

040001-ET

Audit Disclosure No. 1

Subject: Base Costs in Incremental Hedging

Statement of Fact: The company included incremental hedging costs in Schedule A-2 of the Fuel Recovery Cost filing. In the 2002 fuel clause, the company removed \$250,000 from the total contractor expenses as base costs that were included in the rate case filing and therefore would be duplicated if included in the incremental costs.

According to the company, "the \$250,000 included in the 2002 EMT budget covers consultant fees for special projects that are anticipated to occur during each year. At the time the budget was done, there were no specific contracts or invoices associated with the \$250,000 as this budget item is for consultant fees anticipated to occur each year."

"The \$250,000 offset to the incremental hedging costs for the period of August 2001 through December 2002 was addressed in Kory Dubin's testimony filed August 20, 2002, pages 8 and 9 and identified as Special Project Consultant Costs included in FPL's MFR filing in Docket No. 001148-EI.

"For 2003, FPL did not have any costs related to incremental hedging in the category of Contractor and Professional Services, therefore, FPL did not net any portion of the \$250,000."

In the 2003 Fuel Filing, the company removed \$300,000 for base costs for technology related expenses and provided support showing that \$300,000 was included in the budgeted numbers in the MFR filing for the GenTrader license fees which the company included [REDACTED]. Actual license fees allocated to the regulated utility were \$327,600. The company recorded the net of \$27,600 [REDACTED]. See audit disclosure two.

Opinion: The MFR filing used to set rates contained the \$250,000 of consulting fees for special projects and the \$300,000 for GenTrader licenses.

The company position implies that since the \$250,000 was for consulting fees for special projects and not specifically for a hedging contract that it should not be removed on a recurring basis. However, its response to Audit Request #4 in audit control 02-340-1 of base costs for security and hedging, shows base amounts for 2002 at \$250,000 being removed. A decision needs to be reached on whether these costs should be removed on a recurring basis, or whether the company was correct in saying that they should only be removed once because the budget was not specific.

In addition, the recent support provided for the EMT budget for technology costs shows that "FPL's MFR filing contained \$300,000 for projected computer license fees." This information was never provided in our last audit. If these fees do relate to hedging, they should be removed from all future incremental filings as part of the base costs. The company did not remove them from the 2002 filing because the GenTrader license fees were not in the 2002 expenses. See disclosure number two for further information on the GenTrader license fees.

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- MMS _____
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- OTH _____

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FPL's Response to Audit Disclosure No. 1

FPL's treatment in 2002 and 2003 of the MFR base amounts for consulting fees and GenTrader license fees is appropriate and consistent with the Commission's decisions on recovery of Incremental Hedging O&M Expenses.

BACKGROUND

Incremental Hedging O & M expenses were addressed in last year's fuel proceeding, Docket No. 030001-EI. On December 22, 2003, Order No. PSC-03-1461-FOF-EI was issued as the final order in Docket No. 030001-EI. The Order states:

"Incremental Hedging Program O&M Expenses

The parties did not contest that FPL's actual and projected operation and maintenance expenses for 2002 through 2004 for its non-speculative financial and physical hedging programs are reasonable for cost recovery purposes. The evidence in the record indicates that since the inception of FPL's expanded hedging program in 2002, FPL has prudently managed the program to increase the sophistication of its market analysis, forecasting, trade monitoring, and risk management capabilities. The evidence further indicates that this increased sophistication facilitates the expansion of FPL's hedging activities on a well-informed and well- controlled basis. Based on the evidence in the record, we find that FPL's actual and projected operation and maintenance expenses for 2002 through 2004 for its non-speculative financial and physical hedging programs are reasonable for cost recovery purposes with the understanding that the expenses for 2003 and 2004 are subject to audit and true-up through the normal course of our fuel and purchased power cost recovery clause proceedings."

Additionally, the Order states:

"B. Base Level for Hedging – Related O&M Expenses The parties did not contest that the appropriate base level for purposes of determining the incremental operation and maintenance expenses for each investor-owned electric utility's non-speculative financial and/or physical hedging program to mitigate fuel and purchased power price volatility are as follows:

FPL: There is no one general base level that would be appropriate for the expanded hedging program. Each category of cost requested for recovery must be evaluated on a case by case, item by item basis to determine what portion, if any, of that category of cost was included in FPL's 2002 MFRs."

Thus, the Order confirmed that the proper focus for evaluating whether an incremental hedging cost proposed for recovery is indeed incremental must be on the level of *that*

particular type of cost in the MFRs, in order to be sure that FPL would not be double recovering the cost (*i.e.*, recovering it in both base rates and through the fuel cost recovery clause). In defining what constitutes “incremental” for the purpose of allowing recovery of incremental operating and maintenance expenses associated with a hedging program, the Commission has approved in the Hedging Docket (No. 011605-EI) the following procedure:

“All base year and recovery year FERC sub-account operating and maintenance expense amounts associated with financial and physical hedging activities shall be included in the Fuel Clause Final True-up filing each April during the years 2003 through 2007, including the difference between the base year and recovery year expense amounts, then summed, yielding a total incremental hedging amount which may be compared for cost recovery review purposes to the requested cost recovery amount produced in the Projected Filing for the recovery year.”

This procedure confirms that the proper focus is on the specific account where a cost for which recovery is sought has been recorded, not on the costs for the entire range of a utility’s operations or a business unit’s entire budget. FPL has applied this procedure when seeking recovery of incremental hedging O & M expenses through the Fuel Cost Recovery Clause. The specific evaluations for Consulting Fees and GenTrader License Fees are described below.

CONSULTING FEES

In 2002, FPL recovered \$2.7 million for consultant fees associated with its expanded hedging program through the Fuel Cost Recovery Clause. That amount represented the total consultant fees (*i.e.*, Dean & Company, Iconnix, and E-Systems) incurred in connection with the expanded hedging program, reduced by \$250,000 that had been included in FPL’s 2002 MFRs for Contractor & Professional Services for Special Projects. This \$250,000 budget amount was not tied specifically to hedging (*e.g.*, this budget amount could have been used for a non-hedging purpose such as hiring a gas pipeline consultant). Although the expanded hedging program was not contemplated at the time the MFRs were developed and, therefore, the baseline for such expenses could very well have been treated as zero FPL took the conservative approach of netting the

entire \$250,000 MFR amount for Contractor & Professional Services for Special Projects against the recovery of expanded hedging program consultant fees in 2002.

