

MEMORANDUM

JUNE 19, 2012

TO: OFFICE OF COMMISSION CLERK
FROM: MICHAEL LAWSON, SENIOR ATTORNEY *Dec 11 ✓*
RE: DOCKET NO. 120009-EI – NUCLEAR COST RECOVERY CLAUSE

Please find attached the original and six copies of the Direct Testimony of Jeffery A. Small, appearing on behalf of the staff of the Florida Public Service Commission, to be filed in the above-referenced Docket.

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Attachment

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FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Nuclear cost recovery clause.

DOCKET NO. 120009-EI

DATED: JUNE 19, 2012

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the Direct Testimony of Jeffery A. Small, appearing on behalf of the staff of the Florida Public Service Commission, has been served by U.S. Mail, on this 19th day of June, 2012, to the following:

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FLORIDA PUBLIC SERVICE COMMISSION
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Docket No. 120009-EI: Nuclear Cost Recovery Clause.

Progress Energy Florida, Inc.

Crystal River Unit 3 Power Uprate and the Levy Units 1 & 2 Construction

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

Date Filed: June 19, 2012

DOCUMENT NUMBER DATE

03994 JUN 19 2012

FPSC-COMMISSION CLERK

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **COMMISSION STAFF**

3 **DIRECT TESTIMONY OF JEFFERY A. SMALL**

4 **DOCKET NO. 120009-EI**

5 **JUNE 19, 2012**

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

7 A. My name is Jeffery A. Small and my business address is 4950 West Kennedy Blvd,
8 Tampa, Florida, 33609.

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

10 A. I am employed by the Florida Public Service Commission as a Professional
11 Accountant Specialist in the Office of Auditing and Performance Analysis.

12 **Q. How long have you been employed by the Commission?**

13 A. I have been employed by the Florida Public Service Commission (FPSC) since January
14 1994.

15 **Q. Briefly review your educational and professional background.**

16 A. I have a Bachelor of Science degree in Accounting from the University of South
17 Florida. I am also a Certified Public Accountant licensed in the State of Florida and I am a
18 member of the American and Florida Institutes of Certified Public Accountants.

19 **Q. Please describe your current responsibilities.**

20 A. Currently, I am a Professional Accountant Specialist with the responsibilities of
21 planning and directing the most complex investigative audits. Some of my past audits include
22 cross-subsidization issues, anti-competitive behavior, and predatory pricing. I am also
23 responsible for creating audit work programs to meet a specific audit purpose and integrating
24 EDP applications into these programs.

25 **Q. Have you presented expert testimony before this Commission or any other**

1 **regulatory agency?**

2 **A.** Yes. I have provided testimony in the Progress Energy Florida, Inc., (PEF) Nuclear
3 Cost Recovery Clause filings, Docket Nos. 080009-EI, 090009-EI, 100009-EI and 110009-EI.
4 I have also testified in the Southern States Utilities, Inc. rate case, Docket No. 950495-WS, the
5 transfer application of Cypress Lakes Utilities, Inc., Docket No. 971220-WS, and the Utilities,
6 Inc. of Florida rate case, Docket No. 020071-WS.

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

8 **A.** The purpose of my testimony is to sponsor two staff audit reports of PEF which
9 address the Utility's application for nuclear cost recovery in 2011. The first audit report was
10 issued May 9, 2012, and addressed the pre-construction and construction cost as of December
11 31, 2011, for Levy County Nuclear Units 1 & 2. This audit report is filed with my testimony
12 and is identified as Exhibit JAS-1. The second audit report was issued May 9, 2012, and
13 addressed the 2011 power uprate costs for the Crystal River Unit 3 nuclear power plant. This
14 audit report is filed with my testimony and is identified as Exhibit JAS-2.

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

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

17 **Q. Please describe the work you performed in these audits.**

18 For the first audit report, to address the pre-construction and construction costs as of
19 December 31, 2011, for Levy County Nuclear Units 1 & 2:

- 20 • We reconciled the Company's filing to its general ledger and verified that the costs
21 incurred were posted to the proper accounts.
- 22 • We reconciled and recalculated a sample of the monthly revenue requirement accruals
23 displayed on Schedule T-1 to the supporting schedules in the Company's 2011 NCRC
24 filing.
- 25 • We reconciled the monthly preconstruction, and construction carrying cost balances

1 displayed on Schedules T-2.2, and T-2.3, respectively, to the supporting schedules in the
2 Company's 2011 NCRC filing. We recalculated the schedules and reconciled the
3 Allowance for Funds Used During Construction (AFUDC) rates applied by the Company
4 to the rates approved in Order No. PSC-05-0945-S-EI, in Docket No. 050078-EI, issued
5 September 28, 2005.

