

MEMORANDUM

April 9, 1998

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (VANDIVER) *W*

RE: DOCKET NO. 980007-EI -- FLORIDA POWER & LIGHT COMPANY  
AUDIT REPORT - ENVIRONMENTAL COST RECOVERY CLAUSE  
AUDIT CONTROL NO. 98-022-4-1

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The above-referenced audit report is forwarded. Audit exceptions document deviations from the Uniform System of Accounts, Commission rule or order, Staff Accounting Bulletin and generally accepted accounting principles. Audit disclosures show information that may influence the decision process.

The audit was prepared using a micro computer and has been recorded on two diskettes (One is confidential.). The diskettes may be reviewed using IBM compatible equipment and LOTUS 1-2-3 software. There are confidential working papers associated with this audit.

Please forward a complete copy of this audit report to:

Florida Power & Light Company  
Bill Walker  
215 South Monroe Street, Suite 810  
Tallahassee, Florida 32301-1859

DNV/sp

Attachment

cc: Chairman Johnson  
Commissioner Clark  
Commissioner Deason  
Commissioner Garcia  
Commissioner Jacobs  
Mary Andrews Bane, Deputy Executive Director/Technical  
Legal Services  
Division of Auditing and Financial Analysis (Devlin/Causseaux/  
File Folder)  
Division of Electric and Gas (Tew)  
Miami District Office (Welch)

Research and Regulatory Review (Harvey)  
Office of Public Counsel

DOCUMENT NUMBER-DATE

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**FLORIDA PUBLIC SERVICE COMMISSION**

*DIVISION OF AUDITING AND FINANCIAL ANALYSIS*

*BUREAU OF AUDITING*  
BUREAU OF AUDITING

*Miami District Office*

FLORIDA POWER AND LIGHT COMPANY

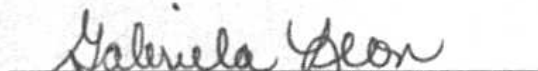
ENVIRONMENTAL CLAUSE

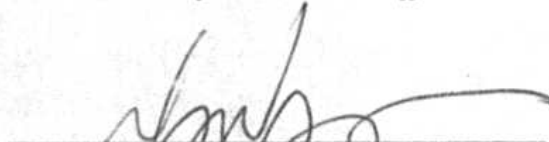
YEAR END SEPTEMBER 30, 1997

DOCKET NO. 980007-EI

AUDIT CONTROL NO. 98-022-4-1

  
\_\_\_\_\_  
*Raymond Grant, Audit Manager*

  
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*Gabby Leon, Audit Staff*

  
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*Yeh Nga, Audit Staff*

  
\_\_\_\_\_  
*Kathy L. Welch, Audit Supervisor*

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**DIVISION OF AUDITING AND FINANCIAL ANALYSIS  
AUDITOR'S REPORT**

**MARCH 27, 1998**

**TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES**

We have applied the procedures described later in this report to audit the accompanying schedules of the Environmental Cost Recovery Clause for the historical 12-month period ended September 30, 1997, for Florida Power and Light Company. These schedules were prepared by the utility as part of its petition for rate relief in Docket No. 980007-EI . Confidential information related to this audit has been filed with the Division of Records and Reporting.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

In our opinion, the schedules referred to above present fairly, in all material respects, the utility's books and records, maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission. The attached findings discuss all differences and other matters which were noted during our examination.

## SUMMARY OF SIGNIFICANT FINDINGS

In September 1997, Florida Power and Light Company included charges of \$180,002 to account 511.059, "Maintenance of Above Ground Storage Tanks," for the removal and installation of a new roof on fuel storage tank 2.

## SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

**Scanned** - The documents or accounts were read quickly looking for obvious errors.

**Compiled** - The exhibit amount were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

**Reviewed** - The exhibit amount were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers, and selective analytical review procedures were applied.

**Examined** - The exhibit amounts were reconciled with the general ledger. The general ledger account balances were traced to subsidiary ledgers. Selective analytical review procedures were applied, and account balances were tested to the extent further described.

