

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**In re: Nuclear Cost Recovery
Clause**

DOCKET NO. 140009-EI
Submitted for filing: May 1, 2014

**DIRECT TESTIMONY
OF MICHAEL R. DELOWERY IN SUPPORT OF
ACTUAL/ESTIMATED AND PROJECTED COSTS**

**ON BEHALF OF
DUKE ENERGY FLORIDA, INC.**

IN RE: NUCLEAR COST RECOVERY CLAUSE

BY DUKE ENERGY FLORIDA, INC.

FPSC DOCKET NO. 140009-EI

DIRECT TESTIMONY OF MICHAEL R. DELOWERY

1 **I. INTRODUCTION AND QUALIFICATIONS.**

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

3 A. My name is Mike Delowery. My current business address is 400 South Tryon
4 Street, Charlotte, NC 28202.

5

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

7 A. I am employed by Duke Energy Corporation (“Duke Energy”) and currently serve
8 as the acting Vice President of the Project Management and Construction
9 (“PMC”) department. Duke Energy Florida, Inc. (“DEF” or the “Company”) is a
10 fully owned subsidiary of Duke Energy.

11

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

13 A. Yes. I filed direct testimony in support of DEF’s 2012 and 2013 actual costs
14 incurred for the Crystal River Unit 3 (“CR3”) Extended Power Uprate (“EPU”)
15 project on March 3, 2014.

16

17

1 **II. PURPOSE AND SUMMARY OF TESTIMONY.**

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

3 A. My testimony describes the status of the CR3 EPU project wind-down and
4 investment recovery efforts in 2014 to date and projected activities for 2015. My
5 testimony also supports the reasonableness and prudence of DEF's 2014
6 actual/estimated and 2015 projected costs associated with the cancellation and
7 wind-down of the EPU project, pursuant to Section 366.93(6), Florida Statutes,
8 and Rule 25-6.0423(7), Florida Administrative Code ("F.A.C.").

9
10 **Q. Do you have any exhibits to your testimony?**

11 A. Yes, I am sponsoring the following exhibit to my testimony:

- 12 • Exhibit No. ____ (MRD-7), Investment Recovery Project disposition
13 schedule for major EPU components.
- 14 • Exhibit No. ____ (MRD-8), Investment Recovery Guidance Document,
15 IRGD-001, *Sales Track Guidance and Documentation Package*
16 *Development.*

17 I am co-sponsoring portions of the Schedules 2014 and 2015 Detail, and
18 sponsoring Appendices D and E, which are included as part of Exhibit No. ____
19 (TGF-5), to Thomas G. Foster's May 1, 2014 testimony. These Schedules reflect
20 the 2014 and 2015 actual/estimated revenue requirement calculations, the major
21 task categories and expense variances, and a summary of contracts and details
22 over \$1 million.

23 All of these exhibits are true and correct.

1 **Q. Please summarize your testimony.**

2 A. As a result of the decision to retire CR3, the EPU project was not needed and was
3 accordingly cancelled. In 2014, DEF has been working to disposition EPU assets
4 and materials in accordance with CR3 Administrative Procedure, AI-9010,
5 *Conduct of CR3 Investment Recovery*, and the Investment Recovery Project,
6 Project Execution Plan, as I described in my March 3, 2014 testimony. The
7 Investment Recovery Project (“IRP”) team is prudently marketing EPU-related
8 assets internally and externally and making disposition decisions in accordance
9 with its policies and procedures. The IRP will conduct bid events for all
10 appropriate EPU-related assets in 2014 and DEF currently anticipates that all
11 EPU-related assets will be dispositioned by the end of 2014, with minimal wind-
12 down activities extending past 2014. Value received from sales or salvage of
13 EPU-related equipment will be credited back to DEF’s customers through the
14 Nuclear Cost Recovery Clause (“NCRC”) to reduce the remaining unrecovered
15 investment. For these reasons, DEF requests that the Commission determine that
16 its 2014 actual/estimated and 2015 projected costs are reasonable and that DEF is
17 entitled to recover CR3 EPU project wind-down and exit costs pursuant to the
18 NCRC statute and rule.

19
20 **III. EPU INVESTMENT RECOVERY.**

21 **Q. What is the status of EPU asset disposition efforts in 2014?**

22 A. DEF is moving forward with its investment recovery efforts under the IRP
23 processes and procedures. As I explained initially in my March 3, 2014 testimony,

1 under the IRP process, assets will be disposed of utilizing the following step-wise
2 approach: 1) solicit internal interest in EPU asset acquisitions and utilize Duke
3 Energy internal transfers to the fleet in accordance with the *Affiliate Asset*
4 *Transfer Transactions* process manual, SCD211; 2) if the EPU assets are not
5 transferred internally, then solicit external EPU asset acquisition interest from
6 distributors, original equipment manufacturers, and re-sellers utilizing a bid
7 process pursuant to procedure MCP-NGGC-001, *NGG Contract Initiation,*
8 *Development and Administration*; and 3) for any remaining EPU equipment,
9 disposition at salvage or scrap value, if cost effective to do so, depending on
10 whether the equipment is installed or not installed and the cost to move the
11 equipment to the salvage or scrap location.

12
13 **Q. What is the status of internal EPU asset transfers?**

14 A. DEF solicited and pursued internal interest in the acquisition of the EPU
15 equipment with Duke Energy affiliates in 2013. As I indicated in my March 3,
16 2014 testimony, in 2013 several small assets were transferred or salvaged for
17 scrap value. A Duke Energy affiliate initially indicated that it may have interest in
18 the acquisition of the EPU low pressure turbine rotors for one of its stations. This
19 asset acquisition was evaluated and the Duke Energy affiliate concluded in 2014
20 that the equipment was not appropriate for the station. Additionally, in 2014
21 some minor EPU-related materials will be transferred internally pursuant to
22 DEF's policies. Other EPU equipment is currently under evaluation by Duke
23 Energy affiliates.

