

State of Florida



Public Service Commission

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

021111 - E1

DATE: February 6, 2003
TO: Division of Economic Regulation (Slemkewicz)
FROM: Division of Auditing and Safety (Vandiver)
RE: **Undocketed; Company Name:** Florida Power & Light Company;
Audit Purpose: Revenue Refund Audit (To determine whether the operating revenues for the April 15, 2001 through April 14, 2002 period have been properly reported and whether the \$86.2 million refund has been properly calculated);
Audit Control No.: 02-174-4-1

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Attached is a redacted copy of the audit report issued by memo dated. Several pages of the report released earlier were blank, pending the utility's request for confidential classification. This redacted copy releases the remainder of the non-confidential information in this audit report.

DNV/jcp
 Attachment

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)
 Division of the Commission Clerk and Administrative Services
 Division of Competitive Markets and Enforcement (Harvey)
 General Counsel
 Office of Public Counsel

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

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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING

Miami District Office

FLORIDA POWER AND LIGHT COMPANY

REVENUE REFUND AUDIT

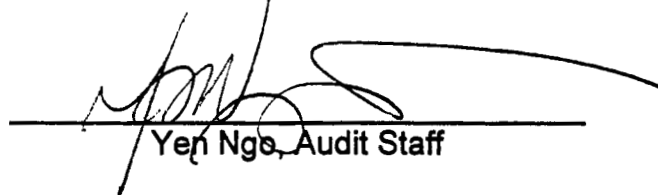
TWELVE MONTHS ENDED APRIL 14, 2002

UNDOCKETED

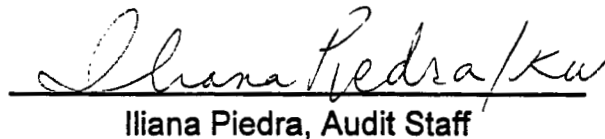
AUDIT CONTROL NO. 02-174-4-1



Gabby Leon, Audit Manager



Yen Ngo, Audit Staff



Iliana Piedra, Audit Staff



Kathy L. Welch
Miami District Office Audit Supervisor

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**DIVISION OF AUDITING AND SAFETY
BUREAU OF AUDITING**

OCTOBER 9, 2002

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the Revenue Refund Calculations for the historical 12-month period ended April 14, 2002 for Florida Power and Light Company.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should 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.

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 definition applies 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 amounts 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.

Verified - The items were tested for accuracy, and compared to the substantiating documentation.

REVENUES- Compiled the revenues from the books and reconciled to the "Net Operating Income Schedule". Sampled all revenue accounts on a random basis in order to determine whether they were correctly included in the refund calculation. Also, tested these revenues to determine whether they were being netted by related expenses.

Reviewed the Florida Public Service Commission adjustments. Reconciled these revenues to the "Refund Calculation Schedules". Verified the Fibernet adjustment by tracing to the company's books and records.

Verified that the calculation of the revenue refund complied with the Florida Public Service Commission Order.

AUDIT DISCLOSURES

DISCLOSURE NO. 1

SUBJECT: REVENUES NET OF EXPENSES

STATEMENT OF FACT: The journal voucher sample of account 451-Miscellaneous Service Revenues includes a credit of \$428,091.06 for the Terrytown Project. The Terrytown project is related to work FPL is performing for Fibernet. The \$428,091.06 is the net of revenues of \$2,914,737.96 and expenses of \$2,486,646.90.

Also in account 451-Miscellaneous Service Revenues, there were two journal vouchers that included the net effect of power supply job order projects. These projects relate to work performed by FPL for other utilities for interconnection or to wheel power for them. The amounts recorded in account 451 represent the net effect of the revenues and expenses.

For the first item found, FPL initially recorded \$169,385.72 to account 451.200. FPL then recorded \$154,957.14 as a debit (reduction to revenues), which represents the expenses related to the work performed for other utilities.

For the second item, revenues of \$119,073.73 were recorded in account 451.200 over a period of several months. On 3/29/02 \$109,765.15 of expenses related to work performed for other utilities were recorded.

OPINION: We are unable to determine if there are other similar entries to this account that are shown net of expenses. However, our tests included \$883,485.05 of credits to this account and \$762,960.79 of debits which were the majority of large dollar entries to this account and should have enabled us to find other similar netting entries.

AUDIT DISCLOSURE NO. 2

SUBJECT: ACCOUNT 456 OTHER ELECTRIC REVENUE

STATEMENT OF FACT: The Company has included (in account 456-Other electric revenues) gas revenues net of gas expenses in the calculation of the revenues subject to the revenue refund. These revenues and expenses relate to Energy Services non-regulated sales to commercial customers in FPL's service territory. FPL sells gas to FPL Services based on a monthly order. The percent of Energy Services revenue and expenses that relate to gas customers that are in FPL's service territory are charged back to FPL in account 456. The company has also included net revenues related to its recycling services.

