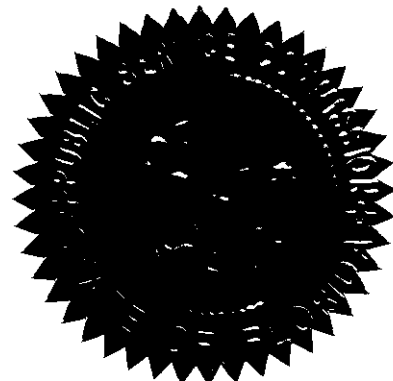


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 080009-EI

In the Matter of:

NUCLEAR COST RECOVERY CLAUSE.



VOLUME 1

Pages 1 through 166

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN MATTHEW M. CARTER, II
 COMMISSIONER LISA POLAK EDGAR
 COMMISSIONER KATRINA J. McMURRIAN
 COMMISSIONER NANCY ARGENZIANO
 COMMISSIONER NATHAN A. SKOP

DATE: Thursday, September 11, 2008

TIME: Commenced at 9:36 a.m.

PLACE: Betty Easley Conference Center
 Room 148
 4075 Esplanade Way
 Tallahassee, Florida

REPORTED BY: LINDA BOLES, RPR, CRR
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FPSC-COMMISSION CLERK

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P R O C E E D I N G S

1
2 CHAIRMAN CARTER: Good morning to one and all. We'll
3 call this agenda -- actually call this hearing to order. But
4 before we do, just as a, for the sake of honor and tribute to
5 our friends and neighbors, you know, this is the seventh
6 anniversary of 9/11, and the Governor has issued a
7 proclamation, all our flags are at half-mast, as well as asked
8 for a moment of silence. And they've done the official one
9 already this morning, but since we're here and this is the
10 first meeting for us today, I would ask us if we would just
11 take a moment of silence in honor of our friends and neighbors.

12 (Moment of silence observed.)

13 Thank you. I think everyone in this room realizes
14 and recognizes where they were on that fateful day. And it's
15 brought out the worst in mankind, but also our response to it
16 showed that we are better as a, as a nation, we are better
17 people, and since that day we've come together even better as a
18 nation. E pluribus unum, out of many, one.

19 So, Commissioners, thank you for this opportunity to
20 honor the tribute of so many of our brave brothers and sisters
21 who paid the ultimate price for our democracy and those that
22 are still on the lines, in the front lines now doing that.

23 So with that, we'll begin our hearing. I'll call the
24 hearing to order and ask staff to read the notice.

25 MS. BENNETT: Mr. Chairman, Commissioners, pursuant

1 to notice duly given, this date, time and place has been
2 scheduled for the nuclear cost recovery clause proceeding,
3 Docket Number 080009.

4 CHAIRMAN CARTER: Thank you. Staff, are there any
5 preliminary matters?

6 MS. BENNETT: Yes, Chairman Carter, there are several
7 preliminary matters. The first item, and I don't believe I had
8 mentioned this to you before, but we probably need to take
9 appearances.

10 CHAIRMAN CARTER: You mean people want to appear for
11 this? Okay. Let's just, let's take an appearance, take
12 appearances for the parties. You know, I was in the middle of
13 saying preliminary matters. I started to stay plenary, you
14 know, like the beginning session. So let's take appearances of
15 the parties.

16 I think, Mr. Anderson, you're up first. Good
17 morning.

18 MR. ANDERSON: Good morning, Chairman Carter. I'd
19 like to enter the appearances on behalf of Florida -- I'm
20 sorry.

21 CHAIRMAN CARTER: That's okay. It's that kind of
22 day.

23 MR. ANDERSON: It is. And I appreciate your
24 reflection this morning. I know that's on all our minds.

25 Enter the appearances of Florida Power & Light

1 Company, Bryan Anderson, my colleague Carla Pettus,
2 P-E-T-T-U-S, Jessica Cano.

3 MR. BREW: Good morning, Commissioners. I am James
4 Brew with the firm of Brickfield, Burchette, Ritts & Stone for
5 PCS Phosphate. And I'd also like to note the appearance of
6 F. Alvin Taylor. Thank you.

7 MR. McWHIRTER: My name is John McWhirter appearing
8 on behalf of the Florida Industrial Power Users Group. My
9 address and firm is listed in the pleadings.

10 MR. TWOMEY: Good morning, Mr. Chairman,
11 Commissioners. Mike Twomey on behalf of AARP.

12 MR. MCGLOTHLIN: Good morning. My name is Joe
13 McGlothlin with the Office of Public Counsel. I'd like to
14 enter the appearances of J.R. Kelly, Public Counsel, and Steve
15 Burgess as well. We represent the citizens of the State of
16 Florida.

17 MR. TRIPLETT: Good morning. I'm Dianne Triplett
18 from the Law Firm of Carlton Fields on behalf of Progress
19 Energy Florida. And with me also is John Burnett on behalf of
20 Progress Energy.

21 MS. BENNETT: And Lisa Bennett and Keino Young for
22 the Public Service Commission.

23 CHAIRMAN CARTER: Okay. Did we get all the parties?
24 Thank you. Now I suppose we're ready for preliminary matters.

25 Staff, you're recognized.

1 MS. BENNETT: FIPUG has filed a motion to reconsider
2 the Prehearing Officer's exclusion of FIPUG's Issue 1E from the
3 Prehearing Order.

4 Issue, proposed Issue 1E from FIPUG read as follows:
5 "What is the appropriate procedure to reduce and refund NPCR
6 charges to retail customers when a utility sells a portion of a
7 nuclear unit to a municipality or other investor-owned
8 utility?" Progress Energy has filed a response to FIPUG's
9 motion.

10 Staff would suggest that the parties may want to
11 address the Commission, and if that is your desire, FIPUG would
12 be the first to appear and then Progress Energy.

13 CHAIRMAN CARTER: Let me do this first. Who, other
14 than FIPUG, who's, who's going to be speaking in support of
15 FIPUG's motion other than FIPUG? I'm just trying to, so I can
16 allocate the amount of time we want to -- Mr. Brew, you'll be
17 speaking?

18 MR. BREW: Mr. Chairman, PCS Phosphate supports
19 FIPUG's motions, but I don't plan on adding anything further to
20 the argument.

21 CHAIRMAN CARTER: Okay. And I know that Progress
22 Energy will be opposing the motion. Who along with Progress
23 will be opposing the motion?

24 MR. MCGLOTHLIN: Mr. Chairman, I'm not opposed, but
25 during the Prehearing Conference OPC supported FIPUG, and I'll

1 indicate our support for the inclusion of the issue as well.

2 MR. TWOMEY: Mr. Chairman, AARP would do the same.
3 We don't need to speak to it.

4 CHAIRMAN CARTER: Thank you very kindly.

5 What we'll do, Commissioners, we'll take five minutes
6 per side.

7 Mr. McWhirter, you've got five minutes,
8 Mr. McWhirter.

9 MR. MCWHIRTER: Okay, Mr. Chairman. Duly noted.

10 You'll see the theme of the FIPUG presentation during
11 these proceedings is the idea of rate shock and the idea of
12 having current customers pay for capacity that is 57 percent
13 greater, creates a reserve margin 57 percent greater than their
14 current demand. And what I do in my motion is suggest to you
15 that the Legislature has passed this law that you've got to
16 follow, and it requires you to put the nuclear plants through
17 the power plant cost, Nuclear Power Plant Cost Recovery Act.

18 But I'm suggesting to you that you are, in fact, an
19 arm of the Legislature, you're a body of the Legislature, and
20 you're going to interpret this law and you have interpreted it
21 so far in your rule. But when the law was passed, when the
22 rule was passed, nobody had any idea about the magnitude of the
23 money involved. In this case, Progress Energy is asking for
24 \$419 million, and when you mark that up for income tax, it's
25 \$470 million.

1 And so the purpose of my motion is to suggest an
2 alternative that might provide some relief for consumers. And
3 the alternative is that you give a specific directive to
4 Florida Progress to go out and market this plant. And I've
5 attached to my motion two exhibits that I wish you to take
6 administrative notice of. The first is it shows that when this
7 plant comes online in 2017 there will be a reserve margin of
8 33 percent, which is far in excess of the needs of customers.
9 And, in fact, as I said a minute ago, for current customers
10 that are here today it's 57 percent greater than their demand.
11 So customers are being asked to pay for a plant not only under
12 the new regimen of paying for it before it becomes in used and
13 useful service, which has been the criteria for years and
14 years, but now pay for it before it's built and pay for far
15 more than you need.

16 Now I'm addressing something that you addressed in
17 your need proceedings, and in those need proceedings you
18 determined that it was appropriate for this plant. But I would
19 suggest to you that the need that came up in the need
20 proceedings, as I recall it, is that the plant would be needed
21 sometime after 2021 or 2025. So that's really a load to put on
22 current customers. And as a consequence, I suggest that you do
23 something the Commission did with Tampa Electric Company a
24 number of years ago, and that is tell them to go out and sell
25 part of this plant.

1 My Exhibit 2 is a newspaper article, and it says,
2 "JEA is negotiating with Georgia Power and it's going to buy
3 206 megawatts." If you use the price per megawatt of, of
4 Progress Energy, it's an average of \$6 million a megawatt, and
5 you multiply that by 206 megawatts, if they would just sell
6 this plant, a portion of this plant to JEA and instead of
7 letting JEA go north to Georgia, what we would have is Florida
8 customers would be getting the benefit of Florida electricity
9 and the Progress Energy customers would save \$1.2 billion. And
10 to me that makes a lot of sense as a way to achieve what the
11 Legislature wanted to in its legislation and what you want to
12 do in your rule in order to share the cost of nuclear power.
13 The nuclear power is for the state as a whole, not just for the
14 customers of Progress Energy. Many of us won't even be alive
15 when that happens. So I suggest to you -- y'all will be alive,
16 but some of us older ones might not be.

17 I would suggest to you most respectfully that you at
18 least consider this issue. What the Prehearing Conference,
19 Officer has done is said you can't even talk about it because
20 I'm taking it out of the issues, policy issues that you can
21 address, and that to me is a very serious problem. You ought
22 to talk about it, you ought to think about it and you ought to
23 have every opportunity you can to do something for the benefit
24 of consumers.

25 Thank you. I hope that's less than five minutes.

1 CHAIRMAN CARTER: Right, right on the money,
2 Mr. McWhirter. I'm impressed. We'll wait until after that.

3 MR. TRIPLETT: Thank you, Chairman.

4 CHAIRMAN CARTER: Ms. Triplett, you're recognized.

5 MR. TRIPLETT: Thank you. First, we would just point
6 out that Mr. -- FIPUG's motion fails to meet the strict
7 standard that this Commission must find is met for considering,
8 on the motion for reconsideration. He has pointed to no fact
9 or, or law that the Prehearing Officer failed to consider
10 during her ruling on the issue.

11 But even assuming that you were to find that the
12 standard was to be met and that the motion was proper, we, we
13 still feel that the, the motion must fail for several reasons
14 which we put into our response to the motion, but I'm just
15 going to touch on a couple of the big ones.

16 The first thing is that Mr. McWhirter pointed out
17 that this Commission considered Progress Energy's need for the
18 Levy Units just last month issuing an order. And reading from
19 that order, which is PSC-080518, first, "PEF demonstrated a
20 reliability need for additional baseload capacity by 2016." So
21 his motion is in essence a collateral attack on your prior
22 order.

23 It also is a collateral attack on the wisdom of the
24 Florida Legislature in passing the nuclear cost recovery
25 statute. He is asking the, this Commission to step outside the

1 bounds of their, of your legislative authority and provide for
2 cost sharing that's just not found in that, in that statute.

3 In addition, he cites to the TECO order in which the
4 Commission basically allowed for TECO's base rates to be
5 decreased by a particular amount because of sales that TECO had
6 under a contract to FPL. That is completely distinguishable
7 from this proceeding because we don't have a contract. We
8 would be completely speculating as to what percentage or what
9 mechanism would be appropriate to, to basically be reduced for
10 cost recovery in this proceeding.

11 In addition, the TECO case, it was clear that TECO
12 had excess capacity when its generating unit went online. And
13 this -- again, we have a need for these units in 2016. So
14 there is no precedent for the Commission to do what the motion
15 asks it to do, so we would ask that the motion be denied.

16 Thank you.

17 CHAIRMAN CARTER: Thank you.

18 Commissioner Argenziano, you're recognized.

19 COMMISSIONER ARGENZIANO: Well, Mr. Chair, it's
20 interesting because Mr. McWhirter said a couple of things that
21 I was going to open up with before anybody spoke. Because I
22 know you all are getting a lot of, I won't say constituent,
23 consumer e-mails, phone calls, there's letters in the editor,
24 to the editor everywhere, and yet we have a need and we know we
25 have a need for energy in the future.

1 But what Mr. McWhirter said is, is true, it is a
2 shock for the consumer. And I've said it here before, I just
3 don't know how much more the consumer can take. That's not the
4 fault of Progress Energy or anybody else trying to meet the
5 needs of the state. But at the same time I guess I want to let
6 the consumers know who are watching, because Mr. McWhirter did
7 say it, that we are mandated by the Legislature. I mean, we
8 have, we have consumers out there screaming at us saying, "How
9 dare you allow these costs?" And I don't think the media has,
10 has informed the consumers of the state that the Legislature
11 has decided that that's what we're going to do. And as
12 Mr. McWhirter said, we are mandated.

13 I don't -- and I, and I do have a problem -- I see,
14 what I see, Mr. McWhirter, is you pointed to what you believe
15 is precedent, and then Progress Energy just told me that it's
16 not exactly the same and it may not be precedent because of
17 certain things that are missing, contracts and so on and so on.

18 What I'm looking at is what the statute tells me to
19 do. I'm trying to figure out how to alleviate that pain, that
20 shock because I really don't know how people can afford
21 anything anymore between water and gas and electric and
22 everything else. And what I see is that I have to allow these
23 recoveries that have to -- the only leeway I have is prudence
24 and making sure that there are prudent expenditures and prudent
25 costs, and then maybe going into what's preconstruction, what's

1 not, things like that, which I'm waiting to hear from OPC and
2 others their opinions on it.

3 But I don't know how you feel we have the authority,
4 given what especially the new legislation says. And people out
5 there hear: You need to talk to your senator and your
6 representative because they told us this is what we shall do.
7 Where do you see the leeway for us to tell a company that they
8 have to market to somebody? I mean, I'm looking for it. I
9 can't find it.

10 MR. McWHIRTER: I'm glad you asked that question,
11 Commissioner.

12 Before the 1885 Constitution the Legislature granted
13 divorces and they figured that was a lot to undertake and so
14 they turned that function over to the courts. They also
15 determined that the Railroad Commission, which is your
16 predecessor, had to deal with complex factual issues that you
17 couldn't deal with effectively during a legislative session,
18 during the press of business when you're dealing with policy
19 matters, so it created this agency. And you're what -- and
20 lawyers talk about the homestead exemption as a legal
21 chameleon. I think of you as a governmental chameleon. You're
22 part legislative, you're part judicial and you're part
23 administrative. You make administrative policy, important
24 policy with respect to the industries that you regulate. You
25 adjudicate facts. And besides that, you help the Legislature

1 in developing its policy.

2 The presentation when this law was passed that was
3 made to the Legislature by Progress Energy was that there would
4 be a rate increase in 2012, if I recall, that would be
5 somewhere around \$185 million, and that was right before the
6 uprate came online.

7 Well, what happened after that legislation was
8 passed, the utilities got very excited and they went out and
9 built more than anybody ever thought about. And here we are in
10 2009 and the amount of money being requested is not
11 \$185 million, it's --

12 COMMISSIONER ARGENZIANO: I'm not hearing that
13 leeway. I think, Mr. Chairman, if I can.

14 CHAIRMAN CARTER: Yes.

15 COMMISSIONER ARGENZIANO: I think -- I know what
16 you're trying to tell me, but what I'm trying to find is where
17 do you see -- because as a past legislator I can tell you that
18 the Legislature would probably smack us silly if we start
19 creating policy.

20 MR. McWHIRTER: Well, I think the Legislature is
21 going to be very upset when it finds out the rate impact
22 they've had on the people. And I think what they would like
23 for you to do is to give them a way to do this in a fashion
24 that protects the utility. And we want to protect the utility
25 and also protect the consumers. And I think they would welcome

1 your participation because --

2 COMMISSIONER ARGENZIANO: Okay. I appreciate that.
3 I disagree. I served with some of the legislators, and if they
4 say this is what -- they have to come to understand through
5 their constituents, I think, that that may not be what their
6 constituents expected of them and they have to explain that.

7 What I'm trying to get is I don't see wiggle room. I
8 don't see where the statute allows me to look at anything else
9 other than prudence. And I guess I'm trying to get that
10 message out to consumers of the State of Florida that, you
11 know, we are the Public Service Commission. With all due
12 respect, I wish that I could find that wiggle room in what
13 you're telling me. I may agree with you 100 percent, I may
14 not, but I'm looking at it purely statutorily. "Shall" doesn't
15 mean I can, I can deviate because it's the right thing or maybe
16 the thing we need to do.

17 MR. McWHIRTER: I think you have the wiggle room in
18 the fact that you establish administrative policy. The Tampa
19 Electric case, there was an existing contract. Dianne was very
20 gracious. She didn't point out the fact that when I said there
21 was a federal law that compelled municipalities to take
22 10 percent, she said she couldn't find that federal law I was
23 talking about. Well, there isn't a federal law that requires
24 utilities to sell 10 percent of their nuclear capacity to
25 municipalities like there is for hydropower.

1 The federal law, as it came into effect in this
2 situation, was back in the '70s when the CR3 was first built.
3 Progress Energy said it was on the verge of bankruptcy if it
4 didn't get help, and it went out and used that program to sell
5 part of its plant to municipalities.

6 When St. Lucie was built in, around 1996, I believe,
7 what happened was the municipalities sued Florida Power & Light
8 under the Sherman Antitrust Act and said you're about to
9 monopolize the wholesale market. And so the NPR -- the Nuclear
10 Regulatory Commission required them to sell a percentage of
11 their plant.

12 It makes sense to share the capacity. It would make
13 sense for you to do it. You in the past -- look at a mom and
14 pop water and sewer situation. You will not allow a water and
15 sewer company to carry more than 10 percent excess capacity in
16 its, in its rate base because you say that's unfair to current
17 customers.

18 In this case when this plant comes online, not today
19 but when it comes online, there will be a 33 percent excess
20 capacity. I'm not going to go into the details of how we got
21 to this 20 percent reserve margin business, but there's no
22 requirement that you enacted that requires a 20 percent reserve
23 margin.

24 All you can, you can do within the wiggle room that
25 the Legislature gives you is apply the criteria that you've

1 always applied. And in the past you didn't, you didn't let
2 utilities build far more than they needed, and the Legislature,
3 when it passed the legislation, didn't anticipate that you
4 would require them to build --

5 COMMISSIONER ARGENZIANO: But the difference is,
6 Mr. McWhirter, is there's new language in the statute from the
7 past. The new language says I shall do this. The only wiggle
8 room I see, and I read the statutes, that's what I want to hear
9 from you, in that, in that language that I see in the statutes,
10 the only thing I really can look at, and I hope that staff or
11 somebody else can indicate if I am wrong, but it seems to me
12 the only authority I have, according to the legislators who
13 told me what I shall do, is look for prudence basically. That
14 looks like all I have, I can do.

15 MR. MCWHIRTER: Well, may I suggest to you that
16 what's before you now is can you even consider this?

17 COMMISSIONER ARGENZIANO: Okay.

18 MR. MCWHIRTER: And all I'm asking is that you
19 consider it. I presume that you're not going to have a bench
20 vote to approve this \$470 million increase today. You're going
21 to let us file briefs and give -- and I don't want to take so
22 much of your time arguing these things. Give us an opportunity
23 to file briefs on this subject and see if we can help you with
24 the wiggle room subject.

25 CHAIRMAN CARTER: Commissioner, Commissioner

1 Argenziano, you're absolutely correct in your reading of the
2 statute. This issue was debated in the Legislature, they took
3 testimony, they had hearings, both chambers looked it over, the
4 Governor's Office had input in it, and this is one of the most
5 widely pieces of, widely supported pieces of legislation that
6 came down to us for that. And I don't see anywhere that gives
7 us the leeway to practice that kind of discretion when the
8 Legislature said, "You shall." And I think if they wanted to
9 give us some discretion, they would have said here's some
10 discretion that you can exercise in that.

11 And I think, as you know, the Legislature sets policy
12 for us. If we start going askew of their policy, then we run
13 the risk of being -- first of all, a party can go to court and
14 say you overstepped your legislative boundaries on that, and
15 that's not what we should be about.

16 The other thing is that whereas we recognize that
17 this is a cost on the consumers, it's something that the
18 Legislature took into consideration when they passed the law.
19 And, I mean, we, we, we on this Commission, we said about
20 several times ago as we talked about food, food is expensive,
21 gas is expensive, everything is expensive, and in order to do
22 this the Legislature took those things into consideration. And
23 I think that when we start getting creative outside of our
24 authority we start making trouble for ourselves as well as for
25 the consumers.

1 COMMISSIONER ARGENZIANO: Well, Mr. Chair, to that
2 point, and I understand that fully and that's the problem I'm
3 having. But I want, I want to make sure and I want anybody up
4 there, whoever it may be, to let me know if they don't -- if
5 they see a wiggle room that I don't. And I'm not saying to go
6 against the company, to go -- to do what I think is the right
7 thing to do at the end of the day. I mean, if prudence is
8 something I can look at -- I can't even look at, you know, some
9 of the things that the companies don't build, that, you know,
10 the Legislature says that they are entitled to recover all
11 those costs even if they don't build. I may not like that. If
12 I was a legislator, I may have not, I may -- I don't know.

13 But I'm trying to look at where I do have the
14 responsibility to look at, and that's what I need from
15 everybody who's going to talk to me today and then I'll take it
16 there. I can't go above and beyond what the Legislature is
17 going to allow me to do.

18 And I do want the people of the State of Florida to
19 understand how the PSC works. The media really doesn't pay
20 attention to the PSC unless there's some kind of a scandal, and
21 I'd like them to understand how important this is to the
22 consumers.

23 So with that said -- and probably -- well, never
24 mind.

25 CHAIRMAN CARTER: Never mind.

1 COMMISSIONER ARGENZIANO: But with that said, I just
2 want to make sure that staff will chime in any time if you hear
3 me struggling saying is there something we can look at here or
4 do there. Because I have a great concern that, you know, while
5 we need the energy, our future, we need to be able to flip that
6 switch. And I understand the companies, but I also understand
7 what the Legislature means when it says you are not the
8 policymakers, and sometimes that's very convenient. But I also
9 want to find out every inch of authority we have, and, and I
10 guess I can't express that any more than that, so.

11 MR. TWOMEY: Mr. Chair?

12 CHAIRMAN CARTER: Mr. Twomey and then --

13 MR. TWOMEY: Very briefly. I'm not prepared to now,
14 Commissioner Argenziano, to give you any more specific wiggle
15 room than Mr. McWhirter attempted to. But as he noted, he's
16 not asking and none of us are asking for yourself or the
17 Commission as a whole to run afoul of the Legislature, of the
18 statutes today or at any point for that matter.

19 What Mr. McWhirter suggested and what I would urge
20 you to consider doing is to, is to leave the issue in, that
21 doesn't run, that doesn't do a disservice to anybody,
22 particularly the Legislature, and to allow us through the
23 briefing process to take a razor-sharp view at this issue and
24 attempt in writing to give you that wiggle room. And if you
25 don't, if at the end of the day if you don't find it's

1 persuasive, then you vote against it.

2 COMMISSIONER ARGENZIANO: Okay. But -- Mr. Chairman.

3 CHAIRMAN CARTER: You're recognized.

4 COMMISSIONER ARGENZIANO: This is my point, this is
5 what I was trying to find and then put everything, I guess, in
6 there was do we have authority to tell a company that they,
7 that they have to do this?