1 **Q. Is there any external interest in the acquisition of the EPU assets?**

2 A. The IRP is pursuing external interest in the acquisition of the EPU-related
3 equipment this year. DEF has employed several different avenues of
4 communication with the external market regarding interest in the acquisition of
5 the EPU assets. These avenues include: 1) contacting the original EPU equipment
6 vendor; 2) utilizing RAPID – a utility parts website; 3) utilizing third party re-
7 sellers; and 4) using Duke Energy’s own Supply Chain personnel expertise and
8 contacts to get in touch with potential buyers. Based on these efforts to generate
9 external interest in the acquisition of EPU assets, DEF currently plans to
10 commence additional bid events for appropriate EPU-related equipment through
11 an external bid process through the Power Advocate system in 2014. Exhibit No.
12 ____ (MRD-7) provides the IRP disposition schedule for some of the major EPU
13 components.

14
15 **Q. Has DEF already initiated a bid event for EPU assets?**

16 A. Yes. As I indicated in my March 3, 2014 testimony, DEF initiated a bid event at
17 the end of 2013 for the EPU Point of Discharge (“POD”) Cooling Tower
18 equipment and materials. Bid responses were received in early 2014, and DEF is
19 in the process of negotiating and finalizing a sales contract with a potential buyer.
20 DEF expects to complete this negotiation process in May of 2014.

1 **Q. When will DEF initiate the other EPU asset bid events?**

2 A. The current schedule is to commence bid events for major EPU components,
3 including the low pressure rotors, moisture separate reheaters, feedwater heat
4 exchangers, high pressure turbines, and main generator/exciter in June 2014.
5 DEF also plans to conduct auctions for minor EPU components throughout the
6 course of 2014. *See* Exhibit No. ____ (MRD-7). 2014 disposition schedules are
7 currently being developed for the remaining EPU assets.

8

9 **Q. Can you describe the process for conducting a bid event?**

10 A. Yes. The Duke Energy Supply Chain, in association with the IRP group, is
11 coordinating and scheduling the EPU asset bid events. First, Supply Chain
12 creates an information package regarding each piece or pieces of EPU equipment
13 to be dispositioned. Second, Supply Chain solicits interest from potential buyers
14 including, among others, utilities, companies, resellers, the original manufacturer,
15 and scrappers. Third, a bidders list is created from the interested parties. Fourth,
16 the bid event is created in Power Advocate, or an equivalent bidding tool, and sent
17 out to the bidders list. There is then a period of time for potential bidder review
18 of the components and then a period of time for DEF's analysis of the responses
19 and negotiations with any potential buyers.

20

21 **Q. Are there any other efforts by Duke Energy to disposition the EPU assets?**

22 A. Yes. DEF is working with "PIM" or Pooled Inventory Management to identify
23 appropriate components to market. PIM is a program run by the Southern

1 Company where mainly large, critical utility equipment can be marketed to see if
2 any utilities have an interest in pooling resources to purchase and preserve the
3 equipment to keep as inventory, or a “spare,” in the event any of the utilities need
4 that component in the future. At that time, the utility that needs the equipment
5 can “buy out” the other utilities that had originally pooled their resources to
6 purchase and preserve the equipment. Major EPU components such as the MSR’s
7 and FWHE’s are being marketed to PIM.

8

9 **Q. How is DEF documenting the EPU asset disposition decisions?**

10 A. Procedure AI-9010 outlines the asset pricing requirements, minimum reviews and
11 approvals required for the execution of transactions, and the record keeping
12 requirements necessary for the disposition of EPU assets. More specifically, IRP
13 disposition decision documentation will include completed AI-9010 forms;
14 Affiliate Asset Transfer (AAT) eForms, as applicable; Buyer Contract Purchase
15 orders; Request for Proposal (“RFP”) documents; RFP reviews; and RFP
16 justifications. Supporting documentation of the decisions, such as justification of
17 due diligence when engineered components do not generate any market interest, is
18 also developed, as applicable.

19

20 **Q. When does DEF expect to disposition all EPU related assets?**

21 A. Currently the IRP team expects to disposition all EPU related assets by the end of
22 2014, with minimal wind-down activities continuing into 2015.

23

1 **Q. Has DEF ensured that credits related to sale of EPU assets are credited back**
2 **to customers?**

3 A. Yes. Where appropriate, EPU components have been physically segregated from
4 other CR3 components for disposition to ensure they are tracked and accounted
5 for correctly. In addition, all EPU asset disposition credits will be directed to a
6 unique project number created for EPU component dispositions, with the
7 exception of the POD items, which will be credited back directly to the POD
8 project numbers. Credits allocated to the EPU will then be applied through the
9 NCRC to reduce the remaining unrecovered investment.

10
11 **IV. EPU ACTUAL/ESTIMATED 2014 AND PROJECTED 2015 COSTS.**

12 **Q. What are the actual/estimated costs for the EPU project wind-down in 2014?**

13 A. The total actual /estimated costs for the EPU project wind-down in 2014 are
14 \$711,829, which are less than the \$3.1 million total costs shown on line 1a
15 Schedule 2014 Detail. The difference between the \$711,829 total
16 actual/estimated EPU costs in 2014 and the \$3.1 million in total costs shown on
17 line 1a Schedule 2014 Detail of \$2.6 million reflects an accounting adjustment
18 for an expense incurred and cash paid in a previous period that did not have an
19 offsetting accrual adjustment. There is no impact to revenue requirements, as
20 described by Mr. Foster in his direct testimony. The total 2014 actual/estimated
21 EPU project wind-down costs reflect the EPU Construction balance and Wind-
22 down costs, exclusive of joint owner credits, as referenced on lines 1a and 9a—c
23 of Schedule 2014 Detail of Mr. Foster's Exhibit No. ___(TGF-5). DEF does not

1 include in this filing any estimated costs or credits related to salvage or scrap
2 value because DEF cannot reasonably estimate these costs or credits at this time.
3 Any proceeds from the sale of EPU-related assets, however, will be credited
4 through the NCRC to reduce the remaining unrecovered investment.

