

State of Florida



## Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

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

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**DATE:** June 8, 2016  
**TO:** Office of Commission Clerk  
**FROM:** Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis  
**RE:** Docket No.: 160009-EI  
Company Name: Duke Energy Florida, Inc.  
Company Code: EI801  
Audit Purpose: Nuclear Cost Recovery Clause  
Audit Control No: 16-005-2-1

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Attached is the final audit report for the Utility stated above. I am sending the Utility a copy of this memo and the audit report. If the Utility desires to file a response to the audit report, it should send a response to the Office of Commission Clerk. There are confidential work papers associated with this audit.

LMD/cm

Attachment: Audit Report

cc: Office of Auditing and Performance Analysis File

State of Florida



## Public Service Commission

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

### Auditor's Report

Duke Energy Florida, LLC  
Levy Nuclear Units 1 & 2

**Twelve Months Ended December 31, 2015**

Docket No. 160009-EI

Audit Control No. 16-005-2-1

May 7, 2016

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

Ronald A. Mavrides  
Audit Manager

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

Linda Hill  
Reviewer

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## Purpose

To: Florida Public Service Commission

We have performed the procedures described later in this report to meet the objectives set forth by the Office of Industry Development and Market Analysis in its audit service request dated January 5, 2016. We have applied these procedures to the attached schedule prepared by Duke Energy Florida, LLC in support of its 2015 Nuclear Cost Recovery Clause for its construction cost expenditures for the Levy Nuclear Plant Units 1 & 2 filing in Docket No. 160009-EI.

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

## Objectives and Procedures

### **General**

#### Definitions

Utility refers to Duke Energy Florida, LLC

LNP refers to the Levy Nuclear Plant.

NCRC refers to the Nuclear Cost Recovery Clause.

CCRC refers to the Capacity Cost Recovery Clause.

Preconstruction costs are costs that are expended after a site has been selected in preparation for the construction of a nuclear power plant, incurred up to and including the date the Utility completes site clearing work.

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

#### Utility Information

On August 1, 2013, the Utility announced its intent to cease the work of pursuing construction of the Levy 1 and 2 reactors. Recovery of costs will continue until 2019

**Objectives:** The objectives were to determine whether the Utility's 2015 NCRC filing in Docket No. 160009-EI is consistent and in compliance with Section 366.93, Florida Statutes and Rule 25-6.0423, Florida Administrative Code (F.A.C.).

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

### **Construction Work In Progress**

**Objectives:** The objectives were to determine the 2015 adjustments and additions to the unrecovered Construction Work In Progress (CWIP) jurisdictional balances that are included for recovery and disclose and report the jurisdictional amount of any 2015 adjustments and additions to the unrecovered CWIP balance that are included for recovery.

**Procedures:** We took the beginning balances of all CWIP costs and reconciled them to the ending balances for the prior year's filing. We judgmentally selected from a summary of CWIP 2015 additions, all November 2015 labor costs from the transaction details and tested them for: 1) Compliance with contracts, 2) Correct paid amounts, and 3) Correct recording periods. We determined that there were no adjustments to unrecovered CWIP jurisdictional balances that are included for recovery. As of December 31, 2015, Account 107.001-CWIP had a zero balance. We reconciled the transaction detail amounts to the filing and the general ledger. No exceptions were noted.

## **Recovery**

**Objectives:** The objectives were to determine whether the Utility used the Commission approved CCRC factors to bill customers for the period January 1, 2015, through December 31, 2015, and whether the 2015 Detail Calculation of the Revenue Requirements reflects amounts in Order No. PSC-14-0701-FOF-EI.

**Procedures:** We agreed the beginning balances of the 2015 Detail Calculation of the Revenue Requirements to the ending 2014 Detail Calculation of the Revenue Requirements. We agreed the amount collected on the 2015 Detail Calculation of the Revenue Requirements to the 2015 NCRC jurisdictional factors approved in Order No. PSC-14-0701-FOF-EI and to the CCRC in Docket No. 140001-EI. No exceptions were noted.

## **Expense**

### **Operation and Maintenance Expense**

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

**Procedures:** We reconciled the trial balance accounts to the filing. We judgmentally selected eight transactions from the transaction details and reviewed them for the proper period and amounts, and that they are allowable NCRC costs. For costs that are for a service or product that are under contract we: 1) Traced the invoiced cost to the construction contract or other type of original source document, 2) Reconciled the invoice to the contract terms and pricing, 3) Ensured that the amounts billed are for actual services or materials received, and 4) Investigated all prior billing adjustments and job order changes to the contracts.

