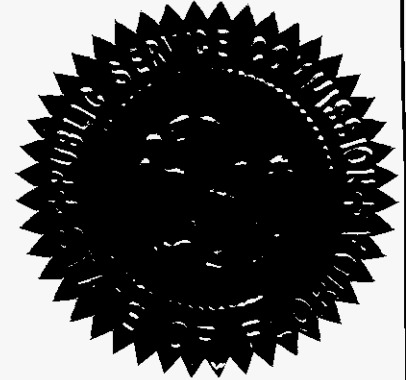


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 090009-EI

In the Matter of:
NUCLEAR COST RECOVERY CLAUSE.



VOLUME 5

Pages 853 through 1032

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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: Wednesday, September 9, 2009

TIME: Commenced at 9:30 a.m.

PLACE: Betty Easley Conference Center
Room 148
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Tallahassee, Florida

REPORTED BY: MARY ALLEN NEEL, RPR, FPR

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P R O C E E D I N G S

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2 (Transcript continues in sequence from
3 Volume 4.)

4 CHAIRMAN CARTER: Good morning. I would like
5 to call this hearing to order. First of all, good
6 morning, everyone. Everybody is looking bright-eyed and
7 bushy-tailed. We'll probably keep the same schedule we
8 had yesterday, at least until 7:00, at least until then.
9 If we make any progress, we -- no pun intended.

10 Before we begin, let me ask staff, any
11 preliminary matters? Ms. Helton, you're recognized.

12 MS. HELTON: Thank you, Mr. Chairman. I would
13 like to enter an appearance, please, for Samantha
14 Cibula, who will be sitting in for me this morning and
15 advising you.

16 CHAIRMAN CARTER: Okeydokey. Are there any
17 preliminary matters from -- I'll come back to you,
18 staff. Let me go to the parties first. Any preliminary
19 matters from the parties?

20 MR. REHWINKEL: No.

21 CHAIRMAN CARTER: Good morning, Mr. Rehwinkel.
22 Good to see you again.

23 MR. REHWINKEL: Good morning.

24 CHAIRMAN CARTER: Okay. Staff, you're
25 recognized for preliminary matters.

1 MR. YOUNG: Yes, Mr. Chairman. Item Number
2 130 on staff's -- on the Comprehensive Exhibit List, I
3 think that that item is no longer needed because it's a
4 part of staff's Comprehensive Exhibit List, excuse me,
5 and Ms. Triplett will talk about that.

6 CHAIRMAN CARTER: Okay.

7 MS. TRIPLETT: Thank you, Chairman. My mic is
8 loud.

9 CHAIRMAN CARTER: We like it loud here. We
10 like volume.

11 MS. TRIPLETT: I apologize. It turns out that
12 it was marked as Exhibit 90, so we don't need Number
13 130.

14 CHAIRMAN CARTER: Are all the parties
15 comfortable with that?

16 MR. REHWINKEL: Yes.

17 CHAIRMAN CARTER: Okay. So, Commissioners,
18 for the record, we will just mark an X as 130 not being
19 admitted, so we can go from there.

20 Okay. Staff, preliminary matters?

21 MR. YOUNG: Yes, sir. At this time, we'll
22 begin the opening statement for Progress Energy Florida.
23 As indicated in the Prehearing Order, opening statements
24 shall not exceed 10 minutes per party, for PEF.

25 CHAIRMAN CARTER: Okay. Is there anything

1 else, any other preliminary matters? Mr. Burnett,
2 anything preliminary?

3 MR. BURNETT: No, sir.

4 CHAIRMAN CARTER: Mr. Rehwinkel, Mr. Davis?
5 Mr. Brew, good to see you.

6 MR. BREW: Thank you. Good morning,
7 Mr. Chairman. No, nothing.

8 CHAIRMAN CARTER: Okay. Mr. Burnett, you're
9 recognized.

10 MR. BURNETT: Thank you, Mr. Chairman. Good
11 morning, Commissioners.

12 Commissioners, I would like to begin my
13 opening remarks by telling you what is not at issue in
14 this case this year with respect to the Levy and the
15 Crystal River 3 uprate projects. There is no challenge
16 to the prudence of any cost or dollars spent on these
17 projects through 2008, there is no challenge to the
18 reasonableness of any cost or dollars spent on these
19 projects to date in 2009, and there is no challenge to
20 the reasonableness of any specific projected cost for
21 2010.

22 There are three material issues that remain in
23 controversy in this case: Number 1, was PEF prudent in
24 signing the EPC contract for the Levy projects; number
25 2, has PEF established that the Levy project remains

1 feasible; and number 3, has PEF been prudent in spending
2 money on the CR3 uprate project prior to obtaining a
3 license amendment from the Nuclear Regulatory
4 Commission.

5 As to the first issue, the evidence in this
6 case will show that PEF was prudent in exercising the
7 EPC contract. Specifically, Mr. Lyash and Mr. Miller,
8 who negotiated the EPC contract, will show that
9 executing the EPC was necessary to maintain the project
10 schedule. They will also show that by signing the EPC,
11 PEF obtained beneficial contract terms for PEF and our
12 customers. You will not hear any credible evidence that
13 disputes either one of these facts.

14 As to the second issue, the Levy project
15 remains feasible, and we have presented sufficient
16 evidence to establish this fact. You will hear both of
17 our witnesses, and you will hear OPC's witness tell you
18 that feasibility cannot be based on a CPVRR, a
19 cumulative present value revenue requirements analysis,
20 as some of the intervenor witnesses suggest. In fact,
21 you will hear OPC's witness, Dr. Jacobs, testify that no
22 utility would evaluate a long-term base load nuclear
23 power plant on year-to-year changes in forecasts. He
24 will also tell you that if a utility did use annual
25 forecasts to evaluate a long-term base load project, a

1 utility would never build a nuclear power plant or any
2 other base load project. And again, that's not
3 Mr. Lyash or Mr. Miller. That's OPC's witness, and we
4 couldn't agree with him more.

5 Now, as to what feasibility does mean, the
6 evidence will establish that feasibility must be
7 analyzed on a qualitative basis that examines whether
8 the project can be physically completed, whether it can
9 be licensed, whether there are fundamental changes in
10 state or regulatory policy, and whether any significant
11 events have taken place, such as technology failures or
12 design flaws. Our evidence will show that the Levy
13 plant remains feasible under this analysis, and you will
14 not hear any evidence to the contrary.

15 Finally, as to the last material issue in
16 dispute, PEF's witnesses will establish that like every
17 other one of the hundreds of uprates that the NRC has
18 approved, PEF has developed and submitted a detailed NRC
19 application for the CR3 uprate that is based on a
20 substantial engineering analysis. Just like the hundred
21 or so other applications just like this one that the NRC
22 has approved, the evidence will show that PEF has a high
23 degree of confidence that it will obtain the needed
24 approval from the NRC for the CR3 uprate project. You
25 will not hear any witness dispute the fact that

1 incurring costs prior its license amendment request is
2 normal and expected, nor will you hear any challenge to
3 the detailed engineering analysis that PEF has performed
4 for its license amendment for CR3.

5 In summary, Commissioners, the relevant issues
6 in this case are just as clear and succinct as PEF's
7 evidence, which will show that our actions and decisions
8 have been reasonable and prudent. And we look forward
9 for addressing any questions that the Commission may
10 have. Thank you.

11 CHAIRMAN CARTER: Thank you. Before we go any
12 further, I know I did it yesterday, but I see a new
13 face, so out of abundance of caution, we'll redo the
14 taking of the appearances of the parties. Mr. Burnett,
15 I know I did this yesterday, but let's do that again. I
16 apologize to you. You may begin.

17 MR. BURNETT: Thank you, sir. John Burnett on
18 behalf of Progress Energy Florida. I also have with me
19 Ms. Dianne Triplett from Carlton Fields. Mr. Mike Walls
20 is also appearing with us. He's defending a rate case
21 deposition. We also have Ed Roach and Alexander Glenn
22 who is with us as well.

23 CHAIRMAN CARTER: Okay. Mr. Rehwinkel.

24 MR. REHWINKEL: Good afternoon -- good
25 morning, Mr. Chairman. Charles Rehwinkel and Joe

1 McGlothlin with the Office of Public Counsel on behalf
2 of the citizens of Florida.

3 CHAIRMAN CARTER: Mr. Brew.

4 MR. BREW: Good morning, Mr. Chairman and
5 Commissioners. James Brew of the firm of Brickfield,
6 Burchette, Ritts & Stone for White Springs Agricultural
7 Chemicals.

8 CHAIRMAN CARTER: Mr. Davis.

9 MR. DAVIS: Yes. Good morning, Mr. Chair and
10 members of the Commission. Gary Davis for Southern
11 Alliance for Clean Energy.

12 CHAIRMAN CARTER: Okay. Did I get -- I think
13 I got everybody yesterday, but out of an abundance of
14 caution and to have a clean record for this hearing, I
15 wanted to do that. I hope I didn't throw anybody off by
16 doing that.

17 Staff.

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

20 MS. CIBULA: Samantha Cibula and Mary Anne
21 Helton, advisors to the Commission.

22 CHAIRMAN CARTER: Okay. Now I feel so much
23 better.

24 Mr. Rehwinkel, you're recognized.

25 MR. REHWINKEL: Thank you, Mr. Chairman.

1 Commissioners, the Office of Public Counsel on
2 behalf of the 18 million citizens of Florida is here
3 today before you on a matter of singular importance both
4 to this state and its ratepayers. We represent, as I
5 have said, the millions of customers in this state who
6 are being called upon today, and perhaps for years to
7 come, to pay for a nuclear plant that has yet to
8 generate electricity and potentially may never do so.
9 Hopefully it will.

10 At the outset, we want to be clear that our
11 advocacy at this juncture is focused on a relatively
12 narrow issue of prudence and reasonableness of two areas
13 of the company's decision-making. One deals with the
14 Levy nuclear project or LNP, and the other with the
15 Crystal River Unit 3 uprate project.

16 The concerns we raise in our case, primarily
17 through the expert testimony of Dr. William R. Jacobs, a
18 nuclear engineer by undergraduate, graduate, and
19 doctoral education and extensive work experience, are
20 raised with respect for the dedication, sincerity, and
21 expertise of the employees of Progress Energy. Our
22 purpose in this case is to raise concerns about
23 decisions that may yet prove to result in excess costs
24 to customers.

25 We will ask you to decide, after hearing all

1 the evidence, to find that Progress has erred in its
2 judgment to sign the engineering, procurement and
3 construction or EPC contract on December 31, 2008. In
4 the alternative, if you cannot reach such a decision, we
5 will ask that you hold off any decision of this aspect
6 of the LNP project until certain critical, relevant, but
7 as yet unknown information becomes known. This could
8 either take the form of a spin-off docket or deferral of
9 this matter and a final decision in this matter until
10 the 2010 hearing cycle.

11 With respect to the Crystal River 3 uprate,
12 our position is that the Commission, after hearing all
13 the evidence, should put the company on notice that its
14 sequence of expending hundreds of million of dollars
15 related to Phases 2 and 3 of this project before getting
16 authorization from the Nuclear Regulatory Commission may
17 not be prudent in light of the remaining licensing
18 challenges.

19 The Public Counsel is not in a position to
20 seek disallowance of any costs at this current stage of
21 the docket relative to either project. Our effort here
22 is to preserve under the rules and statutes governing
23 the recovery of pre-startup nuclear costs our rights to
24 challenge and the citizens' rights to challenge the
25 prudence of these costs if Progress does not obtain the

1 licensing it seeks.

2 Commissioners, to step back for a moment, I
3 would like to frame the situation from the perspective
4 of customers. For decades, and really forever, the law
5 of electric utility ratemaking in this state has been
6 that customers do not pay until a plant becomes
7 commercial, begins commercial service. The State of
8 Florida, for good reasons, has changed this approach
9 with respect to new nuclear generation. Customers now
10 pay for site selection, pre-construction, and certain
11 carrying costs in advance of commercial service for new
12 nuclear generation. This abrupt policy shift even
13 requires customers to pick up the tab when a plant is
14 abandoned mid-construction or short of completion.

15 As a check on this process, the Legislature
16 has entrusted to you the obligation to monitor costs for
17 reasonableness, prudence, and ongoing long-term
18 feasibility. In this way, customers are protected from
19 utility decision-making that might otherwise ignore
20 unreasonable cost escalation or that might take
21 excessive risks. In this new era that seeks to foster
22 the expansion of new nuclear generation, your vigilance
23 is the saving grace for a ratemaking model that has
24 generated significant concern from the public. It is
25 this aspect of the new statutory framework that the

1 citizens invoke here today.

2 Our case is relatively simple and
3 straightforward. However, that simplicity belies the
4 seriousness of the matter before you.

5 PEF seeks extraordinary recovery of
6 significant costs of the construction and licensing of a
7 \$17 billion nuclear generating complex. This is a large
8 and complex management, finance, and engineering
9 undertaking. The fact that it is a human endeavor means
10 mistakes will be made. That fact alone means that the
11 standard of care is essentially what was known or
12 reasonably should have been known by the management at
13 the time of making decisions that might be questioned.

14 With regard to the LNP project, the issue
15 before you is whether PEF acted reasonably and prudently
16 when it signed a multi-billion-dollar contract with the
17 Consortium. Dr. Jacobs provides thoroughly documented
18 expert testimony that casts serious doubt on whether the
19 signing of the contract was prudent or reasonable under
20 the circumstances that PEF knew or reasonably should
21 have known at the time of signing.

22 Our case demonstrates that PEF either knew or
23 should have know that the NRC's effective denial of its
24 limited work authorization or LWA was such a real
25 possibility, or even probability, that they should have

1 delayed the signing of the EPC until at least the end of
2 January 2009, when they had a very good idea they were
3 going to get the NRC's decision on the time frame. By
4 ignoring the NRC's patently skeptical approach to the
5 complexity of the site geology and all the information
6 within its knowledge, PEF has potentially exposed the
7 company and its customers to costs greater than would
8 have been incurred had they waited a few days to see
9 what the NRC was going to say about the review schedule.

10 We urge you to consider all the evidence,
11 including the direct, rebuttal, and cross-examination.
12 A significant portion of this case involves geological
13 information and the regulatory process at the NRC which
14 considers that information. As a fellow regulatory
15 body, you are well positioned to understand that
16 presumptions of correctness generally do not accompany
17 regulatory filings, nor do rules promulgated carry with
18 them a presumption of favorable action. We ask you to
19 listen to the evidence and then decide were the actions
20 of PEF reasonable under the circumstances that PEF knew
21 or should have known regarding the likelihood of a
22 favorable LWA approval. We believe the evidence
23 supports either a finding that they erred in prematurely
24 signing a contract or that you may find cause to spin
25 off or defer the determination for further evidence

1 gathering once certain cost facts have been established
2 after renegotiation.

3 We further submit that due to the major
4 retrenchment caused by the schedule shift and the need
5 to renegotiate the EPC, PEF cannot have effectively done
6 an appropriate feasibility analysis. We support you
7 directing that the analysis be done once costs are known
8 after the renegotiation occurs.

9 Finally, Commissioners, the Public Counsel is
10 asking that PEF be put on notice that the costs for
11 Phases 2 and 3 of the CR3 extended power uprate that
12 have been expended while there is a reasonably
13 significant degree of uncertainty about obtaining NRC
14 approval should be subject to disallowance as being
15 imprudent. PEF has taken a significant gamble with
16 ratepayer funds on an unprecedented, first-of-its-kind
17 uprate. While we laud the initiative and engineering
18 expertise, the nature of the novel up-front cost
19 recovery opportunity requires that PEF's actions be
20 closely scrutinized in this case. We are not asking for
21 any disallowance here. Dr. Jacobs has offered his
22 expert opinion that the sequence of spending and
23 licensing is incorrect and may be imprudent.

24 Thank you very much for your patience, and we
25 look forward to putting our case on.

1 CHAIRMAN CARTER: Before I go to Mr. Brew,
2 Captain McNeill, you want to enter an appearance on this
3 matter? I wanted to try to keep a clean record for both
4 the FPL and the Progress -- good morning.

5 CAPTAIN McNEILL: Good morning, sir. I
6 actually don't represent the Navy in this case.

7 CHAIRMAN CARTER: On this one?

8 CAPTAIN McNEILL: Yes. I don't, sir.

9 CHAIRMAN CARTER: Okay. Thank you very
10 kindly.

11 CAPTAIN McNEILL: Thank you.

12 CHAIRMAN CARTER: I certainly wanted to give
13 you an opportunity.

14 COMMISSIONER EDGAR: Mr. Chairman, now that
15 I've had my second cup of coffee for the morning on our
16 eighth or something day straight in the hearing room, I
17 would like to put in an appearance as well.

18 CHAIRMAN CARTER: Good to see you.

19 COMMISSIONER EDGAR: Thank you.

20 CHAIRMAN CARTER: Good morning and welcome.
21 Mr. Brew.

22 MR. BREW: Thank you. Good morning, Chairman
23 and Commissioners.

24 Progress Energy has not finally determined
25 whether it intends to proceed with building the Levy

1 units, notwithstanding the need determination last year
2 or the State's siting certificate approval. The utility
3 is keeping its options open with an eye on key factors
4 that may ultimately influence that decision to go
5 forward. One such factor certainly is cost. This
6 approach is certainly necessary under any circumstances,
7 given the delays and changes evidenced, as discussed
8 yesterday, by TVA and Duke on their planned nuclear
9 programs.

10 But these are not any circumstances. Apart
11 from declining load and plunging fuel prices, Progress
12 has a serious problem with its planned schedule for the
13 Levy units that the Public Counsel has addressed in
14 detail. Potential Levy partners, in Progress's own
15 words, are exercising common sense in awaiting
16 resolution of the schedule and revised TPC before making
17 any commitments. Any reasonable management would do no
18 less at this point. It should need to have a better
19 idea of what it is getting into, what the costs are and
20 what the risks are before making any commitment. The
21 smart thing to do, the prudent thing to do is to soberly
22 assess the relative merits of moving forward with a
23 project that, at least in Progress's case, would already
24 triple the existing rate base of that company.

25 Florida ratepayers do not have that option.

1 As Mr. Rehwinkel just noted, we are compelled to fund
2 the project up front to the tune of billions of dollars
3 for what now appears to be at least a decade before
4 we'll start seeing anything in return.

5 Now, this is the first year that the
6 Commission has addressed the feasibility portion under
7 the new nuclear recovery rule, and a critical fact to
8 keep in mind is that the nuclear recovery rule does not
9 in the slightest change the risks, the financial risks
10 of building a nuclear power plant. It does not speed up
11 the NRC's licensing review. It does not move vendor
12 queues. It does not improve the availability of nuclear
13 qualified labor. What the rule does is, it promotes
14 nuclear development in Florida by shifting financial
15 risk to Florida consumers. Now, how far consumer necks
16 are stuck out on this is purely a function of the
17 reviews in this docket, and particularly the feasibility
18 review.

19 What the feasibility review is intended to do
20 is determine on an ongoing basis whether the project
21 continues to make economic sense for Florida consumers,
22 exercising the same financial costs that Progress is
23 exercising, that other utilities are exercising, that
24 Wall Street is exercising, that potential partners are
25 exercising. That's the purpose of this review in this

1 docket. To do otherwise and not regularly and seriously
2 examine the economics of moving forward in this economy,
3 with the uncertainty now associated with the Levy
4 project, would defy common sense as well as the plain
5 language of the rule.

6 Now, PCS has introduced testimony by Peter
7 Bradford. Mr. Bradford has sat in your place for many
8 years. He chaired two state commissions in New York and
9 Maine at a time when the commissions needed to deal with
10 the recovery of nuclear costs. He served as a
11 commissioner at the Nuclear Regulatory Commission during
12 the licensing of the first generation of nuclear plants.
13 You would be hard pressed to find anybody that has dealt
14 with the questions from a ratemaking perspective of
15 recovering the costs of nuclear power plants than
16 Mr. Bradford.

17 Moving on to specifically on the feasibility
18 questions, it should certainly seem odd that Progress
19 would file updated fuel and environmental forecasts and
20 do nothing with them. It's as though they serve no
21 purpose in this case. Those projections, of course, go
22 exactly to the ultimate question as to whether or not
23 consumers have any reasonable expectation that the
24 extraordinary investment we're making up front in this
25 project are ever likely to benefit ratepayers in the

1 future. That's why the Commission ordered them in the
2 need docket, along with updated construction data.

3 Now, Progress does not offer the detailed
4 feasibility evaluation that's required by the rule.
5 Instead, Progress suggests simply that as long as they
6 haven't changed their mind, there's no new legislative
7 barriers, or the NRC hasn't disapproved the project,
8 that it needs to go forward. That flies in the face of
9 what they're doing, which is hedging their bets, and
10 what needs to be done under any common sense assessment
11 of the long-term risks for the project.

12 The company's generic reference to fuel
13 diversity, low carbon emissions, and expected low fuel
14 costs of building any nuclear unit anywhere in Florida
15 at any time at any cost is, to say the least,
16 insufficient. The rule is in fact project-specific,
17 requiring a detailed analysis of the long-term
18 feasibility of completing the power plant. We don't
19 have that here. It cannot be satisfied by a simple
20 reference to the nominal virtues of nuclear power. That
21 would render the annual feasibility review pointless.
22 It is in fact vital.

23 Now, we understand that much has changed, in
24 fact, almost everything has changed from the need case.
25 But looking at them in short order, Progress can't say

1 when it expects either Levy unit to be in service. It
2 can't say what its updated costs of the facilities are
3 likely to be. It can't say whether it still plans to
4 build them in close parallel tracks, or if in fact it
5 plans to build two units at all. You don't have that
6 basic information. Without that, Progress has little
7 hope of securing a financial partner for the project, at
8 the same time, without this basic information, Progress
9 doesn't have reasonable basis for asserting that
10 continuing with the project is feasible.

11 Now, on the external side, you've had negative
12 customer growth by Progress for the first time ever.
13 The company's last Ten-Year Site Plan reduced their
14 long-term growth forecasts. You have natural gas prices
15 that have plunged, and most updates expect that to be,
16 if not permanent, certainly long-term in terms of the
17 forecast for fuel supply in this country. The magnitude
18 and apparent persistence of these sea changes can't be
19 reasonably ignored.

20 Our recommendation on this docket is that,
21 first, the Commission needs to require Progress to
22 provide detailed, updated cost and schedule information
23 for the project and that the Commission's approval for
24 estimated cost needs to be tied to that. We need to
25 have information before we authorize cost recovery.

1 Second, we need updated information that's
2 actually relevant. Reference to stale data from the
3 need docket shouldn't be accepted.

4 Third, there are certain permanent
5 ramifications of the schedule slip. Progress forecasted
6 capacity need in 2016. Well, neither Levy unit can meet
7 that now. The company is going to have to either
8 acquire or build additional capacity to meet that
9 capacity need. That in turn will affect the need for
10 the Levy units. That has to be addressed.

11 Also, Progress's strategy from the need docket
12 was to be a first mover, to be at the front of every
13 line. Well, with the schedule slip, it's not apparent
14 that they'll be at the front of any line anymore. In
15 fact, they may be at the end of the line for the first
16 wave of plants. That may affect the timing and the
17 ability to get long lead time equipment and other
18 materials. That needs to be addressed.

19 On the prudence side, PCS agrees with OPC that
20 there are significant questions associated with the
21 limited work authorization and the execution of the Levy
22 EPC last year. From our perspective, based on the
23 testimony and the discovery, it simply appears that the
24 NRC was doing their job and that Progress assumed
25 silence to be acquiescence was not reasonable under the

1 circumstances at the time. Our suggestion is that that
2 be spun off into a separate docket where Progress has
3 the burden of proof of moving forward to demonstrate its
4 reasonableness.

5 Finally, it's already apparent that Progress
6 consumers alone can't afford the rate impacts being
7 produced by the Levy project. About half of the cost
8 recovery authorized for 2009 was deferred until next
9 year. The company now proposes that the lion's share of
10 the costs that they want approved for next year be
11 deferred again. There's only so far we can go with
12 accounting before we have to confront the rate impacts
13 for consumers. Our suggestion is that once we have
14 updated costs and schedule, then we need to set spending
15 limits that are consistent with the rate impacts so that
16 we avoid a train wreck under the nuclear cost recovery
17 rule.

18 Thank you very much.

19 CHAIRMAN CARTER: Thank you. Mr. Davis.

20 MR. DAVIS: Good morning, Mr. Chair and
21 Commissioners. I'm going to try not to repeat any of
22 the points that have been made, and also the points that
23 we made yesterday as well.

24 But yesterday SACE did focus on the impacts to
25 ratepayers of the FP&L Turkey Point 6 and 7 proposed

1 cost recovery, and these impacts are much greater with
2 Progress Levy, and we want to point that out and put
3 some numbers to it. If the cost recovery amounts were
4 done based on the normal rule, it would add up to \$13
5 per month to the bills of ratepayers in its territory in
6 2010. It would be \$29 per month by 2017, when it
7 doesn't look like there will be any electricity
8 generated by the units at that time. And just to
9 reiterate, as with FP&L, these rate increases would be
10 on top of the base rate increases that Progress is
11 proposing and I think you have coming up in another
12 hearing soon.

