

Docket No. 170009-EI: Nuclear Cost Recovery Clause
Duke Energy Florida, LLC
Crystal River Unit 3 Power Uprate and Levy Units 1 & 2

Witness: **Direct Testimony of Ronald A. Mavrides,**
Appearing on behalf of the staff of the Florida Public Service Commission

Date Filed: June 20, 2017

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **COMMISSION STAFF**

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

4 **DOCKET NO. 170009-EI**

5 **June 20, 2017**

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 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, 150009-EI, and 160009-EI.

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

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

1 Florida, LLC (DEF or Utility) which address the Utility's filings in Docket 170009-EI,
2 Nuclear Cost Recovery Clause (NCRC) for costs associated with its Nuclear units. The
3 costs for Crystal River Unit 3 (CR3) as of December 31, 2016, are addressed in Exhibit
4 RAM-1 of this testimony. The costs for Levy Nuclear Units 1 & 2 as of December 31,
5 2016, are addressed in Exhibit RAM-2 of this testimony. Also attached are the audit
6 reports for the Levy Nuclear Units 1 & 2 filed as Exhibits in Dockets 150009-EI and
7 160009-EI. These are identified as Exhibit RAM-3 and RAM-4 respectively of this
8 testimony.

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

10 A. Yes, these audits were prepared by me or under my direction.

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

13 A. Our overall objective was to verify that the Utility's 2016 NCRC filings for
14 Crystal River Unit 3 in Docket No. 170009-EI are consistent with and in compliance with
15 Section 366.93, Florida Statutes, and Rule 25-6.0423, Florida Administrative Code. Audit
16 staff performed the following procedures to satisfy the overall objective.

17 Construction Work in Progress (CWIP)

18 We determined that there were no adjustments to unrecovered CWIP jurisdictional
19 balances that are included for recovery. All NCRC activity that is now related to capital
20 investment is allocated to the Regulatory Asset Account. We determined that there was
21 not any capital activity associated with the CR3 project in 2016.

22 Recovery

23 We traced the amount collected on Exhibit TGF-2 to the 2016 NCRC jurisdictional
24 amount approved in Order No. PSC-16-0547-FOF-EI and to the Capacity Cost Recovery
25 Clause in Docket No. 170001-EI. We verified that the Utility used the Commission

1 approved factor to bill the customers.

2 Expense

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

12 Project Close-Out Costs

13 We investigated the status of project management close-out costs incurred during 2016.
14 We determined that 2016 was the first year that there were no project management related
15 close-out costs incurred.

16 True-up

17 We recalculated the True-Up and Interest Provision amounts as of December 31, 2016,
18 using the Commission approved beginning balance as of December 31, 2015, the
19 approved 2016 jurisdictional separation factors, and the 2016 costs.

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

22 A. Our overall objective was to verify that the Utility's 2016 NCRC filings for Levy
23 Nuclear Units 1 & 2 in Docket No. 160009-EI are consistent with and in compliance with
24 Section 366.93, Florida Statutes, and Rule 25-6.0423, Florida Administrative Code. We
25 performed the following procedures to satisfy the overall objective.

1 Construction Work in Progress (CWIP)

2 We determined that there were no adjustments to unrecovered CWIP jurisdictional
3 balances that are included for recovery. As of December 31, 2015, Account 107.001-
4 CWIP had a zero balance. All NCRC activity that is now related to capital investment is
5 allocated to the Regulatory Asset Account. We judgmentally selected transactions from
6 the provided transaction details and tested them for: 1) Compliance with contracts, 2)
7 Correct paid amounts, and 3) Correct recording periods.

8 Recovery

9 We traced the beginning balances of the 2016 Detail Calculation of the Revenue
10 Requirements to the ending 2015 Detail Calculation of the Revenue Requirements. Order
11 PSC-15-0521-FOF-EI, issued November 5, 2015, stated that costs, if any, will not be
12 collected/recovered in 2016 or 2017. Audit staff determined that customers were not
13 billed during the period January 1, 2016 through December 31, 2016.

