

State of Florida



## Public Service Commission

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

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

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**DATE:** June 14, 2018  
**TO:** Office of Commission Clerk  
**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 20180007-EI  
Company Name: Duke Energy Florida, LLC  
Company Code: EI801  
Audit Purpose: A3d: Environmental Cost Recovery Clause  
Audit Control No: 2018-036-2-1

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Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There are no confidential work papers associated with this audit.

LMD/cmm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

State of Florida



## Public Service Commission

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

### Auditor's Report

Duke Energy Florida, LLC  
Environmental Cost Recovery Clause

**Twelve Months Ended December 31, 2017**

Docket No. 20180007-EI  
Audit Control No. 2018-036-2-1  
**June 7, 2018**

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

Tomer Kopelovich  
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 Division of Engineering in its audit service request dated February 1, 2018. We have applied these procedures to the attached summary exhibit and to several related schedules prepared by Duke Energy Florida, LLC in support of its 2017 filing for the Environmental Cost Recovery Clause in Docket No. 20180007-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.

ECRC refers to the Environmental Cost Recovery Clause.

### **Capital Investment**

#### Utility Plant in Service

**Objectives:** The objectives were to verify all ECRC project-related plant additions, retirements and adjustments for the period January 1, 2017, through December 31, 2017.

**Procedure:** We traced Plant in Service and Accumulated Depreciation to the general ledger for each capital project listed on the 2017 Form 42-8A. No exceptions were noted.

#### Construction Work in Progress

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

- 1) Project 11.1 Crystal River Thermal
- 2) Project 17 Mercury and Air Toxic Standards (MATS)
- 3) Project 18 Coal Combustion Residual Rule (CCR).

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

## **Revenue**

### Operating Revenue

**Objectives:** The objectives were to determine the actual Kilowatt Hours (KWH) sold for the period January 1, 2017, through December 31, 2017, and whether the Utility applied the Commission approved cost recovery factor to actual KWH sales for the ECRC.

**Procedures:** We reconciled the 2017 filing to the Utility's monthly ECRC monthly Revenue Reports. We applied the billing factors by rate class from Order No. PSC-2016-0535-FOF-EI to KWH sales. We recalculated revenues for the months of January through December. We selected a sample of residential and commercial customers' bills for the month of March 2017. We recalculated each to verify the use of the correct tariff rate for the Capacity, Fuel, Conservation and Environmental Clauses. No exceptions were noted.

## **Expense**

### Operation and Maintenance Expense

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

**Procedures:** We traced expenses in the filing to the general ledger. We judgmentally selected a sample of O&M Expenses for testing for the months of March and September 2017. The source documentation for selected items was reviewed to ensure the expense was related to the ECRC and that the expense was charged to the correct accounts. No exceptions were noted.

### Depreciation and Maintenance Expense

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

**Procedures:** We traced total year Depreciation Expense for each capital project listed on Form 42-8A to the general ledger detail. We recalculated 2017 Depreciation Expense on a test basis using the plant balances and depreciation rates reflected in Order No. PSC-2010-0131-FOF-EI. No exceptions were noted.

## **Other**

### SO<sub>2</sub> Allowances

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

**Procedures:** We traced 2017 consumption for SO<sub>2</sub> allowances from the Utility's detailed allowances reports to the total emission schedule on Form 42-8A. We recalculated amounts included in Working Capital, Form 42-8A, page 5. We verified the wholesale portion of the NO<sub>x</sub> and SO<sub>2</sub> Allowance Expense. No exceptions were noted.

## **True-Up**

**Objective:** The objective was to determine if the True-Up and Interest Provision as filed on Form 42-2A was properly calculated.

**Procedures:** We traced the December 31, 2016, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2017, using the Commission approved beginning balance as of December 31, 2016, the Financial Commercial Paper rates and the 2017 ECRC revenues and costs. No exceptions were noted

## **Analytical Review**

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

**Procedures:** We compared 2017 to 2016 and 2015 revenues and expenses. We requested explanations from the Utility for the variances. Explanations provided were sufficient. Further follow-up was not required.

