

State of Florida



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DATE: June 11, 2007
TO: Peter H. Lester, Economic Analyst, Division of Economic Regulation
FROM: Denise N. Vandiver, Chief of Auditing, Division of Regulatory Compliance & Consumer Assistance
RE: Docket No: 070001-EI; Company Name: Florida Power and Light;
Audit Purpose: Fuel Audit;
Audit Control No: 07-022-4-1;

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 the response to the Division of Commission Clerk. There are confidential work papers associated with this audit.

DNV:bj
Attachments

Copy: Division of Regulatory Compliance and Consumer Assistance (Hoppe, District Offices, File Folder)
Division of Commission Clerk & Administrative Services (2)
Division of Competitive Markets and Enforcement (Harvey)
General Counsel
Office of Public Counsel

CMP _____

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SGA _____

SEC _____

OTH _____

Mr. Bill Walker
Florida Power & Light Company
215 S. Monroe St., Suite 810
Tallahassee, FL 32301

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Florida Power & Light Company
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FLORIDA PUBLIC SERVICE COMMISSION

DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE

Miami District Office

FLORIDA POWER AND LIGHT

FUEL COST RECOVERY CLAUSE

YEAR ENDED DECEMBER 31, 2007

DOCKET NO. 070001-EI
AUDIT CONTROL NO. 07-022-4-1

A handwritten signature in cursive script, reading "Iliana H. Piedra", written over a horizontal line.

Iliana H. Piedra
Audit Manager

A handwritten signature in cursive script, reading "Gabriela Leon", written over a horizontal line.

Gabriela Leon
Auditor

A handwritten signature in cursive script, reading "Kathy Welch", written over a horizontal line.

Kathy Welch
Public Utilities Supervisor

AUDIT REPORT

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**DIVISION OF REGULATORY COMPLIANCE AND CONSUMER ASSISTANCE
AUDITOR'S REPORT**

June 1, 2007

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

We have performed the procedures enumerated later in this report to meet the agreed upon objectives set forth by the Division of Economic Regulation in its audit service request. We have applied these procedures to the attached schedules prepared by Florida Power and Light in support of its filing for fuel docket 070001-EI.

This audit is performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures which are only for internal Commission use.

OBJECTIVES AND PROCEDURES:

Objective: The objective of the audit was to reconcile the schedules to each other, to the general ledger and to source documents. In addition, the objective was to determine if the costs in the clause comply with the criteria in Commission Order 14546, issued July 8, 1985.

Procedures: We prepared a trial balance using the general ledger and reconciled all fuel accounts to the filing.

For revenue, we obtained the monthly "Revenue and Rate Reports" which are an output of the billing system and prepared schedules of revenue. We reconciled these schedules to the filing and traced the factors charged to the last order. We recalculated some bills to verify ordered rates were used.

We obtained a file of detailed transactions for the general ledger accounts and summarized them and reconciled them to the ledger and the filing. Using this file, we selected a sample of transactions that went to inventory and were transferred to the fuel accounts and transactions that were directly charged to the fuel expenses. We verified that the correct average unit cost is used for transfers out of inventory. We traced the sample to source documents.

Objective: The objective was to verify that the true-up was calculated correctly.

Procedures: We agreed the beginning true-up provision to the last order and workpapers. We prepared a recalculation using the filing and Commission approved interest rates.

Objective: The objective was to determine that the Return on Investment calculations for the Scherer Coal Cars agrees with the prior audit periods and that the depreciation rate used is in accordance with the last depreciation study which was approved in Commission Order PSC-05-0902-S-EI, issued September 14, 2005.

Procedures: We verified any additions and retirements for 2006. We recalculated the depreciation and the Return on Investment calculation. We traced the equity and debt components for the return calculation to the company's cost of capital schedules.

Objective: The objective was to verify that vendor rebates and refunds are credited to fuel costs.

Procedures: We selected two fuel vendors from our sample of expenses and reviewed the payment history to verify that all receivables were billed. We also obtained a confirmation from FPL that no refunds were received. In addition, we reviewed the sample of all fuel expenses for any credits received.

