STEEL
HECTOR
DAVIS
INTERNATIONAL℠

Steel Hector & Davis LLP
200 South Biscayne Boulevard
Suite 4000
Miami, FL 33131-2398
305.577.7000
305.577.7001 Fax
www.steelhector.com

John T. Butler
305.577.2939
jbutler@steelhector.com

October 15, 2003

-VIA HAND DELIVERY -

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

Re: Docket No. 030001-EI

Dear Ms. Bayó:

I am enclosing for filing in the above docket the original and fifteen (15) copies of the prefiled rebuttal testimony and exhibit of Florida Power & Light Company witness K. M. Dubin.

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

Sincerely,

John T. Butler
John T. Butler LDA

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

MIA2001 242585v1

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF KOREL M. DUBIN

DOCKET NO. 030001-EI

October 15, 2003

Q. Please state your name and address.

A. My name is Korel M. Dubin and my business address is 9250 West Flagler Street, Miami, Florida 33174.

Q. By whom are you employed and in what capacity?

A. I am employed by Florida Power & Light Company (FPL) as Manager of Regulatory Issues in the Regulatory Affairs Department.

Q. Have you previously testified in this docket?

A. Yes, I have.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the testimony of Staff witness Kathy Welch that presents and comments on Staff's Final Audit Report regarding the Base Costs for Security and Hedging (Audit Control No. 02-340-4-1), issued on June 30, 2003 (the "Audit Report"). FPL strongly disagrees with the Audit Disclosures included in the Final Audit Report that Ms. Welch sponsors. My rebuttal testimony provides the background associated with Commission approval of the recovery of incremental power plant security costs and hedging expenses through the cost recovery clauses. My rebuttal testimony explains why none of the Audit Disclosures warrants an adjustment to FPL's hedging program expenses or to the manner in which FPL determines incremental power plant security expenses. Additionally, my rebuttal testimony also shows that some of Ms. Welch's additional observations regarding incremental power plant security costs are inconsistent with the adjustments that Ms. Welch proposes in the Audit Disclosures.

Q. Have you prepared or caused to be prepared under your supervision, direction and control an Exhibit in this proceeding?

A. Yes, I have. It is Exhibit KMD-7 which consists of Attachment I, Pages 1 through 2.

Q. Please provide some background regarding the recovery of incremental power plant security costs through the Fuel and Capacity Cost Recovery Clause.

A. After 9/11, when determining to seek recovery of incremental power plant security costs through the Fuel Cost Recovery Clause, FPL considered the guidance provided by NARUC and FERC, both of which had issued policy statements addressing cost recovery to "safeguard the reliability and security of our energy supply infrastructure." NARUC's resolution on "Supporting Recovery in State Regulated Rates of Extraordinary Expenditures Necessary to Safeguard National Energy Suppliers" issued in November 2001 states:

> "Resolved, that States should approve applications by gas and electric companies subject to their jurisdiction to recover prudently incurred costs necessary to further safeguard the reliability and security of our energy supply infrastructure and should allow companies to propose separate rate recovery mechanisms, such as a surcharge to existing rates or deferred accounting treatment."

FERC's Statement of Policy issued on September 14, 2001 states:

> "In light of tragic events that have taken place in our country this week and the high state of alert the country is now experiencing, the Commission believes it is appropriate to provide regulatory guidance on certain energy infrastructure reliability and security matters that may be affected by this Commission's rate jurisdiction. The Commission understands that electric, gas, and oil companies may need to adopt new procedures, update existing procedures, and install facilities to further safeguard their electric power transmission grid and gas and oil pipeline systems. The Commission is aware that there may be uncertainty about companies' ability to recover the expenses necessary to further safeguard our energy

infrastructure, especially if they are operating under frozen or indexed rates. In order to alleviate this uncertainty, the Commission wants to assure the companies we regulate that we will approve applications to recover prudently incurred costs necessary to further safeguard the reliability and security of our energy supply infrastructure in response to the heightened state of alert. Companies may propose a separate rate recovery mechanism, such as a surcharge to currently existing rates or some other cost recovery method.