- 6 • We reconciled the monthly preconstruction deferred tax carrying cost accruals displayed
7 on Schedule T-3A.2 to the supporting schedules in the Company's 2011 NCRC filing. We
8 recalculated a sample of the monthly carrying cost balances for deferred tax assets based
9 on the equity and debt components established in Order No. PSC-05-0945-S-EI.
- 10 • We recalculated a sample of the monthly recoverable O&M expenditures displayed on
11 Schedule T-4 of the Company's 2011 NCRC filing. We sampled and verified the O&M
12 cost accruals and traced the invoiced amounts to supporting documentation. We verified a
13 sample of salary expense accruals and recalculated the respective overhead burdens the
14 Company applied.
- 15 • We recalculated a sample of monthly jurisdictional nuclear construction accruals displayed
16 on Schedules T-6.2, and T-6.3, respectively, of the Company's 2011 NCRC filing. We
17 sampled and verified the generation cost accruals and traced the invoiced amounts to
18 supporting documentation. We verified a sample of salary expense accruals and
19 recalculated a sample of the respective overhead burdens that the Company applied.

20 For the second audit report, to address the uprate cost as of December 31, 2011, for Crystal
21 River Unit 3,

- 22 • We reconciled the Company's filing to its general ledger and verified that the costs
23 incurred were posted to the proper accounts.
- 24 • We reconciled and recalculated a sample of the monthly revenue requirement accruals
25 displayed on Schedule T-1 to the supporting schedules in the Company's 2011 NCRC

- 1 filing.
- 2 • We reconciled the monthly construction carrying cost balances displayed on Schedule T-
3 2.3 to the supporting schedules in the Company's 2011 NCRC filing. We recalculated the
4 schedule and reconciled the Allowance for Funds Used During Construction (AFUDC)
5 rates applied by the Company to the rates approved in Order No. PSC-05-0945-S-EI.
 - 6 • We reconciled the monthly construction deferred tax carrying cost accruals displayed on
7 Schedule T-3A.3 to the supporting schedules in the Company's 2011 NCRC filing. We
8 recalculated a sample of the monthly carrying cost balances for deferred tax assets based
9 on the equity and debt components established in Order No. PSC-05-0945-S-EI.
 - 10 • We reconciled and recalculated a sample of the monthly CPI accruals displayed on
11 Schedule T-3B.3 to the supporting schedules in the Company's 2011 NCRC filing. We
12 recalculated the Company's CPI rate and reconciled the component balances to the
13 Company's general ledger.
 - 14 • We recalculated a sample of the monthly recoverable O&M expenditures displayed on
15 Schedule T-4 of the Company's 2011 NCRC filing. We sampled and verified the O&M
16 cost expenditures and traced the invoiced amounts to supporting documentation. We
17 verified a sample of salary expense accruals and recalculated the respective overhead
18 burdens the Company applied.
 - 19 • We recalculated a sample of monthly jurisdictional nuclear construction accruals displayed
20 on Schedule T-6.3 of the Company's 2011 NCRC filing. We sampled and verified the
21 capital cost expenditures and traced the invoiced amounts to supporting documentation.
22 We verified a sample of salary expense accruals and recalculated the respective overhead
23 burdens that the Company applied.
- 24 **Q. Were there any audit findings in the audit report, JAS-1, which addresses the**
25 **2011 pre-construction and construction cost for Levy County Nuclear Units 1 & 2.**

1 A. No

2 **Q. Were there any audit findings in the audit report, JAS-2, which addresses the**
3 **2011 power uprate costs for the Crystal River Unit 3 (CR3) nuclear power plant.**

4 A. Yes, Audit Finding No. 1 provides information on legal costs included as recoverable
5 O&M expenditures on Schedule T-4 of the filing that the Company states will be removed by
6 posting a journal adjustment in April 2012 that will reduce next years Schedule T-4 filing by
7 \$12,683 (\$11,716 jurisdictional).

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

9 A. Yes, it does.

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State of Florida



Public Service Commission

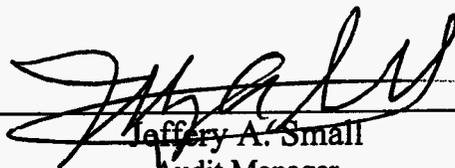
Office of Auditing and Performance Analysis
Bureau of Auditing
Tampa District Office

Auditor's Report

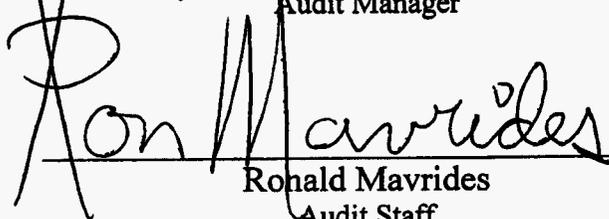
Progress Energy Florida, Inc.
Nuclear Cost Recovery Clause
Levy Nuclear Plant Units 1 & 2

As of December 31, 2011

Docket No. 120009-EI
Audit Control No. 12-010-2-1
May 9, 2012



Jeffery A. Small
Audit Manager



Ronald Mavrides
Audit Staff



Linda Hill-Slaughter
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Economic Regulation in its audit service request dated January 11, 2012. We have applied these procedures to the attached schedule prepared by Progress Energy Florida, Inc. and to several of its related schedules in support of its 2011 Nuclear Cost Recovery Clause for its preconstruction and construction costs expenditures for the Levy Nuclear Plant Units 1 & 2 activity in Docket No. 120009-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

Information

Definitions

“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.

