

State of Florida



# Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** January 5, 2018

**TO:** Office of Commission Clerk

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

**RE:** Docket No.: 20160251-EI  
Company Name: Florida Power & Light Company  
Company Code: EI802  
Audit Purpose: A3, A19: Storm Restoration for Hurricane Matthew  
Audit Control No.: 2017-297-1-1

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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  
Tallahassee District Office

**Auditor's Report**

Florida Power & Light Company  
Storm Recovery Cost Audit – Hurricane Matthew

**As of September 30, 2017**

Docket No. 20160251-EI  
Audit Control No. 2017-297-1-1

**December 5, 2017**

A handwritten signature in cursive script, reading "Donna D. Brown", written over a horizontal line.

Donna D. Brown  
Audit Manager

A handwritten signature in cursive script, reading "Debra Dobiac", written over a horizontal line.

Debra Dobiac  
Audit Staff

A handwritten signature in cursive script, reading "Marisa N. Glover", written over a horizontal line.

Marisa N. 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 October 25, 2017. We have applied these procedures to the attached schedules prepared by Florida Power & Light Company in support of its filing for storm recovery costs in Docket No. 20160251-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

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform Systems of Accounts as adopted by Rule 25-30.115, Florida Administrative Code (F.A.C.)

FPL or Utility refers to Florida Power & Light Company.

#### Background

On December 29, 2016, Florida Power & Light Company (FPL) filed a petition for a limited proceeding seeking authority to implement an interim storm restoration recovery charge to recover a total of \$318.5 million for the incremental restoration costs related to Hurricane Matthew and to replenish its storm reserve. Commission Order PSC-2017-0055-PCO-EI, states that FPL incurred total retail recoverable costs of approximately \$293.8 million, less its pre-storm storm reserve balance of \$93.1 million, resulting in net recoverable costs of \$200.7 million. In addition, FPL proposes to replenish its storm reserve to the \$117.1 million balance that existed on January 2, 2013. Interest and the regulatory assessment fee gross-up add an additional \$0.6 million to the recoverable costs. This audit's focus was on FPL's request for incurred costs related to Hurricane Matthew.

### **Revenue**

#### Revenues

**Objectives:** The objectives were to determine whether: 1) Utility charges were those approved by the Commission in accordance with Commission Order PSC-2017-0055-PCO-EI and 2) Storm restoration recovery revenues collected from October 1, 2016 to September 30, 2017 were recorded and properly classified in compliance with Commission rules.

**Procedures:** Audit staff requested all storm charge revenues by month from October 2016 through September 2017 by rate class. We requested storm charge revenues by FERC account from FPL'S general ledger for the period March 2017 through September 2017 and reconciled the revenues detail to the general ledger. We also requested a sample of two customer bills from each rate class during the period March 2017 through September 2017. We determined that the Utility used the appropriate interim storm restoration recovery charges per Commission Order No. PSC-2017-0055-PCO-EI. No exceptions were noted.

## **Expense**

### Payroll

**Objectives:** The objectives were to determine whether regular payroll, regular overtime, and related costs were properly stated, recorded in the period incurred, and were related to Hurricane Matthew.

**Procedures:** Audit staff determined regular payroll, regular overtime, and related costs from Account 186 – Deferred Storm Charges by function and reconciled the balances to the storm restoration costs filing. We required the Utility to reconcile the budgeted payroll to the storm restoration costs filing. We requested the policies and procedures for recording these costs and how they are separated from business as usual costs. We also selected a judgmental sample of costs to test. Finding 1 discusses our recommended adjustment to Payroll.

### Contractors

**Objectives:** The objective was to determine whether contractor costs were properly stated, recorded in the period incurred, and were related to Hurricane Matthew.

**Procedures:** Audit staff determined contractor costs from Account 186 – Deferred Storm Charges by function and reconciled the balances to the storm restoration costs filing. We also selected a judgmental sample of costs to test. We determined that the items selected for testing were 1) specifically identifiable to the storm event and 2) directly associated with storm restoration. No exceptions noted.

### Line Clearing

**Objectives:** The objective was to determine whether line clearing costs were properly stated, recorded in the period incurred, and were related to Hurricane Matthew.

**Procedures:** Audit staff determined line clearing costs from Account 186 – Deferred Storm Charges by function and reconciled the balances to the storm restoration costs filing. We also selected a judgmental sample of costs to test. We determined that the items selected for testing were 1) specifically identifiable to the storm event and 2) directly associated with storm restoration. No exceptions noted.

