



October 19, 2007

Ann Cole, Director
Division of Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

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COMMISSION
CLERK

Re: Docket No. 070432-EI
Petition for authority to use deferral accounting and for creation of a regulatory asset for prudently incurred preconstruction costs associated with development of clean coal project, by Florida Power & Light Company ("FPL")
FPL's Response to Audit Report Audit Control No. 07-221-4-1

Dear Ms. Cole:

This letter is written in response to the final audit report dated October 2, 2007 (Audit Control No. 07-221-4-1). FPL wishes to clarify why certain costs charged to the clean coal project and addressed in Audit Informational Finding Nos. 2 and 3 are reasonable, necessary and prudent costs incurred in order to ensure the project could be completed in a timely fashion consistent with FPL's obligation to provide service to its customers.

Audit Informational Finding No. 2:

Audit Informational Finding No. 2 concerns FPL payroll and relocation costs associated with the FPL Glades Power Park ("FGPP") project. Audit Staff identified \$1,858,346 of FPL payroll costs charged to the FGPP project. The FPL payroll charges to the FGPP project were recorded in accordance with the Electric Plant instructions in the Federal Energy Regulatory Commission Code of Federal Regulations. Most of the employees doing this work, had they not been working on the FGPP project, would have normally charged the bulk of their payroll to other capital projects. If these costs are not allowed for recovery as part of the FGPP project, FPL will effectively never have an opportunity to recover these costs since these employees' salaries are normally recovered as capital projects through rate base for ratemaking purposes.

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The \$151,260 identified as "Site Certification/Permitting—Other" was actually incurred in FPL's Project Development business unit. Adding this amount to the other payroll incurred by personnel in the Engineering and Construction and Transmission business units (\$1,358,526) equals \$1,509,787 or 81% of the total FPL payroll costs charged to the project.

As addressed in FPL's response to the Office of Public Counsel's First Set of Interrogatories No. 6, Project Development and Project Management personnel were in large part responsible for the site selection and site certification efforts, including preparing the applications and securing approval for the project at various levels of government. Engineering and Construction personnel were involved in plant design and engineering, preparing cost estimates, and EPC/major equipment contract negotiations for the Site Certification and Engineering and Construction phases of the project. Transmission employees provided support for the line engineering, siting,

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real estate research and project management functions in the selection of the transmission line corridor as part of the Site Certification and Engineering and Construction phases.

The remaining 19%, or \$348,559, of the total FPL payroll costs of \$1,858,346 charged to the FGPP project were incurred in the Site Certification and Permitting phase by personnel in the Corporate Communications (\$166,512), Environmental (\$142,487), and Legal (\$39,559) business units.

The FPL Corporate Communications payroll costs of \$166,512 were incurred as part of a community outreach program essential to the siting of a power plant, especially on a greenfield site. Outside resources worked under the direction of the FPL communication and external affairs departments' managers. FPL Corporate Communications personnel attended governmental and regulatory meetings and hearings in order to respond to inquiries from the media, public and other interested parties. Additionally, brochures, fact sheets, media materials, a project website, telephone number and email were provided for the benefit of the public.

The FPL Environmental payroll costs were incurred in preparing and submitting the Site Certification Application, federal permit applications and local approval documents necessary to begin plant construction. Applications were filed with multiple state and federal agencies. Environmental personnel participated in numerous meetings and conference calls with local, state and federal agencies, coordinated wetlands delineation and development of the wetlands mitigation plan and researched various environmental topics including health, mercury and water quality. These employees normally charge a portion of their payroll to capital projects.

The FPL Legal payroll costs were related to reviewing and editing applications sent to state and federal agencies. Additionally, the Legal personnel provided research, advice and guidance to FPL employees and contractors concerning interpretations of state and federal regulations.

Audit Staff also identified \$126,314 of relocation costs related to the Project Construction Director and Project Construction Manager hired specifically for coal projects. FPL invested time and money to hire and relocate employees with experience in building coal plants based on the Commission's directive to construct this coal plant as expeditiously as possible.

Lastly, the Staff identified \$4,148 related to the Vice President of Engineering and Construction's trip to Japan. This trip was to solicit competitive, favorable equipment pricing for the three major pieces of equipment: the boiler, steam turbine and pollution control equipment. In addition to meeting with these suppliers, he also visited sites using this technology while in Japan.

Audit Informational Finding No. 3:

Audit Staff listed various categories of expenses and stated that community outreach and customer surveys are image enhancing and that lobbying has not been allowed by the Commission in prior rate cases. FPL agrees that amounts associated with lobbying and image enhancing should not be included in rates. However, FPL is requesting recovery of expenses associated with education and community outreach, which are essential to siting a greenfield power plant.

A community relations initiative that includes a solid outreach program is paramount to the success of any new generation project today. Not only is a strong community outreach program the right thing to do, our customers, regulators, and other stakeholders want and demand that FPL or any utility be open, forthright and honest about plans for their community.

Due to the extensive outreach effort necessary in a project of this type and the fact FPL does not serve the geographic area where the plant was to be built, existing FPL resources were not sufficient to get the job done, making it necessary to retain outside assistance. Contractors were hired to help disseminate information to stakeholders and listen to community concerns. Contractor employees served as a temporary, project-specific intellectual resource and labor pool. They provided extensive support for staffing at community events and presentations in both Hendry and Glades Counties. The contractors developed and executed on a comprehensive communications effort that integrated research, issues management, and grass roots communications. They worked to develop educational materials such as brochures, presentations, fact sheets, and web site information. As is customary, the contractors provided reports and records of activities that tracked results and helped guide the outreach effort.

Conclusion

For the reasons set forth above and in FPL's filing and responses to discovery in this docket, the amounts identified by Audit Staff are reasonable and necessary costs related to the project and are appropriate for deferral and amortization over a five-year period when base rates are re-set as requested by FPL. Such treatment will continue to provide appropriate signals to utilities that the pursuit of new resource options, particularly those that promote fuel diversity, is encouraged by this Commission and that the recovery of costs incurred in the course of such efforts will not hinge on whether a resource decision is ultimately adopted by the Commission.

Thank you for the opportunity to provide a response to the audit report.

Sincerely,

A handwritten signature in black ink, appearing to read 'Natalie F. Smith', with a stylized flourish at the end.

Natalie F. Smith, Principal Attorney
Florida Power & Light Company

cc: Martha Brown, Senior Attorney, Florida Public Service Commission
Charles Beck, Interim Public Counsel, Office of Public Counsel