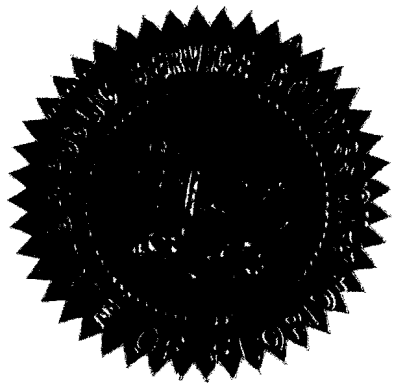
BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 090009-EI

In the Matter of:

NUCLEAR COST RECOVERY CLAUSE.
_____/



VOLUME 1

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PROCEEDINGS:	HEARING
COMMISSIONERS PARTICIPATING:	CHAIRMAN MATTHEW M. CARTER, II COMMISSIONER LISA POLAK EDGAR COMMISSIONER KATRINA J. McMURRIAN COMMISSIONER NANCY ARGENZIANO COMMISSIONER NATHAN A. SKOP
DATE:	Tuesday, September 8, 2009
TIME:	Commenced at 9:30 a.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	MARY ALLEN NEEL, RPR, FPR

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I N D E X

WITNESSES

EXHIBITS

NUMBER		ID.	ADMTD.
1	Comprehensive Exhibit List	10	34
2	Stipulated Exhibit List (green)	10	35
3	Stipulated Exhibit List (yellow)	10	35
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P R O C E E D I N G S

CHAIRMAN CARTER: Good morning. I would like to call this hearing to order. I would like to begin by asking staff, would you please read the notice.

MR. YOUNG: Good morning, Commissioners. By noticed issued on August 14, 2009, this time and place has been set for a hearing in Docket No. 090009-EI. The purpose of the hearing is set out in the notice.

CHAIRMAN CARTER: Okay. Let's take appearances of the parties.

MR. KRASOWSKI: Excuse me, Mr. Chairman. Could I raise a point of order? Would that be appropriate at this moment?

CHAIRMAN CARTER: No, it would not, Mr. Krasowski.

MR. KRASOWSKI: Okay. When might it be?

CHAIRMAN CARTER: I'll have staff to talk to you, but it will not be appropriate in this hearing.

MR. KRASOWSKI: Okay. I wanted to ask about public comment. Is there no time allotted for public comment?

CHAIRMAN CARTER: Thank you, Mr. Krasowski. Have a nice day.

Mr. Anderson.

MR. ANDERSON: Thank you. Good morning,

Chairman Carter and Commissioners. Bryan Anderson, Jessica Cano, and Ken Rubin, R-u-b-i-n, appearing for Florida Power & Light Company today.

MR. WALLS: Good morning. Mike Walls and Diane Triplett with Carlton Fields on behalf of Progress Energy Florida. I would also like to enter an appearance for Alex Glenn and John Burnett for Progress Energy Florida. Mr. Burnett is covering a deposition in the Progress Energy rate case this morning and will join us after that. And we have one more appearance of Ed Roach with McGuire Woods who is also representing Progress Energy Florida.

CHAIRMAN CARTER: Okay. Mr. McGlothlin, good morning.

MR. McGLOTHLIN: Good morning. Joe McGlothlin and Charles Rehwinkel with the Office of Public Counsel.

MR. DAVIS: Good morning, Mr. Chair. My name is Gary Davis. I represent the Southern Alliance for Clean Energy, and I'm happy to be with the Commission today.

CHAIRMAN CARTER: Mr. Jacobs, good morning.

MR. JACOBS: Good morning, Mr. Chairman. I'm Leon Jacobs also representing the Southern Alliance.

CHAIRMAN CARTER: Mr. Moyle, good morning.

MR. MOYLE: Good morning, Mr. Chairman. I'm

Jon Moyle, Keefe, Anchors, Gordon & Moyle law firm, representing the Florida Industrial Power Users Group, FIPUG.

CHAIRMAN CARTER: Mr. Brew, good to see you again.

MR. BREW: Thank you. Good morning, Mr. Chairman and Commissioners. James Brew with the firm of Brickfield, Burchette, Ritts & Stone for White Springs Agricultural Chemicals doing business as PCS Phosphate.

CHAIRMAN CARTER: Thank you.

CAPTAIN McNEILL: Captain Shayla McNeill on behalf of the Federal Executive Agencies and the United States Air Force.

CHAIRMAN CARTER: Thank you.

MR. YOUNG: Keino Young, Lisa Bennett, and Anna R. Williams, staff.

MS. HELTON: Mary Anne Helton, advisor to the Commission.

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

MR. YOUNG: Yes, Mr. Chairman. Staff has -- as the first preliminary matter, staff has prepared a Comprehensive Exhibit List which all the parties should have. If you don't have a copy, please let me know.

CHAIRMAN CARTER: Do all parties have the preliminary exhibit list?

Okay. You may proceed, staff.

MR. YOUNG: Staff has prepared a Comprehensive Exhibit List. The list itself is marked as Exhibit Number 1, and there are no objections to the Comprehensive Exhibit List. Staff will ask that Exhibit Number 1 be entered into the record after opening statements or at the Chairman's pleasure.

CHAIRMAN CARTER: We'll do it after opening statements. You may proceed.

(Exhibit Number 1 was identified for the record.)

MR. YOUNG: Also, Mr. Chairman, staff will ask that staff's Stipulated Exhibit Lists be marked as Exhibits Number 2 and 3. Mr. Chairman, it's the green and yellow sheets, for ease of reference, which you should have. And if a party doesn't have a copy, please let me know.

CHAIRMAN CARTER: Do all parties have a copy of the green and yellow sheets?

(Exhibits Number 2 and 3 were marked for identification.)

CHAIRMAN CARTER: Okay. You may proceed, staff.

MR. YOUNG: Mr. Chairman, staff will ask that Exhibits 2 and 3 be entered into the record after opening statements or at the Chairman's pleasure.

CHAIRMAN CARTER: Okay. We'll do it right after opening statements after we deal with the Comprehensive Exhibit List. You may proceed. Wait a minute. We'll do it at that point in time. Are there any objections to that? Okay. You may proceed.

MR. YOUNG: Staff would suggest making the prefiled exhibits as numbered in the Comprehensive Exhibit List and suggest that any other exhibits proffered during the hearing be numbered sequentially following those listed in the Comprehensive Exhibit List.

CHAIRMAN CARTER: Show it done. You may proceed.

MR. YOUNG: Mr. Chairman, all the parties, staff, and Commissioners have indicated that they have no questions for the following witnesses: Lynn Fisher, David Rich, Jeffrey Small, Gary Furman, and Will Garrett. These witnesses' testimony and exhibits can be stipulated into the record and the witnesses can be excused.

CHAIRMAN CARTER: Show it done. And as we go through the record, when those witnesses' names come up,

we'll enter their testimony into the record and their exhibits into the record in that sequence. You may proceed.

COMMISSIONER EDGAR: Excuse me. Mr. Chairman, could I just ask our staff to run through that list one more time a little more slowly.

MR. YOUNG: Okay. I'm sorry. It's Lynn Fisher and David Rich, Jeffrey Small. And all those, the names I just called, are staff witnesses. Gary Furman, which is Progress Energy's witness, and Will Garrett, which is Progress Energy's witness.

COMMISSIONER EDGAR: Thank you.

CHAIRMAN CARTER: Okay. You may proceed, staff.

MR. YOUNG: Mr. Chairman, I think you just mentioned this. The stipulated prefiled testimony and exhibits can be taken up in turn as the witnesses are called at the hearing.

CHAIRMAN CARTER: Okay.

MR. YOUNG: And at that time, staff will recommend that the testimony of the stipulated witness be inserted into the record as though read, and staff will request that the stipulated exhibits be moved into the record at that time.

CHAIRMAN CARTER: Okay.

MR. YOUNG: Staff would note that Mr. Carl Vinson is adopting Mr. Geoff Cryan's prefiled direct testimony. The parties are aware of Mr. Vinson's adoption of Mr. Cryan's testimony and do not object.

CHAIRMAN CARTER: Okay. Should we wait until we get to that point to deal with it?

MR. YOUNG: Yes, sir.

CHAIRMAN CARTER: Okay. Well, let's do it then. You may proceed.

MR. YOUNG: Before we do that, Mr. Chairman, I just want to make sure that there are no objections for the record.

CHAIRMAN CARTER: Are there any objections from any of the parties about Mr. Cryan -- Mr. Vinson adopting Mr. Cryan's prefiled direct testimony?

Without objection, show it done. We'll deal with it at the appropriate time, but there's no objections. You may proceed.

MR. YOUNG: Mr. Chairman, staff would note that FPL and PEF have filed a Joint Petition for Rule Variance of Rule 25-6.0423, subsection (5)(c)4, of the Florida Administrative Code. The joint petition will be addressed by a separate recommendation that will be taken up at the October 6th agenda conference, Commission agenda conference.

CHAIRMAN CARTER: Okay.

MR. YOUNG: And just for the record, none of the parties object to the variance.

CHAIRMAN CARTER: Okay. Without objection of any of the parties, show it done. You may proceed.

MR. YOUNG: Mr. Chairman, all opening statements, testimonies, and exhibits pertaining to FPL's petition shall be taken up first, followed immediately by all opening statements, testimony, and exhibits pertaining to Progress Energy's petition.

CHAIRMAN CARTER: Okay. Let's proceed then with -- are there proposed stipulations?

MR. YOUNG: Yes, sir.

CHAIRMAN CARTER: We're dealing with -- we're going to deal with -- what's our order? FPL first and then Progress? Is that the order?

MR. YOUNG: Well, the first proposed stipulation includes all the parties.

CHAIRMAN CARTER: Okay. Well, let's deal with that.

MR. YOUNG: That's a legal and policy issue.

CHAIRMAN CARTER: Okay. You're recognized.

MR. YOUNG: Mr. Chairman, staff recommends approval of the stipulations identified in Section 10 of the Prehearing Order and outlined in a separate document

that I handed out to you entitled "Proposed Category 2 Stipulations." Mr. Chairman, just for the record, the Proposed Category 2 Stipulations are stipulations among FPL, PEF, and staff, between FPL and staff or PEF and staff. All the other parties have taken no position on these stipulations.

CHAIRMAN CARTER: Is that the agreement of the parties?

Okay. Without objection -- Commissioner Edgar, you're recognized.

COMMISSIONER EDGAR: Mr. Chairman, then I would make a notion per our discussion that our staff has just explained to us that we approve the stipulations identified in Section 10 of the Prehearing Order and in the document entitled "Proposed Category 2 Stipulated Issues."

COMMISSIONER SKOP: Second.

CHAIRMAN CARTER: It has been moved and properly seconded. Commissioners, any questions, any concerns, any debate?

Hearing none, all in favor let it be known by the sign of "aye."

(Simultaneous affirmative responses.)

CHAIRMAN CARTER: All those opposed, like sign. Show it done.

Staff, are there any additional preliminary matters?

MR. YOUNG: Yes, sir. It's my understanding that Progress Energy Florida will request that Exhibit SH-1 of Steve Huntington, which was filed with the March 2, 2009 testimony, which was adopted by Jon Franke, be moved into the record. The description is "Summary of Major Modifications of the CR3 Uprate Project." And I think Ms. Triplett wants to speak on that.

CHAIRMAN CARTER: You're recognized.

MS. TRIPLETT: Thank you, Chairman. I just wanted to say that we inadvertently neglected to include it in the Prehearing Statement, and we would just ask -- it was a prefiled direct testimony exhibit, so perhaps we can just take up with the next number on the Comprehensive Exhibit List.

CHAIRMAN CARTER: Let's see. Is there --

MR. YOUNG: And that will be Number 130.

CHAIRMAN CARTER: Any objection from the parties? Okay. Hang on one second. It will be Exhibit Number 130.

MR. YOUNG: Yes, sir.

CHAIRMAN CARTER: Short title?

MR. YOUNG: "Summary of the Major Modifications of the CR3 Uprate Project."

CHAIRMAN CARTER: How about "CR3 Uprate Project Modifications"?

MR. YOUNG: That's fine.

MS. TRIPLETT: That's fine.

CHAIRMAN CARTER: We're going with a shorter version here. So we're basically marking it for identification so it will be included, and at the appropriate time with the appropriate witness, we'll move it into the record as evidence. Okay?

MS. TRIPLETT: Yes, sir. Thank you.

(Exhibit Number 130 was marked for identification.)

CHAIRMAN CARTER: Okay. Let me get my notes here together. Give me one second.

Okay. Staff, any further preliminary matters?

MR. YOUNG: No, sir. We can move to opening statements.

CHAIRMAN CARTER: Now, as we proceed now with the opening statements, first it will be FPL. Now, the parties know that they have -- I think it's five minutes per party; is that correct? Is everybody clear on that?

All of you guys have been before the Commission before, so you're familiar with the concept of the lights. Green is good. Amber, you have two minutes left. When the red light comes on, you have 30

seconds. Okay?

Mr. Anderson, you're recognized.

MR. MOYLE: Mr. Chairman, just one --

CHAIRMAN CARTER: Wait a minute. Mr. Moyle.

MR. MOYLE: One more brief preliminary matter.

CHAIRMAN CARTER: You're recognized.

MR. MOYLE: Just as a courtesy. There is a lot happening these days in terms of other cases, and FIPUG is going to do its best to be here, but may have periods of time where it's not here and would ask to be excused.

CHAIRMAN CARTER: Not a problem, Mr. Moyle.

MR. MOYLE: Thank you.

CHAIRMAN CARTER: Not a problem at all.

MR. YOUNG: Mr. Chairman?

CHAIRMAN CARTER: Yes, sir.

MR. YOUNG: Just for the record, we're taking -- as stated, we're taking all of FPL's case first, followed by Progress, so the opening statements will be FPL, then the intervenors. After FPL's case is completely through, we'll move to Progress's opening statements and then all the intervenors.

CHAIRMAN CARTER: Does that help? Mr. Moyle, Mr. Jacobs, does that help everyone to kind of plan for that? We'll do FPL's case in chief to completion, and

then we'll come back for Progress. That may help with scheduling and things of that nature.

Okay. Any other preliminary matters from any of the parties?

Mr. Anderson, good morning. You're recognized.

MR. ANDERSON: Good morning, Chairman Carter and Commissioners. We're here today to consider FPL's 2009 nuclear cost recovery request.

Florida's nuclear cost recovery statute and the Commission's rules are intended to encourage development of additional nuclear generation to serve the needs of Florida's residents. The Commission previously entered need determination orders for FPL's Turkey Point 6 and 7 new nuclear plant project and the expansion or uprate of the capacity of FPL's existing nuclear plants. These Commission actions support FPL's work to provide additional cost-effective, zero greenhouse gas emission, fuel diverse electricity for FPL's customers.

Under the cost recovery statute and rules, FPL recovers preconstruction costs for the Turkey Point 6 and 7 project. In contrast, for the uprate projects, FPL mainly recovers carrying costs on the amounts incurred for construction of the uprates. The bottom

line bill impact of FPL's requested nuclear cost recovery charge for 2010 is 67 cents per month for the typical 1,000 kilowatt-hour residential bill.

Many issues have been stipulated, so my comments will focus on the remaining disputed issues, first as to Turkey Point 6 and 7.

During 2008, FPL entered into contracts with engineering and consulting firms to perform work to move along the licensing and permitting process for Turkey Point 6 and 7. This is part of FPL's carefully considered strategy to maintain progress on licensing while encouraging competition for future plant construction work.

OPC's witness Jacobs, in contrast, claims that FPL's strategy, quote, separated the construction function from engineering and procurement and prevents FPL from entering into an engineering, procurement and construction, EPC, contract in the future. OPC's position is mistaken. FPL has not separated the construction function from engineering and procurement. FPL has not entered into a separate engineering and procurement contract.

Accordingly, our management actions to maintain progress at a reasonable cost, to create options and foster competition for future work, all

without committing to large EPC contract expenses at this stage of the project were prudent and reasonable, and OPC's claim should be rejected.

Turning to the uprate project, FPL's 2008 work focused on performing the nuclear engineering and design work required for the uprates. We also competitively bid and procured major equipment for the uprates.

FPL is committed to ensuring that only the costs necessary for the uprates are included in nuclear cost recovery clause computations. We provide this assurance through a number of measures which our witnesses talk about. These include comparing the uprate project scope to our license renewal commitments for the plants to ensure that there is no duplication. We compare the uprate project scope with our detailed seven-year, forward-looking plan for nuclear plant capex, capital expenditure. This plan is consistent with the industry standards, industry best practices, and FPL's license renewal commitments.

These and other measures we describe provide assurance that our NCRC computations only include the costs of the uprate project, not any other nuclear plant components or work. Accordingly, OPC's claim that FPL should do a speculative 20-year study instead of relying upon FPL's reliable engineering information gathered

consistent with the industry best practices should be rejected.

Turning to feasibility, FPL filed a detailed feasibility analysis using the same rigorous analytical process well known from last year's nuclear cost recovery proceeding and from the uprate and Turkey Point 6 and 7 need determination cases. This year's feasibility analysis shows that the uprate project and the Turkey Point 6 and 7 project are both solidly cost-effective for FPL's customers.

The Southern Alliance for Clean Energy, SACE, in contrast provides no such analysis at all. Its claims challenging FPL's Turkey Point 6 and 7 feasibility analysis should be rejected.

There's a contested legal issue I want to highlight for a moment about how to compute carrying costs for the NCRC. FPL's position, which we'll brief, is legally correct and would result in FPL's customers paying the actual financing costs for the nuclear projects, no more, no less. Other parties' positions do not provide for this accurate recovery of costs, but instead pose a risk of windfalls occurring either for or against customers, depending on the future financial conditions over which no one has control. FPL asks that the Commission adopt FPL's position on the carrying cost

computation issue, which is Issue 3 in your Prehearing Order.

In conclusion, FPL asks that the Commission enter prudence and reasonableness findings and approve the company's NCRC amounts as shown in FPL's positions in the Prehearing Order. This will result in an estimated .67 per month nuclear cost recovery charge for the typical 1,000 kilowatt-hour residential customer during 2010.

Thank you.

CHAIRMAN CARTER: Mr. McGlothlin.

MR. McGLOTHLIN: Good morning. I will address you with respect to the FPL case. When you reach the Progress Energy portion of the case, Mr. Rehwinkel will present our opening statement.

Counsel for FP&L said that in this case, the role of the Commission is to support the utility's efforts toward their nuclear projects. I would add that their role is also to scrutinize those efforts in protection of the customers.

With respect to FP&L, we're going to offer the testimony of Dr. William Jacobs, and with respect to FP&L, Dr. Jacobs' testimony consists of only 12 pages. And again, with respect to FP&L, OPC is not asking for specific disallowances as a result of this hearing. But

within those 12 pages, Dr. Jacobs raises three significant issues that we ask the Commission to consider as the case goes forward.

First is the failure of FP&L to perform the analysis needed to demonstrate that all costs associated with the uprate project qualify for this extraordinary ratemaking remedy under the nuclear cost recovery proceeding. The second is FPL's failure thus far to perform the annual long-term feasibility analysis that is required by the Commission's rule. And the third is in the area of contractual organization and risk management, and that is to apprise FPL that the Commission is aware that any decision to depart from a combination of all the functions of engineering, procurement and construction give rise to the risk of unreasonable costs, and the Commission will hold the company accountable for any unreasonable costs.

First with respect to the uprate project and the criteria for the inclusion of costs in the clause, last year Dr. Jacobs told the Commission that in his opinion, the test that is necessary to qualify uprate costs is this: Look at the long-term needs of the existing nuclear project over a horizon of 20 years and determine whether any additions are necessary for the continued reliable operation of the nuclear unit over

that time period. If there are, that means that those costs are ordinary O&M costs and don't qualify for the cost recovery clause.

FP&L has resisted the idea that this is a necessary component of its case. In its testimony today, it will claim that in its own approach, it has used the separate and apart test. But you'll see when you hear the evidence that FPL's contention is that the engineering analyses conducted for the purpose of identifying what is necessary for the uprate project also satisfy the separate and apart test, and that's simply not the case. It's more in the form of jumping to a conclusion that's unsupported.

With respect to the feasibility test, FPL updated those components that have to do with projections of demand and other alternative situations. It did not update its forecast of the capital costs associated with the nuclear unit itself. For that reason, we contend that it has not satisfied the analysis required by your own rule.

They contend that the 2007 forecast or projection of capital costs is sufficient for that purpose, and they say in support of that that this 2000 projection is still valid. But how can they say that the 2000 forecast is still valid if they haven't done

the update? Again, it's a leap to a conclusion and does not satisfy the requirements of the rule.

Finally, with respect to risk management, Dr. Jacobs will testify that because of the possibility of quarrels over scope and other considerations, the best way to manage risks and reduce costs is to approach contracting from the standpoint of having a single EPC contract. FP&L contends in its testimony that it has not foreclosed that possibility. And if that's the case, well and good. But in the event that FPL pursues an alternative contractual arrangement, and in the event that the alternative results in increased costs, we ask the Commission to go on record as saying it will be scrutinizing that approach so that the company cannot later claim hindsight regulation.

