

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: March 15, 2006
TO: George J. Slemkewicz, Public Utilities Supervisor, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: Docket No: 060038-EI; Company Name: Florida Power & Light Company
Audit Purpose: Supplemental Audit for Review 2004/2005 Storm Damage Cost Recovery; Audit Control No: 05-292-4-1

Attached is the final 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 Commission Clerk and Administrative Services. There are confidential work papers associated with this audit.

Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of Commission Clerk & Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

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

Mr. Bill Feaster, Manager
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DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK



FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE

Miami District Office

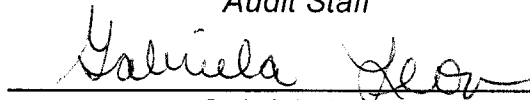
FLORIDA POWER AND LIGHT CO.

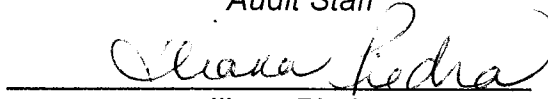
REVIEW OF 2004/2005 STORM DAMAGE COST RECOVERY
SUPPLEMENT
HISTORICAL YEAR ENDED DECEMBER 31, 2005

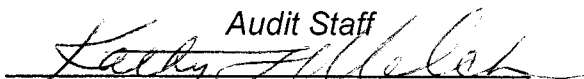
DOCKET NO. 060038-EI
AUDIT CONTROL NO. 05-294-4-1


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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT**

March 10, 2006

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

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the attached schedules prepared by Florida Power and Light in support of its filing for storm recovery.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

OBJECTIVES AND PROCEDURES:

Objective: To determine whether costs charged to the storm reserve were actually for storm damage restoration activities and recorded in accordance with Order No. PSC-05-0937-FOF-EI.

Procedure: We traced capitalized Hurricane Wilma costs to the journal entries and their source documents. The journal entry related to capitalizing follow up work is still based on estimated costs and may change before the hearings. Therefore, the \$56,634,364 that FPL has estimated as a reduction to storm expenses for capitalized items may change when the follow up work is completed.

Objective: To determine if the sample selected for November and December was supported by valid documentation and complied with Order No. PSC-05-0937-FOF-EI. The same was to be done for questionable sample items not finished in the last audit.

Procedures: The vehicle rates for the current sample and the prior audit's transmission sample were recalculated and the process to develop them was reviewed for reasonableness. The usage hours were traced to internal company reports prepared by field employees as they input their work into the financial accounting management system.

We traced materials and supplies items to the calculations of the average cost depending on the category of the item.

We traced all payroll items in the sample to reports, time sheets, and entries recording shift differential, temporary relief, regular pay, exempt overtime and storm preparation costs.

We obtained job tickets for the sample selected in the last audit and determined if the jobs were storm related. We determined if time sheets were coded to the storm and recalculated and traced the salary level to the payroll documentation.

We obtained supporting documentation for the December 2005 accruals for the power systems business unit that we did not have time to review in the prior audit. We also reviewed supporting documentation for work that FPL has identified as follow up work after Hurricane Wilma. We traced these items to supporting documentation that shows these amounts are owed. We attempted to trace the repairs to event reports to determine if the maintenance was planned. However, transmission and distribution staff do not prepare event reports the way the generation business units do. We traced all journal vouchers in the sample to source documentation to determine if they were for reasonable storm charges. See finding number two for the detail on the follow-up work.

We agreed all cash vouchers in the sample to invoices to determine if the items are related to the storm recovery process.

Objective: To determine whether FPL has complied with the methodology approved in Order No. PSC-05-0937-FOF-EI regarding the appropriate capitalization of capital expenditures and the booking of "normal" expenses.

Procedure: We reviewed the status of current payables for 2004 storms to determine if FPL's estimate of \$890,000,000 is still accurate. We verified that internal audit adjustments were made. See finding number one for the detail of the adjustments.

Objective: To determine whether poles owned by other companies have been repaired or replaced by FPL.

Procedure: In the initial storm audit we determined that a study was being done to determine what equipment was replaced for other companies and what amount would be charged to them. Our initial storm audit reported that the study would be completed the end of February so we requested it during the supplement. It has not been completed and could not be reviewed.

