

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: July 11, 2016
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 160007-EI
Company Name: Florida Power & Light Company
Company Code: EI802
Audit Purpose: A3d - Environmental Cost Recovery Clause
Audit Control No: 16-028-4-1

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 are confidential work papers associated with this audit.

LMD/cm

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, 2015

Docket No. 160007-EI
Audit Control No. 16-028-4-1
July 5, 2016

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Division of Engineering in its audit service request dated January 25, 2016. 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 2015 filing for the Environmental Cost Recovery Clause in Docket No. 160007-EI.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. 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 a sample of ECRC project-related plant additions, retirements and adjustments for the period January 1, 2015, through December 31, 2015.

Procedure: We reconciled Plant in Service (Line 2) and Accumulated Depreciation (Line 3) to the general ledger for each capital project listed on the 2015 Form 42-8A. No exceptions were noted.

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 is retired at the installed costs by the Utility in accordance with Rule 25-6.0142(4)(b), Florida Administrative Code.

- 1) Martin Next Generation Solar Energy Center Project No. 39
- 2) Turkey Point Cooling Canal Monitoring Plan Project No. 42
- 3) 800MW Unit ESP Project No. 45

Procedures: We selected a month to sample the additions of the above stated capital projects. 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 reconciled Construction Work in Progress Non-Interest Bearing on Form 42-8A to the general ledger. No exceptions were noted.

Revenue

Operating Revenues

Objectives: The objectives were to determine the actual Kilowatt Hours (KWH) sold for the period January 1, 2015, through December 31, 2015, and whether the Utility applied the Commission approved cost recovery factor to actual KWH sales.

Procedures: We reconciled the 2015 filing to the Utility's monthly Environmental Revenue Reports. We computed the factors by rate code and compared them to Order No. PSC-14-0701-FOF-EI, issued December 19, 2014. We selected a sample of residential and commercial customers' bills and recalculated each to verify the use of the correct tariff rates for each of the clause audits of this Utility in the Fuel Cost Recovery Clause Docket 160001-EI, Audit Control Number 16-020-4-1. No exceptions were noted.

Expense

Operation and Maintenance Expense

Objectives: The objectives were to verify that 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 selected a sample of O&M Expenses for Projects 39, 42, and 45. The source documentation for selected items was reviewed to ensure the expense was related to the ECRC, charged to the correct accounts, and in the correct amounts. No exceptions were noted.

Depreciation and Amortization

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

Procedures: We recalculated 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. The month of January 2015 was tested to determine if the correct rates were used in the calculation of the Depreciation Expense for Projects 39, 42, and 45. No exceptions were noted.

Other Issues

SO₂ and NO_x Emissions Allowances

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

Procedures: We traced the proceeds on the sales of emission allowances to the Environmental Protection Agency's payment coupons. We reviewed the inventory reported in the FERC forms and agreed the amounts to supporting documentation. We reconciled the gains in the ledger to the Working Capital calculation on Form 42-8A. We reviewed the Utility's procedure manual for treatment of the allowances and compared it to the general ledger. 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, 2014, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2015, using the Commission approved beginning balance as of December 31, 2014, the Financial Commercial Paper rates, and the 2015 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 2014 to 2015 expenses. We requested explanations from the Utility for significant variances. Explanations provided were sufficient. Further follow-up was not required.

Audit Findings

Finding 1: Overstated Operation and Maintenance Expenses

Audit Analysis: Operations and Maintenance Expenses on Filing Form 42-5A is overstated by \$70,024. According to the Utility in April 2016, after a review of submitted timesheets it was determined that a contractor had been charging ECRC instead of splitting their time between ECRC and NextEra Energy (“NEE”) on a 50/50 basis. The 50/50 split is an estimated value based on historical data. This resulted in \$70,024 of incorrect charges to ECRC for the year 2015 and \$25,366 of incorrect charges to ECRC January to April of 2016 (through April).

This problem only affected the years 2015 and 2016 not prior years.

