ORIGINAL

MEMORANDUM

OCTOBER 17, 2001

TO: DIVISION OF THE COMMISSION CLERK AND ADMINISTRATIVE SERVICES

FROM: DIVISION OF LEGAL SERVICES (C. KEATING) RVE For WCK

RE: DOCKET NO. 010001-EI - FUEL AND PURCHASED POWER COST RECOVERY CLAUSE AND GENERATING PERFORMANCE INCENTIVE FACTOR.

Attached is DIRECT TESTIMONY AND EXHIBITS OF KATHY L. WELCH APPEARING ON BEHALF OF THE STAFF OF THE FLORIDA PUBLIC SERVICE COMMISSION to be filed in the above-referenced docket. The testimony includes references to certain audit materials which are the subject of a pending request for specified confidential treatment filed by the utility. Accordingly, the material is submitted with seven confidential copies (in a closed red folder), as well as the redacted copies.

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FPSC-COMMISSION CLERK

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DOCKET NO.: 010001-EI - Fuel and purchased power cost recovery clause and generating performance incentive factor.

WITNESS: **Direct Testimony Of Kathy L. Welch**, Appearing On Behalf Of The Staff Of The Florida Public Service Commission

DATE FILED: October 17, 2001

DIRECT TESTIMONY OF KATHY L. WELCH

Q. Please state your name and business address.

A. My name is Kathy L. Welch. My business address is 3625 NW 82nd Ave, Suite 400, Miami, Florida.

Q. By whom are you presently employed and in what capacity?

A. I am employed by the Florida Public Service Commission as a Regulatory Analyst Supervisor in the Division of Auditing and Financial Analysis.

Q. How long have you been employed by the Commission?

A. I have been employed by the Florida Public Service Commission for twenty-two years.

Q. Briefly review your educational and professional background.

A. I have a Bachelor of Business Administration degree with a major in accounting from Florida Atlantic University. I have a Certified Public Manager certificate from Florida State University. I am also a Certified Public Accountant licensed in the State of Florida. I was hired as a Public Utilities Analyst I by the Florida Public Service Commission in June of 1979. I was promoted to Regulatory Analyst Supervisor on January 2, 1990.

Q. Please describe your current responsibilities.

A. Currently, I am a Regulatory Analyst Supervisor with the responsibilities of administering the Miami District Office, reviewing workload and allocating resources to complete field work and issue audit reports. I also supervise, plan, and conduct utility audits of manual and automated accounting systems for historical and forecasted financial statements and exhibits.

Q. Have you testified before this Commission or any other regulatory agency?

A. Yes. I have filed testimony in the following cases before this Commission: Tamiami Village Utility, Inc. rate case, Docket No. 910560-WS; Tamiami Village Utility, Inc. transfer to North Fort Myers, Docket No. 940963-SU; General Development Utilities, Inc. rate case, Docket No. 911030-WS; Econ Utilities Corporation transfer to Wedgefield Utilities, Inc., Docket No. 960235-WS; and Gulf Utility Company rate case, Docket No. 960329-WS.

Q. What is the purpose of your testimony today?

A. The purpose of my testimony is to sponsor three staff audit reports:

- Florida Power & Light: Fuel Adjustment Clause; Docket Number 010001-EI; Audit Control Number 01-053-4-1. This audit report is filed with my testimony and is identified as KLW-1.
- Florida Power and Light: Purchasing and Selling Practices for Natural Gas; Undocketed; Audit Control Number is 00-353-4-1. A redacted copy of the audit report is filed with my testimony and is identified as KLW-2.
- Florida Public Utilities Company (FPUC): Fuel Adjustment Clause; Docket Number 010001-EI; Audit Control Number 01-053-4-2. This audit report is filed with my testimony and is identified as KLW-3.

Q. Let's begin by discussing the first audit report, the Florida Power & Light (FPL) fuel audit. Did you prepare or cause to be prepared under your supervision, direction, and control this audit report?

A. Yes, I supervised the audit work performed and reviewed the report before it was filed.

Q. Could you summarize your findings in this audit?

A. Yes. Audit Disclosure No. 1 discusses adjustments to the coal inventory and the company compliance with Commission Order PSC 97-0359-FOF-EI. FPL has an interest in two plants using coal, St. Johns River Park Plant (SJRPP) and Scherer Unit #4 (Scherer). The Commission Order states that adjustments to coal inventory should be booked in the month the survey is conducted. At SJRPP, a survey was conducted for the six months ended March 31, 2000. The adjustment was booked in May 2000. Another survey was done for the six months ended August 31, 2000, and the adjustment booked in October 2000. All four Scherer surveys were booked the first week of the month following the survey.

The order also requires the company to notify the Commission with the survey results by the 15th of the month subsequent to the month during which the surveys are conducted. FPL discloses any adjustments for both SJRPP and Scherer by footnotes to the A-5 schedules submitted monthly instead of by letter notification as required by the Commission Order.

For the Scherer plant, aerial surveys are conducted four times a year which is more than the semi-annual survey required in the order.

Additionally, the order states that if the difference between the book inventory and the survey quantity results is greater than 3%, the adjustment should be recorded. The adjustment amount should be the inventory amount plus or minus the survey results that have been adjusted for a plus or minus 3% variance. For Scherer, each quarterly difference was greater than 3%, computed correctly, and recorded.

The order also states that the adjustment to inventory was to be computed using a weighted average cost based on the most recent six months inventory data. For Scherer, the cost used was a weighted average unit cost for only the month prior to the survey.

Q. Are you providing any testimony on the reasonableness of FPL's adjustments to coal inventory?
A. No. I am only stating the treatment followed by the company.
Q. Have you reviewed the testimony presented by Korel M. Dubin regarding this issue on pages 4 and 5 of her supplemental testimony filed September 20, 2001, in this docket?
A. Yes, I have reviewed her testimony.
Q. Do you agree with her statement of facts?
A. Yes, I agree with her statements of facts.
Q. Now, in regard to the second audit report regarding the FPL purchasing and selling practices for natural gas, did you prepare or cause to be prepared under your supervision, direction, and control this audit report?
A. Yes, this report was prepared under my supervision.
Q. Could you summarize your findings in this audit?
A. The report contains seven audit disclosures. Audit Disclosure Number 1 provides the methodology used by FPL to record the cost of gas and to show that the sales of gas to affiliates is removed from inventory cost at the sales price, which is based on the daily market rate. This cost is sometimes higher than the purchase price and sometimes lower. Lower prices are usually a result of a contract made the prior month. A schedule summarizing the average sales price, the highest price and the lowest price of all gas sold by FPL by month for the year 2000 and the average unit price sold to its affiliate, Energy Services (FPLES) is contained in the disclosure. The schedule shows that FPLES paid more than the average price of gas sold each month and that there were sales at both higher and lower prices. Review of

daily sales tickets show that sales made to FPLES were at an amount at or over the daily market rate.

Audit Disclosure Number 2 simply states that fuel transactions are exempt from the affiliated transaction rule.

Audit Disclosure Number 3 discusses that the pricing model used by FPLES may be contributing to low prices.

CONFIDENTIAL

Audit Disclosure Number 4 outlines the difference between in-territory and out-of-territory treatment of revenues and expenses for FPLES gas sales. The disclosure reports that although FPLES customers in FPL's utility territory receive bills from FPLES, the revenues, cost of gas, transportation costs, sales, and administrative costs related to these in-territory sales are recorded in the FPL utility books in a revenue account for revenue enhancing products. The disclosure also reports that in-territory gas sales operated at a loss in the year 2000 and, therefore, that loss was passed through to the utility customers. Staff determined that the loss was higher than recorded because for in-territory sales, administrative costs did not include corporate overhead costs and payroll costs. These costs were recorded in FPL utility operating expenses. The loss reported on the books was $216,363. Corporate overhead costs determined by staff were $123,133.18 and payroll was $192,622.78.

Audit Disclosure Number 5 relates to the company methodology for allocating corporate overhead known as the management fee. The disclosure computes the $123,133.18 discussed in Disclosure 4 and, in addition, reports that the management fee included a charge called change of control. This charge was determined to be for performance incentives paid as a result of the approval by the Board of Directors of the company's merger with Entergy. The incentive program contains a clause that requires payment of the incentives when the Board of Directors approved a merger. The amounts reported in the disclosure as being part of the management fee are currently being audited as part of a new audit looking into the attempted merger with Entergy Corporation.

Audit Disclosure Number 6 discusses the results of interviews with employees, the audit of payroll costs, and examination of sales brochures and mailings. During this part of the audit, it was determined that the payroll costs for in-territory gas sales were never charged to FPLES and are not on the In-Territory Income Statement as discussed in Disclosure 4. The disclosure also contained some minor allocation problems between in-territory and out-of-territory costs.

Audit Disclosure Number 7 reports that risk management expenses have been treated inconsistently from year to year. FPLES appears to have paid for all of the costs related to the Nucleus software in 1998, 1999, and 2000, as opposed to allocating the costs between in-territory and out-of-territory. In the year 2000, FPLES is only paying for a minor portion of risk management salaries.

Q. Are you providing any testimony on the reasonableness of FPL's treatment?

A. No. I am only stating the treatment followed by the company.

Q. Have you reviewed the testimony presented by Korel M. Dubin regarding these issues on pages 6 and 7 of her supplemental testimony filed September 20, 2001, in this docket?

A. Yes, I have reviewed her testimony.

Q. Do you agree with her statement of facts?

A. Yes, I agree with her statements of facts.

Q. Now, in regard to the third audit report regarding the Florida Public Utilities Company fuel audit, did you prepare or cause to be prepared under your supervision, direction, and control this audit report?

A. Yes, I was the audit manager in charge of this audit.

Q. Could you summarize your findings in this audit?

A. The report contained one audit disclosure regarding billing errors. Audit Disclosure Number 1 discusses that in October 2000, the company implemented a new billing system. When the system was first implemented, several errors occurred. The company under billed several customers during this time period. It decided not to retroactively bill the customers because the time it would take to determine who should be billed and to correct the billing would cost more than the revenue loss. When October revenues were recomputed using kilowatts times approved rates, the revenue that should have been billed was $2,686 more than what was actually billed. The majority of the error, $1,829 was because the company did not bill GSD customers .00988 of the approved .03596 rate. The schedules should and do reflect actual billings. However, actual billings are less than the approved revenues.

