

CONFIDENTIAL

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Notes on Internal Auditors WP's for "Inter-Utility & QF Power Transactions Follow-Up Audit" 8/92-12/92  
4/92-9/92

5/19/92

DECLASSIFIED

This audit is a follow up to issues on the Inter-Utility & QF Power Transactions audit dated 9/18/91. The audit reviewed transactions in 1992 to determine what corrections actions were implemented.

The objective of the audit was to verify the adequacy of internal controls on: ① Revenue Cycle (Delivery/Dist.) Inter-Utility sales contracts ② Expenditure Cycle - QF Facility Payments.

The following were reviewed:

- ① Computation, support, & accounting of interchange transactions;
- ② Unit cost assignment for Schedules A & B Sales;
- ③ Payments to qualifying facilities for as-available energy;
- ④ Controls surrounding payment processing for inter-utility & QF transactions;
- ⑤ Accuracy of revenues & expenses posted to the Fuel Recovery & Energy Conservation Cost Recovery clauses for inter-utility & QF transactions.

## PAYMENTS TO QUALIFYING FACILITIES

### Cogeneration Pricing

#### Follow-up Findings

Several updates have been made to the Co-gen Program. Power Supply no longer uses the economy brokerage pricing program to verify cogeneration pricing information. Power Supply has implemented a new method to review the reasonableness of hourly cogeneration prices.

#### AVOIDED ENERGY COST REVIEW AND VERIFICATION

The Co-generation Economy A Program executes the hourly avoided energy cost by various pricing regions on price sheets. These price sheets are checked for reasonableness against the daily load patterns & normal price ranges. The price sheets are reviewed for unusual price increases/decreases and to ensure that all hourly prices are shown.

DOCUMENT NUMBER-DATE

06408 JUN 14 88

FPSC-RECORDS/REPORTING

Notes on Internal Auditors' WP's for "Inter-Utility & QF Power Transactions Follow-Up Audit" 8/92-12/92  
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Cogeneration prices identified as unusual, as well as, a weekly sample of hourly prices are reviewed to ensure the reliability of the cogeneration program. Controls to ensure the accuracy of cogeneration prices are as follows:

- ① Daily Cogeneration history price sheets are reviewed for reasonableness of hourly prices.
- ② Unusual prices are verified in 2 ways:
  - A) Unusual prices are compared to the corresponding projected hourly avoided energy cost used for broken pricing.
  - B) The hourly cogeneration cost is approximated by using the actual unit hourly fuel price divided by the unit efficiency factor multiplied by the heat rate factor.
  - C) The Supervisor of Purchase Power Administration reviews all cogeneration price changes prior to the issuance of cogeneration payment.
  - D) Records of cogeneration prices reviewed and price changes are maintained for 6 months.

The auditor reviewed co-gen prices for one week period from November 30 - December 6, 1992 to ensure the monitoring + investigation of unusual prices. The auditor concluded the current method of verifying cogeneration prices provides sound controls monitor + ensure the accuracy of payments for as-available energy to QF's.

### Charges to QF's FOR BILLING/ADMINISTRATIVE COSTS

#### Background

- ① The previous audit found that payment deductions to Qualifying Facilities included in the "customer charges" did not adequately reflect actual costs incurred for Qualifying Facility billing/administrative costs.

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In addition, two QF's (Royer + FCS) received no payment deductions because they were outside FPL's service territory.

Follow-up Findings

The auditor reviewed detailed charges to Account 908.350 Cogeneration Small Power (ECCR) for 1992 using the Planning + Resource Allocation System (PRA). The auditor concluded the proposed quantification of Qualifying Facility billing/administrative costs was reasonable given 1992 charges. Also, monthly charges of \$400 are currently deducted from QF payments to Royer + FCS.

- 2) The previous audit found that monthly liabilities to QF's were applied to the Fuel Cost + Purchased Power Recovery Clause in their entirety as recoverable expenses, without subtracting the customer deductions collected from QF's.

Follow up Findings

The gross amount of Qualifying Facility payments has been applied to Fuel Cost + Purchased Power Recovery Clause since the inception of the tariff w/o exception from the E.P.S.C. Mr. J. P. Stepanovich, Manager Interchange Dispatch considers it appropriate to continue applying the gross amount of QF payment to the aforementioned clause given the FAC guidelines.

- 3) The previous audit found that salary expenses related to billing/administration of all available energy from QF's were inappropriately charged to the (ECCR) clauses. These charges should have been charged back to the QF's per the Electric Tariff in order for FPL customer to demand "revenue neutral".

Notes on Internal Auditors WP's for "Inter-Utility & QF Power Transactions Follow-Up Audit" 8/92 - 12/92  
4/92

Follow-Up FINDINGS - current audit

Interchange management will charge all costs incurred for billing/administration of as-available energy purchases from QF's to the ECOR clause. This includes amounts recovered from the QF's in the form of customer charges to be credited to the ECOR clause.

