

State of Florida



**Public Service Commission**  
**-M-E-M-O-R-A-N-D-U-M-**

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**DATE:** August 15, 2003  
**TO:** Division of Economic Regulation (Breman)  
**FROM:** Division of Auditing and Safety (Vandiver) *W*  
**RE:** **Docket No.** 030007-El; **Company Name:** Florida Power & Light Company; **Audit Purpose:** Supplement to the Environmental Cost Recovery Clause Audit; **Audit Control No.** 03-030-4-1

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Attached is the final supplemental audit report for the utility stated above. I am sending the utility a copy of this memo and the supplemental audit report. If the utility desires to file a response to the report, it should send the response to the Division of the Commission Clerk and Administrative Services. There are no confidential work papers associated with this supplemental audit.

DNV/jcp  
Attachment

cc: Division of Auditing and Safety (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

Steel Law Firm  
John Butler, Esq.  
200 So. Biscayne Blvd., Suite 4000  
Miami, FL 33131-2398

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

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# FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND SAFETY  
BUREAU OF AUDITING

*Miami District Office*


FLORIDA POWER AND LIGHT

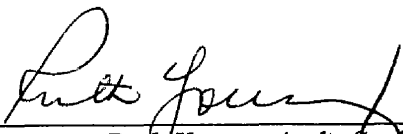
ENVIRONMENTAL COST RECOVERY CLAUSE  
SUPPLEMENT AUDIT

TWELVE MONTHS ENDED DECEMBER 31, 2002

AUDIT CONTROL NO. 03-030-4-1

DOCKET NUMBER 030007-EI

  
\_\_\_\_\_  
*Gabriela Leon, Audit Manager*

  
\_\_\_\_\_  
*Ruth Young, Audit Staff*

  
\_\_\_\_\_  
*Kathy L. Welch*  
*Public Utility Supervisor*  
*Miami District Office*

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**DIVISION OF AUDITING AND SAFETY  
AUDITOR'S REPORT**

**JULY 24, 2003**

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

We have applied the procedures described later in this report to supplement the audit report of the Environmental Cost Recovery Clause Schedules for the year ending December 31, 2002. These schedules were prepared by the utility as part of its Environmental Cost Recovery Clause True-up filings in Docket No. 030007-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.

## 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 compared to substantiating documentation.

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**Plant Investment:** Plant in Service was examined in prior audit AUS #03-030-4-1. Retirements were tested. The effect of the retirement adjustments on return on investment was recalculated.

**Depreciation Expense:** Verified Depreciation Expense for all projects for the months of April and December 2002. Depreciation rates were agreed to PSC-99-0073-FOF-EI. Differences were reconciled.

Adjustments to depreciation expense for PSC Order PSC-99-0073-FOF-EI, and for all corrections were reviewed, recalculated, and traced to appropriate documentation.

## **AUDIT DISCLOSURE NO. 1**

### **SUBJECT: CREDITS TO DEPRECIATION EXPENSE IN THE FILING**

**STATEMENT OF FACT:** Many of the credits to depreciation expense on the filing were due to assets being depreciated through the clause when the assets should not have been included because they were transferred or retired. The company maintained a system for computing depreciation related to the clause that was separate from the regular fixed asset system. The system for transferring and/or retiring assets out of the environmental clause did not have safeguards to make sure that the retirements are accounted for in the clause. The company implemented the Construction Asset Tracking System. In the system the company has been able to insert a field in the records of environmental assets so that all depreciation will be done and tracked on one system. This will be implemented in July 2003, and should prevent the type of errors that occurred in the past.

## **AUDIT DISCLOSURE NO. 2**

### **SUBJECT: DEPRECIABLE ASSETS INCLUDED IN THE ENVIRONMENTAL CLAUSE**

**STATEMENT OF FACT:** Assets from both Ft. Myers and Sanford plants were included in the Environmental Clause. When the repowering projects were planned for Ft. Myers and Sanford, the company identified assets that no longer would be used, and then retired the assets when the repowering projects were placed in service.

In its last depreciation study, FPL asked to amortize the assets retired as part of the repowering over 3.5 years for Ft. Myers and 5.5 years for Sanford. The amortization would not be recovered through the environmental clause. These amortization rates for Ft. Myers 1 and 2, and Sanford 3 and 4 were approved in FPSC Order No. 99-0073-FOF-EI.

When the company filed for retirement amortization, it originally planned to repower Sanford Units 3 and 4. The company changed plans and submitted a petition to repower Unit 5 instead of Unit 3, and to amortize Unit 5 rather than Unit 3. FPL withdrew its petition because the settlement agreement in effect from April 15, 1999 through April 14, 2002 indicated that neither the amortization amounts or the periods authorized could be changed. The agreement is in FPSC Order No.99-0519-AS-EI. Unit 5 was repowered instead of Unit 3.

Sanford Unit 3 was amortized over the 5.5 year period even though it wasn't retired. Unit 5 was depreciated at its authorized rate until October 2001 when it was retired. The amortization for Sanford Unit 3 was not included in the clause. However, the investment is still in the clause at a zero depreciation rate and return on investment is being calculated on it.

Since depreciation expense on Unit 3 is not being charged to environmental because of the early amortization, environmental costs are lower than would have been allowed.