

State of Florida



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

DATE: July 23, 2008
TO: Jenny X. Wu, Economic Analyst, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: Docket No: 080007-EI; Company Name: Florida Power & Light Company;
Audit Purpose: Environmental Cost Recovery Audit; Company Code: E1802;
Audit Control No: 08-029-4-1; Record # 5762:

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 the response to the Division of Commission Clerk. There are confidential work papers associated with this audit.

DNV:sbj
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder -6)
Division of Commission Clerk -2
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

Mr. Wade Litchfield
Florida Power & Light Company
215 S. Monroe St., Suite 810
Tallahassee, FL 32301-1859

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Florida Power & Light Company
700 Universe Boulevard
Juno Beach, FL 33408-0420

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FLORIDA PUBLIC SERVICE COMMISSION

***DIVISION OF REGULATORY COMPLIANCE AND
CONSUMER ASSISTANCE
BUREAU OF AUDITING***

Miami District Office

**Florida Power and Light Company
Environmental Cost Recovery Clause**

Twelve Months Ended December 31, 2007

**DOCKET #080007-EI
AUDIT CONTROL NO. 08-029-4-1**

**Report Issued
July 10, 2008**

Handwritten signature of Gabriela Leon in cursive script.

***Gabriela Leon
Audit Manager***

Handwritten signature of Yen Ngo in cursive script.

***Yen Ngo
Regulatory Analyst***

Handwritten signature of Kathy L. Welch in cursive script.

***Kathy L. Welch
Public Utility Supervisor***

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

JULY 10, 2008

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

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 16, 2008. We have applied these procedures to the attached filing schedules prepared by the company that display the results of Florida Power and Light Company's Environmental filing for the 12-month period ended December 31, 2007 in Docket 080007-F1.

This audit was 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 which are only for internal Commission use.

DOCUMENT NUMBER-DATE

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OBJECTIVES AND PROCEDURES

OBJECTIVE - The objective was to determine if the company applied the Commission approved cost recovery factor to actual KWH sales.

PROCEDURES - We obtained the monthly Revenue Reports which are an output of the billing system, and prepared schedules of revenue. Revenues for programs that are not included in the revenue and rate report were added. We reconciled these schedules to the filing and traced the factors charged to the last order. No significant findings were found.

OBJECTIVE - The objective was to determine that Project Capital Investments are accounted for according to the Commission Rules and Regulations.

PROCEDURES - The plant was reconciled from the filing to the company's sub-general ledger. An analytical review of plant was made to determine the highest change. The program that included the highest change was sampled. We verified that the additions had appropriate supporting documentation and were recorded to the correct environmental projects and accounts. If the project involved replacement of existing plant assets, we made the sure the company retired the installed costs of replaced units of property according to Rule 25-6.0142(4)(b), F.A.C.

OBJECTIVE - The objective of the audit was to determine that accumulated depreciation and depreciation expense are calculated in accordance with Commission guidelines, and to determine that the Return on Investment calculations are accurate.

PROCEDURES - We recalculated the depreciation expense and the accumulated depreciation for one month and traced it to the general ledger. The depreciation rates were traced to the company's depreciation study. We reviewed for negative depreciation amounts but none were found. The debt and equity ratios were traced to the company's rate schedule. No significant findings were found. Due to time limitations we were unable to determine if dismantlement expense was included in the depreciation expense accounts.

We verified that depreciation offsets required by PSC Order PSC-99-2513-FOF-EI for costs recovered through base rates were not applicable.

We recalculated the "Return on Investment" randomly for all projects. The debt and equity ratios were traced to the company's cost rate schedule. No findings were found.

OBJECTIVE - The objective of the audit was to determine the accuracy of the Deferred Gain on Sales of Emission Allowances.

PROCEDURES - The Emission Allowances accounts 254.900 and 411.800 were traced to the general ledger. The proceeds from the largest sales were traced to invoices. Amortization of proceeds for one plant was recalculated. The treatment of the Emission Allowances was made in accordance with Commission Order PSC-94-0353-FOF-EI.

III. EXHIBITS

OBJECTIVE - The objective of the audit was to determine that the actual program expenses are representative of company activity and are properly computed and recorded on the company books.

PROCEDURE - The expenses in the filing were tied to the general ledger. A judgmental sample of all expenses was selected and the source documentation for the sample items were reviewed to ensure the item was an environmental expense and charged to the correct account. No significant findings were found.

OBJECTIVE – The objective of the audit was to determine if the true-up calculation and interest provision as filed was properly calculated.

PROCEDURE – We agreed the beginning true-up to the PSC Order. The true-up was recalculated for the year using the Wall Street Journal interest rates. No significant findings were found.

OBJECTIVE - The objective of the audit was to determine if FPL has complied with the netting requirements in PSC Order, PSC-07-0922-FOF-EI, for the costs of the environmental studies on power plant cooling water intake structures, the St. Lucie Cooling Water System Inspection and Maintenance project, the Martin Plant Drinking Water System Compliance Project, the Low Level Radioactive Waste Storage Project and the CAIR and CAMR compliance projects.

PROCEDURES - We reviewed the PSC order to determine the base expense. We obtained FPL's budget for research and development and verified that they have booked the difference as a reduction to a recoverable expense. FPL did not book the 2007 amount until 2008 when the year was closed.

Florida Power & Light Company
Environmental Cost Recovery Clause
Calculation of the Final True-up for the Period
January through December 2007

Line
No.