5
6 **Q. What costs are projected to be incurred for EPU project wind-down**
7 **activities in 2015?**

8 A. As shown on lines 1a and 7 a—c of Schedule 2015 Detail of Mr. Foster’s Exhibit
9 No. __ (TGF-5), the 2015 projected EPU wind-down costs are estimated at
10 \$351,287 in the category of EPU Wind-down.

11
12 **Q. What activities are associated with these 2014 actual/estimated and 2015**
13 **projected EPU Wind-down costs?**

14 A. EPU project wind-down costs were incurred in 2014 and will continue to be
15 incurred in 2015 for periodic maintenance and preservation of uninstalled EPU
16 LLE assets, demobilization expenses related to EPU equipment asset integrity
17 management for hurricane preparation and storage, and associated regulatory and
18 administrative support

19
20
21

1 **Q. Are the actual/estimated 2014 and projected 2015 costs for the EPU project**
2 **separate and apart from costs that DEF would have incurred to operate CR3**
3 **or to decommission the plant?**

4 A. Yes, they are. DEF included for recovery in this proceeding only those costs that
5 were incurred or that will be incurred solely for EPU wind-down and asset
6 maintenance activities. No costs are included in this request for decommissioning
7 the plant.

8
9 **V. PROJECT MANAGEMENT AND COST CONTROL OVERSIGHT.**

10 **Q. Has the Company implemented any additional project management and cost**
11 **control oversight mechanisms for the EPU since your testimony was filed on**
12 **March 3, 2014?**

13 A. In 2014, DEF issued the Investment Recovery Guidance Document IRGD-001,
14 *Sales Track Guidance and Documentation Package Development*. See Exhibit
15 No. ___(MRD-8) to my testimony. This document provides additional instruction
16 to conduct sales and develop complete documentation packages for the IRP.
17 Otherwise, the Company has not implemented any significant, additional project
18 management or cost control oversight policies or procedures for the EPU since
19 my March 3, 2014 direct testimony. The Company continues to utilize the
20 Company policies and procedures and specific IRP process and procedures that I
21 described in my March 3, 2014 testimony to ensure that wind-down costs for the
22 EPU are reasonably and prudently incurred.

23

1 **VI. CONCLUSION.**

2 **Q. Are DEF's EPU project wind-down costs in 2014 and 2015 reasonable?**

3 A. Yes they are. DEF is currently working through its Supply Chain and Investment
4 Recovery organizations to ensure that wind-down of the EPU project and
5 disposition of assets is in accordance with DEF's policies and procedures. Bid
6 events are being developed and conducted for all appropriate EPU components.
7 Moreover, any proceeds from the sale or salvage of EPU-related assets will be
8 credited through the NCRC to reduce the remaining unrecovered investment.
9 Only those costs that are reasonable and prudent project exit or wind-down costs
10 were or will be incurred in 2014 and 2015. For these reasons, as more fully
11 explained above, these costs are reasonable to facilitate the prudent wind-down of
12 the EPU project and should be approved for recovery.

13
14 **Q. Does this conclude your testimony?**

15 A. Yes, it does.



IRP Schedule for EPU Components

Docket No. 140009-EI
 Duke Energy Florida
 Exhibit No. _____ (MRD-7)
 Page 1 of 1

| ID | Task Name | Start | Finish | Duration | Q4 13 | | Q1 14 | | | Q2 14 | | | Q3 14 | | | Q4 14 | |
|----|------------------------------|------------|------------|----------|-------|-----|-------|-----|-----|-------|-----|-----|-------|-----|-----|-------|-----|
| | | | | | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov |
| 1 | Minor EPU Component Auctions | 4/1/2014 | 11/17/2014 | 165d | | | | | | | | | | | | | |
| 2 | LP Rotors | 11/11/2013 | 12/4/2014 | 279d | | | | | | | | | | | | | |
| 3 | POD Cooling Tower | 11/11/2013 | 12/4/2014 | 279d | | | | | | | | | | | | | |
| 4 | MSRs | 11/11/2013 | 8/11/2014 | 196d | | | | | | | | | | | | | |
| 5 | FWHEs | 11/11/2013 | 8/11/2014 | 196d | | | | | | | | | | | | | |
| 6 | HP Turbine | 11/11/2013 | 12/4/2014 | 279d | | | | | | | | | | | | | |
| 7 | Main Generator/Exciter | 11/11/2013 | 8/11/2014 | 196d | | | | | | | | | | | | | |

Sales Guidance and Documentation Package Development

INVESTMENT RECOVERY GUIDANCE DOCUMENT

IRGD-001

Revision 0

**Sales Track Guidance and
Documentation Package Development**

An Uncontrolled Reference and Assistance Document

Note: If any conflicts exist between the current Directives and Procedures and the information contained within this guidance document all directives and procedures shall govern the work described herein.

Sales Guidance and Documentation Package Development

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Sales Guidance and Documentation Package Development

1.0 PURPOSE

This Guidance Document provides instruction to conduct sales and develop complete documentation packages for the Crystal River Unit 3 (CR3) Investment Recovery Project (IRP).

