

State of Florida



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

DATE: May 28, 2008

TO: James E. Breman, Senior Analyst - PSC, Division of Economic Regulation

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

RE: Docket No: 080009-EI; Company Name: Florida Power & Light Company;
Audit Purpose: Nuclear Cost Recovery Uprate 2007; Company Code: EI802;
Audit Control No: 08-065-4-1;

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:bj
Attachments

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

- CMP _____
- DDM _____ Mr. Wade Litchfield
- OTR _____ Florida Power & Light Company
- EDR _____ 215 S. Monroe St., Suite 810
- GCL _____ Tallahassee, FL 32301-1859
- GCL _____ John T. Butler
- CPC _____ Florida Power & Light Company
- SGA _____ 700 Universe Boulevard
- SCR _____ Juno Beach, FL 33408-0420
- SGA _____ Ms. Natalie smith
- SEC _____ Florida Power & Light Company
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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***

Miami District Office

**Florida Power and Light Company
Nuclear Uprate Cost Recovery Clause**

Twelve Months Ended December 31, 2007

**DOCKET #080009-EI
AUDIT CONTROL NO. 08-065-4-1**


Kathy L. Welch
Audit Manager


Iliana Piedra
Accounting Specialist

DOCUMENT NUMBER-DATE

04502 MAY 28 08

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

May 23, 2007

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

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. *We have applied these procedures to the attached schedules prepared by Florida Power and Light Company in support of its nuclear uprate filing, Docket Number 080009-EI.*

This audit is 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.

OBJECTIVES AND PROCEDURES:

Objective: To verify that the filing amounts agree with the general ledger.

Procedure: We scheduled all increases in the general ledger accounts and reconciled them to the filing.

Objective: To review the construction costs on the T schedules for compliance with Section 366.93 of the Florida Statutes and Chapter 25-6.0423 F.A.C.

Procedure: We read the Statute and the rule. We obtained an Excel file of all the charges made to the filing. We reconciled the filing to the Excel file. We sorted the file by both dollar and vendors and selected a sample that included the high dollar items and an assortment of the various vendors charged to the project. We traced the sample to source documentation.

For payroll, we also obtained all employees working on the uprate and reviewed where several employees charged their payroll in 2006 to determine if their salaries were already charged to base rates. The utility made an adjustment in 2008 to remove some of these salaries. See finding one for more information on payroll.

For charges from FPL affiliates, we obtained source documentation for the actual payroll, supporting documentation for the overhead rates charged, and supporting documentation for travel costs. In addition, we obtained from FPL the rates charged by non-affiliate companies to determine if they were charged the lower of cost or market. Audit finding two discusses the affiliate overhead.

For vouchers charged, we compared the amounts paid to the contractor to the supporting invoices. We toured the plant and questioned personnel about plant due to be retired and replaced before the uprate was scheduled. Audit finding five discusses plant that was already at the end of its useful life. Audit finding three discusses treatment of future retirements. We reviewed the plans for the outages and compared them to the previously scheduled maintenance work to determine if there were duplicates.

For the journal entries charged we reviewed the accruals to amounts paid in 2008. Audit finding four discusses these accrual entries. We traced the jurisdictional factor to supporting documentation and the ownership allocation percents to supporting documentation.

AUDIT FINDING NO. 1

SUBJECT: PAYROLL

STATEMENT OF FACTS: Payroll of \$353,286.91 was charged to the nuclear uprate. Some of the employees were former Seabrook employees and therefore not in Florida Power and Light's base rates. Some employees were charged to capital projects the previous year and thus not in base rates. Some employees were replaced by new staff so that they could work on the project. Some, however, were Florida Power and Light employees who would have been included in expenses used to determine base rates during the last rate case. In April 2008, the utility removed \$49,790.98 of the above salaries because they were already recovered in base rates. The amount is still included in the 2007 filing but will reduce the 2008 costs. Since carrying charges were not added in 2007, there should be no adverse effect of making the adjustment in 2008.