13 We also are going to focus in this hearing on
14 the feasibility issue. We believe that the other
15 intervenors will cover the imprudence of Progress
16 entering into the EPC contract prior to the approval of
17 the limited work authorization from the NRC quite
18 thoroughly. We're going to focus on the lack of
19 long-term feasibility of the new nuclear reactors, and
20 we're going to again present the testimony of Dr. Mark
21 Cooper and Arnie Gundersen.

22 As you heard yesterday, Mr. Gundersen has 35
23 years of experience in the nuclear industry as an
24 engineer, and you heard Dr. Cooper's experience in
25 economic analysis of energy issues. They are going to

1 basically say the same thing about the circumstances
2 that have changed dramatically since the need was
3 determined for the Progress Levy facilities. I'm not
4 going to reiterate those circumstances. Mr. Brew just
5 went through those.

6 I will bring you back to your rule again that
7 we're dealing with here on feasibility. The
8 Commission's rule requires that a utility seeking cost
9 recovery for nuclear project costs shall submit for
10 Commission review and approval -- I underline that
11 again -- a detailed analysis of the long-term
12 feasibility of completing the power plant. SACE
13 believes that this is not a hollow requirement.
14 Progress, on the other hand, asserts that feasibility
15 has nothing to do with economic feasibility, and that's
16 going to be a different issue than you heard yesterday.

17 You know, again, I'll come back to the fact
18 that with cost recovery, when the utilities bet the farm
19 on a \$17 billion project, the ratepayers suffer if the
20 bet goes bad. And in this case, we have with the Levy
21 project Progress betting a lot more sooner, and they're
22 even raising the stakes as the odds are getting worse.
23 That's kind of the situation we're in with Progress.

24 We have these factors that we discussed
25 yesterday and that Mr. Brew has spoken of this morning,

1 and any one of the factors, these dramatically changed
2 circumstances, would be enough to render a nuclear power
3 plant too risky right now. As a matter of fact, you'll
4 hear, and you heard some testimony yesterday about the
5 fact that most of the other utilities who are in the
6 first wave with the AP-1000 reactor are hurrying to the
7 back of the line. Everyone is trying to get out of the
8 first wave now and move to the second wave. I guess
9 they could keep -- you know, leapfrogging backwards is
10 where we're going with this.

11 The TVA Bellefonte plant, as you heard, is no
12 longer the reference combined operating license
13 application with the NRC, and Moody's has just given the
14 Southern Company Vogtle plant a negative advise on their
15 financing. And SCANA, as you heard yesterday, has had a
16 downgrade from Moody's. Duke Lee in South Carolina is
17 being delayed.

18 And so everyone is rushing to the back of the
19 line rather than marching forward with these plants, and
20 for good reason, because these factors that we've
21 discussed at length and will continue to discuss are
22 kind of a perfect storm, coming all together as they do.
23 When they do come together like this, it's overwhelming
24 that a nuclear power plant is a risky investment at this
25 point.

1 Now, one difference between the Progress
2 project and FP&L, as we discussed yesterday, is that
3 Progress has already been forced to accept the reality
4 that its aggressive schedule cannot be met. We
5 presented a lot of information yesterday about an
6 aggressive schedule by FP&L, but Progress has already
7 been forced to accept that reality. And we don't know
8 today how far that slippage will go, or we don't know
9 how much it's going to cost, because Progress has not
10 provided those numbers to the Commission.

11 But ironically, though, while proposing a
12 slower schedule now, with a focus on obtaining its
13 combined operating license rather than on construction
14 activities, Progress's 2009 and 2010 costs that it seeks
15 recovery for are astronomical. It proposes to charge
16 the ratepayers for nearly 400 million for these two
17 years, including 300 million in engineering design and
18 procurement costs. In contrast, FP&L, which was
19 proposing essentially the same approach, was going to be
20 charging the ratepayers 58 million.

21 And so SACE is suggesting a somewhat different
22 tack than the other intervenors, that, number one, you
23 disapprove the long-term feasibility analysis, but
24 number two, that you do not approve these 2009 and 2010
25 costs going forward without a better analysis that

1 demonstrates that they really are reasonable costs.

2 We don't believe that they are. We don't
3 believe that they should be moving forward and spending
4 this kind of money and charging it to the ratepayers,
5 and so -- we also don't want to have other dockets to
6 deal with these issues. We believe that this is the
7 docket to deal with all the issues regarding the
8 long-term feasibility, and that the Commission can make
9 a decision in this docket, and should. It then would be
10 up to Progress to come back if they want to and try to
11 demonstrate the long-term feasibility to rev the process
12 back up again if they choose, but there's no reason why
13 we should string this out.

14 Now, Progress disputes the purpose behind the
15 annual feasibility analysis, and I guess that's why they
16 did not comply with the conditions that the PSC placed
17 on the need determination order in 2008. Progress did
18 not provide the economic analysis that it was clear from
19 the order that the Commission was seeking. The
20 Commission wasn't just seeking the updated fuel
21 forecasts and updated environmental forecasts and
22 updated capital cost estimates just to have those
23 numbers. I mean, it was obviously seeking an updated
24 economic analysis of the feasibility of these units.

25 Now, while Progress did provide an updated

1 fuel forecast and an updated environmental forecast, we
2 believe that both of these are flawed and shouldn't be
3 relied upon, for a lot of the reasons that have been
4 discussed previously. But Progress did not provide an
5 updated project cost. We're in the same position where
6 we're relying upon 2007 estimates. And certainly
7 circumstances have changed, and an updated cost is
8 necessary before you can approve it.

9 Now, again, Progress argues that feasibility
10 only means that the project is technically and legally
11 feasible, and they further agree that nuclear power
12 investments should be exempt from a demonstration of
13 economic feasibility once the need determination is
14 made. That's not the way we read the long-term
15 feasibility requirement. Based on the Commission's
16 requirements in the need determination, we don't believe
17 the Commission agrees with Progress's interpretation
18 either.

19 Progress has forgotten that the cost recovery
20 provision is an extraordinary incentive that comes with
21 heightened scrutiny by the PSC of the long-term
22 feasibility of the project. If Progress is unwilling to
23 accept that scrutiny, particularly the economic
24 scrutiny, then it can build the Levy plant without cost
25 recovery. Of course, the company would not accept that

1 risk, but it's willing to place it on its ratepayers.

2 Thank you.

3 CHAIRMAN CARTER: Mr. Moyle, before giving
4 your opening statement, so we can keep the record clear,
5 go ahead on and enter your appearance, as well as if
6 you've got a co-counsel with you today. You're
7 recognized.

8 MR. MOYLE: Thank you, Mr. Chairman. Jon
9 Moyle along with Vicki Kaufman and John McWhirter on
10 behalf of FIPUG. And I apologize for my dilatory
11 appearance this morning and have just a brief opening
12 statement that I would like to make and reiterate some
13 points that have been made this morning and also that
14 were made yesterday.

15 You know, to step back and put this in
16 perspective, this is another ask of charges that would
17 be put on consumers. The Legislature has provided a
18 mechanism for this to be reviewed, which is what you all
19 are doing. And I would argue, while it's different, it
20 needs to be a rigorous and robust review, not dissimilar
21 to what you're being asked to do in rate cases that are
22 before you, where you dig in, get into the details, look
23 hard at what is being asked.

24 And the notion of long-term feasibility is one
25 that's an important criteria. And I think it's a very

1 difficult question or ask of this Commission to approve
2 long-term feasibility when a fundamental question, which
3 is, "What's this going to cost?" cannot be answered.
4 You know, here you have information being provided,
5 "Well, it's 17.2 billion, but, you know, we're not
6 really certain about that number, because some things
7 have happened. There are some delays, and we're going
8 to have to go back and renegotiate a contract."

9 You heard Mr. Reed from the Wharton School of
10 Business yesterday talk about nuclear projects and delay
11 having a significant impact on them. Well, this project
12 is not immune from that. The delays are going to have a
13 significant impact. And we would argue, before you can
14 make a judgment on long-term feasibility, you've got to
15 know what the cost is.

16 You know, the technical aspects, that's one
17 issue. But if you look at the rule, it doesn't modify
18 long-term feasibility in any way to limit what you look
19 at. And surely, in making that judgment, cost is a very
20 critical component. I mean, it's something that my
21 clients and others are enduring, having to feel today.
22 And the costs are significant, you know, \$12 per
23 residence here that's being deferred, a portion of it,
24 because it's a very significant issue. And as you
25 undertake to review this and to analyze it, we would ask

1 that you keep in mind that is a key component.

2 The other piece that we touched on a little
3 bit yesterday is, you know, in this proceeding, you have
4 Florida Power & Light and Progress Energy, and it has
5 kind of been split up, probably for convenience. But,
6 you know, again, we have five of these projects, these
7 AP-1000 projects that are pending before the NRC, and
8 Florida as a state has two of them.

9 I'm representing a client, and you all have
10 more of a policy role to consider. But we would urge
11 you, given all the uncertainties and the questions, to
12 ask for additional detail and to send a message that
13 these companies should seriously consider strategic
14 partnerships, which is what Wall Street is saying to
15 them. I don't think anybody is disagreeing that
16 strategic partnerships make sense, but to send that
17 message to them.

18 Mr. Olivera recently provided sworn testimony
19 to you where he said they look to signals from this
20 Commission as to what direction to head. And we think
21 that this proceeding provides you an opportunity to send
22 a serious, strong signal about a strategic partnership
23 so that consumers aren't paying double. I mean, it's
24 the Walmart effect. My clients, both in the FPL and in
25 the Progress service territory are, in effect, going to

1 be paying double for this, and largely because there's
2 not a strategic partnership. It's a lot of risk for the
3 companies, and it's a lost of risk for the State. And
4 we think that, particularly given the downturn in demand
5 and the changed circumstances, that there ought to be a
6 serious analysis of a strategic partnership.

7 The final point I would make is that this
8 State operated for many, many years with a 15 percent
9 reserve margin. There was a discussion about that. It
10 kind of through a settlement went up to 20 percent. But
11 if you -- you know, if you make a changed assumption
12 with respect to is 17.5 the right number, I mean, that
13 potentially gives you lots of opportunities to force and
14 forge a strategic partnership.

15 So those are two key points I wanted to
16 briefly make. I look forward to the testimony today and
17 to continuing to explore this further. And again, my
18 apologies for having to run a few minutes late.

19 CHAIRMAN CARTER: Thank you, Mr. Moyle.

20 Are the witnesses here in the room that will
21 be testifying today? If you will be testifying in this
22 matter, would you please stand so I can swear you in as
23 a group? Would you please raise your right hand?

24 (Witnesses collectively sworn.)

25 CHAIRMAN CARTER: Thank you. Please be

1 seated.

2 Also, just kind of a reminder to those of you
3 that saw it done yesterday and those of you that are new
4 to the process, these lights here will help you with
5 keeping your timing. Green is always good. The amber
6 light lets you know you've got two minutes left, and the
7 red light lets you know you have 30 seconds left in the
8 process of doing your summary of your testimony.

9 Staff, are there any other preliminary matters
10 before we begin with the witnesses?

11 MR. YOUNG: Just a reminder, Mr. Chairman,
12 that witness summaries, if any, shall not exceed five
13 minutes per witness for each -- for the Progress
14 petition. Several witnesses will testify as a panel.
15 Summaries of these witnesses shall not be more than five
16 minutes total.

17 CHAIRMAN CARTER: Okay. Are all parties
18 comfortable with that? You guys remember that?

19 Okay. Mr. Burnett, you're recognized. Call
20 your first witness.

21 MR. BURNETT: Thank you, sir. With your
22 permission, I'll turn it over to Ms. Triplett for the
23 first witness.

24 CHAIRMAN CARTER: Ms. Triplett, you're
25 recognized.

1 MS. TRIPLETT: Thank you. PEF's first witness
2 is Will Garrett, and he was stipulated to and excused
3 from the proceeding.

4 CHAIRMAN CARTER: Okay. Let's deal with
5 Mr. Garrett's -- is that correct, the parties stipulated
6 to -- okay. Let's do this, then. The prefiled
7 testimony of the witness will be inserted into the
8 record as though read.

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IN RE: NUCLEAR COST RECOVERY CLAUSE

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 090009

DIRECT TESTIMONY OF WILL GARRETT

I. INTRODUCTION AND QUALIFICATIONS

1
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Q. Please state your name and business address.

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

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

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

Q. What are your responsibilities in that position?

A. As legal entity Controller for Progress Energy Florida (“PEF” or “the Company”), I am responsible for all accounting matters that impact the reported financial results of this Progress Energy entity. I have direct management and oversight of the employees involved in PEF Regulatory Accounting, Property Plant and Materials Accounting, and PEF Financial Reporting and General Accounting. In this capacity, I am also responsible for the Levy County Nuclear Project (“LNP”) and Crystal River Unit 3 (“CR3”)

1 Uprate Project Cost Recovery True-Up filings, made as part of this docket, in
2 accordance with Rule 25-6.0423, Florida Administrative Code (F.A.C.).
3

4 **Q. Please describe your educational background and professional experience.**

5 **A.** I joined the company as Controller of PEF on November 7, 2005. My direct
6 relevant experience includes 2 ½ years as the Corporate Controller for DPL, Inc.
7 and its major subsidiary, Dayton Power and Light, headquartered in Dayton,
8 Ohio. Prior to this position, I held a number of finance and accounting positions
9 for 8 years at Niagara Mohawk Power Corporation, Inc. (NMPC) in Syracuse,
10 New York, including Executive Director of Financial Operations, Director of
11 Finance and Assistant Controller. As the Director of Finance and Assistant
12 Controller, my responsibilities included regulatory proceedings, rates, and
13 financial planning, having provided testimony on a variety of matters before the
14 New York Public Service Commission. Prior to joining NMPC, I was a Senior
15 Audit Manager at Price Waterhouse (PW) in upstate New York, with 10 years of
16 direct experience with investor owned utilities and publicly traded companies. I
17 am a graduate of the State University of New York in Binghamton, with a
18 Bachelor of Science in Accounting and I am a Certified Public Accountant in the
19 State of New York.
20

21 **Q. Have you previously filed testimony before this Commission in connection**
22 **with Progress Energy Florida's Nuclear Cost Recovery?**

23 **A.** Yes.
24

1 **II. PURPOSE AND SUMMARY OF TESTIMONY**

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

3 **A.** The purpose of my testimony is to present for Commission review and approval,
4 the actual costs associated with Progress Energy Florida's LNP and CR3 Uprate
5 activities for the period January through December 2008. Pursuant to Rule 25-
6 6.0423, F.A.C., PEF is presenting testimony and exhibits for the Commission's
7 determination of prudence for actual expenditures and associated carrying costs. I
8 am also adopting the testimony filed in Docket 080009 of Lori Cross, with
9 respect to the actual site selection costs incurred in 2006 and 2007 for the LNP. I
10 will also be supporting my direct and rebuttal testimony regarding the land
11 purchases for the LNP, also filed in Docket 080009. I understand that the
12 Commission will be reviewing the prudence of the 2006 and 2007 LNP costs in
13 this year's proceeding, and my adoption of this testimony will assist the
14 Commission in that review.

15
16 **Q. Are you sponsoring any exhibits in support of your testimony?**

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

- 19 ● Exhibit No. ____ (WG-1), consisting of Schedules T-1 through T-10 of the
20 Nuclear Filing Requirements ("NFRs") and Appendices A through C,
21 which reflect PEF's retail revenue requirements for the LNP from January
22 2008 through December 2008; however, I will only be sponsoring
23 Schedules T-1 through T-6, T-6B, T-9, T-10, and Appendices A through C.
24 Garry Miller and Gary Furman will be co-sponsoring portions of schedule

1 T-6 and Appendix C and sponsoring Schedules T-6A and T-7 through T-
2 8B. Schedule T-10 in Exhibit No. ____ (WG-1), is provided for
3 informational purposes only because it is not applicable to the LNP during
4 the reporting period.

- 5 ● Exhibit No. ____ (WG-2), consisting of Schedules T-1 through T-10 of the
6 NFRs and Appendices A through D, which reflect PEF's retail revenue
7 requirements for the CR3 Uprate Project from January 2008 through
8 December 2008; however, I will only be sponsoring Schedules T-1 through
9 T-6, T-6B, T-9, T-10, and Appendices A through D. Steven Huntington
10 will be co-sponsoring Schedule T-6 and Appendix C and sponsoring
11 Schedules T-6A and T-7 through T-8B. Schedules T-2 and T-10 in Exhibit
12 No. ____ (WG-2), are provided for informational purposes only because they
13 are not applicable to the CR3 Uprate Project during the reporting period.

14
15 These exhibits are true and accurate.

16
17 **Q. What are Schedules T-1 through T-10 and Appendices A and B?**

- 18 **A.**
- 19 ● Schedule T-1 reflects the actual true-up of total retail revenue requirements
20 for the period.
 - 21 ● Schedule T-2 reflects the calculation of the true-up of site selection and
22 preconstruction costs for the period.
 - 23 ● Schedule T-3 reflects the calculation of the true-up of carrying costs on
construction expenditures for the period.

- 1 • Schedule T-3A reflects the calculation of actual deferred tax carrying costs
- 2 for the period.
- 3 • Schedule T-3B reflects the calculation of the actual construction period
- 4 interest for the period.
- 5 • Schedule T-4 reflects Capacity Cost Recovery Clause (“CCRC”)
- 6 recoverable Operations and Maintenance (O&M) expenditures for the
- 7 period.
- 8 • Schedule T-5 reflects other recoverable O&M expenditures for the period.
- 9 • Schedule T-6 reflects actual monthly expenditures for site selection,
- 10 preconstruction and construction costs for the period.
- 11 • Schedule T-6A reflects descriptions of the major tasks.
- 12 • Schedule T-6B reflects annual variance explanations.
- 13 • Schedule T-7 reflects technology selected for the LNP and CR3 Uprate
- 14 Project.
- 15 • Schedule T-8 reflects contracts executed in excess of \$1.0 million.
- 16 • Schedule T-8A reflects details pertaining to the contracts executed in excess
- 17 of \$1.0 million.
- 18 • Schedule T-8B reflects contracts executed in excess of \$200,000, yet less
- 19 than \$1.0 million.
- 20 • Schedule T-9 reflects the calculation of the Final True-up Amount.
- 21 • Schedule T-10 reflects the calculation of interest.
- 22 • Appendix A reflects calculation of the monthly interest rate.
- 23 • Appendix B reflects a comparison of 2006 to 2008 revenue requirements.
- 24 • Appendix C reflects a comparison of 2006 to 2008 capital expenditures.

- 1 • Appendix D (Crystal River Unit 3 Uprate only) reflects the calculation of
2 the MUR revenue requirements.

3
4 **Q. What is the source of the data that you will present in your testimony and**
5 **exhibits in this proceeding?**

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

11
12 **Q. What is the final true-up amount for the LNP for which PEF is requesting**
13 **recovery for the period January 2008 through December 2008?**

14 **A.** PEF is requesting approval of a total under-recovery amount of \$161,180,416 for
15 the calendar period ending December 2008. This amount, which can be seen on
16 Line 6 of Schedule T-1 of Exhibit No. __ (WG-1), represents the site selection,
17 preconstruction, carrying costs on construction cost balance, CCRC recoverable
18 O&M, and deferred tax asset carrying cost associated with the Levy County
19 project, and was calculated in accordance with Rule 25-6.0423.

20
21 **Q. What is the final true-up amount for the CR3 Uprate Project for which PEF**
22 **is requesting recovery for the period January 2008 through December 2008?**

23 **A.** PEF is requesting approval of a total under-recovery amount of \$7,555,938 for
24 the calendar period of January 2008 through December 2008. This amount,

1 which can be seen on Line 6 of Schedule T-1 of Exhibit No. ___ (WG-2),
2 represents the carrying costs on construction cost balance, CCRC recoverable
3 O&M, and deferred tax asset carrying cost associated with the CR3 Uprate, as
4 well as the revenue requirements associated with the MUR, and was calculated in
5 accordance with Rule 25-6.0423.

6
7 **Q. What is the carrying cost rate used in Schedules T-2 and T-3?**

8 **A.** The carrying cost rate used on Schedules T-2 and T-3 is 8.848 percent. It is
9 explained in detail at footnote "C" of these schedules, and it is based on the
10 approved Allowance for Funds Used During Construction (AFUDC) rate
11 pursuant to Order PSC-05-0945-S-EI in Docket 050078-EI. As indicated in the
12 question below, this AFUDC return has not yet been recovered in rates, so the
13 annual rate was adjusted to a monthly rate consistent with the AFUDC rule,
14 FPSC Rule 25 6.0141, Item (3).

15
16 **Q. What does the adjustment on Line 3 of Schedule T-3 represent?**

17 **A.** It represents the return on average net Construction Work In Progress (CWIP)
18 additions that are being included in the LNP and CR3 Uprate costs until such
19 time as these costs are recovered under the CCRC. The determination of
20 AFUDC includes a return on eligible capital additions plus a compounded rate of
21 return until plant investments are placed in service and recovered in rates.
22 Likewise under these circumstances a compounded return is appropriate until this
23 return is recovered in rates.

1 **III. CAPITAL COSTS INCURRED IN 2008 FOR LEVY NUCLEAR PLANT**

2 **Q. What are the total costs PEF incurred for the LNP during the period**
3 **January 2008 through December 2008?**

4 **A.** Total site selection and preconstruction capital expenditures, excluding carrying
5 costs, were \$152.4 million, as shown on Schedule T-6, Line 8 and 24. Total
6 construction capital expenditures excluding carrying costs were \$2.9 million, as
7 shown on Schedule T-6, Line 45 and 63.

8
9 **Q. How did actual Site Selection and Preconstruction Generation capital**
10 **expenditures for January 2008 through December 2008 compare with PEF's**
11 **estimated/actual projections for 2008?**

12 **A.** Schedule T-6B, Line 6 shows that total site selection and preconstruction
13 Generation project costs were \$144,454,020, or \$64,353,160 lower than
14 projected. By cost category, major cost variances between PEF's projected and
15 actual 2008 site selection and preconstruction LNP Generation project costs are
16 as follows:

17
18 **License Application:** Capital expenditures for License Application activities
19 were \$33,368,472 or \$4,069,708 lower than projected. As explained in the
20 testimony of Garry Miller, this variance is primarily attributable to lower than
21 expected NRC fees.

22
23 **Engineering & Design:** Capital expenditures for Engineering & Design
24 activities were \$110,684,010 or \$56,854,990 lower than projected. As explained

1 in the testimony of Garry Miller, this variance is primarily attributable to a
2 rescheduling of payments for procurement and detail design activities to a later
3 date.

4
5 **On-Site Construction Facilities:** Capital expenditures for On-Site Construction
6 Facilities were \$401,538 or \$3,428,462 lower than projected. As explained in the
7 testimony of Garry Miller, this variance is primarily attributable to minimizing
8 these expenditures until completion of EPC negotiations which occurred
9 December 31, 2008.

10
11 **Q. How did actual Site Selection and Preconstruction Transmission capital**
12 **expenditures for January 2008 through December 2008 compare with PEF's**
13 **estimated/actual projections for 2008?**

14 **A.** Schedule T-6B, Line 11 shows that total Transmission project costs were
15 \$7,968,071 or \$6,295,405 lower than projected. By cost category, major cost
16 variances between PEF's projected and actual 2008 site selection and
17 preconstruction LNP Transmission costs are as follows:

18
19 **Line Engineering:** Capital expenditures for Line Engineering activities were
20 \$3,602,300 or \$2,499,886 lower than projected. As explained in the testimony of
21 Gary Furman, this variance is primarily attributable to a postponement in
22 scheduled engineering activities and a change in the scope of the program.
23

1 **Substation Engineering:** Capital expenditures for Substation Engineering
2 activities were \$1,179,857 or \$5,238,714 lower than projected. As explained in
3 the testimony of Gary Furman, this variance is primarily attributable to a
4 rescheduling of engineering activities to a later date.

5
6 **Other:** Capital expenditures for Other Transmission-related activities were
7 \$3,185,914 or \$1,443,195 higher than projected. As explained in the testimony
8 of Gary Furman, this variance is primarily attributable to an increase in
9 community outreach activities.

10
11 **Q. How did actual Construction Generation capital expenditures for January**
12 **2008 through December 2008 compare with PEF's estimated/actual**
13 **projections for 2008?**

14 **A.** Schedule T-6B, Line 19 shows that total Generation project costs were (\$98,783)
15 or \$5,719,722 lower than projected. The cost category with a major cost variance
16 between PEF's projected and actual site construction LNP Generation costs is as
17 follows:

18
19 **Real Estate Acquisitions:** Capital expenditures for Real Estate Acquisitions
20 were (\$115,764) or \$5,158,703 lower than projected. As explained in the
21 testimony of Garry Miller, this variance is primarily attributable to revisions to
22 land purchase requirements for rail access to the plant site. The credit balance
23 was due to costs that were reclassified from Real Estate Acquisitions to License
24 Application and to record a credit for costs reimbursed to PEF from a vendor who

1 was identified to have duplicate billed PEF. This duplicate billing was included
2 in a finding from the Commission financial audit dated July 17, 2008 (Audit
3 Control No. 08-087-2-1).

