BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 120009-EI

In the Matter of:

NUCLEAR COST RECOVERY CLAUSE.
_______________________________/

VOLUME 2

Pages 193 through 356

PROCEEDINGS: HEARING

COMMISSIONERS PARTICIPATING: CHAIRMAN RONALD A. BRISÉ
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER ART GRAHAM
COMMISSIONER EDUARDO E. BALBIS
COMMISSIONER JULIE I. BROWN

DATE: Monday, September 10, 2012

TIME: Commenced at 9:33 a.m.
Concluded at 10:58 a.m.

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

REPORTED BY: LINDA BOLES, RPR, CRR
Official FPSC Reporter
(850) 413-6734

APPEARANCES: (As heretofore noted.)

I N D E X

EXHIBITS

NUMBER:	ID.	ADMTD.
1	223	223
2 through 133 as identified on the Comprehensive Exhibit List (with the exception of Exhibits 76-80 and 114-118 which were previously marked in Volume 1.)	223	
2		224
3		224
4		355
5		354
6		354
7		354
8		354
9		354
119	202	
120	202	203
121	328	
122	328	354
123	354	354
124	354	354

P R O C E E D I N G S

(Transcript follows in sequence from Volume 1.)

CHAIRMAN BRISÉ: Good morning. Today is September 13th [sic], 2012. It is 9:33, and we are going to continue the hearing on Docket Number 120009-EI, the nuclear cost recovery clause.

So we have convened the hearing last week and we will continue today. And I'm not sure if we need to read the notice, but let's do it anyway just to make sure.

MR. LAWSON: We don't, we don't need to read it.

CHAIRMAN BRISÉ: Perfect. Do we need to take appearances?

MR. LAWSON: Not really.

CHAIRMAN BRISÉ: Okay. Perfect.

All right. Are there preliminary matters that we need to deal with this morning?

MR. LAWSON: We have a few items. Mostly are routine. First, on the Comprehensive Exhibit List, staff has prepared a Comprehensive Exhibit List, and the list itself is marked as Exhibit 1. There are no objections to the Comprehensive Exhibit List, and staff will ask that the Exhibit Number 1 be entered into the record after opening statements, or at the Chairman's discretion.

Staff would also like to ask that the stipulated exhibits which are included throughout the Comprehensive Exhibit List be entered into the record after opening statements of each case, or at the Chairman's discretion.

And, finally, staff will request that the comprehensive exhibits be marked and numbered in the Comprehensive Exhibit List, and that any other exhibits proffered during the hearing be numbered sequentially, following those listed in staff's Comprehensive Exhibit List.

CHAIRMAN BRISÉ: Okay.

MR. LAWSON: Next, we have a motion for leave to file supplemental testimony. Florida Power & Light has filed a motion to file supplemental testimony on behalf of Witness Winnie Powers. At this time, all parties support or choose not to oppose this motion.

CHAIRMAN BRISÉ: Okay. Is that something we want to deal with now, or is it something we want to deal with when we take up the FPL portion of the case?

MR. LAWSON: If we deal with it now, we can see about excusing Witness Winnie Powers, and that would allow FP&L to send her home and get her squared away.

CHAIRMAN BRISÉ: Okay.

Commissioners?

Commissioner --

COMMISSIONER EDGAR: Edgar.

CHAIRMAN BRISÉ: Edgar. I was about to say Lisa.

(Laughter.)

COMMISSIONER EDGAR: That works too.

Madam Chair [sic], I would move that we accept the supplemental testimony on behalf of Witness Winnie Powers.

CHAIRMAN BRISÉ: All right. It's been moved by Commissioner Edgar.

COMMISSIONER BROWN: Second.

CHAIRMAN BRISÉ: Seconded by Commissioner Brown. Any further comments? All right. Seeing none, all in favor, say aye.

(Vote taken.)

All right. So we will excuse Ms. Winnie Powers.

MR. LAWSON: Thank you. Moving on, on to stipulated witnesses. Staff witnesses Yen Ngo, Betty Maitre, and Jeff Small have been excused. Progress witnesses William Garrett and Daryl O'Cain have been excused.

Since the motion to file supplemental testimony was just granted and parties have stipulated to Winnie Powers' testimony, she may be excused.

The stipulated witnesses' prefiled testimony and exhibits can be taken up in turn as the witnesses are called at the hearing. At that time the sponsoring attorney will request that the testimony of the stipulated witnesses be inserted into the record as though read and that the stipulated exhibits of that witness be moved into the record.

CHAIRMAN BRISÉ: Okay.

MR. LAWSON: Order of hearing. The Prehearing Officer has ruled that each company's petition will be addressed in turn. First, we'll hear from Progress Energy Florida's petition, and then Florida Power & Light's petition.

Stipulations. In light of the Commission granting the motion to defer, the parties have stipulated to three of the issues, which will effectively render those issues moot for this hearing cycle only. The stipulations are as presented in the handout provided, and none of the parties oppose the stipulations. We would ask that those proposed stipulations be marked for identification and moved into the record, and we would ask the Commissioners to approve the stipulations as presented.

CHAIRMAN BRISÉ: Okay.

MR. MOYLE: Could we have a copy?

MR. LAWSON: Pardon?

MR. MOYLE: You had said three issues and then Progress's revised position statements. Do they have --

MR. LAWSON: We're taking those up in just a second.

MR. MOYLE: Okay.

CHAIRMAN BRISÉ: All right. Let's see if we could mark those first. What I have is Progress's revised position statements on Issues 17, 18, and 19, proposed stipulations on Issues 2, 12, and 16.

MR. LAWSON: Yes. And I'll cover those revised positions. Subsequent to the approval of the motion to defer, PEF has also submitted in that document revised positions for Issues 17, 18, and 19. These revised positions are before you in the handout provided, and we ask that these revised positions be marked for identification and moved into the record simultaneously.

While the parties are free to agree or disagree as to the accuracy or implications of the revised positions, I do not believe that any of the parties object to the actual submission of the revised positions.

CHAIRMAN BRISÉ: Okay. All right. So let's deal with these issues. What order do we want to deal with them? I suppose we deal with the proposed stipulations first. Okay.

MR. MOYLE: Mr. Chairman?

CHAIRMAN BRISÉ: 119.

MR. MOYLE: Just, if we could have just a brief on-the-record discussion about the impact of accepting these stipulations.

It's my understanding that by deferring them, that they're not going to be decided by you all. They're not live. There has been some discussion amongst the lawyers with respect to entering into evidence, you know, the testimony that addresses these issues. And in discussions with counsel for, for Progress, they said the fact that the testimony is going to be entered does not in any way waive or foreclose the ability of the Intervenors to challenge it at a later point in time.

And I guess out of an abundance of caution, we don't want there to be an argument to say, well, you know, a lot of evidence was entered about these '12 and '13 costs that was unrebutted, that was not crossed. The fact that we're not crossing on it should not in any way be construed, you know, as a waiver with respect to those issues.

So I just thought, because there has been some conversation amongst the lawyers on that, we wanted to try to have a quick on-the-record conversation about that point.

CHAIRMAN BRISÉ: Sure.

Progress?

MR. BURNETT: Yes, sir. Thank you. And I can confirm that is our understanding and intention, as Mr. Moyle stated.

CHAIRMAN BRISÉ: Okay. Does that seem to be everyone else's understanding?

Okay. Seeing nod -- heads nod yes. So for the record, everybody nodded their heads yes. All right.

So the proposed stipulations 2, 12, and 16, we'll mark that 119. And revised positions 17, 18, and 19, we will mark that 120.

(Exhibits 119 and 120 marked for identification.)

Okay. So, Commissioners, how do we want to deal with these stipulations?

Okay. Commissioner Edgar.

COMMISSIONER EDGAR: Mr. Chairman, it's my understanding that these proposed stipulations are a result of the motion to defer that we took up and approved last week. I have reviewed them and I would move that we adopt the stipulations as expressed in Exhibit Number 119.

CHAIRMAN BRISÉ: All right. Is there a second?

COMMISSIONER GRAHAM: Second.

CHAIRMAN BRISÉ: Okay. It's been moved and seconded. Any further discussion? Okay. Seeing none, I think we're ready for the vote.

