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Public Service Commission

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DATE: April 5, 2004

TO: Todd Bohrmann, Division of Economic Regulation

FROM: Denise N. Vandiver, Chief, Bureau of Auditing
Division of Auditing and Safety *DNV*

RE: **Docket No.** 040001-EI ; **Company Name:** Florida Power and Light Company ;
Audit Purpose: Fuel Cost Recovery Clause Audit ;
Audit Control No. 04-023-4-1

Attached is the 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.

This audit report contains the high priority items designated on your audit service request. The final audit report on the medium priority items listed on the audit service request is expected to be issued for internal Commission use on June 1, 2004 using Audit Control No. 04-096-4-1.

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

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Florida Power & Light Company
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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING*

Miami District Office

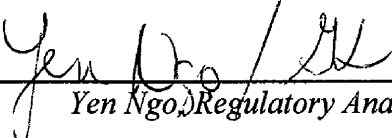
FLORIDA POWER AND LIGHT
FUEL COST RECOVERY CLAUSE
YEAR ENDED DECEMBER 31, 2003
DOCKET NO. 040001-EI
AUDIT CONTROL NO. 04-023-4-1



Gabriela Leon, Audit Manager



Raymond Grant, Regulatory Analyst IV



Yen Ngo, Regulatory Analyst II



*Kathy L. Welch, Public Utilities Supervisor
Miami District Office*

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

March 26, 2003

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

We have applied the procedures described later in this report to the attached Fuel Recovery schedules for the period ended December 31, 2003 for Florida Power and Light Company. These schedules were prepared as part of the petition for fuel recovery in Docket 040001-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 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 substantiating documentation was examined.

EXPENSES-Compiled a trial balance for all fuel related expense accounts. Reconciled the summary of the fuel expenses from the general ledger to the monthly A-2 schedule. Examined a sample of the fuel inventory account. Examined a sample of total steam generation, fuel generation expenses, nuclear fuel amortization and other power generation fuel costs. Traced to invoices and proper source documentation.

Examined the nuclear disposal costs for 2003. Traced to source documentation.

Okeelanta Settlement- Recalculated the fuel portion of the Okeelanta settlement.

Cypress Settlement- Verified the Cypress settlement costs and traced to the appropriate commission order.

INVESTMENT- recalculated the return on investment. verified the equity and debt ratio and traced to proper source and to commission order.

Schedule A3 "Generating System Comparative Data By Fuel Type" was reconciled to Schedule A4 "System Net Generation and Fuel Cost" and traced to supporting documentation.

Audit Disclosure No. 1

Subject: Base Costs in Incremental Hedging

Statement of Fact:

