

State of Florida



Public Service Commission ORIGINAL

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: July 24, 2007
TO: William B. McNulty, Public Utilities Supervisor, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance @
RE: Docket No: 070007-EI; Company Name: Florida Power & Light Company;
Audit Purpose: Environmental Cost Recovery Clause Audit;
Audit Control No: 07-071-4-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of Commission Clerk. There are confidential work papers associated with this audit.

DNV:bj
Attachments

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

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

Mr. R. Wade Litchfield
Florida Power & Light Company
700 Universe Boulevard
Juno Beach, FL 33408-0420

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE

Miami District Office

FLORIDA POWER AND LIGHT

ENVIRONMENTAL COST RECOVERY CLAUSE

YEAR ENDED DECEMBER 31, 2006

DOCKET NO. 070007-EG
AUDIT CONTROL NO. 07-071-4-1

A handwritten signature in cursive script, reading "Gabriela Leon".

Gabriela Leon
Audit Manager

A handwritten signature in cursive script, reading "Iliana Piedra".

Iliana Piedra
Professional Accountant Specialist

A handwritten signature in cursive script, reading "Kathy Welch".

Kathy Welch
Public Utilities Supervisor

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

JULY 12, 2007

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

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the attached schedules prepared by Florida Power and Light in support of its filing for its Environmental Cost Recovery Clause, Docket 070007-EI.

This audit was performed following general standards and field work standards found in the AICPA Statements of Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

I. OBJECTIVES AND PROCEDURES:

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

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

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

1. The plant was reconciled from the filing to the company's sub-general ledger. An analytical review of Plant was made to determine the highest change. The program that included the highest change was sampled. We verified that the additions had appropriate supporting documentation and were recorded to the correct environmental projects.

2. If the project involved replacement of existing plant assets, we made sure the company retired the installed costs of replaced units of property according to Rule 25-6.0142(4)(b), F.A.C.

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

1. We recalculated the depreciation expense and the accumulated depreciation for one month and traced it to the general ledger. The depreciation rates were traced to the company's depreciation study. The debt and equity ratios were traced to the company's cost rate schedule. No significant findings were found.

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

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

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

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

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

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

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

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

AUDIT FINDING NO. 1

SUBJECT: ENVIRONMENTAL RESEARCH AND DEVELOPMENT COSTS

AUDIT ANALYSIS: According to Commission Order PSC-00-1167-PAA-EI, FPL should include a downward adjustment to expenses if the costs of the environmental studies are lower than what is included in base rates. Base rates were set in Commission Order PSC-05-0902-S-EI. The rates were based on actual 2005 and projected 2006. The utility believes that the 2006 budget should be used as the basis for determining base rates. The company states the actual research and development costs for 2006 were \$377,200. FPL determined that the 2006 budget was \$397,518. Therefore, FPL spent \$20,309 less than what was in base rates and environmental costs should be reduced by \$20,309. We were unable to determine if the amount budgeted was what was actually included in base rates since the filing does not contain enough detail to determine if FPL's number is correct. In addition, the case was stipulated which precludes us from determining if any adjustment was made to those costs. Interest related to this adjustment is \$45.00 as calculated on the following schedule.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED: If the Commission determines that the 2006 budget number is the accurate amount included in base rates, the following entry should be made:

| | | |
|--|----------|----------|
| 506.xxx Base Rate Expenses | \$20,354 | |
| 254.xxx Regulatory Liability-Over-recovery | | \$20,354 |

EFFECT ON FILING IF FINDING IS ACCEPTED: If the Commission determines that the 2006 budget number is the accurate amount included in base rates Environmental costs should be reduced by \$20,309 and \$45.00 of interest.