For 2003, FPL did not seek recovery through the Fuel Cost Recovery Clause of incremental hedging costs related to the category of Contractor & Professional Services for Special Projects. Therefore, there were no recoverable costs against which to net any portion of the \$250,000 that had been budgeted in the MFRs.

This approach is consistent with the Commission's directions outlined above concerning how to determine recoverable incremental hedging costs. Each category of cost for which FPL requested for recovery was evaluated to determine the portion, if any, that was included in FPL's MFR filing. This amount was then subtracted from the amount sought for recovery through the fuel clause to ensure no double recovery.

GENTRADER LICENSE FEES

FPL budgeted \$300,000 in its 2002 MFR filing for licensing GenTrader. At that time, the GenTrader license allowed for a fixed number of "seats" (i.e., computers utilizing GenTrader), and the \$300,000 budgeted amount was for seats that would be used by FPL. Prior to its expanded hedging program, FPL used GenTrader as a tool to determine projected daily and next month fuel burns, day-to-day dispatch decisions and fuel allocation, purchased power and power sales cost projections and general fuel procurement activities. GenTrader was not used for the expanded hedging program in 2002, and the number of seats allowed under the existing license was adequate to meet FPL's needs. However, when FPL hired a full-time volume forecaster in 2003 for its expanded hedging program, FPL needed additional access to GenTrader. FPL had two options to facilitate this additional access. The first option was for FPL to buy an additional seat under the existing form of the GenTrader license, which would add approximately [REDACTED] to FPL's GenTrader license fee (for a total of [REDACTED]). The second option was for FPL and FPL Energy (which also uses GenTrader) to enter into a site license jointly, in order to have access to unlimited GenTrader seats. The joint site license option would cost [REDACTED]. FPL and FPL Energy chose the second option since it was more cost effective.

For 2003, FPL determined the portion of the GenTrader site license fee that is recoverable as an expanded hedging program cost by subtracting the amount of the original GenTrader license fee included in the MFR filing (\$300,000) from its [REDACTED] share of the site license fee (\$327,600), resulting in an incremental expense of \$27,600. For 2002, FPL did not seek to recover any portion of the GenTrader license fee as an incremental hedging cost, because (i) it was not yet using GenTrader in support of the expanded hedging program, and (ii) it was still operating under the earlier license and was not incurring incremental costs beyond the \$300,000 budgeted in the MFRs. Therefore, there was nothing in 2002 against which FPL would net any of the \$300,000.

This approach is consistent with the Commission's directions outlined above concerning how to determine recoverable incremental hedging costs. Each category of cost that FPL requested for recovery was evaluated to determine the portion, if any, that was included in FPL's MFR filing. This amount was then subtracted from the amount sought for recovery through the fuel clause to ensure no double recovery.

CONFIDENTIAL

Audit Disclosure No. 2

Subject: GenTrader License Fees in Incremental Hedging

Statement of Fact: The company has included \$27,000 in [REDACTED] expenses related to the incremental costs of hedging in the Fuel Filing Schedule A-2 GenTrader software license fees. The total license fees were [REDACTED]. The company then removed \$300,000 for the GenTrader license fees that were included in the MFR base rate calculation. The company did not include the GenTrader costs in the 2002 filing and therefore, did not remove the base costs from the filing.

Opinion: Staff received answers to requests on these fees late in the audit. Therefore, we will continue to determine whether the license fees are specifically related to hedging programs only and whether the [REDACTED] allocation is reasonable.

FPL's Response to Audit Disclosure No. 2

As described in response to Audit Disclosure No. 1, FPL believes that its determination of the portion of GenTrader license fees that are recoverable through the Fuel Cost Recovery Clause is reasonable and consistent with the Commission's directions on recovery of incremental hedging costs. Nonetheless, FPL remains as always happy to respond to additional questions that the Auditors may have about recovery of the GenTrader license fees.

The Opinion in Audit Disclosure No. 2 could be read as suggesting that FPL did not respond timely to the Auditors' requests for information about the GenTrader license fees. That is not the case. FPL provided information on the \$300,000 base level for these fees on February 27, 2004. The auditors then requested additional information on March 24, 2004 (Audit Request Nos. 33 and 34), and FPL responded to those requests two days later, on March 26, 2004.

Note: The Statement of Fact in Audit Disclosure No. 2 incorrectly identifies the amount that FPL included for recovery of GenTrader license fees as \$27,000. The correct amount is \$27,600.

Audit Disclosure No. 3

Subject: Relocated Fees in Incremental Hedging

Statement of Fact: The company included relocation fees of [REDACTED] and [REDACTED] of 2003. Two employees were hired for the hedging program, one in January and one in February. The company procedure manual allows for \$7,500 to be paid for relocation expenses. The [REDACTED] payment met these requirements. The company has informed us that there are additional provisions in other parts of its policy that were not provided.

Opinion: Staff cannot determine why the [REDACTED] exceeded the \$7,500 and came at a time when no employees were hired. The company has been asked to provide further documentation and the additional company policy and it will be followed up in the second half of this audit.

FPL's Response to Audit Disclosure No. 3

Florida Power & Light Company's Tier-1, Domestic Relocation Handbook dated 10/1/99 is attached. The [REDACTED] and the [REDACTED] are for two separate types of relocation expenses – both of which are reimbursed to employees consistent with the Company procedure.

The Company procedure allows for an amount up to one month's salary (with a maximum of \$7,500) to be paid as a "Miscellaneous Relocation Allowance" (see page 6 of the attached). The [REDACTED] in relocation expenses that were paid in [REDACTED] 2003 fell into this category.

The Company procedure also allows for the reimbursement of "Home Sale Assistance" costs, including closing costs on an "Independent Sale" (see page 7 of attached). There are formulas stated in the Company procedure that determine how much may be reimbursed for various types of costs, but there is no overall dollar-amount cap on this category of reimbursement as there is on the "Miscellaneous Relocation Allowance" category. The [REDACTED] in relocation expenses that were paid in [REDACTED] 2003 were for closing costs that are reimbursable under the "Home Sale Assistance" category.

The Opinion in Audit Disclosure No. 2 notes that the [REDACTED] payment did not coincide with a point in time when employees were hired. This is because of the nature of the

expenses involved. The hire date for a new employee and the date when that employee closes on a the sale of his or her home do not necessarily occur simultaneously. Therefore, the Company procedure allows for the reimbursement of closing costs for sales that occur within 12 months of the effective date of transfer.

