BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 150148-EI

PETITION FOR APPROVAL TO INCLUDE IN BASE RATES THE REVENUE REQUIREMENT FOR THE CR3 REGULATORY ASSET, BY DUKE ENERGY FLORIDA, INC.
_________________________________/

DOCKET NO. 150171-EI

PETITION FOR ISSUANCE OF NUCLEAR ASSET-RECOVERY FINANCING ORDER, BY DUKE ENERGY FLORIDA, INC. D/B/A DUKE ENERGY.
_________________________________/

VOLUME 1

(Pages 1 through 230)

| | |
|---|---|
| PROCEEDINGS: | HEARING |
| COMMISSIONERS PARTICIPATING: | CHAIRMAN ART GRAHAM<br>COMMISSIONER LISA POLAK EDGAR<br>COMMISSIONER RONALD A. BRISÉ<br>COMMISSIONER JULIE I. BROWN<br>COMMISSIONER JIMMY PATRONIS |
| DATE: | Wednesday, October 14, 2015 |
| TIME: | Commenced at 9:30 a.m.<br>Concluded at 10:22 a.m. |
| PLACE: | Betty Easley Conference Center<br>Room 148<br>4075 Esplanade Way<br>Tallahassee, Florida |
| REPORTED BY: | LINDA BOLES, CRR, RPR<br>Official FPSC Reporter<br>(850) 413-6734 |

APPEARANCES:

DIANNE M. TRIPLETT, ESQUIRE, Duke Energy Florida, Inc., Post Office Box 14042, St. Petersburg, Florida 33733, appearing on behalf of Duke Energy Florida, Inc.

JON C. MOYLE, JR., ESQUIRE, Moyle Law Firm, P.A., 118 North Gadsden Street, Tallahassee, Florida 32399-1400, appearing on behalf of the Florida Industrial Power Users Group.

ROBERT SCHEFFEL WRIGHT and JOHN T. LaVIA, III, ESQUIRES, Gardner Law Firm, 1300 Thomaswood Drive, Tallahassee, Florida 32308, appearing on behalf of the Florida Retail Federation.

J.R. KELLY, PUBLIC COUNSEL, and CHARLES REHWINKEL, DEPUTY PUBLIC COUNSEL, ESQUIRES, Office of Public Counsel, c/o the Florida Legislature, 111 W. Madison Street, Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the Citizens of the State of Florida.

ROSANNE GERVASI, LEE ENG TAN, KEINO YOUNG, KELLEY CORBARI and LESLIE AMES, ESQUIRES, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, on behalf of the Florida Public Service Commission (Staff).

APPEARANCES (Continued):

MARY ANNE HELTON, ESQUIRE, Advisor to the Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850

CHARLIE BECK, General Counsel, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee Florida

# I N D E X

## WITNESSES

## EXHIBITS

| NUMBER: | | ID. | ADMTD. |
|---|---|---|---|
| 1 | Comprehensive Exhibit List | 28 | 28 |
| 2 through 86 | (as identified on Comprehensive Exhibit List) | 28 | |
| 2 through 17 | | | 31 |
| 18 through 34 | | | 118 |
| 35 through 36 | | | 31 |
| 37 through 38 | | | 32 |
| 39 through 45 | | | 119 |
| 46 through 47 | | | 119 |
| 48 through 74 | | | 123 |
| 75 through 80 | | | 28 |
| 81 through 86 | | | 124 |
| 87 | Approved Stipulations on Financing Order Issues | 29 | 29 |
| 88 | Schoenblum Errata Sheet | 123 | 123 |
| 89 | Sutherland Errata Sheet | 123 | 123 |

P R O C E E D I N G S

**CHAIRMAN GRAHAM:** Good morning, everyone. I'm glad to see everybody here smiling, chipper. I think that's probably good stuff.

Let the record show it is Wednesday, October the 14th, and this is the hearing for Docket 150148-EI and 150171-EI. So we will call this hearing to order, and if I can get staff to read the notice.

**MS. GERVASI:** Good morning. By notice issued September 9th, 2015, this time and place is set for a hearing conference in Dockets Nos. 150148-EI and 150171-EI. The purpose of the hearing is set out in the notice.

**CHAIRMAN GRAHAM:** Okay. I think it's time to take appearances. Who do we have?

**MS. TRIPLETT:** Good morning. Dianne Triplett on behalf of Duke Energy Florida.

**MR. MOYLE:** Jon Moyle on behalf of the Florida Industrial Power Users Group, FIPUG.

**MR. WRIGHT:** Robert Scheffel Wright on behalf of the Florida Retail Federation. I'd also like to enter an appearance for my law partner John T. LaVia, III. Thank you.

**MR. REHWINKEL:** Charles Rehwinkel and J. R. Kelly with the Office of Public Counsel on behalf of the citizens of Florida.

And, Mr. Chairman, I know that Mr. Brew, representing White Springs Agricultural Products/PCS Phosphate, has been excused from the hearing. I believe that's been taken care of. He has authorized me to make certain representations on his behalf at the right time.

**CHAIRMAN GRAHAM:** Okay.

**MR. REHWINKEL:** I don't think I'm going to enter an appearance for him because he's not here, but he is here but excused.

**CHAIRMAN GRAHAM:** Okay.

**MS. GERVASI:** And Rosanne Gervasi and Lee Eng Tan on behalf of Commission staff. And I would also make an appearance for Keino Young, Kelley Corbari, and Leslie Ames also on behalf of Commission staff.

**MS. HELTON:** Mary Anne Helton, advisor to the Commission.

**MR. BECK:** Charlie Beck, General Counsel.

**CHAIRMAN GRAHAM:** Okay. Do we need to make the announcement for Mr. Brew and Mr. Kopon?

**MS. GERVASI:** That's taken care of, Mr. Chairman.

**CHAIRMAN GRAHAM:** Okay. Let's switch over to preliminary matters then.

**MS. GERVASI:** The parties and staff have reached a proposed stipulation for the Commission's consideration this morning, and ruling, on all of the issues in Docket No. 150171, the securitization portion of the consolidated docket. Therefore, the parties and staff have agreed to waive opening statements as well as our right to cross-examine the witnesses who have prefiled testimony in this case, and to move into the record without objection all the prefiled testimony and exhibits listed on the Comprehensive Exhibit List that was prepared by staff and circulated to the parties in advance of today's hearing.

The parties and staff are prepared to briefly address the Commission regarding the proposed stipulation at this time, and I would assume that would be beginning with Duke.

**CHAIRMAN GRAHAM:** Duke.

**MS. TRIPLETT:** We're just here and we support the stipulation, and we're available to answer any questions that you may have about it.

**CHAIRMAN GRAHAM:** Okay.

**MR. MOYLE:** Thank you, Mr. Chairman. FIPUG, as is sometimes the case with the Commission, we have not affirmatively agreed to all the stipulation positions, but we've previously taken positions, but have backed away from those positions and said we have no position to set things up for a stipulation. So my mom always told me to say thank you when it's appropriate, and I would just like to say thank you to the Commission staff and to Duke and the other parties for spending a lot of time working through a lot of complex issues, very technical financing. Both your staff and your experts that you all hired to bring expertise to bear did a very good job, and we're comfortable with the case as it is now and feel no need to call witnesses. So thank you, Mr. Chairman.

**CHAIRMAN GRAHAM:** Thank you.

Mr. Wright.

**MR. WRIGHT:** Thank you, Mr. Chairman, Commissioners. I wholeheartedly agree with Mr. Moyle's comments, particularly regarding the staff, Duke, OPC, and everybody else getting on conference calls and everything else to work out these stipulations. Staff's witnesses did a great job and got a very good result. The Retail Federation actually joins in the stipulations with the staff and OPC and Duke. Thank you.

**CHAIRMAN GRAHAM:** Mr. Rehwinkel.

**MR. REHWINKEL:** Yes, Mr. Chairman. On behalf of the Public Counsel, the Public Counsel actively supports all of the provisions in the stipulation as noted therein, and we believe that it is in the public interest.

Also, on behalf of PCS Phosphate, I'm authorized to state that PCS Phosphate supports affirmatively the stipulation as well.

And if I could take just a second to state -- I know Mr. Brew is not here, but I wanted to state for the record, and I think Duke can confirm this, that even though he's not here and he's saving money for his client, he actively supported and participated in the stipulation, and he was the driver on several key elements that were stipulated to. So his absence here is not an indicator of his affirmative and diligent efforts on behalf of the stipulation. Thank you.

**CHAIRMAN GRAHAM:** Thank you.

**MS. GERVASI:** And, Mr. Chairman, if I might, I would like to note that staff also fully supports the proposed stipulations on Issues 14 through 52. They did come about as a result of numerous and healthy give and take discussions among the parties and staff, with much appreciated assistance and advice from the Commission's financial advisor and bond counsel as well.

We do appreciate the cooperative and collaborative efforts of the company and the OPC and all of the Intervenors in working with us in reaching the mutually agreed upon proposed resolution on all of these securitization issues that is before you for your consideration this morning.

We look forward to the next steps in this process of securitization. The next goal will be to present a mutually agreed upon Financing Order, proposed Financing Order that will comport with the Commission's decision today, and we can talk about deadlines later on after we get through all of the evidence, putting all of the evidence into the record. That proposed Financing Order will be the topic of the November 17th Special Agenda if the Commission approves the proposed stipulation.

We expect that the Commission's Financing Order will authorize the Bond Team to structure and market and price the bonds in such a way as will result in the lowest nuclear asset-recovery charges achievable for the ratepayers consistent with the prevailing market conditions at the time of pricing. That's the goal, and we fully expect that the spirit of cooperation and collaboration will extend to all members of the Bond Team towards achieving that end.

Staff is available also for any questions.

**CHAIRMAN GRAHAM:** Any other preliminary matters?

**MS. GERVASI:** No, sir. We just need a ruling on the proposed stipulation so we'll know how to move forward with the hearing.

**CHAIRMAN GRAHAM:** Okay. So, Commissioners, questions?

Commissioner Brown.

**COMMISSIONER BROWN:** Thank you, Mr. Chairman.

And, Rosanne, if you could walk us through some of the benefits of this stipulation and how it's in the customers' interest in terms of structuring -- structuring, pricing, marketing for the benefit of the customers, that would be great.

**MS. GERVASI:** Yes, ma'am. And because that does get into the nuts and bolts, I would like to defer to our in-house financial expert, Mr. Maurey, on that.

**MR. MAUREY:** Thank you.

**MS. GERVASI:** You're welcome.

**MR. MAUREY:** Good morning, Chairman, Commissioners.

As you know, the Commission has retained Saber Partners as a financial advisor in this transaction. It's been involved in 12 successful transactions in the ratepayer-backed bond space. And DEF has committed to work with Saber Partners and its best practices in order to structure, market, and price these bonds in a way to maximize the value of this extremely high credit quality.

You know, some of the savings that are going to come -- while all AAA bonds are marketed, they're not all priced and traded at the same cost, and these best practices have been shown to produce results that are beneficial to the customers of the sponsoring utility. Some of those will be lower prices, in this particular instance, by using securitization rather than the traditional means of rate base recovery. The charge to customers is going to drop from approximately $5 per thousand kWh to something hopefully less than $3 per thousand kWh.

**COMMISSIONER BROWN:** Excellent. Thank you.

**CHAIRMAN GRAHAM:** Other Commissioners?

Commissioner Brisé.

**COMMISSIONER BRISÉ:** Yes. Thank you very much, Mr. Chairman.

Can we talk about how we get to the Financing Order and what is involved with the Financing Order?

**MR. MAUREY:** The process that is laid out now, staff is working with the draft Financing Order that Duke filed with its petition. We will -- we have committed to deliver the document to the parties for their consideration on October 30th. On February 6th, the parties have the option of filing a brief or marked up copies of that Financing Order. We will begin discussions on the Financing Order the week of February 2nd -- November 2nd. I'm sorry, November 2nd. Those will be in-person or conference calls so that we can discuss the Financing Order and the various provisions and deliver it back to -- for the Commission's consideration at the Special Agenda scheduled for November 17th.

**COMMISSIONER BRISÉ:** Okay. Follow-up, Mr. Chairman?

**CHAIRMAN GRAHAM:** Sure.

**COMMISSIONER BRISÉ:** So we -- in these type transactions you have a Bond Team. If we can talk about who will make up the Bond Team and how the Bond Team will operate.

**MR. MAUREY:** Yes. The Bond Team will be comprised of representatives of Duke Energy Florida, its structuring advisor, designated Commission staff, and its financial advisor. They will be a working group to go through the various steps that are necessary in order to bring this type of issuance to market.

One designated representative of Duke Energy Florida and one designated representative from the Commission will serve as joint decision-makers on all aspects of the structuring, marketing, and pricing of the nuclear-asset bonds except for those recommendations that in the view of DEF would expose DEF or the SPE to securities law liability.

If there is a dispute that cannot be resolved to the mutual satisfaction of the parties, there will be one Commissioner designated for dispute resolution. The matter will be presented to that Commissioner in writing. That Commissioner's decision will be final. It's our hope that we never avail ourselves of that.

**COMMISSIONER BRISÉ:** And so the Bond Team is also -- all the members of the Bond Team are also going to be actively engaged in the marketing material and all that that will be made available to investors and so forth?

**MR. MAUREY:** Yes, sir.

**COMMISSIONER BRISÉ:** Okay.

**MS. GERVASI:** And, Commissioner, if I might, that -- and much of what Andrew explained is contained within the stipulations on Issues 31, 33 --

**COMMISSIONER BRISÉ:** Uh-huh. Thirty-three, 36.

**MS. GERVASI:** -- thirty-six, yes, sir, 37, and 39.

**COMMISSIONER BRISÉ:** Thirty-nine. Yeah.

Okay. That's all I have for now.

**MR. MOYLE:** Mr. Chairman, can I just make sure that -- one point, the Financing Order, I think originally we were hoping to be able to have it today and having gone through it. But, you know, time, it's hard to slow it down, and that's a product that's going to be delivered. And my understanding is everyone is going to look at it collaboratively and work through it. Hopefully there won't be any issues. But it's my understanding that to the extent there is an issue, unlike most situations after a hearing where you come back and hear from staff and not the parties, that there will be an opportunity, to the extent that there was an issue, that Duke has an issue or anybody has an issue, that we would be able to bring it forward to the Commission and have a discussion about it. So I just wanted to make sure the record was clear on that point.

**CHAIRMAN GRAHAM:** As far as the way I've understood it, this financial order is supposed to come before -- it's supposed to be released, you said, October 30th?

**MS. GERVASI:** Yes, sir.

**CHAIRMAN GRAHAM:** And so people have time to brief on that until November 2nd?

**MS. GERVASI:** Yes, sir.

**CHAIRMAN GRAHAM:** Okay.

**MS. GERVASI:** The briefs would be due November the 6th.

**CHAIRMAN GRAHAM:** I'm sorry. November the 6th. What did I hear -- what's November 2nd?

**MS. GERVASI:** November 2nd, we will have -- we'll begin having conference calls with the parties to iron out any kinks, if there are any, within the proposed language. Sometime during the week of November the 2nd we'll start that.

**CHAIRMAN GRAHAM:** Okay.

**MS. GERVASI:** And then we do anticipate that the parties would be able to address the Commission at that Agenda Conference, even though it is a post-hearing Agenda Conference, since this matter is different from the norm, that the parties would have an opportunity to address the Commission on the language of the Financing Order before you rule on it.

**CHAIRMAN GRAHAM:** Is that sufficient?

**MR. MOYLE:** Yes, sir. And hopefully we'll essentially be saying thank you again. But I just wanted to make sure that was clear, that we will have the chance to -- in the unlikely event that something was in the Financing Order that we couldn't work through, that we could talk to y'all about it.

**CHAIRMAN GRAHAM:** Duke.

**MS. TRIPLETT:** Thank you, Mr. Chairman.

I just wanted -- a point of clarification. So the date of November 6th is -- are you envisioning not only a Financing Order -- so let's say I disagree with three of the changes and I have -- so I submit that, and then I also submit some sort of a brief brief explaining our concerns with those changes in a form that would then lead me to then be able to verbalize those same arguments before the Commission, is that what you're envisioning?

**MS. GERVASI:** Yes.

**MS. TRIPLETT:** Okay. Thanks.

**CHAIRMAN GRAHAM:** Mr. Rehwinkel.

**MR. REHWINKEL:** Yeah. The Public Counsel is -- finds that process acceptable. And, again, like what Mr. Moyle said, it would be our desire, based on the history that we have to this point, to bring you a product that we all agree on on the 17th. We will work diligently to get that done so that we don't have a dispute. Because I think everybody, having gone through the stipulations here, we have an agreement in principle about what the Financing Order ought to say. So it should be a matter of wordsmithing, and this group has been very good at working with red lines and making sure we get the language agreed upon.

And we know the polestar is what's the best interest of the customers, that's what the statute says, that's what the stipulation says, and I believe Duke is working in that direction as well.

**CHAIRMAN GRAHAM:** Well, from my briefings, I don't think there's any more bloodshed left. You guys have all worked pretty hard, and the Prehearing Officer as well. I appreciate all the effort you've put into this. So I look forward to seeing what product comes forward.

Commissioner Brown, did you want to speak?

**COMMISSIONER BROWN:** Thank you, Mr. Chairman. I did want to hear from Duke a little bit more. Obviously this is something that benefits Duke's customers -- lower interest rates, overall lower costs passed through to the customers. I'm curious how Duke plans to communicate the intentions of this, ultimately the Financing Order to its customers and rolling that out, the benefits of this decision.

**MS. TRIPLETT:** Sure. I still think there's some details to be worked out along those lines, but I know that the statute requires that we include a particular bill notification. So we would be doing that. And then there's also a particular bill message that has to -- there's specific language in the statute that would need to be put onto the bill once the charge is actually implemented. And then as we get closer to knowing when that point will be, I imagine that we'll get together with our communications folks and make sure that customers understand what is coming.

I think some of the challenges are that depending on when you actually go to market, it impacts the pricing, which impacts the ultimate effect on the bill. So we don't -- we can't do too much too soon because we don't want to give incorrect information. But certainly we're all going to be working with a view towards making sure that customers understand, and that also our customer service representatives, if customers call, that they will be well versed in explaining what is happening and the benefit that, hopefully, through this process we'll get to a point where we can achieve those benefits and issue the bonds.

**COMMISSIONER BROWN:** And -- Mr. Chairman?

**CHAIRMAN GRAHAM:** Sure.

**COMMISSIONER BROWN:** When do you anticipate the bonds being issued?

**MS. TRIPLETT:** I think that folks are thinking, and Mr. Maurey can correct me, I think, you know, first quarter of 2016 in particular because we have been working so collaboratively. So I think that would be a good starting point. But I imagine that once the Bond Team does their first meeting and really starts to get into the details, that we would have a better understanding of the timing at that point.

**COMMISSIONER BROWN:** Well, definitely keep up that collaboration.

**CHAIRMAN GRAHAM:** Any other questions, concerns?

Commissioner Edgar.

**COMMISSIONER EDGAR:** Thank you, Mr. Chairman. Excuse me. I also would like to commend the parties, all of them, including our staff, for bringing us this document, the proposed stipulations. I know we were all prepared to go into hearing, but to have agreement and consensus and the give and take I think in this unique instance is a preferable way to set the groundwork for moving forward.

I think I'm hearing it from the parties, but for the record would like to state that my understanding from my review of the stipulations with my staff and with the Commission staff is that the proposed stipulations, if approved here today, and the process that has been laid out to go forward does recognize and ensure that the customers will be represented in the process, recognizing that it is quite technical, but that the customers will always be represented in the process and, therefore, the public interest as a part of that.

I also understand that the stipulations, and as we look towards the eventual order, are intended to -- intended as such that there will be an active financial advisor to facilitate preferred pricing. I recognize some of the language in here that asserts that the underwriters who will be involved in the process, that compensation will include a significant performance piece of that role.

And I also, I think it's in issue -- the stipulation in 39, but I may have that number wrong, that there is clearly articulated the expectation of a lowest cost transaction; in other words, the lowest cost standard. And if I have articulated that correctly and all of the parties agree that that is part of what is embodied in this document, then as we proceed with the discussions, I think that we are moving to a good place. I guess I'm asking if there's any disagreement with that.

**MR. REHWINKEL:** From the Public Counsel's standpoint, I agree with what you said, and especially that the Public Service Commission has the best outside consultant and counsel that you could get in this business. So we much appreciate that, and we have all the confidence that they will deliver what they've done in the past as well as that Duke will work with them in the spirit of collaboration for the benefit of the customers. Thank you.

**MR. WRIGHT:** And I likewise concur with what you said, Commissioner, and with what Mr. Rehwinkel said. Thank you.

**MS. GERVASI:** And, Commissioner, if I might just note that in Issue 28 of the proposed stipulation under No. 13, which is on page 6, the parties and staff have stipulated that the financial order will call for the Commission's financial advisor to deliver to the Commission a certification as to whether the structuring, marketing, and pricing of the nuclear asset-recovery bonds resulted in the lowest nuclear asset-recovery charges consistent with prevailing market conditions and the terms of the Financing Order and other applicable law. So that is contained within the proposed stipulation.

**COMMISSIONER EDGAR:** Thank you.

Ms. Triplett.

**MS. TRIPLETT:** Thank you. Just so the record is clear, Commissioner, Duke Energy Florida fully agrees with your summary of the stipulation, and we have always brought this forward as a way to benefit our customers, and we intend to work collaboratively to see that through.

**COMMISSIONER EDGAR:** Thank you. I appreciate that.

Then I guess my only other comment, for now anyway, is that -- I'm not even sure if my fellow Commissioners are aware of this, but, you know, some years ago, much earlier in my career on the Commission under different circumstances, in a different statute, the Commission also worked with a different utility on a securitization effort for the benefit of consumers. And in that instance, we did have one Commissioner who participated as a member of the bond council. And in the earlier part of that relatively long process, then Commissioner Deason was the Commissioner that I, as Chairman, designated for that role, which I was pleased to do and pleased that he agreed.

But then as the process was still ongoing, I stepped into that role towards the end and found it to be very informative, and I was very pleased that as a group, with all parties and all participants, were able to move forward to a successful transaction for the benefit of the consumers. So for almost 30 seconds I was disappointed that the process that is laid out and further envisioned doesn't include one Commissioner to be a member of the bond council because, Mr. Chairman, I might, might have asked you to consider my previous experience when you were making that designation. Not.

(Laughter.)

But the process, from my discussions with staff as this was coming to us, I will also point out that for me there were some advantages to that as far as being more familiar with the process on a weekly basis. However, it is very cumbersome, and the process that the staff has laid out with the parties such that if there are instances where it is difficult to reach consensus, that then it comes before us in a very clear process I think is a very good one, and I appreciate the thought that went into that as well.

**CHAIRMAN GRAHAM:** Commissioners, any further comments, questions, discussion? Then I will entertain a motion.

Commissioner Edgar.

**COMMISSIONER EDGAR:** Mr. Chairman, thank you very much for recognizing me. I would like to take this opportunity to once again commend our staff for all of the, I know very detailed, very painstaking, and but also thoughtful work that has gone into this, and to the parties for recognizing that if consensus can be reached on these issues, that that is in the best interest of the consumers ultimately. I look forward to the future steps in the process. And although, in my view, the statute is quite, quite prescriptive, I do believe that the Commission plays a very important role in helping it to move forward.

So with that, Mr. Chairman, I would move that this morning, as a Commission, that we approve the proposed stipulations. We have not marked the document, so I'm not sure how to refer to it other than the document that is before each of us and the parties titled Proposed Stipulations on Financing Order Issues.

**CHAIRMAN GRAHAM:** That's been moved and seconded. Any further discussion?

Commissioner Brisé.

**COMMISSIONER BRISÉ:** Thank you, Mr. Chairman. And I'm going to support the motion this morning, expressing my appreciation to all the parties for the hard work that has gone into getting us to this point, and to our staff for doing a yeoman's job in ensuring that we are where we are right now.

I will also say moving forward, as we, I believe we're probably going to get to an affirmative vote on this this morning, that as we work towards that

Financing Order, that the same spirit will continue to permeate as we work through those issues.

And one of the things that I will say, and I will say it on the record, that I certainly hope that as we work through the Financing Order, that we create opportunities for a variety of entrants into the marketplace so that the same entities that traditionally have played in this space aren't the ones that control the whole process in terms of availability. And so, therefore, more investors that enter into the marketplace, greater opportunities for our consumers in terms of reducing their risk moving forward. So that's one of the things that I'm very interested in as a Commissioner. And in also ensuring that, you know, we get the biggest bang for -- the consumer gets the biggest bang for their buck through this process.

**CHAIRMAN GRAHAM:** Thank you, Commissioner Brisé.

Further discussion? Seeing none, all in favor, say aye.

(Vote taken.)

Any opposed? By your action, you have approved the proposed stipulation as stated by Commissioner Edgar.

Okay. Staff, I think we need to start marking some exhibits?

**MS. GERVASI:** Yes, sir. Thank you. And we would start with the Comprehensive Exhibit List, which includes all of the prefiled exhibits attached to the witnesses' testimony in both dockets in the full consolidated case, and this list has been provided to all of the parties, the Commission, and the court reporter.

We would propose to mark the exhibit list as Exhibit No. 1, and to have that entered in as the first order of business.

**CHAIRMAN GRAHAM:** If there's no objections, we'll move that one into the record.

(Exhibits 1 through 86 marked for identification.)

(Exhibit 1 admitted into the record.)

**MS. GERVASI:** Thank you. And then contained within that Comprehensive Exhibit List are Staff's stipulated exhibits Nos. 75 through 80, and we would move those in at this time. That consists of just -- of stipulated discovery and late-filed deposition exhibits.

**CHAIRMAN GRAHAM:** Okay. So we'll move 75 through 80 into the record as well.

(Exhibits 75 through 80 admitted into the record.)

**MS. GERVASI:** Thank you. And then not contained on the Comprehensive Exhibit List is the Proposed Stipulations on the Financing Order Issues that you just approved. So I would move that document in as -- have it marked and moved in as Exhibit No. 87. And since it has been approved, I would label it, instead of Proposed Stipulations, Approved Stipulations on Financing Order Issues. And we would ask that that be moved in at this time as Exhibit 87.

**CHAIRMAN GRAHAM:** State that description again, please.

**MS. GERVASI:** Approved Stipulations on Financing Order Issues.

**CHAIRMAN GRAHAM:** And that's Exhibit 87. We'll move that into the record as well.

(Exhibit 87 marked for identification and admitted into the record.)

**MS. GERVASI:** Yes, sir. Thank you.

**CHAIRMAN GRAHAM:** All right. Any other prefiled exhibits?

**MS. GERVASI:** What we would suggest is that the parties offer in the prefiled testimony and exhibits attached to the prefiled testimony in the order that they should read in the record starting with Duke's witnesses. And I would also suggest that we take care of the -- that we separate it by way of docket numbers so that we go through all of the evidence for Docket No. 150148 first, and then go through the 171 docket after we complete that.

**CHAIRMAN GRAHAM:** Okay. So let's -- we're flipping over to the third page, and we're going to go through witness testimony?

**MS. GERVASI:** Yes, sir. Thank you.

**CHAIRMAN GRAHAM:** So for witnesses for Docket 150148, the direct testimony.

**MS. TRIPLETT:** So Duke Energy Florida would ask that the direct testimony of Marcia Olivier, Terry Hobbs, and Mark Teague be entered into the record as though read.

**CHAIRMAN GRAHAM:** We will enter their direct testimony into the record as though read.

**MS. TRIPLETT:** Thank you. And then also ask that exhibits marked 2 through 17 on the Comprehensive Exhibit List be entered into the record.

**CHAIRMAN GRAHAM:** Let's go through all three of them.

**MS. TRIPLETT:** Beg pardon?

**CHAIRMAN GRAHAM:** Go through all three of them.

**MS. TRIPLETT:** Oh, I'm sorry. So for Marcia -- that was for all of them, all three, but I can say Marcia Olivier's exhibits are 2 through 7, Terry Hobbs' are 8 through 13, and Mark Teague's are 14 through 17.

**CHAIRMAN GRAHAM:** Okay. So we will enter Exhibits 2 through 17 into the record as well.

(Exhibits 2 through 17 admitted into the record.)

**CHAIRMAN GRAHAM:** OPC.

**MR. REHWINKEL:** Yes, Mr. Chairman. The Public Counsel asks that the testimony of Donna Ramas be moved into the record.

**CHAIRMAN GRAHAM:** We will enter Ms. Ramas' direct testimony into the record as though read.

**MR. REHWINKEL:** And her exhibits DMR-1 and DMR-2, which are identified as hearing Exhibits 35 and 36 and are stipulated by the parties, we ask that they be officially entered into the record as well.

**CHAIRMAN GRAHAM:** Seeing no objection, we'll enter Exhibits 35 and 36 into the record as well.

(Exhibits 35 and 36 admitted into the record.)

**MR. REHWINKEL:** Thank you.

**CHAIRMAN GRAHAM:** Staff.

**MS. GERVASI:** And, Mr. Chairman, staff would offer the prefiled testimony of Ronald A. Mavrides and

William Coston and Jerry Hallenstein into the record as though read, as well as Exhibit No. 37 attached to Mr. Mavrides' testimony and Exhibit 38 attached to the joint testimony of Witnesses Coston and Hallenstein.

**CHAIRMAN GRAHAM:** Okay. So we'll enter the Mavrides --

**MS. GERVASI:** Yes.

**CHAIRMAN GRAHAM:** -- we'll enter his prefiled direct testimony into the record as though read, and the joint Coston and Hallenstein --

**MS. GERVASI:** Thank you.

**CHAIRMAN GRAHAM:** -- their direct testimony into the record as though read. And we'll also enter Exhibits 37 and 38, seeing that there's no objections, into the record as well.

(Exhibits 37 and 38 admitted into the record.)

**IN RE: PETITION FOR APPROVAL TO INCLUDE IN BASE RATES THE REVENUE REQUIREMENTS OF THE CR3 REGULATORY ASSET**

**BY DUKE ENERGY FLORIDA, INC.**

**FPSC DOCKET NO. ___________**

**DIRECT TESTIMONY OF MARCIA OLIVIER**

## I. INTRODUCTION AND QUALIFICATIONS.

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

A. My name is Marcia Olivier. My current business address is 299 First Avenue North, Saint Petersburg, FL 33701.

**Q. By whom are you employed and what are your responsibilities?**

A. I am employed by Duke Energy Business Services, Inc. as Director of Rates and Regulatory Planning for Florida. I am responsible for overseeing rate cases, reporting actual and projected earnings surveillance results, and supporting state regulatory initiatives.

**Q. Please summarize your educational background and professional experience.**

A. I hold a Bachelor of Science degree in Accounting and a Bachelor of Science degree in Finance from the University of South Florida and have over 18 years of utility experience, primarily in the Rates and Regulatory Strategy department.

## II. PURPOSE AND SUMMARY OF TESTIMONY.

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

A. My testimony supports DEF's request to begin recovering the lessor of $1.466 billion (the "Asset Cap") or the projected or final (when final) total CR3 regulatory asset value in base rates consistent with the Revised and Restated Stipulation and Settlement Agreement ("RRSSA"). The Levy Nuclear Plant ("LNP") cost recovery charge terminated in May 2015; therefore, DEF is requesting to increase base rates to begin recovering the CR3 regulatory asset with the first billing cycle for January 2016. The two components of the CR3 regulatory asset include the cost to construct the dry cask storage facility and the costs that are subject to the Asset Cap. The dry cask storage facility component was addressed separately in Docket No. 140113, so this docket only addresses the costs that are subject to the Asset Cap. I will provide the amounts that comprise the Asset Cap component, which I will refer to as the "CR3 regulatory asset," the calculation of the associated projected revenue requirement, and the impact on base rates. Second, I will present and explain our proposal to reduce the CR3 regulatory asset for estimated future nuclear fuel proceeds. Finally, I will describe the impact of potential "securitization" legislation on this request in the event this bill becomes enacted into law and DEF files a request to securitize the CR regulatory asset pursuant to that law.

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

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

- Exhibit No. ___(MO-1), RRSSA with Exhibits 10 and 11,
- Exhibit No. ___(MO-2), RRSSA Exhibit 10 Template Populated,
- Exhibit No. ___(MO-3), RRSSA Exhibit 11 Template Populated,
- Exhibit No. ___(MO-4), Rate Schedules,
- Exhibit No. ___(MO-5), Estimated Nuclear Fuel Proceeds (Confidential), and
- Exhibit No. ___(MO-6), CCR Nuclear Fuel Illustrative Impact (Confidential).

Each of these exhibits was prepared under my direction and control, and each is true and accurate.

**Q. Please summarize your testimony.**

A. Exhibit No. ___(MO-1), "RRSSA with Exhibits 10 and 11", is for reference. RRSSA Exhibit 10 provides the components of the CR3 regulatory asset by line and includes a column titled "Subject to Cap". Exhibit No. ___(MO-2), "RRSSA Exhibit 10 Template Populated", provides by line item the balances that were transferred to the CR3 regulatory asset on December 31, 2012 as well as the current actual balance on April 30, 2015 and the estimated balance on December 31, 2015. This exhibit also calculates the revenue requirement on that December 31, 2015 balance. As a reduction to the cumulative carrying charge on line 17 in RRSSA Exhibit 10, RRSSA paragraph 7.a. provides for an accelerated recovery of that carrying charge through the fuel clause. The calculation of that amount is provided in Exhibit No. ___(MO-3), "RRSSA Exhibit 11 Template Populated". The base rate increase by rate class is provided in Exhibit No. ___(MO-4), "Rate Schedules". Because some of the nuclear fuel sales proceeds will not be received until after the base rate increase takes effect, DEF proposes to reduce the projected CR3 regulatory asset for those estimated future nuclear fuel proceeds, recover the carrying charge on the outstanding balance through the Capacity Cost Recovery Clause ("CCR") until the proceeds are received, and then true-up that estimate to actual proceeds through the CCR upon receipt of the proceeds. The estimated amount and timing of the nuclear fuel proceeds are provided in Exhibit No. (MO-5), "Estimated Nuclear Fuel Proceeds", and the impact of this methodology on the CCR is illustrated in Exhibit No. ___(MO-6), "CCR Nuclear Fuel Illustrative Impact". This methodology will reduce the initial base rate increase by reducing the CR3 regulatory asset balance while ensuring DEF earns the allowed return on those proceeds through the CCR until they have been received. Finally, House Bill 7109 has passed the Florida Legislature and could become law. This bill would allow "securitization" of the CR3 regulatory asset, which would allow DEF to access low-cost funds through "nuclear asset recovery bonds" issued pursuant to a financing order issued by the Commission. If the bill becomes law, this provision will be codified in Section 366.95, Florida Statutes. If DEF requests and the Commission approves the "securitization" financing order, as contemplated by the potential legislation, then DEF will replace the RRSSA base rate increase described in this filing with a separate "Nuclear Asset Recovery Charge" to recover the principal, interest and financing costs on the issued bonds.

## III. CR3 REGULATORY ASSET COST ESTIMATE

**Q. Please describe what comprises the CR3 regulatory asset.**

A. The CR3 Regulatory Asset is defined in the RRSSA. Specifically, paragraph 5.a. states; "DEF removed CR3 from rate base, and the revenue requirements for CR3 were excluded from the rates established herein effective the first billing cycle for January 2013." Exhibit 10 of the RRSSA, titled "Template for Calculation of the CR3 Regulatory Asset Value and Revenue Requirement", provides all the components of the CR3 regulatory asset [see Exhibit No. ___(MO-1)]. Note that the column titled "Subject to Cap" includes the amounts that are at issue in this proceeding, because the "Dry Cask Storage" costs have been addressed separately in Docket No. 140113. The line items in this exhibit include the plant investment net of accumulated depreciation, a $295 million write-down, the cost of construction projects, nuclear fuel inventories, nuclear materials and supplies inventories, deferred nuclear expenses, a 6% accrued carrying charge, and the portion of the cost of removal regulatory asset associated with CR3 pursuant to Order No. PSC-10-0398-S-EI.