Abbreviations

CCRC	Capacity Cost Recovery Clause
NCRC	Nuclear Cost Recovery Clause
PEF/Company	Progress Energy of Florida, Inc.

General

Objective: Our overall objective in this engagement was to verify that the Company’s 2011 NCRC filings in Docket No. 120009-EI are consistent and in compliance with Section 366.93, F.S., and Rule 25-6.0423, F.A.C.

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

Specific

Objective: Our objective was to verify that the Company’s filing is properly recorded on its books and records according to the Uniform System of Accounts (USoA).

Procedures: We reconciled the Company’s filing to its general ledger and verified that the costs incurred were posted to the proper accounts.

Objectives: Our objectives were to verify that: 1) Schedule T-1 – Summary of Jurisdictional Recovery amounts are accurately calculated, and, 2) They include the correct balances from the supporting schedules of the Company’s 2011 NCRC filing.

Procedures: We reconciled and recalculated a sample of the monthly revenue requirement accruals displayed on Schedule T-1 to the supporting schedules in the Company’s 2011 NCRC filing.

Objectives: Our objectives were to verify that: 1) Schedules T-2.2 – Preconstruction Plant Additions, Expenditures, and Carrying Cost and T-2.3 – Construction Plant Additions,

Expenditures, and Carrying Cost are accurately calculated, and, 2) They include the correct balances from the supporting schedules of the Company's 2011 NCRC filing.

Procedures: We reconciled the monthly preconstruction, and construction carrying cost balances displayed on Schedules T-2.2, and T-2.3, respectively, to the supporting schedules in the Company's 2011 NCRC filing. We recalculated the schedules and reconciled the Allowance for Funds Used During Construction (AFUDC) rates applied by the Company to the rates approved in Order No. PSC-05-0945-FOF-EI, issued September 28, 2005.

Objectives: Our objectives were to verify that: 1) The Deferred Tax Return Requirement amounts displayed on Schedule T-3A.2 – Preconstruction Carrying Cost on Deferred Tax Asset which roll forward to Schedule T-1, are accurately calculated, and, 2) They include the correct balances from the supporting schedules of the Company's 2011 NCRC filing.

Procedures: We reconciled the monthly preconstruction deferred tax carrying cost accruals displayed on Schedule T-3A.2 to the supporting schedules in the Company's 2011 NCRC filing. We recalculated a sample of the monthly carrying cost balances for deferred tax assets based on the equity and debt components established in Order No. PSC-05-0945-FOF-EI.

Objectives: Our objectives were to verify that: 1) The CCRC Recoverable Operation and Maintenance (O&M) Expenditure amounts displayed on Schedule T-4, which roll forward to Schedule T-1, are accurately calculated, and, 2) They are supported by original source documentation.

Procedures: We recalculated a sample of the monthly recoverable O&M expenditures displayed on Schedule T-4 of the Company's 2011 NCRC filing. We sampled and verified the O&M cost accruals and traced the invoiced amounts to supporting documentation. We verified a sample of salary expense accruals and recalculated the respective overhead burdens the Company applied.

Objectives: Our objectives were to verify that: 1) The jurisdictional nuclear construction amounts, displayed on Schedules T-6.2 - Preconstruction and T-6.3- Construction Capital Additions and Expenditures, which roll forward to Schedules T-2.2, and T-2.3, are accurately calculated, and, 2) They are supported by original source documentation.

Procedures: We recalculated a sample of monthly jurisdictional nuclear construction accruals displayed on Schedules T-6.2, and T-6.3, respectively, of the Company's 2011 NCRC filing. We sampled and verified the generation cost accruals and traced the invoiced amounts to supporting documentation. We verified a sample of salary expense accruals and recalculated a sample of the respective overhead burdens that the Company applied.