8 You cited something in the past, Tampa Bay, and
9 Progress is arguing that that's not the same and I'm hearing
10 what they're saying and that's what I'm trying to get to. Do I
11 have authority to say or to even think that I can tell a
12 company that you have to market this to somebody else without
13 having a contract? I don't know that I have that -- and staff
14 maybe is the better to answer that. And I don't, I don't know
15 that I have the authority. If I have wiggle room there, then,
16 you know, perhaps I'll think about that.

17 CHAIRMAN CARTER: Let me go to staff, then I'll come
18 back to Commissioner Skop.

19 Staff, you're recognized.

20 MS. BENNETT: Commissioner Argenziano, I think the
21 wiggle room that you're looking for is actually provided to you
22 in a stipulation by the parties to Issue 1D.

23 1D asks, "Should a utility be required to inform the
24 Commission of any change in ownership or control of any asset
25 which was afforded cost recovery under the Nuclear Cost

1 Recovery Clause?" And the position that the parties all agreed
2 to was, "Yes, timely notification to the Commission and parties
3 to the NCRC docket at the time of filing the notice will allow
4 the Commission to make any required adjustments within or
5 outside of the Nuclear Cost Recovery Clause. Staff will
6 conduct workshops on the administrative procedures to be used
7 by the Commission to make such adjustments." And so it will
8 give you an opportunity when that instance happens to look at
9 it.

10 COMMISSIONER ARGENZIANO: Thank you.

11 CHAIRMAN CARTER: Commissioner Skop.

12 COMMISSIONER SKOP: Thank you, Mr. Chairman.

13 And I guess it seems that the, the issue as it was
14 pled dealt with Issue 1E and dealt with how would the cost and
15 procedure to refund NPCR charges to customers when a utility
16 sells a portion. And it appears that that central issue as it
17 was pled seems to be kind of stretched into having the
18 Commission give mandates that the company should go do this or
19 should go do that. And I fully agree with my colleague
20 Commissioner Argenziano as well as Chairman Carter that I don't
21 think that we have the discretion to tell, the statutory
22 discretion to go mandate, you know, specifically to go do X, Y
23 or Z to some degree.

24 But with respect to Issue 1E, I think that our order
25 on the need determination, I know in at least my concurring

1 opinion we touched upon that and provided some initial
2 guidance. So I would tend to support the, the Prehearing
3 Officer's discretion on, on making that ruling to the extent
4 that Ms. Triplett and Mr. Burnett have raised that issue in
5 their, in their response to the motion. Thank you.

6 CHAIRMAN CARTER: Thank you, Commissioner.

7 I think that it's always good to get back to
8 procedural matters, and procedurally is that based upon the
9 review, the legal standard for a motion for consideration has
10 not been met in this case. And as such, Commissioners, at the
11 appropriate time after we finish our discussion I'll be seeking
12 a motion to that effect. Because I do not think, based upon
13 what's been presented to us, that the legal standard for a
14 motion for consideration has been met in this case, in this
15 Issue 1E.

16 Commissioners, anything further?

17 COMMISSIONER ARGENZIANO: Mr. Chair, I'm having some,
18 I'm having some confusion because I think what I was just told
19 by staff -- you understood the question I asked; right?

20 MS. BENNETT: I think you were asking was there
21 statutory authority to --

22 COMMISSIONER ARGENZIANO: For me to even consider the
23 request.

24 MS. BENNETT: So I probably didn't give you as good
25 an answer as you were looking for.

1 CHAIRMAN CARTER: I would have said that differently,
2 but --

3 MS. BENNETT: Honesty is one of my better qualities.
4 I don't believe that the Commission should be, has
5 the authority to direct management decisions. I think your
6 authority in the Nuclear Cost Recovery Clause is when you
7 review them for prudence, which is exactly what you said. So
8 --

9 COMMISSIONER ARGENZIANO: Okay. Thank you.

10 CHAIRMAN CARTER: Commissioner Edgar, you're
11 recognized.

12 COMMISSIONER EDGAR: Mr. Chairman, is this the
13 appropriate time for a motion?

14 CHAIRMAN CARTER: This is the appropriate time for a
15 motion.

16 COMMISSIONER EDGAR: Okay. Then I would make the
17 motion to deny the request for reconsideration.

18 COMMISSIONER SKOP: Second.

19 CHAIRMAN CARTER: It's been moved and properly
20 seconded. Commissioners, anything further? Hearing none, all
21 those in favor, let it be known by the sign of aye.

22 (Unanimous affirmative vote.)

23 All those opposed, like sign. Show it done.

24 Staff, as we move forward with our preliminary
25 matters.

1 MS. BENNETT: The next set of items are -- there are
2 several stipulations, we talked about one of them, that should
3 be taken up by the Commission prior to the hearing.

4 CHAIRMAN CARTER: Okay. Let's take them in order
5 then and just kind of walk us through those.

6 MS. BENNETT: All right. We'll start with the full
7 stipulations, and I believe you will find them beginning on
8 Page 55 of the Prehearing Order. And I had read into the
9 record Issue 1D, which deals with what should happen if an
10 asset that is recovered through the Nuclear Cost Recovery
11 Clause, all or a portion of it is sold. And the parties have
12 stipulated fully that, yes, that notification should be given
13 to the Commission and that the parties would file notice in the
14 NCRC and then the Commission can make any required adjustments
15 either through the NCRC or through other proceedings. And
16 staff would note that we are intending to conduct workshops
17 beginning next year on the administrative procedure following,
18 to follow.

19 CHAIRMAN CARTER: Okay. Next issue.

20 MS. BENNETT: Issue 4A is, "Should the Commission
21 grant FPL's request to include the review and approval for
22 recovery through the Nuclear Cost Recovery Clause of prudently
23 incurred site selection costs for the Turkey Point Unit 6 and
24 7?" And the answer is yes. There's a proviso that the parties
25 have provided which we'll go into more detail in the partial

1 stipulations, but in essence for the Turkey Point 6 and 7, the
2 new nuclear plant, the parties have agreed that they would like
3 you to do a reasonableness review this year on the actual cost,
4 not a prudence review.

5 CHAIRMAN CARTER: Okay. Next issue.

6 MS. BENNETT: Issue 5A is the same for Progress
7 Energy, it's whether the site selection costs for Levy Units
8 1 and 2 should be recovered through the Nuclear Cost Recovery
9 Clause. And again the answer is yes, and the parties have
10 agreed that they're going to ask you for a reasonableness
11 review this year of those site selection costs and a prudence
12 review next year.

13 CHAIRMAN CARTER: Okay. Next issue.

14 MS. BENNETT: And the next issue is what total amount
15 should the Commission approve as final, as FPL's final 2007
16 true-up to be recovered for the EPU project. And that --

17 CHAIRMAN CARTER: That was, Commissioners, 6E.

18 MS. BENNETT: 6E. And the dollar amount is zero, and
19 everybody agreed to that.

20 CHAIRMAN CARTER: Okay.

21 MS. BENNETT: 7A is "What amount should the
22 Commission approve as PEF's final 2007 true-up of prudently
23 incurred preconstruction costs for the Levy Units 1 and
24 2 project?" And again the answer was zero and everybody
25 agreed.

1 CHAIRMAN CARTER: Okay. Next issue.

2 MS. BENNETT: 7H is "Has PEF demonstrated that the
3 uprate costs it seeks to recover in this docket are separate
4 and apart from those it would incur in conjunction with
5 providing safe and reliable service, had there been no uprate
6 project?" And the parties have agreed that for the costs that
7 went through for the nuclear uprate for CR3 for 2006 and 2007,
8 that those costs can be considered by the Commission for
9 prudence review, and that the -- and I'm paraphrasing this, so
10 if I misstated the party's position, they should let me know --
11 but for 2008 and forward they will work with staff and with
12 each other to improve the NFRs so that when the filings are
13 made it's a little clearer and more transparent.

14 I need to go back to -- I'm sorry. Are there any
15 questions on that one?

16 CHAIRMAN CARTER: No.

17 MS. BENNETT: I need to go back. There is a handout.

18 CHAIRMAN CARTER: Here's what I'm going to do is,
19 Commissioners, just to give you the lay of the landscape, I
20 wanted her to go through and do a summary of each one of the
21 issues. Then I'm going to go to the parties and make sure that
22 they're onboard, and then we'll have a discussion before we
23 accept or reject the stipulations.

24 You may proceed.

25 MS. BENNETT: There is a handout. After the

1 Prehearing Order was entered into the parties reached another
2 stipulation. And this is Issue 6F, it's the same that you just
3 heard for Progress only it's for FPL, and "Has FPL demonstrated
4 that the uprate costs it seeks to recover in this docket are
5 separate and apart from those it would incur in conjunction
6 with providing safe and reliable service, had there been no
7 uprate project?" And, again, the parties agreed that for the
8 prior year's cost, 2006 and 2007, for the uprates the cost
9 would be considered for prudence this year, and that OPC, FPL
10 and staff would work on the NFRs for 2008 forward to make sure
11 that there is transparency in the filings.

12 And then the last issue that's fully stipulated is
13 Issue 14, "Should Docket Number 080149-EI be closed?"
14 080149-EI was a discovery docket that was opened by Progress
15 when the Levy Unit 1 and 2 was being considered by you all for
16 the need determination so that we could commence discovery.
17 Once the need determination was filed, all of those docket
18 information documents that were in that docket were moved to
19 this one. And so we just need a Commission approval to close
20 the discovery docket.

21 CHAIRMAN CARTER: Okay. One second, please. You're
22 adding 6F to the stipulation.

23 Let me first go to the parties. Mr. Anderson, you've
24 heard the overview of those issues that were stipulated to.
25 Are there any questions or concerns or are you in agreement

1 with those?

2 MR. ANDERSON: FPL agrees that staff has accurately
3 stated them. We agree with them.

4 CHAIRMAN CARTER: Okay. Mr. Brew. Mr. Brew.

5 MR. BREW: Yes, Mr. Chairman. PSC Phosphate doesn't
6 have any problems with the stipulations as described.

7 CHAIRMAN CARTER: Mr. McWhirter.

8 MR. MCWHIRTER: Ditto FIPUG.

9 CHAIRMAN CARTER: Mr. Twomey.

10 MR. TWOMEY: Same, sir. Agreement.

11 CHAIRMAN CARTER: Mr. McGlothlin.

12 MR. MCGLOTHLIN: Yes. Within our office we have a
13 division of labor. I've been handling the FPL portion,
14 Mr. Burgess, PEF's. But with respect to FPL they are accurate.

15 CHAIRMAN CARTER: Mr. Burgess.

16 MR. BURGESS: The statements are accurate. There is
17 a bit more I would like to add with regard to the uprate
18 projects. It's a little bit more explicit in the agreement --

19 CHAIRMAN CARTER: Okay.

20 MR. BURGESS: -- as to what we intend to do with
21 regard to the filing, that Progress Energy has agreed or is of
22 the same belief that only costs that are separate and apart
23 from those costs that would have been incurred to provide
24 service should be passed through the Nuclear Cost Recovery
25 Clause. And to that end they have agreed to work with our

1 office, with other parties and with the staff to come up with
2 a, with a new filing requirement that captures the information
3 necessary for parties to have a beginning point at which to
4 examine that issue at the outset of each cycle.

5 CHAIRMAN CARTER: Okay. Thank you for that
6 explanation.

7 Mr. Burnett. Ms. Triplett.

8 MR. TRIPLETT: Thank you, sir.

9 Yes. With that clarification of Mr. Burgess,
10 Progress Energy is in agreement. We will work with the parties
11 to develop an appropriate NFR schedule or filing of some sort
12 for next year's proceeding. And Ms. Bennett also accurately
13 described the remaining stipulations as they apply to Progress.

14 CHAIRMAN CARTER: Thank you.

15 Are there any, anything further before we come to the
16 bench about any of these, any of these stipulations that you
17 guys wanted to further clarify or anything like that? Because
18 I asked Ms. Bennett just to do a summary. Anything further?

19 Hearing none, Commissioners, we have before us a
20 request for a stipulation from the parties, and those areas for
21 the record would be Issue 1D, 4A, 5A, 6E, 6F, 7A, 7H and 14.
22 Does that correctly reflect the agreement by the parties?

23 Commissioners, any questions or concerns on that, any
24 comments? Hearing none, we're open for a motion.

25 Commissioner Edgar, you're recognized.

1 COMMISSIONER EDGAR: Thank you, Mr. Chairman.

2 I would make a motion that we approve the proposed
3 full stipulations as described by our staff.

4 COMMISSIONER ARGENZIANO: Second.

5 CHAIRMAN CARTER: It's been moved and properly
6 seconded to approve the stipulations. Any further discussion?
7 Hearing none, all those in favor, let it be known by the sign
8 of aye.

9 (Unanimous affirmative vote.)

10 All those opposed, like sign. Show it done.

11 Any further preliminary matters from staff?

12 MS. BENNETT: Chairman Carter, there are some
13 additional partial stipulations that the Commission would
14 probably want to consider at this time. Would you like me to
15 go through those?

16 CHAIRMAN CARTER: You're recognized.

17 MS. BENNETT: On Page 56 of the Prehearing Order in B
18 we begin with Issue 2A. And Issue 2A is "Should the Commission
19 find that for the year 2007, FPL's project management,
20 contracting, and oversight controls were reasonable and prudent
21 for the Turkey Point 6 and 7 project and for the Extended Power
22 Upgrade project?"

23 Partial stipulations in this Prehearing Order are a
24 little bit different than what you've seen in the past. For
25 these orders partial stipulation means that a part of the issue

1 itself was resolved by the parties, not the full.

2 So for Issue 2A the parties have agreed that for the
3 new nuclear power plant only they're asking you to make a
4 reasonableness review this year and a prudence review of those
5 same costs next year. So what that means is for the costs that
6 were incurred in prior years you can approve the recovery
7 amount this year, but it's subject to refund. So that would be
8 Issue 2A for FPL's Turkey Point 6 and 7.

9 Issue 2B is similar. It is whether the accounting
10 and costs oversight controls were reasonable and prudent for
11 Turkey Point 6 and 7 and for the EPU project. And, again, the
12 parties have agreed that they would ask that you look, for the
13 Turkey Point 6 and 7, the new nuclear, at reasonableness this
14 year for the prior year costs. And next year you would do a
15 prudence review, so the costs would be subject to refund this
16 year. And, again, I'm paraphrasing this, so the parties may
17 want to address that more succinctly.

18 Issue 3B is Progress Energy Florida and it's a little
19 bit different stipulation. All of the parties only agree that
20 for the testimony of staff's witness on the financial audit,
21 Jeff Small, that if the Commission were to make a decision on
22 considering prudence next year for the Levy Unit 1 and 2, that
23 Jeff Small's testimony will apply for prudence review next
24 year. And so the costs that you would recover this year would
25 be subject to a prudence review and refund were you to agree

1 that the issue that Mr. Small testifies to is imprudent. I'm
2 sorry. That Progress was imprudent, not Jeff Small's
3 testimony.

4 MR. McWHIRTER: Freudian slip.

5 MS. BENNETT: Issue 6A is, "What amount should the
6 Commission approve as FPL's final 2007 true-up of prudently
7 incurred preconstruction costs for the Turkey Point Unit
8 6 and 7?" The parties have agreed again for the reasonableness
9 review this year, prudence review next year, but they're not
10 agreeing to the amount. That's still subject to your vote.

11 6B is "What total amount should the Commission
12 approve as FPL's final 2007 true-up to be recovered for the
13 Turkey Point Unit 6 and 7?" And, again, their agreement goes
14 to the reasonableness review this year, prudence review next
15 year, no agreement on the amount. You would still be voting on
16 the amount. And that is the conclusion of the partial
17 stipulations.

18 CHAIRMAN CARTER: Thank you.

19 And to the parties, we've just heard Ms. Bennett's
20 general summation of the partial stipulations regarding Issue,
21 Issues 2A, 2B, 3B, 6A and 6B. And as I did before,
22 Commissioners, I'll go with the parties and then I'll come back
23 to the bench.

24 Mr. Anderson, you're recognized, sir.

25 MR. ANDERSON: FPL agrees with the characterizations

1 of staff and the language stated in the order.

2 CHAIRMAN CARTER: Mr. Brew.

3 MR. BREW: We're fine with that.

4 CHAIRMAN CARTER: Mr. McWhirter.

5 MR. MCWHIRTER: Ditto FIPUG.

6 MR. TWOMEY: Yes, sir.

7 CHAIRMAN CARTER: Mr. Twomey. Mr. McGlothlin, the
8 division of, the division of work, so I'll go with both you and
9 Mr. Burgess. You're recognized.

10 MR. MCGLOTHLIN: Joe McGlothlin. The language is
11 accurate, they're -- I think a bit of clarification is called
12 for with respect to the FPL.

13 CHAIRMAN CARTER: You're recognized, sir. Please do
14 so.

15 MR. MCGLOTHLIN: One reason why it is properly
16 characterized as a partial stipulation as it relates to FPL is
17 that with respect to FPL's contracting procedures and the
18 implementation of those procedures our witnesses raise an issue
19 to which FPL has responded with rebuttal. Those -- that issue
20 relative to the contracting procedures relates to both uprate
21 and new units and also relates to over several time frames.
22 And so to that extent we have pulled out that subject matter
23 from what would otherwise be a more complete stipulation and
24 that will be presented to you by evidence today.

25 CHAIRMAN CARTER: Okay. And, Mr. Anderson, does that

1 correctly reflect the agreement between you and the parties on
2 that?

3 MR. ANDERSON: Yes, it does.

4 CHAIRMAN CARTER: Okay. Mr. Burgess.

5 MR. BURGESS: We agree with Ms. Bennett's description
6 of the agreements with Progress Energy as we understand them.

7 CHAIRMAN CARTER: Ms. Triplett.

8 MR. TRIPLETT: Progress Energy agrees.

9 CHAIRMAN CARTER: Okay. Commissioners, we have
10 before us partial stipulations with the clarifications given by
11 the parties of Issues 2A, 2B, 3B, 6A and 6B. And, again,
12 they're just pulling out portions of these issues and the
13 issues will remain within the confines of the, of the docket.

14 Are there any questions as presented? Hearing none,
15 we're now open for a motion on the disposition of the
16 stipulation, partial stipulations.

17 COMMISSIONER ARGENZIANO: I'd move the motion for the
18 partial stipulation as clarified before us.

19 CHAIRMAN CARTER: Thank you.

20 COMMISSIONER SKOP: Second.

21 CHAIRMAN CARTER: It's been moved and properly
22 seconded that we accept the partial stipulations with the
23 clarifications given by the parties. Any further discussion?
24 Hearing none, all those in favor, let it be known by the sign
25 of aye.

1 (Unanimous affirmative vote.)

2 All those opposed, like sign. Show it done.

3 Ms. Bennett, you're recognized.

4 MS. BENNETT: We'd note that some of the witnesses
5 have been excused from the proceeding. As we get to the
6 witnesses, staff will ask that the witnesses' testimony and
7 exhibits be admitted into the record as though read, and
8 cross-examination has been waived for those witnesses excused.

9 If you're ready, I could also talk about the
10 Comprehensive Exhibit List.

11 MR. TRIPLETT: Mr. Chairman?

12 CHAIRMAN CARTER: Where, where is that voice coming
13 from?

14 MR. TRIPLETT: Ms. Triplett over here.

15 CHAIRMAN CARTER: Oh, Ms. Triplett. Sorry. I'm so
16 used to you guys being on this side. You're recognized.

17 MR. TRIPLETT: Thank you. Just because Ms. Bennett
18 was mentioning witness order, I thought -- is it appropriate at
19 this time for me to ask to take a witness out of order or do
20 you want to wait?

21 CHAIRMAN CARTER: Yeah. Let's wait for that. Let's
22 wait for that. Okay. I'll come back to you though.

23 MR. TRIPLETT: Thank you.

24 CHAIRMAN CARTER: Ms. Bennett, on the Comprehensive
25 Exhibit List you're recognized.

1 MS. BENNETT: It is staff's understanding that there
2 are no objections to the Comprehensive Exhibit List, which also
3 includes Staff's Composite Exhibit.

4 Staff will also note that FPL has requested that an
5 additional exhibit be included in the Comprehensive Exhibit
6 List. FPL would like to include in the record the remaining
7 sole source memorandum produced in response to OPC, OPC's third
8 set of interrogatories Number 47 and as late-filed exhibits to
9 the depositions of FPL's witnesses Mr. Scroggs and Messrs. Hale
10 and Labbe, Labbe.

11 CHAIRMAN CARTER: Hang on a second. I think,
12 Mr. McGlothlin, you're okay with that, aren't you?

13 MR. MCGLOTHLIN: Yes.

14 MR. ANDERSON: Actually we narrowed that a bit too,
15 as we talked about this morning.

16 MS. BENNETT: Okay. So I won't go into the
17 identification numbers because as I understand they've, they've
18 eliminated several of the exhibits.

19 It is staff's understanding that no other party has
20 an objection.

21 CHAIRMAN CARTER: Okay.

22 MS. BENNETT: So it would be included if the
23 Commission agrees the exhibits would be included in the record.

24 CHAIRMAN CARTER: Show it done.

25 MS. BENNETT: And they will be identified as

1 Composite Exhibit 41.

2 CHAIRMAN CARTER: 41. Thank you.

3 MS. BENNETT: And for a little bit further
4 clarification, Exhibit 41 should be FPL's composite exhibit.

5 (Exhibit 41 marked for identification.)

6 CHAIRMAN CARTER: Okay. Any, any further exhibits
7 that need to, at this point in time that we need to put in on
8 this?

9 MS. BENNETT: Staff is not aware of any further
10 exhibits.

11 CHAIRMAN CARTER: Let me ask the parties, do you have
12 any that didn't get in in time that you wanted to have part of
13 the, at least to be listed in the comprehensive -- we're not
14 admitting them into evidence, we're just putting them on the
15 list. Okay. Hearing none, Ms. Bennett, you may proceed.

16 MS. BENNETT: And the Comprehensive Exhibit List will
17 be moved into the record when we open the record.

18 There are several corrections to be, to be made to
19 the positions in the Prehearing Order. First off, staff has
20 been made aware by Progress that there are some scrivener's
21 errors in Progress's position to 11C and 11D. The fire alarm
22 got me on Friday afternoon. So 11C's actual dollar amount is
23 \$30,217,903, that's 11C. And that was a scrivener's error on
24 the Prehearing Order. 11D should be \$147,907,456, that's 11D.
25 And Progress has also requested to address a correction it

1 wishes to make to Issue 7E.

2 COMMISSIONER EDGAR: Mr. Chairman, could I ask
3 Ms. Bennett to repeat the number on 11C one more time?

4 MS. BENNETT: 11C --

5 CHAIRMAN CARTER: Why don't we do this, by the way,
6 as we proceed further, get us a little sheet with all of that
7 on there so we'll have it within all of these dockets,
8 documents. That will be nice and handy for us to kind of keep
9 everything together. I mean, not that we don't have a mountain
10 of paper already, but at least we can keep it in order. So
11 let's just do that on that, as well as that will give us an
12 opportunity to proceed further, as well as have the information
13 at the appropriate time as we deal with the respective issues.
14 So, staff, if you can make that as we -- I'm sure that when
15 we -- and we're fortunate today, we've got two court reporters,
16 so we can rock and roll as we proceed further. So,
17 Ms. Bennett, would you at the appropriate time get that
18 together and get it to us --

19 MS. BENNETT: Yes.

20 CHAIRMAN CARTER: -- in writing, please. Thank you.

21 You may proceed.

22 MS. BENNETT: And Progress has indicated that on
23 Issue 7E they have a correction to their position in the
24 prehearing statement.

25 CHAIRMAN CARTER: Do you have it in writing?

1 MR. TRIPLETT: I, I can get it to you in writing.

2 CHAIRMAN CARTER: That would be great. Get it to us
3 in writing. We'll take it.

4 MR. TRIPLETT: Would you like me to state it on the
5 record or do you just want it -- okay.

6 For 7E the dollar figure is correct, but it is
7 actually, that figure is gross of joint owner billing. So
8 that's the change right now. It indicates that it's net, but
9 it's gross.

10 CHAIRMAN CARTER: Bring your gross figures to us in
11 writing. We'd like to see those.

12 MR. TRIPLETT: Yes, sir.

13 CHAIRMAN CARTER: All right. Ms. Bennett.

14 MS. BENNETT: Staff has also been informed that FPL
15 has a reduction in the amount they are seeking for recovery and
16 they would like to tell you about it.

