

Docket No. 150009-EI: Nuclear Cost Recovery Clause

Duke Energy Florida, Inc.

Crystal River Unit 3 Power Uprate and Levy Units 1 & 2 Construction

Witness: **Direct Testimony of Ronald A. Mavrides,**

Appearing on behalf of the staff of the Florida Public Service Commission

Date Filed: June 22, 2015

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **COMMISSION STAFF**

3 **DIRECT TESTIMONY OF RONALD A. MAVRIDES**

4 **DOCKET NO. 150009-EI**

5 **June 22, 2015**

6 **Q. Please state your name and business address.**

7 A. My name is Ronald A. Mavrides. My business address is 1313 N. Tampa Street,
8 Suite 220, Tampa, Florida 33602.

9 **Q. By whom are you presently employed and in what capacity?**

10 A. I am employed by the Florida Public Service Commission (FPSC or Commission)
11 as a Public Utility Analyst II in the Office of Auditing and Performance Analysis.

12 **Q. Briefly review your educational and professional background.**

13 A. I received a Bachelor of Science Degree in accounting from the University of
14 Central Florida in 1990. I am also a Certified Internal Auditor, Certified Government
15 Auditing Professional and a Certified Management Accountant licensed in the State of
16 Florida. I have been employed by the FPSC since October 2007.

17 **Q. Please describe your current responsibilities.**

18 A. My responsibilities consist of planning and conducting utility audits of manual
19 and automated accounting systems for historical and forecasted data.

20 **Q. Have you previously presented testimony before this Commission?**

21 A. Yes. I filed testimony in the Fuel and Purchased Power Cost Recovery Clause
22 Docket Nos. 090001-EI and 110001-EI and I filed testimony in the Nuclear Cost
23 Recovery Clause Docket No. 140009-EI.

24 **Q. What is the purpose of your testimony today?**

25 A. The purpose of my testimony is to sponsor two staff audit reports of Duke Energy

1 Florida, Inc. (DEF or Utility) which address the Utility's filings in Docket 150009-EI,
2 Nuclear Cost Recovery Clause (NCRC) for costs associated with its Nuclear units. The
3 first audit report was issued June 8, 2015, and addressed the costs for Crystal River Unit 3
4 (CR3) as of December 31, 2014. The audit report is filed with my testimony and is
5 identified as Exhibit RAM-1. The second audit report was also issued on June 8, 2015,
6 and addressed the costs as of December 31, 2014, for Levy Nuclear Units 1 & 2 (Levy 1
7 & 2). This audit report is filed with my testimony and is identified as Exhibit RAM-2.

8 **Q. Were these audits prepared by you or under your direction?**

9 A. Yes, both audits were prepared by me or under my direction.

10 **Q. Please describe the work in the first audit addressing the costs for Crystal**
11 **River Unit 3.**

12 A. Our overall objective was to verify that the Utility's 2014 NCRC filings for
13 Crystal River Unit 3 in Docket No. 150009-EI are consistent with and in compliance with
14 Section 366.93, Florida Statutes, and Rule 25-6.0423, Florida Administrative Code. We
15 performed the following procedures to satisfy the overall objective.

16 Construction Work in Progress (CWIP)

17 We reconciled the company's transaction details to the general ledger and filing. We
18 judgmentally selected transactions from the transaction details and tested them for: 1)
19 Compliance with contracts, 2) Correct paid amounts, and 3) Correct recording periods.

20 Recovery

21 We traced the amount collected on Exhibit TGF-2 to the 2014 NCRC jurisdictional
22 amount approved in Order No. PSC-14-0701-FOF-EI and to the Capacity Cost Recovery
23 Clause in Docket No.150001-EI.

24 Expense

25 We judgmentally selected costs from the transaction details and reviewed them for the

1 proper period, amounts, and that they are allowable NCRC costs. For costs that are for a
2 service or product that is under contract, we: 1) traced the invoiced cost to the
3 construction contract of other type of original source document, 2) reconciled the invoice
4 to the contract terms and pricing, 3) ensured that the amounts billed are for actual services
5 or materials received, and 4) investigated all prior billing adjustments and job order
6 changes to the contract(s). We sorted the transaction detail listings by O&M expense
7 category and reconciled them to the filing. We judgmentally selected one employee each
8 from the months of November and December 2014 from the transaction details for
9 sampling. We used employee time sheets to verify that labor hours charged to employee
10 labor expense are correct. We recalculated employee incentive pay for October 2014.