Audit Findings

None

Exhibit

Exhibit 1: Summary of Jurisdictional Recovery Amounts

LEVY COUNTY NUCLEAR UNITS 1 & 2							
Site Selection, Preconstruction Costs, and Carrying Costs on Construction Cost Balance							
Schedule T-1 Final True-Up Filing: Summary of Jurisdictional Recovery Amounts							
<p>EXPLANATION: Provide summary calculation of the monthly Final True-up Amount for each cost category: 1. Site Selection, 2. Preconstruction, and 3. Construction. In the event that no costs were approved for recovery and no costs are being requested, state so. For each category with costs, list and describe the components and levels, identify supporting schedule and line. Include in the final true-up calculation applicable Commission approved projection and estimated true-up amounts for the reported year and identify such orders. [25-0.0423(5)(c)1.b., F.A.C.] [25-0.0423 (8)(d)F.A.C.]</p> <p>COMPANY: Progress Energy - FL Witness: Will Garrett</p> <p>DOCKET NO.: 120009-EI For Year Ended 12/31/2011</p>							
Line No.	(A) Actual January	(B) Actual February	(C) Actual March	(D) Actual April	(E) Actual May	(F) Actual June	(G) 6 Month Total
Jurisdictional Dollars							
1. Final Site Selection Costs for the Period [25-0.0423(2)(f), F.A.C.]							
a. Additions (Schedule T-2.1, line 1)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
b. Carrying Costs on Additions (Schedule T-2.1, line 7)	0	0	0	0	0	0	0
c. Carrying Costs on Deferred Tax Asset (Schedule T-3A.1, line 12)	0	0	0	0	0	0	0
d. Total Site Selection Amount (Lines 1.a through 1.c)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
2. Final Preconstruction Costs for the Period [25-0.0423(2)(g), F.A.C.]							
a. Additions (Schedule T-2.2, line 1)	\$982,027	\$1,442,096	\$1,555,245	\$1,284,639	\$1,352,444	\$2,501,942	\$9,068,395
b. Carrying Costs on Additions (Schedule T-2.2, line 9)	2,007,250	1,021,038	1,817,774	1,742,103	1,084,863	1,587,858	10,741,084
c. Carrying Costs on Deferred Tax (Schedule T-3A.2, line 12)	1,214,374	1,249,357	1,286,080	1,317,845	1,350,797	1,384,513	7,802,785
d. Total Preconstruction Amount (Lines 2.a through 2.c)	<u>\$4,203,651</u>	<u>\$4,612,490</u>	<u>\$4,659,099</u>	<u>\$4,324,476</u>	<u>\$4,368,105</u>	<u>\$5,474,312</u>	<u>\$27,642,223</u>
3. Final Construction Costs for the Period [25-0.0423(2)(f), F.A.C.]							
Avg. Net Additions Balance (Schedule T-2.3, line 7)							
	\$75,125,729	\$81,034,823	\$84,884,818	\$89,210,225	\$98,084,178	\$98,248,052	
a. Carrying Costs on Additions (Schedule T-2.3, line 9)	799,428	852,600	891,003	938,617	1,010,940	1,044,235	5,527,822
b. Carrying Costs on Deferred Tax (Schedule T-3A.3, line 12)	0	0	0	0	0	0	0
c. Total Construction Amount (Lines 3.a through 3.b)	<u>\$799,428</u>	<u>\$852,600</u>	<u>\$891,003</u>	<u>\$938,617</u>	<u>\$1,010,940</u>	<u>\$1,044,235</u>	<u>\$5,527,822</u>
4. Allocated or Assigned O&M Amounts (Schedule T-4, line 43)	71,063	80,502	134,460	86,275	81,164	178,241	631,704
5. Other Adjustments	0	0	0	0	0	0	0
6. Total Final Period Amount (Lines 1.d + 2.d + 3.c + 4 + 5)	<u>\$5,086,142</u>	<u>\$5,546,591</u>	<u>\$5,684,562</u>	<u>\$5,346,368</u>	<u>\$5,460,290</u>	<u>\$6,606,788</u>	<u>\$33,801,750</u>
7. Projected Amount for the Period (Order No. PSC 11-0095-FOF-EI)	\$6,741,562	\$8,620,717	\$6,812,862	\$6,880,289	\$6,350,252	\$6,870,584	\$39,261,307
8. Estimated True-up Amount for the Period (Order No. PSC 11-0947-FOF-EI)	\$5,076,738	\$5,568,739	\$4,278,085	\$5,615,860	\$5,820,789	\$5,852,180	\$32,213,071
9. Final True-up Amount for the Period (Line 8 - line 7)	<u>(\$1,664,824)</u>	<u>(\$3,058,978)</u>	<u>\$2,534,777</u>	<u>(\$1,268,379)</u>	<u>(\$569,467)</u>	<u>\$1,027,694</u>	<u>\$7,047,236</u>

Exhibit 1: (continued)

LEVY COUNTY NUCLEAR UNITS 1 & 2
Site Selection, Preconstruction Costs, and Carrying Costs on Construction Cost Balance
Final True-Up Filing: Summary of Jurisdictional Recovery Amounts

Schedule T-1

EXPLANATION: Provide summary calculation of the monthly Final True-up Amount for each cost category: 1. Site Selection, 2. Preconstruction, and 3. Construction. In the event that no costs were approved for recovery and no costs are being requested, state so. For each category with costs, list and describe the components and levels, identify supporting schedule and line. Include in the final true-up calculation applicable Commission approved projection and estimated true-up amounts for the reported year and identify such orders.

