

BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 160009-EI

NUCLEAR COST RECOVERY CLAUSE.  
\_\_\_\_\_ /

PROCEEDINGS: HEARING

COMMISSIONERS  
PARTICIPATING: CHAIRMAN JULIE I. BROWN  
COMMISSIONER LISA POLAK EDGAR  
COMMISSIONER ART GRAHAM  
COMMISSIONER RONALD A. BRISÉ  
COMMISSIONER JIMMY PATRONIS

DATE: Tuesday, August 9, 2016

TIME: Commenced at 9:00 a.m.  
Concluded at 9:07 a.m.

PLACE: Betty Easley Conference Center  
Room 148  
4075 Esplanade Way  
Tallahassee, Florida

REPORTED BY: LINDA BOLES, CRR, RPR  
Official FPSC Reporter  
(850) 413-6734

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5 Tallahassee, Florida 32301-7740, appearing on behalf of  
6 Duke Energy Florida, Inc.

7 ROBERT SCHEFFEL WRIGHT and JOHN T. LaVIA, III,  
8 ESQUIRES, Gardner Law Firm, 1300 Thomaswood Drive,  
9 Tallahassee, Florida 32308, appearing on behalf of the  
10 Florida Retail Federation.

11 J.R. KELLY, Public Counsel, and CHARLES  
12 REHWINKEL, ESQUIRES, Office of Public Counsel, c/o the  
13 Florida Legislature, 111 West Madison Street, Room 812,  
14 Tallahassee, Florida 32399-1400, appearing on behalf of  
15 the Citizens of the State of Florida.

16 KYESHA MAPP and MARGO LEATHERS, ESQUIRES, FPSC  
17 General Counsel's Office, 2540 Shumard Oak Boulevard,  
18 Tallahassee, Florida 32399-0850, appearing on behalf of  
19 the Florida Public Service Commission staff.

20 MARY ANNE HELTON, Advisor to the Commission,  
21 and KEITH HETRICK, GENERAL COUNSEL, General Counsel's  
22 Office, 2540 Shumard Oak Boulevard, Tallahassee, Florida  
23 32399-0850, appearing as advisors to the Florida Public  
24 Service Commission.

25

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## P R O C E E D I N G S

1  
2           **CHAIRMAN BROWN:** All right. Good morning,  
3 everyone. Today is August 9th. This is the Nuclear  
4 Cost Recovery Clause hearing, and this hearing is  
5 convened.

6           Staff, can you please read the notice.

7           **MS. MAPP:** Good morning. By notice issued  
8 July 22nd, 2016, this time and place was set for a  
9 hearing in Docket No. 160009-EI. The purpose of the  
10 hearing is set out in the notice.

11           **CHAIRMAN BROWN:** Thank you. And we'll take  
12 appearances starting with Duke.

13           **MR. BERNIER:** Good morning, Commissioners.  
14 Matt Bernier and Dianne Triplett for Duke Energy.

15           **CHAIRMAN BROWN:** Thank you.

16           **MR. WRIGHT:** Robert Scheffel Wright and John  
17 T. LaVia, III, for the Florida Retail Federation.

18           **CHAIRMAN BROWN:** Thank you. And is Office of  
19 Public Counsel present?

20           **MR. KELLY:** I'm sorry.

21           **CHAIRMAN BROWN:** No problem.

22           **MR. KELLY:** J. R. Kelly and Charles Rehwinkel  
23 for OPC.

24           **CHAIRMAN BROWN:** Thank you.

25           Staff.

1           **MS. MAPP:** Kyesha Mapp and Margo Leathers for  
2 Commission staff.

3           **MS. HELTON:** And Mary Anne Helton. I'm here  
4 as your advisor today. And I'd also like to make an  
5 appearance for your General Counsel, Keith Hetrick.

6           **CHAIRMAN BROWN:** Thank you. And we will begin  
7 with preliminary matters.

8           Ms. Mapp, are there any preliminary matters we  
9 need to address?

10          **MS. MAPP:** Yes, Chairman. By Order No.  
11 PSC-16-0266-PCO-EI, this Commission granted FPL's motion  
12 to defer; therefore, this hearing will only address  
13 issues pertaining to Duke Energy Florida, LLC. FPL, the  
14 City of Miami, FIPUG, PCS Phosphate, and SACE have been  
15 excused from this hearing.

16          And staff has prepared a stipulated  
17 Comprehensive Exhibit List, and the list itself is  
18 marked as Exhibit 1. The list has been provided to the  
19 parties, Commissioners, and the court reporter. At this  
20 time, staff requests that Exhibit 1 be entered into the  
21 record and that the exhibits be marked as numbered  
22 therein.

23          (Exhibit 1 marked for identification and  
24 admitted into the record.)

25          (Exhibits 2 through 13 marked for

1 identification.)

2 **CHAIRMAN BROWN:** We will do that.

3 **MS. MAPP:** There are proposed Category 2  
4 stipulations on all issues, with DEF taking a position  
5 and all other parties taking no position. All parties  
6 have waived opening statements, and all witnesses have  
7 been excused from this hearing.

8 **CHAIRMAN BROWN:** Thank you so much. And this  
9 has been a very streamlined hearing, so to that effect,  
10 at this time I'll ask Duke to move exhibits and  
11 testimony into the record.

12 **MR. BERNIER:** Thank you, Madam Chairman.

13 At this time, I would move the March 1st  
14 testimonies of Thomas Foster, Mark Teague, and  
15 Christopher Fallon into the record as though read here  
16 today.

17 **CHAIRMAN BROWN:** I will do that at this time.  
18 Thank you.

19 **MR. BERNIER:** Thank you. And at this time I  
20 would then move the April 27th prefilled direct  
21 testimonies of Thomas Foster, Mark Teague, and  
22 Christopher Fallon into the record as though read here  
23 today.

24 **CHAIRMAN BROWN:** We will do that as well.  
25 Thank you.

**IN RE: NUCLEAR COST RECOVERY CLAUSE**  
**BY DUKE ENERGY FLORIDA, LLC**  
**FPSC DOCKET NO. 160009-EI**  
**DIRECT TESTIMONY OF THOMAS G. FOSTER**

1 **I. INTRODUCTION AND QUALIFICATIONS**

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

3 **A.** My name is Thomas G. Foster. My business address is 299 First Avenue North, St.  
4 Petersburg, FL 33701.

5  
6 **Q. By whom are you employed and in what capacity?**

7 **A.** I am employed by Duke Energy Florida, LLC, as Director, Rates and Regulatory  
8 Planning.

9  
10 **Q. What are your responsibilities in that position?**

11 **A.** I am responsible for regulatory planning and cost recovery for Duke Energy  
12 Florida, LLC (“DEF”). These responsibilities include regulatory financial  
13 reports and analysis of state, federal, and local regulations and their impact on  
14 DEF. In this capacity, I am also responsible for the Levy Nuclear Project  
15 (“LNP”) and the Crystal River Unit 3 (“CR3”) Extended Power Uprate (“EPU”)  
16 Project (“CR3 Uprate”) Cost Recovery filings made as part of this docket in  
17 accordance with Rule 25-6.0423, Florida Administrative Code (“F.A.C.”).



1 **Q. Please describe your educational background and professional experience.**

2 **A.** I joined the Company on October 31, 2005 as a Senior Financial Analyst in the  
3 Regulatory group. In that capacity I supported the preparation of testimony and  
4 exhibits associated with various Dockets. In late 2008, I was promoted to  
5 Supervisor Regulatory Planning. In 2012, following the merger with Duke Energy  
6 Corporation (“Duke Energy”), I was promoted to my current position. Prior to  
7 working at Duke Energy I was the Supervisor in the Fixed Asset group at Eckerd  
8 Drug. In this role I was responsible for ensuring proper accounting for all fixed  
9 assets as well as various other accounting responsibilities. I have 6 years of  
10 experience related to the operation and maintenance of power plants obtained while  
11 serving in the United States Navy as a Nuclear Operator. I received a Bachelor of  
12 Science degree in Nuclear Engineering Technology from Thomas Edison State  
13 College. I received a Masters of Business Administration with a focus on finance  
14 from the University of South Florida and I am a Certified Public Accountant in the  
15 State of Florida.

16  
17 **II. PURPOSE OF TESTIMONY.**

18 **Q. What is the purpose of your testimony?**

19 **A.** The purpose of my testimony is to present for Florida Public Service Commission  
20 (“FPSC” or the “Commission”) review and approval of CR3 Uprate project activities  
21 for the period January 2015 through December 2015. Pursuant to Rule 25-6.0423,  
22 F.A.C., DEF is presenting testimony and exhibits for the Commission’s  
23 determination of prudence for actual expenditures and associated carrying costs for  
24 the CR3 Uprate project. I will also present the LNP and CR3 Uprate project 2015

1 accounting and cost oversight policies and procedures pursuant to the nuclear cost  
2 recovery statute and rule. Additionally, I present the actual costs associated with  
3 DEF's LNP for the period January 2015 through December 2015. Pursuant to the  
4 terms of the Stipulation approved by this Commission in Order No. PSC-15-0521-  
5 FOF-EI, DEF is not seeking a prudence determination for its 2015 LNP costs in this  
6 proceeding; rather the 2015 LNP costs are being provided for informational purposes  
7 only.

8  
9 **Q. Are you sponsoring any exhibits in support of your testimony on the 2015 LNP**  
10 **and CR3 Uprate project costs?**

11 **A.** Yes. I am sponsoring sections of the following exhibits, which were prepared under  
12 my supervision:

13 2015 Costs:

- 14 • Exhibit No. \_\_ (TGF-1), reflects the actual costs associated with the LNP and  
15 consists of: 2015 True-Up Summary, 2015 Detail Schedule and Appendices A  
16 through E, which reflect DEF's retail revenue requirements for the LNP from  
17 January 2015 through December 2015; however, I will only be sponsoring the  
18 2015 True-Up Summary, portions of the 2015 Detail Schedule, and Appendices  
19 A, B and C. Christopher Fallon will be co-sponsoring portions of the 2015  
20 Detail Schedule and sponsoring Appendices D and E.
- 21 • Exhibit No. \_\_\_\_ (TGF-2), reflects the actual costs associated with the CR3 Uprate  
22 project and consists of: 2015 True-Up Summary, 2015 Detail Schedule and  
23 Appendices A through E, which reflect DEF's retail revenue requirements for the  
24 CR3 Uprate project from January 2015 through December 2015; however, I will

1 only be sponsoring the 2015 True-Up Summary, portions of the 2015 Detail  
2 Schedule, and Appendices A, B, and C. Mark Teague will be co-sponsoring the  
3 2015 Detail Schedule and sponsoring Appendices D and E.

4 The 2015 Detail Schedules for the LNP and the CR3 Uprate project contain the same  
5 calculations provided in the Nuclear Filing Requirement (“NFR”) Schedules prior to  
6 project cancellation in a more concise manner. The Company relies on the  
7 information included in the testimony in the conduct of its affairs.

8 These exhibits are true and accurate.

9  
10 **Q. What are the 2015 Detail Schedules and the Appendices?**

- 11 **A.**
- 12 • Schedule 2015 Summary reflects the actual 2015 year-end revenue requirements  
13 by Cost Category for the period, and final true-up amount for the period.
  - 14 • Schedule 2015 Detail reflects the actual calculations for the true-up of total retail  
15 revenue requirements for the period.
  - 16 • Appendix A (CR3 Uprate) reflects beginning balance explanations, support for  
17 adjustments previously addressed in my May 1, 2015 testimony, and various  
18 CR3 Uprate in-service project revenue requirements.
  - 19 • Appendix A (Levy) reflects beginning balance explanations and support for an  
20 adjustment previously addressed in my May 1, 2015 testimony.
  - 21 • Appendix B reflects Other Exit/Wind Down expenditure variance explanations  
22 for the period.
  - 23 • Appendix C provides support for the appropriate rate of return consistent with  
the provisions of Rule 25-6.0423, F.A.C.

- 1           • Appendix D describes Major Task Categories for expenditures and variance  
2           explanations for the period.
- 3           • Appendix E reflects contracts executed in excess of \$1.0 million (if any).
- 4

5           **Q. What is the source of the data that you will present in your testimony and**  
6           **exhibits in this proceeding?**

7           **A.** The actual data is taken from the books and records of DEF. The books and records  
8           are kept in the regular course of our business in accordance with generally accepted  
9           accounting principles and practices, provisions of the Uniform System of Accounts  
10          as prescribed by the Federal Energy Regulatory Commission (“FERC”), and any  
11          accounting rules and orders established by this Commission.

12

13          **Q. What is the final true-up amount for the LNP for the period January 2015**  
14          **through December 2015?**

15          **A.** The final true-up for the calendar period ending December 2015 is an over-recovery  
16          of (\$733,697). This amount can be seen on Line 3 of the 2015 Summary Schedule  
17          of Exhibit No. \_\_\_\_ (TGF-1). Line 1 of the 2015 Summary represents current period  
18          exit and wind down costs (including the sale of Long Lead Equipment (“LLE”)),  
19          carrying costs on the unrecovered investment balance (including prior period  
20          (over)/under recovery balances), as well as the revenue requirements associated with  
21          an other-adjustment previously discussed in my May 1, 2015 testimony, and was  
22          calculated in accordance with Rule 25-6.0423, F.A.C.

23

1 **Q. What is the final true-up amount for the CR3 Uprate project for which DEF is**  
2 **requesting recovery for the period January 2015 through December 2015?**

3 **A.** DEF is requesting approval of a total over-recovery amount of (\$2,535,876) for the  
4 calendar period of January 2015 through December 2015. This amount can be seen  
5 on Line 3 of the 2015 Summary of Exhibit No. \_\_\_\_ (TGF-2). Line 1 of the 2015  
6 Summary represents the current period exit and wind down costs (including the sale  
7 of EPU assets), carrying costs on the unrecovered balance including prior period  
8 (over)/under recovery balances, as well as the revenue requirements associated with  
9 the other-adjustments which were previously discussed in my May 1, 2015  
10 testimony, and various in-service projects, and was calculated in accordance with  
11 Rule 25-6.0423, F.A.C..

