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 7, 2013

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 130007-EI
Company Name: Florida Power & Light Company
Company Code: EI802
Audit Purpose: A3d Environmental Cost Recovery Clause
Audit Control No.: 13-015-4-1

Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There were confidential work papers associated with this audit.

LD/ld
Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

State of Florida

Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Miami District Office

Auditor's Report

Florida Power & Light Company
Environmental Cost Recovery Clause

Twelve Months Ended December 31, 2012

Docket No. 130007-EI
Audit Control No. 13-015-4-1
May 31, 2013

Gabriela M. Leon
Audit Manager

Yen N. Ngo
Audit Staff

Kathy L. Welch
Reviewer

Table of Contents

Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Engineering in its audit service request dated January 15, 2013. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Florida Power & Light Company in support of its 2012 filing for the Environmental Cost Recovery Clause in Docket No. 130007-EI.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definition

Utility refers to the Florida Power & Light Company.
ECRC refers to the Environmental Cost Recovery Clause.

Capital Investments

Utility Plant in Service

Objectives: The objectives were to verify all ECRC project-related plant additions, retirements and adjustments for the period January 1, 2012, through December 31, 2012.

Procedure: We reconciled Plant in Service (Line 2) and Accumulated Depreciation (Line 3) to the general ledger for each capital project listed on the 2012 Form 42-8A. We selected a sample of the additions to the capital projects. We determined whether additions had appropriate supporting documentation and were recorded to the correct project. We determined whether items that were replaced had a corresponding retirement. We compared the ledger to the Depreciation Base and the Non-Interest Bearing amount on Form 42-8A. Findings 1, 2, and 4 relate to Plant in Service.

Construction Work in Progress

Objective: The objective was to verify net investments associated with the following capital projects and to determine whether any project which involved the replacement or retirement of an existing plant asset was retired at the installed costs by the Utility in accordance with Florida Public Service Commission Rule 25-6.0142(4)(b), F.A.C.:

1) Martin Next Generation Solar Energy Center Project
2) 800 MW Unit ESP Project
3) CAIR Compliance Project

Procedures: We selected a sample of the additions to the capital projects selected for review. We determined whether additions had appropriate supporting documentation and were recorded to the correct project and account. We determined whether items that were replaced had a corresponding retirement. We compared the ledger to the Depreciation Base and the Non-Interest Bearing amount on Form 42-8A. Finding 3 relates to CWIP.

Revenue

Operating Revenues

Objectives: The objectives were to determine the actual Kilowatt Hours (KWH) sold for the period January 1, 2012, through December 31, 2012, and whether the Utility applied the Commission approved cost recovery factor to actual KWH sales for the ECRC.

Procedures: We reconciled the 2012 filing to the Utility's monthly Environmental Revenue Reports. We computed the factors by rate code and compared them to the last Commission Order No. PSC 11-0553-FOF-EI. We selected a random sample of residential and commercial customers' bills and recalculated each to verify the use of the correct tariff rate. No exceptions were noted.

Expense

Operation and Maintenance Expense

Objectives: The objectives were to determine whether the Operation and Maintenance (O&M) Expense listed on the Utility's Form 42-5A filing was supported by adequate documentation and that the expenses are appropriately recoverable through the ECRC.

Procedures: We traced expenses in the filing to the general ledger. We judgmentally selected a sample of O&M Expenses for testing. The source documentation for selected items was reviewed to ensure the expense was related to the ECRC and that the expenses were charged to the correct accounts. Finding 5 discusses O & M expenses.

Depreciation and Amortization

Objective: The objective was to determine whether the most recent Commission approved depreciation rates or amortization periods were used in calculating Depreciation Expense.

Procedures: We recalculated 2012 Depreciation Expense on a test basis. We traced total year Depreciation Expense for each capital project listed on Form 42-8A to the general ledger detail. Findings 1, 2, and 4 discuss adjustments to depreciation.

Other Issues

SO_2 Allowances

Objectives: The objectives were to verify investments, inventory, expensed amounts, allowance auction proceeds and to determine whether these amounts included in Working Capital, Form 42-8A.

