

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: June 28, 2006
TO: Ralph J. Von Fossen, Economic Analyst, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: **Docket No:** 060007-EI; **Company Name:** Florida Power & Light Company
Audit Purpose: Environmental Cost Recovery Clause
Audit Control No: 06-044-4-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, it should send the response to the Division of Commission Clerk and Administrative Services. There are confidential work papers associated with this audit.

DNV:bj
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of Commission Clerk & Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
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DOCUMENT NUMBER-DATE

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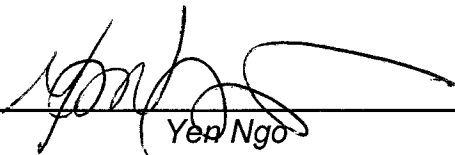


FLORIDA PUBLIC SERVICE COMMISSION
DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE

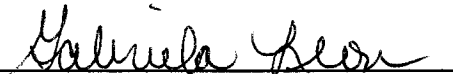
Miami District Office

FLORIDA POWER AND LIGHT
ENVIRONMENTAL COST RECOVERY CLAUSE
HISTORICAL YEAR ENDED DECEMBER 31, 2005

DOCKET NO. 060007-EI
AUDIT CONTROL NO. 06-044-4-1



Yen Ngo
Audit Manager



Gabriela Leon
Audit Staff



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

June 19, 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 Environmental Cost Recovery Clause filing for 2005.

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: The objective of the audit was to determine if there were changes in the environmental programs in 2005. We also determined if the expenses in 2005 were materially different than in 2004 and if the actual expenses for 2005 were within budget.

Procedure: We compared the programs in the filing for 2005 to the programs in effect in 2004. Each type of expense in 2005 was compared to the same expense in 2004. The company was asked to explain any material increases or decreases. We also verified that the expenses were recorded to the appropriate environmental programs. No significant findings were found.

Objective: The objective of the audit was to determine that Project Capital Investments are accounted for according to the Commission Rules and regulations.

Procedure: We reconciled the plant balance from the filing to the general ledger. We scanned the Annual Capital Depreciation Schedule for plants with major increases and judgmentally selected a sample of plant additions from the work orders. We verified that the additions had appropriate supporting documentation (purchase orders, contracts, change orders, and invoices) and were recorded to the correct environmental projects.

If the project involved replacement of existing plant assets, we made sure the company retired the installed costs of replaced units of property according to Rule 25-6.0142(4)(b), F.A.C.. We traced the jurisdictional factor to the order. No significant findings were found.

Objective: The objective of the audit was to determine that accumulated depreciation and the depreciation expense are calculated accordance with Commission guidelines and that the debt and equity ratios used are properly calculated.

Procedure: We recalculated the depreciation expense and the accumulated depreciation and traced it to the filing and the general ledger. The depreciation rates were traced to orders. The debt and equity ratios were traced to the company's cost rate schedule. No significant findings were found.

Objective: The objective of the audit was to determine if the company applied the Commission approved cost recovery factor to actual KWH sales.

Procedure: We obtained the monthly Revenue and Rate Reports, which are an output of the billing system, and prepared schedules of revenue. Revenues for programs that are not included in the revenue and rate report were added. We reconciled these schedules to the filing and traced the factors charged to the last order. No significant findings were found.

Objective: The objective of the audit was to determine that the actual program expenses are representative of company activity and are properly computed and recorded on the company books.

The objective of the audit was to determine that the Gain on Sales of Emissions and the monthly SO₂ allowance expenses for 2005 including the revenues are reported in the working capital.

The objective of the audit was to determine that FPL complied with the netting requirement for the cost of environmental studies on power plant cooling water intake structures pursuant to Order No. PSC-04-0987-PAA-EI.

The objective of the audit was to determine the accuracy of the deferred gain on Sales Emission Allowances.

Procedure: The expenses in the filing were tied to the general ledger. A judgmental sample of all expenses was selected and the source documentation for the sample items were reviewed to make sure the item was an environmental expense and charged to the correct account. We traced the jurisdictional factor to the PSC order. No significant findings were found.

We added the total transfers of the monthly SO₂ allowance expenses and traced the proceeds and the transfers to the invoices and other supporting documentation. No significant findings were found.

The company established Project 28 CWA 316 (b) Phase II Rule to accommodate the cooling water intake structures as required by the Environmental Protection Agency. We randomly tested a sample of items charged to this project. No significant findings were found.

We traced the proceeds of the deferred gain on Sales Emission Allowances to the tracking system distribution. No significant findings were found.