The Commission will give its highest priority to processing any filing made for the recovery of extraordinary expenditures to safeguard the reliability of our energy transportation systems and energy supply infrastructure. The Commission views the reliability of our Nation's energy transportation systems and energy supply infrastructure as critical to meeting the energy requirements essential to the American people. The Commission calls for the cooperation of the energy industry, customers, and state and local governments to provide any additional safeguards necessary to protect the country's vital energy transportation systems and energy supply infrastructure."

In considering these statements and how such incremental security costs might be recovered, FPL concluded that these increased security costs are fuel-related because the increased security measures protect FPL's ability to provide economical nuclear and fossil generation to its customers. Clearly, the inability to operate one or more of FPL's generating units, particularly the nuclear generating units, would have a significant impact on our fuel costs.

FPL also determined that these costs are extraordinary and there are significant uncertainties both in the level and timing of expenditures that may be required. FPL cannot predict what or when additional security requirements may be imposed or found necessary in the future, or what those requirements may cost. As a result, the timing and level of incremental security costs is potentially volatile, making these costs appropriate for recovery through a cost recovery clause.

The Commission recognized this when approving recovery of these incremental power plant security costs through the Fuel Cost Recovery Clause at the November 2001 and through the Capacity Cost Recovery Clause at the November 2002 Hearing. Order No. PSC-02-1761-FOF-EI, issued on December 13, 2002 summarizes the Commission's actions regarding recovery of power plant security costs. It states:

> "As part of its projection filing made September 20, 2002, as amended November 4, 2002, FPL requested recovery of \$12.7 million through the fuel and purchased power cost

recovery clause for incremental 2002 and 2003 security costs. FPL's witness Hartzog asserted that these costs were incurred to comply with directives set forth in Nuclear Regulatory Commission (NRC) Order No. EA-02- 26, issued February 25, 2002. Both OPC and FIPUG opposed FPL's request, based largely on a specific provision in the Settlement and Stipulation approved by this Commission in Order No. PSC-02- 0501-AS-EI, issued April 11, 2002, to resolve FPL's most recent base rate proceeding in Docket No. 001148. That provision states: A FPL will not use the various cost recovery clauses to recover new capital items which traditionally and historically would be recoverable through base rates. Through cross-examination of FPL's witness Dubin, FIPUG questioned the propriety of FPL's request to the extent that the incremental costs for which FPL sought recovery included new capital items which had traditionally and historically been recoverable through base rates. The record indicates that approximately $1.3 million of these costs would be classified as capital items under normal circumstances.

By Order No. PSC-01-2516-FOF-EI, issued December 26, 2001, in Docket No. 010001-EI, we approved FPL's request to recover through the fuel clause incremental 2001 security costs stemming from the terrorist attacks of September 11,

2001. In that Order, we found that such recovery was appropriate because there is a nexus between protection of nuclear generation facilities and the fuel cost savings that result from the continued operation of those facilities. In addition, we noted that this type of cost was a potentially volatile cost, making it appropriate for recovery through a cost recovery clause. Further, we stated that approving recovery of these incremental power plant security costs through the fuel clause would send an appropriate message to Florida's investor-owned electric utilities to encourage them to protect their generation assets in the extraordinary, emergency conditions that existed at the time. Recognizing that the costs were not clearly defined, we stated that we did not foreclose our ability to consider an alternative recovery mechanism for these costs at a later time.

We recognize that FPL's incremental 2002 and 2003 security costs, like its incremental 2001 security costs approved in Order No. PSC-01-2516-FOF-EI, arise out of the extraordinary circumstances of the terrorist attacks of September 11, 2001. The record indicates that FPL's incremental 2002 and 2003 security costs were incurred to comply with NRC Order No. EA-02-26, which established the type of protections that operators of nuclear generating facilities in the United States were required to implement at their plants. Prior to the events of September 11, 2001, and the issuance of our order approving fuel clause recovery for FPL's incremental 2001 security costs, security costs were traditionally and historically recoverable through base rates. However, because of the extraordinary nature of the costs in question and the unique circumstances under which they arose, we find that these costs do not clearly fall within the classification of 'items which traditionally and historically would be recoverable through base rates'. We believe that our order approving fuel clause recovery for FPL's incremental 2001 security costs, which did not make a distinction between capital items and expensed items, put the parties to the Settlement and Stipulation on notice that the Commission viewed these costs as extraordinary. Accordingly, we approve recovery of FPL's incremental 2002 and 2003 security costs through a cost recovery clause. Because these costs are extraordinary, these costs shall be treated as current year expenses. Further, we require that these expenses be separately accounted to enhance our staff's ability to audit them.