2.0 APPLICABILITY

This Guidance Document applies to the IRP. More specifically, this Guidance Document applies to the sale/transfer of material and the development and retention of sales and other supporting documentation.

3.0 ROLES AND RESPONSIBILITIES

Manager Nuclear Procurement or designee is the single point of contact for reviewing all documentation packages and ensuring all documents are uploaded to the Share Point Site and sales tracking database.

Investment Recovery Project Manager (IRPM) provides oversight of the sales process and documentation retention activities. Additionally, the Investment Recovery PM is responsible for facilitating the removal of equipment installed in the plant.

Investment Recovery Sales Team (IRST) is the point of contact for obtaining sales leads, negotiating the sale, closing the sale, and documenting all aspects of the sale transaction. The CR3 IRST is also responsible for loading all documentation on the Investment Recovery Share Point Site and sales tracking database.

Asset Recovery Sales Team (ARST) processes all salvage transactions, and is responsible for invoicing vendors after Inter-Utility (RAPID), external third party, and salvage sales are completed.

CR3 Financial Analyst determines the Net Book Value (NBV) for Duke Affiliate Transfers and Duke Internal Sales, when available. Completes first half of the Capital-to-Capital or Capital-to-Inventory template and tracks Journal Entries processed by Asset Accounting and performs Journal Entries for transfers within the state of Florida.

4.0 IRP SALES STRATEGY

Organize – Develop a list of and categorize all items available for immediate sale with an explanation of how the sale criteria and categorization was achieved.

Preserve – Determine what preventive maintenance (PM) and preservation activities are required to allow the highest rate of return for all CR3 assets. Develop and implement a plan for the preventive maintenance (PM) and preservation activities.

Analyze – Determine the most effective method for each category and create a schedule for the sale of these items.

Disposition – Distribute the “match” lists within the Duke organization to obtain the highest rate of return. Follow the AI9010 Administrative Procedure for the remaining equipment and material.

Sales Guidance and Documentation Package Development

5.0 SALES PROCESS AND REQUIRED DOCUMENTATION

5.1 Duke Affiliate Transfer

1. IF non-inventory Capital material, THEN the financial analyst will determine the Net Book Value (NBV) and completes either:
 - a. Capital-to-Capital template and sends to requesting location; or
 - b. Capital-to-Inventory template and sends to requesting location.
2. IF Inventory material, THEN Calculated Unit Price (CUP) from the CAT ID shall be used for the asset value.
3. Requesting Location shall initiate the Affiliate Asset Transfer (AAT) eForm and route to CR3 Investment Recovery (SCD211, Rev.1).
 - a. Completed Capital-to-Capital or Capital-to-Inventory template shall be attached, if required.
4. The IRST shall complete and obtain approvals for Asset Disposition Review form (AI-9010, Attachment 1).
5. IF equipment is installed in the plant, THEN:
 - a. IRST will initiate and obtain approvals for Installed Plant Equipment Removal Agreement (AI-9010, Attachment 2).
 - b. IRPM facilitates the removal of the equipment with the IRP Implementation group.
6. Manager Nuclear Procurement, or designee, shall review the AAT eForm and if such AAT eForm is satisfactory (see Attachment A for requirements), approval shall be granted.
7. FL legal shall review the AAT eForm and if such eForm is satisfactory, approval shall be granted.
8. IF the equipment is installed in the plant, is Safety Related and is required to maintain a Safety Related classification, return to stock under the appropriate CAT ID, if one does not exist, create a new CAT ID per the established Nuclear Procedures:
 - a. Initiate a PICK Ticket, for all listed/sold material, if the plant is Non-Nuclear the requesting site shall create an Material Request (MR).
 - b. CR3 Adjust Minimum/Maximum to zero (0) in PassPort to prevent re-order.
9. IF inventory material, THEN:
 - a. Initiate a PICK Ticket, if required, for all listed/sold material.
 - b. CR3 IRST Adjust Minimum/Maximum to zero (0) in PassPort to prevent re-order.
10. Obtain shipping arrangements from requesting location.
11. Forward a copy of the AAT eForm and shipping information to the warehouse.
12. Ship material to the requesting location.

Sales Guidance and Documentation Package Development

13. For Capital assets the AAT eForm is sent to Asset Accounting to perform a Journal Entry which transfers the funds.
 - a. Journal entry should include the asset value (shipping, stores, etc.) as well as the removal costs, if required.
 - b. True-up of actual costs is obtained through the journal entry and attached to the AI9010.
14. Document sale on the Sales Tracking Database and place electronic copies of the following sales documents in the SharePoint site IRP Document Retention File:
 - a. AAT eForm, including all Attachments
 - b. Asset Disposition Review (AI-9010, Attachment 1)
 - c. Installed Plant Equipment Removal Agreement (AI-9010, Attachment 2), if required.
 - d. PICK Ticket, if required
 - e. Issue Ticket, if required
 - f. Shipping documentation
 - g. E-mails
 - h. Journal entry documentation, if required

5.2 Duke Florida Internal Transfer

1. IF Non-inventory, THEN determine value of asset:
 - a. Contact Financial Analyst to determine the NBV of the equipment.
 - b. If NBV is not available, the IRST should determine Fair Market Value (FMV).
2. IF Safety Related material is requested, THEN
 - a. IRST shall verify the material is not on the Match List.
 - b. CAT ID shall be downgraded to Quality Level 4.
3. Complete and obtain approvals for Asset Disposition Review form (AI-9010, Attachment 1).
 - a. IF non-inventory asset, THEN AI-9010, Attachment 1 is required.
 - b. IF inventory asset, THEN AI9010, Attachment 1 is NOT required.
4. IF equipment is installed in the plant, THEN:
 - a. Initiate and obtain approvals for Installed Plant Equipment Removal Agreement (AI-9010, Attachment 2).
 - b. IRPM facilitates the removal of the equipment with the IRP Implementation group.
5. IF the item has a CAT ID in the PassPort System and the:
 - a. Item is Safety Related (QL 1, 2, 3)
 - i. A Material Request shall be completed by the requesting site.

