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State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: June 4, 2004

TO: Todd Bohrmann, Division of Economic Regulation

FROM: Denise N. Vandiver, Chief, Bureau of Auditing *DNV*
Division of Regulatory Compliance and Consumer Assistance

RE: **Docket No.** 040001-EI ; **Company Name:** Progress Energy Florida, Inc. ; **Audit Purpose:** Fuel Adjustment Clause Audit (Medium Priority Items) ;
Audit Control No. 04-091-2-1

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 confidential work papers associated with this audit.

This audit report contains the medium priority items designated on your audit service request.

DNV/jcp
Attachment

cc: Division of Regulatory Compliance & Consumer Assistance (Hoppe, District Offices)
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

**FUEL ADJUSTMENT CLAUSE AUDIT
Supplemental Report**

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003

DOCKET NO. 040001-EI

AUDIT CONTROL NO. 04-091-2-1


Jocelyn Y. Stephens, Audit Manager


Joseph W. Rohrbacher, Tampa District Supervisor

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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT**

APRIL 26, 2004

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit various Fuel Adjustment Clause 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-EI. This audit does include confidential information. 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 FINDINGS

The company changed its procedures for recording inventory additions and the subsequent payment for same.

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.

OTHER: Verified the accuracy of the annual comparison of Progress Fuels Corporation's (PFC's) Cost of Capital to full regulatory treatment in accordance with Orders PSC-92-0347-FOF-EI and PSC-92-0776-FOF-EI. Reconciled service hours, reserve shutdown hours and unavailable hours for GPIF units as shown on the annual GPIF filings with source documents. Reconciled heat rate as shown on the monthly Schedules A-4 for GPIF units with annual GPIF filings and source documents. Judgementally verified additions to Coal Inventory and Oil Inventory accounts.

AUDIT DISCLOSURE NO. 1

SUBJECT: Change in Procedures for Recording Inventory Additions

STATEMENT OF FACT:

Beginning in June 2003, the company changed its procedures for recording inventory additions and the corresponding payment. Previously, current month additions were recorded in an inventory account when the current month payment was made. An accrual was recorded at month-end for all inventory which had been received but which the corresponding payment had not yet been made. In the subsequent month, the accrual was reversed and the payment was recorded in the payable account.

Currently, the company records an accrual in its inventory account for all its current month purchases along with a corresponding offset to an applicable payable account. When payment is made, that transaction is recorded through the payable and cash accounts.