

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Nuclear cost recovery clause.

DOCKET NO. 080009-EI
ORDER NO. PSC-08-0749-FOF-EI
ISSUED: November 12, 2008

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman
LISA POLAK EDGAR
KATRINA J. McMURRIAN
NANCY ARGENZIANO
NATHAN A. SKOP

FINAL ORDER APPROVING NUCLEAR COST RECOVERY AMOUNTS FOR
FLORIDA POWER & LIGHT COMPANY AND PROGRESS ENERGY FLORIDA, INC.

BY THE COMMISSION:

Background

On February 29, 2008, Progress Energy Florida, Inc. (PEF) filed a petition seeking prudence review and recovery of costs associated with increasing the capacity (uprate) of the existing nuclear generating plant Crystal River Unit 3 (CR3 Uprate) pursuant to Rule 25-6.0423, Florida Administrative Code (F.A.C.), and Section 366.93, Florida Statutes (F.S.). PEF obtained an affirmative need determination for the CR3 Uprate by Order No. PSC-07-0119-FOF-EI.¹ On July 18, 2008, PEF amended its petition to include additional cost recovery associated with the newly proposed nuclear power plant, Levy Units 1 & 2. PEF obtained an affirmative need determination for the Levy Units 1 & 2 project by Order No. PSC-08-0518-FOF-EI.² Completion of these approved projects will add 2,380 MWs of new nuclear base load generation to PEF's system.

On March 3, 2008, Florida Power & Light Company (FPL) filed a petition seeking prudence review and recovery of costs for uprate activities at existing nuclear generating plants, Turkey Point Units 3 & 4 and St. Lucie Units 1 & 2, pursuant to Rule 25-6.0423, F.A.C., and Section 366.93, F.S. Collectively, these uprate activities are known as the extended power uprate project (EPU Project). FPL obtained an affirmative need determination for the EPU

¹ Issued February 8, 2007, in Docket No. 060642-EI, In re: Petition for determination of need for expansion of Crystal River 3 nuclear power plant, for exemption from Bid Rule 25-22.082, F.A.C., and for cost recovery through fuel clause, by Progress Energy Florida, Inc.

² Issued August 12, 2008, in Docket No. 080148-EI, In re: Petition for determination of need for Levy Units 1 and 2 nuclear power plants, by Progress Energy Florida, Inc.

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Project by Order No. PSC-08-0021-FOF-EI.³ On May 1, 2008, FPL amended its petition to include additional cost recovery associated with the newly proposed nuclear power plants, Turkey Point Units 6 & 7. FPL obtained an affirmative need determination for the Turkey Point Units 6 & 7 project by Order No. PSC-08-0237-FOF-EI.⁴ Completion of these projects will add 2,614 MWs of new nuclear base load generation to FPL's system.

Traditionally, all eligible power plant construction projects have been afforded the same regulatory accounting and ratemaking treatment. That is, once we have determined a need for a project, the utility books all expenditures associated with the project into account 107 Construction Work in Progress (CWIP) for that particular project. A monthly allowance for funds used during construction (AFUDC) rate is applied to the average balance of this account and the resulting dollar amount is then credited to the account balance. Another accrued carrying cost is a deferred tax adjustment (DTA). A DTA reflects the difference in timing of recognition of certain revenues or expenses for income tax purposes compared with book purposes. This process continues until the completion of the project.

Once construction is completed and the plant is placed in commercial service, the CWIP account balance is transferred to the appropriate plant-in-service account and becomes part of the utility's rate base. The inclusion of the total project cost in a utility's rate base is addressed during a subsequent proceeding wherein we determine whether customer base rate charges should be changed to provide the opportunity to recover these costs. This is usually done in the context of a comprehensive rate case where all costs and revenues are evaluated in the determination of compensatory rates.

In 2006, the Florida Legislature enacted Section 366.93, F.S., to encourage utility investment in nuclear electric generation by creating an alternative cost recovery mechanism. Section 366.93, F.S., authorized us to allow investor-owned electric utilities to recover certain construction costs in a manner that reduces the overall financial risk associated with building a nuclear power plant. In 2007, Section 366.93, F.S., was amended to include integrated gasification combined cycle plants, and in 2008, the statute was amended to include new, expanded, or relocated transmission lines. The statute required us to adopt rules that provide for, among other things, annual reviews and cost recovery for nuclear plant construction through the existing capacity cost recovery clause (CCRC). By Order No. PSC-07-0240-FOF-EI, we adopted Rule 25-6.0423, F.A.C., to implement Section 366.93, F.S.⁵

Pursuant to Rule 25-6.0423(4) and (5), F.A.C., once a utility obtains an affirmative need determination for a power plant covered by Section 366.93, F.S., the affected utility may petition for cost recovery using the alternative mechanism. Three types of prudently incurred costs are described in the rule for such consideration.

³ Issued January 7, 2008, in Docket No. 070602-EI, In re: Petition for determination of need for expansion of Turkey Point and St. Lucie nuclear power plants, for exemption from Bid Rule 25-22.082, F.A.C. and for cost recovery through the Commission's Nuclear Power Plant Cost Recovery Rule, Rule 25-6.0423, F.A.C.

⁴ Issued April 11, 2008, in Docket No. 070650-EI, In re: Petition to determine need for Turkey Point Nuclear Units 6 and 7 electrical power plant, by Florida Power & Light Company.

⁵ Issued March 20, 2007, in Docket No. 060508-EI, In re: Proposed adoption of new rule regarding nuclear power plant cost recovery.

- Preconstruction costs are those costs incurred after a site is selected through the date site clearing work is completed. (Rule 25-6.0423(2)(g), F.A.C.)
- Construction costs are costs that are expended to construct the nuclear or integrated gasification combined cycle power plant including, but not limited to, the costs of constructing power plant building and all associated permanent structures, equipment and systems. (Rule 25-6.0423(2)(i), F.A.C.)
- Site selection costs are costs incurred prior to the selection of a site. A site is deemed selected upon the filing for a determination of need. (Rule 25-6.0423(2)(e) and (f), F.A.C.)

Pursuant to Rule 25-0423(5)(a), F.A.C., all prudently incurred preconstruction costs will be recovered directly through the CCRC. Additionally, Rule 25-0423(5)(b), F.A.C., provides for recovery of carrying charges on prudently incurred construction costs through the CCRC. Rule 25-6.0423(4), F.A.C., allows a utility to request an alternative cost recovery mechanism for site selection costs. Rule 25-6.0423(2)(h) F.A.C., defines site selection costs to be similar to preconstruction costs.

By Order No. PSC-08-0295-DS-EI, we granted FPL's request for a declaratory statement that "advance payments made prior to the completion of site clearing work are properly characterized as preconstruction costs to be recovered pursuant to the mechanism provided in Rule 25-6.0423, F.A.C."⁶

Rule 25-6.0423(5), F.A.C., sets forth the process by which we are to conduct an annual hearing to determine the recoverable amount that will be included in the CCRC pursuant to Section 366.93, F.S. Docket 080009-EI was opened and established for purposes of addressing the petitions of PEF and FPL.

We granted intervention to the following parties: the Office of Public Counsel (OPC), AARP, Florida Industrial Power Users Group (FIPUG), and White Springs Agricultural Chemicals Inc. d/b/a PCS Phosphate – White Springs (PCS Phosphate). Testimony and associated exhibits were filed by FPL, PEF, OPC and our staff. Prehearing statements of the parties were filed on August 22, 2008.

We held our first evidentiary hearing for the Nuclear Cost Recovery Clause (NCRC) docket on September 11 and 12, 2008. OPC, AARP, PCS Phosphate, FIPUG, PEF, and FPL presented two sets of stipulations. One set of stipulations recommended deferral of a prudence review related to the new power plants due to the timing of the final need determination, which was not completed until after the filing deadline for testimony in this year's docket. The parties asserted that the shortened timeframe was insufficient to perform a prudence review. Additionally, these stipulations stated that it was reasonable to allow PEF and FPL to begin

⁶ Issued May 5, 2008, in Docket No. 080083-EI, In Re: Petition for declaratory statement regarding applicability of Rule 25-6.0423, F.A.C., by Florida Power & Light Company.

collecting costs in 2009, pending prudence review, because denial could result in even higher charges to customers in 2010.

The second set of stipulations recommended that utility uprate costs for purposes of the clause be limited to costs that are separate and apart from those which would have been necessary to provide safe and reliable service had there been no uprate project. Pursuant to these stipulations the parties and staff would collaborate to improve transparency in utility filings related to this matter. The intervenors did not challenge the prudence of PEF's and FPL's 2007 uprate project costs with respect to the "separate and apart" issue. We approved the parties' stipulations as a preliminary matter during the September 2008 hearing. We took testimony and exhibits from the parties. At the conclusion of the hearing, we requested that the parties provide post-hearing briefs, which were filed on September 15, 2008. We have jurisdiction over these matters pursuant to Section 366.93, F.S., and other provisions of Chapter 366, F.S.

I. Policy Issues

At the onset of the hearing, we were asked to consider the implementation of several policy matters. These policy matters are ripe for our consideration as each affects specific factual circumstances presented to us in this year's hearing.

We were asked to consider whether PEF and FPL should be allowed to recover through the NCRC revenue requirements for a phase or portion of a system associated with a power plant, after such phases or portion of the project have been placed into commercial service, or should such phases or portion of the project be recovered through base rates. This issue addresses an implementation policy matter concerning whether revenue requirements associated with a phase or portion of a covered project can be recovered through the NCRC after it has been placed into commercial service, and if so, for how long.

Section 366.93(4), F.S., states:

When the nuclear or integrated gasification combined cycle power plant is placed in commercial service, the utility shall be allowed to increase its base rate charges by the projected annual revenue requirements of the nuclear or integrated gasification combined cycle power plant based on the jurisdictional annual revenue requirements of the plant for the first 12 months of operation. The rate of return on capital investments shall be calculated using the utility's rate of return last approved by the commission prior to the commercial in-service date of the nuclear or integrated gasification combined cycle power plant.

Rule 25-6.0423, F.A.C., implementing that provision, states:

(7) Commercial Service. As operating units or systems associated with the power plant and the power plant itself are placed in commercial service:

(a) The utility shall file a petition for Commission approval of the base rate increase pursuant to Section 366.93(4), F.S., separate from any cost recovery

clause petitions, that includes any and all costs reflected in such increase, whether or not those costs have been previously reviewed by the Commission; provided, however, that any actual costs previously reviewed and determined to be prudent in the Capacity Cost Recovery Clause shall not be subject to disallowance or further prudence review except for fraud, perjury, or intentional withholding of key information.

(c) At such time as the power plant is included in base rates, recovery through the Capacity Cost Recovery Clause will cease, except for the difference between actual and projected construction costs as provided in subparagraph (5)(c)4.

Each party acknowledges in its position on this issue that once a plant, or portion thereof, is moved into commercial service, the plant or portion thereof should be moved into base rates. Answering this question provides a vehicle for the movement of items from the NCRC to base rates.

It is timely for us to consider this matter because PEF completed a phase of the CR3 Uprate project known as the measurement uncertainty recapture (MUR) in January 2008. In February 2008, PEF began commercial operation of approximately 12 additional megawatts of nuclear generation due to the completion of the MUR phase of the CR3 uprate.