Objective: The objective of the audit was to determine if the true-up calculation and interest provision as filed was properly calculated.

Procedures: We agreed the beginning true-up to the PSC order. The true-up was recalculated for the year using the Wall Street Journal interest rates. No significant findings were found.

Objective: Because the storm order recommended follow up of payroll cost included in storm that would have been charged to environmental, the objective of the audit was to determine the difference between the estimated and the actual payroll and benefits for July through December 2005.

Procedure: The company could not provide estimated payroll included in the environmental projects in time to complete this audit because they do not maintain their estimate in this manner. They will request that the business units break down this information and we will provide it in a supplement to this report.

EXHIBITS

Florida Power & Light Company
Environmental Cost Recovery Clause
Calculation of the Final True-up Amount for the Period
January through December 2005

Line No.	January	February	March	April	May	June
1 ECRC Revenues (net of Revenue Taxes)	\$1,787,910	\$1,704,032	\$1,674,456	\$1,723,379	\$1,811,225	\$2,170,232
2 True-up Provision (Order No. PSC-04-1187-FOF-EI)	(4,993)	(4,993)	(4,993)	(4,993)	(4,993)	(4,993)
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	1,782,917	1,699,039	1,669,463	1,718,386	1,806,232	2,165,239
4 Jurisdictional ECRC Costs						
a - O&M Activities (Form 42-5A, Line 9)	334,003	539,885	410,814	304,109	316,260	(126,543)
b - Capital Investment Projects (Form 42-7A, Line 9)	908,892	941,488	952,555	974,555	1,060,882	1,077,216
c - Total Jurisdictional ECRC Costs	1,242,895	1,481,373	1,363,369	1,278,664	1,377,142	950,673
5 Over/(Under) Recovery (Line 3 - Line 4c)	540,022	217,666	306,094	439,722	429,090	1,214,566
6 Interest Provision (Form 42-3A, Line 10)	1,447	2,367	3,105	4,208	5,529	7,989
7 Prior Periods True-Up to be Collected/(Refunded) in 2005	(59,916)	486,546	711,572	1,025,764	1,474,687	1,914,299
a - Deferred True-Up from 2004 (Form 42-1A, Line 7)	505,072	505,072	505,072	505,072	505,072	505,072
8 True-Up Collected /(Refunded) (See Line 2)	4,993	4,993	4,993	4,993	4,993	4,993
9 End of Period True-Up (Lines 5+6+7+7a+8)	991,618	1,216,644	1,530,836	1,979,759	2,419,371	3,646,919
10 Adjustments to Period Total True-Up including Interest						
11 End of Period Total Net True-Up (Lines 9+10)	\$991,618	\$1,216,644	\$1,530,836	\$1,979,759	\$2,419,371	\$3,646,919

Florida Power & Light Company
Environmental Cost Recovery Clause
Calculation of the Final True-up Amount for the Period
January through December 2005

Line No.	July	August	September	October	November	December	End of Period Amount
1 ECRC Revenues (net of Revenue Taxes)	\$2,385,781	\$2,472,357	\$2,471,205	\$2,266,647	\$1,748,575	\$1,846,995	\$24,062,796
2 True-up Provision (Order No. PSC-04-1187-FOF-EI)	(4,993)	(4,993)	(4,993)	(4,993)	(4,993)	(4,993)	(59,916)
3 ECRC Revenues Applicable to Period (Lines 1 + 2)	2,380,788	2,467,364	2,466,212	2,261,654	1,743,582	1,842,002	24,002,880
4 Jurisdictional ECRC Costs							
a - O&M Activities (Form 42-6A, Line 9)	280,874	209,151	451,985	408,219	150,742	928,697	4,208,196
b - Capital Investment Projects (Form 42-7A, Line 9)	1,092,616	1,111,868	1,128,145	1,147,304	1,205,150	1,280,937	12,881,608
c - Total Jurisdictional ECRC Costs	1,373,490	1,321,019	1,580,130	1,555,523	1,355,892	2,209,634	17,089,804
6 Over/(Under) Recovery (Line 3 - Line 4c)	1,007,298	1,146,345	886,082	706,131	387,690	(367,632)	6,913,076
6 Interest Provision (Form 42-3A, Line 10)	11,594	15,455	19,452	23,146	26,364	27,374	148,030
7 Prior Periods True-Up to be Collected/(Refunded) in 2005	3,141,847	4,165,732	5,332,525	6,243,052	6,977,322	7,396,369	(59,916)
a - Deferred True-Up from 2004 (Form 42-1A, Line 7)	505,072	505,072	505,072	505,072	505,072	505,072	505,072
8 True-Up Collected/(Refunded) (See Line 2)	4,993	4,993	4,993	4,993	4,993	4,993	59,916
9 End of Period True-Up (Lines 6+8+7+7a+8)	4,670,804	5,837,597	6,748,124	7,482,394	7,901,441	7,566,176	7,566,176
10 Adjustments to Period Total True-Up Including Interest							
11 End of Period Total Net True-Up (Lines 9+10)	\$4,670,804	\$5,837,597	\$6,748,124	\$7,482,394	\$7,901,441	\$7,566,176	\$7,566,176