Other broker sales are also shown net of expenses and are shown on the following schedule.

A schedule of gas revenues and gas expenses for the three year period related to the revenue refund follows. A second schedule shows the recycling revenues and expenses for the last three years.

Also included in account 456-Other electric revenues were \$39,984.21 of payroll expenses related to Revenue Enhancement Operations for four employees' salaries.

Florida Power and Light's reason for netting these items are as follows:

"The Uniform System of Accounts, Account 456, Other electric revenues, states in part, that this account will include "profit or loss on sale of material and supplies not ordinarily purchased for resale". FPL does not ordinarily purchase gas for resale but rather to operate its power plants. The Corporate Recycling operations provide net revenues from such activities as the sale of scrap materials and supplies and mulch from tree trimming and old pallets. Again these sales are not from materials and supplies that would ordinarily be purchased for resale. Additionally, the Uniform System of Accounts, provides for revenues and expenses from nonutility operations to be recorded net in Other Income (see Accounts 415, 416, 417 and 417.1). Since these operations utilize FPL utility facilities, FPL has recorded these above the line to the benefit of its customers.

FPL's policy is to net the incremental expenses associated with revenue enhancement activities against the revenue accounts. This policy has been followed for the In-territory Gas and Corporate Recycling Services operations since inception which (1998 for its In-territory gas operations and 1993 for its Corporate Recycling Services operations) was prior to the three 12-month period settlement agreement that was effective April 15, 1999. When the revenue caps for refund were established, the base revenues included this netting and therefore must be continued through the refund periods in order to calculate the appropriate refund amount."

OPINION: Certain expenses were net against account 456. A summary of items discussed in this disclosure for the current period follows:

	Revenues	Expenses	Net
Revenue enhancement		\$ 39,984	\$ (39,984)
In territory gas sales	\$24,428,155	\$22,265,364	\$2,162,791
Broker Gas Sales	\$ 1,036	\$ 1	\$ 1,035
Recycling Services	\$ 1,533,842	\$ 684,479	\$ 849,363

Amounts for the prior two years have also been included in the schedules in case the treatment is determined to be a problem.

FPL does purchase gas for resale by selling the gas to its non-regulated affiliate who sells to gas customers. The revenue and expense related to the customers in FPL's electric territory are charged to account 456.

GAS REVENUES AND EXPENSES

IN-TERRITORY GAS SALES:

<u>ACCOUNT</u>	MAY 1999 to <u>APRIL 2000</u>	MAY 2000 to <u>APRIL 2001</u>	MAY 2001 to <u>APRIL 2002</u>
REVENUES	(\$7,128,876.85)	(\$24,188,798.87)	(\$24,428,154.55)
COST OF GOODS SOLD	\$6,645,343.62	\$23,347,595.85	\$21,392,108.28
SG&A	<u>\$278,825.68</u>	<u>\$1,658,586.59</u>	<u>\$873,255.36</u>
	(\$204,707.55)	\$817,383.57	(\$2,162,790.91)

OTHER GAS TRANSACTIONS:

	MAY 1999 to <u>APRIL 2000</u>	MAY 2000 to <u>APRIL 2001</u>	MAY 2001 to <u>APRIL 2002</u>
ACCOUNT 456.370 BROKER GAS SALES	(\$11,557,463.32)	(\$27,454,544.00)	\$0.00
ACCOUNT 456.371 BROKER GAS PURCHASES	\$74,722,059.60	\$98,683,097.50	(\$1.41)
ACCOUNT 456.372 BROKER SALES-AFFILIATES	(\$70,646,296.00)	(\$98,817,439.54)	\$0.00
ACCOUNT 456.373 BROKER SALES-PURCHASES	\$7,510,346.29	\$24,267,123.72	\$0.00
ACCOUNT 456.374 BROKER FINANCIAL INSTRUMENTS	(\$337,767.32)	(\$28,806.25)	(\$1,036.20)
ACCOUNT 456.375 BROKER GAS TRANSPORTATION	<u>\$177,232.58</u>	<u>(\$23,246.60)</u>	<u>\$0.00</u>
	(\$131,888.17)	(\$3,373,815.17)	(\$1,037.61)

SCHEDULE OF ACTIVITIES RELATED TO THE RECYCLING SERVICES

<u>ACCOUNT</u>	<u>DESCRIPTION</u>	May 1999 to <u>April 2000</u>	May 2000 TO <u>April 2001</u>	May 2001 TO <u>April 2002</u>
456.021	CRS ACTIVITIES-REVENUES	(\$3,805,038.23)	(\$3,205,565.73)	(\$1,533,842.12)
456.020	CRS ACTIVITIES-EXPENSES	<u>\$2,849,569.68</u> (\$955,468.55)	<u>\$1,636,904.88</u> (\$1,568,660.85)	<u>\$684,479.13</u> (\$849,362.99)

AUDIT DISCLOSURE NO. 3

SUBJECT: FIBERNET REVENUES

STATEMENT OF FACT: The company increases revenues for Fibernet Revenues since they were included at the time the agreement takes place. The revenues are shown net of the [REDACTED] Fees. [REDACTED] is the company that bills for Fibernet.