Charges to acct 908.350 - Cogen Small Power (ECOR) 1992 were reviewed. Charges to the ECOR acct were appropriate & included the QF customer charges beginning 5/92.

**ATTACHMENT F**

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

STATE OF FLORIDA                    )  
  )  
COUNTY OF DADE                    )                   AFFIDAVIT

Before me, the undersigned authority, David Camardese appeared, who being duly sworn by me, said and testified:

- 1) My name is David Camardese. I am employed by Florida Power & Light Company (FPL) as Supervisor of Purchase Power Administration. My business address is 4200 West Flagler Street, Miami, Florida, 33134.
  
- 2) This Affidavit is in support of FPL's Request for Confidential Classification of Certain Material Obtained by the Staff as Part of the Qualified Facility (QF) Component of its Fuel Audit of FPL.
  
- 3) Attachment C to FPL's Request for Confidential Classification contains the QF purchase agreements for firm capacity and energy between FPL and Royster Company and between FPL and Florida Crushed Stone Company ("FCS") and the associated Staff audit workpapers and notes derived therefrom.

- 4) In regard to the Royster QF agreement, the Commission had previously issued a Protective Order on December 4, 1985 in Docket No. 850924-EU which treats the Royster QF Agreement as confidential and prevents it from public disclosure. (A copy of the referenced Protective Order is attached to this Affidavit as Attachment I).
  
- 5) In addition to making the QF Agreement and all its amendments and attachments confidential, the Protective Order also provides that the Staff and any other party or person receiving a copy of the Agreement and its attachments and appendices shall take stringent measures to protect the confidentiality of the Agreement, its attachments and appendices, and the terms thereof.
  
- 6) Moreover, the Commission stated that "no disclosure of this QF information, including internal memoranda and other notes and documents which contain all or a part of the material protected herein shall be made or permitted by Staff or any other person or party, and all such memoranda and other notes and documents shall be proprietary confidential business information within the meaning of §366.093, F.S. and subject to the provisions of this Protective Order."

- 7) Similarly, for the same reasons found by the Commission for holding the Royster QF contract confidential, the Commission should likewise hold the FCS QF contract confidential.
  
- 8) As with the Royster QF agreement, the negotiated QF agreement between FPL and FCS contains terms and conditions other than those in FPL's standard offer and these terms are the result of negotiations solely between FPL and FCS, the revelation of which would jeopardize FPL's ability to negotiate similar contracts with other QF's. The contractual provisions in the FCS and Royster agreements, while similar, were individually negotiated.
  
- 9) Disclosure of the Royster or FCS QF Agreements could give their competitors an unfair competitive advantage. Disclosure could harm the ability of FSC or Royster to negotiate a subsequent contract for the sale of cogenerated power with another Florida utility. Also, disclosure of financial terms in the contract to its cogeneration competitors would be to the QF's disadvantage.
  
- 10) Disclosure of the terms of the FCS or Royster Agreements could result in FPL's customers paying higher rates than they otherwise would for other QF power. Non-disclosure is essential if FPL is to maintain favorable negotiated provisions and to prevent the withdrawal of favorable negotiated

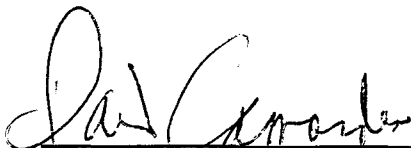
provisions from future contracts to the detriment of FPL's ratepayers.

- 11) Moreover, FPL has told its QF providers that it will maintain the confidential nature of the negotiated QF contracts before regulatory bodies.
- 12) Both the Royster and FCS Agreements are proprietary confidential business information, the release or disclosure of which would impair FPL's ability to contract for QF power in the future on favorable terms and would disadvantage Royster and FCS by revealing to their competitors information of the nature of their financial status and trade secrets. Public disclosure of the QF agreements serve no beneficial public or regulatory purpose.
- 13) FPL maintains the confidential nature of these QF contracts and FPL has not publicly disclosed the Royster or FCS contracts. FPL has internally circulated the Agreements only to a select few employees of FPL on a need to know basis.
- 14) Since the QF contracts are long term power supply agreements, FPL requests that the Commission maintain the confidential nature of these agreements for the entire length of the contract period. If a contract is confidential, it is inappropriate to publicly disclose the terms of the contract prior to its expiration date. FPL requests that the Royster contract be kept confidential until the expiration of the initial term of the Agreement on March 31, 2002. Similarly, FPL requests that the FCS



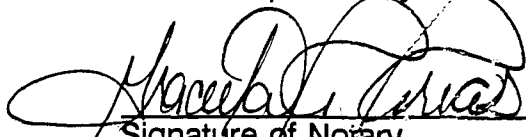
contract be kept confidential until the expiration of the initial term of the Agreement on October 31, 2005. The Commission should return the QF contracts and the associated confidential Staff's workpapers (identified as Attachment C) after the Commission has concluded that there is no further business need for these documents.