Although our decision affects only the MUR project in this year's proceeding, in future years any particular project could have several portions of a plant that go into commercial service at different times during a single year. We may then be considering multiple base rate petitions in a single year.

In her testimony, PEF witness Cross originally explained that PEF prefers to recover the applicable revenue requirement for the MUR phase through the NCRC until the remaining phases of the CR3 Uprate project are completed. PEF initially proposed this approach due to the relatively small nature of the dollars associated with this phase of the project and for purposes of administrative efficiency but changed its position during the pre-hearing to be consistent with our staff's position.

OPC, AARP, and PCS Phosphate maintain that no amount of allowed revenue requirements for projects placed into commercial service can be recovered through the NCRC. FIPUG's pre-hearing position, while similar, urges clause recovery to cease as early as practical. None of the intervenors specifically addressed this issue in their post-hearing briefs.

The regulatory implementation policy is one of timing and therefore how often customers base rates could change. As demonstrated by PEF's MUR project, the construction phasing approach, which is used by both FPL and PEF, can result in multiple in-service dates in which commercial operation commences, rather than just one in-service date. Multiple in-service dates will become more prevalent as transmission projects associated with the new plant construction are completed. For example, PEF anticipates completion of all transmission facilities by 2015 to allow a year's worth of testing before the June 2016 in-service date of Levy Unit 1. If utilities are prohibited from collecting the allowed revenue requirements for these projects through the

clause, at least for some period, we may be required to address multiple changes to base rates in any one year.

Based on the forgoing, we find that PEF and FPL shall be allowed to recover through the NCRC associated revenue requirements for a phase or portion of a system placed into commercial service during a projected recovery period. The revenue requirement shall be removed from the NCRC at the end of that period. Any difference in recoverable costs due to timing (projected versus actual placement in service) shall be reconciled through the true-up provision. We find this approach to be consistent with the requirements of Section 366.93, F.S., and incorporates an efficient method of moving projects out of the NCRC and into a utility's rate base as portions of the plant become commercially available. Under this approach, the number of changes customers will see in their base rates during the construction period is minimized, while not affecting the level of allowable revenue requirements utilities are entitled to recover pursuant to Section 366.93, F.S.

Accordingly, because PEF's MUR phase was placed in commercial service in January 2008, PEF shall recover through the NCRC carrying charges on prudently incurred construction cost for January 2008. For the remainder of 2008, PEF shall recover through the NCRC the revenue requirement associated with the MUR phase.

By determining that a utility may recover its revenue requirements through the NCRC when a phase or portion of a system is placed into commercial service during a projected recovery period, we must now determine how those revenue requirements for that phase or portion should be determined while being recovered through the NCRC. Section 366.93(4), F.S., and Rule 25-6.0423(7), F.A.C., are intended to apply to completed projects that begin commercial operation. FPL and PEF believe the methodology used to determine the revenue requirement for a completed project should also be used for portions of plants or phases which go into service. OPC, AARP, and PCS Phosphate take a position suggesting use of a methodology analogous to a rate case. However, OPC, AARP, and PCS Phosphate did not address this issue in their post-hearing briefs. We find that Section 366.93(4), F.S., and Rule 25-6.0423(7), F.A.C., establish a methodology of determining revenue requirements in a manner analogous to a rate case.

Rule 25-6.0423(7)(b), (d), and (e), F.A.C., which implements Section 366.93(4), F.S., provide the best guidance on this issue. Rule 25-6.0423(7)(b), F.A.C., states:

The utility shall calculate the increase in base rates resulting from the jurisdictional annual base revenue requirements for the power plant in conjunction with the Capacity Cost Recovery Clause projection filing for the year the power plant is projected to achieve commercial operation. The increase in base rates will be based on the annualized base revenue requirements for the power plant for the first 12 months of operations consistent with the cost projections filed in conjunction with the Capacity Cost recovery Clause projection filing.

Rule 25-6.0423(7)(d), F.A.C., states:

The rate of return on capital investments shall be calculated using the utility's most recent actual Commission adjusted basis overall weighted average rate of return as reported by the utility in its most recent Earnings Surveillance Report prior to the filing of a petition as provided in paragraph (7)(a). The return on equity cost rate used shall be the midpoint of the last Commission approved range for return on equity or the last Commission approved return on equity cost rate established for use for all other regulatory purposes, as appropriate.

Finally, Rule 25-6.0423(7)(e), F.A.C., states:

The jurisdictional net book value of any existing generating plant that is retired as a result of operation of the power plant shall be recovered through an increase in base rate charge over a period not to exceed 5 years. At the end of the recovery period, base rates shall be reduced by an amount equal to the increase associated with the recovery of the retired generating plant.

Rule 25-6.0423(7)(b), (d), and (e), F.A.C., outlines how revenue requirements are to be determined for setting base rate changes associated with projects that can be included in the clause, and is consistent with that performed in a normal revenue requirement case. We find that revenue requirements for a phase or portion of a system in commercial service are to be determined according to current rate setting standards consistent with Section 366.93(4), F.S., and Rule 25-6.0423(7), F.A.C.

PEF provided, in Attachment A of Exhibits 6 and 8, its revenue requirement calculations for the MUR in-service portion of the CR3 Uprate project for the periods 2008 and 2009. PEF asserted its revenue requirement calculations are in accordance with Rule 25-6.0423, F.A.C. No testimony addressing an alternative to PEF's calculations was presented. We find that PEF has set its revenue requirements consistent with Rule 25-6.0423, F.A.C., in calculating the revenue requirements applicable to the MUR phase.

We were also requested to determine how the completion of site clearing work should be determined for the purpose of applying either preconstruction or construction cost recovery treatment within the clause. Preconstruction costs are defined in Rule 25-6.0423(2)(g), F.A.C., as "costs that are expended after a site has been selected in preparation for the construction of a nuclear...plant, incurred up to and including the date the utility completes site clearing work." Construction costs are defined in Rule 25-6.0423(2)(i), F.A.C., as "costs that are expended to construct the nuclear...plant including, but not limited to, the costs of constructing power plant buildings and all associated permanent structures, equipment and systems." According to the rule then, preconstruction activities are time limited by the threshold of site clearing. However, construction costs are not similarly time limited in the rule. This prompts the question of whether any costs can be treated as construction costs for recovery purposes prior to site clearing being completed. PEF has requested treatment of certain costs as construction costs prior to completion of site clearing.

FIPUG, in its prehearing position, asserted that a reasonable time for site clearing should be determined in this proceeding, after which no construction costs should be collected through

the clause. In their post-hearing positions, OPC, AARP, and PCS Phosphate agree that the determination of site clearing completion will be dependent on individual circumstances, and so must be considered on a case-by-case basis. However, OPC believes that determination should be based upon work related to the generating unit, and not related structures such as transmission. The intervenors did not address this issue in their briefs.

In its post-hearing position, FPL states that site clearing work is complete when the property has been prepared to a condition that can allow the initiation of the first construction activity. Generally, this means the removal of existing vegetation and soils to allow for the initiation of engineered civil work activities such as foundations and buried infrastructure. FPL states that ultimately this is a factually specific determination that should be made individually for each site. Similarly, PEF states that in general, site clearing work will be completed when the types of costs defined as preconstruction costs in Rule 25-6.0423(2)(h), F.A.C., have been completed. In addition, PEF states that for most items associated with the plant, PEF would tie completion to when site clearing is completed for the foundation of the plant. However, it may be reasonable to have a separate site clearing date for certain large associated facilities like a cooling tower or transmission projects.

We agree with the parties that the completion of site clearing for a project is dependent on individual circumstances, and shall therefore be considered on a case-by-case basis. In general, site clearing work is complete when the property has been prepared to a condition that can allow the initiation of the first construction activity. Distinguishing between preconstruction and construction costs shall be considered on a case-by-case basis. This may necessitate more than one site clearing completion date, based upon the types of construction activities involved with a particular project.

Finally, we were asked to approve a stipulation by the parties responding to the question whether a utility should be required to inform us of any change in ownership or control of any asset which was afforded cost recovery under the NCRC. We approve the parties' stipulation. The parties agree and we approve the stipulation that timely notification to us and to the parties to the NCRC docket at the time of filing the notice will allow us to make any required adjustments within or outside of the NCRC. Our staff will conduct workshops on the administrative procedures we will use to make such adjustments.

II. Progress Energy Florida's Nuclear Cost Recovery

A. Project Management, Contracting and Oversight Controls; Accounting and Costs Oversight and Controls

This issue addresses the reasonableness and prudence of the 2007 project management, contracting, and oversight controls, and the 2007 accounting and costs oversight and controls incorporated by PEF as part of its Levy Units 1 & 2 and CR3 projects. OPC, PEF, AARP and PCS Phosphate reached an agreement on the procedural posture of this case. FIPUG did not join in the agreement but took no post-hearing position on any of the issues identified in this hearing.

OPC and PEF agreed, and AARP and PCS Phosphate supported, that for the CR3 Uprate project, as it applies to nuclear uprate projects, the NCRC should be limited to those costs that are separate and apart from nuclear costs that would have been necessary to provide safe and reliable service without the uprate (the "separate and apart" issue). For purposes of the 2008 NCRC hearings, OPC will not challenge the prudence of PEF's 2006 and 2007 CR3 Uprate costs on the "separate and apart" issue. OPC's position for the 2006 and 2007 CR3 Uprate costs, however, does not prevent OPC from raising the "separate and apart" issue for any CR3 Uprate costs incurred subsequent to 2007.

As to the Levy Nuclear Project, OPC and PEF agreed, and AARP and PCS Phosphate concurred, that the following categories of costs – operating and maintenance (O&M), return on accumulated deferred tax asset (liability), site selection, pre-construction, construction, and calculation of the carrying costs in PEF's nuclear filing requirements (NFRs) - may be included in the calculation of the nuclear cost recovery amount to be recovered through the 2009 capacity cost recovery factor. This inclusion is subject to the deferral of any finding as to the prudence of those costs until the 2009 nuclear cost recovery cycle, notwithstanding the language of subsection 25-6.0423(5)(c)3, F.A.C., that such costs "shall not be subject to disallowance or further prudence review." OPC and PEF further agreed that PEF's site selection costs will be recovered through the NCRC in the same manner as pre-construction costs are recovered in Rule 25-6.0423(5)(a) F.A.C. We approve the agreement of PEF and OPC, supported by AARP and PCS Phosphate, as appropriate.

The procedural effect of the agreement is that, for PEF's CR3 Uprate project, we will consider the prudence of the project management, contracting, and oversight controls, the prudence of the accounting and costs oversight controls, and the prudence of the costs for the years 2006 and 2007. For the Levy Units 1 & 2 project, we will consider the reasonableness of the project management, contracting, and oversight controls, the reasonableness of the accounting and costs oversight controls, and the reasonableness of the costs for the years 2006 and 2007. We defer ruling on the prudence of the Levy Units 1 & 2 controls and costs for 2006 and 2007 until a future proceeding.