Confidential

Confidential

Audit Disclosure No. 2

Subject: License Fees in Incremental Hedging

Statement of Fact: Confidential

Audit Disclosure No. 3

Subject: Relocation Fees in Incremental Hedging

Statement of Fact: Confidential

EXHIBIT

CALCULATION OF ACTUAL TRUE-UP AMOUNT							
FLORIDA POWER & LIGHT COMPANY							
FOR THE PERIOD JANUARY THROUGH DECEMBER 2003							
LINE NO.		(1)	(2)	(3)	(4)	(5)	(6)
		JAN	FEB	MAR	APR	MAY	JUN
A Fuel Costs & Net Power Transactions							
1	a Fuel Cost of System Net Generation	\$ 202,082,274	\$ 166,332,573	\$ 338,352,856	\$ 230,910,699	\$ 290,580,370	\$ 301,507,670
	b Incremental Hedging Costs	38,985	(72,347)	80,832	37,832	25,080	64,444
	c Nuclear Fuel Disposal Costs	2,045,325	1,810,224	1,585,058	1,830,109	1,438,413	1,705,778
	d Coal Cars Depreciation & Return	280,827	279,094	277,362	275,629	273,896	272,164
	e Gas Pipelines Depreciation & Return	179,661	178,205	169,743	168,535	170,561	169,139
	f DOE D&D Fund Payment	0	0	0	0	0	0
2	a Fuel Cost of Power Sold (Per A6)	(12,579,178)	(10,953,013)	(2,393,727)	(4,860,362)	(2,233,044)	(3,762,281)
	b Revenues from Off-System Sales	(4,563,079)	(2,636,240)	(647,973)	(1,097,584)	(463,000)	(637,885)
3	a Fuel Cost of Purchased Power (Per A7)	30,296,416	12,949,526	26,342,605	22,880,054	28,117,567	24,599,036
	b Energy Payments to Qualifying Facilities (Per A8)	11,897,821	12,098,222	10,942,372	8,250,698	12,980,622	12,252,734
	c Cypress Settlement Payment	0	0	0	0	255,797	0
	d Okaloosa Settlement Amortization including interest	818,207	816,772	814,626	812,971	812,626	809,227
	e Energy Cost of Economy Purchases (Per A9)	2,690,456	5,403,637	9,253,845	6,437,812	7,503,345	9,642,332
4	Total Fuel Costs & Net Power Transactions	\$ 223,187,714	\$ 186,206,654	\$ 384,777,599	\$ 255,646,393	\$ 339,462,234	\$ 346,622,358
Adjustments to Fuel Cost							
	a Sales to Fla Keys Elect Coop (FKEC) & City of Key West (CKW)	(2,649,558)	(2,656,228)	(2,619,112)	(4,890,322)	(3,333,364)	(3,919,200)
	b Reactive and Voltage Control / Energy Imbalance Fuel Revenues	(109,305)	(104,038)	(106,100)	(64,303)	(73,782)	(1,513)
	c Inventory Adjustments	(97,396)	(25,202)	(70,714)	(51,017)	67,936	(1,124,954)
	d Non Recoverable Oil/Tank Bottoms	0	60,265	0	0	0	0
7	Adjusted Total Fuel Costs & Net Power Transactions	\$ 220,331,455	\$ 183,481,452	\$ 381,981,674	\$ 250,640,752	\$ 336,123,023	\$ 341,576,691
B kWh Sales							
1	Jurisdictional kWh Sales (RTP @ CBL) (a)	7,569,038,419	7,463,818,224	7,510,229,964	7,396,486,620	7,999,797,862	9,047,332,704
	Sale for Resale (excluding FKEC & CKW)	35,312,711	39,847,223	39,632,175	45,981,820	46,122,096	42,551,013
3	Sub-Total Sales (excluding FKEC & CKW)	7,604,351,130	7,503,665,447	7,549,862,139	7,442,468,440	8,045,919,958	9,089,883,717
6	Jurisdictional % of Total Sales (B1/B3)	99.53562%	99.46896%	99.47506%	99.38217%	99.42676%	99.53189%
C True-up Calculation							