12  
13 **Q. What is the carrying cost rate used in the 2015 Detail Schedule?**

14 **A.** For both the CR3 Uprate and the LNP, DEF is using the rate specified in Rule 25-  
15 6.0423(7)(b), F.A.C. The carrying cost rate used for this time period in the 2015  
16 Detail Schedule was 6.95 percent. On a pre-tax basis, the rate is 10.08 percent. This  
17 annual rate was also adjusted to a monthly rate consistent with the Allowance For  
18 Funds Used During Construction (“AFUDC”) rule, Rule 25-6.0141(3), F.A.C.  
19 Support for the components of this rate is shown in Appendix C of Exhibit  
20 Nos.\_\_(TGF-1) and (TGF-2).

21  
22 **Q. Has DEF changed how it is applying the carrying cost rate under Rule 25**  
23 **6.0423(7)(b) since 2014?**

1 A. Yes, as described in my May 1, 2015 testimony, DEF has updated the rate annually  
2 based on the prior year December surveillance report. Consequently, DEF has  
3 applied this methodology and included an adjustment on the LNP 2015 Revenue  
4 Requirement Detail Schedule and on the CR3 Uprate 2015 Revenue Requirement  
5 Detail Schedule to recognize the impact of this change on reported 2014 carrying  
6 costs. This change reduces the carrying costs in 2015.

7  
8 **III. COSTS INCURRED IN 2015 FOR THE LEVY NUCLEAR PROJECT.**

9 **Q. What are the total retail costs DEF incurred for the LNP during the period**  
10 **January 2015 through December 2015?**

11 **A.** The total retail costs for the LNP are \$1.8 million for the calendar year ended  
12 December 2015, as reflected on 2015 Summary Schedule Line 1e in Exhibit  
13 No\_\_(TGF-1). This amount includes (\$4.2) million in exit/wind-down costs, sales  
14 of assets credits, and adjustments as can be seen on the 2015 Detail schedule on  
15 Lines 5a, 5e and 19d, and \$6 million for the carrying costs on the unrecovered  
16 investment balance shown on the 2015 Detail schedule on Line 8d and on Line 4 on  
17 the 2015 Detail – LLE Deferred Balance schedule. These amounts were calculated  
18 in accordance with the provisions of Rule 25-6.0423, F.A.C.

19  
20 **Q. How did actual Generation expenditures for January 2015 through December**  
21 **2015 compare with DEF's actual/estimated costs for 2015? REDACTED**

22 **A.** Appendix D (Page 2 of 2), Line 4 shows that total Generation project costs were  
23 [REDACTED], or [REDACTED] lower than estimated. By cost category, major cost

1 variances between DEF's projected and actual 2015 LNP Generation project costs  
2 are as follows: **REDACTED**

3  
4 **Wind-Down Costs:** Expenditures for Wind-Down activities were [REDACTED], or  
5 [REDACTED] lower than estimated, as explained in the testimony of Christopher Fallon.

6  
7 **Sale or Salvage of Assets:** Revenues for Sale of Assets activities were [REDACTED]  
8 or [REDACTED] higher than estimated, as explained in the testimony of Christopher  
9 Fallon.

10  
11 **Q. What was the source of the separation factors used in the 2015 Detail Schedule?**

12 **A.** The jurisdictional separation factors are consistent with Exhibit 1 of the Revised and  
13 Restated Stipulation and Settlement Agreement ("2013 Settlement Agreement")  
14 approved by the Commission in Order No. PSC-13-0598-FOF-EI in Docket No  
15 130208-EI.

16  
17 **IV. OTHER EXIT/WIND-DOWN COSTS INCURRED IN 2015 FOR THE LEVY  
18 NUCLEAR PROJECT.**

19 **Q. How did actual Other Exit/Wind-Down expenditures for January 2015 through  
20 December 2015 compare with DEF's actual/estimated costs for 2015?**

21 **A.** Appendix B, Line 4 shows that total Other Exit/Wind-down costs were \$0.2 million  
22 or \$41,749 lower than estimated. There were no major variances with respect to  
23 these costs.

1 **V. COSTS INCURRED IN 2015 FOR THE CR3 UPRATE PROJECT.**

2 **Q. What are the total retail costs DEF incurred for the CR3 Uprate during the**  
3 **period January 2015 through December 2015?**

4 **A.** The total retail costs for the CR3 Uprate are \$17.4 million for the calendar year  
5 ended December 2015, as reflected on 2015 Summary Schedule Line 1e in Exhibit  
6 No.\_\_(TGF-2). This amount includes (\$1.6) million in exit/wind-down, sales &  
7 salvage of assets credits, and other adjustments as can be seen on the 2015 Detail  
8 schedule on Lines 2e, 2j, 16d, and 19, and \$19 million for the carrying costs on the  
9 unrecovered investment balance shown on Line 5d. These amounts were calculated  
10 in accordance with the provisions of Rule 25-6.0423, F.A.C.

11  
12 **Q. Did you reflect any credits for the sale or other disposition efforts for the CR3**  
13 **Uprate project assets that occurred in the calendar year 2014, but for which**  
14 **receipt of payment did not occur in 2014?**

15 **A.** Yes. Settlement of the auction proceeds from the sale of EPU assets are reflected in  
16 January 2015. DEF also has reflected receipt of the final payment for the POD  
17 Cooling Tower equipment that was sold on April 30, 2014, as described in Mark  
18 Teague's March 2, 2015 testimony. Additionally, sales of some EPU assets that  
19 were originally booked as credits to the CR3 Regulatory Asset in 2014 have been  
20 corrected and the credits were applied to the CR3 Uprate project in April 2015.

21  
22 **Q. How did actual expenditures for January 2015 through December 2015**  
23 **compare to DEF's actual/estimated costs for 2015?**



1 **A.** Appendix D (Page 2 of 2), Line 4 shows that total project costs were (\$1.7) million  
2 or \$1.8 million lower than estimated. By cost category, major cost variances  
3 between DEF's actual/estimated and actual 2015 Generation Wind-Down and  
4 Disposition costs are as follows:

5  
6 **EPU Wind-Down:** Expenditures for Wind-Down activities were \$0.9 million or  
7 \$0.6 million higher than estimated, as explained in the testimony of Mark Teague.

8  
9 **Sales or Salvage of Assets:** Proceeds for sale, transfer and salvage of assets in 2015  
10 were \$2.6 million or \$2.4 million higher than estimated as explained in the testimony  
11 of Mark Teague.

12  
13 **Q. Were there any true-up adjustments that needed to be made for the CR3**  
14 **Uprate project?**

15 **A.** Yes, as previously discussed in my May 1, 2015 testimony, there were two  
16 adjustments to be made. In 2015, DEF recognized that an incorrect calculation was  
17 made regarding the joint owner credit related to the previous year's sale of the POD  
18 asset. The second adjustment was a reduction to the carrying costs in 2014 and  
19 2015, that resulted from DEF updating the carrying cost rate annually based on the  
20 prior year December surveillance report. Details of these calculations can be seen  
21 in Exhibit No. \_\_\_\_ (TGF-2), Appendix A. These adjustments, reflected on Line 2j  
22 in the 2015 Detail Schedule, along with the total shown on Line 19 in the 2015  
23 Detail Schedule, make up the (\$228,787) presented on Line 1d in the 2015  
24 Summary Schedule.

1  
2 **Q. Has DEF billed the CR3 joint owners for their portion of the costs relative to**  
3 **the CR3 Uprate project and identified them in this filing?**

4 **A.** Yes. Investment activity shown on the 2015 Detail Schedule, Line 1d is gross of  
5 Joint Owner Billings, but expenditures and revenues (from sale, transfer and salvage  
6 activity) have been adjusted as reflected on the 2015 Detail Schedule, Line 2b to  
7 reflect billings to Joint Owners related to the CR3 Uprate project. Due to this, no  
8 carrying cost associated with the Joint Owner portion of the CR3 Uprate are  
9 included in the 2015 Detail Schedule. As a result of the sales activities, total billings  
10 resulted in a net credit of \$0.1 million to the Joint Owners for 2015, as seen on Line  
11 2b.

12  
13 **Q. What was the source of the separation factors used in the 2015 Detail Schedule?**

14 **A.** The jurisdictional separation factors are consistent with Exhibit 1 of the 2013  
15 Settlement Agreement approved by the Commission in Order No. PSC-13-0598-  
16 FOF-EI in Docket No. 130208-EI.

17  
18 **VI. OTHER EXIT/WIND-DOWN COSTS INCURRED IN 2015 FOR THE CR3**  
19 **UPRATE PROJECT.**

20 **Q. How did actual Other Exit/Wind-Down expenditures for January 2015 through**  
21 **December 2015 compare with DEF's actual/estimated costs for 2015?**

22 **A.** Appendix B, Line 4 shows that total Other Exit/Wind-down costs were \$88,648 or  
23 \$0.1 million lower than estimated. There were no major variances with respect to  
24 these costs.

1

2 **VII. 2015 PROJECT ACCOUNTING AND COST CONTROL OVERSIGHT.**

3 **Q. Have the project accounting and cost oversight controls DEF used for the LNP**  
4 **and CR3 Uprate projects in 2015 substantially changed from the controls used**  
5 **prior to 2015?**

6 **A.** No, they have not. The project accounting and cost oversight controls that DEF  
7 utilized to ensure the proper accounting treatment for the LNP and CR3 Uprate  
8 project in 2015 have not substantively changed since 2009. In addition, these  
9 controls have been reviewed in annual financial audits by Commission Staff and  
10 were found to be reasonable and prudent by the Commission in Docket Nos.  
11 090009-EI, 100009-EI, 110009-EI, 120009-EI, 140009-EI, and 150009-EI.

12

13 **Q. Can you please describe the project accounting and cost oversight controls**  
14 **process DEF has utilized for the LNP and CR3 Uprate project?**

15 **A.** Yes. Starting at the initial approval stage, DEF continues to determine whether  
16 projects are capital based on the Company's Capitalization Policy and then projects  
17 are documented in PowerPlant.

18 The justifications and other supporting documentation are reviewed and  
19 approved by the Financial Services Manager, or delegate, based on input received  
20 from the Financial Services or Project Management Analyst to ensure that the  
21 project is properly classified as capital, eligibility for AFUDC is correct, and that  
22 disposals/retirements are identified. Supporting documentation is maintained within  
23 Financial Services or with the Project Management Analyst. Financial Services  
24 personnel, and selected other personnel (including project management analysts),

1 access this documentation to set-up new projects in PowerPlant or make changes to  
2 existing project estimates in PowerPlant. The PowerPlant system administrators  
3 review the transfer and termination information provided by Human Resources each  
4 pay period and take appropriate action regarding access to the systems.

5 An analyst in Asset Accounting must review and approve each project set  
6 up before it can receive charges. All future status changes are made directly in  
7 PowerPlant by an Asset Accounting Analyst based on information received by the  
8 Financial Services Analyst or the Project Management Analyst.

9 Finally, to ensure that all new projects have been reviewed each month,  
10 Financial Services Management reviews a report of all projects set up during the  
11 month prior to month-end close.

12 The next part of the Company's project controls is project monitoring.  
13 First, there are monthly reviews of project charges by responsible operations  
14 managers and Financial Services Management for the organization. Specifically,  
15 these managers review various monthly cost and variance analysis reports for the  
16 capital budget. Variances from total budget or projections are reviewed,  
17 discrepancies are identified, and corrections made as needed. Journal entries to  
18 projects are prepared by an employee with the assigned security and are approved in  
19 accordance with the Journal Entry Policy. Accruals are made in accordance with  
20 Duke Energy policy.

21 The Company uses cost reports produced from accounting systems to  
22 complete these monthly reviews. Financial Services may produce various levels of  
23 reports driven by various levels of management, but all Nuclear project reporting is

1 tied back to the total cost reporting for the Nuclear fleet, which is tied back to Legal  
2 Entity Financial Statements.

3  
4 **Q. Are there any other accounting and costs oversight controls that pertain to the**  
5 **LNP and the CR3 Uprate project?**

6 **A.** Yes, the Company also has Disbursement Services Controls and Regulated  
7 Accounting Controls.

8  
9 **Q. Can you please describe the Company's Disbursement Services Controls?**

10 **A.** Yes. First, a requisition is created in the Consolidated Asset Suite ("CAS")  
11 Contracts module for the purchase of services. The requisition is reviewed by the  
12 appropriate Contract Specialist in Corporate Services, or field personnel in the  
13 various Business Units, to ensure sufficient data has been provided to process the  
14 contract requisition. The Contract Specialist prepares the appropriate contract  
15 document from pre-approved contract templates in accordance with the requirements  
16 stated on the contract requisition.

17 The contract requisition then goes through the bidding or finalization  
18 process. Once the contract is ready to be executed, it is approved online by the  
19 appropriate levels of the approval matrix pursuant to the Approval Level Policy and  
20 a contract is created.

21 Contract invoices are received by the Accounts Payable Department. The  
22 invoices are then routed through the Workflow Approval process in CAS to the  
23 project manager for validation and approval for payment.

24

1 **Q. Can you please describe the Company's Regulated Accounting Controls?**

2 **A.** Yes. The journal entries for deferral calculations, along with the summary sheets  
3 and the related support, are reviewed in detail and approved by the Lead Accounting  
4 Analyst and/or Manager of Florida Accounting, pursuant to the Duke Energy Journal  
5 Entry policy. The detail review and approval ensures that recoverable expenses are  
6 identified, accurate, processed, and accounted for in the appropriate accounting  
7 period.

8 Analysis is performed monthly to compare actuals to projected (budgeted)  
9 expenses and revenues for reasonableness. If any errors are identified, they are  
10 corrected in the following month.