As part of their agreement, the parties concurred that PEF may recover site selection costs for the Levy Units 1 & 2 project in the same manner as preconstruction costs. The reasonableness of the costs are to be considered in this year's proceeding and the parties agree that the prudence of the determination be made at next year's proceeding. As to the method of valuing the Levy Units 1 & 2 project, staff witness Jeffery Small provided testimony offering alternatives to the method PEF witness Will Garrett used in valuing the Lybass parcel of land used for Levy Units 1 & 2. Our staff, PEF, AARP, PCS Phosphate, and FIPUG agreed that the consideration of alternative methods of valuing the property is appropriately considered during a prudence review. Because we have approved the stipulation between PEF and OPC to postpone our prudence determination of the Levy Units 1 & 2 project, the testimony of witness Small will also be considered at the time of our prudence review of the 2007 accounting and costs oversight and controls affecting Levy Units 1 & 2. We shall include the costs as calculated by PEF witness Garrett as reasonable in this year's proceeding. If we find that PEF's method for valuing

the Lybass parcel used for Levy Units 1 & 2 is imprudent, then PEF will refund that amount deemed imprudent. We approve this stipulation and agreement of the parties as appropriate.

In determining the reasonableness and the prudence of the project management, contracting, and oversight controls, and the reasonableness and prudence of the accounting and costs oversight and controls, we reviewed the testimony, exhibits, and the parties' post-hearing statements and briefs. In its post-hearing position statement and brief, OPC states that it participated in several full and partial stipulations. OPC provides positions on all issues not fully stipulated. PCS Phosphate confines its brief to discussion of PEF and asserts that we must scrutinize the nuclear project cost and scheduling information. PCS Phosphate urges us to fully assess all material costs and schedule variations and take a hard look going forward as to the feasibility of each project. PCS Phosphate states it supports the stipulations between OPC and PEF on the policy issue regarding our notification if a portion of a plant's assets are sold by a utility. In all other aspects, PCS adopts OPC's positions. AARP also adopts the positions of OPC. FIPUG provides a post-hearing brief and statement of positions in which it takes the position that PEF's proposed Levy plant exceeds the needs of customers. FIPUG's position also states that the resultant rates are unfair and unreasonably excessive. FIPUG argues that to alleviate rate shock we should require better proof from PEF of its projected expenses. FIPUG argues that we should disallow \$150 million until better proof of the projections is provided. FIPUG did not offer post-hearing position statements for any of the issues identified in the prehearing order for this proceeding. On those issues for which FIPUG had a prehearing position, but took no post-hearing position, FIPUG has waived its position (see Order No. PSC-08-0581-PHO-EI, issued September 8, 2008).

In PEF's post-hearing statement of issues and positions, it submits that the record conclusively demonstrates that PEF has met both statutory and rule requirements regarding recovery of costs for its CR3 Uprate and Levy projects. PEF notes in its position that the parties stipulated to a reasonableness review of the costs of its Levy Nuclear Project and prudence review of its CR3 2006 and 2007 actual costs. PEF argues that competent substantial evidence in the record supports our finding of prudence for its 2006 and 2007 costs for the CR3 Uprate project. According to PEF, the record also supports a finding of reasonableness for the remainder of CR3 costs, and all of the 2007, 2008, and 2009 Levy Nuclear Project costs.

In his direct testimony, PEF witness Roderick described the company's project management and cost control policies and procedures. He concluded his testimony in this area by asserting that PEF's project management and cost control policies and procedures are consistent with best practices for capital project management in the industry. Witness Roderick was not cross-examined on this issue during the hearing.

OPC witness Jacobs provided direct testimony outlining his review of PEF's project management and cost control activities. In his testimony, witness Jacobs did not offer an opinion concerning the prudence of PEF's project management, contracting, and oversight control. Witness Jacobs was not cross-examined on this issue.

Staff witnesses Vinson and Fisher sponsored testimony that included the results of their management audit report. The focus of this report was an examination of internal control

procedures established by PEF to track and manage construction schedules and costs for PEF's two projects. In their audit report, witnesses Vinson and Fisher stated, "We believe that even more extensive and detailed examinations of internal controls and project management controls should be performed to fully substantiate their adequacy and effectiveness." During cross-examination on this issue, witness Vinson further clarified this opinion by stating that PEF's project management and internal cost controls are currently adequate, but PEF should continue fine-tuning the process as the projects evolve.

OPC witness Jacobs raised a general issue in his testimony concerning incremental, or separate and apart, construction type activities that may impact uprate project costs currently under construction by PEF and FPL. His concern was:

As I understand the Nuclear Plant Cost Recovery rule, it is not intended to apply to the normal maintenance or replacement of equipment off existing nuclear units. Therefore, where such items would have been necessary in the absence of an uprate project, I believe that only the incremental costs required for the EPU projects – those over and above what would have been spent anyway – should be recoverable under the rule.

Witness Jacobs provided an example in his testimony of a cost, which, in his opinion, would not be considered incremental. However, a complete review of his testimony did not reveal any instance where he identified that PEF was requesting recovery of non-incremental costs for the CR3 Uprate project. PEF witness Roderick asserted in his rebuttal testimony that only costs associated with the CR3 Uprate project are being requested. Witness Roderick further asserted that PEF implemented procedures and evaluations to exclude costs for regular maintenance from its petition.

Staff witness Small's testimony included his findings from the three audits he performed on PEF's 2006 and 2007 nuclear costs. Witness Small testified that PEF agreed to correct and true-up the cost impacts identified in his audit findings, except for audit finding number 1. Finding number 1 concerned the method of valuing land held for future use associated with land purchased for the Levy Units 1 & 2 project. As stated above, the valuation of the land held for future use will be addressed in a future NCRC proceeding.

Based on the stipulations and agreements of the parties, the testimony and exhibits in the record, including the management audits prepared by witnesses Vinson and Fisher, the financial audits prepared by witness Small, and the post-hearing briefs, we find that PEF's 2007 project management, contracting, and oversight controls, and PEF's 2007 accounting and costs oversights and controls, are reasonable and prudent for the CR3 Uprate project. In addition, and consistent with the approved stipulations and agreements between the parties, we find that PEF's Levy Units 1 & 2 project 2007 project management, contracting, and oversight controls, and PEF's Levy Units 1 & 2 project 2007 accounting and costs oversights and controls, are reasonable, but we defer making a determination on prudence until a future NCRC proceeding. In addition, we defer making a determination on the appropriate method for valuing land held for future used associated with land purchases for Levy Units 1 & 2 until the 2009 proceeding.

B. Costs to be Recovered for CR3 Uprate for 2007

1. Construction costs. PEF requested approval for recovery of its 2007 construction costs for the CR3 Uprate project. PEF witness Garrett provided support as to the amounts and method used to determine the requested construction costs. Witness Roderick provided descriptions of the construction activities that are associated with the costs requested for the 2007 period. No party suggested adjustments to PEF's requested amount for this period.

We have reviewed PEF's calculations and supporting information. We approve as prudent an amount of \$38,520,916 (gross system) as final 2007 CR3 Uprate project construction costs. The amount net of participant credits is \$34,278,183 system (\$32,136,826 jurisdictional).

2. Carrying charges. PEF requests recovery of its carrying charges on 2007 construction costs for the CR3 Uprate project. PEF witness Garrett provided support as to the amount and method used in determining the requested carrying charges for the period. No party suggested adjustment to PEF's requested amount for this period.

We reviewed PEF's calculation and supporting information and find them to be consistent with the requirements of Rule 25-6.0423, F.A.C. The applicable carrying charges amount is the AFUDC accrued on 2007 construction costs for the CR3 Uprate project. We approve the amount of \$925,842 as the carrying charges on prudently incurred 2007 construction costs for the CR3 Uprate project.

3. Total 2007 Recovery for CR3. PEF requests recovery for the total 2007 cost for the CR3 Uprate project. PEF witness Garrett provided support as to the amount and method used in determining construction and carrying costs, including deferred tax adjustment (DTA), requested for the period. DTA reflects the difference in timing of recognition of certain revenues or expenses for income tax purposes compared with book purposes. Witness Roderick provided descriptions of the construction activities that are associated with the costs requested to be recovered for the 2007 period. No party suggested adjustments to PEF's requested amount for this period. PEF's cumulative carrying costs through 2007 include the AFUDC amount and the DTA carrying costs on the construction costs. The DTA amount is \$3,053 and the total amount is \$928,896.

We approve as prudent the amount of \$928,896 as final 2007 true-up to be recovered for the CR3 Uprate project.

C. Costs to be Recovered for CR3 Uprate for 2008

1. Construction costs. PEF requests recovery for 2008 actual and estimated construction costs for the CR3 Uprate project. In her direct testimony PEF witness Cross identified the amounts and method used in determining the requested construction costs for the 2008 period. Witness Roderick provided descriptions of the construction activities that are associated with the costs requested for the 2008 period. No party suggested adjustment to PEF's requested amount for this period.

We reviewed PEF's calculations and supporting information and find them to be reasonable. Consistent with the agreements and stipulation of the parties identified above, we approve as reasonable an amount of \$67,615,770 (gross system) as 2008 actual and estimated construction costs for the CR3 Uprate project. The amount net of participant credits and other adjustments is \$53,157,440 system (\$49,836,695 jurisdictional).

2. Carrying charges. PEF requests recovery of its carrying charges on 2008 actual and estimated construction costs for the CR3 Uprate project. PEF witness Cross provided support as to the amount and method used in determining the requested carrying charges for the 2008 period. In its prehearing statement, FIPUG presented a position concerning the calculation of carrying costs. However, FIPUG did not address the issue in its post-hearing statement and has waived its position.

We reviewed PEF's calculations and supporting information and find them to be reasonable. AARP, PCS Phosphate, and OPC did not recommend any specific adjustments to the amount requested by PEF for this period. The applicable carrying charges amount is the AFUDC accrued on 2008 actual and estimated construction costs. We approve as reasonable an amount of \$6,006,160 as carrying charges on 2008 actual and estimated construction costs for the CR3 Uprate project.

3. Total 2008 Recovery for CR3. PEF requests recovery of its 2008 actual and estimated costs for the CR3 Uprate project. PEF witness Cross provided support as to the amount and method used in determining construction costs and carrying charges (including DTA) requested for the period. Witness Roderick provided descriptions of the construction activities that are associated with the costs requested to be recovered for the 2008 period. We have reviewed PEF's calculations and supporting information for 2008 total actual and estimated recoverable costs for the CR3 Uprate project.

2008 CR3 Uprate Project	
<u>Recoverable Amount</u>	
Carrying charges	\$ 6,006,160
O&M	\$ 261,632
MUR Rev. Req.	\$ 1,181,823
<u>DTA Carrying Costs</u>	<u>\$ 63,318</u>
Total 2008 Amount	\$ 7,512,933

The amount includes \$6,006,160 associated with AFUDC, \$63,318 for DTA, and \$261,632 in O&M expenses. The total amount also includes \$1,181,823 for MUR revenue requirements as discussed above in the policy section of this Order. We approve as reasonable an amount of \$7,512,933 as 2008 recoverable total actual and estimated costs for the CR3 Uprate project.

E. Costs to be Recovered for CR3 Uprate for 2009

1. Construction costs. PEF requests approval of its projected 2009 construction costs for the CR3 Uprate project. PEF witness Cross in her direct testimony identified the amounts and method used in determining the requested projected construction costs for the 2009 period. Witness Roderick provided descriptions of projected construction activities that are associated with the costs requested to be recovered for the 2009 period. No party suggested adjustments to PEF's requested amount for this period. We reviewed PEF's calculations and supporting information and believe the projections to be reasonable.