Although FPL requested recovery of these costs through the fuel and purchased power cost recovery clause, witness Dubin agreed on cross-examination that recovery of these costs through the capacity cost recovery clause would cause these costs to be allocated among the rate classes on the same basis as those FPL security costs currently being recovered through base rates, i.e., allocated on a demand basis. To ensure a consistent allocation of all FPL security costs, witness Dubin stated that FPL would agree to recover its incremental 2002 and 2003 security costs through the capacity cost recovery clause. We believe this treatment is reasonable.

In conclusion, we approve recovery of FPL' s incremental 2002 and 2003 security costs of approximately $12.7 million through the capacity cost recovery clause. Further, we find that these costs shall be treated as current year expenses. Finally, we find that the treatment of these costs shall be reassessed at the conclusion of the term of the Settlement and Stipulation approved in Order No. PSC-02-0501-AS-EI to determine whether these costs should continue to be recovered through a cost recovery clause or would more appropriately be recovered through base rates."

Q. Please provide some background regarding the recovery of Hedging O&M expenses through the Fuel Cost Recovery Clause.

A. At the August 12, 2002 Hearing in Docket No. 011605-EI entitled

Review of Investor-Owned Electric Utilities' Risk Management Policies and Procedures, the Commission approved a Resolution of Issues (Order No. PSC-02-1484-FOF-EI, issued on October 30, 2002). The Resolution resolved all the issues in the docket and served to remove any disincentives that may exist for IOUs to engage in hedging transactions that may create customer benefits. Item No. 4 of the Resolution states:

> "Each investor-owned electric utility may recover through the fuel and purchased power cost recovery clause prudently-incurred incremental operating and maintenance expenses incurred for the purpose of initiating and/or maintaining a new or expanded non-speculative financial and/or physical hedging program designed to mitigate fuel and purchased power price volatility for its retail customers each year until December 31, 2006, or the time of the utility's next rate proceeding, whichever comes first."

Q. Why does FPL disagree with the Audit Disclosures that Ms. Welch sponsors regarding recovery of incremental power plant security costs and hedging costs?

A. FPL disagrees with the recommendations that Ms. Welch suggests in the audit report for two main reasons:

1. Costs should be compared to projected test year data.

When comparing incremental power plant security or hedging costs to base costs, the appropriate comparison is to projected test year data: specifically, FPL's 2002 MFRs filed in Docket No. 001148-EI. The auditors are trying to substitute 2002 actual results for the test year projections, which represents a back-door base rate adjustment that is inconsistent with the Rate Settlement Agreement (Docket No. 001148-EI), and conflicts with the Commission's Order approving the Hedging Resolution in Docket No. 011605–EI. The essential purpose of the MFRs in Docket No. 001148-EI was to provide information on FPL's *base-rate* revenues, expenses and investment for the test year in question, making it the logical base period for comparing incremental expenses. Consistent with this emphasis on using 2002 MFRs to define what constitutes "incremental" expenses, the Commission has approved in Docket No. 011605 the following definition of base costs:

> "The base period for determining incremental expenses as described above is the year 2001 (using actual expenses), except for utilities with rates approved based on Minimum Filing Requirements (MFR) in rate reviews since 2001, *in which case the projected rate year is the base period (using projected expenses)*."

2. Like categories of costs should be compared, not broad

categories of costs across various functions.

Where FPL is entitled to recover incremental power plant security or hedging costs through a cost recovery clause, the proper focus for evaluating whether the costs proposed for recovery are indeed incremental is on the level of *those particular costs* in the MFRs, in order to be sure that FPL would not be double recovering the costs (*i.e.,* recovering them in both base rates and through a cost recovery clause). For example, in defining what constitutes "incremental" expenses for the purpose of allowing recovery of incremental operating and maintenance expenses associated with a hedging program, the Commission has approved in Docket No. 011605 the following procedure:

> "All base year and recovery year FERC sub-account operating and maintenance expense amounts associated with financial and physical hedging activities shall be included in the Fuel Clause Final True-up filing each April during the years 2003 through 2007, including the difference between the base year and recovery year expense amounts, then summed, yielding a total incremental hedging amount which may be compared for cost recovery review purposes to the requested cost recovery

amount produced in the Projected Filing for the recovery year."