Q. Are you providing any testimony on the what corrections should be made by Florida Public Utilities Company?

A. No. I am only stating the treatment followed by the company.

Q. Does that conclude your testimony?

A. Yes.

FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES

Miami District Office

FLORIDA POWER AND LIGHT

FUEL ADJUSTMENT

TWELVE MONTHS ENDED DECEMBER 31, 2000

AUDIT CONTROL NO. 01-053-4-1

DOCKET NUMBER 010001-EI

Iliana Piedra, Audit Manager

Kathy L. Welch
Miami District Office Audit Supervisor

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DIVISION OF REGULATORY OVERSIGHT
AUDITOR'S REPORT

JULY 19, 2001

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described in this report to audit the Fuel Cost Recovery schedules for the historical 12 month period ended December 31, 2000 for Florida Power and Light Company.

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:

Scanned- The documents or accounts were read quickly looking for obvious errors.

Compiled- The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Reviewed- The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

Examined- The exhibit amounts were reconciled with the general ledger. The general legder account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

Confirmed- Evidential matter supporting an account balance, transaction, or other information was obtained directly from an independent third party.

Verify- The item was tested for accuracy and compared to the substantiating documentation.

REVENUES: Recalculated the revenues and traced the billing factor to the appropriate order. Reconciled revenues and KWH from the Revenue and Rate Report to Schedule A2. Traced KWH from the exhibit to the billing summary.

EXPENSES: Prepared a trial balance and reconciled it to Schedule A2. Performed an analytical review for nuclear expenses . Reviewed nuclear expenses. Scanned the contract with FPL Fuels, Inc. for the leasing of fuel, and the contracts for purchases of uranium, conversion, enrichment and fabrication. Verified contract prices with invoices. Recalculated the monthly amortization of nuclear fuel costs and monthly calculation of disposal costs on a random basis. Recalculated the yearly payment to the DOE for the decommissioning fund on a random basis; determined company's treatment of "last core" for nuclear fuel.

Verified the adjustment to Coal inventory due to the aerial surveys. Determined compliance with the Commission Order.

Used the audit analyzer software to select a gas purchase sample. Reconciled the sample to the "Natural Gas Consumption" reports and to "Gas Closing Reports". Verified the amounts in the sample to vendor invoices, to invoice calculation worksheets and/or to gas publications. Compiled gas usage from the "Station Gas Volume Statements" and compared it to the "Natural Gas Consumption" reports and to Schedule A3 and A4.

Determined compliance of Schedule A6 - "Power Sold" to the Commission Order. Recalculated gains and reconciled the sales to "Sales Summaries", FPL invoices and to transaction logs.

Verified a sample of expenses recorded in Schedule A7 - "Purchased Power" by tracing amounts to the Southern Company invoices and to ST. John River Power Plant Schedules .

Verified a sample of expenses recorded in Schedule A9 - "Economy Purchased Power" by tracing amounts to the Power Deal Reports and tracing the fuel savings to the Lambda reports.

Verified a sample of expenses recorded in Schedule A8 - "Qualifying Facilities" by tracing amounts to the Daily Hour Schedules and tracing the rates to the tariff. Traced the avoided costs to a "Cogen Unit Energy Cost Report".

TRUE-UP CALCULATION: Recalculated the true-up provision for the twelve months ended December 31, 2000 to determine the accuracy of the current true-up amount for the period under audit. Traced the prior period true up and interest for the beginning of the period to the last audit and to Commission Order.

Traced the interest rates to the Wall Street Journal 30-day Commercial Paper Rate.

OTHER

Scanned various internal audits, and the 1997-1999 Unit Power Sales audit.

AUDIT DISCLOSURE NO. 1

SUBJECT: ADJUSTMENTS TO COAL INVENTORY

STATEMENT OF FACTS: An audit of the adjustments to the coal inventory for aerial surveys was performed to determine if the company was following Order No. PSC 97-0359-FOF-EI.

The company has two sources for coal. It has a 20% interest in the coal at St. Johns River Park Plant in Jacksonville, and an interest in Scherer Unit #4 in Georgia. The company states that since Scherer Unit #4 is run by Georgia Power Company, it does not fall under the PSC order. Georgia Power Company follows the rules of the Georgia Public Service Commission.

St. Johns River Park
FPL has followed all the procedures as outlined in the Commission order for St. Johns River Park except as follows:

1. The order states that the adjustment should be booked in the month the survey is conducted. The first survey was conducted for the six months ended March 31, 2000. However, the adjustment was not booked until the May 2000 accounting month. The second survey was conducted for the six months ended August 31, 2000. However, the adjustment was not booked until the October 2000 account month. The company explained that it needed time to process the paperwork.

2. Instead of notifying the Commission by letter with the results of the semi-annual surveys by the 15th of the month, FPL method is to include footnotes to the A5 schedules that are submitted each month including any adjustments for coal surveys.

Scherer
Some of the Scherer procedures performed fall within the Commission Order mentioned above. Others, although not what the Commission ordered, appear to satisfy Commission standards. There are also items that do not agree with the Commission order.

1. Aerial surveys were conducted four times in 2000 rather than the semi-annual requirement of the Commission order.

2. Each Scherer plant is considered separately as stated in the order.

3. Each quarterly difference is greater than 3%. The order states that if this occurs, the adjustment should be + or - 3% of the survey results and the total difference. The total differences were adjusted which were all over 3%.

4. The adjustment should be calculated prior to the total available tons and dollars for

that month. Each variance adjustment was calculated prior to the total available dollars for that month

5. The quantity was to be adjusted at a weighted average cost as described in the Order. The order states that the most recent six months inventory data should be used. For Scherer the cost used was a weighted average unit cost for the month prior to the survey.

6. The order states that the adjustment for the differences in inventory and survey results should be booked in the month the survey is conducted. All four Scherer surveys were booked in the first week of the month following the survey.

7. The offsetting entries for all four adjustments were made to fuel expense as required by the Commission order.

8. Notification of any adjustments are supposed to be made to the Commission on the 15th of the month subsequent to the survey. The methodology used by FPL to notify the Commission is notes to the A5 schedules submitted each month.

EXHIBITS

CALCU[illegible]N OF TRUE-UP AND INTEREST PROVISION
Compan[illegible] [illegible]rida Power & Light Company
Month of December 2000

LINE NO.		CURRENT MONTH ACTUAL	CURRENT MONTH UPDATED ESTIMATES (a)	CURRENT MONTH DIFFERENCE AMOUNT	CURRENT MONTH DIFFERENCE %	YEAR TO DATE ACTUAL	YEAR TO DATE UPDATED ESTIMATES (a)	YEAR TO DATE DIFFERENCE AMOUNT	YEAR TO DATE DIFFERENCE %
A	**Fuel Costs & Net Power Transactions**								
1 a	Fuel Cost of System Net Generation	$ 171,601,808	$ 128,657,830	$ 42,943,978	33.4 %	$ 2,119,254,505	$ 2,009,938,005	$ 109,316,500	5 4 %
b	Nuclear Fuel Disposal Costs	2,032,265	2,023,466	8,799	0 4 %	22,914,549	22,531,560	382,989	1 7 %
c	Coal Cars Depreciation & Return	324,142	324,142	0	0.0 %	4,104,516	4,104,516	0	0 0 %
d	Gas Pipelines Depreciation & Return	216,049	216,049	0	0 0 %	2,688,657	2,692,657	(4,000)	(0 1) %
e	DOE D&D Fund Payment	0	0	0	N/A	5,776,464	5,930,000	(153,536)	(2 6) %
2 a	Fuel Cost of Power Sold & Transmission Reactive Fuel (Per A6)	(22,747,689)	(5,321,250)	(17,426,439)	327.5 %	(99,626,893)	(75,117,362)	(24,509,532)	32 6 %
b	Revenues from Off-System Sales	(15,208,352)	(30,550)	(15,177,802)	49681 8 %	(37,560,276)	(20,673,259)	(16,887,017)	81 7 %
3 a	Fuel Cost of Purchased Power (Per A7)	13,761,156	12,384,480	1,376,676	11.1 %	154,837,932	148,930,708	5,907,224	4 0 %
b	Energy Payments to Qualifying Facilities (Per A8)	12,320,289	12,668,260	(347,971)	(2 7) %	137,173,404	137,949,465	(776,061)	(0 6) %
4	Energy Cost of Economy Purchases (Per A9)	1,822,072	4,589,886	(2,767,814)	N/A	66,896,351	57,050,832	9,845,519	17 3 %
5	Total Fuel Costs & Net Power Transactions	$ 164,121,740	$ 155,512,313	$ 8,609,427	5 5 %	$ 2,376,459,208	$ 2,293,337,123	$ 83,122,085	3 6 %
6	**Adjustments to Fuel Cost**								
a	Sales to Fl. Keys Elect Coop (FKEC) & City of Key West (CKW)	$ (2,397,036)	$ (1,851,992)	$ (545,044)	29 4 %	$ (30,722,987)	$ (25,353,354)	$ (5,369,633)	21.2 %
b	Variable cost of power sold	(33,329)	0	(33,329)	N/A	(793,898)	(621,267)	(172,631)	27.8 %
c	Inventory Adjustments	(173,846)	0	(173,846)	N/A	(1,362,556)	(903,224)	(459,332)	50 9 %
d	Non Recoverable Oil/Tank Bottoms	0	0	0	N/A	292,882	462,051	(169,169)	(36 6) %
e	Modifications to Burn Low Gravity Oil	(834)	0	(834)	N/A	21,387	22,221	(834)	(3 8) %
7	Adjusted Total Fuel Costs & Net Power Transactions	$ 161,516,695	$ 153,660,321	$ 7,856,374	5 1 %	$ 2,343,894,036	$ 2,266,943,550	$ 76,950,486	3 4 %
B	**kWh Sales**								
1	Jurisdictional kWh Sales (RTP @ CBL)	6,806,086,660	6,563,089,000	242,997,660	3.7 %	87,931,992,861	87,896,045,657	35,947,204	0 0 %
2	Sale for Resale (excluding FKEC & CKW)	569,607	609,000	(39,393)	(6 5) %	6,230,535	6,861,289	(630,754)	(9 2) %
3	Sub-Total Sales (excluding FKEC & CKW)	6,806,656,267	6,563,698,000	242,958,267	3 7 %	87,938,223,396	87,902,906,946	35,316,450	0 0 %
4	Sales to Fl Keys Elect Coop (FKEC) & City of Key West (CKW)	100,000,572	75,335,000	24,665,572	32 7 %	1,021,728,312	982,694,000	39,034,312	4 0 %
5	Total Sales (Excluding RTP Incremental)	6,906,656,839	6,639,033,000	267,623,839	4 0 %	88,959,951,708	88,885,600,946	74,350,762	0 1 %
6	Jurisdictional % of Total kWh Sales (lines B1/B3)	99 99163 %	99.99072 %	0.00091 %	0 0 %	99.99291 %	99.99219 %	0 00072 %	0 0 %