Procedures: We traced 2012 consumption for SO_2 Allowances from the Utility's detailed Allowances Reports to the Amortization of Gains on Sale of Emission Allowances on Form 42-5E which totals ECRC Operation and Maintenance Expenses. We traced the proceeds on the sales to the Environmental Protection Agency's payment coupons. We reviewed all of the inventory accounts in the ledger and compared them to the inventory reported in the FERC forms. We also reconciled the gains in the ledger to the Working Capital calculation on Form 42-8A. We recalculated Form 42-8A. We reviewed the Utility's procedure manual for treatment of the allowances and compared it to the ledger. We traced the jurisdictional factors to PSC Order 11-0553-FOF-EI. No exceptions were noted.

True-up

Objective: The objective was to determine if the True-Up and Interest Provision as filed on Form 42-2A was properly calculated.

Procedures: We traced the December 31, 2011, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2012, using the Commission approved beginning balance as of December 31, 2011, the Financial Commercial Paper rates, and the 2012 ECRC revenues and costs. No exceptions were noted.

Analytical Review

Objective: The objective was to perform an analytical review of the Utility's ECRC Revenues and Expenses to determine if there were any material changes or inconsistencies from the prior year.

Procedures: We compared 2012 to 2011 revenues and expenses. We requested explanations from the Utility for significant variances. Explanations provided were sufficient. Further follow-up was not required.

<u>Audit Findings</u>

Finding 1: CAIR Project Understated

Audit Analysis: We compared source detail for the additions to the CAIR project to the net investment on Form 42-8A for Project No. 31-CAIR. We found differences between the filing and the source detail provided. A work order showed additions to the project that were incorrectly booked as base rate recoverable. The Utility has understated Account 312-Boiler Plant Equipment in Plant in Service for Project No. 31-CAIR in its filing, Form 42-8A, by $8,690,993.14. This results in an understatement of system recoverable expenses of $95,958.13. Depreciation was computed at 2.6%. The effect of the error on interest was deemed immaterial. The Utility corrected the error in its ledger in March, 2013.

	October 2012	November 2012	December 2012	Total
Project 31 Plant	$ 1,725,110.85	$ 3,381,780.08	$ 8,690,993.14	
Project 31 Accumulated Depreciation	$ (1,868.87)	$ (7,401.34)	$ (20,480.17)	
Net Investment	$ 1,723,241.98	$ 3,374,378.74	$ 8,670,512.97	
Average Monthly	$ 861,620.99	$ 2,548,810.36	$ 6,022,445.86	
Return Rate Debt	0.162275%	0.162275%	0.162275%	
Return Rate Equity	0.637883%	0.637883%	0.637883%	
Return Debt	$ 1,398.20	$ 4,136.08	$ 9,772.92	$ 15,307.20
Return Equity	$ 5,496.14	$ 16,258.44	$ 38,416.18	$ 60,170.75
Total	$ 6,894.33	$ 20,394.52	$ 48,189.10	$ 75,477.95
Depreciation Expense	$ 1,868.87	$ 5,532.47	$ 13,078.84	$ 20,480.18
Total True-Up Effect				$ 95,958.13

Effect on the General Ledger: The Utility has corrected the ledger in March, 2013.

Effect on the Filing: The net over-recovery should be decreased by $95,958.13.

Finding 2: CAIR Retirement and Cost of Removal

Audit Analysis: The Utility included a credit of $107,071 in March, 2012 on its Form 42-8A for Project No. 31-CAIR net investment for a retirement that was actually for a base rate investment and not an ECRC investment. A corresponding debit was made to the accumulated depreciation line. Although the net adjustment to the filing investment is zero, depreciation expense was understated by $2,303.90 because of this retirement.

Form 42-8A for this project also included a debit of $133,515.84 to accumulated depreciation for the cost of removal related to the $107,071 retirement and therefore the cost of removal should not be in ECRC. Removal of these costs reduces the return on the investment by $11,162.98.

The net effect on the true-up is a reduction of $8,991.12 as shown on the schedule following this finding.

Effect on the General Ledger: The Utility has corrected the ledger in May, 2013.

Effect on the Filing: The net over-recovery should be increased by $8,991.12.