We approve as reasonable an amount of \$107,067,528 (gross system) as projected 2009 construction costs for the CR3 Uprate project. The amount net of \$11,834,840 participant credits and other adjustments is \$95,232,688 system (\$89,283,502 jurisdictional). Participant credits address joint-ownership obligations.

2. Carrying charges. PEF requests recovery of its carrying charges on projected 2009 construction costs to be recovered for the CR3 Uprate project. PEF witness Cross provided support as to the amount and method used in determining the requested carrying charges for the 2009 period. In its prehearing statement, FIPUG presented a position concerning the calculation of carrying costs. However, FIPUG did not address the issue in its post hearing statement.

AARP, PCS Phosphate, and OPC did not recommend any specific adjustments to the amount requested by PEF for this period. We reviewed PEF's calculations and supporting information and find the projections to be reasonable. The applicable carrying charges amount is the AFUDC accrued on 2009 projected construction costs. The AFUDC amount is \$14,587,810. We approve as reasonable an amount of \$14,587,810 as carrying charges on projected 2009 construction costs for the CR3 Uprate project.

3. Total 2009 Recovery for CR3. PEF requests recovery of its total projected 2009 recoverable costs for the CR3 Uprate project. PEF witness Cross provided support as to the amount and method used in determining construction costs, carrying charges (including DTA), and O&M expenses requested for the period. Witness Roderick provided descriptions of the construction activities that are associated with the costs requested for the 2009 period. No party suggested adjustments to PEF's requested amount for the period. We reviewed PEF's calculations and supporting information.

2009 CR3 Uprate Project
Recoverable Amount

2009 Carrying charges	\$14,587,810
O&M	\$ 304,128
MUR Rev. Req.	\$ 0
<u>DTA Carrying Costs</u>	<u>\$ 332,755</u>
Total 2009 Amount	\$15,224,693

We approve as reasonable a total amount of \$15,224,693 for projected 2009 recoverable costs for the CR3 Uprate project. This amount includes \$14,587,810 associated with AFUDC, \$332,755 for DTA, and \$304,128 in O&M expenses. All projected 2009 costs associated with the CR3 project will be subject to our review during future NCRC proceedings.

F. Costs to be Recovered for Levy Units 1 & 2 for 2007

1. Site selection costs. PEF requests recovery of the 2007 site selection costs for the Levy Units 1 & 2 project. PEF witnesses Garrett and Cross provided support as to the amounts and method used to determine the requested site selection costs. PEF witnesses Roderick, Garrett, and Oliver provided descriptions of the site selection activities that are associated with the costs requested for the 2007 period.

As discussed above, we approved the parties' agreement that PEF can recover site selection costs in the same manner as preconstruction costs. We approved the agreement of the parties that the prudence of those costs be deferred until a future NCRC proceeding and that during that future proceeding we consider the method of valuing the land held for future use. We will consider the reasonableness of PEF's 2007 site selection costs in this proceeding. No party suggested adjustments to PEF's requested amount for the period.

PEF's requested recoverable site selection costs through 2007 include \$16,267,257 in expenses, \$1,260,692 in AFUDC carrying charges, -\$6,170 in DTA carrying costs, and O&M expenses of \$547,473, for a total of \$18,069,252. We reviewed these calculations and supporting information and find them to be reasonable. We approve as reasonable an amount of \$18,069,252 as the final true-up of 2007 site selection costs for the Levy Units 1 & 2 project.

2. Preconstruction costs. There are no 2007 preconstruction costs for PEF's Levy Units 1 & 2 project.

3. Construction costs. PEF requests recovery for its 2007 recoverable construction costs for the Levy Units 1 & 2 project. PEF witnesses Garrett and Cross provided support as to the amounts and method used to determine the requested costs. Witnesses Roderick, Garrett, and Oliver provided descriptions of the construction activities that are associated with the costs requested for the 2007 period.

Schedule T-6, in Exhibit 3, shows PEF incurred \$52,530,259 (\$49,248,694 jurisdictional) in real estate acquisition expenses for the Levy site and \$8,941,425 (\$6,312,378 jurisdictional) in real estate acquisition expenses for related transmission activities in the last half of 2007. As we held in our decisions on policy issues discussed above, a utility is not prohibited by Rule 25-6.0423, F.A.C., from incurring construction costs during a period prior to site clearing work being completed. Accordingly, the items contained on Schedule T-6 may be classified as construction costs and recovered as such for purpose of the NCRC. In accordance with the approved stipulation, we defer any adjustment to PEF's real estate acquisition expenses until the 2009 NCRC proceeding. The total amount PEF is requesting for the 2007 period is \$61,471,684 (\$55,651,072 jurisdictional).

We reviewed all of the information in the record concerning these amounts and find that the information is adequate for making a determination of reasonableness. Consistent with the agreement and stipulation of the parties discussed above, we approve as reasonable an amount of \$61,471,684 system (\$55,651,072 jurisdictional) as final true-up of 2007 construction costs for the Levy Units 1 & 2 project. A determination of prudence, including the method of valuing land held for future use, shall be deferred until the 2009 nuclear cost recovery cycle consistent with the approved agreements and stipulations of the parties discussed above.

4. Carrying charges. PEF requests recovery of carrying charges on 2007 construction costs for the Levy Units 1 & 2 project. PEF witness Garrett provided support as to the amount and method used in determining the requested carrying charges for the period. Witness Garrett was not cross-examined on this issue.

FIPUG presents a position in its prehearing statement that the actual calculation of carrying costs should be changed after December 31, 2010. During the hearing, FIPUG only questioned witness Cross as to the proper application of AFUDC in PEF's filing for 2007-2009. FIPUG did not provide a witness nor present any exhibits at hearing supporting its prehearing position. In any event, none of the 2007 through 2009 amounts requested by PEF in this docket would be affected by changes effective after December 31, 2010. Notwithstanding FIPUG's prehearing position, FIPUG's post-hearing brief did not address the issue. Therefore, pursuant to the prehearing order, FIPUG has waived its position on this issue.

Schedule T-3, in Exhibit 3, shows PEF's calculations of the 2007 carrying charges on Levy Units 1 & 2 construction costs. PEF is requesting an amount of \$1,713,284 as carrying charges for the 2007 period.

OPC, AARP, and PCS Phosphate did not recommend any specific adjustments to the amount requested by PEF for this period. We reviewed PEF's calculations and supporting information and find them to be reasonable. Consistent with the agreement and stipulation of the parties as discussed above, we approve as reasonable an amount of \$1,713,284 for carrying charges on 2007 construction costs for the Levy Units 1 & 2 project. A determination of prudence shall be deferred until the 2009 nuclear cost recovery cycle consistent with the agreement and stipulation of the parties.

5. Total 2007 Recovery for Levy Units 1 & 2 Project. PEF requests recovery for its total 2007 cost for the Levy Units 1 & 2 project. PEF witnesses Garrett and Cross provided support as to the amounts and method used to determine the requested construction and carrying costs. Witnesses Roderick, Garrett, and Oliver provided descriptions of the construction activities that are associated with the costs requested for the 2007 period.

The total includes the amounts approved above for 2007, as well as the DTA carrying costs associated with the construction costs. We find the DTA amount of -\$1,841 is reasonable. The total recoverable amount requested by PEF as final 2007 true-up amount for the Levy Units 1 & 2 project is \$1,711,443.

2007 Levy Project
Recoverable Amount

Preconstruction costs	\$	0
Construction costs	\$	1,713,284
<u>DTA Carrying Costs</u>	<u>-\$</u>	<u>1,841</u>
Total 2007 Amount	\$	1,711,443

No party suggested adjustments to PEF's requested amount for the period. Consistent with the approved agreement and stipulation of the parties discussed above, we approve as reasonable an amount of \$1,711,443 as 2007 final true-up recoverable amount for the Levy Units 1 & 2 project. We defer a determination of prudence regarding this costs until our 2009 NCRC proceeding.

G. Costs to be Recovered for Levy Units 1 & 2 for 2008

1. Site Selection costs. PEF requests recovery of its 2008 site selection costs for PEF's Levy Units 1 & 2 project. PEF witness Cross provided support as to the amounts and method used to determine the requested site selection costs for the period. Witnesses Roderick and Oliver provided descriptions of the site selection activities that are associated with the costs requested for the 2008 period.

PEF's requested 2008 site selection costs include \$15,870,478 in expenses, \$3,850,524 in AFUDC, -\$26,349 in DTA, and O&M expenses of \$124,485, for a total of \$19,819,137, rounded to the nearest dollar.

No party suggested adjustments to PEF's requested amount for the period. We reviewed PEF's calculations and supporting information and find PEF's amount to be reasonable. We approve as reasonable an amount of \$19,819,137 as actual 2008 site selection costs for the Levy Units 1 & 2 project. A determination of prudence shall be deferred until the 2009 nuclear cost recovery cycle consistent with the approved agreement and stipulation of the parties discussed above.

2. Preconstruction costs. PEF requests recovery of its actual and estimated 2008 preconstruction costs for PEF's Levy Units 1 & 2 project. PEF witness Cross provided support as to the amounts and method used to determine the requested actual and estimated preconstruction costs for the period. Witnesses Roderick and Oliver provided descriptions of the preconstruction activities that are associated with the costs requested for the 2008 period.

PEF reported \$200,524,845 in generation-related preconstruction costs, of which 84% was engineering and procurement. PEF reported transmission-related preconstruction costs total \$13,345,433, of which 92% was engineering. PEF's 2008 actual and estimated preconstruction costs total \$213,870,278 (gross system). The amount net of non-cash adjustments is \$201,571,563 system (\$186,571,563 jurisdictional).

No party suggested adjustments to PEF's requested amount for the period. We reviewed PEF's calculations and supporting information and find the projected amounts to be reasonable. Consistent with the approved agreement and stipulation of the parties discussed above, we approve as reasonable an amount of \$213,870,278 (gross system) as actual and estimated 2008 preconstruction costs for the Levy Units 1 & 2 project. The amount net of non-cash adjustments is \$201,571,563 (\$186,571,563 jurisdictional). A determination of prudence shall be deferred until the 2009 nuclear cost recovery cycle consistent with the approved agreement and stipulation of the parties.

3. Construction costs. PEF requests recovery of its actual and estimated 2008 construction cost amount for PEF's Levy Units 1 & 2 project. PEF witness Cross provided support as to the amounts and method used to determine the requested actual and estimated construction costs for the period. Witnesses Roderick and Oliver provided descriptions of the construction activities that are associated with the costs requested for the 2008 period.

PEF reported \$5,620,939 generation-related construction cost, 90 percent of which was real estate. Transmission-related construction costs total \$8,366,200, 90 percent of which was engineering and construction. PEF's 2008 construction costs total \$13,987,139 (gross system). The amount net of non-cash adjustments is \$8,626,151 system (\$7,361,929 jurisdictional).

No party suggested adjustments to PEF's requested amount for the period. We reviewed PEF's calculations and supporting information and find the projections to be reasonable. Consistent with the approved agreement and stipulation of the parties discussed above, we approve as reasonable an amount of \$13,987,139 (gross system) for actual and estimated 2008 construction costs for Levy Units 1 & 2. The amount net of non-cash adjustments is \$8,626,151 system (\$7,361,929 jurisdictional). A determination of prudence shall be deferred until the 2009 nuclear cost recovery clause proceeding consistent with the agreement and stipulation of the parties.