[25-6.0423(5)(c)1.b.,F.A.C.]
 [25-6.0423 (5)(d),F.A.C.]

COMPANY:
 Progress Energy - FL

Witness: Will Garrett

DOCKET NO.:
 120009-EI

For Year Ended 12/31/2011

Line No.	(H) Actual July	(I) Actual August	(J) Actual September	(K) Actual October	(L) Actual November	(M) Actual December	(N) 12 Month Total
Jurisdictional Dollars							
1. Final Site Selection Costs for the Period [25-6.0423(2)(f),F.A.C.]							
a. Additions (Schedule T-2.1, line 1)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
b. Carrying Costs on Additions (Schedule T-2.1, line 7)	0	0	0	0	0	0	0
c. Carrying Costs on Deferred Tax Asset (Schedule T-3A.1, line 12)	0	0	0	0	0	0	0
d. Total Site Selection Amount (Lines 1.a through 1.c)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2. Final Preconstruction Costs for the Period [25-6.0423(2)(g),F.A.C.]							
a. Additions (Schedule T-2.2, line 1)	\$1,878,386	\$1,487,403	\$2,379,296	\$982,071	\$1,773,850	\$902,234	\$18,572,598
b. Carrying Costs on Additions (Schedule T-2.2, line 9)	1,518,098	1,444,955	1,368,105	1,294,391	1,217,150	1,131,020	18,715,752
c. Carrying Costs on Deferred Tax (Schedule T-3A.2, line 12)	1,417,157	1,450,781	1,484,585	1,617,467	1,551,997	1,586,733	18,811,463
d. Total Preconstruction Amount (Lines 2.a through 2.c)	\$4,813,641	\$4,383,179	\$5,232,046	\$3,794,828	\$4,543,006	\$3,710,887	\$54,099,813
3. Final Construction Costs for the Period [25-6.0423(2)(h),F.A.C.]							
Avg. Net Additions Balance (Schedule T-2.3, line 7)	\$100,893,158	\$113,740,828	\$125,783,539	\$126,501,764	\$127,402,350	\$128,213,177	
a. Carrying Costs on Additions (Schedule T-2.3, line 9)	1,061,537	1,196,714	1,323,419	1,331,923	1,340,451	1,348,062	13,130,840
b. Carrying Costs on Deferred Tax (Schedule T-3A.3, line 12)	0	0	0	0	0	0	0
c. Total Construction Amount (Lines 3.a through 3.b)	\$1,061,537	\$1,196,714	\$1,323,419	\$1,331,923	\$1,340,451	\$1,348,062	\$13,130,840
4. Allocated or Assigned O&M Amounts (Schedule T-4, line 43)	41,307	98,020	178,291	40,814	51,252	103,900	1,154,499
5. Other Adjustments	0	0	0	0	0	0	0
6. Total Final Period Amount (Lines 1.d + 2.d + 3.c + 4 + 5)	\$5,916,675	\$5,657,912	\$6,733,759	\$5,176,565	\$5,934,710	\$5,163,659	\$98,385,131
7. Projected Amount for the Period (Order No. PSC 11-0065-FOF-EI)	\$5,638,547	\$6,295,871	\$5,892,846	\$5,805,410	\$6,529,847	\$5,605,639	\$75,259,568
8. Estimated True-up Amount for the Period (Order No. PSC 11-0547-FOF-EI)	\$5,759,657	\$5,957,204	\$5,789,076	\$7,065,100	\$5,688,557	\$18,562,124	\$81,034,786
9. Final True-up Amount for the Period (Line 8 - line 8)	\$150,618	(\$299,292)	\$944,663	(\$1,888,535)	\$246,153	(\$13,368,265)	(\$12,640,656)

State of Florida



Public Service Commission

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

Auditor's Report

Progress Energy Florida, Inc.
Nuclear Cost Recovery Clause
Crystal River Unit 3 Uprate

As of December 31, 2011

Docket No. 120009-EI
Audit Control No. 12-010-2-2
May 9, 2012

Handwritten signature of Jeffery A. Small in black ink.

Jeffery A. Small
Audit Manager

Handwritten signature of Ronald Mavrides in black ink.

Ronald Mavrides
Audit Staff

Handwritten signature of Linda Hill-Slaughter in black ink.

Linda Hill-Slaughter
Reviewer

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Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the agreed-upon objectives set forth by the Division of Economic Regulation in its audit service request dated January 11, 2012. We have applied these procedures to the attached schedule prepared by Progress Energy Florida, Inc. and to several of its related schedules in support of its 2011 Nuclear Cost Recovery Clause for its construction cost expenditures for the Crystal River 3 Uprate activity in Docket No. 120009-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

Information

Definitions

“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.