This procedure focuses on the specific accounts where the costs for which recovery is sought are recorded, not on the entire range of a utility's operations. It would be completely inconsistent with this procedure to conduct the "mini rate case" that the auditors are suggesting.

Q. Please comment specifically on Audit Disclosures No. 1 and 2 regarding incremental power plant security costs.

A. <u>Audit Disclosure No. 1</u>

The Audit Opinion in Audit Disclosure No. 1 states that:

"We compiled all the charges for all business units to EAC 694 for 2001 and determined a base amount for 2001 excluding additional costs after 9/11/01. Because of the way Florida Power and Light budgets, we were unable to determine the actual budget amount for 2002. However, when the company filed a revision to the last rate filing for security costs, it included an additional $1,200,000 for security costs in base rates and $1,860,000 that were not included because they were for nuclear and power generation and expected to be included in the fuel clause. Prior to this revision, no increase for security in the 2002 budget was found in the justifications for the 2002 budget increases audited during the rate proceeding.

Actual 8 months 2001for EAC 694	$ 7,019,052.92
Annualized 2001 without 9/11 effect	$10,528,579.39
Additional budgeted to base for 9/11	$ 1,200,000.00
Total identified as security for 2002	$ 11,728,579.39

A review of actual 2002 security costs determined that the incremental costs recorded by the company were actually incremental when the base amount determined above was removed from the total costs.

By identifying only the incremental expenses, costs can be shifted from base costs. Therefore, we recommend that all security costs, both the type of costs that were incurred prior to 9/11 and incremental be coded in a way that they can be separately identified and that when totaled they be reduced by the $11,728,579.39 identified as base costs above."

For 2002 FPL included $8,754,766 in the capacity clause specifically for incremental "power plant" security requirements that have been imposed since and in response to the events of 9/11/01. The Audit Opinion expressed in Audit Disclosure No.1 suggests that a $10,528,579 downward adjustment be made to adjust for the annualized security costs for all business units in Expense Analysis Code (EAC) 694 that were incurred in the first 8 months of 2001 plus an additional $1,200,000 budgeted to base after 9/11 that was non-power plant related. FPL disagrees with this adjustment because it does not compare incremental power plant security costs to like categories of cost. EAC 694 is used for security costs but also includes security costs for non-power plant locations. The additional $1,200,000 budgeted to base after 9/11 is also non-power plant related. The focus should be on the specific accounts (524.220 for nuclear and 506.075 for fossil) where the incremental power plant security costs for which recovery is sought are recorded, not on the entire range of a utility's operations, or a compilation of "all the charges for all business units to EAC 694" that the auditors propose.

Furthermore, when evaluating whether the 2002 power plant security costs are eligible for recovery through the capacity clause, the proper comparison is to the projected test year data. The 2002 MFRs filed in Docket No. 001148-EI do not include any of the incremental power plant security costs as a result of 9/11/01 or other Homeland Security responses that FPL has included for recovery through the capacity clause. On November 9, 2001, FPL filed adjustments to its 2002 MFRs to reflect the impact of the 9/11/01 events. However, the footnote on Attachment 1 of this filing stated that the adjustments "Reflects recovery of additional security costs through the fuel clause as filed 11/05/2001 in Docket 010001-EI." The "additional security costs" reflected in the fuel clause were the initial estimate of the costs of power plant security. Thus, from the outset the incremental power plant security costs as a result of 9/11/01 and other Homeland Security responses have been accounted for and recovered through the adjustment clauses and are not included in base rates.

Audit Disclosure No. 2

The Audit Opinion expressed in Audit Disclosure No. 2 states:

> "There is a difference of $465,098 between the forecasted and actual amounts shown above. The company was permitted to recover capital expenditures in expense for this new filing per Order PSC 02-1761-FOF-EI, and therefore has expensed some plant (capital) related projects. The company received the benefit of the additional forecasted plant addition figures in the MFR filing, so an adjustment should be made to reduce the amounts charged to expense through the capacity clause by $465,098 and increase plant. This would ensure that the amount capitalized in the forecast MFR's was adhered to."