SEE FOOTNOTES ON PAGE 2

FLORIDA POW...& LIGHT COMPANY

SCHEDULE A1

COMPARISON OF ESTIMATED AND ACTUAL

FUEL AND PURCHASED POWER COST RECOVERY FACTOR

MONTH OF: JANUARY 2000 THROUGH DECEMBER 2000

		DOLLARS				MWH				c/KWH			
				DIFFERENCE				DIFFERENCE				DIFFERENCE	
		ACTUAL	ESTIMATED	AMOUNT	%	ACTUAL	ESTIMATED	AMOUNT	%	ACTUAL	ESTIMATED	AMOUNT	%
1	Fuel Cost of System Net Generation (A3)	2,119,254,505	2,009,938,005	109,316,500	5.4	79,200,433	78,606,617	593,816	0.8	2.6758	2.5570	0.1188	4.6
2	Nuclear Fuel Disposal Costs	22,914,549	22,531,561	382,988	1.7	24,583,722	24,316,923	266,799	1.1	0.0932	0.0927	0.0005	0.5
3	Coal Car Investment	4,104,516	4,104,516	0	NA	0	0	0	NA	0.0000	0.0000	0.0000	NA
3a	Nuclear Thermal Uprate	0	0	0	NA	0	0	0	NA	0.0000	0.0000	0.0000	NA
3b	DOE Decontamination and Decommissioning Cost	5,776,464	5,930,000	(153,536)	(2.6)	0	0	0	NA	0.0000	0.0000	0.0000	NA
3c	Gas Pipeline Enhancements	2,688,657	2,692,657	(4,000)	(0.1)	0	0	0	NA	0.0000	0.0000	0.0000	NA
4	Adjustments to Fuel Cost (A2, page 1)	(32,565,172)	(26,393,573)	(6,171,599)	23.4	0	0	0	NA	0.0000	0.0000	0.0000	NA
5	TOTAL COST OF GENERATED POWER	2,122,173,518	2,018,803,165	103,370,353	5.1	79,200,433	78,606,617	593,816	0.8	2.6795	2.5682	0.1113	4.3
6	Fuel Cost of Purchased Power (Exclusive of Economy) (A7)	154,837,933	148,930,709	5,907,224	4.0	10,911,069	10,340,801	570,268	5.5	1.4191	1.4402	(0.0211)	(1.5)
7	Energy Cost of Sched OS & X Econ Purch (FL) (A9)	38,032,036	27,185,019	10,847,017	39.9	1,038,275	886,643	151,632	17.1	3.6630	3.0661	0.5969	19.5
8	Energy Cost of Other Econ Purch (Non-FL) (A9)	28,864,315	29,865,813	(1,001,497)	(3.4)	730,328	803,272	(72,944)	(9.1)	3.9522	3.7180	0.2342	6.3
9	Energy Cost of Sched E Economy Purch (A9)	0	0	0	NA	0	0	0	NA	0.0000	0.0000	0.0000	NA
10	Capacity Cost of Sched E Economy Purchases	0	0	0	NA	0	0	0	NA	0.0000	0.0000	0.0000	NA
11	Energy Payments to Qualifying Facilities (A8)	137,173,404	137,949,465	(776,061)	(0.6)	6,695,967	6,824,577	(128,610)	(1.9)	2.0486	2.0214	0.0272	1.3
12	TOTAL COST OF PURCHASED POWER	358,907,688	343,931,005	14,976,682	4.4	19,375,639	18,855,293	520,346	2.8	1.8524	1.8241	0.0283	1.6
13	TOTAL AVAILABLE (LINE 5 + LINE 12)	2,481,081,206	2,362,734,170	118,347,035	5.0	98,576,072	97,461,910	1,114,162	1.1	2.5169	2.4243	0.0926	3.8
14	Fuel Cost of Economy and Other Power Sales (A6)	(97,154,346)	(73,730,722)	(23,423,624)	31.8	(2,301,320)	(1,751,798)	(549,522)	31.4	4.2217	4.2089	0.0128	0.3
15	Gain on Economy Sales (A6a)	0	0	0	NA	(200,000)	(625,000)	425,000	(68.0)	0.0000	0.0000	0.0000	NA
16	Fuel Cost of Unit Power Sales (SL2 Partpts) (A6)	(2,472,546)	(1,386,639)	(1,085,907)	78.3	(533,377)	(327,373)	(206,004)	62.9	0.4636	0.4236	0.0400	9.4
17	Revenues from Off-System Sales (A6)	(37,560,276)	(20,673,259)	(16,887,017)	81.7								
18	TOTAL FUEL COST AND GAINS OF POWER SALES	(137,187,168)	(95,790,620)	(41,396,548)	43.2	(2,834,697)	(2,079,171)	(755,526)	36.3	4.8396	4.6072	0.2324	5.0
19	Net Inadvertent Interchange	0	0	0	NA	0	0	0	NA				
20	ADJUSTED TOTAL FUEL & NET POWER TRANSACTIONS (LINE 5 + 12 + 17 + 18 + 19)	2,343,894,036	2,266,943,550	76,950,487	3.4	95,741,375	95,382,739	358,636	0.4	2.4482	2.3767	0.0715	3.0
21	Net Unbilled Sales*	3,751,254	9,293,729	(5,542,475)	NA	153,225	391,035	(237,810)	NA	0.0043	0.0106	(0.0063)	NA
22	Company Use*	3,547,057	3,986,753	(439,696)	NA	144,884	167,743	(22,859)	NA	0.0040	0.0045	(0.0005)	NA
23	T & D Losses*	184,226,879	164,927,752	19,299,127	NA	7,524,993	6,939,359	585,634	NA	0.2095	0.1876	0.0219	NA
24	SYSTEM KWH SALES (EXCL FKEC & CKW A2,p1)	2,343,894,036	2,266,943,550	76,950,486	3.4	87,938,223,396	87,902,906,946	35,316,450	0.0	2.6654	2.5789	0.0865	3.4
25	Wholesale KWH Sales (EXCL FKEC & CKW A2,p1)	159,020	172,554	(13,534)	(7.8)	6,230,535	6,861,289	(630,754)	(9.2)	2.6654	2.5789	0.0865	3.4
26	Jurisdictional KWH Sales	2,343,735,016	2,266,770,997	76,964,019	3.4	87,931,992,861	87,896,045,657	35,947,204	0.0	2.6654	2.5789	0.0865	3.4
26a	Jurisdictional Loss Multiplier	-	-	-	-	-	-	-	-	1.00064	1.00064	0.0000	-
27	Jurisdictional KWH Sales Adjusted for Line Losses	2,345,235,007	2,268,221,731	77,013,276	3.4	87,931,992,861	87,896,045,657	35,947,204	0.0	2.6671	2.5806	0.0865	3.4
28	TRUE-UP **	(42,377,580)	(42,377,581)	1	(0.0)	87,931,992,861	87,896,045,657	35,947,204	0.0	(0.0482)	(0.0482)	0.0000	(0.0)
29	TOTAL JURISDICTIONAL FUEL COST	2,302,857,427	2,225,844,150	77,013,277	3.5	87,931,992,861	87,896,045,657	35,947,204	0.0	2.6189	2.5324	0.0865	3.4
30	Revenue Tax Factor									1.01597	1.01597	0.0000	NA
31	Fuel Factor Adjusted for Taxes									2.6607	2.5728	0.0879	3.4
32	GPIF **	11,367,066	11,367,066	0	NA	87,931,992,861	87,896,045,657	35,947,204	0.0	0.01293	0.01293	0.0000	NA
33	Fuel Factor Including GPIF									2.674	2.586	0.0879	3.4
34	FUEL FAC ROUNDED TO NEAREST .001 CENTS/KWH									2.674	2.586	0.088	3.4

* For Informational Purposes Only

** Calculation Based on Jurisdictional KWH Sales

CALC[illegible]N OF TRUE-UP AN[illegible]EREST PROVISION
Compan[illegible]rida Power & Light C[illegible]mpany
Month of December 2000