Abbreviations

CCRC	Capacity Cost Recovery Clause
NCRC	Nuclear Cost Recovery Clause
PEF/Company	Progress Energy of Florida, Inc.

General

Objective: Our overall objective in this engagement was to verify that the Company’s 2011 NCRC filings in Docket No. 120009-EI are consistent and in compliance with Section 366.93, F.S., and Rule 25-6.0423, F.A.C.

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

Specific

Objective: Our objective was to verify that the Company’s filing is properly recorded on its books and records according to the Uniform System of Accounts (USoA).

Procedures: We reconciled the Company’s filing to its general ledger and verified that the costs incurred were posted to the proper accounts.

Objectives: Our objectives were to verify that: 1) Schedule T-1 – Summary of Jurisdictional Recovery Amounts is accurately calculated, and, 2) They include the correct balances from the supporting schedules of the Company’s 2011 NCRC filing.

Procedures: We reconciled and recalculated a sample of the monthly revenue requirement accruals displayed on Schedule T-1 to the supporting schedules in the Company’s 2011 NCRC filing.

Objectives: Our objectives were to verify that: 1) Schedule T-2.3 – Construction Plant Additions, Expenditures, and Carrying Cost is accurately calculated, and, 2) They include the correct balances from the supporting schedules of the Company’s 2011 NCRC filing.

Procedures: We reconciled the monthly construction carrying cost balances displayed on Schedule T-2.3 to the supporting schedules in the Company’s 2011 NCRC filing. We

recalculated the schedule and reconciled the Allowance for Funds Used During Construction (AFUDC) rates applied by the Company to the rates approved in Order No. PSC-05-0945-FOF-EI, issued September 28, 2005.

Objectives: Our objectives were to verify that: 1) The Deferred Tax Return Requirement amounts displayed on Schedule T-3A.3 – Construction Carrying Cost on Deferred Tax Asset which roll forward to Schedule T-1, are accurately calculated, and, 2) They include the correct balances from the supporting schedules of the Company's 2011 NCRC filing.

Procedures: We reconciled the monthly construction deferred tax carrying cost accruals displayed on Schedule T-3A.3 to the supporting schedules in the Company's 2011 NCRC filing. We recalculated a sample of the monthly carrying cost balances for deferred tax assets based on the equity and debt components established in Order No. PSC-05-0945-FOF-EI.

Objectives: Our objectives were to verify that: 1) The Construction Period Interest (CPI) amounts displayed on Schedule T-3B.3, which roll forward to Schedule T-3A.3, are accurately calculated, and, 2) They include the correct balances from the supporting schedules of the Company's 2011 NCRC filing.

Procedures: We reconciled and recalculated a sample of the monthly CPI accruals displayed on Schedule T-3B.3 to the supporting schedules in the Company's 2011 NCRC filing. We recalculated the Company's CPI rate and reconciled the component balances to the Company's general ledger.

Objectives: Our objectives were to verify that: 1) The CCRC Recoverable Operation and Maintenance (O&M) Expenditure amounts displayed on Schedule T-4, which roll forward to Schedule T-1, are accurately calculated, and, 2) The O&M expenditures are supported by adequate source documentation.

Procedures: We recalculated a sample of the monthly recoverable O&M expenditures displayed on Schedule T-4 of the Company's 2011 NCRC filing. We sampled and verified the O&M cost expenditures and traced the invoiced amounts to supporting documentation. We verified a sample of salary expense accruals and recalculated the respective overhead burdens the Company applied.

Objectives: Our objectives were to verify that: 1) The jurisdictional nuclear construction expenditures, displayed on Schedule T-6.3, which roll forward to Schedule T-2.3, are accurately calculated, and, 2) The capital additions are supported by adequate source documentation.

Procedures: We recalculated a sample of monthly jurisdictional nuclear construction accruals displayed on Schedule T-6.3 of the Company's 2011 NCRC filing. We sampled and verified the capital cost expenditures and traced the invoiced amounts to supporting documentation. We verified a sample of salary expense accruals and recalculated the respective overhead burdens that the Company applied.

Audit Findings

Finding 1: Operations and Maintenance Expense

Audit Analysis: The Company's Final True-Up Filing includes \$498,775 (\$460,738 jurisdictional) as Recoverable O&M Expenditures on Schedule T-4. The \$498,775 represents the net of \$543,443 in O&M costs after deducting a joint owners' credit of \$44,668.

<u>Description</u>	<u>Amount</u>	<u>Percent</u>
Accounting	\$63,349	11.7%
Corporate Planning	114,225	21.0%
Legal	351,915	64.8%
Tax	<u>13,953</u>	<u>2.6%</u>
Total	\$543,443	100.0%
Joint-Owner Credit	<u>(44,668)</u>	
Adjusted Total	\$498,775	

The \$351,915 in legal costs listed above is further defined below.