**Florida Power & Light Company
Tier - I
Domestic Relocation Handbook**


10/1/99

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SUMMARY OF BENEFITS

Policy Provision	Description
Eligibility	You are eligible for relocation assistance if you are offered these benefits by FP&L
New Base Salary	One month's new base salary up to a maximum of \$7,500; tax assisted
Home Sale Assistance	<ul style="list-style-type: none"> • Marketing Assistance • Appraised Value Offer • Amended Value Sale • Independent Sale
Equity Sale Protection	<ul style="list-style-type: none"> • Available only to employees requested to relocate a second time within 24 month period • Calculated as original purchase price less actual sale price to max. of \$20,000
Bridge Loan	A bridge loan for up to 90% of the equity in your home is available to you through FP&L to use for a down payment or home purchase
Relocation Information	Available
Relocation Mileage	<p>Lump sum payment based on mileage from current home to destination location</p> <ul style="list-style-type: none"> • Moves < 90 miles = \$250 • Moves > 90 miles but < 500 = \$450 • Relocating employees moving 500 miles or more receive two trips up to a max. of 8 days total, transportation (airfare or mileage) and a lump sum payment of \$1,000
Home Purchase Closing Costs	If you are a current homeowner, FP&L reimburses reasonable and customary home purchase expenses plus up to 2% of the mortgage amount for any commitment, origination, service fees, or discount points required by the lender to close a new first mortgage
Lease Cancellation	FP&L will reimburse up to two months' rent for any combination of lease cancellation, penalty charges, forfeiture of lease, or duplicate rent
Temporary Living Expenses	For employees relocating over 90 miles, FP&L will provide a lump sum payment for temporary living expenses designed to cover travel, lodging, and meals for 60 days: Standard \$3,500; Seasonal (if applicable) \$4,500. Additionally, transportation to the temporary living location and up to two trips home during this period will be provided.
Moving and Transportation Expenses	<ul style="list-style-type: none"> • Normal family household goods moved via van line; Insured for full replacement value • Storage for up to 60 days • Mileage reimbursed by FP&L for up to two autos for moves less than 500 miles • If distance to new location exceeds 500 miles, FP&L will reimburse mileage or pay to ship two automobiles • FP&L will reimburse en route expenses for you and your family to travel to the new location including lodging, meals, mileage, and airfare
Spouse Re-employment Assistance	Professional re-employment assistance for relocating spouse
Tax Assistance	Gross-up of specific non-deductible expenses for Federal and State taxes

ELIGIBILITY

Purpose	The provisions outlined in the Florida Power & Light Company ("FP&L") Relocation Handbook are intended to minimize the economic inconvenience normally associated with career relocation by providing travel and other reimbursements for specific expenses outlined below, so you may devote your full energies to a smooth and productive transition to your new job. The information contained in this policy represents FP&L's relocation policy, which is administered for FP&L by Prudential Relocation.
Distance	The distance between your former residence and your new job site must be at least 35 miles greater than the distance between your former residence and your former job site. The distance is measured by the shortest or the more commonly traveled routes. Please note the distance test does not apply to the location of your new home. This is necessary in order to meet IRS move related requirements for tax excludability of specific relocation expenses. If you believe you may not meet this mileage requirement, please contact your Relocation Manager immediately.
Employee	You are eligible for the assistance described in this handbook if you are offered these benefits by FP&L.
Family	Your family members eligible for assistance under this policy include your immediate family (spouse and children) who live with you. In the event that an additional member of your household is asked to relocate by FP&L, you are eligible to receive only one set of benefits.
Repayment/ Termination	Should you elect to voluntarily terminate your employment with FP&L during the 12 month period immediately following the effective date of: (a) the commencement of your employment or (b) the transfer of your employment, you will be required to repay FP&L in full for any funds paid to you or on your behalf for the relocation. You must sign and return the Repayment /Termination Agreement (included with this document) before any relocation benefits will be paid.

Time Limit

You are eligible for the benefits extended to you in this handbook for up to 12 months following the effective date of: (a) the commencement of your employment or (b) the transfer of your employment. All expense reports related to your relocation should be submitted within 90 days of the date incurred within this 12 month period.

Disclaimer

FP&L has the sole right at any time to revise, amend or discontinue this policy. This policy shall not be considered or construed as an employment contract and does not constitute a guarantee of employment for any minimum or specified period of time.

RELOCATION AND TRANSITION EXPENSES

Miscellaneous Relocation Allowance

To help defray incidental expenses associated with your move, FP&L will provide you with a Miscellaneous Relocation Allowance of one month's new base salary, up to a maximum of \$7,500. The allowance is intended to reimburse you for many of the incidental expenses which occur as a direct result of your transfer. These may include, but are not limited to:

- tips to movers,
- driver's licenses and automobile registrations in the new location,
- utility hookups and/or deposits,
- shipment of pets,
- items unique to your personal move not covered by this policy.

If you are a current employee, you will receive your allowance along with the lump sum payment for house hunting and temporary living.

If you are a new employee, you will receive this allowance after your official start date with FP&L.

The payment will be grossed up for tax purposes.

Reimbursement of Expenses

Where relocation-related expenses are specifically reimbursable consistent guidelines apply. Please read these carefully.

- All reimbursable expenses must be reasonable and appropriate.
- All relocation benefits are reflected in U.S. or Canadian dollars, whichever applicable.
- All reimbursable moving expenses must be incurred within 12 months from the date of transfer and submitted for payment within 90 days from the date the expense is incurred.
- Only expenses specifically outlined in the policy will be reimbursed.
- Receipts are required for all expenses incurred in excess of \$25.00.
- It is important not to include any business expenses on relocation expense forms.