	December 2011	January 2012	February 2012	March 2012	April 2012	May 2012	June 2012	Total Jan. to June
Total Net Investment	$ (9,277.28)	$ (47,327.32)	$ (101,561.05)	$ (126,452.14)	$ (126,925.44)	$ (131,761.32)	$ (133,218.86)	
Average Monthly	$ (4,638.64)	$ (28,302.30)	$ (74,444.19)	$ (114,006.60)	$ (126,688.79)	$ (129,343.38)	$ (132,490.09)	
Return Rate Debt		0.162275%	0.162275%	0.162275%	0.162275%	0.162275%	0.162275%	
Return Rate Equity		0.637883%	0.637883%	0.637883%	0.637883%	0.637883%	0.637883%	
Return Debt		$ (45.93)	$ (120.80)	$ (185.00)	$ (205.58)	$ (209.89)	$ (215.00)	$ (982.21)
Return Equity		$ (180.54)	$ (474.87)	$ (727.23)	$ (808.13)	$ (825.06)	$ (845.13)	$ (3,860.95)
		$ (226.46)	$ (595.67)	$ (912.23)	$ (1,013.71)	$ (1,034.95)	$ (1,060.13)	$ (4,843.16)
Depreciation Expense				$ 115.99	$ 231.99	$ 231.99	$ 231.99	$ 811.96
		$ (226.46)	$ (595.67)	$ (796.24)	$ (781.72)	$ (802.96)	$ (828.14)	$ (4,031.20)

	Total Jan. to June	July 2012	August 2012	September 2012	October 2012	November 2012	December 2012	Total
Total Net Investment		$ (133,513.08)	$ (133,513.08)	$ (133,513.08)	$ (133,515.84)	$ (133,515.84)	$ (133,515.84)	
Average Monthly		$ (133,001.59)	$ (133,513.08)	$ (133,513.08)	$ (133,514.46)	$ (133,515.84)	$ (133,515.84)	
Return Rate Debt		0.162275%	0.162275%	0.162275%	0.162275%	0.162275%	0.162275%	
Return Rate Equity		0.637883%	0.637883%	0.637883%	0.637883%	0.637883%	0.637883%	
Return Debt	$ (928.21)	$ (215.83)	$ (216.66)	$ (216.66)	$ (216.66)	$ (216.66)	$ (216.66)	$ (2,227.34)
Return Equity	$ (3,860.95)	$ (848.39)	$ (851.66)	$ (851.66)	$ (851.67)	$ (851.68)	$ (851.68)	$ (8,967.68)
	$ (4,789.16)	$ (1,064.22)	$ (1,068.32)	$ (1,068.32)	$ (1,068.33)	$ (1,068.34)	$ (1,068.34)	$ (11,195.02)
Depreciation Expense	$ 811.96	$ 231.99	$ 231.99	$ 231.99	$ 231.99	$ 231.99	$ 231.99	$ 2,203.90
	$ (3,977.20)	$ (832.23)	$ (836.33)	$ (836.33)	$ (836.34)	$ (836.35)	$ (836.35)	$ (8,991.12)

Finding 3: Cost of Removal

Audit Analysis: According to the Utility, removal costs are included in the first charges of a project because the item being replaced must be removed first. Every month, FPL debits these charges to accumulated depreciation. Prior to the SAP/Power Plant software conversion on July 1, 2011, removal costs were recorded manually through a journal entry or a direct charge by invoice by the business unit. After the conversion, Power Plant software automatically calculates removal charges based on a percentage of the cost of removal estimate to the total work order estimate less the material costs.

Then FPL reflects the total project costs, including any removal costs, as construction work in progress on Form 42-8A until it closes to plant in service. However, the cost of removal was also recorded in the filing as accumulated depreciation. The ledger is correctly stated. The Utility has overstated system recoverable expenses for three of the projects in its filing Form 42-8A by $10,010.92. The calculation is shown on the schedule following this finding. Interest is immaterial.

Effect on the General Ledger: There is no effect on the ledger.

Effect on the Filing: The net over-recovery should be increased by $10,010.92.