| CALCULATION OF TRUE-UP | January | February | March | April | May | June | July | August | September | October | November | December | Total |
|-----------------------------------|-----------|-----------|-----------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|
| ENVIRONMENTAL REV (Line 1) | 1,989,709 | 1,809,496 | 1,785,173 | 1,893,427 | 2,104,432 | 2,387,120 | 2,501,167 | 2,522,677 | 2,488,652 | 2,340,917 | 2,034,046 | 1,964,815 | 25,821,63 |
| (1/6) of Prior True-Up (Line 2) | 410,274 | 410,274 | 410,274 | 410,274 | 410,274 | 410,274 | 410,274 | 410,274 | 410,274 | 410,274 | 410,274 | 410,274 | 4,923,288 |
| ECRC Revenues Applicable | 2,399,983 | 2,219,770 | 2,195,447 | 2,303,701 | 2,514,706 | 2,797,394 | 2,911,441 | 2,932,951 | 2,898,926 | 2,751,191 | 2,444,320 | 2,375,089 | 30,744,91 |
| ECRC Jurisdictional Costs | | | | | | | | | | | | | |
| a. O&M Activities | 480,322 | 298,263 | (21,106) | (711,084) | (471,896) | 29,858 | 265,550 | (91,903) | (160,116) | 213,087 | 72,689 | 984,365 | 888,029 |
| Research & Development Adjustment | | | | | | | | | | | | (20,309) | (20,309) |
| b. Capital Investment Projects | 1,209,279 | 1,216,832 | 1,215,256 | 1,212,594 | 1,235,789 | 1,257,085 | 1,277,129 | 1,304,173 | 1,327,851 | 1,365,467 | 1,412,590 | 1,500,337 | 15,534,382 |
| Total Jurisdictional ECRC Costs | 1,689,601 | 1,515,095 | 1,194,150 | 501,510 | 763,893 | 1,286,943 | 1,542,679 | 1,212,270 | 1,167,735 | 1,578,554 | 1,485,279 | 2,464,393 | 16,402,10 |
| True-up this period | 710,382 | 704,675 | 1,001,297 | 1,802,191 | 1,750,813 | 1,510,451 | 1,368,762 | 1,720,681 | 1,731,191 | 1,172,637 | 959,041 | (89,304) | 14,342,817 |
| Interest provision | 28,325 | 30,291 | 33,030 | 38,714 | 45,464 | 52,402 | 58,982 | 64,158 | 69,608 | 74,484 | 77,613 | 78,061 | 651,131 |
| Deferred true-up beginning | 2,642,893 | 2,642,893 | 2,642,893 | 2,642,893 | 2,642,893 | 2,642,893 | 2,642,893 | 2,642,893 | 2,642,893 | 2,642,893 | 2,642,893 | 2,642,893 | 31,714,716 |
| True-up & interest beginning | 4,923,287 | 5,251,720 | 5,576,412 | 6,200,465 | 7,631,096 | 9,017,099 | 10,169,678 | 11,187,148 | 12,561,713 | 13,952,238 | 14,789,084 | 15,415,464 | 116,675,405 |
| Prior true-up collected ref. | (410,274) | (410,274) | (410,274) | (410,274) | (410,274) | (410,274) | (410,274) | (410,274) | (410,274) | (410,274) | (410,274) | (410,274) | (4,923,288) |
| Total net true-up | 7,894,613 | 8,219,305 | 8,843,358 | 10,273,989 | 11,659,992 | 12,812,571 | 13,830,041 | 15,204,606 | 16,595,131 | 17,431,977 | 18,058,357 | 17,636,840 | 17,636,840 |
| True-up for the month per filing | 7,894,613 | 8,219,305 | 8,843,358 | 10,273,989 | 11,659,992 | 12,812,571 | 13,830,041 | 15,204,606 | 16,595,131 | 17,431,978 | 18,058,358 | 17,616,487 | 17,616,487 |
| Difference | 0 | (0) | 0 | (0) | 0 | (0) | 0 | (0) | (0) | (1) | (1) | 20,353 | 20,353 |

