$ 46,412,885	
3.	Additions Construction (Schedule T-3, line 1)	(, na 10 ()		•	- 42,483,54	- 17 212,977	- 1,831,161	- 1,875,060	9,148,386	55,581,072
4. 5	Other Adjustments Average Balance Eligible for CPI			-	21,248,77	4 42,800,038	-	-	-	
6 .	Monthly CPI Rate (a)						43.822,075	45,475,155	50,986,878	
7. 8.	Construction Period Interest for Tax (CPt) Ending Batance Excluding CPt				-		-			
	working commune meridial CLI	\$	\$		\$ 42,483,54	7 \$ 42,706,524	\$ 44,537,825	\$ 46,412,685	\$ 55,561,072	\$ 55,561,072

(a) CPI is not calculated until construction starts for tax purposes.

Page 2 of 2

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