AUDIT FINDING NO. 1

SUMMARY:

STATEMENT OF FACT:

CONFIDENTIAL

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED:

AUDIT FINDING NO. 2

SUMMARY: Audit Finding No. 4 in the staff's initial audit report for this proceeding dated February 14, 2006, disclosed a FPL accrual of \$72,300,000 to power distribution follow-up work for hurricane Wilma which was a sample amount selected for further review. The sample did not include all follow up costs. The audit staff was unable to review any of the documents provided by FPL as of the above report date.

STATEMENT OF FACT: The audit staff, in its work subsequent to the initial audit report mentioned above, has determined that FPL now estimates the power distribution follow-up work for hurricane Wilma to total \$89,853,508. These amounts are based on revised estimates provided on February 16, 2006 in FPSC Document Request No. 3. A new list of FPL's estimated power distribution follow-up cost and its progress is provided below.

Item Project	Revised Estimate	Percent Complete
Payroll	4,000,000	
1 Inspection and follow-up repairs for feeders and laterals	11,405,202	20.0%
2 Asset Management System (AMS) field verification data	1,385,167	1.5%
3 Joint Use True-Up Survey to field verify Southern Bell Telephone poles that were replaced during Wilma	98,000	4.0%
4 Replace/repair capacitors and automated field switches (AFS) damaged by 2005 storms	2,169,331	60.0%
5 Customer response inquires and reconnects	1,000,000	25.0%
6 Post Wilma clean up of priority conditions	37,000,000	100.0%
7 Street light sweeps and repairs	<u>32,795,808</u>	99.0%
Total Follow-up Cost	\$89,853,508	
8 Less material included in logistics for follow up.	(5,089,676)	
Less Payroll	<u>(4,000,000)</u>	
Contractors Cost	<u>\$80,763,832</u>	

The portion which relates to amounts paid to contractors is \$80,763,832 after removing FPL payroll and material charges. These amounts are removed in the audit staff's analysis above because we selected the contractor portion for testing in this proceeding.

The utility asserts that the above Hurricane Wilma follow-up field work includes only those costs associated with FPL's storm recovery efforts and that any known events relating to pre-storm or normal maintenance activities is not included.

The audit staff, in discussions with utility staff personnel on this issue, has developed the following understandings of the above mentioned items.

- Item No. 1 The inspection and follow-up repairs of the affected feeders and laterals in the FPL distribution system are indistinguishable between pre-storm and post-storm events. Damaged cross arms, insulators, etcetera, that may have existed prior to the storms were minimal.
- Item No. 2 The Asset Management System field data verification process is post storm activity because it is used to update FPL's graphic Asset Management System to reflect the "as-built" power distribution system after the follow-up storm repairs are completed.
- Item No. 3 The joint use true-up survey of BellSouth Telephone (BST) poles, whose cost will be split between FPL and BST, is to determine BST liability to FPL for replacement of BST property as a result of FPL storm recovery work.
- Item No. 4 The inspection and follow-up repairs of the affected capacitors and AFS in the FPL distribution system are indistinguishable between pre-storm and post-storm events. Any damage that may have existed prior to the storms was minimal.
- Item No. 5 The customer response inquires and reconnects cost is limited to work completed primarily by FPL employees to disconnect and reconnect customer homes damaged by the storm and for incidental activities such as straightening poles and storm scrap removal.
- Item No. 6 The post Wilma clean-up of priority conditions, which are substantially complete, should be revised to reflect the actual cost incurred when invoiced. These conditions could include any of the other types of repairs listed such as feeders, laterals, capacitors or street lights but were distinguished because these required priority repair and could not wait until the studies were completed.
- Item No. 7 The street light sweeps and repairs, which are substantially complete, are indistinguishable between pre-storm and post-storm events and should be revised to reflect the actual cost incurred when invoiced. Any damage that may have existed prior to the storms was minimal. However, in January the company began charging normal operating expenses for the amount that was budgeted for street light repairs prior to the storm since FPL assumes that some of the current work may be to repair current problems.
- Item No. 8 The material cost included in logistics for follow up was removed from this schedule because, although it was charged to storm costs, it was charged to a different category than the contractor costs.

Additionally, the audit staff has determined that FPL has reclassified \$5,073,184 from Account 186-Deferred Maintenance Storm to remove estimated capital asset additions included in its follow-up work for hurricane Wilma. This adjustment is not reflected in the revised schedule above.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: None

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: None