

State of Florida



ORIGINAL

Public Service Commission

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DATE: July 27, 2004

TO: Jim Breman, Division of Economic Regulation

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

RE: **Docket No.** 040007-EI ; **Company Name:** Florida Power and Light Co. ; **Audit Purpose:** Environmental Cost Recovery Clause ; **Audit Control No.** 04-044-4-1

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 the Commission Clerk and Administrative Services. There are confidential work papers associated with this audit.

DNV/jcp
Attachment

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

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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
BUREAU OF AUDITING

Miami District Office

FLORIDA POWER & LIGHT COMPANY

ENVIRONMENTAL COST RECOVERY CLAUSE

HISTORICAL YEAR ENDED DECEMBER 31, 2003

DOCKET NO. 040007-EI
AUDIT CONTROL NO. 04- 044-4-1



Yen Ngo, Audit Manager



Raymond Grant, Audit Staff



Kathy Welch, Public Utilities Supervisor

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**DIVISION OF REGULATORY COMPLIANCE & CONSUMER ASSISTANCE
AUDITOR'S REPORT
July 9, 2004**

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described in this report to audit the Environmental Cost Recovery Clause schedules for the historical 12-month period ended December 31, 2003 for Florida Power & Light Company. These schedules were prepared by the utility as part of its petition for Environmental Cost Recovery Clause Docket No. 040007-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 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. There are confidential workpapers associated with this audit.

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.

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

True-up Calculation - Recalculated the true-up provision. Verified the beginning true-up to the Commission Orders and deferred true-up to the prior filings. Traced the interest rates to the Wall Street Journal, 30-day Commercial Paper Rate. Traced the prior true-up to the prior audit.

Revenues - Compiled the revenues from the general ledger and reconciled to the filing; verified the billing factors to the appropriate order.

Plant Investment: Compiled Plant Investments. Additions for the twelve month period were sampled on a judgmental basis.

The Spill Prevention Program was added to the 2003 environmental clause. The contracts of this program were not reviewed due to time restraints; therefore, this procedure should be done in the next audit.

Depreciation Expense: Accumulated depreciation and depreciation expense were traced to the general ledger and recalculated.

Operation and Maintenance Expense: Operating and Maintenance Expenses were

statistically tested using Audit Analyzer. The sample was traced to supporting documentation. Expenses were compared to the descriptions of the programs to determine that they were recoverable. Read prior orders related to the programs.

Read Commission Orders. Reviewed prior audits for significant findings.

II. EXHIBITS

Florida Power & Light Company
Environmental Cost Recovery Clause
Calculation of the Final True-up for the Period
January through December 2003

Line No.			
1	Over/(Under) Recovery for the Current Period (Form 42-2A Page 2 of 2, Line 5)	\$923,822	
2	Interest Provision (Form 42-2A Page 2 of 2, Line 6)	(\$29,012)	
3	Total	\$894,810	
4	Estimated/Actual Over/(Under) Recovery for the Same Period *	\$879,032	
5	Interest Provision	(28,099)	
6	Total	\$850,933	
7	Net True-Up for the period		\$43,877

* Per Order No. PSC-03-1348-FOF-EI issued November 25, 2003

Florida Power & Light Company
Environmental Cost Recovery Clause
Calculation of the Final True-up Amount for the Period
January through December 2003

Line No.	January	February	March	April	May	June
1 ECRC Revenues (net of Revenue Taxes)	\$1,237,033	\$1,356,620	\$1,364,256	\$1,345,182	\$1,456,677	\$1,650,512
2 True-up Provision (Order No. PSC-02-1735-FOF-EI)	(605,967)	(605,967)	(605,967)	(605,967)	(605,967)	(605,967)
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	631,066	750,654	758,289	739,215	850,710	1,044,546
4 Jurisdictional ECRC Costs						
a - O&M Activities (Form 42-5A, Line 9)	137,881	150,469	179,769	180,280	151,390	265,177
b - Capital Investment Projects (Form 42-7A, Line 9)	462,442	460,803	459,134	462,008	457,789	454,452
c - Total Jurisdictional ECRC Costs	600,323	611,272	638,903	642,288	609,179	719,629
5 Over/(Under) Recovery (Line 3 - Line 4c)	30,743	139,382	119,386	96,927	241,531	324,917
6 Interest Provision (Form 42-3A, Line 10)	(7,198)	(6,367)	(5,402)	(4,569)	(3,856)	(2,735)
7 Est/Act True-Up for 2002	(7,271,601)	(6,642,089)	(5,903,108)	(5,183,157)	(4,484,832)	(3,641,190)
a - Deferred True-Up from 2001	205,349	205,349	205,349	205,349	205,349	205,349
8 True-Up Collected /(Refunded) (See Line 2)	605,967	605,967	605,967	605,967	605,967	605,967
9 End of Period True-Up (Lines 5+6+7+7a+8)	(6,436,740)	(5,697,759)	(4,977,808)	(4,279,483)	(3,435,841)	(2,507,693)
10 Adjustments to Period Total True-Up Including Interest						
11 End of Period Total Net True-Up (Lines 9+10)	(\$6,436,740)	(\$5,697,759)	(\$4,977,808)	(\$4,279,483)	(\$3,435,841)	(\$2,507,693)