HOME SALE ASSISTANCE

Overview

FP&L has contracted with Prudential Relocation to provide the following home sale assistance:

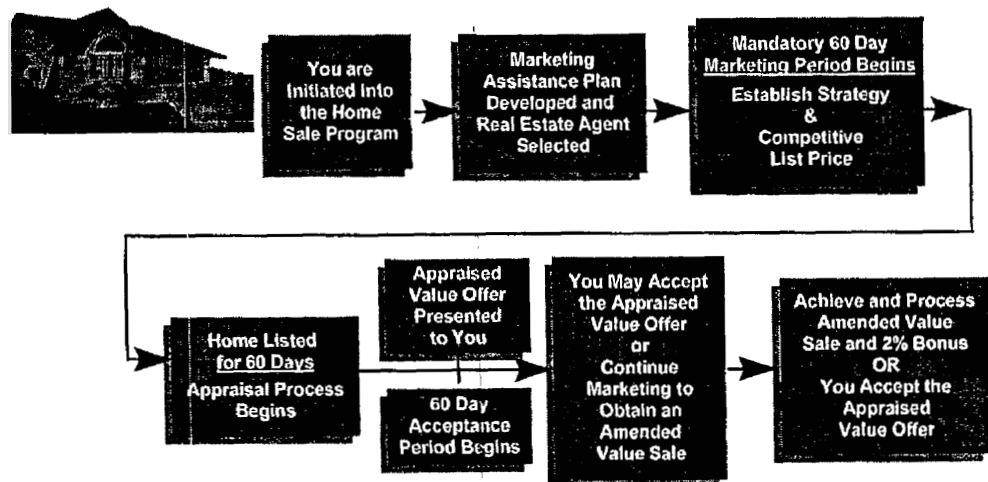
Marketing Assistance. A program of services targeted to help you receive the best possible offer for your home. Services provided by Prudential Relocation include developing a pricing strategy, broker selection assistance, tips to increase market value, plus on-going marketing and negotiating strategies.

Appraised Value Offer. A guaranteed offer from Prudential Relocation to purchase your home at a price determined by the average of two independent appraisals.

Amended Value Sale. An opportunity to "amend" the "Appraised Value Offer" from Prudential Relocation to reflect an offer by an outside buyer. If you are successful in achieving an Amended Value Sale, you will be eligible to receive a Home Sale Incentive Bonus of 2% of the sales price of your home (minimum of \$2,000 and maximum of \$10,000). You may accept a qualified offer equal to or greater than 97% of the appraised value and still receive the full appraised value price and 2% incentive bonus. Please note that the Home Sale Incentive Bonus is not tax assisted.

FP&L provides you with an additional home sale option if you elect to sell your home on your own in lieu of using Prudential's services:

Independent Sale. You may elect to sell your home independently and be reimbursed reasonable and actual expenses including broker's commission (maximum 6.5%). If you choose the Independent Sale program, you are ineligible for the 2% home sale incentive bonus. Reimbursed expenses will be tax assisted only if your home is considered *ineligible* for Prudential's Home Sale Assistance Program.



Eligibility

Prudential Relocation has been instructed by FP&L to accept only a home that is owned by you and is occupied as your permanent residence. This includes:

- Single family dwellings,
- Two-family dwellings, and
- Condominiums.

Properties considered ineligible for Prudential Relocation's home sale assistance include, but may not be limited to:

- Cooperative apartments,
- Mobile homes,
- Vacation/secondary homes,
- Investment properties,
- Homes with excessive acreage (+5 acres),
- Homes valued in excess of \$500,000,
- Homes which are not insurable at standard rates for normal hazards of fire and extended coverage,
- Homes which cannot be financed or which are subject to leases that cannot be terminated within sixty (60) days,
- Houseboats, Homes deemed ineligible through building inspections; e.g., homes constructed with synthetic stucco, LP siding, etc., and
- Homes considered environmentally unsound or structurally unsafe.

MARKETING ASSISTANCE

Introduction

As soon as FP&L authorizes your relocation, your Prudential Relocation Manager will contact you to explain the first step: the listing and marketing phase of Marketing Assistance. **You are required to speak with your Relocation Manager prior to taking any steps to list or market your home. Failure to comply may invalidate your incentive bonus.** One of your Relocation Manager's main objectives is to assist you in placing your home on the market as advantageously as possible. Then, throughout the program, your Relocation Manager will continuously keep track of your broker's efforts to market your home. **You are required to actively market your home for a minimum of 60 days from the initial list date prior to beginning the Appraised Value Program.** The end result of these efforts is to help you obtain the best offer for your home.

Objectives

The objectives of Marketing Assistance are to help you:

- Identify a qualified and active broker to assist you in marketing and listing your home in a highly effective manner;
- Develop a strategic marketing plan to sell your home at the best possible market value;
- Suggest any minor repairs and/or improvements that will increase the marketability of your home;
- Find a buyer willing to purchase your home at an agreed upon price; and
- Assist you during your home sale negotiations.

A videotape which may be helpful in preparing your home for sale is available for checkout from the Corporate Relocation Center. Please feel free to stop by and pick up a copy, or call and it can be mailed to you.

Marketing Assistance

Once your Prudential Relocation Manager has received notification of your transfer or new hire status he or she will contact you to begin Marketing Assistance.

The following is a list of the marketing assistance services provided by Prudential Relocation in the order in which they would most commonly occur.

Selecting a Broker: When you are contacted by your Prudential Relocation Manager, you will be provided with a list of recommended real estate brokers from which you will be asked to select two for interviewing. If you have a preferred broker you would like to work with, your Relocation Manager will work with you to qualify that broker. You may not utilize or ask to have qualified as a broker any family member; i.e., mother, father, brother, sister or in-laws. If you have no preference, or are not familiar with any local brokers, your Relocation Manager will assist you in the selection.

Creating a Plan: After you have interviewed brokers and selected one, your Relocation Manager will work with you and your broker to develop a marketing strategy and establish a selling price that is both attractive and realistic in the local market. You are required to market your home for a minimum of 60 days from the initial list date prior to entering the Appraised Value Program.

Keeping on Top: While your home is on the market, your Relocation Manager will keep track of your broker's marketing efforts and provide recommendations and feedback.

Negotiating a Sale: When you have an interested buyer and receive an offer, your Relocation Manager will be a valuable resource as you negotiate a price and a contract of sale. It is to your benefit to submit ALL offers received to your Relocation Manager for review and consideration. Bona fide offers equal to or greater than 97% of the appraised value offer may be accepted and you remain eligible to receive the full appraised value offer and 2% incentive bonus.

Finalizing a Sale: Achieving a sale through Marketing Assistance, with the help of your Relocation Manager, provides you with several benefits. Your Relocation Manager will handle the details of the real estate closing giving you experienced support and objective advice.

**Listing Agreement:
Exclusion Clause**

When you first speak with your Prudential Relocation Manager, he or she will discuss the necessity of including the following language in the listing agreement with your broker. The reason for this clause is to allow for cancellation of the listing agreement if you decide to accept the Appraised Value Offer from Prudential Relocation. This clause is considered "standard operating procedure" among agents who work with Relocation Managers and those who list homes for corporate transferees.

The following Exclusion Clause should be attached as an addendum to the Listing Agreement.

In the event of any conflict or inconsistency between this Addendum and the Listing Agreement, the terms of this Addendum shall control.

