

ORIGINAL

MEMORANDUM

March 31, 2006

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TO: DIVISION OF THE COMMISSION CLERK AND ADMINISTRATIVE SERVICES **COMMISSION CLERK**

FROM: OFFICE OF THE GENERAL COUNSEL (C. KEATING) *WAL*

RE: DOCKET NO. 060038-EI - Petition for issuance of a storm recovery financing order, by Florida Power & Light Company.

Attached for filing by the Commission Staff is the REDACTED DIRECT TESTIMONY AND EXHIBITS OF KATHY L. WELCH. An UNREDACTED, confidential version of the testimony is also attached for filing, in the above-referenced docket. The UNREDACTED portions of the document consist of information that is already subject to a claim of confidentiality.

DATE ORDER SENT ELECTRONICALLY TO CCA 3/31/06.

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Attachment
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ORIGINAL

DOCKET NO. 060038-EI: Petition for issuance of a storm recovery financing order, by Florida Power & Light Company

WITNESS: Direct Testimony Of Kathy L. Welch, Appearing On Behalf Of the Staff of the Florida Public Service Commission

DATE FILED: March 31, 2006

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

DIRECT TESTIMONY OF KATHY L. WELCH

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Q. Please state your name and business address.

A. My name is Kathy L. Welch, and my business address is 3625 N.W. 82nd Ave., Suite 400, Miami, Florida, 33166.

Q. By whom are you presently employed and in what capacity?

A. I am employed by the Florida Public Service Commission as a Public Utilities Supervisor in the Division of Regulatory Compliance and Consumer Assistance.

Q. How long have you been employed by the Commission?

A. I have been employed by the Florida Public Service Commission since June 1979.

Q. Briefly review your educational and professional background.

A. I have a Bachelor of Business Administration degree with a major in accounting from Florida Atlantic University and a Masters of Adult Education and Human Resource Development from Florida International University. I have a Certified Public Manager certificate from Florida State University. I am also a Certified Public Accountant licensed in the State of Florida, and I am a member of the American and Florida Institutes of Certified Public Accountants. I was hired as a Public Utilities Analyst I by the Florida Public Service Commission in June of 1979. I was promoted to Public Utilities Supervisor on June 1, 2001.

Q. Please describe your current responsibilities.

A. Currently, I am a Public Utilities Supervisor with the responsibilities of administering the Commission's Miami District Office and reviewing work load and allocating resources to complete field work and issuing audit reports when due. I also supervise, plan, and conduct

1 utility audits of manual and automated accounting systems for historical and forecasted
2 financial statements and exhibits.

3

4 Q. Have you presented expert testimony before this Commission or any other regulatory
5 agency?

6 A. Yes. I have testified in several cases before the Florida Public Service Commission.
7 Exhibit KLW-1 lists these cases.

8

9 Q. What is the purpose of your testimony today?

10 A. The purpose of my testimony is to sponsor the staff audit report of Florida Power &
11 Light Company (Company) which addresses the Company's petition for issuance of a storm
12 recovery financing order, Audit Control Number 05-292-4-1. This audit report is filed with
13 my testimony and is identified as Exhibit KLW-2. I am also sponsoring the supplemental
14 audit report which addresses supplemental audit work performed. This audit report is filed
15 with my testimony and is identified as Exhibit KLW-3.

16

17 Q. Did you prepare or cause to be prepared under your supervision, direction, and control
18 these audit reports?

19 A. Yes, I was the supervisor in charge of these audits.

20

21 Q. Please describe the work performed in the initial audit.

22 A. We reconciled 2005 storm costs recorded in FPL's filing to the company's ledger. We
23 also reconciled the remaining balance of the 2004 storm costs as shown in Exhibit A of the
24 filing to the ledger. PSC Order No. PSC-05-0937-FOF-EI approved 2004 storm costs allowed
25 for recovery. We determined that the adjustments required by this order were booked, and we

1 reviewed the detail of all storm costs for 2005. We selected samples of payroll, material and
2 supplies, vehicle charges, cash disbursements, and journal vouchers based on material dollars,
3 unusual items, and affiliate transactions and traced them to source documents. We traced
4 Payroll charges to time tickets and rate data. We traced materials and supplies to reports done
5 at the field locations that distributed the materials to the crews. We reviewed the materials
6 with a PSC staff engineer to determine the types of items expensed. We traced vehicle
7 charges to the vehicle time reports, and we traced vehicle rates to source documentation. In
8 the 2004 storm audit, we reviewed the clearing accounts and the methodology for allocating
9 these expenses for reasonableness, and in this audit we verified that the same policies were
10 still used. We traced cash vouchers to invoices and reviewed them for related storm dates.
11 We randomly traced billings from contractors to purchase orders.

12 We traced the advertising costs to print and radio scripts. We reviewed journal
13 vouchers that were not reversed and tested them to the source documents related to the type of
14 entry. The company also had a large amount of unpaid charges at the end of December that
15 were accrued. We obtained lists of these costs by division, and we requested detail for several
16 divisions. We reviewed the support for the accruals for reasonableness. We traced the
17 amount of capital additions that are projected to reduce the storm reserve to source
18 documentation. We reviewed the methodology of the calculation for compliance with Order
19 No. PSC-05-0937-FOF-EI, and we reviewed the projections to determine if they included the
20 capital items mentioned in the KEMA study. We recalculated taxes and interest. We
21 reviewed the procedure for recording retirements associated with the capital items, and we
22 traced a sample of the 2004 retirements to the documentation the company had on original
23 cost and removal costs. We compared the budget for base operation and maintenance expense
24 for 2005 to the actual costs. We reviewed internal audits performed on the 2004 storm
25 expenses.

1 We also read the procedures used to replace or repair poles and the 2004 study of
2 BellSouth poles. We tested some of the work orders to retire the poles by tracing the work
3 orders to material and supply lists and tracing normal labor costs to company documentation.
4 We traced original cost information to FPL's property accounting system.

5
6 Q. Please review the audit findings in the initial audit report.

7 A. The audit findings in this report were intended to disclose information for the
8 Commission staff analysts' consideration.

9 **Audit Finding No. 1**

10 Audit Finding No. 1 discusses the regular pay of \$26,092,000 that FPL included in its
11 estimated storm costs for 2005. The company filing includes an estimate of \$26,092,000 of
12 regular pay and \$60,334,000 of overtime pay. Included in the overtime amount is \$768,000
13 that was classified as incentives. FPL responded that this was incorrectly classified and relates
14 to exempt overtime payments made to 53 people who worked extensive hours to support
15 storm restoration but were not covered by the storm overtime policy. According to FPL, the
16 lump sum payments were made for equity reasons. There were circumstances during storm
17 restoration when two people were working extraordinary hours performing the same storm
18 jobs, but only one was eligible for overtime pay under the storm overtime policy because of
19 their regular job classification. Some employees not covered by the storm overtime policy
20 received a lump sum overtime payment.

21
22 **Audit Finding No. 2**

23 Audit Finding No. 2 discusses an accrual of \$1,413,250 for substation landscaping and
24 \$90,000 for Service Center landscaping for a total of \$1,503,250. These costs were recorded
25 for Hurricane Wilma. Other landscaping costs may have been incurred but were not selected

1 in the sample. FPL believes the landscaping is required to meet zoning requirements. If the
2 Commission decides that these costs should not be recovered, the company should remove any
3 additional landscaping costs charged to the storm reserve account.

4
5 **Audit Finding No. 3**

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10 **Audit Finding No. 4**

11 Audit Finding No. 4 discusses contingencies FPL has added to many of the accruals
12 made in December for Hurricane Wilma. Several of the accruals selected for review in
13 December 2005 for Hurricane Wilma contained accruals for contingencies.

14
15 **Audit Finding No. 5**

16 Audit Finding No. 5 discusses the fact that FPL has not prepared a billing to charge
17 other companies for repairing those companies' poles after the 2004 storms. The 2004 storm
18 pole survey was completed, and the associated billing was expected to be completed by the
19 end of February 2006. The 2004 storm pole survey indicates the company will bill BellSouth
20 for 2,483 pole replacements. As of March 10, 2006, this billing had not been completed. The
21 2005 storm pole survey was initiated but has not been completed.

22 FPL's joint use agreements state, "Whenever, in any emergency, the Licensee replaces
23 a pole of the Owner, the Owner shall reimburse the Licensee all reasonable costs and expenses
24 that would otherwise not have been incurred by the Licensee if the Owner had made the
25 replacement."

1 FPL's total unrecovered storm costs should be reduced by the amount billed to other
2 companies less the amount capitalized for the related poles.

3

4 **Audit Finding No. 6**

5 Audit Finding No. 6 discusses storm preparation costs of \$10,052,336.46 for nuclear
6 plants that were included in the storm recovery filing. These costs comprised both the
7 preparation prior to the storm hitting and restoring the plants after the storm. The preparation
8 and restoration amounts were not accounted for separately. The company does not keep track
9 of the storm preparation costs for any other FPL business unit. Actual costs booked and
10 accrued as of December 31, 2005 are as follows:

11	Hurricane Katrina	339,045.00
12	Hurricane Rita	191,123.27
13	Hurricane Wilma	6,751,506.19
14	Hurricane Wilma Accruals	2,770,662.00
15	Total	<u>\$10,052,336.46</u>

16

17 **Audit Finding No. 7**

18 Audit Finding No. 7 discusses advertising costs. Advertising charges were included in
19 the storm recovery expenses in the amount of \$2,630,218.47. Certain of these charges
20 appeared to be image enhancing. The cash voucher sample included items for advertising.
21 Some of this was for radio safety ads, some for newspaper ads informing the public of
22 expected restoration times, and some for newspaper ads thanking the public, employees,
23 contractors, etc. Because of this we obtained further data from the company regarding
24 advertising. A detailed list we compiled is included in the audit report.