Florida Power & Light Company
Environmental Cost Recovery Clause
Calculation of the Final True-up Amount for the Period
January through December 2003

Line No.	July	August	September	October	November	December	End of Period Amount
1 ECRC Revenues (net of Revenue Taxes)	\$1,708,183	\$1,676,749	\$1,703,625	\$1,606,876	\$1,473,092	\$1,399,922	\$17,978,728
2 True-up Provision (Order No. PSC-02-1735-FOF-EI)	(605,967)	(605,967)	(605,967)	(605,967)	(605,967)	(605,967)	(7,271,601)
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	1,102,216	1,070,782	1,097,658	1,000,910	867,125	793,955	10,707,127
4 Jurisdictional ECRC Costs							
a - O&M Activities (Form 42-5A, Line 9)	171,222	169,295	209,745	99,288	173,841	2,182,649	4,071,006
b - Capital Investment Projects (Form 42-7A, Line 9)	687,182	453,316	450,808	449,076	453,842	461,447	5,712,299
c - Total Jurisdictional ECRC Costs	858,404	622,611	660,553	548,364	627,683	2,644,096	9,783,305
5 Over/(Under) Recovery (Line 3 - Line 4c)	243,812	448,171	437,105	452,546	239,442	(1,850,141)	923,822
6 Interest Provision (Form 42-3A, Line 10)	(1,779)	(996)	(75)	849	1,639	1,477	(29,012)
7 Est/Act True-Up for 2002	(2,713,042)	(1,865,042)	(811,900)	231,097	1,290,458	2,137,506	(7,271,601)
a - Deferred True-Up from 2001	205,349	205,349	205,349	205,349	205,349	205,349	205,349
8 True-Up Collected /(Refunded) (See Line 2)	605,967	605,967	605,967	605,967	605,967	605,967	7,271,601
9 End of Period True-Up (Lines 5+6+7+7a+8)	(1,659,693)	(606,551)	436,446	1,495,807	2,342,855	1,100,159	1,100,159
10 Adjustments to Period Total True-Up Including Interest							
11 End of Period Total Net True-Up (Lines 9+10)	(\$1,659,693)	(\$606,551)	\$436,446	\$1,495,807	\$2,342,855	\$1,100,159	\$1,100,159

Florida Power & Light Company
Environmental Cost Recovery Clause
Calculation of the Final True-up Amount for the Period
January through December 2003

Interest Provision (In Dollars)

Line No.	January	February	March	April	May	June
1 Beginning True-Up Amount (Form 42-2A, Lines 7 + 7a + 10)	(\$7,066,252)	(\$6,436,740)	(\$5,697,759)	(\$4,977,808)	(\$4,279,483)	(\$3,435,841)
2 Ending True-Up Amount before Interest (Line 1 + Form 42-2A, Lines 5 + 8)	(6,429,542)	(5,691,392)	(4,972,406)	(4,274,914)	(3,431,985)	(2,504,958)
3 Total of Beginning & Ending True-Up (Lines 1 + 2)	(\$13,495,794)	(\$12,128,132)	(\$10,670,165)	(\$9,252,722)	(\$7,711,468)	(\$5,940,799)
4 Average True-Up Amount (Line 3 x 1/2)	(\$6,747,897)	(\$6,064,066)	(\$5,335,083)	(\$4,626,361)	(\$3,855,734)	(\$2,970,400)
5 Interest Rate (First Day of Reporting Month)	1.29000%	1.27000%	1.25000%	1.18000%	1.19000%	1.21000%
6 Interest Rate (First Day of Subsequent Month)	1.27000%	1.25000%	1.18000%	1.19000%	1.21000%	1.00000%
7 Total of Beginning & Ending Interest Rates (Lines 5 + 6)	2.56000%	2.52000%	2.43000%	2.37000%	2.40000%	2.21000%
8 Average Interest Rate (Line 7 x 1/2)	1.28000%	1.26000%	1.21500%	1.18500%	1.20000%	1.10500%
9 Monthly Average Interest Rate (Line 8 x 1/12)	0.10667%	0.10500%	0.10125%	0.09875%	0.10000%	0.09208%
10 Interest Provision for the Month (Line 4 x Line 9)	(\$7,198)	(\$6,367)	(\$5,402)	(\$4,569)	(\$3,856)	(\$2,735)

Florida Power & Light Company
Environmental Cost Recovery Clause
Calculation of the Final True-up Amount for the Period
January through December 2003

