

State of Florida



Public Service Commission

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

DATE: March 18, 2002
TO: Division of Economic Regulation (Brinkley)
FROM: Division of Auditing and Safety (Vandiver) *aw*
RE: Docket No. 001148-EI; Florida Power and Light Company; Supplemental Audit to review the underlying financial information relevant to rate review; Audit Control No.: 02-029-4-1

Attached is the final supplemental 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 Auditing and Safety (Hoppe, District Offices, File Folder)
Division of the Commission Clerk and Administrative Services
Division of Competitive Markets and Enforcement (Harvey)
General Counsel

Mr. Bill Walker
Florida Power and Light Company
215 South Monroe Street, Suite 810
Tallahassee, FL 32301-1859

Mr. Matt Childs
Steel Law Firm
215 South Monroe Street, Suite 601
Tallahassee, FL 32301-1804

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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND SAFETY

Miami District Office

FLORIDA POWER AND LIGHT COMPANY

AUDIT OF MINIMUM FILING REQUIREMENT'S
SUPPLEMENTAL AUDIT

FORECAST YEAR ENDED DECEMBER 31, 2002

MARCH 6, 2002

DOCKET NO. 001148-EI
AUDIT CONTROL NO. 02-029-4-1

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

Iliana H. Piedra, Audit Manager

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

Gabriela Leon, Audit Staff

A handwritten signature in cursive script, reading "Ruth Young".

Ruth Young, Audit Staff

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

Kathy Welch, Regulatory Analyst Supervisor

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**DIVISION OF AUDITING AND SAFETY
AUDITOR'S REPORT
MARCH 10, 2002**

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

We have applied the procedures described in this report to audit the supplemental items requested related to the forecasted 12-month periods ended December 31, 2001 and 2002 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 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.

Net Operating Income -

Obtained actual expense and revenue balances for December 31, 2001. Scanned accounts that were materially different from October forecast for significant journal entries or adjustments.

Reviewed security costs incurred since September 11 and determined which accounts related to which component of the forecast.

Obtained more detailed information for the proposed nuclear budget.

Separated out the portion of uncollectibles related to the economic downturn.

Reviewed medical insurance forecast supporting documentation.

Reviewed Power Generation forecast increases and determined the effect of efficiencies because of repowering.

Reviewed workmen's compensation methodology and claim history.

Verified that additional customers were included in revenue and uncollectible forecast.

Verified that incentive plan is not duplicative.

Verified that a supplemental distribution from Nuclear Electric Insurance Limited (NEIL) is not applicable to 2002.

AUDIT DISCLOSURE NO. 1

SUBJECT: ANALYTICAL OF REVIEW OPERATING AND MAINTENANCE EXPENSE

STATEMENT OF FACT: Audit Disclosure 13 in the prior audit compared operating and maintenance expenses for the years 1996 to 2002 excluding clause and non-recoverable accounts. The percentages have been re-computed using actual 2001 amounts.

Lawsuit settlements, merger costs, and Grid Florida costs were removed since they are not recurring. The costs for the year 2001 were adjusted to the annualized ten months that were available during the first audit. The additional proformas of \$22,640,000 requested for the year 2002 because of September 11 tragedies were included.

The schedule is attached. It shows that after removal of non-recurring items, the expenses trend as follows:

1997/1996	1.24%	increase
1998/1997	1.67%	increase
1999/1998	(5.58%)	decrease
2000/1999	(2.67%)	decrease
2001/2000	3.55%	increase
2002/2001	14.54%	increase

Audit Disclosure No. 11 in the prior audit compared revenues from the 2001 forecast to annualized actuals. The year end actuals are available now and show the following:

Per books, before adjustment

Forecast 2001	\$7,804,596,000
Actual 2001	\$7,476,651,000

After clause adjustment and jurisdictionalized

Forecast 2001	\$3,504,858,000
Actual 2001	\$3,506,036,000

OPINION: The forecast provided by Florida Power and Light for 2002 increases expenses over estimated 2001 without the merger and Grid Florida organization costs by \$147,289,230 or 14.54%. Only \$22,640,000 of this increase is attributed to the revisions made by the company. The increase is inconsistent with the prior years increases.

