



**Matthew R. Bernier**  
SENIOR COUNSEL  
Duke Energy Florida, LLC

October 19, 2017

**Via ELECTRONIC DELIVERY**

Ms. Carlotta Stauffer, Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Re: Docket 170009-EI; Nuclear cost recovery clause

Ms. Stauffer:

Please find enclosed for electronic filing on behalf of Duke Energy Florida, LLC ("DEF") two copies of Revised Exhibit B and DEF's Revised Exhibit C to its Request for Confidential Classification filed on June 19, 2015, in connection with Staff's Project Management Audit Report (Audit Control No. 15-01-001), document number 03767-15 in Docket 20150009-EI. DEF is filing revised exhibits because some of the confidential information contained in the audit report is no longer confidential. Specifically, certain information on pages 4, 14 and 15 is no longer confidential.

Thank you for your assistance in this matter. If you have any questions, please feel free to contact me at (850) 521-1428.

Sincerely,

*/s/ Matthew R. Bernier*  
Matthew R. Bernier

MRB:at  
Attachments

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished via electronic mail to the following this 19<sup>th</sup> day of October, 2017.

*/s/ Matthew R. Bernier*

\_\_\_\_\_  
Attorney

<p>Kyesha Mapp Margo DuVal Office of the General Counsel Florida Public Service Commission 2540 Shumard Oak Blvd. Tallahassee, FL 32399-0850 <a href="mailto:kmapp@psc.state.fl.us">kmapp@psc.state.fl.us</a> <a href="mailto:mduval@psc.state.fl.us">mduval@psc.state.fl.us</a> <a href="mailto:asoete@psc.state.fl.us">asoete@psc.state.fl.us</a></p> <p>Kenneth Hoffman Vice President, Regulatory Affairs Florida Power &amp; Light Company 215 S. Monroe Street, Suite 810 Tallahassee, FL 32301-1858 <a href="mailto:ken.hoffman@fpl.com">ken.hoffman@fpl.com</a></p> <p>Jessica Cano Kevin I.C. Donaldson Florida Power &amp; Light Company 700 Universe Boulevard June Beach, FL 33408-0420 <a href="mailto:jessica.cano@fpl.com">jessica.cano@fpl.com</a> <a href="mailto:kevin.donaldson@fpl.com">kevin.donaldson@fpl.com</a></p> <p>Jon C. Moyle, Jr. Moyle Law Firm, P.A. 118 North Gadsden Street Tallahassee, FL 32301 <a href="mailto:jmoyle@moylelaw.com">jmoyle@moylelaw.com</a></p> <p>George Cavros 120 E. Oakland Park Blvd, Suite 105 Fort Lauderdale, FL 33334 <a href="mailto:george@cavros-law.com">george@cavros-law.com</a></p>	<p>J.R. Kelly Charles J. Rehwinkel Patty Christensen Office of Public Counsel c/o The Florida Legislature 111 West Madison Street, Room 812 Tallahassee, FL 32399 <a href="mailto:kelly.jr@leg.state.fl.us">kelly.jr@leg.state.fl.us</a> <a href="mailto:rehwinkel.charles@leg.state.fl.us">rehwinkel.charles@leg.state.fl.us</a> <a href="mailto:christensen.patty@leg.state.fl.us">christensen.patty@leg.state.fl.us</a></p> <p>Robert Scheffel Wright John T. LaVia III Gardner Law Firm 1300 Thomaswood Drive Tallahassee, FL 32308 <a href="mailto:schef@gbwlegal.com">schef@gbwlegal.com</a> <a href="mailto:jlavia@gbwlegal.com">jlavia@gbwlegal.com</a></p> <p>James W. Brew Laura A. Wynn Stone Mattheis Xenopoulos &amp; Brew, P.C. 1025 Thomas Jefferson Street, NW Eighth Floor, West Tower Washington, D.C. 20007 <a href="mailto:jbrew@smxblaw.com">jbrew@smxblaw.com</a> <a href="mailto:law@smxblaw.com">law@smxblaw.com</a></p>
---	--

**Revised Exhibit B**  
**Docket 20150009-EI**

(Staff Audit Report)

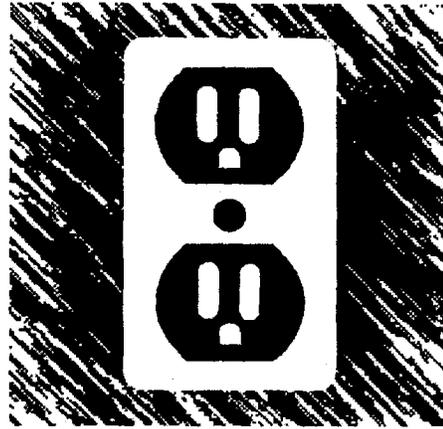
(Audit Control No. 15-01-001)

**Redacted**

**DUKE ENERGY FLORIDA**  
**In re: Nuclear Cost Recovery Clause**  
**Docket 150009-EI**  
**Fifth Request for Confidential Classification**

Exhibit B

REDACTED



**Review of  
Duke Energy Florida Inc.'s  
Project Management  
Internal Controls for  
Nuclear Plant Uprate and  
Construction Projects**

June 2015

BY AUTHORITY OF  
The Florida Public Service Commission  
Office of Auditing and Performance Analysis

