

State of Florida



## Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** August 4, 2015  
**TO:** Office of Commission Clerk  
**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 150148-EI  
Company Name: Duke Energy Florida, Inc.  
Company Code: EI801  
Audit Purpose: Review of CR3 Regulatory Asset  
Audit Control No: 15-161-2-1

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Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There are 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.  
Review of CR3 Regulatory Asset

**December 31, 2012 - April 30, 2015**

Docket No. 150148-EI  
Audit Control No. 15-161-2-1

**July 20, 2015**

A handwritten signature in blue ink that reads "Ron Mavrides".

Ron Mavrides  
Audit Manager

A handwritten signature in blue ink that reads "Linda Hill".

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 Division of Accounting & Finance in its audit service request dated June 9, 2015. We have applied these procedures to the attached schedules prepared by Duke Energy Florida, Inc. in support of its filing in Docket No. 150148-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

### Definitions

DEF refers to Duke Energy Florida, Inc.

CR3 refers to the Crystal River Unit 3 Nuclear Plant.

### Utility Background

DEF announced the closure and retirement of its CR3 Plant on February 5, 2013. Order No. PSC-13-0598-FOF-EI, issued November 12, 2013, in Docket No. 130208-EI authorized DEF to create and account for a regulatory asset now known as CR3 Regulatory Asset. A Revised and Restated Stipulation and Settlement Agreement (RSSA) was approved by the Commission in this Order. The RSSA contains provisions by which DEF is authorized to increase its base rates by the revenue requirement for CR3 Regulatory Asset.

### Electric Plant in Service

**Objectives:** The objectives were to determine whether Electric Plant in Service (EPIS) was correctly stated at December 12, 2012, and that all activity from January 1, 2013, through April 30, 2015, is properly reflected.

**Procedures:** We reconciled the ending December 31, 2012, balance per Exhibit MO-2 (Exhibit) in Docket No. 150148-EI to the general ledger. We reconciled ending balances per the Exhibit to the ending balances per the general ledger for December 31, 2013, December 31, 2014, and April 30, 2015. We traced a sample of transactions to supporting documentation. No exceptions were noted.

### Accumulated Depreciation and Amortization

**Objectives:** The objectives were to determine whether Accumulated Depreciation balances were correctly stated at December 12, 2012, and that activity from January 1, 2013, through April 30, 2015, is properly reflected on the books.

**Procedures:** We reconciled Accumulated Depreciation balances to the Utility's December 31, 2012, general ledger. We selected retirement transactions to verify that they were properly booked. We selected salvage transactions and traced to supporting documentation to verify that each salvage transaction was properly booked and payment received. No exceptions were noted.

### Regulatory Asset Write-down

**Objectives:** The objective was to determine whether the write down of the CR3 Asset by \$295 Million as stipulated in Order No. PSC-13-0598-FOF-EI, issued November 11, 2013, in Docket No. 130208-EI, was booked at the correct amount and in the correct period.

**Procedures:** We reviewed supporting documentation for the CR3 write down. We verified that the write-down was for the correct amount and time period. No exceptions were noted.

### Construction Work in Progress

**Objectives:** The objectives were to determine whether Construction Work in Progress (CWIP), with the exception of Dry Cask - Line 10, was correctly stated at December 31, 2012, and that activity from January 1, 2013, through April 30, 2015, is properly reflected on the books.

**Procedures:** We reconciled CWIP Projects as listed in the Exhibit to the Utility's December 31, 2012, general ledger. We reviewed all activity from January 1, 2013, to April 30, 2014, and agreed to the Exhibit and to the general ledger. We selected transactions from CWIP Projects and reviewed supporting documentation for each. Other-CWIP Projects, Line 13, included the Nuclear Fire Protection, Radio System and Fuel Pump projects, and transactions from each were selected and traced to supporting documentation. No exceptions were noted.

### Nuclear Fuel Inventories

**Objectives:** The objectives were to determine whether the Nuclear Fuel Inventories balance was correctly stated at December 31, 2012, and that activity from January 1, 2013, through April 30, 2015, is properly reflected on the books.

**Procedures:** We reconciled the December 31, 2012, ending balances to the general ledger. We reconciled the activity for January 1, 2013, through April 30, 2015, to the general ledger. We selected samples and traced to supporting documentation. No exceptions were noted.

### Nuclear Materials and Supplies Inventories

**Objectives:** The objectives were to determine whether Nuclear Materials and Supplies inventories are correctly stated at December 31, 2012, and that activity from January 1, 2013, through April 30, 2015, is properly reflected on the books.

**Procedures:** We reconciled the December 31, 2012, ending balances to the general ledger. We selected transactions and traced to supporting documentation. No exceptions were noted.

### Deferred Expenses

**Objectives:** The objectives were to determine whether Deferred Expenses are correctly stated at December 31, 2012, and that ending balances from January 1, 2013, through April 30, 2015, are correctly stated.

**Procedures:** We reconciled the December 31, 2012, ending balances to the general ledger. We reviewed all activity in the general ledger from January 1, 2013, to April 30, 2014, and traced to the transaction detail and the Exhibit. We selected transactions and traced to supporting documentation and reviewed for proper account, timing and dollar value. No exceptions were noted.

### Allowance for Funds Used During Construction

**Objective:** The objective was to determine whether the Allowance for Funds Used During Construction (AFUDC) for the CR3 Regulatory Asset was properly calculated

**Procedures:** We reconciled the Utility's AFUDC Monthly - Total (Compounded) WA Annual Report for January 1, 2013, to April 30 2015, to the Exhibit. Using the authorized carrying cost rate of six percent, we verified the monthly calculations on a test basis. No exceptions were noted.

