Florida Power & Light Company, 215 S. Monroe St., Suite 810, Tallahassee, FL 32301

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February 28, 2002

Ms. Blanca S. Bayo, Director
Division of Clerk and Administrative Services
Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 001148-EI; Florida Power & Light Company; Audit MFR's Audit Control No. 01-249-4-1

Dear Ms. Bayo:

Attached is Florida Power & Light's (FPL) response to certain audit disclosures relating to the Final Audit Report dated February 1, 2002. Specifically, FPL is providing responses to the audit opinions and recommendations contained in Audit Disclosure Nos. 10, 12, 19, and 20.

If you have any questions, please feel free to call the Tallahassee Office at (850) 521-3900.

Sincerely,

William G. Walker
VP, Regulatory Affairs

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GCL cc: Denise Vandiver
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FPL

February 28, 2002

Ms. Denise N. Vandiver
Bureau Chief – Auditing Services
Florida Public Service Commission
2450 Shumard Oak Boulevard
Tallahassee, Florida 32399-0865

Re: Docket No. 001148-EI; Florida Power & Light Company (FPL)
Final Audit Report – Audit of MFRs forecast Y/E December 2002

Dear Ms. Vandiver:

In response to your memorandum dated February 1, 2002, containing the above referenced audit report, FPL is hereby submitting its response to certain audit disclosures. Specifically, FPL is providing a response to the audit opinions and recommendations contained in Audit Disclosure Nos., 10, 12, 19, and 20.

Audit Disclosure No. 10 – Liaison Expense

Statement of Fact:
The company adjusted the liaison expense from Net Operating Income in the Surveillance Report for the year ended 12/00. The same procedure was not applied to the Net Operating Income of the Modified Minimum Filing Requirement for years ended 12/01 and 12/02 because it was not recommended in the last rate case.

Audit Recommendation:
The company should deduct liaison expense from Net Operating Income for years 12/01 and 12/02 since this is a lobbying-related expense, which is not considered allowable for ratemaking.

FPL Response:
FPL made the adjustment to remove these expenses in its monthly Surveillance Report in compliance with Staff Advisory Bulletin (SAB) No.36, issued December 3, 1990. While SAB No. 36 is no longer in effect, due to an oversight FPL continued to make the adjustment until its December 2001 Surveillance Report.

The liaison expenses FPL removed from NOI in the 2000 Surveillance Report are related to certain payroll and expenses of FPL's Tallahassee office. They include expenses incurred in coordinating dockets, regulatory filings and providing responses to requests from the FPSC, and are directly related to the provision of regulated electric service and are therefore properly included in the determination of Net Operating Income. These expenses are not related to lobbying activities that have been disallowed by the FPSC in prior rate cases. FPL has properly reflected lobbying expenses in its MFRs as non-jurisdictional (below-the-line) expenses.

Audit Disclosure No. 12 – Comparison of Actual to October 2001 to Forecast

Statement of Fact:
Actual balances as of October 2001 were annualized and compared to the 2001 forecast for expenses. Overall, the forecast was higher than the annualized amounts by 3.57% or $175,261,000. However, because accounts recovered in the clauses fluctuate and because they were removed in the Net Operating Income adjustments, they were

removed from the analysis. After removal, it appears that the company forecast was overstated by 4.17% or $43,160,000. The analysis is attached.

Audit Opinion:
Year end 2001 actuals were not available at the end of the audit. The company will provide them as an audit response.

FPL Response:
Annualizing 10 months of actual base O&M expenses to estimate FPL's 2001 actual base O&M expense is flawed and yields invalid results.

Annualization of 10 months of actual base O&M for 2001 does not yield a valid result of a full year's base O&M expenses since it assumes that base O&M expenses are incurred ratably during the year. In actual practice that is not the case.

The following schedule shows a comparison of FPL's 2001 base O&M expense forecast, adjusted for non-clause recoverable expenses, to the auditor's annualized base O&M expense calculation stated on the same basis. The schedule also provides the comparison of FPL's 2001 forecast to 2001 actual base O&M expenses, as provided in response to request No. 9 in the Supplemental Audit currently underway. As can be seen, the auditors' calculated 2001 base O&M expense total of $991 million when compared to actual 2001 base O&M of $1,040 million results in a $49 million or 5% understatement of 2001 base O&M expense.

CALCULATION OF VARIANCE BETWEEN ACTUAL AND FORECAST
BASE O&M EXPENSES FOR 2001

Line No.			(000 Omitted)
1	Base O & M Expenses (Excluding clause expenses and adjusted for Regulatory Adjs.) MFR C-52	$	1,019,473
2	Plus Non-Clause Recoverable Expenses in Clause Related FERC Accounts		
a	- Transmission of Electricity by others		9,522
b	- Base Regulatory Adjustments		5,281
3	2001 Forecast as Adjusted	$	1,034,276
4	Staffs Annulazation of 10 months actual for 2001 per Audit Disclosure No. 12		991,104
5	Staffs Calculation of Variance - Annualized Actual is Less Than Forecast	$	(43,172)
6	2001 Forecast as Adjusted (line 3)	$	1,034,276
7	Actual results for 2001 as provided in FPL Response to Supplemental Audit Request No. 9		1,039,830
8	Actual 2001 Variance - Actual is More Than Forecast	$	5,554

Audit Disclosure No. 19 – **Power Generation Forecast**

Statement of Fact (Excerpts):
According to the company, the power generation budget costs increased approximately $19 million since 2000 ($10.8 million between the 2001 and 2002 budget) because of the addition of the 300 MW Simple Cycle generation units at Martin that went into service in May 2001 and the repowering of the Ft. Myers and Sanford units.