REDACTED

**Review of  
Duke Energy Florida's  
Project Management  
Internal Controls  
for  
Nuclear Plant Uprate and  
Construction Projects**

**William "Tripp" Coston  
Public Utility Analyst IV  
Project Manager**

**June 2015**

**By Authority of  
The State of Florida  
Public Service Commission  
Office of Auditing and Performance Analysis**

REDACTED

**PA-15-01-001**

investment recovery guidance procedures. After considering all internal transfers, the company's disposition approach evolved, starting with a listed bid approach and shifting to a public auction. Under the listed bid process, the company listed assets for a designated timeframe, allowing bids to be submitted, considered, and accepted. After evaluation, management made the decision in second quarter 2014 to shift to a public auction approach. The public auction approach allowed the company to divest the majority of remaining assets through a one time, publicized event. Factors considered for this decision included the time, resources, and costs needed to continue with the list bid approach.

The company states that both approaches yielded the same result—the ability to disposition EPU-related assets at the current market value. The company believes that it received the appropriate market value for each asset sold. An overriding consideration is the understanding that, while many nuclear plants contain similar components, the equipment in question is often designed to specification for the intended generating unit. As such, many of the high-valued assets were only marketable at salvage-value.

The company does not believe that either approach lent itself to a more advantageous outcome. Given the differences in various assets, Commission audit staff notes that it is difficult to assess whether one approach was more successful in terms of maximizing the sale price. For both approaches, marketing the assets to the appropriate buyers was a key focus. Commission audit staff believes that DEF made appropriate efforts to identify and market its assets to a wide range of potential buyers under each approach. Commission audit staff believes both approaches were reasonable and allowable under the company's written procedures.

The company is still working to disposition components of the high and low pressure turbines purchased for the EPU. The company anticipates completing the negotiations for possible sale to the manufacturer (Siemens) by the end of summer. Audit staff notes that the company continues to incur administrative and maintenance costs for this equipment adding to a need for swift action.

**2.2 Asset Disposition**

The company developed a disposition plan for handling the LLE initiated through the EPC contract. The plan focuses on minimizing the costs and other risks to the company. The Levy management team considered two options when looking at the status of this equipment: disposal or storage. After review and evaluation, management made the decision to dispose of all LLE items under the EPC contract. The approved plan required the team to consider the following options when handling the LLE:

- ◆ Reuse the equipment at another Duke Energy plant
- ◆ Sell equipment for salvage/scrap value
- ◆ Sell equipment to another AP1000 owner group
- ◆ Sell equipment to a Westinghouse sub-contractor.

Exhibit 2 shows the company's decision for the LLE contracts.

<b>Duke Energy Florida Levy Nuclear Project Long Lead Equipment Disposition</b>					
<b>Contractor/ Equipment</b>	<b>Disposition Date</b>	<b>Original Cost</b>	<b>Paid</b>	<b>Settled Cost</b>	<b>Disposition Decision</b>
Mangiarotti- various equipment components in grouping	11/7/2013				
Tioga-Cooling Loop Piping	1/09/2014				
Doosan-Steam Generators	11/18/2014				
Doosan-Reactor Vessel	11/18/2014				
Toshiba-Turbine/Generator	N/A				
Siemens-Variable Frequency Drives	Pending				
SPX-Squib Valves	12/10/2014				
EMD-reactor coolant pumps	11/18/2014				
<b>Total</b>					

**Exhibit 2**

Source: Data Request 1.22

Considering these options, during 2014, the company worked with Westinghouse to negotiate the disposition of remaining long-lead items initiated under the EPC contract. At the time of

REDACTED

cancelation, much of this equipment was in various stages of fabrication. Some equipment was fully constructed and maintained in controlled storage facilities. For these key items in storage—the Variable Frequency Drives (VFDs) and the steam generator tubing--the company was paying fees for maintenance and upkeep.

The company notes it has fulfilled its required milestone payments for the LLE since the initial contract inception. In some cases, the company had met all financial obligations for the equipment and this equipment was maintained in storage facilities until future installation. The company did make the decision to take possession of the VFDs, and is in the process of making a decision for long-term resolution of the equipment.

DEF's approach required the company to consider selling or transferring the LLE assets to other nuclear plant owners or other Duke Energy plants. The company considered the possibility of offering these assets for open auction. It determined that there was neither outside demand nor need among Duke Energy Affiliates for this equipment. All future AP1000 owners were contacted. The company evaluated these options from late 2013 through April 2014.

The EPC contract contains provisions that, if exercised, allow DEF to assume and possession of individual LLE contracts. In June 2014, the company requested that Westinghouse provide all vendor/manufacture contract terms so DEF could consider the option of assuming and taking possession of the remaining LLE equipment. Assuming the subcontract and taking possession of the equipment would allow DEF the opportunity to make the determination on how to disposition an asset directly with the sub-vendor. If DEF management agreed to take over the vendor contracts, the company would also assume all remaining liability and costs. DEF considered each item individually and determined which items to offer to buy out without taking possession, purchase directly and take possession, or leave to be resolved through the legal resolution of the contract. These options were evaluated for all remaining LLE contracts. A settlement was reached on the following contracts:

- ◆ Mangiarotti equipment (Accumulator tank, PRHR heat exchanger, pressurizer, core makeup tank)
- ◆ Tioga-reactor coolant loop piping
- ◆ SPX-squib valves

After discussions with DEF, [REDACTED]

[REDACTED] To address these concerns, DEF management states that the company adjusted its plan to offer the equipment under an initial general interest listed-bid event in June 2014. This event

REDACTED

was designed to share limited information about each specific asset to potential buyers to give DEF an indication of interest in the equipment.

