

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: December 6, 2018

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, *LMD* Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 20180049-EI
Company Name: Florida Power & Light Company
Company Code: EI802
Audit Purpose: A19: Storm Restoration for Hurricane Irma
Audit Control No.: 2018-278-1-1

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 a response to the Office of Commission Clerk. There are no confidential work papers associated with this audit.

LMD/cmm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tallahassee District Office

Auditor's Report

Florida Power & Light
Storm Recovery Cost Audit – Hurricane Irma

As of May 31, 2018

Docket No. 20180049-EI
Audit Control No. 2018-278-1-1
November 30, 2018

Handwritten signature of Debra Dobiac in black ink.

Debra Dobiac
Audit Manager

Handwritten signature of George Simmons in black ink.

George Simmons
Audit Staff

Handwritten signature of Thomas Wolff in blue ink.

Thomas Wolff
Audit Staff

Handwritten signature of Marisa N. Glover in blue ink.

Marisa N. Glover
Reviewer

Table of Contents

Purpose..... 1

Objectives and Procedures 2

Audit Findings

 None..... 6

Exhibits

 1: FPL’s Hurricane Irma Final Storm Restoration Costs..... 7

 2: FPL’s Hurricane Irma Incremental Cost and Capitalization Approach Adjustments..... 8

Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Accounting and Finance in its audit service request dated October 4, 2018. We have applied these procedures to the attached schedules prepared by Florida Power & Light in support of its filing for storm recovery costs in Docket No. 20180049-EI.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definition

FPL or Utility refers to Florida Power & Light.

Background

On August 31, 2018, FPL filed a petition to facilitate an evaluation of Hurricane Irma storm costs. According to the petition, FPL incurred \$1,378,404,895 in storm restoration costs and follow-up work related to Hurricane Irma. After deducting Hurricane Irma related capital, third-party reimbursements, and below-the-line costs, the remaining total amounted to \$1,270,014,570, which was charged to operation and maintenance expense. As outlined in FPL's Petition for Review of Florida Power & Light Company's Proposed Treatment of Tax Impacts Associated with Tax Cuts and Jobs Act of 2017 in Docket No. 20180046-EI, FPL is not seeking to establish a charge for the recovery of these costs, but plans to offset this expense through savings from the Tax Cuts and Jobs Act of 2017.

Expense

Payroll, Overtime, and Related Costs

Objectives: The objectives were to determine whether regular payroll, overtime, and related costs were properly stated, recorded in the period incurred, and related to Hurricane Irma.

Procedures: We determined regular payroll, overtime, and related costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to payroll records. No exceptions were noted.

Contractors

Objectives: The objectives were to determine whether contractor costs were properly stated, recorded in the period incurred, and related to Hurricane Irma.

Procedures: We determined contractor costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to purchase orders, invoices, or contracts. No exceptions were noted.

Line Clearing

Objectives: The objectives were to determine whether line clearing costs were properly stated, recorded in the period incurred, and related to Hurricane Irma.

Procedures: We determined line clearing costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to purchase orders, invoices, or contracts. No exceptions were noted.

Vehicle and Fuel

Objectives: The objectives were to determine whether vehicle and fuel costs were properly stated, recorded in the period incurred, and related to Hurricane Irma.

Procedures: We determined vehicle and fuel costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to source documents. No exceptions were noted.

Materials and Supplies

Objectives: The objectives were to determine whether materials and supplies were properly stated, recorded in the period incurred, and related to Hurricane Irma.

Procedures: We determined materials and supplies from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to purchase orders, invoices, or inventory records. No exceptions were noted.

Logistics

Objectives: The objectives were to determine whether logistics costs were properly stated, recorded in the period incurred, and related to Hurricane Irma.

Procedures: We determined logistics costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to purchase orders, invoices, or employee expense reports. No exceptions were noted.

Other Costs

Objectives: The objectives were to determine whether other costs were properly stated, recorded in the period incurred, and related to Hurricane Irma.

Procedures: We determined other costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a judgmental sample of costs for detail testing and traced the amounts to purchase orders, invoices, or contracts. No exceptions were noted.

Other

Capitalizable Costs

Objectives: The objectives were to determine whether the capitalizable costs have been accounted for correctly and removed in their entirety from the recoverable costs as per Rule 25-6.0143(1)(d), Florida Administrative Code (F.A.C.).

Procedures: We determined capitalizable costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We requested a detailed description of the capitalizable costs, and tested these costs to determine if the Utility included for recovery only those costs that are allowed by the applicable Rule. No exceptions were noted.

Third-Party Reimbursements

Objectives: The objective was to determine whether third-party reimbursement costs have been accounted for correctly and removed in their entirety from the recoverable costs as per Rule 25-6.0143 (1)(b), F.A.C.

Procedures: We determined third-party reimbursements from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We requested a detailed description of the third-party reimbursements, and tested these costs to determine if the Utility included for recovery only those costs that are allowed by the applicable Rule. No exceptions were noted.