Interest Provision (In Dollars)

Line No.	July	August	September	October	November	December	End of Period Amount
1 Beginning True-Up Amount (Form 42-2A, Lines 7 + 7a + 10)	(\$2,507,693)	(\$1,659,693)	(\$606,551)	\$436,446	\$1,495,807	\$2,342,855	(\$32,392,712)
2 Ending True-Up Amount before Interest (Line 1 + Form 42-2A, Lines 5 + 8)	(1,657,914)	(605,555)	436,521	1,494,958	2,341,216	1,098,681	(24,197,290)
3 Total of Beginning & Ending True-Up (Lines 1 + 2)	(\$4,165,607)	(\$2,265,248)	(\$170,030)	\$1,931,404	\$3,837,023	\$3,441,536	(\$56,590,002)
4 Average True-Up Amount (Line 3 x 1/2)	(\$2,082,804)	(\$1,132,624)	(\$85,015)	\$965,702	\$1,918,512	\$1,720,768	(\$28,295,001)
5 Interest Rate (First Day of Reporting Month)	1.00000%	1.05000%	1.06000%	1.06000%	1.05000%	1.00000%	N/A
6 Interest Rate (First Day of Subsequent Month)	1.05000%	1.06000%	1.06000%	1.05000%	1.00000%	1.06000%	N/A
7 Total of Beginning & Ending Interest Rates (Lines 5 + 6)	2.05000%	2.11000%	2.12000%	2.11000%	2.05000%	2.06000%	N/A
8 Average Interest Rate (Line 7 x 1/2)	1.02500%	1.05500%	1.06000%	1.05500%	1.02500%	1.03000%	N/A
9 Monthly Average Interest Rate (Line 8 x 1/12)	0.08542%	0.08792%	0.08833%	0.08792%	0.08542%	0.08583%	N/A
10 Interest Provision for the Month (Line 4 x Line 9)	(\$1,779)	(\$996)	(\$75)	\$849	\$1,639	\$1,477	(\$29,012)

6

Florida Power & Light Company
Environmental Cost Recovery Clause
Calculation of the Final True-Up Amount for the Period
January 2003 - December 2003

Variance Report of O&M Activities
(in Dollars)

Line	(1)	(2)	(3) Variance (4)	
	Actual	Estimated Actual	Amount	Percent
1 Description of O&M Activities				
1 Air Operating Permit Fees-O&M	\$1,805,360	\$1,971,032	(\$165,672)	-8.4%
3a Continuous Emission Monitoring Systems-O&M	\$526,519	\$636,975	(\$110,456)	-17.3%
5a Maintenance of Stationary Above Ground Fuel Storage Tanks-O&M	\$82,169	\$306,177	(\$224,008)	-73.2%
8a Oil Spill Cleanup/Response Equipment-O&M	\$107,580	\$168,888	(\$61,308)	-36.3%
13 RCRA Corrective Action-O&M	\$63,581	\$52,498	\$11,083	21.1%
14 NPDES Permit Fees-O&M	\$142,543	\$123,543	\$19,000	15.4%
17a Disposal of Noncontainerized Liquid Waste-O&M	\$367,698	\$229,138	\$138,560	60.5%
19a Substation Pollutant Discharge Prevention & Removal - Distribution - O&M	\$1,228,656	\$1,000,300	\$228,356	22.8%
19b Substation Pollutant Discharge Prevention & Removal - Transmission - O&M	\$452,922	\$677,900	(\$224,978)	-33.2%
19c Substation Pollutant Discharge Prevention & Removal - Costs Included in Base Rates	(\$560,232)	(\$560,232)	\$0	0.0%
20 Wastewater Discharge Elimination & Reuse	\$29,696	\$32,611	(\$2,915)	-8.9%
N/A Amortization of Gains on Sales of Emission Allowances	(\$482,207)	(\$430,354)	(\$51,853)	12.0%
22 Pipeline Integrity Management	\$177,784	\$72,784	\$105,000	144.3%
23 Spill Prevention, Control & Countermeasures (SPCC)	\$160,850	\$76,261	\$84,589	110.9%
2 Total O&M Activities	\$4,102,919	\$4,357,521	(\$254,602)	-5.8%
3 Recoverable Costs Allocated to Energy	\$2,338,243	\$2,606,278	(\$268,035)	-10.3%
4a Recoverable Costs Allocated to CP Demand	\$816,136	\$1,031,059	(\$214,923)	-20.8%
4b Recoverable Costs Allocated to GCP Demand	\$948,540	\$720,184	\$228,356	31.7%

Notes:

Column(1) is the End of Period Totals on Form 42-5A

Column(2) is the approved projected amount in accordance with
FPSC Order No. PSC-03-1348-FOF-EI

Column(3) = Column(1) - Column(2)

Column(4) = Column(3) / Column(2)

Totals may not add due to rounding.