17 CHAIRMAN CARTER: Mr. Anderson.

18 MR. ANDERSON: Thank you, Chairman Carter.

19 FPL would wish to reflect a reduction in the amount
20 it is requesting in connection with this proceeding. Two of
21 our witnesses will be prepared to brief you on this in detail
22 and have a good clear handout.

23 But the long and short of it is there's about a 14
24 percent reduction in that which we are seeking in this
25 proceeding. The reduction totals about \$35 million and reduces

1 the requested amount in this proceeding to \$221 million.

2 Long -- and the, just to preview, we've talked to the
3 parties about this, is as we go through these projects, you
4 know, on a very step-by-step, careful basis the company very
5 recently determined that we do not need to spend money at the
6 end of this year for some certain long-lead procurement items
7 that would have been very expensive because we determined the
8 better decision is not to make that expenditure now. There's
9 no reason to collect that, that money now. We wanted to
10 reflect that in as close to realtime as we could. That's what
11 we're doing.

12 CHAIRMAN CARTER: Commissioner Argenziano.

13 COMMISSIONER ARGENZIANO: Anybody else for a
14 reduction?

15 CHAIRMAN CARTER: Yeah. Any time you can save a
16 couple of million dollars, we sincerely appreciate that.
17 That's always in order.

18 Ms. Bennett.

19 MS. BENNETT: One final correction on the Prehearing
20 Order. Issue 1B, staff's position, we referred to the statute
21 but we didn't refer to Rule 25-6.0423(7). We'd like to make
22 sure that that's, you know that that rule is important to us,
23 too.

24 CHAIRMAN CARTER: Okay. Again in writing.

25 MR. ANDERSON: Commissioner Carter.

1 CHAIRMAN CARTER: Keep everything in its proper
2 perspective.

3 Mr. Anderson.

4 MR. ANDERSON: I gave the short colloquial version,
5 but may we submit in writing the exact dollar --

6 CHAIRMAN CARTER: Absolutely. I would appreciate
7 that, Mr. Anderson.

8 Commissioner Edgar.

9 COMMISSIONER EDGAR: Thank you. And I look forward
10 to having that in writing. But if I could ask Ms. Bennett,
11 just because I didn't get it all, to repeat the number, thank
12 you, on 11C.

13 CHAIRMAN CARTER: You're recognized.

14 COMMISSIONER EDGAR: Thank you.

15 MS. BENNETT: 11C is \$30,217,903.

16 COMMISSIONER EDGAR: Thank you.

17 CHAIRMAN CARTER: Thank you. Any further,
18 Commissioners, any --

19 COMMISSIONER SKOP: Could she repeat that?

20 CHAIRMAN CARTER: Commissioner Skop.

21 COMMISSIONER SKOP: Thank you, Mr. Chair.

22 Can you please repeat that? I'm sorry.

23 MS. BENNETT: Sure.

24 COMMISSIONER ARGENZIANO: I think I can now.

25 MS. BENNETT: It is \$30,217,903.

1 MR. McWHIRTER: Can you repeat 11D?

2 MS. BENNETT: Yes. \$147,907,456.

3 CHAIRMAN CARTER: Now you see why you have to have it
4 written down? Thank you. Ms. Bennett.

5 MS. BENNETT: There are several outstanding motions
6 regarding confidentiality that will be taken care of by a
7 separate order by the Prehearing Officer.

8 CHAIRMAN CARTER: Okay. By the Prehearing Officer or
9 whoever will want to give the greatest amount of savings. No.
10 Just kidding.

11 MS. BENNETT: And I would like to mention that there
12 are lots of confidentiality orders because there is quite a bit
13 of information that you have which is in the testimony and in
14 the exhibits that are redacted. When we discuss, and this is
15 for the parties as well as the Commission, when we discuss the
16 confidential information, we need to make certain not to reveal
17 the portions that are redacted as we get into the testimony in
18 the record.

19 CHAIRMAN CARTER: Okay. As we say in the country,
20 what else you got?

21 MS. BENNETT: I think that's all.

22 CHAIRMAN CARTER: You think that's all?

23 So then let me ask the parties, are there any
24 preliminary matters that we omitted for any of the parties?

25 Ms. Triplett.

1 MR. TRIPLETT: Are you coming back to me now for
2 mine?

3 CHAIRMAN CARTER: I'm starting with you this time.

4 MR. TRIPLETT: Thank you. We understand that none of
5 the parties and staff have questions for Mr. Dale Oliver and we
6 understand that there may be some Commissioner questions for
7 him, and we would request that he be taken out of order to go
8 first and maybe we can get him back to St. Pete more quickly,
9 if that's the Commission's pleasure.

10 CHAIRMAN CARTER: Commissioners, I don't, I don't see
11 a problem with that. What do you guys -- sounds good. You
12 know, I mean during this time of preparedness we want people to
13 be as close to family as possible. So that will be fine.

14 MR. TRIPLETT: Thank you.

15 CHAIRMAN CARTER: Okay. Anything further,
16 Ms. Triplett?

17 MR. TRIPLETT: Not for Progress.

18 CHAIRMAN CARTER: Okay. Mr. Burgess.

19 MR. BURGESS: No, sir.

20 CHAIRMAN CARTER: Mr. McGlothlin.

21 MR. MCGLOTHLIN: No, sir.

22 CHAIRMAN CARTER: Mr. Twomey.

23 MR. TWOMEY: No, sir.

24 CHAIRMAN CARTER: Mr. McWhirter.

25 MR. MCWHIRTER: You mean opening statements?

1 CHAIRMAN CARTER: No. No. Preliminary matters.

2 MR. McWHIRTER: I'll go back to sleep then.

3 CHAIRMAN CARTER: Okay. We appreciate that.

4 Mr. Brew.

5 MR. BREW: No, sir.

6 CHAIRMAN CARTER: Okay. Mr. Anderson.

7 MR. ANDERSON: No, sir.

8 CHAIRMAN CARTER: You knew it was coming; right?

9 MR. ANDERSON: I did.

10 CHAIRMAN CARTER: Let's do this, Commissioners, so we
11 can get all this paper together before we start, and also we've
12 been going at it for an hour for our court reporter. Let's do
13 this, let's give staff an opportunity to get all of these
14 little papers together. And also the parties, if you can kind
15 of go ahead on and get those together before we start so that
16 when we start we can really start.

17 I'm looking at the clock. I shouldn't -- it's always
18 dangerous when I look at the ones on the wall because they
19 rarely agree, but we'll come back at a quarter of. We're on
20 recess.

21 (Recess taken.)

22 We are back on the record. And the last time we were
23 here we had completed our preliminary matters, and as the
24 parties reconvene themselves we'll get ready for our opening
25 statements.

1 Just as a -- we've got two companies here, and I
2 think, Ms. Bennett, we said we'd do the -- I'm having, I'm
3 having one of my senior moments here.

4 MS. BENNETT: The -- I think I might be with you.

5 Progress Energy will be presenting their entire
6 petition first, so you will be hearing direct from Progress
7 Energy. Then you will be hearing from the Intervenor and
8 staff, and then you will hear on Progress Energy only, and then
9 you will hear from the rebuttal witnesses for Progress. So
10 you'll want to do the opening statements for Progress only, and
11 then once that case is finished, then we'll move into Florida
12 Power & Light.

13 CHAIRMAN CARTER: Yeah. What I said. That's right.

14 Okay. And, again, to the parties, ten minutes each.
15 I think that's what the Prehearing Order said about opening
16 statements; is that correct?

17 COMMISSIONER McMURRIAN: Yes.

18 CHAIRMAN CARTER: Okay. Ms. Triplett, you're
19 recognized.

20 MR. TRIPLETT: Thank you, sir.

21 PEF has two projects to increase nuclear generation
22 to benefit the State of Florida and PEF's customers: The
23 Crystal River 3 uprate project at the existing CR3 nuclear unit
24 and the new Levy Units 1 and 2. These projects will result in
25 billions of dollars in fuel savings to PEF's customers as well

1 as additional carbon neutral generation on PEF's system.

2 Pursuant to Section 366.93, the nuclear cost recovery
3 statute, and the Commission rule implementing that statute, PEF
4 has filed for cost recoveries of its costs for the CR3 uprate
5 project and the Levy nuclear project.

6 Specifically at issue in this proceeding are the
7 following costs: 2006 and 2007 actual CR3 uprate costs, 2008
8 actual estimated CR3 uprate costs, 2009 projected CR3 uprate
9 costs, 2006 and 2007 actual Levy costs, 2008 actual estimated
10 Levy costs and 2009 projected Levy costs.

11 In this proceeding the Commission will decide the
12 prudence of PEF's 2006 and 2007 actual CR3 uprate project
13 costs. For the remaining costs at issue in this proceeding the
14 Commission will consider whether the costs are reasonable.

15 Many of the issues in this proceeding have been
16 stipulated to and those stipulations we went over this morning
17 and are set forth in the Prehearing Order. I'm going to
18 briefly touch on the remaining issues, items that remain at
19 issue.

20 First, you may hear FIPUG dispute what AFUDC rate
21 should be used to calculate the carrying cost in this
22 proceeding. Our response to this is straightforward: The
23 statute clearly sets forth the appropriate AFUDC rate to be
24 used and that is how PEF has calculated its carrying costs.
25 There should be no reasonable dispute as to which AFUDC costs

1 should be used in this proceeding.

2 Second, you will likely hear FIPUG argue that PEF's
3 cost recovery request is too high. What you will not hear,
4 however, is actual evidence that any of PEF's specific costs
5 are imprudent or unreasonable. FIPUG does not take any
6 specific issue with any of PEF's project costs. Instead, FIPUG
7 takes issue with the Florida Legislature for passing a statute
8 to encourage nuclear generation. FIPUG takes issue with the
9 Commission rule to implement that statute and that provides for
10 cost recovery to encourage nuclear generation.

11 PEF's petition, its testimony and its NFR schedules
12 are consistent with the statute and the rule. PEF's filings
13 also demonstrate the prudence and reasonableness of its costs
14 for both projects. There is no evidence to suggest otherwise.

15 PEF therefore requests that this Commission find that
16 PEF's 2006 and 2007 actual CR3 uprate costs were prudently
17 incurred and that the remainder of its CR3 uprate costs and
18 Levy costs are reasonable. Thank you.

19 CHAIRMAN CARTER: Thank you.

20 Mr. Burgess.

21 MR. BURGESS: Yes. Thank you, Mr. Chairman.

22 I just briefly would start by saying, agreeing with
23 Ms. Triplett that most of the issues that Public, that the
24 Office of Public Counsel had with, had with Progress have been
25 stipulated and we've reached agreement primarily in the form of

1 what I would characterize as procedural matters both with
2 regard to the Levy plant, which we've agreed that all Levy
3 costs would be subject to reexamination for prudence in the
4 subsequent cycle of the Nuclear Cost Recovery Clause.

5 And with regard to the Crystal River 3 uprate costs,
6 our greatest concern was to make certain that the costs were
7 separate and apart from any costs that the company would incur
8 anyway in running its Crystal River 3 plant to provide
9 reasonable service to its customers. And to that end we have
10 agreed with Progress to work on a template for providing
11 information at the outset of the next cycle to provide the
12 information necessary to address this issue with greater
13 specificity. And with that, that concludes our prehearing
14 statement, our opening statement.

15 CHAIRMAN CARTER: Thank you, Mr. Burgess.

16 Mr. Twomey.

17 MR. TWOMEY: Mr. Chairman, AARP in this docket as
18 well as the FP&L docket to follow has adopted the positions of
19 the Office of Public Counsel completely, and to that end I'll
20 adopt Mr. Burgess's statement as my own.

21 CHAIRMAN CARTER: Thank you, Mr. Twomey.

22 Mr. McWhirter.

23 MR. MCWHIRTER: Mr. Chairman, I guess you can call me
24 the rate shot guy. And in order to put my opening statement
25 into perspective, the key issue in this case I think is

1 Issue -- the total costs to be collected, and I believe that's
2 Issue 12 and 13.

3 Florida Power & Light is seeking \$223 million less
4 the discount that Mr. Anderson talked about. And according to
5 my calculation after the markup for taxes on that, it'll come
6 to something like \$3 a megawatt hour. And when you're looking
7 at sales of 100 to 108 million megawatt hours a year, that's
8 how you get to the \$3 million a megawatt hour, and that's not
9 too much of a, a rate shock.

10 Progress Energy, however, on the other hand, is
11 seeking \$419 million. And of course you mark that up for
12 taxes, which isn't expressed in your prehearing orders, but
13 that's another \$50 million. So you come to in round numbers
14 \$470 million. Now Progress Energy sells 41 million megawatt
15 hours of electricity each year. So if you do a rough and dirty
16 calculation, and my math is always bad, so check it, please, it
17 looks to me like it's going to amount to somewhere around
18 \$11.46 per megawatt hour for, if you spread it all on the basis
19 of megawatt hours, which you don't do in this case.

20 The typical residential, not the typical residential
21 customer but the residential customer that uses 1,000 kilowatt
22 hours a month, that's 1 megawatt hour, is a subsidized
23 customer. When you read in the newspaper what's the impact on
24 customers, they always use 1,000 megawatt hours. But you
25 approved Florida Progress's proposal to invert the residential

1 rates, and so what happens is somebody using 1,000 kilowatt
2 hours a month or less is going to pay something like \$10 each
3 month added to their bill. If you live in a single-family home
4 which uses about 2,100 megawatt hours a month, that bill is
5 going to be about \$21 a month increase on that residential
6 customer.

7 The reason I have such angst in this case is I
8 represent seven industrial customers, and my calculations,
9 which may be wrong, and I will readily accept proper
10 corrections, they use about 4 million megawatt hours a year and
11 their bills are going to go up, the aggregate group as a whole
12 is a \$1,145,000 a month just based on these seven, the average,
13 it will be about a million dollars a month, and that's just for
14 the nuclear cost. And then on top of that we're going to get
15 the fuel cost, and then we've got a rate case coming up next
16 year. So that's going to be a big impact on customers.

17 And I know that the Legislature made you do it or the
18 devil made you do it, as some might say, but when you do it, I
19 think you need to keep rate shock in mind. And one of the
20 things you might do even within the ambit of what the
21 legislative directive is is do something like you did in the
22 midcourse correction case. And let's, as this case goes
23 through, let's see if it's \$470 million this year, is it going
24 to be an equivalent amount next year and then another 470 after
25 that, or is this a big year and future years may go down a

1 little bit? Hopefully that is the case. And in that event it
2 may be to our advantage to string out this year's payment so
3 that people can prepare themselves for rate shock. And so that
4 essentially will be the approach that we take.

5 I would have liked to have seen you have greater
6 liberality, but that's behind us now. And so in your
7 interpretation of this legislation I think you clearly have the
8 authority to string out cost recovery, especially when the cost
9 recovery is for projected expenses which may or may not
10 materialize in the forthcoming year.

11 And that's -- the principle focus that you'll hear
12 from FIPUG is with respect to Progress Energy, not because we
13 have any particular anxiety about Progress Energy itself, but
14 just the impact that that's going to have on customers. With
15 108 million megawatt hours in sales and the amount of money
16 Florida Power & Light is asking for, it's within the realm of a
17 reasonable increase and so we're not going to fuss too much
18 about what they're doing.

19 What these stipulations have done for you is everyone
20 has admitted there isn't enough facts to go on. This case,
21 these -- your certificate of need in the Progress case was only
22 granted in August, and they filed the testimony. Although
23 we've been talking about it early on, a lot of it is
24 confidential. You heard in the stipulations that the forms
25 don't give as much information as the Public Counsel needs. So

1 the parties agreed that they would postpone prudency
2 determination on most of these matters until next year.

3 So what's happening is we're, they're requesting a
4 rate increase and they're going to follow it up next year with
5 the facts to support that increase, and I think that opens the
6 door for you to maybe postpone some of this increase until the
7 real facts are known. It's readily admitted.

8 Now the problem with the CR3 uprate is those costs as
9 part of the stipulation have been agreed to and there won't be
10 any future prudency determination on the expenditures for the
11 CR3 uprate for 2006 and 2007. We haven't presented any
12 testimony in this case, but what we will do is suggest to you
13 to look carefully at the testimony that has been presented with
14 respect to those, that thing, and be sure that the testimony in
15 the record adequately supports the amount of money they're
16 seeking. It's a lot of money, it's four times, more than four
17 times the amount that any base rate increase has ever granted
18 heretofore, and this is just a major component, a minor
19 component of the cost recovery items that are coming to hit
20 customers in the future. So I respectfully request you to give
21 us as much help on rate shock as you can.

22 CHAIRMAN CARTER: Thank you.

23 Mr. Brew.

24 MR. BREW: Thank you, Mr. Chairman.

25 You'll recall that PCS's intervention in the need

1 docket was predicated on the very legislative limits on what
2 could be addressed in this docket that we discussed at the
3 outset today. But we also believe that neither the Legislature
4 nor the NCRC rule require the Commission to allow good money to
5 flow after bad, and we're going to be looking at these nuclear
6 recovery costs for a long time.

7 So just by way of preliminary remarks, since I don't
8 expect to take ten minutes either, is I think, Commissioner
9 Argenziano, part of the answer to your question is how
10 thoroughly we focus on the prudence questions as we go. The
11 other part is already in the nuclear recovery rule in terms of
12 looking at the ongoing feasibility of the facilities that are
13 under, being planned and under construction. And recall that
14 in the need docket there was a fair amount of discussion of the
15 possibility of Progress/Levy County partnering with others.
16 And so I think that the combination of prudence and the ongoing
17 feasibility review that's in the rule are your two vehicles for
18 addressing the growing impacts.

19 The second is that there are two particularly scary
20 things about this docket. The first, of course, Mr. McWhirter
21 just alluded to, which is the costs that are flowing through.
22 \$475 million just in NCRC recoveries in addition to fuel and
23 everything else; we're already seeing some really substantial
24 rate impacts. And, of course, about \$356 million of that is,
25 are, are Levy County preconstruction costs. And certainly the

1 folks in this room that follow these matters are aware that
2 this is the tip of the iceberg and there's a lot more to come,
3 just given the preliminary stage that we're at with the
4 projects. But that's altogether different from disclosure of
5 the rate impacts that are going to be coming down the pike for
6 all consumers.

7 So certainly our concern, since this is the first of
8 these reviews and the Commission, apart from approving the
9 dollars to be recovered, is also setting out the process that
10 you're going to follow for reviewing and monitoring these
11 costs, so I think that's a big part of this docket.

12 The second thing apart from the costs themselves gets
13 to the, not just the preliminary nature of the estimates, which
14 both OPC and staff discuss in their testimonies, but the
15 general veil of secrecy that surrounds so much of the
16 estimates, and so much of the facts that matter to the extent
17 we have them are subject to trade secret restrictions. Now as
18 a private company we fully appreciate the problems of dealing
19 with commercially sensitive information and the need to avoid
20 disclosure that could impact ongoing negotiations. But part of
21 the price for being a regulated utility with cost of service
22 rates is that there's a countervailing need for disclosure and
23 review. And while certainly the ongoing negotiations for the
24 EPC contract for Levy County and other things may be subject to
25 all kinds of restrictions that come from, not, not the utility

1 but from the people they're trying to deal with, the extent of
2 progress against costs and schedule is something that needs to
3 be highly transparent as we move forward. Where do we stand
4 with variances from proposed costs and schedule? Where are
5 things actually going against the initial budgets that the
6 Commission looked at in the need docket, which you recall were
7 sort of preliminary nonbinding estimates? But so as we go
8 through this process, we would urge that the Commission make
9 the whole process of progress against costs and schedule be
10 highly transparent and fully vetted in all of these dockets.
11 Thank you.

12 CHAIRMAN CARTER: Thank you.

13 And before we proceed with the witnesses, we'll just,
14 for a procedural matter we'll move into evidence the
15 Comprehensive Exhibit List, unless there's any objections from
16 any of the parties. Hearing none --

17 MS. BENNETT: Chairman Carter.

18 CHAIRMAN CARTER: You're recognized.

19 MS. BENNETT: In addition to the Comprehensive
20 Exhibit List, Staff's Composite Exhibit Number 2 and FPL's
21 Composite Exhibit Number 41 we ask be moved into the record.

22 CHAIRMAN CARTER: Show it done. Without objection,
23 show it done.

24 (Exhibits 1 through 40 marked for identification.)

25 (Exhibits 1, 2 and 41 admitted into the record.)

1 regarding PEF's actual, actual and estimated costs for Levy
2 2008 and 2009?

3 A I have.

4 Q And have you filed prefiled supplemental direct
5 testimony regarding PEF's site selection, actual estimated and
6 projected costs for the Levy nuclear project?

7 A Yes.

8 Q And do you have any changes to make to those three
9 prefiled testimonies?

10 A No.

11 Q And if I asked you the same questions in those
12 testimonies today, would you give me the same answers that are
13 in your prefiled testimonies?

14 A I would.

15 MR. TRIPLETT: We request that the prefiled
16 testimonies be moved into evidence as though they were read
17 into the record.

18 CHAIRMAN CARTER: The prefiled testimony will be
19 entered into the record as though read.

20

21

22

23

24

25

**IN RE: PETITION TO ESTABLISH DISCOVERY DOCKET REGARDING
ACTUAL AND PROJECTED COSTS FOR LEVY NUCLEAR PROJECT BY
PROGRESS ENERGY FLORIDA, INC.**

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 080149

**DIRECT TESTIMONY OF DALE OLIVER IN SUPPORT
OF SITE SELECTION COSTS**

I. INTRODUCTION AND QUALIFICATIONS

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Q. Please state your name and business address.

A. My name is Dale Oliver. My business address is 299 First Avenue North,
St. Petersburg, Florida 33701.

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

A. I am employed by Progress Energy Florida, Inc. ("PEF" or the "Company") as its
Vice President, Transmission Operations & Planning. In this role, I have overall
responsibility for the provision of transmission service on PEF's system, the
operation of the Company's transmission system, the planning for the expansion
of the PEF transmission system to meet PEF's retail and wholesale customer
service requirements, and the integration of PEF's transmission system with the
Florida transmission grid.

Q. Please summarize your educational background and work experience.

1 A. I received a bachelor's degree in electrical engineering from Georgia Tech in
2 1981 and an MBA from Georgia State University in 2001. Prior to assuming my
3 current role in February, 2007, I was the Regional Vice President for PEF's South
4 Coastal Region from October, 2005 to February, 2007, and from May 2004 to
5 October, 2005 the Company's Regional Vice President for the South Central
6 Region. From 2001 to 2004, I was PEF's Director of Transmission Engineering
7 and the Director of the Company's Commitment to Excellence program. Prior to
8 joining PEF in January 2001, I held a number of supervisory and management
9 positions in the transmission maintenance and operations areas for the Southern
10 Company's Georgia Power subsidiary in Atlanta, Georgia. I am a registered
11 professional engineer in the states of Florida and Georgia.

12 II. PURPOSE AND SUMMARY OF TESTIMONY

13
14 Q. What is the purpose of your direct testimony?

15 A. The purpose of my direct testimony is to support the Company's request
16 for cost recovery pursuant to the nuclear cost recovery rule for the
17 transmission portion of the site selection costs incurred prior to the
18 Company's need determination filing on March 11, 2008, for the
19 construction of the Company's proposed Levy Nuclear Power Plants.

20
21 Q. Do you have any exhibits to your testimony?

22 A. No, I am not sponsoring any exhibits. I am, however, sponsoring portions
23 of Schedules SS-8 through SS-8B of the Nuclear Filing Requirements ("NFRs"),

1 which are included as part of the exhibits to Lori Cross' testimony. Specifically, I
2 am sponsoring those portions, related to transmission, of Schedule SS-8, which is
3 a list of the contracts executed in excess of \$1.0 million. Accordingly, I sponsor
4 pages 5 and 6 of Schedule SS-8A in both Exhibits No. __ (LC-4) and (LC-5),
5 which reflects details pertaining to the contracts executed in excess of \$1.0
6 million. I am also sponsoring those portions, related to transmission, of Schedule
7 SS-8B, which is a list of the contracts executed in excess of \$200,000.