It is understood and agreed that regardless of whether or not an offer is presented by a ready, willing and able buyer:

1. No commission or compensation shall be earned by, or be due and payable to, broker until the sale of the property has been consummated between seller and buyer, the deed delivered to the buyer and the purchase price delivered to the seller; and
2. The seller reserves the right to sell the property to Prudential Relocation or to (individually and collectively a "Named Prospective Purchaser") at any time. Upon the execution by a Named Prospective Purchaser and the seller(s) of an Agreement of Sale with respect to the property, this listing agreement shall immediately terminate without obligation on the seller(s) part or on the part of any Named Prospective Purchaser to either pay a commission or to continue this listing.

Real Estate Agent	Date
Seller	Date
Seller	Date

APPRAISED VALUE OFFER

Overview

The Appraised Value Offer program will begin once you have marketed your home with Marketing Assistance for a minimum of 60 days. Once you have completed the mandatory 60 day marketing requirement, the appraisal process will begin and you will be eligible to receive an Appraised Value Offer for your home. You are encouraged to continue to actively market your home throughout the appraisal process. Once you are presented with your Appraised Value Offer you may accept the Appraised Value Offer or continue marketing through the 60-day acceptance period to achieve an Amended Value Sale and receive the 2% incentive bonus. At the end of the 60 day acceptance period, you must either accept the Appraised Value Offer or reject the offer and sell your home independently under the Independent Sale option.

Appraiser Selection

When you are introduced to the home sale services by your Prudential Relocation Manager, he or she will fully explain the appraisal process. You will be given a list of appraisers in your area from which you will be asked to select two appraisers and an alternate. The appraisers are independent contractors, not employees of FP&L or Prudential Relocation. They are chosen because of their prior record of performance, experience, and overall accuracy. They must meet the standards set by the Employee Relocation Council (a nationally recognized non-profit organization that administers standards for the effective relocation of employees worldwide) and utilize standard relocation appraisal procedures and forms. These relocation appraisal procedures may differ from appraisal procedures used for bank mortgages. If you have questions on the appraisal process or do not feel qualified to make the selection, ask your real estate broker or your Relocation Manager for guidance.

Once you've selected two appraisers, please contact your Prudential Relocation Manager. He or she will call the appraisers and ask them to contact you directly to arrange a convenient time for an inspection of the home.

Determining Appraised Value

Your offer will equal the average of the two independent appraisals. However, if the variance between the two appraisals is greater than 5% of the higher amount, a third appraisal will be arranged. In this case, your offer will be determined by averaging the two closest appraisals.

Prudential Relocation will calculate your offer only after the necessary appraisals, appraisers' reports, and all required inspection reports are complete.

Title Search

In addition to arranging for the appraisals, your Relocation Manager will initiate a title search in order to prepare for closing.

Inspections

The Relocation Manager will also order any necessary inspections which may include:

- a routine termite inspection;
- a structural (engineering) report;
- other inspections such as roof, electrical, well, septic, plumbing, etc., if recommended by appraiser(s);
- any inspections considered customary and/or necessary for the area.

Inspections are paid for by FP&L as part of the Home Sale Assistance program.

The Offer

Your offer is contingent upon completion of required repairs as a result of the inspection reports. In the event you do not make the repairs, the cost will be deducted from your equity. Your 60 day acceptance period begins on the date you are mailed the Contract of Sale. You may accept the Appraised Value Offer at any time during the 60 day acceptance period or continue to market your home to try to achieve an Amended Value Sale and the 2% incentive bonus. At the end of the 60 day acceptance period, you must accept Prudential's offer or reject the offer and sell your home independently.

AMENDED VALUE SALE

Overview

If at any time during the marketing period, appraisal process, or 60 day acceptance period, you receive an offer through the efforts of your Realtor, you must submit the offer to your Prudential Relocation Manager. He or she will assist you in negotiating the sale, determine if it is a bona fide offer and in your best interest, and amend your contract to reflect the approved buyer's offer. You may accept bona fide offers equal to or greater than 97% of the appraised value offer and you will remain eligible to receive the full-appraised value offer with the 2% incentive bonus.

Advantages of an Amended Value Sale

The major advantages of accepting the Amended Value Offer include:

- You may receive a greater cash return than the Appraised Value Offer;
- You will be eligible to receive a 2% incentive bonus based upon the actual sale price of your home (minimum of \$2,000 and maximum of \$10,000);
- You will be relieved of the responsibilities of home ownership upon vacating the home;
- You will be relieved of the necessity of closing with the buyer; and
- You will be assured of receiving the net proceeds based upon the Amended Value Price even if the original sale falls through once the sale is approved by your Prudential Relocation Manager.

Receiving an Offer from an Outside Buyer

When you receive a written offer for your home, you should call your Prudential Relocation Manager before accepting it—even verbally. **DO NOT SIGN** a contract (or any other document) with the buyers or take any money as a deposit from the broker or prospective buyer. Prudential Relocation will close the transaction with your buyer and pay your broker's commission and all other home sale expenses.

Determining a "Bona Fide" Offer

Once you give your Relocation Manager the details of the outside offer, he or she will determine if it is "bona fide". A bona fide offer is not subject to the sale of the buyer's home, does not contain any unusual or unreasonable terms, and is not subject to interim financing, etc.

Amending the Contract of Sale

If it is determined the offer is bona fide, your Relocation Manager will amend the offer price in your Contract of Sale to match the approved offer. This is called an Amended Value Sale. If you secure a qualified buyer and a bona fide offer prior to receiving your Contract of Sale, one will be prepared for your signature reflecting the approved offer from the outside buyer.

Closing an Amended Value Sale

Prudential Relocation will acquire your home, according to the terms of the amended Contract of Sale with you and make every effort to close the contract made with the buyer. However, if that Contract of Sale is not eventually consummated, your transaction with Prudential Relocation remains intact. Your equity payment will be based upon the Amended Value Price.

As a rule of thumb, your equity payment will generally be equal to:

Amended Value Price – (Mortgage + Closing Costs + Other Liens)

Home Sale Incentive Bonus

If you have been successful in achieving an Amended Value Sale, you will be eligible to receive an incentive bonus equal to 2% of the sale price of your home with a minimum of \$2,000 and up to a maximum of \$10,000. This bonus is not grossed up for tax purposes.