**Q. Who will be responsible for testifying on the various line items from the RRSSA Exhibit 10?**

A. I will testify to the calculations included in Exhibit No. ___(MO-2). Terry Hobbs will testify to the activities that have taken place at CR3 supporting the charges to the CR3 regulatory asset. Finally, Mark Teague will testify to the activities that have taken place to sell or otherwise salvage assets that had been included in the CR3 regulatory asset. With respect to the line items in RRSSA Exhibit 10, the following table illustrates who will be responsible for each component of each line item.

| Line | Description | Witness |
|---|---|---|
| 2 | Electric Plant in Service | Hobbs – Charges<br>Olivier – Accounting |
| 3 | Less Accumulated Depreciation | Hobbs – Charges<br>Teague – Salvage<br>Olivier – Accounting |
| 4 | Net Plant balance | Olivier |
| 5 | Write-down | Olivier |
| 6 | Construction Work in Progress | n/a |
| 7 | Steam Generator Replacement (SGR) Project | Olivier – Accounting |
| 8 | Delam. Repair Project | Hobbs – Charges<br>Olivier – Accounting |
| 9 | License Application Renewal | Hobbs – Charges<br>Olivier – Accounting |
| 10 | Dry Cask Storage | n/a |
| 11 | Fukushima | Hobbs – Charges<br>Teague - Salvage<br>Olivier - Accounting |
| 12 | Building Stabilization Project | Hobbs – Charges<br>Olivier – Accounting |
| 13 | Other - CWIP | Hobbs – Charges<br>Teague – Salvage<br>Olivier – Accounting |
| 14 | Nuclear Fuel Inventories | Teague – Salvage<br>Olivier – Accounting |
| 15 | Nuclear Materials & Supplies Inventories | Teague – Salvage<br>Olivier – Accounting |
| 16 | Deferred Expenses | Hobbs – Charges<br>Olivier – Accounting |
| 17 | Cumulative AFUDC (6.00%) | Olivier |
| 18 | Cost of Removal Reg Asset – CR3 Portion | Olivier |
| 19 | Total CR3 Regulatory Asset | Olivier |
| 20 | Rate of Return | Olivier |
| 21 | Return | Olivier |
| 22 | Amortization Expense | Olivier |
| 23 | Total Revenue Requirement | Olivier |

Q. **What makes up line 16, "Deferred expenses" in Exhibit No. ___(MO-2)?**

A. Line 16 includes deferred operations and maintenance ("O&M") expense, property tax expense and payroll tax expense. RRSSA paragraph 5.b. provides that upon

DEF's February 5, 2013 decision to retire CR3, DEF is authorized to defer to the CR3 regulatory asset all CR3-related costs. This paragraph also requires DEF to record in regulatory liabilities the O&M and property tax savings for actual costs that are lower than amounts included in DEF's 2010-test year rate case minimum filing requirements. This deferral treatment ceased on January 1, 2014 for O&M (including administrative and general expenses) and property tax expense pursuant to paragraph 5.c. As a result of this RRSSA provision, DEF has recorded total deferred expenses of $105.2 million to the CR3 regulatory asset and total savings of $10.7 million to the CR3 regulatory liability.

Q. **Are there any other provisions in the RRSSA that impact the calculation of the CR3 Regulatory Asset?**

A. Yes. RRSSA Paragraph 7.a. provides for a retail fuel rate recovery of $1.00 per megawatt hour in 2014 and 2015 and $1.50 per megawatt hour in 2016. These increases were intended to offset the impact of carrying charges on the CR3 regulatory asset. Accordingly, DEF did not defer for recovery the carrying charge on the portion of the CR3 Regulatory Asset supported by the revenues received from the increased fuel rate. Please see Exhibit No. ___(MO-3) for the actual and estimated recoveries of the carrying charge through fuel.

**Q. How was the carrying charge on Line 17 "Cumulative AFUDC (6.00%)" in Exhibit No. ___(MO-2) calculated?**

A. Pursuant to the RRSSA Paragraph 5.b., Exhibit 3, and Exhibit 10, we multiplied the monthly net balances in the CR3 regulatory asset/liability accounts by the monthly rate that compounds to an annual rate of 6%. That monthly rate is .48676% when applying the formula used to discount the 6% annual AFUDC rate pursuant to Rule 25-6.0141 (3), F.A.C. This carrying charge was reduced by the accelerated recovery of $29.7 million from January 2014 through April 2015 pursuant to RRSSA Paragraph 7.a. (explained above). We have also included an estimate of $16.4 million for May through December 2015 [see Exhibit No. ___(MO-3)]. Since DEF is requesting to begin recovering the CR3 regulatory asset in base rates effective January 2016, the accelerated recovery of the carrying charge in fuel will cease with the last billing cycle for December 2015. The 2016 fuel projection filing in Docket No. 150001 will exclude this accelerated recovery.

**Q. How does the estimated balance of the CR3 regulatory asset as of December 31, 2015 compare to the Asset Cap established in the RRSSA?**

A. The balance at December 31, 2015 is projected to be $1,298.0 million as reflected in Exhibit No. ___(MO-2) (line 19). This balance has been reduced by estimated outstanding nuclear fuel proceeds of $119.4 million (line 14). The treatment of future nuclear fuel proceeds is explained in greater detail below. This balance is $168.0 million below the Asset Cap of $1,466.0 million [see RRSSA Paragraph 5.e.(2)]. While the Asset Cap could have been increased as a result of an event of Force Majeure pursuant to RRSSA Paragraph 5.e.(2) and 5.i, there have been no events of Force Majeure; therefore, the Asset Cap remains at $1,466.0 million.

**Q. What is the revenue requirement and the base rate increase?**

A. Consistent with the methodology and return rate authorized in the RRSSA Exhibit 10, the calculated annual revenue requirement is $170.3 million. Please see Exhibit No. ___(MO-2), line 23. RRSSA Paragraph 5.g. provides that the base rate increase "shall be established by the application of a uniform percentage increase to the demand and energy charges, including delivery voltage credits, power factor adjustments, and premium distribution service reflected in the Company's base rate schedules existing at the time of the base rate increase(s) and shall be calculated using the billing determinants included in the Company's most recent projection clause filing…" The most recent projection clause filing was on May 1, 2015 filed in Docket No. 150009, the Nuclear Cost Recovery Clause ("NCRC"). Based on the revenue requirements provided in Exhibit No. ___(MO-2) and the billing determinants from that May 1, 2015 NCRC filing, we have calculated the base rate increase to be $5.01 per 1000 kWh on the residential bill. Each of the rate increases by customer class is provided in Exhibit No. ___(MO-4).

**Q. Have you attached tariff sheets to your testimony?**

A. No. If the securitization legislation becomes law, then DEF expects to file its petition for the financing order no earlier than 60 days after filing this request, which is a requirement of that legislation. We will include tariff sheets with that filing to reflect the "nuclear asset recovery charge". In anticipation of filing that petition, we have not included tariff sheets with this request. However, we have provided the rate impacts in Exhibit No. ___(MO-4) and will file revised tariff sheets in the event that securitization, for any reason, is not implemented. I will explain the impact of the securitization legislation further below.

**IV. PROPOSED TREATMENT OF FUTURE NUCLEAR FUEL PROCEEDS**

**Q. What is the current status on the sale of DEF's nuclear fuel inventory?**

A. As further explained in the Direct Testimony of Mark Teague, there are two categories of nuclear fuel inventory included in the CR3 regulatory asset: the assembled nuclear fuel located at CR3 ("Batch 19") and the upstream uranium inventories which are not located at CR3. DEF has entered into a contract to sell Batch 19, but the proceeds will not be received until after implementation of the January 2016 base rate increase. The upstream uranium can be broken down into two components; uranium hexafluoride ("$UF_6$") and enriched uranium product ("EUP"). DEF has sold the $UF_6$ and the proceeds are expected to be received in August 2015. DEF has not yet sold the EUP, but an estimate of the proceeds has been provided as explained in Mr. Teague's testimony. DEF has provided the estimated amount of proceeds and the impact on the CR3 regulatory asset in Exhibit No. ___(MO-5).

**Q. Please explain your proposed treatment for future nuclear fuel inventory proceeds.**

A. Because some of the proceeds are expected in 2015 and others are expected after the January 2016 implementation of the base rate increase, and in order to minimize the base rate increase, DEF proposes to give customers credit for the estimated future nuclear fuel proceeds by reducing the balance of the CR3 regulatory asset upon which the revenue requirement and base rate increase are calculated. This credit is reflected in Exhibit No. ___(MO-2), Line 14, Column D. Any estimated nuclear fuel proceeds that are expected to be received after the base rate increase takes effect will be included in the CCR at the pre-tax 8.12% rate of return per the RRSSA Exhibit 10 until those proceeds are received, as shown in Exhibit No. ___(MO-6). Once all proceeds have been received, if they are different from the amount of the credit to the CR3 regulatory asset, then the difference will be amortized over a period to be established through the annual Fuel and Purchased Power cost Recovery clause proceedings.

**Q. How will customers benefit from this proposed treatment of the future nuclear fuel inventory proceeds?**

A. DEF's proposed treatment gives customers credit upfront for those future estimated proceeds which reduces the CR3 regulatory asset balance, thereby reducing the revenue requirement and upfront base rate impact. In addition, if the fuel proceeds are potentially not received for several years, customers will have paid unnecessarily for the amortization of that portion of the CR3 regulatory asset balance [see line 22 in Exhibit No. ___(MO-2)] until base rates can be trued-up once the balance becomes "final" consistent with the true-up provisions in Paragraphs 5.e.(2) and 5.g. of the RRSSA.

## VI. IMPACT OF SECURITIZATION

**Q. Please describe the securitization legislation and its effect on this filing.**

A. If the bill becomes law, this legislation would be codified in Section 366.95, Florida Statutes, titled "Financing for certain nuclear generating asset retirement or abandonment costs." It would be similar to the legislation established in 2005 by the Florida Legislature, codified in Section 366.8260, Florida Statutes, titled "Storm-Recovery Financing". It would allow electric utilities to petition the Commission for a financing order which would authorize the utility to issue low cost "nuclear asset recovery bonds" and recover the principal, interest and financing costs from customers via a separate, non-bypassable charge on customer bills. If DEF requests and the Commission issues the financing order, then rather than increasing base rates with the first billing cycle for January 2016 consistent with the RRSSA, DEF would begin recovering a "nuclear asset recovery charge" as a separate line item on customer bills to recover the Commission approved principle, interest and financing costs upon issuance of the Nuclear Asset Recovery Bonds.

**Q. Why doesn't DEF wait until the legislation is enacted to file for recovery of the CR3 regulatory asset at the same time as filing the request for the financing order?**

**A.** House Bill 7109, Paragraph (2)(a)7(b) states; "If an electric utility is subject to a settlement agreement that governs the type and amount of principal costs that could be included in nuclear asset-recovery costs, the electric utility must file a petition, or have filed a petition, with the commission for review and approval of those principal costs no later than 60 days before filing a petition for a financing order pursuant to this section." Therefore, if the legislation is enacted, then DEF could file a petition for a financing order as early as July 21, 2015. The legislation also establishes a 120 day period from the time the utility files its petition for the financing order until the Commission must vote on that request. Therefore, if DEF files a petition for a financing order in July, then the Commission would vote on that petition in November. The bonds could then be issued and the "nuclear asset recovery charge" could be implemented as early as February 2016 in place of the January 2016 base rate increase pursuant to the RRSSA described herein.

**Q. How is your proposed treatment for future nuclear fuel proceeds impacted by the Securitization?**

A. Under securitization, once the amount of the CR3 regulatory asset has been approved by the Commission in the financing order, the CR3 regulatory asset balance cannot be adjusted. Section (2)(c)6. of the legislation states the following: "Subsequent to the transfer of nuclear asset-recovery property to an assignee or the issuance of nuclear asset-recovery bonds authorized thereby, whichever is earlier, a financing order is irrevocable and…the commission may not amend, modify, or terminate the financing order by any subsequent action or reduce, impair, postpone, terminate, or otherwise adjust nuclear asset-recovery charges approved in the financing order." Therefore, the treatment for the future estimated nuclear fuel proceeds described in this testimony is not only feasible under securitization, it will be essential in order to ensure customers receive the benefit of those future nuclear fuel proceeds expeditiously by lowering the bond issuance amount.

**Q. Will there be any components of the CR3 regulatory asset other than the nuclear fuel sales that won't be final at the time the Commission issues the financing order?**

A. Yes, the other component that won't be final is the accelerated recovery of the carrying charge applied to the CR3 regulatory asset. As explained above and as provided in Exhibit No. ___(MO-3), that accelerated recovery through the Fuel clause is dependent on the number of megawatt hours sold. Therefore, while DEF can reasonably estimate that amount, the exact amount will not be known until early January 2016, well after the November 2015 due date of the Commission vote on the financing order petition. Therefore, DEF plans to propose in its petition for the financing order to apply the estimated accelerated recovery for May through December 2015 to the CR3 regulatory asset and allow the difference between the estimated and actual revenues to remain as part of the final fuel true-up for 2015.

**Q. How will you propose to treat the dry cask storage component of the CR3 regulatory asset under securitization?**

A. On January 7, 2015, Order No. PSC-15-0027-PAA-EI was issued which approved construction of the Independent Spent Fuel Storage Installation ("ISFSI") and an accounting order to defer amortization pending recovery of those construction costs from the Department of Energy ("DOE") pursuant to litigation. Under securitization, the ISFSI component would not be included in the petition for a financing order since DEF is pursuing recovery from the DOE. Since the ISFSI would be the only remaining component of the CR3 regulatory asset, DEF proposes to replace the base rate increase and 20-year recovery period under the RRSSA with recovery through the CCR for the return on the investment until it is recovered from the DOE, as was approved in Order No. PSC-15-0027-PAA-EI, and the return of and on the remaining unrecovered investment upon conclusion of all litigation against the DOE. The appropriate CCR recovery period would be established at that time by the Commission.

**Q. What actions will you take if the legislation is signed into law?**

A. If the legislation becomes law, then DEF could file in as early as 60 days from the date of this petition, a request for a financing order. If the financing order is approved, then DEF would proceed with the process established in that financing order. If the financing order is not approved, then DEF would request the base rate increase under the settlement approach as described herein.

## VII. NEXT STEPS

**Q. Please summarize the next steps DEF will take with respect to this filing.**

A. This filing requests a base rate increase effective with the first billing cycle for January 2016. In the event HB 7109 becomes law, DEF currently expects to file a petition for a financing order as early as July 21, 2015. At that time, DEF will request to consolidate these two dockets. If DEF files the petition for the financing order on July 21, 2015, then under the proposed Section 366.95, F.S., the Commission would vote on DEF's request for the financing order no later than November 18, 2015 and the financing order would be issued 15 days later, on December 3, 2015. Then depending on the amount of time it takes to issue the bonds, DEF could implement the "nuclear cost recovery charge" as early as February 2016.

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

A. Yes, it does.

# IN RE: PETITION FOR APPROVAL TO INCLUDE IN BASE RATES THE REVENUE REQUIREMENT FOR THE CR3 REGULATORY ASSET

**BY DUKE ENERGY FLORIDA, INC.**

**FPSC DOCKET NO. ___________**

**DIRECT TESTIMONY OF TERRY HOBBS**

## I. INTRODUCTION AND QUALIFICATIONS.

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

A. My name is Terry Hobbs. My current business address is 15760 West Power Line St., Crystal River, FL 34428.

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

A. I am employed by Duke Energy Florida, Inc. ("DEF" or the "Company") and I am the General Manager (GM) of Decommissioning at the Crystal River 3 ("CR3") nuclear unit.

**Q. What are your responsibilities as the GM of Decommissioning?**

A. In this role I am the senior manager who has oversight responsibility for the Decommissioning of the Crystal River Unit 3 ("CR3") plant, including the safe storage of spent nuclear fuel, continued operations and maintenance of the facility and oversight for regulatory submittals to the United States Nuclear Regulatory Commission ("NRC") associated with the decommissioning. I also had responsibility for the Decommissioning Transition Organization ("DTO").

**Q. Please summarize your educational background and professional experience.**

A. I have held a Senior Reactor Operator license issued by the NRC, and I currently hold a project management professional credential through the Project Management Institute. I have served in many various management positions within Duke Energy (formerly Progress Energy) since 1986 including Operations Manager at the Harris Nuclear Plant in North Carolina, Quality Assurance manager both at CR3 and the Robinson Nuclear Plant in South Carolina, Project Controls manager at CR3, and Plant General Manager at CR3. Prior to joining the Company in January 1986, I spent eight years in the United States Navy in the nuclear submarine program.

## II. PURPOSE AND SUMMARY OF TESTIMONY.

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

A. Pursuant to the 2013 Revised and Restated Stipulation and Settlement Agreement ("RRSSA"), I understand that DEF is requesting that the CR3 Regulatory Asset be placed into base rates. My testimony explains the process we used to transition CR3 from an operating nuclear plant to a decommissioning organization, including various NRC submittals intended to reduce the regulatory compliance costs. My testimony supports the prudence of costs that have been charged to the CR3 Regulatory Asset since February 5, 2013, specifically portions of the following categories listed on Exhibit 10 to the RRSSA: line 2 (Electric Plant in Service), line 8 (delam repair project), line 9 (License Amendment Request), line 11 (Fukushima), line 12 (building stabilization project), line 13 (Other – CWIP), and line 16 (deferred expenses).

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

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

- Exhibit No. ___ (TH-1), decommissioning transition organization ("DTO") organizational chart;
- Exhibit No. __(TH-2), new SAFSTOR organization chart;
- Exhibit No. __ (TH-3), a list of the License Amendment Requests ("LARs") completed and submitted to the NRC;
- Exhibit No. __ (TH-4), a chart showing staffing reductions since February 2013;
- Exhibit No. __ (TH-5), Exhibit 10 to the RRSSA; and
- Exhibit No. __ (TH-6), list of projects that make up "Other CWIP."

These exhibits were prepared by the Company, and they are generally and regularly used by the Company in the normal course of its business, and they are true and correct to the best of my information and belief.

**Q. Please summarize your testimony.**

A. After the Company's decision to retire CR3, DEF immediately began work to transition the site from an operating site into decommissioning. DEF also made several submittals with the NRC to reduce the scope and costs of compliance with certain regulations. This work allowed DEF to reduce staffing levels at the site. DEF also closed out projects that had been ongoing at the time of the retirement announcement. DEF initiated the Building Stabilization Project shortly after the announcement. The project was needed to ensure that the containment building would remain stable throughout the up to 60 year decommissioning process. This project was completed ahead of schedule and under budget.

Through these efforts, as more fully described below, DEF minimized costs that would have otherwise been charged to the CR3 Regulatory Asset. DEF also prudently incurred costs to ensure a safe transition to decommissioning mode.

**III. NUCLEAR DECOMMISSIONING TRANSITION ORGANIZATION AND NRC LICENSE FILINGS.**

**Q. What did DEF first do to transition the site after the Company announced the retirement of CR3 on February 5, 2013?**

A. DEF first developed a plan to define the process of transitioning from an operating plant to a decommissioning plant. That plan implemented actions which streamlined work processes, eliminated work associated with equipment not needed for decommissioning, and designed a new organization to replace the operational organization. The new organization was called the Decommissioning Transition Organization ("DTO"). This organization was responsible for maintaining and simplifying the structures, systems and components ("SSC") necessary for the safe storage of spent nuclear fuel while continuing to comply with all nuclear security and other license requirements. To accomplish this the organization prepared and submitted various decommissioning filings with the NRC. Among these were the Post Shutdown Decommissioning Activities Report ("PSDAR") which contains the decommissioning plan, schedule and a detailed cost estimate. Additional filings, called license amendment requests ("LAR"), were submitted to support the regulatory transition to decommissioning. Engineering efforts were necessary to facilitate the simplification or abandonment of plant systems not needed in decommissioning. Other actions reduced or eliminated legacy radioactive and hazardous waste that would have needed to be stored on site. Processes were developed that allowed the reduction in staff necessary to support the plant's needs. The DTO was fully operational in June 2013. The DTO organization chart is attached as my Exhibit No. ___ (TH-1).

**Q. You mentioned that the DTO assisted with the preparation of the PSDAR. What is a PSDAR?**

A. The purpose of the PSDAR is to provide the NRC and the public with a general overview of the licensee's proposed decommissioning activities and to inform the NRC staff of the licensee's expected activities and schedule so that the staff can plan for inspections and make decisions about its oversight activities. The PSDAR is also a mechanism that informs the public of the proposed decommissioning activities before the conduct of those activities. The PSDAR also includes an updated decommissioning cost estimate ("DCE") performed in support of the decontamination and dismantlement activity schedule contained in the PSDAR.

Regulation 10 CFR 50.82(a)(4)(i) requires the licensee, DEF, to submit a PSDAR to the NRC either before or not later than 2 years after permanent cessation of operations. The permanent cessation of operation of CR3 was established in February 2013 and the PSDAR was submitted to NRC in December 2013 with a copy submitted to the State of Florida. DEF made the filing ahead of the NRC schedule to get access to the Nuclear Decommissioning Trust ("NDT") as soon as possible. The decommissioning cost study filed in the PSDAR was then filed on March 21, 2014 with the FPSC in Docket No. 140057 and approved on December 22, 2014 in Order No. PSC-14-0702-PAA-EI.

**Q. Briefly, what was the result of the PSDAR filing?**

A. The PSDAR showed that, using the Safe Storage ("SAFSTOR") decommissioning method (sixty years), the NDT would be adequately funded to support the decommissioning activities. The CR3 decommissioning plan uses the full 60 years allowed by regulation to achieve license termination. The basic plan is to move the spent nuclear fuel to dry storage by 2019, place the power plant in a dormant condition, support the Department of Energy ("DOE") efforts to transfer the spent nuclear fuel to a DOE facility by 2036, and decontaminate and demolish the plant between years 2069 and 2073. The plant license will be terminated in 2073 and final site restoration will be completed in 2074.

After DEF filed the PSDAR, the NRC made the document available to the public for comment. The NRC conducted a public meeting in January 2014 in Crystal River, Florida. The NRC staff reviewed the public comments and the document and concluded that the PSDAR met all valid requirements and that no changes were necessary. Ninety days after the submittal of the PSDAR and the DCE, DEF had access to the NDT funds.

**Q. What other work was DEF performing while the PSDAR was being prepared and considered by the NRC?**

A. DEF completed the containment stabilization project during this same time period. In addition, DEF closed many in-flight projects and projects that had been delayed until the Company made the decision to repair or retire CR3. This work is discussed in greater detail in section IV below. DEF continued to retire SSCs not needed for decommissioning and simplify or eliminate program and procedural requirements to reduce the staff size. DEF also initiated and completed many plant modifications to reduce the size of the staff needed for decommissioning. For example, several underground pipes were permanently sealed and many delay barriers were installed throughout the plant which allowed a sizable reduction in the site security force.

The Company also installed two new plant systems, a new chill water system and a new seawater pump, that supported the permanent shutdown of several large plant systems. The Company simplified the plant alternating and direct current distribution systems. These changes allowed the Company to reduce the number of operations, maintenance, and engineering personnel needed at CR3. DEF also initiated a radioactive waste shipping project to permanently remove containment equipment and tools no longer needed to support decommissioning. This project further reduced the number of radiation protection personnel needed at the site.

Finally, DEF initiated an Investment Recovery Project to manage the disposition of CR3 assets to maximize value for DEF's customers. Those efforts are described in the testimony of Mr. Mark Teague.

**Q. Does DEF plan to utilize the DTO organization while decommissioning is completed at CR3?**

A. No, the DTO is a temporary organization intended to transition the site from operating to decommissioning. In early 2014, the management team completed the design of the first dormancy organization, called the SAFSTOR organization, that will become effective in July 2015. The staffing selections for the SAFSTOR organization was completed in October 2014. An organization chart for the new SAFSTOR organization is attached as Exhibit No. __ (TH-2).

**Q. Why did it take more than a year after the retirement date to define the SAFSTOR organization?**

A. Typically, the retirement date for a nuclear unit is known years in advance and a site can begin planning for the transition before the retirement, in parallel with operation of the unit. However, given that the CR3 retirement was unexpected, DEF did not have the ability to pre-plan. Despite this inability to plan while the plant was still in operation, DEF designed and implemented the DTO in less than five months after the retirement announcement. It based this work on benchmarking, lessons learned, and operating experience from other nuclear operators.

**Q. Did DEF make any filings with the NRC to further reduce costs at the site?**

A. Yes, DEF submitted several LARs in 2013 to the NRC. Several of those filings were intended to reduce the costs incurred by DEF by alleviating NRC requirements. A list of the LARs DEF submitted is attached as my Exhibit No. __ (TH-3).

One of the filings included on this exhibit is the permanently defueled emergency plan ("PDEP"), which DEF filed on September 26, 2013. The NRC approved DEF's PDEP on March 31, 2015. The PDEP was fully implemented on April 8, 2015, which means that DEF initiated the implementing procedures and retired old procedures. The PDEP approval also allowed DEF to shut down the off-site facilities, and reduce the level of support DEF supplies to various state and local governments. With this approval, DEF no longer has to fund the emergency planning function for Levy County, Citrus County, FEMA, and the state of Florida. The PDEP approval will facilitate further staff reductions at CR3.

**Q. Please describe DEF's workforce reduction strategy.**

A. To efficiently and effectively minimize the workforce at CR3 following retirement, plant and human resources management met in February 2013 to determine the policies that would be needed to transfer employees within the Company, outplace employees from the Company and place employees in the new organization at CR3. DEF first determined whether any employees could be re-deployed immediately. Although DEF was not operating CR3 at the time of the retirement decision, the NRC still imposes many regulations and requirements that required substantially all of the workforce to remain on site. However, for those employees who could immediately be reassigned from CR3, DEF either offered redeployment of other positions within Duke Energy or voluntary severance from the company. As explained above, the DTO organization was designed and approved in April 2013, and was staffed and in effect on June 3, 2013. The selection process consisted of allowing each impacted employee to specify their employment preference with the choices of remain at CR3 in the DTO, redeploy within the Company or leave the Company. The Company was able to grant the employees first preference in practically all cases. The DTO was filled with the employees that made staying at CR3 their highest priority. This assured a work force committed to formulating and implementing the decommissioning activities.

As various work was completed on projects and NRC submittals, the Company was able to reduce the size of the DTO as described above. The SAFSTOR organization will have substantially fewer employees than the DTO organization. Specifically, not counting security, there were approximately 590 DEF employees at CR3 in February 2013, and DEF reduced that number to 300 employees in July 2013 and 140 employees in December 2014. By July 2015, DEF plans to only employ 75 employees at CR3. Please see attached Exhibit No. __ (TH-4), a chart showing staffing reductions since February 2013.

In addition to the decrease in the number of Duke Energy employees at CR3, we also completed physical plant changes to eliminate the need for armed security officers to monitor specific locations of the plant. In February 2013, there were 212 officers and 12 staff positions within the CR3 security organization. In December 2013, there were 171 officers and 7 staff positions. These reductions were possible because DEF made physical changes to the site, such as the permanent plugging of the major water systems connecting the Gulf of Mexico to the plant and the permanent blocking of an access portal to plant vital areas.

**Q. Has DEF done any benchmarking with other nuclear units in decommissioning mode to determine best practices?**

A. Yes. The company did extensive benchmarking at several decommissioned plants including the Zion station in Illinois and the Kewanee station in Wisconsin during the design of the DTO in early 2013. Other plants were also contacted. These benchmarking activities currently also include the San Onofre Nuclear Generating Station (SONGS) in California and the Vermont Yankee station. In addition to bench-marking, we have established functional working groups from each station, such as licensing, security and radiation protection, that exchange information and lessons learned routinely. The company is also engaged with the Nuclear Energy Institute committees associated with decommissioning activities.

**Q. How did DEF set up the charging to ensure that costs were properly allocated between the CR3 Regulatory Asset and the NDT?**

A. The Company established a cost breakdown structure to ensure the complete and accurate documentation of costs as incurred. This is accomplished by using the enterprise financial systems to track costs using the Project Accounting Code Block Element to track specific line items that map to either the Regulatory Asset or Nuclear Decommissioning Trust. The projects were linked to individual general ledger accounts ensuring actual costs attributable to the CR3 Regulatory Asset and Decommissioning efforts are recorded separate and apart.

## IV. EXHIBIT 10 LINE ITEMS

**Q. Are you familiar with Exhibit 10 to the RRSSA?**

A. Yes, although I was not directly involved with its development. I do have responsibility for several projects that resulted in costs being charged to some of the line items included in Exhibit 10. Specifically, those line items are: line 2 (Electric Plant in Service), line 3 (Accumulated Depreciation), line 8 (delam repair project), line 9 (License Amendment Request), line 11 (Fukushima), line 12 (building stabilization project), line 13 (Other – CWIP), and line 16 (deferred expenses). For ease of reference, Exhibit 10 is attached to my testimony as Exhibit No. __ (TH-5).

**Q. Regarding line 2, Electric Plant in Service, and line 3, Accumulated Depreciation, what costs were credited after the retirement date?**

A. As part of the CR3 retirement, several buildings and structures no longer needed by CR3 were transferred to other business units within Duke Energy. The ownership transfer reduced the regulatory asset by the structure's gross plant balance net of the accumulated depreciation. Specifically, DEF transferred an administrative building, a warehouse, conference building, and a training facility from CR3 to Fossil Operations for their continued use. Two structures at the CR3 waterfront were transferred to Duke Energy project management and construction for use associated with the proposed Citrus County Combined-Cycle natural gas plant. Finally, the emergency offsite facility and simulator were transferred to non-utility property. These transfers totaled approximately $16 million (retail).

**Q. Regarding line 8, Delam Repair Project, what costs were incurred and charged after the retirement date?**

A. DEF incurred approximately $5 million (system) in costs associated with the close-out of this project after February 5, 2013. These costs consisted of demobilization, clean-up and contract closure.

**Q. What is the License Amendment Request referenced in line 9 of Exhibit 10?**

A. This refers to the work DEF was doing on the license renewal request. This project would have extended the CR3 operating license an additional 20 years out through 2036. Much of the project was the engineering and licensing work necessary to support the extended operating period. Once the retirement decision was made, DEF withdrew its request with the NRC to extend the license, and incurred approximately $720,000 (retail) for project close out.

**Q. Please explain line item 11, Fukushima.**

A. On March 11, 2011, following a major earthquake and tsunami, three Fukushima Daiichi nuclear reactors in Japan lost power supply and cooling, resulting in a nuclear accident and melting of the three nuclear cores. As a result of this nuclear accident, the NRC formed a task force to review the circumstances of the event to determine what lessons could be learned. The NRC approved a series of recommendations made by the task force to enhance U.S. reactor safety. As the NRC issued orders and rulemaking regarding the subject, DEF incurred costs to analyze and determine the applicability of the new requirements on CR3. These new requirements consisted of reanalysis of the impacts of floods and seismic events at CR3. After the retirement decision, DEF was granted relief from the orders given the permanently shutdown state of CR3. Accordingly, since February 5, 2013, DEF incurred approximately $1.2 million (retail) in project close out costs related to Fukushima.

**Q. What is the Building Stabilization Project on line 12?**

A. The scope of the building or containment stabilization project included the implementation of physical work for the purpose of stabilizing the structure. Completion of the work resulted in a safe industrial work site as well as a structure with long term predictable behavior that supports fuel storage activities and preserves the capability of the reactor building polar crane to safely move heavy loads in the future. There were three phases of the project. The first phase included the de-tensioning of hoop tendons necessary to reduce the stresses in building to meet the applicable design code requirements. The second phase included applying a weatherproofing material to the external areas of the building that were delaminated. The third phase included the installation of a restraint system on the two damaged bays of the building. The physical work was completed in 2014.

**Q. What was the budget for the project and how did the actual cost compare to that budget?**

A. DEF budgeted $35 million to complete this project, but DEF came in under budget at $29 million (system). This project has been completed and was closed in March 2015.

**Q. Did DEF encounter any issues with completing the containment stabilization project on time and in accordance with the original scope?**

A. No, DEF completed the entire work scope and completed the project under budget and earlier than scheduled. DEF performed the work in accordance with the designed engineering change packages.

**Q. What projects are included in Line 13, Other-CWIP, of Exhibit 10?**

A. DEF incurred $53 million in connection with a number of projects that had been in-flight, suspended, or delayed during the time in which the Company considered repairing the delamination. These projects consisted of work that was required by NRC regulations. Examples include the NFPA 805 projects associated with the CR3 fire protection program, and several equipment reliability improvement projects, such as the control complex chiller and radiation monitoring replacement projects. Once the retirement decision was made, these projects were closed. A detailed list of the projects that make up the $53 million total is attached to my testimony as Exhibit No. __ (TH-6).

**Q. How much did DEF incur in operations and maintenance ("O&M") costs from February through December 2013 that were included on Line 16, Deferred Expenses?**

A. Of the total deferred expenses on line 16, which includes O&M, payroll tax and property tax, DEF incurred approximately $95 million for O&M and payroll tax. The O&M costs were minimized through steep staffing reductions described earlier in my testimony. Ms. Olivier's testimony explains the savings recorded in the regulatory liability pursuant to the RRSSA.

## V. COMPLIANCE WITH 2013 RRSSA AND CONCLUSION

**Q. Do you believe that DEF has satisfied its burden in the 2013 RRSSA to "minimize the future costs of the CR3 Regulatory Asset and use reasonable and prudent efforts to curtail future avoidable costs"?**

A. Yes. As demonstrated above, DEF worked efficiently to transition from an operating unit to a site in decommissioning mode. It closed out various projects that were no longer needed given the decision to retire. DEF identified and expeditiously pursued opportunities with the NRC to limit and eliminate regulatory requirements that resulted in direct cost savings. All of these actions resulted in reduced workforce and cost savings to customers.

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

A. Yes, it does.

**I. INTRODUCTION AND QUALIFICATIONS.**

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

A. My name is Marcus ("Mark") R. Teague. My current business address is 400 South Tryon Street, Charlotte, North Carolina.

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

A. I am employed by Duke Energy Business Services, LLC as Managing Director of Major Projects Sourcing ("MPS") in the Supply Chain department.

**Q. Have you previously provided testimony to the Commission?**

A. Yes, I have provided testimony in the Nuclear Cost Recovery Clause docket to support the Company's investment recovery efforts related to the Extended Power Uprate ("EPU") assets.

**Q. What are your responsibilities as the Managing Director of MPS?**

A. My role includes providing management oversight in the disposition of the Crystal River Unit 3 ("CR3") assets by ensuring that Supply Chain employees at CR3 follow DEF's processes and procedures. I also have responsibility for the Supply Chain functions for Duke Energy International and with most Duke Energy Corporation ("Duke Energy") Major Projects, both regulated and non-regulated.

**Q. Please summarize your educational background and professional experience.**

A. I have a Bachelor's of Technology degree in Civil Engineering from the University of North Carolina at Charlotte and a Masters of Business Administration from Wake Forest University. I have 32 years of experience with Duke Energy and I am a licensed Professional Engineer in the state of North Carolina. My prior roles at Duke Energy include design engineering professional, project controls professional, and project management professional in both Nuclear Generation and Fossil/Hydro Generation and I have also managed each of those functional roles in the past. For the last four years, I have served as Managing Director in the Supply Chain organization – two years leading the Fossil/Hydro Supply Chain organization and two years leading the Major Projects Sourcing Supply Chain organization.