8 All of the portions of these schedules, which I sponsor, are true and
9 accurate.

10
11 **Q. Please summarize your testimony.**

12 **A.** The Company incurred site selection costs prior to filing its need
13 determination on March 11, 2008 to begin the design and corridor
14 selection for the transmission lines necessary to support Levy Units 1 and
15 2. PEF needed to enter into these contracts in 2007, and perform this work
16 in 2008, to maintain the licensing and construction schedule to
17 successfully bring Levy Unit 1 into commercial service in 2016. As
18 demonstrated in this testimony, in my testimony filed simultaneously in
19 this docket in support of the actual/estimated and projection NFR
20 schedules, and in the site selection NFR schedules attached to Ms. Cross'
21 testimony, PEF took adequate steps to ensure these site selection costs
22 were reasonable and prudent. PEF negotiated favorable contract terms
23 under the then-current market conditions and circumstances.

1 For all the reasons provided in these testimonies and in the NFR
2 schedules, the Commission should approve PEF's site selection costs,
3 related to transmission, incurred prior to March 11, 2008 as reasonable
4 and prudent pursuant to the nuclear cost recovery rule.

5
6 **III. SITE SELECTION COSTS INCURRED PRIOR TO**
7 **MARCH 11, 2008 FOR LEVY NUCLEAR PLANT**

8
9 **Q. Did PEF incur any transmission-related costs prior to March 11, 2008**
10 **for its Levy Nuclear Project?**

11 **A. Yes, PEF incurred site selection costs to determine the location of the**
12 **transmission corridor in support of the Combined Operating License Application**
13 **("COLA") and to begin conceptual design of the substation and transmission**
14 **facilities. Levy Units 1 and 2 are scheduled to be built at a site selected in Levy**
15 **County, Florida for commercial service in 2016 and 2017, respectively.**

16
17 **Q. Have you filed other testimony in this docket?**

18 **A. Yes, simultaneous with the filing of this testimony, I have filed testimony**
19 **in support of the transmission portion of the Company's actual/estimated and**
20 **projected costs for the Levy Nuclear Project. In that testimony, I explained the**
21 **prudence and necessity of the costs incurred from March 12, 2008 to March 31,**
22 **2008 for the selection of the transmission corridor and conceptual designing of the**
23 **substation and transmission facilities. The Company incurred the same categories**

1 of costs, in 2007 and 2008, prior to the Company filing the petition need
2 determination on March 11, 2008. The Company incurred \$3.4 million in site
3 selection costs for these categories. Thus, for the reasons stated in my testimony
4 in support of the actual/estimated and projected costs, the Company's site
5 selection costs, related to the selection of the transmission corridor and conceptual
6 designing of the substation and transmission facilities, for 2007 and 2008 are
7 reasonable and prudent.

8
9 **Q. Does your simultaneously-filed testimony also provide details regarding the**
10 **executed contracts for the selection of the transmission corridor and conceptual**
11 **designing of the substation and transmission facilities?**

12 **A.** Yes, in my testimony supporting the Company's actual/estimated and
13 projected costs, I describe the Golder Associates, Inc. ("Golder") contract, as well as
14 the conceptual designing contract with Power Engineers, Inc. Details regarding these
15 contracts are also provided in Schedules SS-8 and SS-8A, which are part of Exhibits
16 No. __ (LC-4) and (LC-5). The contracts are listed in these schedules for 2007 and
17 for 2008. For the reasons provided in my simultaneously-filed testimony, and for the
18 reasons in the site selection schedules, the contract terms, as well as the site selection
19 costs incurred pursuant to those contracts, are reasonable and prudent.

20
21 **Q. What did the Company incur, for 2007 and 2008, in site selection costs**
22 **to select the transmission corridor and for conceptual designing of**
23 **substation and transmission facilities?**

1 **A.** The Company incurred \$2.5 million in site selection costs in 2007 and
2 \$0.9 million for 2008. In addition to the costs incurred pursuant to the Golder and
3 Power Engineers contracts, PEF incurred costs to determine the expected impact
4 of the Levy Nuclear Project on the Florida transmission system and to determine
5 the initial scope of the expected necessary system upgrades and additions
6 necessary to accommodate the additional power. These costs were incurred to
7 support the COLA and the Site Certification Application from the Department of
8 Environmental Protection. The Company had to incur these costs to ensure that
9 the necessary transmission infrastructure is in place prior to the expected
10 commercial in-service dates for the Levy units. Thus, these site selection costs
11 are reasonable and prudent.

12
13 **Q.** **To summarize, were all the transmission-related site selection costs**
14 **that the Company incurred prior to filing its need petition on March 11, 2008 for**
15 **the Levy Nuclear Project reasonable and prudent?**

16 **A.** Yes, the specific cost amounts contained in the schedules, which are
17 attached as exhibits to Ms. Cross' testimony, reflect the reasonably and
18 prudently incurred transmission-related costs which are described above
19 for the Levy Nuclear Project work prior to March 11, 2008.

20
21 **Q.** **Does this conclude your testimony?**

22 **A.** Yes, it does.
23

**IN RE: PETITION TO ESTABLISH DISCOVERY DOCKET REGARDING
ACTUAL AND PROJECTED COSTS FOR LEVY NUCLEAR PROJECT BY
PROGRESS ENERGY FLORIDA, INC.**

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 080149

**DIRECT TESTIMONY OF DALE OLIVER IN SUPPORT OF
ACTUAL/ESTIMATED AND PROJECTED COSTS**

I. INTRODUCTION AND QUALIFICATIONS

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Q. Please state your name and business address.

A. My name is Dale Oliver. My business address is 299 First Avenue North,
St. Petersburg, Florida 33701.

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

A. I am employed by Progress Energy Florida, Inc. ("PEF" or the "Company") as its
Vice President, Transmission Operations & Planning. In this role, I have overall
responsibility for the provision of transmission service on PEF's system, the
operation of the Company's transmission system, the planning for the expansion
of the PEF transmission system to meet PEF's retail and wholesale customer
service requirements, and the integration of PEF's transmission system with the
Florida transmission grid.

Q. Please summarize your educational background and work experience.

1 A. I received a bachelor's degree in electrical engineering from Georgia Tech in
2 1981 and an MBA from Georgia State University in 2001. Prior to assuming my
3 current role in February, 2007, I was the Regional Vice President for PEF's South
4 Coastal Region from October, 2005 to February, 2007, and from May 2004 to
5 October, 2005 the Company's Regional Vice President for the South Central
6 Region. From 2001 to 2004, I was PEF's Director of Transmission Engineering
7 and the Director of the Company's Commitment to Excellence program. Prior to
8 joining PEF in January 2001, I held a number of supervisory and management
9 positions in the transmission maintenance and operations areas for the Southern
10 Company's Georgia Power subsidiary in Atlanta, Georgia. I am a registered
11 professional engineer in the states of Florida and Georgia.

12 II. PURPOSE AND SUMMARY OF TESTIMONY

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

14 **A.** The purpose of my direct testimony is to support the Company's request
15 for cost recovery pursuant to the nuclear cost recovery rule for the
16 transmission portion of the costs incurred, from March 12, 2008 to March
17 31, 2008, for the construction of the Company's proposed Levy Nuclear
18 Power Plants. My testimony will also support the projections for the
19 transmission portion of the costs expected to be incurred for April through
20 December 2008 and all of 2009.

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

1 A. No, I am not sponsoring any exhibits. I am, however, sponsoring portions
2 of Schedules AE-8 through AE-8A of the Nuclear Filing Requirements (“NFRs”),
3 which are included as part of the exhibits to Lori Cross’ testimony. Specifically, I
4 am sponsoring those portions, related to transmission, of Schedule AE-8, which is
5 a list of the contracts executed in excess of \$1.0 million in 2007. Accordingly, I
6 sponsor pages 5 and 6 of Schedule AE-8A, which reflects details pertaining to the
7 contracts executed in excess of \$1.0 million.

8 I am also sponsoring those portions of Schedules P-8 and P-8A, included
9 as an exhibit to Ms. Cross’ testimony, which relate to transmission costs.

10 All of the portions of these schedules, which I sponsor, are true and
11 accurate.

12
13 **Q. Please summarize your testimony.**

14 A. The Company incurred preconstruction costs from March 12, 2008 to
15 March 31, 2008 to begin the design and corridor selection for the
16 transmission lines necessary to support Levy Units 1 and 2. PEF needed
17 to enter into these contracts in 2007, and perform this work in 2008, to
18 maintain the licensing and construction schedule to successfully bring
19 Levy Unit 1 into commercial service in 2016. As demonstrated in my
20 testimony and the NFR schedules attached to Ms. Cross’s testimony, PEF
21 took adequate steps to ensure that these preconstruction costs were
22 reasonable and prudent. PEF negotiated favorable contract terms under
23 the then-current market conditions and circumstances.

1 For all the reasons provided in my testimony and in the NFR
2 schedules, the Commission should approve PEF's transmission
3 preconstruction costs incurred from March 12, 2008 to March 31, 2008 as
4 reasonable and prudent pursuant to the nuclear cost recovery rule.

5 In addition, PEF has projected the costs it expects to incur for
6 April through December 2008 and all of 2009. These projections are
7 reasonable and reflect the best-available information the Company has
8 regarding its anticipated project schedule. Accordingly the Commission
9 should approve PEF's projected costs for the transmission preconstruction
10 and construction as reasonable.

11
12 **III. TRANSMISSION COSTS INCURRED FROM MARCH 12, 2008 TO**
13 **MARCH 31, 2008 FOR LEVY NUCLEAR PLANT**

14
15 **Q. For what work has PEF incurred transmission costs from March 12,**
16 **2008 through March 31, 2008 for its Levy Nuclear Project?**

17 **A.** PEF incurred preconstruction costs to determine the location of the
18 transmission corridor in support of the Combined Operating License
19 Application ("COLA") and the Site Certification Application ("SCA")
20 from the Department of Environmental Protection and to begin conceptual
21 design of the substation and transmission facilities.

22

1 **Q. Turning first to the costs incurred related to the transmission corridor**
2 **and the development of the COLA and SCA application, please**
3 **describe the contracts that PEF has executed related to these costs**
4 **and the work done under them.**

5 **A. PEF entered into a contract with Golder Associates, Inc. (“Golder”) to**
6 **provide assistance with selecting a transmission corridor, public outreach, and**
7 **obtaining necessary licensing from the Nuclear Regulatory Commission (“NRC”) and**
8 **the Department of Environmental Protection (“DEP”). This work was reasonable and**
9 **necessary to the Levy Nuclear project. The Golder contract was a sole source**
10 **contract. Although a Request for Proposals (“RFP”) was not issued, Golder provided**
11 **the Company with a proposal for the services PEF requested. PEF decided to sole**
12 **source this contract because Golder had already completed preliminary assessments**
13 **for the Levy project. Golder completed these initial analyses when the Company was**
14 **still deciding whether to move forward with the project. Once the decision was made**
15 **to proceed with the Levy Nuclear Project, the Company determined that there was not**
16 **adequate time to issue an RFP and still maintain the project milestones. In addition,**
17 **if a different vendor than Golder was chosen, that company would have to re-do the**
18 **initial assessment that Golder had already prepared, which would also have**
19 **jeopardized the project schedule.**

20 **Golder has a proven track record with timely and successfully completing PEF**
21 **projects. Indeed, Progress Energy Service Company, LLC has a master contract with**
22 **Golder, effective as of January 1, 2003, under which Progress has requested work to**
23 **be done by Golder from time to time. Further, in this particular contract, PEF**

1 negotiated and obtained as favorable contract terms as the market conditions have
2 allowed. The costs incurred pursuant to the Golder contract are thus reasonable and
3 prudent.

4
5 **Q. Has the Company entered into any other contracts related to**
6 **transmission for the Levy Nuclear Project?**

7 **A.** Yes, PEF executed a contract with Power Engineers, Inc. ("Power
8 Engineers") for conceptual substation engineering designs. Power Engineers was
9 chosen as a sole source vendor because they already had experience with and
10 knowledge of PEF's service system and transmission needs. The work for the Levy
11 Nuclear Project is being done pursuant to a work authorization issued under a Master
12 Contract between Progress Energy Service Company and Power Engineers. Under
13 this Master Contract, Power Engineers has been doing other transmission projects for
14 PEF. In addition, if a different vendor than Power Engineers was chosen, that
15 company would have to re-do the initial assessment that Power Engineers had already
16 prepared, which would also have jeopardized the project schedule. Given the time
17 constraints and the need to meet project milestones, the Company chose to continue
18 working with Power Engineers for the Levy Nuclear Project. The costs incurred
19 under the Power Engineers contract are thus reasonable and prudent, given the nature
20 and circumstances of the transaction.

21
22 **IV. ESTIMATES AND PROJECTIONS FOR COSTS TO BE**
23 **INCURRED FOR THE REMAINDER OF 2008 AND 2009**

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Q. Does the Company plan to incur costs for the Levy Nuclear Project during April through December 2008 and 2009?

A. Yes, PEF must incur transmission costs to maintain the schedule for the expected commercial in-service dates of the units.

Q. What major costs does PEF estimate incurring for the remainder of 2008?

A. As reflected in Schedule AE-6, PEF estimates transmission preconstruction costs of \$13.3 million and transmission construction costs of \$8.4 million. These amounts include costs for early land acquisition, design engineering, and route selection for the transmission corridor.

Q. What major costs does PEF project it will incur during 2009?

A. As reflected in Schedule P-6, PEF projects costs of \$32.7 million for transmission preconstruction and \$140.0 million for transmission construction. These amounts include costs for right of way and land acquisition, as well as purchase of long-lead materials necessary for construction of the transmission corridor and substations.

Q. How were these projected costs prepared?

A. PEF developed these estimates on a reasonable engineering basis, using the best available information. In some instances, PEF is utilizing actual

1 information received from third parties with which it is negotiating, while
2 in other instances, the contracts have already been executed. In addition,
3 PEF developed these projected costs based on the preliminary project
4 schedules which set forth the necessary milestones to maintain the
5 expected in-service date. Accordingly, the estimated and projected
6 transmission costs, as set forth in Exhibits No. ___ (LC-1) and (LC-2) to
7 Lori Cross' testimony, should be approved as reasonable.

8
9 **V. RULE 25-6.0423(5)(c)5: LONG-TERM FEASIBILITY OF**
10 **COMPLETING LEVY NUCLEAR PROJECT**

11
12 **Q. Has the Company conducted an analysis to determine the long-term**
13 **feasibility of completing the Levy Nuclear Project?**

14 **A.** On April 8, 2008, PEF prepared a revision to its Business Analysis
15 Package ("BAP"), which revises the March 2006 BAP and provides the approval
16 mechanism and official documentation to continue moving forward with the Levy
17 Nuclear Project. In this BAP, the Company analyzed the project schedule and
18 presented updated information regarding project scope and funding requirements.
19 The BAP contains a recommendation that the Company authorize the updated COLA
20 funding requirements and the purchase of initial long-lead items for the AP-1000.
21 Accordingly, PEF has no reason to believe that completion of the Levy Nuclear
22 Project is not feasible; in fact, PEF is moving forward with the project because PEF
23 believes it is feasible. In subsequent years, PEF will perform other feasibility

1 analyses, consistent with its standard business practice in evaluating whether to
2 continue with a project like the Levy Nuclear Project, at appropriate milestones in this
3 Project.

4
5 **Q. Does this conclude your testimony?**

6 **A. Yes, it does.**
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**IN RE: PETITION TO ESTABLISH DISCOVERY DOCKET REGARDING
ACTUAL AND PROJECTED COSTS FOR LEVY NUCLEAR PROJECT BY
PROGRESS ENERGY FLORIDA, INC.**

FPSC DOCKET NO. 080149

**SUPPLEMENTAL DIRECT TESTIMONY OF DALE OLIVER
IN SUPPORT OF SITE SELECTION COSTS,
ACTUAL/ESTIMATED AND PROJECTED COSTS**

I. INTRODUCTION AND SCOPE OF TESTIMONY

1
2 **Q. Please state your name.**

3 **A.** My name is Dale Oliver.
4

5 **Q. Did you file Direct Testimony on May 1, 2008 in this docket?**

6 **A.** Yes, I filed two sets of direct testimony in support of PEF's site selection
7 costs and its actual/estimated and projected costs, specifically for the
8 transmission portions of the Levy nuclear generation project.
9

10 **Q. Why are you filing supplemental testimony to this direct testimony?**

11 **A.** I am supplementing my direct testimony to provide additional information
12 regarding the Company's site selection, actual/estimated, and projected
13 costs in the Nuclear Filing Requirements ("NFRs") filed on May 1, 2008.
14 Rather than filing two sets of supplemental testimonies, this one testimony
15 will supplement both of my testimonies filed May 1. Because my May 1
16 actual/estimated and projected testimony provided information regarding
17 the Company's transmission contracts, I will not be including information

1 as to those contracts in this testimony. I will also provide supplemental
2 testimony regarding PEF's reasonable and prudent project management
3 policies and procedures, designed to manage transmission project costs
4 and maintain the project schedule.

5
6 **II. SITE SELECTION COSTS INCURRED PRIOR TO**
7 **MARCH 11, 2008 FOR LEVY NUCLEAR PLANT**

8
9 **Q. Has the Company incurred transmission-related site selection costs**
10 **for the Levy Nuclear Plant?**

11 **A.** Yes, PEF incurred site selection costs for transmission in 2007 and 2008.
12 As reflected in Schedule SS-6 of Ms. Cross' Exhibit LC-4, the 2007 site
13 selection costs are broken down into three categories: Line Engineering
14 \$2 million ("M"); Substation Engineering \$171 thousand ("K"); and Other
15 \$866K.

16 As reflected in Schedule SS-6 of Ms. Cross' Exhibit LC-5, the
17 2008 site selection costs are broken down into three categories: Line
18 Engineering \$222K; Substation Engineering \$10K, and Other \$685K.

19
20 **Q. For the Line Engineering costs you identified, please describe what**
21 **these costs are and explain why the Company had to incur them.**

22 **A.** These costs include the conceptual engineering design costs of the
23 transmission lines. This engineering work identified the size, type, and

1 general location of various options for the transmission lines necessary to
2 incorporate the Levy nuclear power plants into the PEF transmission
3 system and the state-wide electric grid. Identification of the size, type,
4 and general location of various transmission line and facility options for
5 the Levy nuclear project was necessary to perform a study to evaluate the
6 cost, reliability, and other factors associated with selecting the most
7 appropriate option to successfully and reliably add the Levy nuclear power
8 plants to the PEF transmission system and the state-wide electric grid.
9 This work also allowed the Company to determine the initial scope of the
10 expected necessary new system lines and line upgrades to accommodate
11 the additional power from Levy Units 1 and 2 on PEF's system.

12 These Line Engineering costs were incurred in 2007 and 2008 to
13 maintain the project schedule for the 2016 in-service date of Levy Unit 1
14 and the 2017 in-service date of Levy Unit 2. Such work was and is
15 necessary to identify and select the appropriate transmission corridor, and
16 to prepare the necessary corridor and transmission line and facility
17 information for the submission of the Combined Construction and
18 Operating License Application ("COLA") to the Nuclear Regulatory
19 Commission ("NRC") and the Site Certification Application ("SCA") to
20 the Florida Department of Environmental Protection ("FDEP"). Both
21 applications must address and generally describe the transmission
22 corridors and the necessary transmission system facilities and upgrades for
23 the Levy nuclear power plants. The Company submitted the SCA to

1 FDEP on June 2, 2008 and plans to submit the COLA to the NRC this
2 year. The Company had to incur these costs at this time to ensure that
3 these applications were completed and the schedule maintained so that the
4 necessary transmission infrastructure is in place prior to the expected
5 commercial in-service dates for the Levy units and the planned in-service
6 dates for Levy Units 1 and 2 are met.

7
8 **Q. For the Substation Engineering costs you identified, please describe**
9 **what these costs are and explain why the Company had to incur them.**

10 **A.** These costs include the conceptual engineering design for substations.
11 This work was necessary to identify the number of substations, their
12 general location, size, and equipment needs, required to incorporate the
13 Levy nuclear power plants into the PEF transmission system and the state-
14 wide electric grid under the various transmission option corridors
15 considered.

16 These substation engineering costs were incurred in 2007 and 2008 to
17 maintain the project schedule for the 2016 in-service date of Levy Unit 1
18 and the 2017 in-service date of Levy Unit 2. Such work was and is
19 necessary to identify and select the appropriate substation sites, and to
20 prepare the necessary transmission facility information for the submission
21 of the COLA to the NRC and the SCA to the FDEP. As I explained
22 above, both applications must address and generally describe the
23 necessary transmission system facilities and upgrades for the Levy nuclear

1 power plants. The Company submitted the SCA to FDEP on June 2, 2008
2 and plans to submit the COLA to the NRC this year. The Company had to
3 incur these costs at this time to ensure that these applications were timely
4 completed and the schedule maintained so that the necessary transmission
5 infrastructure is in place prior to the expected commercial in-service dates
6 for the Levy units and the planned in-service dates for Levy Units 1 and 2
7 are met.

8
9 **Q. There are "Other" costs identified, can you please describe them and**
10 **explain why the Company had to incur them?**

11 **A.** These costs include project management and related overhead and
12 miscellaneous costs associated with planning and siting the transmission
13 projects for the Levy Nuclear Project. To illustrate, these costs include
14 PEF's costs under its contract with its corridor consultant to provide
15 assistance with selecting a transmission corridor, public outreach, and
16 obtaining necessary licensing from the NRC and the FDEP. These costs
17 also include the work required to prepare the corridor study to identify the
18 preferred corridors for the necessary new transmission lines. In preparing
19 this corridor study the Company incurred costs to address and prepare
20 findings on land use planning, design, environmental, system planning,
21 and real estate acquisition issues. Also, the Company incurred costs
22 working with the public and government agencies to incorporate their

1 comments into the corridor study and include their input in the selection of
2 the preferred transmission corridors.

3 These costs were necessary to maintain the project schedule for the
4 2016 in-service date of Levy Unit 1 and the 2017 in-service date of Levy
5 Unit 2. The Company has selected the transmission corridors needed to
6 support the Levy nuclear project. Also, such costs were necessary for the
7 transmission information that must be included in the COLA submitted to
8 the NRC and the SCA submitted to the FDEP. As I explained above, both
9 applications must address and generally describe the transmission
10 corridors and the necessary transmission system facilities and upgrades for
11 the Levy nuclear power plants. The Company had to incur these costs at
12 this time to ensure that these applications were completed and that the
13 schedule for the Levy nuclear project is maintained.

14 15 **III. TRANSMISSION PRECONSTRUCTION ACTIVITIES**

16 **Q. What costs has PEF included in this filing for transmission**
17 **preconstruction costs?**

18 **A.** PEF has filed actual/estimated 2008 and projected 2009 preconstruction
19 costs for transmission for the Levy Nuclear Plant as of May 1, 2008.
20 Schedule AE-6 of Exhibit LC-1 shows transmission preconstruction costs
21 for 2008 actual/estimated in the following categories: Line Engineering
22 \$6M; Substation Engineering \$6M; and Other, about \$1M. Schedule P-6
23 of Exhibit LC-2 breaks down the 2009 projected transmission

1 preconstruction costs into the following categories: Line Engineering
2 \$13M; Substation Engineering \$13M; Clearing \$3M; and Other \$3M.

3
4 **Q. Please describe what the projected preconstruction Line Engineering**
5 **costs are and explain why the Company has to incur them.**

6 **A.** These costs include the continued conceptual and preliminary engineering
7 design and engineering detail work for the transmission lines that will
8 support the Levy Units and for other lines on PEF's system that must be
9 enhanced to efficiently and effectively handle the additional power flow
10 on the system as the result of the addition of the Levy Units. Examples of
11 the costs are preliminary engineering work for route selection and route
12 selection costs, including associated costs for engineering studies.

