

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: May 14, 2015
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 150001-EI
Company Name: Florida Power & Light
Company Code: EI802
Audit Purpose: Fuel Cost Recovery Clause
Audit Control No: 15-023-4-1

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 a response to the Office of Commission Clerk. There is confidential work papers associated with this audit.

LMD/cp

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
Fuel and Purchased Power Cost Recovery Clause

Twelve Months Ended December 31, 2014

Docket No. 150001-EI
Audit Control No. 15-023-4-1
May 8, 2015

A handwritten signature in blue ink, appearing to read "Iliana Piedra".

Iliana Piedra
Audit Staff

A handwritten signature in blue ink, appearing to read "Gabriela Leon".

Gabriela Leon
Audit Manager

A handwritten signature in blue ink, appearing to read "Jeffery A. Small".

Jeffery A. Small
Reviewer

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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 Accounting and Finance in its audit service request dated January 22, 2015. 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 2014 filing for the Fuel and Purchased Power Cost Recovery Clause in Docket No. 150001-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

Definitions

FPL/Utility refers to the Florida Power & Light Company.

FAC refers to the Fuel and Purchased Power Cost Recovery Clause.

Revenues

Objectives: The objectives were to determine the actual Kilowatt Hours (KWH) sold for the period January 1, 2014, through December 31, 2014, and whether FPL applied the Commission approved cost recovery factor to actual KWH sales for the FAC.

Procedures: We computed revenues using the factors in Order No. 13-0665-FOF-EI, issued December 18, 2013 and actual KWH sales from the Fuel Revenue Reports and reconciled them to the general ledger and FAC. We selected a sample of residential and commercial customers' bills for the period and recalculated each to verify the use of the correct tariff rate. No exceptions were noted.

Expenses

Objectives: The objectives were to review the expenses which the Utility included in the FAC and to determine whether those expenses are properly recoverable based on the requirements established in Order No. 14546, issued July 8, 1985.

Procedures: We reconciled fuel expenses in the FAC to the general ledger. We reviewed and sampled fuel expenses reported on Schedules A-1 and A-2 and other supporting documentation to determine that fuel expense included in the FAC complied with the requirements of Order No. 14546. No exceptions were noted.

Objectives: The objective was to determine whether generation-related gains derived from non-separated wholesale energy sales were credited to the FAC as required in Order No. PSC-00-1744-PAA-EI, issued September 26, 2000.

Procedures: We selected February's Energy Marketing energy sales transactions to sample for the period. The transactions were traced to invoices, and Energy Marketing reports. The gains were recalculated and the credit was traced to the FAC. No exceptions were noted.

Objective: The objective was to determine whether energy payments to qualifying facilities on Schedule A-8 are based on the appropriate standard offer or negotiated contract rate.

Procedures: We selected a sample of energy payment transactions for the period. The payments were traced to purchase statements, invoices and billing statements. The gains were recalculated and the credit was traced to the FAC. No exceptions were noted.

Objectives: The objective was to determine whether the payments for firm natural gas storage were recorded according to the terms and conditions of the Storage Service Agreement between FPL and Bay Gas Storage Co., Ltd.

Procedures: We tested a sample of vendor invoices and agreed the quantities and costs to the terms and conditions of the gas storage agreement. No exceptions were noted.

Objective: The objective was to determine whether the firm transportation service (FTS) charge for transporting natural gas agrees with the FTS rate schedules from the pipeline company's tariff.

Procedures: We obtained lists of all FTS payments in 2014. We sampled FTS payments and traced them to the vendor invoices, FPL purchase statements and to the pipeline company's posted tariffs. No exceptions were noted.

Objectives: The objective was to determine whether purchased power payments on Schedule A-7 were accurate and charged according to the vendor contracts.

Procedures: We obtained and sampled purchased power for Jacksonville Electric Authority and Southern Company. We recalculated and traced the sample to the true-up schedules. The true-up schedules were verified and the prior months fuel costs were reconciled to actual invoices. No exceptions were noted.

Inventory

Objectives: The objectives were to determine whether semi-annual coal inventory surveys were completed and that inventory adjustments to coal supplies were made as required in Order PSC-97-0359-FOF-EI, issued March 31, 1997.

Procedures: We obtained FPL's coal inventory analysis, inventory adjustment and survey reports. The adjustments were recalculated and reconciled to the survey reports and inventory analysis. We verified that the inventory adjustment calculations were consistent with the requirements of Order No. PSC-97-0359-FOF-EI. The inventory adjustments were traced to the FAC and the general ledger. No exceptions were noted.