<u>Description</u>	<u>Amount</u>
Legal Invoices	\$338,619
Employee Labor	8,654
Employee Benefits	<u>4,642</u>
Total	\$351,915

We requested the Company to provide supporting documentation for 14 legal invoices totaling the \$338,619 identified above.

The Company's initial response was followed by our request for additional information for specific line charges on 10 of the 14 legal invoices that we reviewed. Subsequent discussions resulted in the Company stating that \$12,683 (\$11,716 jurisdictional) of legal fees would be removed from the 2011 CR3 Uprate filing. The company stated that it would account for this correction in its 2012 filing.

We will revisit this issue in the CR3 Uprate filing for year 2012 to ensure that the adjustment was made and properly posted.

Effect on the General Ledger: None

Effect on the Filing: None

Exhibit

Exhibit 1: Summary of Jurisdictional Recovery Amounts

CRYSTAL RIVER UNIT 3 UPDATE							
Site Selection, Preconstruction Costs, and Carrying Costs on Construction Cost Balance							
Final True-Up Filing: Summary of Jurisdictional Recovery Amounts							
Schedule T-1							
EXPLANATION: Provide summary calculation of the monthly Final True-up Amount for each cost category: 1. Site Selection, 2. Preconstruction, and 3. Construction. In the event that no costs were approved for recovery and no costs are being requested, state so. For each category with costs, list and describe the components and levels, identify supporting schedule and line. Include in the final true-up calculation applicable Commission approved projection and estimated true-up amounts for the reported year and identify such orders.							[25-6.0423(5)(c)1.b.,F.A.C.] [25-6.0423 (8)(d),F.A.C.]
COMPANY: Progress Energy - FL							Witness: Will Garrett
DOCKET NO.: 12009-EI							For Year Ended 12/31/2011
Line No.	(A) Actual January	(B) Actual February	(C) Actual March	(D) Actual April	(E) Actual May	(F) Actual June	(G) 6 Month Total
Jurisdictional Dollars							
1. Final Site Selection Costs for the Period [25-6.0423(2)(f),F.A.C.]							
a. Additions (Schedule T-2.1, line 1)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
b. Carrying Costs on Additions (Schedule T-2.1, line 7)	0	0	0	0	0	0	0
c. Carrying Costs on Deferred Tax Asset (Schedule T-3A.1, line 12)	0	0	0	0	0	0	0
d. Total Site Selection Amount (Lines 1.a through 1.c)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
2. Final Preconstruction Costs for the Period [25-6.0423(2)(g),F.A.C.]							
a. Additions (Schedule T-2.2, line 1)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
b. Carrying Costs on Additions (Schedule T-2.2, line 9)	0	0	0	0	0	0	0
c. Carrying Costs on Deferred Tax (Schedule T-3A.2, line 12)	0	0	0	0	0	0	0
d. Total Preconstruction Amount (Lines 2.a through 2.c)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
3. Final Construction Costs for the Period [25-6.0423(2)(h),F.A.C.]							
Avg. Net Additions Balance (Schedule T-2.3, line 8)	\$101,150,887	\$105,193,653	\$112,241,819	\$117,308,051	\$120,809,234	\$123,944,643	
a. Carrying Costs on Additions (Schedule T-2.3, line 10)	1,054,249	1,117,306	1,188,941	1,234,245	1,271,082	1,304,071	7,171,895
b. Carrying Costs on Deferred Tax (Schedule T-3A.3, line 12)	<u>27,092</u>	<u>28,872</u>	<u>30,724</u>	<u>32,647</u>	<u>34,624</u>	<u>36,648</u>	<u>190,607</u>
c. Total Construction Amount (Lines 3.a through 3.b)	<u>\$1,091,341</u>	<u>\$1,146,178</u>	<u>\$1,211,665</u>	<u>\$1,266,892</u>	<u>\$1,305,706</u>	<u>\$1,340,719</u>	<u>\$7,362,502</u>
4. Allocated or Assigned O&M Amounts (Schedule T-4, line 43)	13,332	44,714	40,440	60,833	21,942	116,738	298,000
5. Other Adjustments	(253,078)	(253,463)	(253,851)	(254,244)	(254,641)	(255,042)	(1,524,320)
6. Total Final Period Amount (Lines 1.d + 2.d + 3.c + 4 + 5)	<u>\$851,696</u>	<u>\$937,430</u>	<u>\$998,253</u>	<u>\$1,073,481</u>	<u>\$1,073,008</u>	<u>\$1,202,415</u>	<u>\$6,136,182</u>
7. Projected Amount for the Period (Order No. PSC 11-0095-FOF-EI)	\$869,815	\$908,685	\$948,598	\$969,425	\$1,000,520	\$1,073,014	\$5,770,057
8. Estimated True-up Amount for the Period (Order No. PSC 11-0547-FOF-EI)	\$816,249	\$817,739	\$818,815	\$819,482	\$819,937	\$820,071	\$4,912,292
9. Final True-up Amount for the Period (Line 6 - line 8)	<u><u>\$35,347</u></u>	<u><u>\$119,690</u></u>	<u><u>\$179,438</u></u>	<u><u>\$253,999</u></u>	<u><u>\$253,071</u></u>	<u><u>\$382,344</u></u>	<u><u>\$1,223,889</u></u>