Cost of Removal Regulatory Asset - CR3 Portion

**Objective:** The objective was to determine whether the Cost of Removal for the CR 3 Regulatory Asset is properly stated.

**Procedures:** We reconciled the December 31, 2012, balance to the general ledger. We reviewed all activity from January 1, 2013, to April 30, 2014, and reconciled to the transaction detail and the Exhibit. We selected transactions and traced to supporting documentation. No exceptions were noted.

Audit Findings

**None**



## Exhibit

### Exhibit 1: Calculation of the CR3 Regulatory Asset Value and Revenue Requirement – Exhibit No. MO-2

Docket No. \_\_\_\_\_  
 Witness: Olivier  
 Exhibit No. (MO-2)  
 Page 1 of 1

Duke Energy Florida  
 RRSSA Exhibit 10 Template Populated  
 Template for Calculation of the CR3 Regulatory Asset Value and Revenue Requirement  
 Portion Subject to Cap Only (Excludes Dry Cask Storage Component)  
 (\$ thousands)

| Line No. | Pre or Post Retirement Component Classification                          | category | (A)                        | (B)                               | (C)                    | (D)                            | (E)                       |
|----------|--|----------|----------------------------|-----------------------------------|------------------------|--------------------------------|---------------------------|
|          |  |          | Historical Balance Dec '12 | Historical Activity Jan'13-Apr'15 | Actual Balance Apr '15 | Projected Activity May-Dec '15 | Projected Balance Dec '15 |
| 1        |  |          |                            |                                   |                        |                                |                           |
| 2        | Electric Plant In Service  | a        | \$840,360                  | (\$11,649)                        | \$828,711              |                                | \$828,711                 |
| 3        | Less Accumulated Depreciation  | b        | 431,752                    | (8,346)                           | 423,406                |                                | 423,406                   |
| 4        | Net plant balance  | fallout  | 408,608                    | (3,303)                           | 405,305                |                                | 405,305                   |
| 5        | Write-Down   | b        |                            | (295,000)                         | (295,000)              |                                | (295,000)                 |
| 6        | Construction Work In Progress (CWIP)                                     |          |                            |                                   |                        |                                |                           |
| 7        | Steam Generator Replacement (SGR) Project                                | a        | 369,915                    | (9,695)                           | 360,220                |                                | 360,220                   |
| 8        | Delam Repair Project   | b        | 165,500                    | 1,764                             | 167,264                |                                | 167,264                   |
| 9        | License Amendment Request (LAR)  | b        | 18,832                     | 720                               | 19,552                 |                                | 19,552                    |
| 10       | Dry Cask Storage   | d        | n/a                        | n/a                               | n/a                    |                                | n/a                       |
| 11       | Fukushima  | d        | 1,553                      | 940                               | 2,493                  |                                | 2,493                     |
| 12       | Building Stabilization Project   | c        |                            | 23,640                            | 23,640                 |                                | 23,640                    |
| 13       | Other - CWIP   | d        | 45,826                     | 7,388                             | 53,214                 |                                | 53,214                    |
| 14       | Nuclear Fuel Inventories   | a        | 243,564                    | 11,968                            | 255,532                | (119,363)                      | 136,169                   |
| 15       | Nuclear Materials and Supplies Inventories                               | a        | 49,055                     | 1,168                             | 50,223                 |                                | 50,223                    |
| 16       | Deferred expenses  | c        | 8,373                      | 86,087                            | 94,460                 |                                | 94,460                    |
| 17       | Cumulative AFUDC (6.00%)   | fallout  |                            | 140,890                           | 140,890                | 32,115                         | 173,005                   |
| 18       | Cost of Removal Reg Asset - CR3 Portion (Order No. PSC 10-0398-S-EI)     | b        | 18,500                     | 88,969                            | 107,469                |                                | 107,469                   |
| 19       | <b>Total CR3 Regulatory Asset</b>  | fallout  | <b>\$1,329,726</b>         | <b>\$55,535</b>                   | <b>\$1,385,261</b>     | <b>(\$87,248)</b>              | <b>\$1,298,012</b>        |
| 20       | Rate of Return (Settlement Agreement Exhibit 3: 6% grossed up for taxes) | b        |                            |                                   |                        |                                | 8.12%                     |
| 21       | Return   | b        |                            |                                   |                        |                                | \$105,399                 |
| 22       | Amortization expense (20 years)  | b        |                            |                                   |                        |                                | \$64,901                  |
| 23       | <b>Total revenue requirement</b>   | fallout  |                            |                                   |                        |                                | <b>\$170,299</b>          |

category

- a The Intervenor Parties fully and forever waive, release, discharge and otherwise extinguish any and all of their rights to contest DEF's right to recover these costs except that the Intervenor Parties retain the right to challenge whether DEF took reasonable and prudent actions to minimize the future CR3 Regulatory Asset value after February 5, 2013 and to sell or otherwise salvage assets after February 5, 2013 that would otherwise be included in the CR3 Regulatory Asset.
- b The Intervenor Parties fully and forever waive, release, discharge and otherwise extinguish any and all of their rights to contest DEF's right to recover these costs.
- c The Intervenor Parties fully and forever waive, release, discharge and otherwise extinguish any and all of their rights to contest DEF's right to recover costs incurred by the Company before February 5, 2013. The Intervenor Parties retain the right to challenge the prudence of any costs incurred after and applicable to the period after February 5, 2013 that are submitted for recovery by the Company.
- d The Intervenor Parties retain the right to challenge the prudence of any costs submitted for recovery by the Company.
- e The Intervenor Parties retain the right to verify that the Company has complied with paragraph 5b of the Revised and Restated Settlement Agreement.

Note: Line 17 of this exhibit reflects the impact of the calculation presented on line 5 of exhibit 11.