**Verify** - The item was tested for accuracy, and substantiation documentation was examined.

**Plant:** Examined Plant. Prepared an analytical review and determined which accounts/programs had the highest variance since the last audit. Based on this review, material dollar items in the "Above Ground Storage Tanks," and the "Oil Spill Clean" programs were judgementally selected and traced to source documentation. The "Noncontainerized Liquid Waste" program was also judgementally tested for material dollar items.

**Accumulated Depreciation** -Examined accumulated depreciation. Recalculated depreciation expense for one month for the "Low Nox Burners", "Continuous Emissions Monitoring", "Clean Closure Equivalency", "Maintenance of Above Ground Storage Tanks", and the " Noncontainerized Liquid Waste" program.

**Return On Investments** -Recalculated the return on investments for selected capital projects, recomputed equity and debt ratios and traced the components of capital structure to source documentation.

**True-up Provision** -Recalculated the total true-up and the interest calculation and agreed the interest rate used to the Wall Street Journal Commercial Paper Rates. Agreed the prior true-up amount to the Commission Order, and true-up and interest beginning to the prior six month filing.

**Revenues** - Compiled revenues from the revenue and rate report and reconciled them to the filing. Recalculated the Environmental Recovery Factor for each rate class for March 1997. The factors were agreed to the Environmental Recovery Factors in a PSC Order.

**Operating and Maintenance Expenses** - Examined Operating and Maintenance Expenses. Staff selected a statistical sample of Operating and Maintenance Expense from the extract file of the general ledger using Audit Analyzer. Based on our analytical review, all material vouchers were tested related to accounts 511.059, "Maintenance of Above Ground Storage", 512.039, "Maintenance Boiler Plant-Continuous Emission Monitoring (Project No. 3b)," 514.089, Maintenance Miscellaneous Plant - Oil Spill Clean/Response Equipment," 514.179, Maintenance Miscellaneous Plant - Noncontainerized Liquid Wastes - ECRC (Project No. 17)," and 524.139, Miscellaneous Nuclear Power Plant - Correction Account PGM RCRA. Expenses related to employee labor were recalculated and some were traced to employee's time sheets.

**Other** - Read the internal and external audit reports and work papers for the twelve-month period ended September 30, 1997. Looked for items related to regulatory issues.

## AUDIT DISCLOSURE NO. 1

### **SUBJECT: Installation of Roof on Fuel Storage Tank**

#### **STATEMENT OF FACT:**

In September 1997, Florida Power and Light Company included charges of \$180,002 to account 511.059, "Maintenance of Above Ground Storage Tanks," (Project No. 5b) from Erected Steel Productions of Alabama Inc. for the removal and installation of a new roof on tank 2. An explanation of why these charges were expensed and not capitalized was requested from the company.

Commission Order No. PSC 97-0236-FOF-EI states that the utility shall implement a list of retirement units and minor items of property in conformity with the Commission's "List of Retirement Units," (Electrical Plant).

The company provided a list of retirement units and a letter dated February 18, 1997 to Commission staff, submitting its "Retirement Unit Catalog" and stating that the catalog was implemented January 1, 1997. The reason the company did not capitalize the roof was because it was not on the retirement unit list. The tank is on the list and therefore, they consider any work done to the tank as maintenance.

However, section 5 (c), P.5, of Order No. PSC-97-0236-FOF-EI, states that "when a minor item is replaced independently of the retirement unit of which it is a part, the cost of the replacement should be charged to the maintenance account appropriate for the item, except that if the replacement effects a substantial betterment (the primary aim of which is to make the property affected more useful, more efficient, of greater durability, or of greater capacity), the excess cost of the replacement over the estimated cost at current prices of replacing without betterment shall be charged to the appropriate plant account."

**OPINION:** The removal and installation of a new roof on the fuel storage tank may relate to a substantial betterment. This should be reviewed further by the staff analyst, and a determination should be made on how these charges should be classified on the utility books.