Objective: The objective was to verify that coal inventory has been completed and adjustments to inventory made based on Commission Order PSC-97-0359-FOF-EI, issued March 31, 1997.

Procedures: We obtained the inventory analysis, inventory adjustments and survey reports. We reconciled the adjustments to the filings and to the general ledger. We traced these reports to supporting documentation. We reviewed the methodology used to calculate the adjustments and compared them to Commission Order PSC-97-0359-FOF-EI.

Objective: The objective was to reconcile coal and oil purchases on the company filing Schedule A-5 to Form 423.

Procedures: We selected two months and determined which transactions were on one form and not the other. We verified that the reason the transactions were not recorded on the same forms was because of timing differences due to when the forms were prepared.

Objective: The objective is to verify that FPL has credited generation-related gains derived from non-separated wholesale energy sales to the fuel clause as set forth in Commission Order PSC-00-1744-PAA-EI, issued September 26, 2000.

Procedures: We reconciled the A-6 schedule to the monthly schedules and selected a sample of sales to test. The sales were traced to the "Power Deal Lambda" reports and deal tickets. The gains were recalculated. The scope was limited because the "Power Deal Lambda" reports generate a number for the cost of fuel on a real time basis. The company is not able to go back retroactively to determine what costs go into a transaction. We continue to recommend that a separate audit be established to audit the cost component of the Lambda report. The audit would have to review a current transaction and review the inputs into the system and the programming used to take the inputs and generate the cost number. Because of this limitation, we were unable to determine if FPL is complying with the order by reducing the gain for incremental operation and maintenance and emission costs. In addition, the A-6 schedule was designed before transmission was separated. The A-6 schedules would benefit from being updated to reflect current operations.

Objective: The objective was to review FPL's audit and due diligence review of its Unit Power Sales contracts with the Southern Companies and the Jacksonville Electric Authority. Charges related to this are shown on Schedule A-7.

Procedures: FPL's audit of Unit Power Sales contract with Southern Companies and Jacksonville Electric Authority was reviewed.

Objective: The objective was to verify that the current month's estimate and true-up as shown on Schedule A-7 for purchased power were calculated correctly and traced to source documentation.

Procedures: A sample of purchased power payments on Schedule A-7 for the month of August were traced to invoices and the true-up was traced to supporting documentation.

Objective: The objective was to verify that the current month's estimate and true-up as shown on Schedule A-8 for qualifying facilities were calculated correctly and traced to source documentation.

Procedures: A sample of energy payments to qualifying facilities on Schedule A-8 for the month of August were traced to invoices and the true-up was traced to supporting documentation.

Objective: The objective was to verify that energy purchases on Schedule A-9 were traced to proper source documentation.

Procedures: Three purchases were selected from the month of May 2006. These purchases were traced to invoices, purchase statements, Lambda Reports, and Deal Tickets.

Objective: The objective was to reconcile service hours, reserve shutdown hours, and unavailable hours for GPIF units as shown on the "Actual Performance Data" report. In addition, the objective was to reconcile the heat rate from the GPIF filing to the Schedule A-4.

Procedures: We reconciled the heat rate factors from Schedule A-4 to the GPIF filing. We obtained explanations for the differences and traced to source documents. We reconciled service, reserve shutdown and unavailable hours for one plant from the "Actual Performance Data" report to the "Service Hour Reports" and to the "Outage Summary Reports" and obtained explanations for specific items that differ.

Objective: The objective was to verify that fuel expenses are charged to the clause only when fuel is burned.

Procedures: For a selected month, we reconciled usage from Schedule A-4 to the "Fossil Fuel Inventory Report" and the "Fuel Used Report". We agreed usage from Schedule A-4 to "Form 1705 – Fuel Used Summary Report" and to the "Fuel Balancing Reports". We reviewed the company procedures related to measurement of burned fuel and the calibration of the measuring devices. We reviewed the company procedures to determine the fuel inventory.

Objective: The objective was to verify that the accounting treatment for futures, options, and swap contracts are consistent with Commission Order PSC-02-1484-FOF-

EI, issued October 30, 2002. In addition, the objective was to verify if the gains or losses associated with each hedging instrument were recorded consistent with the same order.

