

State of Florida



# Public Service Commission

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COMMISSION  
CLERK

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**DATE:** May 2, 2011  
**TO:** Office of Commission Clerk  
**FROM:** Clarence J. Prestwood, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 110007-EI  
Company Name: Progress Energy Florida, Inc.  
Company Code: EI801  
Audit Purpose: Environmental Cost Recovery Clause  
Audit Control No: 11-005-2-3

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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.

CJP/pld

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

DOCUMENT NUMBER-DATE

02981 MAY-2 =

FPSC-COMMISSION CLERK

State of Florida



**Public Service Commission**

Office of Auditing and Performance Analysis  
Bureau of Auditing  
Tampa District Office

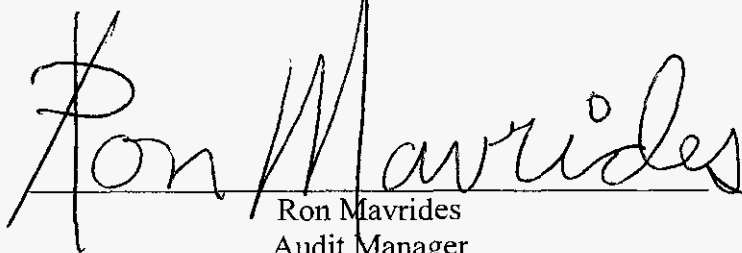
**Auditor's Report**

Progress Energy Florida, Inc.  
Environmental Cost Recovery Clause Audit

**Twelve Months Ended December 31, 2010**

Docket No. 110007-EI  
Audit Control No. 11-005-2-3

**April 13, 2011**

  
Ron Mavrides  
Audit Manager

  
Linda Hill-Slaughter  
Reviewer

DOCUMENT NUMBER-DATE

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Table of Contents

Purpose.....1

Objectives and Procedures.....2

Findings

    None

Exhibit

1 Calculation of Final True-Up & Interest for 2010.....5

## Purpose

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 January 5, 2011. We have applied these procedures to the attached summary schedule prepared by Progress Energy Florida, Inc. (PEF) and to several of its related schedules in support of its filing for the Environmental Cost Recovery Clause in Docket No. 110007-EL.

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

## Objectives and Procedures

### **Revenues**

**Objectives:** The objectives were to verify that the revenues and Kilowatt Hours (KWH) sold were completely and properly recorded on the books of the Utility and that the Environmental Cost Recovery Clause filing agreed with the Utilities general ledger.

**Procedures:** We compiled ECRC revenues and reconciled it to the filing. We computed ECRC revenues using approved Florida Public Service Commission (FPSC) rate factors and Utility provided KWH sales and verified that the rates used comply with the Commission Order. We tested two months of revenues by type and traced it to the appropriate general ledger account. We selected a sample 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:** The objective was to reconcile actual O&M project costs for a statistical sample or a judgmental sample of the O&M projects listed in Form 42-5A.

**Procedures:** We judgmentally selected costs from June and September 2010 for selected projects listed on Form 42-5A. We examined the invoices to determine that the following properties were correct: amount, account and time period.

**Objectives:** The objectives were to verify that the environmental costs per the Utility's ECRC filing agree to the general ledger and to reconcile to the books and records of the Utility.

**Procedures:** We traced environmental costs accounts to the general ledger and reconciled the filing balances to the general ledger.

**Objective:** The objective was to verify that the new depreciation rates and amortization periods prescribed by Order No. PSC-10-0131-FOF-EI are used in calculating the depreciation expense.

**Procedures:** We recalculated depreciation expense. We compared the rates approved in Commission Order No. 10-0131-FOF-EI to the rates used in the filing and verified that the most recent Commission rates were used.

**Objectives:** The objectives were to review Project No. 5 Deferred Gain on Sales of Emissions Allowances for SO<sub>2</sub>, Annual NO<sub>x</sub> and Seasonal NO<sub>x</sub>; verify the revenues, the inventory (tonnages and dollars), the expensed amounts (tonnages and dollars), and the amounts included in working capital (lines 1a through 1c, Form 42-8A).

**Procedures:** We reviewed the monthly SO<sub>2</sub>/NO<sub>x</sub> Emission Allowances and verified the revenues, the inventory (tonnages and dollars), the expensed amounts (tonnages and dollars) and the amounts included in working capital in the filing. We traced each of these to the Utility's transaction detail reports and the general ledger.

**Objective:** The objective was to report the deferred accounting treatments, if any, that the Utility may have implemented for the expenses incurred for any approved ECRC projects.

**Procedure:** We verified that the Utility did not implement any deferred account treatment for the expenses incurred for any approved ECRC projects.

**Objectives:** The objectives were to review the capital investment project No. 7.4 CAIR/CAMR Crystal River AFUDC-Base and 3 other projects on Form 42-7A. (i) verify that the investment amounts are recorded in the correct plant accounts; (ii) reconcile the corresponding Plant-in-Service/Depreciation Base (line 2, Form 42-8); (iii) verify the calculation of the CWIP-Non Interest bearing (line 4).

**Procedures:** We reviewed the capital investment project No. 7.4 CAIR/CAMR Crystal River AFUDC-Base and 3 other projects on Form 42-7A. We verified that the investment amounts are recorded in the correct plant accounts. We recalculated the amount of CWIP-Non Interest bearing and our calculation agrees with the Utility's filing. We reconciled Plant-in-Service to last year's filing. We recalculated depreciation expense. Our calculation agrees with the Utility's filing.

**Objective:** The objective was to verify that payroll costs charged to ECRC are applied properly and reflected in the general ledger.