Florida Power & Light Company  
Environmental Cost Recovery Clause  
Calculation of the Final True-up Amount  
for the Period October 1996 to March 1997

| Line No.  | October     | November  | December    | January     | February    | March         | End of Period Amount |
|---|-------------|-----------|-------------|-------------|-------------|---------------|----------------------|
| 1 ECRC Revenues (net of Revenue Taxes)                                    | \$1,102,171 | \$964,983 | \$899,570   | \$945,024   | \$933,597   | \$944,502     | \$5,789,848          |
| 2 True-up Provision (Order No. PSC-96-1171-FOF-EI)                        | (5,529)     | (5,529)   | (5,529)     | (5,529)     | (5,529)     | (5,529)       | (33,173)             |
| 3 ECRC Revenues Applicable to Period (Lines 1 + 2)                        | 1,096,642   | 959,454   | 894,041     | 939,495     | 928,068     | 938,974       | 5,756,675            |
| 4 Jurisdictional ECRC Costs   |             |           |             |             |             |               |                      |
| a - O&M Activities (Form 42-5E, Line 9)                                   | 565,175     | 474,393   | 1,430,549   | 92,340      | 199,108     | 2,318,058     | 5,039,623            |
| b - Capital Investment Projects (Form 42-7E, Line 9)                      | 461,867     | 480,685   | 459,833     | 461,610     | 484,823     | 466,805       | 2,776,743            |
| c - Total Jurisdictional ECRC Costs                                       | 1,027,062   | 935,078   | 1,890,382   | 553,950     | 624,031     | 2,784,863     | 7,815,366            |
| 5 Over(Under) Recovery (Line 3 - Line 4c)                                 | 69,580      | 24,376    | (996,341)   | 385,545     | 304,037     | (1,845,889)   | (2,058,691)          |
| 6 Interest Provision (Form 42-3E, Line 10)                                | 184         | 422       | (1,836)     | (3,269)     | (1,547)     | (5,157)       | (11,203)             |
| 7 Beginning Balance True-Up & Interest Provision                          | (66,345)    | 8,948     | 39,275      | (953,373)   | (565,588)   | (257,549)     | (66,345)             |
| a - Deferred True-Up from October 1996 to March 1996 (Form 42-1A, Line 3) | 69,606      | 69,606    | 69,606      | 69,606      | 69,606      | 69,606        | 69,606               |
| 8 True-Up Collected (Refunded) (See Line 2)                               | 5,529       | 5,529     | 5,529       | 5,529       | 5,529       | 5,529         | 33,173               |
| 9 End of Period True-Up (Lines 5+6+7+7a+8)                                | 78,554      | 108,881   | (883,767)   | (495,962)   | (187,943)   | (2,033,461)   | (2,033,461)          |
| 10 Adjustments to Period Total True-Up Including Interest                 |             |           |             |             |             |               |                      |
| 11 End of Period Total Net True-Up (Lines 5+10)                           | \$78,554    | \$108,881 | (\$883,767) | (\$495,962) | (\$187,943) | (\$2,033,461) | (\$2,033,461)        |

Florida Power & Light Company  
Environmental Cost Recovery Clause  
Calculation of the Final True-up Amount for the Period  
April to September 1997