13 These preconstruction Line Engineering costs are necessary to
14 complete the work for the transmission information included in the COLA
15 and the SCA for the Levy Nuclear Project. These preconstruction costs
16 are also necessary to maintain the project schedule, which currently calls
17 for all transmission facilities to be designed, constructed, and operational
18 in time for the expected commercial in-service of Levy Unit 1 in June
19 2016.

20
21 **Q. Please describe what the preconstruction Substation Engineering**
22 **costs are and explain why the Company has to incur them.**

1 **A.** These costs include the continued conceptual and preliminary engineering
2 design and engineering detail work for the substations required to support
3 the Levy Units. These Substation Engineering preconstruction costs are
4 necessary to complete the work for the transmission information included
5 in the COLA and the SCA for the Levy Nuclear Project. These
6 preconstruction costs are also necessary to maintain the project schedule,
7 which currently calls for all transmission facilities to be designed,
8 constructed, and operational in time for the expected commercial in-
9 service of Levy Unit 1 in June 2016.

10
11 **Q.** **Please describe the Clearing costs and explain why the Company**
12 **needs to incur them.**

13 **A.** These costs include costs associated with clearing acquired rights of way
14 (“ROW”) for the construction of the transmission lines required to support
15 the Levy Units and the costs associated with clearing the ROWs to ensure
16 access for transmission construction. These Clearing costs are necessary
17 to complete the work to prepare the ROWs and easements for the
18 transmission facilities required to support the Levy Units. These
19 preconstruction costs are also necessary to maintain the project schedule,
20 which currently calls for all transmission facilities to be designed,
21 constructed, and operational in time for the expected commercial in-
22 service of Levy Unit 1 in June 2016.

23

1 **Q. Please describe what the Other category of preconstruction costs**
2 **include and explain why the Company needs to incur them.**

3 **A.** These costs include project management and related overhead and
4 miscellaneous costs associated with planning and siting the transmission
5 projects for the Levy Nuclear Project. Such costs include public outreach,
6 project scheduling, and development of contracting strategies. All of these
7 other preconstruction costs are necessary to complete the work for the
8 transmission information included in the COLA and the SCA for the Levy
9 Nuclear Project. These costs are also necessary to maintain the project
10 schedule.

11
12 **Q. Please describe briefly how the transmission preconstruction cost**
13 **estimates were prepared.**

14 **A.** PEF developed these Line Engineering, Substation Engineering, Clearing,
15 and Other preconstruction cost estimates on a reasonable engineering
16 basis, using the best available engineering and utility market information
17 at the time, consistent with utility industry and PEF practice. These cost
18 estimates used preliminary transmission project plans and project
19 schedules to determine what transmission preconstruction work will be
20 done and when it will be done to achieve the necessary project milestones
21 and maintain the expected in-service dates for the Levy Units. The
22 estimates in the May 1, 2008 NFRs were prepared early in the process for
23 the Levy Nuclear Project and, as a result, they include levels of

1 uncertainty and are subject to change as the transmission projects and
2 work on those projects become more developed, corridors or project sites
3 are selected, the location of facilities within corridors and on sites are
4 determined, clearing work is better defined, engineering work is refined,
5 and construction begins. The preconstruction transmission cost estimates
6 are, therefore, changing for these reasons.

7
8 **IV. TRANSMISSION CONSTRUCTION ACTIVITIES**

9 **Q. What costs has PEF included in this filing for transmission**
10 **construction costs?**

11 **A.** PEF has actual/estimated 2008 and projected 2009 Construction costs for
12 transmission for the Levy Nuclear Plant as of May 1, 2008. Schedule AE-
13 6 of Exhibit LC-1 shows transmission construction costs for 2008
14 actual/estimated in the following categories: Substation Engineering \$2M;
15 Real Estate Acquisition \$3M; Substation Construction \$2M; and Other
16 \$837K. Schedule P-6 of Exhibit LC-2 breaks down the 2009 projected
17 transmission construction costs into the following categories: Line
18 Engineering \$4M; Substation Engineering \$29M; Real Estate Acquisition
19 \$54M; Line Construction \$7M; Substation Construction \$32M; and Other
20 \$13M.

21
22 **Q. Please describe the Line Engineering construction costs and explain**
23 **why the Company needs to incur them.**

1 A. These construction costs include the necessary engineering supervision
2 and engineering support for the actual construction work to install
3 transmission lines and transmission line upgrades necessary for the
4 addition of the Levy Units to PEF's transmission system. These costs are
5 necessary to ensure that the transmission lines and transmission line
6 upgrades required to support the Levy Units on PEF's transmission system
7 are installed when needed to maintain the project schedule for the 2016 in-
8 service date of Levy 1.

9
10 **Q. Please describe what the Substation Engineering construction costs**
11 **are and explain why the Company needs to incur them.**

12 A. These costs include the necessary engineering supervision and engineering
13 support for the actual substation construction work required for the
14 addition of the Levy Units to PEF's transmission system. These costs are
15 necessary to ensure that the transmission substations required to support
16 the Levy Units on PEF's transmission system are installed when needed to
17 maintain the project schedule for the 2016 in-service date of Levy 1.

18
19 **Q. Please describe the Real Estate Acquisition costs and explain why the**
20 **Company needs to incur them.**

21 A. These costs include the estimated land and ROW acquisition costs
22 necessary for the transmission facilities to support the addition of the Levy
23 Units to PEF's system. These costs include the siting, survey, appraisal,

1 title commitments, permitting, legal and related costs, ordinance review,
2 and actual purchase costs for the land and easements necessary for the
3 transmission facilities for the Levy Nuclear Project. These costs are
4 necessary to ensure that the ROWs and other land upon which the
5 transmission facilities will be located are available when needed to
6 maintain the project schedule for the 2016 in-service date of Levy 1.
7

8 **Q. Please describe the Line Construction costs and explain why the**
9 **Company needs to incur them.**

10 **A.** These costs include the contracted construction labor, the transmission
11 poles, structures, and other material costs, equipment, and all other costs
12 associated with actual construction of the transmission lines and
13 transmission line upgrades. These costs are necessary to begin
14 construction of the actual transmission lines and transmission line
15 upgrades that are necessary to support the addition of the Levy Nuclear
16 Units to PEF's system.
17

18 **Q. Please describe the Substation Construction costs and explain why the**
19 **Company needs to incur them.**

20 **A.** These costs include construction labor, substation structures and other
21 substation materials, substation equipment, and all other costs associated
22 with substation, protection, and control (relay) construction. These costs
23 are necessary to begin construction of the actual transmission substations

1 that are necessary to support the addition of the Levy Nuclear Units to
2 PEF's system.

3
4 **Q. Please describe what the Other costs are and explain why the**
5 **Company needs to incur them.**

6 **A.** These costs include the project management and related overhead and
7 miscellaneous costs associated with the transmission projects for the Levy
8 Nuclear Project. Such costs include public outreach, project scheduling,
9 and development of contracting strategies. These other construction costs
10 are necessary to maintain the project schedule, which currently calls for all
11 transmission facilities to be designed, constructed, and operational in time
12 for the expected commercial in-service of Levy Unit 1 in June 2016.

13
14 **Q. Please describe briefly how the transmission construction cost**
15 **estimates were prepared.**

16 **A.** PEF developed these Line Engineering, Substation Engineering, Real
17 Estate Acquisition, Line Construction, Substation Construction, and Other
18 transmission construction cost estimates on a reasonable engineering
19 basis, using the best available construction and utility market information
20 at the time, consistent with utility industry and PEF practice. These
21 estimates used preliminary transmission project plans and project
22 schedules to determine what transmission construction work will be done
23 and when it will be done to achieve the necessary project milestones and

1 maintain the expected in-service dates for the Levy Units. The estimates
2 in the May 1, 2008 NFRs were prepared early in the process for the Levy
3 Nuclear Project and, as a result, they include levels of uncertainty and are
4 subject to change as the transmission projects and transmission work on
5 those projects become more developed, corridors or project sites are
6 selected, the location of facilities within corridors and on sites are
7 determined, engineering work becomes more detailed, and construction
8 commences. For the above reasons, the project costs will continue to
9 change throughout the project. PEF will keep the Commission informed
10 of these changes through the annual NFR filing process.

11
12 **V. PROJECT MANAGEMENT AND COST CONTROL OVERSIGHT**

13 **Q. Has the Company implemented any project management or cost**
14 **control oversight mechanisms for the transmission portion of the Levy**
15 **Nuclear project?**

16 **A.** Yes. The Company is using numerous existing policies and procedures to
17 ensure that the transmission costs for the Levy Nuclear project are
18 prudently incurred and that the project remains on schedule. The
19 transmission projects associated with the Levy Nuclear Project are subject
20 to the same overall Company management as the generation side of the
21 Levy Nuclear Project that is discussed in the testimony of Mr. Roderick.
22 This is accomplished through the Company's Integrated Project Plan for
23 the Levy Nuclear Project. Consequently, the Company's Project

1 Evaluation and Authorization Process, Project Governance Policy, and
2 Project Manual apply to the transmission projects required to support the
3 addition of the Levy nuclear units to PEF's system under the Levy Nuclear
4 Project.

5 Also, the transmission projects and work for the Levy Nuclear
6 Project comply with the Project Assurance Program Policy and the Project
7 Assurance Program Manual, which implement procedures to identify and
8 document key project decisions. Similarly, the Document Management
9 System for Generation & Transmission Construction Department is used
10 to manage the documents associated with the transmission work for the
11 Levy Nuclear Project.

12 To maintain control over the transmission projects and related
13 work, a detailed schedule is maintained and regularly updated. The
14 schedule defines the transmission task order, specific time frame allocated
15 to the task, and the task start and finish dates. The schedule is used to
16 provide management with timely information necessary to make decisions
17 related to the transmission work for the Levy Nuclear Project. The
18 schedule also allows the Company to coordinate transmission work for the
19 Levy Nuclear Project with internal Company departments such as
20 engineering, construction, Energy Control, and the generating stations,
21 among others. The schedule further serves as a link between the Company
22 and the Company's contractors and a management tool with the outside
23 contractors. Various levels of supporting schedules are also developed

1 and used throughout the course of the transmission projects for the Levy
2 Nuclear Project.

3 Other corporate tools will support the management of the
4 transmission work for the Levy Nuclear Project. The Oracle Financial
5 Systems/Business Objects reporting tool provides monthly corporate
6 budget comparisons to actual cost information, as well as detailed
7 transaction information. This information, along with other financial
8 accounting data, will allow us to regularly monitor the costs of the
9 transmission work compared to the budget and make decisions
10 accordingly to see to it that the costs incurred are reasonable and prudent
11 for the work obtained. Similarly, we will use the PassPort system under
12 the Contract Development and Administration Policy to manage contracts
13 for transmission work on the Levy Nuclear Project. This system routes
14 contracts for approval, including contract amendments and work
15 authorizations, and facilitates routing and approval of contractor invoices
16 and payments.

17
18 **Q. What procedures are used by PEF to ensure the reasonable and**
19 **prudent selection of contractors and vendors for the transmission**
20 **projects for the Levy Units?**

21 **A.** PEF typically uses bidding procedures, through Requests for Proposals
22 (“RFP”), to ensure that the chosen contractors and vendors provide the
23 best value for PEF’s customers. RFPs cannot always be used, however, to

1 obtain services or materials. When deciding to use a sole source
2 contractor or vendor, PEF provides sole source justifications for not doing
3 an RFP for the particular work or material. When PEF contracts with sole
4 source contractors or vendors PEF further ensures that the contracts
5 contain reasonable and prudent contract terms with adequate pricing
6 provisions (including fixed price and/or firm price escalated according to
7 indexes, where possible).

8 Sole source contractor or vendor relationships are sometimes
9 necessary to provide the services or materials at all or at the most
10 reasonable cost under the circumstance. To illustrate, in some instances,
11 the particular contractor or vendor has particular experience with the plant
12 or the work required, thus making it advantageous for that vendor to
13 accomplish the work.

14
15 **Q. Does PEF have any mechanisms in place to ensure that the policies**
16 **and procedures described above are effective?**

17 **A.** Yes, PEF uses internal auditing to verify that its program management and
18 cost oversight controls are effective. These internal audits occur regularly
19 for large projects like the Levy transmission projects. Recommendations
20 and results from Internal Audit reviews are provided to management as
21 well as members of the project team for continuous improvement.

22 Also, the Levy Integrated Nuclear Committee ("LINC") reviews
23 key milestones, cost and emergent issue information related to both the

1 Generation and Transmission portions of the project on a regular basis.
2 This Committee was chartered by Senior Management and the PEF Board
3 to manage all aspects of planning and execution of the Levy Nuclear
4 Project, with clear accountability in functional areas along each phase
5 from design to commercial operation. The LINC serves as a means to
6 ensure proper coordination and appropriate documentation of activities
7 that cross multiple organizational boundaries.

8 Additionally, monthly summary report information is provided to
9 members of Progress Energy Senior Management that highlights financial,
10 schedule, and current issue information. This information is provided in
11 summary format to the Company's Board of Directors on a quarterly
12 basis.

13 On-going funding and project review for the transmission projects
14 in the Levy Nuclear Project is prepared on a periodic basis for members of
15 Senior Management and presented as an Integrated Project Plan ("IPP") in
16 accordance with the Company's Capital Projects guidance. Detailed
17 project cost and schedule information is monitored regularly by the project
18 management and cost management personnel within the functional
19 department, and monthly reviews of the project status are presented to the
20 Department Vice President. Finally, project assurance support personnel
21 assigned specifically to the project are involved in all key meetings and
22 decision-making discussions.
23

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

2 **A.** Yes, it does.

3

1 BY MR. TRIPLETT:

2 Q Do you have a summary of your prefiled testimonies?

3 A I do. My name is Dale Oliver. Again, I'm Vice
4 President of Transmission Operations and Planning at Progress
5 Energy Florida. I have submitted testimony in the nuclear cost
6 recovery proceeding and I am here today to answer any questions
7 that you may have.

8 MR. TRIPLETT: Thank you. We tender Mr. Oliver for
9 cross-examination.

10 CHAIRMAN CARTER: Thank you. Mr. Burgess.
11 Mr. McWhirter.

12 CROSS EXAMINATION

13 BY MR. McWHIRTER:

14 Q Mr. Oliver, did you have any part in preparing the
15 Ten-Year Site Plan for Progress Energy?

16 A I did not.

17 Q Are you aware of the numbers in that Ten-Year Site
18 Plan?

19 MR. TRIPLETT: Objection. Lack of foundation. He
20 just said he was not involved in the preparation of the
21 Ten-Year Site Plan.

22 MR. McWHIRTER: That's why I'm trying to lay a
23 foundation.

24 CHAIRMAN CARTER: Sustained. The objection is
25 sustained, Mr. McWhirter.

1 MR. McWHIRTER: All right. I have no further
2 questions.

3 CHAIRMAN CARTER: Mr. Brew.

4 MR. BREW: None, Mr. Chairman.

5 CHAIRMAN CARTER: Staff.

6 MS. BENNETT: No questions.

7 CHAIRMAN CARTER: Commissioners? Commissioner
8 Argenziano, you're recognized.

9 COMMISSIONER ARGENZIANO: Thank you.

10 Mr. Oliver, could you, for the benefit of the people
11 at home too, along with myself, the, are these, could you tell
12 me the total cost and then the cost, tell me what each tab
13 costs are also, and if you can explain them briefly.

14 THE WITNESS: Each tab in my testimony?

15 COMMISSIONER ARGENZIANO: Yes. Please.

16 MR. TRIPLETT: And, Mr. Chairman, if I could, I just
17 want to help him because he has a lot of testimony. So I think
18 if he refers to his supplemental testimony, that would help you
19 to give an overview.

20 THE WITNESS: Is there any particular schedule?

21 COMMISSIONER ARGENZIANO: Well, what I'm trying to
22 get at I guess is the total cost, what the total cost that
23 you've come up with and then individual tabs for, let's say,
24 site selection. Are there preconstruction costs,
25 preconstruction costs included, are those totals? Are we to

1 see more coming next year?

2 THE WITNESS: I think, let me, let me -- it may help
3 to kind of explain the process as to where we are. You know,
4 we were here and talked about a little bit of this during the
5 need hearing, and kind of take you from where we were at that
6 point to where we are today.

7 At the need hearing we, we came in and at that time
8 talked about the selected corridors that, that we had planned
9 to, to route these transmission lines in to integrate the Levy
10 nuclear site into the system. And, and with those corridors
11 there was a, and in my final testimony there's a list of
12 projects, of new transmission lines, new substations, along
13 with existing facilities that are going to need to be upgraded.

14 So in assessing, in assessing all of that, there
15 were, you'll see some testimony that relates to a contract with
16 Golder and a contract that refers to Power Engineers to do the
17 environmental work related to that, as well as some of the
18 conceptual design work for all of those.

19 So from that, at that point in time we were at
20 one-mile-wide corridors. From that time to today we are in the
21 process of narrowing those corridors from -- they were a mile
22 at that time down to the specific corridors, whether it be
23 250 feet, 150 feet, whatever we need to make sure that we stay
24 within design limits and minimize the impacts on the land, the
25 environment and the customers that are out there today. So the

1 costs that you see reflected in these schedules relate to
2 really site selection that we went through, the public
3 outreach, conceptual design and those areas.

4 COMMISSIONER ARGENZIANO: Well, I guess --

5 THE WITNESS: And let me say one other. Any, any
6 advanced land purchase for substation sites that may be taking
7 place, you know, as we speak.

8 COMMISSIONER ARGENZIANO: Okay. Mr. Chair.

9 CHAIRMAN CARTER: You're recognized.

10 COMMISSIONER ARGENZIANO: Well, then what I'm reading
11 in the tabs, I'm trying to, I guess, figure out total cost and
12 individual cost of some of the items you're talking about. And
13 I guess when it comes to the transmission lines, is this -- let
14 me see if I can say it the right way. Is this, what's
15 contained here, all of the site selection cost for
16 transmission?

17 THE WITNESS: It is, it is the site selection cost
18 for not -- you know, what we've incurred up to this point in
19 time plus what we expect to incur through the end of these,
20 this filing date.

21 COMMISSIONER ARGENZIANO: Okay. So then we will see
22 more transmission costs?

23 THE WITNESS: Yes. Yes. And if you notice, in the
24 schedule that's filed there are in-service dates. You know,
25 all of these projects are expected to be in service by the mid

1 2015 time frame to allow a year's worth of testing before
2 Unit 1 goes online. So they're staged in over, over periods of
3 time. They won't all start at the same time, they will not all
4 finish at the same time. But there will be, there will be more
5 cost associated with this as, as we move forward.

6 COMMISSIONER ARGENZIANO: Okay. And as you know, I'm
7 sure you know, or just for the people out there who may be
8 watching that the statute also says we shall allow the recovery
9 of those, of those site selection costs.

10 THE WITNESS: Right.

11 COMMISSIONER ARGENZIANO: On the preconstruction
12 costs, same, same type question. Are we looking at all
13 preconstruction costs right now or will there be more?

14 THE WITNESS: There could be more preconstruction
15 costs just as, just as there might, there probably will be more
16 site selection costs. Because, again, as we stage these
17 through time, they won't all be done at the same time. So
18 projects, you know, for example, that do not come in, don't
19 have in-service dates until 2015, those projects may not get
20 underway fully until 2010, 2012, 2011 time frame. Again, it
21 just depends on how they're staged and planned.

22 COMMISSIONER ARGENZIANO: Okay. Thank you,
23 Mr. Chair.

24 CHAIRMAN CARTER: Thank you, Commissioner.

25 I think in your, your line of questioning it kind of

1 asked -- did you get the numbers that you were looking for,
2 Commissioner, in terms of the amount?

3 COMMISSIONER ARGENZIANO: I don't, I don't think so.

4 CHAIRMAN CARTER: Because --

5 COMMISSIONER ARGENZIANO: I guess, Mr. Chair, what I
6 was really trying to do, and for the benefit of the people at
7 home is to try to show a total and maybe total by tab of what
8 we have now.

9 CHAIRMAN CARTER: Because I think that from this
10 testimony on the amount for, the remaining amount for, the
11 amount for 2008 shows for transmission preproduction costs of
12 \$13.3 million and \$8.4 million from your testimony; correct?

13 THE WITNESS: Correct.

14 CHAIRMAN CARTER: And for the major costs for '09 it
15 shows \$32.7 million for transmission preconstruction and
16 \$140 million for transmission construction; correct?

17 THE WITNESS: That's correct.

18 COMMISSIONER ARGENZIANO: Okay. And then indicating
19 that there, there could be more costs to come from --

20 THE WITNESS: There could be more, that's correct, as
21 we move forward. Right.

22 CHAIRMAN CARTER: Okay. Thank you.

23 I think that's what you were looking for for those
24 numbers.

25 COMMISSIONER ARGENZIANO: Yes. Thank you, Mr. Chair.

1 CHAIRMAN CARTER: Commissioners, anything further?
2 Ms. Triplett.

3 MR. TRIPLETT: No redirect.

4 CHAIRMAN CARTER: Okay. Are you going to move any,
5 any evidence for this, any exhibits for this witness?

6 MR. TRIPLETT: He does not have any exhibits.

7 CHAIRMAN CARTER: Okay.

8 MR. TRIPLETT: He sponsors portions of other exhibits
9 that will be moved in later.

10 CHAIRMAN CARTER: One second.

11 COMMISSIONER ARGENZIANO: Mr. Chair.

12 CHAIRMAN CARTER: Commissioner Argenziano.

13 COMMISSIONER ARGENZIANO: Can I go back and ask
14 another question as I think about it?

15 CHAIRMAN CARTER: You're recognized. Yes, ma'am.

16 COMMISSIONER ARGENZIANO: I think it would be
17 probably beneficial to maybe describe what encompasses site
18 selection costs.

19 THE WITNESS: Site selection costs would encompass
20 the work that was, was done by, as a consulting firm, Golder in
21 helping us once the studies were done, once the electrical
22 studies were done to understand better how we would route,
23 route those lines through the state with minimum encumbrance in
24 environmental areas and, and things like that. So it would be
25 the costs associated with that, which does, does include public

1 outreach, any of the mailings, any of the discussions that we
2 have at open houses and those type things.

3 COMMISSIONER ARGENZIANO: And are you indicating that
4 it would take to 2010 to get all your sites, select all your
5 sites?

6 THE WITNESS: It possibly could going through the
7 open house process because, again, some of these don't go into
8 service until 2015. So I would, I would say, and I don't have
9 the entire schedule in my head, that in the 2010 to 2011 time
10 frame we would be wrapping most of that up.

11 And I think, I think to go further, our intent is to
12 have the corridors, well, the corridors down to the specific
13 routes established sometime first quarter of next year. So
14 that's when we will have -- but then the land portion of that
15 continues to stretch as we negotiate with the property owners,
16 whether we're talking about fee purchases or easement type
17 things, those will be stretched out over, over that period of
18 time.

19 COMMISSIONER ARGENZIANO: So then I guess it's going
20 to take a number of years to even figure out totals of site
21 selection.

22 THE WITNESS: Probably so. I would guess so. Yes.

23 COMMISSIONER ARGENZIANO: Thank you, Mr. Chair.

24 CHAIRMAN CARTER: Thank you.

25 Commissioners, anything further?

1 Thank you. Ms. Triplett.

2 MR. TRIPLETT: No, no redirect.

3 CHAIRMAN CARTER: Okay. Thank you, Mr. Oliver.

4 THE WITNESS: Thank you.

5 MR. TRIPLETT: And may Mr. Oliver be excused from the
6 proceeding?

7 CHAIRMAN CARTER: No. We want to --

8 MR. TRIPLETT: Dismissed or --

9 CHAIRMAN CARTER: No. We want to torture him.
10 Yes, he may be excused.

11 THE WITNESS: Thank you.

12 MR. TRIPLETT: Thank you, sir.

13 CHAIRMAN CARTER: This was your witness you wanted to
14 take out of order; correct? Thank you.

15 THE WITNESS: Yes, sir.

16 (Transcript continues on Page 106.)

17

18

19

20

21

22

23

24

25

1 **MS. TRIPLETT:** And I think the next witness, to go
2 back to the order, will be Mr. Garrett, and he has been excused
3 from the proceeding.

4 **CHAIRMAN CARTER:** Is that the agreement of the
5 parties, that Mr. Garrett has been excused from the proceeding?