Effect on the General Ledger:

The Utility recorded a correction in FERC Account 549.019 in May 2016 for \$95,390.

Effect on the Filing: O & M Expenses are overstated by \$70,024 for 2015 and \$25,366 for 2016. FPL does not plan to revise its 2015 Final ECRC True-Up Filing. Instead, this correction will flow through FPL’s normal true-up process and will be included in the 2016 Actual/Estimated ECRC filing in August 2016.

Exhibits

Exhibit 1: True-up

JANUARY 2015 THROUGH DECEMBER 2015

	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)	\$14,994,434	\$13,390,342	\$14,631,270	\$16,320,501	\$17,778,642	\$19,021,688	\$20,530,272	\$20,282,040	\$19,954,997	\$17,854,731	\$17,214,586	\$16,185,086	\$208,158,589
2. True-up Provision	\$320,540	\$320,540	\$320,540	\$320,540	\$320,540	\$320,540	\$320,540	\$320,540	\$320,540	\$320,540	\$320,540	\$320,540	\$3,846,483
3. ECRC Revenues Applicable to Period (Lines 1 + 2)	\$15,314,974	\$13,710,882	\$14,951,811	\$16,641,041	\$18,099,183	\$19,342,229	\$20,850,812	\$20,602,580	\$20,275,537	\$18,175,272	\$17,535,126	\$16,505,626	\$212,005,072
4. Jurisdictional ECRC Costs													
a. O&M Activities (Form 42-5A, Line 9)	\$2,825,504	\$4,430,805	\$3,948,350	\$3,299,451	\$4,640,375	\$5,699,397	\$4,574,807	\$4,294,350	\$4,603,294	\$3,875,527	\$3,205,002	\$3,735,990	\$49,132,851
b. Capital Investment Projects (Form 42-7A, Line 9)	\$15,330,212	\$15,360,844	\$15,347,710	\$15,359,439	\$15,348,523	\$15,319,298	\$15,179,333	\$15,142,360	\$15,112,341	\$15,083,509	\$15,045,126	\$15,027,088	\$182,655,783
c. Total Jurisdictional ECRC Costs	\$18,155,716	\$19,791,649	\$19,296,060	\$18,658,889	\$19,988,897	\$21,018,694	\$19,754,141	\$19,436,709	\$19,715,634	\$18,959,036	\$18,250,129	\$18,763,078	\$231,788,634
5. Over/(Under) Recovery (Line 3 - Line 4c)	(\$2,840,742)	(\$6,080,767)	(\$4,344,250)	(\$2,017,848)	(\$1,889,715)	(\$1,676,466)	\$1,096,671	\$1,165,870	\$559,903	(\$783,764)	(\$715,003)	(\$2,257,452)	(\$19,783,563)
6. Interest Provision (Form 42-3A, Line 10)	(\$75)	(\$450)	(\$841)	(\$920)	(\$1,133)	(\$1,432)	(\$1,560)	(\$1,732)	(\$1,836)	(\$1,958)	(\$2,235)	(\$4,967)	(\$19,138)
7. Prior Periods True-Up to be (Collected)/Refunded	\$3,846,483	\$685,125	(\$5,716,631)	(\$10,382,262)	(\$12,721,570)	(\$14,932,958)	(\$16,931,396)	(\$16,156,826)	(\$15,313,228)	(\$15,075,701)	(\$16,181,963)	(\$17,219,741)	\$3,846,483
a. Deferred True-Up (Form 42-1A, Line 7) ⁽¹⁾	(\$3,164,408)	(\$3,164,408)	(\$3,164,408)	(\$3,164,408)	(\$3,164,408)	(\$3,164,408)	(\$3,164,408)	(\$3,164,408)	(\$3,164,408)	(\$3,164,408)	(\$3,164,408)	(\$3,164,408)	\$0
8. True-Up Collected/(Refunded) (See Line 2)	(\$320,540)	(\$320,540)	(\$320,540)	(\$320,540)	(\$320,540)	(\$320,540)	(\$320,540)	(\$320,540)	(\$320,540)	(\$320,540)	(\$320,540)	(\$320,540)	(\$3,846,483)
9. End of Period True-Up (Lines 5+6+7+7a+8)	(\$2,479,283)	(\$8,881,039)	(\$13,546,670)	(\$15,885,978)	(\$18,097,366)	(\$20,095,804)	(\$19,321,234)	(\$18,477,636)	(\$18,240,109)	(\$19,346,371)	(\$20,384,149)	(\$22,967,108)	(\$19,802,700)
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)	(\$2,479,283)	(\$8,881,039)	(\$13,546,670)	(\$15,885,978)	(\$18,097,366)	(\$20,095,804)	(\$19,321,234)	(\$18,477,636)	(\$18,240,109)	(\$19,346,371)	(\$20,384,149)	(\$22,967,108)	(\$19,802,700)