14 Expense

15 We reconciled the trial balance accounts to the filing. We judgmentally selected costs
16 from the transaction details and reviewed them for the proper period and amounts, and
17 that they are allowable NCRC costs. For costs that are for a service or product that is
18 under contract we: 1) Traced the invoiced cost to the construction contract or other type
19 of original source document, 2) Ensured that the amounts billed are for actual services or
20 materials received, and 3) Investigated all prior billing adjustments and job order changes
21 to the contracts. We sampled costs charged in 2016, including labor, and obtained the
22 supporting backup.

23 Long-Lead Time Items

24 We verified that the all of the long-lead-time items remaining were disposed of as at year
25 end 2016.

1 Litigation Expenses

2 We verified that there was no litigation expenses relating to Duke/Westinghouse
3 Engineering, Procurement, and Construction contract litigation included for cost recovery
4 in 2016.

5 True-up

6 We traced the December 31, 2015, True-Up Provision to the Commission Order. We
7 recalculated the True-Up and Interest Provision amounts as of December 31, 2016, using
8 the Commission approved beginning balance as of December 31, 2015, the approved
9 2016 jurisdictional separation factors, and the 2016 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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State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tampa District Office

Auditor's Report

Duke Energy Florida, LLC
Crystal River Unit 3 Uprate

Twelve Months Ended December 31, 2016

Docket No. 170009-EI
Audit Control No. 17-006-2-2

May 7, 2016

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

Ronald A. Mavrides
Audit Manager

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

Linda Hill
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Office of Industry Development and Market Analysis in its audit service request dated January 5, 2017. We have applied these procedures to the attached schedule prepared by Duke Energy Florida, LLC in support of its 2016 Nuclear Cost Recovery Clause filing for the Crystal River Unit 3 Uprate Project in Docket No. 170009-EI.

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

Objectives and Procedures

General

Definitions

Utility refers to Duke Energy Florida, LLC. NCRC refers to the Nuclear Cost Recovery Clause.

CCRC refers to the Capacity Cost Recovery Clause.

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

Utility Information

On February 5, 2013, the Utility announced its intent to retire the CR3 plant. Recovery of costs will continue until 2019.

Objectives: The objectives were to determine whether the Utility's 2016 NCRC filing in Docket No. 170009-EI is consistent and in compliance with Section 366.93, Florida Statutes and Rule 25-6.0423, Florida Administrative Code (F.A.C.).

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

Construction Work In Progress

Objectives: The objectives were to determine whether the 2016 adjustments and additions to the unrecovered Construction Work In Progress (CWIP) jurisdictional balances that are included for recovery and disclose and report the jurisdictional amount of any 2016 adjustments and additions to the unrecovered CWIP balance that are included for recovery.

Procedures: We determined that there were no adjustments to unrecovered CWIP jurisdictional balances that are included for recovery. All NCRC activity that is now related to capital investment is allocated to the Regulatory Asset Account. We determined that there was not any capital activity associated with the CR3 project in 2016. No exceptions were noted.

Recovery

Objectives: The objectives were to determine whether the Utility used the Commission approved CCRC factors to bill customers for the period January 1, 2016, through December 31, 2016, and whether Exhibit TGF-2 reflects amounts in Order No. PSC-16-0547-FOF-EI.

Procedures: We agreed the amount collected in Exhibit TGF-2 to the 2016 NCRC jurisdictional amount approved in Order No. PSC-16-0547-FOF-EI and to the CCRC in Docket No. 170001-EI. We determined that the Utility used the approved CCRC factors. No exceptions were noted.

Expense

Operation and Maintenance Expense

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

Procedures: We judgmentally selected ten transactions from the transaction details and reviewed them for the proper period, amounts, and that they are legitimate NCRC costs. For costs that are for a service or product that is under contract, we: 1) Traced the invoiced cost to the contract terms and pricing, 2) Ensured that the amounts billed are for actual services or materials received, and 3) Investigated all prior billing adjustments and job order changes to the contract(s).

