

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-

DATE: June 8, 2015
TO: Office of Commission Clerk
FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis
RE: Docket No.: 150009-EI
Company Name: Duke Energy Florida, Inc.
Company Code: EI801
Audit Purpose: Nuclear Cost Recovery Clause
Audit Control No: 15-005-2-1

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 confidential work papers associated with this audit.

LMD/cp

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

Twelve Months Ended December 31, 2014

Docket No. 150009-EI
Audit Control No. 15-005-2-1
May 15, 2015



Ronald Mavrides
Audit Manager



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 agreed-upon objectives set forth by the Office of Industry Development and Market Analysis in its audit service request dated January 2, 2015. We have applied these procedures to the attached schedule prepared by Duke Energy Florida, Inc. and to several of its related schedules in support of its 2014 Nuclear Cost Recovery Clause for its cost expenditures for the Crystal River Unit 3 Uprate Project in Docket No. 150009-EI.

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

Objectives and Procedures

General

Definitions

Utility refers to Duke Energy Florida, Inc.

CR3 refers to the Crystal River Unit 3 Uprate Project.

NCRC refers to the Nuclear Cost Recovery Clause.

CCRC refers to Capacity Cost Recovery Clause.

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

Utility Information

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

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

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

Construction Work In Progress

Objectives: The objectives were to determine whether costs incurred in 2014 for the CR3 Uprate are properly accounted for and stated as required by Section 366.93, Florida Statutes and Rule 25-6.0423, F.A.C.

Procedures: We reconciled the company's transaction details to the general ledger and filing. We judgmentally selected transactions from the transaction details and tested them for: 1) Compliance with contracts, 2) Correct paid amounts, and 3) Correct recording periods. No exceptions were noted.

Recovery

Objectives: The objectives were to determine whether the Utility used the Commission approved CCRC factors to bill customers for the period January 1, 2014, through December 31, 2014, and whether Exhibit TGF-2 reflects amounts in Order No. PSC-14-0701-FOF-EI.

Procedures: We agreed the amount collected on Exhibit TGF-2 to the 2014 NCRC jurisdictional amount approved in Order No. PSC-14-0701-FOF-EI and to the CCRC in Docket No.150001-EI. Our recommendations are discussed in Finding 1

Expense

Operation and Maintenance Expense

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

Procedures: We judgmentally selected costs from the transaction details and reviewed them for the proper period, amounts, and that they are legitimate NCRC costs. For costs that are for a service or product that is under contract, we: 1) Traced the invoiced cost to the construction contract of other type of original source document, 2) Reconciled the invoice to the contract terms and pricing, 3) Ensured that the amounts billed are for actual services or materials received, and 4) Investigated all prior billing adjustments and job order changes to the contract(s). We sorted the transaction detail listings by O&M expense category and reconciled them to the filing. We judgmentally selected one employee each from the months of November and December 2014 from the transaction details for sampling. We used employee time sheets to verify that labor hours charged to employee labor expense are correct. We recalculated employee incentive pay for October 2014. No exceptions were noted.

True-Up

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

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

Audit Findings

Finding 1: Rate of Return on Equity

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

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

The Utility applied the rate reported in its Earnings Surveillance Report filed for December 2012, which was 7.23%. Audit staff believes that the Rule requires that the Utility should have applied the rate reported in its Earnings Surveillance Report filed for December 2013, which was 7.10%. We requested the Utility to calculate the Total Period Revenue Requirement for 2014 using the rate of 7.10%. This calculation reduces the Total Period Revenue Requirement of \$23,501,504 as filed to \$23,346,121.

The Utility responded by stating:

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

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

Effect on the Filing: Duke has adjusted its May 1, 2015, filing.