All in favor, say aye.

(Vote taken.)

Okay. Seeing that none opposed, we are accepting the stipulations and also moving them into the record.

Exhibit 119 -- I mean, 120, which is the positions on statements on Issues 18, 19, and 20, I suppose we could just move these into the record at this time. All right. So we'd move Exhibit 120 into the record at this time. Okay.

(Exhibit 120 admitted into the record.)

MR. LAWSON: And finally we have the revised order of witnesses. At the request of staff and OPC, parties have agreed to take several witnesses out of order in order to accommodate their schedules. The changes are as follows.

First, staff witnesses Tripp Coston and Jerry Hallenstein will be taken up today as early as possible this morning, as they must depart no later than 3:00 p.m. today.

And, second, if we have not heard them by the time we recess on Tuesday, we will need to take up OPC witnesses William Jacobs and Brian Smith immediately on Wednesday morning, since the last flight available for Dr. Jacobs is approximately noon on Wednesday. OPC would also prefer that Mr. Smith precede Dr. Jacobs on that morning.

CHAIRMAN BRISÉ: Okay. So we will do our best to accommodate that.

Okay. All right. Are there any other preliminary issues that we need to address?

MR. LAWSON: No, sir. We're ready to move to Progress's case.

CHAIRMAN BRISÉ: All right. At this time we're prepared for opening statements. The Prehearing Officer has done a good job in setting us up for a tight ship. Thank you, Commissioner Balbis. And so he has stated that opening statements for Progress should not exceed ten minutes.

And all the other intervening parties should have a combined total of 20 minutes, and that should be divided among the, amongst the parties, as agreed to by the parties.

So what I'm going to do is going to provide ten minutes to, to Progress, and then we're going to start the clock at 20 minutes for the Intervenors, and, you know, the clock will just run after that.

All right. So at this time we will move into opening statements.

MR. BURNETT: Thank you, Mr. Chairman. Good morning, and good morning, Commissioners.

Commissioners, based on the prefiled testimony, positions taken by the parties in this case, and PEF's motion to defer, there are only a handful of issues that remain now for the Commission to decide this year, and the evidence in this case will show that all of those remaining issues should be revolved in Progress Energy's favor.

First, no party except SACE takes issue with the costs that PEF is seeking for the Levy Nuclear Project this year, given that PEF has filed its request for cost recovery for the Levy project consistent with the terms of the global settlement agreement that the Commission approved in March of this year.

SACE has not sponsored any witness this year, and has instead taken two positions against the Levy project in its position statements. The Commission has heard and rejected both of these positions before, and the evidence in this case will show that the Commission should do so again this year.

First, SACE argues that PEF has not demonstrated the requisite intent to build the Levy plants. This is the exact same argument they made in last year's proceeding based on virtually identical facts, and the Commission rejected that argument. This is also one of the subjects of SACE's pending appeal before the Florida Supreme Court, and SACE will attempt to simply reargue these decided points again this year.

But let me be clear, the evidence will show that PEF intends to build the Levy plants and place them in service in 2024 and 2025. The evidence demonstrates that PEF is undertaking the activities necessary to fulfill this plan, including obtaining the combined operating license from the Nuclear Regulatory Commission.

SACE has also taken the position that uncertainty in risk surrounding the Levy project has rendered the project infeasible. SACE concedes in its statement of basic position that it has made this argument in three consecutive NCRC proceedings, and the Commission has rejected those arguments each time.

The evidence will show that the Levy project remains feasible on a qualitative and quantitative basis, and SACE's arguments do nothing more than restate previously rejected positions.

With respect to the Crystal River Unit 3 uprate project, two legal issues and one factual issue remain for your review. The first legal issue is whether the Commission can disallow carrying charges on the CR3 uprate costs if you find that PEF was -- well, that's the issue. If you find that PEF was imprudent in incurring any costs, you certainly may legally deny carrying charges. If you find that costs were prudently incurred, you may not deny carrying charges under controlling law, and any other legal argument that you may hear is incorrect as a matter of law.

The second legal issue is can the Commission unilaterally defer the determination of prudence on PEF's 2011 EPU project cost? The answer to that question is no. The Commission, of course, can this year find that those costs were prudent or imprudent, but the Commission cannot unilaterally defer making that decision.

With respect to PEF's historical 2011 EPU project expenditures, all facts related to whether those costs were prudently incurred are established and complete. And after the hearing -- and after hearing the evidence the Commission can and must decide whether those costs were prudent or not.

To that point, no witness has challenged the prudence of PEF's 2011 extended power uprate costs, and PEF's testimony will show that every dollar of those costs was reasonably and prudently incurred.

And that, Commissioners, is the final issue in this case for PEF, whether PEF's costs incurred after the discovery of the March 2011 delamination at CR3 were prudent.

Again, no Intervenor witness has challenged these costs. And PEF's testimony will show that when PEF discovered the March 2011 delamination, PEF prudently stopped work on the EPU project, evaluated the situation, and prudently limited the work to aspects of the project that had to be done to keep the project viable. No party has and can reasonably challenge the prudence of PEF's actions in this regard.

Thank you, Commissioners, and we look forward to answering any questions you have.

CHAIRMAN BRISÉ: Thank you very much.

MR. REHWINKEL: Mr. Chairman, PCS Phosphate will give the lead argument and Public Counsel will follow, and I believe followed by FIPUG and others.

CHAIRMAN BRISÉ: Okay. Thank you.

MR. BREW: Thank you.

Good morning, Mr. Chairman, Commissioners.

In previous years, we've been compelled in these proceedings to focus upon consumer rate impacts primarily driven by Levy, costs present and through the amortization for the rate moderation plan that you adopt in 2009. Thankfully we are not talking about those issues today.

I think the comprehensive settlement that the Commission approved in February finally established a balance between what the utility still needs to do with respect to the plant and controlling the cost impact on consumers. In that regard, I would note that, as a result, PSC, OPC, and I believe many of the other parties are going to waive cross on the Levy witnesses this year, which I'm sure everybody else is also thankful for.

The problem this year is that, is the dilemma caused by the CR3 outage in terms of nuclear cost recovery for the power uprate for the project. We are approaching the three-year anniversary of the outage. Progress has been assessing, considering, analyzing, mulling over whether to repair the unit or not for almost 18 months now. In our terms, that 18 months amounts to about $450 million in replacement power costs during the time where they're making, considering what to do there.

Now, this failure to launch is mostly tied to Progress's continuing discussions with NEIL over insurance and, as, as the company described in their motion to defer, the need for Duke management to do an independent study of the very items that Progress Energy Florida had been looking at for the prior year.

The problem is, is that if Progress eventually decides to retire the unit, each and every dime spent on the power uprate is wasted ratepayer dollars. And this is a project that's gone from $450 million to over $600 million.

And while I don't think any of the consumer parties want to kill CR3 or the uprate, but we do desperately want to avoid effectively being played for, by putting good money after bad. And that's really the dilemma we're facing here.

Now, last year in this proceeding, at the time it came to the Commission, the March delamination had occurred, we had the, the third delamination in June, and the, the company reported that they were exploring their options. What we did then was the sensible thing, is we, the Commission deferred action on the 2011 expenditures, prudence, and feasibility until the dust had settled on, on what they were going to do with respect to the repair.

The problem is, is that a year wasn't enough, and that we are still roughly in the same spot in terms of whether they'll move forward with the repair or not as we were when we sat down for these hearings last year.

The motion to defer, which has been marked as Exhibit 119 and which you've approved, also takes a sensible approach with respect to 2012 actual and estimated and the estimated for 2013. But that leaves the issue of the issues we had deferred on 2011.

And that puts the Commission, the consumers, and Progress in the incongruous position of trying to make a decision on prudence when you don't have a finding on feasibility. The company can't carry its burden of proof on the feasibility finding for the uprate, which is required under the rule, because they haven't made a decision.

Now, that issue, whether to repair or retire, is solely within the control of Progress Energy management. It's not something the Commission can direct or control, and certainly not the consumers.