LINE NO.		CURRENT MONTH ACTUAL	CURRENT MONTH UPDATED ESTIMATES (a)	CURRENT MONTH DIFFERENCE AMOUNT	CURRENT MONTH DIFFERENCE %	YEAR TO DATE ACTUAL	YEAR TO DATE UPDATED ESTIMATES (a)	YEAR TO DATE DIFFERENCE AMOUNT	YEAR TO DATE DIFFERENCE %
C	**True-up Calculation**								
1	Jurisdictional Fuel Revenues (Incl. RTP @ CBL) Net of Revenue Taxes	$ 154,153,029	$ 148,578,097	$ 5,574,932	3.8 %	$ 1,833,786,993	$ 1,832,417,732	$ 1,369,261	0.1 %
2	**Fuel Adjustment Revenues Not Applicable to Period**								
a1	Prior Period True-up Provision	3,531,465	3,531,465	0	0.0 %	42,377,583	42,377,583	0	0.0 %
a2	Prior Period True-up Provision	(14,824,048)	(14,824,048)	0	0.0 %	(96,356,314)	(96,356,314)	(0)	0.0 %
b	GPIF, Net of Revenue Taxes (b)	(932,365)	(932,365)	0	0.0 %	(11,188,376)	(11,188,376)	0	0.0 %
c	Oil Backout Revenues, Net of revenue taxes	8	0	8	N/A	330	306	24	7.8 %
3	Jurisdictional Fuel Revenues Applicable to Period	$ 141,928,089	$ 136,353,148	$ 5,574,941	4.1 %	$ 1,768,620,216	$ 1,767,250,931	$ 1,369,285	0.1 %
4 a	Adjusted Total Fuel Costs & Net Power Transactions (Line A-7)	$ 161,516,695	$ 153,660,321	$ 7,856,374	5.1 %	$ 2,343,894,036	$ 2,266,943,550	$ 76,950,486	3.4 %
b	Nuclear Fuel Expense - 100% Retail	0	0	0	N/A	0	0	0	N/A
c	RTP Incremental Fuel -100% Retail	102,365	0	102,365	N/A	1,093,208	712,026	381,182	53.5 %
d	D&D Fund Payments -100% Retail	0	0	0	N/A	5,776,464	5,930,000	(153,536)	(2.6) %
e	Adj. Total Fuel Costs & Net Power Transactions - Excluding 100% Retail Items (C4a-C4b-C4c-C4d)	161,414,330	153,660,321	7,754,009	5.0 %	2,337,024,365	2,260,301,524	76,569,304	3.4 %
5	Jurisdictional Sales % of Total kWh Sales (Line B-6)	99.99163 %	99.99072 %	0.00091 %	0.0 %	N/A	N/A	N/A	N/A
6	Jurisdictional Total Fuel Costs & Net Power Transactions (Line C4e x C5 x 1.00064(c)) +(Lines C4b,c,d)	$ 161,606,481	$ 153,744,395	$ 7,862,086	5.1 %	$ 2,345,231,242	$ 2,268,218,080	$ 77,013,162	3.4 %
7	True-up Provision for the Month - Over/(Under) Recovery (Line C3 - Line C6)	$ (19,678,392)	$ (17,391,247)	$ (2,287,145)	13.2 %	$ (576,611,026)	$ (500,967,149)	$ (75,643,877)	15.1 %
8	Interest Provision for the Month (Line D10)	(3,218,488)	(2,774,335)	(444,153)	16.0 %	(18,201,421)	(17,038,223)	(1,163,198)	6.8 %
9	True-up & Interest Provision Beg of Period-Over/(Under) Recovery	(568,384,101)	(346,067,844)	(222,316,257)	64.2 %	42,377,583	42,377,583	0	0.0 %
a	Deferred True-up Beginning of Period - Over/(Under) Recovery	(14,824,048)	(163,064,531)	148,240,483	(90.9) %	(96,356,314)	(96,356,314)	0	0.0 %
10 a	Prior Period True-up Collected/(Refunded) This Period	(3,531,465)	(3,531,465)	0	0.0 %	(42,377,583)	(42,377,583)	0	0.0 %
b	Prior Period True-up Collected/(Refunded) This Period	14,824,048	14,824,048	(0)	0.0 %	96,356,314	96,356,314	0	0.0 %
11	End of Period Net True-up Amount Over/(Under) Recovery (Lines C7 through C10)	$ (594,812,447)	$ (518,005,376)	$ (76,807,071)	14.8 %	$ (594,812,447)	$ (518,005,376)	$ (76,807,071)	14.8 %
D	**Interest Provision**								
1	Beginning True-up Amount (Lines C9 + C9a)	$ (583,208,149)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2	Ending True-up Amount Before Interest (C7+C9+C9a+C10)	$ (591,593,958)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3	Total of Beginning & Ending True-up Amount	$ (1,174,802,107)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
4	Average True-up Amount (50% of Line D3)	$ (587,401,054)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
5	Interest Rate - First Day Reporting Business Month	6.65000 %	N/A	N/A	N/A	N/A	N/A	N/A	N/A
6	Interest Rate - First Day Subsequent Business Month	6.50000 %	N/A	N/A	N/A	N/A	N/A	N/A	N/A
7	Total (Line D5 + Line D6)	13.15000 %	N/A	N/A	N/A	N/A	N/A	N/A	N/A
8	Average Interest Rate (50% of Line D7)	6.57500 %	N/A	N/A	N/A	N/A	N/A	N/A	N/A
9	Monthly Average Interest Rate (Line D8 / 12)	0.54792 %	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10	Interest Provision (Line D4 x Line D9)	$ (3,218,488)	N/A	N/A	N/A	N/A	N/A	N/A	N/A

NOTES
(a) **Per Estimated/Actual, Appendix I, page 3, filed August 23, 2000**
(b) **Generation Performance Incentive Factor is ((\$11,367,066/12) x 98.4280%) - See Order No. PSC-99-2512-FOF-EI.**
(c) **Jurisdictional Loss Multiplier per Schedule E2 revised December 15, 1999.**

Exhibit KLW-1 (Page 11 of 11)

FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES

Miami District Office

FLORIDA POWER AND LIGHT

NATURAL GAS AUDIT

TWELVE MONTHS ENDED DECEMBER 31, 2000

AUDIT CONTROL NO. 00-353-4-1

Iliana H. Piedra, Audit Manager

Raymond Grant, Audit Staff

Gabriela Leon, Audit Staff

Yen Ngo, Audit Staff

Ruth Young, Audit Staff

Kathy L. Welch
Miami District Office Audit Supervisor

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DIVISION OF REGULATORY OVERSIGHT
AUDITOR'S REPORT

MARCH 26, 2001

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described in this report to audit the purchasing and selling practices of natural gas by Florida Power and Light and FPL Energy Services, Inc., a subsidiary of FPL Group, Inc. during the year 2000.

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:

Scanned- The documents or accounts were read quickly looking for obvious errors.

Compiled- The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Reviewed- The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

Examined- The exhibit amounts were reconciled with the general ledger. The general legder account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

Confirmed- Evidential matter supporting an account balance, transaction, or other information was obtained directly from an independent third party.

Verify- The item was tested for accuracy and compared to the substantiating documentation.

FPL ENERGY SERVICES (FPLES) : In order to determine if sales to affiliates were following affiliate transaction rules, verified selected purchases of gas from FPL's Energy Management and Trading invoices. Compared spot trades for Florida Power and Light, FPL Energy Services and FPL Energy.

In order to determine if FPLES was charging its customers reduced rates subsidized by FPL, verified gas revenues to monthly billing records. Read contracts with selected customers and recalculated bills.

In order to determine whether there was cross-subsidy, compiled the calculations of the Management Fee to determine the accuracy of all the components included in the fee and allocation basis to the companies and reviewed types of charges included in the Risk Management Fee.

Read company procedures for the purchase of gas and the code of conduct policy.

Read PSC Order No. 00-2235-FOF-EI - Cost Allocation and Affiliate Transactions. Read applicable FERC orders. Read NARUC White Paper on Affiliate Transactions.

FLORIDA POWER AND LIGHT (FPL):

In order to determine if a cross-subsidy existed because of common use of employees and whether employees selling gas represented themselves as FPL employees, scanned a payroll listing of all utility employees who worked for FPL Energy Services during various months in 2000. Selected employees for interviews. Verified information provided by interviewees. Verified that the related payroll charged to FPL Energy Servicesincludes overhead costs; also, verified that charges for rent expense and furniture and computer charges were also charged to FPL Energy Services.

To determine cost of gas sold, scanned selected months of the utility's Monthly Gas Closing Reports and the Natural Gas Price Computations worksheets. Verified any selected adjustments.

Determined from the Natural Gas Receiving Reports and Natural Gas Requisitions how the sales to FPL Energy Services are recorded.

Compared the unit prices from various sales, including FPL Energy Services, for 2000, from the Miscellaneous Bills for Natural Gas Sales to determine if market rate was charged.

Compared the gas usage from the Natural Gas Price Computations worksheets to actual meter readings.

Read company procedures for the purchase of gas and the code of conduct policy.

Read any related Internal Audits.

Recalculated various electric utility bills for Florida Power and Light customers who are also FPL Energy Services, Inc. customers to determine if FPL customers using FPLES were getting discounts on electric service.

SCOPE LIMITATION:

We were not able to perform a test of the actual Utility purchases of gas because the answer to Document/Record Request 34 (dated 2/22/01) was not complete. The answer to the request (dated 3/7/01) provided a list of gas vendors for the utility for requested months, however, no invoice amounts were included. On 3/8/01 we notified our FPL coordinator that additional information was needed. As of the end of the audit, this was not provided. Initially, Document/Record Request 9 (1/23/01) asked for documentation related to various gas purchases, the answer provided (dated 2/9/01) was copies of the Monthly Gas Closing Reports, which detail the gas purchases by vendor. However, these amounts represent various invoices and our sample could not be selected from these reports. Request 34 was written as a follow up to Request 9, in order to receive more detail for the amounts included in the Monthly Gas Closing Reports and to be able to select a sample. We will follow up this work in the upcoming Fuel Clause Audit.

AUDIT DISCLOSURE NO. 1

Subject: Fuel Clause And Transportation

Statement of Fact: One of the objectives of this audit was to determine if the sales of gas to FPL Services and other gas companies were removed from the cost of fuel that flowed through the fuel clause and whether transportation was included in the amounts charged to the affiliate.

Schedule A-2 from the Fuel Recovery Clause was reviewed to determine the gas accounts that flow through the fuel clause. It was determined that accounts 501.120-Recoverable Fuel Gas Steam Generation and account 547.120-Recoverable Fuel Gas Other Power Generation relate to gas. Accounts 547.121 and 547.122 also relate to gas in that they are the depreciation of the Fort Lauderdale and Martin Gas pipelines. These relate to the actual utility plant projects and not to the transportation related to sales of gas on the Florida Gas Transmission pipeline.