Procedures: We selected one month's gains or losses to audit. We traced them to the "FPL Derivatives Settlements-All Instruments" report. We traced some of the instruments to invoices and contracts. We traced the deal price from the deal entry to the confirmation letter, the settlement price maintenance form or the publication prices form. The option tested was traced to the "Gas Closing Report", which determines the monthly natural gas price computations.

Objective: The objective was to determine that the regulatory treatment for any expenses associated with the sleeving generator tubes at St. Lucie Unit 2 is consistent with Commission Order PSC-05-1252-FOF-EI, issued December 23, 2005.

Procedures: We reviewed the deferred account where the charges were initially recorded and traced the entries transferring them to expense accounts. We reviewed our sample of expenses to verify that none of these charges were included in the fuel accounts.

Objective: The objective was to determine that the amount for recovery for the Okeelanta Settlement is in accordance with Commission Order PSC-00-1913-PAA-EI, issued October 19, 2000.

Procedures: We verified the calculations related to the fuel clause and determined compliance with the PSC Order.

Objective: The objective was to verify that the gas storage payments to Bay Gas are supported by proper source documentation.

Procedures: We verified all payments to Bay Gas for gas storage by reviewing the invoices and determining that the amounts are included in the "Gas Closing Report".

Objective: The objective was to determine if any information or adjustments found in the Board of Directors minutes, internal and external audits was related to the audit.

Procedures: We reviewed the Board of Directors minutes and the internal and external workpapers.