25

1 **Audit Finding No. 8**

2 Audit Finding No. 8 discusses the accruals made for Hurricane Wilma that included a
3 repair of Condenser Tubes at Martin Plant Units 1 and 2. Supporting documentation indicates
4 that the tubes may have been planned for repair prior to the hurricane.

5 As supporting documentation for this accrual, the company provided an Event Report
6 for partial condenser retube at Martin Units 1 and 2. The event report identifies the event start
7 date as July 22, 2005, and stop date as October 12, 2005. It shows a planning need date as
8 August 26, 2005, and shows the need date for the parts as June 29, 2005. Under the event
9 assignment section, the event report shows March 1, 2008. The estimated cost shown on this
10 report was \$1,193,404.

11 FPL multiplied this cost by two because they claim the estimate is for only one unit.
12 The event report does not say how many units, but it does say that it was for a partial retube.
13 The total charged to the storm reserve is \$2,386,000.

14 FPL claims that hurricane damage to these units was attributed to the abrupt manner in
15 which the units were shut down and to the micro-biologic condenser tube pitting caused by
16 running the units during the hurricane. According to the company summary, the amount of
17 damage caused by the storm as compared to what should be expected for tubes of this age is
18 still under analysis.

19 We questioned FPL about this event report and the response was that the estimate was
20 only for Unit 1. The response also indicates that the replacement was not expected to take
21 place until 2008.

22 Although the need date on the report shows the retube needed to be done by 2008, it
23 appears to have been planned for 2005 before the storm occurred. FPL has responded that the
24 detail that has the 2005 dates were copied from another job and do not relate to this estimate.
25 We did not have time to verify the company assertion.

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Audit Finding No. 9

Audit Finding No. 9 addresses an

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Audit Finding No. 10

Audit Finding No. 10 discusses that the detail provided by the Power Systems Business Unit to support its accruals as of December 31, 2005 does not agree with the accrual. Power Systems provided support for its accrual at December 31, 2005. The support did not agree with the amount accrued. We requested detail to explain the differences. The support showed that FPL does not change its' overall accrual for the total storm costs when contracts come in over or under budget. If one business unit comes in under the accrued amount, the over-accrual gets transferred to Power Systems since they have the most likelihood of going over the accrued amount. The differences between the Power Systems accruals and the detail which were created by the over-accrual from the other business units follow:

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<u>BUSINESS UNIT</u>	<u>STORM</u>	<u>ACCRUAL</u>	<u>SUPPORT</u>	<u>DIFFERENCE</u>
POWER SYSTEMS	WILMA	\$410,326,407.00	\$408,046,662.00	\$2,279,745.00
POWER SYSTEMS	KATRINA	30,692,965.00	30,419,812.00	273,153.00
POWER SYSTEMS	RITA	327,553.00	230,879.00	96,674.00
		<hr/>	<hr/>	<hr/>
		\$441,346,925.00	\$438,697,353.00	\$2,649,572.00

Audit Finding No. 11

Audit Finding No. 11 discusses FPL's unrecovered 2004 storm costs. Exhibit A of the company filing shows \$213,307,000 of unrecovered 2004 storm costs. This is supported by Exhibit No. KMD-3 of FPL witness K. Michael Davis's testimony. The December 2005 amount of the ending deficiency on KMD-3 was estimated at \$294,680,000. The actual general ledger amount with the interest is \$293,930,364. Therefore, the estimate at December is \$749,636 more than actual. The differences relate to the estimate of the beginning balance from Commission Order No. PSC-05-0937-FOF-EI being different than actual, the December interest calculation being different than actual and an adjustment for the Commission order related to taxes on the interest.

Q. Please describe the work performed in the supplemental audit.

A. We traced the capitalized Hurricane Wilma costs to the journal entries and their source documents. We recalculated the vehicle rates for the current sample and the prior audit's transmission sample, and we reviewed the process to develop the rates for reasonableness. We traced the vehicle usage hours to internal company reports prepared by field employees as they input their work into the financial accounting management system. We traced materials and supplies items to the calculations of the average cost depending on the category of the item. We traced all payroll items in the sample to reports, time sheets, and entries recording

1 shift differential, temporary relief, regular pay, exempt overtime, and storm preparation costs.
2 We obtained job tickets for the sample selected in the initial audit and determined if the jobs
3 were storm related. We determined if time sheets were coded to the storm and recalculated
4 and traced the salary level to the payroll documentation. We obtained supporting
5 documentation for the December 2005 accruals for the Power Systems Business unit that we
6 did not have time to review in the initial audit. We also reviewed supporting documentation
7 for work that FPL has identified as follow up work after Hurricane Wilma. We traced these
8 items to supporting documentation that shows these amounts are owed. We attempted to trace
9 the repairs to event reports to determine if the maintenance was planned. However,
10 transmission and distribution staff do not prepare event reports the way the generation
11 business units do. We traced all journal vouchers in the sample to source documentation to
12 determine if they were for reasonable storm charges. We agreed all cash vouchers in the
13 sample to invoices to determine if the items are related to the storm recovery process. We
14 reviewed the 2004 storm costs to date. We verified that internal audit adjustments were made.
15 In the initial storm audit, we determined that a study was being done to determine what
16 equipment was replaced for other companies and what amount would be charged to them.
17 Our initial storm audit reported that the study would be completed by the end of February, so
18 we requested it during the supplemental audit. It has not been completed and could not be
19 reviewed.

20
21 Q. Please review the audit findings in the supplemental audit report.

22 A. The audit findings in this report were intended to disclose information for the
23 Commission staff analysts' consideration.

24 **Audit Finding No. 1**

25 Audit Finding No. 1 discusses Audit Finding No. 9 in the staff's initial audit report.

1 That finding disclosed that

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Audit Finding No. 2

9 Audit Finding No. 2 discusses Audit Finding No. 4 in the initial audit report. That
10 finding disclosed that an FPL accrual of \$72,300,000 to power distribution follow-up work for
11 Hurricane Wilma was selected as a sample amount for further review. In the supplemental
12 audit, we have determined that FPL now estimates the power distribution follow-up work for
13 Hurricane Wilma to total \$89,853,508. These amounts are based on revised estimates
14 provided on February 16, 2006. A new list of FPL's estimated power distribution follow-up
15 cost is provided in the audit report. The utility assertions of what was considered related to
16 the hurricanes can be found in the report.

17 Additionally, we have determined that FPL has reclassified \$5,073,184 from Account
18 186-Deferred Maintenance Storm to remove estimated capital asset additions included in its
19 follow-up work for Hurricane Wilma. This adjustment is not reflected in the revised schedule
20 in the audit report.

21

22 Q. Does this conclude your testimony?

23 A. Yes, it does.

24

25

DOCKET NO. 060038-EI: Petition for issuance of a storm recovery financing order, by Florida Power & Light Company

WITNESS: **Direct Testimony Of Kathy L. Welch**, Appearing On Behalf Of Staff of the Florida Public Service Commission

EXHIBIT KLW-1: History of Testimony Provided by Kathy L. Welch

- In re: Application for approval of rate increase in Lee County by Tamiami Village Utility, Inc., Docket No. 910560-WS
- In re: Application for transfer of territory served by Tamiami Village Utility, Inc. in Lee County to North Fort Myers Utility, Inc., cancellation of Certificate No. 332-S and amendment of Certificate 247-S; and for a limited proceeding to impose current rates, charges, classifications, rules and regulations, and service availability policies, Docket No. 940963-SU
- In re: Application for a rate increase by General Development Utilities, Inc. (Port Malabar Division) in Brevard County, Docket No. 911030-WS
- In re: Dade County Circuit Court referral of certain issues in Case No. 92-11654 (Transcall America, Inc. d/b/a ATC Long Distance vs. Telecommunications Services, Inc., and Telecommunications Services, Inc. vs. Transcall America, Inc. d/b/a ATC Long Distance) that are within the Commission's jurisdiction, Docket No. 951232-TI
- In re: Application for transfer of Certificates Nos. 404-W and 341-S in Orange County from Econ Utilities Corporation to Wedgefield Utilities, Inc., Docket No. 960235-WS
- In re: Application for increase in rates and service availability charges in Lee County by Gulf Utility Company, Docket No. 960329-WS
- In re: Fuel and purchased power cost recovery clause and generating performance incentive factor, Docket No. 010001-EI
- In re: Application for staff-assisted rate case in Highlands County by The Woodlands of Lake Placid, L.P., Docket No. 020010-WS
- In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida, Docket No. 020071-WS
- In re: Petition for rate increase by Florida Power & Light Company, Docket No. 050045-EI

DOCKET NO. 060038-EI: Petition for issuance of a storm recovery financing order, by Florida Power & Light Company

WITNESS: **Direct Testimony Of Kathy L. Welch**, Appearing On Behalf Of Staff of the Florida Public Service Commission

EXHIBIT KLW-2: Audit Report



FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE


Miami District Office

FLORIDA POWER AND LIGHT CO.