The audit opinion suggests that the $8,754,766 that FPL has included for 2002 power plant security costs be reduced by $465,098 for the difference between forecasted and actual 2002 Transmission and

Distribution (T&D) security costs. Again, this would amount to an inappropriate back-door base rate adjustment. Moreover, the auditors' suggestion of comparing <u>power plant</u> security costs to <u>T&D</u> security costs is an inappropriate "apples to oranges" comparison. For example, this is like comparing power plant security costs to customer accounting, two separate, unrelated items. Using the auditors' logic, an adjustment would be made to power plant security costs if the full budget for customer accounting was not spent. Making an adjustment like the one the auditors suggest is completely inappropriate.

Q. Please comment on the statement starting on page 4, line 24 of Ms. Welch's testimony that reads "The additional security costs for FPL's nuclear power plants were not included in its 2002 projected test year MFRs because they were considered to be part of the fuel clause and, therefore, not included in the establishment of base rates" and the statement starting on page 5, line 17 that "[a]lthough we determined that the 2002 costs that were recorded were actually incremental, over time it would be easy for the costs in the incremental account that before September 11, 2001 were in base costs."

A. In these comments, Ms. Welch acknowledges that FPL has properly recorded the nuclear plant security costs for 2002 (the time period that was audited). Thus, after an intensive audit, Staff found all of nuclear plant security costs for which FPL is seeking recovery in the time period covered by the audit were handled properly. This is solid confirmation that FPL has been doing a good job of tracking and segregating those costs as the Commission expects. Ms. Welch's only concern is that FPL could "accidentally" misrecord costs prospectively. But the clean audit of 2002 results strongly suggests that FPL is, in fact, doing a good job of ensuring that this does not happen. FPL is committed to continuing this careful tracking of its recoverable costs.

Q. Please comment specifically on Audit Disclosures No. 3 through 6 regarding incremental hedging expenses.

A. Audit Disclosure No. 3

The Audit Opinion in Audit Disclosure No. 3 states that:

> "The mission of the entire EMT division is similar to the goal of the hedging program and therefore, it is difficult to separate the incremental costs specifically for hedging when any costs incurred help the division meet its goals. The 2002 total base budget is $1,784,623 higher than actual 2002 base expenses. Since rates were set based on the budget amount, the company received a benefit by having a higher budget amount than the actual. It does not appear reasonable that the company would be allowed to recover an additional $2,726,054 through the fuel clause for incremental hedging

expenses. Therefore, we recommend that the entire difference of $1,784,623 be used as base hedging costs when calculating the incremental hedging costs for the fuel filing."

FPL disagrees with this opinion. FPL's expanded hedging program is a robust program that includes financial hedging. This program is clearly different than the hedging activity that FPL had been engaged in prior to the Hedging Resolution in Docket No. 011605-EI which was primarily physical hedging. The more robust expanded hedging program has required use of consultants, new reporting systems and additional personnel that were not included in FPL's MFR filing in Docket No. 001148-EI.

Furthermore, FPL disagrees with this recommendation to reduce any amount requested through the fuel clause for incremental hedging expenses by $1,784,623 to reflect the difference between EMT's total 2002 budget and its actual 2002 expenses. This adjustment does not compare the cost sought for recovery through the clause to projected test year data, nor does it compare like categories of costs. The appropriate comparison is to projected test year data. Once again, the adjustment would be an inappropriate true-up of base rates which is completely inconsistent with both the Rate Settlement Agreement and the Hedging Resolution which states "the projected rate year is the base period (using projected expenses)." Furthermore, the procedure approved in the Hedging Resolution properly focuses on those particular costs in the MFRs, not on the entire range of a utility's operations or in this case the entire EMT Department budget, as the auditors are suggesting.

