

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 4, 2017
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 170001-EI
Company Name: Florida Power & Light Company
Company Code: EI802
Audit Purpose: A3a: Fuel Cost Recovery Clause
Audit Control No: 17-023-4-1

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 are confidential work papers associated with this audit.

LMD/cmm

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, 2016

Docket No. 170001-EI
Audit Control No. 17-023-4-1
April 28, 2017

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

Gabriela Leon
Audit Staff

A handwritten signature in blue ink, appearing to read "Yen Ngo".

Yen Ngo
Audit Manager

A handwritten signature in blue ink, appearing to read "Marisa Glover".

Marisa Glover
Reviewer

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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 Accounting and Finance in its audit service request dated January 20, 2017. 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 2016 filing for the Fuel and Purchased Power Cost Recovery Clause in Docket No. 170001-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

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, 2016, through December 31, 2016, 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. 14-0701-FOF-EI, issued December 19, 2014 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. This work was performed jointly with the revenue portions of the other clause audits of Florida Power and Light. The work product is contained in Docket No. 170001-EI, ACN 17-023-4-1. 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 one month of 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 2016. 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. 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. No exceptions were noted.

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. No exceptions were noted.

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. No exceptions were noted.

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

Procedures: There was not an internal audit performed in 2016 for the Unit Power Sales contracts of JEA. No further work performed.

Gas Reserve Investment

Objectives: The objectives were to 1) Verify that FPL has added the appropriate FERC subaccounts to correspond with the accounts used by Gas Reserve Company, set forth in Order No. PSC-15-0038-FOF-EI, in Docket No. 150001-EI, issued January 12, 2015, 2) Identify the dollar amount by account and/or subaccount used in the Net Working Capital Adjustment (Line 3a on Return on Capital Investments and Depletion for Gas Reserve Project schedule) for 2016, 3) Identify the methodology for calculating Depletion (Line 7a on Return on Capital Investments and Depletion for Gas Reserves Project schedule) for 2016, and 4) Verify that all Gas Reserve related costs were removed in 2016.

Procedures: We obtained the general ledger for the Gas Reserve Investment and reconciled the addition, accumulated depletion, and the investment and operating expense to the appropriate accounts and verified the Utility used the appropriate FERC accounts. We identified the dollar amount by account and/or subaccount, under the FERC system of accounting that corresponds on a one-on-one basis with the accounts used by the Gas Reserved Company (GRCO), in calculating the Net Working Capital Adjustment for year ended 2016. In May 2016, The Florida Supreme Court concluded that the Utility cannot recover the Gas Reserve Investment expenses through the Fuel Energy Recovery Clause; therefore, these charges were removed from the 2016 FAC filing.

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, 2015, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2016, using the approved beginning balance as of December 31, 2015, the Financial Commercial Paper rates, and the 2016 revenues and costs. No exceptions were noted.

