State of Florida

RECEIVED--FPSC

09 JUL 29 AM 9:23

COMMISSION CLERK

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 28, 2009

TO: Jenny Wu, Economic Analyst, Division of Economic Regulation

FROM: Dale N. Mailhot, Assistant Director, Division of Regulatory Compliance DM

RE: Docket No.: 090007-EI
Company Name: Progress Energy Florida, Inc.
Company Code: EI801
Audit Purpose: Enviromental Cost Recovery Clause
Audit Control No: 09-173-2-1

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 a response to the Office of the Commission Clerk. There 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

Mr. Paul Lewis
Manager, Reguatory Affairs
Progress Energy Florida, Inc.
106 College Avenue, Suite 800
Tallahassee, FL 32301-7740

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

DOCUMENT NUMBER-DATE

07743 JUL 29 8

FPSC-COMMISSION CLERK

State of Florida

Public Service Commission

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

TO: Dale Mailhot; Assistant Director, RCP

FROM: Joseph W. Rohrbacher; District Audit Supervisor; Tampa District Office JWR

RE: Completed Audit Summary Report

DATE: **July 24, 2009**

Originator: Jenny Wu

Company: Progress Energy Florida, Inc.

Audit Control No.: 09-173-2-1 Docket No.: 090007-EI

Purpose of Audit: Cost of approved environmental projects - ECRC

Auditors Assigned: Audit Hours:

Audit Manager: Simon Ojada 127

Audit Supervisor Hours: 6

Estimated Hours: 200 Total Hours: 133

Field Work Began: June 20, 2009 Field Work Ended: July 17, 2009

Number of Work Paper Binders: 1

Recommendation for the next audit (use additional paper as necessary – be specific)

FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING

TAMPA DISTRICT OFFICE

PROGRESS ENERGY FLORIDA, INC.

ENVIRONMENTAL COST RECOVERY CLAUSE SUPPLEMENTAL AUDIT

HISTORICAL YEAR ENDED DECEMBER 31, 2008

DOCKET NO. 090007-EI

AUDIT CONTROL NO. 09-173-2-1

Simon Ojada, Audit Manager

Joseph W. Rohrbacher, Tampa District Supervisor

TABLE OF CONTENTS

DIVISION OF REGULATORY COMPLIANCE
AUDITOR'S REPORT

July 17, 2009

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 May 14, 2009. We have applied these procedures to the schedules prepared by Progress Energy Florida, Inc. (PEF) in support of its filing for Environmental Cost Recovery Clause in Docket No. 090007-EI.

This audit is 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 only for internal Commission use.

OBJECTIVES AND PROCEDURES:

To audit costs of approved environmental projects recovered through the Environmental Cost Recovery Clause (ECRC).

Objectives: - Review the history of the position of three employees whose time was charged to the ECRC. Verify when the positions were created, and whether they were created as of the last rate case. Also, verify if the associated labor costs were simply payroll charges associated with modifications and expansions to employee workload due to the CAIR/CAMR CR project.

Procedures: -We verified that these positions represent a Supervisor, Lead Regulatory Specialist, and Senior Regulatory Specialist. These positions were not created as of the last rate case. All three positions were created in 2007, however, their time was not charged to ECRC until 2008 when their previous positions were filled.

Objective: - Verify the formulas used in the calculations of the Recoverable Costs Allocated to Demand-Prod-Intm and to Demand-Peaking on line 4 for the months of January, February, October, and November 2008 on Form 42-5A, O&M Activities.

Procedures: - We verified that the company used an incorrect formula, however, PEF corrected this oversight prospectively in the first quarter of 2009.

Objective: - Refer to Capital Project 4.1 Above Ground Tank Secondary Containment – Peaking on page 2 of 13 of Form 42-8A, the Capital Program Details Project 4.1a on page 4, Project 4.1c on page 5 of 14 of Form Appendix. Reconcile the calculations for the month of March (1) Project 4.1a line 6 - Average Net Investment and line 7c – Other. (2) Project 4.1c line 3 – Less Accumulated Depreciation and explain where the extra numbers come from.

Procedures: - We verified that the ($367,843) is due to costs associated with additional work necessary to bring Turner Tank 8 into compliance with the secondary containment requirements as per Rule 62-761.510 F.A.C. The additional $6,840 in depreciation was an error. It was corrected in July 2008.

Objective: - Refer to Capital Project 4.3 Above Ground Tank Secondary Containment – Intermediate on page 4 of 13 of Form 42-8A, the Capital Program Details on page 8 of 14 of Form Appendix. Please reconcile the calculations for the month of July line 3 less: Accumulated Depreciation and line 8e: Other. Find out where those extra numbers in the formula come from and what they represent.

Procedures: - We verified that the formula for the depreciation expense was utilizing the rate from project 4.1h instead of the rate for project 4.3 resulting in an overstatement of depreciation and property tax expense. This issue was recognized in July 2008, therefore, the depreciation expense was reduced and corrected in the July 2008 column for September 2007 through June 2008 (7,721) along with the correction to the property tax expense ($1,661) .

Objective: - Refer to Capital Project 7.2 CAIR/CAMR-Pkg on page 7 of 13 of Form 42-8A, the Capital Program Details Project 7.2a on page 10 through Project 7.2h on page 13 of 14 of Form Appendix for the month of May 2008, line 7a – Equity and 7b – Debt. Find out where those extra numbers in the formula in the Capital Program details come from and what they represent.

Procedures: - We verified that PEF performed a reconciliation in May 2008 to ensure that the depreciation rates that were being utilized on the ECRC schedules agreed to the plant accounting system. All of the ECRC asset depreciation rates agreed to the plant system except for the two exceptions noted below for page 1 and page 7…each of the sites that are part of the CAIR/CAMR – Peaking program (CAIR CT's, 42-8E page 7), were classified in the plant system as Prime Movers which have various depreciation rates based on the plant sites per the 2005 Rate Case Settlement Agreement. However, the ECRC schedules were being depreciated using the rates for the Misc. Power Plant Equipment group. The depreciation was adjusted for these assets from their in-service dates in November 2007/January 2008 through April 2008. These adjustment calculations are included in Line 8a of Projects 7.2a through 7.2h of the Capital Program Detail with the current month actual depreciation expense. Because the Net investment would have been affected by the depreciation adjustments in the prior periods, the return on debt and equity was also adjusted.

Objective: - Refer to Capital Project 7.4 CAIR/CAMR CR AFUDC on page 9 of 13 of Form 42-8A, the Capital Program details Project 7.4a on page 14 of 14 of Form Appendix. Find out where those extra numbers in the formula, in the Capital Program Details, come from and what did they represent for the month of May on line 2 PIS, line 3 Less: Accumulated Depreciation, and line 3 CWIP-NIB, also, for the months of June, October, and November 2008, line 4 CWIP-NIB.

Procedures: - We verified that line 2 in the month of May is the amount of the project that was placed in service, line 3 is the accumulated depreciation associated with the in-service amount using the half month convention approach for the first month and line 4 is the remaining Construction Work In Progress (CWIP) balance for the project. The extra amounts for the months of June, October, and November in line 4 CWIP –NIB were included due to timing issues related to the close process. These true-ups were included in line 4 in those months in order for CWIP balance to properly remain at zero.