[REDACTED]  
[REDACTED] The items were listed in a way to let potential bidders know that a follow-up event would occur with more specific details on the equipment for the interested parties. In the end, [REDACTED], eliminating the opportunity to complete the auction process.

The company resolved the disposition of the Mangiarotti Equipment and Tioga-reactor cooling looping piping prior to EPC cancelation through settlement arrangements with Westinghouse and the sub-vendors. For these items, DEF management determined it was best to discontinue the manufacturing process, and agreed upon an amount to be paid for already-incurred time and material costs. In total, the company paid approximately [REDACTED] to resolve these items. After review of company documents, Commission audit staff determined that, given the highly specialized nature of this equipment, the company's approach and decisions were reasonable.

Management made the decision under the EPC contract to assume the SPX-Squib valves. According to DEF, Westinghouse expressed an interest in purchasing this equipment, but the companies could not agree on a contract price. DEF states that in September of 2014,

[REDACTED]  
[REDACTED] No sale was accomplished and company management decided to take possession of the equipment. At this point, DEF had paid approximately [REDACTED] in milestone payments for this equipment. In the end, the company settled with the manufacturer, allowing DEF to recover approximately [REDACTED]. The company believes that the selling back to the manufacturer was the appropriate decision given the limited number of potential buyers.

### 2.3 NRC Licensing

Under the Commission-approved settlement in Docket No. 130208-EI, DEF agreed to continue its efforts to obtain the Levy Combined Operating License. Though related costs are not included within the NRC docket, the ability for the project to be completed at a future point in time is contingent upon the issuance of the COL.

Currently, at the NRC, the Levy COL application is the lead for in-process AP1000 COL applications. The NRC is using the Levy application for documenting all pending engineering modifications. The NRC has several open engineering design issues for the AP1000, and the Levy final approval schedule is contingent upon the resolution of these open items. The ongoing condensate return issue is the most impactful open design issue. A follow-up meeting with the NRC on the condensate return issue is scheduled for September 2015.

REDACTED

## **2. 4 Levy Construction Close-Out Costs**

In 2014, the company states it incurred an estimated [REDACTED] in wind-down costs for the company's effort to terminate the EPC contract with Westinghouse. The company notes that these costs were required for the following efforts:

- ◆ Tioga long-lead equipment resolution
- ◆ Final payments for the Stone & Webster work completed under the EPC
- ◆ Storage, insurance, and monitoring of the LLE (complete and in current production)
- ◆ DEF labor involved with LLE disposition
- ◆ Westinghouse support necessary to negotiate LLE resolution
- ◆ Regulatory and administrative costs

These actions are required to finalize the termination of the EPC contract. Audit staff reviewed these costs and believes the actions supporting the request were reasonable to minimize total costs and comply with contractual obligations.

**3.2 Listed Bid Event Approach for Disposition**

In the spring of 2014, the IRP team conducted a series of specialized listed bid events for certain EPU assets. The events were online offerings that advertised equipment to targeted potential electric industry buyers. These included resources such as industry websites and industry publications. Offers were handled through a closed bid process. The items and events were offered throughout the industry via targeted marketing and industry-focused websites. Marketing included print advertisements in trade publications, and on industry websites.

The IRP team managed these events with coordination from Duke Energy Corporate Procurement. Concurrently, the IRP group hosted similar bid events for non-EPU CR3 assets. As shown on Exhibit 4, the company hosted 11 EPU-related bid events yielding sales revenues of \$1,032,418. For the EPU assets, the company finalized four bid events during March 2014, four during April 2014, and three during May 2014. Lot groupings included EPU-related items such as storage equipment, cooling tower components, construction tools, and motors.

<b>Company Initiated Listed Bid Events CR3 EPU Assets 2014</b>			
<b>Asset</b>	<b>Cost</b>	<b>Sale Amount</b>	<b>Month Sold</b>
Tent, Lighting, Structural Members	██████████	██████████	March 2014
3500 HP Motors--(3) Lube Oil Skids--(2)	██████████	██████████	March 2014
Tent with tools and materials	██████████	██████████	March 2014
Fire Cabinets--(8)	██████████	██████████	March 2014
Gantry Crane	██████████	██████████	April 2014
Cooling Tower (all)	██████████	██████████	April 2014
Sealand-(1)	██████████	██████████	April 2014
Sealand-(4)	██████████	██████████	April 2014
Relief Valves	██████████	██████████	May 2014
Relief Valves	██████████	██████████	May 2014
AKPD 5 stage Pumps--(34)	██████████	██████████	May 2014
<b>Total</b>	<b>\$15,341,111</b>	<b>\$1,032,418</b>	<b>11 Bid Events</b>

**Exhibit 4**

Source: Data Request 1.5

IRP management states that leading up to these bid events, the team organized and grouped items for maximum bid interest and value. Management stated that when determining the order of items to list, the company considered the logistics of how and where the assets were housed on the site. This approach allowed the company to move larger items off-site first and free-up space on the site.

One large asset sold through this process was the Cooling Tower equipment. The company received several bids for this equipment, and accepted the highest bid for the entire lot. This equipment was one of the largest assets sold, and a portion of the proceeds were credited back through the NCRC.

