

State of Florida



Public Service Commission

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

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

DATE: May 26, 2017

TO: Office of Commission Clerk

FROM: Lynn M. Deamer, Chief of Auditing, Office of Auditing and Performance Analysis

RE: Docket No.: 170009-EI
Company Name: Duke Energy Florida, LLC
Company Code: EI801
Audit Purpose: A3f: Nuclear Cost Recovery Clause
Audit Control No.: 17-006-2-1

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

LMD/cmm

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, 2016

Docket No. 170009-EI
Audit Control No. 17-006-2-1

May 7, 2017

A handwritten signature in cursive script, appearing to read "Ron Mavrides", written over a horizontal line.

Ronald A. Mavrides
Audit Manager

A handwritten signature in cursive script, appearing to read "Linda Hill", written over a horizontal line.

Linda Hill
Reviewer

Table of Contents

Purpose	1
Objectives and Procedures.....	2
Audit Findings	
None.....	5
Exhibit	
1: True-Up	6

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, 2017. We have applied these procedures to the attached schedule prepared by Duke Energy Florida, LLC in support of its 2016 Nuclear Cost Recovery Clause for its construction cost expenditures for the Levy Nuclear Plant Units 1 & 2 filing in Docket No. 170009-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 2016 NCRC filing in Docket No. 170009-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 2016 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 2016 adjustments and additions to the unrecovered CWIP balance that are included for recovery.

Procedures: 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. All NCRC activity that is now related to capital investment is allocated to the Regulatory Asset Account. We judgmentally sampled eight capital addition transactions allocated to the Regulatory Asset Accounts from the transaction details and tested for: 1) Compliance with contracts, 2) Correct paid amounts, and 3) Correct recording periods. No exceptions were noted.

Recovery

Objectives: The objectives were to determine whether the Utility used the Commission approved CCRC factors to bill customers for the period January 1, 2016, through December 31, 2016, and whether the 2016 Detail Calculation of the Revenue Requirements reflects amounts in Order No. PSC-15-0521-FOF-EI.

Procedures: We agreed the beginning balances of the 2016 Detail Calculation of the Revenue Requirements to the ending 2015 Detail Calculation of the Revenue Requirements. Order PSC-15-0521-FOF-EI, issued November 5, 2015, Attachment 1, says that costs, if any, will not be collected/recovered in the 2016 or 2017 NCRC factor. Audit staff determined that customers were not billed during the period January 1, 2016 through December 31, 2016. 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 3) Total Jurisdictional O&M Expense is accurately calculated.

Procedures: We reconciled the trial balance accounts to the filing. We judgmentally selected eleven 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 2016 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 2016 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 2016 disposition, storage, and other such expenses included in jurisdictional expenses.

Procedure: We verified that all of the long-lead time items were disposed of as of year-end 2016. 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 2016 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 2016. 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, 2015, True-Up Provision to the Commission Order. We recalculated the True-Up and Interest Provision amounts as of December 31, 2016, using the Commission approved beginning balance as of December 31, 2015, the approved 2016 jurisdictional separation factors for capacity revenues and costs to be included in the recovery factor, and the 2016 costs. No exceptions were noted.

Audit Findings

None

Exhibit

Exhibit 1: True-Up

2016 Summary
Levy Nuclear Units 1 & 2
January 2016 - December 2016
Duke Energy Florida

Witness: Thomas G. Foster
Docket No. 170009-EI
Duke Energy Florida
Exhibit: (TGF- 1)

			12-Month Total	
1.	Final Costs for the Period			
	a. Carrying Cost on Unrecovered Investment	\$	5,400,664	(2016 Detail Line 8d. & 2016 LLE Detail Line 3d.)
	b. Period Exit / Wind-down Costs (including disposition of LLE)		3,111,848	(2016 Detail Line 5a.)
	c. Period Other Exit / Wind-down Cost and Interest		41,622	(2016 Detail Line 19d.)
	d. Prior Period Adjustment		0	
	e. Total Period Revenue Requirement	<u>\$</u>	<u>8,554,134</u>	
2.	Projected Amount for the Period (January - December) (Order No. PSC-15-0521-FOF-EI) (\$0.00 / 1000 Kwh)	\$	-	(2016 Detail Lines: 10 and 20)
3.	Final True-Up Amount for the Period (over)/under (Line 1e. - Line 2.)	\$	8,554,134	
4.	2016 Revenue Requirement Collected (January - December) (Order No. PSC-15-0521-FOF-EI) (\$0.00 / 1000 Kwh)	\$	-	

The summary below shows the uncollected balance as of December 31, 2016

5.	Uncollected Regulatory Asset (Non-\$54M Deferred Amount)	\$	3,734,207	(2016 Detail Lines: 6j + 15 + 21)
6.	Carrying Cost on \$54M Deferral (May 2015 - December 2016) (Retail)		8,463,571	(2016 LLE Detail Lines: 1b + 3d.)
7.	Uncollected Balance \$54M Deferral (Retail)		50,275,957	(2016 LLE Detail Line 1a.)
8.	Total Uncollected Balance at Year End 2016 (Lines: 5. + 6. + 7.)	<u>\$</u>	<u>62,473,735</u>	