A few charges to account 501.120 and 547.120 were traced to source documentation to determine how the items were charged (ie. from inventory or directly), and whether sales to other companies were removed from the accounts that went to the fuel clause.

Source documentation consisted of the Natural Gas Requisition. The requisition shows the gas used at each location for each unit times an average unit price that is determined as follows:

Total Cost of Commodity for the Month +
Total Transportation Cost for the Month +
FGT Gas Lateral Payments -
Less Sales of Gas +
Plus or Minus Imbalance Adjustments +
Gas Adjustments To True-Up Accruals=
Total Cost / (Divided by)
Gas Used from CFIS (Plant Metering) =
Unit Price to Cost to Expense

Opinion: The sales of gas to affiliates and other gas companies are removed from the inventory cost at the sales price which is based on the daily market. This cost is sometimes higher than the purchase price and sometimes lower. Prices lower than the FPL purchase price usually occur because the company buying the fuel ordered it at a fixed price the prior month.

The attached schedule summarizes the monthly transactions. The schedule shows that for the year, Florida Power and Light made a profit on the gas sales based on the commodity price alone. However, we cannot determine from the sales schedules provided, which sales are bundled (with transportation) and which are unbundled (without transportation). A review of the daily sales tickets to Florida Power and Light Energy Services (FPLES) shows that there were occasions where FPLES bought bundled gas from FPL and this is probably true for other sales. When FPL sells gas to other companies, including the affiliate, it is usually sold unbundled (without transportation). The tickets do show, however, that when a bundled sale is made, the charge is high enough to include a charge for transportation.

The schedule also shows that FPLES paid more than the average price of gas sold in each month and that there were sales at lower prices and higher prices. Review of the daily tickets show that the sales were made to Florida Power and Light Energy Services at an amount over the daily market rate.

FLORIDA POWER AND LIGHT
ANALYSIS OF GAS SALES
TEST YEAR 2000

MONTH	SALES TOTAL MMBTU	SALES TOTAL DOLLARS	AVERAGE PRICE	FPL COMM. PURCHASES MMBTU	FPL COMM. PURCHASES DOLLARS	NOTE A AVERAGE PURCHASE PRICE FPL	AVERAGE FPL PRICE BUNDLED	MMBTU SOLD TO SERVICES	DOLLARS SOLD TO SERVICES	UNIT PRICE TO SERVICES	HIGHEST UNIT PRICE ALL SALES	LOWEST UNIT PRICE ALL SALES
JANUARY	1,563,096	3,890,782.25	2.49	21,650,528	51,436,026.25	2.38	2.87	382,183	906,168.51	2.37	4.86	2.23
FEBRUARY	1,081,773	2,869,749.91	2.65	18,433,739	50,074,156.40	2.72	3.26	398,671	1,061,119.74	2.64	4.50	2.63
MARCH	602,008	1,645,475.51	2.73	21,954,439	60,242,748.34	2.74	3.23	406,111	1,072,301.01	2.64	4.25	2.64
APRIL	1,846,204	5,513,495.55	2.99	23,107,067	69,239,058.33	2.96	3.51	416,560	1,231,978.18	2.98	3.08	2.96
MAY	885,508	3,107,747.37	3.51	22,776,227	72,092,775.43	3.17	3.77	505,842	1,782,065.87	3.52	5.00	3.12
JUNE	3,119,914	13,852,224.78	4.44	20,908,318	91,607,663.69	4.38	5.08	469,090	2,141,899.10	4.67	4.90	4.29
JULY	987,007	4,516,161.63	4.58	21,509,918	93,624,798.00	4.35	5.07	479,357	2,204,549.63	4.60	5.10	4.18
AUGUST	1,445,314	6,388,801.94	4.42	21,937,131	85,666,435.32	3.91	4.56	494,684	2,263,087.09	4.57	5.04	4.10
SEPTEMBER	1,245,119	6,406,966.01	5.15	19,388,253	91,419,972.18	4.72	5.45	500,112	2,624,863.51	5.25	5.81	4.62
OCTOBER	772,081	4,082,765.38	5.29	17,214,633	91,069,146.70	5.29	6.06	563,128	3,030,043.69	5.38	5.43	4.68
NOVEMBER	1,646,973	8,229,332.57	5.00	14,976,561	69,657,263.06	4.65	5.40	580,050	2,924,193.40	5.04	6.18	4.52
DECEMBER	3,965,330	34,032,807.34	8.58	13,963,370	86,979,508.60	6.23	6.25	638,640	4,680,349.49	7.33	10.26	7.22
TOTAL	19,159,327	94,536,310.24	4.93	237,820,174	913,108,552.30	3.84		5,824,428	25,912,619.22	4.45		

NOTE A: BEFORE IMBALANCE AND ACCRUAL ADJUSTMENTS AND FGT LATERAL PAYMENTS

AUDIT DISCLOSURE NO. 2

Subject: Cost Allocation Order

Statement of Fact: According to the Cost Allocation and Affiliate Transaction Order PSC-00-2235-FOF-EI, dated November 27, 2000, an affiliate must be charged the higher of fully allocated costs or market, however, the rule is not applicable to "fuel and related transportation services that are subject to Commission review and approval in a cost recovery proceeding".

Deal tickets for several days in the year were obtained and compared for prices charged to all companies FPL sold gas to and to what FPL paid for the gas.

Opinion: The utility sells gas to the non-regulated subsidiary, Florida Power and Light Energy Services (FPLES) and prices it at market price plus a profit margin.

Fully allocated costs would include an allocation of costs of the Energy Marketing and Trading Group since it is making the purchases for FPLES, in addition to bundled or unbundled commodity costs. FPLES has its own buyer, but is not allowed to purchase commodity from anyone but FPL Energy Marketing and Trading (a division of the utility). This requirement was made because of risk management.

Since gas purchases are recovered through the fuel clause, and fuel transactions recovered through the clause are exempt from the affiliate rule requiring the company to transfer costs at the higher of fully allocated costs or market, it appears that FPL is exempt from the affiliate transaction rule.

AUDIT DISCLOSURE NO. 3

Subject: Competitive Pricing

Statement of Fact: Allegations were made that FPLES is charging lower prices than the rest of the industry because it is being subsidized by FPL. Subsidization is being discussed in another disclosure. FPLES did have a higher cost of gas than sales revenue for the year 2000. Review of FPLES sales contracts revealed another reason for the loss that may relate to the low pricing.

[redacted]

Opinion: The pricing model used by FPLES may contribute to the low prices that caused the complaint. The ability of FPL Group to be able to support FPLES so that it can stay in the market in spite of a loss condition may contribute to an anti-competitive environment since many small companies could not sustain a similar loss. However, there are other marketers that also have parent companies that are in a position similar to FPLES.

If FPLES changes the billing methodology for its customers from one that is [redacted] FPLES and FPL may never recover the loss incurred this year.

AUDIT DISCLOSURE NO. 4

Subject: Utility V.S. FPLES

Statement of Fact: Florida Power and Light Energy Services (FPLES), the non-regulated gas marketing affiliate of Florida Power and Light, only records revenues and cost of gas, and sales and administrative costs related to customers that are outside of Florida Power and Light's utility territory. If customers of FPLES are in Florida Power and Light's utility territory, the revenue, cost of gas and other sales and administrative costs related to those customers are recorded as utility revenue and expenses. FPLES customers that are out of territory are approximately 30% of all of its customers. Therefore, approximately 70% of the business of FPLES is recorded in the utility. The percent varies based on the usage of the in-territory customers and direct payroll which is charged based on work orders to in-territory, or out-of-territory time.

FPL employees are selling the service which is being billed by FPLES but recorded by FPL. They represent themselves as FPL employees and not as FPLES employees. The number of customers of FPLES increased 57% (from 91 to 214) in July of 1999 because FPL utility employees participated in a sales blitz that occurred from February to April of 1999.

Opinion: Although the customers receive bills from FPLES, the non-regulated subsidiary, the revenues, cost of gas and transportation, and the sales and administrative costs related to customers in FPL utility territory are recorded in the regulated utility books. FPL representatives believe that in-territory business is base revenue enhancement and should be recorded in the utility business. Whether non-regulated revenues and expenses should be included in regulatory operations needs to be determined.

In addition, because gas sales operated at a loss in the year 2000, the loss related to in-territory customers was passed through utility operations. The company provided an income statement of in-territory revenues and expenses charged to utility operations. It follows this disclosure. It shows a loss of $216,363 for in-territory unregulated gas sales that is recorded in utility books. However, the loss does not include an allocation of corporate overhead costs ($123,133.18 see management fee disclosure) or overhead on payroll charged ($192,622.78 see payroll disclosure). In addition, the income statement was provided the last week of the audit and could not be verified.

AUDIT DISCLOSURE NO. 5

SUBJECT: MANAGEMENT FEE

STATEMENT OF FACTS: Costs that relate to all divisions are accumulated and allocated to non-regulated operations using a three-part formula consisting of revenues, plant, and payroll. Overall, 7.22% of these costs were allocated to non-regulated and 92.78% to regulated. The 7.22%, or $8,886,285 was charged to FPL Group Capital, Inc. The company does not charge this amount down to the individual divisions that make up Group Capital. Therefore, the amount related to FPLES is not on the FPLES income statement. However, the affiliate allocation basis for 2000 shows .25% of the 7.22% relates to FPLES.

The types of costs allocated include information management, human resources, finance, corporate communications, auditing, and resource analysis and planning. These amounted to $87,521,399.

In addition, in the year 2000, a category called change in control was charged. Several of the officers contracts contained performance incentive provisions relating to bonuses and stock options that would be received over the life of the contract if certain performance goals were met. The contracts also stated that 100% of the incentives would be paid when the stockholders approved a merger. Therefore, on December 15, the incentives that relate to future performance were required to be paid. An amount of $35,611,782 was recorded for this change of control provision. Of this amount, $33,041,748 was recorded in utility operations (Account 930.299) and $2,570,034 was allocated to non-regulated operations and charged to FPL Group Capital, Inc. It is included in the $8,886,285 above.