REDACTED

Prior to initiating the listed bid events, the IRP team provided a listing of assets for internal distribution within Duke Energy. The IRP team was able to transfer four assets within the company using this process. The sale and proceeds comported with the requirement to transfer the assets at book value, as shown in Exhibit 5 which details these transactions.

<b>Transfers to Duke Energy Affiliates CR3 EPU Assets 2014</b>			
<b>Asset</b>	<b>Cost</b>	<b>Sale Amount</b>	<b>Month Sold</b>
Blade Vibration Sensor and Sensor Adapter	██████	██████	February 2014
Sealand—two	██████	██████	April 2014
Gang Boxes—(2) Fire Safe Chest Carts—(5) Various tools	██████	██████	April 2014
Gang Boxes—(4) Carts—(4) Various tools	██████	██████	April 2014
<b>Total</b>	<b>\$36,336</b>	<b>\$35,972</b>	<b>4 Events</b>

Exhibit 5

Source: Data Request 1.5

### 3.3 Public Auction Approach for Disposition

In mid-2014, the company made the decision to shift its approach from a listed bid event process to a public auction for the remaining EPU and non-EPU assets. Management states its rationale for this decision was the challenge and cost of working the high volume of equipment through the bid event process. Management states that substantial additional resources would be needed to fully process all the equipment through the listed bid event approach. The company believed that the additional costs for hiring resources for this disposal method would negatively impact any additional revenue obtained through this approach.

In March 2014, Southern California Edison conducted a public auction of its non-nuclear assets from its San Onofre Nuclear Generating Station. DEF sent representatives to this event to assess its success and determine whether this approach would be a viable option for its remaining CR3 assets. After reviewing the process and discussions with Southern California Edison, DEF believed this approach was viable, and that the event garnered enough public interest to support the effort. The IRP team made a proposal that the company use the one-time, public auction approach for the remaining assets. This recommendation was presented and approved by senior management. Commission audit staff believes the decision to shift from a listed bid event approach to a public auction was reasonable.

The company issued a Request for Proposals to twelve large and small auction groups. Proposals were received from five auction companies and two finalists were brought in for on-site presentations. Management states the company chose to limit the number of potential vendors due to the specialized nature of conducting a large-scale industrial auction. DEF states that these

auction companies had experience in large-industrial based auctions, and demonstrated successful marketing to buyers interested in industrial equipment. The contract executed with the selected vendor specified the auction approach and the budget. According to DEF, compensation for expenses and commissions were in keeping with standard investment recovery practices.

A factor in selecting the chosen vendor was its global marketing presence. One asset—the EPU-related Low Pressure turbines—was potentially the highest value sale opportunity, and DEF believed that there was potential for a sale to an overseas company. The selected vendor proposed and used a mix of printed advertising in both industry publications and flyers at industry conferences, targeted calls to potential buyers, social media to industry groups, and general advertising to the public and non-industry bidders such as salvage dealers. DEF believes that this marketing effort reached a global 100,000 potential bidders. Commission audit staff believes the company’s justifications for selecting this vendor were reasonable.

The auction was held September 24 through 26, 2014, with bids accepted via the Internet and phone. The auction was a sell-all event with no price reserves on lots. DEF reserved the right to reject the final bid only if the company believed that the sale price was below the cost of removal from the unit or site.

In total, the auction included 100 bidders, and the company sold 50 lots/groupings of EPU-assets. The total collected for these items was approximately \$90,500. The original cost for these assets was approximately \$5,229,212, not including the original cost for the NUS Rapid Cool Down System equipment which was not broken out separately in its contract.

Several large installed items offered did not sell through the closed-bid or public auction process. For this equipment, the company made the decision in January 2015 to discontinue sales efforts and to abandon in-place during decommissioning. This equipment is highly-specialized with limited marketability and the salvage value would not support the cost for removal. These assets and their original value are shown in **Exhibit 6**.

Major Installed EPU-Assets to be Abandoned In Place	
Equipment	Value
Stator Core and Rewound Generator Rotor	[REDACTED]
Feedwater Heat Exchangers	[REDACTED]
Belly Drain Heat Exchangers	[REDACTED]
Isophase Bus Duct Cooling Skid	[REDACTED]
Moisture Separator Reheaters	[REDACTED]

**Exhibit 6**

Source: Data Request 3.1

### 3.4 EPU Siemens Components Disposition

Certain Siemens components did not sell during the auction. These are one-of-a-kind specialized components with limited marketability. In one case, the Low Pressure turbine, issues surrounding its blades reduced the possibility of resale outside the salvage market. The details of

this were discussed in the Commission audit report in the Docket No. 120009-EI. DEF and Siemens engaged in discussions regarding certain remaining Siemens equipment, but could not reach an agreement on a sales price. DEF made the decision to list the equipment in the auction, in hopes of selling the entire component set.

After the auction, Siemens once again engaged DEF about the equipment. Talks continue and a purchase agreement remains possible. If the two companies reach an agreement, the proceeds will be credited through the company’s NCRC recovery filing. The original cost for this equipment was approximately [REDACTED]. The equipment and components currently under negotiation are shown in **Exhibit 7** and are currently installed or housed in the CR3 unit.