## II. PURPOSE AND SUMMARY OF TESTIMONY.

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

A. My direct testimony supports the prudent efforts the Company undertook to disposition assets as a result of the decision to retire and decommission the CR3 nuclear power plant. I will explain the status of the investment recovery project efforts to disposition CR3 assets and materials and the related proceeds from those efforts. I will also demonstrate how the Company's actions are consistent with its obligations in the 2013 Revised and Restated Settlement and Stipulation ("RRSSA"). My testimony will explain certain adjustments reflected in the following categories listed on Exhibit 10 to the RRSSA: line 3, (accumulated depreciation), line 11 (Fukushima), line 13 (Other-CWIP), line 14 (Nuclear Fuel Inventories), and line 15 (Nuclear Materials and Supplies Inventories).

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

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

- Exhibit No.___(MT-1), the CR3 Administrative Procedure, AI-9010, Conduct of CR3 Investment Recovery, Revision 1;
- Exhibit No. ____ (MT-2), the CR3 Investment Recovery Project, Project Execution Plan, Revision 0;
- Exhibit No. ___(MT-3), the Investment Recovery Guidance Document IRGD-001, Sales Track Guidance and Documentation Package Development; and
- Exhibit No. ____(MT-4), the confidential Integrated Change Form for the retention of an auction company used to sell CR3 plant assets.

These exhibits were prepared by the Company, and they are generally and regularly used by the Company in the normal course of its business, and they are true and correct.

**Q. Please summarize your testimony.**

A. Since the Company's decision to retire CR3 in 2013, DEF has worked to disposition CR3 plant assets using a step-wise approach under its investment recovery policies and procedures to obtain the most prudent value for those assets for DEF's customers. In mid-2014, after conducting extensive internal and external solicitation efforts pursuant to DEF's procedures, DEF made the decision to hire an auction company to conduct a global auction for the remaining CR3 assets. The decision to hire an auction company is outlined in Exhibit MT-4, Integrated Change Form (ICF). The auction was conducted in September 2014 and DEF successfully sold various CR3 plant assets at the auction. As a result of DEF's efforts, the CR3 Regulatory Asset was credited a total of $7.9 million for the benefit of customers.

With respect to the nuclear fuel inventory, DEF actively marketed the different types of nuclear fuel to maximize the potential value for customers. As a result of DEF's efforts, DEF currently expects to reduce the value of the CR3 Regulatory Asset by $119.4 million.

## III. DEVELOPMENT OF INVESTMENT RECOVERY PROCESS.

**Q. Will you please describe the actions DEF took after the announcement of CR3's retirement?**

A. After the retirement decision, in mid-2013, DEF created the Investment Recovery Project ("IRP") to have a single group that was responsible for management and disposition of all of the CR3 plant assets. The objective of the IRP is to take reasonable and prudent efforts to sell or otherwise salvage CR3 assets by implementing a program under which marketable CR3 plant assets are identified, maintained, marketed, sold, and removed from the site in an efficient manner.

**Q. Can you describe the overall governance for asset disposition?**

A. Yes. As explained further in the testimony of Mr. Terry Hobbs in this docket, following the decision to retire and decommission the CR3 plant, the Company began the process of setting up the CR3 Decommissioning Transition

Organization ("DTO"). Unlike many generating stations that are retired at the end of their useful life, CR3 has material and equipment that retain some value. As a result, as part of the DTO, DEF created the IRP to manage the asset disposition process.

First the IR team was tasked with creating specific governance documents and a procedure for the process of disposition. Specifically, DEF implemented the CR3 Administrative Procedure AI-9010, Conduct of CR3 Investment Recovery, Revision 1 ("AI-9010"), attached hereto as Exhibit No. ___(MT-1). Procedure AI-9010 outlines the asset pricing requirements and minimum reviews and approvals required for the execution of transactions, and the record keeping requirements necessary for the disposition of assets from CR3 during the DTO phase. Second, the IR team created the CR3 Investment Recovery Project, Project Execution Plan, Revision 0 ("Project Plan"), attached hereto as Exhibit No. __(MT-2). This project plan supplies the overall governance for the IR project and defines the organization, work processes, and systems necessary for the successful disposition of all CR3 assets. Finally, the IR team developed the Investment Recovery Guidance Document IRGD-001, Sales Track Guidance and Documentation Package Development ("IRGD-001"), attached hereto as Exhibit No. ___(MT-3). IRGD-001 provides additional guidance on tracking and documenting sales made by the IRP.

**Q. Did DEF perform benchmarking of other utilities as it created and implemented its disposition and wind-down plans?**

A. Yes. DEF benchmarked several of the most recently decommissioned nuclear power plants including Zion Units 1 & 2 in Illinois, San Onofre Nuclear Generating Station (SONGS) in California, and the Kewaunee Unit in Wisconsin. DEF sought out, reviewed, and implemented lessons learned from these plants' decommissioning efforts as it created its DTO and IR processes.

**Q. What disposition strategy did DEF use for the sale of CR3 plant assets?**

A. Under the investment recovery procedure, assets were first offered for internal transfer to Duke Energy affiliates in accordance with the Affiliate Asset Transfer Transactions policy. If DEF was unable to locate an appropriate internal transfer opportunity, DEF then solicited external interest from distributors, original equipment manufacturers ("OEM"), and re-sellers and, if there was sufficient interest, DEF conducted a bid event using Power Advocate (an electronic bidding tool). DEF also marketed CR3 plant material (*154 Inventory*) and equipment (Pre-Cap) on RAPID, a utility parts website, and worked with Pooled Inventory Management ("PIM"), a program run by the Southern Company to market major components for joint purchase by multiple utilities for components to keep as "spares" in the event of a future need. Several CR3 plant components were transferred internally in 2013 and 2014 and some components were sold at bid events.

For the remaining equipment, as I describe in more detail below, the investment recovery team decided to utilize the assistance of an auction company to enable DEF to reach the widest audience possible for its CR3 assets. For the assets that were not sold at the auction, DEF has concluded that the EPIS equipment and installed CWIP equipment is to be abandoned in place. These installed assets are typically engineered specialty equipment for CR3, have no warranty, have no performance guarantee, may be contaminated, and any potential buyer will have to pay for removal and shipping costs. Unless a potential buyer has an emergent need for specific engineered equipment, it is generally not economical for a potential buyer to pursue. Smaller commodities are readily available in the market place with a warranty, a performance guarantee, and no removal costs.

**Q. You mentioned that DEF auctioned some of the assets. Why did DEF decide to use an auction company to sell the CR3 equipment?**

A. In accordance with its policies and procedures, DEF made the decision to disposition CR3 assets at fair market value through competitive bidding processes for direct sales to third parties or transfers to Duke Energy affiliates. DEF had already followed its process under these policies and procedures and offered CR3 assets for sale or transfer internally, solicited the market and offered assets for direct sale externally to third parties, including soliciting buy-back from equipment OEMs. After those steps, in mid-2014, DEF decided to evaluate using an outside auction company to sell the remaining CR3 plant assets. DEF determined in this evaluation that if DEF used an auction company to sell assets, compared to singular bid events for the assets, DEF would be able to access the aggressive marketing of the auction company and reach a broader, indeed, world-wide market. This evaluation is reflected in DEF's Integrated Change Form ("ICF") included as Exhibit No. ___ (MT-4).

**Q. Can you please describe who DEF retained to conduct the auction and when it was conducted?**

A. Yes. DEF retained Heritage Global Partners Asset Advisory & Auction Services to conduct the auction. This auction was advertised world-wide to over 100,000 potential buyers through various mediums including print and electronic advertising and direct e-mail solicitation, in addition to personal contact with power plants world-wide. The auction was conducted over three days on September 24-26, 2014 in Crystal River, Florida.

**Q. Are there any CR3 plant assets that remain to be sold or salvaged?**

A. While there are some CR3 assets other than EPU-related assets, which are the subject of the NCRC proceeding, that were not sold, there will be no further sales or salvage amounts credited to the CR3 Regulatory Asset.

As explained above, DEF has concluded that the EPIS equipment and installed CWIP equipment is to be abandoned in place. These installed assets are typically engineered specialty equipment for CR3, have no warranty, have no performance guarantee, may be contaminated, and any potential buyer will have to pay for removal and shipping costs. Unless a potential buyer has an emergent need for specific engineered equipment, it is generally not economical for a potential buyer to pursue. Smaller commodities are readily available in the market place with a warranty, a performance guarantee, and no removal costs. In addition, there are some materials and supplies that may still be needed for use at the site, which have not been sold or salvaged. If, however, DEF is approached to sell any of the CR3 assets, DEF will evaluate the request and, if there is a net benefit, it will make that sale and credit the nuclear decommissioning trust fund with any proceeds received.

**Q. Please describe what sale, transfer, or salvage proceeds have been received since the 2013 retirement decision and explain how DEF accounted for these proceeds.**

A. DEF has received approximately $8.6 million in gross proceeds from the sale, transfer, or salvage of CR3 plant assets (not including nuclear fuel or sales associated with EPU assets or the transfer of buildings out of the CR3 regulatory asset). As described in the testimony of Ms. Marcia Olivier, the Company has credited the retail portion of these proceeds, $7.9 million, against the CR3 Regulatory Asset, for the benefit of DEF's customers. Specifically, Line 3 (accumulated depreciation) of Exhibit 10 reflects $0.5 million of proceeds, Line 11 (Fukushima) shows $0.3 million of proceeds, Line 13 (Other-CWIP) shows $2.3 million of proceeds, and Line 15 (Nuclear Materials and Supplies Inventory) reflects $4.8 million of proceeds.

**Q. Are the costs presented in this testimony separate from the EPU-related costs presented in the NCRC docket?**

A. Yes, my testimony in this proceeding only covers those costs that were incurred by the IRP to disposition both the EPU and CR3 assets combined. Given the nature of the work done by the IRP, it was not practical to separately account for these joint costs, so all the costs incurred to disposition the assets were charged to the CR3 Regulatory Asset, as reflected in Line 15 of Exhibit 10 to the RRSSA. Separate from CR3 Regulatory Asset costs are the EPU Equipment Preservation Costs and the EPU project close-out costs that are not included in this testimony, because they are included in the NCRC proceeding.

**V. DISPOSITION OF NUCLEAR FUEL.**

**Q. Did DEF have any nuclear fuel assets to disposition after the retirement of CR3?**

A. Yes, DEF had two categories of nuclear fuel-related assets. The first type was completed fuel assemblies referred to as "Batch 19." The other nuclear fuel was upstream uranium.

**Q. Please provide a brief overview of the life cycle of nuclear fuel.**

A. The life cycle of nuclear fuel is a complicated, highly technical process. First, both excavation and in situ techniques are used to recover uranium ore. Through milling, uranium oxide ($U_3O_8$) is extracted from the uranium ore by a chemical process. This product is commonly known as yellow cake. Uranium oxide is not directly usable as a fuel for a nuclear reactor and additional processing, specifically conversion and enrichment, are required. In the conversion process $U_3O_8$ is transformed into a gas – uranium hexafluoride ($UF_6$). The main enrichment process in commercial plants uses centrifuges, with thousands of rapidly-spinning vertical tubes. The product of this stage of the nuclear fuel cycle is enriched uranium hexafluoride, which is reconverted to produce enriched uranium oxide. Finally, reactor fuel is generally in the form of ceramic pellets. These are formed from pressed uranium oxide ($UO_2$) which is sintered (baked) at a high temperature (over 1400°C). The pellets are then encased in metal tubes to form fuel rods, which are arranged into a fuel assembly ready for introduction into a reactor.

**Q. Did DEF use the same process for dispositioning the Batch 19 fuel assemblies and upstream uranium?**

A. No, given the nature of the nuclear fuel market, DEF had to use different methods to disposition the fuel. I will explain each in detail below.

**A. Batch 19 Fuel Assemblies** **REDACTED**

**Q. Please describe the Batch 19 fuel assemblies.**

A. DEF purchased and received the Batch 19 fuel assemblies from Areva in 2009. There were [redacted] assemblies, each one containing [redacted] fuel rods. The fuel assemblies were designed and manufactured specifically for the Babcock and Wilcox (B&W) pressurized water reactor installed at CR3. The Batch 19 fuel assemblies were part of the Cycle 17 core reloaded on November 21, 2010. Given the extended outage, the fuel assemblies were offloaded to the spent fuel pool on May 28, 2011, and the fuel assemblies remain there today.

**Q. Is there anything unique about these fuel assemblies that impacts how they can be used by third parties?**

A. Yes. Fuel assemblies must be specifically designed for the type of reactor. Because these fuel assemblies were manufactured for a B&W pressurized water reactor, if another nuclear plant owner wants to utilize the fuel assemblies "as is," the nuclear plant must also be a B&W pressurized water reactor. The fuel assemblies may also be de-fabricated to recover the enriched $UF_6$.

**Q. What disposition strategy did DEF use to disposition the Batch 19 fuel assemblies?**

A. DEF issued a request for proposals ("RFP") on March 26, 2014 to obtain bids from interested bidders. DEF issued a national press release in several energy-related publications to advertise the RFP to the industry. It also invited twenty-six potential buyers (including all known nuclear owners with B&W pressurized water reactors). DEF operated the RFP through PowerAdvocate, and internally created separate bid and evaluation teams, with an ethical screen between the two teams. DEF also engaged a third party consultant to assist with issuing the RFP and evaluating the proposals.

**Q. Please describe the results of the RFP.**

A. After issuing the RFP, DEF held a bidder's meeting on April 11, 2014 to answer questions. DEF also asked for parties who intended to bid to provide a notice of intent of bidding, and DEF received such notices from four companies. Part of the bidding process included site visits at CR3 for the potential bidders to inspect the fuel assemblies. DEF received proposals on June 30, 2014, but only received two proposals from one company. The other three companies who submitted notices of intent to bid did not submit bids.

The two bids DEF did receive were from Duke Energy Carolinas/Duke Energy Progress ("DEC/DEP"). The first bid was [redacted]. The other bid was [redacted] After evaluating the proposals, DEF decided on August 4, 2014 to award the RFP to DEC/DEP for its "as is use" proposal. DEF executed the contract on January 26, 2015.

**REDACTED**

**Q. Please describe in further detail the contract to sell the fuel assemblies.**

A. The contract provides a price of [redacted] for the fuel assemblies, and [redacted]

[redacted] **REDACTED**

**Q. Given that DEF will not receive any proceeds under this contract until 2016 and 2017, how does DEF propose treating those costs in this proceeding?**

A. Witness Marcia Olivier will explain the treatment of the expected proceeds in her testimony.

**B. Upstream Uranium**

**Q. Please describe DEF's upstream uranium inventory holdings.**

A. DEF has in inventory two types of upstream uranium. The first is uranium hexafluoride or $UF_6$. The other type is EUP or enriched uranium product. These inventory holdings are at locations outside of CR3, in Europe and North America. The amounts of inventory holdings are shown in the tables below.

| **Table 6. EUP Inventory Holdings** | |
|---|---|
| Location: AREVA Richland, WA<br>Quantity: **14,015.726 kgU** of EUP at 4.959$^{w}/_{o}$ $U^{235}$ | |
| **Feed Equivalent*** (kgU as $UF_6$) | **SWU Equivalent*** (SWU) |
| **~130,530.0** | **~122,711.4** |
| Notes: *Components based on 4.959$^{w}/_{o}$ product assay and 0.20$^{w}/_{o}$ tails assay.<br>**The SWU origin for all of the SWU is WR (Russia). Russian HEU for US legal use. | |

| **Table 5. $UF_6$ Inventory Holdings** | | | | |
|---|---|---|---|---|
| **Location** | **Quantity** (kgU as $UF_6$) | **Obligation Code** | **Mining Origin** | **Conversion Origin** |
| GBII | 288,332.608 | C | CA | CA |
| Cameco | 35,401.6 | C | CA | CA |

| | | | | |
|---|---|---|---|---|
| | 154,447.0 | P | WA | CA |
| LES | 104,000.0 | S | AU | CA |
| | 42,391.3 | S | AU | UK |
| URENCO | 98,928.947 | C | CA | CA |
| | 21,706.153 | A | R1 | UK |
| **Total:** | **745,207.608** | | | |

**Q. Is there anything unusual about the uranium market?**

A. Yes. Unlike the Batch 19 fuel assemblies, uranium is not commoditized. This means that it does not have a formal open public market or standardized public data about supply, demand, and cost. Accordingly, it is not the type of market in which potential sellers can simply issue a nation-wide RFP and evaluate responses from potential buyers. To the contrary, if sellers of uranium put large amounts of uranium into the market all at once, with no regard for other factors impacting the market, it is very likely that the flooding of the uranium supply would disrupt the limited market and drive down prices.

**Q. Given the unique nature of the uranium market, what strategy did DEF use to disposition its upstream uranium inventory?**

A. DEF executed a competitive bidding process to select a consulting firm. The duties of the consulting firm include two phases. In Phase I, the consulting firm defines the strategy to sell the uranium inventory in the marketplace at maximum value. Phase II involves the consulting firm executing the approved selling strategy. DEF provides oversight and approves the development and execution of the strategy. To choose the consulting firm, DEF issued an RFP and evaluated responses from various bidders. After this review, DEF selected Ux Consulting.

Ux Consulting is one of the nuclear industry's leading consulting companies. They publish market reports about supply, demand, and prices for uranium, enrichment, conversion, and fabrication, as well as provide consulting services on a variety of topics including divestiture of nuclear fuel. DEF considered several factors when selecting Ux Consulting, including: their expertise level, personnel and infrastructure; references and sample material; market data and market relationships; cost of consulting services; and brokerage fees.

**Q. Why did DEF need to engage a consulting firm to assist with the disposition of upstream uranium?**

A. Given the unique nature of the market, DEF needed to engage the expertise of a consulting firm with more experience and knowledge about the intricacies of the market. A third party consulting firm like Ux Consulting is able to identify key market drivers and help DEF develop the best strategy for introducing DEF's upstream uranium inventories in a manner that will maximize value for our customers.

**Q. What specific strategy has DEF, with the assistance of Ux Consulting, developed for the upstream uranium sales?**

A. DEF and Ux Consulting first considered what type of sale pricing to utilize. There are several options. One is market-related pricing, in which the price is not fixed until the time of delivery. Prices are generally indexed to published industry indicators. Using this option would increase price uncertainty. Another pricing option is base-escalated pricing, which is a price mechanism where the start price is set at the time of the contract and escalated until the time of delivery using either an index (like the U.S. G.N.P.) or a fixed percentage index. Given the current market conditions for uranium, however, few contracts are being signed with traditional base-escalation terms. The final alternative is fixed pricing, where all delivered prices are fixed at the time of the contract. An iteration of this final option is to fix the prices off of a forward price curve. This use of a forward price curve has been increasingly used in today's market. In fact, due to prolonged differentials between spot and term indicators, a mid-term market has developed where spot prices are escalated forward using forward price curves. This provides better pricing options to the buyer than traditional base-escalated term offers, but better options to the seller than spot pricing. Given this benefit, DEF and Ux Consulting agreed to [redacted] **REDACTED**

The next consideration for the upstream uranium sales was the process for entering the market and making the sales. There are three potential sales approaches, and there are benefits and downsides to each approach. One approach is reverse auction. This is similar to the RFP process explained above for the fuel assemblies. History shows, however, that using this approach results in sales prices below the market with limited participation. This approach tends to appear as a distressed seller flooding the market with the uranium product. Another approach is broker assisted sales. With this approach, the seller works with brokers to disposition the fuel, typically for a brokerage fee. The final approach is a traditional seller/direct contact sales, where the utility finds buyers directly and sells them the fuel.

After weighing the potential approaches, DEF decided to do [redacted]

**REDACTED**

**Q. Have DEF and Ux Consulting begun to execute this strategy?**

A. Yes. DEF and Ux Consulting executed a contract on July 18, 2014. Ux Consulting has been providing ongoing information about nuclear fuel market conditions to DEF. Ux Consulting is [redacted]

[redacted] Ux Consulting has provided information, and will continue to do so, on: when to sell material; whether the particular sale is the best price and if discounts will be required; what quantity and what form the sale should take; and the best process to use for the next batch of fuel. Also, given the unique characteristics of the uranium market, the disposition will most likely not take place in one fell swoop.

Specifically, at the end of March 2015, Ux Consulting [redacted]

**REDACTED**

**Q. What did DEF decide to do in response to the bids received?**

A. With respect to the [redacted] DEF determined that accepting the bid from [redacted] yielded the most favorable results for customers. [redacted] DEF expects to receive gross proceeds of [redacted] not including [redacted]. The retail portion of these proceeds is reflected on Line 14 (Nuclear Fuel Inventories) on Exhibit 10 to the RRSSA.

With respect to the EUP inventory, [redacted] In order to give customers the benefit of the anticipated potential proceeds from selling the EUP fuel, however, DEF proposes to credit the CR3 Regulatory Asset with the expected proceeds [redacted]. Accordingly, DEF is showing a credit to Line 14 on Exhibit 10 to the RRSSA of approximately $[redacted] [redacted] ($[redacted] [redacted] gross proceeds). If the ultimate disposition of the EUP inventory results in a different amount received, DEF will treat those proceeds in a similar manner as that used to account for the Batch 19 fuel proceeds, as described in Ms. Olivier's testimony. All of the estimated nuclear fuel sales proceeds are provided in Exhibit No. ___(MO-5) attached to Ms. Olivier's testimony.

## V. PROJECT MANAGEMENT AND COST CONTROL OVERSIGHT.

**Q. Please explain the project management and cost control oversight processes used for the investment recovery efforts associated with the CR3 plant assets.**

A. The investment recovery project is governed by procedure number AI-9010 as discussed above and attached hereto as Exhibit No. ___(MT-1). AI-9010 was developed specifically for CR3 asset disposition and outlines the pricing requirements, minimum reviews, and approvals required for the execution of transactions and the record keeping requirements necessary for the disposition of assets from CR3. AI-9010 provides specific instructions on expectations, assets pricing, disposition transaction review and approvals, project assurance and removal of installed assets and provides approved forms to document asset disposition.

The investment recovery Project Plan continues to be used and supplies the overall governance for the investment recovery project and defines the organization, work processes, and systems necessary for the successful disposition of all CR3 assets. See Project Plan attached hereto as Exhibit No. __

(MT-2). In 2014, DEF also issued the Investment Recovery Guidance Document IRGD-001, Sales Track Guidance and Documentation Package Development. See Exhibit No. ___(MT-3) to my testimony. This document provides additional instruction to conduct sales and develop complete documentation packages for the investment recovery project

**Q. What other oversight mechanisms did DEF use to oversee the IR process?**

A. The Company utilized Key Performance Indicators ("KPIs") to monitor the status of the investment recovery project. These KPIs were reviewed by the investment recovery team on a regular basis. Additionally, weekly progress/status meetings were held to review open issues in the project including action items, trends, key schedule milestones and other issues. Monthly progress reports were issued reporting financial results for the overall project, for the prior month. Additionally, risk review meetings were held on a regular basis in accordance with PJM-0013-ENTSTD, Project Risk Management, and a formal risk register was maintained for the investment recovery project and updated as necessary.

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

A. Yes, it does.

# DIRECT TESTIMONY

# OF

# DONNA RAMAS

On Behalf of the Office of Public Counsel

Before the

Florida Public Service Commission

Docket No. 150148-EI

INTRODUCTION

**Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?**

A. My name is Donna Ramas. I am a Certified Public Accountant licensed in the State of Michigan and Principal at Ramas Regulatory Consulting, LLC, with offices at 4654 Driftwood Drive, Commerce Township, Michigan 48382.

**Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION?**

A. Yes, I have testified before the Florida Public Service Commission ("PSC" or "Commission") on several prior occasions. I have also testified before many other state regulatory commissions.

**Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?**

A. Yes. I have attached Exhibit DMR-1, which is a summary of my regulatory experience and qualifications.

**Q. ON WHOSE BEHALF ARE YOU APPEARING?**

A. I am appearing on behalf of the Citizens of the State of Florida for the Office of Public Counsel ("OPC").

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

A. On May 22, 2015, Duke Energy Florida, Inc. ("DEF" or "Company") filed a petition to include the revenue requirement for the Crystal River Unit 3 ("CR3") Regulatory Asset in base rates. In its petition, DEF projected the amount of CR3 Regulatory Asset balance as of December 31, 2015 as $1.298 billion. In this testimony, I recommend several adjustments to the projected $1.298 billion CR3 Regulatory Asset Balance and provide the OPC's recommended CR3 regulatory asset balance to be recovered from DEF's Florida ratepayers.

**Q. IS DEF STILL PROPOSING THAT THE CR3 REGULATORY ASSET BE RECOVERED AS A COMPONENT OF BASE RATES?**

A. No. In its petition, DEF expressed its intent to file a subsequent petition for a financing order, pursuant to the securitization legislation passed earlier this year by the Florida House and Senate, if the legislation ultimately became law. House Bill 7109 was enacted by the Florida legislature and codified as Section 366.95 of the Florida Statutes. As provided for in Section 366.95, on July 27, 2015, DEF filed a petition for issuance of a Nuclear Asset-Recovery Financing Order. Under the July 27$^{th}$ petition, the approved amount of the CR3 Regulatory Asset, estimated financing costs associated with the issuance of nuclear asset-recovery bonds, and carrying charges from December 31, 2015 through the date of issuance of nuclear asset-recovery bonds would be securitized. Thus, under the July 27$^{th}$ petition, the CR3 Regulatory Asset would be recovered from DEF's customers through the recovery of the nuclear-asset recovery bonds instead of as a component of base rates. However, under either recovery scenario – i.e., inclusion in base rates or through securitization and issuance of nuclear asset-recovery bonds – the amount of the CR3 Regulatory Asset that is recoverable from DEF's ratepayers needs to be determined. This testimony addresses the quantification of the CR3 Regulatory Asset balance to be recovered.

**Q. COULD YOU PLEASE BRIEFLY DISCUSS THE ESTABLISHMENT OF THE CR3 REGULATORY ASSET?**

A. Yes. The CR3 Regulatory Asset was originally established as a result of a Stipulation and Settlement Agreement entered into between Progress Energy Florida (now Duke Energy Florida or DEF), the OPC, the Florida Industrial Power Users Group ("FIPUG"), the Florida Retail Federation ("FRF"), White Springs Agricultural Chemicals, Inc. ("White Springs"), and the Federal Executive Agencies on July 20, 2012, hereinafter referred to as the "2012 Settlement Agreement." The 2012 Settlement Agreement was approved by the PSC in Order No. PSC-12-0104-FOF-EI on March 8, 2012 in Docket No. 120022-EI, as amended by Order No. PSC-12-0104A-FOF-EI. Since the 2012 Settlement Agreement did not resolve all CR3 related issues, on July 31, 2013, DEF, OPC, FIPUG, FRF and White Springs entered into a Revised and Restated Stipulation and Settlement Agreement, hereinafter referred to as the "RRSSA." The RRSSA was approved by the PSC in Order No. 13-0598-FOF-EI, issued November 12, 2013. The CR3 Regulatory Asset, as well as the determination of the amount of the regulatory asset, is addressed in both the 2012 Settlement Agreement and the RRSSA.

SUMMARY

**Q. ARE YOU RECOMMENDING ANY REVISIONS TO THE PROJECTED CR3 REGULATORY ASSET PRESENTED BY DEF?**

A. Yes. DEF projects the CR3 Regulatory Asset balance will be $1.298 billion as of December 31, 2015. In this testimony, I present several adjustments that should be made to the CR3 Regulatory Asset balance, several of which DEF has identified as needed corrections in response to discovery. The amount of the CR3 Regulatory Asset recommended in this testimony is $1,289,737,474, which is $8,274,526 less than the amount proposed by DEF.

**Q. HAVE YOU PREPARED ANY EXHIBITS IN SUPPORT OF YOUR TESTIMONY?**

A. Yes. Exhibit DMR-2 presents the amount of CR3 Regulatory Asset that would result if each of the adjustments recommended in this testimony are adopted by the Commission.

**Q. WOULD YOU PLEASE PROVIDE A BRIEF SUMMARY OF EACH OF THE ADJUSTMENTS PRESENTED IN THIS TESTIMONY AS WELL AS THE IMPACT ON THE CR3 REGULATORY ASSET BALANCE ASSOCIATED WITH EACH OF THESE ADJUSTMENTS?**

A. Yes. I recommend the following adjustments to Duke's projected CR3 Regulatory Asset balance within this testimony:

- The CR3 Regulatory Asset should be reduced by $5,968,985 to remove property tax expenses deferred by DEF that fall outside the deferral period allowed for in both the 2012 Settlement Agreement and the RRSSA. This includes nuclear property tax expense of $5,585,240 for 2012 and $383,745 for January 2013, each of which is net of subsequent property tax refunds applied by DEF to the Deferred Expenses.

- The CR3 Regulatory Asset should be increased by $926,998 to include $463,449 of additional nuclear O&M expenses incurred by DEF during the allowed deferral period that were inadvertently excluded from the regulatory asset along with the impact of the $463,449 of additional expense on the regulatory liability offset calculated by DEF.
- The CR3 Regulatory Asset should be reduced by: 1) $129,598 to remove $64,799 of moving expenses that DEF agrees should not have been charged to the regulatory asset along with the associated impact on the regulatory liability offset; and 2) by $414,932 to remove $207,466 of accrued moving expenses that have not been supported by the Company and the impact of the removal on the regulatory liability offset.
- The travel/meals/lodging expense included in the Deferred Expense component of the CR3 Regulatory Asset should be reduced by $11,705 to remove costs DEF indicated should not be included. The deferred liability offset calculated by DEF would also be increased by the $11,705 resulting in a combined impact on the CR3 Regulatory asset of $23,410.
- The CR3 Regulatory Asset should be reduced by $656,779 to remove legal invoices that DEF identified as being inadvertently charged to the CR3 Regulatory Asset.
- The CR3 Regulatory Asset should be reduced by $549,820 to correct an error made by DEF in determining the Cost of Removal component of the regulatory asset.

- Each revision to the CR3 Regulatory Asset impacts the calculation of the Cumulative AFUDC component of the regulatory asset. Based on the recommended adjustments contained in this testimony, the Cumulative AFUDC component of the regulatory asset would be reduced by an estimated $1,458,000. The Commission will need to determine the ultimate amount of Cumulative AFUDC to include in the CR3 Regulatory Asset based on each of the adjustments to the CR3 Regulatory Asset it adopts.

In addition to each of the above identified adjustments to the CR3 regulatory asset, I also recommend that DEF address the nuclear fleet Information Technology ("IT") projects that are in development and the impact of those projects on the Other CWIP component of the CR3 Regulatory Asset in its rebuttal testimony.

**Q. HAVE YOU IDENTIFIED ANY OTHER ISSUES AT THIS TIME WITH THE CR3 REGULATORY ASSET THAT SHOULD BE ADDRESSED BY THE COMMISSION?**

A. During the discovery process and in preparation of my testimony, I expressed some additional concerns with the Deferred Expense component of the CR3 Regulatory Asset to the OPC. Pursuant to Paragraph 22 of the RRSSA, the OPC began the process of conferring with DEF about this issue and the concerns I raised. Pending the outcome of those discussions, I have decided not to include the additional issues as part of my testimony, but the OPC has indicated that it will reserve the right to raise issues related to my concerns in the case if warranted.

REGULATORY ASSET BACKGROUND AND GUIDANCE

**Q. BEFORE DISCUSSING THE APPROPRIATE CR3 REGULATORY ASSET BALANCE, WOULD YOU PLEASE FIRST BRIEFLY DISCUSS THE GUIDANCE IN PLACE WITH REGARDS TO THE DETERMINATION OF THE CR3 REGULATORY ASSET THAT IS RECOVERABLE BY DEF FROM RATEPAYERS?**

A. Yes. Paragraphs 5.a. through 5.d. of the RRSSA provide for the establishment of the CR3 Regulatory Asset and address what is to be included as part of the regulatory asset, which incorporates provisions for both regulatory assets and regulatory liabilities resulting in the total amount of the CR3 Regulatory Asset. The various components allowed for inclusion in the CR3 Regulatory Asset are specifically identified on RRSSA Exhibit 10, titled "Template for Calculation of the CR3 Regulatory Asset Value and Revenue Requirement." Under Paragraph 5.f. of the RRSSA, a cost must be identified as a component in RRSSA Exhibit 10 in order to be eligible for cost recovery as part of the CR3 Regulatory Asset, with certain Force Majeure event exceptions defined in the RRSSA. The same paragraph states: "The Parties expressly waive, release, and do not retain the right to challenge the inclusion of the components of the CR3 Regulatory Asset that were at issue in Docket No. 100437-EI and as set forth in Exhibit 10…" While the Parties are unable to challenge the inclusion of the components of the CR3 regulatory asset, the Parties have retained the right to "...challenge whether DEF took reasonable and prudent actions to minimize the future CR3 Regulatory Asset value…" The amount of the CR3 Regulatory Asset value is also subject to Commission audit for mathematical or accounting errors in the true-up determination of the CR3 Regulatory Asset.

Paragraph 4 of the RRSSA, in combination with RRSSA Exhibit 13, also identified five (5) specific issues that were preserved to be addressed in future proceedings, consistent with RRSSA Exhibit 10. Included as two of the five preserved issues were the following:

> Issue 35: What are the appropriate amounts of the individual components of the CR3 Asset for purposes of establishing customer rates after December 31, 2016?
>
> Issue 36: What criteria, methodologies or procedures, if any, should the Commission establish for determining the components and amounts of the CR3 Asset for purposes of establishing customer rates after December 31, 2016?

**Q. HAS DEF PROVIDED A BREAKDOWN OF THE CR3 REGULATORY ASSET BY COMPONENT?**

A. Yes. Exhibit No.__(MO-2) attached to the Direct Testimony of Marcia Olivier provided a breakdown of the actual CR3 Regulatory Asset balance as of April 2015 and the projected balance as of December 31, 2015 by each of the components identified on Exhibit 10 of the RRSSA.

**Q. WHICH COMPONENTS OF THE CR3 REGULATORY ASSET DO THE RECOMMENDED ADJUSTMENTS PRESENTED IN THIS TESTIMONY IMPACT?**

A. Exhibit DMR-2, Page 1 of 4, provides a summary of each of the adjustments recommended in this testimony and identifies the CR3 Regulatory Asset component impacted by each recommended adjustment. As shown on Exhibit DMR-2, page 1 of 4, most of the adjustments presented in this testimony impact the Deferred Expenses component of the CR3 Regulatory Asset. The summary also includes adjustments to the Construction Work in Progress – Delam Repair Project category and the Cost of Removal Regulatory Asset category, both of which have been identified as adjustments by DEF in response to discovery. Finally, line 13 of Exhibit DMR-2, page 1 of 4, adjusts the

Cumulative AFUDC component of the CR3 Regulatory Asset. This final adjustment to the Cumulative AFUDC component is a fall-out adjustment as it flows through the impact of the prior adjustments on the Cumulative AFUDC balance.

<u>REGULATORY LIABILITY OFFSET</u>

**Q. ARE ANY OFFSETS TO THE CR3 REGULATORY ASSET SPECIFICALLY PROVIDED FOR IN THE RRSSA?**

A. Yes. Paragraph 5.b. of the RRSSA states, in part, as follows in addressing the regulatory liabilities:

> b. Upon DEF's decision to retire CR3, and until inclusion of the CR3 investments and related costs in customer rates, except as provided for in paragraph 5c, DEF is authorized to implement deferral accounting through the creation of a regulatory asset or assets to address the capital cost amounts and revenue requirements associated with all CR3-related costs (including, but not limited to, actual depreciation/amortization expense, operation and maintenance ("O&M") expense, property taxes, and cost of capital return) and regulatory liabilities to address O&M costs, which may be funded from the Nuclear Decommissioning Trust or obviated by ceasing operations, and property taxes which may no longer be assessed (for example, a type of regulatory liability would entail Retail Nuclear O&M 2010 MFR C-4 $90 million (per year) (See Exhibit 7 to this Revised and Restated Settlement Agreement) less actual incurred O&M deferred as a regulatory asset). These amounts, together with the net plant balance of CR3 and other CR3-related investments, are recorded in various FERC accounts, and are collectively referred to herein as the "CR3 Regulatory Asset," the components of which are shown on Exhibit 10 to this Revised and Restated Settlement Agreement. …

**Q. WAS THERE A LIMITATION ON THE TIMEFRAME OVER WHICH THE REGULATORY ASSETS AND REGULATORY LIABILITIES ASSOCIATED WITH THE CR3 EXPENSES WERE TO BE ACCUMULATED?**

A. Yes. Paragraph 5.c. of the Revised and Restated Settlement Agreement states, in part, that "Effective January 1, 2014, DEF will cease the deferral accounting of regulatory assets and liabilities provided for in paragraph 5b above, in this Revised and Restated

Settlement Agreement only for CR3 O&M expenses, CR3 property taxes, and CR3 administrative and general ('A&G') expenses." Thus, while the deferral of the regulatory assets and liabilities associated with the CR3 O&M expense, CR3 property taxes and CR3 A&G expenses began with the February 2013 decision to retire CR3, the deferrals for these three categories ceased January 1, 2014.