4
5 **Q. How did actual Construction Transmission capital expenditures for January**
6 **2008 through December 2008 compare with PEF's estimated/actual**
7 **projections for 2008?**

8 **A.** Schedule T-6B, Line 26 shows that total Transmission project costs were
9 \$2,983,670 or \$5,382,530 lower than projected. By cost category, major cost
10 variances between PEF's projected and actual 2008 construction LNP
11 transmission costs are as follows:

12
13 **Substation Engineering:** Capital expenditures for Substation Engineering were
14 \$0 or \$2,091,550 lower than projected. As explained in the testimony of Gary
15 Furman, this variance is primarily attributable to a postponement in the
16 engineering activities planned for the Levy Plant Administrative substations and
17 the existing Crystal River switchyard.

18
19 **Substation Construction:** Capital expenditures for Substation Construction
20 were \$0 or \$2,175,212 lower than projected. As explained in the testimony of
21 Gary Furman, this variance is primarily attributable to the postponement
22 described in the preceding question which affected the construction schedule.

23

1 **Q. Why is there a credit balance of \$10,780 for Transmission-Construction-**
2 **Other category, Schedule T-6, Line 62?**

3 **A.** In the Commission financial audit dated July 17, 2008 (Audit Control No. 08-
4 087-2-1), \$10,780 was identified as Administrative Overhead that should not
5 have been charged to the LNP land projects. Therefore, this credit reflects the
6 reversal of that amount.

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

9 **A.** Order PSC-05-0945-S-EI established appropriate jurisdictional separation factors
10 as part of PEF's last base rate case. In Order PSC-07-0922-FOF-EI, these
11 jurisdictional separation factors were approved as reasonable for costs incurred in
12 2008.

13
14 **Q. Was interest calculated on the under-recovered balance?**

15 **A.** No. Interest will not be calculated on the under-recovered balance until
16 collection of revenues commences in January 2009.

17
18 **IV. O&M COSTS INCURRED IN 2008 FOR LEVY NUCLEAR PLANT**

19 **Q. How did actual O&M expenditures for January 2008 through December**
20 **2008 compare with PEF's estimated/actual projections for 2008?**

21 **A.** Schedule T-4, Line 26 shows that total O&M costs were \$4,167,550 or
22 \$2,458,006 higher than projected in the May 1, 2008 Estimated/Actual Filings
23 (Schedule AE-4 from Exhibit LC-1 and Schedule SS-4 from Exhibit LC-5). By

1 cost category, major cost variances between PEF's projected and actual 2008
2 LNP O&M costs are as follows:

3
4 **Generation:** O&M expenditures for Nuclear Generation were \$1,571,800 or
5 \$1,566,350 higher than projected. As explained in the testimony of Garry Miller,
6 this variance is primarily attributable to the inclusion of O&M for the NuStart
7 LLC program which is a consortium of utilities sharing costs to obtain a
8 Combined Operating License.

9
10 **Legal:** O&M expenditures for Legal were \$1,010,864 or \$943,864 higher than
11 projected. This variance was primarily attributable to higher costs for outside
12 legal counsel for joint owner negotiations that have taken longer and have been
13 much more time intensive than planned.

14
15 **V. CAPITAL COSTS INCURRED IN 2008 FOR CR3 UPRATE PLANT**

16 **Q. What are the total Construction costs incurred for the CR3 Uprate Project**
17 **for the period January 2008 through December 2008?**

18 **A.** Total Construction capital expenditures gross of joint owner billing and
19 excluding carrying costs were \$65.1 million, as shown on Schedule T-6, Line 45.
20 This amount includes expenditures of \$7.7 million for Project Management,
21 \$57.0 million for Power Block Engineering and Procurement, and \$0.5 million
22 for Non-Power Block Engineering and Procurement activities as part of
23 Generation Construction costs.

24

1 **Q. How did actual capital expenditures for January 2008 through December**
2 **2008 compare to PEF's estimated/actual projection for 2008?**

3 **A.** Schedule T-6B, Line 20 shows that total Construction project costs were
4 \$65,137,303 or \$2,478,468 lower than projected. Project Management capital
5 expenditures were \$7,731,640 which was \$1,669,075 under the estimated/actual
6 projection and Power Block Engineering and Procurement capital expenditures
7 were \$56,955,136 which was \$1,229,920 under the estimated/actual projection.
8 As explained in the testimony of Steve Huntington, these variances were
9 primarily due to effective implementation of the Company's major project
10 management procedures.

11
12 **Q. Has PEF billed the CR3 joint owners for their portion of the costs relative to**
13 **the CR3 Uprate and identified them in this filing?**

14 **A.** Yes. Construction expenditures shown on Schedule T-6, Line 45 are gross of
15 Joint Owner Billings but construction expenditures have been adjusted as
16 reflected on Schedule T-6, Line 48 to reflect billings to Joint Owners related to
17 CR3 Uprate expenditures. Due to this, no carrying cost associated with the Joint
18 Owner portion of the Uprate are included on Schedule T-3. Total Joint Owner
19 billings were \$5.2 million for 2008.

20
21 **Q. What was the source of the separation factors used in Schedule T-6?**

22 **A.** Order PSC-05-0945-S-EI established appropriate jurisdictional separation factors
23 as part of PEF's last base rate case. In Order PSC-07-0922-FOF-EI, these

1 jurisdictional separation factors were approved as reasonable for costs to be
2 recovered in 2008.

3
4 **Q. Was interest calculated on the under-recovered balance?**

5 **A.** No. Interest will not be calculated on the under-recovered balance until
6 collection of revenues commences in January 2009.

7
8 **VI. PROJECT MANAGEMENT AND COST CONTROL OVERSIGHT**

9 **Q. Please describe all accounting and costs oversight controls PEF has**
10 **implemented for the LNP and CR3 Uprate Project.**

11 **A.** PEF has implemented a number of project accounting and cost oversight controls
12 that ensure the proper accounting treatment for LNP and CR3 Uprate Project
13 costs.

14 ***PROJECT ACCOUNTING CONTROLS***

15 Project Set-Up

16 The first part of project set up is the Major Projects - Integrated Project Plan
17 (IPP) Approval and Authorization. Per corporate policy, all projects equal to or
18 exceeding \$50 million require completion of an IPP which must be approved by a
19 Project Review Group, the Senior Management Committee, and the Board of
20 Directors.

21 The next part of PEF's project accounting controls involves project set up,
22 specifically approval and authorization of projects. Projects are determined to be
23 capital by the justifications documented in PowerPlant or in documents prepared
24 in accordance with the Company's Project Governance Policy. The justifications

1 and other supporting documentation are reviewed and approved by the Financial
2 Services Manager, or delegate, based on input received from the Financial
3 Services or Project Management Analyst to ensure that: the project is properly
4 classified as Capital, eligibility for AFUDC is correct, and that
5 disposals/retirements are identified. Supporting documentation is maintained
6 within Financial Services or with the Project Management Analyst. Financial
7 Services personnel, and selected other personnel (project management analysts),
8 access this documentation to set-up new projects in Oracle or make changes to
9 existing project estimates in PowerPlant. The Oracle and PowerPlant system
10 administrators review the transfer and termination information provided by
11 Human Resources each pay period and take appropriate action regarding access
12 as outlined in the Critical Application Access Review Process Policy.

13 An analyst in Plant Accounting must review and approve each project set
14 up before it can receive charges. All future status changes are made directly in
15 PowerPlant by a Property Accounting analyst based on information received by
16 the Financial Services Analyst or the Project Management Analyst.

17 Finally, to ensure that all new projects have been reviewed each month,
18 Finance Management reviews a report of all projects set up during the month
19 prior to month-end close for any project that was not approved by them in the
20 system at set up. If the manager does not delegate approval authority and
21 approves all projects in PowerPlant upon set up, this activity is not required.

22
23 Project Monitoring

1 The next part of the Company's project controls is project monitoring.
2 First, there are monthly reviews of project charges by responsible operations
3 managers and Finance Management for the organization. Specifically, these
4 managers review various monthly cost and variance analysis reports for the
5 capital budget. Variances from total budget or projections are reviewed,
6 discrepancies are identified and corrections made as needed. Journal entries to
7 projects are prepared by an employee with the assigned security and are approved
8 in accordance with the Journal Entry Policy. Accruals are made in accordance
9 with PGN policy.

10 The Company uses the Cost Management Reports produced by Accounting
11 to complete these monthly reviews. Business Services may produce various
12 levels of reports driven by level of management, but all reporting is tied back to
13 the Cost Management Reports which are tied back to Legal Entity Financial
14 Statements.

15 Finally, the Property Accounting unit performs a monthly review of sample
16 project transactions to ensure charges are properly classified as capital. Financial
17 Services is responsible for answering questions and making necessary corrections
18 as they arise to ensure compliance.

19
20 **Q. Are there any other accounting and costs oversight controls that pertain to**
21 **the LNP and the CR3 Uprate Project?**

22 **A.** Yes, the Company has also implemented disbursement services and regulatory
23 accounting controls.

24 ***DISBURSEMENT SERVICES CONTROLS***

1 A requisition is created in the Passport Contracts module for the purchase of
2 services. The requisition is reviewed by the appropriate Contract Specialist in
3 Corporate Services, or field personnel in the various Business Units, to ensure
4 sufficient data has been provided to process the contract requisition. The
5 Contract Specialist prepares the appropriate contract document from pre-
6 approved contract templates in accordance with the requirements stated on the
7 contract requisition.

8 The contract requisition then goes through the bidding or finalization
9 process. Once the contract is ready to be executed, it is approved online by the
10 appropriate levels of the approval matrix pursuant to the Approval Level Policy
11 and a contract is created.

12 Contract invoices are received by the project managers of the various
13 business units. The invoices are validated by the project manager and Payment
14 Authorizations approving payment of the contract invoices are entered and
15 approved in the Contracts module of the Passport system.

16 17 ***REGULATORY ACCOUNTING CONTROLS***

18 The journal entries for deferral calculations, along with the summary sheets
19 and the related support, are reviewed in detail and approved by the Manager of
20 Regulatory Accounting, per the PGN Journal Entry policy. The detail review and
21 approval by the Manager of Regulatory Accounting ensure that deferred pass
22 through clause transactions are identified, accurate, processed and accounted for
23 in the appropriate accounting period. In addition, transactions are reviewed to
24 ensure that they qualify for recovery through the Nuclear Cost Recovery Rule

1 and are properly categorized as O&M, Site selection, Pre-construction, or
2 Construction expenditures.

3 Analysis is performed monthly to compare actuals to projected (budgeted)
4 expenses and revenues for reasonableness. If any errors are identified, they are
5 corrected in the following month.

6 For balance sheet accounts established with Regulatory Accounting as the
7 responsible party, a Regulatory Accounting member will reconcile the account on
8 a monthly or quarterly basis. This reconciliation will be reviewed by the Lead
9 Business Financial Analyst or Manager of Regulatory Accounting to ensure that
10 the balance in the account is properly stated and supported and that the
11 reconciliations are performed regularly and exceptions are resolved on a timely
12 basis.

13 The review and approval will ensure that regulatory assets or liabilities are
14 recorded in the financial statements at the appropriate amounts and in the
15 appropriate accounting period.

16
17 **Q. Describe the review process that the Company uses to verify that the**
18 **accounting and costs oversight controls you identified are effective.**

19 **A.** Our assessment of the effectiveness of our controls is based on the framework
20 established by the Committee of Sponsoring Organizations of the Treadway
21 Commission (COSO). This framework involves both internal and external audits
22 of our accounting and cost oversight controls.

23 With respect to internal audits, all tests of controls were conducted by the
24 Audit Services Department, and conclusions on the results were reviewed and

1 approved by both the Steering Committee and Compliance Team chairpersons.
2 Based on these internal audits, Progress Energy's management has determined
3 that Progress Energy maintained effective internal control over financial
4 reporting and identified no material weaknesses within the required Sarbanes
5 Oxley controls during 2006, 2007, and 2008.

6 With respect to external audits, Deloitte and Touche, Progress Energy's
7 external auditors, determined that the Company maintained effective internal
8 control over financial reporting during 2006, 2007, and 2008. Refer to Item 9A
9 of 2006, 2007, and 2008 Progress Energy Form 10-K Annual Report.
10

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

12 **A.** Yes, it does.
13

1 CHAIRMAN CARTER: Were there any exhibits for
2 this witness?

3 MS. TRIPLETT: Yes, sir. There were two, and
4 they're marked 81 and 82 in staff's composite exhibit
5 list.

6 CHAIRMAN CARTER: Are there any objections?
7 Without objection, show it done. Eighty-one and 82 are
8 entered.

9 (Exhibits Number 81 and 82 were identified and
10 admitted into the record.)

11 MS. TRIPLETT: Thank you, sir.

12 CHAIRMAN CARTER: That should conclude it for
13 witness Garrett; correct?

14 MS. TRIPLETT: Well, he has rebuttal
15 testimony, and I was going to move that in when we got
16 to that point, if that was okay with you.

17 CHAIRMAN CARTER: Okay. That's fine. We'll
18 do it during the course of rebuttal. Call your next
19 witness.

20 MS. TRIPLETT: Thank you. Progress Energy
21 Florida calls Geoff Foster, Thomas Geoff Foster to the
22 stand.

23 CHAIRMAN CARTER: Thomas Geoff Foster.
24
25

1 Thereupon,

2 THOMAS GEOFF FOSTER

3 was called as a witness on behalf of Progress Energy
4 Florida and, having been first duly sworn, was examined
5 and testified as follows:

6 DIRECT EXAMINATION

7 BY MS. TRIPLETT:

8 Q. Will you please introduce yourself to the
9 Commission and provide your address?

10 A. Yes. My name is Thomas Geoffrey Foster. My
11 business address is 299 First Avenue North,
12 St. Petersburg, Florida.

13 Q. Who do you work for, and what is your
14 position?

15 A. I work for Progress Energy Services Company as
16 the Supervisor of Regulatory Planning.

17 Q. And have you filed prefiled direct testimony
18 and exhibits in this proceeding?

19 A. Yes.

20 Q. And do you have that prefiled testimony and
21 exhibits with you?

22 A. I do.

23 Q. Do you have any changes to make to your
24 prefiled testimony and exhibits?

25 A. No changes. However, there are two schedules

1 we prepared regarding my testimony that Ms. Triplett has
2 and is prepared to distribute.

3 MS. TRIPLETT: Chairman, with your pleasure.
4 We have already discussed these two schedules with staff
5 and the parties, and they were in agreement with them,
6 and I can distribute them to the clerk and
7 Commissioners. I thought if it was okay, we could mark
8 them as exhibits.

9 CHAIRMAN CARTER: Okay. Let's do this. Let's
10 -- do all the parties -- let's do it this way. Do all
11 the parties have these?

12 MS. TRIPLETT: I think the only party perhaps
13 who doesn't have it is Mr. Moyle.

14 CHAIRMAN CARTER: Okay. Let's make sure
15 Mr. Moyle has it. Staff, do you have it? And a copy to
16 the Commissioners before we go any further with the
17 witness.

18 MS. TRIPLETT: Thank you.

19 CHAIRMAN CARTER: And we'll deal with -- we'll
20 deal with marking it and giving it a number after we get
21 ready to -- we can probably do it after he has his --
22 well, I want to make sure every has an opportunity to
23 look it over. We'll deal with it as we deal with
24 exhibits. Just bring it up, and then we'll give it a
25 number at that point in time. Okay?

1 MS. TRIPLETT: Okay. Yes, sir.

2 BY MS. TRIPLETT:

3 Q. Mr. Foster, if I asked you the same questions
4 in your prefiled testimony today, would you give the
5 same answers that are in your prefiled testimony?

6 A. Yes.

7 MS. TRIPLETT: We request that the prefiled
8 testimony be entered into the record as though read.

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

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IN RE: NUCLEAR COST RECOVERY

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 090009-EI

**DIRECT TESTIMONY OF THOMAS G. FOSTER
IN SUPPORT OF ESTIMATED/ACTUAL, PROJECTION and TRUE-
UP TO ORIGINAL COSTS**

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Thomas G. Foster. My business address is 299 First Avenue North, St. Petersburg, FL 33701.

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

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

Q. What are your responsibilities in that position?

A. I am responsible for regulatory planning and cost recovery for Progress Energy Florida, Inc. ("PEF"). These responsibilities include: regulatory financial reports; and analysis of state, federal and local regulations and their impact on PEF. In this capacity, I am also responsible for the Levy County Nuclear Project ("LNP") and Crystal River Unit 3 ("CR3") Uprate Project Cost Recovery Actual/Estimated, Projection and True-up to Original filings, made as part of this docket, in accordance with Rule 25-6.0423, Florida Administrative Code (F.A.C.).

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Q. Please describe your educational background and professional experience.

A. I joined Progress Energy on October 31, 2005 as a Senior Financial analyst in the Regulatory group. In that capacity I supported the preparation of testimony and exhibits associated with various Dockets. In late 2008, I was promoted to Supervisor Regulatory Planning. Prior to working at Progress I was the Supervisor in the Fixed Asset group at Eckerd Drug. In this role I was responsible for ensuring proper accounting for all fixed assets as well as various other accounting responsibilities. I have 6 years of experience related to the operation and maintenance of power plants obtained while serving in the United States Navy as a Nuclear operator. I received a Bachelors of Science degree in Nuclear Engineering Technology from Thomas Edison State College. I received a Masters of Business Administration with a focus on finance from the University of South Florida and I am a Certified Public Accountant in the State of Florida.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present, for Commission review and approval, Progress Energy Florida's Estimated/Actual costs associated with the LNP and CR3 Uprate activities for the period January 2009 through December 2009, projected costs for the period January 2010 through December 2010, and the total estimated revenue requirements for 2010 for purposes of setting 2010 rates in the Capacity Cost Recovery Clause ("CCRC").

1
2 **Q. Are you sponsoring any exhibits in support of your testimony?**

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

- 5 • Exhibit No. ____ (TGF-1), consisting of Schedules AE-1 through AE-10 of
6 the Nuclear Filing Requirements (“NFRs”), which reflect PEF’s retail
7 revenue requirements for the LNP from January 2009 through December
8 2009. I am sponsoring Schedules AE-1 through AE-6, AE-9, and AE-10.
9 Mr. Miller and Mr. Furman will be co-sponsoring portions of Schedule AE-
10 6 and sponsoring Schedules AE-6A through AE-8A.
- 11 • Exhibit No. ____ (TGF-2), consisting of Schedules P-1 through P-10 of the
12 NFRs, which reflect PEF’s retail revenue requirements for the LNP from
13 January 2010 through December 2010. I am sponsoring Schedules P-1
14 through P-6, P-9, P-10, Appendix A and co-sponsoring Appendix B with
15 Mr. Miller and Mr. Furman. Mr. Miller and Mr. Furman will be co-
16 sponsoring portions of Schedule P-6 and sponsoring Schedules P-6A
17 through P-8A. Appendix A is a Summary of PEF’s LNP 2006 - 2010 Retail
18 Revenue Requirements and Appendix B is a Summary of PEF’s LNP 2006
19 - 2010 Capital Expenditures.
- 20 • Exhibit No. ____ (TGF-3), consisting of Schedules P-1 through P-3A, P-10,
21 and Appendix A of the NFRs, which reflect PEF’s retail revenue
22 requirements for the LNP from January 2010 through December 2010,
23 based on PEF’s proposal to help mitigate the 2010 LNP rate impact for

1 PEF's customers that I discuss in detail later in my testimony. I am
2 sponsoring Schedules P-1 through P-3A, P-10, and Appendix A. Appendix
3 A is a Summary of PEF's LNP 2006 - 2010 Retail Revenue Requirements
4 based on this proposal.

- 5 • Exhibit No. ____ (TGF-4), consisting of Schedules AE-1 through AE-10 of
6 the NFRs, which reflect PEF's retail revenue requirements for the CR3
7 Uprate Project from January 2009 through December 2009. I am
8 sponsoring Schedules AE-1 through AE-6, AE-9, and AE-10. Mr. Franke
9 will be co-sponsoring Schedule AE-6 and sponsoring Schedules AE-6A
10 through AE-8A. Schedule AE-2 in Exhibit No. ____ (TGF-4) is shown for
11 informational purposes only and shows no activity as it is not applicable to
12 the CR3 Uprate Project during the reporting period.
- 13 • Exhibit No. ____ (TGF-5), consisting of Schedules P-1 through P-10 of the
14 NFRs, which reflect PEF's retail revenue requirements for the CR3 Uprate
15 Project from January 2010 through December 2010. I am sponsoring
16 Schedules P-1 through P-6, P-9, P-10, Appendix A, and co-sponsoring
17 Appendix B with Mr. Franke. Mr. Franke will be co-sponsoring Schedule
18 P-6 and sponsoring Schedules P-6A through P-8A. Schedule P-2 in Exhibit
19 No. ____ (TGF-5) is shown for informational purposes only and shows no
20 activity, as it is not applicable to the CR3 Uprate Project during the
21 reporting period. Appendix A is a Summary of our CR3 uprate 2006 - 2010
22 Retail Revenue Requirements, Appendix B is a Summary of our CR3 uprate
23 2006 - 2010 Capital Expenditures.

- 1 • Exhibit No. ___ (TGF-6), consisting of Schedules TOR-1 through TOR-7,
2 which reflect the total project estimated costs for the CR3 Uprate Project. I
3 am sponsoring Schedules TOR-1 through TOR-6 and Mr. Franke will be
4 co-sponsoring Schedule TOR-6 and sponsoring Schedule TOR-6A and
5 TOR-7. Schedule TOR-2 in Exhibit No. ___ (TGF-6) is shown for
6 informational purposes only and shows no activity as it is not applicable to
7 the CR3 Uprate Project during the reporting period.
- 8 • Exhibit No. __ (TGF-7), which is a summary of both the LNP and CR3
9 Uprate project revenue requirements, and rate impacts for 2010.

10 These exhibits are true and accurate.

11

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

- 13 **A.**• Schedule AE-1 reflects the actual/estimated of total retail revenue
14 requirements for the period.
- 15 • Schedule AE-2 reflects the calculation of the actual/estimated of
16 preconstruction costs for the period.
- 17 • Schedule AE-3 reflects the calculation of the actual/estimated of carrying
18 costs on construction expenditures for the period.
- 19 • Schedule AE-3A reflects a calculation of actual/estimated deferred tax
20 carrying costs for the period.
- 21 • Schedule AE-3B reflects the calculation of the actual/estimated construction
22 period interest for the period.

- 1 ● Schedule AE-4 reflects CCRC recoverable Operations and Maintenance
- 2 (O&M) expenditures for the period.
- 3 ● Schedule AE-5 reflects other recoverable O&M expenditures for the period.
- 4 ● Schedule AE-6 reflects actual/estimated monthly expenditures for
- 5 preconstruction and construction costs for the period.
- 6 ● Schedule AE-6A reflects descriptions of the major tasks.
- 7 ● Schedule AE-6B reflects annual variance explanations.
- 8 ● Schedule AE-7 reflects technology selected for the LNP and CR3 Uprate
- 9 Project.
- 10 ● Schedule AE-8 reflects contracts executed in excess of \$1.0 million.
- 11 ● Schedule AE-8A reflects details pertaining to the contracts executed in
- 12 excess of \$1.0 million.
- 13 ● Schedule AE-9 reflects the calculation of the Estimated True-up Amount
- 14 for the period.
- 15 ● Schedule AE-10 reflects the calculation of interest.

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

- 18 **A.**
- 19 ● Schedule P-1 reflects the projection of total retail revenue requirements for
 - 20 the period.
 - 21 ● Schedule P-2 reflects the calculation of the projected preconstruction costs
 - 22 for the period.
 - 23 ● Schedule P-3 reflects the calculation of the projected carrying costs on
 - construction expenditures for the period.

- 1 • Schedule P-3A reflects a calculation of the projected deferred tax carrying
- 2 costs for the period.
- 3 • Schedule P-3B reflects the calculation of the projected construction period
- 4 interest for the period.
- 5 • Schedule P-4 reflects CCRC recoverable Operations and Maintenance
- 6 (O&M) expenditures for the period.
- 7 • Schedule P-5 reflects other recoverable O&M expenditures for the period.
- 8 • Schedule P-6 reflects projected monthly expenditures for preconstruction
- 9 and construction costs for the period.
- 10 • Schedule P-6A reflects descriptions of the major tasks.
- 11 • Schedule P-7 reflects a discussion of the technology selected for the LNP
- 12 and CR3 Uprate Projects.
- 13 • Schedule P-8 reflects contracts executed in excess of \$1.0 million.
- 14 • Schedule P-8A reflects details pertaining to the contracts executed in excess
- 15 of \$1.0 million.
- 16 • Schedule P-9 reflects the feasibility of completing the plant.
- 17 • Schedule P-10 reflects the estimated rate impact.