Remaining EPU-Equipment Considered for Disposition	
Components	Original Equipment Cost
High Pressure Turbine and Equipment (uninstalled)	[REDACTED]
Turbine Lubricating Oil Cooler Tube Bundles	[REDACTED]
Siemens Exciter (installed)	[REDACTED]
Siemens Hydrogen Cooler (installed) <sup>1</sup>	[REDACTED]
Siemens Low Pressure Turbine Rotors, Blades, Cylinders, and parts (uninstalled)	[REDACTED]

**Exhibit 7**

Source: Data Request 3.2

Due to ongoing contract negotiations, it is not known what recovery may be received from this equipment. If the companies are unable to reach an agreement for this equipment, DEF has made the decision to abandon this unsold equipment in its current location. The company made this decision due to the high costs associated with removal.

The company is in the process of closing out its Investment Recovery Program for CR3. The company will continue to maintain the remaining Siemens equipment until it finishes its negotiations with Siemens. The company will continue to maintain monthly maintenance and administrative costs for the EPU project. The company believes the project will be closed in fall 2015, with costs continuing through that time.

<sup>1</sup> The cost provided for the Hydrogen Cooler is a subset of the overall Generator work. The company estimated the amount attributed for this equipment.

**Revised Exhibit B**  
**Docket 20150009-EI**

(Staff Audit Report)

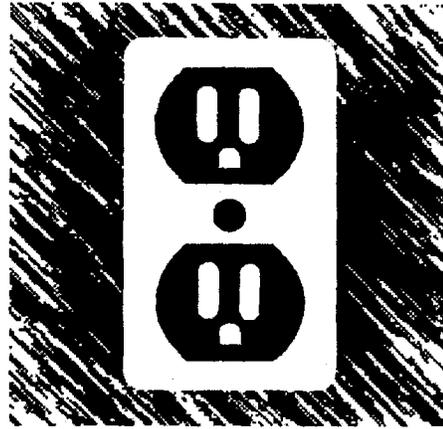
(Audit Control No. 15-01-001)

**Redacted**

**DUKE ENERGY FLORIDA**  
**In re: Nuclear Cost Recovery Clause**  
**Docket 150009-EI**  
**Fifth Request for Confidential Classification**

Exhibit B

REDACTED



**Review of  
Duke Energy Florida Inc.'s  
Project Management  
Internal Controls for  
Nuclear Plant Uprate and  
Construction Projects**

June 2015

BY AUTHORITY OF  
The Florida Public Service Commission  
Office of Auditing and Performance Analysis

REDACTED

**Review of  
Duke Energy Florida's  
Project Management  
Internal Controls  
for  
Nuclear Plant Uprate and  
Construction Projects**

**William "Tripp" Coston  
Public Utility Analyst IV  
Project Manager**

**June 2015**

**By Authority of  
The State of Florida  
Public Service Commission  
Office of Auditing and Performance Analysis**

REDACTED

**PA-15-01-001**

investment recovery guidance procedures. After considering all internal transfers, the company's disposition approach evolved, starting with a listed bid approach and shifting to a public auction. Under the listed bid process, the company listed assets for a designated timeframe, allowing bids to be submitted, considered, and accepted. After evaluation, management made the decision in second quarter 2014 to shift to a public auction approach. The public auction approach allowed the company to divest the majority of remaining assets through a one time, publicized event. Factors considered for this decision included the time, resources, and costs needed to continue with the list bid approach.

The company states that both approaches yielded the same result—the ability to disposition EPU-related assets at the current market value. The company believes that it received the appropriate market value for each asset sold. An overriding consideration is the understanding that, while many nuclear plants contain similar components, the equipment in question is often designed to specification for the intended generating unit. As such, many of the high-valued assets were only marketable at salvage-value.

The company does not believe that either approach lent itself to a more advantageous outcome. Given the differences in various assets, Commission audit staff notes that it is difficult to assess whether one approach was more successful in terms of maximizing the sale price. For both approaches, marketing the assets to the appropriate buyers was a key focus. Commission audit staff believes that DEF made appropriate efforts to identify and market its assets to a wide range of potential buyers under each approach. Commission audit staff believes both approaches were reasonable and allowable under the company's written procedures.

The company is still working to disposition components of the high and low pressure turbines purchased for the EPU. The company anticipates completing the negotiations for possible sale to the manufacturer (Siemens) by the end of summer. Audit staff notes that the company continues to incur administrative and maintenance costs for this equipment adding to a need for swift action.

**2.2 Asset Disposition**

The company developed a disposition plan for handling the LLE initiated through the EPC contract. The plan focuses on minimizing the costs and other risks to the company. The Levy management team considered two options when looking at the status of this equipment: disposal or storage. After review and evaluation, management made the decision to dispose of all LLE items under the EPC contract. The approved plan required the team to consider the following options when handling the LLE:

- ◆ Reuse the equipment at another Duke Energy plant
- ◆ Sell equipment for salvage/scrap value
- ◆ Sell equipment to another AP1000 owner group
- ◆ Sell equipment to a Westinghouse sub-contractor.

Exhibit 2 shows the company's decision for the LLE contracts.