4. Carrying charges. PEF requests recovery of carrying charges on actual and estimated 2008 construction costs for the Levy Units 1 & 2 project. PEF witness Cross provided support as to the amounts and method used to determine the requested carrying charges for the period. Witness Cross was not cross-examined on this issue.

FIPUG presents a position in its prehearing statement that the actual calculation of carrying costs should be changed after December 31, 2010. During the hearing, FIPUG only questioned witness Cross as to the proper application of AFUDC in PEF's filing for 2007-2009. FIPUG did not provide a witness nor present any exhibits at hearing supporting its prehearing position. In any event, none of the 2007 through 2009 amounts requested by PEF in this docket would be affected by changes effective after December 31, 2010. Notwithstanding FIPUG's prehearing position, FIPUG's post-hearing brief did not address the issue. Therefore, pursuant to the prehearing order, FIPUG has waived its position on this issue.

The amount of carrying charges on PEF's 2008 actual and estimated construction costs stems from the Levy Units 1 & 2 project construction costs. The AFUDC amount, therefore, is \$7,551,759.

AARP, PCS Phosphate, and OPC did not recommend any specific adjustments to the amount requested by PEF for this period. We reviewed PEF's calculations and exhibits supporting the request and found them to be reasonable. Consistent with the approved agreements and stipulations of the parties discussed above, we approve as reasonable an amount of \$7,551,759 as carrying charges on actual and estimated 2008 construction costs for the Levy Units 1 & 2 project. A determination of prudence shall be deferred until the 2009 nuclear cost recovery cycle consistent with the agreement and stipulation of the parties.

5. Total 2008 Recovery for Levy Units 1 & 2 Project. PEF requests recovery of its total 2008 recoverable amount for PEF's Levy Units 1 & 2 project. PEF witness Cross provided support as to the amounts and method used to determined the total actual and estimated costs requested for the period. Witnesses Roderick and Oliver provided descriptions of construction activities that are associated with the costs requested for the 2008 period.

The requested total is comprised of the amounts approved for construction costs plus AFUDC, the carrying charges on construction costs, O&M expenses, and DTA carrying costs. No party suggested adjustments to PEF's requested amounts for the period. We reviewed PEF's calculations and supporting information and find them to be reasonable. The AFUDC amount of \$11,796,128, the DTA amount of -\$137,271, and O&M expense of \$1,355,147 appear reasonable. The resultant total is \$207,137,326.

	<u>2008 Levy Project Recoverable Amount</u>
Preconstruction costs, plus AFUDC	\$198,367,692
Carrying charges	\$ 7,551,759
O&M	\$ 1,355,147
<u>DTA Carrying Costs</u>	<u>- \$ 137,271</u>
Total 2008 Amount	\$ 207,137,326

(Total does not sum due to rounding)

Consistent with the approved agreements and stipulations of the parties discussed above, we approve as reasonable an amount of \$207,137,326 as the total actual and estimated 2008 recoverable costs for the Levy Units 1 & 2 project. A determination of prudence shall be deferred until the 2009 nuclear cost recovery cycle consistent with the agreement and stipulation of the parties.

G. Costs to be Recovered for Levy Units 1 & 2 for 2009

1. Preconstruction costs. PEF requests recovery of its projected 2009 preconstruction cost amount for the Levy Units 1 & 2 project. PEF witness Cross provided support as to the amounts and method used to determine the requested projected preconstruction costs for the period. Witnesses Roderick and Oliver provided descriptions of the preconstruction activities that are associated with the costs requested for the 2009 period.

PEF projected \$86,025,000 in generation-related preconstruction cost, 55 percent of which is for site clearing and on-site facilities. PEF projected transmission-related preconstruction costs of \$32,726,900, of which 80 percent is projected for engineering activities. PEF's projected 2009 preconstruction costs total \$118,751,900 (gross system). The amount net of non-cash adjustments is \$111,414,704 system (\$97,084,049 jurisdictional).

No party suggested adjustments to PEF's projected 2009 preconstruction costs for the Levy Units 1 & 2 project. We reviewed PEF's calculations and supporting information and find the projections to be reasonable. We approve as reasonable an amount of \$118,751,900 (gross system) as projected preconstruction costs for the Levy Units 1 & 2 project. The amount net of non-cash adjustments is \$111,414,704 system (\$97,084,049 jurisdictional).

2. Construction costs. PEF requests recovery of its projected 2009 construction costs for PEF's Levy Units 1 & 2 project. PEF witness Cross provided support as to the amounts and method used to determine the requested projected construction costs for the period. Witnesses Roderick and Oliver provided descriptions of the construction activities that are associated with the costs requested for the 2009 period.

PEF projected \$425,565,000 in generation-related construction cost, of which 83 percent is for power block engineering and procurement. PEF projected transmission-related construction costs of \$140,040,600, 66 percent of which is for real estate and construction activities. PEF's projected 2009 construction costs total \$565,605,600 (gross system). The amount net of non-cash adjustments is \$470,254,055 system (\$412,101,692 jurisdictional).

No party suggested adjustments to PEF's projected 2009 construction costs for the Levy Units 1 & 2 project. We reviewed PEF's calculations and supporting information and find the projections to be reasonable. We approve as reasonable an amount of \$565,605,600 (gross system) as projected 2009 construction costs for the Levy Units 1 & 2 project. The amount net of non-cash adjustments is \$470,254,055 system (\$412,101,692 jurisdictional).

3. Carrying charges. PEF requests recovery of its carrying charges on projected 2009 construction costs for the Levy Units 1 & 2 project. PEF witness Cross provided support as to the amounts and method used to determine the requested carrying charges on projected 2009 construction costs.

The amount of carrying charges on PEF's projected 2009 construction costs is based on the Levy Units 1 & 2 projected construction costs. PEF calculated the AFUDC amount to be \$30,217,903.

No party suggested adjustments to PEF's requested carrying charges costs for the Levy Units 1 & 2 project for this period. We reviewed PEF's calculations and supporting information and find the projections to be reasonable. We approve as reasonable an amount of \$30,217,903 for carrying charges on projected 2009 construction costs for the Levy Units 1 & 2 project.

4. Total 2009 Recovery for Levy Units 1 & 2 Project. PEF requests recovery of its total 2009 recoverable amount for PEF's Levy Units 1 & 2 project. PEF witness Cross provided

support as to the amounts and method used to determine the total projected costs requested for the period. Witnesses Roderick and Oliver provided descriptions of the construction activities that are associated with the costs requested for the 2009 period.

The total includes the approved preconstruction costs, construction costs, carrying charges, as well as the DTA carrying costs associated with the projected preconstruction and construction costs. No party suggested adjustments to PEF's projected 2009 costs to be recovered for the Levy Units 1 & 2 project. The DTA amount of \$7,165,740 and O&M expense of \$1,243,114 are reasonable. The resultant total is \$147,907,456.

	<u>2009 Levy Project Recoverable Amount</u>
Preconstruction costs, plus AFUDC	\$109,280,698
AFUDC on Construction costs	\$ 30,217,903
O&M	\$ 1,243,114
<u>DTA Carrying Costs</u>	<u>\$ 7,165,740</u>
Total 2009 Amount	\$147,907,456
(Total does not sum due to rounding)	

We reviewed PEF's calculations and supporting information and find the projections to be reasonable. We approve as reasonable an amount of \$147,907,456 as total projected 2009 costs to be recovered for the Levy Units 1 & 2 project. All projected 2009 costs associated with Levy Units 1 & 2 are subject to our further review during future NCRC proceedings.

H. Total Nuclear Cost Recovery Amount to be Included in PEF's 2009 Capacity Cost Recovery Clause.

Based on our findings and decisions above, we approve \$418,311,136 as the total amount to be included in establishing PEF's 2009 CCRC factor. The following table is a summary of the amounts by activity.

Activity	Total Amount
Crystal River 3 Uprate Project-Carrying Costs on Construction Costs	\$23,666,524
Levy Units 1 & 2 Site Selection Costs and Carrying Costs	\$37,888,390
Levy Units 1 & 2 Preconstruction costs, Construction costs and Carrying Costs	\$356,756,225
Total for PEF's 2009 Capacity Cost Recovery Clause Factor*	\$418,311,136

*Total does not sum due to rounding.

FIPUG, through its post-hearing brief, asserts that \$307,648,390 of PEF's request is comprised of \$198 million in 2008 pass-through costs and \$109 million of projected

expenditures for 2009 that are not carrying costs. FIPUG also believes the “Commissioners may have a little ‘wiggle room’ to avoid what undersigned believes to be an unfair and unreasonable excessive rate increase to give to PEF guaranteed cost recovery through a surcharge on its customers bills, but the need to avoid unanticipated rate shock is great.” FIPUG then asks that we disallow approximately half of the amount until additional forms and procedures are developed.

We find that FIPUG’s arguments fail. Simply deferring some of PEF’s preconstruction costs will not achieve FIPUG’s asserted goal of rate mitigation because when construction cost amounts are held subject to refund, AFUDC is accrued on the unrecovered balance, thus increasing the amount to be recovered instead of reducing it. FIPUG does not show how the development of new forms and procedures will result in PEF not recovering approximately half of PEF’s 2008 and 2009 preconstruction costs. Consequently, FIPUG’s position fails to achieve the intended goal of rate mitigation.

Based on the agreements of the parties, the testimony and evidence in the record, and the post-hearing briefs of the parties, and mindful of the legislative intent as set forth in Section 366.93, F.S., we approve an amount of \$418,311,136 as the total NCRC costs to be used in establishing PEF’s 2009 CCRC factor.

III. Florida Power & Light Company’s Nuclear Cost Recovery

A. Partial Stipulation

During our September 2008 hearing, the parties presented for our approval a partial stipulation on the procedural aspects of the case. The parties agreed that the timing of the Turkey Point units 6 & 7 need determination order prevented FPL from filing for recovery of 2007 site selection costs and preconstruction costs for that project by March 1, as contemplated for previous year true-ups under Rule 25-6.0423, F.A.C. To refuse to allow FPL to begin collecting these costs in 2009 could result in even higher charges to customers in 2010; however, the post-March 1 filing date shortens the time available for OPC and other parties to review and analyze the site selection and preconstruction costs in this proceeding that is envisioned by the rule, and shortens the time available to us to conduct the prudence review set forth in subsections 25-6.0423(b)(c)(2) and (3), F.A.C. To resolve the issues created by the timing of FPL’s request, OPC and FPL agree that FPL may include those site selection and preconstruction costs in the calculation of the nuclear cost recovery amount that is to be recovered through the 2009 capacity cost recovery factor, and further agree that any finding as to the prudence of the costs and/or determination that certain costs should be disallowed will be deferred until the 2009 nuclear cost recovery cycle. The other parties agreed or took no position regarding this stipulation. We approve this stipulation as appropriate and accordingly, will only consider the prudence of the 2007 controls and costs for the EPU projects. For all other FPL requests, we will consider only the reasonableness of those costs and controls this year and will defer our consideration of prudence for a future NCRC proceeding.

B. Project Management, Contracting and Oversight Controls; Accounting and Costs Oversight and Controls

We reviewed the parties' post-hearing positions and briefs, and the testimony and exhibits in the record. In its post-hearing brief, FIPUG states that it did not take issue with FPL's petition. PCS Phosphate confined its Post-hearing Statement of Issues and Positions to issues involving PEF. AARP adopted both the post-hearing positions and brief filed by OPC.