Sales Guidance and Documentation Package Development

- ii. CR3 shall Adjust Minimum/Maximum to "0" to prevent a re-order.
 - b. Item is non-safety related (QL 4)
 - i. A Pick Form should be completed by the sending site.
 - ii. CR3 shall Adjust Minimum/Maximum to "0" to prevent a re-order.
6. Shipping arrangements are coordinated by requesting plant and shipping information shall be sent to the warehouse personnel.
7. Material is shipped to the requesting facility.
8. Document sale on the Sales Tracking Database and place electronic copies of the following sales documents in the SharePoint site IRP Document Retention File:
 - a. Asset Disposition Review (AI-9010, Attachment 1)
 - b. Installed Plant Equipment Removal Agreement (AI-9010, Attachment 2), if required.
 - c. Pick Ticket/Transfer/Material Request, if required
 - d. Issue Ticket, if required
 - e. Shipping documentation
 - f. E-mails
 - g. True-up of actual costs documentation, if required
 - h. Journal entry documentation, if required
9. A monthly report of all Duke Florida Internal Inventory sales shall be uploaded to the SharePoint site.
10. IF in-state transfer was purchased as or currently is EPIS, Inventory or O&M (101 or 106 accounts), THEN the material can be transferred and the receiving organization will not realize the costs at the time of the transfer.
11. IF in-state transfer was purchased as or currently is CWIP (107 account), THEN the cost is recognized by the receiving organization at the time of the transfer.

5.3 Inter-Utility (RAPID) Sale

1. Price is negotiated at CUP or better, Terms and Conditions are in accordance with the Inter-Utility Sales agreement. Note: Some sale prices may be lower than the CUP due to material condition, shelf life, etc. Approval of the modified sale price shall be obtained prior to sale closure by either the Manager Of Nuclear Procurement or Site Supply Chain Manager.
2. CR3 receives the Purchase Order (PO).
3. Complete and obtain approvals for Asset Disposition Review form (AI-9010, Attachment 1).
4. IF equipment is installed in the plant, THEN:
 - a. Initiate and obtain approvals for Installed Plant Equipment Removal Agreement (AI-9010, Attachment 2).

Sales Guidance and Documentation Package Development

- b. IRPM facilitates the removal of the equipment with the IRP Implementation group.
5. IF inventory, THEN CR3 IRP completes a Material Request and adjusts Minimum/Maximum to "0" to prevent re-order.
6. Shipping arrangements coordinated by requesting plant and CR3 warehouse.
 - a. MR and PO are forwarded to CR3 warehouse for issuing and shipping instructions.
7. Material shipped to requesting facility.
 - a. Forward shipment tracking information to buyers upon request.
8. Copy of shipping information/issue ticket sent to CR3 IRP.
9. Enter information into Investment Recovery RAPID database spreadsheet.
10. Document sale on the Sales Tracking Database and place electronic copies of the following sales documents in the SharePoint site IRP Document Retention File:
 - a. Asset Disposition Review (AI-9010, Attachment 1)
 - b. Installed Plant Equipment Removal Agreement (AI-9010, Attachment 2), if required.
 - c. Purchase Order
 - d. Material Request, if required
 - e. Issue Ticket, if required
 - f. Shipping documentation
 - g. E-mails
 - h. Copy of invoice
 - i. Tax exempt form

5.4 Duke External Third Party Sale

1. Price is negotiated in accordance with the Terms and Conditions for CR3 Investment Recovery sales. Note: Buyer pays for all shipping and handling (including removal from plant if installed) costs.
 - a. See Material Bidding Process 6.0
2. CR3 Receives the Contract/Purchase Order (PO).
3. Complete and obtain approvals for Asset Disposition Review form (AI-9010, Attachment 1).
4. IF equipment is installed in the plant, THEN:
 - a. Initiate and obtain approvals for Installed Plant Equipment Removal Agreement (AI-9010, Attachment 2).
 - b. IRPM facilitates the removal of the equipment with the IRP Implementation group.

Sales Guidance and Documentation Package Development

5. IF Inventory, THEN CR3 IRP completes a Material Request (MR) and adjusts Minimum/Maximum to "0" to prevent re-order.
6. Shipping arrangements coordinated by requesting company in accordance with Contract/PO.
 - a. MR and Contract/PO are forwarded to CR3 warehouse for issuing and shipping instructions.
7. Material shipped to requesting company.
 - a. Forward shipment tracking information to buyers upon request.
8. Copy of shipping information/issue ticket sent to CR3 IRP.
9. Document sale on the Sales Tracking Database and place electronic copies of the following sales documents in the SharePoint site IRP Document Retention File:
 - a. PowerAdvocate documents, if required
 - b. Buyer Contract/Purchase Order
 - c. Asset Disposition Review (AI-9010, Attachment 1)
 - d. Installed Plant Equipment Removal Agreement (AI-9010, Attachment 2), if required.
 - e. Material Request, if required
 - f. Issue Ticket, if required
 - g. Shipping documentation
 - h. E-mails
 - i. Copy of invoice
 - j. Tax exempt form
 - k. Signed IR Terms and Conditions

5.6 Duke Salvage Sale

1. Price is negotiated in accordance with the Terms and Conditions for CR3 Investment Recovery sales.
 - a. See Material Bidding Process 6.0
2. CR3 Receives the Contract/Purchase Order (PO).
3. Complete and obtain approvals for Asset Disposition Review form (AI-9010, Attachment 1).
4. IF equipment is installed in the plant, THEN:
 - a. Initiate and obtain approvals for Installed Plant Equipment Removal Agreement (AI-9010, Attachment 2).
 - b. IRPM facilitates the removal of the equipment with the IRP Implementation group.

