ORIGINAL

STATE OF FLORIDA

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AUDITING & FINANCIAL ANALYSIS
(850) 413-6480

Public Service Commission

July 28, 1999

Mr. Bill Walker
Florida Power & Light Company
215 South Monroe Street, Suite 810
Tallahassee, FL 32301-1859

Re: Docket No. 990002-EG; Florida Power & Light Company
Audit Report; Conservation - Nine Months Ended December 31, 1998
Audit Control No. 99-062-4-1

Mr. Walker:

The enclosed audit report is forwarded for your review. If you desire to file a response to the audit, please file one with the Division of Records and Reporting so it may be forwarded for consideration by the staff analysts in their review of the audit.

Sincerely,

Denise N Vandiver

Denise N. Vandiver
Bureau Chief - Auditing Services

AFA ~~DNV~~: sp
APP
CAF
CMU cc: ✓Division of Records and Reporting
CTR Division of Auditing and Financial Analysis (Devlin/Causseaux/Harvey/File Folder)
EAG Division of Electric and Gas (Colson)
LEG Miami District Office (Welch)
MAS Division of Legal Services
OPC
RRR
SEC 1 Office of Public Counsel
WAW
OTH

DOCUMENT NO.
09005-99
7-30-99

FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING SERVICES

Miami District Office

FLORIDA POWER AND LIGHT COMPANY

CONSERVATION

NINE MONTHS ENDED DECEMBER 31, 1998

AUDIT CONTROL NO. 99-062-4-1

DOCKET NUMBER 990002-EG

Yen Ngo, Regulatory Analyst II

Iliana Piedra, Professional Accountant Specialist

Gabriela Leon, Audit Manager

Kathy L.Welch, Miami District Office Audit Supervisor

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DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDITOR'S REPORT
July 20, 1999

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described in this report to audit the Conservation Cost Recovery schedules for the historical 9-month period ended December 31, 1998 for Florida Power and Light Company. These schedules were prepared by the utility as part of its petition for Conservation Cost Recovery in Docket 990002-EG. The report is based on confidential information which is separately filed with the Division of Records and Reporting. There are no audit staff minority opinions.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this document must not be relied upon for any purpose except to assist the Commission staff in the 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.

In our opinion, the schedules referred to above represent fairly, in all material respects, the utility's books and records, maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission. The attached findings discuss all differences and other matters which were noted during our examination.

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 amounted 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.

Verify- The item was tested for accuracy, and substantiating documentation was examined.

PLANT- Traced Plant to the general ledger.

DEPRECIATION EXPENSES- Recalculated Depreciation Expense for two months.

REVENUES- Recalculated the revenues and traced the billing factor to the appropriate order.

EXPENSES- Performed an analytical review of all the programs. Selected the programs with the highest variance between estimated and actual. Examined a statistical sample of accounts related to these programs.

PROFORMAS- Selected two months of incentives and traced to the tariffs.

ADVERTISING EXPENSES- Examined a statistical sample of all advertising expenses over $10,000.

TRUE-UP CALCULATION- Recalculated the true up provision for the nine months ended December 31, 1998 to determine the accuracy of the current true-up amount for the period under audit.

Traced the interest rates to the Wall Street Journal-30 day Commercial Paper Rate. Traced the prior true-up to the prior audit.

AUDIT DISCLOSURE NO. 1

SUBJECT: Litigation Expenses

STATEMENT OF FACT: In 1991, FPL entered into two 30 year power purchase agreements with two qualifying facilities. The power plants were intended to sell capacity and energy to FPL and to provide steam to sugar processors. Construction of the plants was funded, in part, through the sale of $288.5 million of solid waste industrial development revenue bonds. The plants are owned by Okeelanta Power Limited Partnership; Osceola Power Limited Partnership; Flo-Energy Corp; Glades Power Partnership; Gator Generating Company, Limited Partnership; and Lake Power Leasing Partnership (the partnerships).

In January 1997, FPL filed a complaint in the circuit court against Okeelanta and Osceola seeking an order declaring that FPL's obligations under the power purchase agreements were rendered of no force and effect because the power plants failed to accomplish commercial operation before January 1, 1997 as required by the agreements. In November 1997, the complaint was amended to include the remaining four partnerships.