CALCULATION OF INTEREST

| | | | | | | | | | | | | | |
|--------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|
| Beginning true up and interest | 7,566,180 | 7,894,613 | 8,219,305 | 8,843,358 | 10,273,989 | 11,659,992 | 12,812,571 | 13,830,041 | 15,204,606 | 16,595,131 | 17,431,977 | 18,058,357 | 148,390,121 |
| Ending true-up before int | 7,866,288 | 8,189,014 | 8,810,328 | 10,235,275 | 11,614,528 | 12,760,169 | 13,771,059 | 15,140,448 | 16,525,523 | 17,357,494 | 17,980,744 | 17,558,779 | 157,809,650 |
| Total | 15,432,468 | 16,083,627 | 17,029,633 | 19,078,633 | 21,888,517 | 24,420,161 | 26,583,630 | 28,970,490 | 31,730,129 | 33,952,625 | 35,412,722 | 35,617,136 | 306,199,770 |
| Average true up | 7,716,234 | 8,041,814 | 8,514,816 | 9,539,317 | 10,944,258 | 12,210,081 | 13,291,815 | 14,485,245 | 15,865,064 | 16,976,312 | 17,706,361 | 17,808,568 | |
| Interest rate per above | 0.367% | 0.377% | 0.388% | 0.406% | 0.415% | 0.429% | 0.444% | 0.443% | 0.439% | 0.439% | 0.438% | 0.438% | |
| Interest per staff | 28,325 | 30,291 | 33,030 | 38,714 | 45,464 | 52,402 | 58,982 | 64,158 | 69,608 | 74,484 | 77,613 | 78,061 | 651,13 |
| Interest per filing | 28,325 | 30,291 | 33,030 | 38,714 | 45,464 | 52,402 | 58,982 | 64,158 | 69,608 | 74,484 | 77,613 | 78,016 | 651,08 |
| Difference is due to rounding | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 45 | 44 |

EXHIBITS

Florida Power & Light Company
Environmental Cost Recovery Clause
Calculation of the Final True-up Amount for the Period
January through December 2006

| Line No. | January | February | March | April | May | June |
|--|-------------|-------------|-------------|--------------|--------------|--------------|
| 1 ECRC Revenues (net of Revenue Taxes) | \$1,989,709 | \$1,809,496 | \$1,785,173 | \$1,893,427 | \$2,104,432 | \$2,387,120 |
| 2 True-up Provision (Order No. PSC-05-1251-FOF-EI) | 410,274 | 410,274 | 410,274 | 410,274 | 410,274 | 410,274 |
| 3 ECRC Revenues Applicable to Period (Lines 1 + 2) | 2,399,983 | 2,219,770 | 2,195,447 | 2,303,701 | 2,514,706 | 2,797,394 |
| 4 Jurisdictional ECRC Costs | | | | | | |
| a - O&M Activities (Form 42-5A, Line 9) | 480,322 | 298,263 | (21,106) | (711,084) | (471,896) | 29,858 |
| b - Capital Investment Projects (Form 42-7A, Line 9) | 1,209,279 | 1,216,832 | 1,215,256 | 1,212,594 | 1,235,789 | 1,257,085 |
| c - Total Jurisdictional ECRC Costs | 1,689,601 | 1,515,095 | 1,194,150 | 501,510 | 763,893 | 1,286,943 |
| 5 Over/(Under) Recovery (Line 3 - Line 4c) | 710,382 | 704,675 | 1,001,297 | 1,802,191 | 1,750,813 | 1,510,451 |
| 6 Interest Provision (Form 42-3A, Line 10) | 28,325 | 30,291 | 33,030 | 38,714 | 45,464 | 52,402 |
| 7 Prior Periods True-Up to be (Collected)/Refunded in 2006 | 4,923,287 | 5,251,720 | 5,576,412 | 6,200,465 | 7,631,096 | 9,017,099 |
| a - Deferred True-Up from 2005 (Form 42-1A, Line 7) | 2,642,893 | 2,642,893 | 2,642,893 | 2,642,893 | 2,642,893 | 2,642,893 |
| 8 True-Up Collected /(Refunded) (See Line 2) | (410,274) | (410,274) | (410,274) | (410,274) | (410,274) | (410,274) |
| 9 End of Period True-Up (Lines 5+6+7+7a+8) | 7,894,613 | 8,219,305 | 8,843,358 | 10,273,989 | 11,659,992 | 12,812,571 |
| 10 Adjustments to Period Total True-Up Including Interest | | | | | | |
| 11 End of Period Total Net True-Up (Lines 9+10) | \$7,894,613 | \$8,219,305 | \$8,843,358 | \$10,273,989 | \$11,659,992 | \$12,812,571 |