Sales Guidance and Documentation Package Development

5. CR3 IRP completes a Material Request (MR) and adjusts Minimum/Maximum to "0" to prevent re-order.
6. Shipping arrangements coordinated by requesting company in accordance with Contract/PO.
 - a. MR and Contract/PO are forwarded to CR3 warehouse for issuing and shipping instructions.
7. Material shipped to requesting company.
 - a. Forward shipment tracking information to buyers upon request.
8. Copy of shipping information/issue ticket sent to CR3 IRP.
9. Document sale on the Sales Tracking Database and place electronic copies of the following sales documents in the SharePoint site IRP Document Retention File:
 - a. PowerAdvocate documents, if required
 - b. Buyer Contract/Purchase Order
 - c. Asset Disposition Review (AI-9010, Attachment 1)
 - d. Installed Plant Equipment Removal Agreement (AI-9010 Attachment 2), if required.
 - e. Material Request, if required
 - f. Issue Ticket, if required
 - g. Shipping documentation
 - h. Pertinent e-mails
 - i. Copy of invoice
 - j. Tax exempt form
 - k. Signed IR Terms and Conditions

6.0 MATERIAL BIDDING PROCESS

1. IRSTs shall decide on a method of disposition based on the following criteria:
 - a. Asset value < \$15,000.00 - Items may be marketed and sold at the IRST's discretion
 - b. \$15,000.00 < Asset value < \$100,000.00 – Items must be sold using one of the following methods:
 - i. Asset Recovery's Online Surplus Marketplace
 1. Online marketing and sales tool may utilize one or more of the following sales methods:
 - a. Auction
 - b. Fixed Price Sale
 - c. Classified Ad

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2. Document sale on the Sales Tracking Database and place electronic copies of the following sales documents in the SharePoint site IRP Document Retention File:
 - a. List of companies/individuals automatic emails were disseminated to.
 - b. List of companies/individuals who received phone calls.
 - c. List of Bidders.
 - d. All communications:
 - i. Emails
 - ii. Posted comments
 1. Questions
 2. Responses
 - iii. calls logged with notes regarding conversation.
 - e. Amount of each bid.
 - f. Number of visitors (names if possible).
 - g. All documentation:
 - i. T&Cs
 - ii. AI-9010 Form
 - iii. Screen shots
 - h. Time Auction started/ended.
 - ii. Formal Bid
 1. E-mail bid which includes a bid package containing at a minimum:
 - a. Bid Cover Letter or Information letter
 - b. Instructions to bidder
 - c. List of Materials for Sale
 - d. Terms and Conditions for CR3 Investment Recovery sales
 - e. Bidder Response form
 - iii. Power Advocate Bid Event
 - c. Asset Value > \$100,000.00
 - i. Items must be sold using a Power Advocate Bid Event
2. Exception from standard Material Bidding Process
 - a. IF an instance occurs where IR is required to make an exception for an asset sale, THEN they shall be documented by the IRST and approved by the Manager of Nuclear Procurement or designee.
 - b. Examples of when an exception may occur include, but are not limited to the following:
 - i. Contractual restraints only allow sale to one party (original manufacturer)
 - ii. Expedited time frame for sale required and the sale price is above CUP

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7.0 VENDOR SITE ACCESS

Prior to admittance to the CR3 site all vendor personnel shall have an approved Site Access Form. Prior to picking up material or equipment the vendor shall sign a Duke Energy agreement which includes acceptance of:

- Insurance requirements
- Safety and Security procedures
- Waiver of liability

8.0 CR3 ACCOUNTING STRUCTURE

8.1 CR3 Assets

All CR3 Assets are in one of the following categories:

| Account | Description | Account | Description |
|---------|--------------------------------------|---------|-------------|
| 101 | Electric Plant In Service (EPIS) | 154 | Inventory |
| 107 | Construction Work In Progress (CWIP) | 163 | Stores |
| 106 | Capital Cost Not Classified (CCNP) | 183 | Study |

The financial analyst will determine which of the following accounts a Capital Sale will be credited to:

| Credit Account | Description |
|------------------|----------------------|
| 20100423 - SLVGE | Capital Co-Owned |
| 20100426 - SLVGE | Capital Non-Co-Owned |
| EPU - DISP | EPU |
| 20069122 - SLVGE | EPU POD |

Stores Loading rate is not added to Capital items when sold internally to a Duke Energy Affiliate or to Duke Energy Florida.

8.2 CR3 Inventory

All inventory sales are credited as follows:

| Credit Account | Description |
|----------------|-------------|
| 20016324 | Inventory |

Stores Loading rate is included on all inventory sales and transfers.

8.3 CR3 Tax Collection

8.3.1 When is Sales Tax Collected

All Duke entities are required by the various states in which they operate to collect sales tax on the sales of used equipment unless the customer can prove their exemption. Transactions can be exempt because of who the customer is or because of how the customer will be using the item purchased. In either case, the customer would

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need to provide exemption documentation to in order to avoid having sales tax added to their bill.

Below are examples of common exemptions:

| <u>Entity Based Exemption</u> | <u>Use Based Exemptions</u> |
|-------------------------------|-----------------------------|
| Government Entities | Reselling |
| Nonprofits | Manufacturing |
| Religious Organization | Research and Development |
| Educational Institutions | Utility use |

Exemptions and exemption documentation will vary from state to state. Not every state will recognize all the exemptions above. When exemption documentation is received verify that it is properly completed and retain a copy for audit purposes. (Some exemption documentation may need to be signed or have an explanation.)

