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October 3, 2003

Blanca S. Bayó
Director, Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

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Re: Docket No. 030007-EI

Dear Ms. Bayó:

On August 15, 2003, the Commission Staff filed a final supplemental audit report (Audit Control No. 03-030-4-1) for Florida Power & Light Company ("FPL") in this docket (the "Audit Report"). The Staff transmittal memorandum advised that, if FPL wished to respond to the Audit Report, it should file the response with your office. Accordingly, I am enclosing for filing FPL's response to the Audit Report.

If there are any questions regarding this transmittal, please contact me at 305-577-2939.

Sincerely,

John T. Butler
for JTB

John T. Butler

Enclosure

cc: Counsel for Parties of Record (w/encl.)

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**FLORIDA POWER & LIGHT COMPANY
DOCKET NO. 030007-EI
SUPPLEMENT TO THE ENVIRONMENTAL COST RECOVERY CLAUSE AUDIT
(AUDIT CONTROL NO. 03-303-4-1)
September 12, 2003**

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.

FPL Response to Audit Disclosure No. 1

As noted in Audit Disclosure No. 1, FPL has taken the necessary steps that address the issues raised by Staff in Audit Disclosure No. 1.

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 the 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 of 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.

FPL response to Audit Disclosure No. 2

FPL disagrees with Audit Disclosure No. 2 and provides the following response:

Disclosure No. 2 correctly notes that FPL is not recovering depreciation on the Sanford Unit 3 assets through the ECRC clause (*i.e.*, FPL is depreciating them at a 0% rate) but continues to earn a return on those assets through the clause. It then suggests, however, that the failure to recover depreciation through the clause means that "environmental costs are lower than would have been allowed." FPL believes that the current ECRC treatment of these assets -- recovering no depreciation, but earning a return on them -- is necessary and appropriate.

The assets initially established at the CPR location at Sanford Unit 3 (as of December 31, 1997) were amortized over a 5.5 year period in base rates as approved in Order No. 99-0073-FOF-EI. This amortization was undertaken in anticipation of retiring the assets when Sanford Unit 3 was repowered. That amortization is complete, and depreciation of the assets through the ECRC clause therefore would result in double recovery of the depreciation expense.

On the other hand, as noted in Audit Disclosure No. 2, the Sanford Unit 3 assets were not, in fact, retired because Sanford Unit 5 was repowered instead. Therefore, FPL is properly entitled to continue earning a return on Sanford Unit 3 assets since they remain in service. That is why FPL continues to charge a return on investment for these assets in the ECRC clause.

FPL intends to continue this arrangement for the Sanford Unit 3 assets until approval of the next comprehensive depreciation study. At that time, with Commission approval, the special amortization recorded to the Sanford Unit 3 retiring location, will be assigned to Sanford Unit 5 and FPL will resume recovering depreciation expense on the Sanford Unit 3 assets through the ECRC.