



# 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-

**ORIGINAL**

**DATE:** July 10, 2007

**TO:** Peter H. Lester, Economic Analyst, Division of Economic Regulation

**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance *DNV*

**RE:** Docket No: 070001-EI; Company Name: Florida Power and Light Company;  
Audit Purpose: Capacity Cost Recovery Clause Audit;  
Audit Control No: 07-022-4-3;

After receiving the utility's Request for Confidential Classification, we are reissuing this audit report to include those portions no longer classified as confidential.

DNV:bj  
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)  
Division of Commission Clerk (2)  
Division of Competitive Markets and Enforcement (Harvey)  
General Counsel  
Office of Public Counsel

RECEIVED-FPSC  
07 JUL 10 PM 2:40  
COMMISSION CLERK

- CMP \_\_\_\_\_ Mr. Bill Walker
- COM \_\_\_\_\_ Florida Power & Light Co.
- CTR \_\_\_\_\_ 215 S. Monroe St., Suite 810  
Tallahassee, FL 32301-1859
- ECR \_\_\_\_\_
- GCL \_\_\_\_\_ John T. Butler / R. Wade Litchfield
- OPC \_\_\_\_\_ Florida Power & Light Company  
700 Universe Boulevard
- RCA \_\_\_\_\_ Juno Beach, FL 33408-0420
- SCR \_\_\_\_\_
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## FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE*

*Miami District Office*

FLORIDA POWER AND LIGHT

CAPACITY COST RECOVERY CLAUSE

YEAR ENDED DECEMBER 31, 2006

DOCKET NO. 070001-EI  
AUDIT CONTROL NO. 07-022-4-3

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Yen Ngo  
Audit Manager

A handwritten signature in cursive script, appearing to read "Kathy Welch", positioned above a horizontal line.

Kathy Welch  
Public Utilities Supervisor

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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE**  
**AUDITOR'S REPORT**  
May 8, 2007

**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 the procedures to the attached schedules prepared by Florida Power and Light in support of its filing for capacity docket 070001-EI.

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 was to determine if capacity revenue and kilowatt hours sold were accurately reported.

**Procedures:** We prepared a schedule of revenues from FPL's Revenue and Rate Reports which summarize FPL's billing. We computed the factors by rate code and compared them to the last Commission order for capacity. We selected some customer bills from various rate classes to verify that the proper capacity rate factors were used. No errors were found.

**Objective:** The objective was to verify that the true-up was calculated correctly.

**Procedures:** The true-up was recalculated and the interest rates were traced to the approved interest rates established by the Commission. We traced the prior period true up to the last audit workpapers. No errors were found.

**Objective:** The objective was to verify that the costs agree to the general ledger and can be substantiated with source documentation and that the correct jurisdiction factor was properly applied.

**Procedures:** We reconciled the filing to the general ledger. We tested one month of Unit Power Sales (UPS) charges by tracing the schedule to invoices.

We traced the short-term capacity purchases to invoices for one month and to a contract.

We verified that transmission revenues from non-separated sales are credited to the capacity clause by reviewing the itemized account detail and tracing it to invoices and the financial accounting system. The treatment was compared to Commission Order PSC-00-1744-PAA-EI.

For qualifying facilities, we traced the general ledger amount to the Estimated Purchase Power Sales Billing Summary and reviewed the true-up of the prior month's estimate.

We prepared a schedule of the St. Johns River Power Plant (SJRPP) capacity charges for one month and traced it to FPL's accrual. For the same month we traced the components such as debt service and transmission to schedules provided by Jacksonville Electric Authority (JEA). We reconciled the decommissioning costs to a Commission order. The deferred interest for SJRPP was traced to the general ledger. We obtained a letter estimating property tax from JEA and used it to calculate the monthly accrual.

SJRPP Energy Suspension payments were traced to an accrual worksheet. The debt and equity component from that worksheet was traced to prior audits.