**Q. DID DEF INCLUDE AN OFFSET FOR THE ABOVE REFERENCED REGULATORY LIABILITY IN DETERMINING THE CR3 REGULATORY ASSET BALANCE IT IS SEEKING TO RECOVER FROM FLORIDA RATEPAYERS?**

A. Yes. The regulatory liability is included as part of the Deferred Expenses category of the CR3 Regulatory Asset. According to page 8 of Ms. Olivier's testimony, lines 8 through 9, the Deferred Expense category on line 16 of Company Exhibit__(MO-2) totaling $94,460,000 consists of total deferred expenses of $105.2 million offset by total savings of $10.7 million. Presented in Table 1, below, is a breakdown of the Deferred Expense category between O&M and A&G Expenses, Property Tax Expenses, and other[1] as well as the offset for what the Company has identified as "total savings" (i.e., the regulatory liability) broken down between O&M and A&G "savings" and property tax expense "savings."

Table 1 - Breakdown of Deferred Expenses

| | O&M / A&G Expense | Property Tax Exp. | Other | Total |
|---|---|---|---|---|
| Deferred Expenses | $ 95,588,649 | $ 10,511,105 | $(949,127) | $ 105,150,627 |
| Regulatory Liability Offsets | $ (4,986,717) | $ (5,703,803) | | $ (10,690,520) |
| Total | $ 90,601,932 | $ 4,807,302 | $(949,127) | $ 94,460,107 |

[1] The "Other" category consists of the retail portion of a NEIL property insurance distribution DEF included as an offset to the deferred expenses.

The total net Deferred Expenses shown above ties to the $94,460,000 Deferred Expense amount shown on Ms. Olivier's Exhibit No.__(MO-2), line 16.

**Q. CAN YOU EXPLAIN HOW DEF CALCULATED THE REGULATORY LIABILITY OFFSET REFERENCED IN THE PREVIOUSLY QUOTED PARAGRAPHS FROM THE 2012 SETTLEMENT AGREEMENT AND THE RRSSA?**

A. Yes. At page 8 of her direct testimony, lines 2 through 5, Ms. Olivier indicates that Paragraph 5.b. of the Revised and Restated Agreement "…requires DEF to record in regulatory liabilities the O&M and property tax savings for actual costs that are lower than amounts included in DEF's 2010-test year rate case minimum filing requirements." In calculating the amount of the Regulatory Liability, DEF used the amount of nuclear O&M expense in 2010 MFR Schedule C-4 which was $90,465,000 on a retail basis[2]. It added $17,031,000 (retail basis) for the amount of Nuclear A&G expense DEF determined to be incorporated in the 2010 MFRs. These two amounts were combined, totaling $107,496,000, and a factor of 11/12ths was applied to cover the eleven-month deferral period, resulting in $98,538,000. In other words, the $98,538,000 would be the amount incorporated in the 2010 MFRs for the retail nuclear O&M and A&G expense for an eleven-month period (i.e., deferral period).

Duke then took the actual retail Nuclear O&M and A&G expense recorded to the CR3 Regulatory Asset during the eleven-month deferral period, which was $96,734,179[3] and

---

[2] The $90,465,000 is consistent with the $90 million per year amount specifically identified in the example provided in Paragraph 11.b. of the 2012 Settlement Agreement and Paragraph 5.b. of the RRSSA and consistent with the $90.465 million of retail Nuclear O&M expense provided in Exhibit 7, page 1 of 4, of each of the agreements, which is based on Schedule C-4 of the 2010 MFRs.

[3] Payroll tax expense of $2,037,367 was excluded by DEF in the regulatory liability calculation.

calculated the difference between the actual nuclear O&M and A&G expenses of $96,734,179 and the $98,538,000 associated with the amounts in the 2010 MFRs to determine a Regulatory Liability Offset, or "O&M savings" of $1,803,821. Thus, the Company's CR3 Regulatory Asset includes the actual expenses incurred and recorded in the eleven-month deferral period less $1,803,821 of savings.

**Q. THE TOTAL NUCLEAR O&M AND A&G REGULATORY LIABILITY OFFSET SHOWN ON TABLE 1 OF YOUR TESTIMONY IS $4,986,717, WHICH IS GREATER THAN THE $1,803,821 YOU DESCRIBE ABOVE. CAN YOU EXPLAIN WHY?**

A. Yes. Many of the components of the deferred O&M and A&G expenses recorded during the February 2013 to December 2013 deferral period and included in the above described calculation were based on accounting accruals that were estimated. After the end of the deferral period, the Company recorded several true-ups to the severance accruals that were recorded during the deferral period, reducing the amounts deferred by $2,496,653 and $686,244, respectively. In other words, the severance expense was determined to be $3,182,897 ($2,496,653 + $686,244) less than estimated and accrued for during the deferral period. The Company reduced the deferred O&M and A&G expenses by these true-up amounts and also increased the Regulatory Liability offset (or "savings") by the same amount. Thus, the two post-2013 true-ups to the severance costs deferred during 2013, totaling $3,182,897, resulted in a $6,365,794 reduction to the Deferred Expense category of the CR3 Regulatory Asset. These increases in the regulatory liability made by DEF for the two post-2013 severance accrual adjustments of $3,182,897 coupled with the $1,803,820 of regulatory liability offset recorded by DEF associated with the O&M and A&G expenses deferred during the 2013 deferral period results in the total regulatory liability or "savings" offset shown on Table 1 of $4,986,717. For each $1 removed from the regulatory asset associated with the deferred expenses, the regulatory liability is also increased by the same $1 resulting in an impact on the net CR3 Regulatory Asset of $2. Thus, as discussed later in this testimony, many of the recommended adjustments have a double impact on the CR3 regulatory asset due to the impact of the adjustments in the Deferred Expense category on the regulatory liability.

**Q. WAS A SIMILAR APPROACH FOLLOWED BY DEF FOR DETERMINING THE REGULATORY LIABILITY OR "SAVINGS" OFFSET ASSOCIATED WITH THE NUCLEAR PROPERTY TAX EXPENSE?**

A. Yes. DEF determined that the nuclear property tax expense contained in its 2010 MFRs was $10,828,000 on a retail basis. It then applied the 11/12$^{th}$ factor resulting in $9,925,000 for the eleven-month deferral period. DEF then calculated the actual property tax expense associated with the eleven-month period by taking the total actual annual property tax expense of $9,143,868 times a factor of 11/12$^{th}$, resulting in actual property tax expense of $8,381,879 for the deferral period. The difference between the actual cost of $8,381,879 and the $9,925,000 based on the 2010 MFRs totaled $1,543,121 which DEF used as the regulatory liability or "savings" offset. Thus, the actual deferred property tax expenses for the eleven-month period were reduced by $1,543,121 for the savings.

Subsequent to the deferral period, DEF received a refund associated with 2012 and 2013 Citrus County property taxes. DEF reduced the property tax expense deferral by the full refund, but also reflected an additional regulatory liability offset for the portion of the refund that was applicable to the eleven-month deferral period, which increased the regulatory liability or "savings" offset associated with the property tax expense by $4,160,682 to $5,703,803.

PROPERTY TAX EXPENSE DEFERRALS

**Q. OVER WHAT TIME PERIOD DOES THE RRSSA ALLOW FOR THE DEFERRAL OF CR3 EXPENSES?**

A. The deferral of CR3-related costs, including, but not limited to, "…actual depreciation/amortization expense, operation and maintenance ('O&M') expense, property taxes and cost of capital return..." was provided for in Paragraph 5.b. of the RRSSA, which specifically indicated that the deferral accounting was to begin "Upon DEF's decision to retire CR3…" The Company announced that it had decided to retire CR3 rather than attempt further repairs in February 2013. Additionally, Paragraph 5.b. specifically states: "Effective January 1, 2014, DEF will cease the deferral accounting of regulatory asset and liabilities provided for in paragraph 5b above in the Revised and Restated Settlement Agreement only for CR3 O&M expenses, CR3 property taxes and CR3 administrative and general ('A&G') expenses." Thus, under the RRSSA, the deferral of CR3-related O&M expenses, A&G expenses and property tax expenses would begin in February 2013 and cease effective January 1, 2014.

**Q. DID DEF INCLUDE ANY O&M, A&G AND PROPERTY TAX EXPENSES THAT FALL OUTSIDE OF THE ALLOWED-FOR DEFERRAL PERIOD IN THE CR3 REGULATORY ASSET?**

A. Yes. The Deferred Expense category of the CR3 Regulatory Asset includes the CR3 property tax expense for 2012 and for January 2013, which falls outside the allowed deferral period.

**Q. WHAT AMOUNT IS INCLUDED IN THE DEFERRED EXPENSES FOR THE PROPERTY TAX EXPENSE AMOUNTS THAT ARE APPLICABLE TO PERIODS PRIOR TO THE FEBRUARY 2013 START OF THE DEFERRAL PERIOD?**

A. Exhibit DMR-2, page 2 of 4, shows that the Deferred Expense category of the CR3 Regulatory Asset includes $5,585,240 for 2012 property tax expenses and $383,745 for January 2013 property tax expenses. DEF originally booked 2012 property tax expense of $8,373,340 on December 28, 2012[4]. In March 2014, the Company recorded a reduction to the deferred property tax expenses for a settlement with Citrus County, reducing the deferred property tax expenses by $7,327,026, $2,778,100 of which was applicable to the 2012 property taxes.[5] Thus, the net amount included in the CR3 Regulatory Asset for 2012 property tax expense is $5,585,240. The $383,745 for January 2013 property tax expense is also net of 1/12th of the portion of the Citrus County settlement applicable to 2013 property taxes.

**Q. DO YOU RECOMMEND THAT THE 2012 AND JANUARY 2013 PROPERTY TAX EXPENSES BE REMOVED OR EXCLUDED FROM THE DEFERRED EXPENSE COMPONENT OF THE CR3 REGULATORY ASSET?**

A. Yes. DEF's projected CR3 Regulatory Asset should be reduced by $5,585,240 to remove the property tax expenses associated with 2012 and by $383,745 to remove the property tax expenses for January 2013. This removal is shown in the Summary of Adjustments to CR3 Regulatory Asset on Exhibit DMR-2, page 1 of 4. While the Company's responses to OPC POD 1-1 and OPC POD 2-22 provided an internal analysis conducted by DEF regarding whether or not the 2012 property tax expenses should be included in the CR3

[4] Response to OPC POD 2-22 at Bates No. 150148-OPCPOD2-22a-000001.
[5] Response to OPC POD 2-22 at Bates No. 150148-OPCPOD2-22b-000003.

Regulatory Asset[6], I have found no provisions within the RRSSA that allow for the deferral of the property tax expenses incurred by DEF in 2012 and in January 2013. As indicated above, the language provided in Paragraph 5.b. of the RRSSA clearly indicates that the deferral of CR3-related O&M expenses, A&G expenses and property taxes would begin upon DEF's decision to retire CR3, which was announced in February 2013.

<u>ADJUSTMENTS IDENTIFIED AND AGREED TO BY DEF</u>

**Q. HAS DEF IDENTIFIED ANY CORRECTIONS OR REVISIONS THAT SHOULD BE MADE TO THE CR3 REGULATORY ASSET BALANCE AS PART OF THE DISCOVERY PROCESS IN THIS DOCKET?**

A. Yes. In response to several discovery questions posed by OPC, the Company has identified several corrections and revisions that should be made to the CR3 Regulatory Asset. As several of the identified corrections fall within the Deferred Expense category of the CR3 Regulatory Asset, the corrections in the Deferred Expense category also impact the offsetting regulatory liability.

**Q. WOULD YOU PLEASE DISCUSS THE CORRECTIONS OR ADJUSTMENTS IDENTIFIED BY DEF THAT IMPACT THE DEFERRED EXPENSE CATEGORY OF THE CR3 REGULATORY ASSET AND INDICATE IF YOU AGREE THE CORRECTION OR ADJUSTMENT SHOULD BE MADE?**

A. Yes. In response to OPC POD 1-4, the Company indicated that "expenses in the amount of $463,499.02 were inadvertently omitted from the journal entry to defer expenses in December 2013 as they were recorded in December 2013 after the deferral journal entry

---

[6] Internal analysis regarding the property tax deferral was provided at Bates Nos. 150148-OPCPOD1-1-000147 to 000148 and Bates Nos. 150148-OPCPOD2-22a-000007 to 000008.

was prepared."[7] The response continued to explain that the CR3 regulatory liability would also be overstated by $463,499.02. Thus, the total impact of the $463,499.02 expense understatement on the net CR3 Regulatory Asset would be an increase of $926,998.04. I am not challenging the increase in the CR3 Regulatory Asset for the expenses that were inadvertently omitted, thus the $463,499 increase in the CR3 Regulatory Asset is shown on Exhibit DMR-2, page 1 of 4, line 3, and the additional $463,499 increase for the impact on the regulatory liability is shown on line 4.

In response to OPC Interrogatory 2-25(b), the Company indicated that the employee moving expenses included in the Deferred Expense component of the CR3 Regulatory Asset included the costs associated with one individual who was reimbursed for moving expenses under the Merger Relocation Program and the moving costs for two individuals who were not employees at the CR3 location. The response also indicated that the moving costs associated with these three individuals will be removed from the CR3 Regulatory Asset. On Exhibit DMR-2, Page 1 of 4, at line 5, I removed $64,799[8] associated with moving expenses DEF identified to be removed. The additional $64,799 reduction to the CR3 Regulatory Asset for the impact on the regulatory liability is reflected on line 6 of the exhibit.

In response to OPC POD 2-24, the Company indicated that the Meals/Travel/Lodging expense incorporated in the Deferred Expense component of the CR3 Regulatory Asset included $8,667 associated with an expense report that was not related to CR3 and $5,265

[7] A listing of the deferred expenses that were inadvertently omitted by DEF was provided at Bates No. 150148-OPCPOD1-4-000552.
[8] The total moving expenses for the three individuals are contained on the highlighted lines on the redacted attachment to the response to OPC ROG 2-25 at Bates Nos. 150148-OPCPOD2-25-000013 and 000015 and total $77,128. After application of the 91.7806% DEF factor and 91.538% separations factor, the reduction is $64,799.

of expenses were paid for which the detail does not reconcile. The response indicated that DEF will include an adjustment for these costs. On Exhibit DMR-2, page 1, at line 9, I reduced the CR3 Regulatory Asset by $11,705 for these two items, calculated as the $13,932 identified by DEF with a 91.7806% DEF factor to remove the Joint Owner's portion and a 91.538% separation factor applied. The impact on the regulatory liability of $11,705 is shown on line 10 of the exhibit.

**Q. WOULD YOU PLEASE DISCUSS THE CORRECTIONS OR ADJUSTMENTS IDENTIFIED BY DEF THAT IMPACT THE CATEGORIES OTHER THAN THE DEFERRED EXPENSE CATEGORY OF THE CR3 REGULATORY ASSET AND INDICATE IF YOU AGREE THE CORRECTION OR ADJUSTMENT SHOULD BE MADE?**

A. Yes. In response to OPC Interrogatory 1-6, DEF indicated that it identified legal invoices in the Delam Repair Project component of the CR3 Regulatory Asset that should not have been charged to the CR3 Regulatory Asset. The legal invoices that should not have been charged to the CR3 Regulatory Asset totaled $656,779.[9] I removed the $656,779 on Exhibit DMR-2, Page 1 of 4, line 11.

In response to OPC Interrogatory 2-23, DEF indicated that there was an error in the amount of the CR3 Cost of Removal Regulatory Asset, and that the amount included in the CR3 Regulatory Asset should be reduced by $549,820, decreasing from the $107,469,000 contained on Exhibit No.__(MO-2) to $106,919,000[10]. The $549,820 reduction to the CR3 Regulatory Asset is shown on Exhibit DMR-2, page 1 of 4, line 12.

---

[9] Amounts identified at Bates Nos. 150148-OPCROG1-6-000022 through 000025 and in response to OPC ROG 2-23 at Bates Nos. 150148-OPCROG2-23-000001 to 000003.

[10] Amounts identified at Bates Nos. 150148-OPCROG2-23-000001 and 000005 through 000008.

Additionally, all of the corrections identified in this section, with the exception of the reduction to the CR3 Cost of Removal identified above, also impact the Cumulative AFUDC component of the CR3 Regulatory Asset. In response to OPC Interrogatory No. 23, DEF agreed that the calculation of the Cumulative AFUDC will be revised for the impact of any adjustments deemed necessary.

MOVING EXPENSE REDUCTION

**Q. WHAT AMOUNT IS INCLUDED IN THE DEFERRED EXPENSE CATEGORY FOR EMPLOYEE MOVING EXPENSES?**

A. In response to OPC POD 1-4, DEF provided a breakdown of the costs included in the Deferred Expenses category of the CR3 Regulatory Asset. Based on that response, the deferred expenses included $6,434,588 for employee moving expenses prior to the application of the separation factors.

**Q. HAS A MORE DETAILED BREAKDOWN OF THE EMPLOYEE MOVING EXPENSES BEEN PROVIDED BY THE COMPANY?**

A. Yes. In response to OPC Interrogatory No. 2-25, the Company provided a breakdown of the employee relocation costs that was provided by a third party relocation firm, NEI Global Relocation. The report provided the moving expenses incurred broken down by cost category and by employee. The response identified $6,187,647 of moving expenses and listed 90 employees. Exhibit DMR-2, page 3 of 4, provides a breakdown of the moving expenses by cost category. As shown on the exhibit, the costs were broken down into twenty categories, including costs such as home sale costs, home closing costs, home sale bonuses, loss on home sale, household goods moving costs, temporary living expense and tax gross-ups.

**Q. DID THE COMPANY EXPLAIN WHY THE MOVING COSTS IDENTIFIED IN THE BREAKDOWN FROM THE THIRD PARTY RELOCATION FIRM DIFFERED FROM THE AMOUNT OF MOVING EXPENSES INCLUDED IN THE DEFERRED EXPENSE COMPONENT OF THE CR3 REGULATORY ASSET?**

A. In response to OPC Interrogatory 2-25(a), DEF stated that the report provided by the third party relocation firm "…is based on cash payments made and therefore does not tie to our records provided which is based on an accrual basis." No further explanation was provided regarding why the amount accrued and incorporated in the deferred expenses of $6,434,588 was greater than the actual expenses that have been paid of $6,187,647.

**Q. ARE YOU RECOMMENDING AN ADJUSTMENT TO THE AMOUNT OF MOVING EXPENSES INCLUDED IN THE CR3 REGULATORY ASSET?**

A. Yes. As shown on Exhibit DMR-2, page 3 of 4, the amount of employee moving expenses included in the Deferred Expense category of the CR3 Regulatory Asset is $246,941 greater than the amount of employee moving expenses that have actually been paid. The deferred employee moving expenses were accrued during 2013, and the report of the actual cash payments made for the employee moving expenses was created on July 20, 2015, which is over 18 months after the period in which the costs were deferred by DEF. At this point, the Company has not supported the additional amount accrued during the deferral period in excess of the actual cash payments made to date. Thus, I recommend that the CR3 Regulatory Asset be reduced by the $207,466 by which the amount accrued during the deferral period exceeds the payments made to date on a DEF Florida retail basis. This is in addition to the correction to the moving expenses agreed to by DEF discussed previously in this testimony. As shown on Exhibit DMR-2, page 1 of

4, line 8, the CR3 Regulatory Asset is reduced by an additional $207,466 due to the impact of the adjustment on the calculation of the regulatory liability.

IMPACT OF ADJUSTMENTS ON CUMULATIVE AFUDC COMPONENT

**Q. DO THE REVISIONS AND ADJUSTMENTS MADE TO THE CR3 REGULATORY ASSET ALSO IMPACT THE CUMULATIVE AFUDC COMPONTENT OF THE CR3 REGULATORY ASSET?**

A. Yes. The amounts included in the CR3 Regulatory Asset, as well as the timing in which the costs were incurred, impact the resulting amount of the Cumulative AFUDC included in the CR3 Regulatory Asset. Thus, once a final determination is made on the amounts included in the CR3 Regulatory Asset, the calculation of the ultimate amount of Cumulative AFUDC needs to be made. In response to OPC Interrogatory 2-23(b), DEF indicated that "…the calculation of the Cumulative AFUDC will be revised for the impact of any adjustments deemed necessary" and that "AFUDC will be retroactively adjusted in the correct month."

**Q. HAVE YOU ESTIMATED THE IMPACT OF THE ADJUSTMENTS RECOMMENDED IN THIS TESTIMONY, WHICH INCLUDES THE VARIOUS CORRECTIONS AND ADJUSTMENTS AGREED TO BY DEF, ON THE CUMULATIVE AFUDC BALANCE?**

A. Yes. In response to OPC POD 2-13, the Company provided an electronic copy of the model it used in projecting the December 31, 2015 Cumulative AFUDC balance of $173,005,000. I inserted each of my recommended adjustments into the model. For those adjustments for which I had the date the Company booked the amount, I input the adjustments into that month in the model. Since the 2012 property taxes were booked in

December 2012, I removed the 2012 property tax deferral from the beginning January 1, 2013 balance in the model. For the adjustments in which I am not certain when the costs would have been input in the Company's model, such as the removal of moving expenses and several of the corrections identified by DEF, I removed the costs in July 2013 in the model, using a mid-year convention approach. As shown on Exhibit DMR-2, page 4 of 4, the impact of the adjustments recommended in this testimony reduces the Cumulative AFUDC by an estimated $1,458,000, reducing the balance from the $173,005,000 shown on DEF Exhibit No.__(MO-2) to $171,547,000. Once the final adjustments are determined, the impacts can be entered into DEF's model to get a more precise Cumulative AFUDC balance for inclusion in the CR3 Regulatory Asset.

NUCLEAR FLEET IT PROJECT DEVELOPMENT AND IMPACT

**Q. ARE THERE ANY AREAS FOR WHICH YOU RECOMMEND DEF PROVIDE FURTHER EXPLANATION IN SUPPORT OF THE COSTS INCLUDED IN THE CR3 REGULATORY ASSET?**

A. Yes. Included in the Construction Work In Progress – Other CWIP category of the CR3 Regulatory Asset balance as of April 2015 is $5,014,544 for a project titled "60480D PEF Passport Suite" and $827,387 for a project titled "60480D Primavera SW-PEF NUC."[11] The CWIP balance for each of these projects was $0 as of December 2012. DEF described the PEF Passport Suite project as a nuclear fleet project for the Consolidated Asset Suite and indicated that the application "…is required for common processes, procedures, data, and software tools with integrated applications for work management, operations, radiation protection, engineering and training" and it "…supports critical

[11] Response to OPC ROG 1-12 at Bates No. 150148-OPCROG1-12-000004.

nuclear business and regulatory processes data."[12] The Company has described the Primavera SW-PEF NUC project as a nuclear fleet project for the Primavera Project Management Software that will work with the Consolidated Asset Suite.[13] DEF is being allocated the costs associated with these projects that are still in progress and not yet complete. OPC Interrogatory 2-41 asked the Company, in part, to provide the calculation of the allocation factors used to determine the amounts that were assigned to the CR3 nuclear operations for the PEF Passport Suite project. The response referred to the Nuclear Services Agreement provided in response to OPC POD 2-26 for the allocation method. The information provided with the response to OPC Interrogatory 2-41 shows that the portion of the project costs being allocated to DEF is based on a Maximum Dependable Capacity Ratio. Given the maximum dependable capacity at CR3 is non-existent, it is not clear from the information provided by DEF why any costs would be allocated to CR3 if the Maximum Dependable Capacity Ratio is being used to allocate the costs. A more detailed explanation from DEF of how the allocation factor used in determining the amount being allocated to DEF was derived, as well as a detailed explanation of why that allocation method is appropriate and supportable given that CR3 is no longer operating and providing service to customers, would be helpful in evaluating whether or not the costs should remain as part of the Other CWIP component of the CR3 Regulatory Asset.

**Q. SINCE THE PEF PASSPORT PROJECT IS NOT YET COMPLETE AND IN SERVICE, HAS DEF INDICATED HOW THE ADDITIONAL CAPITAL COSTS ASSOCIATED WITH THE PROJECT THAT ARE ALLOCATED TO THE**

[12] Response to OPC ROG 1-20(g)
[13] Response to OPC ROG 1-20(h)

**FLORIDA NUCLEAR OPERATIONS WILL BE ACCOUNTED FOR ONCE THE CR3 REGULATORY ASSET IS FINALIZED?**

A. Yes. In response to OPC Interrogatory No. 41(f), DEF indicated that it "…will write off any additional charges incurred to complete the implementation of the system." Thus, costs associated with the system should not be included in DEF's rate base in future proceedings as the Company intends to write-off the future costs.

**Q. DOES THIS COMPLETE YOUR PREFILED TESTIMONY?**

A. Yes, it does.

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF**

**DIRECT TESTIMONY OF RONALD A. MAVRIDES**

**DOCKET NO. 150148-EI**

**AUGUST 17, 2015**

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

A. My name is Ronald A. Mavrides. My business address is 1313 N. Tampa Street, Suite 220, Tampa, Florida 33602.

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

A. I am employed by the Florida Public Service Commission (FPSC or Commission) as a Public Utility Analyst II in the Office of Auditing and Performance Analysis.

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

A. I received a Bachelor of Science Degree in accounting from the University of Central Florida in 1990. I am also a Certified Internal Auditor, Certified Government Auditing Professional and a Certified Management Accountant. I have been employed by the FPSC since October 2007.

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

A. My responsibilities consist of planning and conducting utility audits of manual and automated accounting systems for historical and forecasted data.

**Q. Have you previously presented testimony before this Commission?**

A. Yes. I have filed testimony in the Fuel and Purchased Power Cost Recovery Clause Docket Nos. 090001-EI and 110001-EI and I have filed testimony in the Nuclear Cost Recovery Clause Docket Nos. 140009-EI and 150009-EI.

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

A. The purpose of my testimony is to sponsor the Auditor's Report issued August 4, 2015, which addressed the costs associated with the CR3 Regulatory Asset from December 31, 2012 through April 30, 2015, as delineated in Exhibit MO-2 of the direct testimony of Marcia Oliver. The auditor's report is filed with my testimony and is identified as Exhibit RAM-1.

**Q. Was this audit prepared by you or under your direction?**

A. Yes, the audit was prepared by me or under my direction.

**Q. Please describe the work performed in addressing the costs associated with the CR 3 Regulatory Asset.**

A. Our overall objective was to verify the CR3 Regulatory Asset, as delineated in Exhibit MO-2.

<u>Electric Plant in Service</u>

We reconciled the ending December 31, 2012, December 31, 2013, December 31, 2014 and April 30, 2015, balances per Exhibit MO-2 to the general ledger. We traced a sample of transactions to supporting documentation. No exceptions were noted.

<u>Accumulated Depreciation and Amortization</u>

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.

<u>Regulatory Asset Write-down</u>

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.

<u>Construction Work in Progress (CWIP)</u>

We reconciled CWIP Projects as listed in the Exhibit MO-2 to the Utility's December 31, 2012, 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

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

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

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, 2015, and traced to the transaction detail and the Exhibit MO-2. 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 (AFUDC)

We reconciled the Utility's AFUDC Monthly - Total (Compounded) WA Annual Report from January 1, 2013, to April 30, 2015, to the Exhibit MO-2. 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

We reconciled the December 31, 2012, balance on the Exhibit MO-2 to the general ledger. We reviewed activity from January 1, 2013, to April 30, 2015, and reconciled to the transaction detail and the Exhibit Mo-2. We selected transactions and traced to supporting documentation. No exceptions were noted.

**Q. Please review the audit findings in this audit report.**

**A.** There were no findings.

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

A. Yes.

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**COMMISSION STAFF**

**DIRECT JOINT TESTIMONY OF**

**WILLIAM COSTON AND JERRY HALLENSTEIN**

**DOCKET NO. 150148-EI**

**August 17, 2015**

**Q. Mr. Coston, please state your name and business address.**

A. My name is William Coston. My business address is 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850.

**Q. By whom are you employed?**

A. I am employed by the Florida Public Service Commission (Commission) as a Public Utilities Analyst IV, within the Office of Auditing and Performance Analysis.

**Q. What are your current duties and responsibilities?**

A. I perform audits and investigations of Commission-regulated utilities, focusing on the effectiveness of management and company practices, adherence to company procedures, and the adequacy of internal controls. Mr. Hallenstein and I jointly conducted the 2015 audit of Duke Energy Florida, Inc.'s project management internal controls for Crystal River Unit 3 Asset Recovery.

**Q. Please describe your educational and relevant experience.**

A. I earned Bachelor of Arts and Master of Public Administration degrees from Valdosta State University. I have worked for the Commission for eleven years conducting operational audits and investigations of regulated utilities. Prior to my employment with the Commission, I worked for six years at Bank of America in the Global Corporate and Investment Banking division.

**Q. Have you filed testimony in any other dockets before the Commission?**

A. Yes. I filed similar testimony in Docket Nos. 090009-EI, 100009-EI, 110009-EI, 120009-EI, 130009-EI 140009-EI, and 150009-EI. This testimony addressed the audits of DEF's project management internal controls for the nuclear plant uprate at the Crystal River Unit 3 and the Levy Nuclear Project for the years 2009 through 2015. Additionally, in 2005 I filed testimony in Docket No. 050078-EI, which addressed Progress Energy Florida Inc.'s vegetation management, lightning protection, and pole inspection processes.

**Q. Mr. Hallenstein, please state your name and business address.**

A. My name is Jerry Hallenstein. My business address is 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850.

**Q. By whom are you employed?**

A. I am employed by the Commission as a Senior Analyst, within the Office of Auditing and Performance Analysis.

**Q. What are your current duties and responsibilities?**

A. I perform audits and investigations of Commission-regulated utilities, focusing on the effectiveness of management and company practices, adherence to company procedures, and the adequacy of internal controls. Mr. Coston and I jointly conducted the 2015 audit of DEF's project management internal controls for the Crystal River Unit 3 Asset Recovery.

**Q. Please describe your educational and relevant experience.**

A. I earned a Bachelor of Science in Finance from Florida State University in 1985. I have worked for the Commission for twenty-five years conducting operational audits and investigations of regulated utilities. Prior to my employment with the Commission, I worked for five years at Ben Johnson Associates, a consulting firm that specializes in utility regulation.

**Q. Have you filed testimony in any other dockets before the Commission?**

A. Yes. I filed similar testimony in Docket Nos. 120009-EI, 130009-EI, and 140009-EI. My testimony in Docket Nos. 120009-EI and 130009-EI addressed DEF's project management internal controls for the uprate at the Crystal River Unit 3 and the planned construction of the Levy Nuclear Project for the years 2012 and 2013. My testimony in Docket No. 140009-EI addressed FPL's project management internal controls for the uprate projects at the St. Lucie and Turkey Point sites and the planned construction of Units 6 and 7 at the Turkey Point site. Additionally, I filed testimony in Docket 981488-TI, regarding billing and sales practices of Accutel Communications.

**Q. Please describe the purpose of your testimony in this docket.**

A. Our testimony presents the attached audit report entitled *Review of* Duke *Energy Florida, Inc.'s Project Management Internal Controls for Crystal River Unit 3 Asset Recovery* (Exhibit CH-1). The report describes key project events and contract activities completed during the Investment Recovery program implemented by the company to dispose of certain CR3 assets. The report describes and assesses project management internal controls employed by DEF in implementing and executing this plan.

**Q. Please summarize the areas examined by your review.**

A. The Office of Auditing and Performance Analysis conducted an audit of the internal controls and management oversight for implementing the plan to disposition the CR3 assets.

The audit focuses on the organization, processes, and controls used by the company to execute the Investment Recovery Plan.

The primary objective of this audit was to assess and evaluate key project developments, along with the organization, management, internal controls, and oversight that DEF used for the project. The internal controls examined were related to the following key areas of project activity: planning, management and organization, cost and schedule controls, contractor selection and management, and auditing and quality assurance.

**Q. Please summarize the results of your review.**

A. Commission audit staff identified no concerns regarding DEF's project management or deficiencies regarding the adequacy of project controls in the disposition of non-EPU CR3 assets. Interviews with DEF project managers and a thorough review of project documentation led Commission audit staff to make the following observations:

- DEF performed its dispositioning of CR3 assets in accordance with its corporate investment recovery guidance procedures and project plan.
- DEF's use of various sales methods for CR3 equipment (internal transfers, inter-utility sales, listed bid events, and a public auction) was reasonable.
- DEF made appropriate and extensive efforts to market its assets to a wide range of potential buyers.
- The processes employed put DEF in a position to recover the current market value, average unit value or average book value for each CR3 asset sold.
- The market value of CR3 components is severely constrained by one-of-a-kind nuclear plant design, the limited number of comparable plants, and various problems associated with potential buyers' reuse of non-warrantied components.
- Many major non-EPU CR3 components were only marketable at salvage value but projected removal costs frequently exceeded that value.

**Q. Are you sponsoring any exhibits?**

A. Yes, our audit report is attached as Exhibit CH-1.

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

A. Yes.

**CHAIRMAN GRAHAM:** There was no rebuttal due to the stipulation approved by the September 15th agenda, so let's go to the direct testimony for Docket 150171.

**MS. TRIPLETT:** Duke Energy Florida would ask that the prefiled direct testimonies of Michael Covington, Marcia Olivier, Patrick Collins, and Bryan Buckler be entered into the record as though read.

**CHAIRMAN GRAHAM:** We will enter the direct testimony of Mr. Covington, Olivier, Collins, and Buckler into the record as though read.

**MS. TRIPLETT:** And then we would ask that -- let's see, for Mr. Buckler, exhibits marked on the Comprehensive Exhibit List as 18 through 23 be entered into the record; for Michael Covington, Exhibits 24 and 25; for Marcia Olivier, Exhibits 26 through 32; and for Patrick Collins, Exhibits 33 and 34. So basically 18 through 34 be entered into the record.

**CHAIRMAN GRAHAM:** If there's no objection, we will enter Exhibits 18 through 34 into the record.

(Exhibits 18 through 34 admitted into the record.)

Staff.

**MS. GERVASI:** Thank you, Mr. Chairman.

Staff -- pardon me -- would move in the testimony of Brian A. Maher and Rebecca Klein, I'll take those up first, into the record as though read, along with Witness Maher's Exhibits No. 39 through 44 and Witness Klein's Exhibit No. 45 into the record.

**CHAIRMAN GRAHAM:** We will enter Witness Maher and Witness Klein's direct testimony into the record as though read, and we will also enter Exhibits 39 through 45, assuming there's no objections, into the record as well.

(Exhibits 39 through 45 admitted into the record.)

**MS. GERVASI:** Thank you. And then we would also request that the testimony of Witness Hyman Schoenblum be moved into the record as though read, including the errata sheet that we filed with respect to that testimony, and his Exhibit Nos. 46 and 47 into the record.

**CHAIRMAN GRAHAM:** We will enter Witness Schoenblum's direct testimony into the record as though read, and, seeing no objections, we will enter Exhibits 46 and 47 into the record.

(Exhibits 46 and 47 admitted into the record.)