Exhibit 1: (continued)

CRYSTAL RIVER UNIT 3 UPRATE
Site Selection, Preconstruction Costs, and Carrying Costs on Construction Cost Balance
Final True-Up Filing: Summary of Jurisdictional Recovery Amounts

Schedule T-1

EXPLANATION: Provide summary calculation of the monthly Final True-up Amount for each cost category: 1. Site Selection, 2. Preconstruction, and 3. Construction. In the event that no costs were approved for recovery and no costs are being requested, state so. For each category with costs, list and describe the components and levels. Identify supporting schedule and line. Include in the final true-up calculation applicable Commission approved projection and estimated true-up amounts for the reported year and identify such orders.

[25-6.0423(5)(c)](i),F.A.C.]
 [25-6.0423 (6)(d),F.A.C.]

COMPANY:
 Progress Energy - FL

Witness: Will Garrett

DOCKET NO.:
 120009-EI

For Year Ended 12/31/2011

Line No.	(F) Actual July	(G) Actual August	(J) Actual September	(K) Actual October	(L) Actual November	(M) Actual December	(N) 12 Month Total
Jurisdictional Dollars							
1. Final Site Selection Costs for the Period [25-6.0423(2)(f),F.A.C.]							
a. Additions (Schedule T-2.1, line 1)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
b. Carrying Costs on Additions (Schedule T-2.1, line 7)	0	0	0	0	0	0	0
c. Carrying Costs on Deferred Tax Asset (Schedule T-3A.1, line 12)	0	0	0	0	0	0	0
d. Total Site Selection Amount (Lines 1.a through 1.c)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2. Final Preconstruction Costs for the Period [25-6.0423(2)(g),F.A.C.]							
a. Additions (Schedule T-2.2, line 1)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
b. Carrying Costs on Additions (Schedule T-2.2, line 9)	0	0	0	0	0	0	0
c. Carrying Costs on Deferred Tax (Schedule T-3A.2, line 12)	0	0	0	0	0	0	0
d. Total Preconstruction Amount (Lines 2.a through 2.c)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
3. Final Construction Costs for the Period [25-6.0423(2)(i),F.A.C.]							
Avg. Net Additions Balance (Schedule T-2.3, line 8)	\$126,128,047	\$128,680,673	\$132,632,580	\$136,632,101	\$140,090,760	\$143,894,365	
a. Carrying Costs on Additions (Schedule T-2.3, line 10)	1,327,044	1,353,901	1,395,481	1,437,961	1,473,951	1,511,866	15,671,698
b. Carrying Costs on Deferred Tax (Schedule T-3A.3, line 12)	38,708	40,829	43,041	45,320	47,644	50,028	456,177
c. Total Construction Amount (Lines 3.a through 3.b)	\$1,365,752	\$1,394,730	\$1,438,521	\$1,482,881	\$1,521,595	\$1,561,894	\$16,127,875
4. Allocated or Assigned O&M Amounts (Schedule T-4, line 43)	17,749	49,170	37,171	16,684	15,756	25,671	461,200
5. Other Adjustments (a)	(260,226)	(265,460)	(270,746)	(276,064)	(455,430)	(294,376)	(3,346,641)
6. Total Final Period Amount (Lines 1.d + 2.d + 3.c + 4 + 5)	\$1,123,275	\$1,178,440	\$1,204,947	\$1,223,480	\$1,081,921	\$1,294,190	\$13,242,434
7. Projected Amount for the Period (Order No. PSC 11-0095-POF-EI)	\$1,389,217	\$1,210,977	\$1,240,947	\$1,299,412	\$1,546,149	\$1,414,925	\$13,871,684
8. Estimated True-up Amount for the Period (Order No. PSC 11-0547-POF-EI)	\$814,667	\$810,644	\$808,454	\$805,939	\$798,073	\$793,240	\$8,744,309
9. Final True-up Amount for the Period (Line 6 - line 8)	\$308,608	\$367,796	\$396,493	\$417,542	\$283,848	\$500,949	\$5,498,125

(a) Included in January to December; inservice revenue requirement for depreciation and taxes which represents a monthly refund to customers. November also contains the revenue requirement adjustment of the 2009 \$500k of project management costs which resulted in an adjustment of \$170k in carrying charges.