<b>Duke Energy Florida Levy Nuclear Project Long Lead Equipment Disposition</b>					
<b>Contractor/ Equipment</b>	<b>Disposition Date</b>	<b>Original Cost</b>	<b>Paid</b>	<b>Settled Cost</b>	<b>Disposition Decision</b>
Mangiarotti- various equipment components in grouping	11/7/2013				
Tioga-Cooling Loop Piping	1/09/2014				
Doosan-Steam Generators	11/18/2014				
Doosan-Reactor Vessel	11/18/2014				
Toshiba-Turbine/Generator	N/A				
Siemens-Variable Frequency Drives	Pending				
SPX-Squib Valves	12/10/2014				
EMD-reactor coolant pumps	11/18/2014				
<b>Total</b>					

**Exhibit 2**

Source: Data Request 1.22

Considering these options, during 2014, the company worked with Westinghouse to negotiate the disposition of remaining long-lead items initiated under the EPC contract. At the time of

REDACTED

cancelation, much of this equipment was in various stages of fabrication. Some equipment was fully constructed and maintained in controlled storage facilities. For these key items in storage—the Variable Frequency Drives (VFDs) and the steam generator tubing--the company was paying fees for maintenance and upkeep.

The company notes it has fulfilled its required milestone payments for the LLE since the initial contract inception. In some cases, the company had met all financial obligations for the equipment and this equipment was maintained in storage facilities until future installation. The company did make the decision to take possession of the VFDs, and is in the process of making a decision for long-term resolution of the equipment.

DEF's approach required the company to consider selling or transferring the LLE assets to other nuclear plant owners or other Duke Energy plants. The company considered the possibility of offering these assets for open auction. It determined that there was neither outside demand nor need among Duke Energy Affiliates for this equipment. All future AP1000 owners were contacted. The company evaluated these options from late 2013 through April 2014.

The EPC contract contains provisions that, if exercised, allow DEF to assume and possession of individual LLE contracts. In June 2014, the company requested that Westinghouse provide all vendor/manufacture contract terms so DEF could consider the option of assuming and taking possession of the remaining LLE equipment. Assuming the subcontract and taking possession of the equipment would allow DEF the opportunity to make the determination on how to disposition an asset directly with the sub-vendor. If DEF management agreed to take over the vendor contracts, the company would also assume all remaining liability and costs. DEF considered each item individually and determined which items to offer to buy out without taking possession, purchase directly and take possession, or leave to be resolved through the legal resolution of the contract. These options were evaluated for all remaining LLE contracts. A settlement was reached on the following contracts:

- ◆ Mangiarotti equipment (Accumulator tank, PRHR heat exchanger, pressurizer, core makeup tank)
- ◆ Tioga-reactor coolant loop piping
- ◆ SPX-squib valves

After discussions with DEF, [REDACTED]

[REDACTED] To address these concerns, DEF management states that the company adjusted its plan to offer the equipment under an initial general interest listed-bid event in June 2014. This event

REDACTED

was designed to share limited information about each specific asset to potential buyers to give DEF an indication of interest in the equipment.

[REDACTED]  
[REDACTED] The items were listed in a way to let potential bidders know that a follow-up event would occur with more specific details on the equipment for the interested parties. In the end, [REDACTED], eliminating the opportunity to complete the auction process.

The company resolved the disposition of the Mangiarotti Equipment and Tioga-reactor cooling looping piping prior to EPC cancelation through settlement arrangements with Westinghouse and the sub-vendors. For these items, DEF management determined it was best to discontinue the manufacturing process, and agreed upon an amount to be paid for already-incurred time and material costs. In total, the company paid approximately [REDACTED] to resolve these items. After review of company documents, Commission audit staff determined that, given the highly specialized nature of this equipment, the company's approach and decisions were reasonable.

Management made the decision under the EPC contract to assume the SPX-Squib valves. According to DEF, Westinghouse expressed an interest in purchasing this equipment, but the companies could not agree on a contract price. DEF states that in September of 2014,

[REDACTED]  
[REDACTED]

[REDACTED]  
[REDACTED] No sale was accomplished and company management decided to take possession of the equipment. At this point, DEF had paid approximately [REDACTED] in milestone payments for this equipment. In the end, the company settled with the manufacturer, allowing DEF to recover approximately [REDACTED]. The company believes that the selling back to the manufacturer was the appropriate decision given the limited number of potential buyers.

### **2.3 NRC Licensing**

Under the Commission-approved settlement in Docket No. 130208-EI, DEF agreed to continue its efforts to obtain the Levy Combined Operating License. Though related costs are not included within the NRC docket, the ability for the project to be completed at a future point in time is contingent upon the issuance of the COL.

Currently, at the NRC, the Levy COL application is the lead for in-process AP1000 COL applications. The NRC is using the Levy application for documenting all pending engineering modifications. The NRC has several open engineering design issues for the AP1000, and the Levy final approval schedule is contingent upon the resolution of these open items. The ongoing condensate return issue is the most impactful open design issue. A follow-up meeting with the NRC on the condensate return issue is scheduled for September 2015.

REDACTED

## **2. 4 Levy Construction Close-Out Costs**

In 2014, the company states it incurred an estimated [REDACTED] in wind-down costs for the company's effort to terminate the EPC contract with Westinghouse. The company notes that these costs were required for the following efforts:

- ◆ Tioga long-lead equipment resolution
- ◆ Final payments for the Stone & Webster work completed under the EPC
- ◆ Storage, insurance, and monitoring of the LLE (complete and in current production)
- ◆ DEF labor involved with LLE disposition
- ◆ Westinghouse support necessary to negotiate LLE resolution
- ◆ Regulatory and administrative costs

These actions are required to finalize the termination of the EPC contract. Audit staff reviewed these costs and believes the actions supporting the request were reasonable to minimize total costs and comply with contractual obligations.