Below-the-Line Costs

Objectives: The objective was to determine whether below-the-line costs have been accounted for correctly and removed in their entirety from the recoverable costs as per Rule 25-6.0143 (1)(b), F.A.C.

Procedures: We determined below-the-line costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We requested a detailed description of the below-the-line costs, and tested these costs to determine if the Utility included for recovery only those costs that are allowed by the applicable Rule. No exceptions were noted.

Non-Incremental Costs

Objectives: The objective was to determine whether non-incremental costs have been accounted for correctly and removed in their entirety from the recoverable costs as per Rule 25-6.0143, F.A.C.

Procedures: We determined non-incremental costs from Account 186 – Miscellaneous Deferred Debits by function and reconciled the balances to the storm restoration costs filing. We selected a sample of costs to test and noted that FPL is not seeking any incremental recovery for the storm costs through either a surcharge or depletion of the storm reserve and stated that the ICCA methodology is not applicable to the Hurricane Irma storm restoration costs. FPL provided the ICCA adjustments on Exhibit KF-2 for informational purposes only and to facilitate the review

of the storm restoration costs. We determined the Utility calculated the ICCA adjustments as allowed by Rule 25-6.0143, F.A.C. No exceptions were noted.

Jurisdictional Factors

Objectives: The objective was to determine the jurisdictional factors used by the Utility.

Procedures: We determined that FPL used the jurisdictional factors calculated for 2018 in its filing. We verified the calculation using support documentation provided by the Utility. No further work was performed.

Accounts Payable Procedures

Objectives: The objective was to determine whether storm preparation and restoration efforts for approving and processing accounts payable vary from standard practices for approving and processing accounts payable.

Procedures: According to the Utility, the storm Accounts Payable Policy is no different than FPL's standard practices for recording and approving accounts payable. The storm related policies and procedures work in conjunction with the standard operating accounts payable procedures. These policies define what items are actually recoverable during a storm event, which agree with Rule 25-6.0143, F.A.C. These policies also state the approval process from staging sites to the assigned plant accountant through accounts payable processing, which includes staff and management approval levels. Based on our review of the storm related activity, no exceptions were noted.

Audit Findings

None

Exhibits

Exhibit 1: FPL's Hurricane Irma Final Storm Restoration Costs

Florida Power & Light Company
Hurricane Irma Final Storm Restoration Costs
through May 31, 2018
(\$000s)

LINE NO.	Storm Costs By Function (A)						Total (7)
	Steam & Other (1)	Nuclear (2)	Transmission (3)	Distribution (4)	General (B) (5)	Customer Service (6)	
1	<u>Storm Restoration Costs</u>						
2							
3	\$520	\$513	\$1,656	\$12,333	\$1,231	\$501	\$16,753
4	970	2,305	2,372	29,490	1,946	1,579	38,663
5	9,777	21,187	20,984	769,381	3,003	755	825,088
6	0	0	1,120	138,788	0	0	139,908
7	96	0	401	23,366	13	1	23,876
8	542	1,357	7,384	35,181	628	214	45,305
9	21	213	798	271,303	144	517	272,996
10	190	225	1,018	4,971	7,755	1,657	15,817
10	Total Storm Related Restoration Costs	Sum of Lines 2 - 9					
	\$12,116	\$25,801	\$35,731	\$1,284,813	\$14,720	\$5,223	\$1,378,405
11	<u>Less: Capitalizable Costs (E)</u>						
12							
13	\$0	\$0	\$458	\$5,389	\$0	\$0	\$5,847
14	0	6,300	5,511	60,384	208	0	72,404
15	0	0	6,538	21,632	22	204	28,397
16	0	0	47	874	0	0	921
17	0	0	0	-2,440	0	0	-2,440
18	Total Capitalizable Costs	Sum of Lines 13 - 17					
	\$0	\$6,300	\$12,554	\$85,839	\$230	\$204	\$105,128
19							
20	Less: Third-Party Reimbursements (F)			2,440	0	0	2,440
21							
22	Less: Below-the-Line/Thank You Ads			0	822	0	822
23							
24	Total Storm Restoration Costs Charged to Base O&M	Lines 10 - 18 - 20 - 22					
	\$12,116	\$19,501	\$23,177	\$1,196,534	\$13,667	\$5,019	\$1,270,014

Notes:

(A) Storm costs are as of May 31, 2018. Totals may not add due to rounding.

(B) General plant function reflects restoration costs associated with FPL's Human Resources, External Affairs, Information Technology, Real Estate, Marketing and Communications, Energy Marketing & Trading and Legal departments.

(C) Represents total payroll charged to the business unit (function) being supported. For example, an employee that works in Legal but is supporting Distribution during storm restoration would charge their time to Distribution.

(D) Includes other miscellaneous costs, including payroll and related overheads from affiliate personnel directly supporting storm restoration.

(E) Includes capital associated with follow-up work. See KF-1, page 2 for additional breakout of follow-up work associated with the Transmission and Distribution functions.