So given this bizarre turn of events that I don't think the Legislature ever contemplated when they drafted the nuclear cost recovery statute, we have to figure out how to make sense of this.

From our perspective, we recognize that a lot of the costs that are proposed for recovery are carrying costs, but we think the only sensible approach, which is, which is described in Issue 14 is, on what to do with the 2011 actuals, is for you to defer action on that in terms of the prudence until the dust has finally settled on a repair or retire decision, so that we can find out whether in fact Progress is throwing good money after bad, or they're actually looking at trying to add -- increase the power capability of a unit that's viable, and that's what we're asking for this year.

Thank you.

MR. REHWINKEL: Commissioners, very briefly. Charles Rehwinkel on behalf of the Citizens with the Office of Public Counsel.

Public Counsel concurs in the remarks made by PCS Phosphate. We agree that the issue is, is not ripe, but we have taken an alternative position if the Commission is to allow recovery of costs for 2011, which is the only year remaining here.

As Public Counsel witness Dr. Jacobs has testified, those costs should be the minimum necessary to maintain the repair and upgrade path that the company has testified to.

So our effort in this case will be to explicate the avoidability or deferrability or lack thereof of costs for recovery in 2011. We have maintained that the Commission should not allow Progress to earn in the carrying costs to the benefit of shareholders an equity return for actions that cause the cost of money to increase solely because of delay that is within the control of the shareholders. That issue is more manifest in 2012 and 2013 than it is in 2011, but we believe that the Commission needs to start taking stock of that issue as we go forward.

These hearings are held once every year, but this is an ongoing process that occurs 365 days out of the year, and the Commission always needs to be mindful of the company's actions in managing this project in conjunction with the repair of the containment building.

So with that, I will preserve the rest of my time for other Intervenors who may have more to say.

Thank you, Commissioners.

CHAIRMAN BRISÉ: All right. There's, just to let you know, there's about 13 minutes left.

MR. MOYLE: I'll try to take three or so and then move on.

So, so FIPUG similarly opposes the recovery of these 2011 costs, and I think it may be helpful, at least it is for me, to put it in, in an argument by way of analogy.

Nuclear power plants are complex and complicated, but most everyone has a car or access to a car. And to use an analogy of a car, this car had a, had a repair problem that prevented it from running anymore, and they took it to the shop, and it's been sitting in the shop for a long time. While it's sitting in the shop, all of a sudden -- they thought there was one problem that prevented it from running. There's a second problem that prevents it from running, i.e., the second delam event that occurred in March 2011.

So as you're looking at should we spend the money to repair this car or get a new car, at the same time there is all of these studies and engineering reports and all of this focus and money being spent on, on whether to get new tires for, for this car.

And we would argue that as a, as a first step, before spending a whole bunch of money on, on new tires that may never be used on a car that you're not sure is going to work or not, that the proper course of action is to suspend, slow down efforts related to the uprate, and make the decision, are we going to retire this or are we going to repair it?

Okay? And in this case, you're going to hear Progress asking for monies in 2011. Remember, the second event, March 2011, and they kept spending money, you know, contracts, I mean, you know, there's force majeure provisions. We think better efforts could have been done to slow down the spend.

And finally, I just -- it's, I think, interesting to note the juxtaposition of Progress's two positions relative to the Levy project and the Crystal River 3 uprate project.

Levy, you'll hear Mr. Lyash, I think, and others say, well, you know, we've looked at some qualitative factors, the economy, the low price of natural gas, the uncertainty with respect to environmental policy at the state and federal level, and these risks are such that we've decided to really, to suspend, I think they used the word suspend, the Levy project, slow it down, not going to spend the money, it's not good for consumers.

So if those qualitative risks are such that they led to that decision, yet with respect to the Crystal River 3 uprate project you have a qualitative risk where this building has cracked two times and there's all this uncertainty associated about are we going to move forward and repair it or are we going to retire it, that should be a qualitative risk that weighs very heavily in not spending more money, not throwing good money after bad. And we think that the 2011 costs are imprudent, and that your choice is to either find them imprudent or, as a legal matter, defer it and consider it later.

So, you know, we're okay on deferring it. But if you do decide you have to move forward as a matter of law, then we think you should find those costs imprudent because it is akin to, you know, spending a whole bunch of money tire shopping on a car that may not ever run again.

So, thank you.

CHAIRMAN BRISÉ: All right. Thank you.

There is about nine minutes left.

LIEUTENANT COLONEL FIKE: Mr. Chairman, the Federal Executive Agencies agree with the positions adopted by OPC and FIPUG in virtually all the issues in this case, and we also agree with the opening comments provided by both this morning, and we have no further comments and reserve the time for other Intervenors.

CHAIRMAN BRISÉ: All right. Thank you.

MR. WHITLOCK: Good morning, Mr. Chairman, Commissioners. Jamie Whitlock on behalf of the Southern Alliance for Clean Energy.

It strikes me this year, you know, it's a new year, new cost recovery docket, we've got a new company in, in all actuality, but when it comes to Progress's proposed Levy Nuclear Project, it's business as usual.

Progress has announced yet another scheduling delay for the projected in-service dates. This time it's a three-year delay. So now we're looking at 2024 and 2025. Just for reference, in 2008 Progress sat here and told the Commission 2016, 2017. That's an eight-year delay now. And more delays are certainly possible, and, in fact, probably more properly characterized as likely.

Associated with the delay, we've got another increase in the estimated cost. It's now, it's increased, I believe, 1.2 billion to 18.85 billion since last year, and I think that excludes carrying costs.

Again, for reference, in 2008 Progress sat here and they told this Commission $13.9 billion. That's what it's going to cost. So in four years a $5 billion increase, roughly a billion dollars a year. And, again, more cost increases are likely to come, excuse me, to come.

So the question becomes what are the reasons for these ongoing delays and cost increases, and I think there's two major reasons. The first is risk and uncertainty, and this is the same risk and uncertainty that SACE has warned this Commission about for the past four years. And Mr. Burnett, in his opening statement, noted that the Commission has rejected those arguments, and that, that's accurate. However, I would respectfully submit that, in hindsight, SACE has been right.

Again, and even as conceded by Progress, this risk and uncertainty only continues to increase and makes the completion of these reactors unlikely and infeasible.

Second, no intent to build. Progress has not made and will not make a commitment to build the Levy project because it simply does not have the present intent to do so. And, in fact, Progress brought before this Commission earlier this year a stipulation and settlement agreement which allows Progress to cancel the EPC contract for the Levy project and recover the costs associated with the cancellation. So essentially they've already got a Commission-approved exit strategy out of Levy.

Ultimately, given current conditions, economic and otherwise, new nuclear generation is simply not cost-effective, nor feasible, and we see other utilities across the country recognizing this and ending their pursuits of new nuclear generation.

Unfortunately, and especially for its ratepayers, Progress has not, not ended its pursuit of the Levy project, at least not officially, but instead continues to spend hundreds of millions of dollars of its ratepayers' money to do nothing more than to get a license and create an option. That's a lot of money for speculation, and a risk the company certainly would not take if it was their own money.

So SACE just does not believe it's fair, just, nor reasonable for Progress to continue to saddle its ratepayers with the cost to do nothing more than to create an option, and we'd respectfully ask that the Commission take appropriate action in this docket to protect Progress ratepayers. Thank you.

CHAIRMAN BRISÉ: Thank you.

There is about five minutes left.

MR. WRIGHT: Well, the good news is I won't use it, Mr. Chairman. Thank you.

Good morning, Commissioners. Schef Wright appearing on behalf of the Florida Retail Federation.

As you know, the Florida Retail Federation is a statewide organization of more than 8,000 members, many of whom purchase large amounts of electricity from Progress Energy.

As stated in our prehearing statement, the Florida Retail Federation and our members are strongly in favor of nuclear power as a fuel diversifying component of Florida's electric generating fleet. With respect to Progress, as we state in our prehearing statement, we strongly support the repair of CR3, provided, of course, that it is technically feasible and cost-effective.

We also support the settlement agreement that we and most -- and the other consumer representatives entered into with Progress earlier this year.

Our concern is that we see no firm commitments by Progress to original or current cost estimates. In other words, we continue to be concerned that costs will continue to escalate even more than they already have.