8.3.2 Accounting Structure for Collecting Sales Tax

| | |
|-----------------------|------------------------------------|
| Operating Unit | 0193 |
| Responsibility Center | 0193 |
| Location | 002090209 (Citrus County, Florida) |
| GL Account | 0241320 |
| Resource Type | 99810 |

Other counties and municipalities and special tax collection rates use different location codes.

All Florida counties and special tax situations will be coded into “The Retail Solution”.

8.3.3 Collecting Sales Tax

Sales for equipment and materials at Crystal River will be made using “The Retail Solution”, the software point of sale system used by Asset Recovery. Before any sale can be made to a customer, a record is created for the customer that includes basic information, such as name, address, phone number, etc. Also included is information pertinent to the collection of state and county sales tax:

- a. Tax Location – The tax location is where the sale occurs. In the case of Crystal River, all sales will be completed from Citrus County. Tax coding will be coded in “The Retail Solution” for all municipalities, and the system will calculate the appropriate rate of tax for the sale. If sales are made from other counties, we will provide the necessary coding in “The Retail Solution” to handle these collections as well.
- b. Tax Exempt – If the customer is exempt from payment of sales taxes, they must provide Duke Energy exemption documentation (see above). The exemption documentation will include a number, which is recorded in “The Retail Solution”, and the customer record will be coded “no tax”. When sales are processed, the system will not calculate sales tax based on this coding. noted above, Duke Energy must keep a record of the exemption certificate on file for audit purposes.

Sales tax is collected in the county in which the sale is made. For sales made from Crystal River, all applicable tax will be collected and submitted back to Citrus County.

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A journal entry is created using a report from “The Retail Solution”, in which the funds collected for specific sales will be credited to the appropriate accounting. Funds collected for Florida tax receipts will be credited to the appropriate tax accounting.

8.3.4 How Sales Tax is Handled Through an External Auction Company

The auction company is responsible for verification of the taxable status of the auction registrant. If the auction registrant provides proof of exemption to the auction company, not sales tax is collected or paid to the state or municipality from the sale. If the auction registrant is not tax-exempt, the auction company collects the sales tax from the location from which the sale was actually made.

9.0 SHAREPOINT

9.1 File Naming Convention

Every document shall have the Identification number, which corresponds to the Sales Tracking Database on the Investment Recovery SharePoint Site, and a brief description of the Document type. The following protocol shall be utilized to name files within the Investment Recovery Sales SharePoint Site:

| Sale Type | Document Title | Document Title Example |
|----------------------------------|-------------------------------------|---|
| Affiliate Asset Transfers | E-Form Folder Number_Document Title | Efr152v1-000982_iform Efr152v1-000982_AI9010 |
| Florida – Internal Duke | FID Number_Document Title | FID00001_AI9010 FID00001_emails |
| Inter-Utility (RAPID) | RAPID ID Number_Document Title | R251752_PO R251752_AI9010 |
| Non-Duke (3 rd party) | Contract/PO Number_Document Title | ND178596_PO ND178596_AI9010 |
| Salvage | Salvage Number_Document Title | SLVG00001_AI9010 SLVG00001_emails |
| Disposition – Not Sold | Not Sold Number_Document Title | NS00001_emails |
| Donations | Donation Number_Document Title | DON00001_AI9010 DON00001_letter |
| Disposal | Disposal Number_Document Title | DIS00001_AI9010 DIS00001_emails |

* Additional documentation for complete sale may be required as delineated in this guidance document.

9.2 File Structure

The file structure, Attachment B, is a quick reference tool designed to assist the project team in determining where documents are stored.

10.0 DEFINITIONS

Duke Affiliate Sale: Any sale which occurs internally between regulated, non-regulated and non-utility affiliate within the Duke Energy organization. These sales require an

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Affiliate Asset Transfer Form and consist of moving material outside of the state of Florida.

Duke Florida Internal Sale: Any sale or transfer which occurs internally between regulated, non-regulated and non-utility group within the Duke Energy Florida organization.

Duke Inter-Utility (RAPID) Sale: Any sale which occurs externally between regulated and non-regulated Utilities under the Terms and Conditions as defined on the Readily Accessible Parts Integrated Database (RAPID) web site. (Initiated by the Purchasing utility).

Duke External Third Party Sale: Any sale which occurs externally between regulated, non-regulated and non-utility companies. (Initiated by CR3 IRST).

Duke Salvage Sale: Any sale which occurs externally between a Duke Energy approved salvage company. Material will be sold by Duke Energy Asset Recovery.

Material Request: The process used when material is transferred within the Duke Energy Enterprise, may be used when plants have common CAT IDs but must be used if a no common CAT ID is available.

Pick Ticket or Transfer: The process used when material is transferred within the Duke Energy Enterprise and a common CAT ID is available. Should be initiated by shipping site.

PowerAdvocate: A sourcing website which allows the sales team to provide all pertinent information to the bidders, allows for communication between bidder and seller and accepts all bids and bidder exceptions. PowerAdvocate sourcing tool should be used when the estimated value, CUP or Combined CUP of material is greater than or equal to one hundred thousand dollars (\geq \$100,000).

SharePoint: a web based collaboration tool which allows the Project team and work group to perform more effectively by providing a central, virtual location for sharing of information quickly.