(F) Reimbursement from AT&T for net poles replaced by FPL during restoration as a result of the storm.

Exhibit 2: FPL's Hurricane Irma Incremental Cost and Capitalization Approach Adjustments

Florida Power & Light Company
Hurricane Irma Incremental Cost and Capitalization Approach Adjustments
through May 31, 2018
(\$000s)

LINE NO.	Storm Costs By Function(A)						Total (7)	
	Steam & Other (1)	Nuclear (2)	Transmission (3)	Distribution (4)	General (B) (5)	Customer Service (6)		
1	Storm Restoration Costs							
2		\$520	\$513	\$1,656	\$12,333	\$1,231	\$501	\$16,753
3		970	2,305	2,372	29,490	1,946	1,579	38,663
4		9,777	21,187	20,984	769,381	3,003	755	825,088
5		0	0	1,120	138,788	0	0	139,908
6		96	0	401	23,366	13	1	23,876
7		542	1,357	7,384	35,181	628	214	45,305
8		21	213	798	271,303	144	517	272,996
9		190	225	1,018	4,971	7,755	1,657	15,817
10	Total Storm Related Restoration Costs	\$12,116	\$25,801	\$35,731	\$1,284,813	\$14,720	\$5,223	\$1,378,405
11								
12	Less: Capitalizable Costs (E)							
13		\$0	\$0	\$458	\$5,389	\$0	\$0	\$5,847
14		0	6,300	5,511	60,384	208	0	72,404
15		0	0	6,538	21,632	22	204	28,397
16		0	0	47	874	0	0	921
17		0	0	0	-2,440	0	0	-2,440
18	Total Capitalizable Costs	\$0	\$6,300	\$12,554	\$85,839	\$230	\$204	\$105,128
19								
20	Less: Third-Party Reimbursements (F)	0	0	0	2,440	0	0	2,440
21								
22	Less: Below-the-Line/Thank You Ads	0	0	0	0	822	0	822
23								
24	Total Storm Restoration Costs Charged to Base O&M	\$12,116	\$19,501	\$23,177	\$1,196,534	\$13,667	\$5,019	\$1,270,014
25								
26	Less: ICCA Adjustments							
27		\$587	\$179	\$709	\$2,215	\$1,802	\$1,260	\$6,752
28	Line Clearing:							
29	Vegetation Management	0	0	0	5,080	0	0	5,080
30	Vehicle & Fuel:							
31	Vehicle Utilization	0	0	354	3,837	0	0	4,192
32	Fuel	0	0	0	133	0	0	133
33	Other							
34	Legal Claims	0	0	0	244	0	0	244
35	Employee Assistance and Childcare	0	0	0	0	811	123	934
36	Total ICCA Adjustments	\$587	\$179	\$1,063	\$11,509	\$2,613	\$1,383	\$17,335
37								
38	Incremental Storm Losses							
39	Regular Payroll and Related Costs	\$-67	\$333	\$489	\$4,729	\$-571	\$-760	\$4,153
40	Overtime Payroll and Related Costs	970	2,305	2,372	29,490	1,946	1,579	38,663
41	Contractors	9,777	14,887	15,473	708,997	2,795	755	752,684
42	Line Clearing	0	0	1,120	133,708	0	0	134,828
43	Vehicle & Fuel	96	0	46	19,396	13	1	19,552
44	Materials & Supplies	542	1,357	846	13,549	606	9	16,908
45	Logistics	21	213	798	271,303	144	517	272,996
46	Other	190	225	971	3,854	6,122	1,534	12,896
47	Total Incremental Storm Losses	\$11,530	\$19,322	\$22,114	\$1,185,025	\$11,054	\$3,636	\$1,252,680
48								
49	Jurisdictional Factor (H)	0.9513	0.9335	0.9028	0.9999	0.9682	1.0000	
50								
51	Retail Recoverable Incremental Costs	\$ 10,968	\$ 18,037	\$ 19,964	\$ 1,184,867	\$ 10,703	\$ 3,636	\$ 1,248,174

Notes:

- (A) Storm costs are as of May 31, 2018. Totals may not add due to rounding.
- (B) General plant function reflects restoration costs associated with FPL's Human Resources, External Affairs, Information Technology, Real Estate, Marketing and Communications, Energy Marketing & Trading and Legal departments.
- (C) Represents total payroll charged to the business unit (function) being supported. For example, an employee that works in Legal but is supporting Distribution during storm restoration would charge their time to Distribution.
- (D) Includes other miscellaneous costs, including payroll and related overheads from affiliate personnel directly supporting storm restoration.
- (E) Includes capital associated with follow-up work. See KF-1, page 2 for additional breakout of follow-up work associated with the Transmission and Distribution functions.
- (F) Reimbursement from AT&T for net poles replaced by FPL during restoration as a result of the storm.
- (G) Represents regular payroll normally recovered through base rate O&M and not charged to the Storm Reserve. The amounts are charged to the employee's normal business unit.
- (H) Jurisdictional Factors are based on factors approved in Docket No. 160021-EI.