18
19 **Q. What are Schedules TOR-1 through TOR-7?**

- 20 **A.**
 - Schedule TOR-1 reflects the actual to date and projected total retail revenue
 - 21 requirement for the duration of the project. Information provided is the best
 - 22 available at the time of filing.

- 1 • Schedule TOR-2 reflects a summary of the actual to date and projected
2 preconstruction costs for the duration of the project. Information provided
3 is the best available at the time of filing.
- 4 • Schedule TOR-3 reflects the calculation of the actual to date and projected
5 carrying costs on construction balances for the duration of the project.
6 Information provided is the best available at the time of filing.
- 7 • Schedule TOR-3A reflects a calculation of actual to date and projected
8 deferred tax carrying costs for the duration of the project. Information
9 provided is the best available at the time of filing.
- 10 • Schedule TOR-3B reflects the calculation of the actual to date and projected
11 construction period interest for the duration of the project. Information
12 provided is the best available at the time of filing.
- 13 • Schedule TOR-4 reflects CCRC recoverable actual to date and projected
14 Operations and Maintenance (O&M) expenditures for the duration of the
15 project. Information provided is the best available at the time of filing.
- 16 • Schedule TOR-5 reflects the actual to date and projected other recoverable
17 O&M expenditures for the duration of the project. Information provided is
18 the best available at the time of filing.
- 19 • Schedule TOR-6 reflects actual to date and projected monthly expenditures
20 for preconstruction and construction costs for the duration of the project.
- 21 • Schedule TOR-6A reflects descriptions of the major tasks.
- 22 • Schedule TOR-7 reflects initial project milestones in terms of costs, budget
23 levels, initiation dates, and completion dates.

1

2

Q. Appendix A & B are new since the Docket last year, why have you included these schedules?

3

4

A. Over the course of the Docket last year, it became apparent that it would have been useful for everyone to have schedules that summarized the different components that make up the project costs and revenue requirements for the two projects. I added Appendix A and B for both the CR3 Uprate and LNP projects to make it easier for everyone to see total project costs and revenue requirements broken out into the relevant categories in one place.

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COST RECOVERY FOR THE LEVY COUNTY NUCLEAR PROJECT

12

III. ACTUAL/ESTIMATED

13

14

Q. What are the total projected revenue requirements for the Levy Nuclear Project for the calendar year ended December 2009?

15

16

A. The total projected revenue requirements for the LNP are \$289.6 million for the calendar year ended December 2009, as reflected on Schedule AE-1, page 2 of 2, Line 6. This amount includes \$272.6 million in Preconstruction costs, \$8.6 million for the carrying costs on the construction balance, \$4.9 million in recoverable O&M costs, and \$3.4 million for the carrying charge on the Deferred Tax Liability. These amounts were calculated in accordance with the provisions of Rule 25-6.0423, F.A.C.

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

3 **A.** The annual total of \$272.6 million reflected on Schedule AE-2, Line 7, page 2 of 2
4 represents the total Preconstruction Costs for 2009. This amount includes
5 expenditures totaling \$262.4 million along with the carrying cost on the average
6 balance of \$10.3 million. The Total Return Requirements of \$10.3 million
7 presented on Line 6 represents the carrying costs on the average Preconstruction
8 balance. These costs are described in Mr. Miller's and Mr. Furman's testimony.

9
10 **Q. What is the carrying cost rate used in Schedule AE-2?**

11 **A.** The carrying cost rate used on Schedule AE-2 is based on PEF's approved after tax
12 AFUDC rate of 8.848%. On a pre-tax basis, the rate is 13.13%. The rate was
13 approved by Order No. PSC-05-0945-S-EI in Docket 050078-EI. This rate
14 represents the approved rate as of June 12, 2007, and is the appropriate rate to use
15 consistent with Rule 25-6.0423(5)(a), F.A.C. The annual rate was adjusted to a
16 monthly rate consistent with the AFUDC rule, Rule 25-6.0141, Item (3), F.A.C.

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

19 **A.** The Total Return Requirements of \$8.6 million on Schedule AE-3 at line 7
20 represents carrying costs on the average construction balance. The schedule starts
21 with the year-end 2008 CWIP balance and adds the monthly construction
22 expenditures and computes a return on the average monthly balance. The equity
23 component of the return is grossed up for taxes to cover the income taxes that will

1 need to be paid upon recovery in rates. The adjustment on Line 3 is made to adjust
2 the balance to amortize out prior period AFUDC as they are included in rates.
3 Prior to 2009, the carrying costs were not recovered through rates. Normal
4 determination of AFUDC includes a return on eligible capital additions plus a
5 compounded rate of return until plant investments are placed in service and
6 recovered in rates. Likewise under these circumstances a compounded return is
7 appropriate until this return is recovered in rates. In 2009, these prior period
8 carrying costs are being placed in rates over the course of the year and as such must
9 be removed from the balance eligible for return. This is consistent with the
10 treatment filed and approved in the 080009 Docket projection filings in 2008.

11
12 **Q. What is included in Total Return Requirements on Schedule AE-3A, Line 8?**

13 **A.** The twelve month total of \$3.4 million on Schedule AE-3A, line 8, page 2 of 2
14 represents the carrying charge on the deferred tax asset balance. The deferred tax
15 asset arises from the difference between the book and tax basis for the project. This
16 difference is due primarily to the recovery of preconstruction and site selection
17 costs on a dollar for dollar basis. The adjustment on Line 3 represents the reversal
18 of prior period capitalized interest for book purposes as it is being recovered in
19 rates beginning in 2009.

20
21 **Q. What is included in the Recoverable O&M Expenditures on Schedule AE-4?**

1 A. The expenses included on this schedule represent the O&M costs that the Company
2 expects to incur in 2009 related to the LNP that PEF is seeking recovery of through
3 the NCRC.

4
5 **Q. What is included in the Other Recoverable O&M Monthly Expenditures on**
6 **Schedule AE-5?**

7 A. These costs include O&M costs related to the LNP that are directly attributable to
8 the LNP but that PEF is not seeking recovery of through the NCRC.

9
10 **Q. What is Schedule AE-6 and what does it represent?**

11 A. Schedule AE-6 reflects actual/estimated monthly expenditures for preconstruction
12 and construction costs by major task for 2009. This schedule includes both the
13 Generation and Transmission costs. These costs have been adjusted to a cash basis
14 for purposes of calculation of the carrying costs. We have also applied the
15 appropriate jurisdictional separation factor to arrive at the total jurisdictional costs.

16
17 **Q. What was the source of the separation factors used in Schedule AE-6?**

18 A. The jurisdictional separation factors are based on the factors that were established
19 in PEF's last base rate proceeding, by Order No. PSC-05-0945-S-EI.

20
21 **Q. What is the total expected over/(under) recovery expected to be at the end of**
22 **2009?**

23 A. The total under recovery is expected to be \$298.7 million.

IV. PROJECTIONS

1
2
3 **Q. What are the projected total revenue requirements that PEF will recover in**
4 **2010?**

5 **A.** PEF will request recovery of \$435.6 million in 2010 as presented on Schedule P-1,
6 Line 10, page 2 of 2. This amount includes projected total revenue requirements of
7 \$136.6 million for calendar year 2010, and recovery of the actual/estimated under
8 recovery from 2009 of \$298.7 million.

9
10 **Q. What is included in the projected Revenue Requirements for 2010?**

11 **A.** The revenue requirements of \$435.6 million in 2010 as depicted on Schedule P-1,
12 Line 10 includes Preconstruction Costs of \$106.1, carrying costs on the
13 Construction balance of \$11.6 million, recoverable O&M expenditures of \$4.4
14 million, and the carrying costs on the deferred tax asset of \$14.5 million as well as
15 recovery of the actual estimated year end 2009 under recovery of \$298.7 million.

16
17 **Q. What is included in the Total Costs to be Recovered on Schedule P-2 Line 7?**

18 **A.** The \$106.1 million dollars included on Line 7, page 2 of 2 includes the total
19 projected Preconstruction costs for 2010. As these dollars are being included in
20 rates, there is no carrying charge needed.

21
22 **Q. What is included in the Total Return Requirements on Schedule P-3, line 7?**

1 A. The Total Return Requirements of \$11.6 million depicted on this schedule
2 represents carrying costs on the average construction balance. The schedule starts
3 with the projected year-end 2009 CWIP balance and adds the monthly construction
4 expenditures and computes the carrying charge on the average monthly balance.
5 The equity component of the return is grossed up for taxes to cover the income
6 taxes that will need to be paid upon recovery in rates.

7
8 **Q. What is the carrying cost rate used in Schedule P-3?**

9 A. The carrying cost rate used on Schedule P-3 is based on PEF's approved after tax
10 rate of 8.848%. On a pre-tax basis, the rate is 13.13%. The rate was approved by
11 Order No. PSC-05-0945-S-EI in Docket 050078-EI. This rate represents the
12 approved rate as of June 12, 2007, and is the appropriate rate to use consistent with
13 Rule 25-6.0423(5)(b)1, F.A.C. The annual rate was adjusted to a monthly rate
14 consistent with AFUDC rule, Rule 25-6.0141, Item (3), F.A.C.

15
16 **Q. What is included in Total Return Requirements on Schedule P-3A, Line 8?**

17 A. The twelve month total of \$14.5 million on line 8, page 2 of 2 represents the
18 carrying charge on the Deferred Tax Asset balance. The deferred tax asset arises
19 from the difference between the book and tax basis for the project. This difference
20 is due to the recovery of the preconstruction costs. For tax purposes,
21 preconstruction costs are recovered as tax depreciation when the plant goes into
22 service and for book purposes they are recovered pursuant to the provisions of the

1 Rule 25.6-0423, F.A.C., which creates a timing difference and gives rise to a
2 deferred tax asset.

3
4 **Q. What are the total projected Preconstruction and Construction costs for 2010?**

5 **A.** The total projected jurisdictional preconstruction costs for 2010 are \$106.1 million.

6 This consists of \$90.9 million in Generation costs and \$15.2 million for

7 Transmission. The total projected jurisdictional construction costs for 2010 are

8 \$43.4 million. These costs consist of \$9.1 million in Generation costs and \$34.3

9 million in Transmission costs. The costs have been adjusted to a cash basis for

10 purposes of calculating the carrying charge and the appropriate jurisdictional

11 separation has been applied. A breakdown of these costs by major task is provided

12 on Schedule P-6.

13
14 **Q. What was the source of the separation factors used in Schedule P-6?**

15 **A.** The jurisdictional separation factors are based on the factors that were proposed in

16 PEF's current base rate proceeding, Docket 090079-EI, and are subject to change

17 pending the outcome of that proceeding.

18
19 **Q. What is the estimated rate impact to the residential ratepayer expected to be**
20 **in 2010?**

21 **A.** As can be seen in Schedule P-10, based on 2009 billing determinants, the expected

22 rate impact to the residential ratepayer is \$12.33 per 1000 kwh beginning in

23 January 2010 for the LNP.

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Q. Has PEF considered any options to help mitigate the 2010 LNP rate impact for PEF's customers?

A. Yes. As explained in more detail below, PEF is willing to amortize the year end, under-recovery balance for 2009, which represents unrecovered site selection and preconstruction costs of \$298.7 million, over a 5 year period.

Q. How would this work?

A. PEF's proposal will result in the 2009 ending under-recovery balance remaining in the CWIP project and excluded from rates at the beginning of 2010, and the amortization of these costs into the CCRC rates over a five year period. Each year from 2010-2014, PEF would amortize down one fifth of that balance by removing it from the CWIP balance.

Q. Would PEF earn a return on these CWIP balances until they are recovered in rates?

A. Yes. Consistent with Section 366.93(1)(f) and Rule 25-6.0423 (5)(a), F.A.C., a utility is entitled to recover a carrying charge for preconstruction costs not recovered on a projected basis and not yet recovered in rates. By not recovering these costs in 2010, they are not included in rates and therefore the utility is entitled to earn a return on them.

1 **Q. If the Commission approves this proposed alternative, what would be PEF's**
2 **revenue requirements for 2010 and how would this impact customer rates?**

3 **A.** Retail revenue requirements would go down from \$435.6 million to \$225.7 million.
4 This would result in an estimated residential rate impact \$6.39/1000kwh, which is a
5 decrease of \$5.94/1000kwh from what PEF is entitled to under normal
6 implementation of Rule 25-6.0423, F.A.C. These calculations are provided in
7 Exhibit No. __ (TGF-3) to my testimony.
8

9 **V. LNP TRUE-UP TO ORIGINAL**

10
11 **Q. Have you included any True-up to Original Schedules for the Levy project?**

12 **A.** No. Due to the circumstances described in detail in Mr. Miller's testimony, the
13 total project budgeted cost estimate remains \$17.2 billion. Any change in the total
14 project cost estimate is subject to the negotiations with the Consortium for an
15 amendment to the Engineering, Procurement, and Construction ("EPC") contract
16 between PEF and the Consortium and approval by management of a revised
17 budgeted cost estimate for the LNP. Accordingly, the total current project estimate
18 remains \$17.2 billion, as provided in the need determination proceeding and more
19 recently in the latest Integrated Project Plan, but it may change depending upon the
20 ultimate outcome of negotiations to amend the EPC contract.
21

22 **Q. Are TOR schedules required by the nuclear cost recovery statute or rule?**

1 A. No. There is no requirement in Section 366.93, Florida Statutes, or Rule 25-
2 6.0423, F.A.C. to file TOR schedules. The TOR schedules were created as an
3 informal tool for the Commission and Interveners to monitor total project costs.
4 As previously stated, however, the total current project estimate remains \$17.2
5 billion pending the conclusion of the EPC contract amendment negotiations and
6 approved adjustments by management to the budgeted project estimate.

7
8 **Q. Can the Commission approve your 2009 & 2010 LNP cost estimates if you**
9 **have not yet updated your budgeted total project estimate based on the**
10 **schedule shift?**

11 A. Yes. As explained more fully in the testimony of Mr. Miller and Mr. Furman, the
12 Company has the requisite reasonable degree of certainty regarding what LNP costs
13 are necessary in 2009 and 2010 to advance the project toward completion with the
14 expected schedule shift by focusing, for example, on efforts to obtain necessary
15 federal and state permits for the LNP. There is ample information supporting the
16 need for these costs and the reasonableness of the Company's estimates of these
17 costs in 2009 and 2010. These costs are not affected by future changes, if any, in
18 the budgeted estimated total project cost that may result from an amendment to the
19 EPC contract.

20
21 **COST RECOVERY FOR THE CRYSTAL RIVER 3 UPRATE PROJECT**

22 **VI. ACTUAL/ESTIMATED**
23

1 **Q. What are the actual/estimated revenue requirements for the CR3 uprate**
2 **project for the 2009 calendar year?**

3 **A.** The estimated total revenue requirements for the CR3 uprate project are \$22.1
4 million for 2009 as reflected on Schedule AE-1, page 2 of 2, line 6. This amount
5 includes \$13.0 million in carrying costs on the project construction balance, \$7.6
6 million for CCRC recoverable O&M expenses, a return on the deferred asset of
7 \$0.3 million, and \$1.2 million for revenue requirements associated with assets
8 going into service. These amounts were calculated in accordance with the
9 provisions of Rule 25-6.0423, F.A.C.

10
11 **Q. What is the carrying cost rate used in Schedule AE-3?**

12 **A.** The carrying cost rate used on Schedule AE-3 is based on PEF's approved after tax
13 rate of 8.848%. On a pre-tax basis, the rate is 13.13%. The rate was approved by
14 Order No. PSC-05-0945-S-EI in Docket 050078-EI. This rate represents the
15 approved rate as of June 12, 2007, and is the appropriate rate to use consistent with
16 Rule 25-6.0423(5)(b)1, F.A.C. The annual rate was adjusted to a monthly rate
17 consistent with the AFUDC rule, Rule 25-6.0141, Item (3), F.A.C.

18
19 **Q. What does the adjustment on Line 3 of Schedule AE-3 represent?**

20 **A.** Line 3 of Schedule AE-3 represents the amortization of prior period carrying costs
21 embedded in the construction balance on which current period carrying costs are
22 being calculated. It is appropriate to amortize these all in 2009 as they are included

1 in the total revenue requirements for the period and will be collected through rates
2 in 2009.

3
4 **Q. What is included in the Total Return Requirements on Schedule AE-3, Line 7?**

5 **A.** The \$13.0 million in Total Return Requirements in Schedule AE-3 represents the
6 carrying costs on the average construction project balance. The \$159.5 million
7 reflected on line 2 reflects the transfer of the Balance of Plant project to Plant-in-
8 Service. Normal determination of AFUDC includes a return on eligible capital
9 additions plus a compounded rate of return until plant investments are placed in
10 service and recovered in rates. Likewise under these circumstances a compounded
11 return is appropriate until this return is recovered in rates. The adjustment on Line
12 3 represents the amortization of the prior period carrying charges that will be
13 collected through rates in 2009.

14
15 **Q. Can you explain the calculation of the return requirements on the Deferred
16 Tax Asset on Schedule AE-3A, line 8?**

17 **A.** Yes. We have included a return on the deferred tax asset ("DTA") that arises from
18 differences between the tax basis and book basis of the project. The difference
19 between the tax basis and book basis of the project is attributable to the difference
20 between the interest that will be capitalized for tax purposes and the interest that
21 will be capitalized for book purposes. We have included the carrying charge on the
22 average deferred tax balance in the revenue requirements on this schedule.

23

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

2 A. The expenses included on this schedule represent the O&M costs that the Company
3 expects to incur in 2009 related to the CR3 Uprate project that the company is
4 seeking recovery of through the NCRC. These costs are primarily comprised of
5 items of inventory that will become obsolete due to the implementation of this
6 project.

7
8 **Q. What is Schedule AE-6 and what does it represent?**

9 A. Schedule AE-6 reflects actual/estimated monthly expenditures for preconstruction
10 and construction costs for 2009. The amount included on line 47 represents
11 actual/estimated generation capital costs gross of joint owner billings and exclusive
12 of AFUDC. The adjustment on Line 49 labeled "Non Cash Accruals" has been
13 made to adjust these costs to a cash basis for purposes of calculation of the carrying
14 costs. The adjustment on line 50 labeled "Joint Owner" represents the joint owner
15 portion of these costs and the adjustment on line 51 labeled "Other" represents the
16 cost of removal portion of these costs. We have applied the appropriate
17 jurisdictional separation factor to the "Net Generation Costs" on line 54 to arrive at
18 the monthly jurisdictional cash expenditures.

19
20 **Q. What was the source of the separation factors used in Schedule AE-6?**

21 A. The jurisdictional separation factors are based on the factors that were established
22 in PEF's last base rate proceeding, by Order No. PSC-05-0945-S-EI and are
23 consistent with what was filed and approved in Docket 080009-EI.

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Q. What are the actual/estimated costs incurred for period January 2009 through December 2009?

A. Total capital expenditures for 2009 excluding carrying costs are projected to be \$126.1 million, as shown on Schedule AE-6, Line 47. More information about the types of costs included in each of these major tasks is included on Schedule AE-6A and addressed in Mr. Franke's testimony.

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

A. Yes. Interest has been calculated at the average commercial paper rate, as reflected on Schedule AE-10, line 8.

VII. CR3 UPRATE PROJECTION

Q. What are the total projected revenue requirements for the CR3 Uprate project for the calendar year 2010?

A. PEF is requesting approval of total projected revenue requirements of \$5.5 million for the calendar year ending December 2010 as reflected on Schedule P-1, line 6. The total revenue requirements to be collected in 2010 is \$10.7 million and includes the \$5.5 million referenced above as well as the 2009 under recovery of \$5.1 million.

Q. What is included in the revenue requirements for 2010?

1 A. The revenue requirements for 2010 of \$5.5 million reflected on line 6 of Schedule
2 P-1 includes \$4.8 million for carrying charges on the cumulative construction
3 balance, \$0.2 million in CCRC recoverable O&M expenses, and \$0.5 million for
4 the carrying charges on the deferred tax asset. These amounts were calculated in
5 accordance with the provisions of Rule 25-6.0423, F.A.C.

6
7 **Q. What is included in the Total Return Requirements on Schedule P-3, Line 7?**

8 A. The \$4.8 million in Total Return Requirements on Schedule P-3 represents the
9 carrying costs on the average construction project balance.

10
11 **Q. What is the carrying cost rate used in Schedule P-3?**

12 A. The carrying cost rate used on Schedule P-3 is based on PEF's approved after tax
13 rate of 8.848%. On a pre-tax basis, the rate is 13.13%. The rate was approved by
14 Order No. PSC-05-0945-S-EI in Docket 050078-EI. This rate represents the
15 approved rate as of June 12, 2007, and is the appropriate rate to use consistent with
16 Rule 25-6.0423(5)(b)1, F.A.C. The annual rate was adjusted to a monthly rate
17 consistent with the AFUDC rule, FPSC Rule 25-6.0141, Item (3), F.A.C.

18
19 **Q. Can you explain the calculation of the return requirements on the Deferred
20 Tax Asset on Schedule P3-A, line 8?**

21 A. Yes. We have included a return on the deferred tax asset that arises from
22 differences between the tax basis and book basis of the project. The difference
23 between the tax basis and book basis of the project is attributable to the difference

1 between the interest that will be capitalized for tax purposes and the interest that
2 will be capitalized for book purposes. We have included the carrying charge on the
3 average deferred tax balance in the revenue requirements on this schedule.
4

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

6 A. The expenses included on this schedule represent the O&M costs that the Company
7 expects to incur in 2010 related to the CR3 Uprate project that the company is
8 seeking recovery of through the NCRC.
9

10 **Q. What are the projected capital costs that will be incurred for the period**
11 **January 2010 through December 2010?**

12 A. Total capital expenditures excluding carrying costs are projected to be \$49.9
13 million, as shown on Schedule P-6, line 47. This amount includes expenditures of
14 \$0.8 million for License Application, \$11.3 million for Project Management, \$21.2
15 million for Power Block Engineering and Procurement, and \$16.6 million for Non-
16 Power Block Engineering and Procurement as part of generation construction costs.
17 These costs have been adjusted to a cash basis for purposes of calculating the
18 carrying charges (line 49). These costs have also been adjusted to remove the joint
19 owner portion (line 50) and the appropriate jurisdictional separation factor has been
20 applied. More information on the types of costs included in these major tasks is
21 provided on Schedule P-6A as well as the testimony of Mr. Franke.
22

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

1 A. The jurisdictional separation factors are based on the factors that were proposed in
2 PEF's current base rate proceeding, Docket 090079-EI, and are subject to change
3 pending the outcome of that proceeding.

4
5 **Q. What is the estimated rate impact to the residential ratepayer expected to be
6 in 2010?**

7 A. As can be seen in Schedule P-10, the expected rate impact to the residential
8 ratepayer is \$0.30 per 1000 KWhs.

9
10
11 **VIII. CR3 UPRATE TRUE-UP TO ORIGINAL**

12
13 **Q. What do the TOR schedules reflect?**

14 A. The TOR schedules reflect the total estimated costs of the CR3 Uprate project until
15 the project is placed into service. Further details on the total project estimates are
16 provided in Mr. Franke's testimony. Schedule TOR-1 includes the estimated total
17 revenue requirements through completion of the project. Total revenue
18 requirements of \$57.7 million on Schedule TOR-1, Line 6, are primarily comprised
19 of the carrying charges on the construction balance, CCRC recoverable O&M, and
20 revenue requirements associated with assets going in service in the year they go in-
21 service recovered through the clause. This includes actual expenditures incurred
22 through March 2009 and projections through 2012.

1 Q. Does this conclude your testimony?

2 A. Yes, it does.

3

1 BY MS. TRIPLETT:

2 Q. Mr. Foster, do you have a summary of your
3 prefiled testimony?

4 A. I do.

5 Q. Would you please summarize your prefiled
6 testimony for the Commission?

7 A. Yes. Good morning. My name is Thomas
8 Geoffrey Foster. I presented testimony regarding the
9 company's 2009 actual/estimated and 2010 projected costs
10 for the Crystal River uprate as well as the Levy nuclear
11 projects. My testimony also presents total estimated
12 revenue requirements 2010 for purposes of setting 2010
13 rates in the capacity cost recovery clause.

14 I'm available to answer questions regarding my
15 testimony. Thank you.

16 CHAIRMAN CARTER: You get points for being
17 brief.

18 Mr. Rehwinkel, you're recognized.

19 MR. REHWINKEL: Thank you, Mr. Chairman. I
20 hope I get points for being brief too, because I have a
21 few recordkeeping questions for Mr. Foster.

22 CROSS-EXAMINATION

23 BY MR. REHWINKEL:

24 Q. Can you turn to TGF-2, page 3 of 3, on
25 Schedule P-8 of your May 1st testimony?

1 CHAIRMAN CARTER: Commissioner Skop.

2 COMMISSIONER SKOP: Thank you. Can
3 Mr. Rehwinkel repeat that a little bit more slowly,
4 please. Thank you.

5 MR. REHWINKEL: Yes. This is behind Tab
6 Number TGF-2, and it is Schedule P-8, and page 3 of 3,
7 Levy County Nuclear Units 1 and 2.