An additional employee whose pay charged to the uprate was \$3,351.71, also should have been included in base rates because the employee had not been charged to capital projects in 2006 and was not replaced. FPL will adjust this out in May 2008.

Another employee has not been replaced yet but they do plan to replace him. The salary charged to the uprate for him in 2007 was \$18,056.59. Until he is replaced, his salary is still in base rates and should be removed. FPL will adjust this out in May 2008 also.

EFFECT ON THE GENERAL LEDGER: This finding is for informational purposes only.

EFFECT ON THE FILING: This finding is for informational purposes only.

AUDIT FINDING NO. 2

SUBJECT: AFFILIATE OVERHEAD

STATEMENT OF FACTS: Florida Power and Light Energy (FPLE) Seabrook Station charged FPL for two employees that were assigned to the Extended Power Uprate Feasibility Study. In 2007, \$30,657.08 of salary was charged to the FPL uprate. FPLE charged 77.37% in overhead to the base salary. The overhead consists of 36.85% of non-productive charges. This loaded rate is then charged with payroll benefits of 17.26% and a space allocation of 12.33%.

The non-productive rate consists of 14.48% for sick time, vacation time, etc. and is based on FPLE non-productive pay code costs divided by total payroll costs. Twenty two and a half percent relates to incentive payments. The employees' total pay was compared to the base pay and it does appear that incentive pay did increase the employees total pay by a substantial percent.

FPLE also charged expenses for travel of \$24,522.47 and for a charge from an outside contractor of \$6,300. The invoices for these expenses were reviewed and no problems were found.

Affiliate transactions should be charged to the utility at the lower of cost or market. The rate of TSSD, an outside contractor, was [REDACTED] an hour. The rates of FPLE employees with overhead and excluding travel ranged from [REDACTED] to [REDACTED] which was less than the rate of the outside contractor. Actual costs were traced to payroll detail and expense reports.

EFFECT ON THE GENERAL LEDGER: This finding is for informational purposes only.

EFFECT ON THE FILING: This finding is for informational purposes only.

AUDIT FINDING NO. 3

SUBJECT: RETIREMENTS

STATEMENT OF FACTS: Florida Power and Light will be incurring costs for new equipment and charging it to this clause long before the removal of old equipment during the outages. After the outages, several pieces of equipment will be retired and several may be sold for salvage. The retirements and salvage should be used to offset the costs recorded in this filing. This may cause a negative true-up after the outages. FPL needs to maintain detailed records of the items removed, retired, and sold. A methodology for recording these items should be determined.

EFFECT ON THE GENERAL LEDGER: This finding is for informational purposes only.

EFFECT ON THE FILING: This finding is for informational purposes only.

AUDIT FINDING NO. 4

SUBJECT: OVER-ACCRUAL

STATEMENT OF FACTS: The utility made several accruals at the end of 2007 for items ordered prior to the end of the year. The following chart shows the amount accrued compared to the actual support provided for the amount paid in 2008 related to these accruals.

<i>VENDOR</i>	<i>ACCRUAL</i>	<i>SUPPORT PROVIDED</i>	<i>DIFFERENCE</i>
Areva	310,000.00	251,912.43	58,087.57
Shaw, Stone & Webster PTN	590,000.00	515,348.26	74,651.74
Shaw, Stone & Webster PSL	590,000.00	540,944.56	49,055.44
	<u>1,490,000.00</u>	<u>1,308,205.25</u>	<u>181,794.75</u>

The Areva difference was not re-accrued because it was below the accrual threshold. Therefore, it was reversed in January 2008 and was not booked again until it was actually paid.

EFFECT ON THE GENERAL LEDGER: This finding is for informational purposes only.

EFFECT ON THE FILING: This finding is for informational purposes only.