Bridge Loan

FP&L provides interest-free bridge loans for use in purchasing a home in the new work location. To be eligible for a bridge loan you must currently own a home and elect to sell your home through Prudential's home sale assistance program. Based on completed appraisals, up to 90% of your equity is available to you for the purpose of purchasing a home or property upon which to build a home in the new location. Bridge loans require no monthly payment but are due and payable within fifteen (15) days of the sale of your present home or within twelve (12) months from the date of issue, whichever occurs first.

To apply for a Bridge loan you must complete a Bridge Loan Approval Memo. You should attach a copy of your purchase contract and any statement(s) from your mortgage holder specifying the balance due on your present mortgage and any other indebtedness which has been secured by the home, i.e. home equity credit lines and second mortgages to the Memo. The Bridge Loan amount will be specifically based upon the itemization shown on your purchase contract. No additional funds over and above the deposit and/or amount due for closing will be made available to you. Once you have submitted the Bridge Loan Approval Memo and attachments to your Relocation Manager he/she will contact you to determine the amount you need and when you will need it. A Promissory Note will be prepared which must be signed by you and your Spouse, if married, or other individual named on the Warranty deed to the property. The original Promissory Note with original signatures is required prior to a check being issued.

Vacating Your Home

Bridge Loans on homes with an appraised value in excess of \$500,000 require the authorization of the Director, Human Resources. Newly hired employees must have commenced employment at FP&L before a Bridge Loan will be issued.

You have 30 days from the date you accept the Prudential Relocation contract in which to vacate the home provided a resale closing does not occur sooner. If you cannot move within 30 days, please let your Relocation Manager know and you may be granted additional time to vacate, if circumstances warrant.

You are responsible for the costs of maintenance, repairs, utilities, insurance, etc., until you actually vacate. Prior to vacating, you will be expected to cooperate fully with all attempts by Prudential to market the home by allowing prospective purchasers to view the premises by appointment during reasonable hours.

From the date of its possession, Prudential Relocation will make all future mortgage, tax, and other carrying payments on the home. It will also assume payment of maintenance and utility costs. Your equity statement will reflect mortgage interest through your executed Prudential Relocation contract or vacate date, whichever comes last. You will be relieved of any future involvement, financial or otherwise, in the home once you have vacated, and the home sale contract fully executed.

INDEPENDENT SALE

Overview

If your home is considered ineligible for Prudential's home sale assistance as set forth on page 8 (Eligibility) or you elect to sell your home independently, you will be eligible to receive direct reimbursement of reasonable and normal home sale expenses to sell your home on your own.

If you elect to sell your home through the Independent Sale Program you will be ineligible for the 2% home sale incentive bonus.

If you have received an equity loan, you are ineligible for Independent Sale.

Reimbursement of Expenses

Standard and actual home sale expenses will be reimbursed if you sell your home independently within 12 months of your effective date of transfer. Reimbursed expenses include:

- Real estate commission at the prevailing rate in your current location (maximum of 6.5%),
- Attorney's fees not to exceed \$500,
- Real estate recording fees and transfer taxes,
- Termite inspection fees that may be necessary for mortgage purposes, and
- Title insurance for benefit of your buyer where required by law.

Discount points incurred through negotiation with FHA, VA and conventional financing are not reimbursable.

Tax Assistance

When home sale expenses are reimbursed directly to you they are considered taxable income. If you use Prudential's home sale assistance program, expenses are paid on your behalf and are not taxable income to you. Under the Independent Sale option, you will receive tax assistance for home sale expenses *only* if your home is ineligible for Prudential's Home Sale Assistance.

LOSS ON SALE PROTECTION

Overview In the event you have been transferred at FP&L request for the second time within 24 months, you may be eligible for Loss on Sale protection. If your home sells for less than the original purchase price and you have fully participated in the Marketing Assistance Program, FP&L will reimburse you for 100% of your loss up to a maximum of \$20,000.

Eligibility To qualify for this assistance, you must have actively participated in the home sale assistance program and marketed your home throughout the 60 day acceptance period.

Calculation The calculation for the loss on sale payment is the original purchase price less the actual sale price (Appraised Value Offer or Amended Value Sale Price). FP&L will pay you 100% of this amount up to a maximum of \$20,000. Your payment may be less any adjustments for deferred maintenance or structural deficiencies as noted by the independent appraisers.

Capital improvements are not included in the calculation.

Tax Assistance The loss on sale payment is tax assisted.

Destination Information

Overview

Whether you are a homeowner or a renter, selecting a new community and home is one of the most important decisions you will make as a result of your job transfer. FP&L has made arrangements to provide homefinding assistance through Prudential Florida Realty and other realtors nationwide. To initiate this assistance, contact your Relocation Manager.

Your broker in the new area will, at your request, send information prior to your visit, so you are better prepared for your house hunting trip. They can provide you with valuable information about schools, shopping, recreation, spouse employment opportunities, financial institutions, and other community information. On your trip, your broker will provide an area orientation tour, a preview of eligible homes, plus any additional information you may need.

HOUSE HUNTING

House Hunting Trip

FP&L provides a lump sum payment for house hunting expenses as determined by the distance from your previous location to your new location. The lump sum payment is provided as follows:

- **Relocations less than 90 miles**, receive a lump sum payment of \$250;
- **Relocations greater than 90 miles but less than 500 miles**, receive a lump sum payment of \$450;
- **Relocations of 500 miles or greater** receive a lump sum payment of \$1,000, designed to cover two trips for you and one family member for a maximum of 8 days. Airfare (coach, seven day advance purchase), rental car, or mileage at current business mileage rate will be reimbursed separately.

These funds are available for you to use as best meets the specific needs of you and your family. You may retain any remaining funds not used for relocation expenses.

Tax Assistance

This reimbursement will be tax assisted.

HOME PURCHASE CLOSING COSTS

Closing Cost Reimbursement

If you are currently a homeowner, you will be reimbursed for reasonable and actual home purchase closing costs provided you sign a contract to purchase a home in the new area and close within one year of your effective date of transfer.

One-time closing costs for permanent financing will be reimbursed including:

- attorney's fees (\$1,000 max),
- document preparation,
- appraisal fees,
- tax service fees,
- title insurance,
- recording fees (including tax stamps),
- credit reports,
- survey fees, and
- inspections.

In addition to all closing costs mentioned, FP&L will pay a maximum of 2% of the mortgage amount for any commitment, origination, service fees, or points required by the lender to close a new first mortgage.