Thank you.

CHAIRMAN CARTER: Thank you.

You're recognized, Southern Alliance.

MR. DAVIS: Good morning. Yes. Chairman Carter and members of the Commission, Southern Alliance for Clean Energy intervened in this case to assist the Commission in its exercise of supervision over the expenditures for two massive nuclear projects that will add even more rate increases for Florida ratepayers.

The Commission's rules require that a utility

seeking cost recovery for nuclear project costs submit for Commission review and approval a detailed analysis of the long-term feasibility of completing the power plant. SACE is going to focus on the feasibility analysis in this matter. SACE believes that this is not a hollow requirement, nor is it simply a means to force the utilities to engage in long-range planning for their own good. The utilities do that anyway.

With the cost recovery, when utilities bet the farm on an $18 billion project, the ratepayers suffer if the bet goes bad. And for Florida Power & Light's Turkey Point 6 and 7, that bet is looking worse every day.

SACE will present two knowledgeable experts, Dr. Mark Cooper and Mr. Arnie Gundersen, who have reviewed FP&L's feasibility analysis, and they will point out the dramatically changed circumstances in the time since the need determination for Units 6 and 7 that thoroughly undermine the long-term feasibility of completing the power plant at this time. And I want to focus on "at this time." We're not saying never. We're saying at this time, long-term feasibility does not exist.

These dramatically changed circumstances include declining electricity demand, falling natural

gas prices, licensing delays with the Nuclear Regulatory Commission, the emergence of a renewable portfolio standard in federal legislation, as well as aggressive building and appliance efficiency standards in that legislation, rising costs of nuclear construction, tightened financial markets, and growing concerns on Wall Street about new nuclear reactors. Any one of these factors might be enough to render a new nuclear plant too risky, but together they are overwhelming at this point.

Florida Power & Light at least acknowledges that the feasibility analysis is a important tool and that economic feasibility is an important part of that tool. I think that's a step in the right direction, but its economic analysis is not a real analysis and should not approved by the Commission.

FPL has not adjusted the costs of the project since 2007, as was mentioned by my colleague, and it is still relying on natural gas and CO_2 costs that are far higher than where current projections are pointing. You'll hear that natural gas costs have plummeted to the point where they're below $3 a million Btu.

FPL also acknowledges many of the factors that SACE has discussed it its prefiled testimony, but it's still clinging to an unrealistic schedule to complete

the Turkey Point units with no float left in the schedule. Further slippage in the schedule is not accepted as a possibility, and the costs of likely further slippage are not part of the equation in their analysis.

FPL's response to having these problems pointed out is to present a false picture of the testimony of SACE's experts and to present a false choice to the Commission.

SACE is not suggesting that FPL and the Commission stop evaluating the nuclear option. That is not what we're advocating. But we are recommending, instead of stopping continued evaluation, stop further development at this point. It is clear that the expensive engineering and licensing activities FPL is undertaking in 2009 and 2010 are not evaluation. They are development.

In the end, the Commission's review of the long-term feasibility of Turkey Point 6 and 7 should be based on the recognition that FPL would not be taking the nuclear risk for Turkey Point 6 and 7 but for the ability to charge the ratepayers along the way and that it is difficult for any utility to back away from a project that would more than double its rate base.

FPL in its direct testimony has talked about

the concept of off-ramps, halting or limiting project expenditures for defined periods of time to manage cost risks. We think that's a good concept for the Commission to consider in this hearing. By denying approval of FPL's feasibility analysis, the Commission can turn on the directional signal and begin turning the wheel toward the nearest off-ramp for Turkey Point 6 and 7.

Thank you.

CHAIRMAN CARTER: Mr. Moyle.

MR. MOYLE: Thank you. Thank you, Mr. Chairman. FIPUG would like to make a few points for you to consider as we engage in this hearing, to consider the appropriatenesses of FP&L recovering moneys related to their nuclear project.

First of all, Mr. Anderson said, "Well, it's only 67 cents per month." I think it's important to remember the context in which you're being asked to make this decision, with unemployment in the state at an all-time high and still being in the midst of a very difficult economic time. So while 67 cents per month may not sound like a lot, things add up over time, particularly with families that are struggling to get by in these economic times, so please keep that in mind.

And also, be mindful of the rule which is

governing these proceedings which relates to the nuclear cost recovery, 25-6.0423. And there has been some discussion about it, but I think it would be helpful if I just read briefly into the record a provision that you're going to hear a lot about, which is the long-term feasibility of completing the power plant.

Public Counsel said, "Well, FPL submitted some stale information about the capital costs." You're being asked to interpret your rule, and the provision that we think is pertinent is paragraph 5. It's (5)(c)5. It says, "By May 1 of each year, along with the filings required by this paragraph, a utility shall submit for Commission review and approval a detailed analysis of the long-term feasibility of completing the power plant." I think the modifier before "analysis" is important, a detailed analysis. It can't be a broad brush. I don't think it can be dated information. I think that you all when enacting this rule said, "We want to have a good look at the long-term feasibility. Bring us that information." And we would respectfully suggest that that has not been provided to you.

You're going to hear some discussion about an EPC contract, engineering, procurement and construction, and typically -- it's called an EPC contract because all these things are together. Now, FPL is proposing to

drop the C from it, and that presents some concerns. And I'll use kind of an analogy of building a house. Usually you have a general contractor that you'll hire, and he'll be responsible for getting all of the subcontractors up, and if you have a problem, you go straight to the general contractor. By dropping the C and only doing the engineering and procurement, with possibly leaving the construction to another entity, we think you're inviting lots of finger pointing as you go forward, with the contractor saying, "Well, that wasn't within my scope." And it has not been done that way previously, I don't believe, in any nuclear power plant.

FPL will argue, "Well, we're trying to foster competition in this industry," but I think the evidence will show that there is competition. The engineer that FPL has contracted with has familiarity with a General Electric nuclear turbine, but not the Westinghouse turbine that they've selected for their technology. So it's kind of like, you know, in some respects hiring a mechanic who works on Mazdas to come work on your Ford. He doesn't have that familiarity with the technology. But we'll explore that in greater detail.

And the final point that I wanted to raise is a policy issue. You heard counsel suggest that these projects are "bet your farm" endeavors. And I think

there will be some indication that some of the rating agencies have said these are big projects, terms like bet the farm, bet the company. There's a lot of risk associated with them.

And for two Florida utilities to be engaging in these huge projects at the same time, we think it makes some sense for there to be some examination of strategic partnerships. Indeed, the rating agencies have said to companies, "Explore strategic partnerships," and we do not think that that has been explored enough. Florida is in a situation where the demand is coming down, and a strategic partnership should be explored.

Thank you, Mr. Chairman.

CHAIRMAN CARTER: Thank you. I think we've covered the intervenors for this portion for FPL; is that correct?

Now, all of the witnesses that will be testifying in the FPL case, would you please stand?

Can you all see these three lights here in front of me? I want to explain the lights before I swear you in as a group. The green light means -- obviously, green is always good. You'll have five minutes for your summary. The yellow -- the amber light means you've got two minutes left. The red light means

you've got 30 second left. Okay. Everybody saw that?

Okay. Would you please raise your right hand?

(Witnesses collectively sworn.)

CHAIRMAN CARTER: Thank you. Please be seated. You may call your first witness.

MR. YOUNG: Mr. Chairman, before we move --

CHAIRMAN CARTER: Mr. Young.

MR. YOUNG: Before we move to the first witness, staff would note that, as stated in the preliminary matters, staff will ask that the stipulated --

CHAIRMAN CARTER: Okay. One second. That's right. We need to get back to the -- okay. Let's deal with that. Bring us up to date on those that we agreed to enter. One would be the Comprehensive Exhibit List; is that correct?

MR. YOUNG: Yes, sir. That will be Exhibit Number 1. That will be identified as Exhibit Number 1.

CHAIRMAN CARTER: Are there any objections? Without objection, show it done.

(Exhibit Number 1 was admitted into the record.)

CHAIRMAN CARTER: Staff, you're recognized.

MR. YOUNG: Then staff's Composite Exhibit Lists that are marked 2 and 3 -- again, for ease of

reference, that's the green and yellow pages, green and yellow sheets.

CHAIRMAN CARTER: The green and yellow sheets. Which one is 2 and which one is -- okay. I guess 3 is the yellow and 2 is the green?

MR. YOUNG: Yes, sir. It's marked.

CHAIRMAN CARTER: Are there any objections? Without objection, show it done.

(Exhibits Number 2 and 3 were admitted into the record.)

CHAIRMAN CARTER: Staff.

MR. YOUNG: Mr. Chairman, as you mentioned, witness summaries shall not exceed five minutes per witness for each petition. Several witnesses will be taken up as a panel, and the summary for these witnesses will be five minutes total.

CHAIRMAN CARTER: Okay.

MR. YOUNG: And that's more so in the Progress Energy docket.

CHAIRMAN CARTER: Not in this docket here.

MR. YOUNG: Not in this docket that I'm aware of.

CHAIRMAN CARTER: Any further preliminary matters before we go into opening statements from either the parties or staff? Let me look to the parties first.

Any preliminary matters?

Staff, any further preliminary matters?

MR. YOUNG: No, sir.

CHAIRMAN CARTER: Ms. Helton, did you enter an appearance?

MS. HELTON: Yes, sir, I did.

CHAIRMAN CARTER: Okay. Good morning.

MS. HELTON: Good morning.

CHAIRMAN CARTER: Mr. Anderson, call your first witness.

MR. ANDERSON: Thank you. FPL calls Steven D. Scroggs.

Thereupon,

STEVEN D. SCROGGS

was called as a witness on behalf of Florida Power & Light Company and, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. ANDERSON:

Q. Good morning, Mr. Scroggs. Can you hear me okay?

A. Good morning. Yes, I can.

CHAIRMAN CARTER: Give us a check there, Mr. Scroggs. Just say your name for the record.

THE WITNESS: Steve Scroggs.

CHAIRMAN CARTER: Okay. Much better. Mr. Anderson.

BY MR. ANDERSON:

Q. Would you tell us your name and business address?

A. Yes, sir. My name is Steven D. Scroggs. I am employed by Florida Power & Light. My business address is 700 Universe Boulevard in Juno Beach, Florida.

Q. In what capacity are you employed by FPL?

A. I'm the Senior Director of Project Development in charge of the Turkey Point 6 and 7 project.

Q. Did you prepare and cause to be filed 49 pages of prefiled direct testimony in this proceeding on March 3, 2009?

A. Yes, I have.

Q. Did you also prepare and also cause to be filed 37 pages of prefiled direct testimony on May 1, 2009?

A. Yes, I have.

Q. Did you submit some errata in connection with your testimony?

A. Yes, I have.

Q. Do you have any further changes or revisions to your prefiled direct testimony?

A. No, I do not.

Q. If I asked you the same questions contained in the prefiled direct testimony, would your answers be the same?

A. Yes.

MR. ANDERSON: FPL asks that the prefiled direct testimony be inserted into the record as though read.

CHAIRMAN CARTER: The prefiled testimony of the witness will be inserted into the record as though read.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF STEVEN D. SCROGGS

DOCKET NO. 090009-E1

MARCH 2, 2009

Q. Please state your name and business address.

A. My name is Steven D. Scroggs and my business address is 700 Universe Boulevard, Juno Beach, FL 33408.

Q. By whom are you employed and what is your position?

A. I am employed by Florida Power & Light Company (FPL) as Senior Director, Project Development. In this position I have responsibility for the development of power generation projects.

Q. Please describe your duties and responsibilities with regard to the development of new nuclear generation to meet FPL customer needs.

A. Commencing in the summer of 2006, I was assigned the responsibility for leading the investigation into the potential of adding new nuclear generation to FPL's system, and the subsequent development of new nuclear generation additions to FPL's power generation fleet. I currently lead the development of FPL's Turkey Point Nuclear Units 6 and 7 (Turkey Point 6 & 7).

Q. Please describe your educational background and professional experience.

A. I graduated from the University of Missouri – Columbia in 1984 with a Bachelor of Science Degree in Mechanical Engineering. From 1984 until 1994, I served in the United States Navy as a Nuclear Submarine Officer. From 1994 to 1996, I was a research associate at The Pennsylvania State University, where I earned a Masters Degree in Mechanical Engineering. I provided consulting and management services to the regulated and unregulated power generation industry through a number of positions until 2003, when I joined FPL as Manager, Resource Assessment and Planning.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes, I am sponsoring the following exhibits:

- SDS-1, which consists of Appendix II containing schedules T-1 through T-10 covering 2007 and 2008 actual periods for Turkey Point 6 & 7 Pre-Construction costs. Page 2 of Appendix II contains a table of contents listing the T schedules sponsored by FPL Witness Powers and by me, respectively.
- SDS-2, which consists of Appendix III containing schedules T-1 through T-10 covering 2006, 2007 and 2008 actual periods for Turkey Point 6 & 7 Site Selection Costs. Page 2 of Appendix III contains a table of contents listing the T schedules sponsored by FPL Witness Powers and by me, respectively.
- SDS-3, which consists of a table providing a listing of all licenses, permits and approvals FPL is preparing to support the Turkey Point 6 & 7 project.

- SDS-4, which consists of a comprehensive list of procedures and work instructions that governs the internal controls processes and expectations.
- SDS-5, which provides a list describing various project reports, their periodicity and target audience.
- SDS-6, which provides a comprehensive list of project instructions and forms.
- SDS-7, which is the Site Selection Study for the Turkey Point 6 & 7 project.
- SDS-8, which is FPL's detailed engineering evaluation of potential nuclear technology designs.
- SDS-9, which is the report from MPR Associates reviewing FPL's engineering evaluation process.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe the activities involved in the Turkey Point 6 & 7 project from its inception to the end of 2008. Specifically, my testimony will describe the deliberate stepwise process FPL is employing to create an option to provide new nuclear generation for our customers and how that process is being managed and controlled to ensure prudent expenditures and the best outcome. I will include a discussion of project internal controls and how those controls, supported by internal and external oversight, provide for diligent and professional project execution. I will discuss key issues the project has faced through December 2008 and how those issues were evaluated and appropriate actions determined. Further, my

testimony will discuss the actual expenditures made related to the project and compare those expenditures to the estimated values provided in 2008. Collectively, my testimony will provide the information necessary to demonstrate that FPL's management decisions with respect to the Turkey Point 6 & 7 project are the product of properly qualified, well-informed FPL management following appropriate procedures and internal controls, and the costs incurred for the project are reasonable and prudently incurred.

Q. Please summarize your testimony.

A. My testimony will provide an overview of the project, from inception to December 2008, including the project management and internal controls infrastructure that has been developed to provide necessary oversight and monitoring of the project execution. I will describe key decisions that have faced the project in this time period, and the rationale behind the actions taken. I will then walk through all project costs incurred to December 2008, as presented in the Nuclear Filing Requirement (NFR) schedules. The information will demonstrate that the Turkey Point 6 & 7 project is progressing on schedule and within budget. Further, it will be clear that the project management process is being conducted in a well-informed, transparent and organized manner which enables executive oversight and facilitates reviews by internal and external parties. This disciplined application of process by well-qualified FPL managers results in prudent decisions with respect to project activities and expenditures.

HIGH LEVEL PROJECT SUMMARY (2006 – 2008)

Q. Please summarize the Turkey Point 6 & 7 project from inception to the end of 2008.

A. The Turkey Point 6 & 7 project has been underway since mid-2006 when FPL completed initial investigations into the feasibility of new nuclear generation. These initial investigations determined that, in order to more fully define the opportunity, a project team should be formed.

Activities in 2006 focused on identifying candidate sites, conducting due diligence on the various reactor designs available and developing a high level project budget and schedule of milestones. Activities in 2007 focused on completing site selection, investigating issues related to specific candidate designs, obtaining local zoning approvals and preparing a Need Petition. Site Selection activities ended and Pre-Construction activities began, on October 16, 2007 at the time of the submission of the Need Petition. On December 20, 2007, FPL obtained many of the necessary zoning approvals for Turkey Point 6 & 7 from the Miami-Dade County Board of County Commissioners. Conditions of certification were included and will be accomplished as the project moves forward.

Activities in 2008 have been dedicated to selecting a candidate design, identifying the key procurement activities required, and developing the

applications for licenses, permits and approvals needed for construction and operation of the project. Exhibit SDS-3 provides a listing of these items. On April 11, 2008, the Florida Public Service Commission (FPSC) issued Order No. PSC-08-0237-FOF-EI granting its petition for a determination of need from the FPSC. Additionally, the FSPC issued Cost Recovery Order No. PSC-08-0749-FOF-EI from the FPSC on November 12, 2008. During 2008 several key decisions were made regarding how FPL would pursue the commercial aspects of the project. These decisions will be discussed in greater detail later in my testimony. These key decisions provide good examples of the project team's management approach, the types of decisions made and how these decisions help to manage the risk profile of the project.

To date, the project has proceeded in a deliberate step-wise manner and has maintained costs under the projected budget. FPL has selected a site, a technology design and obtained all requested approvals at the state and local levels. The bulk of project activities and expenditures (71%) have been spent on the development of the detailed studies and analyses required to facilitate federal, state and local reviews of the proposed project and, if appropriate, grant the needed permits, approvals and authorizations for construction and operation. Additional expenditures have allowed the project to undertake the initial engineering and commercial steps in the development of an execution plan for plant deployment.

The project is staffed by a combination of employees fully dedicated to the project, matrixed employees from FPL business units who devote a portion of their time to the project and a select group of contractors and subcontractors whose subject matter expertise and skills are required to complete the considerable tasks related to this undertaking. Leading the staff is a project management team charged with monitoring the day-to-day execution and strategic direction of the project. The project management team provides routine, dedicated oversight of the project including a determination of the timing and appropriateness of external reviews. The project management team is supported by project controls professionals that execute the day-to-day project activities and provide direct oversight of procedural compliance. The project also benefits from routine review, supervision and direction provided by FPL executive management.

PROJECT MANAGEMENT INTERNAL CONTROLS

Q. Please describe the project management structure responsible for the Turkey Point 6 & 7 project.

A. The management structure for Turkey Point 6 & 7 reflects the dual nature of the project relying on a working combination of two key groups: Project Development and New Nuclear Projects. The organization of the project into these two key groups helps maintain a consistent management and reporting structure with specific focus and areas of responsibility, while allowing the

project the flexibility to grow and adapt over time. The overall project management structure has remained unchanged since initial formation.

Project Development, which I lead, has the primary responsibility for the execution of development and licensing activities that are not within the purview of the Nuclear Regulatory Commission (NRC) as well as all project communication activities and FPSC interface. Similar to the way other generation development projects are executed within FPL, Project Development utilizes matrix relationships with key business units in the Company to provide essential support. For example, legal and environmental services are provided by those business units through assigned personnel.

Recognizing the need for specific nuclear-based skills and experience, FPL established the New Nuclear Project team within Engineering & Corporate Services Division (E&CD) to manage the complex and specialized nature of the Combined Operating License Application (COLA) process and the engineering, procurement and construction activities. This team is managed by Martin Gettler, Vice President of New Nuclear Projects. The New Nuclear Project team has direct responsibility for the production and management of the COLA as well as the engineering, procurement, site preparation, construction and start-up aspects of the project. The New Nuclear Project team will grow as the project evolves, adding or obtaining access to the necessary skill sets to accomplish project objectives.

Q. What are the key elements of the project management process used to manage the Turkey Point 6 & 7 project?

A. FPL routinely and methodically evaluates the risks, costs, and issues associated with the Turkey Point 6 & 7 project using a system of internal controls, routine project meetings and communication tools, management reports and reviews, internal and external audits and an annual feasibility analysis.

Q. Please describe the system of internal controls applicable to the project.

A. The project internal controls are comprised of various financial systems, department procedures, work/desktop instructions and best practices providing governance and oversight of project cost and schedule processes.

FPL utilizes SAP software as its ultimate financial reporting system and a Financial Management Information Process (FMIP) for project report generation. The E&CD also utilizes an Electronic Approval Database (EAD) system to initiate and record the management approval process for the commitment of project funds.

Exhibit SDS-4 provides a comprehensive list of procedures and work instructions that governs the internal controls processes and expectations. These procedures and work instructions are employed by dedicated and experienced project controls personnel who functionally report through Business Services and provide project oversight and analysis. The internal

controls organization helps to ensure appropriate management decisions are made based upon assessment of available information leading to reasonable costs. Accountability is clear and understood throughout the controls organization and is a cornerstone of the services they provide.

Q. Please describe the specific reports generated to monitor the project and the periodicity and audience for those reports.

A. The project relies on a series of weekly or monthly reports and has standing meetings to review forward looking analysis with project managers. Exhibit SDS-5 provides a list describing the reports, and their periodicity and target audience.