AUDIT FINDING NO. 5

SUBJECT: TRANSFORMERS AT THE END OF USEFUL LIFE

STATEMENT OF FACTS: An engineering Evaluation for the extended power uprate project for St. Lucie Units 1 and 2 discusses the main transformer. The report states:

"Based on their relatively long lives to date together with a relatively more troublesome operating lifetime condition history, replace the PSL Unit 2 MT's (Main Transformer) with new units. This plan to replace these two MTs is considered especially appropriate when considering that these relatively old units would, with the EPU, be loaded to their highest ever MVA levels at a time when end-of-useful-life is, by all industry measures, already approaching."

Based on this report, it appears that the transformers may have needed to be replaced even if Florida Power and Light was not doing the uprate.

An FPL representative has responded that the transformers have 10 more years of useful life. They have been asked to provide support for this assertion to the analyst.

EFFECT ON THE GENERAL LEDGER: This finding is for informational purposes only.

EFFECT ON THE FILING: This finding is for informational purposes only.

COMPANY EXHIBITS

**St. Lucie and Turkey Point Uprate Project
Retail Revenue Requirements Summary**

Schedule T-1 (True-up)

[Section (5)(c)1.a.]

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Provide the calculation of the actual true-up of total retail revenue requirements based on actual expenditures for the current year and the previously filed expenditures for such current year.

COMPANY: Florida Power & Light Company

For the Year Ended 12/31/2007

DOCKET NO.: 08 _____-EI

Line No.	(A) Actual January	(B) Actual February	(C) Actual March	(D) Actual April	(E) Actual May	(F) Actual June	(G) 6 Month Total
Jurisdictional Dollars							
1.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
7.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8.	\$0	\$0	\$0	\$0	\$0	\$0	\$0

Note 1: The costs associated with the uprate project were included in Account 183, Preliminary Survey and Investigation Charges for the period July 2007 through December 2007. On January 7, 2008, the Commission issued Order No. PSC-08-0021-FOF-EI approving FPL's need determination for the uprates. In that Order the Commission determined that Rule No. 25-6.0423, F.A.C. is applicable to the costs of the expansion of the Turkey Point and St. Lucie Nuclear Power Plants (uprate project). As a result of the issuance of this Order, in January 2008 these costs were transferred to Construction Work in Progress account 107. Therefore no carrying charges are reflected in 2007 for recovery.

**St. Lucie and Turkey Point Uprate Project
Retail Revenue Requirements Summary**

Schedule T-1 (True-up)

[Section (5)(c)1.a.]

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION: Provide the calculation of the actual true-up of total retail revenue requirements based on actual expenditures for the current year and the previously filed expenditures for such current year.

COMPANY: Florida Power & Light Company

For the Year Ended 12/31/2007

DOCKET NO.: 08 _____-EI

Line No.	(H) Actual July	(I) Actual August	(J) Actual September	(K) Actual October	(L) Actual November	(M) Actual December	(N) 12 Month Total
	Jurisdictional Dollars						
1.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
4.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
5.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
7.	\$0	\$0	\$0	\$0	\$0	\$0	\$0
8.	\$0	\$0	\$0	\$0	\$0	\$0	\$0

Note 1: The costs associated with the uprate project were included in Account 183, Preliminary Survey and Investigation Charges for the period July 2007 through December 2007. On January 7, 2008, the Commission issued Order No. PSC-08-0021-FOF-EI approving FPL's need determination for the uprates. In that Order the Commission determined that Rule No. 25-6.0423, F.A.C. is applicable to the costs of the expansion of the Turkey Point and St. Lucie Nuclear Power Plants (uprate project). As a result of the issuance of this Order, in January 2008 these costs were transferred to Construction Work in Progress account 107. Therefore no carrying charges are reflected in 2007 for recovery.

**St. Lucie and Turkey Point Uprate Project
Monthly Expenditures**

Schedule T-6 (True-up)

[Section (5)(c)1.a.]
[Section (8)(d)]

FLORIDA PUBLIC SERVICE COMMISSION

EXPLANATION:

Provide the actual monthly expenditures by major tasks performed within Site Selection, Preconstruction and Construction categories for the prior year.