**MS. GERVASI:** Thank you. And then with respect to Witness Sutherland, staff would move Witness Sutherland's testimony into the record as though read with one minor correction that we would like to make to page 32 of his testimony. And I have checked with the parties to make sure that there is not an objection to this. It's a clarification.

Starting on line 9 of page 32 of Witness Sutherland's prefiled testimony, there's a sentence that reads, "A list of previous utility securitization transactions that have required fees in excess of incremental costs is attached as Exhibit," what was PS-15. What we would like to do is include a phrase after the word "costs" so that it would read, "A list of previous utility securitization transactions that have required fees in excess of incremental costs to be refunded or credited back to ratepayers" is the new language that we would like to insert there, "to be refunded or credited back to ratepayers is attached as Exhibit PS-15." And with that correction, we would ask that Mr. Sutherland's testimony be moved into the record as though read, along with his errata sheet that we filed to make other corrections to his testimony, as well as his prefiled exhibits, several of which have been updated as part of the errata sheet. And those are updated Exhibits 48 through 50, Exhibits 51 and 52, updated Exhibits 53 through 55, Exhibit 56, updated Exhibits 57 through 65, Exhibits 66 through 68, updated Exhibits 69 through 72, and Exhibits 73 and 74.

**CHAIRMAN GRAHAM:** So let's make sure that we're clear about the direct testimony. Let's go back over what it is specifically they're taking out and what the verbiage is that we're putting back in.

**MS. GERVASI:** Okay. Sure. We're not taking out anything, but we're adding a phrase to the sentence so that the new language, the new language reads, "to be refunded or credited back to ratepayers," and that phrase should being inserted after the "costs" in the sentence so that the sentence -- would you like me to read the sentence again?

**CHAIRMAN GRAHAM:** That's fine.

**MS. GERVASI:** Okay.

**CHAIRMAN GRAHAM:** I just wanted to make sure that we have a thumbs up from everybody as far as that change. Duke?

**MS. TRIPLETT:** Yes, sir.

**CHAIRMAN GRAHAM:** FIPUG?

**MR. MOYLE:** Yeah, we're good it.

**MR. REHWINKEL:** Yes.

**CHAIRMAN GRAHAM:** Okay.

**MR. REHWINKEL:** Mr. Chairman, can I suggest one thing, and I don't mean to complicate matters, but the errata sheets, I think there's two, would it be possible to mark those separately as exhibits just for clarity of the record so we know --

**CHAIRMAN GRAHAM:** I don't have a problem with that. Staff?

**MS. GERVASI:** I have no problem with that either. I don't have hard copies available to hand out at this time, but --

**MR. REHWINKEL:** I think as long as they're identified and admitted. All the parties have seen them. I reviewed them myself weeks ago.

**COMMISSIONER EDGAR:** Is that a late-filed exhibit?

**MR. REHWINKEL:** No. They've definitely been provided to the parties. I think weeks ago you -- right after the testimony was filed, in fact.

**MS. GERVASI:** Right. It was September 9th was the day that we filed it. And I would have no problem adding it, adding them to the exhibit list as Exhibits 88 and 89.

**CHAIRMAN GRAHAM:** 88 and 89.

**MR. REHWINKEL:** Okay.

**MS. GERVASI:** And 88 would being the errata sheet to Witness --

**MR. REHWINKEL:** I appreciate that. I think they are filed with the Clerk's Office and they have document numbers.

**MS. GERVASI:** Yes. They were filed on September the 9th.

**CHAIRMAN GRAHAM:** Let's make sure we're clear. Which one is 88?

**MS. GERVASI:** 88 would be the errata sheet to Witness Schoenblum's testimony, and 89 would be the errata sheet to Witness Sutherland's testimony.

**CHAIRMAN GRAHAM:** Okay. So we are going to enter Witness Sutherland's direct testimony into the record as though read with the changes that was mentioned by staff. We're also going to enter Exhibits 48 through 74 into the record, assuming that there's no objections. And we will also enter Exhibits 89 -- I'm sorry -- 88 and 89 into the record.

(Exhibits 48 through 74 admitted into the record.)

(Exhibits 88 and 89 marked for identification and admitted into the record.)

**MS. GERVASI:** Thank you, sir.

**CHAIRMAN GRAHAM:** All right.

**MS. GERVASI:** That takes us to the rebuttal.

**MS. TRIPLETT:** Rebuttal. Sorry.

**CHAIRMAN GRAHAM:** The rebuttal of docket 150171, Duke.

**MS. TRIPLETT:** Yes, sir. Thank you. Duke

Energy Florida would ask that the rebuttal testimonies of Patrick Collins and Bryan Buckler be entered into the record as though read.

**CHAIRMAN GRAHAM:** We will enter the rebuttal, the rebuttal testimony of Collins and Buckler into the record as though read.

**MS. TRIPLETT:** Thank you, sir. And we would also ask that exhibits for Bryan Buckler, which were marked as 81 through 85 on the Comprehensive Exhibit List, be entered into the record, and also Exhibit 86 for Mr. Collins.

**CHAIRMAN GRAHAM:** And we'll also enter Exhibits 81 through 86 into the record, assuming there's no objections, and there are none.

(Exhibits 81 through 86 admitted into the record.)

**IN RE: PETITION FOR ISSUANCE OF NUCLEAR ASSET-RECOVERY FINANCING ORDER**

**BY DUKE ENERGY FLORIDA, INC.**

**FPSC DOCKET NO. ____________**

**DIRECT TESTIMONY OF MICHAEL COVINGTON**

## I. INTRODUCTION AND QUALIFICATIONS.

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

A. My name is Michael Covington. My current business address is 550 South Tryon Street in Charlotte, North Carolina 28202.

**Q. By whom are you employed and what are your responsibilities?**

A. I am employed by Duke Energy Business Services, Inc. as the Director of Midwest and Florida Accounting. I am responsible for accounting and reporting within the regulated operations for Duke Energy outside of North and South Carolina. Specifically this includes the regulated electric operations for Duke Energy Florida ("DEF"), the regulated electric and gas operations in Ohio and Kentucky for Duke Energy Ohio, and the regulated electric operations in Indiana for Duke Energy Indiana.

**Q. Please summarize your educational background and professional experience.**

A. I hold a Bachelor of Science degree in Accounting from the University of North Carolina at Charlotte, a Masters of Ministry degree from Southern Wesleyan University in Central, South Carolina, and am currently working toward an early 2016 completion of a Masters of Practical Theology degree at Wesley Seminary in Marion, Indiana. I am a Certified Public Accountant (CPA) in North Carolina and a member of the North Carolina Association of Certified Public Accountants (NCACPA) and the American Institute of Certified Public Accountants (AICPA) with a Chartered Global Management Accountant (CGMA) designation. My professional experience includes thirty-four years with Duke Energy and its predecessor company, Duke Power. I have over twenty-five years of leadership and management experience in various accounting, financial planning, and treasury functions.

**Q. Are you sponsoring an exhibit in this case?**

A. Yes. I am sponsoring the following exhibits which are attached to my direct testimony:

- Exhibit No. __ (MC-1), Nuclear Asset-Recovery Charge True-Up Mechanism Form; and
- Exhibit No. __ (MC-2), Accounting Entries to Record Nuclear Asset-Recovery Financing.

Each of these exhibits was prepared under my direction and control, and to the best of my knowledge all factual matters contained therein each are true and accurate.

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

A. The purpose of my testimony is to:

- Propose a form to be used for the true-up mechanism; and
- Present the accounting entries that will be required for the proposed nuclear asset-

recovery financing.

## TRUE-UP MECHANISM

**Q. Will DEF be required to true-up the Nuclear Asset-Recovery Charge?**

A. Yes. According to Section 366.95(2)(c)2.d., Florida Statutes, if the Commission issues a Financing Order to DEF, the Commission will;

> "Include a formula-based mechanism for making expeditious periodic adjustments in the nuclear asset-recovery charges that customers are required to pay under the financing order and for making any adjustments that are necessary to correct for any overcollection or undercollection of the charges or to otherwise ensure the timely payment of nuclear asset-recovery bonds and financing costs and other required amounts and charges payable in connection with the nuclear asset-recovery bonds."

This true-up mechanism helps to ensure that customers pay no more or less than what is required to pay the debt service on the nuclear asset-recovery bonds and all ongoing financing costs (as further discussed in my testimony). It also helps mitigate bondholders' exposure to differences in actual and estimated sales forecasts, uncollectable accounts receivable, and cash flow variability.

**Q. How often will DEF file a true-up adjustment?**

A. In accordance with Section 366.95(2)(c)4., Florida Statutes, DEF or its assignee will file a petition or a letter applying a formula-based true-up mechanism with the Commission at least every six months (a "semi-annual true-up adjustment"). In the event that nuclear asset-recovery bonds remain outstanding after the scheduled final payment date of the last tranche, the true-up adjustment will be required on a quarterly basis to ensure the bonds are paid off in full on the next payment date.

**Q. How quickly will a requested true-up adjustment to the Nuclear Asset-Recovery Charge become effective?**

A. The Company requests that the Commission either approve the request or inform the Company of any mathematical error in its calculation within sixty days.

**Q. Apart from the semi-annual true-up adjustments, does DEF seek authority to file a true-up at any other time?**

A. Yes. In addition to the semi-annual true-up adjustments, DEF seeks authority to make optional interim true-up adjustments at any time in order to ensure the recovery of revenues sufficient to provide for the timely payment of the nuclear asset-recovery bonds and all ongoing financing costs payable in connection with the nuclear asset-recovery bonds. DEF would seek approval of an optional interim true-up filing on the same basis as the semi-annual true-up adjustment (i.e., within sixty days of filing).

**Q. What is DEF required to include in the true-up adjustment?**

A. Section 366.95(2)(c)4., Florida Statutes, requires DEF to detail in its filing any adjustments made for the under-collection or over-collection of revenues as follows:

> "Such adjustments shall ensure the recovery of revenues sufficient to provide for the timely payment of principal, interest, acquisition, defeasance, financing costs,

> or redemption premium and other fees, costs, and charges relating to nuclear asset-recovery bonds approved under the financing order."

In summary, the Nuclear Asset-Recovery Charge will be reset to a level intended to recover the sum of the following "financing costs", as defined in the statutes (which I refer to as the "periodic revenue requirement"):

- Principal of (in accordance with the Expected Amortization Schedule), and interest on the nuclear asset-recovery bonds;
- Costs of the Servicer for the nuclear asset-recovery bonds;
- Additional costs of administering the SPE and servicing the nuclear asset-recovery bonds, including, without limitation, auditing fees, regulatory assessment fees, legal fees, trustee fees, expenses and indemnities and rating agency expenses. Details of these costs are illustrated in Exhibit No. __ (BB-1) in Mr. Buckler's testimony;
- Amounts required to replenish any amounts drawn from the capital subaccount, and to provide for DEF's return on its capital contribution; and
- Other ongoing expenses of any other credit enhancement agreement, including any amount or termination payment that might become due and payable by the SPE as a result of any interest rate swap agreement entered into in connection with floating rate nuclear asset-recovery bonds, if issued (currently, DEF expects the bonds to be issued in fixed-rate tranches, and thus floating-to-fixed rate swaps are currently not expected to be necessary).

**Q. How will the true-up mechanism work?**

A. Exhibit No. ___ (MC-1) demonstrates how DEF proposes the true-up mechanism would work to address the overcollection or undercollection of the Nuclear Asset-Recovery Charge for a prior period. Once the total average retail nuclear asset-recovery charge per kWh is calculated for the upcoming remittance period, it is broken down to specific charges per customer rate class. This breakdown is addressed by Ms. Olivier in her testimony.

**Q. Will over or under recoveries of the Nuclear Asset-Recovery Charge be tracked on a class-by-class basis for determining future charges?**

A. No. Any over or under recoveries for any prior period will simply be used to adjust the periodic revenue requirement for the next period, thus benefiting all customers classes. This "cross collateralization" will strengthen the security for the bonds.

**Q. In addition to the semi-annual true-up adjustments and the optional interim adjustments, does DEF seek authority to file other types of true-ups?**

A. Yes. DEF seeks authority to make non-standard true-ups at any time following a base rate change that includes any change in the rate allocation among customers used in determining the nuclear asset-recovery charges, such changes to go into effect simultaneously with any changes to DEF's other base rates. DEF requests that the Commission have sixty days in which to process a non-standard true-up request.

**Q. How long will the Nuclear Asset-Recovery Charge be imposed and collected?**

A. The Nuclear Asset-Recovery Charge will be imposed and collected until the nuclear asset-recovery bonds have been paid in full or legally discharged and the other financing costs have been paid in full or fully recovered, provided that the charges will not be imposed after a date which is 20 years following the issuance date of the bonds. However, any charges imposed prior to such date may be collected after such date.

**Q. Will DEF reconcile Nuclear Asset-Recovery Charge collections and estimated remittances?**

A. Yes. On or before April 1 of each year, DEF will reconcile Nuclear Asset-Recovery Charge collections during the prior calendar year with amounts remitted. If Nuclear Asset-Recovery Charges have been under-remitted, DEF will remit the shortfall to the indenture trustee on the next servicer business day. If the Nuclear Asset-Recovery Charges have been over-remitted, then DEF will reduce the next succeeding remittance(s) by the amount of the over-remittance. DEF will also update the data underlying the weighted average days outstanding and delinquency factors.

**Q. What will happen with Nuclear Asset-Recovery Charge collections following repayment of the Nuclear Asset-Recovery Bonds and any related financing costs?**

A. Upon payment in full of the nuclear asset-recovery bonds and all related financing costs, any remaining amounts held by the SPE (exclusive of the amounts in the capital subaccount, representing the equity contribution, together with any return on the capital subaccount) will be remitted to DEF to be credited to customers' bills in the same manner that the Nuclear Asset-Recovery Charges were collected, or through a credit to the capacity cost recovery clause if the Commission determines at the time that a direct credit to customers' bills would not be cost-effective.

## ACCOUNTING FOR NUCLEAR ASSET-RECOVERY

**Q. Please describe the overall accounting treatment for nuclear asset-recovery financing.**

A. As explained in Mr. Buckler's direct testimony, DEF will conduct nuclear asset-recovery financing through an SPE. The SPE will be created solely to facilitate nuclear asset-recovery financing and will be a wholly-owned subsidiary of DEF. The SPE and DEF will maintain separate accounting records. The accounting entries necessary to record nuclear asset-recovery financing activities, along with an explanation of each, are illustrated in my Exhibit No. __ (MC-2).

**Q. Is DEF requesting Commission approval for any specific accounting treatment associated with the proposed nuclear asset-recovery financing?**

A. Yes. The SPE is seeking approval to transfer the Nuclear Asset-Recovery Property and to classify the assets as nuclear asset-recovery property as defined in Section 366.95(1)(l), Florida Statutes.

**Q. What amount of Nuclear Asset-Recovery Property is DEF proposing to sell to the SPE?**

A. DEF is proposing to sell Nuclear Asset-Recovery Property in the amount of approximately $1.298 billion to the SPE as of December 31, 2015 plus any carrying costs that accrue for the period beginning December 31, 2015 until the bond issuance date. Additionally, all paid (or accrued) upfront financing costs, primarily bond issuance costs, will also be included in the amounts funded through the bond financing at the SPE.

**Q. How will the SPE amortize this nuclear asset-recovery property?**

A. The SPE will amortize the nuclear asset-recovery property based on the principal amount required for the repayment of the bonds over the expected life of the bonds.

**Q. What are the anticipated accounting entries to be recorded at the SPE?**

A. As illustrated on pages 1 and 2 of my Exhibit No. __ (MC-2), the accounting entries to be recorded by the SPE are as follows: (1) recording of capital subaccount from DEF's equity investment; (2) recording of proceeds from the issuance of bonds; (3) purchase of nuclear asset-recovery property from DEF; (4) receipt of cash from DEF for the Nuclear Asset-Recovery Charges collected; (5) amortization of the nuclear asset-recovery property; (6) accrual of interest expense; (7) amortization of upfront bond issuance costs; (8) payment of bond principal and interest; (9) recording of on-going operating costs and servicing fees payable; (10) replenishment of capital subaccount, if needed; (11) return impacts on the capital subaccount; and (12) transfer of cash to the excess funds subaccount in the event of excess Nuclear Asset-Recovery Charges collected, if any.

**Q. What are the anticipated accounting entries to be recorded at DEF?**

A. As illustrated on pages 3 and 4 of my Exhibit No. __ (MC-2), the accounting entries to be recorded by DEF are as follows: (1) recording of expenditure of cash to fund the capital subaccount at the SPE and a related investment; (2) sale of the nuclear asset-recovery property to the SPE; (3) recognition and collection of Nuclear Asset-Recovery Charges;

(4) collection and remittance of revenue related taxes on the Nuclear Asset Recovery Charges (i.e., gross receipts tax, franchise fee, etc.); (5) interest on remittances (only if applicable); and (6) impact of earnings of the SPE.

**Q. How will Nuclear Asset-Recovery Charges collected from customers be recorded?**

A. The Nuclear Asset-Recovery Charge collections will be remitted to and recorded as revenues at the SPE.

**Q. Please describe how the Company, as Servicer, proposes to remit Nuclear Asset-Recovery Charges to the SPE.**

A. DEF, as servicer, will be required to remit Nuclear Asset-Recovery Charges directly to the Bond Trustee. As DEF does not track its customer charges on a daily basis, DEF will remit Nuclear Asset-Recovery Charges based on estimated daily collections using a weighted average balance of days outstanding (ADO) on DEF's retail bills. Collections remitted daily will represent the charges estimated to have been received on any day, based upon the ADO and estimated write-offs. For example, if DEF's retail bills are outstanding, on a weighted average basis, for a period of thirty days, then DEF will remit to the SPE the Nuclear Asset-Recovery Charges estimated to be collected on a particular date, less an assumed delinquency rate, thirty days thereafter.

**Q. Can DEF remit the Nuclear Asset-Recovery Charges Less Frequently than Daily under Certain Conditions?**

A. Yes, under certain circumstances. Provisions within the servicing agreement may also permit DEF to remit Nuclear Asset-Recovery Charges monthly, instead of daily. DEF may only exercise this option if the conditions of the Servicing Agreement are satisfied, These conditions will be driven by rating agency requirements to achieve and maintain the targeted "AAA" ratings on the bonds, and may include the maintenance by DEF of a minimum credit rating(s), the maintenance of reserves, or other conditions. If DEF is eligible to remit charges monthly, and elects to do so, then charges would be remitted based upon the same general methodology. For example assuming again that charges are outstanding on average for thirty days, then all charges which are assumed to be collected during a calendar month will be remitted on the first Business Day of the next calendar month. DEF would include in any remittance investment earnings which are estimated to have been earned on such collections in the hands of DEF. A monthly remittance process for the Nuclear Asset-Recovery Charges would only occur if it does not negatively impact the credit ratings for the bonds.

**Q. How will DEF allocate partial payments on a bill to the Nuclear Asset-Recovery Charge?**

A. When doing the annual reconciliations, partial payments will be allocated to Nuclear Asset-Recovery Charges in the same proportion that such charges bear to the total bill. The first dollars collected would be attributed to past due balances, if any. Once those balances are paid in full, if cash collections are not sufficient to pay a customer's current bill, then the cash would be prorated between the different components of the bill.

**SUMMARY**

**Q. Please summarize your testimony.**

A. I have presented a proposed true-up mechanism to adjust the Nuclear Asset-Recovery Charge for any over or under recoveries. Finally, I have presented and discussed the necessary accounting entries to record the proposed nuclear asset-recovery financing.

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

A. Yes.

**IN RE: PETITION FOR ISSUANCE OF NUCLEAR ASSET-RECOVERY FINANCING ORDER**

**BY DUKE ENERGY FLORIDA, INC.**

**FPSC DOCKET NO. ____________**

**DIRECT TESTIMONY OF MARCIA OLIVIER**

## I. INTRODUCTION AND QUALIFICATIONS.

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

A. My name is Marcia Olivier. My current business address is 299 First Avenue North, Saint Petersburg, FL 33701.

**Q. By whom are you employed and what are your responsibilities?**

A. I am employed by Duke Energy Business Services, Inc., an affiliate of Duke Energy Florida, Inc. ("DEF" or the "Company"), as Director of Rates and Regulatory Planning for Florida. I am responsible for overseeing rate cases, reporting actual and projected earnings surveillance results, and supporting state regulatory initiatives.

**Q. Please summarize your educational background and professional experience.**

A. I hold a Bachelor of Science degree in Accounting and a Bachelor of Science degree in Finance from the University of South Florida and have over 18 years of utility experience, primarily in the Rates and Regulatory Strategy department.

**Q. Are you sponsoring any exhibits in this case?**

A. Yes. I am sponsoring the following exhibits which are attached to my direct testimony:

- Exhibit No. __ (MO-1A), Proposed Nuclear Asset-Recovery Charge by Rate Class;
- Exhibit No. __ (MO-2A), CR3 Regulatory Asset Annual Revenue Requirement - Traditional Recovery Method;
- Exhibit No. __ (MO-2B), CR3 Regulatory Asset Annual Revenue Requirement – Nuclear-Asset Recovery Charge Method;
- Exhibit No. __ (MO-3A), Traditional Recovery Method Base Rate Increase by Rate Schedule;
- Exhibit No. __ (MO-4A), Comparison between Proposed Nuclear Asset-Recovery Charge and Traditional Recovery Method by Rate Schedule;
- Exhibit No. __ (MO-5A), Sample Bill Calculations; and
- Exhibit No. __ (MO-6A), Proposed Tariff Sheets.

Each of these exhibits was prepared under my direction and control, and to the best of my knowledge all factual matters contained therein each are true and accurate.

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

A. The purpose of my testimony is to support the calculation of DEF's proposed charges to customers necessary to pay the nuclear asset-recovery costs and financing costs (the "Nuclear Asset-Recovery Charge"). The nuclear asset-recovery costs consist of the component amounts contained in DEF's CR3 Regulatory Asset as filed by DEF on May 22, 2015 in Docket No. 150148-EI, "Petition for approval to include in base rates the revenue requirement for the CR3 regulatory asset."

The proposed Nuclear Asset-Recovery Charge is independent of and incremental to DEF's retail base rates. The proposed Nuclear Asset-Recovery Charge is an energy charge that under Section 366.95, Florida Statutes, would be required to be paid by all existing or future customers receiving transmission or distribution service from DEF or its successors or assignees under Commission-approved rate schedules or under special contracts.

As discussed in DEF Witness Buckler's testimony, DEF is proposing the use of the Nuclear Asset-Recovery Charge as the recommended method of recovering nuclear asset-recovery costs and financing costs after considering the traditional method of recovering such costs. Based on current market conditions, I will demonstrate that the issuance of the nuclear asset-recovery bonds and the imposition of the Nuclear Asset-Recovery Charge have a significant likelihood of resulting in lower overall costs or would significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs (the "Traditional Recovery Method" which is discussed later in my testimony).

**Q. What is the scope of your testimony?**

A. My testimony is principally devoted to identifying the nuclear asset-recovery costs that DEF proposes to finance using nuclear-asset recovery bonds, providing the calculation of the annual projected revenue requirements under the Traditional Recovery Method as compared to DEF's proposed method, and outlining the steps followed in calculating the proposed Nuclear Asset-Recovery Charge by rate class. While the final Nuclear Asset-Recovery Charge by rate class will not be calculated until after the final terms of an issuance of nuclear asset-recovery bonds have been established, my testimony outlines the methodology that will be used in developing the proposed Nuclear Asset-Recovery Charge. Barring significant changes in the terms of an issuance of nuclear asset-recovery bonds, or significant changes in embedded benchmark interest rates or credit spreads of securitization bonds, the results presented in my testimony, including the proposed Nuclear Asset-Recovery Charges, should closely approximate the final figures.

**My testimony addresses the following subject areas:**

- A description of DEF's nuclear asset-recovery costs proposed for nuclear asset-recovery financing;
- The calculation of the proposed Nuclear Asset-Recovery Charge by customer rate class;
- The calculation of the total estimated cumulative revenue requirements under the Traditional Recovery Method and a comparison to the total estimated cumulative revenue requirements under the proposed Nuclear Asset-Recovery Charge;
- The impact of the Nuclear Asset-Recovery Charge on retail customers and how this impact compares with the Traditional Recovery Method; and
- The tariff revisions needed to implement the Nuclear Asset-Recovery Charge.

## II. NUCLEAR ASSET-RECOVERY COSTS

**Q. What is the definition of nuclear asset-recovery costs?**

A. As defined in Section 366.95(1)(k), Florida Statutes:

"Nuclear asset-recovery costs means:

1. At the option of and upon petition by the electric utility, and as approved by the

commission pursuant to sub-subparagraph (2) (c)1.b., pretax costs that an electric utility has incurred or expects to incur which are caused by, associated with, or remain as a result of the early retirement or abandonment of a nuclear generating asset unit that generated electricity and is located in this state where such early retirement or abandonment is deemed to be reasonable and prudent by the commission through a final order approving a settlement or other final order issued by the commission before July 1, 2017, and where the pretax costs to be securitized exceed $750 million at the time of the filing of the petition. Costs eligible or claimed for recovery pursuant to Section 366.93 are not eligible for securitization under this section unless they were in the electric utility's rate base and were included in base rates before retirement or abandonment.

2. Such pretax costs, where determined appropriate by the commission, include, but are not limited to, the capitalized cost of the retired or abandoned nuclear generating asset unit, other applicable capital and operating costs, accrued carrying charges, deferred expenses, reductions for applicable insurance and salvage proceeds and previously stipulated write-downs or write-offs, if any, and the costs of retiring any existing indebtedness, fees, costs, and expenses to modify existing debt agreements or for waivers or consents related to existing debt agreements."

**Q. Do the cost amounts contained in DEF's CR3 Regulatory Asset, as defined in your direct testimony filed on May 22, 2015 in Docket No. 150148-EI, meet the definition of nuclear asset-recovery costs pursuant to Section 366.95 (1)(k) Florida Statutes?**

A. Yes, for several reasons. First, the costs incurred by DEF that comprise the CR3 Regulatory Asset are associated with the early retirement of CR3, which generated electricity and is located in Florida. In addition, the commission deemed the early retirement of CR3 reasonable and prudent through its approval of DEF's Revised and Restated Stipulation and Settlement Agreement (the "RRSSA") on November 12, 2013 in Order No. PSC-13-0598-FOF-EI. Further, the pretax costs to be securitized exceed $750 million. Finally, the costs eligible for recovery pursuant to Section 366.93 that are included in the CR3 regulatory asset are those that were included in DEF's rate base and base rates before the retirement.

**Q. Please describe the costs that make up the CR3 Regulatory Asset that were included in your May 22, 2015 filing.**

The CR3 Regulatory Asset is made up of the components shown in the RRSSA Exhibit 10, in the column titled "Subject to Cap". RRSSA Exhibit 10 is also attached to my direct testimony filed on May 22, 2015 as Exhibit No. __(MO-1). In addition, the projected costs at December 31, 2015 within each of these categories are included in Exhibit No. ___(MO-2) in that same filing. These costs include the net book value of the retired CR3 plant; costs associated with construction projects that were in progress at the time of the retirement; inventories of nuclear fuel, materials and supplies; certain deferred expenses; accumulated carrying charges; and the portion of the cost of removal regulatory asset that is associated with CR3. All of these components, net of an agreed upon write-down of $295 million, make up the $1.298 billion projected balance at December 31, 2015 in DEF's May 22, 2015 request.

**Q. Please indicate whether DEF proposes to finance all or a portion of the CR3**

**Regulatory Asset included in your May 22, 2015 request using nuclear asset-recovery bonds.**

A. DEF proposes to finance the entire balance of the CR3 Regulatory Asset that is approved by the Commission. It should be noted that the CR3 Regulatory Asset balance at December 31, 2015 includes reductions for estimated future nuclear fuel sales proceeds to be received both in and beyond 2015 and increases for estimated carrying charges through December 31, 2015.

**Q. How does DEF propose to treat the nuclear fuel sales proceeds that are expected to be received after the issuance of the nuclear asset-recovery bonds?**

A. DEF's proposed treatment of nuclear fuel proceeds is included in my direct testimony filed in Docket No. 150148-EI. Since the amount of the CR3 Regulatory Asset cannot be adjusted after the nuclear asset-recovery bonds have been issued, DEF has reduced the CR3 Regulatory Asset balance for the estimated future nuclear fuel sales proceeds and proposes to recover the carrying charge at a pre-tax rate of return of 8.12% on the amount of that reduction through the Capacity Cost Recovery Clause (the "CCR") until those proceeds are received. The 8.12% pre-tax rate of return is consistent with the amount authorized in the RRSSA. Once all proceeds have been received, if they are different from the amount of the reduction to the CR3 Regulatory Asset, then the difference will be amortized over a period to be established through the annual CCR proceedings.

**Q. How does DEF propose to treat the difference between the 2015 carrying charges on the CR3 Regulatory Asset to be approved by the Commission in the financing order**

**and the actual amount of carrying charges in 2015 as well as carrying charges beyond 2015?**

A. Given that there could be a difference between the amount of 2015 carrying charges that the commission approves as part of the CR3 Regulatory Asset in the financing order and the final amount of carrying charges in 2015, and given that DEF will incur carrying charges beyond 2015 until the date of the bond issuance if the bond issuance does not occur by December 31, 2015, DEF will reflect the actual carrying charges at the time of its bond issuance in its bond issuance amount. The amount of the carrying charges that will be added to the CR3 Regulatory Asset balance on a monthly basis will be calculated by multiplying the actual average monthly CR3 Regulatory Asset balance by .48676%. This rate is calculated by discounting the annual rate of 6% approved in the RRSSA based on the discount formula in Rule 25-6.0141, F.A.C. These carrying charges will be subject to review for mathematical errors when DEF submits its tariff schedules.

**Q. Has DEF included carrying charges beyond 2015 for purposes of calculating revenue requirements and customer rate impacts in this particular filing?**

A. No. All of the calculations of revenue requirements and rate impacts under both the proposed Nuclear Asset-Recovery Charge and the Traditional Recovery Method that will be discussed later in my testimony and exhibits do not include any carrying charges beyond 2015. As further explained in Mr. Buckler's testimony, the Company will work to issue the nuclear asset-recovery bonds as soon as practicable and prior to March 31, 2016. Since the issuance date is not certain, carrying charges beyond December 31, 2015 have not been estimated in either scenario. However, the CR3 Regulatory Asset balance under either scenario will continue to increase by approximately $6.3 million per month in 2016 from the $1.298 billion December 31, 2015 projected balance for which DEF requested approval on May 22, 2015 in Docket No. 150148-EI.

## III. THE CALCULATION OF THE NUCLEAR ASSET-RECOVERY CHARGE

**Q. How does DEF propose to allocate the costs recoverable under the Nuclear Asset-Recovery Charge to the rate classes?**

A. DEF proposes to allocate the costs recoverable under the Nuclear Asset-Recovery Charge in the same manner consistent with the allocation methodology in DEF's most recent rate case, approved on March 5, 2010 in Order No. PSC-10-0131-FOF-EI. That approved allocation methodology for DEF is the 12CP and 1/13 AD. Spelled out, that means twelve-thirteenths of the revenue requirement is allocated based on 12 monthly coincident peaks (or demand), and one-thirteenth is allocated based on average demand (or energy).

**Q. Please discuss the calculation of the Nuclear Asset-Recovery Charge by customer rate class.**

A. The allocation methodology described above is used in the calculation of the Nuclear Asset-Recovery Charge by customer rate class in Exhibit No. __ (MO-1A). The allocation factors as well as the kWh sales forecast used to calculate the Nuclear Asset-Recovery Charge were filed in the May 1, 2015 Nuclear Cost Recovery Clause projection filing for 2016 (Docket No. 150009-EI). The allocation factors were applied to the total first year revenue requirements presented in Exhibit No. __ (MO-2B) in order to allocate the revenue requirements to each customer rate class. Next, the rate for the secondary metering level was calculated by dividing total revenue requirements for each customer rate class by the effective kWh sales at secondary metering level for each customer rate class. Then the rates for primary and transmission metering levels were calculated by applying metering reductions of 1% and 2%, respectively, from the secondary rate. Then these rates were grossed-up to reflect uncollectible account write-offs and the regulatory assessment fee to arrive at the Nuclear Asset-Recovery Charge by rate schedule.

**Q. Is an adjustment for write-offs typically made in computing other pass-through charges?**

A. No. The cost of write-offs is normally recovered as a base rate expense. However, in this case, it is important that a specific adjustment for write-offs be made. As discussed in DEF Witness Mr. Collins' testimony, the right to impose, collect and adjust the Nuclear Asset-Recovery Charge will be sold to the Special Purpose Entity (SPE), and such right, including the payment stream from the Nuclear Asset-Recovery Charge, will be pledged by the SPE to the payment of the nuclear asset-recovery bonds. Therefore, the Nuclear Asset-Recovery Charge should reflect the actual revenues likely to be collected, taking into account expected write-offs.

**Q. How will the regulatory assessment fee be collected and remitted?**

A. Regulatory assessment fees are a component of the financing costs. As such, they will be collected as part of the Nuclear-Asset Recovery Charge and paid in accordance with the priority of payments (or waterfall) as further explained in Mr. Buckler's and Mr. Collins' testimonies.

**Q. Will each rate class's Nuclear Asset-Recovery Charge remain fixed over time?**

A. No. Each rate class's Nuclear Asset-Recovery Charge will be subject to periodic adjustments.

**Q. How will the periodic adjustments to the Nuclear Asset-Recovery Charge be determined?**

A. A formula-based true-up process will be used to make periodic adjustments to the Nuclear Asset-Recovery Charge. As described in Mr. Covington's testimony, in any given period differences between the estimated and actual amount of Nuclear Asset-Recovery Charge collections and financing costs will result in an adjustment to the Nuclear Asset-Recovery Charge.

**Q. Can you describe how this formula-based true-up process will work?**

A. Yes. At least every six months a new estimated revenue requirement will be calculated using the Nuclear Asset-Recovery Charge True-Up Mechanism Form that Mr. Covington presents in Exhibit No. __ (MC-1). This new estimated revenue requirement will take into account the total financing costs (including debt service) for the forecasted period and prior period adjustments. DEF will then calculate the customer rate impact by customer rate class consistent with Exhibit No. __ (MO-1A) using the most current commission approved allocation methodology and most current filed load research study and kWh sales forecast by rate class for the period over which the Nuclear Asset-

Recovery Charge will be billed.

**Q. Would the same formula-based mechanism be used in the event of an under-recovery of nuclear asset-recovery bond financing costs?**

A. Yes.

**Q. What is the expected trend in the Nuclear Asset-Recovery Charge over time?**

A. While it is impossible to know the results of the true-up process in advance, the nuclear asset-recovery bonds have been structured to produce substantially stable charges over time. The projected revenue requirements under the Nuclear Asset-Recovery Charge vary inversely with expected load growth. Consequently, each rate class's Nuclear Asset-Recovery Charge should be relatively constant over time barring unexpected load and cost variations.

## IV. COMPARISON OF THE NUCLEAR ASSET-RECOVERY CHARGE TO THE TRADITIONAL RECOVERY METHOD

**Q. What is the total estimated revenue requirement under the Nuclear Asset-Recovery Charge as compared to the Traditional Recovery Method?**

A. The total estimated cumulative revenue requirement under the Nuclear Asset-Recovery Charge is provided in Exhibit No. __ (MO-2B). That estimated cumulative amount over the total period of outstanding bonds is $1,770 million based on market conditions that existed as of June 30, 2015. By contrast, the total cumulative revenue requirement under the Traditional Recovery Method, as shown in Exhibit No. __ (MO-2A), is $2,560 million. The difference in total cumulative revenue requirements is $790 million, or 31%.