Audit Findings

None

Exhibit

Exhibit 1: True-Up

FLORIDA POWER & LIGHT COMPANY
 CALCULATION OF FINAL TRUE-UP AMOUNT
 FOR THE PERIOD: JANUARY 2010 THROUGH DECEMBER 2010

Line No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	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	Fuel Cost of System Net Generation (Per A3) (1) (5)	\$201,632,120	\$185,954,216	\$191,236,901	\$216,304,742	\$220,257,708	\$252,425,555	\$321,515,139	\$302,446,086	\$269,674,602	\$259,101,073	\$105,305,961	\$235,152,049	\$2,800,966,052
3	Scherer Coal Cars Depreciation & Return (Per A2)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$213,600)	\$0	(\$213,600)
4	Cedar Bay - Rail Coal Cars Lease per Doctort No. 150075-EI	\$137,932	\$271,278	\$147,241	\$144,439	\$130,857	\$131,751	\$130,514	\$131,064	\$129,202	\$129,590	\$113,090	\$130,928	\$1,733,478
5	Fuel Cost of Power Gold (Per A6)	(\$10,075,105)	(\$6,797,662)	(\$2,493,228)	(\$4,786,732)	(\$2,412,708)	(\$2,003,418)	(\$1,342,894)	(\$1,304,012)	(\$3,559,750)	(\$3,282,780)	(\$3,685,909)	(\$5,615,070)	(\$47,959,378)
6	Gains from Off-System Sales (Per A6)	(\$3,997,835)	(\$2,907,354)	(\$793,597)	(\$3,079,923)	(\$951,874)	(\$601,482)	(\$250,831)	(\$377,414)	(\$1,260,142)	(\$1,306,023)	(\$1,135,953)	(\$3,368,392)	(\$20,137,020)
7	Fuel Cost of Purchased Power (Per A7)	\$2,411,393	\$5,384,545	\$6,590,344	\$6,408,911	\$6,721,506	\$7,054,568	\$15,249,302	\$5,808,783	\$12,627,963	\$5,570,730	\$9,320,811	\$6,147,750	\$91,393,747
8	Energy Payments to Qualifying Facilities (Per A8)	\$336,943	\$317,705	\$1,801,011	\$3,858,818	\$4,895,544	\$3,134,762	\$6,129,011	\$7,574,603	\$7,368,456	\$976,004	\$2,039,933	\$478,681	\$30,062,331
9	Energy Cost of Economy Purchases (Per A9)	\$145,200	\$0,612	\$664,000	\$6,285,824	\$6,470,070	\$7,168,322	\$7,918,539	\$17,459,119	\$6,778,688	\$7,541,104	\$10,780	\$74,400	\$70,535,682
10	Total Fuel Costs & Net Power Transactions	\$190,039,948	\$181,672,680	\$197,303,978	\$227,195,875	\$244,111,021	\$267,310,058	\$359,348,989	\$334,756,430	\$290,739,029	\$268,639,789	\$200,764,022	\$233,009,344	\$2,905,980,693
12	Incremental Optimization Costs													
13	Incremental Personnel, Software, and Hardware Costs (Per A2)	\$39,910	\$36,980	\$41,005	\$39,413	\$40,308	\$41,494	\$36,202	\$37,739	\$44,709	\$39,037	\$40,475	\$43,814	\$484,305
14	Variable Power Plant O&M Costs over 514,000 MWh Threshold (Per A8)	\$1,317	\$569,232	\$270,672	\$616,620	\$201,262	\$110,589	\$60,835	\$72,723	\$174,100	\$212,634	\$260,587	\$317,360	\$2,800,052
16	Total	\$41,226	\$606,213	\$312,277	\$657,034	\$241,570	\$161,043	\$66,037	\$110,402	\$218,870	\$252,470	\$321,082	\$361,174	\$3,293,357
17	Dodd Frank Fees	\$375	\$0	\$750	\$0	\$750	\$375	\$375	\$1,257	\$0	\$375	\$0	\$0	\$5,382
19	Adjustments to Fuel Cost													
20	Energy Imbalance Fuel Revenues	(\$548)	\$7,315	\$6,763	\$2,705	\$2,703	\$14,117	\$41,251	(\$2,066)	(\$106,313)	(\$99,017)	(\$48,644)	(\$36,117)	(\$300,000)
21	Inventory Adjustments	(\$677,969)	\$91,490	(\$176,706)	\$82,937	(\$107,064)	\$120,078	(\$70,011)	\$10,043	\$42,231	(\$47,626)	\$250,171	(\$146,020)	(\$677,379)