1	Juris Fuel Revenues (incl RTP @ CBL) Net of Revenue Taxes	\$ 202,273,176	\$ 200,127,330	\$ 201,471,500	\$ 228,902,315	\$ 251,666,698	\$ 284,778,187
Fuel Adjustment Revenues Not Applicable to Period							
a 1	Blank Line						
a 2	Prior Period True-up (Collected/Refunded) This Period	(587,316)	(587,316)	(587,316)	(587,316)	(587,316)	(587,316)
a 3	2002 Final True-up Refunded per Order PSC-03-0000-AS-EI	0	0	0	(8,051,908)	(8,051,908)	(8,051,908)
	HGPFF, Net of Revenue Taxes (b)	(578,218)	(578,218)	(578,218)	(578,218)	(578,218)	(578,218)
	c Oil Backout Revenues, Net of revenue taxes	(2)	(2)	(25)	(0)	(0)	(2)
3	Jurisdictional Fuel Revenues Applicable to Period	\$ 201,107,640	\$ 198,961,795	\$ 200,305,941	\$ 219,684,873	\$ 242,449,256	\$ 275,560,743
4	a Adjusted Total Fuel Costs & Net Power Transactions (Line A-7)	\$ 220,331,455	\$ 183,481,452	\$ 381,981,674	\$ 250,640,752	\$ 336,123,023	\$ 341,576,691
	b Nuclear Fuel Expense - 100% Retail (Acct 518 111)	0	0	0	0	0	0
	c RTP Incremental Fuel - 100% Retail	(43,241)	(46,853)	33,420	95,378	(28,433)	4,846
	d D&D Fund Payments - 100% Retail	0	0	0	0	0	0
	e Adj Total Fuel Costs & Net Power Transactions - Excluding 100% Retail Items (C4a-C4b-C4c-C4d)	220,374,695	183,528,305	381,948,254	250,545,373	336,151,456	341,571,845
5	Jurisdictional Sales % of Total kWh Sales (Line B-6)	99.53562 %	99.46896 %	99.47506 %	99.38217 %	99.42676 %	99.53189 %
6	Jurisdictional Total Fuel Costs & Net Power Transactions (Line C4e x C5 x 1.00049(c)) +(Lines C4b,c,d)	\$ 219,415,561	\$ 182,596,295	\$ 380,162,847	\$ 249,214,815	\$ 334,359,838	\$ 340,144,346
7	True-up Provision for the Month - Over/(Under) Recovery (Line C3 - Line C6)	\$ (18,307,921)	\$ 16,265,500	\$ (179,856,906)	\$ (29,529,943)	\$ (91,910,582)	\$ (64,583,603)
8	Interest Provision for the Month (Line D10)	(94,270)	(93,296)	(172,231)	(266,978)	(322,706)	(361,539)
9	a True-up & Interest Provision Beg. of Period - Over/(Under) Recovery	(7,047,788)	(24,862,663)	(8,003,144)	(187,444,965)	(208,602,661)	(292,196,725)
	b Deferred True-up Beginning of Period - Over/(Under) Recovery	(72,467,176)	(72,467,176)	(72,467,176)	(72,467,176)	(72,467,176)	(72,467,176)
10	a Prior Period True-up Collected/(Refunded) This Period	587,316	587,316	587,316	587,316	587,316	587,316
	b 2002 Final True-up Collected/(Refunded) This Period	0	0	0	8,051,908	8,051,908	8,051,908
11	End of Period Net True-up Amount Over/(Under) Recovery (Lines C7 through C10)	\$ (97,329,839)	\$ (80,470,320)	\$ (259,912,141)	\$ (281,069,837)	\$ (364,663,901)	\$ (420,969,820)
NOTES							
(a) Fuel True Pricing (RTP) sales are shown at the Customer Base Load (CBL) kWh. The incremental/incremental kWh sales are excluded. The incremental/incremental RTP fuel revenues (net of revenue taxes) are included in jurisdictional fuel revenues.							
(b) Generation Performance Incentive Payout is (\$7,099,401) a 98.42897% - See Order No. PSC-03-1761-POF-EI.							
(c) Per Estimated Schedule E-2, filed November 4, 2002.							