In 2002 the only incremental hedging costs that FPL included for fuel cost recovery were consultant fees. Therefore, the appropriate adjustment compares the hedging related consultant fees that FPL included for fuel cost recovery to the hedging related consultant fees in the MFRs. This is precisely the adjustment that FPL has made. Specifically, FPL included $2,726,054 for recovery through the fuel clause for incremental operation and maintenance expenses for its expanded hedging program. This amount represents the Dean & Company, Iconnix, and E-Systems consultant fees reduced by $250,000 for Contractor & Professional Services for Special Projects that was already included in the MFR filing. To support the $250,000 adjustment, FERC point account and EAC documentation was included in FPL's August 20, 2002 fuel filing and is also attached to this response. Page 1 of Attachment I shows that EMT makes up $8.896 million of the O&M budget in the MFR filing for the 2002 test year. Page 2 of Attachment I provides this $8.896 million by FERC point account. FPL-EMT does not budget by FERC point account for Business Unit O&M expenses. The FERC point accounts for the

MFR filing were developed based upon the FERC point account allocation for year end 2000 actual expenses. EMT prepared its 2002 budget by EAC group, which is also provided on Page 2 of Attachment I. One can see from the Recap by EAC group that FPL projected to spend $1,088,000 for Contractor & Professional Services. The detail build up of Contractor & Professional Services is also provided on Page 2 of Attachment I. Of the $1,088,000 for Contractor & Professional Services, $250,000 is for Special Projects Consultants. Therefore, FPL reduced its consultant fees related to its expanded hedging program by this $250,000 already included in the 2002 MFR filing to produce the incremental hedging cost of $2,726,054 included for fuel cost recovery.

Audit Disclosure No. 4

In 2003, FPL has included the salaries of two new employees dedicated to the expanded hedging program in its fuel cost recovery calculation. The Audit Opinion expressed in Audit Disclosure No. 4 states that:

> "Base rates were set including $1,800,000 in incentives. The unpaid incentives more than cover the budgeted hedging salaries that start in 2003".

This is yet another instance of the auditors suggesting an inappropriate back-door base rate adjustment. Certainly all would agree that the Company should minimize costs whenever possible. In essence, if this recommendation were adopted, FPL would be penalized for minimizing its costs. Moreover, keep in mind that the purpose of the Commission approving the recovery of incremental operating and maintenance expenses associated with new or *expanded* hedging programs is to remove any disincentives that may currently exist for IOUs to engage in hedging transactions that may create customer benefits. Refusing to allow FPL to recover legitimate, new costs associated with its expanded hedging program because FPL had reduced costs elsewhere in EMT would hardly provide that incentive.

<u>Audit Disclosure No. 5</u>

The opinion expressed in Audit Disclosure No. 5 states that:

> "The interviews revealed that hedging was done in 2002, but we were not able to determine from the interviews the exact amount of time that related to hedging in 2002, which was the base year. Although the new employees are refining the hedging process and are spending more time than the employees did in 2002, the company should have proposed allocating the salary for the associate financial trader, the physical trader and the manager as part of base costs. When the senior financial trader completes the development of the

hedging programs, the hedging duties may be split among this position and the associate financial trader. In addition, the duties of the quantitative analyst benefit hedging but also appear to benefit the overall fuel planning. His salary may need to be allocated."

FPL disagrees that an allocation adjustment needs to be made. Although hedging was done in 2002, the new employees are dedicated to the <u>expanded</u> hedging program, were not hired until 2003, and the salary expense for these new employees was not included in the MFR filing. In other words, without the <u>expanded</u> hedging program the two new employees would not have been hired.

<u>Audit Disclosure No. 6</u>

The opinion expressed in Audit Disclosure No. 6 states that:

"The 2001 actual costs for EMT included $419,750 for hedging program consulting for Dean & Company. The company included this cost in 2001 base costs but transferred these costs to fuel hedging in 2002. The company budgeted $420,000 for internal system development as recoverable costs in 2002...The $420,000 in the 2002 budget appears to be the rounded amount for Dean & Company for 2001 and should have probably been identified as base costs instead of the $250,000 the company had identified."

This conclusion is incorrect. The accrued incremental hedging program cost of $419,750 that was related to Dean & Company activities during 2001 is completely unrelated to the $420,000 budgeted for user support and internal system development & production support for 2002. The $420,000 represents activities that are not part of the incremental hedging program. The $250,000 adjustment that the company identified and described in response to Audit Disclosure No. 3 is the appropriate adjustment.

