

State of Florida



RECEIVED--FPSC Public Service Commission

08 JAN 24 PM 3:45

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

COMMISSION  
CLERK

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

---

**DATE:** January 22, 2008  
**TO:** George J. Slemkewicz, Public Utilities Supervisor, Division of Economic Regulation  
**FROM:** Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance  
**RE:** Docket No. 070432-EI; Company Name: Florida Power & Light Company;  
Audit Purpose: Review of the \$34.5 million of preconstruction costs for the  
Glades Power Park Project;  
Audit Control No: 07-221-4-1

---

By memo dated October 2, 2007, we issued the staff audit report in this docket. Most of this report was originally covered under the Utility's Notice of Intent to Request Confidentiality. The company has filed its formal request. Attached is a redacted report.

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

Mr. Bill Walker, Vice President  
Florida Power & Light Company  
215 S. Monroe Street, Suite 810  
Tallahassee, FL 32301-1859

Natalie Smith / R. Wade Litchfield  
Florida Power & Light Company  
700 Universe Boulevard  
Juno Beach, FL 33408

DOCUMENT NUMBER-DATE

00608 JAN 24 08

FPSC-COMMISSION CLERK



**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE*

*Miami District Office*

FLORIDA POWER AND LIGHT

GLADES POWER PARK PROJECT

YEAR ENDED AUGUST 31, 2007

DOCKET NO. 070432-EI

AUDIT CONTROL NO. 07-221-4-1

A handwritten signature in black ink, appearing to read "Yen Ngo", written over a horizontal line.

*Yen Ngo*  
*Audit Manager*

A handwritten signature in black ink, appearing to read "Kathy Welch", written over a horizontal line.

*Kathy Welch*  
*Public Utilities Supervisor*

DOCUMENT NUMBER-DATE

00608 JAN 24 8

FPSC-COMMISSION FILE #

**TABLE OF CONTENTS**

	<b>PAGE</b>
<b>I. AUDITOR'S REPORT</b>	
AUDIT PURPOSE .....	1
DISCLAIM PUBLIC USE .....	1
SUMMARY OF SIGNIFICANT PROCEDURES.....	2
<b>II. AUDIT FINDING</b>	
TERMINATION FEE .....	4
PAYROLL & RELOCATION COSTS .....	6
PUBLIC RELATIONS, COMMUNITY OUTREACH, LOBBYING, & LEGAL SERVICES .....	8
<b>III. EXHIBITS</b>	
GLADES POWER PARK PROJECT .....	9

DOCUMENT NUMBER-DATE

00608 JAN 24 8

FPSC-COMMISSION CLERK

**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE**  
**AUDITOR'S REPORT**  
September 28, 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 schedule prepared by Florida Power and Light in support of its Appendix A for the Glades Power Park Project Docket No. 070432-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 the calculation of the contract termination costs was properly calculated.

**Procedures:** We recalculated the termination costs based on the terms defined in the contracts or the negotiations and reconciled the termination fee to the sample testing. No errors were found.

**Objective:** The objective was to determine if the "Preliminary Engineering and Project Management" costs of \$5.3 million were accurate and whether payroll was included in this portion.

**Procedures:** We obtained the detail of the total project costs in an Excel file, sorted the "Preliminary Engineering and Project Management" costs by work orders, and reconciled the total of each work order to the schedule provided by the company. Included in these costs was \$921,415 of payroll. The total from the detail costs was \$593 higher than the company's schedule, which was immaterial.

**Objective:** The objective was to determine whether any of the "Land and Right of Way Option Payments" of \$1.7 million are refundable or conveyed any ownership to FPL.

**Procedures:** We recalculated the cost of land from the Real Estate Purchase Option Agreements, traced the payments to the issuance of checks, and reviewed the Termination of Memorandum Real Estate Purchase Option Agreement to ensure that there was no assigning of ownership to FPL. The survey costs were traced to the bid forms. The company estimated the cost of land to be \$1.7 million, but the actual cost was \$1,684,275. No errors were found.

**Objective:** The objective was to determine if the "Site Certification and Permitting" costs of \$7.6 million were accurate and whether payroll was included in this portion.

