

State of Florida



Public Service Commission

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

DATE: June 8, 2015
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 150009-EI
Company Name: Duke Energy Florida, Inc.
Company Code: EI801
Audit Purpose: Nuclear Cost Recovery Clause
Audit Control No: 15-005-2-2

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/cp

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
Tampa District Office

Auditor's Report

Duke Energy Florida, Inc.
Nuclear Cost Recovery Clause
Levy Nuclear Plant Units 1 & 2

Twelve Months Ended December 31, 2014

Docket No. 150009-EI
Audit Control No. 15-005-2-2
May 12, 2015



Ronald Mavrides
Audit Manager



Linda M. Hill
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Office of Industry Development and Market Analysis in its audit service request dated January 2, 2015. We have applied these procedures to the attached schedule prepared by Duke Energy Florida, Inc. in support of its 2014 Nuclear Cost Recovery Clause for its construction cost expenditures for the Levy Nuclear Plant Units 1 & 2 for project activity in Docket No. 150009-EI.

This audit was performed following General Standards and Fieldwork Standards found in the AICPA Statements on Standards for Attestation Engagements. Our report is based on agreed-upon procedures. The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Utility refers to Duke Energy Florida, Inc.

LNP refers to the Levy Nuclear Plant.

NCRC refers to the Nuclear Cost Recovery Clause.

CCRC refers to the Capacity Cost Recovery Clause.

Preconstruction costs are costs that are expended after a site has been selected in preparation for the construction of a nuclear power plant, incurred up to and including the date the Utility completes site clearing work.

Construction costs are costs that are expended to construct the nuclear power plant, but not limited to, the costs of constructing power plant buildings and all associated permanent structures, equipment and systems.

Utility Information

On August 1, 2013, the Utility announced its intent to cease the work of pursuing construction of the Levy 1 and 2 reactors. Recovery of costs will continue until 2019

Objectives: The objectives were to determine whether the utility's 2014 NCRC filing in Docket No. 150009-EI are consistent and in compliance with Section 366.93, Florida Statutes and Rule 25-6.0423, Florida Administrative Code (F.A.C.).

Procedures: We performed the following objectives and procedures to satisfy the overall objective identified above.

Construction Work In Progress

Objectives: The objectives were to determine whether Construction Costs for the LNP, are properly accounted for and stated as required by Section 366.93, Florida Statutes and Rule 25-6.0423, F.A.C.

Procedures: We took the beginning balances of the costs and reconciled them to the ending balances for the prior year's filing. We judgmentally selected transactions from the transaction details and tested them for: 1) Compliance with contracts, 2) Correct paid amounts, and 3) Correct recording periods. We reconciled the transaction detail amounts to the filing and the general ledger. No exceptions were noted.

Objectives: The objectives were to determine whether Preconstruction Costs for the LNP are properly accounted for and stated as required by Section 366.93, Florida Statutes and Rule 25-6.0423, F.A.C.

Procedures: We took the beginning balances of the Preconstruction Costs and reconciled them to the ending balances for the prior year's filing. We selected a sample of preconstruction transactions from the provided transaction details and tested them for: 1) Compliance with contracts, 2) Correct paid amounts, and 3) Correct recording periods. We reconciled the transaction detail amounts to the filing and to the general ledger. No exceptions were noted.

Recovery

Objectives: The objectives were to determine whether the Utility used the Commission approved CCRC factors to bill customers for the period January 1, 2014, through December 31, 2014, and whether the 2014 Detail Calculation of the Revenue Requirements reflects amounts in Order No. PSC 14-0701-FOF-EI.

Procedures: We agreed the beginning balances of the 2014 Detail Calculation of the Revenue Requirements to the ending 2013 Detail Calculation of the Revenue Requirements. We agreed the amount collected on the 2014 Detail Calculation of the Revenue Requirements to the 2014 NCRC jurisdictional factors approved in Order No. PSC-14-0701-FOF-EI and to the CCRC in Docket No. 150001-EI. Our recommended adjustment is discussed in Finding 1.

Expense

Operation and Maintenance Expense

Objective: The objectives were to determine whether Operation and Maintenance (O&M) Expense on Exhibit TGF-2 are: 1) Supported by adequate source documentation, 2) Appropriately recoverable through the NCRC and that 3) Total Jurisdictional O&M Expense is accurately calculated.