	December 2011	January 2012	February 2012	March 2012	April 2012	May 2012	June 2012	Total Jan-June
Project 31	$ (5,713.63)	$ (5,807.56)	$ (5,807.56)	$ (5,807.56)	$ (5,807.56)	$ (5,807.56)	$ (5,807.56)	
Project 39		$ (9,847.71)	$ (9,847.71)	$ (9,847.71)	$ (9,847.71)	$ (9,882.11)	$ (11,635.08)	
Project 45		$ (35,120.94)	$ (35,147.18)	$ (35,142.23)	$ (35,141.12)	$ (35,146.24)	$ (35,158.54)	
	$ (5,713.63)	$ (50,776.21)	$ (50,802.45)	$ (50,797.50)	$ (50,796.39)	$ (50,835.91)	$ (52,601.18)	
Average Monthly		$ (28,244.92)	$ (50,789.33)	$ (50,799.98)	$ (50,796.95)	$ (50,816.15)	$ (51,718.55)	
Return Rate Debt		0.162275%	0.162275%	0.162275%	0.162275%	0.162275%	0.162275%	
Return Rate Equity		0.637883%	0.637883%	0.637883%	0.637883%	0.637883%	0.637883%	
Return Debt		$ (45.83)	$ (82.42)	$ (82.44)	$ (82.43)	$ (82.46)	$ (83.93)	$ (459.51)
Return Equity		$ (180.17)	$ (323.98)	$ (324.04)	$ (324.03)	$ (324.15)	$ (329.90)	$ (1,806.27)
		$ (226.00)	$ (406.40)	$ (406.48)	$ (406.46)	$ (406.61)	$ (413.83)	$ (2,265.78)

	Total Jan-June	July 2012	August 2012	September 2012	October 2012	November 2012	December 2012	Total
Project 31		$ (5,807.56)	$ (5,807.56)	$ (5,807.56)	$ (5,807.56)	$ (5,807.56)	$ (5,807.56)	
Project 39		$ (13,811.17)	$ (13,811.17)	$ (13,875.47)	$ (13,925.91)	$ (13,925.91)	$ (34,642.46)	
Project 45		$ (35,167.51)	$ (35,173.65)	$ (47,782.26)	$ (219,425.39)	$ (297,523.49)	$ (364,598.02)	
		$ (54,786.24)	$ (54,792.38)	$ (67,465.29)	$ (239,158.86)	$ (317,256.96)	$ (405,048.04)	
Average Monthly		$ (59,360.36)	$ (54,789.31)	$ (61,128.84)	$ (153,312.08)	$ (278,207.91)	$ (361,152.50)	
Return Rate Debt		0.162275%	0.162275%	0.162275%	0.162275%	0.162275%	0.162275%	
Return Rate Equity		0.637883%	0.637883%	0.637883%	0.637883%	0.637883%	0.637883%	
Return Debt	$ (459.51)	$ (96.33)	$ (88.91)	$ (99.20)	$ (248.79)	$ (451.46)	$ (586.06)	$ (2,030.25)
Return Equity	$ (1,806.27)	$ (378.65)	$ (349.49)	$ (389.93)	$ (977.95)	$ (1,774.64)	$ (2,303.73)	$ (7,980.67)
	$ (2,265.78)	$ (474.98)	$ (438.40)	$ (489.13)	$ (1,226.74)	$ (2,226.10)	$ (2,889.79)	$ (10,010.92)

Finding 4: Project 45-800 MW ESP

Audit Analysis: In its Form 42-8A for Project 45, the Utility included $128,847.57 in the net investment that did not relate to an ECRC project. The Utility has overstated system recoverable expenses in Project No. 45 in its filing Form 42-8A by $1,968.02. The schedule on the following page computes the difference. Depreciation was computed at 2.6%. Interest is immaterial.

Effect on the General Ledger: The Utility has corrected the ledger in May, 2013.

Effect on the Filing: The net over-recovery should be increased by $1,968.02.

	November 2012		December 2012		Total	
Project 45 Plant	$	(128,847.57)	$	(128,847.57)		
Project 45 Accumulated Depreciation	$	(139.58)	$	(418.75)		
Net Investment	$	(128,987.15)	$	(129,266.32)		
Average Monthly	$	(64,493.58)	$	(129,126.74)		
Return Rate Debt		0.162275%		0.162275%		
Return Rate Equity		0.637883%		0.637883%		
Return Debt	$	(104.66)	$	(209.54)	$	(314.20)
Return Equity	$	(411.39)	$	(823.68)	$	(1,235.07)
	$	(516.05)	$	(1,033.22)	$	(1,549.27)
Depreciation Expense	$	(139.58)	$	(279.17)	$	(418.75)
	$	(655.63)	$	(1,312.39)	$	(1,968.02)

Finding 5: O & M Expenses

Audit Analysis: Form 42-5A-O & M Activities included $648,013.77 in Project 33-MATS. This expense related to base rate outage costs. The Utility reversed the entry in March, 2013. The Utility has overstated O & M expenses in its filing Form 42-5A by $648,013.77. The interest related to this adjustment is $449.54.

Effect on the General Ledger: The Utility has corrected the ledger in March 2013.

