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**Matilda Sanders**

**From:** John Butler [John.Butler@steelhector.com]
**Sent:** Friday, July 01, 2005 1:35 PM
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**Subject:** Docket No. 050045-EI
**Attachments:** Final audit response.pdf

On behalf of Florida Power & Light Company ("FPL"), please accept for electronic filing in Docket No. 050045-EI FPL's response to the Staff's audit report and supplemental audit report issued in connection with Audit Control No. 05-094-4-1, together with my letter transmitting same. The audit response and transmittal letter total six pages.

A copy of this filing has been sent electronically to counsel for all parties of record.

Thank you for your assistance with filing.

Sincerely,

John T. Butler
Steel Hector & Davis LLP
Suite 4000
200 South Biscayne Boulevard
Miami, Florida 33131-2398
Tel.: 305-577-2939
Fax: 305-358-7336

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July 1, 2005

**- VIA ELECTRONIC FILING -**

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

**Re: Docket No. 050045-EI**

Dear Ms. Bayó:

On June 13, 2005, the Commission Staff filed a final audit report (Audit Control No. 05-094-4-1) for Florida Power & Light Company ("FPL") in this docket (the "Audit Report"). On June 30, 2005, the Staff filed a final supplemental audit report under the same Audit Control Number (the "Supplemental Audit Report"). Both the Audit Report and the Supplemental Audit Report concern an "audit [of] the rate base, net operating income, and cost of capital schedules for the historical 12-month period ending December 31, 2004" that were filed with FPL's petition for rate relief in this docket.

The Staff transmittal memoranda advised that, if FPL wished to respond to the Audit Report and Supplemental Audit Report, it should file the response with your office. I am therefore enclosing for filing FPL's response to the Audit Report and Supplemental Audit Report. Please be aware that, in accordance with the stated purpose of the audit as set forth above, FPL's response addresses the audit exceptions and disclosures only with respect to their effect on calendar year 2004.

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

Sincerely,

John T. Butler

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

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FLORIDA POWER & LIGHT COMPANY
RESPONSES TO FPSC AUDIT REPORTS
MFR AUDIT – 2004 HISTORICAL

**SUPPLEMENTAL AUDIT EXCEPTION NO. 2 - JUNE 24 REPORT**

**SUBJECT: RENT TO AFFILIATES**

FPL disagrees with the audit opinion on the following grounds:

**1. Compliance with Rule 25-6.1351(3)(b), F.A.C.**
FPL believes the market-based rental rates it charges its affiliates are appropriate and in compliance with Rule 25-6.1351(3)(b), F.A.C. The costs being charged to the affiliates are greater than incremental costs at both the General Office and Juno Beach facilities and thus result in a benefit to the customer.

**2. FPL is charging the higher of cost or market at the General Office.** The Statement of Facts in Audit Exception 2 acknowledges that FPL is charging more than fully allocated cost for rent at the General Office. Audit Exception 2 goes on to claim, however, that FPL's market-based rate understates the market in the area of the General Office. FPL disagrees with the conclusion that its measure of market rate is understated for the reasons identified below.

**a.) 2002 is the appropriate timeframe for measuring market rates at the General Office**
The rate being charged to affiliates leasing space in the General Office was established in late 2002. The lease terms were based on a presumed 5-year lease term because leases of the type of space involved here are typically of at least that duration. A lease rate of $17.50 per square foot was representative for 5-year leases in 2002. FPL will reevaluate the market rates at the end of this five year term.

**b.) DMS Study is not necessarily relevant to our situation**
It is difficult to assess the applicability of the DMS rent study without a complete review of the study. Many factors can affect lease rates including tenant size, quality of building, location, and lease terms and conditions.

FLORIDA POWER & LIGHT COMPANY
RESPONSES TO FPSC AUDIT REPORTS
MFR AUDIT – 2004 HISTORICAL

## AUDIT DISCLOSURE NO. 3 - JUNE 10 REPORT

## SUBJECT: EXPENSE FOR CANCELLED WORK ORDERS

The total charges associated with the five work orders referenced in the Audit Report are $90,506. After reviewing 50% of all costs charged to account 584.650 in 2004 (all work orders exceeding $5,000), FPL identified an additional $44,217 incorrectly charged to this account. Corrections for all identified errors are to be completed by July 2005.

**AUDIT DISCLOSURE NO. 5 - JUNE 10 REPORT**

**SUBJECT: AFFILIATE TRANSACTIONS**

The market-based rental rates FPL charges its affiliates consist of a base rent component and an operating expense component. See Statement of Fact for Audit Exception No. 2, Supplemental Audit Report dated June 24, 2005.

The operating expense component of the market rate includes building maintenance. The costs identified in this Audit Disclosure are for general maintenance and repairs incurred by FPL, the lessor. FPL's affiliates are paying for building maintenance through the rental rate charged by FPL. These costs are therefore the responsibility of FPL as lessor and should not be incrementally passed on to its lessee affiliates.

FLORIDA POWER & LIGHT COMPANY
RESPONSES TO FPSC AUDIT REPORTS
MFR AUDIT – 2004 HISTORICAL

**AUDIT DISCLOSURE NO. 6 - JUNE 10 REPORT**

**SUBJECT: PENSION**

The information used by FPL to determine the annual pension allocation is derived primarily from a letter provided annually by Towers Perrin that summarizes the plan information and expenses for the upcoming year. The letter clearly states that Towers Perrin provides the breakdown of participant counts and service costs so that FPL can develop their allocations. Towers Perrin makes no allocation recommendation (Durose). The method of allocating pension expense based on payroll dollars has been consistently applied by FPL.

As stated in the audit disclosure, FPL allocates pension costs using payroll dollars. Pensions are a function of pension-eligible payroll earnings and are therefore directly related to payroll dollars. The auditor's suggestion to allocate these costs to affiliates based on head count is inappropriate and unfounded.

FPL would also like to note that the payment to Ernst and Young in the amount of $1,706,754 is the same charge identified by the auditors in Audit Exception No. 2, Audit Report dated June 10, 2005.

FLORIDA POWER & LIGHT COMPANY
RESPONSES TO FPSC AUDIT REPORTS
MFR AUDIT – 2004 HISTORICAL

## AUDIT DISCLOSURE NO. 8 - JUNE 10 REPORT

## SUBJECT: DUES

FPL disagrees with the audit finding. FPL included only the 2004 dues paid to EPRI in its 2004 expenses.

The 2003 EPRI dues of $240,000 were properly accrued (expensed) in December 2003. The accrual (and expense) of $240,000 was reversed in January 2004. The $240,000 invoice for the 2003 EPRI dues was paid in February 2004. The expense accrual reversal in January 2004 offsets the positive $240,000 expense recorded at the time of the February 2004 payment, resulting in a net impact of zero on 2004 for the 2003 EPRI dues. The 2004 EPRI dues of $240,000 were paid in December 2004, at which time an expense for 2004 was properly recorded.