11 For balance sheet accounts established with Regulated Utilities, Florida  
12 Accounting is the responsible party and a Florida Accounting member will reconcile  
13 the account on a monthly or quarterly basis, as required by Duke Energy policy. This  
14 reconciliation will be reviewed by the Lead Accounting Analyst or Manager of  
15 Florida Accounting to ensure that the balance in the account is properly stated and  
16 supported and that the reconciliations are performed regularly and exceptions are  
17 resolved on a timely basis.

18 The review and approval will ensure that regulatory assets or liabilities are  
19 recorded in the financial statements at the appropriate amounts and in the appropriate  
20 accounting period.

21  
22 **Q. How does the Company verify that the accounting and costs oversight controls**  
23 **you identified are effective?**

1 **A.** The Company's assessment of the effectiveness of our controls is based on the  
2 framework established by the Committee of Sponsoring Organizations of the  
3 Treadway Commission ("COSO"). This framework involves both internal and  
4 external audits of DEF accounting and cost oversight controls.

5 With respect to management's testing of internal controls over financial  
6 reporting, the Internal Controls Group within the Controller's Department facilitates  
7 the review of controls documentation and management testing. Based on this  
8 testing, management determines whether the controls are operating effectively. If  
9 any control is identified with a design deficiency or is determined to be operating  
10 ineffectively, such issues are logged and monitored for remediation by the Internal  
11 Controls Group.

12 With respect to external audits, Deloitte and Touche, DEF's external  
13 auditors, determined that the Company maintained effective internal control over  
14 financial reporting during 2015.

15  
16 **Q. Did the cancellation of the LNP and CR3 Uprate project change the**  
17 **Company's accounting and cost oversight control processes?**

18 **A.** No. DEF continued to follow the same policies and processes as I described above  
19 to ensure prudent accounting and cost oversight for the projects as they are being  
20 closed out.

21  
22 **Q. Are the Company's project accounting and cost oversight controls reasonable**  
23 **and prudent?**

1 A. Yes, they are. DEF's project accounting and cost oversight controls are consistent  
2 with best practices for project cost oversight and accounting controls in the industry  
3 and have been and continue to be vetted by internal and external auditors. We  
4 believe, therefore, that the accounting and cost oversight controls continue to be  
5 reasonable and prudent.

6  
7 **Q. What process have you implemented to ensure that 2015 costs related to the**  
8 **LNP Combined Operating License ("COL") are not included in the NCRC?**

9 A. As discussed by Mr. Fallon, on a project team level DEF has always segregated  
10 project costs incurred by specific project code and this process did not change for  
11 2015. The project team continues to charge COL-related labor, Nuclear Regulatory  
12 Commission ("NRC") fees, vendor invoices and all other COL-related cost items to  
13 the applicable COL project codes. The Florida Regulated Accounting and Rates and  
14 Regulatory Strategy groups have ensured that the COL-related project codes and  
15 associated costs incurred in 2015 and beyond were not included in the Company's  
16 NCRC Schedules, and thus not presented for nuclear cost recovery. We continue to  
17 track the COL-related costs for accounting purposes consistent with the 2013  
18 Settlement Agreement.

19  
20 **Q. Does this conclude your testimony?**

21 A. Yes, it does.



**IN RE: NUCLEAR COST RECOVERY CLAUSE****BY DUKE ENERGY FLORIDA, LLC****FPSC DOCKET NO. 160009-EI****DIRECT TESTIMONY OF MARK R. TEAGUE**1 **I. INTRODUCTION AND QUALIFICATIONS.**2 **Q. Please state your name and business address.**3 A. My name is Marcus (“Mark”) R. Teague. My current business address is 400 South  
4 Tryon Street, Charlotte, North Carolina.

5

6 **Q. By whom are you employed and in what capacity?**7 A. I am employed by Duke Energy Business Services, LLC as Managing Director of  
8 Major Projects Sourcing (“MPS”) in the Supply Chain department.

9

10 **Q. What are your responsibilities as the Managing Director of MPS?**11 A. My role includes providing management oversight in the disposition of the Crystal  
12 River Unit 3 (“CR3”) Extended Power Uprate (“EPU”) assets by ensuring that Supply  
13 Chain employees at CR3 follow Duke Energy Florida, LLC’s (“DEF” or the  
14 “Company”) processes and procedures. I also have responsibility for the Supply  
15 Chain functions for Duke Energy International and with most Duke Energy  
16 Corporation (“Duke Energy”) Major Projects, both regulated and non-regulated.

17

18 **Q. Please summarize your educational background and professional experience.**

19 A. I have a Bachelors of Engineering Technology degree in Civil Engineering from the

1 University of North Carolina at Charlotte and a Masters of Business Administration  
2 from Wake Forest University. I have 33 years of experience with Duke Energy and I  
3 am a licensed Professional Engineer in the state of North Carolina. My prior roles at  
4 Duke Energy include design engineering professional, project controls professional,  
5 and project management professional in both Nuclear Generation and Fossil/Hydro  
6 Generation and I have also managed each of those functional roles in the past. For  
7 the last four years, I have served as Managing Director in the Supply Chain  
8 organization – two years leading the Fossil/Hydro Supply Chain organization and two  
9 years leading the Major Projects Sourcing Supply Chain organization.

10  
11 **II. PURPOSE AND SUMMARY OF TESTIMONY.**

12 **Q. What is the purpose of your direct testimony?**

13 A. In accordance with the cancellation of the CR3 EPU project, resulting from the  
14 decision to retire and decommission the CR3 nuclear power plant, my direct  
15 testimony supports the Company's request for cost recovery pursuant to Section  
16 366.93(6), Florida Statutes, and Rule 25-6.0423(7), Florida Administrative Code, for  
17 the prudent exit costs incurred in 2015 to demobilize and close-out the EPU project. I  
18 will explain the status of the investment recovery project efforts to disposition EPU-  
19 related assets and materials and the related proceeds from those efforts. My testimony  
20 also supports the prudence of DEF's 2015 project management, contracting, and cost  
21 oversight policies and procedures for the EPU project wind-down and investment  
22 recovery efforts. The company relies on the information included in this testimony in  
23 the conduct of its affairs.

24

1 **Q. Do you have any exhibits to your testimony?**

2 A. Yes, I am sponsoring the following exhibits to my testimony:

- 3 • Exhibit No. \_\_\_(MT-1), the CR3 Administrative Procedure, AI-9010, Conduct
- 4 of CR3 Investment Recovery, Revision 1;
- 5 • Exhibit No. \_\_\_ (MT-2), the CR3 Investment Recovery Project, Project
- 6 Execution Plan, Revision 0;
- 7 • Exhibit No. \_\_\_(MT-3), the Investment Recovery Guidance Document IRGD-
- 8 001, Sales Track Guidance and Documentation Package Development;
- 9 • Exhibit No. \_\_\_(MT-4), a confidential chart of EPU-related assets disposed of
- 10 through sales to third parties or affiliate transfers/sales in 2015; and

11 I am also co-sponsoring the 2015 Detail Schedule, and sponsoring Appendices

12 D and E, which are included as part of Exhibit No. \_\_\_ (TGF-2) to Mr. Thomas G.

13 Foster's direct testimony in this proceeding.

14 These exhibits were prepared by the Company. They are generally and

15 regularly used by the Company in the normal course of its business, and they are true

16 and correct.

17

18 **Q. Please summarize your testimony.**

19 A. My direct testimony supports DEF's request for a prudence determination for the

20 actual costs it incurred in 2015 for the EPU project close-out, offset by the proceeds

21 received from the sale of EPU-related assets. I also provide an update on the EPU

22 project close-out and asset disposition investment recovery project progress. In 2015,

23 DEF completed the disposition of EPU-related assets using a step-wise approach

24 under its investment recovery policies and procedures to obtain the most value for the

1 EPU-related assets for DEF's customers. As discussed in my May 1, 2015 testimony  
2 filed in Docket 150009-EI, the CR3 Investment Recovery Project ("IRP") was closed  
3 out on April 30, 2015.

4 DEF prudently followed its policies and procedures to close-out the EPU  
5 project, while managing its costs, and DEF has successfully sold the remaining  
6 marketable EPU-related assets in 2015. Net proceeds from the sales and transfer of  
7 EPU-related assets are returned to customers.

8

9 **III. ACTUAL COSTS INCURRED IN 2015 FOR THE EPU PROJECT.**

10 **A. Status of the EPU Project Close-Out.**

11 **Q. Will you please describe the status of the EPU project close-out and the**  
12 **investment recovery efforts for EPU-related assets in 2015?**

13 **A.** Yes. The last remaining stage for the EPU project close-out is the final disposition of  
14 EPU-related assets and materials. During 2015, the DEF investment recovery team  
15 worked diligently to market and transfer or sell EPU-related assets in accordance with  
16 the CR3 Administrative Procedure AI-9010, Conduct of CR3 Investment Recovery,  
17 Revision 1 ("AI-9010"), attached hereto as Exhibit No. \_\_\_(MT-1); the CR3  
18 Investment Recovery Project, Project Execution Plan, Revision 0 ("Project Plan"),  
19 attached hereto as Exhibit No. \_\_\_(MT-2); and the Investment Recovery Guidance  
20 Document IRGD-001, Sales Track Guidance and Documentation Package  
21 Development ("IRGD-001"), attached hereto as Exhibit No. \_\_\_(MT-3). These  
22 policies and procedures provide the overall governance for the project and outline the  
23 asset pricing requirements and minimum reviews, approvals and records required for

1 the execution of transactions for the disposal of assets from CR3, including EPU-  
2 related assets.

3

4 **Q. What EPU-related assets were transferred or sold since you last provided**  
5 **testimony in Docket No. 150009-EI?**

6 A. My Exhibit No. \_\_\_(MT-4) is a list of the EPU-related assets that were transferred or  
7 sold since May of 2015, along with the price, transaction type, and date of sale or  
8 transfer. Briefly, DEF was able to disposition the Low Pressure Turbine (“LPT”)  
9 blade vibration monitoring system, the High Pressure Turbine (“HPT”) and  
10 associated equipment, turbine lubricating oil cooler bundles, exciter, hydrogen  
11 coolers, LPT L-0 blades, and associated LPT parts, at fair market value. DEF  
12 followed its disposition strategy for these remaining assets.

13

14 **Q. Are there any remaining EPU assets remaining to be sold or salvaged?**

15 A. There are remaining EPU assets, however, following the IRP policies and procedures,  
16 DEF determined the most cost-effective option for those remaining EPU assets is  
17 abandonment in place. If any future sales opportunities for abandoned-in-place EPU  
18 equipment arise, those opportunities will be evaluated by the current CR3 plant  
19 organization and the Duke Energy Supply Chain Department on an individual case  
20 basis.

21

22 **B. EPU Project Close-Out 2015 Actual Costs.**

23 **Q. What costs did DEF incur related to the EPU project close-out in 2015?**

24 A. As can be seen in Appendix D of Exhibit No. \_\_\_(TGF-2), costs for 2015, gross of  
25 joint owner billing, exclusive of carrying costs, net of sale, transfer, or salvage

1 proceeds, and exclusive of accounting adjustments, were (\$1.7 million). Costs to  
2 close-out the project were incurred in the category of EPU Wind-Down and sale or  
3 transfer or proceeds were applied in the category of Sale or Salvage of Assets.  
4 Schedule 2015 Detail in Exhibit No.\_\_(TGF-2) to Mr. Foster's testimony provides  
5 further details on these costs.

6  
7 **Q. Please describe the total EPU Wind-Down Costs incurred and explain why the**  
8 **Company incurred them.**

9 A. DEF incurred approximately \$0.9 million in EPU Wind Down Costs in 2015. These  
10 costs were primarily incurred to facilitate the sale of the EPU-related assets.

11  
12 **Q. Please describe what sale, transfer, or salvage proceeds were received in 2015**  
13 **and explain how DEF accounted for these proceeds.**

14 A. DEF received approximately \$2.6 million in proceeds from the sale, transfer, or  
15 salvage of EPU-related assets during 2015. Proceeds from the sale of EPU equipment  
16 in 2015 were offset against the EPU wind-down costs incurred in 2015 and will be  
17 returned to customers. These transactions and the proceeds from these transactions  
18 are listed on Exhibit No. \_\_ (MT-4).

19  
20 **Q. How did actual expenditures for 2015 compare to DEF's actual/estimated costs**  
21 **for the EPU project?**

22 A. As can be seen in Appendix D of Exhibit No. \_\_ (TGF-2), DEF's actual expenditures  
23 for the EPU project in 2015 were lower than DEF's actual/estimated costs for 2015  
24 by almost \$1.8 million. This variance is based on DEF's actual expenditures for 2015

1 compared to the 2015 Estimated/Actual Detail Schedule attached to Mr. Foster's May  
2 1, 2015 testimony as Exhibit No. \_\_\_\_ (TGF-4) in Docket No. 150009-EI.

3  
4 **Q. What accounts for this variance between the actual/estimated costs and actual**  
5 **2015 EPU costs?**

6 A. This variance is principally due to the fact that the actual/estimated costs did not  
7 include estimated sale, salvage, or transfer proceeds for EPU-related assets. DEF  
8 could not reasonably estimate potential sales proceeds for the remaining EPU assets  
9 because sales of these assets were merely speculative at that time. Beyond  
10 anticipated asset preservation and disposition costs, DEF did not estimate costs to  
11 perform work required to prepare the remaining EPU-related assets for any  
12 speculative sale. As a result of the additional asset sales throughout 2015, DEF's  
13 2015 EPU actual close-out costs were higher than estimated. However, DEF's 2015  
14 EPU *net* costs were lower than estimated as a result of the proceeds received from the  
15 sale of EPU-related equipment offsetting the close-out costs.

16  
17 **Q. Were DEF's 2015 EPU project costs prudently incurred?**

18 A. Yes, they were. DEF only incurred costs necessary to maintain and prepare the EPU-  
19 related equipment for sale. Proceeds from the sale of EPU equipment in 2015 were  
20 offset against the EPU wind-down costs incurred in 2015 and will be returned to  
21 customers.