The revenues in the refund calculation were different than Fibernet's income statement in six of the months.

OPINION: Revenue in the refund calculation is understated by \$190,652.28 as shown on the attached schedule. This revises the total revenues from \$3,627,536,701 to \$3,627,727,353. After the \$3,500,000 threshold, the new revenues subject to refund are \$127,727,353.

REVENUES PER
INCOME STATEMENT
JULY

REVENUES INCLUDED IN
REFUND CALCULATION

DIFFERENCE

Operating Revenues
Plus FPL Chargeback
Less [REDACTED] Fees

[REDACTED]

[REDACTED]

AUGUST

Operating Revenues
Plus FPL Chargeback
Less [REDACTED] Fees

[REDACTED]

[REDACTED]

SEPTEMBER

Operating Revenues
Plus FPL Chargeback
Less [REDACTED] Fees

[REDACTED]

[REDACTED]

OCTOBER

Operating Revenues
Plus FPL Chargeback
Less [REDACTED] Fees

[REDACTED]

[REDACTED]

JANUARY

Operating Revenues
Plus FPL Chargeback
Less [REDACTED] Fees

[REDACTED]

[REDACTED]

FEBRUARY

Operating Revenues
Plus FPL Chargeback
Less [REDACTED] Fees

[REDACTED]

[REDACTED]

TOTALS

[REDACTED]

[REDACTED]