| Line No.  | April       | May         | June        | July        | August      | September   | End of Period Amount |
|---|-------------|-------------|-------------|-------------|-------------|-------------|----------------------|
| 1 ECRC Revenues (net of Revenue Taxes)                                    | \$821,686   | \$950,085   | \$1,127,414 | \$1,199,145 | \$1,219,312 | \$1,235,062 | \$6,652,704          |
| 2 True-up Provision (Order No. PSC-88-1171-FOF-EI)                        | (5,529)     | (5,529)     | (5,529)     | (5,529)     | (5,529)     | (5,529)     | (33,173)             |
| 3 ECRC Revenues Applicable to Period (Lines 1 + 2)                        | 816,157     | 944,556     | 1,121,885   | 1,193,616   | 1,213,783   | 1,229,533   | 6,619,531            |
| 4 Jurisdictional ECRC Costs   |             |             |             |             |             |             |                      |
| a - O&M Activities (Form 42-5A, Line 9)                                   | 136,801     | 198,399     | 232,268     | 342,502     | 194,813     | 459,194     | 1,565,768            |
| b - Capital Investment Projects (Form 42-7A, Line 9)                      | 537,596     | 484,317     | 489,950     | 478,898     | 476,403     | 475,109     | 2,833,273            |
| c - Total Jurisdictional ECRC Costs                                       | 676,397     | 682,707     | 713,238     | 821,400     | 671,018     | 934,303     | 4,409,061            |
| 5 Over/(Under) Recovery (Line 3 - Line 4c)                                | 239,760     | 261,849     | 408,647     | 372,216     | 542,767     | 295,230     | 2,120,470            |
| 6 Interest Provision (Form 42-3A, Line 10)                                | (9,045)     | (7,777)     | (6,220)     | (4,390)     | (2,238)     | (277)       | (29,947)             |
| 7 Beginning Balance True-Up & Interest Provision                          | (2,103,066) | (1,868,822) | (1,607,221) | (1,199,266) | (825,910)   | (279,852)   | (2,103,066)          |
| a - Deferred True-Up from April to September 1997<br>(Form 42-1A, Line 3) | 69,606      | 69,606      | 69,606      | 69,606      | 69,606      | 69,606      | 69,606               |
| 8 True-Up Collected / (Refunded) (See Line 2)                             | 5,529       | 5,529       | 5,529       | 5,529       | 5,529       | 5,529       | 33,173               |
| 9 End of Period True-Up (Lines 5+6+7+8+9)                                 | (1,797,216) | (1,537,615) | (1,129,659) | (756,304)   | (210,246)   | 90,236      | 90,236               |
| 10 Adjustments to Period Total True-Up including Interest                 |             |             |             |             |             |             |                      |
| 11 End of Period Total Net True-Up (Lines 9+10)                           | (1,797,216) | (1,537,615) | (1,129,659) | (756,304)   | (210,246)   | 90,236      | 90,236               |

Florida Power & Light Company  
Environmental Cost Recovery Clause  
Calculation of the Final True-up Amount  
for the Period October 1996 to March 1997

Interest Provision (in Dollars)

| Line No. |   | October   | November  | December    | January       | February    | March         | End of Period Amount |
|----------|---|-----------|-----------|-------------|---------------|-------------|---------------|----------------------|
| 1        | Beginning True-Up Amount<br>(Form 42-2E, Lines 7 + 7a + 10)                 | \$3,261   | \$78,554  | \$108,661   | (\$683,767)   | (\$495,962) | (\$187,943)   | (\$1,378,976)        |
| 2        | Ending True-Up Amount before Interest<br>(Line 1 + Form 42-2E, Lines 6 + 8) | 76,370    | 108,450   | (881,931)   | (492,693)     | (186,396)   | (2,028,304)   | (3,402,495)          |
| 3        | Total of Beginning & Ending True-Up (Lines 1 + 2)                           | \$81,631  | \$187,013 | (\$773,270) | (\$1,376,460) | (\$682,358) | (\$2,216,247) | (\$4,778,471)        |
| 4        | Average True-Up Amount (Line 3 x 1/2)                                       | \$40,816  | \$93,507  | (\$386,635) | (\$688,230)   | (\$341,179) | (\$1,108,124) | (\$2,389,736)        |
| 5        | Interest Rate (First Day of Reporting Month)                                | 5.44000%  | 5.38000%  | 5.45000%    | 5.95000%      | 5.45000%    | 5.43000%      | N/A                  |
| 6        | Interest Rate (First Day of Subsequent Month)                               | 5.38000%  | 5.45000%  | 5.95000%    | 5.45000%      | 5.43000%    | 5.74000%      | N/A                  |
| 7        | Total of Beginning & Ending Interest Rates (Lines 5 + 6)                    | 10.82000% | 10.83000% | 11.40000%   | 11.40000%     | 10.88000%   | 11.17000%     | N/A                  |
| 8        | Average Interest Rate (Line 7 x 1/2)  | 5.41000%  | 5.41500%  | 5.70000%    | 5.70000%      | 5.44000%    | 5.58500%      | N/A                  |
| 9        | Monthly Average Interest Rate (Line 8 x 1/12)                               | 0.45083%  | 0.45125%  | 0.47500%    | 0.47500%      | 0.45333%    | 0.46542%      | N/A                  |
| 10       | Interest Provision for the Month (Line 4 x Line 9)                          | \$184     | \$422     | (\$1,836)   | (\$3,269)     | (\$1,547)   | (\$5,157)     | (\$11,203)           |