22	Non Recoverable Oil/Tank Bottoms	\$0	\$0	(\$60,209)	\$0	\$0	\$230,772	\$0	\$0	\$0	(\$4,007,008)	(\$220,171)	\$0	(\$4,136,615)
23	Gas Reserves Refund	\$0	\$0	\$0	\$0	\$0	(\$21,204,315)	\$0	\$0	\$0	\$0	\$0	\$0	(\$21,204,315)
24	Variable Power Plant O&M Correction (6)	\$0	\$0	\$0	\$0	\$0	(\$632,850)	\$0	\$0	\$0	\$0	\$0	\$0	(\$632,850)
25	Adjusted Total Fuel Costs & Net Power Transactions	\$189,403,032	\$182,697,670	\$197,304,451	\$227,857,451	\$244,209,930	\$245,709,299	\$359,409,641	\$334,660,126	\$290,802,101	\$264,678,708	\$201,066,616	\$233,167,144	\$2,971,132,236
26	Jurisdictional kWh Sales													
27	Jurisdictional kWh Sales	6,477,060,498	7,108,751,712	7,791,736,450	6,414,365,754	6,721,868,851	10,064,288,719	11,403,351,282	11,221,273,117	10,603,706,111	9,830,607,679	7,062,214,702	6,023,255,418	100,652,645,862
28	Sales for Resale	504,756,935	509,824,708	435,645,300	336,378,082	517,499,733	904,673,322	\$41,893,285	681,291,161	972,613,068	610,039,506	\$24,615,434	383,789,892	6,822,822,316
29	Sub-Total Sales	6,981,817,433	7,618,576,470	8,227,381,840	6,750,743,836	7,239,368,584	10,970,233,041	12,044,894,607	11,902,564,278	11,576,221,209	10,440,647,485	6,000,731,136	6,417,036,010	116,265,167,916
30	Jurisdictional % of Total Sales (Line 27/29)													
31	True-up Calculation	94.38024%	93.31059%	94.70493%	94.00744%	94.30897%	94.42600%	94.67405%	94.27610%	94.19056%	93.96433%	93.83410%	95.32162%	94.30493%
32	Jurisdictional Fuel Revenues (Net of Revenue Taxes)	\$242,137,682	\$200,963,908	\$220,699,604	\$206,705,034	\$216,009,593	\$253,879,070	\$291,723,278	\$286,462,085	\$276,890,033	\$236,282,329	\$195,246,519	\$198,693,760	\$2,824,943,964
34	Fuel Adjustment Revenues Not Applicable to Period													
35	Prior Period True-up (Collected)/Refunded This Period (2)	(\$5,568,187)	(\$5,568,187)	(\$5,568,187)	(\$5,568,187)	(\$5,568,187)	(\$5,568,187)	(\$5,568,187)	(\$5,568,187)	(\$5,568,187)	(\$5,568,187)	(\$5,568,187)	(\$5,568,187)	(\$66,818,243)
36	QPP, Net of Revenue Taxes (3)	(\$1,940,528)	(\$1,940,528)	(\$1,940,528)	(\$1,940,528)	(\$1,940,528)	(\$1,940,528)	(\$1,940,528)	(\$1,940,528)	(\$1,940,528)	(\$1,940,528)	(\$1,940,528)	(\$1,940,528)	(\$23,286,330)
37	Incentive Mechanism Collection	(\$1,028,392)	(\$1,028,392)	(\$1,028,392)	(\$1,028,392)	(\$1,028,392)	(\$1,028,392)	(\$1,028,392)	(\$1,028,392)	(\$1,028,392)	(\$1,028,392)	(\$1,028,392)	(\$1,028,392)	(\$12,340,700)
38	Medcourse correction - Prior Period True-up (Collected)/Refunded This Period	\$0	\$0	\$0	\$3,307,472	\$3,307,472	\$3,307,472	\$3,307,472	\$3,307,472	\$3,307,472	\$3,307,472	\$3,307,472	\$3,307,472	\$29,767,250
39	Jurisdictional Fuel Revenues Applicable to Period	\$236,569,165	\$198,395,011	\$218,611,706	\$203,198,036	\$211,788,566	\$248,690,550	\$286,403,643	\$278,166,566	\$271,703,641	\$230,596,132	\$191,771,029	\$194,928,218	\$2,805,767,234
40	Adjusted Total Fuel Costs & Net Power Transactions	\$233,600,575	\$192,126,901	\$212,161,490	\$201,475,399	\$210,779,958	\$248,646,435	\$286,403,643	\$281,222,450	\$271,620,399	\$233,052,694	\$190,018,864	\$190,664,125	\$2,781,885,017