8 BY MR. REHWINKEL:

9 Q. Do you have that, Mr. Foster?

10 A. Yes, sir, I'm there.

11 Q. And good morning, by the way.

12 A. And I don't want to cut you off, but I did not
13 sponsor this -- I sponsored this schedule, but it is
14 addressed by -- or it's attached to my testimony, but I
15 do not sponsor it.

16 Q. Okay.

17 A. I just wanted to make sure that's clear up
18 front.

19 Q. I just wanted to ask you a question, and you
20 can answer it that way if you want. And this is a
21 confidential exhibit that I'm referring to, so I do not
22 want to ask you to state any numbers or any confidential
23 information here. But on line 15, there in column H, to
24 your knowledge, has that number changed that is in line
25 15, column H?

1 A. I do not have any knowledge of that at this
2 time. That would probably be something best addressed
3 to Mr. Miller.

4 Q. Okay. To your knowledge, have any of the
5 numbers related to the Levy nuclear plant changed such
6 that your schedules would need to be updated?

7 A. No. No, sir.

8 MR. REHWINKEL: Okay. That's all the
9 questions I have. Thank you.

10 CHAIRMAN CARTER: You get points,
11 Mr. Rehwinkel. Mr. Brew.

12 MR. BREW: I'm going to shoot for points too.

13 CROSS-EXAMINATION

14 BY MR. BREW:

15 Q. Good morning, Mr. Foster.

16 A. Good morning.

17 Q. Could I refer you to page 18 of your direct
18 testimony?

19 A. Just give me one second, please.

20 Q. Sure. Let me know when you've got it.

21 A. Yes, sir.

22 Q. Now, in the question and answer that begins on
23 line 11, you say that you do not provide any true-up to
24 original schedules for the Levy project; is that right?

25 A. Yes, sir.

1 Q. And the reason for that is because you don't
2 have an updated cost for the project?

3 A. At this time -- and again, I think this is
4 probably something that's most appropriately addressed
5 by Mr. Miller, but at this time, we do not have an
6 updated total project cost due to changes in the
7 schedule shift.

8 Q. Okay. And in the next question and answer
9 that moves over to page 19, you say that there's not
10 actually a requirement in the nuclear cost recovery
11 statute or rule to provide such TOR schedules. Do you
12 see that?

13 A. That's accurate.

14 Q. If there were such a requirement, you would
15 still have nothing to provide until you have an updated
16 project cost and schedule; is that right?

17 A. If there was a requirement, we would put our
18 best proxy forward, which would still be based -- my
19 understanding is -- and again, I would go to Mr. Miller
20 for the numbers, but our best estimate, I believe -- and
21 again, this is his testimony -- would be the
22 17.2 billion.

23 Q. The 17.2 is what was filed in the need case?

24 A. That was filed in the need case.

25 Q. Okay. And on page 18, you say that that

1 estimate is going to be changed because of the project
2 slippage; is that right?

3 A. I don't know that for a fact. I would say
4 it's likely to change.

5 Q. Okay. Let me try it differently. I'm not
6 asking you to speculate on what Mr. Miller's testimony
7 would be, only what you do. You don't have a TOR
8 schedule to prepare because you don't have the updated
9 cost and schedule information; is that right?

10 A. We did not provide TOR schedules because we
11 don't have an updated total project cost number.

12 MR. BREW: Thank you. That's all I have.

13 CHAIRMAN CARTER: Great job, Mr. Brew.

14 Mr. Davis.

15 MR. DAVIS: I'll do even better. No
16 questions.

17 CHAIRMAN CARTER: Wow. Mr. Moyle, you're
18 batting cleanup today.

19 MR. MOYLE: Just a couple, if I could.

20 CROSS-EXAMINATION

21 BY MR. MOYLE:

22 Q. Sir, just so I'm clear, you're seeking from
23 the ratepayers \$12.33, isn't that right, beginning
24 January 1, 2010, related to Levy?

25 A. That is what the statute provides for. That's

1 our quantification based on the sales estimate that was
2 used in my prefiled, yes, sir.

3 Q. But you're not looking to collect all of that.
4 You're going to defer some of it; is that right?

5 A. Our company has proposed an alternative;
6 that's correct, sir.

7 Q. Okay. And you're removing roughly \$6 from
8 that 12.33 amount, is that right, give or take?

9 A. I would say that's a good ballpark, yes, sir.

10 Q. But the fact that it's being removed doesn't
11 mean that consumers aren't ultimately going to have to
12 pay that amount; correct?

13 A. That's correct.

14 Q. Because that's just going to be, in effect,
15 carried, and ultimately consumers will still have to pay
16 that with interest; correct?

17 A. That's correct, sir.

18 Q. The carrying costs currently on the project
19 are north \$10 million per year, isn't that right, the
20 interest carrying costs?

21 A. Is there somewhere I -- I believe that's an
22 accurate number, that they are north of \$10 million,
23 yes, sir.

24 Q. Okay. And you expect that number to go up as
25 this project matures, correct, with the additional

1 expenditures?

2 A. I expect that we go out in time and have more
3 investment in the project that the carrying costs on
4 those investments will go up, yes.

5 Q. Okay. And then the question about the --
6 Mr. Brew asked you a little bit, but as we sit here
7 today, can you tell this Commission what you think this
8 project is going to ultimately cost?

9 A. Again, that's not something I am testifying
10 to.

11 Q. That's a Mr. Miller question?

12 A. That's a Mr. Miller question, yes, sir.

13 MR. MOYLE: That's all I have. Thank you.

14 CHAIRMAN CARTER: Thank you, Mr. Moyle.

15 Commissioners, I'm going to go to staff unless
16 there are any questions from the bench at this time.
17 I'll still come back to the bench.

18 Staff, you're recognized.

19 MR. YOUNG: Thank you, sir. We just have a
20 few questions.

21 CROSS-EXAMINATION

22 BY MR. YOUNG:

23 Q. Good morning, Mr. Foster.

24 A. Good morning.

25 Q. You are PEF's witness addressing the

1 ratemaking and policy matters in this proceeding; right?
2 You just stated that; correct?

3 A. Yes, sir.

4 Q. All right. Mr. Foster, are you PEF's witness
5 addressing Issue 3, which is the AFUDC issue?

6 A. Yes, sir.

7 Q. My question is, what is your understanding of
8 Issue 3? Let me first ask that.

9 A. My understanding of Issue 3 is that it deals
10 with -- let me check, because Issue 2 and 3 I remember
11 were close. But it's the incremental-decremental;
12 correct?

13 Q. Yes, sir.

14 A. Okay. Our company's position is, this is a
15 statute issue. It's what does the statute provide for,
16 and I think perhaps -- I forget exactly who, but
17 somebody said yesterday a legal issue. And while I'm
18 not a lawyer, my plain reading of the statute, section
19 (2)(b), tells you that there is a fixed carrying charge
20 associated with these projects.

21 MR. YOUNG: Okay. No further questions.

22 CHAIRMAN CARTER: Commissioners, anything from
23 the bench. Redirect?

24 Did you say yes?

25 COMMISSIONER SKOP: Yes.

1 CHAIRMAN CARTER: Commissioner Skop.

2 COMMISSIONER SKOP: Thank you, Mr. Chairman.

3 Good morning, Mr. Foster.

4 THE WITNESS: Good morning.

5 COMMISSIONER SKOP: Just briefly, a lot of the
6 discussion has focused upon delays and projected costs
7 of completion and the uncertainty of those costs in
8 light of undertaking a major capital project which has
9 not been attempted in over 30 years in this country.
10 With respect to the limited work authorization that
11 Progress requested, that was recently denied by the NRC
12 for Levy 1 and 2; is that correct?

13 THE WITNESS: You know, Commissioner, I'm
14 really not the best expert on that. My understanding is
15 that there are some LWA issues that have caused a shift,
16 but beyond that, I would hesitate to tender myself as
17 the expert on that.

18 COMMISSIONER SKOP: Who would be the
19 appropriate witness?

20 THE WITNESS: Mr. Miller or Mr. Lyash would be
21 the ones to talk to, sir.

22 COMMISSIONER SKOP: All right. Thank you.

23 CHAIRMAN CARTER: Anything further from the
24 bench? Redirect?

25 MS. TRIPLETT: Sir, I don't have any redirect,

1 but I didn't know if now was the appropriate time to
2 mark these.

3 CHAIRMAN CARTER: Now would be a good time.

4 MS. TRIPLETT: Okay. I think the next numbers
5 I have are 139 and 140.

6 CHAIRMAN CARTER: Okay. Let's do this. Which
7 one do you want for 139?

8 MS. TRIPLETT: Why don't we do 139 as "Updated
9 Position to 32A."

10 CHAIRMAN CARTER: Okay. That's the one with
11 the box on it, 139?

12 MS. TRIPLETT: Yes, sir.

13 CHAIRMAN CARTER: Okay. And 140 is the other
14 page?

15 MS. TRIPLETT: Yes.

16 CHAIRMAN CARTER: How about a short title for
17 each? 139 first.

18 MS. TRIPLETT: 139, we could use "Updated
19 Position to 32A."

20 CHAIRMAN CARTER: Okay. That's short. Okay.
21 Now 140.

22 MS. TRIPLETT: How about "CR3 Uprate, High
23 Level Estimate"?

24 CHAIRMAN CARTER: You almost had me until you
25 put that "high level estimate" on. Why don't we go with

1 "CR3 Uprate"?

2 MS. TRIPLETT: We could do that too.

3 CHAIRMAN CARTER: Okay. Let's go with "CR3
4 uprate."

5 (Exhibits Number 139 and 140 were marked for
6 identification.)

7 CHAIRMAN CARTER: Okay. Hang on one second.
8 Let me get my pages together here. We'll come back to
9 those in a minute. Let's flip over to page --
10 Commissioners, that will be page 12, marked for
11 identification on staff's Comprehensive Exhibit List,
12 Number 82 through -- it looks like -- let me see here.
13 Eighty-nine; is that right?

14 MS. TRIPLETT: I have 83 through 89.

15 CHAIRMAN CARTER: What did I say? Eighty-two?
16 Eighty-three through 89. Do you want to move those in?

17 MS. TRIPLETT: Yes, sir. Can we move those
18 in?

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

21 (Exhibits Number 83 through 89 were admitted
22 into the record.)

23 CHAIRMAN CARTER: Now let's go to the back
24 pages, Commissioners. Exhibit 139 and 140, any
25 objection from the parties?

1 Without objection, show it done.

2 (Exhibits Number 139 and 140 were admitted
3 into the record.)

4 CHAIRMAN CARTER: Okay. Anything further for
5 this witness on direct?

6 MS. TRIPLETT: I'm sorry, Chairman. Were you
7 moving in 139 and 140 together?

8 CHAIRMAN CARTER: Yes.

9 MS. TRIPLETT: Thank you.

10 CHAIRMAN CARTER: Yes, they're both entered.

11 MS. TRIPLETT: I have nothing further.

12 CHAIRMAN CARTER: Okay. You may be excused.

13 MS. TRIPLETT: And, Chairman Carter,
14 Mr. Foster does not have any rebuttal testimony, so may
15 he be dismissed or excused from the rest of the
16 proceeding?

17 CHAIRMAN CARTER: Do the parties have any --
18 okay. Staff, anything further for this witness?

19 MR. YOUNG: No, sir.

20 CHAIRMAN CARTER: You are released.

21 MS. TRIPLETT: Thank you.

22 CHAIRMAN CARTER: Thank you. Call your next
23 witness.

24 MS. TRIPLETT: I call Jon Franke.

25 Good morning.

1 Mr. Chairman, I'm ready when you are.

2 CHAIRMAN CARTER: You may proceed.

3 MS. TRIPLETT: Thank you.

4 Thereupon,

5 JON FRANKE

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

9 DIRECT EXAMINATION

10 BY MS. TRIPLETT:

11 Q. Will you please introduce yourself to the
12 Commission and provide your address?

13 A. My name is Jon Franke. My business address is
14 15760 West Power Line Street, Crystal River, Florida.

15 Q. And who do you work for, and what is your
16 position?

17 A. I work for Progress Energy Florida, and I am
18 the Vice President of Crystal River Nuclear Plant.

19 Q. Have you adopted the prefiled direct testimony
20 of Steve Huntington filed March 2nd, 2009, in this
21 proceeding?

22 A. Yes.

23 Q. And have you also filed prefiled direct
24 testimony filed May 1st, 2009, in this proceeding?

25 A. Yes.

1 Q. And were your prefiled testimonies true and
2 accurate at the time they were filed, and are they still
3 materially accurate today?

4 A. That is correct.

5 Q. And if I asked you the same questions in your
6 prefiled testimony today, would you give the same
7 answers that are in your prefiled testimony?

8 A. Yes.

9 MS. TRIPLETT: We request that the March 2nd
10 and May 1st prefiled testimonies be entered into the
11 record as though read.

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

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IN RE: NUCLEAR COST RECOVERY CLAUSE
BY PROGRESS ENERGY FLORIDA
FPSC DOCKET NO. 090009

DIRECT TESTIMONY OF STEVE HUNTINGTON

I. INTRODUCTION AND QUALIFICATIONS

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Q. Please state your name and business address.

A. My name is Steve Huntington. My business address is Crystal River Energy Complex, Site Administration 2C, 15760 West Power Line Street, Crystal River, Florida 34428.

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

A. I am employed by Progress Energy Florida ("PEF" or the "Company") in the capacity of General Manager – Nuclear Projects.

Q. What are your responsibilities as the General Manager - Nuclear Projects?

A. As General Manager – Nuclear Projects, I am responsible for the management and oversight of all large, capital nuclear projects for Progress Energy, including the Uprate Project at Crystal River Unit 3 ("CR3"), PEF's nuclear plant.

1 **Q. Please summarize your educational background and work experience.**

2 **A.** I have a Bachelor of Science in Industrial Engineering and Technology
3 degree from Southern Illinois University. I have completed executive
4 leadership and alliance management courses at the University of Virginia
5 Darden Graduate School of Business. I have over 32 years in outage
6 management, maintenance and quality management positions for utility
7 and construction companies in the commercial nuclear industry. Prior to
8 my employment with the Company, I served as VP of New Plant
9 Commercial Operations for AREVA NP, where I was responsible for
10 guiding the development of the US Evolutionary Power Reactor business
11 development activities, contracts organization and communications group.
12 I have held various other positions in the commercial nuclear power
13 market.

14
15 **II. PURPOSE AND SUMMARY OF TESTIMONY**

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

17 **A.** The purpose of my direct testimony is to support the Company's request
18 for cost recovery pursuant to the nuclear cost recovery rule for certain
19 costs incurred in 2008 for the replacement and modification of equipment
20 at CR3 to support an increase in reactor power from the nuclear plant. My
21 testimony also supports the Company's request for a prudence
22 determination of the costs incurred for the project in 2008.

23 Specifically, I will describe the construction costs that have been
24 incurred, for which PEF is seeking recovery of the carrying costs. I will

1 explain why those construction costs were reasonable and necessary to
2 accomplish the uprate. My testimony further supports the prudence of
3 those costs by describing the process by which vendors and technology
4 were selected. I will also provide testimony regarding PEF's project
5 management policies and procedures that are designed to manage project
6 costs and maintain the project schedule and explain why they are
7 reasonable and prudent.
8

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

10 **A.** Yes, I am sponsoring one exhibit, Exhibit No. __ (SH-1), which is a
11 summary of the major modifications of the CR3 Uprate project. I am also
12 sponsoring a portion of Schedule T-6, T-6B, and Appendix C, as well as
13 Schedules T-6A and T-7 through T-8B of the Nuclear Filing Requirements
14 ("NFRs"), which are included as part of the exhibit to Will Garrett's
15 testimony. Schedule T-6 and Appendix C reflect the construction
16 expenditures for the project by category and T-6B reflects explanations for
17 the significant variances between these expenditures and previously filed
18 projections. T-6A reflects descriptions of the major cost categories of the
19 expenditures. Schedule T-7 is a description of the contracts and work for
20 the nuclear technology selected. Schedule T-8 is a list of the contracts
21 executed in excess of \$1.0 million. Schedule T-8A reflects details
22 pertaining to the contracts executed in excess of \$1.0 million. Schedule T-
23 8B reflects contracts executed in excess of \$200,000, yet less than \$1.0
24 million.

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All of these exhibits and schedules are true and accurate.

Q. Please summarize your testimony.

A. The CR3 Uprate Project is being completed in three phases and will result in the Company generating an additional 180 MWe of efficient nuclear power by 2011. The Company successfully completed the first phase of the project during the 2007 refueling outage, and it was brought online in January 2008. During 2008, PEF incurred reasonable and prudent costs to complete all three phases of the project. The majority of the costs PEF incurred in 2008 were for the remaining two phases, scheduled for the 2009 and 2011 refueling outages, because long lead-times to secure contracts and equipment for that work is required. PEF also finalized the scoping work for the 2009 outage, and completed engineering design for the project. The project is on schedule and on budget. These costs are appropriate for recovery pursuant to the nuclear cost recovery rule.

As demonstrated in my testimony and the NFRs filed as exhibits to Mr. Garrett's testimony, PEF took adequate steps to ensure that the costs it incurred were reasonable and prudent. When selecting vendors, PEF utilized a Request for Proposals ("RFP"), or competitive bidding, process where appropriate, and used reasonable business judgment to select sole-source vendors when an RFP was not used. For all its contracts, PEF negotiated as favorable contract terms as it could given market conditions to provide reasonable cost certainty and appropriate risk-sharing.

1 Accordingly, the Commission should approve PEF's costs incurred for
2 2008 as reasonable and prudent pursuant to the nuclear cost recovery rule.

3
4 **III. DESCRIPTION AND STATUS OF CR3 UPRATE PROJECT**

5 **Q. Please explain when and how the CR3 Uprate project will be**
6 **accomplished.**

7 **A.** The CR3 power uprate project is planned for completion in three
8 scheduled refueling outages for CR3 in 2007, 2009 and 2011. By
9 completing this work during the times when CR3 will already be offline,
10 customers receive the benefits of the CR3 Uprate Project without incurring
11 replacement energy costs.

12 Phase 1, the MUR, was installed during the 2007 refueling outage
13 and went on-line on January 31, 2008. The MUR is a series of
14 engineering analyses to measure the "secondary heat balance" with
15 improved accuracy through modifications to plant instrumentation and
16 associated calculations. The improved accuracy in measuring the
17 secondary heat balance allows the rated thermal power to be increased by
18 41 thermal megawatts ("MWt") and plant electrical generation to increase
19 by approximately 12 megawatts electric ("MWe").

20 Phase 2 of this project is a series of improvements to the efficiency
21 of the secondary plant also known as the Balance of Plant ("BOP"). The
22 Company currently anticipates, for example, that all or at least part of the
23 low pressure turbine and electrical generator replacement can be
24 completed during the BOP phase. The BOP phase is scheduled

1 concurrently with the steam generator replacement during the 2009
2 refueling outage. Other modifications and replacements will be evaluated
3 for inclusion in the 2009 refueling outage if the outage is not extended,
4 appropriate resources are available to support the changes, and the impact
5 of further modifications or replacements for the power uprate project on
6 the duration of the scheduled 2011 refueling outage can be minimized.

7 The changes during the BOP phase do not increase the licensed
8 output of the nuclear reactor but they will improve the efficient use of that
9 output to produce a higher electrical output. The estimated increase in
10 output is 28 MWe from the BOP phase.

11 The full power uprate is scheduled for the 2011 refueling outage,
12 when the remaining work necessary to provide the full 180 MWe power
13 uprate, called the Extended Power Uprate ("EPU") phase, will be
14 completed. The BOP phase improvements will be sized to support the
15 EPU. The EPU maximizes the output of the reactor and the BOP to their
16 ultimate capacity.

17 The remaining two phases of the CR3 uprate project are on
18 schedule to come online during the 2009 and 2011 outages.

19
20 **Q. Will the CR3 uprate project require changes to other units at the**
21 **Crystal River site?**

22 **A.** All changes necessary to generate the full power uprate are internal to the
23 CR3 power block and no changes to the Company's current plant siting
24 are required. However, modifications to address Point of Discharge

1 ("POD") issues to accommodate the full 180 MWe power uprate will be
2 necessary to the complex outside of the CR3 power block and protected
3 area.

4
5 **Q. What changes are anticipated to address the Point of Discharge**
6 **issues?**

7 **A.** The power uprate from the project will generate additional heat and steam,
8 thereby increasing the temperature of the cooling water for the CR3 unit.
9 This additional heat will likely cause the Company to exceed the thermal
10 permit requirements for the cooling water discharge temperature. The
11 conceptual design phase has been completed and PEF has made a decision
12 on how to mitigate the additional heat rejected into the discharge canal due
13 to the EPU. A mechanical draft circular cooling tower capable of
14 removing 2.33 B BTU/hour, with a flow rate of 320,000 gpm, & 79⁰ F wet
15 bulb temperature, will be constructed and put into operation on the south
16 bank of the discharge canal. The designed capacity of the new cooling
17 tower compensates for both removal of the leased modular cooling towers
18 and mitigation of the increased heat rejected to the discharge canal due to
19 the EPU. This approach was determined to be the most cost effective
20 solution for both concerns.

21
22 **Q. What is the current status of the CR3 Uprate project in terms of**
23 **completion?**

1 A. Phase 1, also known as the MUR phase, was successfully completed
2 during the 2007 scheduled outage. Concurrently with the MUR phase
3 work, we have been securing contracts, making plans, and incurring costs
4 for Phases 2 and 3. The project thus far is progressing as expected, and
5 we expect no problems with completing them in the expected timeframes.
6 The project is on schedule and on budget.

7
8 **Q. How did PEF choose the vendors with which it contracted during the**
9 **2008 timeframe?**

10 A. PEF employed a competitive bidding process to choose the vendors with
11 which it contracted in 2008 for the various projects associated with the
12 CR3 Uprate Project. PEF issued a Request for Proposal (“RFP”),
13 evaluated the RFP responses based on a variety of factors (including price,
14 dependability of the vendor, technical considerations, and the like), and
15 chose the vendor that provided the best value for the price.

16 A more detailed description of the technology chosen for the CR3
17 Uprate Project is contained in Schedule T-7, which is attached as part of
18 an exhibit to Will Garrett’s testimony. Also, a detailed description of the
19 contracts executed in excess of \$200,000, including the dollar value and
20 term of the contract, the method of vendor selection, the identity and
21 affiliation of the vendor, and current status of the contract, is contained in
22 Schedules T-8 through T-8B, included in the exhibit to Mr. Garrett’s
23 testimony.

24

1 **IV. COSTS INCURRED IN 2008 FOR CR3 UPRATE PROJECT**

2 **Q. Has the Company incurred costs for the CR3 Uprate Project in 2008?**

3 **A.** Yes, PEF incurred costs related to all three phases of the CR3 Uprate
4 Project. The total capital expenditures for 2008, gross of joint owner
5 billing and exclusive of carrying cost, were \$65,137,303. Specifically,
6 PEF incurred \$7,731,640 of Project Management costs, \$56,955,136 of
7 Power Block Engineering and Procurement costs, and \$450,527 of Non-
8 Power Block Engineering and Procurement costs.

9
10 **Q. Please describe the total Project Management costs incurred and**
11 **explain why the Company incurred them.**

12 **A.** The Company's Project Management costs include the following Project
13 Management activities: (1) project administration, including project
14 instructions, staffing, roles and responsibilities, and interface with
15 accounting, finance, and senior management; (2) contract administration,
16 including status and review of project requisitions, purchase orders, and
17 invoices, contract compliance, and contract expense reviews; (3) project
18 controls, including schedule maintenance and milestones, cost estimation,
19 tracking and reporting, risk management, and work scope control; (4)
20 project management, including project plans, project governance and
21 oversight, task plans, task monitoring plans, lessons learned, and task item
22 completions; (5) project training, including the uprate project training
23 program, training of personnel in accordance with the training program,
24 and maintaining training records; and (6) CR3 Uprate licensing work.

1 Specifically, the Component Engineer group completed and published the
2 CR3 uprate vendor oversight plans and schedules for the outage
3 manufacturing cycle and initiated the vendor surveillance actions at the
4 vendor facilities.

5 Each activity was conducted under the Company's project
6 management and cost control policies and procedures that I describe in my
7 testimony below. Such costs are necessary to ensure that the scope of
8 work is adequate to achieve the uprate project objectives, that the
9 engineering and construction labor, material, and equipment, provided by
10 PEF or outside vendors for the project, is available when needed at a
11 reasonable cost, and that the project schedule can be maintained.

12 The current schedule calls for the CR3 Uprate to be completed
13 during the 2009 and 2011 CR3 refueling outages. Through the Project
14 Management activities that I have identified, the Company is on-schedule
15 and on-budget to perform the CR3 Uprate project work as planned. These
16 necessary CR3 Uprate project costs are reasonable and prudent.