11 True-up

12 We traced the December 31, 2013 True-Up Provision to the Commission Order No. PSC-
13 13-0493-FOF-EI. We recalculated the True-Up and Interest Provision amounts as of
14 December 31, 2014, using the Commission approved beginning balance as of December
15 31, 2013, the approved AFUDC rate, and the 2014 costs.

16 **Q. Please describe the work in the second audit addressing the costs for Levy**
17 **Nuclear Units 1 & 2.**

18 A. Our overall objective was to verify that the Utility's 2014 NCRC filings for Levy
19 Nuclear Units 1 & 2 in Docket No. 150009-EI are consistent with and in compliance with
20 Section 366.93, Florida Statutes, and Rule 25-6.0423, Florida Administrative Code. We
21 performed the following procedures to satisfy the overall objective.

22 Construction Work in Progress (CWIP)

23 We took the beginning balances of the costs and reconciled them to the ending balances
24 for the prior year's filing. We judgmentally selected transactions from the provided
25 transaction details and tested them for: 1) Compliance with contracts, 2) Correct paid

1 amounts, and 3) Correct recording periods. We reconciled the filing to the general ledger.

2 Recovery

3 We traced the beginning balances of the 2014 Detail Calculation of the Revenue
4 Requirements to the ending 2013 Detail Calculation of the Revenue Requirements. We
5 reconciled the amount collected on the 2014 Detail Calculation of the Revenue
6 Requirements to the 2014 NCRC jurisdictional factors approved in Order No. PSC-14-
7 0701-FOF-EI and to the Capacity Cost Recovery Clause in Docket No. 150001-EI.

8 Expense

9 We reconciled the trial balance accounts to the filing. We judgmentally selected costs
10 from the transaction details and reviewed them for the proper period and amounts, and
11 that they are allowable NCRC costs. For costs that are for a service or product that is
12 under contract we: 1) Traced the invoiced cost to the construction contract or other type
13 of original source document, 2) Reconciled the invoice to the contract terms and pricing,
14 3) Ensured that the amounts billed are for actual services or materials received, and 4)
15 Investigated all prior billing adjustments and job order changes to the contracts. We
16 sampled costs charged in 2014, including labor, and obtained the supporting backup. We
17 recalculated labor costs using employee time sheets and labor rates for employees who
18 provided labor charged to the NCRC during the sample months. We verified the hours
19 worked and recalculated the labor charges recorded by the Utility charged to the NCRC.
20 We verified the costs for proper account, period, and amount.

21 True-up

22 We traced the December 31, 2013 True-Up Provision to the Commission Order No. PSC-
23 13-0493-FOF-EI. We recalculated the True-Up and Interest Provision amounts as of
24 December 31, 2014, using the Commission approved beginning balance as of December
25 31, 2013, the approved AFUDC rate, and the 2014 costs.

1 **Q. Please review the audit findings in the audit report, Exhibit RAM-1.**

2 A. For 2014, the Utility applied the rate reported in its Earnings Surveillance Report
3 filed for December 2012, which was 7.23%, to the remaining unrecovered Construction
4 Work in Progress balance. Audit staff believes that Rule 25-6.0423(7)(b) - Nuclear or
5 Integrated Gasification Combined Cycle Power Plant Cost Recovery, Florida
6 Administrative Code, requires that the Utility should have applied the rate reported in its
7 Earnings Surveillance Report filed for December 2013, which was 7.10%. We requested
8 the Utility to calculate the Total Period Revenue Requirement for 2014 using the rate of
9 7.10%. This calculation reduces the Total Period Revenue Requirement of \$23,501,504 as
10 filed to \$23,346,121. DEF has adjusted its May 1, 2015 filing.

11 **Q. Please review the audit findings in the audit report, Exhibit RAM-2.**

12 A. For 2014, the Utility applied the rate reported in its Earnings Surveillance Report
13 filed for December 2012, which was 7.23%, to the remaining unrecovered Construction
14 Work in Progress balance. Audit staff believes that Rule 25-6.0423(7)(b) - Nuclear or
15 Integrated Gasification Combined Cycle Power Plant Cost Recovery, Florida
16 Administrative Code, requires that the Utility should have applied the rate reported in its
17 Earnings Surveillance Report filed for December 2013, which was 7.10%. We requested
18 the Utility to calculate the Total Period Revenue Requirement for 2014 using the rate of
19 7.10%. This calculation reduces the Total Period Revenue Requirement of \$23,508,493
20 as filed to \$23,421,244. DEF has adjusted its May 1, 2015 filing.