**3.2 Listed Bid Event Approach for Disposition**

In the spring of 2014, the IRP team conducted a series of specialized listed bid events for certain EPU assets. The events were online offerings that advertised equipment to targeted potential electric industry buyers. These included resources such as industry websites and industry publications. Offers were handled through a closed bid process. The items and events were offered throughout the industry via targeted marketing and industry-focused websites. Marketing included print advertisements in trade publications, and on industry websites.

The IRP team managed these events with coordination from Duke Energy Corporate Procurement. Concurrently, the IRP group hosted similar bid events for non-EPU CR3 assets. As shown on Exhibit 4, the company hosted 11 EPU-related bid events yielding sales revenues of \$1,032,418. For the EPU assets, the company finalized four bid events during March 2014, four during April 2014, and three during May 2014. Lot groupings included EPU-related items such as storage equipment, cooling tower components, construction tools, and motors.

<b>Company Initiated Listed Bid Events CR3 EPU Assets 2014</b>			
<b>Asset</b>	<b>Cost</b>	<b>Sale Amount</b>	<b>Month Sold</b>
Tent, Lighting, Structural Members	██████████	██████████	March 2014
3500 HP Motors--(3) Lube Oil Skids--(2)	██████████	██████████	March 2014
Tent with tools and materials	██████████	██████████	March 2014
Fire Cabinets--(8)	██████████	██████████	March 2014
Gantry Crane	██████████	██████████	April 2014
Cooling Tower (all)	██████████	██████████	April 2014
Sealand-(1)	██████████	██████████	April 2014
Sealand-(4)	██████████	██████████	April 2014
Relief Valves	██████████	██████████	May 2014
Relief Valves	██████████	██████████	May 2014
AKPD 5 stage Pumps--(34)	██████████	██████████	May 2014
<b>Total</b>	<b>\$15,341,111</b>	<b>\$1,032,418</b>	<b>11 Bid Events</b>

**Exhibit 4**

Source: Data Request 1.5

IRP management states that leading up to these bid events, the team organized and grouped items for maximum bid interest and value. Management stated that when determining the order of items to list, the company considered the logistics of how and where the assets were housed on the site. This approach allowed the company to move larger items off-site first and free-up space on the site.

One large asset sold through this process was the Cooling Tower equipment. The company received several bids for this equipment, and accepted the highest bid for the entire lot. This equipment was one of the largest assets sold, and a portion of the proceeds were credited back through the NCRC.

REDACTED

Prior to initiating the listed bid events, the IRP team provided a listing of assets for internal distribution within Duke Energy. The IRP team was able to transfer four assets within the company using this process. The sale and proceeds comported with the requirement to transfer the assets at book value, as shown in Exhibit 5 which details these transactions.

<b>Transfers to Duke Energy Affiliates CR3 EPU Assets 2014</b>			
Asset	Cost	Sale Amount	Month Sold
Blade Vibration Sensor and Sensor Adapter	██████	██████	February 2014
Sealand—two	██████	██████	April 2014
Gang Boxes—(2) Fire Safe Chest Carts—(5) Various tools	██████	██████	April 2014
Gang Boxes—(4) Carts—(4) Various tools	██████	██████	April 2014
<b>Total</b>	<b>\$36,336</b>	<b>\$35,972</b>	<b>4 Events</b>

**Exhibit 5**

*Source: Data Request 1.5*

### 3.3 Public Auction Approach for Disposition

In mid-2014, the company made the decision to shift its approach from a listed bid event process to a public auction for the remaining EPU and non-EPU assets. Management states its rationale for this decision was the challenge and cost of working the high volume of equipment through the bid event process. Management states that substantial additional resources would be needed to fully process all the equipment through the listed bid event approach. The company believed that the additional costs for hiring resources for this disposal method would negatively impact any additional revenue obtained through this approach.

In March 2014, Southern California Edison conducted a public auction of its non-nuclear assets from its San Onofre Nuclear Generating Station. DEF sent representatives to this event to assess its success and determine whether this approach would be a viable option for its remaining CR3 assets. After reviewing the process and discussions with Southern California Edison, DEF believed this approach was viable, and that the event garnered enough public interest to support the effort. The IRP team made a proposal that the company use the one-time, public auction approach for the remaining assets. This recommendation was presented and approved by senior management. Commission audit staff believes the decision to shift from a listed bid event approach to a public auction was reasonable.

The company issued a Request for Proposals to twelve large and small auction groups. Proposals were received from five auction companies and two finalists were brought in for on-site presentations. Management states the company chose to limit the number of potential vendors due to the specialized nature of conducting a large-scale industrial auction. DEF states that these

auction companies had experience in large-industrial based auctions, and demonstrated successful marketing to buyers interested in industrial equipment. The contract executed with the selected vendor specified the auction approach and the budget. According to DEF, compensation for expenses and commissions were in keeping with standard investment recovery practices.

A factor in selecting the chosen vendor was its global marketing presence. One asset—the EPU-related Low Pressure turbines—was potentially the highest value sale opportunity, and DEF believed that there was potential for a sale to an overseas company. The selected vendor proposed and used a mix of printed advertising in both industry publications and flyers at industry conferences, targeted calls to potential buyers, social media to industry groups, and general advertising to the public and non-industry bidders such as salvage dealers. DEF believes that this marketing effort reached a global 100,000 potential bidders. Commission audit staff believes the company’s justifications for selecting this vendor were reasonable.