We, the Retail Federation and our members, implore you to ensure that all expenditures for nuclear projects are reasonable and prudent and to hold the utility strictly accountable for increases above the amounts originally represented to the Commission and to the public.

We concur with the other consumer

representatives who have spoken to the specifics of the CR3 EPU project, and we thank you very much.

CHAIRMAN BRISÉ: Thank you.

All right. At this time we're going to move into hearing from witnesses. A couple of things I want to remind everyone, that the witness summaries are to be no longer than four minutes, and that we don't look favorably upon duplicity and repetitious or friendly cross. Okay? So we certainly hope that understanding that there are very similar positions on many issues, so if questions are posed by one party and somebody comes up and the same question is posed, understand that we will call that duplicitous and so forth and ask you to move on.

If you've asked a question once and you've gotten a response, you may not like the response, but you've asked the question, it's been answered, so move on to the next question, and we're asking that you all will respect that. And we will -- we don't appreciate friendly cross either.

So at this time we are, we'll move into administering the oath to whatever witnesses are present this morning. So if you would rise as we administer the oath.

(Witnesses collectively sworn.)

All right. Thank you very much.

MR. REHWINKEL: Mr. Chairman, before the, you take witnesses, I was wondering if I may inquire of the staff about a procedural matter I should have brought up at the, at the beginning.

CHAIRMAN BRISÉ: Okay.

MR. REHWINKEL: During the last week we had an informal meeting about Progress and the motion to defer, and there was a remark made that Progress's response to staff's data request number 1 might be an exhibit in the hearing. Is there an intention by the staff to make that an exhibit?

MR. LAWSON: We have identified it for identification purposes, but we believe that Exhibits 4 and 5 will take care of it, so we won't actually have to move it into the record.

MR. REHWINKEL: Okay. I had, I had thought that staff was going to do that, and I wanted to use the, the document for demonstration purposes, and I did not make copies of it. Mr. Foster would be the witness that that would be taken up with. I just didn't know. I thought that staff was going to, going to offer it. So if they have a copy, when he comes up, I would like to ask that it be distributed.

Sorry, Mr. Chairman. Thank you.

MR. LAWSON: We're happy to accommodate. Just give us a signal when you need them.

MR. REHWINKEL: Okay. Thank you.

CHAIRMAN BRISÉ: Okay. Before we move to our first witness, I know that there was a Comprehensive Exhibit List that we wanted to move into the record prior to us moving in with the witnesses after the opening statements. So, staff.

MR. LAWSON: We'd ask that the Comprehensive Exhibit, Exhibit List marked as Exhibit 1 be moved into the record at this time.

CHAIRMAN BRISÉ: All right. Are there any objections? Seeing none, we will move the staff's Comprehensive Exhibit List marked Number 1 into the record.

(Exhibits 1 through 113 marked for identification.)

(Exhibit 1 admitted into the record.)

There was also two, two other exhibits -- I mean testimony, Exhibits 2 and 3, for, for certain witnesses that have been agreed to, and those are Progress witnesses. If you would move that into the record at this time.

MS. GAMBA: Certainly. If this is the appropriate time, the first witness on the list is

Mr. Garrett, and we request that his March 1st, 2012, prefiled direct testimony of Mr. Will Garrett be moved into the record as if it was read in the record today. We would also move in Mr. Garrett's exhibits, WG-1 and WG-2, which is marked as comprehensive Exhibit 2 and 3 on the comprehensive staff list.

CHAIRMAN BRISÉ: All right. Are there any objections? Okay. Seeing no objections, we will move those exhibits into the record.

(Exhibits 2 and 3 admitted into the record.)

IN RE: NUCLEAR COST RECOVERY CLAUSE
BY PROGRESS ENERGY FLORIDA, INC.
FPSC DOCKET NO. 120009-EI
DIRECT TESTIMONY OF WILL GARRETT

I. INTRODUCTION AND QUALIFICATIONS

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, Inc. ("PEF" or the "Company").

Q. What are your responsibilities in that position?

A. As legal entity Controller for PEF, 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") Uprate ("CR3 Uprate") Project Cost Recovery True-Up filings, made as part of this docket, in accordance with Rule 25-6.0423, Florida Administrative Code ("F.A.C.").

Q. Please describe your educational background and professional experience.

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

Q. Have you previously filed testimony before this Commission in connection with PEF's Nuclear Cost Recovery?

A. Yes.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present for Florida Public Service Commission ("PSC" or the "Commission") review and approval, the actual costs associated with PEF's LNP and CR3 Uprate activities for the period January 2011 through December 2011. Pursuant to Rule 25-6.0423, F.A.C., PEF is presenting testimony and exhibits for the Commission's determination of prudence for actual expenditures and associated carrying costs.

Q. Are you sponsoring any exhibits in support of your testimony on 2011 LNP and CR3 Uprate costs?

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

<u>2011 Costs:</u>

- Exhibit No. __ (WG-1), consisting of Schedules T-1 through T-7B of the Nuclear Filing Requirements ("NFRs") and Appendices A through D, which reflect PEF's retail revenue requirements for the LNP from January 2011 through December 2011; however, I will only be sponsoring Schedules T-1 through T-6 and Appendices A through D. Daryl O'Cain will be co-sponsoring portions of Schedules T-4, T-4A, T-6 and Appendix D and sponsoring Schedules T-6A through T-7B.
- Exhibit No. ___ (WG-2), consisting of Schedules T-1 through T-7B of the NFRs and Appendices A through D, which reflect PEF's retail revenue requirements for the CR3 Uprate Project from January 2011 through December 2011;

however, I will only be sponsoring Schedules T-1 through T-6 and Appendices A through D. Jon Franke will be co-sponsoring Schedules T-4, T-4A, T-6, and Appendix D and sponsoring Schedules T-6A through T-7B.

These exhibits are true and accurate.

Q. What are Schedules T-1 through T-7B and the Appendices?

A.
- Schedule T-1 reflects the actual true-up of total retail revenue requirements for the period.
- Schedule T-2 reflects the calculation of the site selection, preconstruction, and construction costs for the period.
- Schedule T-3A reflects the calculation of actual deferred tax carrying costs for the period.
- Schedule T-3B reflects the calculation of the actual construction period interest for the period.
- Schedule T-4 reflects Capacity Cost Recovery Clause ("CCRC") recoverable Operations and Maintenance ("O&M") expenditures for the period.
- Schedule T-4A reflects CCRC recoverable O&M expenditure variance explanations for the period.
- Schedule T-5 reflects other recoverable O&M expenditures for the period.
- Schedule T-6 reflects actual monthly capital expenditures for site selection, preconstruction, and construction costs for the period.
- Schedule T-6A reflects descriptions of the major tasks.
- Schedule T-6B reflects capital expenditure variance explanations.
- Schedule T-7 reflects contracts executed in excess of $1.0 million.

- Schedule T-7A reflects details pertaining to the contracts executed in excess of $1.0 million.
- Schedule T-7B reflects contracts executed in excess of $250,000, yet less than $1.0 million.
- Appendix A reflects support for beginning balances.
- Appendix B (Levy) reflects individual components of Site Selection, Preconstruction, and the PSC approved deferral.
- Appendix B (CR3 Uprate) reflects various Uprate in-service project revenue requirements.
- Appendix C reflects a comparison of 2006 to 2011 revenue requirements.
- Appendix D reflects a comparison of 2006 to 2011 actual capital expenditures.

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

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

Q. What is the final true-up amount for the LNP for which PEF is requesting recovery for the period January 2011 through December 2011?

A. PEF is requesting approval of a total over-recovery amount of $12,649,655 for the calendar period ending December 2011. This amount, which can be seen on Line 9 of Schedule T-1 of Exhibit No. ___ (WG-1), represents the site selection, preconstruction, carrying costs on construction cost balance, CCRC recoverable O&M, and deferred tax asset carrying cost associated with the LNP and was calculated in accordance with Rule 25-6.0423, F.A.C.

Q. What is the final true-up amount for the CR3 Uprate Project for which PEF is requesting recovery for the period January 2011 through December 2011?