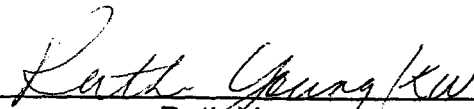
REVIEW OF 2004/2005 STORM DAMAGE COST RECOVERY

HISTORICAL YEAR ENDED DECEMBER 31, 2005

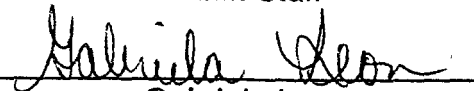
DOCKET NO. 060038-EI
AUDIT CONTROL NO. 05-292-4-1



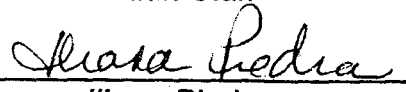
Yen Ngo
Audit Manager



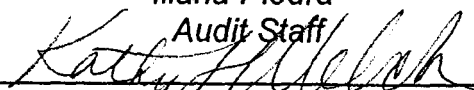
Ruth Young
Audit Staff



Gabriela Leon
Audit Staff



Iliana Piedra
Audit Staff



Kathy L. Welch
Public Utilities Supervisor

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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT**

February 14, 2006

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED
PARTIES**

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the attached schedules prepared by Florida Power and Light in support of its filing for storm recovery.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

OBJECTIVES AND PROCEDURES:

Objective: To determine whether costs charged to the storm reserve are actually for storm damage restoration activities and are recorded in accordance with Order No. PSC-05-0937-FOF-EI.

Procedures: We reconciled 2005 storm costs recorded in the filing to the ledger. We also reconciled the remaining balance of the 2004 storm costs as shown in Exhibit A of the filing to the ledger. We determined that the adjustments from Order No. PSC-05-0937-FOF-EI were booked.

We reviewed the detail of all storm costs for 2005. We selected samples of payroll, material and supplies, vehicle charges, cash disbursements, and journal vouchers based on material dollars, unusual items, and affiliate transactions and traced them to source documents. We were unable to determine if any of the damage repaired by employees and contractors during storm restoration efforts occurred prior to the storm. The November and December samples for all storms, and the payroll related to Hurricane Dennis will be completed in a supplement to this audit.

We traced Payroll charges to time tickets and rate data. We had difficulty determining if some of the payroll costs were for storm related jobs because during the storm, payroll is not referenced to the trouble tickets and the trouble ticket system does not contain as much detail on payroll and materials and supplies as it does when there is not a storm. Employees who are not normally part of a work crew are assigned to various duties during a storm situation and these duties are not recorded on the time sheets. Finding 1 discusses regular payroll charges and bonuses in more detail.

We traced materials and supplies to reports done at the field locations that distributed the materials to the crews. We reviewed the materials with a PSC staff engineer to determine the types of items expensed. The majority of the small items were clamps, bolts, fuses, cables, switches, insulators, ground wire, splicers and surge arrestors. The large items such as poles, transformers, and switch cabinets were subsequently transferred to a capital account for Rita, Katrina and Dennis. For Wilma, the items from materials and supplies transferred to capital accounts were in various "high level" journal entries. The detail will be reviewed in the supplemental audit. In the supplemental audit planned, we will obtain the material and supplies detail and determine which items were transferred out of expense.

Vehicle charges were traced to the vehicle time reports. Vehicle rates were traced to source documentation. The clearing accounts and the methodology for clearing were reviewed for reasonableness in the last storm audit. We verified that the same policies were used.

We traced cash vouchers to invoices and reviewed them for related storm dates. We randomly traced billings from contractors to purchase orders. We traced the advertising

costs to print and radio scripts. Findings 6 and 7 discuss advertising and storm preparation in more detail.

We reviewed journal vouchers that were not reversed and tested them to the source documents related to the type of entry. Most of the entries were to accrue taxes and pension related to payroll, record projected insurance recoveries, and remove capital items. The company also has a large amount of unpaid charges at the end of December that was accrued. We obtained lists of these costs by division and detail was requested for several divisions. The support for the accruals was reviewed for reasonableness. Findings 2, 3 and 4 discuss landscaping, potential lawsuit settlements, and contingencies that were accrued in more detail. Finding 8 discusses an accrual for a repair that may have been planned before the storm.

We traced the amount of capital that is projected to reduce the storm reserve to source documentation. The methodology of the calculation was reviewed for compliance with Order No. PSC-05-0937-FOF-EI. We reviewed the projections to determine if they included the capital items mentioned in the KEMA study.

We recalculated taxes and interest.

We reviewed the procedure for recording retirements associated with the capital items and a sample of the 2004 retirements were traced to the documentation the company had on original cost and removal costs.

We compared the budget for base operation and maintenance expense for 2005 to the actual costs. FPL does not maintain its budget by FERC account numbers but by budget unit.

We reviewed internal audits performed on the 2004 storm expenses. Finding 9 discusses Internal Audit findings in more detail.

Objective: To determine whether poles owned by other companies have been repaired or replaced by FPL.

Procedures: We read the procedures used to replace or repair the poles and the 2004 study of Bell South poles. We tested some of the work orders to retire the poles by tracing the work orders to material and supply lists and normal labor costs to company documentation. Original cost information was traced to FPL's property accounting system. FPL has not yet billed other companies such as Bell South for the poles repaired on its behalf for 2004 or 2005. The costs related to these other companies are still included in the storm account. Finding 5 discusses poles owned by other companies in more detail.

AUDIT FINDING NO. 1

SUMMARY: Regular pay of \$26,092,000 has been included in the estimated storm costs for 2005.

STATEMENT OF FACT: The company filing includes \$26,092,000 of regular pay and \$60,334,000 of overtime pay. Included in the overtime amount, is \$768,000 that was classified as incentives. FPL responded that this was incorrectly classified and relates to exempt overtime payments made to 53 people who worked extensive hours to support storm restoration but were not covered by the storm overtime policy. According to FPL, the lump sum payments were made for equity reasons. There were circumstances during storm restoration when two people were working extraordinary hours performing the same storm jobs, but only one was eligible for overtime pay under the storm overtime policy because of their regular job classification. Some employees not covered by the storm overtime policy received a lump sum overtime payment.

Order No. PSC-05-0937-FOF-EI states that "without taking into account the normal level of expenditures funded by base rates that customers' pay, requires customers to pay twice for the same costs." Because the last rate case was settled, the level of expenses allowed for base rates was not defined. Regular pay would have been incurred even if the storm had not occurred.

EFFECT ON THE GENERAL LEDGER: If the Commission decides to remove regular pay, account 228 would be reduced by \$26,092,000. If the exempt overtime not in FPL's policy are disallowed account 228 would be reduced by \$768,000.

EFFECT ON THE FILING: If the Commission decides to remove regular pay, the \$826,853,000 of un-recovered storm costs from Exhibit A of the filing would be reduced by \$26,092,000. If the exempt overtime not in FPL's policy is removed, Exhibit A would be reduced by \$768,000.

AUDIT FINDING NO. 2

SUMMARY: FPL has included an accrual of \$1,413,250 for substation landscaping and \$90,000 for Service Center landscaping for a total of \$1,503,250.

STATEMENTS OF FACT: The \$1,503,250 for landscaping is included in the costs recorded for Hurricane Wilma. Other landscaping costs may have been incurred but were not selected in the sample. Insurance policies do not allow recovery of landscaping. FPL believes the landscaping is required to meet zoning requirements. If the Commission decides that these costs should not be recovered, the company should provide if there are additional costs.

EFFECT ON THE GENERAL LEDGER: If the Commission decides to remove landscaping costs, the \$1,503,250 and any other costs related to landscaping should be removed from the 228 account.

EFFECT ON THE FILING: If the Commission decides to remove landscaping, the unrecovered storm costs from Exhibit A of the filing would be reduced by \$1,503,250.

AUDIT FINDING NO. 3

SUBJECT: [REDACTED]

STATEMENT OF FACT: [REDACTED]

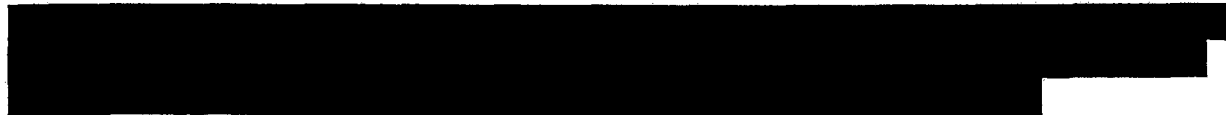
EFFECT ON THE GENERAL LEDGER: [REDACTED]

EFFECT ON THE FILING: [REDACTED]

AUDIT FINDING NO. 4

SUBJECT: FPL has added contingencies to many of the accruals made in December for Hurricane Wilma.

STATEMENT OF FACT: Several of the accruals selected for review in December 2005 for Hurricane Wilma, contained accruals for contingencies. The Power Generation accrual for Hurricane Wilma for December 2005 included a contingency of \$1,142,812. The Port St. Lucie Nuclear accrual shows \$1,615,340 for Project Management at 30% or Contingency at 10%. We were not able to distinguish which items were for project management and which were for the contingencies. Power Systems has included \$32,524,458 of a contingency for Wilma and \$9,383,591 for Katrina in its December 31, 2005 accruals.



In addition, FPL Power Systems has included \$72,300,000 in Wilma accrued storm costs for distribution follow up work. Because we did not receive this information until February 10, we did not have time to follow up to determine what projects were included and what estimates have been received. We will obtain and review this information and include it in a supplemental audit.

EFFECT ON GENERAL LEDGER IF THE FINDING IS ACCEPTED: If contingencies are not allowed, \$44,666,201 would be removed from account 228.

