

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: June 2, 2015
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 150007-EI
Company Name: Duke Energy Florida, Inc.
Company Code: EI801
Audit Purpose: Environmental Cost Recovery Clause
Audit Control No: 15-014-2-1

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 a response to the Office of Commission Clerk. There is no 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.
Environmental Cost Recovery Clause

Twelve Months Ended December 31, 2014

Docket No. 150007-EI
Audit Control No. 15-014-2-1
May 4, 2015

A handwritten signature in black ink, appearing to read "Intesar Terkawi", written over a horizontal line.

Intesar Terkawi
Audit Manager

A handwritten signature in blue ink, appearing to read "Linda Hill", written over a horizontal line.

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 Division of Engineering in its audit service request dated January 14, 2015. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Duke Energy Florida, Inc. in support of its 2014 filing for the Environmental Cost Recovery Clause in Docket No. 150007-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.

ECRC refers to the Environmental Cost Recovery Clause.

Capital Investment

Utility Plant in Service

Objectives: The objectives were to verify all ECRC project-related plant additions, retirements and adjustments for the period January 1, 2014, through December 31, 2014.

Procedure: We traced Plant in Service and Accumulated Depreciation to the general ledger for each capital project listed on the 2014 Form 42-8A. No exceptions were noted.

Construction Work in Progress

Objectives: The objectives were to verify net investments associated with the following capital projects and to determine whether any project which involved the replacement or retirement of an existing plant asset is retired at the installed costs by the Utility in accordance with Florida Public Service Commission Rule 25-6.0142(4)(b), F.A.C.:

- 1) Project 16 - NPDES-Intermediate
- 2) Project 17.1 - MATS-Anclote Gas Conversion-Energy
- 3) Project 17.2 - MATS-Crystal River Units 1 & 2 Energy.

Procedures: We judgmentally selected a sample of capital investment invoices from each of the three projects listed above. We determined whether additions had appropriate supporting documentation and were recorded to the correct project and account. We determined whether items that were replaced had a corresponding retirement. We compared the ledger to the Depreciation Base and the Non-Interest Bearing amounts on Form 42-8A. No exceptions were noted.

Revenue

Operating Revenue

Objectives: The objectives were to determine the actual Kilowatt Hours (KWH) sold for the period January 1, 2014, through December 31, 2014, and whether the Utility applied the Commission approved cost recovery factor to actual KWH sales for the ECRC.

Procedures: We reconciled the 2014 filing to the Utility's monthly ECRC monthly Revenue Reports. We applied the billing factors by rate class from Order No. PSC-13-0606-FOF-EI to KWH sales. We recalculated revenues for the months of January through December. We selected a sample of residential and commercial customers' bills for the months of April and September 2014 and recalculated each to verify the use of the correct tariff rate for each of the Environmental, Capacity, Fuel, Conservation and Nuclear Clauses. No exceptions were noted.

Expense

Operation and Maintenance Expense

Objectives: The objectives were to determine whether Operation and Maintenance (O&M) Expenses listed on the Utility's Form 42-5A filing was supported by adequate documentation and that the expenses are appropriately recoverable through the ECRC.

Procedures: We traced expenses in the filing to the general ledger. We judgmentally selected a sample of O&M Expenses for testing for the months of March, April and November 2014. The source documentation for selected items was reviewed to ensure the expense was related to the ECRC and that the expense was charged to the correct accounts. No exceptions were noted.

Depreciation and Maintenance Expense

Objective: The objective was to determine whether the most recent Commission approved depreciation rates or amortization periods were used in calculating Depreciation Expense.

Procedures: We traced total year Depreciation Expense for each capital project listed on Form 42-8A to the general ledger detail. We recalculated 2014 Depreciation Expense on a test basis using the plant balances and depreciation rates per Order No. PSC-10-0131-FOF-EI. No exceptions were noted.

Other

SO₂ Allowances

Objectives: The objectives were to verify investments, inventory, expensed amounts, and allowance auctions proceeds and to verify amounts included in Working Capital, Form 42-8A..

Procedures: We traced 2014 consumption for SO₂ allowances from the Utility's detailed allowances reports to the total emission schedule on Form 42-8A. We recalculated amounts included in Working Capital, Form 42-8A page 5. We verified the wholesale portion of the NO_x and SO₂ Allowance Expense. We traced the sale proceeds to the Environmental Protection Agency's payment details.

True-Up

Objective: The objective was to determine if the True-Up and Interest Provision as filed on Form 42-2A 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 Financial Commercial Paper rates and the 2014 ECRC revenues and costs. No exceptions were noted

Analytical Review

Objective: The objective was to perform an analytical review of the Utility's ECRC revenues and expenses to determine if there were any material changes or inconsistencies from the prior years.

Procedures: We compared 2014 to the 2013 revenues and expenses. We requested explanations from the Utility for the variances. Explanations provided were sufficient. Further follow-up was not required.