Q. Please describe the staff responsible for administering these internal controls and their specific responsibilities.

A. The internal controls organization is comprised of five personnel. A Business Manager provides functional leadership, governance and oversight. A Project Controls Manager provides cost and schedule direction and analysis, coordinates internal and external audit requests, holds meetings with project management to review cost and schedule performance, and reviews all cost, scope changes, schedules and performance indicators. Two Cost Analysts provide bi-monthly reviews of all project expenditures, maintain cost templates, support the production of documents and responses to information requests, and meet monthly or as required with department heads on forecasting and commitments. A Senior Scheduler manages the master

schedule, oversees contractor schedule status and updating, produces weekly performance indicators and provides Critical Path Method analysis.

Q. How were the internal controls developed?

A. Many of the internal controls procedures, processes or work instructions were pre-existing FPL company or department processes. However, due to the unique characteristics of the Turkey Point 6 & 7 project, cost templates were specifically developed for monitoring expenditures to support FPSC filing requirements and to facilitate associated reviews. FPL has contractually placed significant reporting requirements on subcontractors by requiring trend, tracking and performance indicators. This allows the internal controls team to monitor events and trends on a forward-looking basis. As the project matures, additional controls will be developed as necessary.

Q. What are Project Instructions and why are they needed?

A. In the course of project development, FPL identified a need to develop some business processes unique to new nuclear deployment. These processes generally involve conducting business in compliance with FPL General Operating procedures, but also recognize project-specific requirements. For example, specific instructions are needed to ensure compliance with additional NRC requirements for quality control and document retention. Direction for such specific areas of focus is provided to project staff through a set of FPL's New Nuclear Project - Project Instructions (NNP–PI). These project instructions establish a standard for the project team which provides guidance,

sets expectations and drives consistency. Exhibit SDS-6 provides FPL's comprehensive list of project instructions and forms list.

Q. What processes and communication tools are used to manage project risk?

Cost and schedule risk is managed by ensuring the project team has visibility and understanding of the issues facing different sub-teams that comprise the overall project. A mix of weekly meetings with small teams, monthly meetings with select members of the project team and routine executive briefings ensure the project benefits from sufficient and timely communication. Further, the information flow begins at the working level and is integrated as it moves to the project management team to ensure that the issues are adequately captured and that the interaction with other portions of the project is properly assessed. These meetings result in several reports identified in Exhibit SDS-5. These routine meetings allow project management to obtain updates from key project team members, provide direction on the conduct of the project activities and maintain tight control over project progress, expenditures and key decisions.

Each week the project team holds multiple status meetings. These meetings, held by teams within the project, track project activities at a level that allows most issues to be identified, discussed and resolved at the working team level. Examples include the COLA team, Site Certification Application (SCA) team and Transmission Siting team, among others. For those issues that cannot be

resolved at the working team level, project management has provided a multi-step process to elevate the issue to the appropriate level for resolution. Contractor performance is also tracked on a weekly basis. Schedule and cost metrics are monitored and reported in standard format reports to allow for close monitoring of contractor performance.

Monthly, the project holds four key meetings directed at higher level management and decision making (Monthly Project Team Meeting, E&CD Project Dashboard Review, New Nuclear Executive Update, PTN 6 & 7 Monthly Cost Report). The project team meets monthly to review project schedule, budget performance and key project issues. Project risk is specifically tracked and reviewed by the E&CD Project Dashboard process. This is a structured vehicle for assessing project risk exposures and tracking trends in a peer review process designed to bring project management expertise throughout the E&CD organization to each specific project. The monthly Cost Report meeting provides an opportunity to drill down on project cost issues and expectations. Project management also provides a routine update to FPL executive management. Normally once per month, this update provides the opportunity for robust dialogue between the project management team, Business Unit leaders and executive management. While the executive team is always available for consultation on developing issues and opportunities, the routine meetings ensure that a broad range of topics are regularly reviewed and discussed.

Q. What other periodic reviews are conducted to ensure that the project is appropriately reviewed and analyzed?

A. Periodically, the project is reviewed by the FPL Corporate Risk Committee, consisting of members in various company leadership roles, to evaluate project status and specific risk areas. This committee enables senior managers to critically assess and discuss risks faced by the Turkey Point 6 & 7 project from different departmental perspectives.

Internal and external audits occur during the course of the project to ensure the project adheres to all corporate guidelines for financial accounting as well as employs best management and internal controls practices. When a deficiency is identified in an audit, an analysis is conducted to determine the cause of the deficiency and corrective actions are implemented to ensure the deficiencies are mitigated going forward.

Finally, the project is annually reviewed to determine its continued economic feasibility. This analysis is conducted in the same framework as the analysis justified by the project in the Need Determination proceeding, but is updated to reflect what is currently known regarding project cost, project schedule, and the cost and viability of alternative generation technologies. The analysis conducted in 2008 and presented in the May 1, 2008 Nuclear Cost Recovery (NCR) filing, demonstrated that the project remains feasible.

Q. What steps are taken to ensure that project expenditures are properly authorized?

A. All project expenditures must be formally input and approved in the E&CD Electronic Approval Database (EAD). The EAD request serves as documented communication between the Turkey Point 6 & 7 project and the Integrated Supply Chain (ISC) identifying the need to contract for goods and services. The database is used by the Turkey Point 6 & 7 project to document and record procurement activities and to obtain the appropriate level of management authorization.

For Initial Commitments, an approved EAD request directs ISC to formally contract with the selected supplier. Initial Commitments require appropriate authorizations that include all documentation required by Corporate Procedures. This would include contracts, purchase orders, notice to proceed and, if required, a single or sole source justification. For Contract Change Orders (CCO), the EAD request must be authorized at the appropriate level and the CCO executed prior to releasing the supplier to perform the requested scope of work.

PROCUREMENT PROCESSES AND CONTROLS

Q. What is FPL's preferred method of procurement and when might it be in the best interest of the project to use another method?

A. The preferred approach for the procurement of materials or services is to use competitive bidding. FPL maintains a strong market presence allowing it to leverage corporate-wide procurement activities to the specific benefit of individual project procurement activities. Maintaining a relationship with a range of service providers offers the opportunity to assess capabilities, respond to changing resource loads and remain knowledgeable of current market trends and cost of service.

However, the use of single or sole source procurement is in the best interest of the company in certain situations. In some cases there is a limited pool of qualified entities to perform specific services or provide certain goods and materials. In other cases a service provider is engaged to conduct a specific scope of work based on a competitive bid or other analysis and additional scope is identified that the vendor can efficiently provide. Circumstances such as the above examples are common in the nuclear industry, and especially on complex long-term projects such as the Turkey Point 6 & 7 project.

Q. Do you anticipate that the use of single or sole source procurement practices will change over the course of the project?

A. Yes. As the project moves through various phases the proportion of single source procurement will shift based on the nature of the major expenditures associated with each phase. During the licensing phase, the majority of the costs are expended on the federal licensing activities, which was competitively bid. In contrast, the next phase of the project will involve proprietary engineering and procurement activity that FPL must contract from the equipment provider, a sole source of these goods and services. Then, as the project moves to construction, FPL is taking steps to develop credible providers who can competitively bid specific scopes of the construction work. Developing a set of credible competitors, especially for the very large and complex construction phase, requires a concerted effort, but is expected to result in reduced costs regardless of which vendor is selected.

Q. Please describe the single and sole source procurement procedures that apply to the Turkey Point 6 & 7 project.

A. General Operations (GO) Procedure 705.3 requires proper documentation and senior-level approval of single or sole source procurement. The procedure calls for a review of the business interests associated with recommending a single or sole source procurement contract and a validation that the costs are reasonable. During 2008, the process by which FPL documents compliance with GO 705.3 was reviewed. Opportunities for improvement were identified and documented. Training was conducted to ensure project staff had a

working understanding of the required documentation and analysis necessary to support a sole or single source request.

Additionally, it was determined that a specific classification of procurement identified in the Procurement Process Manual, could be applied to CCO's associated with the project. Previously, all CCO's were handled as single or sole source justifications, even if the underlying initial commitment was competitively bid. Over the course of many years, ISC has developed a more efficient means of handling this inevitability by prescribing specific documentation and analysis that can qualify certain vendors as Pre-Determined Sources (PDS). As appropriate, specific vendors will be brought under the PDS program through the normal course of business. Such procurement management is an ordinary trade practice used to increase procurement efficiency.

Q. What is a Pre-Determined Source (PDS) and how does that help to ensure that procurement decisions are prudent and costs are reasonable?

A. A PDS is a source that has been demonstrated through a competitive evaluation and/or other documented economic analysis to be the preferred source for particular goods or services. Specific requirements in the Procurement Process Manual do not apply in the case of PDS because they have, in effect, been "pre-bid" or otherwise justified. A PDS is designated only by the FPL ISC department following documentation review and approval. The PDS process provides FPL the ability to efficiently manage

incremental work requests. For work beyond authorized limits, the full FPL requisition and procurement process requirements must be met in order to increase the limits as required by additional work scope being authorized. Other work awarded to the same supplier for different scopes of work are still subject to the full FPL procurement process requirements.

A review of current new nuclear project contracts identified two vendors that were considered for PDS status. Both Bechtel and Black & Veatch/Zachry (BVZ) provide specific scope services to the project. Because of their specific expertise and the evolving nature of the services provided, these vendors were good candidates to be considered as PDSs. The analysis was conducted and it was determined that both vendors would be approved as PDS providers to the project for specific scope of supply.

INTERNAL/EXTERNAL AUDITS AND REVIEWS

Q. What internal audits or reviews have been conducted to ensure that the project controls are adequate and costs are reasonable?

A. Several audits have been conducted to ensure FPL's standards for project internal controls and cost reasonableness have been maintained. An FPL internal audit focused on the project financials.

Turkey Point 6 & 7 project personnel are made aware of process improvements by attending mandatory training sessions as well as being

provided email memorandums. All action items are provided scheduled completion dates and are tracked to ensure completion. On-going recommendations are routinely reviewed.

Team-level audits and reviews are another important means of validating that the project is being conducted according to good policies and practices. Audit reviews are used between key process steps to ensure the project is ready to proceed to the next step. Examples of these reviews are the process reviews held with work teams (FPL employees and vendor staff) and self-auditing checklists generated for repetitive processes (travel, etc.). Such careful and meticulous business practices help catch items before they become issues and instill policy guidance in project staff.

Q. What external audits or reviews have been conducted to ensure that the project controls are adequate and costs are reasonable?

A. In the spring of 2008, Concentric Energy Advisors was engaged to conduct a review of the project internal controls, with a focus on management processes. The review identified a strong project management and internal control structure, and also identified opportunities for clarification and further focus. The results of the review were discussed in the May 1, 2008 filing by FPL Witness Reed.

The FPSC Staff conducted two audits in 2008. These audits included a financial audit of the project ledger and accounts, and an internal controls

audit. The results of the FPSC Staff audits conducted during the 2008 Nuclear Cost Recovery process validated FPL's findings. Specifically, the FPSC internal controls audit staff identified that the project processes "appear to have been reasonable and in keeping with good business practices."

Q. How would you summarize FPL's overall approach to project management in relation to Turkey Point 6 & 7?

A. As described above, FPL has robust project planning, management, and execution processes in place to manage the Turkey Point 6 & 7 project. These efforts are led by personnel with significant experience in project management and development supported by project management professionals trained in the deliberate execution of critical infrastructure projects through a comprehensive set of internal controls. Additionally, FPL is able to capitalize on the experience of its other power generation development projects by implementing lessons learned by those project teams. Finally, FPL implements an ongoing internal auditing and quality assurance process to continuously monitor compliance with the controls discussed above. In summary, FPL has the right people with the right tools and oversight making decisions with the best available information. For all of these reasons, FPL is confident that its Turkey Point 6 & 7 management decisions were well-founded and reasonable. Further, FPL recognizes the unique nature of new nuclear deployment which demands a continuous watch be maintained to monitor developments in policy, regulatory and economic arenas. An ongoing analysis and incorporation of these events is necessary to ensure the

appropriate actions are taken at the right time to create the option for new nuclear generation. The application of sound project management fundamentals and critical questioning provides the best results.

KEY MANAGEMENT DECISIONS

Q. What types of decisions must the management team make as the Turkey Point 6 & 7 project evolves from an early stage development activity to a mature licensing, permitting and preconstruction project?

A. In the initial stages of the project, the management team made formative decisions such as team organization, site selection and technology preference. As the project proceeds, key decisions are commonly related to trade-offs between schedule and cost certainty. For example, in order to secure forging capability which supports the project schedule, a reservation fee was required in 2008. Because the fee was relatively small in comparison to the potential impact of project delays, it was determined payment of such a fee was warranted and prudent. Conversely, the current market appears stable for certain identified long lead procurement items and a decision was made in 2008 to defer purchasing those items until a later time. Accordingly, FPL has been able to reasonably defer some long lead procurement until a later time.

Q. What key management decisions were made prior to 2008?

A. FPL conducted an extensive site selection analysis leading to the selection of the Turkey Point site as the site that, on balance, provided the most favorable

location for developing new nuclear generation to serve FPL's customers. The Site Selection Study, provided as Exhibit SDS-7, employed the principles of the Electric Power Research Institute (EPRI) siting guidelines and is modeled upon applicable NRC site suitability and National Environmental Policy Act (NEPA) criteria regarding the consideration of alternative sites. The study convened a group of industry and FPL subject matter experts to develop and assign weighting factors to a broad range of site selection criteria. Twenty-three candidate sites were then ranked using the siting criteria. This review allowed the list of candidates to be reduced until the best site emerged. Key factors contributing to the selection of Turkey Point include the existing transmission and transportation infrastructure to support new generation, the large size and seclusion of the site while being relatively close to the load center, and the long-standing record of safe and secure operation of nuclear generation at the site since the early 1970s. Turkey Point will also support the earliest practical deployment schedule, in contrast to use of an undeveloped site.

FPL also selected a preferred reactor design, the Westinghouse AP-1000. The AP-1000 technology has achieved design certification from the NRC and employs a proven pressurized water reactor design with an improved passive safety system. Leading to this decision, FPL conducted a detailed engineering evaluation that has been provided as Exhibit SDS-8. In this review, FPL canvassed the range of possible designs and then solicited specific design,

construction and operation information from the vendors of the designs that were deemed viable for commercial utility application in the U.S. The result of this analysis demonstrated all designs were technically acceptable, and the decision would be based on commercial considerations. Exhibit SDS-9 provides the results of a review conducted by MPR Associates validating FPL's engineering evaluation process. Three principal commercial issues were considered in the choice of the AP-1000. The first two are the estimated capital cost of the total construction project and the ability of the vendor to contribute to managing cost and schedule risk throughout the project. Westinghouse has successfully achieved design certification and, in partnership with Shaw Group, has been selected as the technology for many new nuclear projects currently under consideration in the U.S. These two facts provide an advantage to Westinghouse/Shaw as they establish the engineering and supply chain partners necessary to execute future projects. This position also provides significant confidence that by selecting the AP-1000 technology, FPL will have the opportunity to leverage information developed by other projects to manage cost and schedule risk as Turkey Point 6 & 7 proceeds. The last issue is the execution capability of the Technology Vendor, Engineer and Constructor team that would be assembled to implement the Turkey Point 6 & 7 project. Westinghouse/Shaw continues to work adaptively with FPL to define the team that will execute the Turkey Point 6 & 7 project to help optimize the execution capability of the project team.

Q. What were the key matters addressed by FPL project management in 2008?

A. FPL management made key decisions with respect to the following issues during 2008: 1) how to pursue the contracting strategy for Engineering, Procurement and Construction (EPC) of the project; 2) the need for a forging reservation fee payment to secure needed manufacturing capability; 3) the need to purchase vendor-identified long lead items to maintain project schedule; and 4) adjustments to schedule created by ongoing activities in the industry.

Q. What was considered and determined with regard to the contracting strategy for the project?

A. The vendor-proposed business model for new nuclear project deployment of the AP-1000 design involves an EPC contract with Westinghouse/Shaw with defined scope and schedule responsibility. FPL challenged this business model based on several key observations. First, the EPC offered by Westinghouse/Shaw is limited in its ability to provide cost and schedule certainty as to key project elements (such as construction labor) that are not included in the EPC contract scope and pricing. Additionally, the proposed EPC approach does not provide opportunities for other engineering and construction firms to compete directly for components of the work. FPL recognizes the engineering design will be completed over the next few years, allowing for more precise and competitive bids to be developed for the construction period at that time. Further, the industry will significantly

mature over the next several years and the lessons learned from projects ahead of FPL can be incorporated to reduce cost or risk to the Turkey Point 6 & 7 project. Therefore, FPL has chosen to pursue an approach wherein the Engineering and Procurement (EP) portion of the scope is separated from the Construction (C) scope, enabling the potential to independently bid some or all of the C scope. The option of choosing an EPC contract is not abandoned, merely deferred. In order to create this more competitive option for the construction phase of the project, FPL selected BVZ (an engineering firm independent of Westinghouse/Shaw) to conduct certain construction planning and design work. If FPL were to select a vendor other than BVZ for future construction scope some of these costs may need to be duplicated. The potential additional costs for the BVZ scope are on the order of several million dollars, but compares favorably to the potential benefit of the strategy, which could be on the order of hundreds of millions of dollars through having fostered competition for large later stages in the project.

Q. Please describe the issues related to the forging reservation fee payment and why the decision was made to make such payment.

A. The need for Ultra Heavy (UH) and specialty forgings is unique to nuclear construction and other heavy industries (oil refineries, etc.). Based on the limited international market there is currently only one provider of these forgings – Japan Steel Works. In consultation with Westinghouse during 2008, it was identified the availability of manufacturing space needed to produce the specialty forgings was at risk. Westinghouse was then in the

process of securing forging slots to support several projects, and agreed to assign one of those slots to FPL in return for a reservation fee payment in 2008. Recognizing this issue presented a potential critical path for the project, FPL determined it was reasonable to pay a fee of $10,860,960 to Westinghouse in June 2008. Costs associated with an unplanned delay during construction could be significant (on the order of hundreds of millions of dollars per year) providing the justification for securing the manufacturing capability. The terms of the forging reservation agreement require that the parties enter an Engineering and Procurement agreement by December 2009 or the terms must be renegotiated. The forging reservation payment reflected in this category is identified on Exhibit SDS-1, Appendix II, Pre-Construction Schedule T-6, line 6.

Q. What additional long lead items were identified as potentially at risk and why did FPL decide to defer the purchase of the items?

A. In late 2007, Westinghouse identified four specific groups of items that should be considered for Long Lead Procurement. Similar to the manufacturing capacity for specialty forgings, other equipment could experience supply chain limitations. Specifically, these items are forgings and components for Reactor Coolant Pumps, tubing for the Steam Generators, secondary components for Steam Generator fabrication and Containment Vessel materials. Based on discussions with Westinghouse, FPL included $35,000,000 in the fourth quarter of 2008 for potentially procuring these components in its Actual/Estimated amounts for 2008 in the May 1, 2008

Nuclear Cost Recovery filing. FPL and Westinghouse continued to monitor the market for these items and determined by late August 2008 that procurement in 2008 would not be required. It was judged that procurement of these items could be deferred without significantly increasing the risk of meeting the target Commercial Operating Date (COD). Analysis is ongoing to determine when it is warranted to make this expenditure. The long lead procurement expense reflected in this category was withdrawn from FPL's 2008 Nuclear Cost Recovery request at the September 2008 Nuclear Cost Recovery hearing. The adjustments associated with this decision have been reflected on SDS-1, Appendix II, Schedule T-2, Line 8.

Q. What decisions were made regarding the Licensing and Permitting schedule for Turkey Point 6 & 7 in 2008?

A. The licensing and permitting process for the project substantively began in January 2008. An aggressive 15 month schedule was developed to conduct all the necessary activities to submit the NRC COLA, Army Corps of Engineers (ACOE) permit applications and a Florida Department of Environmental Protection (FDEP) Site Certification Application. Steady progress was made toward this objective; however several external factors occurred to cause project management to reevaluate this schedule. Changes were scheduled to occur in early 2009 to both the Design Certification Document for the AP-1000 and the reference COLA for the AP-1000 (application submitted by TVA Bellefonte, i.e., the reference COLA). Also, FPL learned the NRC had asked for additional information on geological issues at the Levy site that

would be similar at the Turkey Point site. In order to preserve the projected review timeline of the FPL COLA it is important that these changes and requests for additional information are incorporated into the FPL COLA prior to submission, as opposed to filing on the original schedule date and making an amendment at a later time. The deferral also allowed FPL to increase the robustness of its outreach related to the siting of associated transmission facilities. The net result of the decision changed the schedule for submission of the applications from March 2009 to June 2009. While the impact of this deferred decision on the COD is difficult to determine at this stage, it is certain that the delay of three months to incorporate the information prior to submission will reduce the requests for additional information by the NRC upon submission, and will avoid disrupting the NRC review process with post-submittal amendments on these topics. Given the evolving nature of the overall project schedule, it is not possible to determine if this schedule change will materially affect the target COD for either unit.

Q. Were the above described decisions reasonable?

A. Yes. The project management structure, project internal controls, staffing and oversight processes available ensure that these decisions were made based upon consideration of the best information currently available, and were also properly vetted and considered at the highest levels of the organization.