Florida Power & Light Company
Environmental Cost Recovery Clause
Calculation of the Final True-up Amount for the Period
January through December 2005

Interest Provision (In Dollars)

Line No.	January	February	March	April	May	June
1 Beginning True-Up Amount (Form 42-2A, Lines 7 + 7a + 10)	\$445,156	\$991,618	\$1,216,644	\$1,530,836	\$1,979,759	\$2,419,371
2 Ending True-Up Amount before interest (Line 1 + Form 42-2A, Lines 5 + 8)	990,171	1,214,277	1,527,731	1,975,551	2,413,842	3,638,930
3 Total of Beginning & Ending True-Up (Lines 1 + 2)	\$1,435,327	\$2,205,895	\$2,744,375	\$3,506,387	\$4,393,601	\$6,058,301
4 Average True-Up Amount (Line 3 x 1/2)	\$717,664	\$1,102,948	\$1,372,188	\$1,753,194	\$2,196,801	\$3,029,151
5 Interest Rate (First Day of Reporting Month)	2.34000%	2.50000%	2.65000%	2.78000%	2.98000%	3.06000%
6 Interest Rate (First Day of Subsequent Month)	2.50000%	2.65000%	2.78000%	2.98000%	3.06000%	3.27000%
7 Total of Beginning & Ending Interest Rates (Lines 5 + 6)	4.84000%	5.15000%	5.43000%	5.76000%	6.04000%	6.33000%
8 Average Interest Rate (Line 7 x 1/2)	2.42000%	2.57500%	2.71500%	2.88000%	3.02000%	3.16500%
9 Monthly Average Interest Rate (Line 8 x 1/12)	0.20167%	0.21458%	0.22625%	0.24000%	0.25167%	0.26375%
10 Interest Provision for the Month (Line 4 x Line 9)	\$1,447	\$2,367	\$3,105	\$4,208	\$5,529	\$7,989

Florida Power & Light Company
Environmental Cost Recovery Clause
Calculation of the Final True-up Amount for the Period
January through December 2005

Interest Provision (in Dollars)

Line No.	July	August	September	October	November	December	End of Period Amount
1 Beginning True-Up Amount (Form 42-2A, Lines 7 + 7a + 10)	\$3,848,919	\$4,870,804	\$5,837,597	\$6,748,124	\$7,482,394	\$7,901,441	\$44,870,663
2 Ending True-Up Amount before Interest (Line 1 + Form 42-2A, Lines 5 + 8)	4,659,210	5,822,142	6,728,672	7,459,248	7,875,077	7,538,802	51,843,653
3 Total of Beginning & Ending True-Up (Lines 1 + 2)	\$8,306,129	\$10,492,946	\$12,566,269	\$14,207,372	\$15,357,471	\$15,440,243	\$96,714,316
4 Average True-Up Amount (Line 3 x 1/2)	\$4,153,065	\$5,246,473	\$6,283,135	\$7,103,686	\$7,678,736	\$7,720,122	\$48,357,158
5 Interest Rate (First Day of Reporting Month)	3.27000%	3.43000%	3.64000%	3.79000%	4.03000%	4.21000%	N/A
6 Interest Rate (First Day of Subsequent Month)	3.43000%	3.64000%	3.79000%	4.03000%	4.21000%	4.30000%	N/A
7 Total of Beginning & Ending Interest Rates (Lines 5 + 6)	6.70000%	7.07000%	7.43000%	7.82000%	8.24000%	8.51000%	N/A
8 Average Interest Rate (Line 7 x 1/2)	3.35000%	3.53500%	3.71500%	3.91000%	4.12000%	4.25500%	N/A
9 Monthly Average Interest Rate (Line 8 x 1/12)	0.27917%	0.29458%	0.30958%	0.32583%	0.34333%	0.35458%	N/A
10 Interest Provision for the Month (Line 4 x Line 9)	\$11,594	\$15,455	\$19,452	\$23,146	\$26,364	\$27,374	\$148,030