

State of Florida



ORIGINAL

## 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:** April 1, 2004  
**TO:** Todd Bohrmann, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief, Bureau of Auditing  
Division of Auditing and Safety  
**RE:** **Docket No.** 040001-EI ; **Company Name:** Progress Energy Florida, Inc. ; **Audit Purpose:** Fuel Adjustment Clause Audit ; **Audit Control No.** 04-023-2-2

RECEIVED-FPSC  
04 APR -2 PM 12:04  
COMMISSION  
CLERK

Attached is the 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 no confidential work papers associated with this audit.

This audit report contains the high priority items designated on your audit service request. The final audit report on the medium priority items listed on the audit service request is expected to be issued for internal Commission use on June 1, 2004 using Audit Control No. 04-091-2-1.

DNV/jcp  
Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)  
Division of the Commission Clerk and Administrative Services (2)  
Division of Competitive Markets and Enforcement (Harvey)  
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**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF AUDITING AND SAFETY  
BUREAU OF AUDITING*

*TAMPA DISTRICT OFFICE*

**PROGRESS ENERGY FLORIDA**

**FUEL ADJUSTMENT CLAUSE AUDIT**

**FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003**

**DOCKET NO. 040001-EI**

**AUDIT CONTROL NO. 04-023-2-2**

  
Jocelyn Y. Stephens, Audit Manager

  
Joseph W. Rohrbacher, Tampa District Supervisor

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**DIVISION OF AUDITING AND SAFETY  
AUDITOR'S REPORT**

**MARCH 17, 2004**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to audit the accompanying Fuel Adjustment Clause True-up schedules for the historical twelve month period ended December 31, 2003 for Progress Energy Florida. These schedules were prepared by the Utility as part of its petition for cost recovery in Docket 040001-El. There are no audit staff minority opinions.

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 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. Accounts were scanned for error or inconsistency.

**Verify** - The item was tested for accuracy and substantiating documentation was examined.

**REVENUE:** Compiled Fuel Adjustment Clause (FAC) revenue and agreed to the filing. Recomputed FAC revenues using approved FPSC rate factors and company-provided KWH sales. Reconciled Utility "revenue recap" report to the general ledger on a test basis.

**EXPENSES:** Compiled fuel and purchased power costs. Tested the purchases of coal, heavy oil, light oil and natural gas by tracing to the general ledger and journal entries.

**TRUE-UP:** Recomputed FAC true-up and interest using FPSC approved amounts and interest rates.

**INTEREXCHANGE PURCHASES AND SALES:** Scheduled monthly activity of interexchange schedules (Sch. A-6, A-7, A-8, A-9). Judgementally selected three months of Schedule A-8, Payments to Qualifying Facilities, for further analysis. Activity of selected months was traced to source documentation.

**OTHER:** Verified that semi-annual adjustments to the coal inventory were performed according to FPSC Order PSC-97-0359-FOF-EI.

## **AUDIT DISCLOSURE NO. 1**

### **SUBJECT: O&M Expenses in the Fuel Cost Recovery Clause**

#### **STATEMENT OF FACT:**

An analysis of Generation Expense - Light and Heavy Oil was performed using amounts from Journal Entry (JE) transmittal sheets. The results of the analysis revealed a difference between Oil Generation per the General Ledger and Oil Generation per the Fuel Adjustment Clause of \$1,467,200. Further analysis determined that this difference was the result of the company expensing Fuel Additive charges and Pipeline (transportation) expenses directly to generation. The Pipeline expenses include Labor, Insurance, Vehicle Usage and Other Miscellaneous charges. The company began including this cost in the fuel clause during 2002.

The company stated "The cost of operating and maintaining the Anclote-Bartow Pipeline is currently being recovered through the fuel adjustment clause. These costs are considered transportation costs as they are necessary to transport the fuel from the delivery point to the Company's storage facility as defined in Order 14259."

Commission Order 14546 (Issued 7/8/85), states that "...the costs associated with moving fuel to the storage locations and terminals dedicated to the supply of a utility's generating facility are subject to significant changes due to fluctuations in distances, deliveries, volume and price. Consequently, such costs should be recovered through fuel adjustment clauses. However, transportation charges for moving fuel between dedicated storage facilities and generating plant sites appear to be more stable and predictable, due in part to many of these costs occurring under long-term arrangements. Therefore, these transportation costs are more appropriately recovered through base rates."