11.0 REFERENCES

AI-9010 – Conduct of CR3 Investment Recovery

Affiliate Asset Transfer Form – [Enterprise Forms](#)

SCD211, Rev. 1 Affiliate Asset Transfer Transactions

Investment Recovery Project, Project Assurance Plan

MCP-NGGC-0001 – NGG Contract Initiation, Development and Administration

MCP-NGGC-0401 – Material Acquisition (Procurement, Receiving, and Shipping)

12.0 ATTACHMENTS

Attachment A: Affiliate Asset Transfer Information Section eForm Template

Attachment B: IRP Sales Document Retention File Structure

Attachment C: Sales Track Quick Reference Guide

Attachment D: SharePoint Documentation Package Checklist

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Attachment A: Affiliate Asset Transfer Information Section eForm Template

Use this Template as a “copy/paste” tool while completing the Affiliate Asset Transfer eForm, “Asset Transfer Information Section.”

CAT ID #'s (NAS & Passport):

Item Description:

Qty transferring:

Capital Item?:

Safety Related?: (If Yes, provide Suitability or PEEVAL # & UTC #)

Contacts at Sending & Receiving locations:

Issue Accounting:

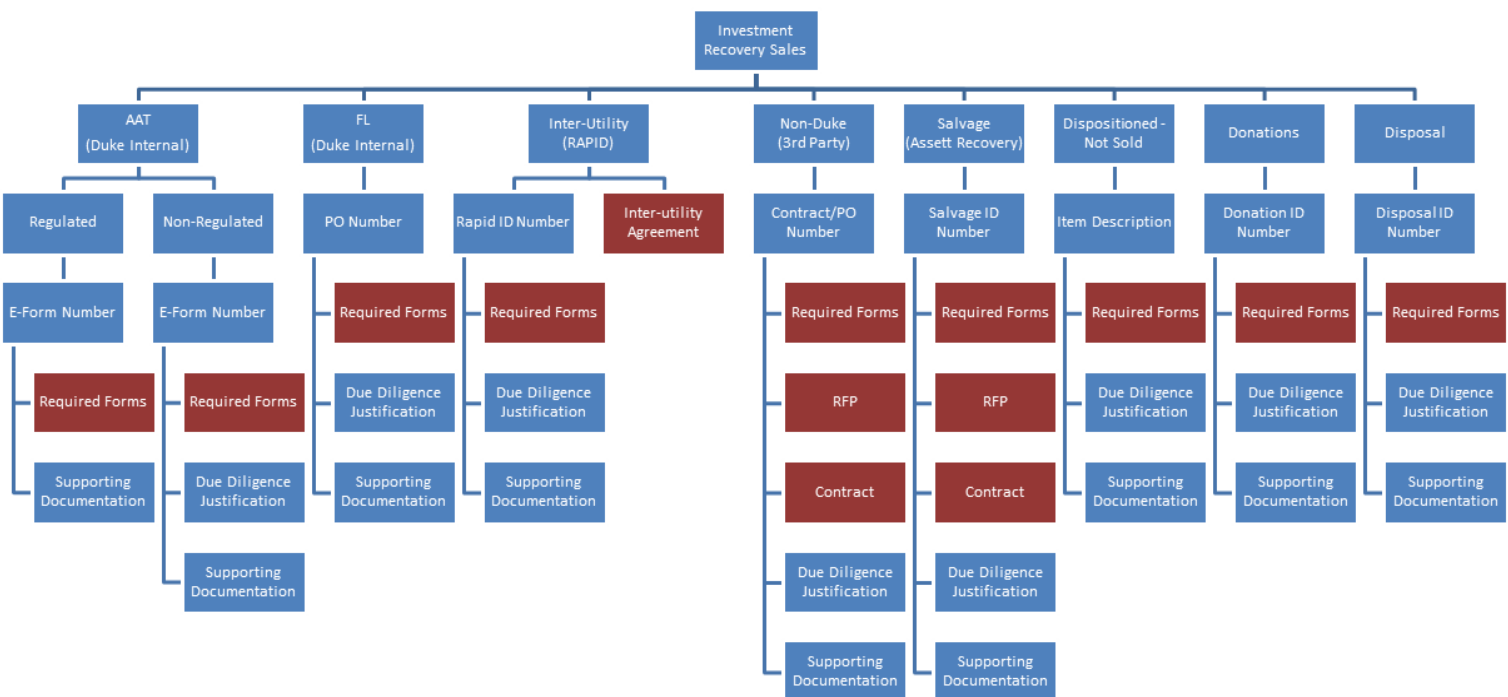
Receiving Accounting:

For transactions between DEF & DEP, note MR #.

Shipping Instructions:

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Attachment B: Investment Recovery Sales Document Retention File Structure



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Attachment D: SharePoint Documentation Package Checklist

Sale ID No.: _____

Sale Date: _____

| | | AI-9010, Attachment 1 | AI-9010 Attachment 2* | Material Request* | Issue Ticket* | Shipping documentation* | Copy of invoice Proof of Payment | E-mails | AAT eForm | Buyer Contract Purchase Order | Tax exempt form | RFP Documents | RFP Review | RFP Justification |
|--------------------------|-----------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|----------------------------------|--------------------------|--------------------------|-------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <input type="checkbox"/> | Affiliate | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | | | | | |
| <input type="checkbox"/> | DEF | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | | | | | | |
| <input type="checkbox"/> | RAPID | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> | | | |
| <input type="checkbox"/> | External | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> | Salvage | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <input type="checkbox"/> | Scrap | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

*Documents may not be required for all sales or transfers

Originator: _____

Final Date: _____

Draft

EPU

Non-EPU

CERTIFICATE OF SERVICE

I HEREBY CERTIFY a true and correct copy of the foregoing has been filed via Web Based Electronic Filing and has been furnished to counsel and parties of record as indicated below via electronic mail this 1st day of May, 2014.

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