17
18 **Q. Please describe the total costs incurred for the Power Block**
19 **Engineering, Procurement and related construction cost items and**
20 **explain why the Company incurred them.**

21 **A.** Most of the costs incurred in this category in 2008 were for the completion
22 of the engineering design change packages associated with the equipment
23 scheduled to be replaced in 2009. In addition, during 2008 the initial
24 detailed task plans associated with the 2009 refueling outage work scope

1 were completed. The Company also incurred further costs for payments
2 of long-lead items for equipment needed in the 2009 outage. The work
3 scope for the 2009 outage includes two low pressure turbine replacements,
4 turbine generator electrical stator rewind, turbine generator exciter
5 replacement, four moisture separator reheater replacements, two
6 condensate heater replacements, two secondary cooling heat exchanger
7 replacements, two moisture separator reheater shell side drain heat
8 exchanger additions, turbine generator electrical output bus duct cooling
9 system modification, integrated control system rescaling, plant process
10 computer updates, and four turbine bypass valve replacements. We have
11 also been performing conceptual and detailed design and licensing
12 activities for the 2011 outage work.

13 PEF's 2008 Power Block Engineering and Procurement costs were
14 necessary for the timely completion of the CR3 Uprate during the 2009
15 and 2011 refueling outages. These costs were prudently incurred.

16
17 **Q. Please describe the total costs incurred for the Non-Power Block**
18 **Engineering, Procurement and related construction cost items and**
19 **explain why the Company incurred them.**

20 **A.** These costs are associated with the studies the Company completed on the
21 effects of the increased heat at the POD. These costs are necessary for the
22 project because PEF will not be able to complete the full uprate without
23 analyzing and accommodating the higher water temperature in the
24 discharge canal. These costs were prudently incurred.

1 **Q. How did actual capital expenditures for January 2008 through**
2 **December 2008 compare to PEF's estimated/actual projection for**
3 **2008?**

4 **A.** PEF's actual capital expenditures in 2008 were less than PEF projected.
5 Project Management capital expenditures were \$7,731,640 which was
6 \$1,669,075 under the estimated/actual projection and Power Block
7 Engineering and Procurement capital expenditures were \$56,955,136
8 which was \$1,229,920 under the estimated/actual projection. These
9 variances were primarily due to effective implementation of our major
10 project management procedures. PEF incurred lower internal labor costs
11 than projected as the scheduled work required fewer working hours than
12 originally planned. Also, \$450,527 that was projected as Power Block
13 Engineering has been re-classified to the Non-Power Block Engineering
14 category because the costs were associated with the POD solution.

15
16 **V. ALL COSTS INCLUDED FOR THE CR3 UPRATE ARE**
17 **"SEPARATE AND APART FROM" THOSE COSTS NECESSARY**
18 **TO RELIABLY OPERATE CR3 DURING ITS REMAINING LIFE**

19 **Q. Are the CR3 Uprate project costs included in the NCRC docket for**
20 **recovery separate and apart from those that the Company would have**
21 **incurred to operate CR3 during the extended life of the plant?**

22 **A.** Yes, PEF has only included for recovery in this proceeding those costs
23 that were incurred solely for the CR3 Uprate. In other words, the

1 Company only included uprate costs that would not have been incurred
2 but for the CR3 Uprate Project.

3
4 **Q. How did the Company determine the scope of the CR3 Uprate and the**
5 **necessary costs to be incurred to complete the project?**

6 **A.** PEF completed several scoping or feasibility studies to determine the
7 exact nature of the changes necessary to implement the CR3 Uprate
8 project. PEF contracted with AREVA to provide this detailed technical
9 analysis. In that analysis, AREVA studied the effect of the additional heat
10 and pressure to determine which components would need to be replaced or
11 upgraded to accommodate the uprate. A summary of the major
12 components and modifications necessary to complete the CR3 Uprate
13 Project is included in my Exhibit No. __ (SH-1). This summary table also
14 explains the reason for each modification or new component.

15
16 **Q. How did PEF determine that no CR3 equipment would have to be**
17 **replaced to continue to operate the plant for an additional twenty**
18 **years?**

19 **A.** PEF made this determination after conducting a detailed License Renewal
20 aging review of the plant's in-scope systems, structures, and components
21 ("SSCs"). It should be noted that the Company had already decided to
22 replace the steam generators prior to the beginning of the CR3 License
23 Renewal project and the generators will be replaced prior to approval of
24 the renewed license. The generators are scheduled for replacement during

1 the 2009 refueling outage, and the Company has not included any costs for
2 the steam generator replacement in this proceeding.

3
4 **Q. Please explain the process PEF utilized to identify that no equipment**
5 **needed to be replaced to ensure reliable and efficient operation during**
6 **an additional twenty years of plant operation following license**
7 **renewal.**

8 **A.** CR3 was originally licensed for forty years. To extend the life of CR3 for
9 another twenty years, the NRC requires that PEF, as the owner, submit a
10 License Renewal Application. The requirements of a License Renewal
11 Application are set forth in 10 CFR Part 54. The first part of the
12 application process is to conduct a License Renewal technical evaluation,
13 which is intended to evaluate whether the unit can safely and reliably
14 operate for a full 60-year operating term. The technical evaluation for
15 CR3 took approximately three years to complete.

16 The first step in the technical evaluation is to determine which of
17 the plant's SSCs are within the scope of License Renewal. There are
18 certain criteria set forth in 10 CFR § 54.4, and if an SSC meets those
19 criteria, it will be considered within the scope of License Renewal.
20 Basically, SSCs that are safety related, non-safety related but whose
21 failure could prevent the accomplishment of a safety related function, and
22 those that support any of the five regulated events - fire protection (10
23 CFR § 50.48), environmental qualification (10 CFR § 50.49), pressurized
24 thermal shock (10 CFR § 50.61), anticipated transients without scram (10

1 CFR § 50.62), and station blackout (10 CFR § 50.63) - will be considered
2 within the License Renewal scope.

3 These SSCs are further screened to identify those that are long-
4 lived and passive to determine the complete population of SSCs that
5 require aging management review. Long-lived components are those
6 components that are expected to remain functional for at least the first 40
7 years of plant life. Passive components are those that perform their
8 function without moving parts and without a change in configuration or
9 properties. These include such components as the reactor vessel, the
10 steam generators, piping, component supports, valve bodies, cables, heat
11 exchangers, structures, etc. In essence, the entire nuclear plant is divided
12 into two categories: SSCs that are included in the technical evaluation and
13 SSCs that are not included in the evaluation. A more detailed discussion
14 of the methodology for scoping the CR3 License Renewal technical
15 evaluation can be found in Section 2.1 of PEF's License Renewal
16 Application, which is available on the NRC website at:
17 <http://www.nrc.gov/reactors/operating/licensing/renewal/applications/crystal/crystal-lra.pdf>.
18

19 A detailed description of the screening methodology can also be
20 found in Section 2.1 of the Company's License Renewal Application,
21 available at the NRC website noted above.
22

23 **Q. What is the next part of the technical evaluation?**

1 **A.** The next step of the technical evaluation is the aging review and
2 identification of aging management programs. This step determines what
3 the aging effects are for each in-scope SSC and identifies which aging
4 management program is required, if any, to assure that the SSC will
5 operate through the end of the renewed license term. The Company also
6 reviews time-limited aging analyses (“TLAA”) to assure that evaluations
7 previously performed to establish the operating life of an SSC will still be
8 valid for the period of extended operation. TLAAs are evaluations that
9 establish a life expectancy of an SSC in terms of years, cycles, or some
10 other metric. The review of TLAAs is performed to assure that any
11 evaluation that determined an SSC had a life of less than 60 years would
12 be addressed. The aging management and TLAA reviews would identify
13 any SSCs that had a life of less than 60 years. If any SSC was found with
14 a life of less than 60 years, PEF would be required to replace it, refurbish
15 it, or re-analyze it.

16
17 **Q.** **What were the results of the aging analysis?**

18 **A.** In summary, after the detailed review of each in-scope SSC, PEF
19 determined that no SSC required replacement due to the extended
20 operating term that had not previously been identified. This finding is
21 consistent for most plants that have gone through the license renewal
22 process. As stated above, PEF had already identified and made plans to
23 replace the steam generators. No new capital replacements were
24 identified. Although no replacements are needed, PEF must implement

1 certain aging management monitoring programs. These aging
2 management monitoring programs typically involve inspections of SSCs
3 to verify that no significant aging is taking place. A more detailed
4 description of the results of the aging analysis can be found in Section 3.0
5 of the Company License Renewal Application on the NRC website.
6 Aging management programs may be found in Appendix B of the License
7 Renewal Application.

8
9 **Q. Did the Company have to replace its step-up generator transformers**
10 **as part of its License Renewal?**

11 **A.** No, it did not. Through its routine maintenance program, PEF had already
12 identified the need to replace its step-up generator transformers. This
13 project was completed in 2007, and none of the costs for this project is
14 included in the scope of the CR3 Uprate Project.

15
16 **VI. PROJECT MANAGEMENT AND COST CONTROL OVERSIGHT**

17 **Q. Has the Company implemented project management and cost control**
18 **oversight mechanisms for the CR3 Uprate project?**

19 **A.** Yes. The Company is utilizing several policies and procedures to ensure
20 that the costs for the CR3 Uprate project are reasonably and prudently
21 incurred and that the project remains on schedule. The CR3 Uprate
22 project is being undertaken by the Company consistent with its Project
23 Management Manual, which has been in place at the Company and used to
24 manage capital projects since early in this decade.

1 Additionally, because the CR3 Uprate project is a major capital
2 project for the Company, the project must comply with the Company's
3 policies and procedures in its Major Capital Projects – Integrated Project
4 Plan that was issued in January 2008. The CR3 Uprate project was also
5 approved in accordance with the Company's Project Evaluation and
6 Authorization Process. This evaluation and project authorization process
7 has been in place at the Company for many years. Finally, the CR3
8 Uprate project is subject to the Progress Energy Project Governance
9 Policy, which also has been in place for many years.

10
11 **Q. Can you describe some of the project management and cost control**
12 **policies or procedures in the Company's project management**
13 **documents that are being used to manage the CR3 Uprate project and**
14 **control project costs?**

15 **A.** Yes. PEF has several control mechanisms in place to manage the CR3
16 Uprate project and the costs incurred on the project. By utilizing these
17 policies, PEF is able to effectively keep the CR3 Uprate project on
18 schedule and ensure that costs incurred are reasonable and prudent.

19 For example, the CR3 Uprate project management team conducts a
20 wide variety of regular, internal meetings. These regular meetings allow
21 the project management team to monitor the progress of the project, its
22 costs, and to incorporate the collective knowledge and experience of the
23 team in addressing the scope of the work, the cost of the work,
24 engineering and construction implementation of the work items, and

1 schedule performance. During these meetings PEF's project management
2 team reviews team member roles and responsibilities, tasks are identified,
3 and the necessary steps to implement the tasks, including incorporating
4 lessons learned, are planned. Any staffing issues are discussed and
5 addressed. Procurement under contracts, through the status of
6 requisitions, purchase orders, and invoices for necessary engineering and
7 material, is addressed as well as the status of administration of the
8 contracts with outside vendors. Project training updates are provided.
9 The status of work on the uprate licensing is regularly discussed. Risk
10 management is discussed and addressed. Finally, project management
11 expectations are communicated and implemented by the CR3 Uprate
12 project management team.

13 PEF's CR3 Uprate project managers also meet regularly with
14 outside contract vendors working on the project to review the contract
15 scope of work, engineering and construction implementation of that work
16 scope, and the schedule for the work under the vendor contracts. Project
17 requisitions, purchase orders, and invoices are discussed. Project
18 management expectations are communicated to the outside vendors. By
19 maintaining supervision over the project, the project schedule, and the
20 work performed by outside vendors, PEF is able to anticipate and manage
21 scope changes, if any, and project expenditures.

22 There are other regular project reviews too. CR3 Uprate project
23 managers prepare Project Cost Reports that include all contract, labor,
24 equipment, material and other project cost transactions recorded to the

1 CR3 Uprate project. Monthly Department Cost Reports reflecting
2 department capital expenditures for the CR3 Uprate project are also
3 prepared by the department managers and/or financial analysts. These
4 reports are regularly reviewed by the CR3 Uprate project management
5 team.

6 PEF also has monthly PEF Finance Committee meetings, in which
7 management reviews the CR3 Uprate project costs. Prior to these
8 meetings, responsible operations managers and Finance Management for
9 the organization review various monthly cost and variance analysis reports
10 for the capital budget. Variances from total budget or projections are
11 reviewed, discrepancies are identified, and corrections made as needed.
12 The specific reports used are the Cost Management Reports produced by
13 PEF Accounting. All cost reporting for the CR3 Uprate project is tied
14 back to the Cost Management Reports which are tied back to the Legal
15 Entity Financial Statements. In addition to the monthly Finance
16 Committee meetings, senior management will periodically review the CR3
17 Uprate project to monitor its cost and ensure that it is on schedule.

18
19 **Q. Does the Company have any policies or procedures in place to assess
20 and mitigate project risks?**

21 **A.** Yes. PEF has a robust risk identification and mitigation process. The
22 Company routinely assesses various project risks and assigns each risk
23 with a probability of occurrence and level of importance in terms of affect
24 on project schedule and cost. PEF then develops multiple mitigation

1 strategies to eliminate or minimize the risk. The Company keeps detailed
2 logs of these risk analyses, which are updated on a periodic basis. By
3 utilizing this risk management process, the Company can effectively
4 identify and prevent risk factors from affecting the project schedule and
5 cost.

6
7 **Q. Were any project risks identified that were deemed to have a high**
8 **probability of affecting the Uprate project?**

9 **A.** Early in the Uprate project, the Turbine Building Crane Reliability was
10 identified as having a high probability to cause schedule delays. Later,
11 this probability was downgraded to medium probability and a mitigation
12 strategy was developed to utilize an outside vendor, Hoist and Crane, to
13 perform an assessment. Hoist and Crane plans to upgrade the controls for
14 the crane by February 23, 2009, at which time annual maintenance will be
15 performed by CR3 maintenance to include a complete inspection of the
16 crane. Once these activities are completed, this risk will be mitigated.
17 This demonstrates the effectiveness of the Company's risk management
18 program.

19
20 **Q. Are employees involved in the CR3 Uprate Project trained in the**
21 **Company's project management and cost control policies and**
22 **procedures?**

23 **A.** Yes, they are. PEF's project management team for the CR3 Uprate project
24 has been trained in these Company policies. There are in fact formal

1 Project Manager qualification requirements for projects of various size as
2 well as for other roles within the Project Team (Designated
3 Representative, Field Lead, etc.). Members of the CR3 Uprate project
4 management team have experience implementing these project
5 management and cost control policies and procedures successfully on
6 other Progress Energy projects and members of the Project Team also
7 have been hired from other organizations which brings a rich mixture of
8 experience to meet the project's demands.

9
10 **Q. How has this experience helped the Company's employees with the**
11 **project management of the CR3 Uprate project?**

12 **A.** PEF incorporated lessons learned from its experience with the uprates at
13 other Progress Energy nuclear plants. Having been through those uprates,
14 the Company has valuable experience that the Company can rely on in the
15 course of this uprate project. The Company's prior experience adds value
16 to all aspects of this uprate project, including staffing, vendor
17 relationships, scheduling, and cost management. Additionally, although
18 the entire CR3 uprate project cannot be compared to any of these other
19 uprates, particular portions of the projects can be compared. By making
20 such comparisons, PEF is able to ensure that the costs for these particular
21 parts of the project are reasonably consistent with each other. This
22 provides greater assurance that the CR3 Uprate project costs are
23 reasonable and prudent.
24

1 **Q. You mentioned outside vendors on the CR3 Uprate project. How does**
2 **the Company ensure that its selection and management of outside**
3 **vendors is reasonable and prudent?**

4 **A. First, a requisition is created in the Passport Contracts module for the**
5 **purchase of services. The requisition is reviewed by the appropriate**
6 **Contract Specialist in Corporate Services, or field personnel on the CR3**
7 **Uprate project, to ensure sufficient data has been provided to process the**
8 **contract requisition. The Contract Specialist prepares the appropriate**
9 **contract document from pre-approved contract templates in accordance**
10 **with the requirements stated on the contract requisition.**

11 The contract requisition then goes through the bidding or
12 finalization process. Once the contract is ready to be executed, it is
13 approved online by the appropriate levels of the approval matrix as per the
14 Approval Level Policy and a contract is created. Contract invoices are
15 received by the CR3 Uprate project managers. The invoices are validated
16 by the project managers and Payment Authorizations approving payment
17 of the contract invoices are entered and approved in the Contracts module
18 of the Passport system.

19 When selecting vendors for the CR3 Uprate project, as I indicated,
20 PEF utilizes bidding procedures through an RFP process when it can for
21 the particular services or material needed to ensure that the chosen
22 vendors provide the best value for PEF's customers. When an RFP cannot
23 be used, PEF ensures that the contracts with the sole source vendors
24 contain reasonable and prudent contract terms with adequate pricing

1 provisions (including fixed price and/or firm price, escalated according to
2 indexes, where possible). When deciding to use a sole source vendor, PEF
3 provides sole source justifications for not doing an RFP for the particular
4 work.

5 In some instances where a sole source vendor must be used, for
6 example, the vendor selected has particular experience with the plant or
7 the work required, thus making it advantageous for that vendor to
8 accomplish the work. This occurred, for example, with PEF's decision to
9 contract with AREVA for certain work on the CR3 Uprate. AREVA
10 purchased Babcock & Wilcox ("B&W"). The CR3 plant has a B&W
11 designed reactor. By buying B&W, AREVA now owns the proprietary
12 analysis and detailed information on how the reactor works. Further, they
13 have partnered with Worley Parsons, which was previously the primary
14 Architect/Engineer firm responsible for the CR3 design. This obviously
15 provides AREVA with a distinct advantage over any other vendor and
16 reduces cost and potential schedule impacts from adding an additional
17 vendor interface.

18 In other instances where a sole source vendor is selected, the
19 vendor has a fleet contract (which was secured through an RFP prior to the
20 CR3 project) in which it provides service for other Progress Energy
21 nuclear plants. Because of this working relationship, and the vendor's
22 ongoing knowledge of and experience with Progress Energy's nuclear
23 plants, it is reasonable for PEF to continue working with these vendors.
24

1 **Q. Does the Company verify that the Company's project management**
2 **and cost control policies and procedures are followed?**

3 **A.** Yes, it does. PEF uses internal audits to verify that its program
4 management and oversight control are being implemented and are
5 effective in practice. On December 12, 2008, an audit was completed
6 regarding the effectiveness of project management and cost management
7 for the CR3 Uprate project. Other internal audits of the project and cost
8 management on the CR3 Uprate project are scheduled for 2009.
9 Additionally, the Company's project management policies themselves,
10 included in the Company project management documents that I have
11 described above, contain their own mechanisms to ensure that they are
12 followed and effectively implemented.

13
14 **Q. Are the Company's project management and cost control policies and**
15 **procedures on the CR3 Uprate project reasonable and prudent?**

16 **A.** Yes, they are. These project management policies and procedures reflect
17 the collective experience and knowledge of the Company. As a result,
18 Company employees have, in preparing the policies and procedures
19 reflected in the Company's major capital project management documents
20 that I have identified above, incorporated their experience and knowledge
21 of project management policies and procedures that work within the
22 Company and within the industry. These policies and procedures have
23 also been tested by the Company on other capital projects. Any lessons
24 learned from those projects have been incorporated in the current policies

1 and procedures. We believe, therefore, that our project management
2 policies and procedures are consistent with best practices for capital
3 project management in the industry.

4

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

6 **A. Yes, it does.**

IN RE: NUCLEAR COST RECOVERY CLAUSE

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 090009-EI

DIRECT TESTIMONY OF JON FRANKE

I. INTRODUCTION AND QUALIFICATIONS

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16

Q. Please state your name and business address.

A. My name is Jon Franke. My business address is 15760 W. Powerline St.,
Crystal River, FL 34442.

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

A. I am employed by Progress Energy Florida, Inc. ("PEF" or the
"Company") in the Nuclear Generation Group and serve as Director Site
Operations at Crystal River Unit 3 ("CR3"), PEF's nuclear plant.

Q. What are your job responsibilities?

A. As Director Site Operations I am responsible for the safe operation of the
nuclear generating station. The Plant General Manager, Engineering
Manager and Training sections report to me. Additionally, I have indirect
responsibilities in oversight of major project activities at the station.
Through my management team I have about 420 employees that perform

1 the daily work required to operate the station and provide engineering and
2 training support to the station.

3
4 **Q. Please summarize your educational background and work experience.**

5 **A.** I have a Bachelor's degree in Mechanical Engineering from the United
6 States Naval Academy at Annapolis. I have a graduate degree in the
7 same field from the University of Maryland and a Masters of Business
8 Administration from the University of North Carolina at Wilmington.

9 I have over 20 years of experience in nuclear operations. I
10 received training by the US Navy as a nuclear officer and oversaw the
11 operation and maintenance of a nuclear aircraft carrier propulsion plant
12 during my service. Following my service in the Navy I was hired by
13 Carolina Power and Light and have been with the company through the
14 formation of Progress Energy. My early assignments involved
15 engineering and operations, including oversight of the daily operation of
16 the Brunswick nuclear plant as a Nuclear Regulatory Commission
17 ("NRC") licensed Senior Reactor Operator. I was the Engineering
18 Manager of that station for three years prior to assignment to Crystal River
19 as the Plant General Manager in 2002. Approximately two years ago I
20 was promoted to my current position.

21

II. PURPOSE AND SUMMARY OF TESTIMONY

1
2
3 **Q. What is the purpose of your direct testimony?**

4 **A.** The purpose of my direct testimony is to support the Company's request
5 for cost recovery pursuant to the nuclear cost recovery rule for certain
6 costs incurred in 2009 for the replacement and modification of equipment
7 at CR3 to support an increase in electrical generation power from the
8 nuclear plant. My testimony will also support the Company's
9 actual/estimated and projected costs for the remainder of 2009 and 2010.
10 Finally, my testimony explains why the CR3 Uprate Project is feasible,
11 pursuant to Rule 25-6.0423(5)(c)5, F.A.C.

12
13 **Q. Have you previously filed testimony in this docket?**

14 **A.** No, but I am adopting the testimony filed by Steve Huntington on March
15 2, 2009 in support of the actual costs for the CR3 Uprate project.

16
17 **Q. Do you have any exhibits to your testimony?**

18 **A.** No, but I am sponsoring portions of the schedules attached to Mr. Foster's
19 testimony. Specifically, I am sponsoring the cost portions of Schedule
20 AE-6, as well as Schedules AE-6A through AE-8A of the Nuclear Filing
21 Requirements ("NFRs"), which are included as part of Exhibit No. ___
22 (TGF-4). Schedule AE-6A is a description of the line items presented
23 within Schedule AE-6. Schedule AE-6B provides an explanation of

1 variances greater than \$1 million between the 2009 expenditure
2 projections filed in Docket 080009, Schedule P-6 and Schedule AE-6.
3 Schedule AE-7 is a description of the contracts and work for the nuclear
4 technology selected. Schedule AE-8 is a list of the contracts executed in
5 excess of \$1.0 million that have been executed to date. Schedule AE-8A
6 reflects details pertaining to the contracts executed in excess of \$1.0
7 million.

8 I am also sponsoring the cost portions of Schedule P-6, as well as
9 Schedules P-6A, P-7, P-8, and P-8A, which are part of Exhibit No. __
10 (TGF-5), which provide similar details for the technology selected and
11 contracts as the AE schedules do. Finally, I am sponsoring the cost
12 portions of Schedule TOR-6, as well as Schedules TOR 6A and TOR-7
13 included as part of Exhibit No. __ (TGF-6) to Mr. Foster's testimony.

14 These schedules are true and accurate.

15
16 **Q. Please summarize your testimony.**

17 **A.** From January to March 2009, PEF has incurred reasonable and prudent
18 costs to complete work scheduled for the remaining two phases of the
19 project, which is currently on schedule. PEF incurred costs for
20 engineering and equipment procurement. These costs were reasonable and
21 prudent.

22 As demonstrated in my testimony and the NFRs filed as exhibits to
23 Mr. Foster's testimony, PEF took adequate steps to ensure that the costs it

1 incurred were reasonable and prudent. When selecting vendors, PEF
2 utilized a Request for Proposals ("RFP"), or competitive bidding process
3 where appropriate, and used reasonable business judgment to select sole-
4 source vendors when an RFP was not used. For all its contracts, PEF
5 negotiated as favorable contract terms as it could given market conditions
6 to provide reasonable cost certainty and appropriate risk-sharing.
7 Accordingly, the Commission should approve PEF's costs incurred for
8 January to March 2009 as reasonable pursuant to the nuclear cost recovery
9 rule.

10 PEF has also provided reasonable projections for costs to be
11 incurred during the remainder of 2009 and all of 2010. These projected
12 costs were developed using the best available information to the Company
13 at this time. Thus the Commission should approve PEF's projections as
14 reasonable.