### Vehicle & Fuel

**Objectives:** The objective was to determine whether vehicle and fuel costs were properly stated, recorded in the period incurred, and were related to Hurricane Matthew.

**Procedures:** Audit staff determined vehicle and fuels costs from Account 186 – Deferred Storm Charges by function and reconciled the balances to the storm restoration costs filing. We also selected a judgmental sample of costs to test. We determined that the items selected for testing were 1) specifically identifiable to the storm event and 2) directly associated with storm restoration. No exceptions noted.

## Materials & Supplies

**Objectives:** The objective was to determine whether the material and supply costs were properly stated, recorded in the period incurred and were related to Hurricane Matthew.

**Procedures:** Audit staff determined materials and supply costs from Account 186 – Deferred Storm Charges by function and reconciled the balances to the storm restoration costs filing. We also selected a judgmental sample of costs to test. We determined that the items selected for testing were 1) specifically identifiable to the storm event and 2) directly associated with storm restoration. No exceptions noted.

## Logistics

**Objectives:** The objective was to determine whether the logistics costs were properly stated, recorded in the period incurred and were related to Hurricane Matthew.

**Procedures:** Audit staff determined logistics costs from Account 186 – Deferred Storm Charges by function and reconciled the balances to the storm restoration costs filing.. We requested a detailed description of logistic costs as well as the policies and procedures for recording these costs. We determined that the policies and procedures for regarding these costs were reasonable. We also selected a judgmental sample of costs to test. We determined that the items selected for testing were 1) specifically identifiable to the storm event and 2) directly associated with storm restoration. No exceptions noted.

## Other

**Objectives:** The objective was to determine whether the other costs were properly stated, recorded in the period incurred and were related to Hurricane Matthew.

**Procedures:** Audit staff determined other costs from Account 186 – Deferred Storm Charges by function and reconciled the balances to the storm restoration costs filing. We requested a detailed description of other costs as well as the policies and procedures for recording these costs. We determined that the policies and procedures for regarding these costs were reasonable. We also selected a judgmental sample of costs to test. We determined that the items selected for testing were 1) specifically identifiable to the storm event and 2) directly associated with storm restoration. Finding 2 discusses our recommended adjustment to Other.

## Non-Incremental Costs

**Objectives:** The objective was to determine whether the non-incremental costs have been accounted for correctly and removed in their entirety from the recoverable costs as per Rule 25-6.0143, Florida Administrative Code (F.A.C.).

**Procedures:** Audit staff determined non-incremental costs from Account 186 – Deferred Storm Charges by function and reconciled the balances to the storm restoration costs filing. We requested a detailed description of non-incremental costs as well as the policies and procedures for recording these costs. We determined that the policies and procedures for regarding these costs were reasonable. We also selected a judgmental sample of costs to test. We determined that the items selected for testing were 1) not specifically identifiable to the storm event and 2)

not directly associated with storm restoration. Finding 3 discusses our recommended adjustment to Non-Incremental Costs.

### Third-Party Reimbursements

**Objectives:** The objectives were to determine whether the third-party reimbursement costs have been accounted for correctly and removed in their entirety from the recoverable costs as per Rule 25-6.0143(b), F.A.C.

**Procedures:** Audit staff determined third-party reimbursements and reconciled the balances to the storm restoration cost filing. We requested a detailed description of third-party reimbursement costs as well as the policies and procedures for recording these costs. We determined that the policies and procedures for regarding these costs were reasonable. We also selected all costs to test. We determined that the items selected for testing were 1) not specifically identifiable to the storm event and 2) not directly associated with storm restoration. No exceptions were noted.

### Capitalizable Costs

**Objectives:** The objectives were to determine whether the capitalizable costs have been accounted for correctly and removed in their entirety from the recoverable costs as per Rule 25-6.0143(1)(d), F.A.C. This rule states that the utility will be allowed to charge to Account No. 228.1, costs that are incremental to costs normally charged to non-cost recovery clause operating expenses in the absence of a storm. In addition, capital expenditures for the removal, retirement and replacement of damaged facilities charged to cover storm-related damages shall exclude the normal cost for the removal, retirement and replacement of those facilities in the absence of a storm.

**Procedures:** Audit staff determined capitalizable costs recorded in Account 186 – Deferred Storm Charges by function and reconciled the balances to the storm restoration costs filing. We requested a detailed description of these capitalizable costs as well as the policies and procedures for recording these costs. We tested the capitalizable costs to determine if the Utility included for recovery only those costs that are allowed by the applicable Rule. No exceptions were noted.