Total of the affiliated costs for common business units of $87,521,399 and the change of control of $35,611,782 is $123,133,181.

Because FPLES's in-territory revenues and payroll are recorded in the utility and not in the FPLES books, these revenues and payroll are not included in the percentage allocation used to allocate common management fee related costs.

OPINION: Common overhead costs that relate to the operation of in-territory gas are not separated and not charged on the FPLES in-territory gas income statement.

A revised allocation schedule was prepared that included the revenues shown in the income statement in disclosure four and in-territory payroll provided in another request. Inclusion of these items increases the management fee allocation to FPLES from .25% to .35% or an increase of .10%. Since total management fee allocation costs are $123,133,181, if in-territory gas operations were recorded in FPLES instead of the utility, an additional $123,133.18 would have been removed from FPL utility operations and charged to FPL Group Capital.

2000 FPL Affiliate Allocation Basis

	Revenues 2000 Actual	%	Gross PP&E 2000 Average	%	Total Payroll 2000 Act/Fcst	%	Avg %
FPL UTILITY	$6,360,801,290	89.62%	$18,460,940,678	91.66%	$654,350,722	95.52%	92.27%
FPL ENERGY	$631,610,301	8.90%	$1,557,241,274	7.73%	$21,462,913	3.13%	6.59%
PALM INSURANCE	$30,935,445	0.44%	$0	0.00%	$0	0.00%	0.15%
FPLES	$33,442,352	0.47%	$14,298,811	0.07%	$3,503,087	0.51%	0.35%
FIBERNET	$40,635,859	0.57%	$108,480,893	0.54%	$5,700,000	0.83%	0.65%
TOTAL	$7,097,425,247	100.00%	$20,140,961,656	100.00%	685,016,722	100.00%	100.00%

AUDIT DISCLOSURE NO. 6.

Subject: Charges to FPLES

Statement of Fact: A list of all payroll charged by the utility to FPLES for May and June 1999 and May, June and November 2000 was obtained. This list provided includes payroll charged to FPLES for Expense Requisition (ER) 99 - affiliate charges, which represents affiliate charges for Energy Services for out-of-territory business and charged to FPL utility business for ER 94 - revenue enhancement charges which represents charges for the in-territory business. This is explained further in Disclosure No. 4.

Approximately 15 employees from this list were selected for interviews based on the different locations charged and on whether they charged time to specific months and not others. An additional 10 employees were selected from organizational charts for specific business units which includes sales representatives and account managers. These employees were interviewed to determine the duties they performed, if it appeared they charged enough time, if they knew of any other individuals in their business unit who worked in the gas business and to obtain any other information which could be relevant to the audit. Some of the interviewees mentioned other employees in their business unit who may have charged to the gas business. These employee names were verified to time records to determine that they charged some of their time. The auditors also verified that the payroll charged to FPLES is inclusive of overheads. These overheads (79.22%) are not recorded on in-territory gas payroll. They, therefore, are not included in the Income Statement for in-territory operations shown in Disclosure 4. Therefore, a larger loss would be shown in this statement if these overheads were included. (Payroll in-territory $243,199.67 times 79.22% = $192,662.78 additional expense, additional loss)

Various employees mentioned training given to them and a sales blitz they attended. The number of customers of FPLES increased 135% (from 91 to 214) in July of 1999 because the FPL utility employees participated in the sales blitz that occurred from February to April 1999.

The cost of some brochures and mailings used to promote the sale of gas was paid by Florida Power and Light, charged to in-territory (charged to ER 94). The invoices related to these costs provided by the company total approximately $25,303 and are dated March, April, June and July 2000. FPLES gas operations is charged rent expense along with furniture and computer charges for its two employees which work exclusively for gas.

In addition, it was determined that the salary of the managers that supervise some of the people interviewed were not charged to the in-territory gas operations. The portion of salary related to revenue producing products for these people and the other administrative staff are charged to a utility work order number 2830. Total charges for this work order are $338,933.87 for the year 2000. These people did also charge a percentage of their time to an out-of-territory work order.

Audit Opinion: For the employees that were interviewed, it appears the time spent on the Gas business correlates with the information given to us in the interviews.

However, the time the utility employees charge to ER 94, as mentioned above, represents amounts that are charged directly to the utility for in-territory business. Therefore, these utility employees are working for the non-regulated gas business.

Payroll overheads, of $192,662.78 for in-territory employees, are never charged to FPLES and are not on the In-Territory Income Statement. It is therefore, included in FPL Utility costs.

It could not be determined if one of the risk managment employees was properly allocated to FPLES. We requested information March 20 which was still not received at the conclussion of the audit.

The costs for some sales brochures and mailings mentioned in the interviews, which totaled approximately $25,303, were charged to in-territory only. The costs are, therefore, included in utility expenses. Because of the timing of receiving the answers to these audit requests, we were unable to do further testing on charges made to FPL utility costs related to in-territory gas to determine if other charges such as this were also charged 100% to the utility. Using the company's methodology of charging in-territory revenues and expenses to the utility and out-of-territory revenues and expenses to FPLES, costs of items used for both in-territory and out-of-territory should have been allocated. They were not. If the Commission determines that non-regulated operations should not be included in utility books, the entire amount of revenue and expense related to in-territory gas should be removed and transferred to FPLES.

Some of the payroll for the managers that was charged to work order 2830 of $338,933.87 also relates to in-territory gas and is not included in the income statement attached to disclosure four. If the Commission determines that non-regulated operations should not be included in utility books, the amount that relates to FPLES products should be charged to FPLES. We were unable to determine the portion of this amount that relates strictly to gas since there are other revenue enhancing products. Because we received the response the last week of the audit, we were unable to obtain information necessary to determine an allocation methodology.

AUDIT DISCLOSURE NO. 7

SUBJECT: RISK MANAGEMENT EXPENSES

STATEMENT OF FACTS: FPLES purchases gas through FPL Energy Marketing and Trading (utility) exclusively. A company representative explained that this is because FPL Energy Marketing and Trading is responsible for risk management.

The risk management system is called the "nucleus" system. Traders input all trades into the system, and the system matches the deal tickets with the confirmations. The system reports are reviewed by FPL Utility personnel. Before July 2000, risk management for FPLES was being performed by FPLES which had its own version of "nucleus."

By FPLES using the utility's risk management system and personnel, two objectives are met. One, a separation of duties and; two, there is no duplication of the system which monitors the trades (nucleus).

Three different situations occurred with regard to FPLES payments for the use of the "nucleus" system.

1. FPLES incurred expenses in 1998 and 1999 for the installation and implementation of the "nucleus" system. The amounts follow:

Total 1998	$612,000
Total 1999	$611,434

None of these expenses were allocated back to FPL Utility for the costs associated with the "in-territory sales." "In-territory sales and costs are " are discussed in Audit Disclosure 4.

2. The expense for the use of "nucleus" for FPLES for the year 2000 is $15,000. This was paid in November 2000 and charged to FPLES. None of this is allocated to FPL utility operations for "in-territory cost of sales."

3. The expense for utility personnel to review the "nucleus" reports for July through December 2000 was $3,282.48 and charged to FPL utility "in-territory" account. The only personnel charge to FPLES for "out-of-territory cost of sales" was $343 in the month of July 2000.

OPINION: It appears that the treatment of risk management expenses is inconsistent from year to year. For the years ended 12/31/98 and 12/31/99, FPLES appears to be paying for both the "in-territory" and "out-of-territory" risk management costs.

For the year ended 12/31/00, FPLES is paying for nucleus but not for any of the payroll associated with risk management except for a minor amount of $343.

Using the company methodology of charging in-territory to the utility and out-of-territory to FPLES, the charges should have all been allocated. If the "in-territory sales and expenses" should be included on FPLES books only and not separated as noted in Disclosure 4, then the entire risk management expense should be on FPL Energy Services books.

FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES

Miami District Office

FLORIDA PUBLIC UTILITIES.

FUEL ADJUSTMENT CLAUSE

YEAR ENDED DECEMBER 31, 2000

DOCKET #010001-EI

AUDIT CONTROL NO. 01-053-4-2

Kathy L. Welch
Audit Manager

Ruth K. Young
Public Utilities Analyst

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DIVISION OF REGULATORY OVERSIGHT
AUDITOR'S REPORT

June 29, 2000

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to the attached Fuel Recovery schedules for the period ended December 31, 2000 for Florida Public Utilities Company. This schedule was prepared as part of the petition for fuel recovery in Docket 010001-EI.

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 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:

Scanned- The documents or accounts were read quickly looking for obvious errors.

Compiled- The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Reviewed- The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

Examined- The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied and account balances were tested to the extent further described.

Confirmed- Evidential matter supporting an account balance, transaction or other information was obtained directly from an independent third party.

Verified- The item was tested for accuracy, and substantiating documentation was examined.

Fuel Recovery Schedules: Traced the filing to the general ledger. Reconciled revenues to the revenue and rate reports. Recalculated revenues to verify that the correct rate was used. Traced the beginning period true-up to the order.

Traced fuel costs to invoices and verified GSLD amounts to invoices of customers. Recalculated true-up and verified interest rates.

AUDIT DISCLOSURE NO. 1

SUBJECT: BILLING ERROR

STATEMENT OF FACT: In October 2000, the company implemented a new billing system. When the system was first implemented, several errors occurred. The company underbilled several customers during this time period. It decided not to retroactively bill the customers because the time it would take to determine who should be billed and to correct the billing would cost more than the revenue loss.
When October revenues were recomputed using killowats times approved rates, the revenue that should have been billed was $2,686 more than what was actually billed. The majority of the error, $1,829 was because the company did not bill GSD customers .00988 of the approved .03596 rate.

OPINION: The schedules should and do reflect actual billings. However, actual billings are less than the approved revenues.