EXHIBITS

CALCULATION OF ACTUAL TRUE-UP AMOUNT							
FLORIDA POWER & LIGHT COMPANY							
FOR THE PERIOD JANUARY THROUGH DECEMBER 2006							
LINE NO.		(1)	(2)	(3)	(4)	(5)	(6)
		JAN	FEB	MAR	APR	MAY	JUN
A Fuel Costs & Net Power Transactions							
1	a Fuel Cost of System Net Generation	\$ 315,112,787	\$ 296,130,097	\$ 362,988,224	\$ 427,175,559	\$ 465,395,518	\$ 498,860,024
	b Incremental Hedging Costs	56,883	35,541	22,233	98,579	27,955	38,796
	c Nuclear Fuel Disposal Costs	1,960,611	1,856,367	1,711,034	1,731,522	1,472,295	1,751,906
	d Scherer Coal Cars Depreciation & Return	300,687	298,824	296,962	295,099	293,237	291,374
	e Gas Pipelines Depreciation & Return	0	0	0	0	0	0
	f DOE D&D Fund Payment	0	0	0	0	0	0
2	a Fuel Cost of Power Sold (Per A6)	(11,797,386)	(11,663,894)	(10,895,956)	(3,517,465)	(4,158,008)	(3,554,605)
	b Gains from Off-System Sales	(3,248,253)	(3,480,746)	(2,438,709)	(727,924)	(777,282)	(486,429)
3	a Fuel Cost of Purchased Power (Per A7)	19,228,529	16,922,824	22,823,782	24,788,396	27,451,007	29,479,518
	b Energy Payments to Qualifying Facilities (Per A8)	13,591,316	11,810,443	10,591,302	11,664,026	14,221,903	15,217,211
	c Okeelanta Settlement Amortization including interest	811,625	809,550	807,449	805,614	803,013	800,474
4	Energy Cost of Economy Purchases (Per A9)	8,081,737	3,796,966	7,374,033	9,586,158	20,151,662	6,224,615
5	Total Fuel Costs & Net Power Transactions	\$ 344,098,536	\$ 316,515,971	\$ 393,280,354	\$ 471,899,564	\$ 524,881,300	\$ 548,622,884
6 Adjustments to Fuel Cost							
	a Sales to Fla Keys Elect Coop (FKEC) & City of Key West (CKW)	(4,658,460)	(3,907,152)	(3,724,406)	(4,711,300)	(5,149,414)	(5,650,335)
	b Reactive and Voltage Control / Energy Imbalance Fuel Revenues	3,136	(35,018)	(99,944)	(52,487)	(69,190)	(9,916)
	c Inventory Adjustments	29,862	(54,040)	387,944	(140,609)	9,950	(1,069,540)
	d Non Recoverable Oil/Tank Bottoms	0	0	0	(27,966)	(25,592)	0
7	Adjusted Total Fuel Costs & Net Power Transactions	\$ 339,473,073	\$ 312,519,762	\$ 389,843,947	\$ 466,967,201	\$ 519,647,054	\$ 541,893,093
B kWh Sales							
1	Jurisdictional kWh Sales	8,025,135,582	7,283,681,362	7,191,005,176	7,616,707,944	8,445,324,075	9,560,737,906
2	Sale for Resale (excluding FKEC & CKW)	48,619,701	38,867,924	35,275,521	47,211,219	46,778,639	51,572,882
3	Sub-Total Sales (excluding FKEC & CKW)	8,073,755,283	7,322,549,286	7,226,280,697	7,663,919,163	8,492,102,714	9,612,310,788
6	Jurisdictional % of Total Sales (B1/B3)	99.39781%	99.46920%	99.51184%	99.38398%	99.44915%	99.46347%
C True-up Calculation							
1	Juris Fuel Revenues (Net of Revenue Taxes)	\$ 472,878,512	\$ 445,267,979	\$ 439,184,910	\$ 466,888,616	\$ 520,556,663	\$ 593,092,512
2	Fuel Adjustment Revenues Not Applicable to Period						
	a Prior Period True-up (Collected)/Refunded This Period	(61,928,344)	(61,928,344)	(61,928,344)	(61,928,344)	(61,928,344)	(61,928,344)
	b GPIF, Net of Revenue Taxes	(900,747)	(900,747)	(900,747)	(900,747)	(900,747)	(900,747)
3	Jurisdictional Fuel Revenues Applicable to Period	\$ 410,049,421	\$ 382,438,888	\$ 376,355,819	\$ 404,059,525	\$ 457,727,572	\$ 530,263,421
4	a Adjusted Total Fuel Costs & Net Power Transactions (Line A-7)	\$ 339,473,073	\$ 312,519,762	\$ 389,843,947	\$ 466,967,201	\$ 519,647,054	\$ 541,893,093
	b Nuclear Fuel Expense - 100% Retail (Acct. 518.111)	0	0	0	0	0	0
	c RTP Incremental Fuel -100% Retail	0	0	0	0	0	0
	d D&D Fund Payments -100% Retail	0	0	0	0	0	0
	e Adj Total Fuel Costs & Net Power Transactions - Excluding 100% Retail Items (C4a-C4b-C4c-C4d)	339,473,073	312,519,762	389,843,947	466,967,201	519,647,054	541,893,093
5	Jurisdictional Sales % of Total kWh Sales (Line B-6)	99.39781 %	99.46920 %	99.51184 %	99.38398 %	99.44915 %	99.46347 %
6	Jurisdictional Total Fuel Costs & Net Power Transactions (Line C4e x C5 x 1.00065(b)) +(Lines C4b,c,d)	\$ 337,648,129	\$ 311,062,967	\$ 388,193,047	\$ 464,392,249	\$ 517,120,488	\$ 539,336,015
7	True-up Provision for the Month - Over/(Under) Recovery (Line C3 - Line C6)	\$ 72,401,292	\$ 71,375,921	\$ (11,837,228)	\$ (60,332,724)	\$ (59,392,916)	\$ (9,072,594)
8	Interest Provision for the Month (Line D10)	(3,609,912)	(3,213,771)	(2,966,509)	(3,010,630)	(3,085,699)	(3,082,214)
9	a True-up & Interest Provision Beg. of Period - Over/(Under) Recovery	(743,140,130)	(612,420,406)	(482,329,912)	(435,205,305)	(436,620,315)	(437,170,586)
	b Deferred True-up Beginning of Period - Over/(Under) Recovery	(307,437,600)	(307,437,600)	(307,437,600)	(307,437,600)	(307,437,600)	(307,437,600)
10	Prior Period True-up Collected/(Refunded) This Period	61,928,344	61,928,344	61,928,344	61,928,344	61,928,344	61,928,344
11	End of Period Net True-up Amount Over/(Under) Recovery (Lines C7 through C10)	\$ (919,858,006)	\$ (789,767,512)	\$ (742,642,905)	\$ (744,057,915)	\$ (744,608,186)	\$ (694,834,650)