A. PEF is requesting approval of a total under-recovery amount of $3,498,125 for the calendar period of January 2011 through December 2011. This amount, which can be seen on Line 9 of Schedule T-1 of Exhibit No. ___ (WG-2), represents the carrying costs on construction cost balance, CCRC recoverable O&M, and deferred tax asset carrying cost associated with the CR3 Uprate, as well as the revenue requirements associated with the various in service projects, and was calculated in accordance with Rule 25-6.0423, F.A.C..

Q. What is the carrying cost rate used in Schedules T-2.1, T-2.2, and T-2.3?

A. The carrying cost rate used on Schedules T-2.1, T-2.2, and T-2.3 is 8.848 percent. It is explained in detail at footnote "A" of these schedules, and it is based on the approved Allowance For Funds Used During Construction ("AFUDC") rate pursuant to Order No. PSC-05-0945-S-EI in Docket No. 050078-EI.

III. CAPITAL COSTS INCURRED IN 2011 FOR THE LEVY NUCLEAR PROJECT.

Q. What are the total costs PEF incurred for the LNP during the period January 2011 through December 2011?

A. Total preconstruction capital expenditures, excluding carrying costs, were [redacted], as shown on Schedule T-6.2, Line 8 and 21. Total construction capital expenditures, excluding carrying costs, were [redacted], as shown on Schedule T-6.3, Line 10 and 25.

Q. How did actual Preconstruction Generation capital expenditures for January 2011 through December 2011 compare with PEF's actual/estimated costs for 2011?

A. Schedule T-6B.2, Line 6 shows that total preconstruction Generation project costs were [redacted], or [redacted] lower than estimated. By cost category, major cost variances between PEF's projected and actual 2011 preconstruction LNP Generation project costs are as follows:

License Application: Capital expenditures for License Application activities were [redacted] or [redacted] lower than estimated (see also T-6B.3 line 8 and Q&A below on construction capital expenditure variances). As explained in the testimony of Daryl O'Cain, this variance is primarily attributable to lower than estimated Nuclear Regulatory Commission ("NRC") review fees and lower outside legal counsel costs associated with LNP Combined Operating License Application ("COLA") activities.

Engineering & Design: Capital expenditures for Engineering & Design activities were [redacted] or [redacted] lower than estimated. As explained in the testimony of Daryl O'Cain, this variance is attributable to the completion of negotiations with Westinghouse and Shaw, Stone and Webster (the "Consortium") regarding one-time long-lead equipment ("LLE") purchase order disposition and incremental shipping/storage costs for one remaining LLE component. These costs were included as Preconstruction in the prior-year Actual/Estimated filing, but were incurred as Construction costs in 2011 due to the decision to suspend rather than cancel the component purchase order.

Q. Did the Company incur Preconstruction Transmission capital expenditures for January 2011 through December 2011?

A. No. As shown on Schedule T-6B.2, Line 11 the total preconstruction Transmission project costs were $0 in 2011. No costs were projected in the prior-year Actual/Estimated filing, so there is no true-up to report.

Q. How did actual Construction Generation capital expenditures for January 2011 through December 2011 compare with PEF's actual/estimated costs for 2011?

A. Schedule T-6B.3, Line 8 shows that total construction Generation project costs were [redacted], or [redacted] greater than estimated. By cost category, major cost variances between PEF's actual/estimated and actual 2011 construction LNP Generation project costs are as follows:

Power Block Engineering: Capital expenditures for Power Block Engineering activities were [redacted] or [redacted] greater than estimated. As explained in the testimony of Daryl O'Cain, this variance is attributable to the completion of negotiations with the Consortium regarding one-time LLE purchase order disposition and incremental shipping/storage costs for one remaining LLE component. These costs were included as Preconstruction in the prior-year Actual/Estimated filing, but were incurred as Construction costs in 2011 due to the decision to suspend rather than cancel the component purchase order. There is an offsetting favorable variance in Preconstruction Power Block Engineering capital expenditures.

Q. How did actual Construction Transmission capital expenditures for January 2011 through December 2011 compare with PEF's actual/estimated costs for 2011?

A. Schedule T-6B.3, Line 15 shows that total construction Transmission project costs were [redacted] or [redacted] lower than estimated. By cost category, major cost variances between PEF's actual/estimated and actual 2011 construction LNP transmission costs are as follows:

Real Estate Acquisition: Capital expenditures for Real Estate Acquisition were [redacted] or [redacted] lower than estimated. As explained in the testimony of Daryl O'Cain, this variance is primarily attributable to fewer purchases of strategic right of ways ("ROWs") than originally anticipated for 2011.

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

A. The jurisdictional separation factors are calculated based on the January 2011 sales forecast, using the Retail Jurisdictional Cost of Service methodology that was approved in Order No. PSC-10-0131-FOF-EI in PEF's base rate proceeding in Docket No. 090079-EI.

IV. O&M COSTS INCURRED IN 2011 FOR THE LEVY NUCLEAR PROJECT.

Q. How did actual O&M expenditures for January 2011 through December 2011 compare with PEF's actual/estimated costs for 2011?

A. Schedule T-4A, Line 15 shows that total O&M costs were $1.3 million or $0.3 million lower than estimated. By cost category, major cost variances between PEF's actual/estimated and actual 2011 LNP O&M costs are as follows:

Legal: O&M expenditures for Legal were $0.4 million or $0.2 million lower than estimated. As explained in the testimony of Daryl O'Cain, this variance was primarily attributable to lower than expected outside legal counsel costs.

Nuclear Generation: O&M expenditures for Nuclear Generation were $0.6 million or $0.1 million higher than estimated. As explained in the testimony of Daryl O'Cain, this variance was primarily attributable to expenses related to the Company's involvement and investment in the NuStart program.

V. CAPITAL COSTS INCURRED IN 2011 FOR CR3 UPRATE PLANT

Q. What are the total Construction costs incurred for the CR3 Uprate Project for the period January 2011 through December 2011?

A. Schedule T-6.3, Line 12 shows that total Construction capital expenditures gross of joint owner billing and excluding carrying costs were $49.0 million.

Q. How did actual capital expenditures for January 2011 through December 2011 compare to PEF's actual/estimated costs for 2011?

A. Schedule T-6B.3, Line 10 shows that total project costs were $49.0 million or $45.2 million lower than estimated. By cost category, major cost variances between PEF's actual/estimated and actual 2011 Construction costs are as follows:

License Application: Capital expenditures for License Application were $2.8 million or $1.6 million higher than estimated. As explained in the testimony of Jon Franke, this variance is primarily due to AREVA engineering support costs being budgeted in engineering but invoiced to licensing.

Project Management: Capital expenditures for Project Management activities were $3.8 million or $4.7 million lower than estimated. As explained in the testimony of Jon Franke, this variance is primarily attributable to reallocation of project management resources based on the deferral of construction activities for Phase 3 of the CR3 Uprate project because of the extended CR3 outage.

Power Block Engineering & Procurement: Capital expenditures for Power Block Engineering & Procurement activities were $42.3 million or $34.2 million lower than estimated. As explained in the testimony of Jon Franke, this variance is primarily attributable to the Company's decision to defer construction activities on the CR3 Uprate project because of the extended outage and to align them with the containment repair schedule.

Non-Power Block Engineering, Procurement, etc.: Capital expenditures for Non-Power Block Engineering, Procurement, etc. activities were $40,500 or approximately $7.7 million lower than estimated. As explained in the testimony of Jon Franke, this variance is primarily attributable to the Point of Discharge ("POD") Cooling Tower portion of the CR3 Uprate project remaining on hold as a result of pending and emerging environmental regulations that could impact the fossil units at Crystal River.

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

A. Yes. Construction expenditures shown on Schedule T-6.3, Line 12 are gross of Joint Owner Billings, but construction expenditures have been adjusted as reflected on Schedule T-6.3, Line 15 to reflect billings to Joint Owners related to CR3 Uprate expenditures. Due to this, no carrying cost associated with the Joint Owner portion of the CR3 Uprate are included on Schedule T-2.3. Total Joint Owner billings were $4.0 million for 2011.