COMPANY PREPARED SCHEDULE

**FLORIDA POWER & LIGHT COMPANY
AND SUBSIDIARIES
AVERAGE RATE OF RETURN
INCOME STATEMENT
APRIL 30, 2002**

SCHEDULE 2, PAGE 2 OF

LINE NO.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	OPERATING REVENUES	OPERATION & MAINTENANCE FUEL & NET INTERCHANGE	OTHER	DEPRECIATION & AMORTIZATION	TAXES OTHER THAN INCOME	INCOME TAXES CURRENT	DEFERRED INCOME TAXES (NET)	INVESTMENT TAX CREDIT (NET)	(GAIN)/LOSS ON DISPOSITION	TOTAL OPERATING EXPENSES	NET OPERATING INCOME (A)
SYSTEM PER BOOKS	\$ 7,383,687,018	\$ 3,361,954,837	\$ 1,097,995,038	\$ 916,352,264	\$ 703,304,762	\$ 638,724,188	\$ (211,507,985)	\$ (21,364,714)	\$ (643,693)	\$ 6,484,814,698	\$ 898,872,320
JURISDICTIONAL PER BOOKS	\$ 7,336,793,910	\$ 3,325,637,761	\$ 1,091,008,696	\$ 912,681,296	\$ 702,449,546	\$ 639,742,796	\$ (211,792,981)	\$ (21,270,360)	\$ (638,576)	\$ 6,437,818,177	\$ 898,975,730
FPSC ADJUSTMENTS											
FRANCHISE REVENUE	\$ (319,573,282)	\$ 0	\$ 0	\$ 0	\$ (5,861,961)	\$ (121,014,142)	\$ 0	\$ 0	\$ 0	\$ (126,876,103)	\$ (192,697,179)
FRANCHISE EXPENSE	0	0	0	0	(311,356,742)	120,105,863	0	0	0	(191,250,879)	191,250,879
GROSS RECEIPT TAX REVENUES	(70,259,199)	0	0	0	(70,259,199)	0	0	0	0	(70,259,199)	0
GROVE OPERATIONS	46,832	0	0	0	24	18,056	0	0	0	18,080	28,750
ATRIUM	0	0	(18,941)	(550)	0	7,307	212	0	0	(11,972)	11,970
FINANCIAL PLANNING SERVICE	0	0	(146,199)	0	0	56,396	0	0	0	(89,803)	89,800
PUBLIC COMMUNICATIONS	0	0	0	0	0	0	0	0	0	0	0
INDUSTRY ASSOCIATION DUES	0	0	(449,922)	0	0	173,557	0	0	0	(276,365)	276,360
ECONOMIC DEVELOPMENT 5%	0	0	(18,769)	0	0	7,240	0	0	0	(11,529)	11,520
LIAISON EXPENSES	0	0	0	0	0	0	0	0	0	0	0
RTP COST RECOVERY	33,280	0	(54,102)	0	523	33,506	0	0	0	(20,073)	53,350
ECONOMY SALES	0	0	0	0	0	0	0	0	0	0	0
FUEL COST RECOVERY	(2,837,358,899)	(2,775,484,140)	(238,688)	(3,114,761)	(46,376,136)	(259,999,149)	255,314,457	0	0	(2,829,898,418)	(7,459,682)
CONSERVATION COST RECOVERY	(81,015,862)	0	(63,121,025)	(12,797,665)	(1,637,086)	1,539,140	(2,873,868)	0	0	(78,890,504)	(2,125,358)
CAPACITY COST RECOVERY	484,879,021	(467,720,943)	0	(11,605,366)	(7,515,131)	3,901,882	(3,144,879)	0	0	(486,084,437)	1,205,410
ENVIRONMENTAL COST RECOVERY	(6,065,545)	0	82,732	(1,845,379)	(75,139)	(1,204,789)	(664,527)	0	618,169	(3,088,933)	(2,976,611)
JUNO RELOCATION COSTS	0	0	0	0	0	0	0	0	0	0	0
DENTAL EXPENSES DISALLOWED	0	0	0	0	0	0	0	0	0	0	0
ADVERTISING EXP DISALLOWED	0	0	0	0	0	0	0	0	0	0	0
GAIN ON SALE LAND (PROPERTY)	0	0	0	0	0	0	515,788	0	(1,337,106)	(821,317)	821,310
INTEREST TAX DEFICIENCIES	0	0	(336,511)	0	0	129,809	0	0	0	(206,702)	206,700
INTEREST SYNCHRONIZATION	0	0	0	0	0	(3,603,681)	2	0	0	(3,603,679)	3,603,670
OUT OF PERIOD ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0	0
TOTAL FPSC ADJUSTMENTS	\$ (3,789,090,897)	\$ (3,243,205,083)	\$ (64,301,424)	\$ (29,363,721)	\$ (443,080,847)	\$ (259,849,005)	\$ 249,147,185	\$ 0	\$ (718,937)	\$ (3,791,371,833)	\$ (7,719,064)
FPSC ADJUSTED	\$ 3,537,703,013	\$ 82,432,677	\$ 1,026,707,272	\$ 883,317,575	\$ 259,368,699	\$ 379,893,790	\$ 37,354,204	\$ (21,270,360)	\$ (1,357,513)	\$ 2,646,446,344	\$ 891,256,666
PRO FORMA ADJUSTMENTS (SEE SCHEDULE 2, PAGE 2A OF 3)	\$ (216,046,923)	\$ 0	\$ 0	\$ 0	\$ (5,556,727)	\$ (81,196,593)	\$ 0	\$ 0	\$ 0	\$ (86,753,320)	\$ (129,293,603)
PRO FORMA SYSTEM PER BOOKS ADJUSTED	\$ 3,321,656,090	\$ 82,432,677	\$ 1,026,707,272	\$ 883,317,575	\$ 253,811,972	\$ 298,697,197	\$ 37,354,204	\$ (21,270,360)	\$ (1,357,513)	\$ 2,559,693,024	\$ 761,963,063

(A) THE ADDITION OF EARNINGS FROM AFUDC WOULD INCREASE THE SYSTEM NOI BY \$-11 AND THE JURISDICTIONAL NOI BY \$-11

NOTE: THE PROFORMA ADJUSTMENTS ARE NOT NECESSARILY ALL THE PROFORMA ADJUSTMENTS THAT WOULD BE MADE IN A BASE RATE FILING.

(B) ECONOMIC DEVELOPMENT COSTS RELATED TO THE PERIOD ARE \$ 376K ON A TOTAL COMPANY AND \$ 373K ON A JURISDICTIONAL BASIS.

CURRENT MONTH AMOUNT

SYSTEM PER BOOKS	\$ 609,855,096	\$ 283,392,293	\$ 87,041,793	\$ 79,731,119	\$ 55,341,828	\$ 45,563,034	\$ (11,123,106)	\$ (1,649,367)	\$ 99,057	\$ 538,396,651	\$ 71,458,445
JURISDICTIONAL PER BOOKS	\$ 606,170,703	\$ 280,533,882	\$ 86,778,514	\$ 79,427,429	\$ 55,263,796	\$ 45,499,989	\$ (11,107,382)	\$ (1,643,083)	\$ 99,250	\$ 534,853,396	\$ 71,317,307