For Transmission of Electricity by others, we traced one month's charges to invoices and transmission reports prepared by FPL's Energy Marketing and Trading.

We reconciled the Okeelanta settlement to the general ledger and recalculated the amortization. We traced the amount to the prior audit and Commission Order PSC 00-2341-FOF-EI.

No errors were found in any of the costs reviewed.

**Objective:** The objective was to verify that security charges included in the capacity filing are incremental to security charges in base rates.

**Procedures:** We determined total security costs, removed base costs established in prior audits and verified that the costs included were incremental. We also selected a sample of charges to the security cost accounts included in the filing and traced them to invoices. The accruals made through journal entries were also reviewed.

The sample testing also included the relocation costs of the newly hired employees to accommodate the the Nuclear Regulatory Agency security program. The costs for two employees appeared to be high. See audit finding number 1.

**Objective:** The objective was to determine if the Nuclear Regulatory Commission fee and the recoverable portion of the incremental fee increase amount are consistent with the percentage approved for recovery through the clause according to Commission Order PSC-03-1461-FOF-EI.

**Procedures:** We obtained and traced the invoices, reviewed the order and FPL's calculation of non-recoverable expense. No errors were found.

**AUDIT FINDING NO. 1**

**SUBJECT: RELOCATION COSTS**

**AUDIT ANALYSIS:** Employee relocation costs have been included in Security costs recovered through the Capacity Clause in prior years. During 2006, FPL included \$167,167.28 in account 524.22 – Nuclear Power Plant Security for relocation costs. The cost per employee for two employees appeared to be high. Below is the list of the charges.

Miscellaneous	1,775.00
Security System Engineer	102,929.35
Director of Nuclear Fleet Security	19,472.82
Emergency Planning Coordinator	42,990.11
Total	<u>167,167.28</u>