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

A. The jurisdictional separation factors are calculated based on the January 2011 sales forecast, using the Retail Jurisdictional Cost of Service methodology that was approved in the Order No. PSC-10-0131-FOF-EI in PEF's base rate proceeding in Docket No. 090079-EI.

Q. Was the 2009 $500,000 Project Management Cost adjustment recorded?

A. Pursuant to the stipulation entered August 15, 2011, as a compromise in settlement, PEF agreed to permanently forgo collection of $500,000 in Project Management Costs. The adjustment reduced revenue requirements by $0.2 million for the carrying charges associated with this capital spend and was recorded in the 2011 T-1 schedule, Line 5 in the month of November.

VI. O&M COSTS INCURRED IN 2011 FOR THE CR3 UPRATE PROJECT

Q. How did actual O&M expenditures for January 2011 through December 2011 compare with PEF's actual/estimated costs for 2011?

A. Schedule T-4A, Line 15 shows that total O&M costs were $0.5 million or $18,000 lower than estimated. There were no major variances with respect to O&M costs.

VII. PROJECT MANAGEMENT AND COST CONTROL OVERSIGHT

Q. Have the project accounting and cost oversight controls PEF has for the LNP and CR3 Uprate projects substantially changed since the 2011 NCRC docket?

A. No, they have not. The project accounting and cost oversight controls that PEF utilizes to ensure the proper accounting treatment for the LNP and CR3 Uprate project have not substantively changed since 2009. In addition, these controls were found to be reasonable and prudent in Docket Nos. 090009-EI, 100009-EI, and 110009-EI.

Q. Please describe the project accounting and cost oversight controls PEF has implemented for the LNP and CR3 Uprate Project.

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

PEF's project accounting controls involves project set up, specifically approval and authorization of projects. Projects are determined to be capital based upon the Company's Capitalization Policy and are documented in PowerPlant or in documents prepared in accordance with the Company's Project Governance Policy. The justifications and other supporting documentation are reviewed and approved by the Financial Services Manager, or delegate, based on input received from the Financial Services or Project Management Analyst to ensure that the project is properly classified as Capital, eligibility for AFUDC is correct and that disposals/retirements are identified. Supporting documentation is maintained within Financial Services or with the Project Management Analyst. Financial Services personnel, and selected other personnel (including project management analysts), access this documentation to set-up new projects in Oracle or make changes to existing project estimates in PowerPlant. The Oracle and PowerPlant system administrators review the transfer and termination information provided by Human Resources each pay period and take appropriate action regarding access as outlined in the Critical Application Access Review Process Policy.

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

Finally, to ensure that all new projects have been reviewed each month, Financial Services Management reviews a report of all projects set up during the month prior to month-end close for any project that was not approved by them in the system at set up.

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

The Company uses Cost Management Reports produced from accounting systems to complete these monthly reviews. Financial Services may produce various levels of reports driven by various levels of management, but all reporting is tied back to the Cost Management Reports which are tied back to Legal Entity Financial Statements.

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

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

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

Q. Can you please describe the Disbursement Services Controls?

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

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

Contract invoices are received by the Account Payable Department. The invoices are validated by the project manager and Payment Authorizations approving payment of the contract invoices are entered and approved in the Contracts module of the Passport system.

Q. Can you please describe the Regulatory Accounting Controls?

A. Yes. The journal entries for deferral calculations, along with the summary sheets and the related support, are reviewed in detail and approved by the Manager of Regulatory & Property Accounting, per the Progress Energy Journal Entry policy. The detail review and approval by the Manager of Regulatory & Property Accounting ensure that recoverable expenses are identified, accurate, processed and accounted for in the appropriate accounting period. In addition, transactions are reviewed to ensure that they qualify for recovery through the Nuclear Cost Recovery Rule and are properly categorized as O&M, Site selection, Preconstruction, or Construction expenditures.

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

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

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

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

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

With respect to internal audits, all tests of controls were conducted by the Audit Services Department, and conclusions on the results were reviewed and approved by both the Steering Committee and Compliance Team chairpersons. Based on these internal audits, Progress Energy's management has determined that Progress Energy maintained effective internal control over financial reporting and identified no material weaknesses within the required Sarbanes Oxley controls during 2011.

With respect to external audits, Deloitte and Touche, Progress Energy's external auditors, determined that the Company maintained effective internal control over financial reporting during 2011. Refer to Item 9A of 2011 Progress Energy Form 10-K Annual Report.

Q. Does this conclude your testimony?

A. Yes, it does.

MS. GAMBA: Moving along, if I may, to our next witness is also stipulated, Mr. Daryl O'Cain.

CHAIRMAN BRISÉ: Sure.

MS. GAMBA: We request that his March 1st, 2012 prefiled direct testimony also be moved in evidence as if it was read in the record today, and Mr. O'Cain has no exhibits.

CHAIRMAN BRISÉ: Okay. So we will move Mr. O'Cain's exhibit -- testimony into the record as, as though read.

IN RE: NUCLEAR COST RECOVERY CLAUSE

BY PROGRESS ENERGY FLORIDA, INC.

FPSC DOCKET NO. 120009-EI

DIRECT TESTIMONY OF DARYL O'CAIN

I. INTRODUCTION AND QUALIFICATIONS.

Q. Please state your name and business address.

A. My name is Daryl O'Cain. My business address is 410 South Wilmington Street, PEB 10, Raleigh, North Carolina, 27601.

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

A. I am currently employed by Progress Energy Carolinas ("PEC") in the capacity of Director – New Generation Programs and Projects ("NGPP") Financial Services. I assumed this position with PEC on February 10, 2011, when Ms. Sue Hardison assumed the role of General Manager – Energy Wise Program Office. Ms. Hardison's responsibilities were re-assigned within the NGPP Department. I report directly to Mr. John Elnitsky, Vice President NGPP, and am responsible for all NGPP financial services. Ms. Hardison's project controls responsibilities were assigned to Mr. Jon Kerin, Director – Program Coordination and Performance Improvement to provide greater alignment for project governance, oversight, and support.

Q. Please summarize your educational background and work experience.

A. I have a Master's degree in Accounting from Florida State University and a Bachelor of Science degree in Accounting from the University of South Florida. I am a licensed Certified Public Accountant in the State of North Carolina. Additionally, I am a Certified Management Accountant and a Certified Associate in Project Management. I have been with Progress Energy for nearly 11 years. I have held various accounting, business management, and support services roles in several departments in the Company including Energy Delivery, Accounting, Investor Relations, and Plant Construction. I have been a manager in the Company since 2006. Prior to joining the Company, I spent six years in public accounting and consulting positions.

II. PURPOSE AND SUMMARY OF TESTIMONY.

Q. What is the purpose of your direct testimony?

A. My direct testimony supports the Company's request for cost recovery and a prudence determination, pursuant to the Nuclear Cost Recovery Rule, Rule 25-6.0423, Florida Administrative Code, for the Company's LNP generation and transmission costs incurred from January 2011 through December 2011. I will also explain the major variances between actual LNP costs and actual/estimated costs included in the Company's May 2, 2011 filings in Docket No. 110009-EI.

Q. Do you have any exhibits to your testimony?

A. No. I will, however, be co-sponsoring the cost portions of Schedules T-4, T-4A, T-6, and Appendix D of the Nuclear Filing Requirements ("NFRs"), which are included as part of the exhibits to Mr. Will Garrett's testimony, Exhibit No. ___(WG-1). I am also sponsoring Schedules T-6A, T-6B, T-7, T-7A, and T-7B of the NFRs. Schedule T-6A is a description of the major tasks. Schedule T-6B reflects capital expenditure variance explanations. Schedule T-7 is a list of the contracts executed in excess of $1.0 million and Schedule T-7A provides details for those contracts. Schedule T-7B reflects details pertaining to contracts executed in excess of $250,000, but less than $1.0 million.

All of these schedules are true and accurate.