21 **Q. Does this conclude your testimony?**

22 A. Yes.

23

24

25

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
Crystal River Unit 3 Uprate

Twelve Months Ended December 31, 2014

Docket No. 150009-EI
Audit Control No. 15-005-2-1
May 15, 2015



Ronald Mavrides
Audit Manager



Linda 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. and to several of its related schedules in support of its 2014 Nuclear Cost Recovery Clause for its cost expenditures for the Crystal River Unit 3 Uprate Project 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.

CR3 refers to the Crystal River Unit 3 Uprate Project.

NCRC refers to the Nuclear Cost Recovery Clause.

CCRC refers to Capacity Cost Recovery Clause.

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 February 5, 2013, the Utility announced its intent to retire the CR3 plant. 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 costs incurred in 2014 for the CR3 Uprate are properly accounted for and stated as required by Section 366.93, Florida Statutes and Rule 25-6.0423, F.A.C.

Procedures: We reconciled the company's transaction details to the general ledger and 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. 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 Exhibit TGF-2 reflects amounts in Order No. PSC-14-0701-FOF-EI.

Procedures: We agreed the amount collected on Exhibit TGF-2 to the 2014 NCRC jurisdictional amount approved in Order No. PSC-14-0701-FOF-EI and to the CCRC in Docket No.150001-EI. Our recommendations are discussed in Finding 1

Expense

Operation and Maintenance Expense

Objectives: 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 judgmentally selected costs from the transaction details and reviewed them for the proper period, amounts, and that they are legitimate 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 of 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 contract(s). We sorted the transaction detail listings by O&M expense category and reconciled them to the filing. We judgmentally selected one employee each from the months of November and December 2014 from the transaction details for sampling. We used employee time sheets to verify that labor hours charged to employee labor expense are correct. We recalculated employee incentive pay for October 2014. No exceptions were noted.

True-Up

Objective: The objective was to determine whether the True-Up and Interest Provision as filed on Exhibit 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 \$23,501,504 as filed to \$23,346,121.

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.