In this proceeding, OPC presented a concern regarding the adequacy of FPL's documents to support its decision to issue sole source and single source contracts. A sole source contract is one in which the utility regards the contractor as the only available provider of that service. A single source contract is one in which other providers are available, but the utility decides that a particular contractor should be selected without first soliciting competitive bids. Use of a sole or single source contract eliminates competitive bidding as a means of ensuring reasonable costs.

FPL used sole source and single source contracts extensively in both the EPU and the Turkey Point units 6 & 7 projects. OPC witness Jacobs proposes that FPL's internal justification memoranda are the principal instruments on which senior management bases the decision to require or not require bids. OPC witness Jacobs asserts FPL's documentation was inadequate to prove the costs of a contract entered into without bids are reasonable. Witness Jacobs suggests FPL did not rigorously follow the applicable standards, and that FPL's preparation of the justification memoranda was a matter of rote rather than a specific, individual analysis. OPC witness Jacobs noted:

It didn't seem like it was given the importance that it should have been given. And perhaps -- one thing we asked for was all the material that the vice president who would be approving it would see, and we didn't receive any additional information. I think he's looking at this one-page justification. So, you know, I would say they need to do a better job of using competitive bidding when its available and don't just assume that, well, there's not anybody else here that can do it, because there may be other folks out there and they're [sic] want to get in the business of doing it. And ultimately, there would be a number of factors. That's just one of them. There would be a number of factors in selecting the contractor. But I would say they need to do a better job of following their own corporate guidance to use competitive bidding whenever possible.

OPC's Post-Hearing Statement of Positions and Brief focused on the one issue it litigated in the hearing -- whether FPL followed its competitive bidding standards. In its post-hearing brief, OPC asserts that this issue is applicable to our decisions in the reasonableness of FPL's project management, as well as costs associated with contracts that were the subject of single or sole source procurement. OPC argues that FPL's management policies explicitly declare competitive bidding as FPL's preferred method of procurement. According to OPC, FPL's policy statements delineate the requirements that FPL employees must follow to deviate from the standard. OPC asserts that FPL's procedure requires that the vice president in charge of

procuring the item or service must approve the deviation prior to single or sole sourcing procurement. OPC states that a justification memorandum is the vehicle that FPL must use to persuade the vice president that deviation from competitive bidding is warranted.

OPC witness Jacobs asserted FPL departed from its single source and sole source contract justification requirements because FPL's justification memoranda rely on schedule pressure, appear casual, and rely on "back of the envelope" type of analysis. Witness Jacobs recommended three options: (a) disallow FPL's return on the equity portion of the investment associated with the low pressure rotor contract, (b) withhold a portion of the requested carrying charges associated with the low pressure turbine contract until FPL can demonstrate the costs are reasonable in the next hearing cycle, or (c) place FPL on notice that we require a rigorous and detailed justification for any departure from the competitive bidding process. We note that no party provides estimates of the amounts associated with the first two options proposed by OPC witness Jacobs. OPC contends that witness Jacobs reviewed the procurement activities in which FPL engaged, and found numerous instances in which the justification memoranda were insufficient to comply with FPL's internal management criteria. OPC argues that instead of specific analysis, the memoranda contained "stock" phrases. OPC concludes that use of those stock phrases indicates that FPL employees prepared the justification memoranda casually and by rote.

In its brief, OPC criticizes the rebuttal testimony filed by FPL, stating that the testimony was insufficient to avert the conclusion that FPL violated its policy to require competitive bids. OPC argues that FPL's reliance on schedule considerations are insufficient to depart from the competitive bidding standard. OPC asserts that, as witness Jacobs testified, the utility has the obligation to plan its affairs so that it has time to solicit and score bids before awarding a contract. OPC concludes that the competitive bidding process can include considerations on whether a contractor can adhere to the utility's schedule.

Central to OPC's presentation is a view that FPL's internal justification memoranda are stand-alone documents containing all information necessary to make a decision to award a contract without bidding. Witness Jacobs appears to conclude that the document was the only material FPL management reviewed. If true, then FPL does not adequately support the awarding of its sole source or single source contracts.

However, on cross examination OPC witness Jacobs appeared to agree that FPL's internal justification documents are summary presentations based on other information. For example, witness Jacobs agreed that a relevant factor in selecting a company would be that a company had performed all of the current licensing basis analyses; the company had previously done the same scope of work in the past; that no other company in the world has the right to use certain proprietary information which FPL is asking be used for its project; and efficiencies exist because the company was using its own design and engineering analysis or its own design basis in performing the scope of work for FPL. Additionally, witness Jacobs agreed that there is a schedule that needs to be met. Witness Jacobs agreed that all these factors appeared in FPL's single and sole source justification document. Finally, witness Jacobs agreed that the company considered in FPL's justification memoranda would have a price advantage.

FPL rebuttal witness Scroggs described his use and application of the justification memoranda as part of an exchange between informed managers. The exchange between FPL rebuttal witness Scroggs in response to questions from OPC follows:

Answer: I believe the, the single source justification portion of the procedure requires the party to explain why it's not in the best interest. That's the requirement in the procedure. To elaborate on that a little bit, realize these documents are internal controls documents that are meant to go to senior managers that have years of experience in this arena and are knowledgeable of the marketplace themselves. So we're having the team present memos and documentation to a knowledgeable reviewer. So they're not meant to be stand-alone, highly specific exhibit type memos. They're meant to be a communication from a knowledgeable project team to a knowledgeable reviewer.

Question: A knowledgeable reviewer who bases a decision upon the facts or evidence presented by the requesting managers; correct?

Answer: Both the facts and evidence presented by the requesting manager, that person's knowledge and any amplifying discussions that that manager would want to have with the person presenting the request.

Question: And with respect to the assurance that the cost is reasonable, which is one of the, one of the fundamental inputs to the decision to depart from competitive bidding, would that be documented in the course of asking for authority to enter a single source or sole source contract?

Answer: Again, in the process that, in meeting our compliance with our code or our requirements, no specific documentation is mandated. In general, the requirement that we demonstrate reasonableness of costs through an explanation is there and is contained in the single source justifications that we provide.

Question: So you regard the justification memo itself as, as the vehicle, as the document that contains the assurance that is the, that is required by the procedure?

Answer: Yes, sir, I do.

We note that FPL rebuttal witness Scroggs' description of his use and reliance on the internal memoranda is consistent with audit findings by our staff witnesses Vinson and Fisher, who concluded that FPL had supporting justification for the reviewed sole source procurements in accordance with FPL's internal procedures. Furthermore, our staff witnesses Vinson and Fisher concluded that FPL followed its contractor selection procedures and that FPL's use of sole source contractors was in keeping with reasonable business practices.

FPL responded to OPC's criticisms in its post-hearing brief. FPL asserts that it utilized a proven process to solicit, qualify, negotiate, select, and manage service providers, and approaches this process with an understanding of the key players in each specialty field. FPL states that it does maintain a preference for competitive bidding but that single and sole source

contracting is and will continue to be a necessary procurement method for successful completion of the projects. FPL concludes that it expects to bid a large majority of the costs (over a billion dollars) for the EPU projects.

In its brief FPL references justifications for several of its sole source and single source contracts. Both in its brief and in testimony, FPL explains in depth why Westinghouse, Shaw Stone and Webster, Areva, Siemens, McNabb, and Black & Veatch were selected as sole or single source contractors, rather than being selected after competitive bids. According to FPL, Westinghouse was chosen because of scheduling, because it was the original manufacturer of the nuclear steam supply system, and because of its proven record with FPL Group. Further, Westinghouse had proprietary information that would make selecting a different vendor cost prohibitive. Finally, FPL compared the contracted amount to other recent contracts for the reasonableness of the Westinghouse contract price.

According to FPL, Shaw Stone and Webster were chosen because they are leaders in the industry and had a proven track record with FPL Group. FPL considered it valuable to have access to an experienced vendor. FPL determined the reasonableness of the contract costs based on FPL's experience and also based on a recent bidding process.

FPL asserts that it chose Areva as a sole source vendor because of scheduling demands to support the NRC licensing. FPL contends that Areva was also selected because it was the original equipment manufacturer for St. Lucie Unit 1 fuel. According to FPL, the St. Lucie plant uses fuel designed by Areva, and to change fuels for a different competitor would extend the time for completion of the EPU project several years.

According to FPL, Siemens was selected because FPL needed to reserve equipment manufacturing space at the Siemens facilities. FPL contends the necessity of immediate reservation was to ensure that Siemens can deliver in time to support the uprate implementation schedule. FPL asserts that Siemens was also selected because it is the original turbine generator equipment supplier, and the only vendor that could manufacturer the equipment needed.

FPL asserts that it chose McNabb for permitting activities related to the underground injection controls (UIC) system at Turkey Point because of McNabb's expertise with the UIC permitting process and because McNabb's costs were below market price. FPL states that Black & Veatch was retained because of its unique technical expertise, combined with real world experiences in developing large scale projects. FPL argues that furthermore, Black & Veatch had worked successfully with FPL before on the construction of several generating facilities in Florida. FPL concludes by stating that in determining the reasonableness of the costs of Black & Veatch, it benchmarked the proposed costs to ensure they were reasonable for the services provided.

FPL rebuttal witness Reed, a consultant with Concentric Energy Advisors, Inc., reviewed the processes and procedures used by FPL to manage the development and implementation of the EPU project and the new nuclear projects at Turkey Point. Within the cost estimation and

budgeting process, he concluded that FPL had complied with those procedures in developing its estimates.

OPC was critical of FPL's justification regarding proprietary information. OPC asserts that witness Jacobs debunked the notion of giving a contractor preference because it held proprietary information, by stating that other contractors could perform the same needed service with alternative proprietary data or processes. Additionally, OPC believes FPL witness Labbe stated upon cross examination that FPL contractually agrees that it will acquire proprietary confidential information from a vendor in the event a contractor cannot reach terms for the next service to be provided.

OPC also was critical of FPL's use of contractor experience in justifying the use of that contractor as a sole or single source. OPC stated that experience is another bidding specification that can be built into a request for proposal. OPC also disagreed with FPL's assertion that a small pool of providers is sufficient reason for FPL to avoid competitively bidding work. And finally, in its brief, OPC stated that FPL's assertion that it stays abreast of industry billing rates and costs is insufficient to justify deviation from competitive bidding. OPC concludes that if FPL's argument is correct, then it would never have to engage in competitive bidding.

OPC recognizes that FPL had given significant consideration to information not explicitly found in FPL's justification memoranda. We agree. We find that FPL's internal justification memoranda do not necessarily convey or memorialize all information relied upon by FPL in awarding single and sole source contracts. Based on the record evidence, we find that FPL did not violate its own internal procedures regarding sole source and single source contract justification requirements.

FPL's internal sole source and single source justification memoranda are not intended to be used as stand-alone documents for purposes of fully justifying utility management decisions to us in these NCRC proceedings. FPL did not rebut OPC witness Jacobs' observation that documents in addition to internal justification memoranda were not provided, or that substantive documents memorializing the utility's analyses were not provided. Thus, OPC witness Jacobs appropriately represented that FPL's summary justification memoranda, as stand-alone documents, are not an adequate basis to make informed decisions on awarding single or sole source contracts, and that FPL's processes do not result in sufficient documentation of such decisions for purposes of the NCRC. Accordingly, we direct that, prospectively, FPL shall increase its documentation and support for single source and sole source contracts for projects included in the NCRC.