Effect on the Filing: The net over-recovery should be increased by $648,453.31.

Exhibit

Exhibit 1: True-up

FLORIDA POWER & LIGHT COMPANY
ENVIRONMENTAL COST RECOVERY CLAUSE
CALCULATION OF THE FINAL TRUE-UP AMOUNT FOR THE PERIOD

FORM 42-3A

FOR THE PERIOD OF: JANUARY 2012 THROUGH DECEMBER 2012

	January Actual	February Actual	March Actual	April Actual	May Actual	June Actual	July Actual	August Actual	September Actual	October Actual	November Actual	December Actual	Total
1. ECRC Revenues (net of Revenue Taxes)	$13,222,460	$11,667,373	$12,547,706	$13,604,986	$13,869,057	$16,281,182	$17,037,980	$17,601,911	$16,837,667	$15,817,677	$12,718,670	$12,059,782	$173,255,676
2. True-up Provision (Order No. PSC-12-0613-FOF-EI)	$1,145,426	$1,145,425	$1,145,425	$1,145,428	$1,145,426	$1,145,426	$1,145,425	$1,145,426	$1,145,426	$1,145,425	$1,145,426	$1,145,426	$13,745,099
3. ECRC Revenues Applicable to Period (Lines 1 + 2)	$14,367,886	$12,812,798	$13,693,131	$14,749,414	$16,013,482	$17,426,677	$18,182,405	$18,747,339	$17,983,082	$16,963,102	$13,866,296	$13,205,207	$187,000,774
4. Jurisdictional ECRC Costs													
a. O&M Activities (Form 42-5A, Line 9)	$2,043,067	$1,417,788	$1,476,729	$2,029,427	$1,978,052	$2,099,485	$2,012,266	$1,608,772	$1,880,735	$2,110,684	$2,916,152	$2,845,600	$24,388,938
b. Capital Investment Projects (Form 42-7A, Line 9)	$12,824,620	$12,993,914	$13,029,463	$13,040,002	$13,085,653	$13,269,899	$13,616,691	$13,574,780	$13,768,317	$14,074,809	$14,111,285	$14,118,178	$161,418,613
c. Total Jurisdictional ECRC Costs	$14,867,687	$14,411,703	$14,505,191	$15,069,429	$15,043,705	$15,339,384	$15,628,957	$15,183,552	$15,669,052	$16,185,693	$17,027,437	$16,963,777	$185,775,598
5. Over/(Under) Recovery (Line 3 - Line 4c)	($499,802)	($1,598,905)	($812,061)	($328,016)	($30,223)	$2,087,193	$2,553,628	$3,563,784	$2,314,010	$777,409	($3,152,141)	($3,758,569)	$1,225,208
6. Interest Provision (Form 42-3A, Line 10)	$869	$1,121	$779	$869	$869	$894	$774	$1,135	$880	$1,015	$1,160	$408	$10,192
7. Prior Periods True-Up to be (Collected)/Refunded	$13,745,099	$12,100,741	$10,357,633	$7,403,928	$5,927,065	$4,782,086	$5,694,427	$7,203,304	$9,642,709	$10,612,364	$10,445,364	$8,138,958	$13,745,099
a. Deferred True-Up [1]	$976,912	$976,912	$976,912	$976,912	$976,912	$976,912	$976,912	$976,912	$976,912	$976,912	$976,912	$976,912	$0
8. True-Up Collected /(Refunded) (See Line 2)	($1,145,426)	($1,145,426)	($1,145,426)	($1,145,426)	($1,145,426)	($1,145,426)	($1,145,426)	($1,145,426)	($1,145,426)	($1,145,426)	($1,145,426)	($1,145,426)	($13,745,099)
9. End of Period True-Up (Lines 5+6+7+7a+8)	$13,077,693	$10,334,445	$9,377,739	$8,903,987	$6,728,977	$8,671,339	$8,180,218	$10,619,711	$11,769,276	$11,422,278	$7,116,968	$2,212,282	$1,235,370
10. Adjustments to Period Total True-Up Including Interest	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
11. End of Period Total Net True-Up (Lines 9+10)	$13,077,693	$10,334,445	$9,377,739	$8,903,987	$6,728,977	$8,671,339	$8,180,218	$10,619,711	$11,769,276	$11,422,278	$7,116,968	$2,212,282	$1,235,370

[1] From 2011 Form 42-1A, line 7