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: If contingencies are not allowed, the \$826,853,000 of un-recovered storm costs from Exhibit A of the filing would be reduced by \$44,666,201. The company has asked for a true-up mechanism for additional or over-accrued costs that have not been recorded. However, FPL is asking for approval of charges through this mechanism to be approved within a month which precludes an audit of the charges.

AUDIT FINDING NO. 5

SUMMARY: FPL has not prepared the 2004 billing to charge other companies for repairing the other companies' poles after the storms. The 2004 storm pole survey was completed, but the associated billing will be not completed until the end of February 2006. The 2005 storm pole survey was initiated but, has not been completed. A follow up audit should be done in order to review the 2004 billing for pole replacements. The actual storm costs need to be reduced by the amount billed.

STATEMENT OF FACT: FPL's joint use agreements state, "Whenever, in any emergency, the Licensee replaces a pole of the Owner, the Owner shall reimburse the Licensee all reasonable costs and expenses that would otherwise not have been incurred by the Licensee if the Owner had made the replacement". The 2004 storm pole survey indicates the company will bill Bellsouth for 2,483 pole replacements. The associated billing has not been completed. The 2005 storm pole survey has been initiated.

EFFECT ON GENERAL LEDGER IF FINDING IS ACCEPTED: The storm account 228 should be credited by the amount billed over the capitalized amount for the related poles.

EFFECT ON FILING IF FINDING IS ACCEPTED: The total un-recovered storm costs of \$826,853,000 should be reduced by the amount billed less the amount capitalized for the related poles.

AUDIT FINDING NO. 6

SUBJECT: STORM PREPARATION COSTS

SUMMARY: Storm preparation costs for the nuclear plants of \$10,052,336.46 were included in the storm recovery filing. These costs comprised both the preparation prior to the storm hitting and restoring the plants after the storm. The preparation and restoration amounts were not accounted for separately. The company does not keep track of the storm preparation costs for any other FPL business unit.

STATEMENT OF FACTS: Actual costs booked and accrued as of December 31, 2005 are as follows:

Hurricane Katrina	339,045.00
Hurricane Rita	191,123.27
Hurricane Wilma	6,751,506.19
Hurricane Wilma Accruals	<u>2,770,662.00</u>
Total	<u>\$10,052,336.46</u>

The reason why the storm preparation costs for Wilma were higher than the others is that before the storm St. Lucie 1 was in a scheduled maintenance outage. The outage was to replace a reactor head. All work had to be stopped and the area had to be prepared for hurricane Wilma. The companies working on the outage had to prepare and remobilize after the hurricane to continue the reactor head replacement. As these costs were over and above the scheduled maintenance, they were charged to the storm expense.

The company explained that "Storm preparation costs are not specifically tracked by any FPL business units other than its nuclear division. There are costs incurred prior to actual landfall, as FPL begins its 72 hour, 48 hour and 24 hour countdowns to landfall. During this countdown period, most of these costs would be associated with labor, as preparations and planning for resources and placement of resources are taking place." The company also stated that there are also costs "...incurred prior to the 72 hour countdown that are not included in the storm costs to be recovered. These costs include securing contracts with hotel and other vendors, locating and securing future staging sites, training costs, and the annual dry run exercise."

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: If the Commission decides to remove storm preparation, \$10,052,336.46 needs to be removed from account 228.

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: If the Commission decides that storm preparation costs should be excluded, it would reduce the \$826,853,000 of un-recovered storm costs from Exhibit A of the filing.

AUDIT FINDING NO. 7

SUBJECT: ADVERTISING COSTS

SUMMARY: Advertising charges were included in the storm recovery expenses in the amount of \$2,630,218.47. Certain of these charges appeared to be image enhancing.

STATEMENT OF FACTS: The cash voucher sample included items for advertising. Some of this was for radio safety ads, some for newspaper ads informing the public of expected restoration times, and some for newspaper ads thanking the public, employees, contractors, etc. Because of this we obtained further data from the company regarding advertising. The detailed list we compiled follows this finding.

Summary of Advertising Expenses

WILMA

Newspaper ads that were for both restoration dates and for "Thank You" ads to employees, outside crews and customers.	356,680.83
---	------------

One minute spot called "Employee Campaign Web" - Cannot determine where this was aired.	3,912.50
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Radio Spots for Wilma	1,446,997.50
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Public Relations Invoice for Wilma	<u>144,067.91</u>
Total Wilma	<u>1,951,658.74</u>

KATRINA

Newspaper ads that were for both restoration dates and for "Thank You" ads to employees, outside crews and customers	220,591.80
--	------------

Radio Spots	377,498.43
-------------	------------

9 minute and 22 second tape showing what certain divisions of FPL did during the storm.	<u>11,056.00</u>
Total Katrina	<u>609,146.23</u>

RITA

Estimate provided by FPL for Radio Ads	<u>70,000.00</u>
Total Rita	<u>70,000.00</u>

Total	<u><u>2,630,804.97</u></u>
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Other sample items were selected for Wilma for the supplemental audit. If more advertising is found, then this list should be updated. Also, the radio ads for Wilma

should be reviewed.



An example of the ads is attached as exhibit A to this report.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: If the Commission decides to remove all of these types of ads, account 228 would be reduced by \$2,630,804.97.

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: A reduction in the storm expense for image enhancing advertising would reduce the \$826,853,000 of unrecovered storm costs from Exhibit A of the filing.

Docket No. 060038-EI
 Exhibit KLW-2 (Page 14 of 30)
 Audit Report

COMPANY: FPL STORM
 TITLE: ADVERTISING
 PERIOD: 2005

Invoice No.	Invoice Date	Description	Invoice Total	Grand Total
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PRINT ADS
WILMA

MNP-6000120	16-Dec	Full page Ads in Florida newspapers presenting the expected electric turn on date.	153,911.29	
MNP-6000121	16-Nov	Changes to ads in the National Post, Wall Street Journal	127,429.42	
MNP-6000130		These ads are "Thank You" ads.	289.93	
PD-6003092	7-Dec	Design Work for thank you Ads	40.00	
PD-6003091	7-Dec	Design Work for Thank You Ads	128.00	
PD-6003073	6-Dec	Cost of Personnel at ad Agency for Wilma Ads.	74,387.69	
PD 6003023	20-Nov	Design Work for Restoration Ads	32.00	
PD-6003022	20-Nov	Design Work for Restoration Ads	80.00	
PD-6003088	7-Dec	One-minute spot called "Employee Campaign Web" re Wilma Appeared on Web Site- Seems to be FPL employee web site. Cannot be sure	<u>382.50</u>	
			356,680.83	
PD 6003-21	20-Nov	One-minute spot called "Employee Campaign Web" re Wilma Appeared on Web Site- Seems to be FPL employee web site. Cannot be sure	<u>3,912.50</u>	

Total Wilma

360,593.33

Docket No. 060038-EI
 Exhibit KLW-2 (Page 15 of 30)
 Audit Report

KATRINA

NMP-6000100	13-Sep	Restoration Updates with Map	97,431.37
NMP-6000101	13-Sep	Restoration Update with Map	2,231.70
		Thank You	53,014.50
		Thank You	62,975.00
		Thank You	3,543.83
PD – 6003018	20-Nov	Design Work for Restoration ads	8.00
NMP-600127	16-Dec	Adjustment to previous invoice 6000101	574.90
PD – 6002980	20-Oct	Design Work for Restoration ads	26.00
PD – 6002979	20-Oct	Design Work for Restoration ads	120.00
PD – 6002979	20-Nov	Design Work for Restoration ads	80.00
			<u>220,005.30</u>
PD-6002981	20-Oct	Radio Talent Dubs	586.50
		Total Katrina	<u>220,591.80</u>

RADIO ADS AND MEDIA TAPE

KATRINA			
25255015	13-Sep	Radio Spots Scripts appear to be for safety tips	377,498.43
357	1-Aug	9minute and 22 second tape showing what certain divisions of FPL did during Katrina. Appears to be image enhancing. No safety tips or restoration times are given.	11,056.00
			<u>388,554.43</u>
Wilma			
253200007-14	21-Nov	Radio Spots for Wilma	<u>1,446,997.50</u>

Wilma

**PUBLIC RELATIONS
INVOICE**

PD-6003095

7-Dec

Invoice for Public Relations

144,067.91

OTHER INFORMATION PROVIDED

Estimate of Radio Ads for Rita

70,000.00

**Total Estimate for
Radio Ads**

70,000.00

Grand Total

2,630,804.97

AUDIT FINDING NO. 8

SUMMARY: The accruals made for Hurricane Wilma included a repair of a Martin Plant Unit 1 and 2 Condenser Tube. Supporting documentation indicates that the tubes may have been planned for repair prior to the hurricane.

STATEMENT OF FACT: As supporting documentation for the accrual of costs for the Martin Unit 1 and 2 Condenser Tubes, the company provided an Event Report for partial condenser retube at Martin Units 1 & 2. The event report identifies the event start date as July 22, 2005 and stop date as October 12, 2005. It shows a planning need date as August 26, 2005 and shows the condenser tubes need date for the parts of June 29, 2005. Under the event assignment section, the event report shows March 1, 2008. The estimated cost on this report was \$1,193,404.

FPL multiplied this cost by two because they claim the estimate is for only one unit. The event report does not say how many units but it does say that it was for a partial retube. The total charged to the storm costs is \$2,386,000.