Based on his review of FPL's internal justification memoranda, OPC witness Jacobs concluded FPL was not reasonable in demonstrating that the costs were reasonable, specifically those pertaining to a Siemens contract for low-pressure rotors. That contract pertains to FPL's EPU activities at St. Lucie. FPL rebuttal witness Labbe describes the scope of the Siemens contract at issue:

[I]t's a replacement of the high pressure turbine, low pressure turbines at St. Lucie, the main generator rotor, it's a stator rewind and an exciter replacement. Those are all Siemens, Siemens documents. Siemens manufactures the equipment and they've installed it. And we did do a competitive bidding at Point Beach for those components, and there's an analysis that was performed on, it would be the turbine overspeed analysis. There's analysis that would be required for the uprate and we'd have to take that analysis and submit it into the LAR. That's part of the document that we'd get approval from the NRC. In order to use another vendor we would still need that analysis from Siemens; say it was another vendor for the turbine. We do use as, you know, owners and operators of that equipment rights to take that analysis and transfer it to a successful bidder that could use that analysis as it relates to the LAR.

While OPC witness Jacobs appeared to argue that FPL was imprudent, he also appeared to say he was not sure. For example, in response to questions from us, OPC witness Jacobs clarified his testimony by stating, "we're not saying that they ended up with the wrong contractor per se. It's probably the right contractor but they didn't follow their process, and because they didn't follow their process, you don't know for sure that it couldn't have been done by someone else as well for less cost." OPC stated its conclusion of the primary difference between OPC and FPL: "Dr. Jacobs advocates competitive bidding, because the utility doesn't know it has the best deal unless the utility asks while FPL too frequently has sidestepped its own competitive bidding requirements, because FPL's view is that it knows without having to ask."

In contrast to the testimony of OPC witness Jacobs, other testimony based on management audits assert FPL was reasonable and followed reasonable business practices. This is significant because the standard for determining prudence is consideration of what a reasonable utility manager would have done, in light of conditions and circumstances which were known, or reasonably should have been known, at the time the decision was made. A utility's internal justification memoranda does not adequately present all relevant facts utility manager's use in their decisions. The testimony and exhibits support the conclusion that the internal justification memoranda is only a portion of what FPL's managers use in determining whether to competitively bid a contract or to seek sole or single source contracts. Therefore, the testimony of OPC witness Jacobs is insufficient to establish that FPL was imprudent, because the testimony of witness Jacobs is directed at whether FPL complied with its internal procedures, and does not address the pertinent facts which were known or should have been known to FPL at the time decisions were made. Additionally, OPC witness Jacobs does not demonstrate FPL managers made the wrong decisions.

Staff witnesses Vinson and Fisher sponsored testimony and an audit report examining the internal control procedures by which FPL manages and tracks the costs and the schedules of FPL's two projects. Witnesses Vinson and Fisher concluded FPL had adequate project management and internal controls in place to move forward, subject to further improvements and audits. FPL's use of sole source selections for the uprate project and the new units to date is in keeping with reasonable business practices. Witnesses Vinson and Fisher concluded that, in their review, FPL had supporting justification for the reviewed sole source procurements in

accordance with FPL's internal procedures. As noted above, FPL rebuttal witness Reed also reviewed FPL's processes and procedures, and concluded that FPL had complied with those procedures in developing its estimates.

We also address the accounting and costs oversights and controls for 2007 for both the EPU project and the Turkey Point units 6 & 7 project. Staff witness Welch provided testimony describing accounting audits of FPL's 2007 expenditures. FPL agreed to enter corrections in response to witness Welch's audit findings numbers 1 and 4. These adjustments are to be reflected in FPL's final true-up for the 2008 period.

In response to discovery, FPL noted potential disagreement with audit findings numbers 3 and 5. In audit finding number 3, staff witness Welch stated a need for FPL to establish a method for recording retirements and cost of removal associated with existing facilities that are or will be replaced. Audit Finding No. 5 discloses that St. Lucie Units 1 & 2 main transformers may have needed to be replaced even if FPL had not proceeded with the uprate project. FPL agreed to enter corrections in response to witness Welch audit finding numbers 1 and 4 for calendar year 2007. These adjustments are to be reflected in FPL's final true-up filings for the 2008 period.

We note that actions on these specific audit findings are within the scope of an additional stipulation presented to us at our September 2008 hearing. The stipulation was joined by AARP and FIPUG. The stipulation reads:

OPC and FPL stipulate that as it applies to nuclear uprate projects, the NCRC should be limited to those costs that are separate and apart from nuclear costs that would have been necessary to provide safe and reliable service had there been no uprate project. OPC and FPL will work with PSC staff to develop an NFR form for use in the 2009 hearing cycle that specifies the information that a utility will provide in support of its request, that the uprate costs in its NCRC filing are separate and apart from the costs that would have been necessary to provide safe and reliable service without the uprate. For purposes of the 2008 NCRC hearings, OPC will not challenge the prudence of FPL's 2007 uprate costs on the "separate and apart" issue. OPC's position for the 2007 uprate costs, however, does not prevent OPC from raising the "separate and apart" issue for any FPL uprate costs incurred subsequent to 2007.

We approve this stipulation as appropriate. By FPL agreeing to this stipulation and implementing adjustments, we find that FPL has appropriately responded to the concerns raised by staff witness Welch. We note that other audit findings pertaining to FPL's EPU project do not require further action or monitoring. None of the intervenors' post-hearing briefs address this issue.

Based on the stipulations of the parties, the testimony and exhibits in the record, and the post-hearing briefs, we find FPL's 2007 project management, contracting, and oversight controls were reasonable and prudent for the EPU project. Prospectively, FPL shall increase its documentation and support for single source and sole source contracts for the EPU project and

the Turkey Point units 6 & 7 project for future filings in the NCRC. We find FPL's 2007 accounting and cost oversight controls were reasonable and prudent for the EPU project. Pursuant to the approved partial stipulations, we find the 2007 management and accounting project controls for Turkey Point units 6 & 7 are reasonable, but defer a finding regarding the prudence of FPL's 2007 project management, contracting, and oversight controls, and accounting and costs controls for the Turkey Point units 6 & 7 project to a future NCRC proceeding.

C. Costs to be recovered for 2007 for EPU Project

1. Construction costs. FPL requests recovery of its final 2007 construction costs for the EPU project. FPL's 2007 EPU project construction costs total \$8,624,516 gross system, of which \$5,700,529 (67 percent) is due to engineering and design work and \$1,631,924 (19 percent) is due to power block procurement and related expenses. FPL agreed to enter corrections in response to staff witness Welch's audit findings numbers 1 and 4. These adjustments are to be reflected in FPL's final true-up for the 2008 period. We previously addressed OPC's position regarding sole and single source contracting.

Based on the testimony and exhibits in the record, and the post-hearing briefs of the parties, we approve the 2007 EPU construction cost amount of \$8,624,516 (gross system) as prudently incurred. The net amount of \$8,271,172 system (\$8,236,653 jurisdictional) is adjusted for participant credits and non-cash adjustments totaling \$353,344.

2. Carrying charges. FPL began accruing carrying charges applicable to the EPU project after we issued Order No. PSC-08-0021-FOF-EI, on January 7, 2008, affirming FPL's need for the EPU project. Therefore, FPL did not accrue any carrying charges associated with the EPU project during 2007. We approve \$0 as the carrying charge amount on FPL's prudently incurred 2007 construction costs for the EPU project.

3. Total 2007 Recovery for EPU Project. All parties agree that FPL did not accrue carrying charges on construction costs during 2007. Accordingly, there are no costs to be recovered for 2007 EPU project.

D. Costs to be recovered for 2008 for EPU Project

1. Construction costs. FPL requests recovery of its actual and estimated 2008 construction costs for the EPU project. FPL's actual and estimated 2008 EPU project construction costs total \$79,030,565 (gross system), of which \$34,012,730 (43 percent) is due to license application and \$22,534,388 (29 percent) is due to power block procurement and related expenses. The actual and estimated costs were developed using FPL's planning and budgetary project management system and procedures.

We previously addressed OPC's position regarding sole and single source contracting. No other party presented testimony recommending an adjustment to FPL's 2008 actual and estimated construction costs.

We reviewed FPL's calculations, and we approve the estimated 2008 construction cost amount of \$79,030,565 (gross system) as reasonable. The adjustments, including participant credits and non-cash accruals, total \$4,151,411. The net amount is \$74,879,154 system (\$74,566,646 jurisdictional).

2. Carrying charges. FPL requests recovery of its 2008 carrying charges. We previously addressed OPC's position regarding sole and single source contracting. In its pre-hearing statement FIPUG proposed an alternative method of determining the carrying charges to be applied after 2010, but did not cross-examine any witness concerning FPL's carrying charges. FIPUG did not provide a post-hearing statement on this issue. Pursuant to the prehearing order, FIPUG's position concerning the issue is waived.

We reviewed FPL's calculations. The applicable carrying charge amount of \$3,740,411 is the AFUDC accrued during 2008 on construction costs. FPL's position presents the total carrying costs of \$3,733,004, which includes an accrued AFUDC amount of \$3,740,411 and an accrued DTA of -\$7,407. FPL's total carrying costs for 2008 for the EPU project are addressed below in our discussion of the total costs for 2008. We approve as reasonable the carrying charge amount of \$3,740,411 on FPL's 2008 actual and estimated construction cost for the EPU project.

3. Total 2008 Recovery for EPU Project. FPL requests recovery of its total 2008 recoverable amount for the EPU project. We previously addressed OPC's position regarding sole and single source contracting.

<u>2008 EPU Project Recoverable Amount</u>	
Carrying Costs (AFUDC)	\$ 3,740,411
<u>DTA Carrying Costs</u>	<u>-\$ 7,407</u>
Total 2008 Amount	\$ 3,733,003
(Total does not sum due to rounding)	

We reviewed FPL's calculations and we approve as reasonable the amount of \$3,733,003 as FPL's 2008 total actual and estimated recoverable amount for its EPU Project. This amount includes \$3,740,411 associated with AFUDC and (\$7,407) associated with DTA.

E. Costs to be recovered for 2009 for EPU Project

1. Construction costs. FPL requests recovery of its projected 2009 construction costs for the EPU project. FPL projects 2009 constructions costs of \$240,845,910 (gross system). The amount of \$179,061,123, or 74 percent of the total is for power block engineering and procurement. The amount net of participant credits and non-cash adjustments is \$234,272,148 system (\$233,294,413 jurisdictional). The projected costs were made using FPL's planning and budgetary project management system and procedures.

We previously addressed OPC's position regarding sole and single source contracting. No other party presented testimony recommending an adjustment to FPL's 2009 projected construction costs. No other party cross-examined FPL's witness on the reasonableness of FPL's 2009 projected construction costs.

We reviewed FPL's calculations and we approve FPL's projected 2009 construction costs of \$240,845,910 (gross system). The amount of \$234,272,148 system (\$233,294,413 jurisdictional) is net of participant credits and non-cash adjustments.