## **Other**

### Jurisdictional Factors

**Objectives:** The objectives were to determine whether the Utility used the appropriate jurisdictional factors for the filing.

**Procedures:** Audit staff requested a detailed explanation as to the basis of the jurisdictional factors. We obtained from the Utility calculated jurisdictional factors used in the final cost calculation for Hurricane Matthew. We reconciled the amounts per the Utility provided support to the MFR filing in Docket No. 20120015-EI. We determined that FPL used the appropriate jurisdictional factors. No exceptions noted.



## Audit Findings

### **Finding 1: Overtime Payroll**

**Audit Analysis:** In the Utility's filing, dated October 16, 2017, Line No. 1 had a balance of \$6,299,000 for regular payroll and PWTI (Pension Welfare Taxes and Insurance) costs and Line No. 2 had a balance of \$15,532,000 for overtime payroll and PWTI costs, which totals \$21,831,000. Audit staff reconciled the payroll, overtime, and related costs from the filing to Account 186 – Deferred Storm Charges. Subsequent to our testing of payroll, overtime, and PWTI costs, the Utility provided us with a schedule which noted that \$878,839 overtime payroll was not related to Hurricane Matthew restoration activities. In addition, the applicable amount of payroll taxes which should not be included is \$56,950 (\$878,839 times the payroll tax rate of 6.48%).

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Effect on the Filing:** Overtime Payroll and Related Costs, Line 2 of the filing, should be reduced by \$935,789 (\$878,839 + \$56,950).

## **Finding 2: Other Costs**

**Audit Analysis:** Audit staff selected a judgmental sample of Other costs to test. While gathering support, the Utility noted that some transactions were charged against the Hurricane Matthew Internal Orders (IOs) twice. Due to this discovery, FPL performed a review of all transactions that had been charged to Hurricane Matthew IOs, but not yet paid, and subsequently charged to Account 186. The Utility identified 12 duplicate transactions totaling \$19,410.83. Although these duplicate transactions were recorded in Account 186, only one payment for each transaction was made. The duplicate transactions are reflective on Line 8 of the filing and therefore should be removed.

As of the date of this audit report, the Utility had not made the necessary adjustment entry to the total amount of Retail Recoverable Costs reflected on Line 16 of the final cost report for Hurricane Matthew.

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Effect on the Filing:** Other costs, Line 8 of the filing, should be reduced by \$19,410.83.

### **Finding 3: Non-Incremental Costs**

**Audit Analysis:** The Utility provided a listing of detail transactions of Account 186 – Deferred Storm Charges and Account 228 – Storm Damage Reserve for Hurricane Matthew. They noted that \$81,000 of regular payroll and \$14,000 of related payroll overheads associated with follow-up work was not included in the non-incremental adjustment on Line 10 of the final cost report and should be included. Audit staff agrees that the \$98,000 should be included in Non-Incremental Costs

**Effect on the General Ledger:** The Utility should determine the effect on the general ledger.

**Effect on the Filing:** Non-Incremental Costs, line 10 of the filing, should be increased by \$95,000 (\$81,000 + \$14,000).

## Exhibits

### Exhibit 1: FPL's Final, Actual Hurricane Matthew Storm Restoration Costs

**Florida Power and Light  
Storm Restoration Costs Related to Hurricane Matthew  
(S000's)**

LINE NO.	Storm Costs By Function						Total (7)
	Steam & Other (1)	Nuclear (2)	Transmission (3)	Distribution (4)	General (A) (5)	Customer Service (6)	
1	32	206	446	5,075	364	175	6,299
2	326	1,537	654	11,658	658	700	15,532
3	705	3,207	1,482	159,713	332	272	165,711
4	0	0	11	27,497	0	0	27,509
5	0	0	145	4,774	5	0	4,924
6	20	58	249	4,048	358	0	4,734
7	1	0	123	81,247	185	128	81,684
8	34	5	228	2,876	1,613	151	4,906
9	1,118	5,013	3,338	296,889	3,515	1,426	311,298
10	55	162	244	2,453	1,089	731	4,734
11	0	0	0	295	0	0	295
12	1,063	4,851	3,094	294,141	2,426	695	306,269
13	507	238	344	11,838	0	56	12,982
14	556	4,612	2,751	282,303	2,426	639	293,287
15	0.9819	0.9819	0.9029	0.9998	0.9848	1.0000	
16	\$ 546	\$ 4,529	\$ 2,484	\$ 282,260	\$ 2,389	\$ 639	\$ 292,847