Q. What other activities has FPL undertaken to ensure that its decision processes are informed by the most current national and international industry information?

A. FPL is an industry leader in nuclear generation, and as such has the experience, contacts and industry presence to engage in many forums for exploration of nuclear industry issues. Nonetheless, the specific challenges of new nuclear deployment have created focus areas that require additional coordination between entities involved in new plant licensing, construction and operation. FPL participates in four key industry groups that provide value to the Turkey Point 6 & 7 project. The NuStart Consortium provides FPL access to the reference COLA (Bellefonte COLA submitted by TVA) and associated information developed by other AP-1000 applicants necessary to submit and maintain the Turkey Point 6 & 7 COLA. This involvement is necessary to support the federal licensing process. In addition, the Design Centered Working Group (DCWG) was formed to provide coordination between owners, vendors and the NRC related to design modifications of the AP-1000. This critical activity is necessary to ensure design changes for the AP-1000 is made through a consensus process with the involvement of the NRC to preserve standardization of design, a cornerstone of new nuclear development. FPL also is a member of APOG (a consortium of owners of the AP-1000 design) and the Advanced Nuclear Technology (ANT) group organized by the EPRI. These groups are primarily forums to identify and resolve issues that are of primary interest to owners, such as staffing, training and maintenance activities. For example, programs such as Procurement Specification Development, Equipment and Nuclear Fuel Reliability improvements, Advancing Welding Practices, and Modular Equipment

Testing and Benchmarking allow FPL increased efficiency in program development and implementation resulting in future cost savings. The principle of standardization through operations and maintenance requires this level of industry coordination and dialogue. These different groups have unique and important roles in the successful execution of new nuclear deployment in the United States. Achieving the goal of industry standardization and realizing the associated economic and operational efficiencies mandates the need for active participation by industry participants in these venues. The total expenditure for fees related these groups in 2008 was $1.3 million.

2008 PRECONSTRUCTION COSTS

Q. Describe the preconstruction costs incurred for the Turkey Point 6 & 7 project in 2008.

A. As represented in Exhibit SDS-1, Appendix II, Schedule T-6, FPL incurred the following pre-construction costs in 2008: 1) Licensing ($31,085,381); 2) Permitting ($1,694,555); 3) Engineering and Design ($3,542,947); 4) Long Lead Procurement advanced payments ($10,860,960); and 5) Power Block Engineering and Procurement ($31,789).

Q. Please describe the costs incurred in the Licensing subcategory.

A. In 2008, Licensing costs were $31,085,381 as shown in Exhibit SDS-1, Appendix II, Schedule T-6, Line 3. Table SDS-1 provides a detailed

breakdown of the Licensing subcategory costs in 2008, including a description of items included within each category. The descriptions provided in the following tables are demonstrative and not all inclusive.

Table SDS – 1 2008 Preconstruction Costs - Licensing

Category	Actual	May 1, 2008 Filing	Variance Fav/ (Unfav)
NNP Team Costs – NNP FPL payroll and expenses, FPL Project Team Facilities, FPL Engineering, FPL Licensing	$3,098,408	$3,389,638	$291,229
COLA Production – COLA Contractor, Project A&E, NRC and DCWG fees;	$20,862,229	$22,428,520	$1,566,291
SCA Oversight	$1,705,466	$3,945,003	$2,239,537
SCA Subcontractors:			
• ECT – Transmission	$337,790	$1,705,500	$1,367,710
• Golder – Environmental	$472,713	$1,895,000	$1,422,287
• McNabb – Underground Injection	$52,050	$189,500	$137,450
SCA Total	$2,568,019	$7,735,003	$5,166,984
Environmental Services – FPL payroll and expenses, External support expenses	$1,425,781	$2,877,609	$1,451,828
Power Systems – FPL payroll and expenses, System studies, licensing and permitting support and design activities	$1,406,943	$2,578,278	$1,171,335
Licensing Legal – FPL payroll and expenses, External Legal Services, Expert Witnesses	$609,505	$873,329	$263,824
• Regulatory Affairs	$137,893	$0	$(137,893)
• Regulatory Accounting	$155,398	$0	$(155,398)
Total Regulatory Support	$226,276	$0	$(226,276)
Total Licensing	**$31,085,381**	**$46,022,594**	**$14,937,213**

Licensing costs consist primarily of FPL employee, contractor labor and specialty consulting services necessary to develop the various license and permit applications required by the Turkey Point 6 & 7 project. Table SDS-1 provides a detailed breakdown of the Licensing subcategory costs in 2008, including a description of items included within each category.

The majority of these expenditures ($23,960,637) were a result of the COLA process. This value is a combination of COLA Team Costs and Bechtel COLA. These permit and license applications contain project specific information, assessments and studies required by various regulatory authorities to support the reviews leading to decisions on the technical, environmental and social acceptability of the project. Some activities are common between applications, and therefore offer opportunities to coordinate efforts and manage costs. However, each application analyzes each issue from a unique perspective and may require differing levels of detail.

The COLA development costs were estimated based on the Bechtel proposal that was obtained through a competitively bid process. The proposal was reviewed to verify that the scope adequately described the activities necessary and that reasonable labor rates and resource costs were utilized. Other licensing and permitting costs were developed in accordance with FPL's budget and accounting guidelines and policies. Further, these cost estimates were compared to FPL's recent extensive experience with the development and permitting of new generation projects in Florida and were found to be reasonable.

Q. Please explain the reasons behind major variances between the actual Licensing costs and the costs projected in the 2008 Nuclear Cost Recovery filing.

A. Overall, FPL spent $14,937,213 less than planned in 2008, primarily due to moving the COLA submittal date forward from March 2009 to June 2009. Costs for the New Nuclear Project team were below projected by $291,229 owing to staffing activities lagging plan. Approximately $2.7 million of COLA production costs were deferred into 2009 due to the shift in the COLA submittal schedule to June 2009. SCA production costs were lower than expected, due to synergies with COLA activities and some costs deferred to 2009 as a result of the shift in the SCA submittal schedule to June 2009. Deferral of submittal dates creates the variance seen in Environmental Services, Power Systems and Legal categories, as well. Regulatory costs were not budgeted in 2008; therefore the inclusion of these costs shows as a complete variance.

Q. Please describe the costs incurred in the Permitting subcategory incurred in 2008.

A. In 2008, Permitting costs were $1,694,555 as shown in Exhibit SDS-1, Appendix II, Schedule T-6, Line 4. Permitting costs consist primarily of FPL employee, consulting and legal services necessary to support the various license and permit applications required by the Turkey Point 6 & 7 project. Table SDS-2 provides a detailed breakdown of the Permitting subcategory costs in 2008, including a description of items included within each category.

Table SDS-2 2008 Preconstruction Costs - Permitting

Category	Actual	May 1, 2008 Filing	Variance Fav/ (Unfav)
Marketing and Communications – FPL payroll and expenses, External Media Support, External Polling and Outreach Support, Graphics and Collateral materials	$289,829	$644,326	$354,497
Development – FPL payroll and expenses, various studies	$858,824	$771,114	($87,710)
Legal – FPL payroll and expenses, external support for permitting legal specialists	$548,074	$291,154	($256,920)
Contingency	($2,172)	$608,593	$610,764
Total Permitting	**$1,694,555**	**$2,317,866**	**$623,309**

Marketing and Communications department supports the project by ensuring that the project information is prepared, reviewed and available for distribution to media, customers and key stakeholders. Expenses in this category include personnel dedicated to supporting the many project outreach activities, external contractors who provide specific services (e.g., graphic arts, polling, or other media services), and printing of mailing and collateral materials. Development costs in 2008 include two personnel: myself and a Project Manager. Legal expenditures provide necessary support to activities for all permitting and project interactions. Contingency is established to provide for emerging issues, unanticipated studies or activities, or budget areas that exceed plan for unanticipated reasons.

Q. Please explain any variance between the actual Permitting costs and the costs projected in the 2008 Nuclear Cost Recovery filing.

A. Overall, the project spent $623,309 below plan in 2008 in the Permitting subcategory. This variance is a result of the communications expenditures being under budget, due to less work being required than planned and the change in application filing dates. Development costs exceeded plan to accommodate for transition costs for a new hire. Legal costs were higher than anticipated due to additional legal work required to support local permitting. Contingency is included in anticipation of emerging critical costs that must be incurred to move the project forward. In 2008, only comparatively minor issues of this type were experienced, and the contingency was used to offset the above-plan legal costs.

Q. Please describe the costs incurred in the Engineering and Design subcategory.

A. In 2008, Engineering and Design costs were $3,542,947 as shown in Exhibit SDS-1, Appendix II, Schedule T-6, Line 5. Engineering and Design costs consist primarily of FPL employee and engineering consulting services necessary to develop the construction execution plan for the Turkey Point 6 & 7 project. Table SDS-3 provides a detailed breakdown of the Engineering and Design subcategory costs in 2008, including a description of items included within each category.

Table SDS-3 2008 Preconstruction Costs – Engineering and Design

Category	Actual	May 1, 2008 Filing	Variance Fav/ (Unfav)
Engineering and Construction Team – FPL payroll and expenses, Preconstruction project management	$1,348,424	$1,432,434	$84,010
Pre-construction External Engineering (BVZ) – construction planning	$1,919,522	$3,480,995	$1,561,473
APOG Membership Participation	$0	$0	$0
EPRI Advanced Nuclear Technology	$275,000	$0	($275,000)
Contingency	$0	$2,997,232	$2,997,232
Total Engineering and Design	**$3,542,947**	**$7,910,661**	**$4,367,715**

In 2008, the majority of costs in the Engineering and Design subcategory were split between establishing the staff and construction organization and engaging BVZ to undertake the initial construction planning activities. Costs associated with EPRI's Advanced Nuclear Technology working group are also included in this category.

Q. Please explain any variance between the actual Engineering and Design costs and the costs projected in the 2008 Nuclear Cost Recovery filing.

A. Overall, the project incurred costs that were $4,367,715 below plan in 2008 in the Engineering and Design subcategory. This variance was primarily caused by FPL's decision to develop BVZ as a credible alternative to the proposed Westinghouse/Shaw EPC model, deferring expenditures originally planned for earlier in the year. FPL engaged in a review that led to identifying BVZ as the

appropriate contractor to fill this role. This analysis and associated vetting process postponed initiation of construction planning activities until October. This postponement resulted in lower than expected expenditures to the contractor and no release of unallocated contingency. After budget formation, it was determined that the Engineering and Design subcategory was the appropriate budget location for the EPRI and APOG group fees. Therefore a variance is noted.

Q. Please describe the costs incurred in the Long Lead Procurement subcategory.

A. In 2008, Long Lead Procurement costs were $10,860,960 as shown in Exhibit SDS-1, Appendix II, Schedule T-6, Line 6. Long Lead Procurement costs in 2008 consist solely of the Ultra Heavy (UH) and specialty forging reservation payment. The payment was made to Westinghouse to secure manufacturing space at Japan Steel Works due to high demand. The fee provides for reservation of the manufacturing capacity necessary to produce 23 specific forgings for each of two AP-1000 units, or 46 forgings in total. The reservation slots are made based on a fabrication schedule that supports Unit 6 commercial operation in mid-2018 and Unit 7 commercial operation in mid-2020. It was necessary to secure the manufacturing space for the forgings during 2008 based on competition for the limited manufacturing capacity for these forgings and the pending queue of international heavy industrial projects. Table SDS-4 provides a detailed breakdown of the Long Lead Procurement subcategory costs in 2008 as amended at the time of the Nuclear

Cost Recovery hearing. The initial filing included $35,000,000 for additional long lead procurement activity that was able to be deferred, for the reasons discussed earlier in my testimony.

Table SDS-4 2008 Preconstruction Costs – Long Lead Procurement

Category	Actual	May 1, 2008 Filing	Variance Fav/ (Unfav)
Long Lead Procurement – UH forging reservation payment to Westinghouse	$10,860,960	$10,860,960	$0

Q. Please describe any variance between the actual Long Lead Procurement costs and the costs projected in the 2008 Nuclear Cost Recovery filing.

A. No variance exists to the amended filing.

Q. Please describe the costs incurred in the Power Block Engineering and Procurement subcategory.

A. In 2008, Power Block Engineering and Procurement costs were $31,789 as shown in Exhibit SDS-1, Appendix II, Schedule T-6, Line 7. Power Block Engineering and Procurement costs consist solely of FPL payroll and expenses supporting negotiations with Westinghouse/Shaw. Table SDS-5 provides a detailed breakdown of the Power Block Engineering and Procurement subcategory costs in 2008, including a description of items included within each category.

Table SDS – 5 2008 Preconstruction Costs – Power Block Engineering and Procurement

Category	Actual	May 1, 2008 Filing	Variance Fav/ (Unfav)
Power Block Engineering & Procurement – FPL payroll and expenses	$31,789	$60,000	$28,211
Contingency	$0	$2,827,920	$2,827,920
Total Power Block Engineering & Procurement	$31,789	$2,887,920	$2,856,131

Q. Was there a variance between the actual Power Block Engineering and Procurement costs and the costs projected in the 2008 Nuclear Cost Recovery filing?

A. Yes. Costs for support of negotiations were lower than anticipated due to the pace of the negotiations. Contingency was planned but not used. This contingency was expected to be required to fund Westinghouse/Shaw pre-engineering activities if necessary.

Q. Were any costs expended in the Transmission category prior to or during 2008?

A. No. All costs associated with Transmission planning or engineering were related to the licensing and permitting activities, and therefore are appropriately included in those categories, described above. When activities move from licensing/permitting support to detailed engineering of the transmission improvements, costs will begin to be expended in these categories. It is expected that these expenditures will begin in 2010.

Q. Were the 2008 project activities prudent and were the related costs reasonable?

A. Yes. All costs were incurred as a result of the deliberately managed process at the direction of well-informed, properly qualified management, that I have described that were incurred in the process of conducting the necessary pre-construction activities such as obtaining the necessary licenses and permits, and the process of obtaining the necessary manufacturing space reservations for the Turkey Point 6 & 7 project. All costs were reviewed and approved under the direction of the Turkey Point 6 & 7 management team and were made fully subject to project internal controls. Costs were processed using FPL standard procurement procedures and authorization processes, and found to be reasonable.

2007 PRECONSTRUCTION COSTS

Q. Describe the preconstruction costs incurred for the Turkey Point 6 & 7 project in 2007?

A. As represented in Exhibit SDS-1 in Appendix II, Schedule T-6, FPL incurred the following pre-construction costs in 2007: 1) Licensing ($2,017,181); 2) Permitting ($516,084); 3) Engineering and Design ($0); 4) Long Lead Procurement advanced payments ($0) and 5) Power Block Engineering and Procurement ($0). There are no variances for any of these categories because

the 2007 expenditures previously provided by FPL were historical, actual expenditures.

Q. Please describe the costs incurred in the Licensing subcategory.

A. In 2007 Licensing costs were $2,017,181 as shown in Exhibit SDS-1, Appendix II, Schedule T-6, Line 4. Table SDS-6 provides a detailed breakdown of the Licensing subcategory costs in 2007, including a description of items included within each category.

Table SDS – 6 2007 Preconstruction Costs - Licensing

Category	Actual	May 1, 2008 Filing	Variance Fav/ (Unfav)
NNP Team Costs – NNP FPL payroll and expenses, FPL Project Team Facilities, FPL Engineering, FPL Licensing	$387,722	$387,722	$0
COLA Production – COLA Contractor, Project A&E, NRC and DCWG fees;	$1,438,338	$1,438,338	$0
Environmental Services – FPL payroll and expenses, External support expenses	$131,459	$131,459	$0
Power Systems – FPL payroll and expenses, System studies, licensing and permitting support and design activities	$17,837	$17,837	$0
Primarily due to year-end True-up Environmental Services $35K and payroll pay corrections $6K	$41,827	$41,827	$0
Total Licensing	**$2,017,181**	**$2,017,181**	**$0**

Licensing costs consist primarily of FPL employee, contractor labor and specialty consulting services necessary to develop the various license and permit applications required by the Turkey Point 6 & 7 project. The majority of these expenditures ($1,826,060) were a result of the COLA process.

Q. Please describe the costs incurred in the Permitting subcategory incurred in 2007.

A. In 2007, Permitting costs were $516,084 as shown in Exhibit SDS-1, Appendix II, Schedule T-6, Line 5. Permitting costs consist primarily of FPL employee, consulting and legal services necessary to support the various license and permit applications required by the Turkey Point 6 & 7 project. Table SDS-7 provides a detailed breakdown of the Permitting subcategory costs in 2007, including a description of items included within each category.

Table SDS-7 2007 Preconstruction Costs - Permitting

Category	Actual	May 1, 2008 Filing	Variance Fav/(Unfav)
Marketing and Communications – FPL payroll and expenses, External Media Support, External Polling and Outreach Support, Graphics and Collateral materials	$93,071	$93,071	$0
Development – FPL payroll and expenses, various studies	$55,923	$55,923	$0
Legal – FPL payroll and expenses, external support for permitting legal specialists	$362,450	$362,450	$0
Year-end True-up	$4,640	$4,640	$0
Total Permitting	**$516,084**	**$516,084**	**$0**

As discussed above, Marketing and Communications supports the project by ensuring the project information is prepared, reviewed and available for distribution to media, customers and key stakeholders. Development costs include two personnel, myself and a Project Manager. Legal expenditures provide support to activities for all permitting and project interactions. Contingency is established as discretionary funds to be used to cover emerging issues, unanticipated studies or activities, or allocated to budget areas that exceed plan for unexpected reasons.

Q. Please describe the costs incurred in the Engineering and Design subcategory.

A. In 2007, Engineering and Design costs were $0 as shown in Exhibit SDS-1, Appendix II, Schedule T-6, Line 6.

Q. Please describe the costs incurred in the Long Lead Procurement subcategory.

A. In 2007, Long Lead Procurement costs were $0 as shown in Exhibit SDS-1, Appendix II, Schedule T-6, Line 7.

Q. Please describe the costs incurred in the Power Block Engineering and Procurement subcategory.

A. In 2007, Power Block Engineering and Procurement costs were $0 as shown in Exhibit SDS-1, Appendix II, Schedule T-6, Line 8.

Q. Were any costs expended in the Transmission category prior to or during 2008?

A. No. All costs associated with Transmission planning or engineering were related to the licensing and permitting activities, and therefore are appropriately included in those categories, described above. When activities move from licensing/permitting support to detailed engineering of the transmission improvements, costs will begin to be expended in these categories. It is expected that these expenditures will begin in 2010.

Q. Were the 2007 project activities prudent and were the related costs reasonable?

A. Yes. All costs were incurred as a result of the deliberately managed process at the direction of well-informed, properly qualified management, that I have described that were incurred in the process of conducting the necessary pre-construction activities of obtaining the necessary licenses and permits, for the Turkey Point 6 & 7 project. All costs were reviewed and approved under the direction of the Turkey Point 6 & 7 management team and were made fully subject to project internal controls. Costs were processed using FPL standard procurement procedures and authorization processes, and found to be reasonable.

PROJECT SITE SELECTION COSTS

Q. Please describe the Site Selection costs incurred in 2006 and 2007.

A. FPL's Site Selection work is discussed in detail earlier in my testimony. As represented in Exhibit SDS-2, Appendix III, Schedule T-6, Line 6, FPL incurred Site Selection costs totaling $6,118,105. Site Selection costs included: 1) Project Staffing ($762,841); 2) Engineering ($3,351,744); 3) Environmental Services ($1,220,290) and 4) Legal Services ($783,231). Site Selection costs were incurred from the inception of the project in 2006 up to October 17, 2007 when the Need Determination request was filed with the FPSC. Site Selection costs in the 2008 Nuclear Cost Recovery filing total $6,424,121. The reduction of $306,016 resulted from an audit finding in the Project Staffing category and is further explained in the footnote of Exhibit SDS-2 (Appendix III, Schedule T-6). The majority of Site Selection costs were related to engineering support and analysis necessary to conduct preliminary activities leading to the selection of the FPL site and design technology. Environmental and legal costs were largely related to the local zoning approvals obtained in December 2007. Additional costs were incurred for FPL payroll and expenses for the project staff. Table SDS-8 provides a detailed breakdown of the Site Selection costs, including a description of items included within each category.

Table SDS-8 2006-2007 Site Selection Costs

Category	Actual Total 2006 and 2007	May 1, 2008 Filing Total 2006 and 2007	Variance Fav/ (Unfav)
Project Staffing – FPL salary and expenses, various studies, Corporate Communications	$762,841	$1,068,856	$306,016
Engineering Team – FPL salary and expenses, Contractor salary and expenses, Preconstruction project management	$3,351,744	$3,351,744	$0
Environmental Services - FPL salary and expenses, Contractor salary and expenses, External Consulting	$1,220,290	$1,220,290	$0
Legal - FPL salary and expenses, external support for legal specialists	$ 783,231	$ 783,231	$0
Total Site Selection	**$6,118,105**	**$6,424,121**	**$306,016**

Q. Were the project Site Selection activities prudent and were the related costs reasonable?

A. Yes. All costs were incurred as a result of the deliberately managed process at the direction of well-informed, properly qualified management, that I have described that were incurred in support of the Turkey Point 6 & 7 project. All costs were reviewed and approved under the direction of the Turkey Point 6 & 7 management team and were made fully subject to project internal controls. Costs were processed using FPL standard procurement procedures and authorization processes and found to be reasonable.