FPL claims that the hurricane damage was attributed to the abrupt manner the unit was shut down and to the micro-biologic condenser tube pitting caused by running the unit during the hurricane. According to the company summary, the amount of damage caused by the storm as compared to what should be expected for tubes of this age is still under analysis.

FPL was questioned about this event report and has responded that the estimate was only for Unit 1. The response also indicates that the replacement was not expected to take place until 2008.

Although the need date on the report shows the retube needed to be done by 2008, it appears to have been planned for 2005 before the storm occurred. FPL has responded that the detail that has the 2005 dates were copied from another job and do not relate to this estimate. We did not have time to verify the company assertion.

EFFECT ON GENERAL LEDGER IF THE FINDING IS ACCEPTED: If the Commission decides that the event was planned and should not be included in storm costs, Account 228 should be reduced by \$1,193,404.

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: If the Commission decides that the event was planned and should not be included in storm costs, the \$1,193,404 would reduce the \$826,853,000 of un-recovered storm costs from Exhibit A of the filing.

AUDIT FINDING NO. 9

SUMMARY:

[REDACTED]

STATEMENT OF FACT:

[REDACTED]

EFFECT ON GENERAL LEDGER IF THE FINDING IS ACCEPTED:

[REDACTED]

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED:

[REDACTED]

AUDIT FINDING NO. 10

SUMMARY: The detail provided by the Power Systems Business Unit to support its accruals as of December 31, 2005 does not agree with the accrual.

STATEMENT OF FACT: Power Systems provided support for its accrual at December 31, 2005. The support did not agree with the amount accrued. We requested detail to explain the differences. FPL does not change its' over all accrual for the total storm costs when contracts come in over or under budget. If one business unit comes in under the accrued amount, the over-accrual gets transferred to Power Systems since they have the most likelihood of going over the accrued amount. The differences between the Power Systems accruals and the detail which were created by the over-accrual from the other business units follow:

BUSINESS UNIT	STORM	ACCRUAL	SUPPORT	DIFFERENCE
POWER SYSTEMS	WILMA	410,326,407.00	408,046,662.00	2,279,745.00
POWER SYSTEMS	KATRINA	30,692,965.00	30,419,812.00	273,153.00
POWER SYSTEMS	RITA	327,553.00	230,879.00	96,674.00
		<u>441,346,925.00</u>	<u>438,697,353.00</u>	<u>2,649,572.00</u>

In addition, documentation for some of these accruals needs to be obtained and will be reviewed in a supplemental audit.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: If the company cannot provide support for the differences, the \$2,649,572 should be removed from the 228 account.

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: If the company cannot provide support for the differences, the \$2,649,572 should be removed from the \$826,853,000 of un-recovered storm costs from Exhibit A of the filing.

AUDIT FINDING NO. 11

SUMMARY: Based on the general ledger balances as of December 31, 2005, the estimate used in Exhibit A of the company filing for 2004 un-recovered storm costs is overstated.

STATEMENT OF FACT: Exhibit A of the company filing shows \$213,307,000 of un-recovered 2004 storm costs. This is supported by Exhibit No. KMD-3 of Michael Davis's testimony. The December 2005 amount of the ending deficiency on KMD-3 was estimated at \$294,680,000. The actual general ledger amount with the interest is \$293,930,364. Therefore, the estimate at December is \$749,636 more than actual. The differences relate to the estimate of the beginning balance from the last order being different than actual, the December interest calculation being different than actual and an adjustment for the order related to taxes on the interest.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: None.

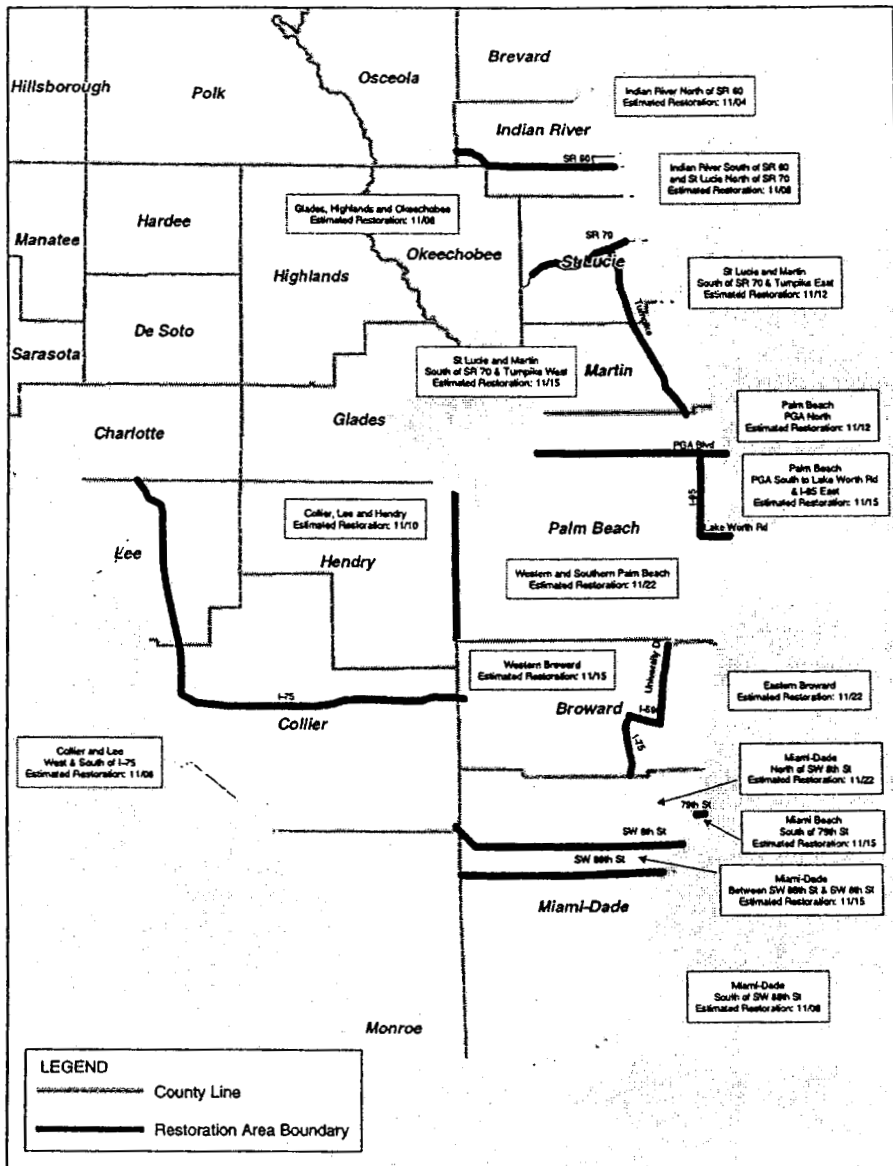
EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: The \$749,636 should reduce the \$213,307,000 of un-recovered 2004 storm costs from Exhibit A of the filing.

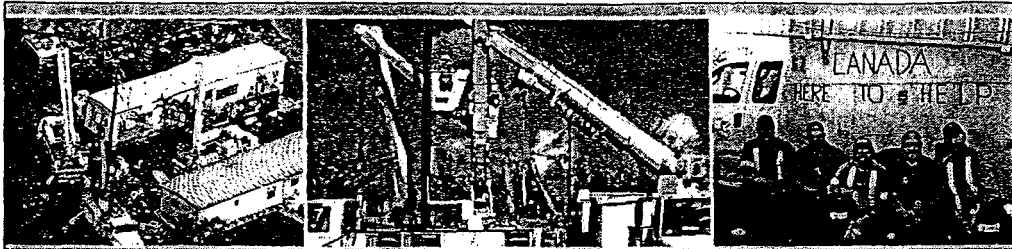
**EXHIBIT A-
ADVERTISEMENT SAMPLES**

We've discovered a force more powerful than a hurricane.

YOUR SPIRIT.

Hurricane Wilma hit Florida much harder than expected, causing extensive damage to our electrical grid and leaving 3.2 million customers without power. To help you know how to plan for your families and businesses – as we continue to work non-stop to restore your electricity – this map provides a quick reference about when electricity restoration in your area will be complete. The dates refer to when the last customer in each area will have electricity again, and most customers will have electricity before then. We know this is not an easy time for you, and we deeply appreciate your patience and understanding.





THANKS FOR YOUR PARTNERSHIP

from beginning to end.

Florida Power & Light Company would like to thank nearly 300 companies from 36 states and Canada for the extraordinary help you provided in restoring power after Hurricane Wilma.

It wasn't easy. Wilma hit Florida as a powerful Category 3 hurricane, knocking out power to approximately 3.2 million FPL customers throughout most of our 27,000-square mile service territory. Wilma caused more wide-spread outages than any other hurricane we've experienced.

The situation called for the largest restoration workforce to ever be assembled by FPL. We called on you for resources and help. Your response was incredible - with some companies arriving to Florida even prior to Wilma's landfall. In the end, nearly 10,000 restoration workers from near and far poured into our state, leaving families and homes, working long, grueling hours, pushing themselves to the limit to help our customers. Some, in fact, helped us during several hurricanes this year.

Working side by side with FPL's own restoration personnel, your teams helped us restore our communities back to normal as quickly as humanly possible. We couldn't have done this without you. We are grateful for your willingness to partner with us and help restore power to all of our customers.

Thank you for your tremendous support.