Other

Objectives: The objective was to determine whether any vendor credits or rebates were credited to fuel cost in the FAC.

Procedures: We obtained a schedule of FPL's fuel payable account for the period. We selected a sample of invoices and verified that no credits or refunds were present. Additionally, we obtained a statement from FPL confirming that no credits or refunds were received during the period. No exceptions were noted.

Objective: The objective was to determine whether the heat rates shown on Schedule A-4 for the Generating Performance Incentive Factor (GPIF) units reconcile with the annual GPIF filings.

Procedures: We reconciled the heat rates with the annual GPIF filings. We recalculated and reconciled the service hours, reserve shutdown hours, and unavailable hours to source documentation. No exceptions were noted.

Objective: The objectives were to determine whether the coal and oil purchases on Form 423 reconcile with the FAC and are supported by source documentation and backed by contractual obligations.

Procedures: We reconciled coal and oil purchases on Form 423 with the FAC and the Fossil Fuel Inventory Report for the period. We traced Schedule A-5 to the Fuel Used in the Electric Generating Plants Reports which were tested in our sampling of Fuel Costs of System Net Generation. We also traced receipts to the fuel invoices and verified that the transportation rates were calculated in compliance with vendor contracts. No exceptions were noted.

Objective: The objective was to determine whether the incremental gains included in the FAC are consistent with FPL's Incentive Mechanism that was approved in Order No. PSC-13-0023-S-EI, issued January 14, 2013.

Procedures: We obtained a schedule of all incremental gains by asset optimization measure as defined in Order No. PSC-13-0023-S-EI that were included in the FAC. We reviewed a sample of the transactions for each asset optimization measure for the period and traced each transaction to supporting invoices, purchase statements, and pipeline reports. We verified that the transactions were "arm's length" and not associated with FPL's parent, NextEra Energy, Inc. or its subsidiaries. We recalculated the incremental gains and reviewed the market price and index inputs used by FPL to calculate the gains. We also selected a sample of incremental costs and traced them to the invoices to verify these costs were related to the Incremental Optimization program.

Objective: The objective was to determine whether the incremental optimization costs included in the FAC are consistent with FPL's Incentive Mechanism that was approved in Order No. PSC-13-0023-S-EI.

Procedures: We obtained a schedule of all incremental optimization costs as defined in Order No. PSC-13-0023-S-EI that were included in the FAC. We reviewed a sample of the incremental costs incurred by FPL to manage the Incentive Mechanism and its related purchase and sales programs.

Objectives: The objectives were to determine whether the gains on short-term power sales and the savings on short-term power purchases are included in the FAC and that they are consistent with FPL's Incentive Mechanism that was approved in Order No. PSC-13-0023-S-EI.

Procedures: We obtained a schedule of short-term power sales and purchases included in the FAC. We reviewed a sample of power transactions to check for gains or savings on short-term purchases that should be included as part of the Incentive Mechanism. We verified that FPL's application of the phrase "short-term" for these transactions is consistent with the intentions defined in Order No. PSC-13-0023-S-EI.

Objectives: The objective was to examine FPL's analysis and internal audits of its Unit Power Sales contracts with Southern Company and the Jacksonville Electric Authority (JEA).

Procedures: The Utility has not performed an internal audit of Unit Power Sales contracts with the Southern Company and JEA.

Objectives: The objectives were to verify the time period for the extended outage that occurred at St. Lucie Unit 2 and to determine the replacement fuel cost for the outage period.

Procedures: We verified the extended outage time by reconciling the reported outage time to FPL's GPIF filings. We recalculated and traced FPL's estimated fuel replacement cost to supporting documentation. Finding 1 provides additional information for this issue.

True-Up

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

Procedures: We traced the December 31, 2013, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2014, using the approved beginning balance as of December 31, 2013, the Financial Commercial Paper rates, and the 2014 revenues and costs. No exceptions were noted.

Audit Findings

Finding 1: St. Lucie 2 Outage – Replacement Fuel Cost

Audit Analysis: In March, 2014, FPL's St. Lucie 2 entered into a 34 day planned outage for refueling purposes. Information provided by the Utility indicates that the outage time was extended by approximately 430 hours or 18 days into April 2014 because of four subsequent events that required additional maintenance and repairs.

FPL estimates that the extended outage at St. Lucie Unit 2 resulted in a loss of 393,159 megawatt hours (MWh) of generation at an average cost of \$36.10 per MWh and that the total net replacement fuel cost was \$11,578,891.