6 **MR. McWHIRTER:** Yes, sir.

7 **CHAIRMAN CARTER:** Commissioners?

8 Ms. Triplett, yes.

9 **MS. TRIPLETT:** And so he has two testimonies that I
10 would ask to be inserted as though read. He has Prefiled
11 Direct Testimony regarding the Levy Project and he also has
12 Prefiled Direct Testimony regarding the CR-3 uprate.

13 **CHAIRMAN CARTER:** The prefiled testimony of the
14 witness will be adopted into the record as though read.

15 **MS. TRIPLETT:** And then we would ask for his exhibits
16 to be moved. They are Numbers 3 through 5 in the Comprehensive
17 Exhibit List.

18 **CHAIRMAN CARTER:** Any objections from the parties on
19 Exhibits 3 through 5?

20 Without objection, show it done.

21 (Exhibits 3 through 5 admitted into evidence.)

22

23

24

25

**IN RE: PETITION TO RECOVER THE COSTS OF THE CRYSTAL
RIVER UNIT 3 UPRATE PURSUANT TO THE NUCLEAR COST
RECOVERY RULE**

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. _____

DIRECT TESTIMONY OF WILL GARRETT

I. INTRODUCTION AND QUALIFICATIONS

1
2 **Q. Please state your name and business address.**

3 **A.** My name is Will Garrett. My business address is 299 First Avenue North, St.
4 Petersburg, FL 33701.

5
6 **Q. By whom are you employed and in what capacity?**

7 **A.** I am employed by Progress Energy Service Company, LLC as Controller of
8 Progress Energy Florida.

9
10 **Q. What are your responsibilities in that position?**

11 **A.** As legal entity Controller for Progress Energy Florida ("PEF" or "the
12 Company"), I am responsible for all accounting matters that impact the
13 reported financial results of this Progress Energy Corporation entity. I have
14 direct management and oversight of the employees involved in PEF Regulatory
15 Accounting, Property Plant and Materials Accounting, and PEF Financial
16 Reporting and General Accounting. In this capacity, I am also responsible for

1 the Crystal River Unit 3 (CR3) Uprate Cost Recovery True-Up filing in
2 accordance with Rule 25-6.0423, Florida Administrative Code (F.A.C.).

3
4 **Q. What is the purpose of your testimony?**

5 **A.** The purpose of my testimony is to present for Commission review and approval,
6 costs associated with Progress Energy Florida's CR3 Uprate activities for the period
7 January through December 2006 and January through December 2007. Pursuant to
8 Rule 25-6.0423, F.A.C., PEF is presenting testimony and exhibits for the
9 Commission's determination of prudence for actual expenditures and associated
10 carrying costs.

11
12 **Q. Are you sponsoring any exhibits in support of your testimony?**

13 **A.** Yes. I am sponsoring sections of the following exhibits, which were prepared
14 under my supervision:

- 15 • Exhibit No. ____ (WG-1), consisting of Schedules T-1 through T-10, which
16 reflect PEF's retail revenue requirements for the CR3 Uprate from January
17 2007 through December 2007; however, I will only be sponsoring
18 Schedules T-1 through T-6B, T-9, and T-10. Daniel L. Roderick will be
19 sponsoring Schedules T-7 through T-8B; and
- 20 • Exhibit No. ____ (WG-2), consisting of Schedules T-1 through T-10,
21 reflecting PEF's retail revenue requirements for the CR3 Uprate for period
22 January 2006 through December 2006; however, I will only be sponsoring

1 Schedules T-1 through T-6B, T-9, and T-10. Daniel L. Roderick will be
2 sponsoring Schedules T-7 through T-8B.

3 Schedules T-2, T-4, T-5, T-6B, T-9, and T-10 in both exhibits are shown for
4 informational purposes only and show no activity as they are not applicable to the
5 CR3 Uprate during the reporting period.

6 These exhibits are true and accurate.

7
8 **Q. What are Schedules T-1 through T-6A and Schedules T-9 through T-10?**

- 9 **A.**
- 10 • Schedule T-1 reflects the actual true-up of total retail revenue requirements
11 for the period.
 - 12 • Schedule T-2 reflects the calculation of the true-up of preconstruction costs
13 for the period.
 - 14 • Schedule T-3 reflects the calculation of the true-up of carrying costs on
15 construction expenditures for the period.
 - 16 • Schedule T-3A reflects a calculation of actual deferred tax carrying costs for
17 the period.
 - 18 • Schedule T-3B reflects the calculation of the actual construction period
19 interest for the period.
 - 20 • Schedule T-4 reflects recoverable Operations and Maintenance (O&M)
21 expenditures for the period.
 - Schedule T-5 reflects other recoverable O&M expenditures for the period.

- 1 • Schedule T-6 reflects actual monthly expenditures for preconstruction and
- 2 construction costs for the period.
- 3 • Schedule T-6A reflects descriptions of the major tasks.
- 4 • Schedule T-6B reflects annual variance explanations.
- 5 • Schedule T-7 reflects technology selected for the CR3 Uprate.
- 6 • Schedule T-8 reflects contracts executed in excess of \$1.0 million.
- 7 • Schedule T-8A reflects details pertaining to the contracts executed in excess
- 8 of \$1.0 million.
- 9 • Schedule T-8B reflects contracts executed in excess of \$200,000, yet less
- 10 than \$1.0 million.
- 11 • Schedule T-9 reflects the calculation of the Final True-up Amount.
- 12 • Schedule T-10 reflects the calculation of interest.

13
14 **Q. What is the source of the data that you will present by way of testimony or**
15 **exhibits in this proceeding?**

16 **A.** The actual data is taken from the books and records of PEF. The books and records
17 are kept in the regular course of our business in accordance with generally accepted
18 accounting principles and practices, and provisions of the Uniform System of
19 Accounts as prescribed by Federal Energy Regulatory Commission (FERC) and any
20 accounting rules and orders established by this Commission.

21

1 **Q. What is the final true-up amount for which PEF is requesting recovery for the**
2 **period January 2006 through December 2007?**

3 **A.** PEF is requesting approval of a total under-recovery amount of \$928,895 for the
4 calendar period of January 2006 through December 2007. This amount, which can
5 be seen on Line 6 of Schedule T-1 of Exhibit No. __ (WG-1), represents the
6 carrying cost associated with the CR3 Uprate and was calculated in accordance with
7 Rule 25-6.0423.

8
9 **Q. What is the carrying cost rate used in Schedule T-3?**

10 **A.** The carrying cost rate used on Schedule T-3 of 8.848% and referenced in detail at
11 footnote "C" of this schedule, is based on the approved Allowance for Funds Used
12 During Construction (AFUDC) rate pursuant to Docket 050078-EL Order PSC-05-
13 0945-S-EL. This rate represents our current allowed AFUDC rate. The annual rate
14 was adjusted to a monthly rate as required by the AFUDC rule, FPSC Rule 25-
15 6.0141, Item (3).

16
17 **Q. What does the adjustment on Line 3 of Schedule T-3 represent?**

18 **A.** It represents the return on average net Construction Work In Progress (CWIP)
19 additions that is being included in the CR3 Uprate costs until such time as these
20 costs are recovered under the Capacity Cost Recovery (CCR) rate. Normal
21 determination of AFUDC includes a return on eligible capital additions plus a
22 compounded rate of return until plant investments are placed in service and

1 recovered in rates. Likewise under these circumstances a compounded return is
2 appropriate until this return is recovered in rates.

3
4 **Q. What are the total costs incurred for period January 2007 through December**
5 **2007?**

6 **A.** Total capital expenditures gross of joint owner billing and excluding carrying costs
7 were \$38.5 million, as shown on Schedule T-6, Line 39. This amount includes
8 expenditures of \$2.3 million for Project Management and \$36.2 million for Power
9 Block Engineering and Procurement activities as part of generation construction
10 costs. For a definition of these major tasks, see Schedule T-6A, and for further
11 description of them please see Daniel L. Roderick's testimony.

12
13 **Q. What are the total costs incurred for period January 2006 through December**
14 **2006?**

15 **A.** Total capital expenditures gross of joint owner billing and excluding carrying costs
16 were \$2.3 million, as shown on Schedule T-6, Line 39. This amount includes
17 expenditures of \$0.1 million for Project Management and \$2.2 million for Power
18 Block Engineering and Procurement activities as part of generation construction
19 costs. For a definition of these major tasks, see Schedule T-6A, and for further
20 description of them please see Daniel L. Roderick's testimony.

21
22 **Q. Has PEF billed the CR3 joint owners for their portion of the costs relative to**
23 **the CR3 Uprate and identified them in this filing?**

1 A. Yes. Construction expenditures shown on Schedule T-6, Line 39 are gross of Joint
2 Owner Billings; however, construction expenditures have been adjusted as reflected
3 on Schedule T-6, Line 42 to reflect billings to Joint Owners related to CR3 Uprate
4 expenditures. Due to this, no carrying cost associated with the Joint Owner portion
5 of the Uprate are included on Schedule T-3. Total Joint Owner billings were \$3.1
6 million for 2007 and \$0.2 million for 2006, for total project to date billings of \$3.3
7 million.

8
9 **Q. What was the source of the separation factors used in Schedule T-6?**

10 A. Order PSC-05-0945-S-EI established appropriate jurisdictional separation factors as
11 part of Progress Energy Florida's last base rate case. In Order PSC-07-0922-FOF-
12 EI, these jurisdictional separation factors were approved as reasonable for costs to
13 be recovered in 2008.

14
15 **Q. Was interest calculated on the under-recovered balance?**

16 A. No. Rates have not been put in place for the CR3 Uprate and costs are still
17 accounted for in CWIP and thus accrue a carrying charge equal to PEF's AFUDC
18 rate. These costs will remain in CWIP until they are included in the Capacity Cost
19 Recovery (CCR) rate, at which time they will be reclassified as a regulatory asset
20 and interest will begin to accrue on the over or under recovered balance.

21
22 **Q. Does this conclude your testimony?**

23 A. Yes, it does.

**IN RE: PETITION TO ESTABLISH DISCOVERY DOCKET
REGARDING ACTUAL AND PROJECTED COSTS FOR LEVY
NUCLEAR PROJECT BY PROGRESS ENERGY FLORIDA, INC.**

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 080149

DIRECT TESTIMONY OF WILL GARRETT

I. INTRODUCTION AND QUALIFICATIONS

1
2 **Q. Please state your name and business address.**

3 **A.** My name is Will Garrett. My business address is 299 First Avenue North, St.
4 Petersburg, FL 33701.

5
6 **Q. By whom are you employed and in what capacity?**

7 **A.** I am employed by Progress Energy Service Company, LLC as Controller of
8 Progress Energy Florida.

9
10 **Q. What are your responsibilities in that position?**

11 **A.** As legal entity Controller for Progress Energy Florida ("PEF" or "the
12 Company"), I am responsible for all accounting matters that impact the
13 reported financial results of this Progress Energy entity. I have direct
14 management and oversight of the employees involved in PEF Regulatory
15 Accounting, Property Plant and Materials Accounting, and PEF Financial
16 Reporting and General Accounting. In this capacity, I am also responsible for

1 the Levy County Nuclear Project Cost Recovery True-Up filing, made as part
2 of this discovery docket, in accordance with Rule 25-6.0423, Florida
3 Administrative Code (F.A.C.).
4

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

6 **A.** The purpose of my testimony is to present for Commission review and approval,
7 costs associated with Progress Energy Florida's Levy County activities for the
8 period January through December 2007. Pursuant to Rule 25-6.0423, F.A.C., PEF
9 is presenting testimony and exhibits for the Commission's determination of
10 prudence for actual expenditures and associated carrying costs.
11

12 **Q. Are you sponsoring any exhibits in support of your testimony?**

13 **A.** Yes. I am sponsoring sections of the following exhibit, which was prepared under
14 my supervision:

- 15 • Exhibit No. ____ (WG-1), consisting of Schedules T-1 through T-10, which
16 reflect PEF's retail revenue requirements for the Levy Nuclear Filing from
17 January 2007 through December 2007; however, I will only be sponsoring
18 Schedules T-1 through T-6B , T-9, and T-10. Gary Miller will be
19 sponsoring Schedules T-7 through T-8B. Schedules T-2, T-4, T-5, T-6B, T-
20 9, and T-10 in Exhibit No. ____ (WG-1), are shown for informational
21 purposes only and show no activity as they are not applicable to the Levy
22 County Filing during the reporting period.

1 This exhibit is true and accurate.

2
3 **Q. What are Schedules T-1 through T-6A and Schedules T-9 through T-10?**

- 4 **A.**
- 5 • Schedule T-1 reflects the actual true-up of total retail revenue requirements
6 for the period.
 - 7 • Schedule T-2 reflects the calculation of the true-up of preconstruction costs
8 for the period.
 - 9 • Schedule T-3 reflects the calculation of the true-up of carrying costs on
10 construction expenditures for the period.
 - 11 • Schedule T-3A reflects a calculation of actual deferred tax carrying costs for
12 the period.
 - 13 • Schedule T-3B reflects the calculation of the actual construction period
14 interest for the period.
 - 15 • Schedule T-4 reflects CCRC recoverable Operations and Maintenance
16 (O&M) expenditures for the period.
 - 17 • Schedule T-5 reflects other recoverable O&M expenditures for the period.
 - 18 • Schedule T-6 reflects actual monthly expenditures for preconstruction and
19 construction costs for the period.
 - 20 • Schedule T-6A reflects descriptions of the major tasks.
 - 21 • Schedule T-6B reflects annual variance explanations.
 - 22 • Schedule T-7 reflects technology selected for the Levy County Nuclear
Project.

- 1 • Schedule T-8 reflects contracts executed in excess of \$1.0 million.
- 2 • Schedule T-8A reflects details pertaining to the contracts executed in excess
- 3 of \$1.0 million.
- 4 • Schedule T-8B reflects contracts executed in excess of \$200,000, yet less
- 5 than \$1.0 million.
- 6 • Schedule T-9 reflects the calculation of the Final True-up Amount.
- 7 • Schedule T-10 reflects the calculation of interest.

8

9 **Q. What is the source of the data that you will present by way of testimony or**
10 **exhibits in this proceeding?**

11 **A.** The actual data is taken from the books and records of PEF. The books and records
12 are kept in the regular course of our business in accordance with generally accepted
13 accounting principles and practices, and provisions of the Uniform System of
14 Accounts as prescribed by Federal Energy Regulatory Commission (FERC) and any
15 accounting rules and orders established by this Commission.

16

17 **Q. What is the final true-up amount for which PEF is requesting recovery for the**
18 **period January 2007 through December 2007?**

19 **A.** PEF is requesting approval of a total under-recovery amount of \$1,711,443 for the
20 calendar period ending December 2007. This amount, which can be seen on Line 6
21 of Schedule T-1 of Exhibit No. __ (WG-1), represents the carrying cost associated

1 with the Levy County project and was calculated in accordance with Rule 25-
2 6.0423.

3
4 **Q. What is the carrying cost rate used in Schedule T-3?**

5 **A.** The carrying cost rate used on Schedule T-3 of 8.848% and referenced in detail at
6 footnote "C" of this schedule, is based on the approved Allowance for Funds Used
7 During Construction (AFUDC) rate pursuant to Docket 050078-EL Order PSC-05-
8 0945-S-EL. This rate represents the approved rate as of June 12, 2007, and is the
9 appropriate rate to use consistent with Rule 25-6.0423(5) (b) 1. The annual rate
10 was adjusted to a monthly rate as required by the AFUDC rule, FPSC Rule 25-
11 6.0141, Item (3).

12
13 **Q. What does the adjustment on Line 3 of Schedule T-3 represent?**

14 **A.** It represents the return on average net Construction Work In Progress (CWIP)
15 additions that are being included in the Levy County Nuclear costs until such time
16 as these costs are recovered under the Capacity Cost Recovery (CCR) clause.
17 Normal determination of AFUDC includes a return on eligible capital additions
18 plus a compounded rate of return until plant investments are placed in service and
19 recovered in rates. Likewise under these circumstances a compounded return is
20 appropriate until this return is recovered in rates.

21
22 **Q. What are the total costs incurred for period January 2007 through December**
23 **2007?**

1 A. Total capital expenditures excluding carrying costs were \$61.5 million, as shown
2 on Schedule T-6, Line 32 and 45. This amount includes expenditures of \$52.5
3 million for Real Estate Acquisitions as part of generation and \$8.9 million for Real
4 Estate Acquisitions as part of transmission construction costs. For a definition of
5 these major tasks, see Schedule T-6A.

6
7 **Q. What was the source of the separation factors used in Schedule T-6?**

8 A. Order PSC-05-0945-S-EI established appropriate jurisdictional separation factors as
9 part of Progress Energy Florida's last base rate case. In Order PSC-07-0922-FOF-
10 EI, these jurisdictional separation factors were approved as reasonable for costs
11 incurred in 2008.

12
13 **Q. What was the basis for allocation of the Lybass land related to Levy?**

14 A. The purchase price for this agreement is \$39.1 million (\$18,103/acre) plus closing
15 costs for a total of \$40.4 million. The land will provide an access road from SR 19
16 to the nuclear units and access to the barge canal (94 acres), provide transmission
17 right of way (220 acres) and the remainder will be Held for Future Use (1,845
18 acres). The FERC, Code of Federal Regulation (CFR) Electric Plant Instruction No.
19 7 Land and Land Rights (G), requires "When the purchase of land for electric
20 operations requires the purchase of more land than needed for such purposes, the
21 charge to the specific land account shall be based upon the cost of the land
22 purchased, less the fair market value of that portion of the land which is not to be
23 used in utility operations. The portion of the cost measured by the fair market value

1 of the land not to be used shall be included in account 105, Electric Plant Held for
2 Future Use, or account 121, Nonutility Property, as appropriate.” This resulted in an
3 allocation of \$27.7 million related for land Held to Future Use and \$12.7 million
4 allocated to the Levy project. This is consistent with CFR guidance on land cost
5 allocation. Accordingly, the Company assigned the fair market value to Held for
6 Future Use based on the Rayonier purchase price (\$15,000/acre) the most recent
7 Greenfield site acquisition.

8
9 **Q. Was interest calculated on the under-recovered balance?**

10 **A.** No. Rates have not been put in place for the Levy County project and costs are still
11 accounted for in CWIP and thus accrue a carrying charge equal to PEF’s AFUDC
12 rate. These costs will remain in CWIP until they are included in the Capacity Cost
13 Recovery (CCR) clause, at which time they will be reclassified as a regulatory asset
14 and interest will begin to accrue on the over or under recovered balance.

15
16 **Q. Does this conclude your testimony?**

17 **A.** Yes, it does.

1 **MS. TRIPLETT:** Thank you.

2 And then Progress Energy Florida will call Lori
3 Cross.

4 **CHAIRMAN CARTER:** Lori Cross.

5 LORI CROSS

6 was called as a witness on behalf of Progress Energy Florida,
7 and having been duly sworn, testified as follows:

8 DIRECT EXAMINATION

9 BY MR. TRIPLETT:

10 **Q** Will you please introduce yourself to the Commission
11 and provide your address.

12 **A** Yes. I am Lori Cross. I am the Manager of
13 Regulatory Planning, and my address is 299 First Avenue North,
14 St. Petersburg, Florida.

15 **Q** And who do you work for and what is your position?

16 **A** I work for Progress Energy, and my position -- I'm
17 the Manager of Regulatory Planning.

18 **Q** And have you filed Prefiled Direct Testimony
19 regarding PEF's 2009 projected costs associated with the CR-3
20 uprate project?

21 **A** Yes, I have.

22 **Q** Have you filed Prefiled Direct Testimony regarding
23 PEF's 2008 estimated/actual and true-up costs associated with
24 the CR-3 uprate?

25 **A** Yes, I have.

1 **Q** Have you filed Revised Prefiled Direct Testimony and
2 exhibits regarding PEF's 2008 estimated/actuals for the Levy
3 Nuclear Project?

4 **A** Yes.

5 **Q** And have you filed Revised Prefiled Direct Testimony
6 regarding PEF's 2009 projected costs for the Levy Nuclear
7 Project?

8 **A** Yes.

9 **Q** Have you filed Prefiled Direct Testimony regarding
10 PEF's site selection costs associated with the Levy Nuclear
11 Project?

12 **A** Yes.

13 **Q** And do you have any changes to make to your prefiled
14 testimonies?

15 **A** Yes, I do.

16 First, the changes I have to make are to my
17 actual/estimated testimony. And, first, I want to say that the
18 schedules and the numbers in all the schedules were correct.

19 **Q** Ms. Cross, I hate to interrupt you, are you referring
20 to actual/estimated for the CR-3 uprate or for Levy?

21 **A** I'm referring to the CR-3 uprate.

22 **Q** Thank you.

23 **A** The numbers in the schedules are correct. These are
24 just minor changes to the numbers that were in my testimony,
25 and the amounts that we are asking for recovery for aren't

1 changing, so there are several just minor changes. On Page 5,
2 Line 10, the \$7.5 million should be 7.6 million. I'm sorry,
3 the amount should have been 7.5 instead of 7.6.

4 On Line 12, Page 5, the amount should have been
5 6 million instead of 5.8. On Page 5, Line 13, the amount
6 should have been 1.2 million instead of 1.4. Page 5, Line 20,
7 it should have been 6 million instead of 5.8. Page 5, Line 23,
8 it should have been 8 million instead of 9.3. Page 6, Line 2,
9 it should have been 4.1 instead of 4.

10 **MS. TRIPLETT:** Do you need me to repeat or --

11 **CHAIRMAN CARTER:** Commissioners, were you able to get
12 that?

13 **COMMISSIONER EDGAR:** Could we get an errata sheet, or
14 is there one?

15 **MS. TRIPLETT:** There is not one, but we can prepare
16 one.

17 **COMMISSIONER EDGAR:** I would like to request that.

18 **CHAIRMAN CARTER:** Okay.

19 **MS. TRIPLETT:** Yes, ma'am.

20 **CHAIRMAN CARTER:** Thank you. That would be very
21 helpful.

22 Were you able to follow?

23 **COMMISSIONER SKOP:** No, Mr. Chair. I was just trying
24 to follow along, but I perhaps may be on the wrong page. An
25 errata sheet would help, as Commissioner Edgar suggested.

1 Thank you.

2 **CHAIRMAN CARTER:** Thank you.

3 **MS. TRIPLETT:** Thank you.

4 BY MS. TRIPLETT:

5 **Q** And with the corrections you just made, if I asked
6 you the same questions in your prefiled testimonies today,
7 would you give the same answers in the prefiled testimonies
8 with the corrections?

9 **A** Yes, I would.

10 **MS. TRIPLETT:** We would request that the prefiled
11 testimonies be moved into evidence as though read into the
12 record.

13 **CHAIRMAN CARTER:** The prefiled testimony will be
14 entered into the record as though read.

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**IN RE: PETITION TO ESTABLISH DISCOVERY DOCKET
REGARDING PROJECTED COSTS FOR LEVY NUCLEAR
PROJECT BY PROGRESS ENERGY FLORIDA, INC.**

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 080149

**DIRECT TESTIMONY OF LORI CROSS
IN SUPPORT OF SITE SELECTION COSTS**

I. INTRODUCTION AND QUALIFICATIONS

1

2

Q. Please state your name and business address.

3

**A. My name is Lori Cross. My business address is 299 First Avenue North, St.
Petersburg, FL 33701.**

4

5

6

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

7

**A. I am employed by Progress Energy Service Company, LLC as Manager of
Regulatory Planning Florida.**

8

9

10

Q. What are your responsibilities in that position?

11

**A. I am responsible for regulatory planning, cost recovery and pricing functions
for Progress Energy Florida, Inc. ("PEF"). These responsibilities include:
cost of service analysis; regulatory financial reports; rate and tariff
development and administration; analysis of state, federal and local
regulations and their impact on PEF; planning, coordination and execution of
general rate case proceedings as necessary. In this capacity, I am also**

12

13

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16

1 responsible for the Levy County Nuclear Project Cost Recovery Projection
2 filing, made as part of this discovery docket, in accordance with Rule 25-
3 6.0423, Florida Administrative Code (F.A.C.).
4

5 **Q. Please describe your educational and occupational history and describe your**
6 **duties in the various positions you have held as an employee of Progress**
7 **Energy.**

8 A. I received a Bachelors of Science degree in Accounting from the University of
9 South Florida. I began my employment with PEF (previously Florida Power
10 Corporation) in 1983. During my 24 years with Florida Power Corporation and
11 now Progress Energy Service Co. LLC., I have held a number of financial and
12 accounting positions. In 2004, I became Manager, Regulatory Services for PEF.
13

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

15 A. The purpose of my testimony is to present, for Commission review and approval,
16 Progress Energy Florida's site selection costs associated with the Levy Nuclear
17 Construction project.
18

19 **Q. Are you sponsoring any exhibits in support of your testimony?**

20 A. Yes. I am sponsoring the following exhibits, which were prepared under my
21 supervision:

- 22 • Exhibit No (LC-3) which consists of schedules SS-1 to SS-6B which
23 reflects the site selection costs for 2006.