6

CALCULATION OF ACTUAL TRUE-UP AMOUNT								
FLORIDA POWER & LIGHT COMPANY								
FOR THE PERIOD JANUARY THROUGH DECEMBER 2003								
LINE NO.	(7)	(8)	(9)	(10)	(11)	(12)	(13)	
	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL PERIOD	
A Fuel Costs & Net Power Transactions								
1 a	Fuel Cost of System Net Generation	\$ 305,103,626	\$ 270,721,136	\$ 274,410,601	\$ 266,663,492	\$ 205,477,717	\$ 184,750,020	\$ 3,026,893,034
b	Incremental Hedging Costs	23,168	57,164	30,721	22,522	32,540	26,134	367,076
c	Nuclear Fuel Disposal Costs	1,950,036	2,048,395	2,044,636	1,592,645	1,946,203	1,830,992	21,867,814
d	Coal Cars Depreciation & Return	270,431	268,699	266,966	265,233	263,501	261,768	3,255,570
e	Gas Pipelines Depreciation & Return	167,718	166,296	164,874	163,452	162,031	160,609	2,020,823
f	DOE D&D Fund Payment	0	0	0	0	6,077,275	0	6,077,275
2 a	Fuel Cost of Power Sold (Per A6)	(2,894,541)	(3,528,375)	(3,455,577)	(1,963,701)	(6,052,220)	(17,155,546)	(71,831,565)
b	Revenues from Off-System Sales	(341,263)	(528,348)	(543,259)	(339,373)	(1,609,471)	(4,420,173)	(17,827,648)
3 a	Fuel Cost of Purchased Power (Per A7)	28,333,960	25,850,471	26,386,610	23,797,923	18,969,882	13,713,574	272,237,624
b	Energy Payments to Qualifying Facilities (Per A8)	13,492,687	13,448,483	13,179,596	9,259,954	10,341,868	12,627,352	140,772,409
c	Cypress Settlement Payment	0	0	0	0	0	0	255,797
d	Okeelanta Settlement Amortization including interest	806,355	806,478	805,922	805,109	803,694	803,148	9,715,135
4	Energy Cost of Economy Purchases (Per A9)	12,520,952	11,098,073	14,380,869	12,759,606	11,765,946	5,752,084	109,208,957
5	Total Fuel Costs & Net Power Transactions	\$ 359,473,130	\$ 320,408,472	\$ 327,671,959	\$ 313,026,862	\$ 248,178,965	\$ 198,349,961	\$ 3,503,012,301
6 Adjustments to Fuel Cost								
a	Sales to Fla Keys Elect Coop (FKEC) & City of Key West (CKW)	(3,934,201)	(4,155,922)	(3,808,697)	(3,644,128)	(3,604,089)	(2,771,474)	(41,986,294)
b	Reactive and Voltage Control / Energy Imbalance Fuel Revenues	5,786	8,575	10,393	(4,138)	(4,027)	(13,006)	(455,459)
c	Inventory Adjustments	77,271	259,042	45,730	(50,755)	(57,964)	(43,201)	(1,071,224)
d	Non Recoverable Oil/Tank Bottoms	0	0	0	0	0	0	60,265
7	Adjusted Total Fuel Costs & Net Power Transactions	\$ 355,621,985	\$ 316,520,167	\$ 323,919,384	\$ 309,327,842	\$ 244,512,884	\$ 195,522,280	\$ 3,459,559,589
B kWh Sales								
1	Jurisdictional kWh Sales (RTP @ CBL) (a)	9,332,603,999	9,223,379,666	9,347,439,851	8,815,192,252	8,092,460,610	7,703,539,787	99,501,319,958
2	Sale for Resale (excluding FKEC & CKW)	39,109,282	42,889,072	40,994,892	43,068,044	37,996,734	39,111,657	492,616,719
3	Sub-Total Sales (excluding FKEC & CKW)	9,371,713,281	9,266,268,738	9,388,434,743	8,858,260,296	8,130,457,344	7,742,651,444	99,993,936,677
6	Jurisdictional % of Total Sales (B1/B3)	99.58269%	99.53715%	99.56335%	99.51381%	99.53266%	99.49485%	99.50735%
C True-up Calculations								
1	Jurs Fuel Revenues (Incl RTP @ CBL) Net of Revenue Taxes	\$ 293,881,101	\$ 330,616,662	\$ 340,593,218	\$ 321,452,663	\$ 294,979,143	\$ 280,548,357	\$ 3,231,290,350
