

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:** February 26, 2018

**TO:** Office of Commission Clerk

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

**RE:** Docket No.: 20170235-EI  
Company Name: Florida Power & Light Company  
Company Code: EI802  
Audit Purpose: Determine Book Value of Assets for City of Vero Beach Acquisition  
Audit Control No.: 2017-347-4-1

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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 no 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  
City of Vero Beach Acquisition Review

**As of October 24, 2017**

Docket No. 20170235-EI  
Audit Control No. 2017-347-4-1  
**January 30, 2018**

A handwritten signature in black ink, appearing to read "Debra m", written over a horizontal line.

Debra Dobiac  
Audit Manager

A handwritten signature in blue ink, appearing to read "M 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 December 12, 2017. We have applied these procedures to the attached schedule prepared by Florida Power & Light Company in support of its filing in Docket No. 20170235-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

### **Background**

#### Definitions

FPL/Utility refers to Florida Power & Light Company.

COVB/City refers to City of Vero Beach.

#### Utility Information

FPL is an investor-owned utility operating under the jurisdiction of this Commission. FPL provides generation, transmission, and distribution service to nearly 5 million retail customer accounts or an estimated 10 million people.

COVB's electric utility is a municipally-owned electric service provider to customers in the City of Vero Beach, portions of unincorporated Indian River County, and portions of the Town of Indian River Shores. COVB provides service to customers through approximately 34,000 customer accounts using COVB's transmission and distribution facilities.

On May 16, 2017, FPL presented a letter of intent to the City for the potential purchase of the City's electric utility system, which was subsequently executed by both parties. FPL and the City engaged in detailed negotiations with each other towards a definitive transaction agreement for the sale of COVB's electric utility assets. On October 24, 2017, the COVB City Council approved the Purchase and Sale Agreement (PSA) for the sale of the City's electric utility system to FPL, and the PSA was signed the same day.

On November 3, 2017, FPL filed a petition with this Commission for its approval of FPL's accounting treatment for the COVB transaction.

### **Net Book Value**

#### Utility Plant in Service

**Objectives:** The objective is to determine the book value of the acquired plant assets presented in the Utility's petition and the PSA dated October 24, 2017.

**Procedures:** We obtained a list of plant assets from the Utility, which traced to the capital asset balances from the COVB Comprehension Annual Financial Report for fiscal year ended September 30, 2016. We traced the balances to Exhibit KF-1 – City of Vero Beach Transaction, Proposed Journal Entries from the Utility's filed petition. No exceptions were noted.

#### Land & Land Rights

**Objectives:** The objective is to determine the book value of the land assets presented in the Utility's petition and the PSA dated October 24, 2017.

**Procedures:** One of COVB's substation is located at the site of the Vero Beach Power Plant. As part of the COVB transaction, FPL has agreed to dismantle the substation and construct a new

substation on a nearby parcel of land. Part of the purchased price includes a capital lease designated for the right to use the parcel of land on which the new substation will be constructed for a perpetual term. We noted land balances within the distribution and transmission assets, which are included in the COVB transaction. No exceptions were noted.

### Accumulated Depreciation

**Objectives:** The objective is to determine the accumulated depreciation balances related to the acquired plant assets presented in the Utility’s petition and the PSA dated October 24, 2017.

**Procedures:** The list of plant assets from the Utility included the associated accumulated depreciation balances, which traced to the capital asset balances from the COVB Comprehension Annual Financial Report for fiscal year ended September 30, 2016. FPL estimated the accumulated depreciation balances as of the projected closing date of September 30, 2018. We traced these balances to Exhibit KF-1 – City of Vero Beach Transaction, Proposed Journal Entries from the Utility’s filed petition. No exceptions were noted.

### Construction Work in Progress

**Objectives:** The objective is to determine the book value of construction work in progress (CWIP), which was included with the acquired plant assets presented in the Utility’s petition and the PSA dated October 24, 2017.

**Procedures:** We also obtained a list of CWIP projects from the Utility, which are expected to be placed into service prior to closing, and traced the balance to the capital asset balances from the COVB Comprehension Annual Financial Report for fiscal year ended September 30, 2016. We traced the CWIP balance to Exhibit KF-1 – City of Vero Beach Transaction, Proposed Journal Entries from the Utility’s filed petition. No exceptions were noted.

Audit Findings

**None**

## Exhibits

### Exhibit 1: City of Vero Beach Transaction

Florida Power & Light Company  
City of Vero Beach (COVB) Transaction  
Proposed Journal Entries  
As of Projected Close of October 1, 2018  
\$ in Millions

Line No.	Entry No.	FERC Account	Entry Description	Debit	Credit
1	1.	102	Electric Plant Purchased or Sold	\$ 179.0	
2		101.1	Property under capital leases - Substation Land <sup>(1)</sup>	2.0	
3		154	Plant materials and operating supplies	4.0	
4		182.3	Other regulatory assets - Dismantlement & Vacation	0.8	
5		131	Cash		\$ 185.0
6		253	Other Deferred Credits - Dismantlement of Substation		0.5
7		242	Miscellaneous current and accrued liabilities - Vacation		0.3
8					
9			<i>Purpose: To record the COVB Transaction and payment to COVB.</i>		
10	2.				
11		101	Electric Plant in Service - Distribution <sup>(2)</sup>	\$ 123.5	
12		101	Electric Plant in Service - Transmission <sup>(2)</sup>	34.1	
13		101	Electric Plant in Service - General <sup>(2)</sup>	7.7	
14		114	Electric plant acquisition adjustments <sup>(3)</sup>	116.2	
15		102	Electric Plant Purchased or Sold		\$ 179.0
16		108	Accumulated provision for depreciation of electric utility plant - Distribution		69.5
17		108	Accumulated provision for depreciation of electric utility plant - Transmission		26.2
18		108	Accumulated provision for depreciation of electric utility plant - General		6.8
19					
20			<i>Purpose: To clear account 102, Electric Plant Purchased, and record the acquired assets on FPL's books and records.</i>		
21					
22	3.	282	Accumulated deferred income taxes—Other property	\$ 0.3	
23		410.1	Provisions for deferred income taxes, utility operating income	0.3	
24		283	Accumulated deferred income taxes—Other		\$ 0.3
25		411.1	Provision for deferred income taxes—Credit, utility operating income		0.3
26					

*Purpose: To record deferred income taxes associated with assumed dismantlement & vacation liabilities which will be capitalized for tax purposes, and to record deferred taxes associated with the regulatory asset set up for dismantlement & vacation expenses.*

**Notes:**

- 1) Upfront lump sum payment to the COVB to lease land at the Vero Beach Power Plant substation site retained by COVB.
- 2) Plant will be depreciated using FPL's currently approved depreciation rates, which were approved by the Commission in Order No. PSC-2016-0560-AS-EI, Docket Nos. 20160021-EI and 20160062-EI.
- 3) FPL proposes an amortization period of 30 years, which is approximately equivalent to the average remaining estimated useful life of the acquired distribution assets.