

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: October 8, 2007
TO: Andrew L. Maurey, Public Utilities Supervisor, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: Docket No: 060038-EI; Company Name: Florida Power & light;
Audit Purpose: Audit Up-Front Storm Recovery Bond Issuance;
Audit Control No: 07-235-4-1

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. There are no confidential work papers associated with this audit.

DNV:sbj
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

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

Natalie Smith / R. Wade Litchfield
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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE

Miami District Office

FLORIDA POWER AND LIGHT

BOND ISSUANCE COSTS

YEAR ENDED AUGUST 31, 2007

DOCKET NO. 060038-EI
AUDIT CONTROL NO. 07-235-4-1

Handwritten signature of Gabriela Leon in cursive script, positioned above a horizontal line.

Gabriela Leon
Audit Manager

Handwritten signature of Kathy Welch in cursive script, positioned above a horizontal line.

Kathy Welch
Public Utilities Supervisor

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

September 26, 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 these procedures to the attached schedules, prepared by Florida Power and Light, in support of its filing of actual bond issuance costs for docket 060038-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 of the audit was to determine the accuracy of the \$7,764,780.74 of costs reported by Florida Power and Light for bond issuance costs. The objective was to determine if any unrelated or in-house expenses were included.

Procedure: We reviewed the 2006 storm order and letters from Florida Power and Light. We obtained detail of all of the costs and traced most items to invoice. We determined that some in-house expenses were included in the amount filed. See audit finding one for details. The invoices were reviewed to determine if they specified the services performed and the relationship to the bond issuance. Engagement letters were also obtained.

Objective: The objective was to determine why the Financial Advisor's fee exceeded the quarterly rate.

Procedure: We reviewed the Financial Advisor Fee invoices and obtained descriptions of additional costs. The reason this exceeded the quarterly rate was due to expenses billed for travel and other miscellaneous costs.

Objective: The objective was to identify legal costs and determine why they were higher than presented at August 31, 2006 and determine if there was any duplication or excessive duties performed.

Procedure: We reviewed all legal invoices. We prepared analysis of types of services for each description listed on the bill and reviewed for possible duplication. We analyzed the other costs and detailed them on schedules.

Objective: The objective was to determine why the agreed upon procedures letter costs were above the estimate.

Procedure: We reviewed the invoices and the contract for the agreed upon procedure letter.

AUDIT FINDING NO. 1

SUBJECT: FPL EMPLOYEE'S TRAVEL EXPENSES

AUDIT ANALYSIS: Florida Power and Light included \$36,168.99 of costs for its employees to travel to Tallahassee and New York for bond team meetings, bank visits, bond auction, bond closing, rating agency presentations, and hearings. These costs were related to marketing costs. The costs are for five employees and are broken down as follows:

Hotel	17,042.78
Meals	935.41
Airfare	15,739.34
Car Rental	1,022.65
Taxi/Parking	1,155.20
Other	273.61
	<u>36,168.99</u>

Commission Order No. PSC-06-0464-FOF-EI, issued May 30, 2006, states that FPL will adjust its reserve in an amount equal to the excess of actual issuance costs incurred and paid for out of storm-recovery bond proceeds and the lowest overall costs as determined by this Commission.

We defer to the Tallahassee Commission staff the issue of whether the travel expenses of FPL employees are part of the issuance costs.

The above stated order provided for servicer set-up fees of \$350,000. Actual fees were \$401,382. The actual costs exceeded the \$350,000 because when the utility began to do the work, it was determined it needed to be done in phases which took more time than originally budgeted. We found that these fees also included payroll of \$275,463.41.

EFFECT ON THE GENERAL LEDGER: If these costs are not allowed by the Commission, account 186.100 should be reduced by \$36,168.99.

EFFECT ON THE FILING: If these costs are not allowed, the filing costs of \$7,764,780.74 should be reduced by \$36,168.99 to \$7,728,11.75.

EXHIBIT

Up-front Storm Recovery Bond Issuance Costs

	Per Order PSC-06-0626-FOF-EI	9/06 Revised	7/07 Actual
Principal amount of Bonds:	\$ 1,050,000,000.00	\$ 652,000,000.00	\$ 652,000,000.00
Selling Commissions ^[1]	5,250,000.00	2,608,000.00	1,545,000.00
Rating Agency Fees ^[2]	950,000.00	785,000.00	792,064.46
FPL Financial Advisor's Fee ^[3]	600,000.00	800,000.00	820,196.89
Commission Financial Advisor's Fee	1,000,000.00	1,000,000.00	886,358.59
Printing	37,500.00	20,000.00	-
Trustee Fees ^[4]	25,000.00	25,000.00	25,000.00
Legal Fees ^[5]	2,000,000.00	3,000,000.00	3,001,793.63
SEC Fees ^[6]	112,350.00	20,016.40	20,016.40
Agreed Upon Procedures Letter ^[7]	75,000.00	75,000.00	112,640.00
SPV Set-up Fee	15,000.00	15,000.00	-
Servicer Set-up Fee ^[8]	350,000.00	407,000.00	401,382.00
Original Issue Discount ^[9]	500,000.00	326,000.00	110,196.28
Marketing and Miscellaneous ^[10]	500,000.00	500,000.00	50,132.49
Total	\$ 11,414,850.00	\$ 9,581,016.40	\$ 7,764,780.74

Difference of
\$1,816,235.66 to be
added to Storm Reserve

^[1] Selling commissions paid were determined by competitive sale process.

^[2] Rating agency fees were lower than estimated. Bond Team was successful in negotiating fee reductions.

^[3] Advisory fee based on a flat per quarter amount until such time as transaction underwriter was selected. Advisor selection was competitively bid.

^[4] Trustee services were competitively bid with the lowest cost provider selected.

^[5] Original filing did not contemplate various transaction structures evaluated or documentation costs to change to competitive sale. Original filing did not include costs for Commission's legal counsel. Issuer's and bond purchasers counsel were competitively bid.

^[6] Change in fee structure by SEC resulted in reduced SEC filing fees.

^[7] Actual procedures performed by Deloitte & Touche, LLP were more extensive than estimated. These procedures are dictated by winning bidder and were a condition of closing.

^[8] Original estimate did not account for complex modifications to the billing system required to implement the Storm Bond Repayment Charge and the Storm Bond Tax Charge.

^[9] Original issue discount results from rounding when the coupon is set.

^[10] Marketing and Miscellaneous includes costs for webcast conferencing services for investor and bidder calls, print advertising and travel expenditures for Bond Team meetings, rating agency presentation, underwriter selection, marketing to potential bidders, competitive sale of bonds and transaction closing.