Q. Please summarize your testimony.

A. PEF requests a prudence determination and approval of the recovery of its 2011 actual LNP costs. In 2011, the Company continued to implement its decision made in 2010 to proceed with the LNP on a slower pace. The 2011 LNP costs were incurred in connection with licensing application activities to support the Levy Combined Operating License Application ("COLA") to the Nuclear Regulatory Commission ("NRC"), engineering activities in support of the COLA, and activities under PEF's LNP Engineering, Procurement and Construction ("EPC") contract with Westinghouse and Shaw, Stone and Webster (the "Consortium"). In addition, costs were incurred for Levy Transmission strategic land acquisitions. PEF took appropriate steps to ensure that the 2011 costs were reasonable and prudent and that all of these costs were necessary to the LNP. Accordingly, the Commission should approve PEF's 2011 costs as reasonable and prudent pursuant to the nuclear cost recovery rule.

III. CAPITAL COSTS INCURRED IN 2011 FOR THE LNP.

Q. What was the total overall difference between PEF's actual 2011 costs and PEF's actual/estimated costs for 2011?

A. Overall LNP costs, inclusive of transmission and generation costs, were [redacted], or [redacted] less than PEF's actual/estimated costs for 2011. The reasons for this variance are described below.

A. GENERATION.

Q. Can you please describe the work and activities that were performed for the LNP in 2011 to generate these costs?

A. Yes. PEF performed work and incurred preconstruction and construction costs on the following activities for the LNP in 2011: (1) licensing, (2) engineering, design and procurement, (3) project management, (4) real estate acquisition, and (5) power block engineering and procurement.

Q. Please explain what licensing work was done for the LNP in 2011?

A. Throughout 2011 the NGPP group worked with the NRC to advance the LNP COLA toward final approval and issuance. In March 2011, the NRC conducted an audit of the LNP seismic/structural Requests for Additional Information ("RAI") responses. While there were no findings, the NRC identified additional information needs and clarification required to complete the Final Safety Evaluation Report ("FSER"). NGPP completed responses to these additional seismic/structural questions in May 2011. In addition to completing the remaining open LNP RAI's associated with the seismic/structural conditions at the site, NGPP completed a RAI regarding the tsunami analysis it had previously submitted.

A significant milestone was completed near the end of 2011 when the NRC completed the Levy Advanced Safety Evaluation Report ("ASER") without open items on September 15, 2011. This signified that the NRC staff had completed the safety review required for issuance of the LNP COL. In addition, in October 2011, NGPP actively supported the Advisory Committee on Reactor Safeguards ("ACRS") Subcommittee Meeting and then the ACRS Full Committee meeting in December 2011. At these meetings, NGPP provided presentations and answered technical questions from the ACRS members. Following the December meeting, the ACRS issued a letter to the NRC recommending approval of the Levy COLA following implementation of two recommendations regarding inclusion of additional information on evaluation of the tsunami hazard. The NRC staff review of the ACRS recommendations determined that NRC regulations had been satisfied and no additional analyses to address tsunami hazards was warranted.

Revision 3 to the LNP COLA was completed and submitted to the NRC in October 2011. Updates to the COLA included additional information on low-level radioactive waste storage. During the fourth quarter of 2011, the Atomic Safety Licensing Board ("ASLB") completed review of the pending and revised contentions for the Levy COLA and based on the additional information provided in Revision 3, the ASLB dismissed contention 8A regarding low-level radioactive waste storage. The ASLB also denied the interveners' motion to re-admit a previously dismissed contention and to admit a new contention claiming new and significant information regarding Fukushima. There is only one remaining contention for consideration at ASLB hearings in 2012.

NGPP also worked with and supported Westinghouse in the development of Revision 18 and Revision 19 to the AP1000 Design Control Document ("DCD"). Notably, on December 30, 2011, DCD Revision 19 was approved and issued by the NRC.

Regarding the Levy COLA environmental review, major environmental work completed in 2011 included the Environmental Permitting Plan, which identifies the scope of environmental activities required to support state and federal permitting activities for LNP, and the detailed engineered Wetland Mitigation Plan to facilitate continued progress on the NRC's Final Environmental Impact Statement ("FEIS"), and U.S. Army Corps of Engineers ("USACE") 404 permitting for the LNP.

On June 23, 2011, the USACE issued their position letter regarding the Draft Environmental Impact Statement ("DEIS"). A meeting was conducted with PEF, USACE, NRC, and the Environmental Protection Agency ("EPA") to address the information needs of the USACE to complete the Environmental Impact Statement ("EIS"). PEF completed responses to all identified USACE information needs in November 2011.

Finally, the NGPP group has continued to participate in industry groups including NuStart and the AP1000 Owner's Group ("APOG") and continues to support the joint efforts of these industry groups. Throughout 2011, NGPP provided support to NuStart for review of documents in the development of AP1000 DCD Revision 18 and DCD Revision 19, and for the Reference COLA

("R-COLA"). APOG support work by NGPP for joint licensing and operational program development also continued in 2011.

Q. What engineering work was performed for the LNP in 2011?

A. In 2011, NGPP conducted engineering activities in support of its COLA for the LNP. This included ongoing engineering support to assist the licensing activities in response to the NRC RAIs discussed above. Further, in 2011, NGPP Engineering completed a detailed construction sequence of the foundations for the non-safety related structures (Turbine Building, Radwaste Building and Annex Building) for inclusion in the LNP FSAR. The laboratory portion of the Roller Compacted Concrete ("RCC") Mix Design Program was completed to determine the mix proportions necessary to create a RCC mix that will meet the requirements for use in the production RCC Bridging Mat. The laboratory portion of the RCC Specialty Testing Program was also completed to provide initial assurance that the RCC Bridging Mat constructed using the chosen RCC mix design will achieve the strength parameters used in the design. PEF engineering personnel also participated in multiple NuStart / APOG Committee Meetings such as Engineering, Electrical, and Balance of Plant, as well as Final Design Reviews for multiple AP1000 systems and structures.

Q. Can you generally describe the project management work on the LNP in 2011?

A. Yes. On March 29, 2011, Progress Energy senior management reviewed and approved an Integrated Project Plan ("IPP") update for Revision 3 to the LNP.

This IPP confirmed annual spending for 2011 through mid-2012 for the LNP and provided an update related to the decision to continue the partial suspension. Senior management approval was consistent with the Company's March 2010 decision to continue with the LNP on a slower pace and defer significant capital investment until after the LNP COL is obtained.

In the second quarter of 2011, PEF issued a consolidated Levy Program Execution Plan. This plan outlined the scope of the LNP and provided details regarding organization, methods, systems and strategies for successful program completion. The document also provided the framework for future Program Execution Plan development.

An update was also completed to the Class 5/4 Levy Estimate for the project based on updated Long Lead Equipment ("LLE") negotiations and to support the 2012 budgeting process. Project control metrics were regularly monitored for cost, schedule, contract compliance, risk performance, and other defined metrics. Work was also completed with the Consortium and its vendors to negotiate favorable disposition terms and conditions on all remaining LLE components and execute change orders which documented the final disposition decisions.

Finally, three site vendor audits were scheduled and completed by end of third quarter 2011 to assess and test the vendor's internal project business processes and controls utilized to develop, review, and approve invoices submitted to PEF in support of the LNP. The overall audit opinions were effective, and no significant observations or recommendations for improvement were identified or resulted from the audit.

i. <u>Preconstruction Generation Costs Incurred.</u>

Q. Did the Company incur any Generation preconstruction costs for the LNP in 2011?

A. Yes. As reflected on Schedule T-6.2, the Company incurred preconstruction costs in the categories of License Application and Engineering, Design, and Procurement.

Q. For the License Application costs, please identify what those costs are and why the Company had to incur them.

A. As reflected on Line 3 of Schedule T-6.2, the Company incurred License Application costs of [redacted] in 2011. The costs incurred were for the licensing activities supporting the LNP COLA that I described above.

Q. For the Engineering, Design and Procurement costs, please identify what those costs are and why the Company had to incur them.

A. As reflected on Line 4 of Schedule T-6.2, the Company incurred Engineering, Design, and Procurement costs of [redacted] in 2011. The costs incurred related specifically to: (1) [redacted] in contractual payments to the Consortium for project management, quality assurance, purchase order disposition support, and other home office services such as accounting and project controls; and (2) [redacted] for direct PEF oversight of engineering activities of the Consortium including project management, project scheduling and cost estimating, and legal services.