**Procedures:** We reviewed a list of ECRC projects and judgmentally selected several projects and expense types for the two months of March and September 2010 to audit. We recalculated the pay from the pay tickets and traced these amounts to the general ledger.

**Objective:** The objective was to verify that where an ECRC project involves the replacement of existing plant assets, the Utility is retiring the installed costs of replaced units of property according to Rule 25-6.0142(4)(b), F.A.C.

**Procedures:** We requested a list of ECRC replacements and retirements for the year 2010. We examined the list. The Utility responded that no adjustments were necessary for these replacements and retirements "consistent with the provisions of Order PSC-99-2513-FOF."

## **Analytical Review**

**Objective:** The objective was to perform an analytical review to identify any matter which might influence the scope of the audit.

**Procedures:** We performed an analytical review of the 2010 ECRC filing compared to previous years. We requested further explanation of any cost category which varied from the overall trend. We evaluated these responses as part of determining the scope of the audit.

## **True-Up**

**Objective:** The objective was to verify that the true-up and interest were properly calculated.

**Procedures:** We recomputed 2010 ECRC true-up and interest using FPSC approved recoverable true-up amounts, interest rates, and jurisdictional separation factor. Our calculation agrees with the Utility's filing. See Schedule 42-2A on Exhibit 1.

## Findings

There were no audit findings.

# Exhibit 1

**PROGRESS ENERGY FLORIDA**  
 Environmental Cost Recovery Clause (ECRC)  
 Calculation of the Final True-Up Amount  
 January 2010 through December 2010

Form 42-2A

End-of-Period True-Up Amount  
 (in Dollars)

Line	Description	Actual January 10	Actual February 10	Actual March 10	Actual April 10	Actual May 10	Actual June 10	Actual July 10	Actual August 10	Actual September 10	Actual October 10	Actual November 10	Actual December 10	End of Period Total
1	ECRC Revenues (net of Revenue Taxes)	\$19,232,399	\$16,984,693	\$17,360,801	\$15,131,069	\$17,202,936	\$21,979,766	22,009,123	\$22,509,014	\$21,562,654	\$16,477,809	\$17,331,582	\$16,645,669	\$226,643,702
2	True-Up Provision	\$1,645,444	1,645,444	1,645,444	1,645,444	1,645,444	1,645,444	1,645,444	1,645,444	1,645,444	1,645,444	1,645,444	1,645,444	\$19,745,325
3	ECRC Revenues Applicable to Period (Lines 1 + 2)	\$20,877,843	18,630,137	19,025,245	16,776,513	18,848,379	22,824,200	23,653,567	24,153,458	23,208,308	22,123,253	18,977,026	18,292,599	246,389,027
4	Jurisdictional ECRC Costs													
a.	O & M Activities (Form 42-RA, Line 9)	\$3,888,897	3,561,114	3,137,821	3,011,979	4,155,368	9,227,299	5,009,956	5,322,341	4,504,916	3,657,145	3,705,924	4,466,110	46,669,270
b.	Capital Investment Projects (Form 42-7A, Line 9)	\$11,030,547	\$11,108,066	\$11,303,054	\$11,426,807	\$12,625,473	\$14,010,493	14,010,369	\$14,003,155	\$13,965,909	\$13,948,592	\$13,831,133	\$13,923,529	155,511,360
c.	Other													\$0
c.	Total Jurisdictional ECRC Costs	\$14,919,444	14,669,180	14,440,875	14,438,786	16,981,841	19,237,792	19,019,325	19,325,496	18,469,825	17,605,737	17,537,057	18,414,639	205,690,330
5	Over/(Under) Recovery (Line 3 - Line 4c)	\$5,958,399	3,960,954	4,585,340	2,337,027	1,664,536	3,596,405	4,634,241	4,827,961	4,717,483	2,617,416	1,339,969	(122,540)	40,208,797
6	Interest Provision (Form 42-3A, Line 10)	\$4,523	5,088	5,861	6,169	8,363	10,420	9,985	9,546	9,821	9,961	9,673	9,656	99,129
7	Beginning Balance True-Up & Interest Provision	\$19,745,325	24,207,425	26,529,023	29,473,781	30,172,553	30,400,011	32,351,393	35,362,178	36,542,242	41,624,802	42,606,275	42,310,674	19,745,325
a.	Defered True-Up from January 2009 to December 2009 (Order No. PSC-09-0755-POF-EI)	\$4,562,177	4,562,177	4,562,177	4,562,177	4,562,177	4,562,177	4,562,177	4,562,177	4,562,177	4,562,177	4,562,177	4,562,177	4,562,177
8	True-Up Collected/(Refunded) (see Line 2)	(\$1,645,444)	(1,645,444)	(1,645,444)	(1,645,444)	(1,645,444)	(1,645,444)	(1,645,444)	(1,645,444)	(1,645,444)	(1,645,444)	(1,645,444)	(1,645,444)	(\$19,745,325)
9	End of Period Total True-Up (Lines 5+6+7+8)	\$29,825,180	31,090,200	34,035,958	34,734,730	34,962,188	38,513,572	39,912,355	43,104,419	46,166,679	47,168,452	46,572,651	45,114,525	44,970,103
10	Adjustments to Period Total True-Up Including Interest (a)	\$144,422	0	0	0	0	0	0	0	0	0	0	0	144,422
11	End of Period Total True-Up (Lines 9 + 10)	\$29,780,758	\$31,090,200	\$34,035,958	\$34,734,730	\$34,962,188	\$38,513,572	\$39,912,355	\$43,104,419	\$46,166,679	\$47,168,452	\$46,572,651	\$45,114,525	\$45,114,525