**Q. How are costs related to the "CR3 Regulatory Asset" proposed to be allocated by rate class under the "Traditional Recovery Method"?**

A. Under the RRSSA, the CR3 Regulatory Asset base rate increase would be implemented through a uniform percentage increase to the demand and energy charges, including delivery voltage credits, power factor adjustments, and premium distribution service referenced in the Company's base rate schedules existing at the time of the base rate increase and would be calculated using the billing determinants included in DEF's most recent projection clause filing. The calculation of that base rate increase is attached as Exhibit No. __ (MO-3A) (also provided in Exhibit No. __ (MO-4) to my direct testimony filed on May 22, 2015 in Docket No. 150148-EI).

**Q. What is the process for adjusting the base rate increase under the Traditional Recovery Method of recovering the CR3 Regulatory Asset?**

A. Under the RRSSA, DEF shall petition for an update to the base rate factor associated with the CR3 Regulatory Asset with the most recent billing determinants at least every four years. DEF is authorized to recover the CR3 Regulatory Asset over a period not to exceed 20 years.

**Q. How does the estimated rate impact under the proposed Nuclear Asset-Recovery Charge compare with the Traditional Recovery Method?**

A. The proposed Nuclear Asset-Recovery Charge significantly mitigates rate impacts to customers as compared to the traditional method of financing and recovering the CR3 Regulatory Asset. As Exhibit No. __ (MO-4A) shows, on a residential 1,000 kWh bill, the monthly cost based on the initial customer rate increase would be $3.17 under the proposed Nuclear Asset-Recovery Charge as compared to $5.01 under the Traditional Recovery Method, for an estimated savings of $1.84 per month, or 37%. This comparison is also shown in Exhibit No. __ (MO-5A), page 1 of 3. Note that the savings in Exhibit No. __ (MO-5A) of $1.89 on a 1,000 kWh monthly bill include the impact of a lower gross receipts tax due to the lower customer rate on which the tax is based.

**Q. How does the estimated rate impact under the proposed Nuclear Asset-Recovery Charge compare with the Traditional Recovery Method for commercial customers?**

A. Similar to the impact on residential customers, the proposed Nuclear Asset-Recovery Charge significantly mitigates rate impacts to commercial customers as compared to the traditional method of financing and recovering the CR3 Regulatory Asset. First, as shown in Exhibit No. __ (MO-4A), the Traditional Recovery Method customer rate impact has been translated into cents/kWh in order to compare the two recovery methods on the same basis. As Exhibit No. __ (MO-4A) shows, the proposed Nuclear Asset-Recovery Charge initial rate increase would be .219 cents/kWh as compared to .333 cents/kWh under the Traditional Recovery Method, a savings of .114 cents/kWh, or 34%, for the majority of commercial customers (those on the GSD-1 customer rate schedule at the secondary voltage metering level). This comparison is also shown on Exhibit No. __ (MO-5A), page 2 of 3, for a small (50 kW) commercial customer with a 46% load factor at the secondary voltage metering level, for which monthly savings are estimated to be

$27.58.

**Q. How does the estimated rate impact under the proposed Nuclear Asset-Recovery Charge compare with the Traditional Recovery Method for industrial customers?**

A. The proposed Nuclear Asset-Recovery Charge significantly mitigates rate impacts to industrial customers as compared to the traditional method of financing and recovering the CR3 Regulatory Asset. As Exhibit No. __ (MO-5A), page 3 of 3, shows, a large industrial customer of 10,000 kW demand at an 80% load factor and a transmission voltage level (under the GSDT-1 rate schedule, which is similar to the GSD-1 rate schedule described above, except at the transmission voltage metering level) would realize estimated savings of $1,558.65 per month under the proposed Nuclear Asset-Recovery Charge as compared to the Traditional Recovery Method.

## V. TARIFF SHEETS

**Q. Have you developed the proposed tariff sheets needed to implement the Nuclear Asset-Recovery Charge?**

A. Yes. Proposed tariff sheet numbers 6.105 and 6.106, which are provided in Exhibit No. __ (MO-6A), have been developed to implement the Nuclear Asset-Recovery Charge.

**Q. Does the proposed tariff language indicate that the Nuclear Asset-Recovery Charge is a non-bypassable charge?**

A. Yes. The following language is included to indicate the nonbypassable nature of the charge:

> The Nuclear Asset-Recovery Charge shall be paid by all existing or future customers receiving transmission or distribution service from the Company or its successors or assignees under Commission-approved rate schedules or under special contracts, even if the customer elects to purchase electricity from alternative electric suppliers following a fundamental change in regulation of public utilities in this state.

**Q. Are there any tariff provisions specific to the Nuclear Asset-Recovery Charge?**

A. Yes. The following language is included on tariff sheet 6.106 indicating the ownership of the charge:

> As approved by the Commission, a Special Purpose Entity (SPE) has been created and is the owner of all rights to the Nuclear Asset-Recovery Charge. The Company shall act as the SPE's collection agent or servicer for the Nuclear Asset-Recovery Charge.

**Q. What effective date is DEF requesting for the Nuclear Asset-Recovery Charge?**

A. DEF proposes to implement the Nuclear Asset-Recovery Charge beginning with the first billing cycle for the month following the issuance of the nuclear asset-recovery bonds. As explained in Mr. Buckler's testimony, the Company recommends an issuance date as soon as practicable and prior to March 31, 2016. The charges will remain in effect until the nuclear asset-recovery bonds have been paid in full or legally discharged and the financing costs associated with such charges have been paid in full or fully recovered.

Under the RRSSA, the recovery of the CR3 Regulatory Asset in base rates would cease no later than the last billing cycle for the 240th month from the inception of the base rate increase. However, depending on the final terms of the nuclear asset-recovery bond issuance, the Nuclear Asset-Recovery Charge could extend beyond the 20-year recovery period established for the base rate increase.

**Q. How will the Nuclear Asset-Recovery Charge approved by the Commission be reflected on customer bills?**

A. The Nuclear Asset-Recovery Charge will be reflected as a separate line on each customer's bill, titled "Asset Securitization Charge". This line will include both the rate and the total amount charged. In addition, all electric bills will state that, as approved in a financing order, all rights to the Asset Securitization Charge are owned by the SPE and the Company is acting as a collection agent or servicer for the SPE.

**Q. Is the Company requesting approval for the tariff sheets attached in Exhibit No. __ (MO-6A)?**

A. Not at this time. As I mentioned previously, the final Nuclear Asset-Recovery Charge will not be calculated until after the final terms of an issuance of nuclear asset-recovery bonds have been established. Once the final Nuclear Asset-Recovery Charge is calculated, the tariff sheets shown in Exhibit No. __ (MO-6A) will be revised and submitted for administrative approval within 3 business days from the date of submission of the tariff sheets. DEF is, however, requesting approval of the form of the tariff sheets that is attached as Exhibit No. __ (MO-6A).

**Q. Thereafter, would the Nuclear Asset-Recovery Charge tariff sheets be revised periodically?**

A. Yes. The formula-based true-up mechanism described earlier would result in revisions to the charges listed on tariff sheet number 6.105. DEF would seek administrative approval of any revisions to these tariff sheets resulting from the formula-based true-up mechanism.

## VI. CONCLUSION

**Q. Please summarize your testimony.**

A. I have provided support for the nuclear asset-recovery costs that DEF proposes to finance using nuclear asset-recovery bonds, for the allocation of these costs by rate class, and for the calculation of the Nuclear Asset-Recovery Charge and its components by rate class. I have discussed how the total cumulative revenue requirements and the initial bill impact from the Nuclear Asset-Recovery Charge compares with the traditional method of recovering such costs from customers and demonstrated that the proposed Nuclear Asset-Recovery Charge significantly mitigates rates impacts relative to the Traditional Recovery Method. Lastly, I have outlined the tariff revisions needed to implement the Nuclear Asset-Recovery Charge.

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

A. Yes.

**IN RE: PETITION FOR ISSUANCE OF NUCLEAR ASSET-RECOVERY FINANCING ORDER**

**BY DUKE ENERGY FLORIDA, INC.**

**FPSC DOCKET NO. ____________**

**DIRECT TESTIMONY OF PATRICK COLLINS**

## I. INTRODUCTION

**Q. Please state your name, business address, and current employment position.**

A. My name is Patrick Collins. My business address is 1585 Broadway, New York, New York 10036. I am an Executive Director in Global Capital Markets at Morgan Stanley & Co. LLC.

**Q. Please summarize your educational background and professional experience.**

A. I graduated from Yale University in 2004 with a B.A. in History. My relevant professional experience includes approximately 11 years in the structured finance industry, the last five years of which have been at Morgan Stanley, where I focus on structured finance and securitization across a number of asset classes, one of which is utility securitization. I have been heavily involved in utility securitizations at Morgan Stanley, having personally worked on $5.5 billion in transactions since 2011. Below is a selection of that experience.

In December of 2013, I played the lead securitization banking role for Morgan Stanley as joint senior manager and lead bookrunner in the $2 billion securitization for the Long Island Power Company, known as LIPA. The transaction, which was comprised of both taxable and tax-exempt bonds, allowed LIPA to retire certain of its outstanding indebtedness as part of a larger restructuring of the utility. The transaction represented the first municipal electric utility seller/sponsor to tap the utility securitization market. Also in 2013, I played the leading securitization banking role for American Electric Power ("AEP") for the $380 million transaction from Appalachian Power Company, its operating company in West Virginia, which facilitated the recovery of its expanded net energy costs. Additionally for AEP, I played the main day-to-day execution role for another operating company, Texas Central Company, in 2012 for its $800 million transition bonds. That securitization was the last utility securitization deal for the costs associated with Texas' transition to a competitive electric market. In 2011, I was the main day-to-day execution role for Entergy Louisiana's $207 million investment recovery securitization for its costs related to the cancellation of its 538-MW Little Gypsy steam generating station. In 2010, I also played the main day-to-day execution role for Entergy Arkansas' $124 million storm recovery transaction for costs associated with power outages and damage to infrastructure caused by a major ice storm in 2009. I also worked with Entergy as the structuring and financial advisor to Entergy Gulf States Louisiana ("EGSL") and Entergy Louisiana ("ELL") for their 2014 transactions issued under Act 55 of the Louisiana Regular Session of 2007, known as the Louisiana Utilities Restoration Corporation Act. Morgan Stanley served as the structuring advisor providing services for EGSL and ELL with respect to the preliminary structuring and regulatory approval phases of the transaction. We also served the same role for Entergy New Orleans, Inc. in early 2015 for its costs relating to Hurricane Isaac. I am also working with two other companies on current transactions.

**Q. Do you possess any professional licenses related to the securities industry?**

A. Yes. I have Series 7 (General Securities Representative Qualification), Series 63 (Uniform Securities Agent State Law Examination, administered by the Financial Industry Regulatory Authority ("FINRA")), Series 55 (Equity Trader Qualification Examination, developed and maintained by FINRA), and Series 3 (National Commodity Futures Examination) licenses. These qualifications generally allow an individual to function as a representative dealing in a full range of products within the finance industry.

**Q. On whose behalf are you testifying?**

A. I am testifying on behalf of Duke Energy Florida, Inc. ("DEF" or the "Company").

**Q. Are you sponsoring any exhibits in this case?**

A. Yes. I am sponsoring:

- Exhibit No. __ (PC-1), a preliminary bond structure and associated cashflows; and
- Exhibit No. __ (PC-2), a list of completed utility securitizations since 1997.

Each of these exhibits was prepared under my direction and control and to the best of my knowledge all factual matters contained therein each are true and accurate.

I am also co-sponsoring with Bryan Buckler the following exhibits:

- Exhibit No. __ (BB-2a), Form of Nuclear Asset-Recovery Property Purchase and Sale Agreement;
- Exhibit No. __ (BB-2b), Form of Nuclear Asset-Recovery Property Servicing Agreement;
- Exhibit No. __ (BB-2c), Form of Indenture;

- Exhibit No. __ (BB-2d), Form of Administration Agreement; and
- Exhibit No. __ (BB-2e), Form of Amended and Restated LLC Agreement.

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

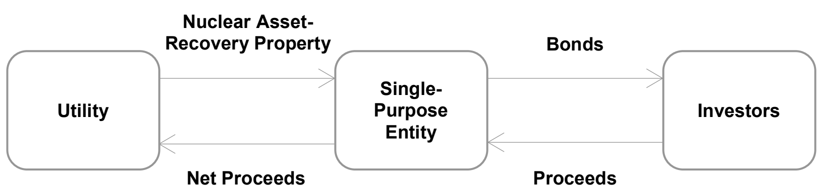
A. The purpose of my testimony is to: (i) provide an overview of the utility securitization market; (ii) describe DEF's proposed transaction; (iii) explain the collection and remittance process; (iv) discuss key elements of the financing order; (v) describe the rating agency process; (vi) describe the marketing process; (vii) discuss certain securities law liabilities applicable to utility securitization as well as developments in securities law that might affect the nuclear asset-recovery bonds; and (viii) explain the issuance advice letter process.

## II. UTILITY SECURITIZATION BACKGROUND

**Q. Please provide a basic description of utility securitization.**

A. Securitization, generally, is the process in which an owner sells a cashflow-generating asset or assets for a lump-sum, upfront payment, done in a manner that legally isolates (or de-links) the cashflow-generating asset(s) from the credit quality of the seller. The sale process is intended to protect investors from any changes in credit circumstances, or even the bankruptcy, of the entity that sold the asset(s). Therefore, the "credit" of a securitization is the ability of that asset(s) to produce a set of payments (or cashflows) for investors, who purchased a securitized interest in that asset(s).

In the context of utility securitization, a utility is the owner of the cashflow-generating asset, which is the property right that is created pursuant to a statute and financing order. This property right is also referred to as the collateral. The utility then sells that property right to a newly-established, single-purpose entity ("SPE") which, as its name implies, functionally does nothing else but purchase the collateral and issue bonds to investors in order to fund that purchase. This sale between the two entities is done to achieve a bankruptcy-remote sale, also referred to as a legal "true sale" for bankruptcy purposes, which legally isolates the collateral from the seller of the collateral. In order to have the necessary funds needed to purchase the collateral, the SPE issues notes to investors, collateralized by the property right. In exchange for the notes, investors pay an upfront purchase price, which is passed through the SPE back to the utility as consideration for the nuclear asset-recovery property. Below is an indicative schematic of the process around the upfront closing mechanics described above:




**Q. What is the life-to-date volume of the utility securitization market?**

A. There has been over $50 billion issued life-to-date in the utility securitization space from over 60 transactions since 1997. A full list of transactions is included in Exhibit No. __ (PC-2).

## III. DESCRIPTION OF THE PROPOSED TRANSACTION

**Q. Please describe the preliminary structure of the proposed DEF nuclear asset-recovery bonds.**

A. DEF's preliminary structure for the nuclear asset-recovery bonds is presented here:

| Class | Balance ($) | Weighted Average Life | Assumed Ratings | Coupon | Principal Window (Months) | Schedule Final | Legal Final |
|---|---|---|---|---|---|---|---|
| A-1 | 165.940,000 | 2.0 | AAA | 1.250% | 31 | 4/1/2019 | 4/1/2020 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| A-2 | 209,370,000 | 5.0 | AAA | 2.270% | 43 | 10/1/2022 | 10/1/2023 |
| A-3 | 488.570,000 | 9.9 | AAA | 3.190% | 79 | 4/1/2029 | 4/1/2030 |
| A-4 | 447,920.000 | 15.6 | AAA | 3.680% | 55 | 10/1/2033 | 10/1/2035 |
| **Total** | **1,311,800,000** | **10.1** | | **3.288%** | | | |

**Notes:**

1. Closing rates as of June 30, 2015
2. Structure is preliminary and subject to change based on market conditions and rating agency requirements
3. Structure is based in part upon information supplied by Duke which is believed to be reliable but has not been verified. Estimates of future performance are based on assumptions that may not be realized. Actual events may differ from those assumed and changes to any assumptions may have a material impact on any projections or estimates. Other events not taken into account may occur and may significantly affect the projections or estimates. Certain assumptions may have been made for modeling purposes only to simplify the presentation and/or calculation of any projections or estimates, and Morgan Stanley does not represent that any such assumptions will reflect actual future events
4. Assumes the forecast for power consumption and collection curve provided by DEF
5. Assumes no collections for the first month of the transaction

Please note that these terms are preliminary and estimated based on interest rates and market conditions as of June 30, 2015. The final terms and conditions of the nuclear asset-recovery bonds will not be known until after they have been priced in the marketplace. Investor demand and market conditions (including the interest rate environment) at the time of pricing will determine market clearing interest rates and the final structure offered to investors. Therefore, the preliminary structure and pricing information is preliminary and subject to change, and the actual structure and pricing will differ, and may differ materially, from the preliminary structure as shown above.

**Q. Please provide further details around the preliminary structure.**

A. Further details of the preliminary structure are included in Exhibit No. __ (PC-1), which outlines some of the structuring assumptions and displays the preliminary annual and semi-annual debt service schedules and revenue requirements, assuming estimated market conditions (as of June 30, 2015) and forecasted billings from DEF, among other factors.

**Q. Are the classes subject to change as well?**

A. Yes, they are. As you will note, the preliminary structure above contains four classes, or tranches. The final structure could have a different number of classes from the preliminary structure above, or it could have the same number of classes but with different weighted-average lives (the measure of the average amount of time to repay the principal balance of the tranche in full; "WAL"). The scheduled and legal final maturity dates, which I describe further below, also could be different which would affect the structure and tranching as well. The classes will be structured to investor demand such that it is as marketable to as many investors as possible with the objective of achieving a coupon rate for each tranche below that which might otherwise be accomplished. The above structure is preliminary and estimated based on the market conditions and investor demand as of June 30, 2015, and the market is subject to change at any time.

**Q. What are the considerations taken into account when developing the structure for the transaction?**

A. These factors include both quantitative and qualitative assessments, including: the general market conditions at the time of pricing, the interest rate environment, the shape of the underlying benchmark yield curve (*i.e.*, the difference between the 2-year and 5-year points of the curve), perceived investor liquidity of the bonds, general investor risk appetite, investor maturity preferences, competing supply in the new issue market, secondary trading levels for comparable securities, relative value versus comparable securities, and the calendar in general. The underlying goal is to create customer savings, which is done by creating a structure that is as marketable to a large number of investors as reasonably possible, such that the transaction generates strong investor demand and therefore drives down the interest expense of the bonds (and thus produces customer savings). Another important consideration is the period of time in which the nuclear asset-recovery charges will be collected, or the scheduled final maturity date. To the extent that date is different than the approximate 18-year period above, the structure, including the number and WALs of the tranches would be different. I discuss some further considerations around the target scheduled maturity date below.

**Q. How do the tranches work in relation to each other? Are they time-tranched?**

A. Yes, they are time-tranched. The principal balance will pay down according to a pre-determined amortization schedule with the A-1 tranche or class getting paid to zero first according to that schedule; then the A-2 class will start to pay down until it is paid in full, then the A-3, and so on. It's important to note that each of these classes is a senior bond, so none of the classes in the deal provide any structural subordination or protection to another. It is also important to note that each of these classes continue to accrue and receive interest payments while there is a principal balance outstanding; so, even though the A-3 class is not scheduled to receive a principal payment in the first payment period, holders of that bond are still scheduled to receive an interest payment in that same period.

**Q. Will the nuclear asset-recovery bonds pay fixed or floating interest rates?**

A. We recommend that bonds be issued as fixed-rate instruments. Most utility securitizations have been fixed rate bonds to date, especially recently, and these classes are very marketable. Fixed interest rates are necessary to maintain predictable revenue requirements over time. Also, making the bonds bear interest at a floating rate could potentially create added risks for customers and therefore I do not recommend it. For example, a fixed-to-floating interest rate swap would require an additional counterparty with an ongoing financial obligation associated with the transaction, and with that comes a risk of a ratings downgrade of or a default by the financial institution providing such swap, which could have negative implications on the transaction.

**Q. Please describe the level nature of the annual revenue requirement included in Exhibit No. __ (PC-1) and why it is preferred.**

A. As you will notice, after the initial nine-month first payment period, each subsequent annual revenue requirement amount is level. The transaction was structured to have substantially level annual debt service to achieve consistency in customer billings, and if load growth is experienced in the future, it will facilitate a decline in the nuclear asset-recovery charge over the life of the bonds. As shown on Exhibit No. __ (PC-1), the estimated nuclear asset-recovery charge declines using DEF's forecasted energy consumption, given the listed assumptions in the exhibit.

**Q. What underlying interest rate benchmark is used for the preliminary transaction?**

A. The market convention for utility securitizations is to use the swap curve as the underlying benchmark based on the WAL for each class. The vast majority of utility securitizations have been priced off of this benchmark to date in the sector, including each of the taxable transactions in the last five years; moreover, secondary spreads are quoted by broker-dealers as a spread versus the swap curve. The credit spread is the amount of yield, typically stated as a percentage or in basis points (*e.g.*, 0.01% is 1 basis point and 1% is 100 basis points), such that the benchmark plus the credit spread equals the yield.

There are some very important distinctions to make when discussing the topic of the benchmark interest rate curve, each of them dealing with the marketing implications on utility securitizations. The first deals with market convention. When marketing any bond, it is wise to follow convention in any given market when speaking to an investor base. If the capital markets have purchased other new issue transactions using a spread against one specific interest rate curve, and those same investors see broker-dealers quoting secondary spreads for the asset class against that same curve, best practices would be to market a new transaction against that same curve. Said differently, it is important to speak the same language as investors in a given market. When dealing with securitized products investors, market convention for that investor base is to quote spreads against the swap interest rate curve. When dealing with corporate bond investors, market convention is to quote spreads against the U.S. Treasury interest rate curve.

The next distinction to make is that bond investors are ultimately focused on the actual yield of the fixed income instrument they are buying, especially when dealing with highly-rated bonds. As such, investors in different sectors of the bond market can easily and readily increase or decrease a credit spread based on what benchmark is being used. So, for example, when marketing bonds to securitized products investors, if the benchmark interest rate, the swap rate, is 2.15% and the spread against the swap curve is 0.50%, the yield in this indicative example is equal to 2.65%. For the same bond, if marketing to a corporate bond investor, if the benchmark U.S. Treasury rate for the equivalent point on the curve is 2.05%, then the credit spread against the U.S. Treasury curve would be bigger, or wider, at 0.60%, to get to the same yield of 2.65%. Credit spreads are based off a specific benchmark, so when moving investor bases, say from securitized products to corporate bonds, the basis for the calculation of a credit spread changes as well, up or down, based on the yield where a particular investor has interest.

No investor will accept a lower yield simply because a bond is quoted off a different index.

**Q. Do you have a recommendation as to whether the nuclear asset-recovery bonds should be sold as a public, registered transaction versus private placement?**

A. I recommend pursuing an offering registered with the U.S. Securities and Exchange Commission ("SEC"), generally referred to as public offerings. In general, public offerings are considered to be more liquid than a Rule 144A qualified institutional offering, and therefore more attractive to investors and more likely to obtain lower interest rate coupons. However, as there are new requirements set to go into effect in November for public offerings (which I discuss in more detail below in my testimony), it is important that DEF retains some flexibility to issue a Rule 144A qualified institutional offering if there are any material issues with the implementation of those new regulations for registered offerings.

**Q. How was the 2007 Florida Power & Light transaction sold to the market?**

A. It was an SEC-registered public offering. However, the bonds were sold pursuant to a "competitive issue" rather than through a more customary "negotiated issue" basis.

**Q. Can you explain the difference between a competitive issue and negotiated issue?**

A. Simply put, in a competitive issue or auction process, the bonds are offered for sale by the issuer to a group of broker-dealers and the highest bidder (on a dollar price basis, or lowest cost on an interest rate basis, depending on the form) in that group of broker-dealers would win. This competitive issue would take place at a specified date and time. In contrast, in a negotiated sale, the issuer pre-selects broker-dealers as underwriters for its bonds, and then those selected underwriters offer the bonds for sale to investors in the broader capital markets through a marketing process. As part of this negotiated issue offering process, the underwriters solicit interest from investors, aggregate that interest, and then determine a market-clearing rate for the bonds resulting from a multi-step process. Once the clearing rates are determined, the underwriters buy the bonds from the issuer and sell them to investors on the same day. I describe this type of a process in further detail below in my testimony when describing the marketing process.

**Q. Is this competitive issue process used in any markets?**

A. Competitive issues are common in the municipal securities market.

**Q. Are competitive issues common in the utility securitization market?**

A. No. Florida Power & Light's transaction is the only one to have been sold as a competitive issue to date since the market began in 1997.

**Q. Are competitive issues common in the securitized products market?**

A. No. Securitized products new issue transactions are sold via a negotiated sale process the vast majority of the time.

**Q. Do you recommend using a competitive issue process to sell the nuclear asset-recovery bonds?**

A. No. Our recommendation is to sell the nuclear asset-recovery bonds in a negotiated sale process through a group of pre-selected underwriters, which is the way that virtually every other utility securitization to date has been sold. I believe that the flexibility afforded by a negotiated sale is likely to lead to a more efficient transaction and hence greater customer savings. This flexibility includes the ability to access the market as needed and to structure the transaction to meet bondholder demand resulting from marketing efforts directly with potential bondholders.

**Q. What is the collateral for the transaction?**

A. The collateral primarily consists of the nuclear asset-recovery property that is created pursuant to the financing order and sold to the SPE and is the right to bill and collect a certain consumption-based charge directly from DEF's electric customers in amounts necessary to pay principal and interest on the nuclear asset-recovery bonds, as well as other amounts (known as ongoing financing costs), timely and in full. Included in this property right is the ability to adjust the amount of the consumption-based charge owed by DEF's electric customers in order to ensure that the amounts actually collected are enough to pay all amounts owed with respect to the bonds, including the ongoing financing costs (which are more fully-described in Bryan Buckler's testimony). This process is referred to as the "true-up" mechanism.

The nuclear asset-recovery bonds will be structured to amortize with scheduled principal payments through a specific point in time ahead of the end of the legal final maturity date of the nuclear asset-recovery property; this specific point in time is referred to as the expected or scheduled life of the transaction. These amortizing, or sinking-fund, structures are distinct from a traditional utility corporate bond (and corporate bonds in general), which typically have only a single "bullet" principal payment at the bond maturity date. This time gap between the scheduled final maturity and the legal final maturity is a feature included in the structure to provide a cushion in the instance of any unforeseen circumstances which could cause the forecasted energy consumption, and the bond collections, to decrease materially.

It is important to note that the nuclear asset-recovery property is derived from the financing order, which must be carefully crafted to satisfy the specific provisions of the statute. The combination of the statute with the financing order and the actions contemplated therein together create the current property right that is required for the nuclear asset-recovery bonds to achieve the highest possible ratings from rating agencies and the strongest amount of demand from potential bondholders. The financing order proposed by DEF has been drafted to meet these specific provisions of the statute, to satisfy the conditions of the rating agencies, and to conform to the expectations of the financial markets.

**Q. In addition to the nuclear asset-recovery property described in your earlier discussion, are there any other components of the collateral for this transaction?**

A. Yes, the collateral for the transaction includes other components beside the nuclear asset-recovery property right; however, that property right is the principal asset pledged as collateral. The other collateral includes a collection account, which is established by the SPE as a trust account to be held by the trustee. The collection account, in turn, is comprised of the three subaccounts: the general subaccount, the capital subaccount, and the excess funds subaccount; the Financing Order also provides for the opportunity to have additional subaccounts if required for ratings purposes. The collateral also consists of the SPE's rights under certain agreements it enters into as part of the transaction, including the sale agreement (which governs the sale between the utility and the SPE), the servicing agreement, and the administrative agreement.

**Q. Please describe the subaccounts of the collection account referenced above?**

A. The general subaccount is the subaccount in which the trustee deposits nuclear asset-recovery charge remittances it receives from the servicer. Monies in this subaccount will be applied by the trustee on a periodic basis to make payments according to a prescribed order (or waterfall), which generally includes the payment of expenses of the SPE required to maintain the operations of the transaction, then interest on the bonds, and then principal on the bonds.

The capital subaccount represents the equity capital of the SPE and is funded by an amount contributed by DEF at issuance that is estimated to equal 0.50% of the initial principal balance of the bonds. If that subaccount is drawn upon, it is replenished from nuclear asset-recovery charge collections through the true-up and any available excess collections. The Company's proposed equity investment of 0.50% has been derived from guidance from the Internal Revenue Service through its Revenue Procedure 2005-62. This Revenue Procedure sets forth the manner in which a public utility company may treat, for federal income tax purposes, the issuance of a financing order by a state regulatory agency and the securitization of the rights created by the financing order. Having the equity investment in the SPE of at least 0.50% is within the safe harbor provided in the Revenue Procedure and helps to assure that the DEF will not recognize gross sale proceeds upon the receipt of cash in exchange for the nuclear asset-recovery bonds; rather, the bonds will be considered borrowings of DEF for federal income tax purposes. The SPE will be permitted to earn a rate of return on its invested capital equal to the rate of interest payable on the longest maturing tranche of nuclear asset-recovery bonds and this return on invested capital will be paid to DEF in accordance with waterfall.

The excess funds subaccount is where any monies on deposit in the general account that are not needed to meet the scheduled obligations of the bonds on a given payment date will be deposited. The initial balance is zero, and the target ongoing balance is also zero.

To the extent there are funds on deposit in this account, those amounts will be taken into account in the next available true-up process and reduce the amount of revenue needed to be raised for the next bond payment; after the bond payment date, the account value will again be targeted to be zero. Stated differently, if the nuclear asset-recovery charge collections are higher than expected in any given period, those amounts do not pay down the principal balance of the bonds beyond the scheduled principal payment for that period. Rather, the amounts on deposit in the general subaccount above and beyond the scheduled obligations will be moved to the excess funds subaccount. Those amounts will then reduce the amount of nuclear asset-recovery charge collections needed in the subsequent period.

**Q. Please describe the treatment of any funds remaining in the various subaccounts at the final maturity of the transaction?**

A. Funds remaining in the general subaccount and the excess funds subaccount will be returned to the SPE upon final payment of the nuclear asset-recovery bonds and all other financing costs in full, and equivalent amounts will be credited to customers in the form of a credit to rates. Funds remaining in the capital subaccount will be returned to DEF through the SPE without any equivalent credit to rates since the capital subaccount was funded at issuance with DEF's own funds.

**Q. What is the difference between the scheduled final and legal final maturity dates in the preliminary transaction structure?**

A. I briefly addressed this topic above in the context of the basic discussion of securitization and will address in full here. The scheduled final maturity of the nuclear asset-recovery bonds represents the date at which the final payment is expected to be made, but no legal obligation exists to retire the class in full by that date. The legal final maturity is the date by which the bond principal must be paid or a default will be declared. The proposed preliminary structure for this transaction utilizes a legal maturity that is approximately 24 months longer than the scheduled maturity for the single bond class. The difference between the scheduled final maturity and legal final maturity provides additional credit protection by allowing shortfalls in principal payments to be recovered over this additional time period due to any unforeseen circumstance. As such, this gap between the two maturity dates, or "cushion," is a benefit to the structure and is a contributing factor to achieving a "AAA" rating, helping lower the cost of funds on the bonds and therefore benefitting customers. Moreover, investors in utility securitization are very familiar with this concept, which occurs in most securitization transactions. The ratings on the bonds are derived in part based on the assumption that the outstanding principal of the class will be paid in full by its legal final maturity date, and investors price the bonds using a corresponding WAL that assumes the bonds make the final scheduled principal payment in full at the scheduled final maturity date and not at the legal final maturity date.

This gap between the two maturity dates will be driven by rating agency concerns. To that effect, the period of time between the two dates could potentially be shortened to one year, but that will not be known until the ratings process is complete and it will depend on a number of factors, including the size of the service territory and the length of the latest scheduled maturity date, among other factors. Of the 15 transactions since 2010, 8 transactions have had gaps between the scheduled and legal final maturity dates of two years, five deals have been less than two years, and two have been three years. Because transactions with scheduled final maturity dates of fifteen years or longer have had at least a two year gap, we are assuming that same two-year gap for the preliminary structure.

**Q. Are the key structural elements of the preliminary structure generally in line with other utility securitizations?**

A. Yes. The key elements of the preliminary structure as discussed above, and as included in Exhibit No. __ (PC-1), are generally consistent with the utility securitizations that have been issued to date. The underlying cost recovery types, sizes, and maturity dates are obviously different and subject to the facts and circumstances in each case, but the key structural elements are generally consistent. This is a very-well understood asset class by all interested parties, including sponsors, commissions, rating agencies, underwriters, and most importantly, investors. Keeping the transaction consistent from a structural perspective for investors is an important element during the marketing process.

## IV. NUCLEAR ASSET-RECOVERY CHARGE COLLECTION AND REMITTANCE PROCESS

**Q. Please describe the ongoing billing, collection, and remittance process of the transaction and the key transaction parties that are involved in it.**

A. In addition to the upfront closing mechanics described and shown above, the securitization process also includes another key component: ongoing collections of the cash generated by the collateral. Here, a trustee and DEF play important roles. Upon the closing of the nuclear asset-recovery bonds, DEF will bill and collect the amounts owed by customers in connection with the nuclear asset-recovery charge. In the context of securitization and the nuclear asset-recovery bonds, this function is referred to as "servicing" and the utility (DEF) is the servicer. DEF will also perform certain reporting duties with respect to the amount of nuclear asset-recovery charges collected. The servicer will perform all of these functions under a contractual arrangement for the SPE under the servicing agreement. Generally, DEF as servicer will make the collections generated from the nuclear asset-recovery charges and remit such collections to another entity, the trustee, who also plays an important role for the integrity of the ongoing collections. After making its collections, the servicer remits the monies collected or estimated to have been collected to the trustee as frequently as daily, or less often depending on the servicer's credit rating and other factors (including the setting aside of reserved amounts), which maintains those monies until it periodically remits them to investors according to a pre-determined schedule (typically semi-annually in utility securitizations). The trustee holds the collections and invests them in short-term, high quality investments that mature prior to the next payment date on the bonds. The trustee also serves as a representative on behalf of investors and ensures that their rights are protected in accordance with the terms of the transaction.

It is important to discuss briefly third parties collecting the nuclear asset-recovery charges. While Florida law does not provide for third party electricity providers, it is important that the commission ensure that those third parties, in the event there is any change in utility regulation, must bill and collect the nuclear asset-recovery charges in a manner that will not cause any of the then-current credit ratings of the bonds to be suspended, withdrawn, or downgraded. Language to this effect is included in the proposed financing order.

**Q. Are there any other roles with respect to the servicing?**

A. Yes, there needs to be a specified fee that could be paid to a substitute, third-party servicer in the unlikely event that DEF is no longer the servicer. Such a replacement servicing fee should be up to 0.60% of the original principal balance of the bonds, or such other higher amount as approved by the commission. This fee is generally higher than the initial servicing fee to DEF of 0.05% of the original principal balance of the bonds as it may be needed to induce a third-party servicer to perform the functions typically performed by the sponsoring utility. To my knowledge, no utility securitization has ever had to utilize the replacement servicing fee.

**Q. What are the "other amounts" referenced above when describing the ongoing collections process?**

A. There will be ongoing financing costs beyond standard principal and interest that will be payable on an ongoing basis over the life of the transaction. These costs will include, but are not limited to, servicing fees, trustee fees, rating agency surveillance fees, legal and accounting fees, administrative fees, other operating expenses, credit enhancement expenses (if any), and any other costs. Bryan Buckler addresses these ongoing financing costs in his testimony. Generally, these amounts are expenses that are required in order to keep the transaction working as it was structured to do.