CONCLUSION

Q. Please summarize your testimony.

A. The Turkey Point 6 & 7 project is progressing on schedule and well within budget. The project is being managed by a professional team of engineers, analysts and managers to ensure process controls are maintained and activities are compliant with applicable corporate procedures and project specific instructions. The project management process is being conducted in a well-informed, transparent and organized manner which enables executive oversight and facilitates reviews by internal and external parties. The Turkey Point 6 & 7 project team has the skills, experience and executive oversight to guide the project through critical decisions using the best available information. This disciplined application of process by well-qualified FPL managers results in prudent decisions with respect to project activities and expenditures.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In re: Nuclear Power Plant Cost Recovery Clause	))	DOCKET NO. 090009-EI FILED: September 4, 2009

ERRATA SHEET

TESTIMONY OF STEVEN D. SCROGGS, MARCH 2, 2009

PAGE#	LINE #	CHANGE
30	7	"The NuStart Consortium" to "NuStart"

EXHIBIT SDS-3 (MARCH)

PAGE#	LINE #	CHANGE
1	3	"10 CFR Part 50" to "10 CFR Part 52"
1	4	"10 CFR Part 51, 10 CFR Part 52" to "10 CFR Parts 52 and 51"

EXHIBIT SDS-4 (MARCH)

PAGE#	LINE #	CHANGE
1	N/A	"E&C Project Controls Process Overview_04-24-08" to "E&C Project Controls Process Overview_03-12-09"
1	N/A	"E&C Accrual Process Narrative rev 03-28-08" to "E&C Accrual Process Narrative rev 03-31-09"
1	N/A	"E&C Utility Fixed Assets Process narrative_03-31-08" to "E&C Utility Fixed Assets Process narrative_03-31-09"

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

DIRECT TESTIMONY OF STEVEN D. SCROGGS

DOCKET NO. 090009-EI

MAY 1, 2009

Q. Please state your name and business address.

A. My name is Steven D. Scroggs. My business address is 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. By whom are you employed and what is your position?

A. I am employed by Florida Power & Light Company (FPL or the Company) as Senior Director, Project Development. In this position I have responsibility for the development of power generation projects to meet the needs of FPL's customers.

Q. Have you previously provided testimony in this docket?

A. Yes.

Q. Are you sponsoring any exhibits in this case?

A. Yes, I am sponsoring the following exhibits:

- SDS-1, which consists of Appendix II containing the Nuclear Filing Requirements Schedules (NFRs) for Turkey Point 6 & 7 Pre-Construction costs. Page 2 of Appendix II contains a table of contents listing the NFRs sponsored by FPL witness Powers, FPL witness Sim, and by me, respectively.

- SDS-2, which consists of Appendix III containing the NFRs that provide the Site Selection costs for Turkey Point 6 & 7 Project. Page 2 of Appendix III contains a table of contents listing the NFRs sponsored by FPL witness Powers and by me, respectively.
- SDS-3, which consists of 2008 Nuclear Industry Group products and activities.
- SDS-4, which consists of summary tables presenting the 2009 actual/estimated and 2010 projected preconstruction costs for the Turkey Point 6 & 7 project.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide a description of how the Turkey Point 6 & 7 project is being developed, managed and controlled to meet the objectives of delivering reliable, cost-effective and fuel diverse generation to FPL customers under the earliest practical deployment schedule. My testimony will provide insight into how project activities are managed and the issues influencing key decisions that will affect the nature, cost and pace of the project. I will also describe the projected expenditures for 2009 and 2010 that will allow FPL to produce and defend applications for the required licenses and permits and otherwise enable steps necessary to maintain the project schedule.

Q. Please summarize your testimony.

A. FPL applies an adaptive and disciplined management approach to the complex challenge of deploying new nuclear generation. The primary focus of the

project at present is the completion and defense of license and permitting applications necessary for project approval and construction by a multi-discipline team of FPL employees, contractors and advisers. FPL has significant experience in these activities at the local, state and federal levels. Necessarily, the project relies on time-tested project reporting and controls processes to identify, quantify and manage risk to project schedule, cost and quality. However, the Turkey Point 6 & 7 project presents a host of unique challenges due to the nature of new nuclear deployment in the U.S. This testimony describes these issues and the key decisions that have been made, or will be made, to maintain progress toward delivering the benefits of new nuclear generation to FPL customers without taking unnecessary cost or schedule risks. My testimony summarizes the actual/estimated Pre-construction costs planned for 2009 and the projected Pre-construction costs estimated for 2010. Moreover, I will discuss the rationale for these expenditures and how they will be managed going forward to meet project objectives.

PROJECT APPROACH

Q. What is FPL's overall approach to developing Turkey Point 6 & 7?

A. FPL continues to develop Turkey Point 6 & 7 through a deliberate, stepwise decision making process. This involves continuous monitoring of the issues affecting the pace and feasibility of the Turkey Point 6 & 7 project.

Opportunities will be presented as the project unfolds to change the pace of the project in response to evolving issues and factors. This allows FPL to take advantage of events that offer opportunities to accelerate schedule or lock in favorable terms for materials or services. Alternately, FPL can slow the project down or take an "off ramp", halting or limiting project expenditures for defined periods of time to manage cost risk. The nature of power generation development requires FPL to monitor evolving issues and control the pace of the Turkey Point 6 & 7 project in order to execute the project efficiently and manage the risks presented as the project proceeds.

Q. How is the Turkey Point 6 & 7 project management organized to maintain an on-going risk management focus?

A. The Turkey Point 6 & 7 project requires a broad span of specific experience in the development, design, construction and licensing of nuclear generation. There is also a significant volume of information being generated as issues unique to new nuclear generation deployment are identified, assessed and evaluated. The project management structure of the Turkey Point 6 & 7 project provides for dedicated teams with the requisite subject matter expertise to be coordinated at all levels. This is accomplished through a project organization and reporting structure and a deliberate contracting structure that applies the best resources to each issue while maintaining transparent and open communications. The project organization relies on two principal organizations that are jointly responsible for the integrated execution of the project. Martin Gettler leads the New Nuclear Plant organization with

responsibility for Nuclear Regulatory Commission (NRC) licensing and project engineering and construction. I lead the FPL Development organization for all other facets of project development, such as state Site Certification, local zoning approvals, public relations and state FPSC regulatory issues. Each organization is formed from FPL business units with specific, recent success in the licensing, NRC re-licensing and permitting of eleven power generation facilities in Florida in the past seven years and complemented with our national operating experience with renewable, natural gas and nuclear generation assets.

FPL also gave careful consideration to how it contracted for support of the many license and permit applications. FPL conducted a competitive bid for engineering services to prepare and support the NRC Combined Operating License Application (COLA). Bechtel was selected as the best candidate for performance of that scope of work. Recognizing that the body of work related to the COLA would need to be consistent with the information used in other project permit applications, FPL then directed Bechtel to manage the efforts of all other subcontractors supporting the completion of license and permit applications. This aligns the activities and base information used in all permits through a single contracting structure to maximize consistency and communication between the various vendors.

Q. Please expand on the concept of "off-ramps" and how the pace of the Turkey Point 6 & 7 project is determined based on key decisions resulting from the continued assessment of issues that may impact the project.

A. The project team manages a host of issues at local, state and federal levels and across technical, commercial, economic and regulatory areas of interest. The impact on cost, schedule and quality are constantly being assessed through a series of routine tools and reports. If an assessment indicates the potential for a considerable cost or schedule impact, mitigation actions are identified that are designed to eliminate, reduce, defer or otherwise manage the impact. If the magnitude of the impact is such that the cost or schedule impact materially changes the feasibility of the project or significantly increases risk, a decision must be made as to whether such impact is acceptable in light of all current information. Options available include continuing with a modified budget and/or schedule along with available mitigation actions, or halt the project temporarily while the impact issue is further assessed or resolved. The option of slowing or halting the project in response to significant events or uncertainties, although it would postpone delivery of Turkey Point 6 & 7's benefits, offers a high level of exposure control for FPL and its customers. Such decisions would also need to address how FPL system capacity and reliability needs would be satisfied if delivery were to be delayed.

PROCESS AND RISK MANAGEMENT

Q. What process and risk management tools does FPL apply to obtain cost, risk and schedule objectives?

A. FPL uses industry accepted project controls, systems and practices to obtain a high level of fidelity in the expenditures incurred and projected for all projects. The primary means of control are 1) the project budgeting and reporting process, 2) project schedule and activity reporting processes, 3) the contract management process for external service providers, and 4) internal and external oversight processes. These processes were fully described in my direct testimony provided in the March 2, 2009 True-up filing.

Q. How are these tools reviewed over time?

A. Effectiveness measures are included within some mechanisms and provided by external review processes for all. As an example, the Engineering & Construction Division Project Dashboard presents issues and the current trends for those issues. Over time, if a problematic issue continues to trend down or remains neutral, the effectiveness of the project management controls are investigated to determine if modifications are needed to affect improvement. Effectiveness of project control processes is also reviewed as a part of the project management reviews and audits.

Q. What audit activities are planned and what are the objectives of these audits?

A. FPL employs a comprehensive suite of audit activities to evaluate and document the conduct of project activities. Standard annual financial audits provide full review of project expenditures to support prudency determination in the subsequent years. Annual internal controls audits are conducted to ensure that FPL is appropriately applying all project controls and is adopting the appropriate techniques and tools learned from other projects in the industry. Topical audits are developed as necessary to complement specific areas that are of key interest at each stage of the project. Examples of topical audits would include quality control audits focusing on specific processes and training audits to verify personnel are receiving required instruction.

Q. Please provide examples of the types of improvement opportunities created by these audits, and FPL's process for incorporating these improvements into existing processes.

A. FPL maintains a culture promoting continuous process improvement to improve operations and increase productivity. The project team employs a range of tools and practices to improve the quality and timeliness of work. Examples of these continuous improvement practices are the process reviews held with work teams (e.g., FPL employees and vendor staff) and self auditing checklists generated for repetitive processes such as travel and routine expenses. In addition the project team is provided periodic training in various subject areas to continuously refresh, update and introduce the latest information available to maintain the project team at the highest technical and commercial levels available industry wide. The following list provides

examples of the continuous improvement project team process reviews that were completed in 2008-2009:

- Project Control Guidelines (issued March 21, 2008)
- General Administrative Controls Presentation (i.e., Employee Expense Reports; Other Local Disbursements and Payroll);
- Updating Monthly Cost Report Process
- Management Meeting (i.e., 10-16-08) Process Improvements
- Ongoing review and optimization of project team reports
- Ongoing review and optimization of project team Instructions & Forms

Q. What other activities are employed by the project to address industry issues that may impact the long term success and execution of the project?

A. FPL is involved in a number of areas to address issues relevant to new nuclear deployment. The company works with the U.S. Department of Energy and members of Congress on energy policy matters related to nuclear development, including the NP 2010 program that has provided much of the foundational work supporting the prospects of new nuclear generation.

FPL also participates in four specific groups comprised of new nuclear industry owners and design vendor(s). The collective purpose of these groups is to identify and resolve issues that may impact the licensing, design, construction, operation and maintenance of the AP-1000 design. Individually, each group provides a collaborative forum for owners to work

with each other, the design vendor and the NRC to achieve standardized solutions to the issues that face all owners. This enables the industry to maintain a high level of standardization from the earliest stages of new nuclear deployment. Standardization of designs and processes will provide benefits to FPL customers in terms of efficiency and cost control. Exhibit SDS-3 provides a summary of the activities associated with each group in 2008.

PROCUREMENT

Q. Please summarize the results of the procurement activities supporting Turkey Point 6 & 7 project to date.

A. The bulk of project activities and expenditures have been spent on the development of the detailed studies and analyses required to facilitate federal, state and local reviews of the proposed project and, if appropriate, grant the needed permits, approvals and authorizations for construction and operation. Additional expenditures have allowed the project to undertake the initial engineering and commercial steps in the development of an execution plan for plant deployment. FPL has used competitive bidding for the majority of total project expenditures and used single or sole source procurement when appropriate.

Q. What key procurement activities are being addressed by the project in 2009 and 2010?

A. Procurement activities in 2009 and 2010 will be related to two principal areas. The licensing and permitting process requires support from consultants, legal service firms and subject matter experts to respond to the inquiries of the public and the reviewing agencies during the application review process. The scope and expenditures associated with these activities have been estimated in the 2009 actual/estimated and 2010 projected costs, but will not be fully known until the review process is complete.

FPL must also initiate the detailed site-specific design, preliminary engineering and procurement activities necessary to meet the project schedule. An agreement may be required with the Westinghouse/Shaw consortium for Engineering and Procurement activities associated with the AP-1000 nuclear plant design. The negotiations supporting such agreements have been underway since early 2008 and have made significant progress. Currently, there are ongoing discussions on contract terms, project schedule, price and the allocation of risk between the multiple parties. Additionally, the acceptance reviews associated with the NRC COLA and other applications will provide schedule information that will be influential on the timing of any Engineering and Procurement (EP) Contract commitments. The issues influencing this process will be more fully discussed in the Issues and Key Decisions portion of this testimony.

ISSUES AND KEY DECISIONS

Q. What are the primary issues that are being monitored for their impact on the Turkey Point 6 & 7 project?

A. Due to the magnitude and long term schedule associated with the Turkey Point 6 & 7 project, certain issues have the potential to create challenges and opportunities for the execution of the project. There are three areas that are being monitored. Foremost on all of our minds is the recent economic downturn, which has the potential to directly and indirectly impact the project in several ways as discussed below. Additionally, national and international nuclear industry activity affects the project in multiple ways, primarily influencing the commercial negotiations with Westinghouse/Shaw. Finally, the ongoing political and regulatory environment will continue to significantly influence the project.

Q. What issues are presented by the recent economic downturn on markets related to power generation projects and energy policy in general?

A. The Turkey Point 6 & 7 project is a long term investment to meet the electric reliability, environmental and economic needs of FPL's customers. These needs transcend, and in some ways are heightened by, short term economic cycles. Nonetheless, the practical matter of making progress towards meeting those needs, while maintaining a balance of risk and expenditure that is appropriate for the current environment, is a challenge. As noted earlier,

FPL's approach for this project is adaptive and disciplined. The recent downturn has affected the local Florida, national and international economies.

The effect of the downturn on the Florida economy is reflected in the reduced demand projections for FPL in the near term. Long term projections, that span economic cycles, remain consistent with FPL's experience projecting a long term growth rate of 2.1%. FPL's Ten Year Power Plant Siting Plan, provided April 1, 2009 identifies how FPL is adapting its long term generation plan to incorporate current projections. That plan maintains Turkey Point 6 & 7 in the plan due to the economic, reliability and fuel diversity benefits offered. FPL witness Sim provides a more detailed discussion of the impact of current economics on the feasibility of the Turkey Point 6 & 7 project.

The economic downturn also affects the supply chain that will provide materials, equipment and services to the project. Price indices for materials and labor had experienced significant increases in the years 2005 – 2008. Current commodity indices trends show considerable decreases in many of the base materials used for plant construction (e.g., steel, copper, aluminum, oil). However other base materials such as concrete have remained flat while finished engineered products such as large pumps, large valves, heat exchanger and transformers have shown some minor easing of pricing but not a significant trend. It remains to be seen if these price index decreases will be fully realized as reductions in the estimated price of goods and services that

make up the project cost estimate. Other market forces, such as demand from other international and U.S. nuclear projects keep the qualified nuclear supply chain highly utilized, maintaining elevated price levels from these suppliers. Changes in projects that precede Turkey Point 6 & 7, or changes to the number or capabilities of qualified vendors in the nuclear supply chain, will impact the pricing that can be obtained for key components and services. Access to capital and the interest rates that will be charged for the project financing will also be impacted by the current economic situation. Regulatory certainty demonstrated in federal and state licensing, permitting and cost recovery processes will enable access to the most competitive financing alternatives.

The current economic situation also puts pressure on the achievement of fuel diversity and environmental objectives at state, national and international levels. Near term economic cycles may change the pace at which long term solutions to fuel diversity, price variability and climate change are pursued. Deferral of new nuclear capacity will prolong the reliance on fossil fuels. For Florida, such a deferral would increase the exposure to fuel supply reliability and price volatility, and maintain fossil fuel production and associated greenhouse gases. On a national and international level, older coal and oil fired plants would remain in service preventing a meaningful reduction in greenhouse gas production and maintaining a reliance on these fuels affecting fuel supply and availability in the market.

Q. What opportunities does FPL have to respond to the impact of these national and international supply issues?

A. The primary contracts that will influence the cost and schedule of the project will be the EP contract and subsequent Construction contract(s). FPL has made no commitments to these contracts at this stage and is negotiating the scope, schedule, terms and costs associated with the EP contract now. FPL's primary means of responding to the impact created by the economic downturn is to ensure the opportunities and risks created by the current economic situation are adequately included in any agreements executed for the project and as much competition as possible is created for each scope of work. This means ensuring that the project is obtaining the benefits of recent material cost reductions where possible and including protective language to address potential future scenarios in a balanced manner. It is important that contracts entered into at the beginning of the long design and construction process maintain a balance of cost effectiveness and risk mitigation throughout the entire project timeline. Additionally, the economic downturn reinforces the value of creating competition for bids where possible. With a decrease in overall economic activity, engineering services and construction companies may be more inclined to reduce price or accept risk that would not otherwise be a part of their business model in a more robust economy.

Q. What energy policy activities under consideration might impact the Turkey Point 6 & 7 project?

A. Generation portfolio standards that promote clean energy additions are under consideration in many states, including Florida, as well as potentially on the national level. Recognition of nuclear's potential to help the state and nation achieve meaningful greenhouse gas reductions would further support nuclear generation and the Turkey Point 6 & 7 project. Additionally, the Obama administration is re-evaluating options for fulfilling the government's obligation to provide long term storage of spent nuclear fuel.

At the state level, a number of draft bills have been considered in the State legislatures that propose changes to the current Nuclear Cost Recovery (NCR) rule. Should any legislation be passed that materially affects the regulatory compact upon which the project is based, FPL would reevaluate the viability of the project.

Q. What current issues or challenges to the new Turkey Point nuclear units project have arisen, and what are the potential impacts to the project schedule and cost estimates?

A. The following summarizes the current identified major problems or challenges and potential impacts to project schedule and cost estimates.

Legislation – A number of draft bills propose significant changes from the current NCR rule have been under considered in the State legislature. This activity has given FPL concern and indicates we should proceed cautiously.

Impacts of revised NCR may include increased project costs, increased risk of recovery or both.

Commercial Negotiations - FPL is negotiating with Westinghouse/Shaw regarding the EP scope of supply and corresponding payment schedule. Due to the unique contracting challenges presented by new nuclear deployment and the current market, FPL may not obtain terms, conditions, scope and payment schedules that represent an acceptable expenditure plan given the economic, legislative, regulatory environment. Additionally, due to the volatility of commodity prices, the contract pricing is sensitive to timing and can increase or decrease. Impacts to schedule could range from executing an EP scope of supply that supports the current schedule to a reduced scope of supply that would result in increased risk to the project schedule. Impacts to cost could range from an EP scope of supply that is below the current cost estimate range to one that is above the cost estimate range provided in prior filings. Tradeoffs between the competing objectives of low expenditures and maintaining schedule will be considered. In other words, if expenditures above current estimates are necessary to maintain schedule FPL would evaluate whether or not those expenditures are warranted. A choice to increase near term expenditures may or may not increase total project delivered cost. Alternately, a lower early year spend may result in accepting a schedule delay; however, that schedule delay may or may not increase the total project delivered cost.

Permitting Timeline - The state Power Plant Siting Act provides for a statutory timeline for review and decision of an application. This timeline is expected to be completed prior to either of the federal activities. State Site Certification and any necessary Army Corps of Engineers wetland permits would be required before the start of any site-clearing or construction activities. The NRC Combined Operating License (or a Limited Work Authorization) would be required before the start of any NRC jurisdictional construction (Nuclear Safety related - plant basemat and above). The federal permits and licenses (NRC and Army Corps of Engineers) are evaluated on a non-statutory timeline. However, once the NRC COLA is docketed, a non-binding schedule is produced that provides an estimate of when the milestones in the licensing process would be completed. Beyond schedules there is the opportunity for opposition during the application review processes that could result in delay. Therefore, there is uncertainty as to when these permits and licenses would be granted, but that uncertainty begins to decrease as the review proceeds. It is difficult then to determine whether site preparation activities (site clearing, access roads, preliminary fill activities) can be initiated in a timeframe that supports the current projected schedule. Impacts may include a shift in schedule and/or increased costs necessary to mobilize resources to recover schedule. The state Site Certification process includes a review of Land Use consistency that will be provided by Miami Dade County. Should a determination be made that the proposed project is inconsistent the

project schedule could be impacted. Additionally, conditions of approval to any of these licenses or permits may result in additional costs or schedule impact.