In the revised forecast, the company increased the power generation budget by another $300,000 for Scherer Phase 2 Western Coal Fire Protection and . . . The $300,000 is FPL's share of the modification of the coal yard fire protection system.

Audit Opinion:
The $300,000 appears to be a capital project and should not be a recurring expense.

FPL Response:
FPL in its response to Audit Request No. 126-S provided a detailed explanation of the Scherer Phase 2 Western Coal Conversion O&M costs of approximately $300,000. This project has a separate capital component of approximately $12 million to be spent in 2002 and 2003, in addition to the O&M modifications of approximately $300,000 in 2002.

The O&M modifications to the common facilities grouped under the label Fire Protection System Upgrade, include installing new spray nozzles at points where coal is loaded on coal conveyor belts to reduce airborne dust, and to upgrade the temperature sensors in the fire protection system. None of these items are units of property. These modifications to the fire protection system are needed to ensure the safe handling of western coal for Scherer Units 1, 2, 3 and 4.

The $300,000 for the fire protection modifications in 2002 is only one component of the incremental O&M costs related to the change to western coal. The projected incremental O&M costs, including the expense related to upgrading the fire protection system, are ongoing and projected to grow over time, from about $.3 million in 2002, $.7 million in 2003 to $1.3 million in 2005.

Audit Disclosure No. 20 – **RTO Costs**

Statement of Fact (Excerpts):
Account 928 contains costs paid to Goldman Sachs and Skadden, Arps, and Slate for the costs related to the Regional Transmission Organization (RTO) of $3,011,996 in 2000 and $817,907 from January to May 2001. Account 928.110 for 2002 contains forecasted costs related to the RTO of $3,900,000 for these same companies. A response provided by the company claims that these costs will be incurred yearly to respond to changing market and regulatory requirements.

Audit Opinion:
If these costs relate to formation of the company, they should have been recorded as an asset instead of account 928. Including these costs as organization costs contradicts the response that they will be incurred yearly. Therefore, the costs should be removed from the year 2000 and 2002 forecast.

Including the costs in the forecast and in the request for recovery of organization costs is duplicating expenses.

FPL Response:
FPL made the decision not to defer the GridFlorida organization costs due to the uncertain nature of GridFlorida and the uncertainty surrounding cost recovery of GridFlorida expenses. Additionally, the American Institute of CPAs Statement of Position No. 98-5, Reporting on the Costs of Start-up Activities, requires costs of start-up activities and organization costs to be expensed as incurred. Therefore, unless FPL has appropriate assurance of recovery of those costs through rates, it must expense them as incurred. When FPL receives that assurance, it will record the costs as assets under SFAS No.71.

In a March 28, 2001 order, FERC granted GridFlorida conditional RTO status. FERC can change its mind, however, and reverse conditional approvals as seen in a recent Alliance order, 97 FERC 61,327. FERC had granted conditional RTO approval during the Alliance formation process, only to find ultimately that the proposed RTO does not meet all the requirements for RTO status. During the formation process, Alliance had received conditional FERC RTO approval and guidance five times and spent $75 million, excluding legal and regulatory costs and the $65 million MISO exit fee paid by several utilities, with FERC approval, to leave MISO and join Alliance. Yet in the December 20, 2001 order, FERC found that the Alliance RTO lacked scope and instead should pursue joining the Midwest ISO.

The FERC will still have to rule on the modified GridFlorida proposal the FPSC has ordered. Also, FERC has not yet ruled on the issue of forming a single RTO for the Southeast. If FERC ultimately finds that GridFlorida lacks scope and should instead be a part of the larger southeast RTO, as in the Alliance order, GridFlorida may never be formed and FPL may not have an opportunity to transfer organizational costs to GridFlorida.

Additionally, after the RTO is formed, it is anticipated that the types and level of expenses included in the 2002 test year would continue in the future. The regulatory process for RTOs does not end when the RTO begins operation. For example, in 2001, there were 169 filings related to the PJM ISO, and 244 filings related to the California ISO. It is expected that FPL will be involved, on an ongoing basis, in reviewing and intervening in numerous filings and stakeholder proceedings related to any RTO FPL joins.

Since Staff is conducting a supplemental audit that may result in revisions or modifications to certain disclosures contained in its initial audit report, FPL may also respond to the supplemental audit report if needed.

Sincerely,

W. G. Walker
Vice President, Regulatory Affairs