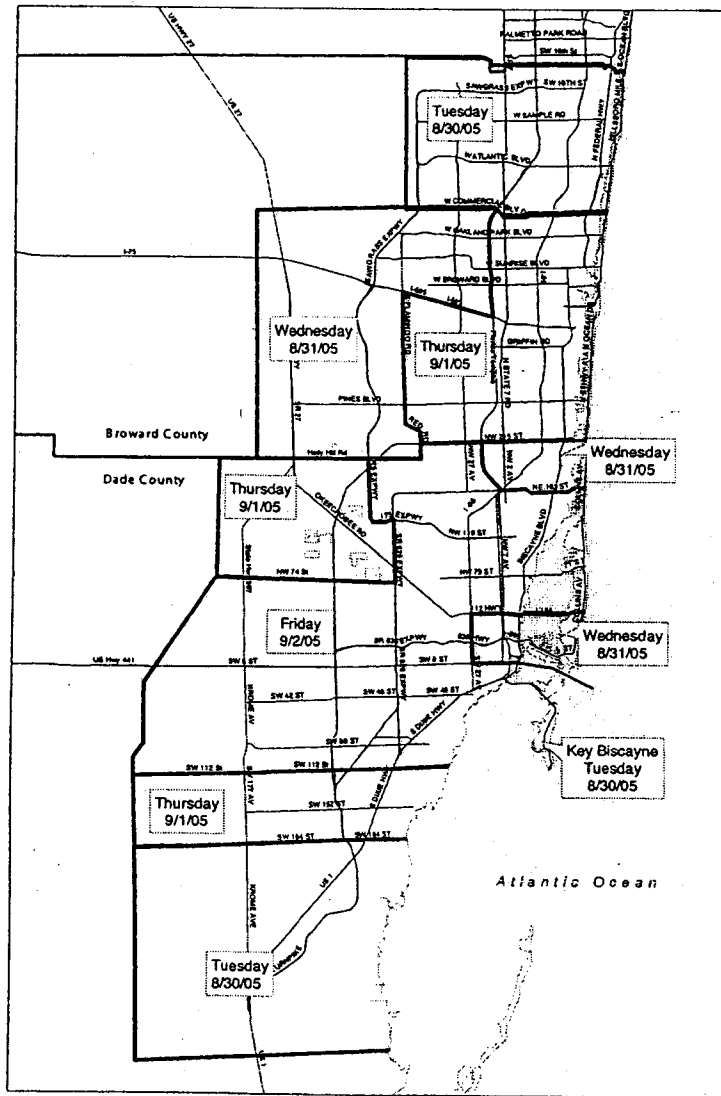
FPL thanks these companies for their help in our Hurricane Wilma restoration effort.

Alabama Power Co.	Comets-Fayette Electric Membership Corp.	Hawkeye Tri-County Rural Electric Coop	Midwest Energy Coop	Swanee Electric Membership Corp.
Allieghery Power	Culman Electric Coop	Heale & McCoy, Inc.	Minnesota Power	Scottsburg Electric Light Dept.
Alliant Energy	C.W. Wright Construction Co.	Holyoke Power and Electric Co.	Mount Carmel Public Utility Co.	Sedgwick County Electric
Ameren	Dulton Utilities	Hony Electric Coop	Murfreesboro Electric Dept.	Coop. Association
American Electric Power	Davey Tree Expert Co.	Huntsville Utilities	Muscogee Power & Water	Sesquatchee Valley Electric Coop
Amicalola Electric Membership Corp.	Davis H. Elliott Construction	Hydakar Wheelake Company	N. G. Gilbert Corp.	Service Electric Co.
Aquila	Dayton Power & Light Co.	Hydro One	National Grid	Shelby Electric Coop
Arab Electric Coop	Delawares Electric Coop	Hypowee, Inc.	Nelson Tree Service, Inc.	South Carolina Electric & Gas Co.
Asplundh Construction Corp.	Deimans Power	Independence Power & Light	New Barn Municipal Electric System	South Central Indiana REMC
Asplundh Tree Expert, Inc.	Dorton Municipal Utilities	Indiana Municipal Electric Association	Newberry Electric Coop	South-Eastern Illinois Electric Coop
Ashera Utilities Board	Detroit Edison Co.	Indianapolis Power & Light Co.	Newscoah Rural Electric	Southeast Missouri Electric
B&B Electrical & Utility Contractors	Detroit Public Lighting Dept.	International Transmission Co.	Coop. Association, Inc.	Southern Electric
Baltimore Gas & Electric Co.	Dickson Electric Dept.	Ivy Construction Co.	NSSource	Southern Maryland Electric Coop
BBC Electrical Services, Inc.	Dillard Smith Construction Co.	Irwin County Electric Membership Corp.	Nolin Rural Electric Coop	South Kentucky Rural Electric Coop
Bison Electric, Inc.	Duke Electric Coop	J.R.E.	North Central Mississippi	South River Electric Membership Corp.
Blue Grass Energy Coop	Dominion	J.W. D'Adda Electric, Inc.	Power Association	Southwest Arkansas Electric Coop
Blue Ridge Electric Coop	Duck River EMC	Jackson Electric Membership Corp.	NorthEast Utilities	SPE Utility Contractors
Blue Ridge Electric Membership Corp.	Duke Energy	Jackson Energy Authority	North Indiana Public Service Co.	Spiceland Municipal Light Co.
Boone County REMC	East Coast Electric	Jacksonville Electric Authority	North Virginia Electric Coop	Springfield Electric
Boone Electric Coop	Easton Iowa Light & Power Coop	Jefferson Energy Coop	North Georgia Electric	Saints Electric Coop
Brunswick Electric Membership Corp.	East Kentucky Power Coop	Joe Wheeler Electric Membership Corp.	Membership Corp.	Sullivan County Rural Electric Coop
Burford Tree, Inc.	ES&S	Jonesboro Water & Light Plant	North Houston Pole Line	Sunrise Electric Membership Corp.
C and C Powerline, Inc.	Electric Power Board	Kansas City Board of Public Utilities	NSTAR	Surry-Yadkin Electric Membership Corp.
Carroll Electric Membership Corp.	EMC Electric	Kansas City Power & Light	Ocmulgee Electric Membership Corp.	Tallahassee Municipal Utilities
Canadian Valley Electric Coop	ENCO Utility Services	Kaskaskia Utilities	Oaress Electric Membership Corp.	Taliquah Electric Coop
CenterPoint Energy	Energy Group, Inc.	Kent Power	Oakland REMC	Tampa Electric Co.
Central Electric Membership Corp.	EnergyUnited	KoySpan Energy Delivery	Oklahoma Gas & Electric Co.	Taylor County Rural Electric Coop
Central Georgia Electric	Ernst Construction, Inc.	Kinston Public Utilities	Oklahoma Gas & Electric Co.	Tennessee Valley Authority
Membership Corp.	Fairfield Electric Coop	Klammer Utility Authority	Owens Electric Coop	Texas-New Mexico Power Co.
Chain Electric Co.	Fayetteville Public Utilities	Knox Electric Coop	Owensboro Municipal Utilities	Texas Powerline, Inc.
Cherryland Electric Coop	FirstEnergy	Knightsown Electric Utility	Ozark Electric Coop	Third USA Inc.
Choptank Electric Coop	Fishel	Knoxville Utilities Board	Paducah Power System	Thumb Electric Coop
City	Florida Public Utilities Co.	LaGrange County REMC	PAR Electrical Contractors, Inc.	Touchstone Energy Coop
City of Baldwin	Florida State Department	Lavers Electric Coop	PECO	Townsend Tree
City of Berdson	of Transportation	Lee County Electric Coop	PeiDae Electric Coop	Tri-County Rural Electric Coop
City of Carlsville Department	Forest City Electric Dept.	Lee Electrical Construction, Inc.	Pennsylvania Department	TDU Electric Delivery Co.
of Electricity	Fort Campbell Army Base	Lewis Tree Service, Inc.	of Transportation	Union Power Co.
City of Dayton	Fort Pierce Utilities Authority	Lincoln Electric System	Pennsylvania's Power and Light	Union Electric Membership Corp.
City of Dover	Frankfort Electric & Water Plant Board	Lindsay Public Works Dept.	Pennsylvania Rural Electric Coop	United Rural Electric Membership Corp.
City of Kingston	G & G Electrical Contractors, Inc.	Lin County Rural Electric	Peit Jean Electric Coop	Utilizon Services Inc.
City of Newark	Gainesville Regional Utilities	Coop. Association	Phase II Electric, Inc.	Utility Lines Construction Service, Inc.
City of Nicholasville	Gallatin Electric	Little Ocmulgee Electric	Phillips Tree Experts, Inc.	Vectren
City of Orangeburg	Gastonia Electric Dept.	Membership Corp.	Piperline	Veridian Connections
City of Rock Falls	Gayco Electric Company, Inc.	Logansport Municipal Utilities	Pike Electric, Inc.	Verizon Services
City of Rock Hill Utility Electric Division	Georgia Power Co.	Louisville Gas and Electric Co.	Ponca City Energy	Walton Electric Membership Corp.
City of Rocky Mount	Global Gas and Electric	Lower Colorado River Authority	Ponderosa Construction Co.	Washington Electric Membership Corp.
City of South Haven	Grayson Rural Electric Coop	Lumberston Utilities Dept.	Potomac Electric Power Co.	Washington-Saint Tammany
City Public Service	Great Lakes Energy	Madisonville Electric Dept.	Presque Isle Electric & Gas Coop	Electric Coop
Clark County REMC	Greenbelt Electric Coop	Magnolia Electric Power Association	Progress Energy	We Energies
Clarke-Washington EMC	Greenwood Commission	Manbaro Electric Coop	Public Service Electric and Gas Co.	West Central Electric Coop
Clay Electric Coop	of Public Works	Maryland State Highway	Rappahannock Electric Coop	West Kentucky Rural Electric Coop
Clea Power	Greer Commission of Public Works	Administration - Department	Rayle Electric Membership Corp.	Western Energy
Cobb Electric Membership Corp.	Gregory Electric Co.	of Transportation	Riggs Dittler and Company, Inc.	Western Massachusetts Electric Co.
Columbus Light & Water	GreyStone Power Corp.	Mastic	Riviera Utilities	Williams Electric Co.
Commonwealth Edison Co.	Guernsey-Maulkum Electric Coop	McCoy Tree Surgery Co.	Rockville Electric Light Plant	Winterville Electric Dept.
Conover	Gulf Power Co.	Mecklenburg Electric Coop	Rockwood Electric Utility	Winnacoochee River Electric Coop
Consolidated Edison	Halter Tree Service, Inc.	Memphis Light, Gas & Water Division	Sam Houston Electric Coop	Wright Tree Service, Inc.
Consumers Energy	Hart EMC	Michigan Department of Transportation	Sand Mountain Electric Coop	XCEL Energy
Conway Corp.		Mid American Energy Co.	Santa Fe Electric Coop	
Coosa Valley Electric Coop		Mid-Carolina Electric Coop	SaOla Rural Electric Member Corp.	
Cotton Electric Coop		Middle Tennessee Electrical	Savannah Electric and Power Co.	
		Membership Corp.		