41	Jurisdictional Sales % of Total kWh Sales (Line 31)	94.38024%	93.31059%	94.70493%	94.00744%	94.30897%	94.42600%	94.67405%	94.27610%	94.19056%	93.96433%	93.83410%	95.32162%	94.30493%
42	Jurisdictional Total Fuel Costs & Net Power Trans. (Line 40/Line 41x1.00168)	\$179,104,042	\$170,711,608	\$197,266,120	\$214,962,617	\$230,915,170	\$232,406,636	\$340,639,313	\$316,223,432	\$274,369,370	\$240,174,421	\$169,996,012	\$222,651,190	\$2,807,211,542
43	True-up Provision for the Month - Over/(Under) Recovery (Line 39 - Line 42)	\$54,496,533	\$21,416,062	\$24,606,376	(\$13,087,418)	(\$20,135,212)	\$16,239,597	(\$54,346,670)	(\$39,000,082)	(\$2,747,960)	(\$16,121,726)	\$1,032,871	(\$31,087,065)	(\$66,346,625)
44	Interest Provision for the Month	(\$2,339)	\$12,473	\$23,375	\$24,402	\$17,722	\$16,833	\$16,234	\$3,322	(\$2,640)	(\$5,719)	(\$7,835)	(\$16,405)	\$81,422
45	True-up & Interest Provision Bag. of Period - Over/(Under) Recovery	(\$6,818,243)	(\$6,795,602)	\$20,239,660	\$90,727,769	\$39,028,496	\$22,068,711	\$40,587,896	(\$11,480,666)	(\$44,217,811)	(\$44,707,717)	(\$58,574,449)	(\$58,288,697)	(\$66,818,243)
46	Deferred True-up Beginning of Period - Over/(Under) Recovery (4)	\$29,767,250	\$29,767,250	\$29,767,250	\$29,767,250	\$29,767,250	\$29,767,250	\$29,767,250	\$29,767,250	\$29,767,250	\$29,767,250	\$29,767,250	\$29,767,250	\$29,767,250
47	Vendor Settlement Refund per Order No. PGC-10-0208-POF-E (7)	\$0	\$0	\$0	\$0	\$0	\$0	\$7,573,024	\$7,573,024	\$7,573,024	\$7,573,024	\$7,573,024	\$7,573,024	\$7,573,024
48	Prior Period True-up Collected/(Refunded) This Period (2)	\$5,568,187	\$5,568,187	\$5,568,187	\$5,568,187	\$5,568,187	\$5,568,187	\$5,568,187	\$5,568,187	\$5,568,187	\$5,568,187	\$5,568,187	\$5,568,187	\$66,818,243
49	Medcourse correction - 2015 Final True-up collected/(refunded) this period	\$0	\$0	\$0	(\$3,307,472)	(\$3,307,472)	(\$3,307,472)	(\$3,307,472)	(\$3,307,472)	(\$3,307,472)	(\$3,307,472)	(\$3,307,472)	(\$3,307,472)	(\$29,767,250)
50	End of Period Net True-up Amount Over/(Under) Recovery (Lines 43 through 49)	\$23,011,368	\$90,007,100	\$80,499,039	\$69,692,736	\$61,635,961	\$70,355,106	\$28,960,306	(\$6,076,637)	(\$7,306,643)	(\$21,233,276)	(\$17,947,523)	(\$47,690,279)	(\$47,690,279)

51
52
53 (1) Actuals include various adjustments as noted on the A-Schedules
54 (2) Prior Period 2015 Actual/Estimated True-up.
55 (3) Generation Performance Incentive Factor is ((\$23,303,114/12) x 90.9280%) - See Order No. PGC-15-0586-POF-E.
56 (4) 2015 Final True-up.
57 (5) Reflects removal of Woodford Gas Reserves Project expenses as explained in the testimony of FPL witness Yupp.
58 (6) FPL has included a refund of \$632,856 including resulting from the application of the corrected variable power plant O&M rate to wholesale economy energy sales for the period January 2013 through April 2016.
59 (7) Per Order No. PGC-10-0208-POF-E, issued on July 27, 2010, FPL is including a refund of \$7,573,024 in the calculation of its 2010 end-of-period net true-up amount, which represents the jurisdictional amount associated with FPL's vendor settlement of \$5 million.
60
61 Note: Amounts may not agree to Actual/Estimated Filing or A-Schedules due to rounding