The auction was held September 24 through 26, 2014, with bids accepted via the Internet and phone. The auction was a sell-all event with no price reserves on lots. DEF reserved the right to reject the final bid only if the company believed that the sale price was below the cost of removal from the unit or site.

In total, the auction included 100 bidders, and the company sold 50 lots/groupings of EPU-assets. The total collected for these items was approximately \$90,500. The original cost for these assets was approximately \$5,229,212, not including the original cost for the NUS Rapid Cool Down System equipment which was not broken out separately in its contract.

Several large installed items offered did not sell through the closed-bid or public auction process. For this equipment, the company made the decision in January 2015 to discontinue sales efforts and to abandon in-place during decommissioning. This equipment is highly-specialized with limited marketability and the salvage value would not support the cost for removal. These assets and their original value are shown in **Exhibit 6**.

Major Installed EPU-Assets to be Abandoned In Place	
Equipment	Value
Stator Core and Rewound Generator Rotor	[REDACTED]
Feedwater Heat Exchangers	[REDACTED]
Belly Drain Heat Exchangers	[REDACTED]
Isophase Bus Duct Cooling Skid	[REDACTED]
Moisture Separator Reheaters	[REDACTED]

**Exhibit 6**

Source: Data Request 3.1

### 3.4 EPU Siemens Components Disposition

Certain Siemens components did not sell during the auction. These are one-of-a-kind specialized components with limited marketability. In one case, the Low Pressure turbine, issues surrounding its blades reduced the possibility of resale outside the salvage market. The details of

this were discussed in the Commission audit report in the Docket No. 120009-EI. DEF and Siemens engaged in discussions regarding certain remaining Siemens equipment, but could not reach an agreement on a sales price. DEF made the decision to list the equipment in the auction, in hopes of selling the entire component set.

After the auction, Siemens once again engaged DEF about the equipment. Talks continue and a purchase agreement remains possible. If the two companies reach an agreement, the proceeds will be credited through the company’s NCRC recovery filing. The original cost for this equipment was approximately [REDACTED]. The equipment and components currently under negotiation are shown in **Exhibit 7** and are currently installed or housed in the CR3 unit.

Remaining EPU-Equipment Considered for Disposition	
Components	Original Equipment Cost
High Pressure Turbine and Equipment (uninstalled)	[REDACTED]
Turbine Lubricating Oil Cooler Tube Bundles	[REDACTED]
Siemens Exciter (installed)	[REDACTED]
Siemens Hydrogen Cooler (installed) <sup>1</sup>	[REDACTED]
Siemens Low Pressure Turbine Rotors, Blades, Cylinders, and parts (uninstalled)	[REDACTED]

**Exhibit 7**

Source: Data Request 3.2

Due to ongoing contract negotiations, it is not known what recovery may be received from this equipment. If the companies are unable to reach an agreement for this equipment, DEF has made the decision to abandon this unsold equipment in its current location. The company made this decision due to the high costs associated with removal.

The company is in the process of closing out its Investment Recovery Program for CR3. The company will continue to maintain the remaining Siemens equipment until it finishes its negotiations with Siemens. The company will continue to maintain monthly maintenance and administrative costs for the EPU project. The company believes the project will be closed in fall 2015, with costs continuing through that time.

<sup>1</sup> The cost provided for the Hydrogen Cooler is a subset of the overall Generator work. The company estimated the amount attributed for this equipment.

**DUKE ENERGY FLORIDA DOCKET 20150009-EI**  
**Fifth Request for Confidential Classification**  
**Confidentiality Justification Matrix**  
**ATTACHMENT C**

<b>DOCUMENT</b>	<b>PAGE/LINE/ COLUMN</b>	<b>JUSTIFICATION</b>
<p>Review of Duke Energy Florida's Project Management Internal Controls for Nuclear Plant Uprate and Construction Projects, PA-15-01-001, June 2015</p>	<p>Page 6, Table, all information in 3rd through 6th columns; Page 7, 3rd paragraph in its entirety, last paragraph, 1st line, all words except first four, 2nd and 3rd lines in their entirety, 4th line, first word; Page 8, 2nd paragraph, 1st line in its entirety, 2nd line, first three words, 4th line, all words except first two, 5th line, 1st through fifth words, 3rd paragraph, 5th line, ninth and tenth words, 4th paragraph, last two lines in their entirety, 5<sup>th</sup> paragraph, 1st line in its entirety, 2nd line, first ten words, 4th line, second and third words, 5thline, last five words, 6th line, first word; Page 10, 1st line, tenth and eleventh words; Page 12, Table, all information in columns 2 and 3 exclusive of last line; Page 13, Table, all information in 2nd and 3rd columns exclusive of last line; Page 14, Table, all information in 2nd column; Page 15, 2<sup>nd</sup> paragraph, 4<sup>th</sup> line, the 4<sup>th</sup> and 5<sup>th</sup> words, Table, all information in 2<sup>nd</sup> column.</p>	<p>§366.093(3)(d), Fla. Stat. The document in question contains confidential contractual information, the disclosure of which would impair PEF's efforts to contract for goods or services on favorable terms.</p> <p>§366.093(3)(e), Fla. Stat. The document portions in question contain confidential information relating to competitive business interests, the disclosure of which would impair the competitive business of the provider/owner of the information.</p>