CALCULATION OF ACTUAL TRUE-UP AMOUNT								
FLORIDA POWER & LIGHT COMPANY								
FOR THE PERIOD JANUARY THROUGH DECEMBER 2006								
LINE NO.		(7)	(8)	(9)	(10)	(11)	(12)	(13)
		JUL	AUG	SEP	OCT	NOV	DEC	TOTAL PERIOD
A	Fuel Costs & Net Power Transactions							
1	a Fuel Cost of System Net Generation	\$ 496,788,362	\$ 559,200,863	\$ 468,260,158	\$ 431,401,223	\$ 362,858,371	\$ 327,310,888	\$ 5,011,482,074
	b Incremental Hedging Costs	39,718	22,017	52,566	51,172	35,215	42,332	523,005
	c Nuclear Fuel Disposal Costs	1,968,400	2,047,419	2,033,269	1,976,709	1,575,846	1,786,525	21,871,904
	d Scherer Coal Cars Depreciation & Return	289,512	287,087	284,337	282,478	279,969	278,440	3,478,005
	e Gas Pipelines Depreciation & Return	0	0	0	0	0	0	0
	f DOE D&D Fund Payment	0	0	0	0	6,776,723	0	6,776,723
2	a Fuel Cost of Power Sold (Per A6)	(4,049,245)	(15,584,830)	(3,210,390)	(3,668,041)	(4,682,315)	(6,788,042)	(83,570,177)
	b Gains from Off-System Sales	(619,665)	(3,384,834)	(458,576)	(700,694)	(1,036,124)	(2,018,573)	(19,377,809)
3	a Fuel Cost of Purchased Power (Per A7)	28,666,676	42,306,950	25,510,687	27,148,320	21,917,467	21,313,065	307,557,221
	b Energy Payments to Qualifying Facilities (Per A8)	14,834,881	18,217,165	12,438,119	8,652,647	11,755,684	14,051,867	157,046,564
	c Okeelanta Settlement Amortization including interest	797,756	794,271	790,709	787,292	783,870	780,457	9,572,079
4	Energy Cost of Economy Purchases (Per A9)	5,074,148	6,437,450	6,582,909	6,678,496	11,247,480	7,802,151	99,057,805
5	Total Fuel Costs & Net Power Transactions	\$ 543,790,543	\$ 610,363,558	\$ 512,283,788	\$ 472,609,601	\$ 411,512,187	\$ 364,559,110	\$ 5,514,417,393
6	Adjustments to Fuel Cost							
	a Sales to Fla Keys Elect Coop (FKEC) & City of Key West (CKW)	(5,465,123)	(6,587,690)	(6,274,702)	(5,141,704)	(5,242,726)	(3,985,352)	(60,498,365)
	b Reactive and Voltage Control / Energy Imbalance Fuel Revenues	(64,705)	61,206	(67,222)	(28,951)	(75,865)	(98,799)	(537,756)
	c Inventory Adjustments	20,430	57,082	55,664	(10,604)	21,729	(107,007)	(799,140)
	d Non Recoverable Oil/Tank Bottoms	0	149,662	(12,161)	(50,702)	0	44,774	78,015
7	Adjusted Total Fuel Costs & Net Power Transactions	\$ 538,281,145	\$ 604,043,817	\$ 505,985,366	\$ 467,377,639	\$ 406,215,324	\$ 360,412,724	\$ 5,452,660,147
B	kWh Sales							
1	Jurisdictional kWh Sales	10,009,127,890	10,084,115,688	9,957,139,728	9,383,354,467	8,180,636,882	7,921,599,004	103,658,565,704
2	Sale for Resale (excluding FKEC & CKW)	47,151,365	50,879,047	53,033,027	46,691,237	48,159,079	44,171,749	558,411,390
3	Sub-Total Sales (excluding FKEC & CKW)	10,056,279,255	10,134,994,735	10,010,172,755	9,430,045,704	8,228,795,961	7,965,770,753	104,216,977,094