FPL provided a schedule that calculates the individual and total net replacement fuel cost for each of the four subsequent events. We reviewed, recalculated and traced the inputs on the schedule to the FAC and the GPIF filing. The schedule with calculations provided by FPL is displayed on Table 1-1 that follows.

Effect on the General Ledger: None

Effect on the Filing: To be determined by the analyst in Tallahassee.

Table 1-1

Calculation of Net Fuel Replacement Cost

Event Start	Event End	Seq. #	Event Title	MW Loss	Outage Hours	MWh Loss	Replacement Cost (\$/MWh)	Replacement Cost (\$)	SLI Fuel Cost (\$/MWh)	Nuclear Fuel Cost (\$)	Net Replacement Cost (\$)
4/6/2014 00:03	04/23/2014 22:37	1	Foreign Material	913	297.6	271,709	\$36.10	\$9,809,649	\$6.65	\$1,807,740	\$8,001,909
		2	Feed Ring	913	42.0	38,346	\$36.10	\$1,384,426	\$6.65	\$255,125	\$1,129,302
		3	Hydrazine Valve	913	68.0	62,077	\$36.10	\$2,241,188	\$6.65	\$413,010	\$1,828,178
		4	Purge Valve	913	23.0	21,036	\$36.10	\$759,457	\$6.65	\$139,954	\$619,503
					430.6	393,167		\$14,194,721		\$2,615,830	\$11,578,891

April 2014 - A3 Data								
Fuel	MWh	% Mix	Fuel Cost \$	\$/MWh	Demand \$	Rev. Fuel Cost \$	\$/MWh	WA \$/MWh
Heavy Oil	100,486	1.35%	\$15,042,565	\$149.70	0	\$15,042,565	\$149.70	\$2.02
Light Oil	26,627	0.36%	\$4,450,154	\$167.13	0	\$4,450,154	\$167.13	\$0.60
Coal	68,544	0.92%	\$2,347,383	\$34.25	0	\$2,347,383	\$34.25	\$0.31
Gas	7,266,457	97.38%	\$295,715,628	\$40.70	\$48,146,993	\$247,568,635	\$34.07	\$33.18
Total	7,462,114	100.00%	\$317,555,731		\$48,146,993	\$269,408,738		\$36.10