Q. Does this conclude your testimony.

A. Yes, it does.

Attachment I

KMD-7
Docket No. 030001-EI
FPL Witness: K. M. Dubin
Exhibit _______
Pages 1-2
October 15, 2003

RECASTING OF O&M BUDGET FOR MFR FILINGS

UNIT R62000 - ENERGY MARKETING AND TRADING

FORECASTED YEAR FY_2002

R62000	1	ADMIN. AND GENERAL EXPENSES	920000	$2,983,798.34	0.3372	$7,158,866.00	$2,413,787.74
R62000	1	ADMIN. AND GENERAL EXPENSES	920110	$1,741,290.74	0.1968		$1,408,642.90
R62000	1	ADMIN. AND GENERAL EXPENSES	921100	$3,517,326.22	0.3975		$2,845,393.06
R62000	1	ADMIN. AND GENERAL EXPENSES	922000	($1,068,728.00)	-0.1208		($864,563.34)
R62000	1	ADMIN. AND GENERAL EXPENSES	935000	$1,215.18	0.0001		$983.04
R62000	1	OTHER POWER SUPPLY EXPENSE	557000	$1,674,513.54	0.1892		$1,354,622.47
				$8,849,416.02	100%	$7,158,866.00	$7,158,865.86
R62000	5	TRANSMISSION EXPENSE	565120	$220,278.75	1.0000	$563,500.00	$563,500.00
				$220,278.75	100%	$563,500.00	$563,500.00
R62000	9	OTHER POWER GENERATION	547270	$1,513.35	0.0016	$1,173,087.00	$1,905.55
R62000	9	OTHER POWER GENERATION	547271	$115,062.32	0.1235		$144,882.20
R62000	9	STEAM	501215	($27,008,443.24)	-28.9902		($34,008,029.04)
R62000	9	STEAM	501216	$26,380,018.87	28.3157		$33,216,739.91
R62000	9	STEAM	501217	$207,856.48	0.2231		$261,725.16
R62000	9	STEAM	501218	$420,567.89	0.4514		$529,563.47
R62000	9	STEAM	501270	$301,364.01	0.3235		$379,466.38
R62000	9	STEAM	501271	$513,700.72	0.5514		$646,832.91
				$931,640.40	100%	$1,173,087.00	$1,173,086.56
		GRAND TOTAL		10,001,335.17		8,895,453.00	8,895,452.42

Attachment I
Page 2 of 2

FLORIDA POWER & LIGHT COMPANY
ENERGY MARKETING & TRADING DIVISION
2002 O&M BUDGET
$ - (000's)

	FERC Point Account	Base	Non Recoverable Fuel	Capacity	Total
Recap by FERC Point Account (from MFR Filing):					
Admin. and General Expenses	920000	$ 2,414	$ -	$ -	$ 2,414
Admin. and General Expenses	920110	1,409	-	-	1,409
Admin. and General Expenses	921100	2,845	-	-	2,845
Admin. and General Expenses	922000	(865)	-	-	(865)
Admin. and General Expenses	935000	1	-	-	1
Other Power Supply Expenses	557000	1,355	-	-	1,355
Transmission Expense	565120	-	-	564	564
Other Power Generation	547270	-	2	-	2
Other Power Generation	547271	-	145	-	145
Steam	501270	-	379	-	379
Steam	501271	-	647	-	647
		$ 7,159	$ 1,173	$ 564	$ 8,896
Recap by EAC Group:					
Salaries & Wages		$ 6,266	$ 988	$ -	$ 7,254
Employee Related		604	97	-	701
Contractor & Professional Services - *		1,088	30	-	1,118
Technology Expenditures		895	30	-	925
Office & Facilities Administration		157	28	-	185
Cost Reimbursements		(1,851)	-	-	(1,851)
Transmission Expense		-	-	564	564
		$ 7,159	$ 1,173	$ 564	$ 8,896
*** - Detail of Contractor & Professional Services**					
PIRA Fuel Price Forecasting		$ 15	$ 30	$ -	$ 45
Temporary Services		146	-	-	146
System Contractors		653	-	-	653
Building Maintenance		24	-	-	24
Special Projects Consultants		250			250
		$ 1,088	$ 30	$ -	$ 1,118

FPL-EMT does not budget by FERC point account for Business Unit O&M expenses. The FERC point account for the MFR was developed based upon on the FERC point account allocation for year end 2000 actual expenses. EMT prepared its 2002 budget by EAC group. The detail build up of Contractor & Professional Services is provided.