Included in the samples were 2015 labor costs, of which we obtained the supporting backup. We recalculated labor costs using employee time sheets and labor rates for employees who provided labor charged to the NCRC during the sample months. We verified the hours worked and recalculated the labor charges recorded by the Utility charged to the NCRC. We verified other costs for proper account, period, and amount. No exceptions were noted.

### **Long-Lead-Time Items**

**Objectives:** The objectives were to determine whether 2015 disposition, storage, and other such expenses for remaining long-lead-time items were included for cost recovery and to disclose and report the jurisdictional amount of any 2015 disposition, storage, and other such expenses included in jurisdictional expenses.

**Procedures:** We verified that the only long-lead-time items remaining to be disposed of were the Variable Frequency Drives. The Drives were sold internally for use at the Duke Energy Florida, LLC, Crystal River Energy Complex. Attempts to sell the drives to an external party were unsuccessful. No exceptions were noted.

### **Litigation Expenses**

**Objectives:** Our objectives were to determine whether Duke/Westinghouse Engineering, Procurement, and Construction contract litigation expenses were included for cost recovery, and 2015 Duke/Westinghouse Engineering, Procurement, and Construction contract litigation expenses included in jurisdictional expenses were disclosed and reported.

**Procedure:** We verified that there was no litigation expenses included for cost recovery in 2015. No exceptions were noted.

### **True-Up**

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

**Procedures:** We traced the December 31, 2014, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2015, using the Commission approved beginning balance as of December 31, 2014, the approved 2015 jurisdictional separation factors for capacity revenues and costs to be included in the recovery factor, and the 2015 costs. No exceptions were noted.

Audit Findings

**None**



## Exhibit

### Exhibit 1: True-Up

2015 Summary  
 Levy Nuclear Units 1 & 2  
 January 2015 - December 2015  
 Duke Energy Florida

Witness: Thomas G. Foster  
 Docket No. 160009-EI  
 Duke Energy Florida  
 Exhibit: (TGF- 1)

		12-Month Total
1.	Final Costs for the Period	
	a. Carrying Cost on Unrecovered Investment	\$ 5,977,302 (2015 Detail Line 8d. & 2015 LLE Detail Line 3d.)
	b. Period Exit / Wind-down Costs (including sale of LLE)	(4,312,069) (2015 Detail Line 5a.)
	c. Period Other Exit / Wind-down Cost and Interest	195,460 (2015 Detail Line 19d.)
	d. Other - Adjustment	(90,860) (2015 Detail Line 5e.)
	e. Total Period Revenue Requirement	<u>\$ 1,769,833</u>
2.	Projected Amount for the Period (January - April) (Order No. PSC 14-0701-FOF-EI) (Jan-April) (I.e. \$3.45 / 1000 Kwh Residential) (Order No. PSC-15-0176-TRF-EI) (May-Dec) (\$0.00 / 1000 Kwh)	\$ 2,503,530 (2015 Detail Lines: 10 and 20)
3.	Final True-Up Amount for the Period (over)/under (Line 1e. - Line 2.)	\$ (733,697)
4.	2015 Revenue Requirement Collected (January - April) (Order No. PSC 14-0701-FOF-EI) (Jan-April) (I.e. \$3.45 / 1000 Kwh Residential) (Order No. PSC-15-0176-TRF-EI) (May-Dec) (\$0.00 / 1000 Kwh)	\$ 36,438,940 (2015 Detail Lines: 6g + 10 + 16 + 20 - 6e)

The summary below shows the uncollected balance as of December 31, 2015

5.	Uncollected Regulatory Asset (Non-\$54M Deferred Amount)	\$ 489,907 (2015 Detail Lines: 6i + 15 + 21)
6.	Carrying Cost on \$54M Deferral (May 2015 - December 2015) (Retail)	3,153,738 (2015 LLE Detail Line 3d.)
7.	Uncollected Balance \$54M Deferral (Retail)	50,275,957 (2015 LLE Detail Line 1a.)
8.	Total Uncollected Balance at Year End 2015 (Lines: 5. + 6. + 7.)	<u>\$ 53,919,601</u>