22

1 **Q. Are the 2015 EPU project wind-down costs included in this NCRC docket for**  
2 **recovery separate and apart from those that the Company incurred in 2015 to**  
3 **decommission CR3?**

4 A. Yes, DEF has only included for recovery in this proceeding those costs that were  
5 incurred solely for the EPU project close-out. Conversely, all proceeds from the sale,  
6 transfer, or salvage of EPU-related equipment are being tracked and used to reduce  
7 the EPU unrecovered investment.

8  
9 **IV. 2015 PROJECT MANAGEMENT AND COST CONTROL OVERSIGHT.**

10 **Q. Did the Company utilize prudent project management and cost oversight**  
11 **controls for the close-out of the EPU project?**

12 A. Yes it did. The Company developed its close-out and investment recovery plans and  
13 procedures utilizing the project management policies and procedures that have been  
14 reviewed and approved as prudent by this Commission in prior year's dockets.

15  
16 **Q. Please explain the project management and cost control oversight processes used**  
17 **for the EPU wind-down in 2015.**

18 A. The investment recovery project, including EPU close-out, was governed by  
19 procedure number AI-9010 as discussed above and attached hereto as Exhibit No.  
20 \_\_\_\_ (MT-1). AI-9010 was developed specifically for CR3 asset disposition and  
21 outlines the pricing requirements, minimum reviews, and approvals required for the  
22 execution of transactions and the record keeping requirements necessary for the  
23 disposition of assets from CR3. AI-9010 provides specific instructions on  
24 expectations, assets pricing, disposition transaction review and approvals, project



1 assurance and removal of installed assets and provides approved forms to document  
2 asset disposition.

3 The investment recovery Project Plan supplied the overall governance for the  
4 investment recovery project and defined the organization, work processes, and  
5 systems necessary for the successful disposition of all CR3 assets. See the Project  
6 Plan attached hereto as Exhibit No. \_\_ (MT-2). In 2014, DEF also issued the  
7 Investment Recovery Guidance Document IRGD-001, Sales Track Guidance and  
8 Documentation Package Development. See Exhibit No. \_\_ (MT-3) to my testimony.  
9 This document provides additional instruction to conduct sales and develop complete  
10 documentation packages for the investment recovery project

11 In 2015, DEF conducted the close-out of the EPU project in accordance with  
12 these policies and procedures.

13

14 **Q. What other oversight mechanisms did DEF use to oversee the IR process?**

15 A. Until the IRP closed on April 30, 2015, the Company utilized Key Performance  
16 Indicators (“KPIs”) to monitor the status of the investment recovery project. These  
17 KPIs were reviewed by the investment recovery team on a regular basis.  
18 Additionally, weekly progress/status meetings were held to review open issues in the  
19 project including action items, trends, key schedule milestones and other issues.  
20 Monthly progress reports were issued reporting financial results for the overall  
21 project, for the prior month. Additionally, risk review meetings were held on a  
22 regular basis and a formal risk register was maintained for the investment recovery  
23 project and updated as necessary.

24

1 **Q. Are DEF's project management, contracting, and cost oversight controls**  
2 **reasonable and prudent?**

3 A. Yes, they are. These project management policies and procedures reflect the  
4 collective experience and knowledge of the combined Company and industry best  
5 practice based on benchmarking for project management. These policies and  
6 procedures were reviewed in the annual Commission project management audit in the  
7 2015 NCRC docket and the Commission determined that these policies and  
8 procedures were prudent. See Order No. PSC-15-0521-FOF-EI (issued November 3,  
9 2015). The EPU project management, contracting and cost oversight controls for the  
10 close-out and investment recovery efforts are reasonable and prudent.

11

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

13 A. Yes, it does.

**IN RE: NUCLEAR COST RECOVERY CLAUSE****BY DUKE ENERGY FLORIDA, LLC****FPSC DOCKET NO. 160009-EI****DIRECT TESTIMONY OF CHRISTOPHER M. FALLON**1 **I. INTRODUCTION AND QUALIFICATIONS.**2 **Q. Please state your name and business address.**3 A. My name is Christopher M. Fallon. My business address is 526 South Church  
4 Street, Charlotte, North Carolina 28202.

5

6 **Q. By whom are you employed and in what capacity?**7 A. I am employed by Duke Energy Corporation (“Duke Energy”) as Vice President  
8 of Nuclear Development. Duke Energy Florida, LLC (“DEF” or the “Company”)  
9 is a fully owned subsidiary of Duke Energy.

10

11 **Q. Please summarize your educational background and work experience.**12 A. I received Bachelor of Science and Master of Science degrees in electrical  
13 engineering from Clemson University in 1989 and 1990, respectively. I am also a  
14 licensed professional engineer in North Carolina. I began my career with Duke  
15 Energy’s predecessor company Duke Power in 1992 as a power quality engineer.  
16 After a series of promotions, I was named manager of transmission planning and  
17 engineering studies in 1999, general manager of asset strategy and planning in  
18 2006, and the managing director of strategy and business planning for Duke  
19 Energy starting in 2007. In this role, I had responsibility for developing the

1 strategy for the company's operating utilities, commercial support for operating  
2 utility activities such as acquisition of generation assets and overseeing Requests  
3 for Proposals for renewable generation resources, and major project/initiative  
4 business case analysis. In 2009, I was named Vice President, Office of Nuclear  
5 Development for Duke Energy. In that role, I was responsible for furthering the  
6 development of new nuclear generation in the Carolinas and Midwest. This  
7 included identifying and developing nuclear partnership opportunities, as well as  
8 integrating and advancing Duke Energy's plans for the proposed Lee Nuclear  
9 Station in Cherokee County, South Carolina. I was promoted to my current  
10 position on July 1, 2012. As Vice President of Nuclear Development, I am  
11 responsible for the Levy nuclear power plant project ("LNP").

12  
13 **II. PURPOSE AND SUMMARY OF TESTIMONY.**

14 **Q. What is the purpose of your direct testimony?**

15 A. My direct testimony presents and supports the LNP actual costs incurred in 2015.  
16 These costs were incurred for the LNP wind-down following DEF's decision not  
17 to proceed with construction of the LNP in summer 2013 and DEF's termination  
18 of the Engineering, Procurement, and Construction ("EPC") Agreement with  
19 Westinghouse Electric Company LLC ("WEC") and Stone & Webster, Inc.  
20 ("S&W") (together the "Consortium") in January 2014. DEF is presenting the  
21 Company's LNP wind-down costs incurred from January 2015 through December  
22 2015, and seeking a prudence determination for DEF's 2015 LNP project  
23 management, contracting, and cost controls. The Company relies on the  
24 information included in this testimony in the conduct of its affairs.

1 Pursuant to Rule 25-6.0423(7), F.A.C., and Florida Public Service Commission  
2 (“PSC” or the “Commission”) Order No. PSC-13-0598-FOF-EI, approving the  
3 Revised and Restated Stipulation and Settlement Agreement (“2013 Settlement  
4 Agreement”), DEF is allowed to recover its prudent site selection costs, pre-  
5 construction costs, and construction costs for the LNP. However, pursuant to the  
6 stipulation approved by the Commission in Order No. PSC-15-0521-FOF-EI,  
7 DEF has agreed to include all known LNP costs and credits in the 2017 True-up  
8 filing for consideration and review in the 2017 NCRC docket for use in setting the  
9 2018 NCRC factor. As such, DEF is presenting its 2015 LNP costs for  
10 informational purposes only and is not seeking a prudence determination in this  
11 docket.

12  
13 **Q. Do you have any exhibits to your testimony?**

14 A. Yes, I am sponsoring the following exhibits to my testimony:

- 15 • Exhibit No. \_\_\_\_ (CMF-1), the confidential August 4, 2015 Recommendation  
16 for disposition of the Levy Nuclear Plant Variable Frequency Drives.

17 I will also be co-sponsoring the cost portions of the 2015 Detail Schedule, and  
18 sponsor Appendices D and E, which are included as part of Exhibit No. \_\_\_\_  
19 (TGF-1) to Mr. Thomas G. Foster’s direct testimony in this proceeding.

20 Appendix D is a description of the major tasks and reflects expenditure variance  
21 explanations. Appendix E is a list of the contracts executed in excess of \$1.0  
22 million and provides details for those contracts.

23 All of these exhibits, schedules, and appendices are true and accurate.

24

1 **Q. What is the current status of the LNP?**

2 A. The Company elected not to complete construction of the LNP pursuant to the  
3 nuclear cost recovery statute and rule, Section 366.93(6), Florida Statutes, and  
4 Rule 25-6.0423(7), F.A.C., as amended, with its execution of the 2013 Settlement  
5 Agreement. Subsequently, DEF commenced development of the process to start  
6 winding down the LNP in an orderly fashion, which was fully put in place after  
7 the Commission voted to approve the 2013 Settlement Agreement. In January  
8 2014, because DEF was unable to obtain the LNP Combined Operating License  
9 (“COL”) from the Nuclear Regulatory Commission (“NRC”) by January 1, 2014,  
10 DEF terminated the EPC Agreement with the Consortium.

11 The LNP wind down process involves the disposition of the LNP Long  
12 Lead Equipment (“LLE”) and the resolution of remaining costs under the EPC  
13 Agreement with the Consortium. DEF developed and implemented a LLE  
14 Disposition Plan and, pursuant to that Plan, DEF has been able to disposition or  
15 will soon disposition the LNP LLE.

16 As discussed in my March 2, 2015 testimony, DEF paid S&W its  
17 remaining costs after DEF terminated the EPC Agreement in January 2014 and  
18 resolved all costs and issues with S&W under the EPC Agreement. DEF  
19 attempted to resolve, but was unable to resolve any remaining issues with WEC  
20 under the EPC Agreement. WEC demanded substantial additional costs from  
21 DEF for terminating the EPC Agreement. These claims, and DEF’s claims  
22 against WEC under the EPC Agreement, will be resolved in the lawsuit DEF filed  
23 against WEC in March 2014 in the United States District Court for the Western

1 District of North Carolina, currently required to be ready to begin trial in  
2 September 2016.

3 The only remaining LNP work is to support obtaining the LNP Combined  
4 Operating License (“COL”) from the NRC. Throughout 2015 DEF continued  
5 with the work necessary to obtain the LNP COL including environmental  
6 permitting work necessary to obtain the Section 404 permit from the United States  
7 Army Corps of Engineers (“USACE”), which was received December 28, 2015.  
8 DEF, however, is not seeking cost recovery in this proceeding for costs incurred  
9 in 2015 to obtain the LNP COL.

10  
11 **Q. Please summarize your testimony.**

12 A. DEF prudently incurred necessary wind-down costs for the LNP in 2015, but as  
13 discussed above, DEF is not seeking a prudence determination related to those  
14 costs at this time. DEF incurred only those contractually committed or necessary  
15 costs for the LNP wind-down activities in 2015; DEF appropriately minimized  
16 these costs pursuant to the 2013 Settlement Agreement. DEF has prudently  
17 managed the LNP in 2015, consistent with merged policies and procedures that  
18 implement Duke Energy best practices, that in substance are similar to the project  
19 management, contracting and cost control policies and procedures previously  
20 audited by the Commission Staff and reviewed and approved by the Commission.

21  
22 **III. 2015 LNP WIND-DOWN COSTS.**

23 **Q. What were the total LNP actual 2015 costs?**

1 A. As can be seen in Appendix D of Exhibit No. \_\_\_(TGF-1), total actual LNP costs  
2 for 2015, excluding the carrying costs on the unrecovered investment balance,  
3 were approximately [REDACTED]. These costs represent DEF's prudent project  
4 management costs offset by the [REDACTED] received for the sale of certain LNP  
5 LLE. **REDACTED**

6  
7 **Q. Please describe the LNP wind-down activities and costs.**

8 A. DEF's 2015 LNP wind-down activities involved continued LLE disposition.  
9 Costs for these wind-down activities were incurred for the re-purposing of the  
10 LNP variable frequency drives (VFDs) for use by DEF at Crystal River Units 4  
11 and 5.

12 DEF's LLE disposition objectives in its Disposition Plan are consistent  
13 with the 2013 Settlement Agreement. DEF's objectives are to disposition the  
14 LNP LLE in a manner that (i) minimizes the financial costs and risks of the LLE  
15 disposition to DEF's customers; (ii) minimizes other costs to DEF and its  
16 customers; and (iii) evaluates the potential future use of the LNP LLE for other  
17 AP1000 power plant projects. This includes minimizing LLE evaluation costs  
18 and purchase order or contract termination costs, minimizing the risks of financial  
19 loss associated with the LNP LLE, and maximizing the LNP LLE disposition cash  
20 value.

21  
22 **Q. Please explain DEF's disposition of the VFDs?**

23 A. DEF evaluated various disposition options consistent with DEF's LLE  
24 Disposition Plan. DEF previously canvassed Duke Energy affiliates and



1 contacted external utilities through WEC and on its own for any interest in  
2 acquiring the completed VFDs. These contacts included utilities with existing or  
3 potential AP1000 nuclear power plant projects and the Original Equipment  
4 Manufacturer. None of these entities expressed an interest in acquiring the VFDs.  
5 DEF also offered the VFDs for sale on RAPID, a utility industry parts sales  
6 website, and held a bid event on February 15, 2015 for the VFDs utilizing Power  
7 Advocate bidding/sourcing software to further canvas the market. None of these  
8 efforts were successful.

9 However, while pursuing external options for dispositioning the VFDs,  
10 DEF also continued working to identify an internal transfer or sale option that  
11 could benefit DEF's customers. Ultimately, DEF determined that the VFDs  
12 could be repurposed for use at Crystal River Units 4 & 5. This option was  
13 selected as it presented the best available option for DEF's customers, as  
14 explained further in Exhibit No. \_\_ (CMF-1).

15  
16 **Q. To summarize, were all of the wind-down costs that the Company incurred**  
17 **in 2015 for the LNP reasonable and prudent?**

18 A. Pursuant to the terms of the stipulation approved by the Commission in last year's  
19 NCRC docket, DEF will not seek a prudence determination related to these costs  
20 until May 1, 2017; the LNP costs discussed herein are provided for informational  
21 purposes only. However, the specific costs for the LNP contained in the 2015  
22 Detail schedules, which are attached as exhibits to Mr. Foster's testimony, reflect  
23 the reasonable and prudent wind-down costs DEF incurred for LNP work in 2015.