Exhibit

Exhibit 1: True-Up

DUKE CR UNIT 3 FID FID 2014														Balance as of 12/31/13		Balance as of 12/31/14	
Medium Cost Recovery Case (CR CR) - CRU 3 price														Due to the 150009-EI		Exhibit (CR P-1)	
2014 Mid Year Call Review of the Recovery Case Statement for January 2014 through December 2014																	
Line	Description	Beginning of Period Amount	Actual January 14	Actual February 14	Actual March 14	Actual April 14	Actual May 14	Actual June 14	Actual July 14	Actual August 14	Actual September 14	Actual October 14	Actual November 14	Actual December 14	Period Total	Balance as of 12/31/13	Balance as of 12/31/14
1	Unrecovered Investment	374,371,055	2,050	12,329	6,223	2,612,120	1,475	1,367	356	2,476	3,384	2,330	(100,412)	715	2,231,231	0	(452,554)
	a Sale of Salvage of Assets	0	0	(5,074)	0	(76,883)	(100,000)	(82,900)	0	0	0	0	0	0	0	0	0
	b Construction - Wind Down Costs (1)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	c Other (2)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	d Total	374,371,055	2,050	6,754	6,223	2,535,237	(100,725)	(165,700)	356	2,476	3,384	2,330	(100,412)	715	\$1,661,265	0	0
2	Adjustments	2,232,245	0	0	0	(7,205,452)	0	0	0	0	0	0	0	312,360	0	(51,273,235)	0
	a Non-Cash Accruals (1)	(19,950,343)	746	(65,613)	(162)	(116,910)	(16,793)	47,378	(40)	(53)	(227)	(377)	22,189	(19)	(159,472)	0	0
	b Other (2)	(18,108,647)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	c Adjusted System Generation Construction Cost Additions	316,005,420	2,804	6,198	5,743	(181,000)	(324,311)	(14,353)	492	2,375	1,137	2,093	24,911	956	(57,170)	0	0
	d Add Adjustment Factor - Current Year Activity	92,485 N	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	e Add Adjustment Factor - 2013 and 2012 only and POD Sales	92,485 N	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	f Beginning Balance - pre 2013 Investment	279,911,057	2,604	7,529	5,333	(191,951)	(254,999)	(13,334)	497	2,321	1,075	1,907	23,557	609	(448,483)	0	0
	g Beginning Balance - 2013 Investment	12,170,064	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3	Carrying Cost on Unrecovered Investment Balance	232,061,140	2,604	7,529	5,333	(181,002)	(194,920)	(11,334)	497	2,321	1,075	1,907	23,557	609	279,502,657	0	0
	a Unrecovered Investment Carrying Cost for the Period (Line 2 and 3g)	29,995,096	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	b Financial Services (Line 2 and 3g)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	c Period Interest on Unrecovered Investment (1)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	d Amortization of Unrecovered Investment (1)	0	(1,442,571)	(1,442,571)	(1,442,571)	(1,442,571)	(1,442,571)	(1,442,571)	(1,442,571)	(1,442,571)	(1,442,571)	(1,442,571)	(1,442,571)	(1,442,571)	(1,442,571)	(1,442,571)	(1,442,571)
	e Prior Period Carrying Charge (see line 14)	(1,203,590)	(1,207,191)	(1,124,717)	(1,042,296)	(959,861)	(877,434)	(795,002)	(712,573)	(632,140)	(547,709)	(462,377)	(382,046)	(300,415)	(1,203,590)	0	0
	f Prior Period Carrying Charge (see line 14)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)
	g Prior Period Amortization (see line 14)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)
	h Net Investment	230,768,454	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)	(12,403 N)
4	Average Net Investment	\$19,899,737	\$19,899,737	\$19,899,737	\$19,899,737	\$19,899,737	\$19,899,737	\$19,899,737	\$19,899,737	\$19,899,737	\$19,899,737	\$19,899,737	\$19,899,737	\$19,899,737	\$19,899,737	\$19,899,737	\$19,899,737
5	Return on Average Net Investment	0.00294	0.00294	0.00294	0.00294	0.00294	0.00294	0.00294	0.00294	0.00294	0.00294	0.00294	0.00294	0.00294	0.00294	0.00294	0.00294
	a Equity Component	1,620.00	1,620.00	1,620.00	1,620.00	1,620.00	1,620.00	1,620.00	1,620.00	1,620.00	1,620.00	1,620.00	1,620.00	1,620.00	1,620.00	1,620.00	1,620.00
	b Debt Component	0.00149	0.00149	0.00149	0.00149	0.00149	0.00149	0.00149	0.00149	0.00149	0.00149	0.00149	0.00149	0.00149	0.00149	0.00149	0.00149
	c Total Return	0.00443	0.00443	0.00443	0.00443	0.00443	0.00443	0.00443	0.00443	0.00443	0.00443	0.00443	0.00443	0.00443	0.00443	0.00443	0.00443
6	Revised Requirements for the Period (Line 3a - 5c)	\$2,148,438	\$2,148,438	\$2,148,438	\$2,148,438	\$2,148,438	\$2,148,438	\$2,148,438	\$2,148,438	\$2,148,438	\$2,148,438	\$2,148,438	\$2,148,438	\$2,148,438	\$2,148,438	\$2,148,438	\$2,148,438
