



Dianne M. Triplett
ASSOCIATE GENERAL COUNSEL

September 14, 2016

VIA ELECTRONIC FILING

Ms. Carlotta Stauffer, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: *Docket Nos. 160178-EI*

Dear Ms. Stauffer:

Please find enclosed for electronic filing on behalf of Duke Energy Florida, LLC ("DEF"), DEF's Response to Staff's Second Data Request for the above referenced docket.

Thank you for your assistance in this matter. Please feel free to call me at (727) 820-4692 should you have any questions concerning this filing.

Respectfully,

s/Dianne M. Triplett

Dianne M. Triplett

DMT/mw
Enclosures

Duke Energy Florida, LLC
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished via electronic mail this 14th day of September, 2016 to all parties of record as indicated below.

s/Dianne M. Triplett

Attorney

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Duke Energy Florida, LLC's Response to Staff's Second Data Request

Re: Docket No. 160178 – EI – Petition for Limited Proceeding for Approval to Include in Base Rates the Revenue Requirement Associated with the Acquisition of the Osprey Plant and Phase 2 of the Hines Chiller Uprate Project

1. Referring to DEF's petition, item 6 on page 3, DEF indicated that "as further explained in Mr. Swartz's testimony, costs for the maintenance and inventory requirements for 2017 are expected to be less than the costs presented in Docket 150043-EI." Referring to witness Swartz's testimony, page 4, lines 13 – 15, it states "as Mr. Edmondson indicated in the 150043 proceeding, DEF projected that it would incur \$9,044,519 in 2017 [...]. DEF currently expects to incur routine maintenance costs of \$9,174,913 in 2017 [...]." It appears that the currently projected maintenance costs requirement for 2017 is actually more, rather than less, than what presented in 150043 proceeding. Please explain.

RESPONSE:

The reference in DEF's petition is for total 2017 major maintenance and inventory costs of \$49,793,459 (see Mr. Swartz's testimony, page 4, line 6). The total of these same items in Docket 150043-EI was \$56,303,888 (Swartz testimony, page 3, line 19 through page 4, line 2). The total costs currently estimated in this docket of \$49,793,459 are less than the total costs of \$56,303,888 in Docket 150043-EI. The numbers presented in the question are for projected routine maintenance costs which DEF acknowledges have increased slightly since the estimates were provided in Docket 150043-EI.

2. Referring DEF's petition, item 10 on page 4, DEF indicated that "DEF has assumed a 26-year remaining life (or until 2042) for the Osprey unit." Please provide all the reasons and justifications which lead to DEF's 26-year remaining life assumption for Osprey unit.

RESPONSE:

In Order PSC-10-0131-FOF-EI, the Commission found that a 35-year life for the Hines Combined cycle units 1-4 was appropriate. Hines units 2 and 3 are very similar to the Osprey Combined Cycle unit and have similar in-service years of 2003 and 2005, respectively. The Osprey unit began operation in 2004. Due to the major maintenance being performed during the 2017 and 2018 outages at the Osprey plant, DEF believes the 26-year remaining life for the Osprey Combined Cycle plant is appropriate. This would result in a total unit life of approximately 39 years for the Osprey plant. Additionally, the Osprey plant will be included in DEF's next depreciation study which, per RRSSA

paragraph 20, is to be filed on or before March 31, 2019. Any resulting change to the service life for the Osprey plant, if any, will be addressed in that depreciation study.

3. On page 3, Lines 14 – 15, of his Direct Testimony, witness Foster testified that “DEF is including the \$10 million [of inventory] in the calculation of depreciation expense....”
 - a. Please explain in detail how the \$10 million of inventory was used in the calculation of depreciation expense, and provide workpapers in Excel format to support your response.
 - b. Please refer to page 3 of Exhibit C, and identify the line on which the \$10 million of inventory was included.