Included in the samples were 2016 labor costs for four employees, of which we obtained the supporting backup. We recalculated labor costs using employee records for employees who provided labor charged to the NCRC in the sample. We verified the hours worked and recalculated the labor charges recorded by the Utility charged to the NCRC. We verified other costs for proper account, period, and amount. No exceptions were noted.

Project Close-Out Costs

Objective: The objective was to determine whether 2016 project close-out costs were properly included for recovery.

Procedures: We investigated the status of project management close-out costs incurred during 2016. We determined 2016 was the first year there were no project management related close-out costs incurred. No exceptions were noted.

True-Up

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

Procedures: We traced the December 31, 2015, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2016, using the Commission approved beginning balance as of December 31, 2015, the approved 2016 jurisdictional separation factors for capacity revenues and costs to be included in the recovery factor, and the 2016 costs. No exceptions were noted.

Audit Findings

None

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tampa District Office

Auditor's Report

Duke Energy Florida, LLC
Levy Nuclear Units 1 & 2

Twelve Months Ended December 31, 2016

Docket No. 170009-EI
Audit Control No. 17-006-2-1

May 7, 2017

A handwritten signature in cursive script, reading "Ron Mavrides", written over a horizontal line.

Ronald A. Mavrides
Audit Manager

A handwritten signature in cursive script, reading "Linda Hill", written over a horizontal line.

Linda Hill
Reviewer

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To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Office of Industry Development and Market Analysis in its audit service request dated January 5, 2017. We have applied these procedures to the attached schedule prepared by Duke Energy Florida, LLC in support of its 2016 Nuclear Cost Recovery Clause for its construction cost expenditures for the Levy Nuclear Plant Units 1 & 2 filing in Docket No. 170009-EI.

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

Objectives and Procedures

General

Definitions

Utility refers to Duke Energy Florida, LLC.LNP refers to the Levy Nuclear Plant.

NCRC refers to the Nuclear Cost Recovery Clause.

CCRC refers to the Capacity Cost Recovery Clause.

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

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

Utility Information

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

Objectives: The objectives were to determine whether the Utility's 2016 NCRC filing in Docket No. 170009-EI is consistent and in compliance with Section 366.93, Florida Statutes and Rule 25-6.0423, Florida Administrative Code (F.A.C.).

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

Construction Work In Progress

Objectives: The objectives were to determine the 2016 adjustments and additions to the unrecovered Construction Work In Progress (CWIP) jurisdictional balances that are included for recovery and disclose and report the jurisdictional amount of any 2016 adjustments and additions to the unrecovered CWIP balance that are included for recovery.

Procedures: We determined that there were no adjustments to unrecovered CWIP jurisdictional balances that are included for recovery. As of December 31, 2015, Account 107.001-CWIP had a zero balance. All NCRC activity that is now related to capital investment is allocated to the Regulatory Asset Account. We judgmentally sampled eight capital addition transactions allocated to the Regulatory Asset Accounts from the transaction details and tested for: 1) Compliance with contracts, 2) Correct paid amounts, and 3) Correct recording periods. No exceptions were noted.

Recovery

Objectives: The objectives were to determine whether the Utility used the Commission approved CCRC factors to bill customers for the period January 1, 2016, through December 31, 2016, and whether the 2016 Detail Calculation of the Revenue Requirements reflects amounts in Order No. PSC-15-0521-FOF-EI.

Procedures: We agreed the beginning balances of the 2016 Detail Calculation of the Revenue Requirements to the ending 2015 Detail Calculation of the Revenue Requirements. Order PSC-15-0521-FOF-EI, issued November 5, 2015, Attachment 1, says that costs, if any, will not be collected/recovered in the 2016 or 2017 NCRC factor. Audit staff determined that customers were not billed during the period January 1, 2016 through December 31, 2016. No exceptions were noted.