7	Projected Revenue Requirements for the Period (Order No. PS 13-003) - O&D	\$2,178,875	\$2,178,875	\$2,178,875	\$2,178,875	\$2,178,875	\$2,178,875	\$2,178,875	\$2,178,875	\$2,178,875	\$2,178,875	\$2,178,875	\$2,178,875	\$2,178,875	\$2,178,875	\$2,178,875	\$2,178,875
8	Over/Under Recovery for the Period	(\$30,437)	(\$30,437)	(\$30,437)	(\$30,437)	(\$30,437)	(\$30,437)	(\$30,437)	(\$30,437)	(\$30,437)	(\$30,437)	(\$30,437)	(\$30,437)	(\$30,437)	(\$30,437)	(\$30,437)	(\$30,437)
9	Other fact / Wind Down																
	a Accounting	1,137	6,133	16,597	4,664	16,330	4,664	13,033	5,001	3,236	3,128	2,964	2,669	71,822			
	b Corporate Planning	10,480	7,036	6,648	7,972	6,536	6,537	4,404	2,790	395	405	300	2,624	96,812			
	c Legal	975	10,711	15,434	14,506	12,536	16,453	12,949	12,411	2,423	2,423	334	0	1,296	95,008		
	d Non-Dollar Costs	(11,702)	(2,023)	(3,195)	(3,731)	(3,149)	(2,223)	(3,433)	(1,639)	(899)	(1,191)	(979)	(979)	(547)	(14,879)		
	e Total Other Fact / Wind Down Costs	18,870	22,347	31,354	24,914	21,968	25,407	21,000	17,000	16,522	15,755	14,910	14,000	6,007	210,700		
10	Intentional Factor (ADF)	0.9322	0.9322	0.9322	0.9322	0.9322	0.9322	0.9322	0.9322	0.9322	0.9322	0.9322	0.9322	0.9322	0.9322	0.9322	0.9322
11	Intentional Amount	12,130	10,437	34,822	23,235	21,342	13,314	15,174	17,287	13,197	9,932	3,209	2,636	5,837	196,314		
12	Prior Period Unrecovered Balance (a)	641,239	547,445	515,452	439,456	364,065	292,271	215,478	144,444	78,003	(2,003)	(76,686)	(150,970)	(224,252)			
13	Prior Period Costs Recovered (a)	73,794	73,794	73,794	73,794	73,794	73,794	73,794	73,794	73,794	73,794	73,794	73,794	73,794			
14	Prior Month Period (Over/Under Recovery Unrecovered Balance)	641,239	547,445	491,492	407,058	335,622	251,337	164,497	83,363	1,679	(67,913)	(182,577)	(251,108)	(327,246)			
15	Carrying Costs for the Month																
	a Balance Due for Interest	43,497	540,402	461,365	383,522	293,470	215,454	132,847	47,209	(44,418)	(111,024)	(154,904)	(217,420)	(287,420)			
	b Monthly Commercial Paper Rate	0.00%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%			
	c Interest Payment	10	37	37	24	19	12	7	4	2	(1)	(1)	(1)	(1)			
	d Total Costs and Interest (Line 12 - 15c)	12,524	20,841	16,444	11,249	11,249	11,249	11,249	11,249	11,249	11,249	11,249	11,249	11,249			
17	Revenue (Order No. PS 13-003) - O&D	13,099	13,099	13,099	13,099	13,099	13,099	13,099	13,099	13,099	13,099	13,099	13,099	13,099	13,099	13,099	13,099
18	Over/Under Recovery for the Period	(16,365 N)	(16,365 N)	(16,365 N)	(16,365 N)	(16,365 N)	(16,365 N)	(16,365 N)	(16,365 N)	(16,365 N)	(16,365 N)	(16,365 N)	(16,365 N)	(16,365 N)	(16,365 N)	(16,365 N)	(16,365 N)
19	Other - Adjustments (a)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)
20	Revenue (Order No. PS 13-003) - O&D	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)	(60,177)
21	Over/Under Recovery for the Period	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
22	Revenue Requirements for the Period	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309
23	Revenue (Order No. PS 13-003) - O&D	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309	2,116,309
24	Over/Under Recovery for the Period	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

(a) Please see Appendix A for Beginning Balance support and support of Amortization of Unrecovered Balance and Other Adjustments calculation.
 (b) Other than the cost of amortization of previously unrec'd assets.
 (c) Approximately \$2 MM accounting adjustment to correct double pre-amortization in 2014 and 2013 in April 2014.
 This amount represents a payment to the customer in 2014 and 2013 based on an amortization of a deposit.
 (d) Approximately \$22M accounting adjustment to correct double pre-amortization in 2014 and 2013 in April 2014.
 This amount represents a payment to the customer in 2014 and 2013 based on an amortization of a deposit.

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>

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Nuclear cost recovery clause.

DOCKET NO. 150009-EI

DATED: June 22, 2015

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the direct testimony of Ronald A. Mavrides on behalf of the Florida Public Service Commission was filed electronically with the Office of Commission Clerk, Florida Public Service Commission, and copies were furnished to the following by electronic mail on this 22nd day of June, 2015.

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