Florida Power & Light Company  
Environmental Cost Recovery Clause  
Calculation of the Final True-up Amount for the Period  
April to September 1997

Interest Provision (in Dollars)

| Line No. | Interest Provision (in Dollars)   |               |               |               |               |             | End of Period Amount |                |
|----------|---|---------------|---------------|---------------|---------------|-------------|----------------------|----------------|
|          | April   | May           | June          | July          | August        | September   |                      |                |
| 1        | Beginning True Up Amount<br>(Form 42-2A, Lines 7 + 7a + 10)                 | (\$2,033,480) | (\$1,797,216) | (\$1,537,615) | (\$1,129,859) | (\$756,304) | (\$210,246)          | (\$7,484,500)  |
| 2        | Ending True-Up Amount before Interest<br>(Line 1 + Form 42-2A, Lines 5 + 8) | (1,788,171)   | (1,529,836)   | (1,123,438)   | (751,914)     | (208,008)   | 90,513               | (5,310,857)    |
| 3        | Total of Beginning & Ending True-Up (Lines 1 + 2)                           | (\$3,821,651) | (\$3,327,054) | (\$2,661,054) | (\$1,881,573) | (\$964,312) | (\$119,733)          | (\$12,775,357) |
| 4        | Average True-Up Amount (Line 3 x 1/2)                                       | (\$1,910,816) | (\$1,663,527) | (\$1,330,527) | (\$940,787)   | (\$482,156) | (\$59,867)           | (\$6,387,679)  |
| 5        | Interest Rate (First Day of Reporting Month)                                | 5.74000%      | 5.62000%      | 5.60000%      | 5.62000%      | 5.58000%    | 5.58000%             | N/A            |
| 6        | Interest Rate (First Day of Subsequent Month)                               | 5.62000%      | 5.60000%      | 5.62000%      | 5.58000%      | 5.58000%    | 5.53000%             | N/A            |
| 7        | Total of Beginning & Ending Interest Rates (Lines 5 + 6)                    | 11.36000%     | 11.22000%     | 11.22000%     | 11.20000%     | 11.14000%   | 11.09000%            | N/A            |
| 8        | Average Interest Rate (Line 7 x 1/2)  | 5.68000%      | 5.61000%      | 5.61000%      | 5.60000%      | 5.57000%    | 5.54500%             | N/A            |
| 9        | Monthly Average Interest Rate (Line 8 x 1/12)                               | 0.47333%      | 0.46750%      | 0.46750%      | 0.46667%      | 0.46417%    | 0.46208%             | N/A            |
| 10       | Interest Provision for the Month (Line 4 x Line 9)                          | (\$8,045)     | (\$7,777)     | (\$6,220)     | (\$4,390)     | (\$2,238)   | (\$277)              | (\$28,647)     |

STATE OF FLORIDA

Commissioners:  
JULIA L. JOHNSON, CHAIRMAN  
J. TERRY DEASON  
SUSAN F. CLARK  
JOE GARCIA  
E. LEON JACOBS, JR.



DIVISION OF RECORDS & REPORTING  
BLANCA S. BAYÓ  
DIRECTOR  
(850) 413-6770

**Public Service Commission**

April 10, 1998

Mr. Bill Walker  
Florida Power & Light Company  
210 South Monroe, Suite 810  
Tallahassee, Florida 32301-1859

Re: Docket No. 980007 - EI - Florida Power & Light Company  
Audit Report - Environmental Cost Recovery Clause  
Audit Control # 98-022-4-1

Dear Mr. Walker:

The enclosed audit report is forwarded for your review. Any company response filed with this office within ten (10) work days of the above case will be forwarded for consideration by the staff analyst in the preparation of a recommendation for this case.

The Division of Records and Reporting is holding the workpapers for which you requested confidential treatment. You have 21 days from the audit exit conference, or April 22, 1998 to file a formal request for Confidential Classification with the Division of Records and Reporting.

Thank you for your cooperation.

Sincerely,

  
Blanca S. Bayó

BSB/cls  
Enclosure  
cc: Public Counsel  
Division of Audit and Financial Analysis  
Steel Law Firm