Expense

Operation and Maintenance Expense

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

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

Included in the samples were 2016 labor costs, of which we obtained the supporting backup. We recalculated labor costs using employee time sheets and labor rates for employees who provided labor charged to the NCRC during the sample months. We verified the hours worked and recalculated the labor charges recorded by the Utility charged to the NCRC. We verified other costs for proper account, period, and amount. No exceptions were noted.

Long-Lead-Time Items

Objectives: The objectives were to determine whether 2016 disposition, storage, and other such expenses for remaining long-lead-time items were included for cost recovery and to disclose and report the jurisdictional amount of any 2016 disposition, storage, and other such expenses included in jurisdictional expenses.

Procedure: We verified that all of the long-lead time items were disposed of as of year-end 2016. No exceptions were noted.

Litigation Expenses

Objectives: Our objectives were to determine whether Duke/Westinghouse Engineering, Procurement, and Construction contract litigation expenses were included for cost recovery, and 2016 Duke/Westinghouse Engineering, Procurement, and Construction contract litigation expenses included in jurisdictional expenses were disclosed and reported.

Procedure: We verified that there was no litigation expenses included for cost recovery in 2016. No exceptions were noted.

True-Up

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

Procedures: We traced the December 31, 2015, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2016, using the Commission approved beginning balance as of December 31, 2015, the approved 2016 jurisdictional separation factors for capacity revenues and costs to be included in the recovery factor, and the 2016 costs. No exceptions were noted.

Audit Findings

None

Exhibit

Exhibit 1: True-Up

2016 Summary
 Levy Nuclear Units 1 & 2
 January 2016 - December 2016
 Duke Energy Florida

Witness: Thomas G. Foster
 Docket No. 170009-EI
 Duke Energy Florida
 Exhibit: (TGF- 1)

	12-Month Total	
1. Final Costs for the Period		
a. Carrying Cost on Unrecovered Investment	\$ 5,400,664	(2016 Detail Line 8d. & 2016 LLE Detail Line 3d.)
b. Period Exit / Wind-down Costs (including disposition of LLE)	3,111,848	(2016 Detail Line 5a.)
c. Period Other Exit / Wind-down Cost and Interest	41,622	(2016 Detail Line 19d.)
d. Prior Period Adjustment	0	
e. Total Period Revenue Requirement	<u>\$ 8,554,134</u>	
2. Projected Amount for the Period (January - December) (Order No. PSC-15-0521-FOF-EI) (\$0.00 / 1000 Kwh)	\$ -	(2016 Detail Lines: 10 and 20)
3. Final True-Up Amount for the Period (over)/under (Line 1e. - Line 2.)	\$ 8,554,134	
4. 2016 Revenue Requirement Collected (January - December) (Order No. PSC-15-0521-FOF-EI) (\$0.00 / 1000 Kwh)	\$ -	

The summary below shows the uncollected balance as of December 31, 2016

5. Uncollected Regulatory Asset (Non-\$54M Deferred Amount)	\$ 3,734,207	(2016 Detail Lines: 6j + 15 + 21)
6. Carrying Cost on \$54M Deferral (May 2015 - December 2016) (Retail)	8,463,571	(2016 LLE Detail Lines: 1b + 3d.)
7. Uncollected Balance \$54M Deferral (Retail)	50,275,957	(2016 LLE Detail Line 1a.)
8. Total Uncollected Balance at Year End 2016 (Lines: 5. + 6. + 7.)	<u>\$ 62,473,735</u>	

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tampa District Office

Auditor's Report

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

Twelve Months Ended December 31, 2014

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



Ronald Mavrides
Audit Manager



Linda M. Hill
Reviewer

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Purpose

To: Florida Public Service Commission

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

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

Objectives and Procedures

General

Definitions

Utility refers to Duke Energy Florida, Inc.

LNP refers to the Levy Nuclear Plant.

NCRC refers to the Nuclear Cost Recovery Clause.

CCRC refers to the Capacity Cost Recovery Clause.