#### **AUDITOR COMMENT:**

Even though the Pipeline delivers oil to the storage facilities, the transportation charges are more stable, are not subject to significant changes due to fluctuations in distance, and involve a long-term arrangement and should therefore be recovered through base rates.

Also, of the \$1,467,200 difference, we have not determined how much represents fuel additive charges or pipeline charges. We will issue a supplemental audit report to address the actual pipeline charges which should be removed from recoverable fuel costs.

No adjustment was made to the true-up for this item.

PROGRESS ENERGY FLORIDA  
FUEL AND PURCHASED POWER  
COST RECOVERY CLAUSE CALCULATION  
YEAR TO DATE - DECEMBER 2003

	\$				MWH				CENTS/KWH			
	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT	%	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT	%	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT	%
1 FUEL COST OF SYSTEM NET GENERATION (SCH A3)	1,045,484,844	879,714,905	165,769,939	18.8	35,493,465	33,288,840	2,204,625	6.6	2.9456	2.6427	0.3029	11.5
2 SPENT NUCLEAR FUEL DISPOSAL COST	5,689,420	5,670,587	18,853	0.3	6,038,641	6,110,531	(71,890)	(1.2)	0.0942	0.0928	0.0014	1.5
3 COAL CAR INVESTMENT	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
3a NUCLEAR DECOMMISSIONING AND DECONTAMINATION	1,768,401	0	1,768,401	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
4 ADJUSTMENTS TO FUEL COST - MISCELLANEOUS	(22,448,790)	9,847,840	(32,296,630)	(328.0)	(1,094,879)	0	(1,094,879)	0.0	2.0503	0.0000	2.0503	0.0
4a ADJUSTMENTS TO FUEL COST - DISPOSAL COST REFUND	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
5 TOTAL COST OF GENERATED POWER	1,030,493,875	895,233,112	135,260,763	15.1	34,398,586	33,288,840	1,109,746	3.3	2.9957	2.6893	0.3064	11.4
6 ENERGY COST OF PURCHASED POWER - FIRM (SCH A7)	68,034,533	53,670,912	14,363,621	26.8	3,620,755	3,063,115	557,640	18.2	1.8790	1.7522	0.1268	7.2
7 ENERGY COST OF SCH C,X ECONOMY PURCH - BROKER (SCH A9)	281,400	214,400	67,000	31.3	4,320	3,050	1,270	41.8	8.5139	7.0295	(0.5158)	(7.3)
8 ENERGY COST OF ECONOMY PURCH - NON-BROKER (SCH A9)	43,687,919	26,879,089	16,808,830	62.5	749,350	795,717	(46,367)	(5.8)	5.8301	3.3780	2.4521	72.6
9 ENERGY COST OF SCH E PURCHASES (SCH A9)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
10 CAPACITY COST OF ECONOMY PURCHASES (SCH A9)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
11 PAYMENTS TO QUALIFYING FACILITIES (SCH A8)	171,149,235	156,166,586	14,982,649	9.6	6,176,174	6,803,406	(627,232)	(9.2)	2.7711	2.2954	0.4757	20.7
12 TOTAL COST OF PURCHASED POWER	283,153,067	236,930,987	46,222,100	19.5	10,550,599	10,865,288	(114,689)	(1.1)	2.6638	2.2216	0.4623	20.8
13 TOTAL AVAILABLE MWH					44,949,185	43,954,128	995,057	2.3				
14 FUEL COST OF ECONOMY SALES (SCH A6)	(10,663)	0	(10,663)	0.0	(400)	0	(400)	0.0	2.6658	0.0000	2.6658	0.0