FLORIDA POWER AND LIGHT
 CLAUSE AND NON-REGULATED ACCOUNTS
 1996-2000

ACCOUNT NUMBER	YEAR 1996	YEAR 1997	YEAR 1998	YEAR 1999	YEAR 2000	YEAR 2001	YEAR 2002
CLAUSE EXPENSES	2,223,975,727.94	2,279,482,154.39	2,260,076,766.64	2,315,677,916.12			
NET	1,034,167,272.06	1,049,008,845.61	1,078,489,233.36	1,074,045,083.88	1,046,284,281.33	1,034,276,062.45	1,137,584,111.92
REMOVE NON-RECURRING:							
FMPA SETTLEMENT				(69,000,000.00)			
ORIMULSION PROJECT CANCELLATION			(13,998,011.00)				
MERGER COSTS(NOTE A)					(61,657,542.00)	(26,089,274.00)	
YEAR 2 K COSTS		(2,000,000.00)			(2,118,000.00)		
ONE TIME INSURANCE REFUND					12,000,000.00		
WRITE OFF OBSOLETE ACCOUNTS					(11,400,000.00)		
REMOVE GRID FLORIDA ORGANIZATION COSTS					(3,011,996.00)	(817,907.00)	
MERGER AND NON REG COSTS NOT INCLUDED BY CO.					(1,913,032.71)		
ADJUST TO 2001 ACTUAL						5,566,000.00	
INCREASE FOR NEW FILING ADJUSTMENTS							22,640,000.00
NET	1,034,167,272.06	1,047,008,845.61	1,064,491,222.36	1,005,045,083.88	978,183,710.62	1,012,934,881.45	1,160,224,111.92
INCREASE/(DECREASE)		1.24%	1.67%	-5.58%	-2.67%	3.55%	14.54%

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AUDIT DISCLOSURE NO. 3

SUBJECT: UNCOLLECTIBLE ACCOUNTS

STATEMENT OF FACT: An entry of \$1,200,000 to Account 904.100 was made in December 2001 to record a provision for disputed amounts regarding Cable T V companies.

See the following page for the documentation for the entry.

OPINION: Even though the account balance was not used to forecast 2002 balances, the entry is probably not recurring and should be considered if comparing 2001 expenses to 2002 expenses.



Dave Bromley

01/08/02 06:43 PM

To: Jerry Sobel/FNR/FPL@FPL
cc: Kenneth J Gilbert/PS/FPL@FPL, Jean Howard/GC/FPL@FPL
Subject: Potential for Uncollectible 2001 Cable Billings

Consistent with our signed CATV attachment agreements, in late 2001, a number of CATV companies were billed \$50 per attachment for 39,279 unauthorized attachments that were identified through attachment surveys, but did not go through FPL's required CATV attachment permitting process. However, several of these CATV companies have recently informed FPL that they are disputing the \$50 "unauthorized attachment fee" based upon a fairly recent FCC ruling where the FCC held: **A reasonable penalty for unauthorized attachments will not exceed an amount approximately equal to the annual pole attachment fee for the number of years since the most recently inventory or five years, whichever is less, plus interest at a rate set for that period by the IRS under section 6621 of the Internal Revenue Code for underpayments.** Of the approximately \$2.0M (\$50 x 39,279) billed for unauthorized attachments, approximately \$.2M has already been collected. The companies that have notified us of their intentions to dispute the unauthorized attachment billings, have billings outstanding of approximately \$1.2 million. The remaining \$.6M outstanding has been agreed to be paid by the respective local CATV offices. We have begun to work with our attorneys to resolve this issue and I will keep you informed as new information becomes available. If you need any additional information, please let me know.

AUDIT DISCLOSURE NO. 4

SUBJECT: MEDICAL COSTS

STATEMENT OF FACT: The main increase in insurance costs between 2001 and 2002 was for medical insurance.

The 2001 actual charge to account 926.600 (Group Medical) was \$36,865,237.53. The company had forecast \$36,553,000.

The company forecast \$44,158,000 for 2002 for this expense. According to the Towers Perrin report, medical insurance was estimated at \$40,093,000 less expenses related to Fibernet of \$1,449,339 or \$38,643,661.

According to the company's response to an audit request, the company increased the Towers Perrin forecast because claims as of June 30, 2001 were 46% higher than June 2000 and because they had a 2% increase in the number of employees.

The reserves that show actual costs for claims are not on FPL books but are maintained by an outside source. We were unable to obtain this documentation to substantiate the increase because the audit response providing the reasons for the increase was not received until 2/28/02. We requested documentation 3/1/02 but it was not received in time to include in this audit.

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