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Florida Power & Light Company
Environmental Cost Recovery Clause
Calculation of the Final True-up Amount for the Period
January through December 2006

| Line No. | July | August | September | October | November | December | End of Period Amount |
|--|--------------|--------------|--------------|--------------|--------------|--------------|----------------------|
| 1 ECRC Revenues (net of Revenue Taxes) | \$2,501,167 | \$2,522,677 | \$2,488,652 | \$2,340,917 | \$2,034,046 | \$1,964,815 | \$25,821,630 |
| 2 True-up Provision (Order No. PSC-05-1251-FOF-EI) | 410,274 | 410,274 | 410,274 | 410,274 | 410,274 | 410,274 | 4,923,287 |
| 3 ECRC Revenues Applicable to Period (Lines 1 + 2) | 2,911,441 | 2,932,951 | 2,898,926 | 2,751,191 | 2,444,320 | 2,375,089 | 30,744,917 |
| 4 Jurisdictional ECRC Costs | | | | | | | |
| a - O&M Activities (Form 42-5A, Line 9) | 265,550 | (91,903) | (160,116) | 213,087 | 72,689 | 984,365 | 888,029 |
| b - Capital Investment Projects (Form 42-7A, Line 9) | 1,277,129 | 1,304,173 | 1,327,851 | 1,365,467 | 1,412,590 | 1,500,337 | 15,534,382 |
| c - Total Jurisdictional ECRC Costs | 1,542,679 | 1,212,270 | 1,167,735 | 1,578,554 | 1,485,279 | 2,484,702 | 16,422,411 |
| 5 Over/(Under) Recovery (Line 3 - Line 4c) | 1,368,762 | 1,720,681 | 1,731,191 | 1,172,637 | 959,041 | (109,613) | 14,322,506 |
| 6 Interest Provision (Form 42-3A, Line 10) | 58,982 | 64,158 | 69,608 | 74,484 | 77,613 | 78,016 | 651,087 |
| 7 Prior Periods True-Up to be (Collected)/Refunded in 2006 | 10,169,678 | 11,187,148 | 12,561,713 | 13,952,238 | 14,789,085 | 15,415,465 | 4,923,287 |
| a - Deferred True-Up from 2005 (Form 42-1A, Line 7) | 2,642,893 | 2,642,893 | 2,642,893 | 2,642,893 | 2,642,893 | 2,642,893 | 2,642,893 |
| 8 True-Up Collected /(Refunded) (See Line 2) | (410,274) | (410,274) | (410,274) | (410,274) | (410,274) | (410,274) | (4,923,287) |
| 9 End of Period True-Up (Lines 5+6+7+7a+8) | 13,830,041 | 15,204,606 | 16,595,131 | 17,431,978 | 18,058,358 | 17,616,487 | 17,616,487 |
| 10 Adjustments to Period Total True-Up Including Interest | | | | | | | |
| 11 End of Period Total Net True-Up (Lines 9+10) | \$13,830,041 | \$15,204,606 | \$16,595,131 | \$17,431,978 | \$18,058,358 | \$17,616,487 | \$17,616,487 |

Florida Power & Light Company
Environmental Cost Recovery Clause
Calculation of the Final True-up Amount for the Period
January through December 2006