Q. What mitigation strategies are being developed or considered for each challenge described above?

A. The following discusses mitigation strategies:

Legislation – FPL monitors and assesses draft legislation and considers its potential impact upon ongoing projects.

Commercial Negotiations - FPL is monitoring the progress of commercial negotiations for projects that precede Turkey Point 6 & 7 and incorporating the input that can be discerned from publicly available information. FPL has developed a negotiation team that is working through EP scope, terms and conditions, schedules and cost issues with Westinghouse/Shaw. This team is communicating routinely with senior management to ensure guidance from the highest levels of the company is available to support this effort.

Permitting Timeline - FPL is monitoring the progress of licensing and permitting activities for projects that precede Turkey Point 6 & 7 and incorporating feedback from these projects that reduce the need for reviewing agencies to request additional information. FPL is also routinely engaging affected agencies and other stakeholders in discussions regarding the project

design in an effort to put forth the most complete applications, reducing likelihood of unanticipated delays in the review process.

Q. What portions of the project are directly impacted by the current economic climate and what specific steps has FPL taken, or is FPL considering based on this impact?

A. The economic downturn presents opportunities and challenges for the execution of the design, engineering and construction of the project. The value of obtaining the licenses and permits necessary to construct and operate a new nuclear plant has not been impacted so far, and in some ways may be enhanced. Therefore, FPL intends to maintain activities that support progress on the licensing and permitting of the project. These activities represent expenditures with lasting value, providing an option to initiate the construction at the most opportune time following receipt of project approvals.

Recognizing market trends, FPL was able to defer expenditures planned for late 2008 (approximately $35 million) until later in the project. Similarly, FPL analyzed current 2009 and 2010 expenditures for opportunities that may warrant a change to the planned expenditures in the Power Block Engineering and Procurement area. FPL determined that the above issues, collectively, indicate that the project should defer a large percentage of the expenditures on the Engineering and Procurement contract ("EP expenditures", identified as $70.787 million in the Power Block Engineering and Procurement, line 7, of

P-6, Appendix II of the May 1, 2008 filing) while monitoring progress of the three key issues; State legislation, commercial negotiations with Westinghouse/Shaw and the licensing and permitting timeline. This decision allows time to pursue activities that will increase clarity on key uncertainties that impact the cost and schedule of the project prior to irreversible expenditures for the EP contract.

The decision to slow project EP expenditures does place pressure on the project schedule as it increases the risk that FPL will have started engineering and procurement activities in time to meet the target commercial operation dates of 2018 and 2020. FPL has evaluated that the proposed approach conservatively manages the EP expenditures during a time when significant information will be developed that will inform the pace and direction of the project. A more complete picture of all three areas will be available in the fourth quarter of 2009. It is anticipated that legislative direction will be better understood, the impacts of the economic downturn on commercial issues will be further clarified. Importantly the acceptance reviews and initial interactions on federal, state and local applications will be complete providing the project with greater schedule clarity and certainty. During the course of 2009, FPL will also complete certain pre-construction planning activities that will allow a better understanding of the construction timeline that follows licensing and permitting. At that time, FPL will be better positioned to determine the schedule of EP expenditures that best supports the overall

project schedule, including the fabrication of critical long lead components. Should FPL require additional funds not included in this filing, these funds will be identified in the 2009 true-up filing in March 2010.

PROJECT ACTIVITIES

Q. What are the major activities of the Turkey Point 6 & 7 project for 2009 and 2010?

A. The major project activities for the project in 2009 are related to the completion and support of project license and permit applications at the local, state and federal level. This involves over 100 engineers, environmental specialists and other subject matter experts conducting numerous studies and analyses to support the regulatory requirements for review by the various licensing agencies. The studies involve field work, data analysis, modeling, and consultation with a range of agencies. Bechtel Power Corporation manages the primary contract for the production of the NRC COLA and provides oversight services for the selected subcontractors developing the U.S. Army Corps of Engineers Permit Application the Site Certification Application and other permit applications. FPL obtains legal advisory services through selected national, state and local firms with expertise in these areas. Westinghouse/Shaw is under contract to provide the necessary support to FPL and Bechtel in the preparation of the COLA.

Additionally, engineering and design activities are underway to support construction planning and logistics. These activities are focused on determining the sequence of construction given the regulatory, engineering and logistical constraints. Black & Veatch/Zachry provides these services under a direct contract to FPL.

Commercial negotiations with Westinghouse/Shaw continue so as to define the terms, scope, schedule and price for project management, engineering and procurement services needed to support the next phase of the project. Upon reaching an agreement that maintains an appropriate risk exposure for FPL customers, the contract would provide project planning, management, procurement and detailed design engineering in 2009 and 2010.

Q. What are the key milestones in the Turkey Point 6 & 7 project schedule for 2009 and 2010?

A. The primary project milestones for 2009 are related to the submittal and docketing/acceptance of the license and permit applications by their respective regulatory authorities.

The COLA will be reviewed upon submittal for acceptability. If acceptable to the NRC, the application is docketed and a schedule for review is produced. Key activities in the review process include public notices to inform the public about its opportunities to participate in the licensing process, environmental scoping meetings where input is solicited to inform the NRC on the issues that should be considered in their review and the initial steps in the environmental

and safety review processes. A major milestone in 2010 is the expected publication of a draft Environmental Impact Statement (EIS). The Army Corps of Engineers wetland permit applications will utilize the NRC produced EIS as the basis of their review and will participate in the NRC EIS process as a cooperating agency, following the NRC provided schedule.

The Power Plant Siting Act (PPSA) delineates a statutory schedule by which the Site Certification Application (SCA) is processed. This process begins with a review of the submitted application to determine if it is complete, with potential iterative cycles of questions and responses to obtain completeness. Following completeness, public meetings and other agency activities are directed at the production of various reports, culminating in the Florida Department of Environmental Protection (FDEP) Project Analysis Report. A certification hearing is then held resulting in a recommendation by the Administrative Law Judge to the Siting Board. In parallel to the SCA review, a Land Use proceeding is conducted culminating in a Land Use hearing for the project. All PPSA activities are expected to be complete by the end of 2010.

FPL will be pursuing engineering and construction planning activities that will help define the sequence and logistical requirements for the construction period. This body of work will allow FPL to develop a refined project construction schedule that will be combined with the expected licensing and

permitting timeline to better establish the overall project schedule. As indicated before, FPL will continue to pursue commercial negotiations to obtain a refined cost estimate range for the project.

Q. How does the current project schedule compare to the Milestone Schedule provided as Exhibit SDS-5 to your testimony in FPL's Need Determination Filing?

A. The original schedule for the application submittals assumed an aggressive fifteen (15) month schedule to prepare and submit the applications. Steady progress was made toward this objective; however, several external events occurred to cause project management to reevaluate this schedule. Changes were scheduled to occur in late 2008 and early 2009 to both the Design Certification Document for the AP-1000 and the reference COLA for the AP-1000 (application submitted by TVA Bellefonte, i.e., the reference COLA). Also, FPL learned the NRC had asked for additional information on geological issues at the Progress Energy Levy site that would be similar at the Turkey Point site. In order to preserve the projected review timeline of the FPL COLA it is important that these changes and requests for additional information are incorporated into the FPL COLA prior to submission, as opposed to filing on the original schedule date and supplying supplemental information at a later time. The deferral also allowed FPL to increase the robustness of its outreach related to the siting of associated transmission facilities. The net result of the decision changed the schedule for submission of the applications from March 2009 to June 2009.

The impact of this three month shift on the Commercial Operation Date (COD) is difficult to determine at this stage. However, it is certain that the delay of three months to incorporate the information prior to submission will reduce the requests for additional information by the NRC upon submission, and will avoid disrupting the NRC review process with post-submittal supplements on these topics. Given the evolving nature of the overall project schedule, it is not possible to determine if this schedule change will materially affect the target COD for either unit or if it would be the only factor in any such delay.

PROJECT COST AND FEASIBILITY

Q. Has FPL made any changes or revisions to the cost estimate range for the project?

A. No change has been made to the overall project cost estimate range provided in the Need Determination filing. However, considerable work is underway to develop the basis for a revision to the cost estimate range. As described above, negotiations continue with the primary vendors to determine the price of the EP contract portion of the total project. FPL is approaching the contracting process by engaging in EP contract negotiations, allowing the construction contract negotiations to await completion of the detailed design, thus allowing for a more certain construction cost estimate. Additionally, FPL is undertaking significant design engineering activities for the

surrounding site and transmission facilities that will result in refined costs in these areas once project certification is obtained and engineering, procurement and construction estimates can be developed.

Q. Please provide an update of the analysis of the transmission facilities needed to interconnect and integrate Turkey Point 6 & 7 to the transmission grid.

A. The latest system planning studies show that the following new transmission lines will be needed: two new 500-kV transmission lines between the proposed Clear Sky substation on the Turkey Point site and the existing Levee substation in northern Miami-Dade County; a new 230-kV transmission line between the proposed Clear Sky substation and the existing Pennsuco substation in northern Miami-Dade County; a new 230-kV transmission line between the proposed Clear Sky substation and the existing Turkey Point substation which is also within FPL's Turkey Point property; and a 230-kV transmission line connecting the proposed Clear Sky substation to the Davis substation in southeast Miami-Dade County and the existing Miami substation in downtown Miami. In addition, improvements or expansions will be required at the Turkey Point, Davis, Miami, Levee, Pennsuco, Gratigny, Andytown and Flagami substations. Ampacity upgrades (increases to the electric current carrying capability) of several existing transmission lines and breaker replacements at several substations will also be required.

Q. What are the most current Turkey Point 6 & 7 economic analysis results?

A. As discussed by FPL witness Sim, the most current feasibility analysis affirms the cost effectiveness and benefits associated with the Turkey Point 6 & 7 project using the same approach applied in the Need Determination proceeding for the project. The analysis calculated a projected "break-even" cost for new nuclear; a cost that would result in the same lifecycle costs (or cumulative present value of revenue requirements (CPVRR)) as an alternative plan that relied on natural gas combined cycle units. The analysis was conducted for nine scenarios comprised of three fuel and three emission cost scenarios. The projected break-even costs were higher than FPL's non-binding cost estimate range in 8 of 9 scenarios. In the 9th scenario, the projected break even cost was at the high (or favorable) end of the non-binding cost estimate range.

PRE-CONSTRUCTION COST REQUEST

Q. How are the 2009 actual/estimated costs and the 2010 projected costs developed?

A. As described earlier, FPL has a disciplined ground-up process to develop project budgets. This process was used in the initial project budgeting activity and is routinely reviewed and evaluated for adequacy and accuracy as additional information becomes available. The estimates of the 2009 actual/estimated and 2010 projected costs were completed in accordance with FPL's budget and accounting guidelines and policies. Where services are

contracted, rate sheets are provided by the contractor and reviewed to verify rates being charged are consistent with FPL experience in the broader industry. The cost estimates were compared to other costs being incurred by the company for similar activities and found to be reasonable.

Q. Please provide a high level summary of the 2009 actual/estimated and the 2010 projected costs presented in this filing.

A. The $45.6 million of expenditures that are estimated for 2009 are primarily related to the pursuit of licenses and permits for the project. Approximately 82% of all 2009 costs provide for the FPL staff and contractor support necessary to produce, support and defend the various applications that will be completed in June 2009 and enter a review period with the relevant agencies. The balance of 2009 costs are estimated to be expended in engineering and design activities that will help develop information necessary to create a detailed project construction schedule and develop bid packages for specific scopes of pre-construction work necessary to maintain project schedule.

In 2010 it is projected that $90.5 million of expenditures will be incurred to support the continued review of the project applications and conduct pre-construction engineering and design activities. Support of the licensing and permitting activities will require approximately the same amount in 2010 as in 2009, however the engineering and design activities will increase representing approximately 64% of the 2010 projected budget.

Q. What changes may occur that could affect these cost projections?

A. As discussed previously, the 2009 and 2010 budgets are based on estimates of what will be required. Licensing and permitting support will take the form of subject matter expertise, studies and analyses that agencies will require to complete application reviews. While FPL will submit comprehensive applications that meet the respective standards, experience indicates that additional information may be requested. Budgets for this information have been developed and included. Depending on the review process, the actual costs may be lower or higher than provided for in the project budget. Similarly, licensing and permitting expenditures in 2010 may be lower or higher than estimated.

Engineering and design expenditures will provide for the development of detailed preconstruction information that will support the project planning and procurement activities in subsequent phases. Resolution of key issues and uncertainties will determine if the planned expenditures are appropriate for any revisions to schedule that result. Information may be developed that would warrant an increase or decrease in these expenditures.

Q. Please summarize the costs included in this filing for Turkey Point 6&7 Pre-Construction activities.

A. Schedule AE-6 of Appendix II presents the 2009 actual/estimated costs in the following categories: Licensing ($35,436,131); Permitting ($1,951,150); Engineering & Design ($8,231,488); Long Lead Procurement ($0); Power Block Engineering & Procurement ($21,893); and Transmission Engineering

($0). Schedule P-6 of Appendix II presents the 2010 projected costs in the following categories: Licensing ($29,778,705); Permitting ($2,703,151); Engineering & Design ($58,025,409); Long Lead Procurement ($0); Power Block Engineering & Procurement ($13,750); and Transmission Engineering ($1,209,600). Table 1 of Exhibit SDS-4 provides a summary of the actual/estimated 2009 and projected 2010 Preconstruction costs. The descriptions in the Exhibit SDS-4 tables are illustrative and not all inclusive.

Q. What major differences are noted for the 2009 and 2010 project budget when compared to FPL's prior filings?

A. The primary difference is related to FPL's decision to defer expenditures associated with an EP contract. In light of the key issues and uncertainties described earlier in this testimony, FPL has chosen not to engage in a committed price contract for major equipment and design activities. This results in reducing the 2009 actual/estimated expenditures approximately $64 million less than projected in the May 2008 filing.

Q. Please describe the activities included in the Licensing category for the 2009 actual/estimated costs and the 2010 projected costs.

A. For the period ending December 31, 2009, Licensing costs are projected to be $35,436,131 as shown on Line 3 of Schedule AE-6 of Appendix II. For the period ending December 31, 2010, Licensing costs are projected to be $29,778,705 as shown on Line 3 of Schedule P-6 of Appendix II. Table 2 of Exhibit SDS-4 provides a detailed breakdown of the Licensing subcategory costs.

Licensing costs consist primarily of FPL employee and contractor labor and specialty consulting services necessary to develop the various license and permit applications required by the Turkey Point 6 & 7 project. The majority of the licensing expenditures are a result of the federal COLA process. This value is a combination of NNP team costs and Bechtel COLA team costs. Costs for participation in the NuStart Consortium (with 2009 membership fees of $1.8 million) are included as they are necessary to support the COLA activity. The license and permit applications contain project specific information, assessments and studies required by various regulatory authorities to support the reviews leading to decisions on the technical, environmental and social acceptability of the project. Other licensing activities include costs associated with the SCA, Army Corps of Engineers permits and delegated programs such as Air and Underground Injection Control. License and permitting costs are developed in accordance with budget and accounting guidelines and policies. These permit and license applications contain project specific information, assessments and studies that are required by various regulatory authorities to support the reviews leading to decisions on the technical, environmental and social acceptability of the project. Some activities are common between applications, and therefore offer opportunities to coordinate efforts and manage costs. Further, these cost estimates were compared to FPL's recent extensive experience with the development and permitting of new generation projects in Florida and found to be reasonable.

Q. What are the major differences between the 2009 actual/estimated values and those projected in the May 2008 filing for the Licensing category?

A. The differences in this category are a result of the project decision to shift the application submittal dates later by three months and incur additional costs associated with including information requested by the NRC upon review of the Progress Levy 1 & 2 project COLA. The information requested is applicable to Turkey Point 6 & 7 COLA and is necessary in order for FPL to submit a complete application. Due to the schedule change, certain costs were not incurred in 2008 actuals, providing an offset on a total project cost basis to these increases of approximately $4 million that was budgeted in 2008, but deferred into 2009.

Q. Please describe the activities in the Permitting category for the 2009 actual/estimated costs and the 2010 projected costs.

A. For the period ending December 31, 2009, Permitting costs are projected to be $1,951,150 as shown on Line 4 of Schedule AE-6 of Appendix II. For the period ending December 31, 2010, Permitting costs are projected to be $2,703,151 as shown on Line 4 of Schedule P-6 of Appendix II. Table 3 of Exhibit SDS-4 provides a detailed breakdown of the Permitting subcategory costs, including a description of items included within each category.

Permitting fees consist of expenditures for Project Development management and public outreach/education. Marketing and Communications department supports the project by ensuring that the project information is prepared,

reviewed and available for distribution to media, customers and key stakeholders. Outreach is a vital process to inform stakeholders of the project and educate the public with regard to the many processes where they can be involved. The outreach activity involves hosting informational events and providing information on the project through a variety of media platforms. FPL experience has demonstrated a proactive outreach and education approach facilitates a sharing of concerns and perspectives improving the overall project. Expenses in this category include personnel dedicated to supporting the many project outreach activities, external contractors who provide specific services (e.g., graphic arts, polling, or other media services), and printing of mailing and collateral materials. Development costs in 2009 include three personnel: myself, a Project Director and a Project Manager. Legal expenditures provide necessary support to activities for all permitting and project interactions. Legal support expenditures are necessary to support the timely preparation, submission, and review of issues associated with the project at the local, state and federal agency levels.

Q. Please describe the activities in the Engineering & Design category for the 2009 actual/estimated costs and the 2010 projected costs.

A. The Engineering & Design activities performed in 2009 and 2010 are required to support the overall Turkey Point 6&7 schedule. For the period ending December 31, 2009, Engineering & Design costs are projected to be $8,231,488 as shown on Line 5 of Schedule AE-6 of Appendix II. For the period ending December 31, 2010, Engineering & Design costs are projected

to be $58,025,409 as shown on Line 5 of Schedule P-6 of Appendix II. Table 4 of Exhibit SDS-4 provides a detailed breakdown of the Engineering & Design subcategory costs, including a description of items included within each category.

Engineering and Design costs consist primarily of FPL employee and engineering consulting services necessary to develop the construction execution plan for the Turkey Point 6 & 7 project. Engineering and Design expenditures consist primarily of anticipated payments to qualified engineering firms supporting preliminary engineering and detailed site specific design of the project. Preconstruction engineering and design services are necessary to define the project to the level of detail necessary to support the creation of a detailed project construction schedule and the development of bid packages to support specific preconstruction activities. The pre-construction activities will include site layout, balance of plant design, and integration with existing site utilities and new infrastructure services required by the project. These include water supply, wastewater, transmission and support facilities. FPL engaged Black & Veatch/Zachry to undertake the initial 2008-2009 pre-construction planning activities and has not yet selected a vendor for the 2010 portion.

Costs for participation in industry groups include the EPRI Advanced Nuclear Technology working group (with annual fees of $275,000), the Design

Centered Working Group (DCWG) (no charge to participate in this group), and APOG fee was a $50,000 initial capital contribution in consideration of 20% interest in the group. These costs are necessary to obtain the benefits of membership described earlier in this testimony.

Q. Please describe the activities in the Long Lead Procurement category for the 2009 actual/estimated costs and the 2010 projected costs.

A. For the period ending December 31, 2009, Long Lead Procurement costs are projected to be $0 as shown on Line 6 of Schedule AE-6 of Appendix II. Future Long Lead Procurement costs are anticipated to be included in the Power Block Engineering and Design cost category.

Q. Please describe the activities in the Power Block Engineering and Procurement category for the 2009 actual/estimated costs and the 2010 projected costs.

A. For the period ending December 31, 2009, Power Block Engineering and Procurement costs are projected to be $21,893 as shown on Line 7 of Schedule AE-6 of Appendix II. For the period ending December 31, 2010, Power Block Engineering and Procurement costs are projected to be $13,750 as shown on Line 7 of Schedule P-6 of Appendix II.

Power Block Engineering and Procurement actual/estimated costs in 2009 consist solely of FPL payroll and expenses supporting negotiations with Westinghouse/Shaw. FPL is currently negotiating the scope, terms and

conditions associated with an EP contract with Westinghouse/Shaw that will be one of the defining commercial documents for the project.

Q. What are the major differences between the 2009 actual/estimated values and those projected in the May 2008 filing for the Power Block Engineering and Procurement category?

A. A difference of $70,765,252 is shown for Power Block Engineering and Procurement as a result of strategic decisions regarding the pursuit of the EP contract discussed earlier in this testimony.

Q. Please describe the activities in the Transmission Engineering category for the 2009 actual/estimated costs and the 2010 projected costs.

A. For the period ending December 31, 2009, Transmission Engineering expenditures are projected to be $0 as shown on Line 25 of Schedule AE-6 of Appendix II. For the period ending December 31, 2010, Transmission Engineering expenditures are projected to be $1,209,600 as shown on Line 25 of Schedule P-6 of Appendix II.