EXHIBITS

COMPANY PREPARED SCHEDULES MARIANNA

COMPANY PREPARED SCHEDULES FERNANDINA

Schedule M1

FLORIDA PUBLIC UTILITIES COMPANY
CALCULATION OF PURCHASED POWER COSTS AND
CALCULATION OF TRUE-UP AND INTEREST PROVISION
ESTIMATED FOR THE PERIOD: JANUARY 2000 - DECEMBER 2000
BASED ON TWELVE MONTHS ACTUAL

MARIANNA DIVISION			ACTUAL JANUARY 2000	ACTUAL FEBRUARY 2000	ACTUAL MARCH 2000	ACTUAL APRIL 2000	ACTUAL MAY 2000	ACTUAL JUNE 2000	ACTUAL JULY 2000	ACTUAL AUGUST 2000	ACTUAL SEPTEMBER 2000	ACTUAL OCTOBER 2000	ACTUAL NOVEMBER 2000	ACTUAL DECEMBER 2000	Total
Total System Sales - KWH			23,029,605	23,761,000	18,854,074	19,329,169	21,014,038	28,078,346	29,392,249	29,248,098	25,702,440	27,708,108	19,889,689	25,373,073	291,379,889
Total System Purchases - KWH			25,405,283	21,869,978	20,533,214	20,259,345	27,972,125	29,492,228	33,080,036	32,724,504	28,981,380	22,816,880	23,473,554	28,995,369	313,603,896
System Billing Demand - KW			60,710	55,374	36,278	41,772	59,415	63,052	69,237	60,214	52,179	54,964	56,876	70,400	680,271
Purchased Power Rates:															
Base Fuel Costs - $/KWH			0.02000	0.02000	0.02000	0.02000	0.02000	0.02000	0.02000	0.02000	0.02000	0.02000	0.02000	0.02000	
Demand and Non-Fuel:															
Demand Charge - $/KW			6.37	6.37	6.37	6.37	6.37	6.37	6.37	6.37	6.37	6.37	6.37	6.37	
Customer Charge - $			550.00	550.00	550.00	550.00	550.00	550.00	550.00	550.00	550.00	550.00	550.00	550.00	
Transformation Charge			31,979	31,980	31,980	31,979	31,979	31,980	32,104	32,105	32,105	32,104	32,104	32,105	
Purchased Power Costs:															
Base Fuel Costs			508,106	437,400	410,664	405,187	559,443	589,845	661,601	654,490	539,628	456,338	469,471	579,907	6,272,080
Subtotal Fuel Costs			508,106	437,400	410,664	405,187	559,443	589,845	661,601	654,490	539,628	456,338	469,471	579,907	6,272,080
Demand and Non-Fuel Costs:															
Demand Charge			386,723	352,732	231,090	266,088	378,474	401,641	441,040	383,563	332,380	350,121	361,027	448,448	4,333,327
Customer Charge			550	550	550	550	550	550	550	550	550	550	550	550	6,600
Transformation Charge			31,979	31,980	31,980	31,979	31,979	31,980	32,104	32,105	32,105	32,104	32,104	32,105	384,504
Subtotal Demand & Non-Fuel Costs			419,252	385,262	263,620	298,617	411,003	434,171	473,694	416,218	365,035	382,775	393,681	481,103	4,724,431
Total System Purchased Power Costs			927,358	822,662	674,284	703,804	970,440	1,024,016	1,135,295	1,070,708	904,663	839,113	863,152	1,061,010	10,996,511
Sales Revenues															
Fuel Adjustment Revenues		Rates													
Residential	RS	0.03940	456,870	475,299	315,198	316,887	341,310	512,358	551,222	540,083	465,009	464,135	316,966	490,041	5,245,377
Commercial	GS	0.03922	78,147	81,062	68,834	69,032	74,064	100,260	105,954	104,138	92,971	100,621	69,911	81,269	1,026,263
Commercial	GSD	0.03596	223,034	231,362	214,441	224,381	243,125	306,452	308,528	316,659	286,214	323,845	232,597	253,295	3,163,933
Industrial	GSLD	0.03354	98,490	96,971	94,886	99,915	113,857	123,701	127,916	126,001	108,429	133,247	109,228	116,096	1,348,737
Outside Lighting	OL,OL-2	0.02643	5,481	5,566	5,589	5,604	5,610	5,633	5,665	5,947	6,414	5,679	6,191	6,178	69,557
Other	SL-1,SL-2,SL-3	0.02606	2,502	2,500	2,499	2,501	2,494	2,494	2,435	2,571	2,505	2,493	1,461	1,453	27,908
Total Fuel Revenues			864,524	892,760	701,447	718,320	780,460	1,050,898	1,101,720	1,095,399	961,541	1,030,020	736,354	948,332	10,881,775
Non-Fuel Revenues			494,761	507,224	439,837	425,967	464,533	561,319	580,406	580,273	531,450	549,802	456,540	542,294	6,134,406
Total Sales Revenue			1,359,285	1,399,984	1,141,284	1,144,287	1,244,993	1,612,217	1,682,126	1,675,672	1,492,991	1,579,822	1,192,894	1,490,626	17,016,181
KWH Sales															
Residential	RS		11,594,905	12,062,577	7,999,291	8,042,325	8,862,006	13,002,978	13,989,297	13,706,583	11,801,076	11,780,071	8,044,818	12,506,210	133,192,137
Commercial	GS		1,992,538	2,066,844	1,755,072	1,760,125	1,888,416	2,556,338	2,701,532	2,655,239	2,370,501	2,565,551	1,782,545	2,072,123	26,166,824
Commercial	GSD		6,202,278	6,433,860	5,963,311	6,239,735	6,760,995	8,522,031	8,579,762	8,805,875	7,959,223	9,079,144	6,515,359	7,043,804	88,105,375
Industrial	GSLD		2,936,508	2,891,202	2,829,052	2,978,970	3,394,670	3,688,154	3,813,848	3,756,724	3,232,818	3,972,768	3,256,660	3,461,416	40,212,810
Outside Lighting	OL,OL-2		207,378	210,577	211,468	212,033	212,242	213,133	214,354	225,027	242,694	214,883	234,249	233,755	2,631,793
Other	SL-1,SL-2,SL-3		96,000	95,940	95,880	95,981	95,709	95,712	93,458	98,650	96,128	95,671	56,058	55,765	1,070,950
Total KWH Sales			23,029,605	23,761,000	18,854,074	19,329,169	21,014,038	28,078,346	29 392,249	29,248,098	25,702,440	27,708,108	19,889,689	25,373,073	291,379,889
True-up Calculation:															Period to Date
Fuel Revenues			864,524	892,760	701,447	718,320	780,460	1,050,898	1,101,720	1,095,399	961,541	1,030,020	736,354	948,332	10,881,775
True-up Provision	DIVIDED BY 12		(16,076)	(16,076)	(16,076)	(16,076)	(16,076)	(16,076)	(16,076)	(16,076)	(16,076)	(16,076)	(16,076)	(16,072)	(192,906)
Gross Receipts Tax Refund			0	0				0	0	0	0	0	0	0	0
Fuel Revenue			880,600	908,836	717,523	734,396	796,536	1,066,974	1,117,796	1,111,475	977,617	1,046,096	752,430	964,404	11,074,683
Total Purchased Power Costs			927,358	822,662	674,284	703,804	970,445	1,024,016	1,135,295	1,070,708	904,663	839,113	863,152	1,061,010	10,996,510
True-up Provision for the Period			(46,758)	86,174	43,239	30 592	(173,909)	42,958	(17,499)	40,767	72,954	206,983	(110,722)	(96,606)	78,173
Interest Provision for the Period			767	802	1,065	1,211	801	383	365	340	563	1,237	1,433	786	9,753
True-up and Interest Provision															
Beginning of Period			192,908	130,841	201,741	229,969	245 696	58 512	83,777	50,567	75,598	133,039	325,183	199,818	192,908
True-up Collected or (Refunded)			(16,076)	(16,076)	(16,076)	(16,076)	(16,076)	(16,076)	(16,076)	(16,076)	(16,076)	(16,076)	(16,076)	(16,072)	(192,908)
End of Period, Net True-up			130,841	201,741	229,969	245,696	58,512	83,777	50,567	75,598	133,039	325,183	199,818	87,926	87,926
10% Rule															
Interest Provision:															0.80%
Beginning True-up Amount			192,908	130,841	201,741	229 969	245,696	56,512	83,777	50,567	75,598	133,039	325,183	199,818	
Ending True-up Amount Before Interest			130,074	200,939	228,904	244,485	55,711	83,394	50,202	75,258	132,476	323,946	198,385	87,140	
Total Beginning and Ending True-up			322,982	331,780	430,645	474,454	301,407	139,906	133,979	125,825	208,074	456,985	523,568	286,958	
Average True-up Amount			161,491	165,890	215,323	237,227	150,704	69,953	66,990	62,913	104,037	228,493	261,784	143,479	
Average Annual Interest Rate			5.7000%	5.8000%	5.9350%	6.1250%	6.3750%	6.5750%	6.5400%	6.4900%	6.4900%	6.4950%	6.5700%	6.5750%	
Monthly Average Interest Rate			0.4750%	0.4833%	0.4946%	0.5104%	0.5313%	0.5479%	0.5450%	0.5408%	0.5408%	0.5413%	0.5475%	0.5479%	
Interest Provision			767	802	1,065	1,211	801	383	365	340	563	1,237	1,433	786	

Exhibit KLW-3 (Page 7 of 8)

Schedule F1

FLORIDA PUBLIC UTILITIES COMPANY
CALCULATION OF PURCHASED POWER COSTS AND
CALCULATION OF TRUE-UP AND INTEREST PROVISION-EXCLUDING GSLD
ESTIMATED FOR THE PERIOD. JANUARY 2000 THROUGH DECEMBER 2000
BASED ON TWELVE MONTHS ACTUAL
(EXCLUDES LINE LOSS , EXCLUDES TAXES)