The partnerships filed for bankruptcy under Chapter XI in May 1997 and ceased all attempts to operate the power plants in September 1997. In November 1997, the partnerships entered into an agreement with the holders of more than 70% of the bonds. This agreement gives the holders of a majority of the principal amount of the bonds the right to control, fund and manage any litigation against FPL and the right to settle with FPL on any terms such majority bondholders approve, provided that certain agreements with sugar processors are not affected and certain other conditions are met.

In January 1998 the partnerships filed an answer denying the allegations in FPL's complaint and asserting a counterclaim for approximately $2 billion of actual damages, consisting of all capacity payments due over the 30 year term of the power purchase agreements plus some security deposits. The partnerships also seek three times their actual damages for alleged violations of Florida antitrust laws, plus attorney's fees. In October 1998, the court dismissed all of the partnerships' antitrust claims against FPL. The partnerships have since moved for summary judgment on FPL's claims against them.

The company has included the litigation expenses in the Cogeneration and Small Power Production Program of the Conservation Cost Recovery Clause for the nine month period ended December 31, 1999. Due to time constraints staff was unable to determine the total expenses charged to the Conservation Cost Recovery Clause, therefore, it should be followed up through discovery.

IV. EXHIBITS

Docket No. 990002-EG
Exhibit No. ________
Florida Power & Light Co.
(LMB-1)
Schedule CT-1
Page 1 of 1

Energy Conservation Cost Recovery
Final True-Up for the Period
April 1998 Through December 1998

1. Actual End of Period True-Up				
2. Principal	$	4,542,579		
3. Interest	$	(92,745)	$	4,449,834
4. Less Estimated/Actual True-Up approved at the November 1998 Hearing				
5. Principal		(510,899)		
6. Interest	$	(132,763)	$	(643,662)
7. Final Net True-Up to be carried over to the January 2000 through December 2000 period			$	**5,093,496**

( ) Reflects Underrecovery

Docket No. 990002-EG
Exhibit No. ________
Florida Power & Light Co.
(LMB-1)
Schedule CT-2
Page 1 of 5

Energy Conservation Cost Recovery
Analysis of Program Costs
Actual VS Estimate for the Period
April 1998 through December 1998

	Actual	Estimated (a)	Difference
1. Depreciation & Return	$ 18,673,767	$ 18,712,616	$ (38,849)
2. Payroll & Benefits	13,303,301	14,200,011	(896,710)
3. Materials & Supplies	113,389	182,724	(69,335)
4. Outside Services	10,798,015	9,105,292	1,692,723
5. Advertising	3,508,990	2,819,452	689,538
6. Incentives	78,149,470	79,951,509	(1,802,039)
7. Vehicles	4,326	7,099	(2,773)
8. Other	2,054,940	2,020,068	34,872
9. SUB-TOTAL	$ 126,606,200	$ 126,998,773	$ (392,573)
10. Program Revenues	(22,650)	(267,345)	244,695
11. TOTAL PROGRAM COSTS	$ 126,583,550	$ 126,731,428	$ (147,876)
12. Amounts included in Base Rates	963,143	1,034,097	(70,954)
13. SUBTOTAL	$ 125,620,407	$ 125,697,330	$ (76,923)
14. ECCR Reveues (Net of Revenue Taxes)	130,137,669	125,161,114	4,976,555
15. True-Up Before Interest (Line 14 - Line 13)	$ 4,517,262	$ (536,216)	$ 5,053,478
16. Interest Provision	(92,745)	(132,763)	40,018
17. Prior Period True-Up (Oct ' 97 - Mar '98)	33,756	33,756	-
18. Deferred True-Up from Prior Period (Oct ' 97 - Mar '98)	(1,389,882)	(1,389,882)	-
19. End of Period True-Up	$ 3,068,391	$ (2,025,105)	$ 5,093,496

(a) From Estimated/Actual Filing. Approved 11/98 Hearing.
For Lines 15 - 19 ( ) reflects an underrecovery.
Totals may not add due to rounding.