All 2009 costs associated with Transmission planning are related to the licensing and permitting activities, and therefore are appropriately included in those categories, described above. Activities are projected to move from the planning stage to detailed engineering of the transmission improvements. These Transmission Engineering expenditures are projected to begin in 2010.

Q. Does this conclude your direct testimony?

A. Yes.

TESTIMONY OF STEVEN D. SCROGGS, MAY 1, 2009

PAGE#	LINE #	CHANGE
32	6	"the NuStart Consortium" to "NuStart"

EXHIBIT SDS-1 (MAY)

PAGE#	LINE #	CHANGE
2	22-32	Sponsor from "W. Labbe" to "S. Scroggs"
21	11	"Single Source" to "Competitively Bid"
32	"Brief Description of Selection Process"	"Single Source" to "Competitively Bid"

EXHIBIT SDS-3 (MAY)

PAGE#	LINE #	CHANGE
1	1	"NuStart Consortium, LLC" to "NuStart Energy Development"

BY MR. ANDERSON:

Q. You're sponsoring some exhibits?

A. Yes.

Q. For your March testimony, these are SDS-1 through SDS-9?

A. Yes.

Q. For May, it is SDS-1 to SDS-4; is that right?

A. That's correct.

MR. ANDERSON: Mr. Chairman, these have been premarked on staff's Comprehensive Exhibit List as staff 4 to 12 and 13 to 16.

CHAIRMAN CARTER: For the record, 4 through 12 and 13 through 16 on the Comprehensive Exhibit List. You may proceed.

(Exhibits Number 4 through 16 were identified for the record.)

BY MR. ANDERSON:

Q. Have you prepared a summary of your testimony?

A. Yes, I have.

Q. Please provide your summary to the Commission.

A. Thank you. Mr. Chairman and Commissioners, I appreciate the opportunity to come before you today.

The purpose of my testimony is to describe the activities associated with FPL's management of the Turkey Point 6 and 7 project from its inception to

present and the plans for the project through the end of 2010. My testimony describes the progress made and how key decisions are addressed through the deliberate, stepwise process FPL is employing to create Turkey Point 6 and 7. My testimony, the exhibits, and the Nuclear Filing Requirements I sponsor will provide the Commission with information necessary to validate that FPL's actual costs through 2008 have been prudently incurred and that FPL's projected costs for 2009 and 2010 are reasonable.

Further, my testimony will support the conclusions of the annual feasibility analysis that indicate that the project continues to offer the benefits of cost-effectiveness, increased energy independence, fuel diversity, and reduced greenhouse gas emissions that led to your original affirmative need determination.

The management of the project can be summarized as a series of key decisions that establish the pace and the risk of the project. To formulate those decisions, FPL continually collects and evaluates information and weighs the risk of acting as opposed to taking no action.

For example, during 2008, FPL identified the Westinghouse AP-1000 as the preferred technology and

pursued commercial negotiations with Westinghouse/Shaw Stone & Webster to develop a mutually agreeable scope, schedule, terms, and price for the construction of the project. By continually evaluating the market, it was identified that FPL should act to obtain a critical reservation on manufacturing space for certain key forgings, but it did not need to spend $35 million on other long lead procurement items.

It was also as the result of this process that FPL determined it was in the best interests of our customers to defer entering into a purchase contract and to maintain the option for competitive bidding on future construction scope. While not precluding a combined engineering, procurement and construction contract, the strategy of pursuing an EP contract first creates an important option for our customers.

Throughout the course of the project, FPL has employed industry-leading project controls and procedures to ensure that expenditures are appropriate and competitive. We have acted when it was appropriate to act, and we have chosen not to act when circumstances indicated that was appropriate. All the while, we have continued to make solid progress towards the project goals. Such adaptive project management is the result of the stepwise, deliberate approach necessary to

maintain progress and manage risk.

I am confident that you will agree that the Turkey Point 6 and 7 project is being managed in a responsible manner, decisions are reasonable, costs are being prudently incurred, and that the very benefits which started us on this endeavor have not changed and now are as important as ever. FPL customers benefit every day from the low fuel costs and zero greenhouse gas emissions that are a result of nuclear generation decisions made some 40 years ago. Continued application of the nuclear cost recovery clause will allow future customers to enjoy these same benefits.

This completes my summary.

MR. ANDERSON: Mr. Scroggs is available for cross-examination, Mr. Chair.

CHAIRMAN CARTER: Thank you. Mr. McGlothlin.

MR. McGLOTHLIN: OPC will reserve its questions for later.

CHAIRMAN CARTER: I beg your pardon?

MR. McGLOTHLIN: OPC has no questions at the present.

CHAIRMAN CARTER: Are you guys going to do like we did last week? Is that a new lineup? Is that the plan, Mr. Moyle, or what's the plan here?

MR. MOYLE: We're coming straight down the

line.

CHAIRMAN CARTER: Oh, straight down the line? Oh, that's great.

MR. DAVIS: I'm prepared to go, sir.

CHAIRMAN CARTER: You're recognized. You may proceed.

MR. DAVIS: Thank you, Mr. Chairman.

CROSS-EXAMINATION

BY MR. DAVIS:

Q. Mr. Scroggs, would you agree that the addition of FP&L Turkey Point 6 and 7 would more than double the rate base for FP&L?

A. Yes.

Q. And that was one important reason for FP&L to decide to invest in these new units; correct?

A. No. The drivers for new nuclear in our portfolio is to maintain a balance of fuel, to provide fuel diversity, to continue to reduce greenhouse gas emissions, and more importantly, to provide cost-effective, stably priced electricity for our customers.

Q. You don't agree it was one reason to invest?

A. Our resource planning process doesn't look at the capital input to the process. It tells us what is the best choices through a very objective process.

MR. DAVIS: Mr. Chair, I have not appeared before this Commission before, and I hope I get your procedures correct.

CHAIRMAN CARTER: Hang on a sec. Now, you've got a red -- red is always not necessarily good. It's certainly not bad, but red is different. Is that a confidential --

MR. DAVIS: It is, Mr. Chair.

CHAIRMAN CARTER: Okay. Have all the parties -- you have not appeared before us before, but have all the parties gotten together on the handling of confidential documents? Mr. Anderson?

MR. ANDERSON: I'll ask Ms. Cano to list the parties that have signed agreements, so if there's to be a distribution, it should be limited only to people who have signed the confidentiality agreement.

CHAIRMAN CARTER: Okay. All right. Staff, have you talked to the parties about handling confidential documents before? Let's do --

MR. YOUNG: At the prehearing we did talk about it, and it was included in the Prehearing Order.

CHAIRMAN CARTER: Let's do this, Commissioners. Let's take five minutes and let staff get with the parties before we go down this road on our confidential documents. We're just on a brief recess.

(Short recess.)

CHAIRMAN CARTER: We are back on the record. And when we took a break, there was an opportunity for the parties to get together and look over the documents, and let us proceed with our cross-examination.

MR. JACOBS: Mr. Chairman, just one moment. I think we're narrowing down our scope of inquiry so that we can alleviate all the concerns.

CHAIRMAN CARTER: Okay, Mr. Jacobs.

(Off the record briefly.)

CHAIRMAN CARTER: Mr. Anderson.

MR. ANDERSON: Mr. Chairman, as you know, the usual process is for people to share things in advance so we can just do the type of review we did, and none of us had a chance to do that because that wasn't put in front of us. But what we did do is verify with counsel that there are two specific pages, one in one exhibit and one in another, that he wishes to interrogate with respect.

Those specific pages, we do not have a problem with interrogation or being even not confidential if counsel chooses. There are other portions of the exhibit which do raise considerations, but the individual pages counsel has specified we're okay with, and we think it will make the hearing go better. Does

that make sense?

CHAIRMAN CARTER: Okay. Let's stay on course. You're recognized. You may proceed.

MR. DAVIS: Thank you, Mr. Chair.

BY MR. DAVIS:

Q. Mr. Scroggs, do you have what we've marked as Exhibit 131, which would be a SACE cross-examination exhibit?

CHAIRMAN CARTER: Do you need a number for that?

MR. DAVIS: Yes.

CHAIRMAN CARTER: Okay. You haven't been with us before, so whenever you have a document, if you're going to use it for cross-examination, it may not be necessary, but if you're going to want to eventually try to enter it in, you need to get a number from the Chair.

MR. DAVIS: Okay. Mr. Chair, we would like this exhibit which we've provided to the Chair and to the Commissioners to be --

CHAIRMAN CARTER: It will be Exhibit Number 131, Commissioners. Short title?

MR. DAVIS: A short title would be Turkey Point 6 and 7 Risk Committee Presentation I.

CHAIRMAN CARTER: Okay. Turkey Point 6 and 7 Risk Committee Presentation I. You may proceed.

MR. DAVIS: Thank you.

(Exhibit Number 131 was marked for identification.)

BY MR. DAVIS:

Q. Mr. Scroggs, do you have Exhibit 131 in front of you now?

A. Yes, sir, I do.

Q. And if I ask you -- first of all, the cover page -- this Turkey Point 6 and 7 Risk Committee Presentation I, did you make this presentation?

A. I participated in it, yes, sir.

Q. Your name is on this cover sheet; is that correct?

A. Yes, it is.

Q. And that was dated June 25, 2008?

A. That's correct.

Q. And what was the Risk Committee?

A. The Risk Committee is a multifunctional group within FPL that brings together senior managers and directors to provide an independent look at all projects that are under way in the company. It gives us the ability to obtain perspectives and the benefit of information from managers that have different requirements or different duties than ours. It gives us a peer group review.

Q. Is it go/no go decision-maker within FP&L?

A. Not necessarily, no, sir.

Q. Do they provide recommendations to that effect?

A. Yes, sir, they do.

Q. And do those recommendations go to the board?

A. Yes, sometimes they do go to the board.

Q. Now, on page 9 of Exhibit 131 -- and you'll notice I didn't include all the pages from this lengthy presentation, but page 9, do you have that in front you?

A. Yes, sir, I do.

Q. And the caption of that is "Reasons to Invest"; is that correct?

A. That's correct.

Q. And one of the reasons to invest under economic factors is that Turkey Point 6 and 7 is likely to more than double the rate base; right?

A. That is correct.

Q. So that would correct your previous testimony when you said that was not one of the factors?

A. If I could clarify, I believe the earlier question was, in the resource planning and selection of the process, was the doubling of the rate base or the size of the project a factor. In our resource planning process, which witness Sim can speak to more directly,

that is not a factor.

Q. I understand that. Doubling the rate base, though, would increase FP&L's revenues tremendously, would it not?

A. Yes, sir, and it will also introduce risk, as many have pointed out.

Q. Okay. Now, during Mr. Anderson's opening, which I believe you were here for, he mentioned that the bill, the average monthly bill for consumers in 2010 would increase by 67 cents a month, I believe. Is that what you understand?

A. The average bill for our customers in 2010 will be approximately 67 cents as related to both the Turkey Point 6 and 7 project and the extended power uprate. So the impact of both projects contribute 67 cents to the average customer's bill.

Q. For Turkey Point 6 and 7, is there a separate number that was provided to the staff in an interrogatory answer that you're aware of?

A. I believe that probably has been provided, but I don't have that in front me.

Q. Okay. Are you aware of higher numbers as the years proceed from 2010 onward, such as in 2011 that the average monthly bill for a 1,000 kilowatt-hour usage would increase by $3.60?

A. Yes, that would be the natural progression. As the project moves forward and additional moneys are spent, the increase will be proportionally higher.

Q. And in 2017, which is still before there's any electricity being generated by Turkey Point 6 and 7, assuming it proceeds according to plan, there would be a $7.87 increase in the monthly bill; correct?

A. That would be the amount attributable to this project in our estimate, yes, sir.

Q. Now, this is in addition to the base rate increase that FP&L is now seeking in a separate docket; correct?

A. That's correct. It's independent.

Q. Now, back to reasons to invest, not necessarily the exhibit that we've referred to, but FP&L would not be building Turkey Point 6 and 7 without the nuclear cost recovery clause, would it?

A. We would not be entering into this project without the benefits of the nuclear cost recovery process, yes, sir.

Q. And that's because the cost recovery provision reduces the risk to FP&L?

A. The cost recovery -- yes, the cost recovery reduces risk. It also provides a pay-as-you-go opportunity rather than deferring that and building up

costs for our customers. So it's a better deal for our customers.

Q. Let me turn your attention to the analysis of long-term feasibility just a minute, which you've spoken about in your direct testimony. You agree that the annual detailed analysis of long-term feasibility of the Turkey Point 6 and 7 project should include an analysis of economic feasibility?

A. Yes, sir, I do.

Q. As a matter of fact, FP&L uses the feasibility analysis as a mitigation strategy to reduce the risk that market trends may change the economics; is that right?

A. I'm not sure if I understand your question, sir.

Q. Well, do you find the feasibility analysis a useful tool for your own decision-making?

A. Yes, sir. The feasibility analysis is an extension of our normal resource planning process and is a basis of the need determination and is the basis of our ongoing evaluation of the project.

Q. But in this feasibility analysis that you presented to the Commission, you have not revised the project costs since 2007; correct?

A. We have not needed to revise the project costs

since 2007. Our project costs are very representative of where we believe them to be, and in comparison to other AP-1000 projects throughout the Southeast, we find that our project cost estimate, particularly the high end, is quite representative of the projects that have already entered into EPC contracts and have the benefit of a contract to re-evaluate their costs.

Q. Now, when you talk about the project costs, I believe that the numbers are 12.1 to 17.8 billion; is that correct?

A. That's the cost estimate range, yes, sir.

Q. So I'm going to use 12 to 18, because that's what people have been throwing around as numbers. Is that okay?

A. Yes, sir.

Q. You know, a billion here, a billion there, pretty soon it's real money. You agree that 12 billion to 18 billion is quite a range, a wide range?

A. Twelve to 18 billion is a wide range, yes, sir.

Q. I mean, if you took the midpoint of that as 15 billion, there's a variation of 20 percent either way; right?

A. That's correct.

Q. You've now said, I believe, in response to my

prior question that the high end is more in line now with what other utilities are estimating and projecting for their cost of building nuclear power plants, particularly the AP-1000?

A. The upper half of the range, yes, sir.

Q. Well, shouldn't you shift the whole range, then, and analyze the new range rather than just assume that the 18 billion is your new number?

A. No. I believe -- you know, this is an very long-term project. When FPL originally developed our cost estimate range, we did it without the influence of commercial interests. We took a very academic look at the cost estimate process. We built into the process a number of assumptions for high material costs, premiums for labor, and in doing so, we provided ourselves a range that we felt was comfortable. At the time, it was actually considered quite shocking and quite high.

As time has progressed, things will change. Production cost indices that drive the material costs were rapidly escalating in 2008 and have since turned and are moderating. So over time, those ranges that produce the cost estimate will fluctuate.

Our purpose and our need to evaluate routinely whether or not that cost estimate range is still valid and produces a cost estimate that is suitable for use in

the feasibility analysis, that's the kind of review that we've done, and that's why we felt that our cost estimate range is still very valid and suitable for use in the feasibility analysis.

Q. And what you used in the feasibility analysis was a low, medium, and high range; right?

A. It works out that way, yes, sir.

Q. And the high was still 18 billion. You didn't shift the high to 21 billion, which if you were shifting the whole range you would go to?

A. No. That's correct.

Q. And you intend to re-evaluate the costs in the near future; right?

A. We are routinely evaluating the costs as we work through negotiations with Westinghouse/Shaw.

Q. What's the time frame now for an EP contract with Westinghouse/Sharp?

A. We're looking at --

Q. Shaw, I mean.

A. Our decision process would be -- we need to make a decision before the end of 2009.

Q. I believe I read the third quarter of 2009, you're going to have an EP contract with Westinghouse/Shaw; is that right?

A. That's not what I said, sir. We need to make

a decision before the end of 2009. We may or may not enter into an EP contract.

Q. Okay. But if you do enter into an EP contract, then, of course, you'll have much better numbers for the costs?

A. Yes, sir.

Q. Now, those costs aren't going down, are they?

A. Some costs have been going down. The Producer Price Index and other materials indices have moderated since 2008.

Q. But the cost of components for nuclear power plants is still going up?

A. The cost of components we have not seen come down with the indices.

Q. Let me talk about the schedule for a minute. The original schedule for the application submittals for your NRC combined operating license assumed an aggressive 15-month schedule; is that right?

A. That's correct.

Q. And that was your schedule to prepare and submit the applications, and you've slipped that three months already?

A. That's correct. We were able to benefit from preceding AP-1000 applications and understand that the NRC had numerous questions about geology and

hydrogeology with the Progress Levy site. That has similar geological issues to our site, and instead of submitting an incomplete or insufficient combined operating license application, we were able to extend the time to deliver that and deliver a much better product, a much more complete product.

Q. But those geological issues have not been resolved for Progress Levy nor for FP&L at this point; right?

A. The additional information that the NRC was requesting from Progress was enumerated, and we were able to capture that information in our base application. So by doing so, we essentially avoided a delay during the review process by submitting a more complete application.

Q. And you don't know yet whether or not the geological issues that you share in common with Progress Levy will cause further delays?

A. We are certainly looking to the NRC to provide their docketing schedule, but last week they did provide a sufficiency letter indicating that our application was sufficient to begin their review.

Q. Have they given you that schedule yet?

A. No, sir.

Q. Have they given you any indication of what the

schedule will be?

A. We understand that a schedule would be provided to us in probably mid to late October, and we have no more specific information as to what the actual schedule would be. We expect them to be consistent with past schedules they've issued.

Q. Now, you had an aggressive schedule before the three-month slippage. Is it even more aggressive now?

A. No, sir.

Q. You didn't change the end date, in other words?

A. No, sir.

Q. Now, in terms of the cost impacts, you haven't determined the impact of that three-month shift on the overall project cost, have you?

A. No. That would be difficult to determine. But as I stated, because we believe it saves us review time when the NRC is actually looking at our application, we think that that puts us in the best position to get the most expeditious review from the NRC.

Q. Is it expeditious for the NRC to take what has been from June until September to give you a sufficiency letter? I thought they reacted much faster than that.

A. Our submittal was June 30th, so in fact, it's

been just a little over seven weeks, and that has been a fairly common interval for a sufficiency letter.

Q. And you're still not going to get a schedule until October, though?

A. That's correct. And again, that's consistent with the Progress project and others that have gone before.

Q. Now, you know, the Progress project applied for a limited work authorization as part of their COL. You're familiar with that; right?

A. Yes, sir.

Q. And that limited work authorization was denied, at least in part because of the geological issues that the Progress Levy site has; right?

A. That's my understanding, yes, sir.

Q. So FP&L has applied for a limited work authorization as part of its COL; correct?

A. That's correct.

Q. And do you expect that the geological issues are going to be of concern to NRC as part of that LWA?

A. I think that's a part of the initial discussions that the NRC is going to be looking at when they develop their schedule. We developed the LWA early in the process because of the option it may provide to start some construction components early. If that

option turns out not to be realistic or not to be to the overall schedule's benefit, then we would not pursue that LWA.

Q. Well, if you pursue it and it's denied, that would cause further schedule slippage; correct?

A. Not necessarily. The LWA is simply a way in which the application is organized for the NRC, asking the NRC to review certain sections of the application first. It doesn't add new application material. It just would change the sequence in which they would review them. That's part of the discussion that we're having with the NRC now as they develop their schedule.

Q. The NRC's schedule with regard to the AP-1000 reactor is also slipping, is it not?

A. I believe that they're in a design change review and that that is experiencing some delays, yes, sir.

Q. And so the original design of the AP-1000 submitted to the Nuclear Regulatory Commission was design 0; right?

A. The actual first application was -- included design changes through design change 15.

Q. Okay. Well, now they're on design change 17; is that right?

A. That's correct.

Q. And that is nowhere in sight for approval at this point because of the failure of Westinghouse/Shaw to provide important information to the NRC about a component of the reactor cooling system called the sump; right?

A. I understand that there are some challenges in Westinghouse providing information. And I'll point out that that's, you know, exactly why FPL has positioned our project at this stage in the industry, so that we can see how these things proceed, so that we can make decisions in terms of the pace that we pursue the project, and that those decisions can maintain progress towards licensing, but not provide a high risk of exposure to our customers.

MR. DAVIS: Mr. Chair, I have a exhibit I would like to --

CHAIRMAN CARTER: Okay. Number 132. Short title?

MR. DAVIS: The short title is "NRC letter to Westinghouse, August 27, 2009."

(Exhibit Number 132 was marked for identification.)

CHAIRMAN CARTER: You may proceed.

MR. DAVIS: Thank you, Mr. Chair.

BY MR. DAVIS:

Q. Mr. Scroggs, you had mentioned you were aware of the information contained in this August 27, 2009 letter from Mr. David Matthews, Director of the Division of New Reactor Licensing with the Nuclear Regulatory Commission, to Robert Sisk. Are you familiar with the delays that the Nuclear Regulatory Commission is stating that will occur as a result of Westinghouse's failure to provide adequate information with its revision 17 application?