15) Further affiant sayeth naught.

  
\_\_\_\_\_  
David Camardese

State of Florida            )  
                                  )  
County of Dade            )        SS

The foregoing instrument was acknowledged before me this 10TH day of June, 1993 in Dade County, Florida by David Camardese, who is personally known to me and who did take an oath.

  
\_\_\_\_\_  
Signature of Notary

GRACIELA A. ARIAS  
\_\_\_\_\_  
Name of Notary

CC167412  
\_\_\_\_\_  
Serial Number

NOTARY PUBLIC STATE OF FLORIDA  
MY COMMISSION EXP NOV. 20, 1998  
BONDED THRU GENERAL INS. UND.  
Notary \_\_\_\_\_  
Public Title \_\_\_\_\_

## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition of Florida Power	)	
& Light Company for Approval of	)	Docket No. 850924-EU
Cogeneration Agreement with	)	Order No. 15413
Royster Company.	)	Issued: 12-4-85
	)	

PROTECTIVE ORDER

This matter was presented by Motion for Protective Order filed by Florida Power & Light Company ("FPL") seeking a protective order specifying the terms and conditions under which the Agreement between FPL and the Royster Company ("Royster") would be filed with the Commission. In particular, FPL has requested that the Commission recognize that the Agreement is proprietary confidential business information, the release or disclosure of which would impair FPL's ability to contract for QF power and would disadvantage Royster by revealing to its competitors information of the nature of trade secrets. To protect FPL's and Royster's interests in keeping the Agreement confidential, FPL requests the Commission issue a protective order requiring the Staff, other parties who may intervene and any person who receives a copy of the Agreement by virtue of this proceeding to undertake stringent measures to maintain the Agreement's confidentiality and prevent its public disclosure.

The information sought to be protected is an Agreement between FPL and Royster for the purchase and sale of capacity and energy from a qualifying facility ("QF") owned and operated by Royster. FPL, with the concurrence of Royster, advances several reasons why the Cogeneration Agreement is proprietary confidential business information which should be protected. First, they maintain that the Agreement contains terms and conditions other than those in FPL's standard offer and that these terms are the results of negotiations solely between FPL and Royster, the revelation of which would jeopardize FPL's ability to negotiate similar contracts with other QFs. Second, they maintain that disclosure of the Agreement would give Royster's competitors an unfair competitive advantage. Third, FPL maintains that disclosure of negotiated agreements would be counterproductive to and restrict the negotiation of other contracts for QF power. Fourth, FPL maintains that disclosure of the terms of this Agreement could result in its customers paying higher rates than they otherwise would for other QF power.

Having reviewed the Motion for Protective Order, our cogeneration rules and revisited Order Nos. 12634 and 13247 where we encouraged the negotiation of contracts between QFs and utilities, the Prehearing Officer has determined that FPL's Motion for Protective Order should be granted. Disclosure of the Agreement would impair FPL's ability to negotiate for similar contracts on favorable terms. Such a result would be counter to the interests of FPL's customers and would also frustrate the Commission's policy to encourage these types of contracts. In addition, the release of the Agreement would also afford Royster's competitors information which could be used to Royster's disadvantage in the pricing of competitive products. Thus, we conclude this is information akin to trade secrets which deserves protection. It is, therefore,

ORDERED that the Agreement and all attachments and appendices thereto are proprietary confidential business information which is protected from public access pursuant to Section 366.093, Fla. Stat. (1983). It is further

ORDERED that consistent with Fla. Admin. Code Rule 25-22.06, this ruling of confidentiality is tentative, and FPL has 14 days from the date of the issuance of this Order to protest the ruling or the ruling shall become final. It is further

Docket No. 850924-EU  
Order No. 15413

ORDERED that the Staff and any other party or person receiving a copy of the Agreement and its attachments and appendices as a result of this proceeding shall take stringent measures to protect the confidentiality of the Agreement, its attachments and appendices, and the terms thereof. No disclosure of this information, including internal memoranda and other notes and documents which contain all or a part of the material protected herein shall be made or permitted by Staff, any party to this proceeding, or any other person gaining access to the information as a result of this proceeding, and all such memoranda and other notes and documents shall be proprietary confidential business information within the meaning of Section 386.093, Fla. Stat. (1983) and subject to the provisions of this Order. It is further

ORDERED that any party to this proceeding other than the Staff shall not by virtue of this Order have access to the Agreement, and any such party seeking access may petition the Commission for access consistent with the terms of this Order or may, if applicable, file a request for determination of nonconfidentiality pursuant to Fla. Admin. Code Rule 25-22.06(6). Any such filing shall be served upon counsel for FPL to allow a response.

By ORDER of Michael McK Wilson, Prehearing Officer, this 4th day of December, 1985.

  
Prehearing Officer