**EFFECT ON LEDGER:** This finding is for informational purpose only.

**EFFECT ON THE FILING:** This finding is for informational purpose only.

### III. EXHIBITS



CAPACITY COST RECOVERY CLAUSE							
CALCULATION OF FINAL TRUE-UP AMOUNT							
FOR THE PERIOD JANUARY THROUGH DECEMBER 2006							
LINE NO.	(1) JAN 2006	(2) FEB 2006	(3) MAR 2006	(4) APR 2006	(5) MAY 2006	(6) JUN 2006	
1.	Payments to Non-generators (UPS & SJRPP)	\$ 16,328,586	\$ 17,039,174	\$ 16,424,843	\$ 17,022,006	\$ 16,137,875	\$ 16,258,537
2.	Short Term Capacity Purchases CCR	5,567,800	5,760,442	3,714,452	3,604,238	6,904,812	13,741,290
3.	QF Capacity Charges	25,941,162	25,351,277	25,824,354	25,694,198	26,100,635	25,963,653
4a.	SJRPP Suspension Accrual	354,568	354,568	354,568	354,568	354,568	354,568
4b.	Return on SJRPP Suspension Liability	(370,319)	(373,599)	(376,878)	(380,157)	(383,436)	(386,715)
5.	Okechenta Settlement (Capacity)	3,053,254	3,045,448	3,037,545	3,030,642	3,020,858	3,011,307
6.	Incremental Plant Security Costs-Order No. PSC-02-1761	2,947,315	2,278,720	1,710,423	2,413,005	2,137,310	2,208,967
7.	Transmission of Electricity by Others	637,042	684,247	589,986	569,737	982,560	919,270
8.	Transmission Revenues from Capacity Sales	(612,573)	(510,704)	(448,830)	(147,753)	(152,625)	(149,806)
9.	Total (Lines 1 through 8)	\$ 53,846,834	\$ 53,629,573	\$ 50,830,463	\$ 52,160,484	\$ 55,102,557	\$ 61,920,870
10.	Jurisdictional Separation Factor (a)	98.62224%	98.62224%	98.62224%	98.62224%	98.62224%	98.62224%
11.	Jurisdictional Capacity Charges	53,104,953.55	52,890,686.42	50,130,141.54	51,441,837.50	54,343,375.72	61,067,749.35
12.	Capacity related amounts included in Base Rates (FPSC Portion Only) (b)	(4,745,466)	(4,745,466)	(4,745,466)	(4,745,466)	(4,745,466)	(4,745,466)
13.	Jurisdictional Capacity Charges Authorized	\$ 48,359,488	\$ 48,145,220	\$ 45,384,676	\$ 46,696,372	\$ 49,597,910	\$ 56,322,283
14.	Capacity Cost Recovery Revenues (Net of Revenue Taxes)	\$ 45,391,676	\$ 41,857,250	\$ 41,260,600	\$ 43,401,265	\$ 47,773,199	\$ 53,178,080
15.	Prior Period True-up Provision	(593,148)	(593,148)	(593,148)	(593,148)	(593,148)	(593,148)
16.	Capacity Cost Recovery Revenues Applicable to Current Period (Net of Revenue Taxes)	\$ 44,798,528	\$ 41,264,102	\$ 40,667,452	\$ 42,808,117	\$ 47,180,051	\$ 52,584,932
17.	True-up Provision for Month - Over/(Under) Recovery (Line 16 - Line 13)	(3,560,960)	(6,881,118)	(4,717,223)	(3,888,255)	(2,417,859)	(3,737,351)
18.	Interest Provision for Month	(19,441)	(37,453)	(58,912)	(76,927)	(89,697)	(103,714)
19.	True-up & Interest Provision Beginning of Month - Over/(Under) Recovery	(7,117,775)	(10,105,027)	(16,430,451)	(20,613,438)	(23,985,472)	(25,899,880)
20.	Deferred True-up - Over/(Under) Recovery	3,305,688	3,305,688	3,305,688	3,305,688	3,305,688	3,305,688
21.	Prior Period True-up Provision - Collected/(Refunded) this Month	593,148	593,148	593,148	593,148	593,148	593,148
22.	End of Period True-up - Over/(Under) Recovery (Sum of Lines 17 through 21)	\$ (6,799,339)	\$ (13,124,763)	\$ (17,307,750)	\$ (20,679,784)	\$ (22,594,192)	\$ (25,842,108)
Notes: (a) Per K. M. Dublin's Testimony Appendix III Page 3, filed September 2, 2005							
(b) Per FPSC Order No. PSC-94-1892-POF-EL, Docket No. 948001-EL, as adjusted in August 1993, per E.L. Hoffman's Testimony Appendix IV, Docket No. 930001-EL, filed July 8, 1993.							
NOTE: Columns and rows may not add due to rounding.							