1 DEF took reasonable steps in 2015 to minimize the LNP work and wind-down  
2 costs.

3

4 **Q. What is the status of DEF's lawsuit with WEC?**

5 A. On February 16, 2016, the court issued an order modifying the case schedule.

6 Discovery is ongoing and is now scheduled to end on June 10, 2016, affirmative  
7 and rebuttal expert reports are due April 8, and May 6, respectively, and  
8 dispositive motions are due on July 11, 2016. The Court ordered the case to be  
9 ready for trial on September 19, 2016.

10

11 **IV. LNP COMBINED OPERATING LICENSE APPLICATION UPDATE.**

12 **Q. Can you summarize the Combined Operating License Application process?**

13 A. Yes. There are three parts to the NRC Combined Operating License Application  
14 ("COLA") review process. All three parts must be complete before the NRC will  
15 issue a COL. The three parts of the NRC COLA review process are: (1) the  
16 environmental review process; (2) the safety review process; and (3) the formal  
17 hearing process. DEF also must obtain environmental permits for the LNP COL.

18

19 **Q. What is the status of the LNP NRC COLA review process?**

20 A. The environmental review for the LNP COLA was complete when DEF received  
21 the LNP final environmental impact statement ("FEIS") on April 27, 2012. The  
22 remaining two parts of the NRC COLA review process for the LNP are  
23 incomplete.

1 All site-specific issues for the LNP COLA have been resolved, however  
2 the Final Safety Evaluation Report (“FSER”) for the LNP COL has not been  
3 issued. The Advanced Safety Evaluation Report (“ASER”) for the LNP COLA  
4 was initially completed with no open items, however, significant subsequent  
5 design changes due to WEC design errors were identified by WEC that now  
6 require revisions to the ASER to incorporate these design changes before NRC  
7 review can be finalized. This work must be completed before NRC review and  
8 issuance of the FSER for the LNP COL. Resolution of these design changes are  
9 now the critical path items to completion of the NRC review and issuance of the  
10 LNP COL. DEF currently projects to receive the ASER in March 2016, the FSER  
11 in June 2016, and the COL in or around October 2016.

12  
13 **Q. What is the status of the formal hearing process for the LNP COLA?**

14 A. One part of the two-part formal hearing process for the LNP COLA was  
15 completed in March 2013 when the NRC Atomic Safety Licensing Board  
16 (“ASLB”) issued its ruling on the remaining contested contention to the LNP  
17 COLA regarding the environmental impacts of dewatering and salt drift as a result  
18 of the LNP. Following an evidentiary hearing in October and November 2012,  
19 and the submission of Findings of Fact and Conclusions of Law in December  
20 2012, the NRC ASLB unanimously resolved all issues in DEF’s favor in March  
21 2013. The ASLB concluded that the LNP FEIS complied with all legal and  
22 regulatory requirements.

23 The second part of the two-part formal hearing process is the LNP COLA  
24 mandatory hearing before the NRC Commissioners. DEF is currently anticipating

1 the mandatory hearing will be held in or around August 2016, but the projection is  
2 premised on the receipt of the FSER along the projected timeline discussed above.  
3 Any delays in receiving the ASER or FSER will impact this projection as well.  
4

5 **Q. What is the status of the environmental permits for the LNP COL?**

6 A. DEF continued its work with the USACE for the Section 404 permit for the Levy  
7 site in 2015. The USACE Section 404 permit allows for and regulates the  
8 construction of structures in wetlands and regulated waterways. USACE review  
9 and finalization of the proposed Wetland Mitigation Plan (“WMP”), which is  
10 needed for the Section 404 Permit, was resolved in 2015. Issuance of the Section  
11 404 permit for the LNP occurred on December 28, 2015. While this work  
12 continued in 2015, the 2015 costs associated with this work are not included in  
13 the NCRC.  
14

15 **V. PROJECT MANAGEMENT, CONTRACTING, AND COST OVERSIGHT.**

16 **Q. Can you explain the Company’s 2015 LNP project management, contracting,  
17 and cost control oversight policies and procedures?**

18 A. Yes. Nuclear Development (“ND”) is responsible for the LNP management. As  
19 a result, ND is responsible for the process of implementing best practices and  
20 lessons learned for the LNP and other nuclear development projects. ND has  
21 implemented or adopted policies and procedures for the management of the LNP  
22 that reflect the collective experience, knowledge, and best practices of Duke  
23 Energy and the nuclear utility industry.  
24

1 **Q. Are the Company's 2015 LNP project management, contracting, and cost**  
2 **control oversight policies and procedures reasonable and prudent?**

3 A. Yes, they are. The LNP 2015 project management, contracting, and cost control  
4 policies and procedures are substantially the same as the collective policies and  
5 procedures that have been vetted in the annual project management audit in this  
6 docket and previously approved as prudent by the Commission. *See* Order No.  
7 PSC-09-0783-FOF-EI (Nov. 19, 2009); Order No. PSC-11-0095-FOF-EI (Feb. 2,  
8 2011); Order No. PSC-11-0547-FOF-EI (Nov. 23, 2011); Order No. PSC-12-  
9 0650-FOF-EI (Dec. 11, 2012); Order No. PSC-14-0617-FOF-EI (Oct. 27, 2014);  
10 and Order No. PSC-15-0521-FOF-EI (Nov. 5, 2015). We believe, therefore, that  
11 the LNP project management policies and procedures are consistent with best  
12 practices for capital project management in the industry and continue to be  
13 reasonable and prudent.

14  
15 **Q. Has DEF implemented a process to ensure that costs related to the LNP COL**  
16 **are not included in the NCRC pursuant to the terms of the 2013 Settlement?**

17 A. Yes, from a project team perspective, DEF has always segregated project costs  
18 incurred by specific project code. This did not change for 2015 and the project  
19 team continued and will continue to charge COL-related labor, NRC fees, vendor  
20 invoices and all other COL-related cost items to the applicable COL project  
21 codes. The Regulatory Accounting and Regulatory Strategy groups ensure that  
22 the COL-related project codes and associated costs incurred in 2014 and beyond  
23 are not included in the Company's NCRC Schedules, and thus not presented for

1 nuclear cost recovery. These COL-related costs will, however, continue to be  
2 tracked for accounting purposes consistent with the 2013 Settlement Agreement.

3

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

5 A. Yes, it does.

**IN RE: NUCLEAR COST RECOVERY CLAUSE****BY DUKE ENERGY FLORIDA, LLC.****FPSC DOCKET NO. 160009-EI****DIRECT TESTIMONY OF THOMAS G. FOSTER  
IN SUPPORT OF LEVY AND CR3 UPRATE ESTIMATED/ACTUAL AND  
PROJECTION COSTS****I. INTRODUCTION AND QUALIFICATIONS.****Q. Please state your name and business address.**

A. My name is Thomas G. Foster. My business address is 299 First Avenue North, St. Petersburg, FL 33701.

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

A. I am employed by Duke Energy Florida, LLC, as Director, Rates and Regulatory Planning.

**Q. What are your responsibilities in that position?**

A. I am responsible for regulatory planning and cost recovery for Duke Energy Florida, LLC. ("DEF" or the "Company"). These responsibilities include: preparing regulatory financial reports and analysis of state, federal, and local regulations and their impact on DEF. In this capacity, I am also responsible for the Levy Nuclear Project ("LNP") and the Crystal River Unit 3 ("CR3") Extended Power Uprate ("EPU") Project ("CR3 Uprate") Cost Recovery filings, made as part of this Nuclear Cost

1 Recovery Clause ("NCRC") docket, in accordance with Rule 25-6.0423,  
2 Florida Administrative Code ("F.A.C.").

3  
4 **Q. Please describe your educational background and professional  
5 experience.**

6 A. I joined the Company on October 31, 2005 as a Senior Financial Analyst in  
7 the Regulatory group. In that capacity I supported the preparation of  
8 testimony and exhibits associated with various Dockets. In late 2008, I was  
9 promoted to Supervisor Regulatory Planning. In 2012, following the merger  
10 with Duke Energy Corporation ("Duke Energy"), I was promoted to my  
11 current position. Prior to working at Duke Energy I was the Supervisor in  
12 the Fixed Asset group at Eckerd Drug. In this role I was responsible for  
13 ensuring proper accounting for all fixed assets as well as various other  
14 accounting responsibilities. I have 6 years of experience related to the  
15 operation and maintenance of power plants obtained while serving in the  
16 United States Navy as a Nuclear Operator. I received a Bachelors of  
17 Science degree in Nuclear Engineering Technology from Thomas Edison  
18 State College. I received a Masters of Business Administration with a focus  
19 on finance from the University of South Florida and I am a Certified Public  
20 Accountant in the State of Florida.

21  
22 **II. PURPOSE OF TESTIMONY.**

23 **Q. What is the purpose of your testimony?**



1 A. The purpose of my testimony is to present, for Florida Public Service  
2 Commission (“FPSC” or the “Commission”) review, DEF’s expected 2016  
3 and 2017 costs associated with the CR3 Uprate project consistent with Rule  
4 25-6.0423(7), F.A.C., in support of setting 2017 rates in the Capacity Cost  
5 Recovery Clause (“CCRC”). Additionally, I present the expected costs  
6 associated with DEF’s LNP for 2016 and 2017. Pursuant to the terms of the  
7 Stipulation approved by this Commission in Order No. PSC-15-0521-FOF-EI,  
8 DEF is not seeking recovery for its LNP costs in this proceeding; rather the  
9 LNP costs are being provided for informational purposes only. As discussed  
10 further in the testimony of Witnesses Christopher Fallon and Mark Teague,  
11 at this time there are certain Levy and EPU costs or credits that are not  
12 known or knowable and DEF has not included these in our estimates.

13  
14 **Q. Are you sponsoring any exhibits in support of your testimony?**

15 A. Yes. I am sponsoring sections of the following exhibits, which were  
16 prepared under my supervision:

- 17 • Exhibit No. \_ (TGF-3) contains schedules showing the costs  
18 associated with the Levy project. Sponsors of specific schedules are  
19 identified in the Table of Contents in Exhibit No. \_ (TGF-3). Witness  
20 Fallon will be co-sponsoring portions of the 2016 Detail Schedule  
21 Lines 1 (a – e) and Lines 3 (a – e), 2017 Detail Schedule Lines 1 (a –  
22 e) and Lines 3 (a – e), and sponsoring Appendices D and E.
- 23 • Exhibit No. \_ (TGF-4), contains schedules showing the costs  
24 associated with the CR3 Uprate project. Sponsors of specific

1 schedules are identified in the Table of Contents in Exhibit No. \_  
2 (TGF-4). Mark Teague will be co-sponsoring portions of 2016 Detail  
3 Schedule Lines 1 (a – d) and 2017 Detail Schedule Lines 1 (a - d)  
4 and sponsoring Appendices D and E.

5 These exhibits are true and accurate to the best of my knowledge and  
6 information.

7  
8 **Q. What are the 2016-2017 Detail Revenue Requirements Schedules and**  
9 **the Appendices?**

- 10 **A.** • The 2016 Detail Schedule reflects the actual/estimated calculations for  
11 the true-up of total retail revenue requirements for the period.
- 12 • The 2017 Detail Schedule reflects the projection calculations for the true-  
13 up of total retail revenue requirements for the period.
  - 14 • The 2016 Detail - LLE Deferred Balance Schedule (Levy only) reflects  
15 the revenue requirement calculations for the LLE deferred balance for  
16 the period.
  - 17 • The 2017 Detail - LLE Deferred Balance Schedule (Levy only) reflects  
18 the revenue requirement calculations for the LLE deferred balance for  
19 the period.
  - 20 • The 2017 Estimated Rate Impact Schedule reflects the estimated  
21 Capacity Cost Recovery Factors for 2017 (EPU only).
  - 22 • Appendix A (CR3 Uprate) reflects beginning balance explanations and  
23 support for the 2016 and 2017 Regulatory Asset Amortization Amount.
  - 24 • Appendix A (Levy) reflects beginning balance explanations.

- 1 • Appendix B reflects Other Wind Down/Exit Cost variance explanations for
- 2 the period.
- 3 • Appendix C provides support for the appropriate rate of return consistent
- 4 with the provisions of Rule 25-6.0423(7), F.A.C.
- 5 • Appendix D describes Major Task Categories for expenditures and
- 6 variance explanations for the period.
- 7 • Appendix E reflects contracts executed in excess of \$1.0 million.
- 8 • Appendix F (CR3 Uprate) reflects a summary of the 2013-2019 Uprate
- 9 Amortization Schedule for the Uncollected Investment Balance.

10

11 **III. CARRYING COST RATES AND SEPARATION FACTORS FOR BOTH**

12 **THE CR3 UPRATE PROJECT AND THE LEVY NUCLEAR PROJECT.**

13 **Q. What is the carrying cost rate used in the 2016 and 2017 Revenue**

14 **Requirement Detail Schedules?**

- 15 A. DEF is using the rate specified in Rule 25-6.0423(7)(b), F.A.C. as follows:
- 16 “The amount recovered under this subsection will be the remaining
- 17 unrecovered Construction Work in Progress balance at the time of
- 18 abandonment and future payment of all outstanding costs and any other
- 19 prudent and reasonable exit costs. The unrecovered balance during the
- 20 recovery period will accrue interest at the utility’s overall pretax weighted
- 21 average midpoint cost of capital on a Commission adjusted basis as
- 22 reported by the utility in its Earnings Surveillance Report filed in December
- 23 of the prior year, utilizing the midpoint of return on equity (ROE) range or
- 24 ROE approved for other regulatory purposes, as applicable.”