Audit Findings

None

Exhibit

Exhibit 1: True-Up

DUKE ENERGY FLORIDA
Environmental Cost Recovery Clause
Final True-Up
January 2014 - December 2014
End-of-Period True-Up Amount
(in Dollars)

Form 42-2

Docket No. 150007-
 Duke Energy Mem-
 orandum, T. G. Post
 Exhib. No. 104-
 Page 3 of 7

| Line | Description | Actual Jan-14 | Actual Feb-14 | Actual Mar-14 | Actual Apr-14 | Actual May-14 | Actual Jun-14 | Actual Jul-14 | Actual Aug-14 | Actual Sep-14 | Actual Oct-14 | Actual Nov-14 | Actual Dec-14 | End of Period Total |
|------|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|---------------------------|
| 1 | ECRC Revenues (net of Revenue Taxes) | 56,054,777 | 56,743,406 | 55,896,498 | 55,684,006 | 56,820,801 | 57,824,663 | 58,347,610 | 59,289,243 | 58,732,198 | 57,364,114 | 56,641,150 | 56,019,544 | \$85,628,011 |
| 2 | True-Up Provision (Order No. PSC-13-0506-FCF-EI) | (19,568,336) | (1,630,695) | (1,630,695) | (1,630,695) | (1,630,695) | (1,630,695) | (1,630,695) | (1,630,695) | (1,630,695) | (1,630,695) | (1,630,695) | (1,630,695) | (19,568,336) |
| 3 | ECRC Revenues Applicable to Period (Lines 1 + 2) | \$4,424,662 | 5,112,711 | 4,265,803 | 4,253,312 | 5,180,106 | 6,193,968 | 6,716,915 | 7,658,548 | 7,101,503 | 5,733,419 | 5,010,456 | 4,388,850 | 66,059,675 |
| 4 | Jurisdictional ECRC Costs | | | | | | | | | | | | | |
| a. | O & M Activities (Form 42-5A, Line 9) | 52,420,836 | 52,333,207 | 53,929,613 | 54,154,336 | 52,578,741 | 52,927,017 | 53,096,717 | 53,448,643 | 53,675,270 | 53,665,506 | 54,696,078 | 53,647,526 | \$41,495,49 |
| b. | Capital Investment Projects (Form 42-7A, Line 9) | 2,033,067 | 2,064,099 | 2,036,803 | 2,018,418 | 2,007,255 | 2,154,564 | 2,140,476 | 2,155,799 | 2,143,902 | 2,169,531 | 2,194,094 | 2,390,498 | 25,538,56 |
| c. | Other (A) | 0 | 0 | (14,291,145) | 0 | 585,290 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (13,704,85 |
| d. | Total Jurisdictional ECRC Costs | \$4,453,903 | \$4,897,306 | (\$8,325,729) | \$6,172,754 | \$5,572,286 | \$5,081,581 | \$5,239,193 | \$5,604,442 | \$5,919,172 | \$5,835,097 | \$6,890,172 | \$6,038,026 | \$53,239,20 |
| 5 | Over/(Under) Recovery (Line 3 - Line 4c) | (529,820) | \$215,405 | \$12,590,532 | (\$1,919,442) | (\$392,180) | \$1,112,397 | \$1,477,723 | \$2,054,106 | \$1,282,332 | (\$101,677) | (\$1,079,716) | (\$1,649,176) | \$12,760,47 |
| 6 | Interest Provision (Form 42-3A, Line 10) | (748) | (794) | (312) | 106 | 134 | 211 | 352 | 633 | 831 | 804 | 1,003 | 1,326 | 3,55 |
| 7 | Beginning Balance True-Up & Interest Provision | (19,568,336) | (17,568,210) | (16,122,904) | (1,901,989) | (2,150,630) | (951,982) | 1,791,311 | 4,900,086 | 8,585,520 | 11,499,377 | 13,029,199 | 12,781,180 | (19,568,33 |
| a. | Deferred True-Up - January 2012 - December 2013 (Order No. PSC-14-0513-FCF-EI) | 3,807,998 | 3,807,998 | 3,807,998 | 3,807,998 | 3,807,998 | 3,807,998 | 3,807,998 | 3,807,998 | 3,807,998 | 3,807,998 | 3,807,998 | 3,807,998 | 3,807,99 |
| 8 | True-Up Collected/(Refunded) (see Line 2) | 1,630,695 | 1,630,695 | 1,630,695 | 1,630,695 | 1,630,695 | 1,630,695 | 1,630,695 | 1,630,695 | 1,630,695 | 1,630,695 | 1,630,695 | 1,630,695 | 19,568,33 |
| 9 | End of Period Total True-Up (Lines 5+6+7a+8) | (\$14,180,212) | (\$12,314,906) | \$1,906,009 | \$1,617,368 | \$2,855,016 | \$5,599,309 | \$8,706,084 | \$12,393,518 | \$15,307,375 | \$16,037,197 | \$16,589,170 | \$16,572,022 | \$16,572,02 |
| 10 | Adjustments to Period Total True-Up Including Interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 11 | End of Period Total True-Up Over/(Under) (Lines 9 + 10) | (\$14,180,212) | (\$12,314,906) | \$1,906,009 | \$1,617,368 | \$2,855,016 | \$5,599,309 | \$8,706,084 | \$12,393,518 | \$15,307,375 | \$16,037,197 | \$16,589,170 | \$16,572,022 | \$16,572,02 |

Notes:

(A) Retail portion of the property tax settlement between Citrus County and DEF for assessment years 2012 and 2013.