Interest Provision (in Dollars)

| Line No. | January | February | March | April | May | June |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| 1 Beginning True-Up Amount (Form 42-2A, Lines 7 + 7a + 10) | \$7,566,180 | \$7,894,613 | \$8,219,305 | \$8,843,358 | \$10,273,989 | \$11,659,992 |
| 2 Ending True-Up Amount before Interest (Line 1 + Form 42-2A, Lines 5 + 8) | 7,866,288 | 8,189,014 | 8,810,328 | 10,235,275 | 11,614,528 | 12,760,169 |
| 3 Total of Beginning & Ending True-Up (Lines 1 + 2) | \$15,432,468 | \$16,083,627 | \$17,029,633 | \$19,078,633 | \$21,888,517 | \$24,420,161 |
| 4 Average True-Up Amount (Line 3 x 1/2) | \$7,716,234 | \$8,041,814 | \$8,514,817 | \$9,539,317 | \$10,944,259 | \$12,210,081 |
| 5 Interest Rate (First Day of Reporting Month) | 4.30000% | 4.51000% | 4.53000% | 4.78000% | 4.96000% | 5.01000% |
| 6 Interest Rate (First Day of Subsequent Month) | 4.51000% | 4.53000% | 4.78000% | 4.96000% | 5.01000% | 5.29000% |
| 7 Total of Beginning & Ending Interest Rates (Lines 5 + 6) | 8.81000% | 9.04000% | 9.31000% | 9.74000% | 9.97000% | 10.30000% |
| 8 Average Interest Rate (Line 7 x 1/2) | 4.40500% | 4.52000% | 4.65500% | 4.87000% | 4.98500% | 5.15000% |
| 9 Monthly Average Interest Rate (Line 8 x 1/12) | 0.36708% | 0.37667% | 0.38792% | 0.40583% | 0.41542% | 0.42917% |
| 10 Interest Provision for the Month (Line 4 x Line 9) | \$28,325 | \$30,291 | \$33,030 | \$38,714 | \$45,464 | \$52,402 |

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Florida Power & Light Company
Environmental Cost Recovery Clause
Calculation of the Final True-up Amount for the Period
January through December 2006

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) | \$12,812,571 | \$13,830,041 | \$15,204,606 | \$16,595,131 | \$17,431,978 | \$18,058,358 | \$148,390,122 |
| 2 Ending True-Up Amount before Interest (Line 1 + Form 42-2A, Lines 5 + 8) | 13,771,059 | 15,140,448 | 16,525,523 | 17,357,494 | 17,980,745 | 17,538,471 | 157,789,342 |
| 3 Total of Beginning & Ending True-Up (Lines 1 + 2) | \$26,583,630 | \$28,970,489 | \$31,730,129 | \$33,952,625 | \$35,412,723 | \$35,596,829 | \$306,179,464 |
| 4 Average True-Up Amount (Line 3 x 1/2) | \$13,291,815 | \$14,485,245 | \$15,865,065 | \$16,976,313 | \$17,708,362 | \$17,798,415 | \$153,089,732 |
| 5 Interest Rate (First Day of Reporting Month) | 5.29000% | 5.36000% | 5.27000% | 5.26000% | 5.27000% | 5.25000% | N/A |
| 6 Interest Rate (First Day of Subsequent Month) | 5.36000% | 5.27000% | 5.26000% | 5.27000% | 5.25000% | 5.27000% | N/A |
| 7 Total of Beginning & Ending Interest Rates (Lines 5 + 6) | 10.65000% | 10.63000% | 10.53000% | 10.53000% | 10.52000% | 10.52000% | N/A |
| 8 Average Interest Rate (Line 7 x 1/2) | 5.32500% | 5.31500% | 5.26500% | 5.26500% | 5.26000% | 5.26000% | N/A |
| 9 Monthly Average Interest Rate (Line 8 x 1/12) | 0.44375% | 0.44292% | 0.43875% | 0.43875% | 0.43833% | 0.43833% | N/A |
| 10 Interest Provision for the Month (Line 4 x Line 9) | \$58,982 | \$64,158 | \$69,608 | \$74,484 | \$77,613 | \$78,016 | \$651,087 |