1 The carrying cost rate used for this time period is 6.76 percent. On a pre-  
2 tax basis, the rate is 9.80 percent. This rate is based on DEF's December  
3 2015 Earnings Surveillance Report. This annual rate was also adjusted to  
4 a monthly rate consistent with the Allowance for Funds Used During  
5 Construction ("AFUDC") rule, Rule 25-6.0141(3), F.A.C. Support for the  
6 components of this rate is shown in Appendix C in Exhibit Nos.\_\_\_\_(TGF-3)  
7 for the LNP and (TGF-4) for the CR3 Uprate project.

8  
9 **Q. What was the source of the separation factors used in the 2016 and**  
10 **2017 Revenue Requirement Detail Schedules?**

11 A. The jurisdictional separation factors are consistent with Exhibit 1 of the  
12 Revised and Restated Stipulation and Settlement Agreement ("2013  
13 Settlement Agreement") approved by the Commission in Order No. PSC-  
14 13-0598-FOF-EI in Docket No 130208-EI.

15  
16 **IV. COST RECOVERY FOR THE LEVY COUNTY NUCLEAR PROJECT.**

17 **A. ACTUAL/ESTIMATED LNP COSTS.**

18 **Q. Have you provided schedules that are consistent with the terms of the**  
19 **Stipulation approved by this Commission in Order No. PSC-15-0521-**  
20 **FOF-EI and the nuclear cost recovery statute and rule?**

21 A. Yes. These revenue requirements can be seen in the 2016 Detail  
22 Schedule, the 2016 Detail – LLE Deferred Balance Schedule, the 2017  
23 Detail Schedule, and in the 2017 Detail – LLE Deferred Balance Schedule.

1 Consistent with my May 1, 2015 testimony provided last year, DEF's  
2 actual/estimated and projected LNP costs, including carrying charges on  
3 the deferral of \$54 million equivalent to the LLE amount in dispute in DEF's  
4 claims against WEC in the WEC litigation, reflect prudent LNP costs that  
5 DEF is entitled to recover from customers pursuant to the Commission's  
6 vote, prior NCRC Orders, the 2013 Settlement Agreement, Section 366.93,  
7 Florida Statutes, and Rule 25-6.0423, F.A.C.

8 As of May 2015 DEF has set the Levy billing factors to zero and is not  
9 collecting any revenues for the Levy project through 2017.

10  
11 **Q. What are the total estimated period revenue requirements for the LNP**  
12 **for the calendar year ended December 2016?**

13 A. The total projected period revenue requirements for the LNP are \$5.5  
14 million for the calendar year ended December 2016 as reflected on the two  
15 2016 Revenue Requirement Detail Schedules. The \$0.1 million on the  
16 2016 Detail Schedule Line 22 in Exhibit No.\_(TGF-3) includes  
17 approximately \$66 thousand in exit/wind-down and disposition costs as can  
18 be seen on Lines 5a and 19d, and approximately \$54 thousand for the  
19 carrying costs on the unrecovered investment balance shown on Line 8d.  
20 \$5.3 million is reflected in 2016 Detail - LLE Deferred Balance Schedule on  
21 Line 4 in Exhibit No.\_(TGF-3). These amounts were calculated in  
22 accordance with the provisions of Rule 25-6.0423, F.A.C..  
23

1           **B.     EXIT & WIND-DOWN COSTS INCURRED IN 2016 FOR THE LEVY**  
2           **NUCLEAR PROJECT.**

3           **Q.    What are the exit and wind-down costs incurred for the Levy Nuclear**  
4           **Project for the period January 2016 through December 2016?**

5  
6           A.    The 2016 Detail Schedule in Exhibit No.\_\_(TGF-3) Lines 1e, Line 3e, and  
7           Line 12e show that total exit and wind-down expenditures excluding carrying  
8           costs were approximately [REDACTED].     **REDACTED**

9  
10          **Q.    What do these costs include?**

11         A.    The expenses included on Line 1e and 3e represent [REDACTED] related to  
12         project management wind-down costs as described in the testimony of Mr.  
13         Fallon. The expenses on line 12e, of \$60,914, represent other exit and  
14         wind-down costs including regulatory and accounting on-going wind-down  
15         support costs that the Company expects to incur in 2016 related to the LNP.

16  
17          **Q.    How did these expenditures for January 2016 through December 2016**  
18          **compare with DEF's projected costs for 2016?**

19         A.    Appendix B, Line 4 shows that total Other Exit & Wind-Down Costs are  
20         expected to be \$60,914 or \$0.1 million lower than estimated. As shown in  
21         Appendix D, wind down and sale or salvage costs are [REDACTED] lower than  
22         originally anticipated.

23

1 **Q. Did you project any credits for the sale or other disposition efforts**  
2 **that could result in credits for the Levy project assets?**

3 A. No. Value received from any future disposition of an LNP asset will be  
4 credited against the uncollected investment at the time of disposition.

5  
6 **Q. Have you continued to ensure that future costs related to the Levy**  
7 **site COL are not included in the NCRC as of January 1, 2014?**

8 A. Yes.

9  
10 **Q. What is the estimated true-up for 2016 expected to be?**

11 A. The 2016 true-up is expected to be an under-recovery of \$5.5 million as  
12 reflected in Line 4 on the 2017 Summary Schedule in Exhibit No.\_ (TGF-3).

13  
14 **C. LNP COST PROJECTIONS FOR 2017.**

15 **Q. What is included in the Total Revenue Requirements for the Period**  
16 **2017?**

17 A. The total current-period revenue requirements of \$6 million in 2017 is  
18 primarily associated with the carrying costs of approximately \$5.8 million  
19 associated with the \$54 million (\$50 million retail) as can be seen on Line 4  
20 of the 2017 Detail – LLE Deferred Balance Schedule. It also includes some  
21 amounts associated with wind-down and carrying costs on the remaining  
22 unrecovered Levy investment (not the \$54M deferral). These amounts can  
23 be seen on Lines 9 and 18 on the 2017 Detail schedule.

24

1 **Q. What is included in the Total Return for the Period on the 2017 Detail**  
2 **Schedule, Line 8d and 2017 Detail – LLE Deferred Balance Schedule,**  
3 **Line 3d?**

4 A. The Revenue Requirements of \$0.1 million and \$5.8 million depicted on  
5 these Schedules on Line 8d and 3d respectively represent carrying costs on  
6 the average uncollected investment balance. The Schedules start with the  
7 2017 beginning balance and compute the carrying charge on the average  
8 monthly balance. The equity component of the return is grossed up for  
9 taxes to cover the income taxes that will be paid upon recovery in rates.

10  
11 **Q. What are the exit and wind-down costs incurred for the Levy Nuclear**  
12 **Project for the period January 2017 through December 2017?**

13 A. The 2017 Detail Schedule in Exhibit No.\_\_(TGF-3) Lines 1e, 3e and Line  
14 10e show that total exit and wind-down expenditures excluding carrying  
15 costs are estimated at [REDACTED]. **REDACTED**

16  
17 **Q. What is the total jurisdictional projected exit and wind-down costs that**  
18 **will be incurred for the period January 2017 through December 2017?**

19 A. As shown on the Period Total Line 5a and Line 17d of the 2017 Detail  
20 Schedule in Exhibit No.\_\_(TGF-3), total projected jurisdictional costs for  
21 2017 are \$0.1 million.



1 **Q. What are the total estimated revenue requirements, exclusive of the**  
2 **revenue tax multiplier, for the LNP for the calendar year ended**  
3 **December 2017?**

4 A. DEF is not seeking recovery of any revenue in 2017 for the LNP in this  
5 proceeding. As can be seen in Exhibit No. \_ (TGF-3), 2017 Summary  
6 Schedule Line 14, the total estimated unrecovered investment balance at  
7 year end 2017 is approximately \$65.3 million. This amount is primarily  
8 associated with the \$54 million deferral (\$50.3 million retail), shown on Line  
9 13 of the 2017 Summary Schedule and its carrying costs of approximately  
10 \$14.3 million, shown on Line 12 of the 2017 Summary Schedule, that were  
11 incurred from May 2015 through December 2017. It also includes  
12 approximately \$0.7 million associated with current period wind-down and  
13 carrying costs, and prior period unrecovered costs not related to the \$54M  
14 deferral, shown on Line 11 on the 2017 Summary Schedule.

15  
16 **Q. Has DEF included all of its 2016 and 2017 LNP costs or credits in this**  
17 **filing?**

18 A. No it has not. There are potential costs or credits that DEF has not included  
19 in its actual/estimated 2016 and projected 2017 LNP costs because DEF is  
20 unable to accurately estimate them, as explained by Mr. Fallon.

21  
22 **V. COST RECOVERY FOR THE CRYSTAL RIVER 3 UPRATE PROJECT.**

23 **Q. What are you requesting with respect to the CR3 Uprate project?**

1 A. DEF requests that the Commission approve recovery of the CR3 Uprate  
2 project amounts consistent with 2013 Settlement in Order PSC-13-0598-  
3 FOF-EI, Section 366.93(6), Florida Statutes, and Rule 25-6.0423(7), F.A.C..  
4 In support of this request, DEF has prepared Exhibit No. \_ (TGF-4), which  
5 shows the unrecovered investment and expected future payments and exit  
6 costs through the end of 2017 for purposes of setting 2017 rates. DEF  
7 requests that the Commission approve the revenue requirements for 2017  
8 to be placed into the CCRC of \$51.7 million as shown on 2017 Summary  
9 Schedule Line 8 of Exhibit No. \_(TGF-4).

10  
11 **Q. What was the total unrecovered investment in the CR3 Uprate project**  
12 **as of year-end 2015?**

13 A. The total year-end 2015 unrecovered investment to be amortized is  
14 approximately \$174.2 million as shown on lines 3a – 3b beginning balance  
15 amount in the 2016 Detail Schedule of Exhibit No. \_(TGF-4). This net  
16 amount represents the construction costs incurred that have not been  
17 placed in service. This amount does not include prior period over/under  
18 recoveries, prior period amortization, or period costs like wind-down/exit  
19 costs.

20  
21 **Q. How is DEF recovering this investment?**

22 A. DEF is continuing to recover this balance over the remaining four (4) year  
23 period from 2016-2019 as approved by the Commission in the 2013  
24 Settlement in Order PSC-13-0598-FOF-EI, Docket No. 130208-EI, which

1 allowed DEF to recover the estimated year-end 2013 balance over the  
2 2013-2019 period.

3  
4 **Q. Will DEF account for salvage or CR3 Uprate asset sales?**

5 A. Yes. To the extent DEF receives any salvage or re-sale value for the CR3  
6 Uprate assets currently recovered through the NCRC, DEF will apply that  
7 value to reduce the unrecovered balance.

8  
9 **Q. What are the total estimated period revenue requirements for the CR3  
10 Uprate project for the calendar year ended December 2016?**

11 A. The total estimated period revenue requirements for the CR3 Uprate project  
12 are \$14.3 million for the calendar year ended December 2016, as reflected  
13 on the 2016 Detail Schedule Line 19 of Exhibit No.\_\_(TGF-4). This amount  
14 includes \$14.2 million for the carrying costs on the unrecovered investment  
15 balance shown on Line 5d, and \$0.1 million for current period wind-down  
16 costs shown on Lines 2e and 16d. These amounts were calculated in  
17 accordance with the provisions of Rule 25-6.0423, F.A.C.

18  
19 **Q. What is the total estimated over or under recovery for the CR3 Uprate  
20 project for the calendar year ended December 2016?**

21 A. The total estimated over-recovery is \$0.6 million as shown in Exhibit  
22 No.\_\_(TGF-4), the 2016 Detail Schedule Line 21.

23

1 **Q. Did you project any other credits for the sale or other disposition**  
2 **efforts for the CR3 Uprate project assets?**

3 A. No. DEF has not estimated the salvage or re-sale value for any remaining  
4 CR3 Uprate asset at this time. Value received from any future disposition  
5 of an EPU asset will be credited against the uncollected investment at the  
6 time of disposition.

7  
8 **Q. What are the total estimated revenue requirements, exclusive of the**  
9 **revenue tax multiplier, for the CR3 Uprate project for the calendar year**  
10 **ended December 2017?**

11 A. As can be seen in Exhibit No. \_ (TGF-4), the 2017 Summary Schedule Line  
12 6, the total estimated revenue requirements are approximately \$51.7  
13 million. This consists primarily of \$43.7 million associated with amortizing  
14 the unrecovered construction cost spend, \$10.2 million in period carrying  
15 costs, \$0.1 million of current period other exit and wind-down activities, and  
16 \$2.3 million of prior period over-recoveries. These amounts are shown on  
17 lines 1, 2-4 and 5 of the above-mentioned Schedule, respectively.

18  
19 **Q. Does this conclude your testimony?**

20 A. Yes.

**IN RE: NUCLEAR COST RECOVERY CLAUSE****BY DUKE ENERGY FLORIDA, LLC****FPSC DOCKET NO. 160009-EI****DIRECT TESTIMONY OF MARK R. TEAGUE**

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

2 A. My name is Marcus (“Mark”) R. Teague. My current business address is 400  
3 South Tryon Street, Charlotte, North Carolina.

4  
5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by Duke Energy Business Services, LLC as Managing Director of  
7 Major Projects Sourcing (“MPS”) in the Supply Chain department.

8  
9 **Q. Have you previously filed testimony in this docket?**

10 A. Yes. I filed direct testimony in support of Duke Energy Florida’s (“DEF”) 2015  
11 actual costs incurred for the Crystal River Unit 3 (“CR3”) Extended Power Uprate  
12 (“EPU”) project on March 1, 2016.

13  
14 **Q. What is the purpose of your direct testimony?**

15 A. My testimony describes the status of the CR3 EPU project wind-down and  
16 investment recovery efforts in 2016 to date, projected for the remainder of 2016,  
17 and projected for 2017. As discussed in my March 1, 2016 testimony, the  
18 disposition of EPU-related assets was completed in 2015; all that remains are the

1 EPU assets that DEF has determined should be abandoned in place. As such,  
2 there are no EPU-related costs to-date in 2016, nor are any expected for the  
3 remainder of 2016. As of the date of my testimony, DEF does not anticipate  
4 incurring any 2017 EPU project related costs.