15
16 **II. 2009 ACTUAL/ESTIMATED AND 2010 PROJECTED PERIODS**

17
18 **Q. Has the Company incurred construction costs for the CR3 Uprate
19 Project during 2009?**

20 **A.** Yes, the Company has incurred actual costs for January to March 2009, as
21 reflected on line 47 of Schedule AE-6.
22

1 **Q. Does the Company plan to incur costs for the CR3 Uprate Project**
2 **during the remainder of 2009 and 2010?**

3 **A.** Yes, PEF must incur costs to maintain the schedule for the CR3 Uprate
4 project and to procure material and equipment and perform engineering
5 and analytical support work to accomplish the power uprate work during
6 the 2009 and 2011 CR3 refueling outages. The majority of the costs for
7 the remainder of 2009 will be incurred in support of the work being done
8 during the 2009 refueling outage.

9
10 **Q. What types of costs does PEF project to incur for the CR3 Uprate**
11 **project during 2009 and 2010?**

12 **A.** As reflected in Schedule AE-6 of Mr. Foster's Exhibit No. __ (TGF-4),
13 the total 2009 actual/estimated costs are broken down into five categories:
14 License Application cost of \$ 16.2 million, Project Management cost of
15 \$40.3 million, On-Site Construction Facilities cost of \$4.6 million, Power
16 Block Engineering, Procurement, and related construction costs of \$60.3
17 million, and Non-Power Block Engineering, Procurement and related costs
18 of \$4.7 million.

19 As reflected in Schedule P-6 of Mr. Foster's Exhibit No. __ (TGF-
20 5), the 2010 projected costs are broken down into five categories: License
21 Application cost of \$ 0.8 million, Project Management cost of \$11.3
22 million, On-Site Construction Facilities cost of \$0.1 million, Power Block
23 Engineering, Procurement, and related construction costs of \$21.1 million,

1 and Non-Power Block Engineering, Procurement and related costs of
2 \$16.6 million.

3
4 **Q. What Licensing work was and will be done in 2009 and 2010 and why**
5 **does the Company need to incur the cost of that work?**

6 **A.** These costs include work needed to prepare and submit the NRC license
7 amendment in support of the uprate. The Company is working on the
8 NRC license application in 2009 and expects to receive approval from the
9 NRC by 2010. These costs are necessary for completion of the project,
10 because PEF cannot operate CR3 at the increased megawatt level without
11 receiving approval from the NRC.

12 PEF developed these License Application cost estimates on a
13 reasonable licensing and engineering basis, using the best available
14 information, consistent with utility industry and PEF practice. PEF also
15 used its engineering judgment and experience to determine the costs
16 needed to ensure timely submittal and approval of the NRC license
17 application. The 2009 and 2010 Licensing cost projections are, therefore,
18 reasonable.

19
20 **Q. What Project Management work was and will be done in 2009 and**
21 **2010 and why does the Company need to incur the cost of that work?**

22 **A.** These costs include the following Project Management activities: (1)
23 project administration, including project instructions, staffing, roles and

1 responsibilities, and interface with accounting, finance, and senior
2 management; (2) contract administration, including status and review of
3 project requisitions, purchase orders, and invoices, contract compliance,
4 and contract expense reviews; (3) project controls, including schedule
5 maintenance and milestones, cost estimation, tracking and reporting, risk
6 management, and work scope control; (4) project management, including
7 project plans, project governance and oversight, task plans, task
8 monitoring plans, lessons learned, and task item completions; (5) project
9 training, including the uprate project training program, training of
10 personnel in accordance with the training program, and maintaining
11 training records; and (6) CR3 Uprate licensing work management.

12 Each activity will be conducted under the Company's project
13 management and cost control policies and procedures that were described
14 in Steve Huntington's March 2, 2009 testimony. Such costs are necessary
15 to ensure that the scope of work is adequate to achieve the uprate project
16 objectives; that the engineering and construction labor, material, and
17 equipment provided by PEF or outside vendors for the project is available
18 when needed at a reasonable cost; and that the project schedule can be
19 maintained.

20 The current schedule calls for the CR3 Uprate to be completed
21 during the 2009 and 2011 CR3 refueling outages. Through the Project
22 Management activities that I have identified, the Company is on-schedule

1 to perform the CR3 Uprate project work as planned. These necessary CR3
2 Uprate project costs are reasonable and prudent.

3
4 **Q. What On-Site Construction Facilities work was and will be done in**
5 **2009 and 2010 and why does the Company need to incur the cost of**
6 **that work?**

7 **A.** These costs include the installation of warehouses and other facilities
8 necessary to accommodate the staff and craft laborers working at the
9 Crystal River site during the 2009 and 2011 refueling outages. There will
10 be over 3000 workers on-site during the 2009 outage and over 1500 during
11 the 2011 outage. These costs are necessary to provide buildings, parking,
12 sanitation, and work support facilities to support their work.

13 PEF developed these On-Site Construction Facilities cost estimates
14 on a reasonable engineering basis, using the best available information,
15 consistent with utility industry and PEF practice. Based on PEF's
16 experience with other construction projects, which involve similar types of
17 activities that are necessary before construction can commence, PEF
18 developed reasonable estimates for the On-Site Construction Facilities
19 costs for the CR3 Uprate project.

20
21 **Q. Please describe the total costs incurred for the Power Block**
22 **Engineering, Procurement and related construction cost items and**

1 **explain why the Company needed to incur or needs to incur them in**
2 **2009 and 2010.**

3 **A.** *These costs include engineering and equipment procurement costs*
4 *associated with the CR3 refueling outage #16 outage work scope,*
5 *scheduled for the fourth quarter of 2009. That work scope includes two*
6 *low pressure turbine replacements, turbine generator electrical stator*
7 *rewind, turbine generator exciter replacement, four moisture separator*
8 *reheater replacements, two condensate heater replacements, two secondary*
9 *cooling heat exchanger replacements, two moisture separator reheater*
10 *shell side drain heat exchanger additions, turbine generator electrical*
11 *output bus duct cooling system modification, integrated control system*
12 *rescaling, plant process computer updates, and four turbine bypass valve*
13 *replacements. This work scope is necessary to achieve the power uprate*
14 *objectives of the CR3 Uprate project and therefore the costs of this work*
15 *scope are reasonable and prudent.*

16 PEF projected its 2009 and 2010 Power Block Engineering,
17 Procurement, and related construction item costs using actual contract
18 figures and project schedule milestones. For example, to maintain the
19 schedule for the planned outage in 2009, PEF must order and make
20 payments on certain equipment during a particular timeframe. These
21 payment amounts and the times for payment are set forth in various
22 contracts, and these payment terms are used for the projections. PEF has,
23 therefore, developed its construction cost estimates using the best

1 available information because the parameters of our cost estimates,
2 material and labor pricing, whether fixed or firm with industry recognized
3 escalations, and the schedule for payments, have been established by
4 contract. The 2009 and 2010 Power Block Engineering, Procurement, and
5 related construction item cost projections are, therefore, reasonable.

6
7 **Q. Are there any other costs included in the Company's projections for**
8 **2009 and 2010 for the CR3 Uprate project?**

9 **A.** Yes, PEF projects that it will incur approximately \$36.9 million, gross of
10 joint owner billing and exclusive of carrying costs, to address the Point of
11 Discharge ("POD") issue. A new cooling tower will be constructed at the
12 Crystal River Energy Complex to eliminate the additional heat from the
13 uprate project in the discharge canal. The Company has submitted, and
14 the Florida Department of Environmental Protection ("FDEP") has
15 approved, the Company's application to construct this cooling tower. The
16 tower will be placed into service before the completion of the Uprate work
17 in the 2011 planned refueling outage.

18 The POD costs are part of the Project Management and Non-Power
19 Block Engineering, Procurement, and related construction cost categories
20 on Line 40 and Line 46 of Schedules AE-6 and P-6 of Exhibit Nos. ___
21 (TGF-4) and (TGF-5) respectively.
22

1 **Q. Please describe the projected costs being placed in-service for the CR3**
2 **Uprate project in 2009.**

3 **A.** During the CR3 refueling outage #16 in 2009 approximately \$185.3
4 million on a system basis or \$159.5 million of assets on a retail basis will
5 be placed into service as reflected on Line 2 of Schedule AE – 3 of Exhibit
6 No. __ (TGF-4). These costs are primarily associated with work to
7 complete 2 low pressure turbine replacements, turbine generator electrical
8 stator rewind, turbine generator exciter replacement, moisture separator
9 reheater replacements, 2 condensate heater replacements, 2 secondary
10 cooling heat exchanger replacements, and 4 turbine bypass valve
11 replacements.

12
13 **Q. Are the costs projected for the CR3 Uprate project in 2009 and 2010**
14 **separate and apart from what the Company must incur to maintain**
15 **the CR3 unit for the remainder of the unit's life?**

16 **A.** Yes, they are. For the reasons provided in Mr. Huntington's March 2,
17 2009 testimony, which I have adopted, all of the costs for the CR3 Uprate
18 project, including those for 2009 and 2010, are separate and apart from
19 those costs which the Company would have incurred without the project.
20

1 **III. TRUE UP TO ORIGINAL COST FILING FOR 2009**

2

3 **Q. Has the Company filed schedules to provide information truing up the**
4 **original estimates to the actual costs incurred?**

5 **A.** Yes, these schedules are provided as an Exhibit to Mr. Foster's testimony.

6

7 **Q. What is the current total project estimate, compared to the original**
8 **estimate?**

9 **A.** As reflected on Schedule TOR-7, the total current project estimate,
10 exclusive of AFUDC and including fully loaded costs, is \$362.4 million.
11 The original estimate provided in the need determination proceeding was
12 \$381 million, which did not reflect the full "Financial View" or fully
13 loaded costs but instead reflected the estimated direct costs. The original
14 estimate inclusive of the indirect costs is \$439.3 million as presented in
15 Scheduled TOR-7. As I explained above, we now have contracts in place
16 for the CR3 Uprate project work, and our current cost estimates are based
17 on these contract costs and estimates of supporting project management
18 and other work by PEF. The current total project estimate is, therefore,
19 based on the best available information at the time of this filing.

20 The cost estimates for the CR3 Uprate project, when compared on
21 the same cost basis, have decreased. The current estimate reasonably
22 reflects the cost of the Uprate project based on costs that are better defined
23 under circumstances where the Company is closer to completing the

1 project and simply has better cost information under its contracts for its
2 projections.

3 Another change to the estimate is the elimination of the
4 transmission costs that were included in the original estimate. The
5 Company completed its transmission study related to the CR3 Uprate
6 project after its initial cost estimate was prepared. As a result of that
7 study, the Company determined that no additional transmission upgrades
8 and related costs were necessary as a result of the CR3 Uprate.

9
10 **VI. RULE 25-6.0423(5)(c)5: LONG-TERM FEASIBILITY OF**
11 **COMPLETING CR3 UPRATE**

12
13 **Q. Has the Company conducted an analysis to determine the long-term**
14 **feasibility of completing the CR3 Uprate project?**

15 **A.** Yes. PEF, as part of its regular management of the CR3 Uprate project,
16 completed an updated Integrated Project Plan ("IPP") on March 2, 2009.

17
18 **Q. Is the CR3 Uprate project completion feasible?**

19 **A.** Yes, as reflected in the updated IPP. The IPP provides an update of the
20 status of the project, including the completion of the MUR phase during
21 the 2007 outage and the continued progress on preparing for the 2009 and
22 2011 outage. It outlines the major work planned, and sets forth the
23 planned schedule and project milestones necessary for timely completion.

1 Updated cost estimates are provided in the IPP, for both capital and
2 operating and maintenance (“O&M”) costs. The total current cost
3 estimate remains bounded by the initial Business Analysis Package for the
4 project, issued November 10, 2006.

5 The IPP also includes potential project risks, and strategies for
6 managing such risks. The Company uses a detailed risk register to track
7 and manage these risks to protect project viability. At this time, there is
8 no indication of any risks that would affect the project’s feasibility. As
9 indicated in the IPP, PEF has an extensive risk management program in
10 place that allows us to readily identify any potential risks quickly and
11 implement mitigation actions to reduce those risks.

12 Also included in the IPP is an update regarding the necessary
13 regulatory approvals for the project. Specifically, the FDEP issued an
14 amended Conditions of Certification for Crystal River Units 3, 4, and 5 in
15 August 2008. These amended Conditions recognize PEF’s intention to
16 construct a new cooling tower. The other required regulatory approval is
17 from the NRC for the Extended Power Uprate. PEF plans to file its
18 license amendment request for the EPU in the Fall of 2009. Obtaining the
19 regulatory approval from the NRC remains feasible and on schedule.

20 The recommendation of the IPP is that the Company continue with
21 the remaining work for the CR3 Uprate project, to be completed during
22 the 2009 and 2011 refueling outages. As set forth in the IPP, the project
23 will result in economic benefits to PEF’s customers, in terms of fuel

1 savings, and will provide additional clean energy at low cost to PEF
2 consumers. The implementation of the CR3 Uprate project is an important
3 element of the Progress Energy Balanced Solution. The IPP, which is a
4 confidential document, has been produced in discovery and begins at
5 Bates number 09NC-OPCPOD1-4-000001.

6
7 **Q. Is the Company aware of any major issues with respect to the CR3**
8 **Uprate?**

9 **A.** As part of the Company's risk management program, the Company
10 became aware of certain issues that arose at the DC Cook plant in
11 Michigan. Specifically, the DC Cook plant contracted with Siemens for
12 low pressure turbines with a similar design for high efficiency rotors as
13 those that PEF is planning to use for the CR3 Uprate. About two years
14 after modifying the rotors and then installing the Siemens turbine, the DC
15 Cook plant experienced problems that resulted in a forced outage and
16 repairs to the turbines. PEF has been and is continuing to track the DC
17 Cook experience and is evaluating the differences in the CR3 planned low
18 pressure turbine design and expected plant response. The DC Cook issue
19 was included in the presentation to the Senior Management Committee for
20 the approval of the IPP. Once the technical issues are fully understood
21 and reviewed, PEF will finalize its decision concerning which low
22 pressure turbine to install.

23

1 **Q. Does the identification of the DC Cook issue affect PEF's assessment**
2 **of the CR3 Uprate's feasibility?**

3 **A.** No. As explained above, the DC Cook issue concerns the type of rotors
4 that will be used on the low pressure turbines, which are only a part of the
5 Uprate project. Should a decision be made to install a different design for
6 the low pressure turbine modification, that would delay a small part of the
7 uprate and might change the total pay back for the overall project, but not
8 in a significant manner. Regardless of the final decision, the CR3 Uprate
9 remains feasible and the Company remains committed to the CR3 Uprate
10 project.

11

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

13 **A.** Yes, it does.

14

15

1 BY MS. TRIPLETT:

2 Q. Do you have a summary, Mr. Franke, of your
3 prefiled testimonies?

4 A. I do, and I'm prepared to give it.

5 Q. Okay. Would you please summarize your
6 testimonies?

7 A. I presented testimony regarding the company's
8 costs related to the Crystal River Unit 3 power uprate
9 project. Specifically, my testimony shows that the
10 actual project costs incurred in 2008 were both
11 reasonable and prudently incurred. My testimony also
12 supports the reasonableness of the 2009 and 2010
13 projected costs.

14 Finally, my testimony demonstrates the
15 long-term feasibility of completing the project as
16 outlined in the integrated project plan. This
17 integrated project plan demonstrates that the project
18 remains within the bounds of the original estimates.
19 There are no unforeseen project risks that would prevent
20 its completion. All necessary regulatory approvals to
21 date have been approved, and those pending approval are
22 on track for timely approval.

23 That is my summary.

24 CHAIRMAN CARTER: Outstanding.

25 MS. TRIPLETT: We tender Mr. Franke for

1 cross-examination.

2 CHAIRMAN CARTER: Thank you. Mr. Rehwinkel,
3 good morning.

4 MR. REHWINKEL: Thank you.

5 CROSS-EXAMINATION

6 BY MR. REHWINKEL:

7 Q. Good morning, Mr. Franke.

8 A. Good morning.

9 Q. I would like to ask you to turn to pages --
10 well, in your Huntington testimony.

11 A. I understand.

12 Q. The portions of your testimony there that
13 describe the costs for the uprate for Phases 2 and 3,
14 can you show me where those are? Let me ask you to turn
15 to page 9 of the Huntington testimony.

16 A. Unfortunately, my copy does not have page
17 numbers. What's the question that you have, sir?

18 Q. I'm in section IV or Roman numeral 4.

19 A. I understand, Roman numeral 4. Yes.

20 Q. Okay. The costs that are in the Q and A at
21 the top of the page there on lines 2 through 8 appear to
22 me to total -- well, how much -- are these the costs
23 for -- that apply to all three phases or Phases 2 and
24 Phases 3 of the EPU?

25 A. It appears that these numbers cover more than

1 a single phase.

2 Q. Okay.

3 A. In fact, I'm certain the reference includes
4 all phases.

5 Q. Do you know how much of these numbers refer to
6 or relate to the costs for Phases 2 and Phases 3?

7 A. It's not broken out that way, no. It's broken
8 out by -- it appears to be broken out by years.

9 Q. And Phase 1 of the uprate was the MUR, M-U-R?

10 A. That is correct, measurement uncertainty
11 recapture, MUR.

12 Q. And do you know how much of the MUR costs
13 comprise the total cost of the uprate project?

14 A. I don't have those figures in front of me.

15 Q. Are they ascertainable?

16 A. Yes.

17 Q. So if we knew the MUR costs for 2008, we could
18 deduct those from the costs that are shown on this page;
19 is that correct?

20 A. That is correct.

21 Q. And the cost for 2008 is the 65,137,303.
22 That's the total of the three phases in 2008?

23 A. That is correct. That did include a
24 measurement uncertainty recapture cost as well.

25 Q. Okay. Would it be possible to get a

1 late-filed exhibit that identifies the MUR cost for
2 2008?

3 A. That is possible.

4 MR. REHWINKEL: Mr. Chairman -- Commissioner
5 Edgar, may I ask for a late-filed exhibit that would be
6 2008 MUR costs?

7 COMMISSIONER EDGAR: Well, you may ask. Let's
8 see where it takes us. First of all, let's turn to
9 Progress. Is that something you can compile and submit,
10 and if so, by when?

11 MS. TRIPLETT: Yes, we can, and by today.

12 COMMISSIONER EDGAR: Mr. Moyle, I know that
13 this is a topic of great interest to you.

14 MR. MOYLE: It is. And, you know, we have
15 maintained that we're at a proceeding here. The
16 evidence should be in. And to the extent that
17 late-filed evidence comes in, we continue to maintain a
18 concern about that.

19 Given the fact that it is being requested by
20 the Office of Public Counsel, my hunch is that it
21 probably would help my client's position, so being a
22 pragmatist, I probably would not object.

23 COMMISSIONER EDGAR: I appreciate the candor,
24 as always.

25 Let me ask this. I'm correct, am I not, that

1 this witness will be coming back on rebuttal?

2 MR. REHWINKEL: Yes.

3 MS. TRIPLETT: Yes, ma'am.

4 COMMISSIONER EDGAR: Is it possible to have
5 that requested information provided prior to this
6 witness's return on rebuttal?

7 MS. TRIPLETT: Certainly.

8 COMMISSIONER EDGAR: Then, Mr. Rehwinkel, and
9 to the other parties, would it being possible for us to
10 mark as a late-filed, have that submitted -- and I'll
11 look to staff to correct me if I should say this in a
12 way that will work better than what I'm explaining --
13 such that all the parties can look at it, and then it
14 would be available for questioning on rebuttal?

15 Yes, Mr. Rehwinkel.

16 MR. REHWINKEL: What I could do is withdraw my
17 request for a late-filed at this time. We've lodged the
18 request with the company. I could reask the question
19 when he reappears on rebuttal. Hopefully, in the
20 interim, we could have that information disseminated.
21 That way we wouldn't have to wade into these late-filed
22 exhibit waters.

23 COMMISSIONER EDGAR: Okay. That, to my
24 memory, is consistent with actions that we have tried to
25 take to accommodate all concerns, and yet also

1 facilitate questioning on issues that have arisen from
2 the parties. So my direction will be that we will try
3 to do that, ask Progress to put that information
4 together.

5 Mr. Rehwinkel, for the record, why don't you
6 just say one more time what it is you are asking for.

7 MR. REHWINKEL: Okay. Thank you. My request
8 to the witness and the company is to have the MUR costs
9 for 2008 provided. And I would like it in a form that I
10 could deduct it from the \$65 million number on page 9,
11 line 5, of Mr. Huntington's direct testimony.

12 COMMISSIONER EDGAR: Okay. So we will ask
13 Progress to compile that information, distribute it to
14 our staff and all parties, with the understanding that
15 upon that review, you will have the opportunity to ask
16 questions, and if there are objections to that, they
17 should be raised at that point in time prior to the
18 responses.

19 Ms. Cibula, does that work for you
20 procedurally?

21 MS. CIBULA: Yes, that works.

22 COMMISSIONER EDGAR: Okay. Thank you.
23 Mr. Rehwinkel, go ahead.

24 MR. REHWINKEL: Thank you.

25 MR. YOUNG: I'm sorry, Madam Chair. Just to

1 clarify, do you want to have a placeholder for 141, or
2 do you want to just remove 141?

3 COMMISSIONER EDGAR: I think we'll just wait.
4 Initially I was going to say placeholder. So thank you
5 for the clarification, but we will wait until it is
6 distributed and everybody has a chance to look at it.

7 Thank you.

8 BY MR. REHWINKEL:

9 Q. Mr. Franke, could I ask you to turn to your
10 May 1st testimony, page 6. Do you have pages on that?

11 A. Let me find that one. My May 1st testimony?

12 Q. Yes, in the Roman numeral 2 section.

13 A. May 1st, I do have page numbers. Which page?

14 Q. Page 6.

15 A. Page 6, yes.

16 Q. On lines 12 through 18, you describe costs for
17 2009 related to the CR3 EPU; is that correct?

18 A. That is correct.

19 Q. Do any of these costs contain MUR costs?

20 A. I do not believe there are any MUR costs in
21 2009.

22 Q. Okay. So from 2009 forward, the only costs
23 related to the uprate would be related to Phases 2 and
24 3; is that correct?

25 A. That is correct.

1 Q. Okay. By my math, it looks like there's
2 \$126 million of costs related to 2009. And I've added
3 the \$16.2 million, the \$40.3 million, the 4.6 million,
4 the 60.3 million, and the \$4.7 million number shown in
5 that section. Is that correct?

6 A. Yes. I believe in the schedules provided by
7 Mr. Foster, the total number is 126.1 million.

8 Q. Okay. And that's for 2009?

9 A. That is correct.

10 Q. For 2010, is the cost 49.9, or 50 million
11 almost?

12 A. That sounds right.

13 Q. Is that correct? Okay. So the cost on page
14 6, lines 19 through 23, continuing onto page 7, lines 1
15 and 2, is approximately \$50 million?

16 A. That is correct.

17 Q. So the costs that are subject to recovery in
18 this hearing are -- for Phases 2 and Phases 3 of the CR3
19 uprate project are the 65 million that we discussed in
20 Mr. Huntington's testimony less the MUR costs, and the
21 125 million and the 50 million; is that correct?

22 A. I believe we are asking for the MUR costs as
23 well for 2008, for prudency review of that as well.

24 Q. I apologize. My question was with respect to
25 Phases 2 and Phases 3 of the uprate.

1 A. With respect to 2 and 3, that would be
2 correct.

3 Q. Okay. Let's look at Mr. Huntington's
4 testimony. On the fourth page, there's a Q and A that
5 says, "Please summarize your testimony."

6 A. Yes.

7 Q. Okay. On line 14, the statement there is,
8 "The project is on schedule and on budget." Is that
9 still an accurate statement?

10 A. The project is -- as of today or as of filing?

11 Q. As of today.

12 A. As of today, there are issues we are working
13 through in one particular portion of the project that I
14 discussed in my own testimony that I filed later, and we
15 are within the budget parameters of the project.

16 Q. Okay. And is that the low pressure turbine
17 issue?

18 A. Yes. We're still working through resolving
19 that with our vendor.

20 Q. Okay. On page 21 of Mr. Huntington's
21 testimony, which is -- it looks like five or six pages
22 from the back. There is a question that starts, "Were
23 any project risks identified that were deemed to have a
24 high probability of affecting the uprate project?"

25 A. I've found that page.

1 Q. Okay. Now, in this testimony that was filed
2 on March 2nd, 2009, the only issue that was identified
3 was this hoist crane or this turbine building crane
4 reliability issue; is that correct?

5 A. That is one item that Mr. Huntington
6 discussed, yes.

7 Q. Okay. And I believe you testified in
8 deposition that that issue has been resolved?

9 A. It has been mitigated. We look at project
10 risk, and we need to be careful when we discuss what
11 risk means. There's risk to the project being feasible
12 or completed. We have no high risk items, nor I do not
13 believe have had high risk items with regard to that.