2 Fuel Adjustment Revenues Not Applicable to Period								
a 1	Blank Line							0.00
a 2	Prior Period True-up (Collected)/Refunded This Period	(587,316)	(587,316)	(587,316)	(587,316)	(587,316)	(587,316)	(7,047,788)
a 3	2002 Final True-up Refunded per Order PSC-03-0000-AS-EI	(8,051,908)	(8,051,908)	(8,051,908)	(8,051,908)	(8,051,908)	(8,051,908)	(72,467,176)
b	GPIF, Net of Revenue Taxes (b)	(578,218)	(578,218)	(578,218)	(578,218)	(578,218)	(578,218)	(6,938,614)
c	Oil Backout Revenues, Net of revenue taxes	2	(1)	4	0	(2)	0	(28)
3	Jurisdictional Fuel Revenues Applicable to Period	\$ 284,663,661	\$ 321,399,219	\$ 331,375,780	\$ 312,235,221	\$ 285,761,700	\$ 271,330,915	\$ 3,144,835,744
4 a	Adjusted Total Fuel Costs & Net Power Transactions (Line A-7)	\$ 355,621,985	\$ 316,520,167	\$ 323,919,384	\$ 309,327,842	\$ 244,512,884	\$ 195,522,280	\$ 3,459,559,589
b	Nuclear Fuel Expense - 100% Retail (Acct. 518 111)	0	0	0	0	0	0	0
c	RTP Incremental Fuel - 100% Retail	37,384	(9,429)	29,218	90,664	(3,444)	20,537	180,048
d	D&D Fund Payments - 100% Retail	0	0	0	0	6,077,275	0	6,077,275
e	Adj Total Fuel Costs & Net Power Transactions - Excluding 100% Retail Items (C4a-C4b-C4c-C4d)	355,584,601	316,529,596	323,890,166	309,237,178	238,439,054	195,501,743	3,453,302,266
5	Jurisdictional Sales % of Total kWh Sales (Line B-5)	99.58269 %	99.53715 %	99.56335 %	99.51381 %	99.53266 %	99.49485 %	99.50735 %
6	Jurisdictional Total Fuel Costs & Net Power Transactions (Line C4e x C5 x 1.00049(e)) +(Lines C4b,c,d)	\$ 354,311,605	\$ 315,209,491	\$ 322,663,131	\$ 307,975,151	\$ 243,514,853	\$ 194,630,015	\$ 3,444,197,949
7	True-up Provision for the Month - Over/(Under) Recovery (Line C3 - Line C6)	\$ (69,647,944)	\$ 6,189,728	\$ 8,712,649	\$ 4,260,070	\$ 42,246,847	\$ 76,700,900	\$ (299,361,205)
8	Interest Provision for the Month (Line D10)	(385,649)	(417,576)	(405,679)	(390,854)	(352,832)	(296,367)	(3,559,977)
9 a	True-up & Interest Provision Beg of Period - Over/(Under) Recovery	(348,502,644)	(409,897,012)	(395,485,636)	(378,539,442)	(366,031,003)	(315,497,764)	(7,047,788)
b	Deferred True-up Beginning of Period - Over/(Under) Recovery	(72,467,176)	(72,467,176)	(72,467,176)	(72,467,176)	(72,467,176)	(72,467,176)	(72,467,176)
10 a	Prior Period True-up Collected/(Refunded) This Period	587,316	587,316	587,316	587,316	587,316	587,316	7,047,788
b	2002 Final True-up Collected/(Refunded) This Period	8,051,908	8,051,908	8,051,908	8,051,908	8,051,908	8,051,908	72,467,176
11	End of Period Net True-up Amount Over/(Under) Recovery (Lines C7 through C10)	\$ (482,364,188)	\$ (467,952,812)	\$ (451,006,618)	\$ (438,498,179)	\$ (387,964,940)	\$ (302,921,183)	\$ (302,921,183)
NOTES								
(a) Real Time Pricing (RTP) sales are shown at the Customer Show Load (CBL) kWh. The incremental/incremental kWh sales are excluded.								
The incremental/incremental RTP fuel revenues (net of revenue taxes) are included in jurisdictional fuel revenues.								
(b) Generation Performance Incentive Factor is (57.649,431) x 98.4289%. See Order No. PSC-03-1761-PCF-EI.								
(c) For Estimated Schedule E-7, filed November 4, 2002.								