2. Carrying charges. FPL requests recovery of its projected carrying charges on 2009 EPU project construction costs. We previously addressed OPC's position regarding sole and single source contracting. In its prehearing statement, FIPUG proposed an alternative method of determining the carrying charges to be applied after 2010, but did not cross-examine any witness concerning FPL's carrying charges. FIPUG did not provide a post-hearing statement on this issue. Pursuant to the prehearing order, FIPUG's position concerning the issue is waived.

We reviewed FPL's calculations and find that the calculated carrying cost amount is consistent with the construction cost. We approve the carrying charge amount of \$16,564,497 for the EPU project as reasonable.

3. Total 2009 Recovery for EPU Project. FPL requests recovery of its EPU project for calendar year 2009. We previously addressed OPC's position regarding sole and single source contracting. FPL's position statement addresses all years 2007 through 2009. Consequently, FPL adds amounts for 2007 and 2008, already approved above, to the amount for 2009 in order to arrive at the total shown in FPL's position statement.

	<u>2009 EPU Project Recoverable Amount</u>
Carrying Costs (AFUDC)	\$16,564,497
<u>DTA Carrying Costs</u>	<u>- \$ 11,478</u>
Total 2009 Amount	\$16,553,019

We reviewed FPL's calculations and we approve as reasonable a 2009 total projected amount for FPL's EPU project of \$16,553,019. This amount includes \$16,564,497 associated with AFUDC and -\$11,478 associated with DTA carrying costs.

F. Costs to be Recovered for 2007 for Turkey Point Units 6 & 7 Project

1. Site selection costs. FPL requests recovery of its 2007 site selection costs through our NCRC. At our September 2008 hearing, the parties presented a stipulation for our approval. The parties agreed that site selection costs may be included in the NCRC, subject to the stipulation we approved above. We agree with the parties and permit recovery of FPL's site selection costs through the NCRC, subject to the approved stipulation addressed above.

We addressed certain audit findings of staff witness Welch, which includes audit results of FPL's 2007 site selection costs. FPL's 2007 site selection costs include \$6,397,310 in expenses, \$141,951 in AFUDC carrying charges, and -\$94 in DTA carrying costs, for a total of \$6,539,167.

	2007 Turkey Point Units 6 & 7 Site Selection <u>Recoverable Amount</u>
Preconstruction	\$ 6,397,310
Carrying charges (AFUDC)	\$ 141,951
<u>DTA Carrying Costs</u>	<u>- \$ 94</u>
Total 2007 Amount	\$ 6,539,167

We reviewed FPL's calculations, and we approve as reasonable the amount \$6,539,167 as FPL's 2007 site selection costs for the Turkey Point Units 6 & 7. Consistent with the approved stipulation, a finding of prudence will be deferred until the 2009 NCRC proceeding.

2. Preconstruction costs. FPL requests recovery of its preconstruction costs for the Turkey Point Units 6 & 7 project. We have previously addressed OPC's position regarding sole and single source contracts. FPL's carrying costs for the 2007 period for the power plant are addressed below. We reviewed FPL's preconstruction cost calculations. The gross system preconstruction amount of \$2,533,265 (\$2,522,692 jurisdictional) is for licensing and permitting. The amount net of non-cash adjustments is \$1,960,481 system (\$1,952,300 jurisdictional.)

We approve as reasonable the amount of \$2,533,265 system (\$2,522,692 jurisdictional) as FPL's 2007 preconstruction costs for the Turkey Point Units 6 & 7 project. The amount net of non-cash adjustments is \$1,960,481 system (\$1,952,300 jurisdictional). Consistent with the approved stipulation, any finding of prudence shall be deferred until the 2009 nuclear cost recovery cycle.

3. Total 2007 Costs for Turkey Point Units 6 & 7 Project. FPL requests recovery of its total 2007 recoverable costs for Turkey Point Units 6 & 7. We have previously addressed OPC's position on the single and sole source contracts. The recoverable 2007 amount for FPL's Turkey Point Units 6 & 7 project includes site selection costs, preconstruction costs, and the carrying costs associated with the approved amounts. The AFUDC amount associated with preconstruction costs is \$20,555, and the DTA carrying costs are -\$8, for a total carrying cost amount of \$20,547. Thus, the total recoverable amount is \$9,082,406.

	2007 Turkey Point Units 6 & 7 Project <u>Recoverable Amount</u>
Site selection costs	\$ 6,539,167
Preconstruction costs	\$ 2,522,692
<u>Carrying Costs</u>	<u>\$ 20,547</u>
Total 2007 Amount	\$ 9,082,406

We approve as reasonable the amount of \$9,082,406 as FPL's total 2007 costs for the Turkey Point Units 6 & 7 project. Any finding of prudence shall be deferred until the 2009 nuclear cost recovery cycle consistent with the parties' stipulation.

G. Costs to be Recovered for 2008 for Turkey Point Units 6 & 7 Project

1. Preconstruction costs. FPL requests recovery of its preconstruction costs. We have previously addressed OPC's position regarding sole and single source contracting. FPL developed its projected costs using its planning and budgetary project management system and procedures. At hearing, FPL confirmed a \$35,000,000 reduction in its preconstruction expense in the last quarter of 2008. FPL clarified that the long lead time payments were now determined to be required at a later date than previously anticipated. This change reduces FPL's system preconstruction expenses from \$105,000,000 (\$104,561,783 jurisdictional) to \$70,000,000 (\$69,707,855 jurisdictional). The amount net of non-cash adjustments is \$103,642,667 system (\$103,210,113 jurisdictional). We verified these calculations using Exhibit 22.

Based on the foregoing, we approve as reasonable the amount of \$69,707,855 jurisdictional, as FPL's 2008 actual and estimated preconstruction costs for the Turkey Point Units 6 & 7 project.

2. Total 2008 Costs for Turkey Point Units 6 & 7 Project. FPL requests recovery of its total recoverable amount for FPL's 2008 Turkey Point Units 6 & 7 project. We previously addressed OPC's position on sole and single source contracting.

As discussed above, at our September 2008 hearing, FPL confirmed a \$35,000,000 reduction in its preconstruction expense in the last quarter of 2008. The reduction in preconstruction expense results in a decrease in the carrying charges and an increase in the DTA carrying costs. The net jurisdictional change is a reduction of \$35,314,151 for 2008. The amount shown for site selection is accrued AFUDC on the unrecovered site selection costs for 2007. We performed these calculations using Exhibits 22, 23, and 43. The following table is a summary of all 2008 Turkey Point Units 6 & 7 recoverable amounts, including site selection amounts.

	<u>Revised Pre-Filed</u>	<u>Updated</u>	<u>Change</u>
Preconstruction Expense	\$104,561,783	\$69,707,855	-\$34,853,928
Carrying charges- AFUDC	\$3,801,152	\$3,340,680	-\$460,472
Carrying Costs-DTA	-\$6,231	-\$5,982	\$249
Site Selection-AFUDC	\$723,485	\$723,484	0
Total*	\$109,080,188	\$73,766,037	\$35,314,151

*Totals do not sum due to rounding to the nearest dollar.

Based on the foregoing, we approve as reasonable the amount of \$73,766,037 as FPL's 2008 actual and estimated total costs for the Turkey Point Units 6 & 7 project, including site selection expenses.

H. Costs to be Recovered for 2009 for Turkey Point Units 6 & 7 Project

1. Preconstruction costs. FPL requests recovery of its 2009 preconstruction costs. We have previously addressed OPC's position regarding sole and single source contracting. FPL's projected 2009 preconstruction expenses are \$110,000,000 system (\$109,540,915 jurisdictional). FPL did not project non-cash adjustments for 2009 preconstruction costs. The projected costs were made using FPL's planning and budgetary project management system and procedures. Based on the foregoing, we approve as reasonable the amount of \$110,000,000 system (\$109,540,915 jurisdictional) as FPL's 2009 projected preconstruction costs for the Turkey Point Units 6 & 7 project.

2. Total 2009 Costs for Turkey Point Units 6 & 7 Project. FPL requests recovery of its total 2009 costs for Turkey Point Units 6 & 7. We previously addressed OPC's position regarding sole and single source contracting.

As discussed above, at hearing, FPL confirmed a \$35,000,000 reduction in its preconstruction expense in the last quarter of 2008. The reduction in 2008 preconstruction expense results in a decrease in the 2009 carrying charges for AFUDC and a decrease in the DTA carrying costs. These carrying costs are calculated using the unrecovered preconstruction balance from the prior year. The change is a reduction of \$2,562,791 for 2009. As stated above, site selection AFUDC carrying charges accrue because site selection costs were not yet recovered. We performed these calculations using Exhibits 22, 23, and 43. The following table is a summary of all recoverable amounts for 2009 for the Turkey Point Units 6 & 7 project.

	<u>Pre-Filed</u>	<u>Updated</u>	<u>Change</u>
Preconstruction Expense	\$109,540,915	\$109,540,915	\$0
Carrying charges-AFUDC	\$5,832,149	\$3,975,003	-\$1,857,146
Carrying costs -DTA	\$4,075,455	3,369,810	-\$705,645
Site Selection-AFUDC	\$509,050	\$509,050	0
Total	\$119,957,569	\$117,394,778	-\$2,562,791

Based on the foregoing, we approve as reasonable the amount of \$117,394,778 as FPL's total 2009 total costs for the Turkey Point Units 6 & 7 project.

I. Total Nuclear Cost Recovery Amount to be Included in FPL's 2009 Capacity Cost Recovery Clause.

FPL requests recovery of its total nuclear cost recovery amount to be included in FPL's 2009 CCRC. This is a summary issue based on the resolution of all other issues. Based on our findings above, we approve \$220,529,243 as FPL's total amount to be included in establishing FPL's 2009 CCRC factor. The following table is a summary of the amounts by activity:

<u>Activity</u>	<u>Total Amount</u>
EPU Project-Carrying charges on Construction Costs	\$20,286,023
Turkey Point 6 & 7-Site Selection Costs and Carrying charges	\$7,771,698
Turkey Point 6 & 7-Preconstruction Expenses and Carrying charges	\$192,471,520
Total for FPL's 2009 Capacity Cost Recovery Clause Factor*	\$220,529,243

*Totals do not sum due to rounding.

Based on the testimony and evidence in the record, and the post-hearing briefs of the parties, and mindful of the legislative intent as set forth in Section 366.93, F.S., we approve an amount of \$220,529,243 as the total NCRC costs to be used in establishing FPL's 2009 CCRC factor.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the stipulations and findings set forth in the body of this Order are hereby approved. It is further

ORDERED that Progress Energy Florida, Inc., is hereby authorized to include the nuclear cost recovery amount set forth herein to be used in establishing its 2009 capacity cost recovery factor. It is further

ORDERED that Florida Power & Light Company is hereby authorized to include the nuclear cost recovery amount set forth herein to be used in establishing its 2009 capacity cost recovery factor. It is further

ORDERED the 2007 amounts included herein for Progress Energy Florida, Inc.'s Crystal River Unit 3 Uprate Project and for Florida Power & Light Company's EPU Project are found to be prudent. The remaining costs are approved as reasonable and subject to final true-up and further subject to proof of the prudence of the expenditures upon which the amounts are based.

By ORDER of the Florida Public Service Commission this 12th day of November, 2008.



ANN COLE
Commission Clerk

(S E A L)

LCB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request:

- 1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or
- 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Office of Commission Clerk, and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.