\$645,315/day

April 2014 - A4 Data	
L1 Fuel Co	SLI \$/MWh
0.67	6.653

Exhibit

Exhibit 1: True-Up

FOR THE PERIOD: JANUARY 2014 THROUGH DECEMBER 2014													
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Line	January Actual	February Actual	March Actual	April Actual	May Actual	June Actual	July Actual	August Actual	September Actual	October Actual	November Actual	December Actual	12 Month Period
1	Fuel Costs & Net Power Transactions												
2	\$ 249,704,921	\$ 261,698,473	\$ 276,728,131	\$ 327,817,647	\$ 318,300,543	\$ 314,843,954	\$ 326,439,785	\$ 336,083,648	\$ 295,997,373	\$ 288,890,557	\$ 233,906,503	\$ 243,323,735	\$ 3,473,735,271
3	\$ 2,459,404	\$ 2,206,487	\$ 1,581,888	\$ 1,368,858	\$ 3,328,964	\$ 2,227,999	\$ (3,383,888)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 8,789,711
4	\$ (17,551,697)	\$ (13,007,326)	\$ (10,682,154)	\$ (3,087,997)	\$ (3,490,214)	\$ (2,666,273)	\$ (2,776,716)	\$ (2,246,228)	\$ (3,048,684)	\$ (4,264,371)	\$ (12,481,194)	\$ (7,611,418)	\$ (82,914,272)
5	\$ (27,898,389)	\$ (3,489,980)	\$ (3,185,661)	\$ (703,559)	\$ (713,114)	\$ (1,666,239)	\$ (705,488)	\$ (548,731)	\$ (753,154)	\$ (868,452)	\$ (3,551,312)	\$ (2,046,251)	\$ (46,064,330)
6	\$ 15,810,659	\$ 11,965,752	\$ 14,152,295	\$ 11,187,597	\$ 12,038,150	\$ 20,546,809	\$ 27,275,416	\$ 27,356,660	\$ 22,825,189	\$ 18,348,421	\$ 15,133,876	\$ 7,309,736	\$ 209,950,650
7	\$ 3,679,181	\$ 3,211,873	\$ 8,109,727	\$ 8,318,554	\$ 12,056,579	\$ 12,462,904	\$ 11,841,249	\$ 12,174,094	\$ 9,142,206	\$ 7,320,445	\$ 8,280,003	\$ 2,548,711	\$ 99,145,525
8	\$ 14,909	\$ 1,307,551	\$ 199,473	\$ 1,519,318	\$ 821,311	\$ 2,584,878	\$ 2,324,301	\$ 10,058,351	\$ 358,360	\$ 866,550	\$ 388,516	\$ 560	\$ 20,444,079
9	\$ 226,218,989	\$ 263,892,830	\$ 286,903,697	\$ 346,420,418	\$ 341,342,219	\$ 348,334,121	\$ 361,014,659	\$ 382,943,794	\$ 324,321,291	\$ 310,293,150	\$ 241,676,392	\$ 243,525,073	\$ 3,677,086,633
10	Incremental Optimization Costs												
11	\$ 33,078	\$ 28,764	\$ 31,903	\$ 33,006	\$ 33,316	\$ 32,338	\$ 36,961	\$ 33,043	\$ 64,356	\$ 40,497	\$ 42,044	\$ 51,122	\$ 460,428
12	\$ (44,399)	\$ 17,182	\$ 470,412	\$ 134,512	\$ 136,818	\$ 129,944	\$ 119,936	\$ 88,783	\$ 136,346	\$ 175,249	\$ 471,831	\$ 423,371	\$ 2,259,985
13	\$ (11,320)	\$ 45,946	\$ 302,313	\$ 167,518	\$ 170,134	\$ 162,282	\$ 156,897	\$ 121,826	\$ 200,702	\$ 215,746	\$ 513,875	\$ 474,493	\$ 2,720,413
14	\$ 0	\$ 0	\$ 2,523	\$ 375	\$ 375	\$ 375	\$ 375	\$ 375	\$ 375	\$ 375	\$ 0	\$ 750	\$ 5,898
15	Adjustments to Fuel Costs												
16	\$ (94,682)	\$ (131,614)	\$ (127,853)	\$ (35,354)	\$ (9,564)	\$ (91,016)	\$ (172,851)	\$ (297,325)	\$ (265,805)	\$ (104,671)	\$ (244,835)	\$ 132,869	\$ (1,442,700)
17	\$ (8,471)	\$ 48,367	\$ (62,667)	\$ 176,147	\$ 337,707	\$ (271,676)	\$ 535,859	\$ (481,307)	\$ (20,483)	\$ (106,004)	\$ 184,951	\$ 193,514	\$ 25,937
18	\$ (339,257)	\$ 0	\$ 0	\$ 0	\$ 0	\$ (87,509)	\$ (282,032)	\$ 463,439	\$ (64,458)	\$ 465,773	\$ 373,591	\$ (62,676)	\$ 466,871
19	\$ 225,765,259	\$ 263,855,528	\$ 287,218,016	\$ 346,729,104	\$ 341,840,872	\$ 348,046,576	\$ 360,752,907	\$ 382,750,803	\$ 324,371,621	\$ 310,764,370	\$ 242,503,973	\$ 244,264,023	\$ 3,678,863,052
20	Jurisdictional kWh Sales												
21	8,186,450,133	7,489,358,283	7,265,742,238	7,662,815,846	8,998,820,709	9,353,399,776	9,899,277,406	10,481,712,030	10,546,902,755	9,132,361,361	7,851,861,286	7,520,349,923	104,389,051,746