## V. KEY ELEMENTS OF THE FINANCING ORDER

**Q. Are the terms of the Financing Order critical to achieving a successful transaction?**

A. Yes, the Financing Order, when taken together with applicable provisions of the statute, establishes in strong and definitive terms the legal right of investors to receive, in the form of nuclear asset-recovery charges, those amounts necessary to pay the interest and principal on the bonds and the ongoing expenses in full and on a timely basis. The

Financing Order must be crafted to meet the specific provisions of the statute, which the Financing Order proposed by DEF achieves. The Financing Order specifies the mechanisms and structures for payments of bond interest, principal, and ongoing financing costs in a manner that minimizes the amount of additional credit enhancements required by the rating agencies to achieve the highest possible ratings. The highest possible ratings will allow the financing to achieve the desired results of producing significant customer savings. In addition, the Financing Order, when taken together with applicable provisions of the statute, will enable DEF to structure the financing in a manner reasonably consistent with investor preferences and rating agency considerations at the time of pricing, which is also necessary in order for the financing to achieve the desired results.

**Q. Please discuss the key elements of the Financing Order that are essential to achieving the desired result for the transaction.**

A. There are a number of key elements of the Financing Order. The first such element is the mitigation of any potential bankruptcy risk of DEF, which is accomplished via a legal "true sale" for bankruptcy purposes. The structure utilized with this transaction, along with other securitizations, relies on techniques that allow the rating agencies and investors to conclude that the issuer of the securitization, the SPE, is highly unlikely to become the subject of a bankruptcy proceeding in the unlikely event of a bankruptcy of DEF. Under the federal bankruptcy code, payments on the debt obligations of an issuer in a bankruptcy proceeding become subject to an automatic stay – *i.e.*, the payments are suspended until the courts decide which creditors of the issuer are to be paid, when they will be paid, and whether they are to be paid in whole or in part. Unless the risk of an automatic stay in the unlikely event of a bankruptcy of DEF is essentially removed from the rating agencies' credit analysis, the financing cannot achieve the highest possible ratings since DEF's secured debt obligations are rated below "AAA" and would thus serve as a constraint to the contemplated securitization. In addition, the creation of the bankruptcy-remote SPE, which is legally distinct from DEF, is designed to limit the ability of the SPE to be included with DEF in the unlikely event of a DEF bankruptcy. Therefore, even if DEF were to declare bankruptcy, the SPE would not become the subject of DEF's bankruptcy proceeding, and the SPE's debt service payments to investors would not be subject to the DEF automatic stay. The transaction, as structured and reflected in the Financing Order, is intended to achieve this important element.

**Q. What are the other key components of the Financing Order that are essential to establishing the legal foundation for the transaction?**

A. There are a number of provisions in the Financing Order that ensure that the SPE will be deemed to be bankruptcy remote in addition to the elements mentioned above, including that the SPE will have at least one independent manager whose approval will be required for certain organizational changes or major actions of the SPE, such as voluntarily filing for bankruptcy petition on behalf of the SPE. Continuing on the same theme, the Financing Order, together with the statute, will enable the transfer of the nuclear-asset recovery property from the Company to the SPE to be a "true sale." A true sale is a sale that a bankruptcy court should not overturn in the case of any DEF bankruptcy. The Financing Order will allow the SPE to issue the nuclear asset-recovery bonds, pledging the nuclear asset-recovery property as security for payment on the bonds.

**Q. Does the Financing Order provide for any credit enhancement for the transaction?**

A. Yes, in a number of forms. The primary form of credit enhancement is the true-up mechanism. The Financing Order, together with the statute, is designed to ensure that the collection of nuclear asset-recovery charges arising from the nuclear asset-recovery property are expected to be sufficient to pay all amounts owed on the bonds on a timely basis and in full, even in the face of dramatic reductions in electricity usage by DEF customers or dramatic increases of delinquencies and losses on payments from DEF customers. The true-up mechanism represents the most fundamental component of credit enhancement to investors and is a cornerstone of utility securitizations. True-ups are to be incorporated so that nuclear asset-recovery charges may be adjusted on a periodic basis to correct for any over- or under-collection of nonbypassable nuclear asset-recovery charges for any reason and to ensure that the expected collection of future nuclear asset-recovery charges is in accordance with the payment terms of the bonds. True-up adjustments will be made on a periodic basis, at least semi-annually, throughout the life of the bonds in accordance with the objectives of achieving the highest credit ratings per rating agency requirements and investor expectations. As described in the Financing Order, true-up adjustments during the transaction life will be made on a semi-annual basis (the standard true-up); however, in the event that nuclear asset-recovery bonds remain outstanding after the scheduled final maturity date of the last bond tranche, mandatory true-up adjustments will be required on a quarterly basis such that the bonds can be paid off in full on the next payment date. Additionally, DEF as servicer will have the ability to perform an optional interim true-up at any time for any reason in order to ensure the recovery of revenues sufficient for the timely payment of all amounts owed with respect to the bonds. This is a general catch-all true-up that is designed to improve the nature of the true-up mechanism as a whole. In the unlikely case of an extreme event, DEF should not have to wait for a prescribed date to implement a true-up if one is needed. And the final component of the true-up mechanism is the non-standard true-up, to be effective simultaneously with a base rate change that includes any change in the cost allocation among customers used to determine the nuclear asset-recovery charges. Such non-standard true-up will go into effect simultaneously with any changes to DEF's other base rates.

It is critical for rating agency and investor marketing purposes that, insofar as Commission action is required, true-up adjustments be automatic and implemented on an immediate basis and subject only to mathematical review. Any subjective approval requirement would undercut the essential nature of the true-up and ultimately the credit quality of the transaction.

The capital subaccount funded with an amount equal to 0.50% of the initial principal balance of the nuclear asset-recovery bonds will also serve as credit enhancement of the transaction. Also, it is important that the Financing Order provide for the flexibility to include other forms of credit enhancement or other mechanisms (*e.g.*, letters of credit, additional amounts of overcollateralization or reserve accounts, or surety bonds) to improve the marketability of the bonds. None are anticipated but it is important to have the built-in flexibility.

**Q. Please expand on your use of the term "nonbypassability" in your previous answer.**

A. The Financing Order provides that all current and future customers receiving transmission or distribution services from DEF or its successors or assignees under the Commission-approved rate schedules or under special contracts must pay the nuclear asset-recovery charge regardless of the customers' electric generation supplier and whether or not the distribution system is operated by DEF or a successor, even if the customer elects to purchase electricity from an alternative electric supplier following a fundamental change in regulation in public utilities in Florida. In basic terms, if one lives in DEF's service territory and receives transmission or distribution service, one must pay the nuclear asset-recovery charge. This is another very important element of the Financing Order, both for the rating agency process and for investor considerations.

**Q. Does the Financing Order address how the charge would be affected in the case where DEF is no longer the utility in the service area?**

A. The Financing Order also creates a binding obligation for DEF, its successor or assignee to collect the charges for a servicing fee and allows that obligation to be performed by a replacement servicer appointed by the trustee, if the servicer does not so perform. Thus the binding obligation to collect and account for nuclear asset-recovery charges will survive any adverse event to the servicer. So this obligation is binding upon any other entity that provides service in the service territory or any other entity responsible for billing and collecting the nuclear asset-recovery charges on DEF's behalf.

**Q. Please describe the irrevocable nature of the Financing Order.**

A. The Financing Order is irrevocable, and pursuant to Section 366.95(2)(C)6, Florida Statutes, the nuclear asset-recovery charges are not subject to reduction, impairment, postponement, or termination by any further action of the Commission, except for the true-up process. Thus, so long as the nuclear asset-recovery bonds are outstanding, all of the rights and benefits arising from the nuclear asset-recovery property created by virtue of the Financing Order may be definitively relied upon by investors and the rating agencies. Equally important, Section 366.95(11), Florida Statutes affirms the pledge of the State not to take or permit any action that would impair the value of the nuclear asset-recovery property authorized by the Financing Order. Investors generally perceive that one of the greatest risks to them is that there is a change in law that affects the nuclear asset-recovery property, thereby adversely affecting their rights under the statute and the Financing Order. The Commission's affirmation in the Financing Order of the State pledge, and the irrevocable nature of the Financing Order, will enhance investor understanding that the risk of an adverse change in law or regulation is remote and will permit counsel to deliver important legal opinions that such adverse changes would not be legally valid.

**Q. Please describe the sections in the Financing Order – the "Findings of Fact," "Conclusions of Law," and "Ordering Paragraphs."**

A. The Findings of Fact, Conclusions of Law, and the Ordering Paragraphs constitute the means by which the Commission definitively affirms the conformity of the financing with the applicable provisions of the statute. With these findings and conclusions, counsel will have the basis that they need for the highly technical and specialized legal opinions they must issue in connection with the securitization financing, and upon which the rating agencies will rely in assigning the highest possible ratings for the bonds. I emphasize that the provisions of the Financing Order have been drafted with a view toward providing the basis that counsel will need for these essential opinions. With the structure authorized thereby, the stability of the cashflows securing the nuclear asset-recovery bonds will be maximized. The combination of maximized cashflow stability and highest possible ratings will allow the bonds to be structured and priced so as to meet the statutory cost objectives (as defined in the proposed Financing Order submitted by DEF).

**Q. Are there any other key elements of the Financing Order worth discussing?**

A. Yes. In addition, in the Ordering Paragraphs, the Commission recognizes the need for, and affords DEF the flexibility to establish, the final terms and conditions of the nuclear asset-recovery bonds. This flexibility that will allow DEF to achieve the structure and pricing that will meet the statutory cost objective, reasonably consistent with market conditions on the day of pricing, rating agency considerations, and the terms of the Financing Order.

## VI. RATING AGENCY PROCESS

**Q. Please describe the rating agency process.**

A. An important element of preparing for the marketing and pricing of the nuclear asset-recovery bonds is obtaining the highest possible ratings on the bonds from the rating agencies. The ratings process generally consists of five phases: (1) the initial rating agency presentation, (2) questions from each of the rating agencies based on the initial rating agency presentation, (3) a legal review of the transaction, (4) cashflow stress tests, and (5) an on-site servicing review.

For the initial rating agency presentation, the Company and its structuring advisor will prepare the written presentations and will meet with rating agency personnel to discuss the credit framework and credit strengths of the proposed nuclear asset-recovery bonds with each hired rating agency, in compliance with SEC Rule 17g-5. Each rating agency has its own method of reviewing a utility securitization based generally on published ratings criteria, so the presentation is intended to provide all the key elements that each rating agency will need to facilitate such a review process. Information included in the presentation would be a situation overview, the proposed capital structure (*i.e.*, the projected principal tranches), customer class data, forecast and variance data, collection and write-off data, the political environment, the servicing capabilities of DEF, and other general information about the utility and transaction at-hand.

For the second phase of the process, the question-and-answer phase, the rating agencies will react to the introductory presentation and meeting and are likely to ask some clarification questions or request further data of DEF. The ratings process is largely a criteria-based approach based on achieving the key elements in the published ratings methodologies; however, part of the ratings process includes a qualitative assessment by the rating agencies based on the facts and circumstances of the particular transaction. As such, each agency is likely ask further questions as they see fit; examples could include explanations for any data outliers as seen by the agencies, information around self-generation and net-metering, further information about the service territory, or information around recovery periods from any major storms or hurricanes, if applicable.

For the third phase of the ratings process, the agencies will conduct a confirmatory review of the legal integrity of the transaction by looking at the legislation and financing order, the transaction and offering documents, as well as the legal opinions. Generally speaking, the rating agencies will not comment on nor edit language in any of these transaction documents; rather, they are looking for certain elements in each and will let the sponsor know of any material issues, to the extent any exist, with the transaction as a whole as proposed.

The fourth phase of the ratings process is the cashflow stress analysis. Each agency has its own cashflow stresses that it asks for as part of its review. These cashflow stresses are generally negative and extreme scenarios to assess whether or not the nuclear asset-recovery bonds would pay timely interest and ultimate principal (by the legal final maturity date). As the requested rating for each agency is the highest rating category of "AAA," some of the scenarios can and will be rather extreme. Examples include zeroing out all consumption in the utility's peak month, zeroing out all consumption related to all industrial customers, multiplying the max write-off and variance by a multiple of 5 from historical performance, and certain consumption oscillation stresses. Upon request from the agencies, DEF's structuring advisor, on behalf of DEF, will run each of the requested stresses and provide the outputs to the agencies, showing the results of the stress and the associated cashflows.

And finally, the fifth phase is a servicer review, which can be performed as an on-site review or via conference calls. Generally speaking, the agencies are likely to do an on-site visit if the utility is a first-time issuer or has not issued a transaction in the last three to five years (approximately). The topics addressed during this phase include: a general servicer history and overview, a detailed review of the life cycle of a bill as well as a review of the utility's experience with delinquency collections, its systems and data, and its forecasting methodology.

**Q. In your previous answer, you mention SEC Rule 17g-5. Please explain what it is and how it will pertain to this execution process.**

A. In December 2009, the SEC amended, as part of Dodd-Frank, its rules regulating rating agencies with respect to providing ratings on structured finance securities where the issuer, sponsor, or underwriter pays for the ratings on the securities. In short, the rule is intended to provide access to ratings-related information to non-hired rating agencies so that they, if desired, could issue unsolicited ratings. In practice, however, actual unsolicited ratings are very rare.

The rule has been in effect since June 2010. Although the rule only directly applies to a hired rating agency, the rule requires that hired rating agency obtain commitments from the issuer to facilitate this process, effectively passing on the requirements to issuers. Those requirements generally include the maintenance of a password-protected website containing rating-related information used to providing a rating on the securities. The hired rating agency is then required to maintain its own password-protected website listing each structured finance security for which it is in the process of determining a rating. If a non-hired rating agency desires to gain access to the ratings-related information, which it learns of through the hired rating agency's listing, it can request it of the issuer. Please note, an issuer will be aware of such a request because it will be the one to grant access to the non-hired rating agency. There are certain elements and requirements of the non-hired agency once it requests access to such information, so there are guidelines in place that generally limit the ability of a non-hired agency to request access to the ratings information without issuing some kind of an unsolicited rating based on the number of requests.

**Q. Does the rule apply to the proposed securitization?**

A. Yes. Virtually all securitizations, including utility securitizations, are subject to the rule.

**Q. Has the advent of Rule 17g-5 changed the manner by which issuers and underwriters interact with the rating agencies?**

A. Yes. Because the intent of Rule 17g-5 is to assure that all rating agencies, hired or un-hired, have access to the same information in rating a security, all substantive communication with a hired rating agency which is intended to influence the rating on the securities must be made available on the password-protected website. This process is intended to assure that, regardless of which rating agency is requesting information, the information is available to all rating agencies, whether hired or not.

Since the implementation of the rule, issuers have managed their compliance with the rule by (i) requiring all communication with the rating agencies to be vetted and cleared by the issuer or its counsel, and (ii) requiring that all substantive communication with any rating agency be made in written form (via email or otherwise) and immediately posted to the website. If oral communication with any rating agency is necessary, then a recorded or transcribed phone communication (or a summary thereof) must be posted to the website.

**Q. Are there any legal liabilities to DEF and the SPE which arise out of Rule 17g-5?**

A. Yes, DEF and the SPE must enter into an agreement with the hired rating agencies agreeing to comply with the posting and related requirements of Rule 17g-5. Further, the underwriters, as a condition of the financing, will require DEF and the SPE to certify that the issuer has complied with Rule 17g-5; the underwriters will make a similar representation to DEF and the SPE. If, in connection with the nuclear asset-recovery bonds, any party communicates with the rating agencies in a manner that violates the rule, DEF could incur liability for that violation.

**Q. Is DEF addressing this potential liability in the proposed form of the Financing Order?**

A. DEF has proposed that any direct contact or communication with the rating agencies by any party in the financing must be conducted under the direct control of DEF and its counsel at DEF's sole discretion.

## VII. MARKETING PROCESS

**Q. Please describe the nuclear asset-recovery marketing process.**

A. The marketing process entails a number of different phases, each uniquely tailored to the sponsor (first-time or repeat), the service territory, market conditions, and the specifics of the contemplated transaction. Below are the general steps in a marketing process for utility securitization, but the actual process could vary based on the then-current market environment at the time of marketing. In terms of Commission involvement, as per the proposed Financing Order, there is a bond team concept designed to involve the Commission and its advisors in the structuring, marketing, and pricing of the bonds, subject to the specific terms therein. Please see Bryan Buckler's testimony for a further discussion on the concept.

1. **Pre-marketing**. This process generally entails the marketing work that is done ahead of any official transaction announcement, which includes a roadshow (either electronic or physical) or more basic pre-marketing work. In this phase, the underwriter will work to bring the bond transaction to the attention of investors via a number of different forms to inform target investors of the deal, its structure and terms, and its strengths. The underwriter will also facilitate ways to answer directly any questions that investors may have. This phase generally includes a notice (or blast) to investors that the transaction is likely to be announced shortly, a roadshow (electronic or physical), and solicitations for one-

on-one conference calls with potential investors. It is important to re-state the goal of this phase and how it fits into the larger goal of the transaction: to stimulate broad investor demand. The more investors that are interested in the transaction, the more likely it is that the transaction generates investor demand and competition amongst investors, the more likely it is that the bonds price at a tighter (or lower) credit spread, and therefore have a lower interest cost. The roadshow phase is an important element of the marketing. Roadshows for utility securitizations recently have generally been done electronically, but whether it is done as an electronic or physical roadshow depends on a number of facts and circumstances of a given transaction. Some considerations include the general level of familiarity of investors of the asset class or sector, general market practice or expectations, the macro market environment, the new issue calendar, and the size of the transaction, in addition to the costs of a physical roadshow. Recent roadshows have been done electronically in the utility securitization sector mainly due to investors' general familiarity with the asset class and the market practice (and acceptance) of electronic roadshows, but the decision on the type and form of a roadshow for this proposed transaction will be made closer to marketing, based on the factors listed above.

The timing of this process and its particulars for utility securitization are also important factors. Typically, new transactions in the sector are announced to the market on a Monday morning. As one could expect, the new issue calendar can be busy at that time, so in order to get the attention of investors ahead of this, pre-marketing starts the week prior to the announcement (if there is a physical roadshow, the start date is likely to be earlier given the required lead times for logistics). Pre-marketing is designed to gain the attention of investors when they are not busy reviewing active new issue pricings. Internal sales force presentations are also conducted during this phase.

2. **Announcement.** Following pre-marketing, the next step is for the transaction to be officially announced to the market, which is typically done toward the start of the week (the timing of the announcement is to ensure that a transaction prices during the same week in which it is officially announced; otherwise, issuers may be subject to unforeseen event risks over a weekend). During this phase of marketing, the bonds will be offered for sale to investors through the team of underwriters selected for the transaction (this has been the case in all but one utility securitization in the previous sixty-plus transactions, to my knowledge). This is when the pricing of the bonds with investors begins to get discussed. The underwriters, in conjunction with the issuer, will begin to disseminate where the bonds will be offered to investors, stated as a credit spread relative to the benchmark rates for each class. In response, investors will provide indications of interest, which is generally how much of the class for which they intend to submit an order at a given pricing level. The underwriters will be charged with keeping the master record (known as "the book") in which all indications of interest received by the underwriters from potential investors are recorded. The next phase of the transaction – price guidance – will be based on the aggregated amount of indications of interest from investors.

3. **Price Guidance.** At this stage, the underwriters will send out a notice to investors with price guidance, which is typically stated as a range of credit spreads stated against the given benchmark. Thereafter, investors will be invited to place orders through the underwriters for the amount and specific classes of nuclear asset-recovery bonds they are willing to purchase, at certain spreads and bond yield rates. At a certain point in time when the book has sufficient interest from investors, the underwriters will stop taking orders (generally referred to as going subject). The timing of this step will depend on the specifics of each transaction; however, it will obviously only occur when the book has at least an equal amount of orders on the bonds as the principal amount of bonds (generally referred to as being fully-subscribed). There is no specific threshold beyond that, and it will depend on market conditions, the speed at which orders came in from investors, and the composition of investor types in the book, to name a few. The underwriters will exercise professional judgment in making a recommendation to take the book subject, based on all relevant factors. Conversely, if the tranche is under-subscribed, the underwriters may need to increase the coupon to attract sufficient investor orders to sell the entire tranche.
4. **Price Testing.** Having exercised professional judgment and taken the transaction subject, the underwriters will then work to refine the pricing level. Based on the strength of the book, the underwriters may adjust the pricing level lower (or tighter). This process is generally referred to as testing the pricing levels. It is done to ensure maximum distribution of the bonds at the lowest bond yields reasonably consistent with a market conditions. If a tranche is oversubscribed, the

underwriters may continue to lower the pricing level (thus improving execution for the issuer and customers), provided that this adjustment does not decrease the aggregate investor interest below the size of the tranche. The underwriters will use professional judgment with respect to the recommendation for the amount of tightening and number of testing attempts.

5. **Launch.** Once the pricing levels have been determined for the transaction, it will be launched at that specific spread level. The intention of this stage is to declare to investors at which pricing level, or credit spread, the transaction will be issued. This will be the market clearing pricing level of the credit spread, subject only to movements in the underlying benchmark rates.
6. **Allocations.** At this stage, the market clearing pricing level has been determined by the marketing process, but the final book – how much each investor will purchase – has yet to be determined. Here, the underwriters will work to recommend a specific amount of bonds to be sold to each investor based on the size of each investor's orders. Each allocation depends on a number of factors; *e.g.*, when the investor placed its order, its experience in the sector, its flexibility for the pricing process, the investor type, etc. Ultimately, each investor will purchase its final allocations for the transaction at closing.
7. **Pricing.** Once the market clearing pricing level and the book has been finalized, the transaction can be priced. At this stage, the underwriters will price the transaction by spotting the underlying benchmark rates and adding the credit spread to determine the pricing bond yields and coupons.

8. **Closing.** At the conclusion of the pricing, the sponsor, with its underwriters and legal team, will work toward finalizing the transaction offering and transaction documents and close the transaction, typically approximately five days after pricing.

In summary, it is through this general marketing and pricing discovery process that I have described above that the actual investor market clearing interest rates for bonds are determined. It should be noted again that the above summary is general and each marketing efforts will be specifically crafted for the transaction, based on the facts and circumstances of each deal, as well as the actual investor orders on the actual day of pricing.

**Q. Are there any potential securities law liabilities associated with the offering and sale of the bonds?**

A. The nuclear asset-recovery bonds are anticipated to be sold in an SEC-registered transaction. Section 11(a) of the Securities Act of 1933 provides that any person acquiring securities covered by a registration statement may recover damages on a joint and several basis from the issuer (for the proposed transaction, both DEF and the SPE), its respective directors and its officers signing the registration statement, as well as from any underwriter if any part of the registration statement is untrue or incomplete in any material respect. Other provisions of the federal securities laws impose liability on DEF and the SPE for oral or written misstatements or omissions in connection with the offering and sale of the nuclear asset-recovery bonds.

As both DEF and the SPE will have potential strict liability for misstatements or omissions made in connection with the offering and sale of the nuclear asset-recovery bonds, it is appropriate and necessary that DEF should, and must, control the flow of information concerning the sale of the bonds.

**Q. Could statements made by a Bond Team member inadvertently create liability for the Company?**

A. Yes. The SEC has indicated that statements "on behalf of" an issuer can be attributed to the issuer and create securities law liability for the issuer if those statements are untrue or omit material facts that cause those statements to be misleading. The determination as to whether or not a person is acting "on behalf of" the Company or the SPE (as co-SEC registrants) would be based on, among other things, that person's role in the offering process, the access that person had been given to information regarding the related securities, and whether investors perceived that person to be acting on behalf of the SPE and the Company. While the Company does not anticipate that any Bond Team member would intentionally make a misstatement or omission concerning the bonds, the potential for liability underscores the need for the Company to be able to control all communication with investors.

**Q. Is DEF proposing to address this securities law liability in the proposed form of the Financing Order?**

A. Yes, DEF is proposing that the Financing Order include a finding to the following effect: “As this Commission recognizes that DEF will have primary securities law liability with respect to the nuclear asset-recovery bonds, (i) all contact by any party to the financing (including, without limitation, the Commission, its staff, and its advisors) with the rating agencies, the SEC, the press, and potential nuclear asset-recovery bond investors and (ii) the content of all offering documents, shall be under the direct control of DEF and its counsel at DEF's sole discretion."

**Q. Are there any other developments in the securities laws that might affect the marketing of the bonds?**

A. Yes, on August 27, 2014, the SEC adopted revisions to Regulation AB, commonly referred to as Regulation AB II, which must be complied with for securities issued after November 23, 2015. Regulation AB, originally adopted in 2004, represents the SEC's comprehensive set of regulations related to registration, disclosure, and reporting for publicly-offered, asset-backed securities. Among other requirements under Regulation AB II, SEC-registered, asset-backed securities will be required to be filed on new SEC registration forms.

**Q. Do you have any thoughts about how to address compliance with Regulation AB II, assuming an SEC-registered financing is pursued?**

A. Yes. Regulation AB II contemplates that new asset-backed securities may be issued under a new forms SF-1 or SF-3. Generally, Form SF-1 is intended for use for a transaction involving a single sale of asset-backed securities; Form SF-3 is intended for use for the sale, from time to time, of asset-backed securities in multiple offerings which are secured by the same type of assets. Assuming that the Company plans to issue all of the Nuclear Asset-Recovery Bonds at one time, which is the present plan of the Company, then Form SF-1 would appear to be appropriate.

**Q. Are there any benefits from using Form SF-1 as compared to SF-3?**

A. If Form SF-1 is used, the registrants (the Company and the SPE) will avoid certain potentially burdensome and costly requirements, including: (i) the appointment of an asset representations reviewer, (ii) the inclusion of a dispute resolution mechanism to resolve any disputes related to breaches of representations and warranties regarding the underlying assets, (iii) the creation of an investor communication mechanism that would need to be administered by the transaction parties, and (iv) the requirement that the CEO of the registrants certify as to the accuracy of the disclosure. The requirement to include an asset representations reviewer, especially in the context of utility securitization, would be particularly burdensome since that party would need to be compensated and provisions related to the duties of the asset representations reviewer would need to be created. Since the asset in a utility securitization transaction consists primarily of the rights under a financing order, the concept of a third party (for clarity, one that would be unassociated with the issuer, DEF, or any member of the Bond Team) that would determine if there was a breach of a representation with respect to the financing order appears to be of little value and unnecessary time and expense would be incurred in addressing the considerations of such a mechanism. Further, since the disclosure requirements for a registration statement on Form SF-1 or Form SF-3 are identical, the requirements imposed by Form SF-3 weigh heavily in favor of selecting Form SF-1 as the appropriate form of registration statement for the nuclear asset-recovery bonds.

**Q. Is it possible that these new requirements will increase upfront issuance costs, and in particular, legal costs?**

A. Yes, that is quite possible. Assuming that the nuclear asset-recovery bonds are sold as SEC-registered securities (as is recommended in my testimony), compliance with these new regulations is likely to increase costs. To date, no utility securitization has been filed under the new Regulation AB forms, nor have other requirements of the regulations been addressed in the context of a utility securitization. If the nuclear asset-recovery bonds are the first utility securitization to be reviewed by the SEC, it is highly likely that the SEC will subject the issuance to a full review and comment. This review and comment process could take 60 days or more, as novel issues may have to be addressed.

## VIII. ISSUANCE ADVICE LETTER PROCESS

**Q. Does the Financing Order as proposed by DEF include a process or mechanism whereby the terms of the nuclear asset-recovery bonds can be finalized and approved by the Commission?**

A. Yes, there is a process in place to facilitate the Commission's final approval for a transaction where the actual structure, pricing, and final amounts of upfront bond issuance costs and ongoing financing costs will not be known at the time that the Financing Order is issued. DEF has proposed a process by which the terms of the nuclear asset-recovery bonds can be reviewed by the Commission designee and the Commission's advisors as the terms are developed and finalized, such that the final transaction terms and costs can be approved by the designee in a timely manner and in accordance with bond pricing and closing conventions.

**Q. What is the purpose of the Issuance Advice Letter?**

A. The purpose of the Issuance Advice Letter is to create a process or mechanism that facilitates final approval of the bonds, balancing standard market settlement procedures with the fact that the final terms and conditions of the nuclear asset-recovery bonds will not be determined until after the bonds have priced. Said differently, the Commission's final approval would come after the bonds are priced, after which point the terms and conditions of the bonds cannot change without significant market ramifications. So, in order to facilitate a smooth approval process, the issuance advice letter process is put in place. Some of the elements that will not be known until pricing relate to the general terms and conditions of the bonds and include the schedule of principal amortization, the interest rates on the bonds, and the final structure. Additionally, there are financing costs (both upfront and ongoing) that will not be known until final pricing of the bonds, which can be directly or indirectly tied to the final size of the nuclear asset-recovery bonds; additionally, some of those costs will not be known until at or very close to pricing. All parties recognize that it is in no one's best interests if the entity that is to provide final approval does not see draft or indicative terms ahead of providing such final approval. As such, the proposed Financing Order provides for an issuance advice letter process that includes drafts, such that the Commission can see what the transaction is likely to resemble – both in terms of basic structure as well as the costs associated with the deal – so there are no surprises for any party after the pricing of the bonds.

At least two weeks prior to the expected start of the marketing process, DEF will file with the Commission a draft issuance advice letter and form of true-up adjustment letter that will state estimates of the bond structure, coupons, upfront bond issuance costs, ongoing financing costs, and other items set forth in the Financing Order. Subsequently, not later than one business day after the pricing of the nuclear asset-recovery bonds, the Company will update the final terms of the nuclear asset-recovery bonds and the estimated amount of upfront and ongoing financing costs in the final issuance advice letter and form of true-up adjustment letter and accompanying schedules submitted to the Commission Designee and the Commission's advisors. The issuance advice letter will report the final structure and terms of the bonds, identify the total costs securitized with the bonds, and identify the initial nuclear asset-recovery charges to be implemented following the issuance of the bonds.

**Q. When will the Commission approve the draft and final issuance advice letters?**

A. For the initial draft issuance advice letter and form of true-up adjustment letter, the Company proposes that within one week after receipt of the letter, the Commission Designee and the Commission's advisors will provide to the Company any comments regarding the adequacy of the information provided, in comparison to the required elements of the issuance advice letter. The Company will also complete and file with the Commission Designee the final issuance advice letter and form of true-up adjustment letter within one business day of pricing. On the third business day after pricing, the Commission Designee will present to the Commission the results its review. If the Commission determines that the issuance advice letter and form of true-up adjustment letter and all required certifications have been delivered and the transaction complies with applicable law and this Financing Order, the transaction proceeds without any further action of the Commission, with the anticipation that it will not issue an order to stop the transaction unless the Commission determines that (a) the transaction does not comply with applicable law and this Financing Order and (b) DEF has not delivered the required certifications in a form acceptable to the Commission.

**Q. Is it important for the Commission to provide prompt input into the content of the issuance advice letter and supporting documents?**

A. It is very important to provide prompt input to the Company on its issuance advice letter filings, so that any potential objections or issues regarding the information provided, including but not limited to the structuring and pricing of the bonds, can be addressed as soon as practicable. In particular, the rejection by the Commission of any pricing of the bonds after an underwriting agreement is executed could have adverse consequences to the Company and the Commission in future financing activities.

**IX. CONCLUSION**

**Q. Please summarize your testimony.**

A. For the reasons stated above, I believe the Financing Order as proposed by DEF should be adopted by the Commission.

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

A. Yes it does, thank you.

**IN RE: PETITION FOR ISSUANCE OF NUCLEAR ASSET-RECOVERY FINANCING ORDER**

**BY DUKE ENERGY FLORIDA, INC.**

**FPSC DOCKET NO. ____________**

**DIRECT TESTIMONY OF BRYAN BUCKLER**

## I. INTRODUCTION AND QUALIFICATIONS.

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

A. My name is Bryan Buckler. My current business address is 550 South Tryon Street, Charlotte, North Carolina 28202.

**Q. By whom are you employed and what are your responsibilities?**

A. I am employed by Duke Energy Business Services, LLC, a service company affiliate of Duke Energy Florida, Inc. ("Duke Energy Florida," "Petitioner," or the "Company") and a subsidiary of Duke Energy Corporation, as Director of Corporate Finance and Assistant Treasurer. I am responsible for financing the operations of Duke Energy and its subsidiary utilities. This includes the issuance of new debt and equity securities, and obtaining other sources of external funds. My responsibilities also include financial risk management of interest rate exposure for Duke Energy and its subsidiary utilities.

Additionally, I manage Duke Energy's relationships with commercial banks and the debt capital markets.

**Q. Please summarize your educational background and professional experience.**

A. I have a Bachelor of Business Administration degree with a major in Accounting from the University of Georgia. Following graduation in 1995, I began my career at Ernst & Young in Atlanta, Georgia. I am a Certified Public Accountant in the State of Georgia. I worked eleven years at Ernst & Young, focusing on audits of GAAP and SEC-compliant financial statements and the performance of due diligence procedures over mergers and acquisitions. In 2006, I joined Duke Energy as a Director in the Corporate Accounting Research Group where I was responsible for assessing the appropriate accounting and disclosure treatment for significant non-routine matters as well as certain regulatory accounting interpretations. In February 2008, I was promoted to General Manager of the Corporate Accounting Research Group and led that group from 2008 until July 2012. In July 2012, I transferred to Duke Energy's Treasury Department and assumed my current role as Director of Corporate Finance and Assistant Treasurer.

**Q. Are you sponsoring an exhibit in this case?**

A. Yes. I am sponsoring:

- Exhibit No. ___ (BB-1), estimated up-front bond issuance and ongoing financing costs for nuclear asset-recovery bonds; and
- Exhibit No. ___ (BB-2a), Form of Nuclear Asset-Recovery Property Purchase and Sale Agreement;

- Exhibit No. ___ (BB-2b), Form of Nuclear Asset-Recovery Property Servicing Agreement;
- Exhibit No. ___ (BB-2c), Form of Indenture;
- Exhibit No. ___ (BB-2d), Form of Administration Agreement; and
- Exhibit No. ___ (BB-2e), Form of Amended and Restated LLC Agreement.

Each of these exhibits was prepared under my direction and control, and to the best of my knowledge all factual matters contained therein are true and accurate.

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

A. The purpose of my testimony is to: (i) present and evaluate DEF's proposal to use nuclear asset-recovery bonds to finance nuclear asset-recovery costs; (ii) support the Petition for Financing Order (the "Petition") requesting approval of the proposed issuance of nuclear asset-recovery bonds, which is DEF's recommendation requested in this proceeding; (iii) provide an overview of DEF's proposed securitization transaction based on utility securitization bond transaction norms; and (iv) provide an estimate of financing costs, both upfront and ongoing.

**Q. Please identify the other DEF witnesses and summarize the purpose of their testimonies filed on DEF's behalf in this proceeding.**

A. Following is a list of the other witnesses who have submitted testimony on behalf of DEF and a brief description of the general subject matter addressed by each witness:

- Michael Covington, employed by Duke Energy Business Services, Inc., an affiliate of Duke Energy Florida, as the Director of Midwest and Florida Accounting – Proposal for a detailed framework for the true-up mechanism and the accounting entries for nuclear asset-recovery financing;

- Patrick Collins, Executive Director in Global Capital Markets at Morgan Stanley & Co. LLC ("Morgan Stanley" or "Structuring Advisor") – Overview of the utility securitization market; description of DEF's proposed transaction; explanation of the collection and remittance process; discussion of key elements of the financing order; description of the rating agency process; description of the marketing process; discussion of certain securities law liabilities applicable to utility securitization as well as developments in securities law that might affect the nuclear asset-recovery bonds; and an explanation of the issuance advice letter process; and
- Marcia Olivier, employed by Duke Energy Business Services, Inc., an affiliate of Duke Energy Florida, as Director of Rates and Regulatory Planning for Florida – Identification of nuclear asset-recovery costs; calculation of revenue requirements under the traditional method of recovery; calculation of the nuclear asset-recovery charge by rate class; discussion of how the nuclear asset-recovery charge mitigates rate impacts as compared to the traditional method of recovery; and presentation of proposed tariff sheets.