FERNANDINA BEACH		ACTUAL JANUARY 2000	ACTUAL FEBRUARY 2000	ACTUAL MARCH 2000	ACTUAL APRIL 2000	ACTUAL MAY 2000	ACTUAL JUNE 2000	ACTUAL JULY 2000	ACTUAL AUGUST 2000	ACTUAL SEPTEMBER 2000	ACTUAL OCTOBER 2000	ACTUAL NOVEMBER 2000	ACTUAL DECEMBER 2000	Total Estimated
Total System Sales - KWH		33,985,617	37,358,607	34,816,926	31,111,088	39,758,285	40,566,272	43,549,150	42,845,733	39,396,119	42,606,663	33,483,001	36,072,639	455,750,100
JSC Purchases - KWH		3,700	234,000	2,100	23,100	7,700	16,700	7,600	3,700	31,600	322,500	32,600	22,800	708,100
JEA Purchases - KWH		37,867,703	35,377,574	36,973,473	30,455,275	48,126,903	44,020,882	47,654,084	46,576,745	40,913,812	39,755,139	34,887,641	39,008,831	481,615,862
System Billing Demand - KW		90,854	77,638	- 75,757	66,618	87,270	89,510	95,200	94,662	84,179	81,088	78,848	98,381	1,020,005
Purchased Power Rates:														
CCA Fuel Costs - $/KWH		0 018700	0 018700	0 018700	0 018700	0 018700	0 018700	0 018700	0 018700	0 018700	0 018700	0 018700	0 018700	
Base Fuel Costs - $/KWH		0 01845	0 01845	0 01845	0 01845	0 01845	0 01845	0 01845	0 01845	0 01845	0 01845	0 01845	0 01845	
Fuel Adjustment - $/KWH		0 00000	0 00000	0 00000	0 00000	0 00000	0 00000	0 00000	0 00000	0 00000	0 00000	0 00000	0 00000	
Demand and Non-Fuel														
Demand Charge - $/KW		6 00	6 00	6 00	6 00	6 00	6 00	6 00	6 00	6 00	6 00	6 00	6 00	
Customer Charge - $		225 00	225 00	225 00	225 00	225 00	225 00	225 00	225 00	225 00	225 00	225 00	225 00	
Energy Charge (Excl Fuel) $/KWH		0 00105	0 00105	0 00105	0 00105	0 00105	0 00105	0 00105	0 00105	0 00105	0 00105	0 00105	0 00105	
Purchased Power Costs:														
CCA Fuel Costs		69	4,376	39	432	144	312	142	69	591	6,031	610	426	13,241
JEA Base Fuel Costs		698,659	652,716	682,161	561,900	887,941	812,185	879,218	859,341	754,860	733,482	643,677	719,672	8,885,812
JEA Fuel Adjustment		0	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal Fuel Costs		698,728	657,092	682,200	562,332	888,085	812,497	879,360	859,410	755,451	739,513	644,287	720,098	8,899,053
Demand and Non-Fuel Costs.														
Demand Charge		545,124	465,828	454 545	399,708	523,620	537,060	571,200	567,972	505,074	486,528	473,088	590,286	6,120 031
Customer Charge		225	225	225	225	225	225	225	225	225	225	225	225	2,700
Energy Charge		39,761	37,146	38,822	31,978	50,533	46,222	50 037	48,906	42 959	41,743	36,632	40,957	505,696
Subtotal Demand & Non-Fuel Costs		585,110	503,197	493,592	431,911	574,378	583,507	621,462	617,103	548,258	528,496	509,945	631,468	6 628,427
Total System Purchased Power Costs		1,283,838	1,160,289	1,175,792	994,243	1,462,463	1,396,004	1,500,822	1,476,513	1,303,709	1 268,009	1,154,232	1,351,566	15,527,480
Less Direct Billing To GSLD Class:														
Demand		228,227	68,982	246,746	135,614	164,168	223,501	160,707	178,776	138 945	147,592	118,667	127,560	1,935,485
Commodity		225,628	240,868	324,272	217,286	348,767	250,365	242,897	234,048	248,520	315,015	256,552	228,229	3,138,447
Net Purchased Power Costs		831,983	850 439	604,774	641,343	949,528	916 138	1,097,218	1,065,689	916 244	805,402	779,013	995,777	10,453,548
Sales Revenues														
Fuel Adjustment Revenues	Rate													
RS	0 03401	453,063	533,258	335,045	353,841	414,902	577,503	641,135	605,638	549,231	487,486	357,209	482 459	5,790,768
GS	0 03339	67,445	73,702	60,783	67,676	70,133	88,720	94,839	98,737	81,975	91,711	71,119	81,300	948,140
GSD	0 03126	227,055	229,172	214,350	241,340	248,416	250,580	300,380	320,958	258,164	308,478	239,355	240,869	3,079,115
OL	0 02405	1,762	1,812	1,736	1,760	1,791	1,790	1,909	2,028	2,021	2,270	1,890	2,050	22,819
SL,CSL	0 02405	1,816	1,796	1,796	1,821	1,831	1,846	1,858	1,875	1,872	1,891	1,483	1,487	21,372
Total Fuel Revenues (Excl GSLD)		751,141	839,738	613,710	666,438	737,073	920,439	1,040,121	1,029,236	893,263	891,834	671,056	808,165	9 862,214
GSLD Fuel Revenues		451,855	309,850	571,018	352,900	512,935	479 866	403,604	410,824	387,465	462,607	375,219	355,789	5,073,932
Non-Fuel Revenues		555,777	579,707	511,153	499 553	547,850	631,044	665 364	669,281	608,779	909,107	529,970	573,963	7,281,548
Total Sales Revenue		1,758 773	1 729 295	1,695,881	1,518,891	1,797,858	2 031,349	2,109,089	2 109 341	1,889,507	2,263,548	1,576,245	1,737,917	22,217,694
KWH Sales.														
RS		13,323,524	15,660,153	9,852,676	10,404,924	12,200,527	16,982,008	18 853,078	17,808,991	16,150,575	14,338,904	10,500,640	14,425,358	170,521,356
GS		2,019,915	2,207,298	1,820,401	2,026,835	2,100,415	2,657,069	2,840,355	2,957,091	2,455 003	2,746,672	2,129,955	2,434,865	28,395,964
GSD		7,263,436	7,331,153	6,856,993	7,720,411	7,946,759	8,016,010	9,609,060	10,267,381	8,258 604	9,668,076	7,656,896	7,705,336	96,500,134
GSLD		11,230,000	11,990,000	18,140,000	10,810,000	17,360,000	12,760,000	12,090,000	11,650,000	12,370 000	15,680,000	12,770,000	11,360,000	156,210,000
OL		73,250	75,335	72,180	73,195	74,456	74,429	79,396	84,317	84,018	94,371	78,594	85,256	948,805
SL,CSL		75,492	74,668	74,000	75,723	78,128	76,758	77,241	77,953	77,839	78,640	61,682	61,824	888 618
Total KWH Sales		33 985,617	37,358 607	34,816,926	31,111,088	39,758,285	40,566,272	43 549,150	42,845,733	39,396 119	42,806,663	33,197,766	36,072 639	455,464 865
True-up Calculation (Excl. GSLD).														
Fuel Revenues		751,141	839,738	613,710	666,438	737,073	920,439	1,040,121	1,029,236	893,263	891,834	671 056	808,165	9,862,214
True-up Provision		(87,280)	(87,280)	(87,280)	(87,280)	(87,280)	(87,280)	(87,280)	(87,280)	(87,280)	(87,280)	(87,280)	(87,287)	(1,047,367)
Gross Receipts Tax Refund		0	0	0	0	0	0	0	0	0	0	0	0	0
Fuel Revenue		838,421	927,018	700,990	753,718	824,353	1,007,719	1,127,401	1,116,516	980,543	979,114	758,336	895,452	10,909,581
Net Purchased Power Costs		831,983	850,439	604,774	641,343	949,529	916,138	1,097,218	1,065,689	916,244	805,402	779 013	995,777	10,453,549
True-up Provision for the Period		6,438	76,579	96,216	112,375	(125,176)	91,581	30,183	50,827	64,299	173,712	(20,677)	(100,325)	456,032
Interest Provision for the Period		4,783	4,668	4,796	5,061	4,797	4,403	4,260	3,997	3,858	4,054	4,064	3,280	52,021
True-up and Interest Provision														
Beginning of Period		1,047,367	971,308	965,275	979,007	1,009,163	801,504	810,208	757,371	724,915	705,792	796,278	692,385	1,047,367
True-up Collected or (Refunded)		(87,280)	(87,280)	(87,280)	(87,280)	(87,280)	(87,280)	(87,280)	(87,280)	(87,280)	(87,280)	(87,280)	(87,287)	(1,047,367)
End of Period, Net True-up		971,308	965,275	979 007	1,009,163	801,504	810,208	757,371	724,915	705,792	796,278	692,385	508 053	508,053
10% Rule Interest Provision:														4.00%
Beginning True-up Amount		1,047,367	971,308	965,275	979,007	1,009,163	801,504	810,208	757,371	724,915	705,792	796,278	692,385	
Ending True-up Amount Before Interest		966,525	960,607	974,211	1,004,102	796,707	805,805	753,111	720,918	701,934	792,224	688,321	504,773	
Total Beginning and Ending True-up		2,013,892	1,931,915	1,939,486	1,983,109	1,805,870	1,607,309	1,563,319	1,478,289	1,426,849	1,498,016	1,484,599	1,197,158	
Average True-up Amount		1,006,946	965,958	969,743	991,555	902,935	803,655	781,660	739,145	713,425	749 008	742,300	598,579	
Average Interest Rate		5 7000%	5 8000%	5 9350%	6 1250%	6 3750%	6 5750%	6 5400%	6 4900%	6 4900%	6 4950%	6 5700%	6 5750%	
Monthly Average Interest Rate		0 4750%	0 4833%	0.4946%	0 5104%	0 5313%	0 5479%	0 5450%	0 5408%	0 5408%	0 5413%	0 5475%	0 5479%	
Interest Provision		4 783	4,668	4,796	5,061	4,797	4,403	4,260	3,997	3 858	4,054	4,064	3 280	

Exhibit KLW-3 (Page 5 of 5

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery clause and generating performance incentive factor.	DOCKET NO. 010001-EI FILED: OCTOBER 17, 2001

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that one true and correct copy of DIRECT TESTIMONY AND EXHIBITS OF KATHY L. WELCH has been furnished to the following by U. S. Mail this 17th day of October, 2001:

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