**Procedures:** We obtained the detail of the total costs of the project in an Excel file, sorted the detail "Site Certification and Permitting" costs by work orders, and reconciled the total of each work order to the schedule provided by the company. Included in these costs was \$936,931.06 of payroll. The total from the detail cost was \$16,499.55 or 0.0207% higher than the company's schedule, which was immaterial.

**Objective:** The objective was to determine whether the entire \$34.5 million was strictly associated with the costs for the Glades Power Park Project

**Procedures:** We obtained the detail of the total costs of the project in an Excel file and selected a sample for testing. The detail indicated that the \$34.5 million was comprised

of:

1. Preliminary engineering for the installation of steam turbine generators
2. Siting and permitting
3. Termination fees
4. Consultant services for permit application and fuel professional services for reviewing contracts and environmental issues.
5. Coal plant study and mercury analysis
6. Land survey
7. Rail transportation study
8. Performance Excellence Reward Plan for the project
9. Meal catering
10. Printing materials for the project
11. Legal services, community outreach, customer survey, and lobbying
12. Payroll, relocation costs, and travel expense to solicit competitive steam generator equipment.

Audit finding one discusses the settlement of one of the termination fees.

Audit finding two discusses payroll, relocation costs, and travel.

Audit finding three discusses Community outreach, customer surveys, lobbying, and legal services.

## II. AUDIT FINDINGS

### AUDIT FINDING NO. 1

#### SUBJECT: TERMINATION FEE

**AUDIT ANALYSIS:** FPL entered into a contractual agreement with [REDACTED] for the Glades Power Park for the total cost of [REDACTED]

[REDACTED] As the result of the Commission's rejection of FPL's request for the construction of the coal-fired generation units, FPL terminated its contract with [REDACTED]

[REDACTED] Through negotiations to reduce the full termination fee, the following terms were agreed upon. First, [REDACTED] agreed to reduce the termination fee from [REDACTED] (decrease of \$2,000,000) if FPL agreed to increase the contract price of the [REDACTED] by \$1,750,000 or an actual decrease of \$250,000. Second, [REDACTED] agreed to adjust the cash flow of payments for [REDACTED] resulting in an approximate \$500,000 reduction in Allowance for Fund Used During Construction (AFUDC) [REDACTED] Third, [REDACTED] agreed to credit FPL [REDACTED] by December 31, 2012, if [REDACTED] is selected as the winning bidder in future competitive solicitation by any company in FPL Group Company, not just the utility. Even if an affiliate [REDACTED] the utility would receive [REDACTED]

The settlement of the contract price for [REDACTED] yielded a saving benefit of \$250,000; however, it also posed an inconsistency of accounting methodology as based on the re-negotiation, the termination fee would decrease the deferred loss and increase the [REDACTED] costs capitalized as a plant addition. This would result in a longer period of writing off the \$1,750,000 since the plant addition is depreciated over a longer period than the deferred loss would be amortized.

Although the negotiation was to transfer the \$1,750,000 between projects, FPL adjusted its books after the filing was made to follow Generally Accepted Accounting Principals and to only record the actual reduction of \$250,000 to the Glades Power Project to account 182.3-Other Regulatory Assets. Therefore, the costs booked are actually \$34,287,477, which includes the reduction of \$250,000.

FPL will rely on the Commission authorization to determine whether the costs of the Glades Power Park project should be reduced and the new construction for [REDACTED] be

increased. If the Commission decides the \$1,750,000 should be removed from the deferred loss for the recovery of the Glades Power Park project Account 182.3 – Other Regulatory Assets, then less cost would be amortized over a period of five years. If this is done, the \$1,750,000 would be an addition to the [REDACTED] and be depreciated for a period of twenty-five years instead of five years if left in the deferred loss account.

The Commission must also take into consideration the effect of the \$500,000 reduction in Allowance for Funds Used During Construction (AFUDC) due to the change in payments for [REDACTED] as a result of this re-negotiation on the Glades [REDACTED] contract. The \$500,000 reduction in AFUDC helps to mitigate the increase in costs if the \$1,750,000 is increased in [REDACTED]. Since this is a result of the re-negotiation, the Commission should determine if the Glades project should receive any benefit from the change in the payment schedule for an unrelated project?