National Mortgage Lender

Buying a new home can be exciting; however, finding the right mortgage company and the best mortgage interest rate can be time consuming and confusing. For this reason, FP&L has made arrangements with certain mortgage companies to provide services such as competitive interest rates, a wide selection of loans, simplified telephone application, and the direct billing of reimbursable closing costs. Brochures for each mortgage company are included in this packet and feel free to phone your Relocation Manager for more information. Of course, you are free to use any lender of your choice, but direct billing will only be accepted by those mortgage lenders recognized in the enclosed brochures. If you do not use a preferred lender, your home purchase closing costs will be reimbursed after closing. Closing costs will not be advanced by FP&L.

Tax Assistance

Reimbursement of home purchase closing costs is tax assisted with the exception of mortgage points. Mortgage points are deductible for you when you file your Federal Income Tax.

RENTER'S ASSISTANCE

Eligibility

If you are presently renting, you are eligible for all of the benefits in the program which do not relate to home sale or home purchase including:

- miscellaneous relocation allowance,
- homefinding services and house hunting,
- movement of household goods,
- temporary living expenses,
- final move trip,
- spouse employment assistance, and
- tax assistance.

Lease Termination and Rent Overlap

If you are presently renting a home or apartment, you should read and become familiar with the provisions for canceling/terminating your lease. FP&L reimburses up to a maximum of two months' rent for any combination of lease termination penalty charges, forfeiture of lease deposit, and duplicate rent. You must submit a copy of your lease or rental agreement in order to receive reimbursement.

New Lease Agreement

A new lease should be examined carefully before it is signed. Should the lease not already contain one, negotiate a cancellation clause that will give you the right to cancel the lease without penalty in the event of an employer-initiated transfer. However, if the landlord insists on a penalty, try to negotiate a cancellation fee of not more than the equivalent of one month's rent. You SHOULD include the following Transfer Clause when executing a lease agreement:

"It is mutually agreed by the parties hereto, that this lease may be terminated by the tenant in the event he/she is transferred from _____, provided tenant gives 60 days notice in writing of such cancellation, and his transfer is confirmed in writing by the employer."

Modification may be made in the Transfer Clause to conform to local customs.

TEMPORARY LIVING

Overview

If you must work in the new location prior to moving your family and/or establishing your new permanent residence and your current residence is more than 90 miles from your new job location, FP&L will provide you with a lump sum payment for temporary living expenses in the new location. The lump sum has been calculated to cover expenses for lodging, meals, and rental car. When the distance to the new location is 500 miles or greater, FP&L will reimburse one, round-trip airfare (coach, seven-day advance purchase) to travel to work in the new location and return for the final move trip. Up to two trips home during the temporary living period will also be provided for distances greater than 500 miles.

The lump sum payment for temporary living is designed to cover 60 days of temporary living expenses. Because many areas of the United States experience a seasonal increase in lodging rates, an adjustment is available for seasonal variations. You must contact your Relocation Manager for specifics on seasonal variations in the area of the country to which you are moving

- Standard temporary living lump sum allowance \$3,500.00
- Seasonal temporary living lump sum allowance \$4,500.00

These funds are available for you to use as best meets the specific needs of you and your family. You may retain any remaining funds not used for relocation expenses.

Tax Assistance

This reimbursement will be tax assisted.

Spouse Employment Assistance

Overview

Recognizing that many families depend upon dual incomes, FP&L will provide professional employment assistance to your spouse. Spouse employment assistance is provided by professional career counselors in 100 locations throughout the United States.

Specialized services available through the spouse employment assistance program include:

- Personalized career mobility counseling in both the departure and destination locations to review aspirations, career history, experience, education and capabilities;
- Development of a comprehensive search strategy to meet desired career goals;
- Customized data and employment market research on up to 30 targeted potential job lead sources in the destination location, including companies, recruiters, Internet and other electronic media sources, licensing and certification research, etc. For business owners/entrepreneurs, this can be potential sources for clients and customers;
- Networking assistance and development of business and professional contacts in the new location with up to five key sources that are potential job lead contacts including companies, employment agencies, recruiters, etc. For business owners/entrepreneurs, this can be identification of those individuals/sources that are key to business continuation or start-up;
- Detailed written report of potential job lead contacts (including, as available, company brochures, annual reports, copies of newsletters, etc.) with names, numbers, and instructions regarding action required on the part of the program participant;
- Preparing, processing, and printing of one camera ready résumé, personal letterhead, and envelop; 25 additional copies; computer disk, if desired;
- Effective marketing letter models for making contacts with referrals, companies and acquaintances, answering ads, correspondence with agencies, recruiters, after-the-interview and follow-up are provided;
- Up to two hours of custom lifestyle resource assistance/settling in services, if needed.

Your spouse will be contacted directly by a professional career counselor and services will begin.

Tax Assistance

This reimbursement will be tax assisted.

Move and Transition Expenses

Moving Your Belongings

The moving of your household goods is no easy chore; therefore, FP&L lets you leave the move to the professionals. Should you decide to move yourself, that's available too. The idea is to get you moved with as little inconvenience as possible. The mover will pack, move, and unpack your normal household goods. When moving with FP&L's approved carrier, your household goods will be covered for full replacement value coverage against loss or damage.

When you are ready to arrange for the moving of your household goods, please contact your Relocation Manager. They will assist you by provided a contact number for you to call so that you may coordinate the dates and timing of your move that best accommodates your schedule.

You are allowed up to three days off from work to move your household goods. All moves should be scheduled for Monday through Friday.

Storage

You should make every effort to move directly to your permanent residence. If, however, circumstances do not allow for a smooth transition to your new residence, FP&L will reimburse you for the storage of your household goods for up to 60 days.

Automobiles

FP&L will reimburse mileage at current business mileage rate for up to two automobiles. If the distance to the new location exceeds 500 miles, you may drive up to two automobiles to the new location and be reimbursed mileage or FP&L will pay to ship up to two automobiles to the new location.

Items Not Eligible to be Transported

FP&L does not cover the shipment of valuables such as currency, important papers, antiques, original art, jewelry, furs, collections of stamps, coins, etc. Neither FP&L nor the movers will assume liability for such items. It is strongly recommended that you do not ship valuables by van, but carry them with you as you travel to your new location. Additional items ineligible for shipment with normal household goods include, but may not be limited to:

- motor homes, campers, recreation or utility trailers,
- boats, boat trailers or airplanes,
- building materials,
- perishables, plants, shrubs or trees,
- pets or other animals,
- firewood,
- alcohol,
- heavy equipment,
- hazardous materials.