COMPANY: Florida Power & Light Company

For the Year Ended 12/31/2007

DOCKET NO.: 08 -E1

Description	(A) Actual January	(B) Actual February	(C) Actual March	(D) Actual April	(E) Actual May	(F) Actual June	(G) Actual July	(H) Actual August	(I) Actual September	(J) Actual October	(K) Actual November	(L) Actual December	(M) 12 Month Total
1 Preliminary Survey & Investigation Charges (Account 183)													
2 Generation:													
3 License Application							163,348	50,487	68,526	25,286	22,438	27,083	357,150
4 Engineering & Design										981	8,081	5,861,467	5,700,529
5 Permitting									872	5,982	1,062	72,492	356,485
6 Project Management									75,838	84,903	68,120	122,501	576,428
7 Clearing, Grading and Excavation													
8 On-Site Construction Facilities													
9 Power Block Engineering, Procurement, etc.													
10 Non-Power Block Engineering, Procurement, etc.											3,287	1,203,046	425,811
11 Total Generation Costs							163,348	126,976	159,411	99,317	1,428,558	6,648,904	8,624,516
12 Participants Credits PSL Unit 2													
13 OUC							(2,983)	(2,186)	(3,957)	(1,982)	(39,447)	(94,338)	(144,453)
14 FMPA							(4,285)	(3,161)	(5,143)	(2,836)	(57,845)	(136,421)	(209,891)
15 Total Participants credits							(7,268)	(5,347)	(9,100)	(4,798)	(96,492)	(230,759)	(353,344)
16 Total Generation Costs net of participants credits							156,100	121,631	150,711	94,519	1,332,066	6,418,145	8,271,172
17													
18													
19 Jurisdictional Factor							0.9958265	0.9958265	0.9958265	0.9958265	0.9958265	0.9958265	0.9958265
20													
21 Total Jurisdictional Generation Costs							155,448	121,123	150,062	94,124	1,326,507	6,389,367	8,236,652
22													
23 Transmission:													
24 Line Engineering													
25 Substation Engineering													
26 Clearing													
27													
28 Other													
29 Total Transmission Costs													
30													
31 Jurisdictional Factor													
32													
33 Total Jurisdictional Transmission Costs													
34													
35 Total Jurisdictional Preliminary Survey & Investigation charges:							155,448	121,123	150,062	94,124	1,326,507	6,389,367	8,236,652
36													
37 Construction:													
38 Generation:													
39 Real Estate Acquisitions													
40 Project Management													
41 Permanent Staff Training													
42 Site Preparation													
43 On-Site Construction Facilities													
44 Power Block Engineering, Procurement, etc.													
45 Non-Power Block Engineering, Procurement, etc.													
46 Total Generation Costs													
47													
48 Jurisdictional Factor													
49													
50 Total Jurisdictional Generation Costs													
51													
52 Transmission:													
53 Line Engineering													
54 Substation Engineering													
55 Real Estate Acquisition													
56 Line Construction													
57 Substation Construction													
58 Other													
59 Total Transmission Costs													
60													
61 Jurisdictional Factor													
62													
63 Total Jurisdictional Transmission Costs													
64													
65 Total Jurisdictional Construction Costs													

Note 1: The costs associated with the uprate project were included in Account 183, Preliminary Survey and Investigation Charges for the period July 2007 through December 2007. On January 7, 2008, the Commission issued Order No. PSC-08-0021-POF-E1 approving PPL's need determination for the uprates. In that Order the Commission determined that Rule No. 25-6.0423, F.A.C. is applicable to the costs of the expansion of the Turkey Point and St. Lucie Nuclear Power Plants (uprate project). As a result of the issuance of this Order, in January 2008 these costs were transferred to Construction Work in Progress account 107. Therefore no carrying charges are reflected in 2007 for recovery.