- 1 • Exhibit No (LC-4) which consists of schedules SS-1 to SS-8A which
- 2 reflects the site selection costs for 2007.
- 3 • Exhibit No (LC-5) which consists of schedules SS-1 to SS-8B and SS-10
- 4 reflects the site selection costs for 2008.

5

6 **Q. What are Schedules SS-1 to SS-10?**

- 7 • Schedule SS-1 reflects the Site Selection Revenue Requirements.
- 8 • Schedule SS-2 reflects the over/(under) recovery of site selection costs.
- 9 • Schedule SS-3A reflects the carrying costs on the deferred taxes.
- 10 • Schedule SS-3B reflects the calculation of the construction period interest.
- 11 • Schedule SS-4 reflects recoverable O&M expenses.
- 12 • Schedule SS-5 reflects other recoverable O&M expenses.
- 13 • Schedule SS-6 reflects monthly site selection expenses.
- 14 • Schedule SS-6A reflects a description of the major tasks for the costs
- 15 incurred.
- 16 • Schedule SS-7 reflects a description of the technology selected
- 17 • Schedule SS-8 reflects a list of the contracts executed in excess of \$1.0
- 18 million.
- 19 • Schedule SS-8A reflects details on each of the contracts executed in
- 20 excess of \$1.0 million.
- 21 • Schedule SS-8B reflects a list of all contracts in excess of \$200,000.
- 22 • Schedule SS-10 reflects the estimated bill impact associated with the
- 23 cumulative Site Selection revenue requirements.

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Q. What is the source of the data that you will present by way of testimony or exhibits in this proceeding?

A. These numbers are derived from the Company's actual books and records.

Q. What costs have been included in the Site Selection schedules?

A. These schedules include the revenue requirements on the site selection costs that the Company has incurred for the Levy Nuclear Construction project pursuant to the provisions of Rule 25-6.0423. The revenue requirements include the actual costs incurred, plus a carrying charge on the unrecovered balance, the incremental O&M expenses, and a carrying charge on the deferred tax asset. These costs were incurred from the period April 2006 up to the date that PEF submitted its petition for determination of need for the Levy Plant.

Total revenue requirements for the entire period are \$ 37.9 million and are comprised of \$3.5 million for the 2006 calendar year, \$14.6 million for the 2007 calendar year, and \$19.8 million for the 2008 calendar year.

These costs were primarily incurred as part of the Combined Operating License process and the site and technology selection process. More detailed information about these costs is provided in the testimony of Danny Roderick. These schedules contain substantially all of the actual site selection expenses. There are still some costs for which the invoices have not been received and as such, the

1 costs presented in these schedules may need to be trued up to final costs at a later
2 date.

3

4 **Q. How does PEF plan to recover these Site Selection Costs?**

5

6 A. In accordance with the provisions of FPSC Rule 25-6.0423, Section (4), after the
7 Commission has issued an order granting the determination of need, PEF will file
8 a petition for a separate proceeding to recover prudently incurred site selection
9 costs. In that petition, PEF will propose that these costs be afforded the same cost
10 recovery treatment as Preconstruction costs and that they be included in the total
11 costs to be recovered through the Capacity Clause Recovery (CCR) clause
12 beginning in January 2009.

13

14 **Q. What does Schedule SS-10 represent?**

15 A. Schedule SS-10 in Exhibit LC-5 shows the estimated bill impact of recovering the
16 cumulative Site Selection costs plus the carrying charge through retail rates
17 beginning in January 2009, based on 2008 billing determinants. As can be seen in
18 SS-10, the estimated impact to the residential ratepayer of recovering the \$37.9
19 million is \$1.07 per 1000 KWh.

20

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

22 A. Yes, it does.

23

24

**IN RE: PETITION TO ESTABLISH DISCOVERY DOCKET
REGARDING ESTIMATED ACTUAL COSTS FOR LEVY
NUCLEAR PROJECT BY PROGRESS ENERGY FLORIDA, INC.**

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 080149

**DIRECT TESTIMONY OF LORI CROSS
IN SUPPORT OF ESTIMATED/ACTUAL COSTS**

I. INTRODUCTION AND QUALIFICATIONS

1
2 **Q. Please state your name and business address.**

3 **A.** My name is Lori Cross. My business address is 299 First Avenue North, St.
4 Petersburg, FL 33701.

5
6 **Q. By whom are you employed and in what capacity?**

7 **A.** I am employed by Progress Energy Service Company, LLC as Manager of
8 Regulatory Planning Florida.

9
10 **Q. What are your responsibilities in that position?**

11 **A.** I am responsible for regulatory planning, cost recovery and pricing functions for
12 Progress Energy Florida, Inc. ("PEF"). These responsibilities include: cost of
13 service analysis; regulatory financial reports; rate and tariff development and
14 administration; analysis of state, federal and local regulations and their impact on
15 PEF; planning, coordination and execution of general rate case proceedings as
16 necessary. In this capacity, I am also responsible for the Levy County Nuclear

1 Project Cost Recovery Actual/Estimated filing, made as part of this discovery
2 docket, in accordance with Rule 25-6.0423, Florida Administrative Code (F.A.C.).
3

4 **Q. Please describe your educational and occupational history and describe your**
5 **duties in the various positions you have held as an employee of Progress**
6 **Energy.**

7 A. I received a Bachelors of Science degree in Accounting from the University of
8 South Florida. I began my employment with PEF (previously Florida Power
9 Corporation) in 1983. During my 24 years with Florida Power Corporation and
10 now Progress Energy Service Co. LLC., I have held a number of financial and
11 accounting positions. In 2004, I became Manager, Regulatory Services for PEF.
12

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

14 A. The purpose of my testimony is to present, for Commission review and approval,
15 Progress Energy Florida's Estimated/Actual costs associated with Levy County
16 activities for the period January 2008 through December 2008.
17

18 **Q. Are you sponsoring any exhibits in support of your testimony?**

19 A. Yes. I am sponsoring sections of the following exhibit, which was prepared under
20 my supervision:

- 21 • Exhibit No. ____ (LC-1), consisting of Schedules AE-1 through AE-10,
22 which reflect PEF's retail revenue requirements for the Levy Nuclear Filing

1 from January 2008 through December 2008; however, I will only be
2 sponsoring Schedules AE-1 through AE-6B , AE-9, and AE-10. Daniel
3 Roderick will be sponsoring Schedules AE-7 through AE-8A. Schedules
4 AE-9 and AE-10 in Exhibit No. ____ (LC-1), are shown for informational
5 purposes only and show no activity as they are not applicable to the Levy
6 County Filing during the reporting period.

7 This exhibit is true and accurate.

8
9 **Q. What are Schedules AE-1 through AE-10?**

- 10 **A.**
- 11 • Schedule AE-1 reflects the actual/estimated of total retail revenue
12 requirements for the period.
 - 13 • Schedule AE-2 reflects the calculation of the actual/estimated of
14 preconstruction costs for the period.
 - 15 • Schedule AE-3 reflects the calculation of the actual/estimated of carrying
16 costs on construction expenditures for the period.
 - 17 • Schedule AE-3A reflects a calculation of actual/estimated deferred tax
18 carrying costs for the period.
 - 19 • Schedule AE-3B reflects the calculation of the actual/estimated construction
20 period interest for the period.
 - 21 • Schedule AE-4 reflects CCRC recoverable Operations and Maintenance
22 (O&M) expenditures for the period.
 - Schedule AE-5 reflects other recoverable O&M expenditures for the period.

- 1 • Schedule AE-6 reflects actual/estimated monthly expenditures for
- 2 preconstruction and construction costs for the period.
- 3 • Schedule AE-6A reflects descriptions of the major tasks.
- 4 • Schedule AE-6B reflects annual variance explanations.
- 5 • Schedule AE-7 reflects technology selected for the Levy County Nuclear
- 6 Project.
- 7 • Schedule AE-8 reflects contracts executed in excess of \$1.0 million.
- 8 • Schedule AE-8A reflects details pertaining to the contracts executed in
- 9 excess of \$1.0 million.
- 10 • Schedule AE-9 reflects the calculation of the Estimated True-up Amount for
- 11 the period.
- 12 • Schedule AE-10 reflects the calculation of interest.

13
14 **Q. What is the source of the data that you will present by way of testimony or**
15 **exhibits in this proceeding?**

16 **A.** The actual data is taken from the books and records of PEF. The books and records
17 are kept in the regular course of our business in accordance with generally accepted
18 accounting principles and practices, and provisions of the Uniform System of
19 Accounts as prescribed by Federal Energy Regulatory Commission (FERC) and any
20 accounting rules and orders established by this Commission. Estimates are derived
21 from Nuclear Projects & Construction Group (NPC). NPC uses various rate

1 schedules and contracts to project the cash flows in accordance with our business
2 practice.

3
4 **Q. What are the total projected revenue requirements for the Levy project for the**
5 **calendar year ended December 2008?**

6 **A.** The total projected revenue requirements for the Levy County Nuclear project are
7 [REDACTED] million for the calendar year ended December 2008, as reflected on
8 Schedule AE-1, page 2 of 2, Line 8. This amount includes [REDACTED] million in
9 Preconstruction costs, \$7.6 million for the carrying costs on the construction
10 balance, \$1.4 million in recoverable O&M costs, and \$-0.1 million for the carrying
11 charge on the Deferred Tax Liability. These amounts were calculated in accordance
12 with the provisions of Rule 25-6.0423.

13
14 **Q. What is included in the Total Costs to be Recovered on Schedule AE-2, Line**
15 **7?**

16 The annual total of [REDACTED] million reflected on Schedule AE-2, Line 7, page 2 of 2
17 represents the total Preconstruction Costs for 2008. This amount includes
18 expenditures totaling [REDACTED] million along with the carrying cost on the average
19 balance of [REDACTED] million. These costs began to be classified as Preconstruction
20 costs in March 2008 after the Levy Need Petition was filed. [REDACTED]

21 [REDACTED]
22 [REDACTED] Further discussion of these costs is provided in Danny Roderick's

1 testimony. The Total Return Requirements of [REDACTED] million presented on Line 6
2 represents the carrying costs on the average Preconstruction balance.

3
4 **Q. What is the carrying cost rate used in Schedule AE-2?**

5 **A.** The carrying cost rate used on Schedule AE-2 is based on PEF's approved after tax
6 AFUDC rate of 8.848%. On a pre-tax basis, the rate is 13.13%. The rate was
7 approved in Docket 050078-EL Order PSC-05-0945-S-EL. This rate represents the
8 approved rate as of June 12, 2007, and is the appropriate rate to use consistent with
9 Rule 25-6.0423(5) (b) 1. The annual rate was adjusted to a monthly rate as required
10 by the AFUDC rule, FPSC Rule 25-6.0141, Item (3).

11
12 **Q. What is included in the Total Return Requirements on Schedule AE-3, line 7?**

13 The Total Return Requirements of \$7.6 million depicted on this schedule represents
14 carrying costs on the average construction balance. The schedule starts with the
15 year-end 2007 CWIP balance and adds the monthly construction expenditures and
16 computes a return on the average monthly balance. The equity component of the
17 return is grossed up for taxes to cover the income taxes that will need to paid upon
18 recovery in rates. The adjustment on Line 3 is made to increase the balance for the
19 carrying costs. This amount represents the prior month carrying charge on the
20 average net Construction Work In Progress (CWIP) balance. We will continue to
21 include these carrying charges in the CWIP balance for purposes of calculating the
22 return requirements until such time as these charges begin to be recovered in rates
23 through the Capacity Cost Recovery (CCR) clause. Normal determination of

1 AFUDC includes a return on eligible capital additions plus a compounded rate of
2 return until plant investments are placed in service and recovered in rates. Likewise
3 under these circumstances a compounded return is appropriate until this return is
4 recovered in rates.

5
6 **Q. What is included in Total Return Requirements on Schedule AE-3A, Line 8?**

7 The twelve month total of \$(137,271) on line 8, page 2 of 2 represents the carrying
8 charge on the Deferred Tax Liability balance. The deferred tax liability arises from
9 the difference between the book and tax basis for the project. This difference is due
10 to the capitalization of interest for tax purposes as represented by the Construction
11 Period Interest amount on Line 1 net of the adjustment on Line 3. The adjustment
12 on Line 3 represents the capitalized interest for book purposes. This adjustment
13 will be made until such time as the carrying charges are recovered in rates.

14
15 **Q. Can you explain the Construction Period Interest (CPI) calculation on**
16 **schedule AE-3B?**

17 The 2008 CPI is calculated on costs associated with units of property expected to be
18 separately placed in service. CPI is being calculated on the costs associated with
19 on-site construction facilities from Schedule AE-6, line 10, such as the electrical
20 and carpenter shops. Costs associated with the license application are intangible in
21 nature and not subject to CPI. All other costs are considered soft construction costs
22 for which the construction period has not yet begun and therefore not subject to
23 CPI.

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Q. What is included in the Recoverable O&M Expenditures on Schedule AE-4?

A. The expenses included on this schedule represent the operation and maintenance costs that the Company expects to incur in 2008 related to the Levy Construction project that were not contemplated in base rates. These costs are primarily comprised of Corporate support functions to the construction project. They include financial and legal costs to support the cost recovery process, costs to support the data repository, corporate communications, and human resources expenses to support additional staffing needs. We have also estimated interest expense on the cumulative O&M costs at the commercial paper rate.

Q. What is included in the Other Recoverable O&M Monthly Expenditures on Schedule AE-5?

A. These costs include the Operations and Maintenance costs related to the project that are already included in base rates. These costs also primarily consist of Corporate support functions, but these costs are for positions and functions that previously existed, but are now supporting the Levy Construction project.

Q. What is Schedule AE-6 and what does it represent?

A. Schedule AE-6 reflects actual/estimated monthly expenditures for preconstruction and construction costs by major task for 2008. This schedule includes both the Generation and Transmission costs. These costs have been adjusted to a cash basis

1 for purposes of calculation of the carrying costs. We have also applied the
2 appropriate jurisdictional separation factor to arrive at the total jurisdictional costs.

3
4 **Q. What was the source of the separation factors used in Schedule AE-6?**

5 **A.** The jurisdictional separation factors are based on the factors that were established
6 in PEF's last base rate proceeding, Order PSC-05-0945-S-EI.

7
8 **Q. Was interest calculated on the under-recovered balance?**

9 **A.** Interest has only been included on the average cumulative CCRC recoverable O&M
10 expenses as reflected on Schedule AE-4, line 27. The interest has been calculated
11 at the average commercial paper rate. No interest has been calculated on the
12 construction costs as until such time as we begin to recover the carrying costs on
13 this project in rates, we will calculate a carrying charge on the cumulative CWIP
14 balance at PEF's current AFUDC rate and will include those costs in the
15 cumulative CWIP balance. These costs will remain in CWIP until they are
16 approved for recovery through the Capacity Cost Recovery (CCR) clause, at which
17 time they will be reclassified as a regulatory asset and we will begin to accrue
18 interest on the over or under recovered balance.

19
20 **Q. Does this conclude your testimony?**

21 **A.** Yes, it does.

**IN RE: PETITION TO ESTABLISH DISCOVERY DOCKET
REGARDING PROJECTED COSTS FOR LEVY NUCLEAR
PROJECT BY PROGRESS ENERGY FLORIDA, INC.**

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 080149

**DIRECT TESTIMONY OF LORI CROSS
IN SUPPORT OF PROJECTED COSTS**

I. INTRODUCTION AND QUALIFICATIONS

1
2 **Q. Please state your name and business address.**

3 **A.** My name is Lori Cross. My business address is 299 First Avenue North, St.
4 Petersburg, FL 33701.

5
6 **Q. By whom are you employed and in what capacity?**

7 **A.** I am employed by Progress Energy Service Company, LLC as Manager of
8 Regulatory Planning Florida.

9
10 **Q. What are your responsibilities in that position?**

11 **A.** I am responsible for regulatory planning, cost recovery and pricing functions
12 for Progress Energy Florida, Inc. ("PEF"). These responsibilities include: cost
13 of service analysis; regulatory financial reports; rate and tariff development and
14 administration; analysis of state, federal and local regulations and their impact
15 on PEF; planning, coordination and execution of general rate case proceedings
16 as necessary. In this capacity, I am also responsible for the Levy County

1 Nuclear Project Cost Recovery Projection filing, made as part of this discovery
2 docket, in accordance with Rule 25-6.0423, Florida Administrative Code
3 (F.A.C.).
4

5 **Q. Please describe your educational and occupational history and describe your**
6 **duties in the various positions you have held as an employee of Progress**
7 **Energy.**

8 A. I received a Bachelors of Science degree in Accounting from the University of
9 South Florida. I began my employment with PEF (previously Florida Power
10 Corporation) in 1983. During my 24 years with Florida Power Corporation and
11 now Progress Energy Service Co. LLC., I have held a number of financial and
12 accounting positions. In 2004, I became Manager, Regulatory Services for PEF.
13

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

15 A. The purpose of my testimony is to present, for Commission review and approval,
16 Progress Energy Florida's projected costs associated with Levy County activities for
17 the period January 2009 through December 2009.
18

19 **Q. Are you sponsoring any exhibits in support of your testimony?**

20 A. Yes. I am sponsoring sections of the following exhibit, which was prepared under
21 my supervision:

- 1 • Exhibit No. ____ (LC-2), consisting of Schedules P-1 through P-10, which
2 reflect PEF's retail revenue requirements for the Levy Nuclear Filing from
3 January 2009 through December 2009; however, I will only be sponsoring
4 Schedules P-1 through P-6A, P-9, and P-10. Daniel Roderick will be
5 sponsoring Schedules P-7 through P-8B.

6 This exhibit is true and accurate.

7
8 **Q. What are Schedules P-1 through P-10?**

- 9 **A.**
- 10 • Schedule P-1 reflects the projection of total retail revenue requirements for
11 the period.
 - 12 • Schedule P-2 reflects the calculation of the projected preconstruction costs
13 for the period.
 - 14 • Schedule P-3 reflects the calculation of the projected carrying costs on
15 construction expenditures for the period.
 - 16 • Schedule P-3A reflects a calculation of the projected deferred tax carrying
17 costs for the period.
 - 18 • Schedule P-3B reflects the calculation of the projected construction period
19 interest for the period.
 - 20 • Schedule P-4 reflects CCRC recoverable Operations and Maintenance
21 (O&M) expenditures for the period.
 - Schedule P-5 reflects other recoverable O&M expenditures for the period.

- 1 • Schedule P-6 reflects projected monthly expenditures for preconstruction
- 2 and construction costs for the period.
- 3 • Schedule P-6A reflects descriptions of the major tasks.
- 4 • Schedule P-7 reflects technology selected for the Levy County Nuclear
- 5 Project.
- 6 • Schedule P-8 reflects contracts executed in excess of \$1.0 million.
- 7 • Schedule P-8A reflects details pertaining to the contracts executed in excess
- 8 of \$1.0 million.
- 9 • Schedule P-9 reflects the feasibility of completing the plant.
- 10 • Schedule P-10 reflects the estimated rate impact.
- 11

12 **Q. What is the source of the data that you will present by way of testimony or**
13 **exhibits in this proceeding?**

14 **A.** The estimates are derived from Nuclear Projects & Construction Group (NPC).
15 NPC uses various rate schedules and contracts to project the cash flows in
16 accordance with our business practice.

17
18 **Q. What are the projected total revenue requirements that PEF will recover in**
19 **2009?**

20 **A.** PEF will request recovery of [REDACTED] million in 2009 as presented on Schedule P-1,
21 Line 9, page 2 of 2. This amount includes projected total revenue requirements of

1 █████ million for calendar year 2009, █████ million in actual/estimated expenses
2 for 2008, and actual expenses of \$1.7 million for 2007.

3
4 **Q. What is included in the projected Revenue Requirements for 2009?**

5 **A.** The revenue requirements of █████ million in 2009 as depicted on Schedule P-1,
6 Line 7 includes Preconstruction Costs of \$109.3, carrying costs on the Construction
7 balance of █████ million, recoverable O&M expenditures of \$1.2 million, and the
8 carrying costs on the deferred tax asset of \$7.2 million.

9
10 **Q. What is included in the Total Costs to be Recovered on Schedule P-2 Line 7?**

11 **A.** The \$109.3 million dollars included on Line 7, page 2 of 2 includes the total
12 projected Preconstruction costs of \$97.1 million for 2009 and a return on the
13 unrecovered preconstruction balance of \$12.2 million. The unrecovered
14 preconstruction balance has been reduced each month by the amortization of the
15 prior period.

16
17 **Q. What is included in the Total Return Requirements on Schedule P-3, line 7?**

18 **A.** The Total Return Requirements of █████ million depicted on this schedule
19 represents carrying costs on the average construction balance. The schedule starts
20 with the projected year-end 2008 CWIP balance and adds the monthly construction
21 expenditures and computes the carrying charge on the average monthly balance.
22 The equity component of the return is grossed up for taxes to cover the income
23 taxes that will need to paid upon recovery in rates. The CWIP balance eligible for

1 return has been reduced by the adjustment on Line 3 which represents the recovery
2 of the prior period's carrying charges as they are recovered through rates recovered
3 in rates. Likewise under these circumstances a compounded return is appropriate
4 until this return is recovered in rates.

5
6 **Q. What is the carrying cost rate used in Schedule P-3?**

7 **A.** The carrying cost rate used on Schedule P-3 is based on PEF's approved after tax
8 rate of 8.848%. On a pre-tax basis, the rate is 13.13%. The rate was approved in
9 Docket 050078-EL Order PSC-05-0945-S-EL. This rate represents the approved
10 rate as of June 12, 2007, and is the appropriate rate to use consistent with Rule 25-
11 6.0423(5) (b) 1. The annual rate was adjusted to a monthly rate as required by the
12 AFUDC rule, FPSC Rule 25-6.0141, Item (3).

13
14 **Q. What is included in Total Return Requirements on Schedule P-3A, Line 8?**

15 The twelve month total of \$7.2 million on line 8, page 2 of 2 represents the carrying
16 charge on the Deferred Tax Asset balance. The deferred tax asset arises from the
17 difference between the book and tax basis for the project. This difference is due to
18 the capitalization of interest for tax purposes as represented by the Construction
19 Period Interest amount on Line 1, the recovery of the preconstruction costs, net of
20 the adjustment on Line 3. For tax purposes, preconstruction costs are recovered as
21 tax depreciation when the plant goes into service and for book purposes they are
22 recovered pursuant to the provisions of the FPSC rule 25.6-0423 which creates a
23 timing difference and gives rise to a deferred tax asset. For book purposes, the

1 adjustment on Line 3 represents the capitalized interest for book purposes. This
2 adjustment will be made until such time as the carrying charges are recovered in
3 rates.

4
5 **Q. Can you explain the Construction Period Interest (CPI) calculation on**
6 **schedule P-3B?**

7 For tax purposes, we have projected that we will begin to accrue CPI on the
8 construction of the plant itself in January 2009 with the start of clearing, grading
9 and excavation activities. Construction costs subject to CPI will include all
10 cumulative pre-construction and construction costs excluding the costs associated
11 with the license application. Costs associated with the license application are
12 considered intangible in nature for tax purposes and not subject to CPI.