14a GAIN ON ECONOMY SALES - 100% (SCH A6)	(1,850)	0	(1,850)	0.0	(400)	0	(400)	0.0	0.4125	0.0000	0.4125	0.0
15 FUEL COST OF OTHER POWER SALES (SCH A6)	(29,158,429)	(38,880,209)	9,731,780	(25.0)	(962,784)	(1,094,034)	131,250	(12.0)	3.0286	3.5548	(0.5262)	(14.8)
15a GAIN ON OTHER POWER SALES - 100% (SCH A6)	(9,843,110)	(5,178,018)	(4,664,091)	90.1	(962,784)	(1,094,034)	131,250	(12.0)	1.0224	0.4734	0.5490	118.0
15b GAIN ON TOTAL POWER SALES - 20% (SCH A6)	312,192	0	312,192	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
16 FUEL COST OF SEMINOLE BACK-UP SALES (SCH A6)	0	0	0	0.0	0	0	0	0.0	0.0000	0.0000	0.0000	0.0
17 FUEL COST OF SUPPLEMENTAL SALES	(74,829,609)	(51,061,060)	(23,768,549)	46.6	(2,493,969)	(1,336,198)	(1,157,771)	86.7	3.0004	3.8214	(0.8210)	(21.5)
18 TOTAL FUEL COST AND GAINS ON POWER SALES	(113,531,269)	(95,130,288)	(18,400,981)	19.3	(3,457,153)	(2,430,232)	(1,026,921)	42.3	3.2840	3.9145	(0.6305)	(16.1)
19 NET INADVERTENT AND WHEELED INTERCHANGE					(15,642)	1,481	(17,323)					
20 TOTAL FUEL AND NET POWER TRANSACTIONS	1,200,115,693	1,037,033,811	163,081,882	15.7	41,476,190	41,525,377	(49,187)	(0.1)	2.8935	2.4973	0.3962	15.9
21 NET UNBILLED	6,744,471	(2,890,115)	9,634,586	(333.4)	(233,090)	(226,192)	(6,898)	3.1	0.0173	(0.0074)	0.0247	(333.8)
22 COMPANY USE	3,430,708	3,488,986	(58,280)	(1.7)	(118,566)	(138,452)	20,886	(15.0)	0.0088	0.0080	(0.0002)	(2.2)
23 T & D LOSSES	64,910,809	54,490,124	10,420,685	16.1	(2,243,321)	(2,255,401)	12,080	(0.5)	0.1669	0.1401	0.0268	19.1
24 ADJUSTED SYSTEM KWH SALES (SCH A2 PG 1 OF 4)	1,200,115,693	1,037,033,811	163,081,882	15.7	38,881,213	36,904,332	(23,119)	(0.1)	3.0868	2.6656	0.4210	15.8
25 WHOLESALE KWH SALES (EXCLUDING SUPPLEMENTAL SALES)	(26,608,998)	(25,970,138)	(638,860)	2.5	(867,260)	(981,317)	114,057	(11.6)	3.0682	2.6465	0.4217	15.9
26 JURISDICTIONAL KWH SALES	1,173,506,694	1,011,063,673	162,443,022	16.1	38,013,953	37,923,015	90,938	0.2	3.0870	2.6681	0.4209	15.8
27 JURISDICTIONAL KWH SALES ADJUSTED FOR LINE LOSS - 1.00379	1,177,727,821	1,015,906,151	161,821,669	15.9	38,013,953	37,923,015	90,938	0.2	3.0981	2.6789	0.4192	15.7
28 PRIOR PERIOD TRUE-UP	(6,091,854)	(6,091,854)	(0)	0.0	38,013,953	37,923,015	90,938	0.2	(0.0160)	(0.0161)	0.0001	(0.6)
28a MARKET PRICE TRUE-UP	0	0	0	0.0	38,013,953	37,923,015	90,938	0.2	0.0000	0.0000	0.0000	0.0
28b RECOVERY OF PRIOR PERIOD NUCLEAR REPLACEMENT COST	0	0	0	0.0	38,013,953	37,923,015	90,938	0.2	0.0000	0.0000	0.0000	0.0
29 TOTAL JURISDICTIONAL FUEL COST	1,171,635,966	1,009,814,297	161,821,669	16.0	38,013,953	37,923,015	90,938	0.2	3.0821	2.6628	0.4193	15.8
30 REVENUE TAX FACTOR									1.00072	1.00072	0.0000	0.0
31 FUEL COST ADJUSTED FOR TAXES									3.0843	2.6647	0.4196	15.8
32 GPIF	608,054	608,057			38,013,953	37,923,015			0.0016	0.0016	0.0000	100.0
33 TOTAL FUEL COST FACTOR ROUNDED TO THE NEAREST .001 CENTS/KWH									3.086	2.668	0.420	15.7

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