Audit Findings

**None**



# Exhibit

## Exhibit 1: True-Up

**DUKE ENERGY FLORIDA, LLC**  
**Environmental Cost Recovery Clause**  
**Final True-Up**  
**January 2017 - December 2017**  
**End-of-Period True-Up Amount**  
**(in Dollars)**

Form 42-2A

Doc# 18-0007-E1  
 Duke Energy Florida  
 Witness: C. A. Monahan  
 File No. ICAM-11  
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Line	Description	Actual Jan-17	Actual Feb-17	Actual Mar-17	Actual Apr-17	Actual May-17	Actual Jun-17	Actual Jul-17	Actual Aug-17	Actual Sep-17	Actual Oct-17	Actual Nov-17	Actual Dec-17	End of Period Total
1	ECRC Revenues (net of Revenue Taxes)	\$3,787,753	\$3,955,395	\$ 3,785,440.63	\$ 4,188,871.45	\$4,642,865	\$5,197,777	\$5,598,804	\$5,632,809	\$5,619,685	\$4,918,168	\$4,592,864	\$4,086,678	\$6,027,109
2	True-Up Provision (Order No. PSC-2016-0535-FOF-EI)	8,557,918	\$713,160	\$713,160	\$713,160	\$713,160	\$713,160	\$713,160	\$713,160	\$713,160	\$713,160	\$713,160	\$713,160	8,557,918
3	ECRC Revenues Applicable to Period (Lines 1 + 2)	\$6,500,913	4,668,555	4,498,600	4,902,031	5,378,025	5,910,936	6,311,964	6,345,968	6,332,845	5,631,328	5,306,023	4,799,837	64,585,027
4	Jurisdictional ECRC Costs													
a.	O & M Activities (Form 42-5A, Line 9)	\$2,727,750	\$2,658,162	\$3,255,691	\$2,744,695	\$3,781,772	\$2,903,683	\$2,739,658	\$3,137,720	\$2,743,658	\$3,166,145	\$1,836,037	\$2,450,866	\$34,145,837
b.	Capital Investment Projects (Form 42-7A, Line 9)	2,008,193	1,998,642	1,986,655	1,937,659	1,937,636	1,973,764	1,958,754	1,955,499	1,994,714	2,015,205	2,073,494	2,101,824	23,942,044
c.	Other (A)	0	0	0	0	0	0	0	0	0	0	0	0	0
d.	Total Jurisdictional ECRC Costs	\$4,735,943	\$4,656,804	\$5,242,346	\$4,682,354	\$5,719,408	\$4,877,451	\$4,698,412	\$5,093,219	\$4,738,372	\$5,181,350	\$3,909,531	\$4,552,690	\$58,087,881
5	Over/(Under) Recovery (Line 3 - Line 4d)	(\$235,030)	\$11,751	(\$743,746)	\$219,677	(\$343,383)	\$1,033,485	\$1,613,552	\$1,252,749	\$1,594,473	\$449,978	\$1,396,492	\$247,148	\$6,497,146
6	Interest Provision (Form 42-3A, Line 1D)	4,488	4,947	4,921	4,864	4,287	4,549	5,489	6,090	5,556	6,024	7,939	9,506	68,660
7	Beginning Balance True-Up & Interest Provision	8,557,918	7,614,216	6,917,755	5,465,770	4,977,151	3,924,895	4,249,769	5,155,650	5,701,329	6,548,199	6,331,041	7,022,317	8,557,918
a.	Deferred True-Up - January 2016 - December 2016 (2016 TU filing dated 4/3/17, approved in Order PSC-2018-0014-FOF-EI)	1,266,492	1,266,492	1,266,492	1,266,492	1,266,492	1,266,492	1,266,492	1,266,492	1,266,492	1,266,492	1,266,492	1,266,492	1,266,492
8	True-Up Collected/(Refunded) (see Line 2)	(713,160)	(713,160)	(713,160)	(713,160)	(713,160)	(713,160)	(713,160)	(713,160)	(713,160)	(713,160)	(713,160)	(713,160)	(8,557,918)
9	End of Period Total True-Up (Lines 5+6+7+8)	\$8,880,708	\$8,184,247	\$6,732,262	\$6,243,643	\$5,191,387	\$5,516,261	\$6,422,142	\$6,967,821	\$7,854,691	\$7,597,533	\$8,288,804	\$7,832,298	\$7,832,298
10	Adjustments to Period Total True-Up Including Interest	0	0	0	0	0	0	0	0	0	0	0	0	0
11	End of Period Total True-Up Over/(Under) (Lines 9 + 10)	\$8,880,708	\$8,184,247	\$6,732,262	\$6,243,643	\$5,191,387	\$5,516,261	\$6,422,142	\$6,967,821	\$7,854,691	\$7,597,533	\$8,288,804	\$7,832,298	\$7,832,298