CAPACITY COST RECOVERY CLAUSE									
CALCULATION OF FINAL TRUE-UP AMOUNT									
FOR THE PERIOD JANUARY THROUGH DECEMBER 2006									
LINE NO.		(7) JUL 2006	(8) AUG 2006	(9) SEP 2006	(10) OCT 2006	(11) NOV 2006	(12) DEC 2006	(13) TOTAL	LINE NO.
1.	Payments to Non-cogenerators (UPS & SJRPP)	\$ 16,684,681	\$ 15,003,469	\$ 16,649,279	\$ 15,832,458	\$ 15,108,177	\$ 18,269,474	\$ 196,758,360	1.
2.	Short Term Capacity Purchases OCR	13,796,520	13,796,520	7,819,940	3,428,305	3,742,625	5,875,105	87,752,049	2.
3.	QF Capacity Charges	26,187,808	25,949,913	26,791,939	26,013,632	26,072,000	26,134,780	312,025,350	3.
4a.	SJRPP Suspension Accrual	354,568	354,568	354,568	354,568	354,568	354,568	4,254,816	4a.
4b.	Return on SJRPP Suspension Liability	(389,994)	(393,273)	(396,552)	(399,831)	(403,110)	(406,389)	(4,660,252)	4b.
5.	Okesanta Settlement (Capacity)	3,001,083	2,987,974	2,974,571	2,961,717	2,948,845	2,936,004	36,009,248	6b.
6.	Incremental Plant Security Costs-Order No. FSC-02-1761	2,172,622	1,583,563	1,859,331	1,368,610	2,144,982	2,219,185	25,044,033	6c.
7.	Transmission of Electricity by Others	942,138	818,051	941,745	543,384	577,666	681,047	8,886,872	7.
8.	Transmission Revenues from Capacity Sales	(158,354)	(509,398)	(132,053)	(176,908)	(152,245)	(321,679)	(3,472,927)	8.
9.	Total (Lines 1 through 8)	\$ 62,591,074	\$ 59,591,387	\$ 56,862,770	\$ 49,925,936	\$ 50,393,508	\$ 55,742,094	\$ 662,597,548	9.
10.	Jurisdictional Separation Factor (a)	98.62224%	98.62224%	98.62224%	98.62224%	98.62224%	98.62224%	N/A	10.
11.	Jurisdictional Capacity Charges	61,728,718.78	58,770,360.24	56,079,337.31	49,238,076.23	49,699,206.48	54,974,101.24	653,468,544.35	11.
12.	Capacity related amounts included in Base Rates (FPSC Portion Only) (b)	(4,745,466)	(4,745,466)	(4,745,466)	(4,745,466)	(4,745,466)	(4,745,466)	(56,945,592)	12.
13.	Jurisdictional Capacity Charges Authorized	\$ 56,983,253	\$ 54,024,894	\$ 51,333,871	\$ 44,492,610	\$ 44,953,740	\$ 50,228,635	\$ 596,522,952	13.
14.	Capacity Cost Recovery Revenues (Net of Revenue Taxes)	\$ 55,273,079	\$ 56,250,502	\$ 55,355,377	\$ 52,338,005	\$ 46,155,734	\$ 44,070,843	\$ 582,325,610	14.
15.	Prior Period True-up Provision	(593,148)	(593,148)	(593,148)	(593,148)	(593,148)	(593,144)	(7,117,772)	15.
16.	Capacity Cost Recovery Revenues Applicable to Current Period (Net of Revenue Taxes)	\$ 54,679,931	\$ 55,657,354	\$ 54,762,229	\$ 51,764,857	\$ 45,562,586	\$ 43,477,699	\$ 575,207,838	16.
17.	True-up Provision for Month - Over/(Under) Recovery (Line 16 - Line 13)	(2,303,322)	1,632,460	3,428,358	7,272,246	608,845	(6,750,936)	(21,315,114)	17.
18.	Interest Provision for Month	(118,469)	(117,630)	(103,334)	(77,711)	(58,105)	(69,221)	(930,614)	18.
19.	True-up & Interest Provision Beginning of Month - Over/(Under) Recovery	(29,147,796)	(30,976,439)	(28,868,461)	(24,950,290)	(17,162,606)	(16,018,718)	(7,117,775)	19.
20.	Deferred True-up - Over/(Under) Recovery	3,305,688	3,305,688	3,305,688	3,305,688	3,305,688	3,305,688	3,305,688	20.
21.	Prior Period True-up Provision - Collected/(Refunded) this Month	593,148	593,148	593,148	593,148	593,148	593,144	7,117,772	21.
22.	End of Period True-up - Over/(Under) Recovery (Sum of Lines 17 through 21)	\$ (27,670,751)	\$ (25,562,773)	\$ (21,644,602)	\$ (13,856,918)	\$ (12,713,030)	\$ (18,940,044)	\$ (18,940,044)	22.
Notes: (a) Per K. M. Dublin's Testimony Appendix III Page 3, filed									
(b) Per FPSC Order No. FSC-94-1892-FOF-XI, Docket No. 9									
Appendix IV, Docket No. 930001-XI, filed July 2, 1993.									
NOTE: Columns and rows may not add due to rounding.									