OUR COMMITMENT TO YOU

The past week has been tough for everyone in South Florida, especially people who are still without electricity. Be assured, we are working around the clock and our more than 14,000 workers will not stop until every one of our customers has electricity. To see when power restoration in your community will be complete, please refer to the area map. Most customers will have their power restored before the date listed on the map. We appreciate your patience.



KATRINA

was a powerful storm.

BUT YOU'RE THE ONES WHO BLEW US AWAY.

While Katrina showed us all that any hurricane is a force of nature to be reckoned with, your selflessness, dedication and partnership with us have brought South Florida just about back to normal. Sincere thanks ...

To our customers and neighbors, who exhibited patience, understanding and true grit throughout the recovery.

To the leaders of our state government, local governments and communities, whose partnership and collaboration enabled us to address your needs and priorities.

To the media, who did an outstanding job of timely reporting and helping keep everyone knowledgeable and safe in the dangerous days after the hurricane.

To the crews who came from out of state, who left home and family even before Katrina made landfall.

To our employees and retirees who worked tirelessly to get the lights back on, even though many had no electricity.

To all of you – our deepest appreciation.

Now our eyes turn to the people and communities of the Gulf Coast who have suffered Katrina at her worst. In the same way that crews from Louisiana, Mississippi, Georgia, Alabama and Tennessee were here to help South Florida, FPL will do whatever we can to help.





Cramer-Krasselt

225 East Robinson Street
Orlando, Florida 32801
P: 407.236.8300 F: 407.425.6137

CLIENT JOB #	FPL-50926
TITLE	:60 radio/Post-Katrina
DATE/TIME	8/26/05 8:03pm
WRITER	McDonald

FPL POST 02/ "How power is restored"

ANNCR: Now that hurricane Katrina has passed, FPL wants you to know that we are restoring power to affected areas as quickly as possible. Our efforts are guided by one simple principle—find and fix the damage that will safely bring power to the most people in the shortest amount of time. And there are a few important steps to make this happen. As soon as it's safe to do so, we begin assessing the damage to our infrastructure, as well as work with local police and fire agencies to eliminate life-threatening dangers such as downed power lines, and provide critical assistance to public health and safety facilities. Working with local officials, we also give priority to hospitals and other important community facilities. At the same time, we begin repairing the large power lines that allow us to restore power to a lot of people, quickly. Then we work to restore neighborhoods, and all customers, right down to your individual homes and businesses. All these steps work together to bring our communities back to normal. We appreciate your patience and will continue working until every single FPL customer has power.



Cramer-Krasselt

225 East Robinson Street
Orlando, Florida 32801
P: 407.236.8300 F: 407.425.6137

CLIENT JOB # FPL-50926
TITLE :60 radio/Post-Katrina (Home, Family, Safety)
DATE/TIME 8/25/05 – 7:29pm
WRITER McDonald

FPL-POST 03/ "Home, family and Safety"

ANNCR: Katrina has passed, and the safety and security of your family and home are extremely important. So please, follow these tips from FPL. First, DO NOT allow children to venture outside alone. This is the best way to protect them from possible contact with downed power lines, which are a big safety concern. STAY AWAY from downed power lines and NEVER touch one. Also, DO NOT walk in standing water or near debris, which can easily hide downed power lines. Should you see an electrical line down, and you feel it presents a clear and imminent danger, call 911 or FPL. Second, if you plan to use a portable generator for temporary power, set it up OUTSIDE, and connect appliances directly to it. DO NOT wire a portable generator to a breaker or fuse box—it's unsafe and may cause serious injuries. Remember—the safety of your family and our employees are FPL's top priority. Rest assured we'll do everything humanly possible to restore your power both quickly and safely.



Cramer-Krasselt

225 East Robinson Street
Orlando, Florida 32801
P: 407.236.8300 F: 407.425.6137

CLIENT JOB #	FPL-50926
TITLE	:60 radio/Post-Katrina
DATE/TIME	8/26/05 9:03pm
WRITER	McDonald

FPL-POST 04/ "Power Update"

ANNCR: Here's an update from FPL on power restoration efforts after Katrina. If you're still without electricity, we know how frustrated and angry you are. You think FPL has forgotten you. Katrina's heavy rain and wind caused large numbers of uprooted and fallen trees, a major obstacle in our recovery efforts in the hard-hit areas. But you are not forgotten. We are concentrating more than 14,000 workers in affected areas. We are working 24 hours a day, going home to home to ensure your electricity is restored. As part of our commitment, we have updated our automated system, 1-800-4OUTAGE, to provide you with the estimated time of power restoration to your community. We understand how hard it is to be without power. We know you're counting us. And we are committed to work around the clock until every customer has electricity.



Cramer-Krasselt

225 East Robinson Street
Orlando, Florida 32801
P: 407.236.8300 F: 407.425.6137

CLIENT JOB # FPL-50926
 TITLE :60 radio/Pre-Katrina
DATE/TIME 8/24/05 9:55pm
WRITER McDonald

FPL-PRE 01/ "KATRINA-1"

ANNCR: As we feel the effects of Katrina, FPL knows you need information. During the initial stage of recovery, we will work closely with community leaders to restore power to the vital services we all rely on. We'll also begin general restoration efforts while we evaluate damage to our infrastructure. This assessment -- and developing the restoration time estimates you're looking for -- does take time and we appreciate your patience. For instance, we'll know if large power lines have been damaged and you're without power, so we'd appreciate your leaving telephone lines open for critical emergency calls. Or, you may call our automated system at 1-800-4OUTAGE -- there is no wait time and you can quickly report your power outage. And once we have developed restoration time estimates, you can get regular updates through you local media. Rest assured, FPL will do everything humanly possible to restore your power quickly and safely. We know you're counting on us.



Cramer-Krasselt

225 East Robinson Street
Orlando, Florida 32801
P: 407.236.8300 F: 407.425.6137

CLIENT JOB # FPL-50926
TITLE :60 radio/Pre-Katrina
DATE/TIME 8/24/05 – 9:13pm
WRITER McDonald

FPL-PRE 02/ "KATRINA-2"

ANNCR: As we feel the effects of Katrina, FPL would like to share the following important safety information. First -- downed power lines are a big safety concern so please **STAY AWAY** from them — and **NEVER** touch one. Also, **DO NOT** walk in standing water or near debris, which can easily hide downed power lines, and make sure to keep children from venturing outside alone – particularly after dark, because you might not see a power line that could be live. Should you see an electrical line down, and you feel it presents a clear and imminent danger, call 911 or FPL. Second, if you plan to use a portable generator for temporary power, set it up **OUTSIDE**, and connect appliances directly to it. **DO NOT** wire a portable generator to a breaker or fuse box— it's unsafe and may cause serious injuries. Whatever Katrina brings, remember that the safety of your family and our employees are FPL's top priority. Rest assured we'll do everything humanly possible to restore your power both quickly and safely. For more information, visit www.FPL.com.

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Petition for issuance of a storm recovery
financing order, by Florida Power & Light
Company.