14 The vagueness of this question requested that
15 we discuss other potential risks, like schedule risks or
16 cost risks associated with the project. This appears to
17 have been a schedule risk that Mr. Huntington discussed,
18 and this one has been mitigated. We've done a number of
19 measures to reduce the opportunity of a crane failure to
20 impact the outage schedule in our upcoming outage for
21 our turbine work.

22 Q. Okay. Now, you said the vagueness of the
23 question. I mean, that was a question that was posed by
24 yourself or --

25 A. I understand. I understand.

1 Q. And you're saying that was not considered a
2 high risk issue?

3 A. It was high risk to schedule performance, not
4 to feasibility of the power uprate project.

5 Q. Okay. Well, let me ask you a question about
6 schedule. At this point in time, Phases 2 and Phases 3
7 of your uprate project are scheduled to be implemented
8 during the scheduled outages at the Crystal River
9 nuclear plant in 2009 and 2011; is that correct?

10 A. That is correct.

11 Q. And those are outages 16 and 17?

12 A. Exactly.

13 Q. With respect to the project, when you -- could
14 you define schedule risk to me? What does that mean?

15 A. What schedule risk means -- we are very
16 sensitive to exceeding our outage duration schedule, and
17 that's really what I'm talking about, an individual
18 outage duration. Every day my plant is off-line, it's a
19 cost to my customers of about 1 1/2 to \$2 million of
20 replacement fuel costs. As such, we track risks against
21 our ability to execute under our business plan schedule
22 for outage duration. This outage in refuel 16 is a
23 business plan duration of 85 days. So when we
24 characterize a risk to the project, a schedule risk, it
25 is a risk that might extend one portion of the outage

1 against that business plan.

2 Q. And is your testimony here today that you have
3 not identified any risks that would extend the planned
4 outage beyond the intended outage duration?

5 A. Not at this time. We have identified some
6 risks like the turbine building crane that we've
7 mitigated, and we've continued to work -- obviously,
8 once we get into the outage, the actual duration will
9 depend on what we discover during the outage that needs
10 to be resolved that we were not aware of during the
11 pre-planning phase of the outage.

12 Q. Okay. Now, the low pressure turbine issue
13 that you discuss in your May 1st testimony -- is it your
14 May 1st -- I mean your rebuttal testimony.

15 A. That is correct.

16 Q. Okay. I don't want to ask you about your
17 rebuttal testimony, but I want to ask you about that
18 issue. As I understand it, Progress Energy personnel
19 went over to Germany, to Siemens, to look at or view a
20 test of the low pressure turbine. Is that correct?

21 A. We had personnel witness a test that we had
22 required of Siemens, that's correct, in March.

23 Q. Okay. And the purpose of witnessing that test
24 was because there were some low pressure turbine rotors
25 that had developed problems at one of -- at another

1 nuclear plant; is that correct?

2 A. Well, the test was one that we had required in
3 our original specification made -- I believe that
4 specification was likely written in 2008. But the test
5 itself was changed after -- the test requirements were
6 changed after an event at DC Cook last fall.

7 Q. Okay. And because of the results of the test,
8 is it my understanding that -- is my understanding
9 correct that Progress Energy declined to take delivery
10 of the low pressure turbines for purposes of installing
11 them in the 2009 outage?

12 A. I would say the best characterization is that
13 we are continuing to work with Siemens to understand the
14 acceptability of those turbines and when a correct
15 delivery, you know, an acceptable delivery of those
16 turbines can be made. We're working in negotiations now
17 with that vendor to understand how they will address
18 some findings of that test.

19 Q. Okay. Is there a possibility that you will
20 take delivery of the low pressure turbines from Siemens
21 in time to install them in 2009?

22 A. Each day it becomes less likely, but we're
23 obviously still working with Siemens to understand what
24 the final resolution will be.

25 Q. Okay. So is it more likely than not that they

1 will not be installed in 2009?

2 A. It's more likely than not that they will not
3 be installed in 2009.

4 Q. Okay. So if they are not installed in 2009,
5 that means that to successfully complete the uprate
6 project to the full extent that you want, you will have
7 to install the turbines in the 2011 outage; is that
8 correct?

9 A. That is correct.

10 Q. Okay. Now, if you do that, will that extend
11 the outage in 2011?

12 A. We don't believe it will at this time.

13 Q. Is there a possibility that it will?

14 A. There's always a possibility. Right now, from
15 my best guest, it will not. The long lead duration on
16 that outage right now is high pressure turbines. High
17 pressure turbines take longer to install than low
18 pressure turbines.

19 Q. Okay. Let me ask you to turn to your direct
20 testimony from May 1st, 2009, and ask you to turn to
21 page 4, the question and answer that says, "Please
22 summarize your testimony."

23 A. Yes.

24 Q. Okay. And by my count, it says three times in
25 those two -- two of the -- the first two paragraphs of

1 that answer the terms "reasonable and prudent." You're
2 not suggesting that if you say it a bunch of times, it
3 means that it's reasonable and prudent? It's --

4 A. I just didn't want there to be any doubt.

5 Q. You're saying -- okay. In here on line 17
6 through 19, it states that PEF has incurred reasonable
7 and prudent costs to complete work scheduled for the
8 remaining two phases of the project, which is currently
9 on schedule. Is that still true?

10 A. Yes, with the caveat that we are working with
11 Siemens on the low pressure turbines.

12 Q. Okay. Is there a possibility that if the low
13 pressure turbines are -- that if you don't install them
14 in 2009, that they -- is there any possibility that they
15 would not be available for 2011?

16 A. Right now we believe they will be available.
17 You're asking me to suppose what might happen in the
18 future. I'm dealing with a vendor who had a challenge
19 producing turbines at my specification. We understand
20 their mistake. They still believe that they could be
21 delivered for this outage to be genuine right now. We
22 believe that the right action is to continue to work
23 with them. I have no reason to believe we cannot have
24 them available for installation in 2011.

25 Q. Okay. Let me ask you to turn to page 7 of

1 your May 1st testimony. On line -- starting on line 4,
2 there's a Q and A that asks about what licensing work
3 was and will be done in 2009 and 2010.

4 A. Yes.

5 Q. Do you see that? Is it -- you state starting
6 on line 7 that the company is working on the NRC license
7 application in 2009 and expects to receive approval from
8 the NRC by 2010. Is that still the case?

9 A. It's more likely now, as I addressed in my
10 rebuttal testimony, that the application will actually
11 be submitted in the first quarter of 2010, and we
12 anticipate approval approximately 12 months after
13 submittal.

14 Q. Okay. So does this statement here and the
15 facts that you are now relating about your expected
16 application date -- and let me -- well, let me step back
17 and ask this. The document that you would file with the
18 NRC for approval is called a license amendment request;
19 is that correct?

20 A. That's correct, LAR for short.

21 Q. LAR.

22 A. LAR for short, yes.

23 Q. Okay. So the LAR filing date that was
24 expected on May 1st of 2010 has now slipped into the
25 second -- or the first quarter of 2011; is that correct?

1 A. Yes, I believe we are expecting a fall
2 submission. But I believe in order to ensure a good
3 amendment that we are moving that till -- right now the
4 schedule shows February of 2011.

5 Q. Okay. Well, you state down beginning on lines
6 12 through 14 that you developed the license application
7 cost estimates on a reasonable licensing and engineering
8 basis, using the best available information, consistent
9 with utility industry and PEF practice. Do you see
10 that?

11 A. Yes.

12 Q. When you say on a reasonable licensing basis
13 or reasonable licensing and engineering basis, that
14 turned out not to be correct, in the sense that now the
15 schedule has slipped for several months; is that right?

16 A. No, I wouldn't agree. At the time, I believe
17 those estimates were reasonable based on what we
18 understood. As with any engineering, and certainly any
19 regulatory process, as you move through the process, you
20 learn more, and as you learn more, you continue to
21 refine what is reasonable.

22 Q. Okay. Now, the reason for the slippage in the
23 schedule of the filing of the LAR was because of the
24 resolution of several technical issues associated with
25 the Phase 2 and Phase 3 uprates; is that correct?

1 A. No, that is not correct.

2 Q. What's the reason?

3 A. We're just finding that it will take our
4 primary vendor a little more time to get their
5 information in the right format and then for us to
6 perform the reviews. Additionally, the fall outage that
7 we have in 2009 will delay some aspects of the license
8 amendment request, as the staff required to review it
9 will have to focus on that outage instead of focusing as
10 much on this license amendment request.

11 Q. Were there not several issues that you met
12 with the NRC about, some technical problems?

13 A. There were technical issues. I would not
14 characterize them as problems. They were technical
15 questions that we have met with the NRC on, myself two
16 times in 2008 and 2009, as well as discussions on the
17 phone. That's a normal licensing process to work
18 through specific technical issues with the staff. These
19 did not cause delay.

20 Q. So your testimony is that the four issues that
21 you met with the NRC about in 2008 have nothing to do
22 with the timing of your LAR request?

23 A. No, only in that some of them are part of the
24 larger development of a license amendment request.
25 There's nothing special about these technical issues

1 which are creating delay.

2 Q. On page 8 at the bottom of your testimony,
3 just so I understand, on lines 20 through 22, carrying
4 onto the next page, you state there that the project
5 management -- it says, "Through the project management
6 activities that I have identified, the company is on
7 schedule to perform the CR3 uprate project as planned."
8 That statement also needs to be modified by the issue
9 that we discussed about low pressure turbines?

10 A. As I discussed in my rebuttal testimony, the
11 low pressure turbine issue is one that we're continuing
12 to work through. The final delivery of the extended
13 power uprate at the completion of 2011 right now is on
14 schedule and on track.

15 Q. Okay. And on page 10 of your testimony, lines
16 5 through 6, you discuss the scope of the 2009 outage
17 during -- the scope of the 2009 uprate work during
18 outage 16, and you state what's included in that scope;
19 is that correct?

20 A. That is correct.

21 Q. Okay. And where it says it includes two low
22 pressure turbine replacements, those are the low
23 pressure turbines that we've discussed here already
24 today?

25 A. That is correct.

1 Q. Okay. On page 11 of your testimony, in the Q
2 and A, you discuss \$36.9 million related to resolving a
3 point of discharge issue; is that correct?

4 A. Yes.

5 Q. Now, are those costs included in the costs
6 that we discussed earlier?

7 A. I believe if you look at that earlier question
8 that actually discussed these costs, these are the
9 non-power-block costs primarily that are discussed in
10 the earlier testimony. So, yes, they are part of this
11 originally. You can distinguish them. They are
12 non-power-block costs, and they were separated in that
13 manner.

14 Q. Okay. But these are Phase 2, Phase 3 costs?

15 A. Phase 3 costs.

16 Q. Phase 3. Okay. Would the company be
17 incurring these costs if they were not doing Phase 3, or
18 Phase 2, for that matter, of the uprate project?

19 A. No, they would not.

20 Q. On page 12 of your testimony, you discuss
21 185.3 or \$159.5 million on a jurisdictional basis of
22 assets related to Phase 2 of the project; is that
23 correct?

24 A. That is correct.

25 Q. Now, are these costs different in any way than

1 the 2009 costs that we discussed earlier?

2 A. Those are part of the 2009 costs, as discussed
3 earlier.

4 Q. Okay. Have these costs changed because of the
5 low pressure turbine replacement issue that we discussed
6 earlier?

7 A. If we do not place the low pressure turbines
8 in service, these numbers would change. I believe we
9 have those figures available.

10 Q. Okay. Let me ask you to turn to page 15 of
11 your May 1st testimony. You state on line 7, beginning
12 on line 7, "At this time, there is no indication of any
13 risks that would affect the project's feasibility." Do
14 you see that?

15 A. Yes.

16 Q. Is that still correct?

17 A. Absolutely.

18 Q. Okay. What is your definition of feasibility
19 with respect to that statement?

20 A. Feasibility is the ability of the project to
21 provide an extended power uprate for Crystal River 3 and
22 achieve an economic benefit for my customers.

23 Q. Now, if for some reason you were not able to
24 complete the project in outage 17 in 2011, would you go
25 to outage 18?

1 A. Yes.

2 Q. And that's the only time you would do it?

3 Anything you didn't complete that needed to be done, if
4 you didn't complete it in outage 17, you would go to
5 outage 18 to complete it?

6 A. That is correct.

7 Q. Okay. Is --

8 A. Under our current plans.

9 Q. Okay. And is there any possibility that that
10 might happen?

11 A. I think that's a very low probability, very
12 low probability. When you're -- right now the
13 schedule -- everything I know, the schedule can be
14 completed by 2011.

15 Q. If the project -- let me ask it this way. At
16 this point in time, you have stated that you plan to
17 file your LAR in the first quarter of 2010?

18 A. That's correct.

19 Q. And I believe you stated elsewhere that you
20 expect the LAR approval or action by the NRC in the
21 summer of 2010; is that right?

22 A. The review process is 12 months from
23 acceptance of the license amendment request. The NRC is
24 committed to having that reviewed within 30 to 60 days
25 of submittal, so we're talking 12 months from submittal,

1 plus 30 to 60 days, depending on their initial
2 acceptance review by the Commission. So by the summer,
3 we expect the amendment to have been returned to us
4 prior to the outage in 2011.

5 Q. Okay. And when you say by the summer, you
6 mean of 2011?

7 A. That is correct.

8 Q. Now, when is the date that outage 17 begins?

9 A. I don't know the exact date. The only date
10 that -- we would need the license amendment prior to
11 increasing power of the reactor. That outage could be
12 executed without the license amendment, and then we
13 could increase power following the completion of the
14 outage as necessary.

15 Q. What would be the last point in time that you
16 could receive NRC approval of your LAR and get the work
17 done during the 2011 outage?

18 A. I believe we do not need the license amendment
19 to execute the outage. We only need it to increase the
20 reactor power.

21 Q. Okay. So even if you did not have the LAR
22 action by the NRC in hand at the time of the beginning
23 or the end of the outage, you would still do the work?

24 A. That is correct.

25 Q. Okay. What would you do if the NRC -- if you

1 did the work and the NRC did not authorize?

2 A. We would continue to operate at current power
3 level until we receive the license. This is very
4 similar to our MUR project. Obviously, the urgency to
5 get these megawatts on the grid is high. When we
6 completed our MUR Phase 1 project, for example, we
7 installed the equipment during the 2007 outage. That
8 outage ended in early December of 2007. We received the
9 NRC approval for the licensed increase in December after
10 the completion of that outage, and we executed the
11 actual increase in power -- I believe it was the end of
12 January, possibly the first week of February 2008. So
13 we would follow that same process.

14 Q. The LAR that you will submit or plan to submit
15 in 2010 will be for authorization to increase your --
16 the electrical output of the plant 180 megawatts; is
17 that correct?

18 A. That is -- well, it's a total of
19 180 megawatts. The increase between -- it's a total of
20 180 including all the various phases.

21 Q. Okay. So the MUR was how many megawatts?

22 A. Twelve megawatts.

23 Q. Okay. So what the LAR that you would request
24 in 2011 would relate to would be the balance?

25 A. The LAR really relates to about 140 out of the

1 180. The low pressure turbine rotors, for example, do
2 not -- the benefit of those low pressure turbine rotors
3 do not require the license amendment request. It
4 doesn't require that we increase reactor power. It's an
5 efficiency improvement for the plant, as well as one
6 other modification that we'll install in this outage,
7 which we believe will gain us 4 megawatts thermal this
8 outage. So the license amendment request really is tied
9 to the last 140 megawatts, roughly.

10 Q. Okay. And the increasing of electrical output
11 by the Crystal River plant to that degree would be a
12 first of its kind for a Babcock & Wilcox PWR reactor; is
13 that correct?

14 A. There is currently a Babcock & Wilcox plant
15 that is within about 7 percent of that power level. So
16 I would say the last portion is a stretch uprate for
17 B&W, but it is in the same neighborhood as one of our
18 sister plants in Ohio is running currently.

19 Q. Is that Davis-Besse?

20 A. It is Davis-Besse. It operates about
21 7 percent below the power level we are seeking in our
22 license amendment request.

23 Q. But isn't it correct that Davis-Besse was
24 licensed at that level?

25 A. Actually, I believe -- and I would be subject

1 to check. I believe initially they were licensed at a
2 lower power level and took some measures to increase
3 that power.

4 Q. But the measures that they received or that
5 they took to increase to the level of 7 percent below
6 where you hope to end up was a relatively small
7 percentage increase in their original license?

8 A. That's correct. Their original license was at
9 a higher power level than our original license.

10 Q. Okay. So for purposes of my question, the
11 increase in electrical output for the Crystal River 3
12 plant is unprecedented relative to the initial licensed
13 output of a Babcock & Wilcox PWR reactor; is that
14 correct?

15 A. If you keep slicing it small enough,
16 eventually you'll be able to earn the word
17 "unprecedented." There's a lot of nuclear plants that
18 have been uprated in excess of the amounts that we're
19 talking about. You know, if you continue to slice it
20 down to B&W plants in Florida, yes, this is
21 unprecedented. But the application of an extension of
22 power to nuclear power plants is a relatively understood
23 normal license amendment process for a nuclear power
24 plant in the United States.

25 Q. Okay. But you would agree, would you not,

1 that there's a difference in the design and operation of
2 a boiling water reactor versus a pressurized water
3 reactor, would you not?

4 A. Absolutely.

5 Q. Okay. And so there are different physical and
6 engineering and mechanical properties that have to be
7 managed and engineered when it comes to a PWR reactor
8 versus a boiling water reactor; is that right?

9 A. There are some differences. The majority of
10 the technical issues are very similar. Each design
11 requires a different set of parameters to be evaluated
12 in a different manner, but the questions are all the
13 same.

14 Q. But the licensing process, the NRC looks at it
15 based on the make and the type of reactor, do they not?

16 A. They actually look at the individual design of
17 each reactor. So the fact that one plant is a B&W R --
18 a BWR versus PWR does not change that review process.
19 Each plant, particularly the first -- you know, the
20 nuclear plants that are operating today, they're all
21 different. They all are of a little bit different size,
22 a little bit different design, a little bit different
23 set of equipment and design parameters, so each one of
24 these extended power uprates was unique in some manner,
25 similar to the one we are applying.

1 Q. Okay. Earlier when you were talking about my
2 slicing to get down to an unprecedented level, just to
3 be clear, my question was not as to B&W reactors in the
4 state of Florida, but B&W reactors nationwide.

5 A. But my point is that each of the 20 extended
6 power uprates the NRC has approved was special and
7 unique in its own fashion. You used the word
8 "unprecedented." My point is that all extended power
9 uprates are reviewed by the NRC, so the experience of
10 those reviews are reviews of unique applications. Mine
11 is just the next one in line. That does not make it
12 unprecedented.

13 Q. But this is the first B&W reactor that will be
14 increased in power to this extent; is that correct?

15 A. That is correct.

16 Q. And just to be clear, so I understand your
17 testimony, on page 15, lines 17 and 18, where it states
18 that PEF plans to file its license amendment request for
19 the EPU in the fall of 2009, that has been modified now
20 by your rebuttal testimony; is that correct?

21 A. I believe in my rebuttal testimony we refer to
22 first quarter of 2010, and that is still accurate.

23 Q. Okay. Now, on page 16 of your testimony, the
24 Q and A there that discusses the low pressure turbines
25 with a similar design for high efficiency rotors at the

1 DC Cook plant --

2 A. That is correct.

3 Q. That's the issue that caused you to modify
4 your test parameters that you requested of Siemens; is
5 that right?

6 A. Yes, we did modify the test parameters. And I
7 believe the original specification called for a test of
8 one of the two rotors, and we asked that they test both
9 individually as opposed to just one of the two.

10 Q. And when they did that test and the results
11 came back, you were unsatisfied with them?

12 A. They did not meet our original specifications;
13 that's correct.

14 Q. So you were unsatisfied at least for purposes
15 of taking delivery at the time you had originally
16 wanted?

17 A. We have not accepted delivery of those
18 turbines at this time, and we have -- that's correct.

19 Q. Okay. And on page 17 of your testimony,
20 there's an implication here that -- or there's an
21 allusion to the Siemens test, is that correct, on lines
22 5 through 9?

23 A. That is correct. I am trying to demonstrate
24 that resolution of this issue could impact the schedule
25 of the installation of the low pressure turbines, as

1 well as in a small manner the final output of the plant
2 to a small degree.

3 Q. Okay. Now, is it correct that if you do not
4 install the low pressure turbine in 2009 that it would
5 affect your output by about 7 percent, your planned
6 increase in output?

7 A. Not 7 percent of total reactor power, about 7
8 -- it's approximately 24 megawatts, I think is the best
9 way to say it, if we do not install them in 2009.

10 Q. So what would happen there is that
11 24 megawatts that you would plan on getting in Phase 2,
12 you would not be able to achieve that output until
13 installation of the low pressure turbines in 2011?

14 A. That's correct.

15 MR. REHWINKEL: Commissioners, I think those
16 are all the questions I have for this witness at this
17 time until rebuttal.

18 Thank you, Mr. Franke.

19 CHAIRMAN CARTER: Okay. Mr. Brew.

20 MR. BREW: No questions for this witness.

21 CHAIRMAN CARTER: Mr. Davis.

22 MR. DAVIS: None.

23 CHAIRMAN CARTER: Mr. Moyle, you're
24 recognized.

25 MR. MOYLE: I just have a brief line of

1 questions.

2 CROSS-EXAMINATION

3 BY MR. MOYLE:

4 Q. Your testimony supports the uprate costs that
5 you believe are reasonable and prudent for 2008 and
6 2009; is that correct?

7 A. Yes, sir.

8 Q. Okay. And with respect to that number, did
9 you go through and review the backup and the detail to
10 support that request?

11 A. As much as possible, yes.

12 Q. Did you look at anything and say, "You know,
13 this doesn't look like it is reasonable and prudent,"
14 and back anything out of that request as we sit here
15 today?

16 A. You're implying that I waited until after the
17 fact. The way we do this -- and I'm directly
18 responsible for the work that goes on at my facility.
19 As we work through each of the individual projects, we
20 challenge budget costs all the way along the line. So
21 when I say I reviewed the project costs, I didn't wait
22 until the expenditures were expended. And, yes, there
23 were many options and actions that the staff had
24 proposed that I personally, as well as prior to my own
25 reviews, were challenged to reduce the cost as much as

1 possible.

2 Q. I guess -- and I appreciate the answer. I
3 wasn't really suggesting that. But let's just say
4 hypothetically that you're in asking for a dollar or
5 \$100 million with respect to uprate costs that you
6 believe are reasonable and prudent.

7 A. Yes.

8 Q. Using a dollar example, was there ever a point
9 in time where the number was \$1.20, and you said, "You
10 know what, these 20 cents, they don't look reasonable
11 and prudent. Let's not seek those"? Did that analysis
12 ever take place?

13 A. We did -- and it would be difficult to come up
14 with specific examples, but there were several options
15 on how to spend the money in different ways that we
16 challenged and were able to bring the cost down. For
17 example, the Areva reviews, the original budgets for
18 that we did not feel were reasonable and prudent. We
19 went back to Areva. We challenged them. We asked them
20 to open their books, and we drove their cost down to a
21 level we thought was the lowest we could get for our
22 customers.

23 Q. And I guess the point with respect to a
24 mind-set is, do you view it as the Commission's role to
25 determine reasonable and prudent, and would you put

1 forward costs and let them sort out what's reasonable
2 and prudent, or do you look at it and say, "You know
3 what. It's our role. It's somewhat of a self-audit
4 role. We need to make sure that the costs that we're
5 asking for are only reasonable and prudent"? Which is
6 it in those two scenarios?

7 A. I don't pretend to define what the
8 Commission's role in this is. My role is to keep the
9 costs as low as possible to achieve the results in the
10 most assured manner. That's my role.

11 Q. But as we sit here today, with that dollar
12 example, you can't tell me, you know, how much above the
13 dollar, again, using that as a rough estimate,
14 percentagewise how much above that you decided not to
15 seek; correct?

16 A. I would just say that -- no, I don't know what
17 the actual figure is. I do know that in many places on
18 many of these projects -- because this is a very complex
19 -- you know, there's a number of individual projects
20 that in a number of places we've cut costs for the
21 projects. I don't know what the actual number would be.

22 MR. MOYLE: I would be tempted to ask for a
23 late-filed exhibit to show that actual number, but
24 against my better judgment, I won't.

25 CHAIRMAN CARTER: He'll be back on rebuttal.

1 Maybe you can ask him then.

2 Staff, you're recognized.

3 MR. YOUNG: No questions.

4 CHAIRMAN CARTER: Commissioners?

5 Redirect?

6 MS. TRIPLETT: Good news. No redirect.

7 CHAIRMAN CARTER: Outstanding. Exhibits.

8 Number 90.

9 MS. TRIPLETT: Yes, sir, Number 90, we would
10 ask that to be admitted.

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

13 (Exhibit Number 90 was admitted into the
14 record.)

15 CHAIRMAN CARTER: Good news, everybody. We
16 started on time this morning, and I'm going to give the
17 court reporter a break. We'll come back at 35 after.

18 (Recess taken.)

19 (Transcript continues in sequence in
20 Volume 6.)

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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 853 through 1031 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 10th day of September, 2009.


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