5  
6 **Q. Do you have any exhibits to your testimony?**

7 A. Yes, I am co-sponsoring portions of the Schedules 2016 and 2017 Detail, and  
8 sponsoring Appendices D and E, which are included as part of Exhibit No. \_\_\_\_  
9 (TGF-4), to Mr. Foster's April 27, 2016 testimony. These Schedules reflect the  
10 revenue requirement calculations, the major task categories and expense  
11 variances, and a summary of contracts and details over \$1 million.

12 All of these exhibits are true and correct.

13  
14 **Q. Please explain the current state of the EPU project and asset disposition**  
15 **efforts.**

16 A. As discussed in my March 1, 2016 testimony, DEF dispositioned the remainder of  
17 the EPU-related assets for which DEF was able to find a purchaser in 2015. DEF  
18 has determined the most cost-effective option for the remaining EPU assets is  
19 abandonment in place. As such, DEF has incurred no EPU-related costs in 2016,  
20 and does not project any EPU-related costs going forward. For that reason, DEF  
21 anticipates that this will be the last update that will be provided on the project.  
22 However, as noted above, there remain EPU-related assets that have been  
23 abandoned in place; should DEF encounter an opportunity to disposition those

1 assets for value, we will file testimony at the appropriate time and customers  
2 would receive a credit for the value received through the capacity clause as  
3 before.

4

5 **Q. Is there any variance between the 2016 actual costs to date and the amount**  
6 **projected to be spent in 2016 from DEF's May 1, 2105 filing?**

7 A. No, DEF projected to spend \$0 in 2016, and that projection was accurate.

8

9 **Q. What costs are projected to be incurred for EPU project Wind-Down**  
10 **activities in 2017?**

11 A. As shown on lines 1a -- c of Schedule 2017 Detail of Mr. Foster's Exhibit No. \_\_  
12 (TGF-4), there are no 2017 EPU closeout costs projected for 2017.

13

14 **Q. Has the Company implemented any additional project management and cost**  
15 **control oversight mechanisms for the EPU since your testimony was filed on**  
16 **March 1, 2016?**

17 A. No, the Company continues to utilize Company policies and procedures and  
18 specific IRP processes and procedures that I described in my March, 2016  
19 testimony to ensure that wind-down and exit costs for the EPU are reasonably and  
20 prudently incurred.

21

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

23 A. Yes, it does.

**IN RE: NUCLEAR COST RECOVERY CLAUSE****BY DUKE ENERGY FLORIDA, LLC.****FPSC DOCKET NO. 160009-EI****DIRECT TESTIMONY OF CHRISTOPHER M. FALLON****1 I. INTRODUCTION AND QUALIFICATIONS.****2 Q. Please state your name and business address.**

3 A. My name is Christopher M. Fallon. My business address is 526 South Church Street,  
4 Charlotte, North Carolina 28202.

5

**6 Q. Who do you work for and what is your position with that company?**

7 A. I am employed by Duke Energy Corporation (“Duke Energy”) as Vice President of  
8 Nuclear Development. Duke Energy Florida, LLC (“DEF” or the “Company”) is a  
9 fully owned subsidiary of Duke Energy.

10

**11 Q. Have you previously provided testimony in Docket No. 160009-EI?**

12 A. Yes. I submitted direct testimony in this docket on March 1, 2016.

13

**14 II. PURPOSE AND SUMMARY OF TESTIMONY.****15 Q. What is the purpose of your testimony?**

16 A. One purpose of my testimony is to describe DEF’s wind-down activities for the Levy  
17 Nuclear Project (“LNP” or “Levy”). These activities relate to the disposition of long  
18 lead time equipment (“LLE”) with Westinghouse Electric Company LLC (“WEC”)



1 and its suppliers subsequent to the termination of the Engineering, Procurement, and  
2 Construction (“EPC”) Agreement with WEC and Stone & Webster, Inc. (“S&W”)  
3 (together, the “Consortium”). I present and support DEF’s 2016 actual/estimated and  
4 2017 projected LNP wind-down costs related to these wind down activities.

5 Another purpose of my testimony is to provide the Florida Public Service  
6 Commission (the “Commission”) an update on the Company’s Combined Operating  
7 License Application (“COLA”) with the Nuclear Regulatory Commission (“NRC”) for  
8 the Combined Operating License (“COL”) for the Levy site. The Company, however,  
9 is not seeking any costs related to the Company’s pursuit of the COL, environmental  
10 permitting, wetlands mitigation, conditions of certification, and other costs related to  
11 the COL for the Levy site in this Nuclear Cost Recovery Clause (“NCRC”) docket.  
12 DEF agreed that it would not seek to recover these costs from customers through the  
13 NCRC pursuant to the 2013 Revised and Restated Stipulation and Settlement  
14 Agreement (“2013 Settlement Agreement”) approved by the Commission in Order No.  
15 PSC-13-0598-FOF-EI.

16 Finally, as noted in my March 2, 2016 testimony, pursuant to the stipulation  
17 approved by the Commission in Order No. PSC-15-0521-FOF-EI, DEF has agreed to  
18 include all known LNP costs and credits in the 2017 True-up filing for consideration  
19 and review in the 2017 NCRC docket for use in setting the 2018 NCRC factor.  
20

21 **Q. Do you have any exhibits to your testimony?**

22 A. Yes, I am sponsoring or co-sponsoring portions of the Schedules attached to Thomas  
23 G. Foster’s testimony as Exhibit No. \_\_\_\_ (TGF-3). Specifically, I am co-sponsoring

1 portions of the 2016 and 2017 Detail Schedules and sponsoring Appendices D and E.  
2 These Schedules reflect the 2016 and 2017 actual/estimated revenue requirement  
3 calculations, the major task categories and expense variances, and a summary of  
4 contracts and details over \$1 million.

5 All of these exhibits and schedules are true and accurate to the best of my  
6 knowledge and information.

7  
8 **Q. Please summarize your testimony.**

9 A. DEF is nearly complete with its wind-down plan for the LNP. DEF continues to work  
10 through the final disposition efforts for the Levy LLE. As such, the only LNP related  
11 costs incurred in 2016 to date and projected for the remainder of 2016 are related to  
12 the final disposition efforts for a portion of the remaining Levy LLE. All 2016 and  
13 2017 costs related to obtaining and maintaining the COL (including any deferred  
14 licensing costs) are not reflected in the Exhibits because recovery of these costs is not  
15 being sought through the NCRC per the 2013 Settlement Agreement.

16 DEF continues to advance its claims against WEC and defend the claims WEC  
17 has asserted against DEF in the North Carolina federal court litigation.

18 DEF currently plans to continue its COLA work to obtain the COL for the  
19 Levy site from the NRC. DEF currently anticipates COL receipt in or around October  
20 of 2016.

21  
22 **III. LNP WIND-DOWN ACTIVITIES.**

1 **Q. Does DEF have actual/estimated costs in 2016 as a result of Levy wind-down**  
2 **activities?**

3 A. Yes. DEF's actual/estimated 2016 wind-down costs are [REDACTED]. See 2016 Detail  
4 LNP Schedule of Exhibit No. \_\_\_\_ (TGF-3) to Mr. Foster's testimony. Mr. Foster also  
5 describes other wind-down costs projected for 2016 and 2017.

6  
7 **Q. Please describe the Levy wind-down activities and costs.**

8 A. Wind-down cost were incurred and will be incurred in 2016 for (1) internal Duke  
9 Energy labor to assist with disposition of the remaining LLE; and (2) regulatory and  
10 wind-down support. DEF is attempting to disposition the remaining LLE in 2016 and  
11 there will be costs associated with this activity, however DEF does not include in this  
12 filing potential, future wind-down or LLE disposition costs or credits that DEF cannot  
13 reasonably quantify at this time.

14  
15 **Q. Does DEF project that it will incur Levy wind-down costs in 2017?**

16 A. No, DEF does not expect wind-down costs in 2017. If any costs do arise, they will be  
17 presented to the Commission as part of the March 2017 true-up filing, with the  
18 understanding that DEF will not seek recovery of any such costs prior to the May 2017  
19 filing, as discussed above.

20  
21 **Q. What is the status of DEF's litigation with WEC?**

22 A. DEF's lawsuit with WEC is currently pending before the United States District Court  
23 for the Western District of North Carolina. DEF continues to vigorously pursue its

1 claims and to vigorously defend against the claims WEC has brought in that lawsuit.  
2 The current case management schedule includes a trial date for October 17, 2016.  
3 DEF cannot reasonably predict the outcome of this litigation and cannot project the  
4 costs or refunds resulting from the resolution of the claims in this litigation.  
5

6 **IV. LEVY COMBINED OPERATING LICENSE APPLICATION UPDATE.**

7 **Q. What is the status of the Levy COLA for the COL for the Levy site?**

8 A. There are three parts to the NRC COLA review process and all three parts must be  
9 complete before the NRC will issue a COL. Those three parts of the NRC COLA  
10 review process are: (i) the environmental review process; (ii) the safety review  
11 process; and (iii) the formal hearing process.

12 The environmental review process for the Levy COLA was complete when  
13 DEF received the Levy final environmental impact statement (“FEIS”) on April 27,  
14 2012. The remaining two parts of the NRC COLA review process for the Levy COLA  
15 are incomplete although steps in these review processes have been completed.  
16

17 **Q. What is the status of the NRC safety review for the Levy site COL?**

18 A. The Final Safety Evaluation Report (“FSER”) for the Levy COL has not been issued.  
19 The Advanced Safety Evaluation Report (“ASER”), was initially completed with no  
20 open items on September 15, 2011, however, as previously explained, subsequent,  
21 significant design errors identified by WEC required revisions to the ASER to  
22 incorporate changes to correct these design errors before NRC review could be  
23 finalized. The LNP ASER was completed on March 7, 2016. Also, the Advisory

1 Committee on Reactor Safeguards (“ACRS”) review was completed April 7, 2016, as  
2 anticipated. DEF currently projects to receive the FSER in or around June 2016.

3  
4 **Q. What is the status of the formal hearing process for the Levy site COL?**

5 A. There are two parts to the NRC formal hearing process: (1) a contested hearing before  
6 the NRC Atomic Safety and Licensing Board (“ASLB”), and (2) a mandatory hearing  
7 before the NRC. The contested hearing was conducted in the fall of 2012 and on  
8 March 26, 2013, the NRC ASLB issued its ruling in DEF’s favor on all issues.

9 The second part of the two-part formal hearing process is the LNP COLA  
10 mandatory hearing before the NRC Commissioners. DEF is currently anticipating the  
11 mandatory hearing will be held in or around July 2016, but the projection is premised  
12 on the receipt of the FSER along the projected timeline discussed above. Any delays  
13 in receiving the FSER would impact this projection as well.

14  
15 **Q. What is the status of the environmental permits for the Levy COL?**

16 A. As stated in my March 1 testimony, the U.S. Army Corps of Engineers (“ACOE”)  
17 issued the Section 404 Permit for the Levy site on December 28, 2015.

18  
19 **Q. When does DEF expect to receive the COL for Levy?**

20 A. The Company’s current internal estimate is that the NRC will issue the Levy COL in  
21 or around October 2016.

22  
23 **Q. What are DEF’s current plans for the Levy site if DEF receives the COL?**

1 A. DEF does not have a contract to build the Levy nuclear power plants and DEF has no  
2 definite plan to construct them at this time. DEF currently plans to obtain the COL to  
3 preserve the option of building new nuclear at the Levy site based on, among other  
4 factors, energy needs, project costs, carbon regulation, natural gas prices, existing or  
5 future legislative provisions for cost recovery, and the requirements of the COL.

6  
7 **V. PROJECT MANAGEMENT AND COST CONTROL OVERSIGHT.**

8 **Q. Has the Company implemented any additional project management and cost**  
9 **control oversight mechanisms for the LNP since your testimony was filed in**  
10 **March 2016?**

11 A. No. The Company continues to utilize the Company policies and procedures that I  
12 described in my March testimony to ensure that wind-down costs for the LNP are  
13 reasonably and prudently incurred. The Company will continue to review policies,  
14 procedures, and controls on an ongoing basis, and make revisions and enhancements  
15 based on changing business conditions, organizational changes, and lessons learned, as  
16 necessary. This process of continuous review of our policies, procedures, and controls  
17 is a best practice in our industry and is part of our existing Levy project management  
18 and cost control oversight. Additionally, the Senior Management Committee  
19 (“SMC”) review occurs periodically and as needed. Significant financial decisions  
20 are also taken to the Transaction and Risk Committee (“TRC”) and the Board of  
21 Directors, as necessary, pursuant to the Approval of Business Transactions (“ABT”)  
22 policy. Finally, the Company continues to ensure that all COLA-related and WEC  
23 litigation costs are segregated out and not included in the NCRC.

1 **VI. CONCLUSION.**

2 **Q. Has DEF acted in a reasonable and prudent manner to wind-down the Levy**  
3 **project and disposition the Levy LLE?**

4 A. Yes. DEF will continue to work through the final LNP LLE disposition and will  
5 make the prudent disposition decision for the benefit of DEF's customers. DEF  
6 intends to vigorously pursue and defend its rights under the EPC Agreement in the  
7 current litigation with WEC. DEF's actions have been and will continue to be  
8 reasonable and prudent for DEF and its customers.

9

10 **Q. Does this conclude your direct testimony?**

11 A. Yes it does.

1           **MR. BERNIER:** And then finally I would ask  
2 that Exhibits 2 through 9 on staff's Comprehensive  
3 Exhibit List be entered into the record.

4           **CHAIRMAN BROWN:** Okay. 2 through 9 will be  
5 entered into the record. Thank you.

6           (Exhibits 2 through 9 admitted into the  
7 record.)

8           **MR. BERNIER:** And other than thanking staff  
9 and the intervening parties for the streamlined process,  
10 that's it for Duke Energy.

11          **CHAIRMAN BROWN:** Thank you very much.

12          **MR. BERNIER:** Thank you.

13          **CHAIRMAN BROWN:** And staff.