6	Jurisdictional % of Total Sales (B1/B3)	99.53113%	99.49799%	99.47021%	99.50487%	99.41475%	99.44548%	99.46418%
C	True-up Calculation							
1	Juris Fuel Revenues (Net of Revenue Taxes)	\$ 622,084,993	\$ 627,611,415	\$ 618,779,135	\$ 580,731,886	\$ 502,792,961	\$ 484,804,745	\$ 6,374,674,325
2	Fuel Adjustment Revenues Not Applicable to Period							
	a Prior Period True-up (Collected)/Refunded This Period	(61,928,344)	(61,928,344)	(61,928,344)	(61,928,344)	(61,928,344)	(61,928,344)	(743,140,130)
	b GPIF, Net of Revenue Taxes	(900,747)	(900,747)	(900,747)	(900,747)	(900,747)	(900,747)	(10,808,960)
3	Jurisdictional Fuel Revenues Applicable to Period	\$ 559,255,902	\$ 564,782,324	\$ 555,950,044	\$ 517,902,795	\$ 439,963,870	\$ 421,975,654	\$ 5,620,725,235
4	a Adjusted Total Fuel Costs & Net Power Transactions (Line A-7)	\$ 538,281,145	\$ 604,043,817	\$ 505,985,366	\$ 467,377,639	\$ 406,215,324	\$ 360,412,724	\$ 5,452,660,147
	b Nuclear Fuel Expense - 100% Retail (Acct. 518.111)	0	0	0	0	0	0	0
	c RTP Incremental Fuel -100% Retail	0	0	0	0	0	0	0
	d D&D Fund Payments -100% Retail	0	0	0	0	6,776,723	0	6,776,723
	e Adj Total Fuel Costs & Net Power Transactions - Excluding 100% Retail Items (C4a-C4b-C4c-C4d)	538,281,145	604,043,817	505,985,366	467,377,639	399,438,601	360,412,724	5,445,883,424
5	Jurisdictional Sales % of Total kWh Sales (Line B-6)	99.53113 %	99.49799 %	99.47021 %	99.50487 %	99.41475 %	99.44548 %	99.46418 %
6	Jurisdictional Total Fuel Costs & Net Power Transactions (Line C4e x C5 x 1.00065(b)) +(Lines C4b,c,d)	\$ 536,105,548	\$ 601,402,114	\$ 503,631,855	\$ 465,365,804	\$ 404,135,725	\$ 358,647,133	\$ 5,427,041,074
7	True-up Provision for the Month - Over/(Under) Recovery (Line C3 - Line C6)	\$ 23,150,354	\$ (36,619,790)	\$ 52,318,189	\$ 52,536,991	\$ 35,828,145	\$ 63,328,521	\$ 193,684,160
8	Interest Provision for the Month (Line D10)	(2,894,560)	(2,657,503)	(2,337,994)	(1,846,516)	(1,387,726)	(905,041)	(30,998,076)
9	a True-up & Interest Provision Beg. of Period - Over/(Under) Recovery	(387,397,050)	(305,212,912)	(282,561,861)	(170,653,322)	(58,034,503)	38,334,260	(743,140,130)
	b Deferred True-up Beginning of Period - Over/(Under) Recovery	(307,437,600)	(307,437,600)	(307,437,600)	(307,437,600)	(307,437,600)	(307,437,600)	(307,437,600)
10	Prior Period True-up Collected/(Refunded) This Period	61,928,344	61,928,344	61,928,344	61,928,344	61,928,344	61,928,344	743,140,130
11	End of Period Net True-up Amount Over/(Under) Recovery (Lines C7 through C10)	\$ (612,650,512)	\$ (589,999,461)	\$ (478,090,922)	\$ (365,472,103)	\$ (269,103,340)	\$ (144,751,516)	\$ (144,751,516)