## II. SECURITIZATION RECOMMENDATION

**Q. Please describe DEF's request to finance DEF's nuclear asset-recovery costs with nuclear asset-recovery bonds.**

A. DEF proposes that the Commission approve the issuance of nuclear asset-recovery bonds to finance DEF's nuclear asset-recovery costs. The proceeds from the nuclear asset-recovery bond issuance would be used to relieve DEF's CR3 Regulatory Asset balance including accrued carrying charges (as of the date the nuclear asset-recovery bonds are issued) and pay upfront bond issuance costs. The amortization of the bonds would be structured to provide an annual revenue requirement (including recovery of ongoing financing costs) of approximately $101.2 million over the scheduled final term of approximately 18 years (with a final legal maturity of approximately 20 years, as discussed in the testimony of Patrick Collins, for a maximum total recovery period not to exceed 20 years) based on market conditions as of June 30, 2015. This annual revenue requirement estimate excludes any accrued carrying charges on the CR3 Regulatory Asset subsequent to December 31, 2015 and excludes incremental upfront financing costs and ongoing financing costs that may be incurred above DEF's current estimate of upfront financing costs and ongoing financing costs, if applicable. Customers will be billed on a kWh basis beginning with the first billing cycle of the month following the issuance of the nuclear asset-recovery bonds.

**Q. Is the proposed recovery period for the nuclear asset-recovery bonds consistent with the requirements of the statute?**

A. Yes. The statute requires that the Commission must specify the period over which the nuclear asset-recovery costs may be recovered. The statute also requires that any such determination as to the overall time period for cost recovery must be consistent with the Revised and Restated Settlement and Stipulation Agreement or "RRSSA." Section 5g of the RRSSA, states, "The CR3 Regulatory Asset recovery factor shall cease no later than the last billing cycle for the 240th month from inception of the recovery of the CR3 Regulatory Asset." Section 5h of the RRSSA states, "The Parties intend that retail base rate recovery for the CR3 Regulatory Asset shall continue for 240 months from its inception." DEF proposes that the SPE issue nuclear asset-recovery bonds with a scheduled final payment date of approximately 18-years and a legal final maturity date not to exceed 20-years, in each case from the date of issuance of the bonds.

As discussed in Mr. Collins' testimony, the scheduled final maturity of the nuclear asset-recovery bonds represents the date at which the final payment is expected to be made, but no legal obligation exists to retire the class in full by that date. The legal final maturity is the date by which the bond principal must be paid or a default will be declared. The proposed preliminary structure for this transaction utilizes a legal maturity that is approximately 24 months longer than the scheduled maturity for the single bond class. The difference between the scheduled final maturity and legal final maturity provides additional credit protection by allowing shortfalls in principal payments to be recovered over this additional time period due to any unforeseen circumstance. As such, this gap between the two maturity dates, or "cushion," is a benefit to the structure and is a contributing factor to achieving a "AAA" rating, helping to lower the cost of funds on the bonds and therefore benefitting customers. Thus, the proposed scheduled final term of approximately 18 years also is consistent with the statutorily required Commission determination that the proposed structuring, expected pricing, and financing costs of the nuclear asset-recovery bonds will have a significant likelihood of resulting in lower overall costs or would significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs.

This gap between the two maturity dates will be driven by rating agency concerns. To that effect, the period of time between the two dates could potentially be shortened to one year, but that will not be known until the ratings process is complete and it will depend on a number of factors, including the size of the service territory and the length of the latest scheduled maturity date, among other factors. Accordingly, the Company proposes a scheduled final term of approximately 18 to 19 years, with a final legal maturity not to exceed 20 years.

**Q. Please detail the amounts DEF is seeking approval to finance through the issuance of nuclear asset-recovery bonds.**

A. DEF proposes to finance with the issuance of nuclear asset-recovery bonds the cost components included in DEF's CR3 Regulatory Asset which were outlined in DEF's May 22, 2015 petition and testimonies in Docket 150148-EI, accrued carrying charges from December 31, 2015 through the date of the bond issuance, and upfront bond issuance costs. Ms. Olivier's testimony provides further details on the calculation of the CR3 Regulatory Asset balance and the accrued carrying charges. My testimony will address the estimated upfront bond issuance costs and ongoing financing costs.

**Q. What amount of nuclear asset-recovery bonds would be required to finance the amounts described above?**

A. The Company anticipates the issuance of approximately $1,312 million in nuclear asset-recovery bonds which is comprised of DEF's estimated CR3 Regulatory Asset balance (as of December 31, 2015) of $1,298 million plus estimated upfront bond issuance costs of approximately $14 million. Upfront bond issuance costs are described in more detail later in my testimony. The amounts above do not include carrying charges on the CR3 Regulatory Asset after December 31, 2015 or any upfront bond issuance costs that may be incurred above DEF's current estimate of upfront bond issuance costs; however, these amounts, if applicable, will be added to and included in the nuclear asset-recovery costs to be securitized.

**Q. What would be the impact to customers if the Commission approves DEF's securitization proposal?**

A. The proposed residential rate increase of $5.01 per 1,000 kWh for the CR3 Regulatory Asset revenue requirement under the traditional method of recovery, as further explained below and in Ms. Olivier's testimony, would be replaced with the nuclear asset-recovery charge, which under current market conditions would provide an estimated initial charge of approximately $3.17 per month for a typical 1,000 kWh residential bill for approximately 18 years. The actual average retail charge per kWh will vary based on changes in customer growth and usage projections as well as changes in market interest rates and the proposed bond structure, as well as for changes in the regulatory asset that could occur for items such as accrued carrying charges on the CR3 Regulatory Asset balance after December 31, 2015 that may occur between now and the issuance date of the bonds. The total cumulative revenue requirement under the traditional method of recovery, as shown in Ms. Olivier's testimony, is $2,560 million, based on a twenty year recovery period. By contrast, the resultant estimated cumulative revenue requirement amount over the total period of outstanding bonds is $1,770 million (based on a bond structure with a scheduled final term of approximately 18 years with a final legal maturity of approximately 20 years), based on market conditions that existed as of June 30, 2015. The difference in total cumulative revenue requirements is $790 million.

**Q. Please detail how bond proceeds would be used.**

A. Bond proceeds must first be used to pay upfront bond issuance costs associated with the bond financing. Proceeds would next be used to reimburse the Company for the CR3 Regulatory Asset balance plus the accrued carrying charges.

**Q. What if the Commission issues a financing order, but there is a delay in actually implementing the financing or the financing does not occur?**

A. Subsequent to December 31, 2015, DEF will continue to accrue the carrying charges until the bonds are issued. Any delays will result in higher accrued carrying charges and an ultimately higher bond issuance amount. If the financing does not occur, DEF requests to implement the traditional method of recovering the CR3 Regulatory Asset, including the accrued carrying costs that were the result of delay in the start of recovery.

## III. TRADITIONAL METHOD OF RECOVERY

**Q. Please explain the use of the traditional method of recovering the CR3 Regulatory Asset if DEF decides to not issue the nuclear asset-recovery bonds or if the Commission does not approve a financing order for the issuance of nuclear asset-recovery bonds?**

A. The traditional method of recovery of the nuclear asset-recovery costs is addressed in Ms. Olivier's testimony. If DEF decides to not issue the nuclear asset-recovery bonds or if the Commission determines that the nuclear asset-recovery costs should not be securitized and instead should be recovered through the traditional means, DEF requests implementation of the base rate increase to begin recovering the CR3 Regulatory Asset as requested in DEF's May 22, 2015 petition filed in Docket No. 150148-EI plus the accrued carrying costs that were the result of delays in beginning the recovery of the CR3 Regulatory Asset due to the pursuit of the issuance of nuclear asset-recovery bonds.

**Q. What would be the impact to customers if the DEF's traditional method of recovery is utilized?**

A. DEF's traditional method of recovery would result in an initial monthly charge of $5.01 for a typical 1,000 kWh residential customer bill. The total cumulative revenue requirement under the traditional method of recovery is estimated at $2,560 million. The revenue requirements associated with the traditional method of recovery and the customer rate impacts related to the charge are provided in Ms. Olivier's testimony.

## IV. POLICY ISSUES

**Q. Did the passage of Section 366.95, Florida Statutes, which provides for the issuance of nuclear asset-recovery bonds alter the current framework for nuclear asset cost recovery?**

A. No. Section 366.95, Florida Statutes, simply provides the Commission with an additional option for recovery of nuclear asset-recovery costs. Under Section 366.95, Florida Statutes, recovery of nuclear asset-recovery costs would be achieved through the issuance of nuclear asset-recovery bonds which are repaid by customers through a nonbypassable charge.

## V. COMPARISON OF SECURITIZATION TO THE TRADITIONAL METHOD

**Q. What are the comparative benefits of securitization relative to the traditional method of recovery?**

A. As provided in Ms. Olivier's testimony, the initial monthly charge associated with the issuance of nuclear asset-recovery bonds in DEF's securitization recommendation is estimated to be \$3.17 for a typical (1,000 kWh) residential bill, and the resulting estimated cumulative revenue requirement amount over the total period of outstanding bonds is \$1,770 million (based on a bond structure with a scheduled final term of approximately 18 years with a final legal maturity of approximately 20 years), based on market conditions that existed as of June 30, 2015. DEF's traditional method of recovery, which provides for recovery over a 20-year period, would have an initial monthly customer impact of \$5.01 for a typical (1,000 kWh) residential bill, and a total revenue requirement over a 20 year recovery period of approximately \$2,560 million, as discussed in Ms. Olivier's testimony. Thus, based on current market conditions, the issuance of nuclear asset-recovery bonds and the imposition of nuclear asset-recovery charges would (a) significantly mitigate rate impacts to customers as compared with the traditional method of financing and recovering nuclear asset-recovery costs from customers and (b) have a significant likelihood of resulting in lower overall costs.

**Q. Please explain why DEF's proposal to use securitization financing should be adopted in favor of the traditional method.**

A. The CR3 Regulatory Asset revenue requirement proposed in DEF's May 22, 2015 petition (Docket No. 150148-EI) would go into effect in the first billing cycle for January 2016 consistent with the RRSSA. The Company is seeking recovery of the CR3 Regulatory Asset in a much more economical manner for customers. Based on current market conditions, securitization provides a mechanism for recovering the CR3 Regulatory Asset at a lower cost to DEF's customers than would occur through the traditional method as demonstrated in Ms. Olivier's testimony. In addition to lower initial customer rate impacts, these documents demonstrate that, based on current market conditions, the total estimated cumulative undiscounted revenue requirements under securitization of $1,770 million are approximately $790 million lower than the total cumulative undiscounted estimated revenue requirements under the traditional method of recovery of $2,560 million.

## VI. DEF's PROPOSED NUCLEAR ASSET-RECOVERY BOND TRANSACTION

**Q. Please provide an overview of DEF's proposed nuclear asset-recovery bond issuance.**

A. DEF will form a bankruptcy-remote special purpose entity ("SPE") to acquire nuclear asset-recovery property and issue and sell the nuclear asset-recovery bonds. This SPE will be capitalized by DEF in an amount equal to at least 0.50% of the nuclear asset-recovery bond issuance amount. DEF's capital contribution will be deposited into a Capital Subaccount, which allows the utility to treat the bond issuance as a financing for tax purposes and it also acts as a credit enhancement mechanism. As described in great detail below, under an Internal Revenue Service revenue procedure (2005-62), a 0.50% equity contribution will be sufficient to assure this desired tax treatment. This capital contribution will be made available to cover any shortfalls in nuclear asset-recovery charges and to make payments on the nuclear asset-recovery bonds, if necessary. This equity contribution will be returned to DEF at the time the bonds are paid in full.

In addition, DEF will be permitted to earn a return on its capital contribution equal to the rate of interest payable on the longest maturing tranche of the nuclear asset-recovery bonds and this return on invested capital will be paid to DEF in accordance with a priority of payments (or waterfall). This payment to DEF will be an ongoing financing cost to be recovered through the nuclear asset-recovery charges.

DEF will receive the net proceeds after the payment of upfront bond issuance costs. The net proceeds will be used to relieve DEF's CR3 Regulatory Asset balance. DEF, in its role as Servicer, will collect an irrevocable, nonbypassable nuclear asset-recovery charge to recover from its customers the amounts necessary to pay principal and interest on the nuclear asset-recovery bonds as well as ongoing financing costs associated with the transaction. DEF will transfer the nuclear asset-recovery charges deemed collected to a collection account with the indenture trustee on a periodic basis, such basis to be determined after consultation with the rating agencies. (DEF's role as Servicer is discussed further in Mr. Collins' testimony.) The indenture trustee will then distribute such amounts to bondholders and other parties in accordance with the payment waterfall for the payment of principal and interest on the bonds and ongoing financing costs (described below), such as servicing fees, legal and accounting costs, trustee fees, rating agency fees, assessments (i.e. regulatory assessment fees) and administrative costs. The transaction documents provide more detail on the payment waterfall.

**Q. Please describe the terms of the nuclear asset-recovery bonds.**

A. The nuclear asset-recovery bonds will likely be issued in multiple tranches with varying maturities to attract a greater number of investors. The targeted ratings on the bonds are expected to be AAA. Exact pricing, interest rates, terms, tranches and other characteristics will be determined at the time of issuance and will depend on prevailing market conditions.

**Q. When are the nuclear asset-recovery bonds expected to be issued?**

A. The Company expects to start marketing the nuclear asset-recovery bonds as promptly as possible after the last of the following events have occurred: 1) issuance of a final non-appealable financing order acceptable to the Company; 2) delivery of any necessary SEC approvals under the Securities Act of 1933; and 3) completion of the rating agency process. Upon completion of these events, the Company expects to pursue an appropriately aggressive schedule to market, price, and issue the bonds, subject to market conditions. DEF recommends the nuclear asset-recovery bonds be issued as soon as practicable and will work to do so prior to March 31, 2016; however, the exact issuance date cannot be determined at this time and depends on many factors, including those mentioned above.

**Q. How will the nuclear asset-recovery bonds be sold?**

A. As shown in Mr. Collins' testimony, since 2010 all utility asset securitization transactions of a similar nature have been offered for sale to investors through a group of underwriters, and of the transactions since 1997, all but one of the utility securitizations have been offered to sale to investors through a negotiated sales process. Therefore, based on this history of utility securitization transactions, Duke Energy Florida's initial plan is to pursue this avenue for issuance of the bonds, but other avenues may be considered. Each underwriter will be selected through a request for approval process and such underwriters should have extensive debt capital markets experience and sales distribution workforce, specific experience in the marketing of utility securitization issues, and broad experience in the marketing of asset-backed securities ("ABS"). A thorough marketing and price discovery process will be used to determine the most cost effective structure for issuing the nuclear asset-recovery bonds. Mr. Collins' testimony provides more detail on the standard process for marketing and sale of the nuclear asset-recovery bonds.

## VII. UPFRONT BOND ISSUANCE AND ONGOING FINANCING COSTS

**Q. Please provide a description of the upfront bond issuance costs which will be financed with the proceeds of the nuclear asset-recovery bonds.**

A. Upfront bond issuance costs, which will be financed from the proceeds of the nuclear asset-recovery bonds, include the fees and expenses to obtain the financing order, as well as the fees and expenses associated with the structuring, marketing and issuance of each series of nuclear asset-recovery bonds, including counsel fees, structuring advisory fees and expenses, any interest rate lock or swap fees and costs (including the cost, if any, associated with interest rate hedges), underwriting fees and original issue discount, rating agency and trustee fees (including trustee's counsel), accounting fees, information technology programing costs, auditing fees, servicer's set-up costs, printing and marketing expenses, stock exchange listing fees and compliance fees, filing and registration fees, and the costs of the financial advisor retained by the Commission. Upfront bond issuance costs include reimbursement to DEF for amounts advanced for payment of such costs.

**Q. Please provide an estimate and discussion of these upfront bond issuance costs for each individual item expected to be in excess of $50,000.**

A. DEF estimates the upfront bond issuance costs associated with its recommended $1,312 million in nuclear asset-recovery bonds to be approximately $14 million based on the approximate mid-point of the range included in Exhibit No. ___ (BB-1). DEF reviewed several regulatory asset recovery securitization filings made by other utilities and developed an estimate of upfront bond issuance costs with the assistance of its structuring advisor. These numbers are subject to change, as the costs are dependent on the timing of issuance, market conditions at the time of issuance, the outcome of requests for proposals for certain fees and other events outside the control of DEF, such as possible litigation, incremental legal fees resulting from protracted resolution of issues, possible review by the SEC and rating agency fee changes and requirements.

**Q. How will DEF reconcile actual upfront bond issuance costs with the estimates provided by DEF through the issuance advice letter procedure since the actual costs will not be known until after the Commission issues the Financing Order and the nuclear asset-recovery bonds have been issued?**

A. The proceeds of the nuclear asset-recovery bond issuance will be used to pay (or reimburse DEF for) the actual upfront bond issuance costs incurred. If the actual upfront bond issuance costs are below the amount appearing in the issuance advice letter filed with the Commission not later than one day after pricing the nuclear asset-recovery bonds, then the difference will be credited back to customers in a manner to be determined in the Financing Order. The issuance advice letter process, which will discuss the actual upfront bond issuance costs, are addressed in Mr. Collins' testimony. If the actual upfront bond issuance costs are in excess of the amount appearing in the issuance advice letter, then the company will have the right to collect such prudently incurred excess amounts through the capacity cost recovery clause. Not later than 120 days following issuance, DEF will file with the Commission a reconciliation of actual upfront bond issuance costs with estimated amounts provided for in the nuclear asset-recovery bond issuance. The Commission shall review, on a reasonably comparable basis, such information to determine if such costs incurred in the issuance of the nuclear asset-recovery bonds resulted in the lowest overall costs that were reasonably consistent with market conditions at the time of the issuance and the terms of the financing order and may require the Company to make a credit to the capacity cost recovery clause in accordance with Section 366.95(2)(c)5., Florida Statutes. The Commission may not make adjustments to the nuclear asset-recovery charges for any such excess issuance costs. The Company proposes that the Company will be presumed to have satisfied this standard with respect to any upfront bond issuance costs that are incurred under contract following a request for proposal process or that are substantiated by documentation and fall within the estimates submitted to staff as part of the issuance advice letter procedure.

**Q. Please describe the underwriting fees and expenses.**

A. Underwriting fees and expenses are shown in line 1. The underwriting discount is the fee that the underwriters receive for underwriting and selling the nuclear asset-recovery bonds, assuming the Company issues the bonds in the manner previously discussed. This estimated range amount is consistent with those paid under recent, similar transactions.

**Q. How will the Company select the underwriters for the transaction?**

A. The Company proposes to select the underwriter(s) for the transaction through requests for proposals (“RFP”). The RFP will be submitted to a list of underwriters that are experienced in ABS and utility securitizations. The criteria for the requested proposals will include execution capability, demonstrated by providing information on experience in utility securitizations, extensive debt capital markets experience, size and experience of its sales distribution workforce, overall ABS experience, distribution and marketing plans, and trading support, as well as information on proposed pricing for the structure, syndication structure (structure of the transaction) and underwriting fees. Through the RFP process and follow up interviews, a determination of the underwriters and appropriate underwriter structure will be made. The selection of the underwriters will be conducted by the Company in consultation with the other members of the Bond Team.

**Q. What is the Bond Team?**

A. The Company proposes the formation of a "Bond Team" to ensure that the Commission and its representatives will be actively involved in the structuring, marketing and pricing of the bonds, in accordance with the procedures set forth in the financing order. The Bond Team will be made up of the Company and its designated advisors, the Commission and their designated advisors, legal counsel and representatives. The members of the Bond Team shall work cooperatively to achieve the statutory cost objectives (as defined in the financing order). Any issue requiring consultation with the Bond Team that the Bond Team participants are unable to resolve to their mutual satisfaction should be initially presented in writing by the Bond Team participants for resolution by a designated Commissioner, subject to de novo review by the full Commission. All parties to this docket shall be provided prior notice of any matter taken in writing to the designated Commissioner and provided the opportunity for comment before the designated Commissioner. All parties shall also be provided notice of any decision reached by the designated Commissioner. Any party may seek a de novo review by the full Commission of any decision of the designated Commissioner.

**Q. How will underwriters' fees be determined?**

A. Assuming the Company issues the bonds in the manner that all other utility securitization transactions have been issued since 2010, underwriting fees will be incurred for the services previously discussed. The underwriters' fees will be updated through the issuance advice letter procedure after the transaction is priced. Underwriters' fees of 40 – 50 basis points of the principal amount of the bonds are consistent with individual utility securitization transactions with comparable issuance sizes that have occurred in the market, based on the Company's review of a list of recent comparable transactions. Because the level of underwriting fees is uncertain at this time, the actual costs will be updated through the issuance advice letter procedure. As previously discussed, the underwriters will be selected through an RFP process.

**Q. Please describe the servicer set-up fees (including information technology programming costs).**

A. Section 366.95(1)(e)3., Florida Statutes, includes informational technology programming costs in the definition of financing costs for a nuclear asset-recovery bond transaction. DEF intends this amount to recover the cost of information technology systems modifications to bill, monitor, collect, and remit securitization charges. The amount included in line 2 represents DEF's current estimate of the cost of these information technology systems modifications. This amount will be updated through the issuance advice letter procedure.

**Q. Please describe and explain the Company's proposed treatment of legal fees.**

A. Legal fees are a function of the legal work necessary to issue the nuclear cost-recovery bonds. These fees are based upon the hours individual firms must devote to the bond issuance rather than a fixed dollar amount. This category (line 3) includes the fees and expenses of counsel for the Company and the SPE, the underwriters and the Company's structuring advisor. Counsel will advise on the nuclear asset-recovery bond transaction structure, including bankruptcy, regulatory and tax matters; issue various transaction opinions, including bankruptcy opinions; and draft most other documents related to the financing, including, among other tasks, the SEC registration statement, the nuclear asset-recovery property purchase and sale agreement, the indenture, the servicing agreement, the administration agreement, the SPE organizational documents, and any other necessary agreements (drafts of the nuclear asset-recovery property purchase and sale agreement, the indenture, the servicing agreement, the administration agreement and the limited liability company agreement establishing the SPE are included within Exhibit Nos. __ (BB-2a – BB-2e). These estimated expenses were based on discussion with our internal legal counsel and estimates from external counsel. The Company's structuring advisor and underwriters' counsel also advises on the transaction structure, reviews all nuclear asset-recovery bond transaction documents, and performs a due diligence review of the transaction in connection with the underwriters' initial purchase of the bonds. The legal fees (over and above those incurred to date) will be affected by events between the date of the filing in this case and the date of bond issuance, including the extent to which this proceeding is contested by intervenors, the scope of any appeals, the extent of any comments received during the SEC review, the requirements of underwriters, trustees, rating agencies, regulators or the Commission's designated representative and/or advisor, if applicable, for any requested revisions to documents, the use of additional credit enhancements, and other factors that cannot be foreseen. The Company's transaction may be the first transaction in this asset class subject to the SEC's new regulatory regime under Regulation AB II, and it is therefore likely that the transaction will be subject to SEC review and possibly involve extensive discussions with the SEC staff. Accordingly, legal fees are likely to reflect these incremental costs. The new requirements of navigating this new regulatory regime also underscore the importance of having an experienced legal team, well versed in Regulation AB and securitization financing. The aggregate amount of legal fees and expenses to be securitized will not be known until closing. However, these costs will be estimated to the best of the Company's ability and updated through the issuance advice letter procedure.

**Q. Please describe rating agency fees.**

A. In order to sell the nuclear asset-recovery bonds at the most favorable rate reasonably achievable, the bonds should be rated by a minimum of two of the three major rating agencies. Many utility securitizations to date have had three ratings from major rating agencies; therefore the Company expects it will obtain three ratings if it believes it important for the best marketing results with investors. Typically a fee is required by each of the rating agencies to rate the bonds. The fees charged by the rating agencies are subject to change at any time and are typically a function of the size and structure of the offering. The fees are typically calculated by applying a base rate charge to the initial principal balance. Neither the Company nor the Commission has any effective control over the fees charged by the rating agencies. The amounts shown on line 4 reflect an estimate of the rating agencies fees to be incurred for a securitization of the size contemplated by the Company. Accordingly, the possibility of a change due to either the size of the offering, or modification of the agencies' fee requirements must be taken into account in determining the level of rating agency fees, and any increase in these fees should be recoverable by the Company, pursuant to the issuance advice letter procedure.

**Q. Please describe and explain the Company's proposed treatment of the fee of the financial advisor to the Commission staff.**

A. The Company recognizes that the Commission has retained a professional advisor and the costs of these advisors and their legal counsel, if any, should qualify as an upfront bond issuance cost in this securitization proceeding. The costs of the Commission's financial advisor and its legal counsel are not within the Company's control or influence and will not be known until closing. The estimate on line 5 and the Commission's legal counsel fees included in line 3 are estimates and will be updated through the issuance advice letter procedure.

**Q. Please describe the fees of the structuring advisor to the Company.**

A. As a result of a request for proposal process, the Company selected Morgan Stanley to act as its advisor in connection with structuring the transaction and providing related services in connection with this proceeding. We expect Morgan Stanley's role to continue until the bonds are issued[, but are earned once ratings are received on the bonds]. The fees and related expenses to be paid to Morgan Stanley have been agreed upon and are included on line 6. The amount shown on Exhibit No. __ (BB-1) reflects the required payments to Morgan Stanley under the current contract, and is consistent with the amounts in recent securitizations that have taken place in the market. However, it is not known with precision when Morgan Stanley's services as advisor will end. Following issuance of the financing order, and assuming Duke Energy Florida pursues the marketing and sale of the bonds consistent with how all utility asset securitization transactions of a similar nature have been offered to investors since 2010, DEF expects to name book-runners who will perform advisory services as part of the services normally performed by a book-running lead underwriter. For these services, it is expected that the book-runner(s) will not seek fees beyond those underwriting fees they would be paid in their capacity as book-runner(s) after they are engaged as book-runner(s). But, as previously stated, the exact timing of that appointment is not known. To the extent the Company's financial advisor's fees exceed the estimate, DEF will update this amount through the issuance advice letter procedure.

**Q. Please describe Auditor Fees.**

A. Auditor fees (line 7) relate to the Company's independent auditor, and include the costs of accounting procedures as it related to the nuclear asset-recovery bonds.

**Q. Please describe the SEC registration fee.**

A. The SEC has specific formulas for calculating registration fees based upon the initial principal amount. The current fee is $116.20 per million dollars registered. That fee structure, however, changes from time to time. The fees are mandatory for registered offerings, and the Company has no control over such changes. The estimated amount on line 8 will either increase or decrease proportionately as a result of any increase or decrease in the size of the nuclear asset-recovery bond financing, and/or as a result of any change in the SEC registration fee structure.

**Q. Please describe both upfront and ongoing financing costs of credit enhancements.**

A. In order to ensure the nuclear asset-recovery bonds are issued under the most advantageous terms, it may be necessary to use various forms of credit enhancement or other mechanisms designed to improve the credit quality and marketability of the bonds. It cannot be known until the bonds are about to be issued whether the use of credit enhancements will reduce customer costs. Such mechanisms will be used only if they are cost justified (i.e., the savings exceed the costs). Because the need for any such credit enhancements or mechanisms, as well as their costs and benefits, will be determined by rating agency discussions and market conditions at the time the bonds are priced, decisions to use them can only be made at or near the time of pricing. On Exhibit No.___ (BB-1), I have assumed no credit enhancements, other than the capital subaccount, will be used, because, as DEF's witness Mr. Collins discusses in his testimony, additional credit enhancements are not currently anticipated to be necessary to achieve "AAA" or equivalent credit ratings.

**Q. Please describe the estimated ongoing financing costs (excluding debt service) which will be recovered from the Nuclear Asset-Recovery Charge.**

A. In addition to debt service on the nuclear asset-recovery bonds (and any swap or other hedging costs), there will be expenses that will be incurred throughout the life of the nuclear asset-recovery bonds in order to support the ongoing operations of the SPE. These ongoing financing costs are estimated at $1 million annually which approximates the lower end of the range set forth in Exhibit No. __ (BB-1), and include servicing fees; return on invested capital; administration costs; auditor fees; regulatory assessment fees;

legal fees; rating agency surveillance fees; trustee fees; independent director or manager fees; and miscellaneous other fees associated with the servicing of the nuclear asset-recovery bonds.

Certain of these ongoing financing costs, such as the administration fees and the amount of the servicing fee for DEF (as the initial servicer) may be determinable, either by reference to an established dollar amount or a percentage, on or before the issuance of any series of nuclear asset-recovery bonds. Other ongoing financing costs will vary over the term of the nuclear asset-recovery bonds.

**Q. What is the estimated servicing fee and how will it be calculated?**

A. In consideration for its servicing responsibilities, the servicer, initially the Company, will receive the periodic servicing fee (line 1) which will be recovered through the nuclear asset-recovery charges. To support the bankruptcy analysis necessary to achieve the highest credit rating, the servicing fee must be on arm's length terms and at market-based rates. Such servicing responsibilities will include, without limitation: (i) billing, monitoring, collecting and remitting securitization charges, (ii) reporting requirements imposed by the servicing agreement, (iii) implementing the true-up mechanism, (iv) procedures required to coordinate required audits related to the Company's role as servicer, (v) legal and accounting functions related to the servicing obligation, and (vi) communication with rating agencies.

The annual servicing fee to be paid to the Company is currently estimated to be 0.05% of the original principal balance of the securitization bonds, payable on each securitization bond payment date. Alternatively, if DEF ceases to service the nuclear asset-recovery bonds and a successor servicer is appointed, its servicer fee should be set at a level not to exceed 0.60% of such original balance unless a higher rate is approved by the Commission. To date, we are not aware of any utility securitization transactions where a successor servicer has had to be appointed. The servicing fee reflected appears to the Company to be consistent with the rates in other recent securitizations. Since the servicing fee is based on the estimated original principal balance, the final amount will be known only when the transaction is priced and will be updated through the issuance advice letter process.

**Q. Please describe return on invested capital.**

A. When the nuclear asset-recovery bonds are issued, DEF proposes that it will make a capital contribution to the SPE, which the SPE will deposit into the Capital Subaccount. The nuclear asset-recovery bond proceeds will not be used to fund this capital contribution. As previously discussed, the amount of the capital contribution will be at least 0.5 percent of the original principal amount of the nuclear asset-recovery bonds. The Capital Subaccount will serve as collateral to facilitate timely payment of principal of and interest on the nuclear asset-recovery bonds. To the extent that the Capital Subaccount must be drawn upon to pay these amounts due to a shortfall in the nuclear asset-recovery charge collections, it will be replenished to its original level through the true-up process. The funds in the Capital Subaccount will be invested in short-term high-quality investments and, if necessary, such funds (including investment earnings) will be used by the indenture trustee to pay principal of and interest on the nuclear asset-recovery bonds and the ongoing financing costs payable by the SPE. DEF will be permitted to earn a rate of return on its invested capital equal to the rate of interest payable on the longest maturing tranche of nuclear asset-recovery bonds and this return on invested capital should be a component of ongoing financing costs, and accordingly, recovered from nuclear asset-recovery charges.

**Q. Please describe the purpose of the administration fee that you identified and how it will be calculated?**

A. The annual administration fee is set forth on line 3 and is meant to cover expenses associated with administrative functions the Company will be providing to the SPE. These functions will include, among others, maintaining the general accounting records, preparation of quarterly and annual financial statements, arranging for annual audits of the SPE's financial statements, preparing all required external financial filings, preparing any required income or other tax returns, and related support. The SPE will not have any employees, so the administrator will perform these functions for the SPE. These functions are separate from those of the servicer.

**Q. Please describe the purpose of the other ongoing financing costs that you identified in more detail.**

A. The auditor fee line item is meant to represent (line 4) costs for activities such as providing periodic reports to the trustee and reviewing/certifying SEC filings.

The regulatory assessment fee is presented on line 5 and covers the amount required to submit to the Florida Public Service Commission under Section 25-6.0131, Florida Administrative Code. This fee is calculated as 0.072% of the nuclear asset-recovery charge revenues and is required to be paid on a semi-annual basis on January $30^{th}$ and July $30^{th}$.

The SPE will incur periodic legal fees. The annual estimate for these expenses is on line 6., for such activities.

The rating agencies will assess ongoing fees associated with monitoring the credit rating of each securitization bond series (line 7).

The indenture trustee will be responsible for and earn a fee (line 8) for, among other things: (i) maintaining a record of investors; (ii) calculating and remitting interest and principal payments to investors; (iii) otherwise fulfilling its obligations under the indenture and other documents; and (iv) reporting as required by the Commission or any other regulatory body.

The SPE will also have an independent director or manager to oversee its operation, and he or she will receive a fee for their services and will be entitled to indemnification. Estimated fees are set forth on line 9.

Miscellaneous costs (line 10) are any costs that may be incurred but that have not been specifically identified at this time. Such types of costs have been identified by other utility companies for similar transactions.

Other than the servicing fee and the administrative fee, it is difficult to predict the level of such costs to be incurred by the SPE over the term of the nuclear asset-recovery bonds. It is virtually certain these fees will increase over the term, not only because service providers periodically increase their fees, but also because of inflation. Therefore, the Company believes there should be no cap on the ongoing financing costs. Moreover, the SPE must recover all of its ongoing financing costs in order to preserve bankruptcy remoteness of the SPE and to secure AAA or equivalent credit ratings on the nuclear asset-recovery bonds.

**Q. How will the Company reconcile its actual ongoing financing costs associated with the transaction with is estimated costs?**

A. Because ongoing financing costs are recovered through the nuclear asset-recovery charge, disparities will be resolved periodically through the true-up mechanism. The true-up mechanism is described in more detail in Mr. Covington's testimony.

**Q. Has the U.S. Treasury Department issued any guidance on accounting for nuclear asset-recovery financing and related income taxes?**

A. Yes. Revenue Procedure 2005-62 provides a safe harbor for public utility companies that, pursuant to specified cost recovery legislation, receive an irrevocable financing order permitting the utility to recover certain specified costs through a qualifying securitization. Under the revenue procedure, the Company will not recognize taxable income upon 1) the receipt of the financing order; 2) the transfer of the Company's rights under the financing order to the wholly-owned SPE; or 3) the receipt of cash in exchange for the issuance of the nuclear recovery bonds.

**Q. In the Prior Storm Recovery Cost Securitization for FP&L, the Financing Documents contained certain provisions which the Commission viewed as "Customer Protections." Do the Financing Documents which you are Sponsoring contain similar "Customer Protections"?**

A. Yes, it is my understanding that they do. As noted earlier in my testimony, I am sponsoring proposed forms of the nuclear asset-recovery property purchase and sale agreement, the indenture, the servicing agreement, the administration agreement and the limited liability company agreement establishing the SPE. I believe that these documents contain the same substantive "customer protections" which the Commission required in the FPL transaction.

**Q. Can you briefly describe what these "customer protections" are?**

A. Generally, these "customer protections" include, without limitation:

-the satisfaction of a "Commission Condition" (being approval or acquiescence constituting approval by the Commission) prior to any amendment or modification to the financing documents;

-a provision authorizing the Commission to institute a proceeding to require DEF to make customers whole for any "Loses" suffered (i) as a result of negligence, recklessness, or willful misconduct by DEF under the servicing agreement or the administration agreement, or (ii) for any failure or breach by DEF of certain material representations, warranties or covenants in the purchase and sale agreement;

-provisions making the Commission, on behalf of itself and Customers of DEF, a third party beneficiary of the purchase and sale agreement and the servicing agreement; and

-a provisions allowing the Commission to enforce the provisions of the servicing agreement and to terminate the agreement in the event of a default by DEF.

These provisions and related protections are more fully set forth in the exhibits.

**Q. Does the nuclear asset-recovery financing the Company is proposing meet the requirements of this revenue procedure?**

A. Yes.

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

A. Yes.

STATE OF FLORIDA )
: CERTIFICATE OF REPORTER
COUNTY OF LEON )

I, LINDA BOLES, CRR, RPR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 15th day of October, 2015.

Linda Boles

LINDA BOLES, CRR, RPR
FPSC Official Hearings Reporter
(850) 413-6734