14          **MS. MAPP:** Yes. Staff would move for entry  
15 into the record the testimonies of Ronald Mavrides and  
16 the joint testimony of Jerry Hallenstein and Lynn Fisher  
17 as though read.

18          **CHAIRMAN BROWN:** Thank you. We will do that  
19 at this time.



1                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2                                   **COMMISSION STAFF**

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

4                                   **DOCKET NO. 160009-EI**

5                                   **June 16, 2016**

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. I have been employed by  
16 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 Nos. 140009-EI and 150009-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, LLC (DEF or Utility) which address the Utility's filings in Docket 160009-EI,  
2 Nuclear Cost Recovery Clause (NCRC) for costs associated with its Nuclear units. The  
3 first audit report was issued June 9, 2016, and addressed the costs for Crystal River Unit 3  
4 (CR3) as of December 31, 2015. This audit report is filed with my testimony and is  
5 identified as Exhibit RAM-1. The second audit report was also issued on June 9, 2016,  
6 and addressed the costs as of December 31, 2015, 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 2015 NCRC filings for  
13 Crystal River Unit 3 in Docket No. 160009-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. 160001-EI. We verified that the Utility used the Commission  
24 approved factor to bill the customers.

25 Expense

1 We judgmentally selected costs from the transaction details and reviewed them for the  
2 proper period and amounts, and that they are allowable NCRC costs. For costs that are  
3 for a service or product that is under contract, we: 1) traced the invoiced cost to the  
4 construction contract of other type of original source document, 2) ensured that the  
5 amounts billed are for actual services or materials received, and 3) investigated all prior  
6 billing adjustments and job order changes to the contract(s). We sorted the transaction  
7 detail listings by Operation and Maintenance expense category and reconciled them to the  
8 filing. On a sample basis, we used employee time sheets to verify that labor hours  
9 charged to employee labor expense are correct.

#### 10 Project Close-Out Costs

11 We acquired a summary of all close-out costs included in the NCRC. We selected a  
12 sample of costs and traced to support documents for proper pay periods and proper  
13 account classification.

#### 14 True-up

15 We traced the December 31, 2014 True-Up Provision to the Commission Order No. 14-  
16 0617-FOF-EI. We recalculated the True-Up and Interest Provision amounts as of  
17 December 31, 2015, using the Commission approved beginning balance as of December  
18 31, 2014, the approved AFUDC rate, and the 2015 costs.

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

21 A. Our overall objective was to verify that the Utility's 2014 NCRC filings for Levy  
22 Nuclear Units 1 & 2 in Docket No. 160009-EI are consistent with and in compliance with  
23 Section 366.93, Florida Statutes, and Rule 25-6.0423, Florida Administrative Code. We  
24 performed the following procedures to satisfy the overall objective.

25

1 Construction Work in Progress (CWIP)

2 We took the beginning balances of the costs and reconciled them to the ending balances  
3 for the prior year's filing. We judgmentally selected transactions from the provided  
4 transaction details and tested them for: 1) Compliance with contracts, 2) Correct paid  
5 amounts, and 3) Correct recording periods. We reconciled the filing to the general ledger.

6 Recovery

7 We traced the beginning balances of the 2015 Detail Calculation of the Revenue  
8 Requirements to the ending 2014 Detail Calculation of the Revenue Requirements. We  
9 reconciled the amount collected on the 2015 Detail Calculation of the Revenue  
10 Requirements to the 2014 NCRC approved jurisdictional factors and to the Capacity Cost  
11 Recovery Clause in Docket No. 160001-EI. We verified that the Utility used the  
12 Commission approved factor to bill the customers.

13 Expense

14 We reconciled the trial balance accounts to the filing. We judgmentally selected costs  
15 from the transaction details and reviewed them for the proper period and amounts, and  
16 that they are allowable NCRC costs. For costs that are for a service or product that is  
17 under contract we: 1) Traced the invoiced cost to the construction contract or other type  
18 of original source document, 2) Ensured that the amounts billed are for actual services or  
19 materials received, and 3) Investigated all prior billing adjustments and job order changes  
20 to the contracts. We sampled costs charged in 2015, including labor, and obtained the  
21 supporting backup. We recalculated labor costs using employee time sheets and labor  
22 rates for employees who provided labor charged to the NCRC during the sample months.  
23 We verified the hours worked and recalculated the labor charges recorded by the Utility  
24 charged to the NCRC. We verified the costs for proper account, period, and amount.

25

1 Long-Lead Time Items

2 We verified that the only long-lead-time items remaining to be disposed of were Variable  
3 Frequency Drives. Attempts to sell the drives to an external party were unsuccessful and  
4 the drives were sold internally for use at the Crystal River Energy Complex.

5 True-up

6 We traced the December 31, 2014 True-Up Provision to the Commission Order No. 14-  
7 0617-FOF-EI. We recalculated the True-Up and Interest Provision amounts as of  
8 December 31, 2015, using the Commission approved beginning balance as of December  
9 31, 2014, the approved AFUDC rate, and the 2015 costs.

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

11 A. There were no findings in this audit.

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

13 A. There were no findings in this audit.

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

15 A. Yes.

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF**

**DIRECT JOINT TESTIMONY OF**

**JERRY HALLENSTEIN AND LYNN FISHER**

**DOCKET NO. 160009-EI**

**June 16, 2016**

**Q. Mr. Hallenstein, please state your name and business address.**

A. My name is Jerry Hallenstein. My business address is 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850.

**Q. By whom are you employed?**

A. I am employed by the Florida Public Service Commission (Commission) as a Senior Analyst, within the Office of Auditing and Performance Analysis.

**Q. What are your current duties and responsibilities?**

A. I perform audits and investigations of Commission-regulated utilities, focusing on the effectiveness of management and company practices, adherence to company procedures, and the adequacy of internal controls. Mr. Fisher and I jointly conducted the 2016 audit of Duke Energy Florida, LLC (DEF) project management internal controls for the Crystal River 3 Nuclear Plant Extended Power Uprate (EPU) and Levy Nuclear Plant construction projects.

**Q. Please describe your educational and relevant experience.**

A. I earned a Bachelor of Science in Finance from Florida State University in 1985. I have worked for the Commission for twenty-six years conducting operations audits and investigations of regulated utilities. Prior to my employment with the Commission, I worked for five years at Ben Johnson Associates, a consulting firm that specializes in providing economic and research services to public utility commissions across the country.

1 **Q. Have you filed testimony in any other dockets before the Commission?**

2 A. Yes. I filed similar joint testimony in Docket Nos. 120009-EI, 130009-EI, and 140009-  
3 EI. In Docket Nos. 120009-EI and 130009-EI, my testimony addressed the audits of DEF's  
4 project management internal controls for the nuclear plant uprate at Crystal River Unit 3 and  
5 for the Levy Nuclear Project. In Docket No 140009-EI, my testimony addressed Florida  
6 Power & Light Company's project management internal controls for the nuclear plant  
7 extended power uprate project at the St. Lucie and Turkey Point sites and the new construction  
8 project at the Turkey Point site. Additionally, I filed testimony in Docket 981488-TI,  
9 regarding the billing and sales practices of Accutel Communications, a reseller of  
10 telecommunications services.

11 **Q. Mr. Fisher, please state your name and business address.**

12 A. My name is Lynn Fisher. My business address is 2540 Shumard Oak Boulevard,  
13 Tallahassee, Florida 32399-0850.

14 **Q. By whom are you employed?**

15 A. I am employed by the Florida Public Service Commission as a Government Analyst II,  
16 within the Office of Auditing and Performance Analysis.

17 **Q. What are your current duties and responsibilities?**

18 A. I perform audits and investigations of Commission-regulated utilities, focusing on the  
19 effectiveness of management and company practices, adherence to company procedures, and  
20 the adequacy of internal controls. This year Mr. Hallenstein and I jointly conducted the 2016  
21 audit of DEF's project management internal controls for the EPU project at Crystal River Unit  
22 3 and the Levy Nuclear Plant project.

23 **Q. Please describe your educational and relevant experience.**

24 A. In 1972, I graduated from Florida State University with a Bachelor of Science degree in  
25 Marketing. My relevant background includes twenty-six years with the Florida Public Service

1 Commission in management auditing, performance analysis, process audits, and complaint  
2 investigation. Since joining the Commission, I have participated in numerous reviews of  
3 utility operations, systems, and internal controls. I have also participated in previous reviews  
4 of Florida Power & Light's project management controls for its nuclear plant uprate and new  
5 construction projects.

6 **Q. Have you filed testimony in any other dockets before the Commission?**

7 A. Yes. I have filed similar testimony in Nuclear Cost Recovery Clause Docket Nos.  
8 080009-EI, 090009-EI, 100009-EI, 110009-EI, 120009-EI and 130009-EI. This prior  
9 testimony addressed FPL's nuclear uprate and construction projects. Additionally, in 2005 I  
10 filed testimony in Docket No. 050045-EI, which addressed Florida Power & Light Company's  
11 vegetation management, lightning protection, and pole inspection processes.

12 **Q. Please describe the purpose of your testimony in this docket.**

13 A. Our testimony presents the attached confidential audit report entitled *Review of Duke*  
14 *Energy Florida, LLC Project Management Internal Controls for Nuclear Plant Uprate and*  
15 *Construction Projects* (Exhibit HF-1). This audit is completed each year to assist the  
16 Commission's annual evaluation of nuclear cost recovery filings. The audit describes key  
17 project events and contract activities for the Crystal River 3 EPU and Levy Nuclear Plant  
18 projects. It also evaluates project management internal controls employed by DEF to close out  
19 and disposition remaining project assets.

20 **Q. Please summarize the areas examined by your review.**

21 A. The primary objective of this audit was to assess and evaluate key project  
22 developments, along with the organization, management, internal controls, and oversight that  
23 DEF used or plans to employ for these projects.

24 **Q. Are you sponsoring any exhibits?**

25 A. Yes, our audit report is attached as Exhibit HF-1.



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

2 **A. Yes.**

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1           **MS. MAPP:** And staff would also move into the  
2 record Exhibits 10 through 13 as identified in the  
3 stipulated Comprehensive Exhibit List.

4           **CHAIRMAN BROWN:** Okay. I'll move in Exhibits  
5 10 through 13 as identified in the stipulated  
6 Comprehensive Exhibit List. Thank you.

7           (Exhibits 10 through 13 admitted into the  
8 record.)

9           All right. Moving on to the main issue here,  
10 which is the proposed stipulations. Ms. Mapp.

11           **MS. MAPP:** Yes. There are proposed  
12 stipulations on all issues. If the Commission  
13 determines that a bench decision is appropriate, staff  
14 would recommend approval of the proposed stipulations as  
15 set out within Section X, pages 13 through 15, of the  
16 Prehearing Order.

17           **CHAIRMAN BROWN:** Okay. Thank you very much.

18           Before I bring it back to the Commissioners,  
19 I'd like to ask the parties if they have any comments or  
20 would like to address the Commission on the proposed  
21 stipulations?

22           **MR. BERNIER:** No, ma'am. Duke Energy is good.  
23 Thank you.

24           **CHAIRMAN BROWN:** Thank you.

25           **MR. WRIGHT:** No, ma'am. They're Category 2

1 stipulations. We took no position. Thanks.

2 **CHAIRMAN BROWN:** Thank you.

3 **MR. KELLY:** Same from OPC. Thank you.

4 **CHAIRMAN BROWN:** Thank you, and thank you to  
5 the parties.

6 All right. Commissioners, do you all have any  
7 questions or comments on the proposed stipulations,  
8 which are Issues 1 through 6 set out in Section X of the  
9 Prehearing Order?

10 I want to thank the Prehearing Officer at this  
11 time for facilitating a very streamlined and efficient  
12 hearing this year. I don't think we'll have the same  
13 type of hearing next year, but I appreciate all of the  
14 efforts that have gone into this.

15 And so with that, if there are no comments or  
16 questions, I would -- we can entertain a motion at this  
17 time, or comments. Thank you, Commissioner Edgar.

18 **COMMISSIONER EDGAR:** Madam Chair, I would move  
19 approval of the stipulations as you have described.

20 **CHAIRMAN BROWN:** Is there a second?

21 **COMMISSIONER PATRONIS:** Second.

22 **CHAIRMAN BROWN:** Any further comment?

23 All those in favor, say aye.

24 (Vote taken.)

25 All right. The motion passes. Thank you

1 again.

2 So we have some concluding matters possibly to  
3 be addressed, Ms. Mapp.

4 **MS. MAPP:** All parties have waived  
5 post-hearing briefs, and due to the Commission's bench  
6 decision on all issues, a post-hearing recommendation is  
7 not necessary. Therefore, the final order addressing  
8 this hearing will be issued no later than October 24th,  
9 2016.

10 **CHAIRMAN BROWN:** Thank you so much. Thank  
11 you, staff, for your work on this as well.

12 And, parties, if you don't have any further  
13 comments, this hearing is adjourned. Thank you.

14 (Proceeding adjourned at 9:07 a.m.)  
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1 STATE OF FLORIDA )  
2 : CERTIFICATE OF REPORTER  
3 COUNTY OF LEON )

4 I, LINDA BOLES, CRR, RPR, Official Commission  
5 Reporter, do hereby certify that the foregoing  
6 proceeding was heard at the time and place herein  
7 stated.

8 IT IS FURTHER CERTIFIED that I  
9 stenographically reported the said proceedings; that the  
10 same has been transcribed under my direct supervision;  
11 and that this transcript constitutes a true  
12 transcription of my notes of said proceedings.

13 I FURTHER CERTIFY that I am not a relative,  
14 employee, attorney or counsel of any of the parties, nor  
15 am I a relative or employee of any of the parties'  
16 attorney or counsel connected with the action, nor am I  
17 financially interested in the action.

18 DATED THIS 11th day of August, 2016.

19 

20 \_\_\_\_\_  
21 LINDA BOLES, CRR, RPR  
22 FPSC Official Hearings Reporter  
23 (850) 413-6734  
24  
25