If you have a waterbed or play set, contact your Relocation Manager.

Self-Move Option

If you prefer to handle the moving of your own personal property, you may request a lump sum option in lieu of using a professional mover or truck rental company. FP&L will provide you with a lump sum payment of \$1,000 to cover moving expenses. Receipts must be furnished (within three months of payment, per IRS guidelines) to determine the unused portion. Any unused portion becomes taxable income to you and will not be tax assisted by FP&L. If no receipts are provided, the entire lump sum payment will be treated as taxable income to you.

**Travel to the
New Location**

You will be reimbursed for one-way transportation via the most direct route for you and your family to the new location.

You will be reimbursed for the following reasonable and actual en route expenses:

- lodging,
- meals,
- mileage (current business mileage rate), parking, and tolls,
- airfare, if necessary (coach, seven day advance purchase).

TAX ASSISTANCE

PLEASE READ THIS SECTION IN IT'S ENTIRETY – IT WILL AFFECT YOUR TAKE HOME PAY THROUGHOUT THE RELOCATION PROCESS

Tax Gross Up

Some relocation benefits are taxable, while others can be excluded from your income. The chart on the next page shows you which of FP&L's relocation benefits will be subject to tax.

Taxable relocation benefits either paid to you or paid to others on your behalf will be added to your taxable income, and reflected on your pay stub as "Moving Expense – Taxable".

For tax assisted relocation benefits, FP&L will make an additional taxable payment, estimated to equal the amount of federal income taxes due on the relocation benefit. This amount is called a "gross-up payment". The gross-up is intended to cover the additional income taxes on the relocation benefit and the gross-up payment itself, but does not cover any other payroll taxes which may be due on those payments. Social Security and Medicare taxes will be due on both the relocation benefit and the gross-up payment. Social Security and Medicare taxes (generally equal to 7.65% of the payment) will be deducted from your next regular paycheck, in addition to your normal payroll taxes.

Note that the gross up will be calculated based on your projected employment earnings and relocation benefits from FP&L alone. In the calculation, you are assumed to have deductions consistent with the number of exemptions that you have claimed on the IRS Form W-4 that you have on file with the payroll department of FP&L.

You will receive an information form at year-end which sets forth the amount and types of relocation benefits you have received, as well as an instruction booklet, to help you comply with the tax reporting requirements related to your relocation benefits.

You are encouraged to consult with your personal tax advisor with tax questions related to relocation benefits. Your relocation manager cannot advise you on tax issues.

TAX ASSISTANCE

Provision	Taxable	Excludable	Tax Assisted
Miscellaneous Expense Allowance	Yes		Yes
Prudential Home Sale Assistance			No
Independent Sale	Yes		Yes
<ul style="list-style-type: none"> Ineligible for Pru Home Sale Eligible for Pru Home Sale 			No
House Hunting			Yes
Home Purchase Closing Costs	Yes		Yes except points
Rent Assistance	Yes		Yes
Temporary Living and Return Trips	Yes		Yes
Spouse Employment Assistance	Yes		Yes
Household Goods Move		Yes	
Storage	Yes	Yes	Yes
Travel to the New Location		Yes, except meals	

REPAYMENT/TERMINATION AGREEMENT

If I elect to voluntarily terminate employment with FP&L during the 12 month period immediately following the effective date of: (a) the commencement of my employment or (b) the transfer of my employment, I will be required to repay FP&L in full for any funds paid to me or on my behalf for my relocation. For the purposes of this relocation policy, the effective date of either (a) the commencement of my employment or (b) the transfer of my employment shall be the date upon which I first physically report to work at the new location. This repayment will be due and payable immediately upon my voluntary termination.

I agree that FP&L may, to the extent that any such repayment obligation remains due to FP&L following my termination of employment, offset the amount of such remaining repayment obligations against any wages, vacation pay, expense account reimbursements or any other amounts otherwise due to me from FP&L.

If employment is terminated due to total and permanent disability or death, this clause ceases to be in effect. Total and permanent disability is determined in accordance with the provisions of FP&L Group & Affiliates Long Term Disability Plan.

Employee's Signature

Date

Human Resources

Date

GLOSSARY OF TERMS

Acceptance Period - The number of days from the issuance of the appraised value/guaranteed offer to purchase from Prudential Relocation through the expiration date of that offer.

Broker's Price Opinion – A price established by the real estate broker as the estimated sale price of an employee's home.

Amended Value - A home sale assistance program whereby the transferring employee secures an offer for the purchase of their home from a buyer in the open market. The buyer's offer is evaluated by Prudential Relocation to ensure it meets FP&L's eligibility requirements. Once the outcome of the review is satisfactory, Prudential Relocation will send the relocating employee a Contract of Sale for their home *or* direct them to amend their current Contract of Sale reflecting the purchase price from the approved outside buyer.

Appraisal – A professional estimate of a property's market value for a certain purpose within a specific time period.

Appraised Price - A price established for the relocating employee's home based on the relocation program's appraisal process. It is generally determined by averaging two appraisals completed by independent fee appraisers if within a specified percentage range. If not, a third appraisal is typically ordered to assist in establishing the appraised value price.

Appraised Value Offer/Guaranteed Offer Program - A guaranteed offer from Prudential Relocation to purchase the employee's home based upon the established appraised value price.

Duplicate Rent Expense - Payments made on an interim basis to cover an employee's rent payment (former or new) in the event the employee is responsible for rent payments in both the old and new locations.

Home Sale Incentive Bonus - A bonus paid to the transferring employee for securing an Amended Value Sale during the marketing and/or acceptance period.

Home Purchase Closing Costs - Costs beyond the purchase price incurred in the purchase of the property such as mortgage points, origination fee, inspections, insurance, title fees, title insurance, recording fees, etc.

Lease Cancellation/Termination - A payment to the transferee for any penalty incurred for breaking the terms of the rental lease at the old location.

Marketing Assistance - Personalized counseling and home marketing service which guides the employee through the crucial steps of listing, marketing, and selling their home.

Marketing Period - The number of days the employee is expected/required to market their home from list date through sale date (either to outside buyer or Prudential Relocation).

Miscellaneous Relocation Allowance - A payment intended to cover expenses associated with the relocation which are not specifically identified and covered by the relocation program.

Tax Gross-Up - Amount by which a relocation expense reimbursement may be increased to offset income tax liability on non-deductible expenses.

Temporary Living/Interim Living - Expenses associated with establishing and maintaining a temporary residence at the new location prior to permanent household relocation.