DOCKET NO. 060038-EI

DATED: MARCH 31, 2006

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that one correct copy of the REDACTED DIRECT TESTIMONY AND EXHIBITS OF KATHY L. WELCH has been served by U.S. Mail to R. Wade Litchfield, Esq. at 700 Universe Blvd., Juno Beach, Florida 33408-0420 on behalf of Florida Power & Light Company, and that a true copy thereof has been furnished to the following by U.S. Mail this 31st day of March, 2006:

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McWhirter Reeves Law Firm
Attorney for FIPUG
400 North Tampa Street, Suite 2450
Tampa, FL 33601-3350

Robert Scheffel Wright, Esq.
John T. LaVia, III, Esq.
Young van Assenderp, P.A.
Attorneys for FRF
225 South Adams Street, Suite 200
Tallahassee, Florida 32301

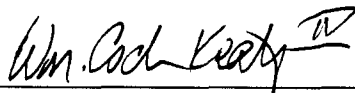
Michael Twomey, Esq.
Attorney for AARP
P. O. Box 5256
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William Walker
Florida Power & Light Company
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Office of Public Counsel
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Lieutenant Colonel Karen White and
Captain Damund Williams
AFCESA/ULT
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Tyndall Air Force Base, Florida 32403



WM . COCHRAN KEATING IV
Senior Attorney

FLORIDA PUBLIC SERVICE COMMISSION
2540 Shumard Oak Blvd.
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(850) 413-6199

DOCKET NO. 060038-EI: Petition for issuance of a storm recovery financing order, by Florida Power & Light Company

WITNESS: **Direct Testimony Of Kathy L. Welch**, Appearing On Behalf Of Staff of the Florida Public Service Commission

EXHIBIT KLW-3: Supplemental Audit Report



FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE

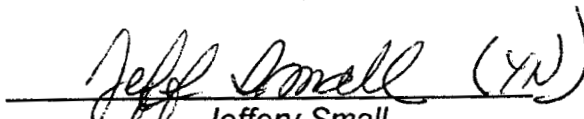
Miami District Office

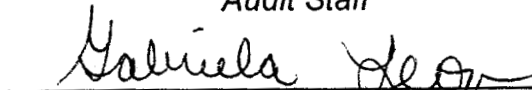
FLORIDA POWER AND LIGHT CO.

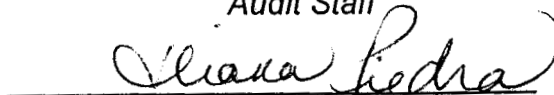
REVIEW OF 2004/2005 STORM DAMAGE COST RECOVERY
SUPPLEMENT
HISTORICAL YEAR ENDED DECEMBER 31, 2005

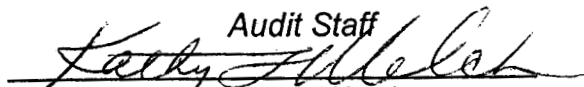
DOCKET NO. 060038-EI
AUDIT CONTROL NO. 05-294-4-1


Yen Ngo
Audit Manager


Jeffery Small
Audit Staff


Gabriela Leon
Audit Staff


Iliana Piedra
Audit Staff


Kathy L. Welch
Public Utilities Supervisor

**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT**

March 10, 2006

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED
PARTIES**

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the attached schedules prepared by Florida Power and Light in support of its filing for storm recovery.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

OBJECTIVES AND PROCEDURES:

Objective: To determine whether costs charged to the storm reserve were actually for storm damage restoration activities and recorded in accordance with Order No. PSC-05-0937-FOF-EI.

Procedure: We traced capitalized Hurricane Wilma costs to the journal entries and their source documents. The journal entry related to capitalizing follow up work is still based on estimated costs and may change before the hearings. Therefore, the \$56,634,364 that FPL has estimated as a reduction to storm expenses for capitalized items may change when the follow up work is completed.

Objective: To determine if the sample selected for November and December was supported by valid documentation and complied with Order No. PSC-05-0937-FOF-EI. The same was to be done for questionable sample items not finished in the last audit.

Procedures: The vehicle rates for the current sample and the prior audit's transmission sample were recalculated and the process to develop them was reviewed for reasonableness. The usage hours were traced to internal company reports prepared by field employees as they input their work into the financial accounting management system.

We traced materials and supplies items to the calculations of the average cost depending on the category of the item.

We traced all payroll items in the sample to reports, time sheets, and entries recording shift differential, temporary relief, regular pay, exempt overtime and storm preparation costs.

We obtained job tickets for the sample selected in the last audit and determined if the jobs were storm related. We determined if time sheets were coded to the storm and recalculated and traced the salary level to the payroll documentation.

We obtained supporting documentation for the December 2005 accruals for the power systems business unit that we did not have time to review in the prior audit. We also reviewed supporting documentation for work that FPL has identified as follow up work after Hurricane Wilma. We traced these items to supporting documentation that shows these amounts are owed. We attempted to trace the repairs to event reports to determine if the maintenance was planned. However, transmission and distribution staff do not prepare event reports the way the generation business units do. We traced all journal vouchers in the sample to source documentation to determine if they were for reasonable storm charges. See finding number two for the detail on the follow-up work.

We agreed all cash vouchers in the sample to invoices to determine if the items are related to the storm recovery process.

Objective: To determine whether FPL has complied with the methodology approved in Order No. PSC-05-0937-FOF-EI regarding the appropriate capitalization of capital expenditures and the booking of "normal" expenses.

Procedure: We reviewed the status of current payables for 2004 storms to determine if FPL's estimate of \$890,000,000 is still accurate. We verified that internal audit adjustments were made. See finding number one for the detail of the adjustments.

Objective: To determine whether poles owned by other companies have been repaired or replaced by FPL.

Procedure: In the initial storm audit we determined that a study was being done to determine what equipment was replaced for other companies and what amount would be charged to them. Our initial storm audit reported that the study would be completed the end of February so we requested it during the supplement. It has not been completed and could not be reviewed.

AUDIT FINDING NO. 1

SUMMARY:

STATEMENT OF FACT:

CONFIDENTIAL

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED:

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED:

AUDIT FINDING NO. 2

SUMMARY: Audit Finding No. 4 in the staff's initial audit report for this proceeding dated February 14, 2006, disclosed a FPL accrual of \$72,300,000 to power distribution follow-up work for hurricane Wilma which was a sample amount selected for further review. The sample did not include all follow up costs. The audit staff was unable to review any of the documents provided by FPL as of the above report date.

STATEMENT OF FACT: The audit staff, in its work subsequent to the initial audit report mentioned above, has determined that FPL now estimates the power distribution follow-up work for hurricane Wilma to total \$89,853,508. These amounts are based on revised estimates provided on February 16, 2006 in FPSC Document Request No. 3. A new list of FPL's estimated power distribution follow-up cost and its progress is provided below.

Item Project	Revised Estimate	Percent Complete
Payroll	4,000,000	
1 Inspection and follow-up repairs for feeders and laterals	11,405,202	20.0%
2 Asset Management System (AMS) field verification data	1,385,167	1.5%
3 Joint Use True-Up Survey to field verify Southern Bell Telephone poles that were replaced during Wilma	98,000	4.0%
4 Replace/repair capacitors and automated field switches (AFS) damaged by 2005 storms	2,169,331	60.0%
5 Customer response inquires and reconnects	1,000,000	25.0%
6 Post Wilma clean up of priority conditions	37,000,000	100.0%
7 Street light sweeps and repairs	<u>32,795,808</u>	99.0%
Total Follow-up Cost	\$89,853,508	
8 Less material included in logistics for follow up.	(5,089,676)	
Less Payroll	<u>(4,000,000)</u>	
Contractors Cost	<u>\$80,763,832</u>	

The portion which relates to amounts paid to contractors is \$80,763,832 after removing FPL payroll and material charges. These amounts are removed in the audit staff's analysis above because we selected the contractor portion for testing in this proceeding.

The utility asserts that the above Hurricane Wilma follow-up field work includes only those costs associated with FPL's storm recovery efforts and that any known events relating to pre-storm or normal maintenance activities is not included.

The audit staff, in discussions with utility staff personnel on this issue, has developed the following understandings of the above mentioned items.

- Item No. 1 The inspection and follow-up repairs of the affected feeders and laterals in the FPL distribution system are indistinguishable between pre-storm and post-storm events. Damaged cross arms, insulators, etcetera, that may have existed prior to the storms were minimal.
- Item No. 2 The Asset Management System field data verification process is post storm activity because it is used to update FPL's graphic Asset Management System to reflect the "as-built" power distribution system after the follow-up storm repairs are completed.
- Item No. 3 The joint use true-up survey of BellSouth Telephone (BST) poles, whose cost will be split between FPL and BST, is to determine BST liability to FPL for replacement of BST property as a result of FPL storm recovery work.
- Item No. 4 The inspection and follow-up repairs of the affected capacitors and AFS in the FPL distribution system are indistinguishable between pre-storm and post-storm events. Any damage that may have existed prior to the storms was minimal.
- Item No. 5 The customer response inquires and reconnects cost is limited to work completed primarily by FPL employees to disconnect and reconnect customer homes damaged by the storm and for incidental activities such as straightening poles and storm scrap removal.
- Item No. 6 The post Wilma clean-up of priority conditions, which are substantially complete, should be revised to reflect the actual cost incurred when invoiced. These conditions could include any of the other types of repairs listed such as feeders, laterals, capacitors or street lights but were distinguished because these required priority repair and could not wait until the studies were completed.
- Item No. 7 The street light sweeps and repairs, which are substantially complete, are indistinguishable between pre-storm and post-storm events and should be revised to reflect the actual cost incurred when invoiced. Any damage that may have existed prior to the storms was minimal. However, in January the company began charging normal operating expenses for the amount that was budgeted for street light repairs prior to the storm since FPL assumes that some of the current work may be to repair current problems.
- Item No. 8 The material cost included in logistics for follow up was removed from this schedule because, although it was charged to storm costs, it was charged to a different category than the contractor costs.

Additionally, the audit staff has determined that FPL has reclassified \$5,073,184 from Account 186-Deferred Maintenance Storm to remove estimated capital asset additions included in its follow-up work for hurricane Wilma. This adjustment is not reflected in the revised schedule above.

EFFECT ON THE GENERAL LEDGER IF THE FINDING IS ACCEPTED: None

EFFECT ON THE FILING IF THE FINDING IS ACCEPTED: None