In addition, the Commission needs to determine whether the future credit of [REDACTED] [REDACTED] should reduce the deferred account or [REDACTED] [REDACTED] costs. There is no guarantee that there will be any credits because [REDACTED] would have to win in a competitive bid process so any adjustment to the account would probably occur after the decision is made on FPL's recording of the loss.

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

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



AUDIT FINDING NO. 2

SUBJECT: PAYROLL AND RELOCATION COSTS

AUDIT ANALYSIS: Included in the \$34.5 million of the Glades Power Park Project was \$1,858,346.29 of Florida Power & Light payroll and \$126,314.83 of relocation costs for the hiring of two new employees, Richard Blanchette and Thuy Le. The costs are as follows:

Description	Payroll
Engineering/Construction - Power Plant	892,737.66
Engineering/Construction - Transmission	28,677.57
	<u>921,415.23</u>
Site Certification/Permitting - Corp. Communications	166,512.58
Site Certification/Permitting - Environmental	142,487.50
Site Certification/Permitting - Legal	39,559.07
Site Certification/Permitting - Other	151,260.18
Site Certification/Permitting - Transmission	150,537.03
Site Certification/Permitting - E&C Proj. Management	286,574.70
Site Certification/Permitting - Engineering Support	-
	<u>936,931.06</u>
Total	<u>1,858,346.29</u>
Relocation - Richard Blanchette	52,029.40
Relocation - Richard Blanchette	14,059.50
Relocation - Richard Blanchette	5,992.96
Relocation - Richard Blanchette	12,000.00
Relocation - Thuy Le	27,168.12
Relocation - Thuy Le	15,064.85
	<u>126,314.83</u>
Total	<u>126,314.83</u>
<b>Vice President of Engineer Travel Expense</b>	
The primary vendor for the advanced technology considered at the FGPP project are located in Japan. The trip to Japan was taken by Vice-president of Engineering & Construction to solicit competitive, favorable equipment pricing for three major pieces of equipment: the boiler, steam turbine & pollution control equipment.	4,148.14
Total	<u>4,148.14</u>

These employees were hired to work on the Glades Power Park Project, thus the majority of the relocation costs were allocated to this particular project. Richard Blanchette was the project construction director. Thuy Le was the project construction manager. Although the Glades Power Park Project did not materialize, these employees are still on the company's payroll, which indicates that they are currently

working other construction projects. Therefore, all or part of the relocation costs should be allocated to the project they are currently working on.

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

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

**AUDIT FINDING NO. 3**

**SUBJECT: LEGAL SERVICES, LOBBYING, COMMUNITY OUTREACH, & PUBLIC RELATION**

**AUDIT ANALYSIS:** Florida Power & Light incurred legal services, lobbying, community outreach, & public relation costs for the Glades Power Park Project.

Lobbying - [REDACTED]		
	TOTAL	<u>71,015.67</u>
Customer Survey [REDACTED]		
	TOTAL	<u>41,673.00</u>
Outreach [REDACTED]		
	TOTAL	<u>57,649.43</u>
Outreach & Community Coordinator - [REDACTED]		
	TOTAL	<u>1,369,536.14</u>
Copy of Educational Materials for Community Outreach		
	TOTAL	<u>12,396.00</u>
Legal Services - FPL ENERGY		
	TOTAL	<u>194,435.00</u>

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

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

### III. EXHIBITS

## APPENDIX A

### FPL Glades Power Park Project Cost Analysis (in millions of dollars)

<b>Land and Right of Way Option Payments</b>	1.7
<b>Site Certification and Permitting</b>	7.6
<b>Major Equipment Contracts</b>	
Turbine contracted termination cost	12.7
Air Quality Control System contracted termination cost	<u>4.8</u>
Subtotal Major Equipment Contracts	17.5
<b>Preliminary Engineering and Project Management</b>	5.3
<b>Engineering, Procurement, Construction Contract</b>	
Contracted termination cost	<u>2.4</u>
<b>Total Project Cost</b>	34.5