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

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

Utility Information

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

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

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

Construction Work In Progress

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

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

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

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

Recovery

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

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

Expense

Operation and Maintenance Expense

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

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

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

True-Up

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

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

Audit Findings

Finding 1: Rate of Return on Equity

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

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

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

The Utility responded by stating:

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

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

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

Exhibit

Exhibit 1: True-Up

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

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

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

State of Florida



Public Service Commission

Office of Auditing and Performance Analysis
Bureau of Auditing
Tampa District Office

Auditor's Report

Duke Energy Florida, LLC
Levy Nuclear Units 1 & 2

Twelve Months Ended December 31, 2015

Docket No. 160009-EI

Audit Control No. 16-005-2-1

May 7, 2016

A handwritten signature in blue ink that reads "Ronald A. Mavrides".

Ronald A. Mavrides
Audit Manager

A handwritten signature in blue ink that reads "Linda Hill".

Linda Hill
Reviewer

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Purpose 1

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Audit Findings

 None..... 5

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Office of Industry Development and Market Analysis in its audit service request dated January 5, 2016. We have applied these procedures to the attached schedule prepared by Duke Energy Florida, LLC in support of its 2015 Nuclear Cost Recovery Clause for its construction cost expenditures for the Levy Nuclear Plant Units 1 & 2 filing in Docket No. 160009-EI.

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

Objectives and Procedures

General

Definitions

Utility refers to Duke Energy Florida, LLC

LNP refers to the Levy Nuclear Plant.

NCRC refers to the Nuclear Cost Recovery Clause.

CCRC refers to the Capacity Cost Recovery Clause.

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

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

Utility Information

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

Objectives: The objectives were to determine whether the Utility's 2015 NCRC filing in Docket No. 160009-EI is consistent and in compliance with Section 366.93, Florida Statutes and Rule 25-6.0423, Florida Administrative Code (F.A.C.).

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

Construction Work In Progress

Objectives: The objectives were to determine the 2015 adjustments and additions to the unrecovered Construction Work In Progress (CWIP) jurisdictional balances that are included for recovery and disclose and report the jurisdictional amount of any 2015 adjustments and additions to the unrecovered CWIP balance that are included for recovery.

Procedures: We took the beginning balances of all CWIP costs and reconciled them to the ending balances for the prior year's filing. We judgmentally selected from a summary of CWIP 2015 additions, all November 2015 labor costs from the transaction details and tested them for: 1) Compliance with contracts, 2) Correct paid amounts, and 3) Correct recording periods. We determined that there were no adjustments to unrecovered CWIP jurisdictional balances that are included for recovery. As of December 31, 2015, Account 107.001-CWIP had a zero balance. We reconciled the transaction detail amounts to the filing and the general ledger. No exceptions were noted.

Recovery

Objectives: The objectives were to determine whether the Utility used the Commission approved CCRC factors to bill customers for the period January 1, 2015, through December 31, 2015, and whether the 2015 Detail Calculation of the Revenue Requirements reflects amounts in Order No. PSC-14-0701-FOF-EI.

Procedures: We agreed the beginning balances of the 2015 Detail Calculation of the Revenue Requirements to the ending 2014 Detail Calculation of the Revenue Requirements. We agreed the amount collected on the 2015 Detail Calculation of the Revenue Requirements to the 2015 NCRC jurisdictional factors approved in Order No. PSC-14-0701-FOF-EI and to the CCRC in Docket No. 140001-EI. No exceptions were noted.

Expense

Operation and Maintenance Expense

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

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

Included in the samples were 2015 labor costs, of which we obtained the supporting backup. We recalculated labor costs using employee time sheets and labor rates for employees who provided labor charged to the NCRC during the sample months. We verified the hours worked and recalculated the labor charges recorded by the Utility charged to the NCRC. We verified other costs for proper account, period, and amount. No exceptions were noted.

Long-Lead-Time Items

Objectives: The objectives were to determine whether 2015 disposition, storage, and other such expenses for remaining long-lead-time items were included for cost recovery and to disclose and report the jurisdictional amount of any 2015 disposition, storage, and other such expenses included in jurisdictional expenses.