A. I'm familiar with the existence of this letter through a media article. I have not read the letter itself.

Q. Florida Power & Light is on the mailing list for the Westinghouse correspondence with the Nuclear Regulatory Commission; correct?

A. Yes. Our new nuclear project licensing team is in charge of that, yes, sir.

Q. So basically, you're aware then that the Nuclear Regulatory Commission is stating that its prior schedule for -- I believe you called them key milestones for its review of Westinghouse's application -- no longer applies?

A. Are you asking me a question about this specific letter?

Q. Yes. I mean, are you aware that the key

milestones that FP&L has relied upon for NRC's approval of the Westinghouse AP-1000 reactor design, revision 17, no longer applies?

A. I don't know that that's the result of this letter. I know that they're talking about delays and that, as with all project processes, delays generally are revisions to schedule, not total dismissal of schedule.

Q. And you're also aware that the Nuclear Regulatory Commission has changed its so-called reference combined operating license application from what had previously been the Tennessee Valley Authority Bellefonte project to the Georgia -- I'm sorry, Southern Vogtle project; right?

A. Yes.

Q. That's going to cause further delays; correct?

A. It may or may or may not. In fact, the Tennessee Valley Authority project was sponsored by the NuStart Group to get things moving. The Southern Vogtle plant seems to be positioned to be in a better position to move to construction, so I would say that that is a wise choice by the organization to move to the Southern plant.

Let me just say that this approach and the concerns that are being identified by schedule delays

with the NRC is exactly the type of thing that FPL has envisioned. And in our approach, having a stepwise approach where we can make decisions through continual monitoring of the regulatory process and the commercial process and control the amount of exposure, maintain progress towards licensing, but not take on undue risk, is exactly the type of issues that we've envisioned and why we are monitoring and managing our project in that way.

Q. I'll come back to that stepwise process you described in a few minutes, but when you first started the project, applications for licenses, et cetera, back in 2008, you envisioned signing an EP contract in March of 2009; right?

A. That's correct. That was the original plan.

Q. And now I believe you said that you will decide whether or not to sign one by the end of 2009?

A. That's correct.

Q. So that's a nine-month slippage in your schedule from the beginning at this point; right?

A. That's correct.

Q. So you've had both the application slippage and the EP contract slippage. Those are two major slippages at this point, but you haven't changed your ultimate schedule?

A. No. We have accepted that there's more risk to whether or not we attain that schedule. As my testimony describes, there's three areas that we're looking at. We want to make sure that we understand legislation and energy policy issues, we're going to make sure that we pursue the best commercial deal for our customers, and we're going to be watching the regulatory process to determine what the schedules for review of our permit applications will be before we, you know, take on additional costs of entering into an EP or an EPC contract, because it basically allows us to understand with better information, more current information, what the true schedule is and what our appropriate investment to get to the next stage should be.

Q. Well, let's talk about the activities that you're seeking the ratepayers to pay for for 2009 and 2010. You've talked about those as being licensing and permitting. Are those two general categories?

A. In 2009, it's largely licensing and permitting. In 2010, it's about 40 percent licensing and permitting and 60 percent engineering and design activities.

Q. And there's going to be detailed site-specific design, preliminary engineering, and procurement

activities necessary to meet the project schedule in 2010; is that right?

A. That's correct.

Q. Now, that could require this EP contract; is that right?

A. That's absolutely correct.

Q. The contract with Westinghouse/Shaw. And if that contract is required, those expenses would rise dramatically, would they not, from what you have estimated going forward?

A. Could you restate your question, sir?

Q. Yes. You have said that you could end up signing an EP contract in 2009 or 2010. You've estimated your expenses for 2009 to be 45.6 million and for 2010, 90.5 million. Do those numbers --

A. Those numbers are correct, yes, sir.

Q. Do either of those two numbers include the cost of signing an EP contract with Westinghouse/Shaw?

A. Yes. Specifically, the 2010 estimate includes $58 million for engineering and design that is envisioned to be part of the initial stages of an EP contract.

Q. Part, but what would the rest be if you sign that contract?

A. That is our estimate of expenditures on the

engineering and design during 2010.

Q. So just so we're clear, the activities for 2009 and 2010 are not merely evaluation of the nuclear option; is that right?

A. That's correct. This is not an exercise. We are making solid progress towards the development of an operating license for construction and operation. That gives us the option to then exercise the construction decision at the appropriate time.

Q. You have talked several times about this stepwise approach. You're monitoring the factors that I mentioned in my opening statement and that SACE has provided in the prefiled testimony, correct, the economic downturn for one thing?

A. Yes, sir.

Q. The national and international nuclear activity?

A. Yes, sir.

Q. And the political and regulatory environment?

A. Yes, sir.

Q. So those are important for whether or not you proceed with this project; is that right?

A. Yes, they are.

Q. Now, when you talk about a stepwise process and FP&L decision-making process, does that include the

Public Service Commission in that process?

A. Absolutely. Every year as we come before the Public Service Commission to review what we've done and what our plans are, we're keeping them aware through annual audits that their staff performs and what is essentially a fairly continuous discovery process through the year.

Q. And you're trying to maintain an off-ramp approach, I believe you stated in your prefiled testimony?

A. That's correct.

Q. So you could slow down or take an off-ramp in order to manage cost risk at any time?

A. Cost and execution risk, yes, sir.

Q. What would precipitate your off-ramp?

A. We could see significant changes in energy policy in the United States, the Florida Legislature. We could see a regulatory shift in the NRC that would increase the time of expected NRC licensing review. So again, all those factors are a part of our continuous monitoring to make sure that the decisions we make to take the next step -- and again, we don't just make an annual budget and move forward with that annual budget. We make an annual budget and then evaluate that every month as to whether or not we want to make the large

expenditures or hold back on the large expenditures relative to the current events and the current expectations of project progress.

Q. And you said that a more complete picture of these three areas of uncertainty, the economic downturn, the national and international nuclear activity, and the political and regulatory environment, will be available in the fourth quarter of this year; right?

A. Yes. Particularly the schedules for our state site certification application and our Nuclear Regulatory Commission combined operating license application will be much more clear in the fourth quarter. At the same time, we'll be completing our current round of negotiations with Westinghouse/Shaw Stone & Webster as to the terms, schedule, and pricing for an EP or an EPC contract.

Q. That's a little late for this process that we're undergoing here with the feasibility analysis; right?

A. Well, the feasibility analysis is an annual review. We actually conduct our analysis in the April time frame consistent with our ten-year power plant site plan, provide that to -- in our May testimony, and then discuss that through the year. It's a continual cycle. We'll be picking up on that cycle at the beginning of

next year.

Q. But you didn't reflect any of the uncertainty of these three areas in your analysis that you provided to the Commission in May.

A. Our feasibility analysis is based on a schedule that's achievable, and we placed in that budget estimates of the amounts of money that we would need to achieve the 2018-2020 schedule.

Q. Did you reflect any of the uncertainty in that schedule in your filing?

A. The feasibility analysis is an economic analysis comparing a break-even natural gas combined cycle plant to the high end of the nuclear cost estimate range. That uncertainty of price and schedule is somewhat captured in the cost estimate range that we've talked about. In a very conservative way, we're only comparing to the high end of that range, so we believe that we're capturing that within the process.

Q. The schedule slippage has a cost; correct?

A. The schedule may or may not create more cost for the project if it's managed appropriately. Again, our earlier schedules had us buying long lead procurement items in the fourth quarter of 2008. We saw that that wasn't necessary, so we were able to defer those costs out into the future. That doesn't mean that

they are going to be more expensive. In fact, they could be less expensive if purchased out into the future.

Q. You've heard of the term "first wave and second wave" with regard to nuclear power construction?

A. Yes.

MR. DAVIS: Let me show what we'll mark as the next exhibit.

CHAIRMAN CARTER: It will be Number 133. Short title?

MR. DAVIS: The title is "First Wave or Second Wave, NERA," N-E-R-A, "Economic Consulting."

CHAIRMAN CARTER: I'm going to have to see that. How about we just go with "First Wave or Second Wave"?

MR. DAVIS: Okay.

CHAIRMAN CARTER: Would that work for you?

MR. DAVIS: Yes, that works fine.

CHAIRMAN CARTER: Okay. Good.

MR. DAVIS: Thank you, Mr. Chair.

(Exhibit Number 133 was marked for identification.)

CHAIRMAN CARTER: You may proceed.

BY MR. DAVIS:

Q. Mr. Scroggs, you're familiar with this NERA article about first wave or second wave?

A. Yes, sir, I am.

Q. And when I say this article, I mean Exhibit 132.

CHAIRMAN CARTER: 133.

MR. DAVIS: I'm sorry. 133. Thanks.

BY MR. DAVIS:

Q. The tenor of the article is that it's better to be in the second wave than the first wave at this stage from an economic standpoint for a nuclear utility; is that right?

A. That's the basis, yes, sir.

Q. And FP&L with Turkey Point 6 and 7 still falls in the first wave, does it not?

A. I don't -- I wouldn't subscribe to that, no, sir.

Q. Well, one of the dates that's used here for the first wave is construction start in 2018.

A. Where are you referring, sir?

Q. Well, it says -- okay. I'm sorry. Construction start in 2014 is the first wave, and construction start in 2020 is the second wave; right?

A. I don't interpret the author's comments to say exactly that.

Q. I'm sorry. I misspoke. I meant to say 2012 for the first wave and 2020 for the second wave.

A. I don't interpret it quite that way, but --

Q. But be that as it may -- the article speaks for itself. You would agree, though, that you're among the first nuclear utilities moving through the licensing process in what appears to be a first wave?

A. We're one of 18 applications, one of five AP-1000 projects. Again, our perspective on this -- and you mentioned off-ramps -- is that we want to move the project as far as we can with an acceptable risk profile, and if necessary, take an off-ramp that slows the process down, and we may very likely be a second wave project. It talks about construction starting in 2020. Those are arbitrary dates. I don't know that anybody would know exactly what dates individual projects will actually start construction.

Q. And you're aiming to have Turkey Point 6 complete by 2018 and Turkey Point 7 complete by 2020; correct?

A. That's the current schedule, but it's not at any cost or not at any risk.

Q. If the Commission were to decide that it's time for an off-ramp for Turkey Point 6 and 7, could that benefit the FP&L ratepayers?

A. I think postponing the benefits of delivering new nuclear show -- we're showing over the first 40 years of operation $93 billion in fuel savings against the mid range natural gas case. We're talking about 7 million tons of CO_2 a year removed. And through our need determination and our most recent annual feasibility analysis, we're talking about the most cost-effective form of generation. So postponing those benefits for our customers would be detrimental to them. I don't know that it would necessarily be a benefit to them to postpone it.

Q. You talked about mid range natural gas projections. Isn't it true that your natural gas projections are being daily shown to be way too high, that now natural gas is less than $3 a million Btu?

A. Well, witness Sim can answer in more detail with respect to the natural gas cost estimates, but I would propose that at any time point in time, there's a snapshot that could be taken.

Our cost estimate range, and in fact, our annual feasibility analysis is constructed recognizing that from time to time these commodities will go up and down. They'll fluctuate. So we developed a nine-matrix process that allows to us look at the range of potential natural gas prices, the range of carbon dioxide

regulation costs.

And only in the case that we have a combination of the lowest CO_2 regulation price and the lowest natural gas scenario is an alternative generation project even economically equitable to the new nuclear project at the high end of the range, and that wouldn't provide the fuel diversity, energy security, and emission-free nature of nuclear.

Q. We'll ask Mr. Scroggs about the details of the analysis that -- I'm sorry. We'll ask Mr. Sim about the details. But you understand that you predicted a natural gas price as a low for 2009 of $6.29?

A. That could be correct, yes, sir.

Q. And it's now below $3?

A. In a spot market, perhaps.

Q. And we'll have further testimony on that later.

There are lessons to be learned from the nuclear development boom time of the 1970s; right?

A. Yes, sir.

Q. As a matter of fact, you gave a talk about that back in March of this year, did you not?

A. Yes, I did.

CHAIRMAN CARTER: Do you need a number?

MR. DAVIS: Yes, Mr. Chair.

CHAIRMAN CARTER: That will be Number 134. Short title?

MR. DAVIS: "A Developer's Perspective on New Nuclear Plant Deployment."

CHAIRMAN CARTER: A Developer's Perspective on New Nuclear Deployment. Okay. We'll just take the title off the sheet, guys.

(Exhibit Number 134 was marked for identification.)

CHAIRMAN CARTER: You may proceed.

MR. DAVIS: Thank you, Mr. Chair.

BY MR. DAVIS:

Q. Mr. Scroggs, again, I've excerpted the whole presentation. Exhibit 134 is a PowerPoint presentation that you provided to the -- what was the conference, if you recall? I'm trying to remember the name of the conference.

A. It was a conference hosted by Energy Solutions.

Q. Energy Solutions, correct, on March 18, 2009. And you reflected in this talk about nuclear industry teaching lessons. And on the third page of Exhibit 134, you said that 116 units were under construction at the time of Three Mile Island in 1979. Sixty-six were canceled, and only 50 were completed, with an average

delay of 6.3 years; correct?

A. That's correct.

Q. And on the next page, you show cost overruns even before Three Mile Island of up to 249 percent.

A. That's correct.

Q. I assume that you did a study of the -- or had someone on your staff do a study of these development projects at the time or before you gave this talk?

A. Yes. These factors are very much in the mind of nuclear power operators who experienced it, such as FPL, and nuclear power operators who are considering new projects.

Q. And you state that cost overruns were the result of multiple issues. Do these sound a little familiar, regulatory uncertainty, design changes, and economic pressures?

A. All correct.

Q. Do you recall what your recommendations were for dealing with these particular lessons from the 1970s?

A. Well, I think the first recommendation is to learn from our history. And I think everybody would recognize that these plants, particularly the St. Lucie plant and the Turkey Point plant that were built during this time, experienced the same challenges and that

through active management, we were able to overcome those challenges. And those plants today, even though they took longer to build than expected and they cost more than they expected, they have been turning out solid benefits for our customers every day since then.

Q. The other recommendation was to develop a better relationship with the regulatory agencies; right?

A. I think clear communication, especially through a process such as this where we're annually and transparently discussing the project and looking at the factors of the project, are very important, yes, sir.

MR. DAVIS: That's all I have.

CHAIRMAN CARTER: Mr. Moyle.

MR. MOYLE: Thank you, Mr. Chairman.

CROSS-EXAMINATION

BY MR. MOYLE:

Q. I have a few questions, some follow-up and then a couple of other lines I want to explore with you, Mr. Scroggs.

The number for Turkey Point 6 and 7 is moving around a little bit. As we sit here today, what is your best estimate for the cost of Turkey Point 6 and 7?

A. We would say it would be in the upper range of our cost estimate range, somewhere between 16 to 18 billion in total project costs.

Q. And you would agree that in order to determine feasibility, that cost is an important component; correct?

A. Yes, sir.

Q. Okay. And a swing of 15 to 18 or 12 to 18 or even 16 to 18 billion can make a significant difference in feasibility, can it not?

A. Well, our annual feasibility analysis shows that we could have the highest cost estimate in the range and still be economically more advantageous than eight of nine scenarios and economically equivalent to the ninth scenario, with the added qualitative benefits of emission-free generation, energy security, and fuel supply diversity.

Q. And that's the exhibit that Mr. Sim has attached to his testimony; is that right?

A. That's correct, sir.

Q. Okay. We'll talk about that in a minute.

I want to ask a little bit about FPL's view with respect to competitive bidding. Could you just indicate, does the company support competitive bidding as a general rule?

A. Yes. Our procurement procedures identify competitive bidding as the preferred method.

Q. And you can still do a sole source contract;

correct?

A. As necessary and appropriate, yes, sir.

Q. And there are limitations on when you can do a sole source contract according to your policy; correct?

A. Yes. The policy provides us a very specific set of circumstances and requires that the decision-making team enumerate the business reasons for not entering into a competitive bidding process.

Q. One reason would be that there's nobody else that could do the work; correct?

A. In a sole source procurement, that would be the case.

Q. And this Commission has previously expressed concerns about FP&L sole-sourcing work; isn't that correct?

A. There have been discussions about it, yes, sir.

Q. I want to talk a little bit about the EPC and the EP process, and I would like to ask you a little bit. You had hired Cocentric Energy Advisors to perform a report for you, did you not, Mr. Reed?

A. Mr. Reed has been engaged to do a number of things, an audit being one of them, which may be what you're speaking of.

Q. Do you have a copy of his testimony before

you?

A. No, sir, I do not.

MR. MOYLE: Could I ask FPL if they would be so kind as to provide this witness with a copy of Mr. Reed's testimony? And for the record, I'm going to refer you to his exhibit, page 22.

MS. CANO: May I ask Mr. Moyle which date of John Reed's testimony you're referring to?

MR. MOYLE: May 1, 2009.

MS. CANO: Thank you.

A. You said page 22?

Q. Yes, sir. And it's a paragraph that I want to spend some time focusing on. It's a little lengthy, or I would have just read it into the record.

A. I'm sorry. I don't have a page 22 of his testimony.

Q. It's his exhibit. It's his exhibit.

A. Of JJR-1?

Q. Yes, sir. And at the top it says page 26 of 36, and at the bottom it says page 22. If you would just tell me when you're there.

A. Okay. I'm there.

Q. All right. It indicates that Turkey Point 6 and 7 used a single source procurement strategy when it chose BVZ to provide certain engineering services on

behalf of the company; correct?

A. Yes.

Q. And the reason that this was done was to familiarize BVZ with the AP design, AP-1000 design; is that right?

A. Well, in part. I think it's moreover to familiarize Black & Veatch/Zachry with the Turkey Point 6 and 7 project, allowing us to work together on this project so that we have in the future a potential for credible vendors to provide competitive bids on other scopes of contract.

Q. Okay. And this report says, "This procurement strategy was selected in order to enhance the number of potential construction vendors who are familiar with the AP-1000 design." Is that a correct statement?

A. Correct statement.

Q. And it also indicates that there are three capable construction firms, Shaw, Bechtel, and BVZ; correct?

A. That's what it says, yes, sir.

Q. And then you all have selected BVZ to provide you with engineering drawings, correct, preliminary engineering work?

A. Yes. The scope of work that Black & Veatch/Zachry has been engaged for is to do some

preliminary construction planning. This is a very specific scope of work that helps us understand what's the proper sequence and logistics of the construction activities that lead up to the main power plant construction. That's a scope of work that Black & Veatch is very qualified to undertake, and in doing so, they become more familiar with our project and can then be a more credible bidder in the future.

Q. Isn't it true that the company that you selected is not familiar and aligned with Westinghouse, the company that is putting forward the AP-1000, that instead, they align themselves with the GE reactor technology?

A. I know that -- I guess I would say that's an incomplete characterization. Black & Veatch/Zachry has been involved in nuclear plant construction for the GE ABWR, as well as conventional power plant construction for FPL in numerous events. What we're looking at is a scope of work that's similar to site preparation activities that would be not unique to a nuclear plant. And in doing so, FPL has experience working with Black & Veatch/Zachry, and they're qualified to do so.

Q. But this paragraph, a portion of this sentence says, "Two of the three firms, Bechtel and Shaw, have prior experience with the AP-1000 and the Turkey Point 6

and 7 project. BVZ, however, is currently aligned" -- and it talks about URS - Washington Group and the GE reactor design. "By single sourcing the procurement of engineering services from BVZ, this vendor will gain experience with the AP-1000 reactor."

I guess the thinking is it will create an increased competitive environment for construction services; is that right?

A. That's correct. And I think the GE reactor processes have slowed down, so I think Black & Veatch would be more freed up participate in AP-1000 projects in the future.

Q. Was there a -- you have two companies that can compete currently for the construction, Shaw and Bechtel, according to this report; correct?

A. That's correct.

Q. And both of them are familiar with the AP-1000 design?

A. That's correct.

Q. Doesn't it seem a little curious as to why a company not that familiar with the AP-1000 design would be retained to provide engineering services related to a power block unit that's going to be the AP-1000?

A. No. In fact, if you look at it from our perspective, what we're doing is creating the option of

construction vendors who can competitively bid for certain specific scopes in the future. It's a large project. This project will have a lot of pieces to it. Not all the pieces are specifically the nuclear reactor and the turbine. There are a number of associated facilities, water treatment plants, buildings, and other activities around the central plant that could be bid out to an independent bidder with proper qualifications.

The good news is that Black & Veatch/Zachry is very qualified to do the work that they're doing. Their rates have been shown to be very competitive. And in doing so, we're able to not only deliver value, dollar value for dollars spent today, but we're also creating optionality into the future that may benefit our customers.

(Transcript continues in sequence in Volume 2.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA:

COUNTY OF LEON:

I, MARY ALLEN NEEL, Registered Professional Reporter, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages numbered 1 through 172 are a true and correct record of the aforesaid proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor relative or employee of such attorney or counsel, or financially interested in the foregoing action.

DATED THIS 8th day of September, 2009.

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