RESPONSE:

- a. The inventory of approximately \$10 million addressed in Mr. Foster’s testimony is included in the planned 2017 capital expenditure of approximately \$30.3 million in Exhibit C, Page 3, Line 14. The \$10 million is being installed during the outage and placed in-service as part of the 2017 Capital outage, and will be depreciated as plant in-service, along with the rest of the 2017 Capital Outage expenditures.

The \$30.3 million on Line 14, which includes the approximate \$10 million discussed above, is included in the Ending Plant Balance on Line 15 and therefore included in the Average Plant Balance on Line 16. The Average Balance on Line 16 is used to calculate the annual depreciation expense of approximately \$6.729 million. These calculations can be seen in Exhibit C, Page 3, Lines 13-18 which has been attached to this response as bates numbers DEF-160178-DR2-000.

- b. Please see the response to Question 3a.

4. Please refer to page 3 of Exhibit C.
 - a. Referring to line item 6 of the schedule, please explain what the “Integration Capital & Transaction Costs” are and why such costs should be treated as the original plant cost of the Osprey unit. Please also explain how the amount of \$1,845,000 was derived.

- b. Referring to line item 14 of the schedule, please identify the specific components, and their amounts, that comprise the estimated “2017 Capital Investment” of \$30,379,000.

RESPONSE:

- a. Integration Capital & Transaction Costs include legal fees, asset assessment costs and network integration costs necessary to acquire and integrate the Osprey Facility into the DEF system. Under GAAP, it is appropriate to capitalize these costs to the asset being acquired. These amounts are appropriate for recovery as paragraph 16.a of the 2013 RRSSA states that DEF shall be allowed to recover the full revenue requirement associated with the project. The \$1.845 million of Integration Capital & Transaction Costs were derived from actual vendor invoices, executed contracts and estimated project costs.

- b. Please see the response to Question 8 to Staff’s First Data Request in Docket No. 160178-EI.

Duke Energy Florida, LLC
 Osprey Acquisition & Hines Chiller Uprate Phase 2
 Estimated First Year Revenue Requirements
 (\$000)

Proposed Acquisition Journal Entries (\$ in 000s):

| | |
|---------------------------------------|-----------------|
| 1 Original Plant cost (101) | <u>358,787</u> |
| 2 Accum Depreciation (108) | (108,900) |
| 3 Negative acquisition Adj (114-108) | <u>(83,887)</u> |
| 4 Net purchase price (Line 1 + 2 + 3) | <u>166,000</u> |

Equivalent Depreciation Rate Calculation:

| | |
|--|--------------|
| 5 Net purchase price (Line 4) | 166,000 |
| 6 Integration Capital & Transaction Costs | <u>1,845</u> |
| 7 Net Acquisition Cost (Line 5 + 6) | 167,845 |
| 8 Expected Life (26 years) | <u>3.85%</u> |
| 9 Annual Depreciation Expense (Line 7 x 8) | 6,456 |
| 10 Original Plant cost (101) (Line 1) | 358,787 |
| 11 Effective Depreciation Expense (Line 9) | 6,456 |
| 12 Equivalent Depreciation Rate (Line 11 / 10) | 1.80% |

Depreciation Expense in Revenue Requirement:

| | |
|---|-------------------------|
| 13 Original Plant cost (101) (Line 1) | 358,787 |
| 14 2017 Capital Investment | <u>30,379</u> |
| 15 Ending Balance (Line 13 + Line 14) | 389,166 |
| 16 Average Balance (Line 13 + 15) / 2 | 373,977 |
| 17 Equivalent Depreciation Rate (Line 12) | <u>1.80% Note 1></u> |
| 18 Annual Depreciation Expense (Line 16 x 17) | <u>6,729</u> |

Note 1> The depreciation rate recovers the book cost of the Osprey asset only and does not include cost of removal & dismantlement costs. Cost of Removal & Dismantlement will be addressed in DEF's next depreciation and dismantlement study to be filed on or before March 31, 2019 per RRSSA paragraph 20.