22	159,075,376	379,930,801	355,050,303	379,293,900	394,998,170	454,639,060	566,197,562	601,597,158	640,703,938	544,003,345	514,076,111	385,273,615	5,374,839,339
23	8,345,525,509	7,869,289,084	7,620,792,541	8,042,109,746	9,393,818,879	9,808,038,836	10,465,474,968	11,083,309,188	11,187,606,693	9,676,364,706	8,365,937,397	7,905,623,538	109,763,891,085
24	98.09388%	95.17198%	95.34103%	95.28365%	95.79513%	95.36463%	94.58985%	94.57204%	94.27309%	94.37802%	93.85513%	95.12659%	95.10327%
25	True-up Calculation												
26	\$ 272,959,294	\$ 248,228,786	\$ 240,098,894	\$ 245,679,724	\$ 293,334,679	\$ 305,444,193	\$ 325,341,933	\$ 346,614,092	\$ 348,343,820	\$ 297,995,772	\$ 252,400,364	\$ 240,017,282	\$ 3,416,458,833
27	Fuel Adjustment Revenues Not Applicable to Period												
28	\$ (12,313,801)	\$ (12,313,801)	\$ (12,313,801)	\$ (12,313,801)	\$ (12,313,801)	\$ (12,313,801)	\$ (12,313,801)	\$ (12,313,801)	\$ (12,313,801)	\$ (12,313,801)	\$ (12,313,801)	\$ (12,313,801)	\$ (147,765,613)
29	\$ (1,722,090)	\$ (1,722,090)	\$ (1,722,090)	\$ (1,722,090)	\$ (1,722,090)	\$ (1,722,090)	\$ (1,722,090)	\$ (1,722,090)	\$ (1,722,090)	\$ (1,722,090)	\$ (1,722,090)	\$ (1,722,090)	\$ (20,665,080)
30	\$ 238,923,403	\$ 234,192,895	\$ 226,063,003	\$ 231,643,833	\$ 279,298,788	\$ 291,408,302	\$ 311,306,042	\$ 332,578,201	\$ 334,307,928	\$ 283,959,880	\$ 238,364,473	\$ 225,981,391	\$ 3,248,028,140
31	\$ 225,765,259	\$ 263,855,528	\$ 287,218,016	\$ 346,729,104	\$ 341,840,872	\$ 348,046,576	\$ 360,752,907	\$ 382,750,803	\$ 324,371,621	\$ 310,764,370	\$ 242,503,973	\$ 244,264,023	\$ 3,678,863,052
32	98.09388%	95.17198%	95.34103%	95.28365%	95.79513%	95.36463%	94.58985%	94.57204%	94.27309%	94.37802%	93.85513%	95.12659%	95.10327%
33	\$ 221,836,172	\$ 251,540,918	\$ 274,299,398	\$ 330,934,481	\$ 328,020,326	\$ 332,474,263	\$ 341,812,322	\$ 362,586,981	\$ 306,311,944	\$ 293,788,925	\$ 227,987,067	\$ 232,752,724	\$ 3,304,345,523
34	\$ 37,087,231	\$ (17,348,022)	\$ (48,236,395)	\$ (99,290,648)	\$ (48,721,539)	\$ (41,065,960)	\$ (30,506,280)	\$ (30,008,780)	\$ 27,995,984	\$ (9,829,045)	\$ 10,377,405	\$ (6,771,333)	\$ (256,317,383)
35	\$ (7,698)	\$ (5,474)	\$ (6,584)	\$ (11,433)	\$ (12,232)	\$ (11,560)	\$ (15,035)	\$ (17,272)	\$ (16,660)	\$ (15,501)	\$ (17,089)	\$ (19,449)	\$ (155,986)
36	\$ (147,765,613)	\$ (98,372,279)	\$ (103,411,974)	\$ (139,341,152)	\$ (226,329,432)	\$ (262,749,401)	\$ (291,513,121)	\$ (309,720,635)	\$ (327,432,886)	\$ (287,139,761)	\$ (284,670,566)	\$ (261,996,388)	\$ (147,765,613)
37	\$ (98,482)	\$ (98,482)	\$ (98,482)	\$ (98,482)	\$ (98,482)	\$ (98,482)	\$ (98,482)	\$ (98,482)	\$ (98,482)	\$ (98,482)	\$ (98,482)	\$ (98,482)	\$ (98,482)
38	\$ 12,313,801	\$ 12,313,801	\$ 12,313,801	\$ 12,313,801	\$ 12,313,801	\$ 12,313,801	\$ 12,313,801	\$ 12,313,801	\$ 12,313,801	\$ 12,313,801	\$ 12,313,801	\$ 12,313,801	\$ 147,765,613
39	\$ (98,470,761)	\$ (103,510,456)	\$ (139,439,634)	\$ (226,427,914)	\$ (262,847,883)	\$ (291,611,603)	\$ (309,819,117)	\$ (327,531,368)	\$ (287,238,243)	\$ (284,768,988)	\$ (262,094,870)	\$ (256,571,851)	\$ (256,571,851)
40													
41	*Actuals include various adjustments as noted on the A-Schedules.												
42	†Prior Period 2012/2013 True-up												
43	‡Generating Performance Incentive Factor is ((20,679,970 / 12) x 99.9280%) - See Order No. PSC-13-0665-FOF-EI.												
44	§Deferred 2013 Final True-up.												
45													
46	Note: Amounts may not agree to Actual/ Estimated Filing or A-Schedules due to rounding.												