Procedures: We verified that the only long-lead-time items remaining to be disposed of were the Variable Frequency Drives. The Drives were sold internally for use at the Duke Energy Florida, LLC, Crystal River Energy Complex. Attempts to sell the drives to an external party were unsuccessful. No exceptions were noted.

Litigation Expenses

Objectives: Our objectives were to determine whether Duke/Westinghouse Engineering, Procurement, and Construction contract litigation expenses were included for cost recovery, and 2015 Duke/Westinghouse Engineering, Procurement, and Construction contract litigation expenses included in jurisdictional expenses were disclosed and reported.

Procedure: We verified that there was no litigation expenses included for cost recovery in 2015. No exceptions were noted.

True-Up

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

Procedures: We traced the December 31, 2014, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2015, using the Commission approved beginning balance as of December 31, 2014, the approved 2015 jurisdictional separation factors for capacity revenues and costs to be included in the recovery factor, and the 2015 costs. No exceptions were noted.

Audit Findings

None

Exhibit

Exhibit 1: True-Up

2015 Summary
 Levy Nuclear Units 1 & 2
 January 2015 - December 2015
 Duke Energy Florida

Witness: Thomas G. Foster
 Docket No. 160009-EI
 Duke Energy Florida
 Exhibit: (TGF- 1)

		12-Month Total	
1.	Final Costs for the Period		
	a. Carrying Cost on Unrecovered Investment	\$ 5,977,302	(2015 Detail Line 8d. & 2015 LLE Detail Line 3d.)
	b. Period Exit / Wind-down Costs (including sale of LLE)	(4,312,069)	(2015 Detail Line 5a.)
	c. Period Other Exit / Wind-down Cost and Interest	195,460	(2015 Detail Line 19d.)
	d. Other - Adjustment	(90,860)	(2015 Detail Line 5e.)
	e. Total Period Revenue Requirement	<u>\$ 1,769,833</u>	
2.	Projected Amount for the Period (January - April) (Order No. PSC 14-0701-FOF-EI) (Jan-April) (I.e. \$3.45 / 1000 Kwh Residential) (Order No. PSC-15-0176-TRF-EI) (May-Dec) (\$0.00 / 1000 Kwh)	\$ 2,503,530	(2015 Detail Lines: 10 and 20)
3.	Final True-Up Amount for the Period (over)/under (Line 1e. - Line 2.)	\$ (733,697)	
4.	2015 Revenue Requirement Collected (January - April) (Order No. PSC 14-0701-FOF-EI) (Jan-April) (I.e. \$3.45 / 1000 Kwh Residential) (Order No. PSC-15-0176-TRF-EI) (May-Dec) (\$0.00 / 1000 Kwh)	\$ 36,438,940	(2015 Detail Lines: 6g + 10 + 16 + 20 - 6e)

The summary below shows the uncollected balance as of December 31, 2015

5.	Uncollected Regulatory Asset (Non-\$54M Deferred Amount)	\$ 489,907	(2015 Detail Lines: 6i + 15 + 21)
6.	Carrying Cost on \$54M Deferral (May 2015 - December 2015) (Retail)	3,153,738	(2015 LLE Detail Line 3d.)
7.	Uncollected Balance \$54M Deferral (Retail)	50,275,957	(2015 LLE Detail Line 1a.)
8.	Total Uncollected Balance at Year End 2015 (Lines: 5. + 6. + 7.)	<u>\$ 53,919,601</u>	

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Nuclear cost recovery clause.

DOCKET NO. 170009-EI

DATED: June 20, 2017

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the testimony of DONALD A. MAVRIDES on behalf of the staff of the Florida Public Service Commission was electronically filed with the Office of Commission Clerk, Florida Public Service Commission, and copies were furnished by electronic mail to the following on this 20th day of June 2017.

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CERTIFICATE OF SERVICE
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