JANUARY 2015 THROUGH DECEMBER 2015

	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. Beginning True-Up Amount (Form 42-2A, Lines 7 + 7a + 10)	\$682,075	(\$2,479,283)	(\$8,881,039)	(\$13,546,670)	(\$15,885,978)	(\$18,097,366)	(\$20,095,804)	(\$19,321,234)	(\$18,477,636)	(\$18,240,109)	(\$19,346,371)	(\$20,384,149)	N/A
Interest (Line 1 + Form 42-2A, Lines 5 + 8)	(\$2,479,208)	(\$8,880,589)	(\$13,545,829)	(\$15,885,059)	(\$18,096,233)	(\$20,094,372)	(\$19,319,673)	(\$18,475,904)	(\$18,238,273)	(\$19,344,414)	(\$20,381,914)	(\$22,962,141)	N/A
3. Total of Beginning & Ending True-Up (Lines 1 + 2)	(\$1,797,133)	(\$11,359,872)	(\$22,426,868)	(\$29,431,729)	(\$33,982,212)	(\$38,191,738)	(\$39,415,478)	(\$37,797,137)	(\$36,715,909)	(\$37,584,522)	(\$39,728,285)	(\$43,346,290)	N/A
4. Average True-Up Amount (Line 3 x 1/2)	(\$898,566)	(\$5,679,936)	(\$11,213,434)	(\$14,715,864)	(\$16,991,106)	(\$19,095,869)	(\$19,707,739)	(\$18,898,569)	(\$18,357,954)	(\$18,792,261)	(\$19,864,143)	(\$21,673,145)	N/A
5. Interest Rate (First Day of Reporting Month)	0.10000%	0.10000%	0.09000%	0.09000%	0.06000%	0.10000%	0.08000%	0.11000%	0.11000%	0.13000%	0.12000%	0.15000%	N/A
6. Interest Rate (First Day of Subsequent Month)	0.10000%	0.09000%	0.09000%	0.06000%	0.10000%	0.08000%	0.11000%	0.11000%	0.13000%	0.12000%	0.15000%	0.40000%	N/A
7. Total of Beginning & Ending Interest Rates (Lines 5 + 6)	0.20000%	0.19000%	0.18000%	0.15000%	0.16000%	0.18000%	0.19000%	0.22000%	0.24000%	0.25000%	0.27000%	0.55000%	N/A
8. Average Interest Rate (Line 7 x 1/2)	0.10000%	0.09500%	0.09000%	0.07500%	0.08000%	0.09000%	0.09500%	0.11000%	0.12000%	0.12500%	0.13500%	0.27500%	N/A
9. Monthly Average Interest Rate (Line 8 x 1/12)	0.00833%	0.00792%	0.00750%	0.00625%	0.00667%	0.00750%	0.00792%	0.00917%	0.01000%	0.01042%	0.01125%	0.02292%	N/A
10. Interest Provision for the Month (Line 4 x Line 9)	(\$75)	(\$450)	(\$841)	(\$920)	(\$1,133)	(\$1,432)	(\$1,560)	(\$1,732)	(\$1,836)	(\$1,958)	(\$2,235)	(\$4,967)	(\$19,138)