1	Over/(Under) Recovery for the Current Period (Form 42-2A Page 2 of 2, Line 5)	\$1,950,088	
2	Interest Provision (Form 42-2A Page 2 of 2, Line 6)	\$638,465	
3	Total	\$2,588,553	
4	Estimated/Actual Over/(Under) Recovery for the Same Period *	(\$1,186,248)	
5	Interest Provision	600,422	
6	Total	(\$585,826)	
7	Net True-Up for the period	\$3,174,379	

• Per Order No. PSC-07-0922-FOF-EI issued November 16, 2007.

Florida Power & Light Company
Environmental Cost Recovery Clause
Calculation of the Final True-up Amount for the Period
January through December 2007

Line No.	January	February	March	April	May	June
1 ECRC Revenues (net of Revenue Taxes)	\$1,983,736	\$1,707,980	\$1,689,491	\$1,713,020	\$1,891,211	\$2,088,038
2 True-up Provision (Order No. PSC-06-0972-FOF-EI)	1,337,720	1,337,720	1,337,720	1,337,720	1,337,720	1,337,720
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	3,321,456	3,045,700	3,027,211	3,050,739	3,228,931	3,425,758
4 Jurisdictional ECRC Costs						
a - O&M Activities (Form 42-5A, Line 9)	566,437	598,119	1,725,067	1,037,492	621,715	1,666,686
b - Capital Investment Projects (Form 42-7A, Line 9)	1,629,758	1,759,289	1,787,918	1,809,768	1,850,912	1,953,773
c - Total Jurisdictional ECRC Costs	2,196,195	2,357,408	3,512,985	2,847,260	2,472,627	3,620,459
5 Over/(Under) Recovery (Line 3 - Line 4c)	1,125,261	688,292	(485,774)	203,479	756,304	(194,701)
6 Interest Provision (Form 42-3A, Line 10)	76,826	75,201	70,111	63,936	60,456	56,195
7 Prior Periods True-Up to be (Collected)/Refunded in 2007	16,052,637	15,917,004	15,342,777	13,589,394	12,519,090	11,998,130
a - Deferred True-Up from 2006 (2006 Final True-Up Filing, Form 42-1A, Line 7)	1,563,849	1,563,849	1,563,849	1,563,849	1,563,849	1,563,849
8 True-Up Collected /(Refunded) (See Line 2)	(1,337,720)	(1,337,720)	(1,337,720)	(1,337,720)	(1,337,720)	(1,337,720)
9 End of Period True-Up (Lines 5+6+7+7a+8)	17,480,853	16,906,626	15,153,243	14,082,939	13,561,979	12,085,753
10 Adjustments to Period Total True-Up Including Interest						
11 End of Period Total Net True-Up (Lines 9+10)	\$17,480,853	\$16,906,626	\$15,153,243	\$14,082,939	\$13,561,979	\$12,085,753

Florida Power & Light Company
Environmental Cost Recovery Clause
Calculation of the Final True-up Amount for the Period
January through December 2007

Line No.	July	August	September	October	November	December	End of Period Amount
1 ECRC Revenues (net of Revenue Taxes)	\$2,338,726	\$2,357,032	\$2,465,322	\$2,195,500	\$1,938,894	\$1,859,318	\$24,228,269
2 True-up Provision (Order No. PSC-06-0972-FOF-EI)	1,337,720	1,337,720	1,337,720	1,337,720	1,337,720	1,337,720	16,052,637
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	3,676,446	3,694,752	3,803,042	3,533,220	3,276,614	3,197,038	40,280,906
4 Jurisdictional ECRC Costs							
a - O&M Activities (Form 42-5A, Line 9)	861,790	1,011,703	986,845	2,381,987	1,959,762	1,648,537	15,066,140
b - Capital Investment Projects (Form 42-7A, Line 9)	2,041,454	2,064,421	2,069,195	2,081,168	2,096,100	2,120,922	23,264,678
c - Total Jurisdictional ECRC Costs	2,903,244	3,076,124	3,056,040	4,463,155	4,055,862	3,769,459	38,330,818
5 Over/(Under) Recovery (Line 3 - Line 4c)	773,202	618,628	747,002	(929,935)	(779,248)	(572,421)	1,950,088
6 Interest Provision (Form 42-3A, Line 10)	51,739	50,741	47,167	37,563	27,907	20,623	638,465
7 Prior Periods True-Up to be (Collected)/Refunded in 2007	10,521,904	10,009,125	9,340,774	8,797,223	6,567,131	4,478,070	16,052,637
a - Deferred True-Up from 2006 (2006 Final True-Up Filing, Form 42-1A, Line 7)	1,563,849	1,563,849	1,563,849	1,563,849	1,563,849	1,563,849	1,563,849
8 True-Up Collected /(Refunded) (See Line 2)	(1,337,720)	(1,337,720)	(1,337,720)	(1,337,720)	(1,337,720)	(1,337,720)	(16,052,637)
9 End of Period True-Up (Lines 5+6+7+7a+8)	11,572,974	10,904,623	10,361,072	8,130,980	6,041,919	4,152,401	4,152,402
10 Adjustments to Period Total True-Up Including Interest							
11 End of Period Total Net True-Up (Lines 9+10)	\$11,572,974	\$10,904,623	\$10,361,072	\$8,130,980	\$6,041,919	\$4,152,401	\$4,152,402

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