Procedures: We reconciled the trial balance accounts to the filing. We judgmentally selected costs from the transaction details and reviewed them for the proper period and amounts, and that they are allowable NCRC costs. For costs that are for a service or product that is under contract we: 1) Traced the invoiced cost to the construction contract or other type of original source document, 2) Reconciled the invoice to the contract terms and pricing, 3) Ensured that the amounts billed are for actual services or materials received, and 4) Investigated all prior billing adjustments and job order changes to the contracts.

We sampled costs charged in 2014, including labor, and obtained the supporting backup. We recalculated labor costs using employee time sheets and labor rates for employees who provided labor charged to the NCRC during the sample months. We verified the hours worked and recalculated the labor charges recorded by the Utility charged to the NCRC. We verified other costs for proper account, period, and amount. No exceptions were noted.

True-Up

Objective: The objective was to determine whether the True-Up and Interest Provision as filed on Schedule TGF-2 was properly calculated.

Procedures: We traced the December 31, 2013 True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2014, using the Commission approved beginning balance as of December 31, 2013, the approved AFUDC rate, and the 2014 costs. No exceptions were noted.

Audit Findings

Finding 1: Rate of Return on Equity

Audit Analysis: Rule 25-6.0423(7)(b), - Nuclear or Integrated Gasification Combined Cycle Power Plant Cost Recovery, F. A.C. states:

The amount recovered under this subsection will be the remaining unrecovered Construction Work in Progress balance at the time of abandonment and future payment of all outstanding costs and any other prudent and reasonable exit costs. The unrecovered balance during the recovery period will accrue interest at the Utility's overall pretax weighted average midpoint cost of capital on a Commission adjusted basis as reported by the Utility in its Earnings Surveillance Report filed in December of the prior year, utilizing the midpoint of return on equity (ROE) range or ROE approved for other regulatory purposes, as applicable.

The Utility applied the rate reported in its Earnings Surveillance Report filed for December 2012, which was 7.23%. Audit staff believes that the Rule requires that the Utility should have applied the rate reported in its Earnings Surveillance Report filed for December 2013, which was 7.10%. We requested the Utility to calculate the Total Period Revenue Requirement for 2014 using the rate of 7.10%. This calculation reduces the Total Period Revenue Requirement of \$23,508,493 as filed to \$23,421,244.

The Utility responded by stating:

The language in the Rule and Statute can reasonably be interpreted in two ways. Duke Energy had interpreted it to mean the WACC will be set based upon the year prior to the year the project is cancelled, and that same WACC would then be used for each year of the recovery period. The rule and statutory language, however, could also be interpreted to mean that every year the WACC is reset at the prior years reported WACC. Given that there are two reasonable interpretations, Duke Energy is willing to adopt the second interpretation. Duke Energy will make an entry to adjust 2014 carrying costs to reflect the change in interpretation and include it in our May 1 filings in the 2015 time period consistent with how actuals will be recorded. Duke will then continue updating the WACC consistent with the second interpretation described above for future periods.

Effect on the General Ledger: Utility should determine the appropriate entry.

Effect on the Filing: Duke has adjusted its May 1, 2015 filing. Duke will continue updating the WACC for future periods.

Exhibit

Exhibit 1: True-Up

2014 Summary
Levy Nuclear Units 1 & 2
January 2014 - December 2014
Duke Energy Florida

Witness: Thomas G. Foster
Docket No. 150009-EI
Exhibit: (TGF- 1)

	12-Month Total
1. Final Costs for the Period	
a. Carrying Cost on Unrecovered Investment	\$ 13,310,606
b. Period Exit Costs	9,816,636
c. Period Other Exit / Wind-down Costs and Interest	381,251
d. Total Period Revenue Requirement	<u>\$ 23,508,493</u>
2. Projected Amount for the Period (Order No. PSC 14-0701-FOF-EI)	\$ 30,342,148
3. Final True-Up Amount for the Period (over)/under (Line 1d. - Line 2.)	\$ (6,833,655)
4. Amortization of Unrecovered Investment and Prior Period Over/Under Balances (Order No. PSC 14-0701-FOF-EI)	\$ 75,293,261
5. Total Revenue Requirements for 2014 (Line 1d. + Line 4.)	<u>\$ 98,801,754</u>