13
14 **Q. What is included in the Other Recoverable O&M Monthly Expenditures on**
15 **Schedule P-5?**

16 **A.** These costs include the Operations and Maintenance costs related to the project that
17 are already included in base rates. These costs also primarily consist of Corporate
18 support functions, but these costs are for positions and functions that previously
19 existed, but are now supporting the Levy Construction project.

20
21 **Q. What are the total projected Preconstruction and Construction projected for**
22 **2009?**

1 A. The total projected jurisdictional preconstruction for 2009 are \$97.1 million. This
2 consists of \$74.6 million in Generation costs and \$22.5 million for Transmission.
3 The total projected jurisdictional construction costs for 2009 are [REDACTED] million.
4 These costs consist of \$ 324.4 million in Generation costs and \$87.7 million in
5 Transmission costs. The costs have been adjusted to a cash basis for purposes of
6 calculating the carrying charge and the appropriate jurisdictional separation has
7 been applied. A breakdown of these costs by major task is provided on Schedule P-
8 6.

9 **Q. What was the source of the separation factors used in Schedule P-6?**

10 A. The jurisdictional separation factors are based on the factors that were established
11 in PEF's last base rate proceeding, Order PSC-05-0945-S-EI.

12
13 **Q. What is the estimated rate impact to the residential ratepayer expected to be in
14 2009?**

15 A. As can be seen in Schedule P-10, based on 2008 billing determinants, the expected
16 rate impact to the residential ratepayer is [REDACTED] per 1000 kwh beginning in January
17 2009.

18
19 **Q. Does this conclude your testimony?**

20 A. Yes, it does.

1 BY MS. TRIPLETT:

2 Q And do you have a summary of your testimonies?

3 A I submitted testimony in the nuclear cost-recovery
4 proceeding, and I am available to answer any questions that you
5 may have.

6 CHAIRMAN CARTER: When you submitted evidence, what
7 was the scope and the nature of your evidence that you
8 submitted?

9 THE WITNESS: The scope and the nature of the
10 evidence I submitted. I submitted the calculations of the
11 amounts that we are requesting for recovery per the statute and
12 the impact of those costs on rates.

13 CHAIRMAN CARTER: Thank you.

14 Mr. McWhirter.

15 CROSS EXAMINATION

16 BY MR. McWHIRTER:

17 Q Ms. Cross, you perform an accounting function with
18 Progress Energy?

19 A Accounting and planning.

20 Q Mr. Oliver talked about site selection costs and said
21 going out and meeting with customers and so forth, and you had
22 a cost for that. Are those meetings conducted by people who
23 are presently employees of the company?

24 A I don't know.

25 Q Do you know whether any of the costs that are

1 included in your cost-recovery items are for salaries paid to
2 current customers of Progress? Not customers, but employees of
3 Progress Energy?

4 **A** I'm sorry, can you repeat your question?

5 **Q** Yes. Progress Energy has employees.

6 **A** Right.

7 **Q** And you have recited costs for the nuclear uprate and
8 for the Levy plants.

9 **A** Uh-huh.

10 **Q** Do any of the costs included in your testimony
11 include payments to existing employees of Progress Energy?

12 **A** Yes.

13 **Q** And how are you able -- how do you take care of those
14 costs, and if you have a full-time employee doing work on the
15 nuclear projects, how do you handle that?

16 **A** We have separate projects, separate accounting set up
17 to track those costs and when those people charge those
18 projects.

19 **Q** So even though their full salary is included in base
20 rates --

21 **A** No, their full salary is not in base rates. These
22 people are dedicated to these construction projects. They are
23 not part of base rates.

24 **Q** I see. These are new people that you have employed
25 to work on the nuclear plants?

1 **A** Some of them are new people, some of them may be
2 employees that were employed by the company previously, but
3 they were not part of base rates then. They are dedicated to
4 capital projects, and these capital projects were never part of
5 our base rates.

6 **Q** Can you be a little more explicit with the kinds of
7 capital projects you're talking about?

8 **A** They would have been other types of -- other types of
9 construction projects that the company would have been involved
10 in. So it could have been other generation, other transmission
11 capital projects.

12 **Q** So you are telling me that when your company came in
13 for a base rate increase in 2005, none of the salaries of these
14 employees were included in that base rate case?

15 **A** There may be employees working on these nuclear
16 projects that were employed by the company that were working on
17 other capital projects at the time of our base rate proceeding,
18 but they are -- we still have, we have capital projects in our
19 base rates, we have costs for those, we have these capital
20 projects that are outside of our base rates, these costs are
21 not part of our base rates.

22 **Q** So you don't have charges for any employees whose
23 salaries were included in your base rate case that are also
24 included in this cost-recovery case?

25 **A** No, we don't.

1 **Q** In your cost projections did you develop a capital
2 structure for your company that you use for determining what
3 the return will be for cost of capital?

4 **A** We used the cost of capital that is prescribed by the
5 statute, yes.

6 **Q** And what is the equity component of your capital
7 structure, what percentage?

8 **A** I believe it would have been about 58 percent.

9 **Q** 58 percent is equity?

10 **A** Yes.

11 **Q** And is that consistent with the capital structure as
12 it was shown on the December 31st, 2007, capital structure
13 surveillance report filed with this Commission?

14 **A** I don't know exactly what it was at that time.

15 **Q** How did you reach the 58 percent capital structure?

16 **A** The rule says that for purposes of calculating the
17 carrying costs on these projects, that for need petitions
18 submitted on or before December 31, 2010, that you would use
19 the carrying cost that was in effect as of June of 2007, and
20 that is the carrying cost that we have used.

21 **Q** And so the capital structure that you have used is
22 the capital structure that was filed with the surveillance
23 report in June of 2007?

24 **A** No. The capital structure that we have used is the
25 one that was approved in our 2005 base rate proceeding.

1 **Q** Was it the same in June of 2007?

2 **A** I just said I'm not sure exactly what it was in June
3 of 2007.

4 **Q** Was that capital structure proven in the rate case or
5 was it stipulated to?

6 **MS. TRIPLETT:** Objection, relevance.

7 BY MR. McWHIRTER:

8 **Q** Do you know?

9 **MS. TRIPLETT:** Mr. Chairman, my objection is
10 relevance as to whether this base rate proceeding was
11 stipulated or litigated, not to whether this witness knew.

12 **CHAIRMAN CARTER:** He can ask her whether or not she
13 knows it. I think that's a fair question. Do you know?

14 **THE WITNESS:** We entered into a stipulation in that
15 base rate proceeding.

16 BY MR. McWHIRTER:

17 **Q** And this is the capital structure that is being used?

18 **A** Yes, it is.

19 **Q** Can you paraphrase for me without me having to read
20 it what Section 366.193 of the Florida Statutes calls for with
21 respect to the AFUDC rate?

22 **A** I'm not sure exactly which section you're referring
23 to, so you may have to read it.

24 **Q** Can you tell us what AFUDC means?

25 **A** It's Allowance for Funds Used During Construction.

1 **Q** And is it fair to describe funds used during
2 construction as the interest you pay on debt, your deferred
3 taxes which you don't have to pay any interest on, and then
4 your return on equity? Are those the three major components of
5 your AFUDC?

6 **A** It's basically -- yes, that's true.

7 **Q** Does Florida Progress go into the market to seek
8 investors, or does all of its money come from its parent
9 corporation, Progress Energy, if you know?

10 **MS. TRIPLETT:** Objection to the relevance.

11 **CHAIRMAN CARTER:** One second. Hang on a second here.

12 I'm looking to staff. I think in view of the fact
13 that she has been talking about the financial perspective of
14 the company, he can ask whether or not she knows. Would that
15 be -- do you think that's right?

16 **MS. HELTON:** Yes, sir, I think he can ask that
17 question.

18 **CHAIRMAN CARTER:** You can just ask do you know.
19 Please rephrase, Mr. McWhirter.

20 **THE WITNESS:** Can you repeat the question, please.

21 BY MR. McWHIRTER:

22 **Q** Do you know whether Florida Progress goes into the
23 investment market and seeks public shareholders, or is the
24 equity component of your rate structure supplied by the parent
25 public utility holding company, Progress Energy of North --

1 Progress Energy Corporation?

2 **A** I'm sorry, that's outside the scope of my
3 responsibility.

4 **Q** All right. I am going to read you a sentence from
5 Section 366.193(2)(b).

6 **CHAIRMAN CARTER:** Why don't we see, first of all,
7 whether she is familiar with that and then we can go from
8 there.

9 **MR. McWHIRTER:** She said she couldn't paraphrase it
10 in the question I asked her a minute ago.

11 **CHAIRMAN CARTER:** If we can kind of cut the
12 objections down and move on with the case, we can all be
13 better. Can you just ask her if she is familiar with the
14 statute, because it looks like to me you are getting ready to
15 ask her some questions about the statute, is that correct?

16 **MR. McWHIRTER:** That's right.

17 **CHAIRMAN CARTER:** All right, then, let's try it that
18 way.

19 BY MR. McWHIRTER:

20 **Q** Are you familiar with the statute?

21 **A** Yes, I am.

22 **Q** And if I read you a sentence, would that refresh your
23 recollection as to what it says, if you trust me to read it
24 correctly?

25 **A** Probably.

1 **Q** This is from Section (2)(b), and it says, "To
2 encourage investment and provide certainty for nuclear or
3 integrated gasification combined cycle power plant need
4 petitions submitted on or before December 31st, 2010,
5 associated carrying costs shall be equal to the pretax AFUDC in
6 effect upon this Act becoming law." Do you know what that
7 means?

8 **A** Yes, I do.

9 **Q** Would you explain to us what that means.

10 **A** It means that you calculate the carrying costs on the
11 construction projects, you would use the AFUDC rate that was in
12 effect when this became the law, and that was what I was
13 explaining to you that we did is that we used the AFUDC rate
14 that was in effect at that time.

15 **Q** Is it your interpretation of this statute, or the way
16 you are interpreting it for your testimony that irrespective of
17 what might happen in a rate case that would adjust the carrying
18 costs henceforth, say a year from now or two years from now,
19 that Progress would continue to use the AFUDC rate that was in
20 effect upon this Act becoming law?

21 **A** Yes.

22 **MS. TRIPLETT:** I was going to insert an objection
23 that, A, it calls for a legal conclusion; B, it's irrelevant to
24 this proceeding what may happen one, two, three years from this
25 point.

1 **MR. McWHIRTER:** I think we have already got the
2 answer and we can go on, Mr. Chairman.

3 **CHAIRMAN CARTER:** You may proceed.

4 BY MR. McWHIRTER:

5 **Q** The statute uses a phrase that appears to be an
6 accounting type phrase, and it says the carrying costs shall be
7 equal to the, quote, pretax AFUDC in effect. What does it mean
8 when you put pretax in front of AFUDC?

9 **A** I believe that was put in there so that -- just to
10 clarify. When you calculate the carrying charge on the
11 equity component of the AFUDC, then that is taxable. So we
12 just wanted to make clear here what the rate was supposed to
13 be.

14 **Q** Well, the \$419 million you are asking for, is that
15 the pretax amount of revenue you're seeking from customers?

16 **A** Well, the 419 million includes carrying charges that
17 are calculated in accordance with this language.

18 **Q** What that means is all you are going to ask customers
19 to pay is 419 million, and you are not going to mark it up for
20 taxes when you set your rates?

21 **A** The 419 million includes the taxes.

22 **Q** It includes taxes.

23 **A** It includes the income taxes, yes.

24 **Q** Okay. So when I stated in my opening statement, and
25 I want to get this correct, because I don't want to mislead the

1 Commission, that the 419 would be grossed up for income taxes
2 by an additional \$50 million, that was incorrect?

3 **A** Yes.

4 **Q** So when you go to collect money from your customers,
5 there will be no gross-up for taxes?

6 **A** When we collect the money from the customers, there
7 is a gross-up for the taxes, but the 419 million already
8 includes that.

9 **MR. McWHIRTER:** All right. That's good. I'm glad I
10 got that clarified. I didn't understand it.

11 BY MR. McWHIRTER:

12 **Q** Do you in your function for the company today have to
13 have knowledge of the current capital structure, or is that
14 relevant to your operation?

15 **A** We have knowledge of the current capital structure.

16 **Q** What is the current capital structure?

17 **A** I'm sorry, I don't recall at the moment what it is.

18 **MR. McWHIRTER:** I tender the witness, Mr. Chairman.

19 **CHAIRMAN CARTER:** Thank you, Mr. McWhirter.

20 Mr. Brew.

21 **MR. BREW:** I have no questions for this witness, Mr.

22 Chairman.

23 **CHAIRMAN CARTER:** Okay. Staff.

24 **MR. YOUNG:** No questions.

25 **CHAIRMAN CARTER:** Commissioner Argenziano, you're

1 recognized.

2 **COMMISSIONER ARGENZIANO:** Thank you, Mr. Chairman.

3 A couple of things I'm trying to put together here.
4 When I asked Mr. Oliver before about site selection costs, he
5 indicated that there would probably be more to come for a
6 number of years, but the costs for the site of the plant should
7 be finished now. Are there additional costs to come on the
8 plant site itself?

9 **THE WITNESS:** Well, I guess I would like to start by
10 clarifying kind of how we define site selection versus
11 preconstruction, and how it is defined in the rule.

12 Site selection costs and preconstruction costs are
13 basically the same types of costs. If you look in the statute
14 and you look at the definition of those costs, they are the
15 same types of costs. They are the costs for selecting the
16 site, the cost for clearing, grading, excavating.

17 **COMMISSIONER ARGENZIANO:** Right. But haven't you
18 selected the site?

19 **THE WITNESS:** We have for the generation, but for the
20 transmission, I think what Mr. Oliver was talking about is that
21 I think we have made some decisions about, you know, certain
22 corridors and things, but I don't know exactly where they are,
23 but I would expect that there might still be --

24 **COMMISSIONER ARGENZIANO:** Right. But -- I'm sorry.

25 **CHAIRMAN CARTER:** You're recognized.

1 **COMMISSIONER ARGENZIANO:** I understand that. That's
2 what I was saying. We know there will be, probably, additional
3 transmission site costs.

4 **THE WITNESS:** Right.

5 **COMMISSIONER ARGENZIANO:** But as far as the costs for
6 the plant site, I mean that land has been purchased, right, or
7 is to be purchased?

8 **THE WITNESS:** Yes, the land has been purchased.

9 **COMMISSIONER ARGENZIANO:** Will we see any more costs
10 for plant site? What I'm trying to say is is that fixed now,
11 is that done?

12 **THE WITNESS:** I'm trying to make sure I understand
13 your question. Are you asking if we are going to have any more
14 costs that we call site selection that we are going to try to
15 recover, or --

16 **COMMISSIONER ARGENZIANO:** Not transmission site
17 selection.

18 **THE WITNESS:** I understand. But even on the
19 generation, are you asking are we going to have more costs that
20 fall in that site selection bucket that we are trying to
21 recover?

22 I mean, site selection and preconstruction costs are
23 the same types of costs. And I think if you -- Mr. Roderick
24 can explain to you that there are still preconstruction costs
25 that we are going to incur.

1 **COMMISSIONER ARGENZIANO:** I think I understand.

2 **THE WITNESS:** I'm not sure I am understanding your
3 question, I'm sorry.

4 **COMMISSIONER ARGENZIANO:** I don't know, maybe I'm not
5 asking it correctly. I was thinking that the land purchase is
6 being a fixed cost now. We all know what that is, and we know
7 there will be additional site selection transmission costs.

8 **THE WITNESS:** Right.

9 **COMMISSIONER ARGENZIANO:** That will be incurred.

10 **THE WITNESS:** Does this help you? The land purchase,
11 when you look at what we are asking for recovery of site
12 selection costs, the land itself isn't included in those
13 dollars anyway, because those costs are considered construction
14 costs. So when you are looking at what we are recovering for
15 site selection, the actual cost of the land is not in there.
16 You know, some of the costs that we would have incurred to go
17 out and pick the site would be included, but not the actual
18 land itself.

19 **COMMISSIONER ARGENZIANO:** And I guess what I'm trying
20 to figure out is what costs are to come. Whether it comes from
21 transmission or the plant site, and I'm trying to figure out
22 what costs are still to come. But let's not elaborate on that,
23 I'll get with staff on that one and let me ask you another
24 question.

25 I guess on your cross-examination you used the term

1 substantially all in the actual site selection expenses, and
2 I'm not sure, since I heard that there are more to come, what
3 you really mean when you said substantially all. And I guess
4 it is on Page 5 of your cross, and it starts on Line 19.

5 "These costs were primarily incurred as part of the combined
6 operating license process and the site and technology selection
7 process. More detailed information about these costs is
8 provided in the testimony of Danny Roderick. These schedules
9 contain substantially all of the actual site selection
10 expenses, and there are still some costs for which the invoices
11 have not been received," and it goes on and on, and I was just
12 wondering what substantially all really meant. Are we looking
13 at more costs to come, or have we seen substantially all of
14 them?

15 **THE WITNESS:** I'm not really sure what part of my
16 testimony you are reading.

17 **COMMISSIONER ARGENZIANO:** Page 5, Line 19.

18 **THE WITNESS:** Of my --

19 **COMMISSIONER ARGENZIANO:** Cross.

20 **CHAIRMAN CARTER:** Ms. Triplett, can you help us find
21 that?

22 **MS. TRIPLETT:** Well, she's got two. I know it's
23 confusing.

24 **COMMISSIONER ARGENZIANO:** I'm sorry. Direct
25 testimony of Lori Cross in Support of Site Selection Costs on

1 behalf of Progress.

2 **CHAIRMAN CARTER:** Give us a minute to find that.

3 **THE WITNESS:** Can I maybe try to help clarify
4 something here?

5 **COMMISSIONER ARGENZIANO:** Sure.

6 **THE WITNESS:** The way it is defined in the rule, the
7 site selection costs end when we filed the petition for
8 determination of need, which was back in March of 2008. So for
9 site selection, there may be some, you know, minor adjustments
10 that get made, some true-ups or something as actual costs come
11 in and invoices come in. But, no -- I think maybe this helps
12 you. The period for site selection ended when we filed the
13 petition for need back in March. So I think that -- does that
14 help?

15 **COMMISSIONER ARGENZIANO:** Yes, to some degree it
16 does. Substantially all, I think I understand what you are
17 responding. Let me ask you another question, and I guess I was
18 trying to break it down by statutory category. The costs for
19 each category such as site selection, preconstruction, and
20 carrying costs, and construction cost balances, can you give me
21 those, or can you break it down?

22 **THE WITNESS:** By category?

23 **COMMISSIONER ARGENZIANO:** Uh-huh.

24 **THE WITNESS:** Hang on a second.

25 **MS. TRIPLETT:** Maybe to help, Commissioner

1 Argenziano, are you looking for here is the category and here
2 is the actual total cost?

3 **COMMISSIONER ARGENZIANO:** As best you can.

4 **MS. TRIPLETT:** I think if we give her the prehearing
5 order that will help.

6 **THE WITNESS:** Actually, I have a schedule here that I
7 have prepared, and I don't know legally what we can do, but --

8 **MS. TRIPLETT:** I think what she has is a schedule
9 that provides that breakdown, kind of an easy one-pager. I
10 think we only have one copy, but we can have copies made. She
11 can speak from it now and answer your questions, and then --

12 **CHAIRMAN CARTER:** Let's do that. Let's let her speak
13 from it, and then prepare at the break and you can get us all a
14 copy of it.

15 **THE WITNESS:** I have these costs broken down into
16 those buckets for the two projects. I have the Levy project
17 and the CR-3 project separate. I don't have them combined. So
18 if you want to talk about them that way, we can do that, okay.

19 **COMMISSIONER ARGENZIANO:** Great.

20 **THE WITNESS:** For the Levy projects, and these are in
21 the context of the revenue requirements that we are asking for,
22 so the 400 million, I have broken the 400 million down into the
23 different buckets. So for site selection for 2006, it was
24 3.5 million; site selection 2007, 14.6 million; site selection
25 2008, 19.8 million; and then there is the 2007 true-up number,

1 which is 1.7 million; and then for 2008, I've got 207 million;
2 and then for 2009, I have 148 million, which gets you to
3 roughly 394.6 million that we are asking for for Levy.

4 Now, I also have the numbers broken down into -- I
5 kind of gave them to you there by year. I have them broken
6 down into -- I can take that 394 million and break it down into
7 how much is preconstruction and how much is the carrying costs.

8 **COMMISSIONER ARGENZIANO:** Right, thank you.

9 **THE WITNESS:** Okay, let me do it that way for you.

10 Of the 394 million, 37.2 million in total is site
11 selection; preconstruction is 307.6 million; the carrying
12 charges, 39.5 million; the deferred taxes, 3.3 million -- I'm
13 sorry, the 3.3 is O&M, I'm sorry. The deferred taxes are
14 7 million.

15 **COMMISSIONER ARGENZIANO:** Thank you.

16 Okay. I'm good. Thank you.

17 **CHAIRMAN CARTER:** Thank you, Commissioner. That was
18 very helpful to break it down like that.

19 Any further questions from the bench?

20 **MS. TRIPLETT:** Mr. Chairman, would you like to mark
21 that as an exhibit?

22 **CHAIRMAN CARTER:** That will be -- help me, staff, 42?

23 **MS. BENNETT:** 42. And I have it as Lori Cross
24 Schedule of All Costs. Is that a good definition?

25 **CHAIRMAN CARTER:** That's a great title for it.

1 Okay. Ms. Triplett.

2 **MS. TRIPLETT:** Okay. We have some exhibits. Let's
3 see. We would ask that exhibits marked for the hearing
4 6 through 13 be entered into evidence.

5 **CHAIRMAN CARTER:** Any objection from the parties?
6 Hearing none, show it done. Show Exhibits 6 through 13 entered
7 into evidence.

8 (Exhibits 6 through 13 admitted into evidence.)

9 **MS. BENNETT:** And did we move Exhibit 42 into the
10 record?

11 **CHAIRMAN CARTER:** And now we move Exhibit 42. Any
12 objections to Exhibit 42? Without objection, show it done.

13 (Exhibit 42 admitted into evidence.)

14 **MS. TRIPLETT:** Mr. Chairman, may Ms. Cross be
15 dismissed from the proceeding?

16 **CHAIRMAN CARTER:** Absolutely. Ms. Cross, you may be
17 excused, and have yourself a great lunch.

18 **THE WITNESS:** Thank you.

19 **CHAIRMAN CARTER:** Speaking of lunch, we are
20 three minutes away from kick-off time. We are on our second
21 court reporter. And rather than go with another witness, let's
22 just go ahead on and break now and we'll do lunch, give staff
23 an opportunity to get those exhibits together for us.

24 We'll come back -- I think I'm right this time when I
25 say 1:30.. Is that right?

1 **COMMISSIONER SKOP:** Sounds good to me.

2 **CHAIRMAN CARTER:** I got it right this time.

3 We're on recess until 1:30.

4 (Lunch recess.)

5 (Transcript continues in sequence with Volume 2.)

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STATE OF FLORIDA)

COUNTY OF LEON)

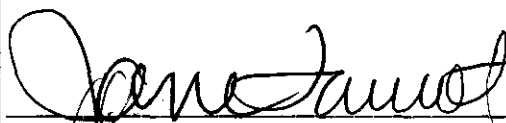
CERTIFICATE OF REPORTERS

WE, JANE FAUROT, RPR, and LINDA BOLES, RPR, CRR, Official Commission Reporters, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

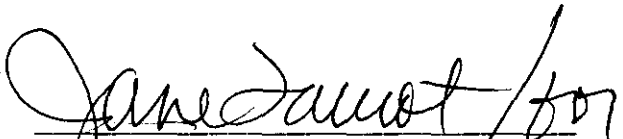
IT IS FURTHER CERTIFIED that we stenographically reported the said proceedings; that the same has been transcribed under our direct supervision; and that this transcript constitutes a true transcription of our notes of said proceedings.

WE FURTHER CERTIFY that we are not a relative, employee, attorney or counsel of any of the parties, nor are we a relative or employee of any of the parties' attorneys or counsel connected with the action, nor are we financially interested in the action.

DATED THIS 12th day of September, 2008.



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