Q. How did Generation preconstruction actual capital expenditures for January 2011 through December 2011 compare to PEF's estimated/actual costs for 2011?

A. LNP preconstruction generation costs were [redacted], or [redacted] less than PEF's actual/estimated costs for 2011. The reasons for the major (more than $1.0 million) variances are provided below.

License Application: License Application capital expenditures were [redacted], which was [redacted] less than the actual/estimated License Application costs for 2011. This variance is attributable to lower than estimated NRC review fees and lower outside legal counsel costs associated with LNP COLA activities including responding to NRC RAIs.

Engineering, Design, and Procurement: Engineering, Design, and Procurement capital expenditures were [redacted], which was [redacted] less than the actual/estimated Engineering, Design, and Procurement costs for 2011. This variance is driven primarily by the completion of negotiations with the Consortium regarding one-time LLE purchase order disposition and incremental shipping/storage costs for one remaining LLE component. Included in the prior year actual/estimated filing were approximately [redacted] of estimated costs associated with the disposition of one remaining LLE component, with the assumption that this purchase order would be canceled and, therefore, treated as pre-construction costs. Due to that component being suspended, the related costs were recorded as construction costs consistent with other suspended items.

The remaining [redacted] variance is related to lower than anticipated payments for engineering and design work, associated project management and development, purchase order disposition support, home office services, and PGN labor, expenses, indirects and overheads.

ii. <u>Construction Generation Costs Incurred.</u>

Q. Did the Company incur any Generation construction costs for the LNP in 2011?

A. Yes. As reflected on Schedule T-6.3, the Company incurred generation construction costs in the categories of Real Estate Acquisition and Power Block Engineering and Procurement.

Q. For the Real Estate Acquisition costs, please identify what those costs are and why the Company had to incur them.

A. As reflected on Line 3 of Schedule T-6.3, the Company incurred Real Estate Acquisition costs of [redacted] in 2011. Costs incurred are related to land acquisitions for the LNP, including residual generation construction costs associated with the purchase of state lands for the LNP Barge Slip easement.

Q. For the Power Block Engineering and Procurement costs, please identify what those costs are and why the Company had to incur them.

A. As reflected on Line 8 of Schedule T.6-3, the Company incurred Power Block Engineering and Procurement costs of [redacted] in 2011. These costs were for incremental disposition costs and milestone payments under the EPC contract for certain LLE items including the: [redacted].

Q. How did actual generation construction capital expenditures for January 2011 through December 2011 compare to PEF's actual/estimated costs for 2011?

A. LNP construction generation costs were [redacted] or [redacted] greater than PEF's estimated projection costs for 2011. The reasons for the major (more than $1.0 million) variances are provided below.

Power Block Engineering and Procurement: Power Block Engineering and Procurement capital expenditures were [redacted], which was [redacted] greater than the actual/estimated Power Block Engineering and Procurement costs for 2011. This unfavorable variance is driven primarily by the completion of negotiations with the EPC Consortium regarding one-time LLE purchase order disposition and incremental shipping/storage costs for one remaining LLE component. As I stated above, approximately [redacted] of estimated disposition costs were included as preconstruction in the prior year actual/estimated filing. With the decision to suspend, the related costs were classified as construction costs, consistent with other suspended items.

There was also a [redacted] favorable variance primarily due to the deferral of milestone payments for certain LLE items [redacted]).

B. **TRANSMISSION.**

Q. Can you describe what transmission work and activities were performed in 2011 for the LNP?

A. Yes. At the beginning of the year, oversight for Levy Transmission activities was assigned to the NGPP Licensing organization. Activity for 2011 was primarily focused on strategic land acquisition. In 2011, PEF closed on 52 parcels equaling 78.3 acres in the Levy 500kV corridor, at a cost of [redacted]. Additionally, four other parcels are under contract at a total cost of [redacted] These strategic Transmission corridor land purchases were targeted to key parcels that were available at favorable market terms and conditions. Other transmission activities were deferred due to the decision to continue the partial suspension for the LNP.

i. **Preconstruction Transmission Costs Incurred.**

Q. Did the Company incur transmission-related preconstruction costs for this transmission work and activity for the LNP in 2011?

A. No. As reflected on Schedule T-6.2 the Company did not incur transmission-related preconstruction costs in 2011.

Q. How did actual transmission-related preconstruction capital expenditures for January 2011 through December 2011 compare to PEF's actual/estimated costs for 2011?

A. Consistent with PEF's actual/estimated filing for 2011, PEF did not incur preconstruction capital transmission costs in 2011.

ii. <u>Construction Transmission Costs Incurred.</u>

Q. Did the Company incur any transmission-related construction costs for transmission work and activities for the LNP in 2011?

A. Yes, as reflected on Schedule T-6.3, the Company incurred transmission-related construction costs in the categories of Real Estate Acquisition and Other.

Q. For the Real Estate Acquisition costs, please identify what those costs are and why the Company had to incur them.

A. As reflected on Line 21 of Schedule T-6.3, the Company incurred Real Estate Acquisition costs of [redacted]. These costs included strategic Right-of-Way ("ROW") acquisition in the Levy 500kV corridor of [redacted] and associated survey and title services, environment assessments, and signage costs of just under [redacted]

Q. For the Other costs, please identify what those costs are and why the Company had to incur them.

A. As reflected on Line 24 of Schedule T-6.3, the Company incurred Other costs of [redacted]. These costs included Levy transmission labor and related expenses, indirects and overheads to perform general project management and strategic land acquisition activities.

Q. How did actual transmission-related construction capital expenditures for January 2011 through December 2011 compare to PEF's actual/estimated 2011 costs?

A. LNP construction transmission costs were [redacted], or [redacted] less than PEF's actual/estimated construction transmission costs for 2011. I will explain the reasons for the major (more than $1 million) variances below.

Real Estate Acquisition: Real Estate Acquisition capital expenditures were [redacted], which was [redacted] less than the actual/estimated Real Estate Acquisition costs for 2011. This variance is attributable to fewer purchases of strategic ROWs than originally anticipated for 2011 based on available land and obtainable terms and conditions.

IV. O&M COSTS INCURRED IN 2011 FOR THE LEVY NUCLEAR PLANT.

Q. Did the Company incur any Operation & Maintenance ("O&M") costs for the LNP in 2011?

A. Yes, as reflected on Schedule T-4 the Company incurred O&M expenditures in the amount of $1.3 million for internal labor, legal services, and for the NuStart Energy Development, LLC program that were necessary for the LNP. The explanations for major variances are provided below:

Legal: O&M expenditures for Legal services were $0.4 million, or $0.2 million lower than the actual/estimated costs. This variance is primarily due to lower than expected outside legal counsel costs.

Nuclear Generation: O&M expenditures for Nuclear Generation were $0.6 million, or $0.1 million higher than actual/estimated costs. This variance is primarily due to higher than estimated expenses related to the Company's involvement and investment in the NuStart program.

Q. To summarize, were all the costs that the Company incurred in 2011 for the LNP reasonable and prudent?

A. Yes, the specific cost amounts for the LNP contained in the NFR schedules, which are attached as exhibits to Mr. Garrett's testimony, reflect the reasonable and prudent costs PEF incurred for LNP work in 2011. All of these activities and costs were necessary for the LNP.

V. PROJECT MANAGEMENT AND COST CONTROL OVERSIGHT.

Q. Were the LNP Project Management and Cost Control Oversight policies and procedures the same in 2011 as they were for 2008, 2009, and 2010?

A. Yes, they are essentially the same. There have been no substantial changes to the LNP project management and cost oversight controls since the process was described in Ms. Hardison's March 1, 2011, testimony in Docket No. 110009-EI and in prior NCRC testimony. The Company continues to review policies, procedures, and controls on an ongoing basis and makes revisions and enhancements based on changing business conditions, organizational changes, and lessons learned, as necessary. This process of continuous review of our policies, procedures, and controls is a best practice in our industry and is part of our existing LNP project management and cost control oversight.

Q. Can you please provide an overview of the Company's applicable LNP project management and cost control oversight policies and procedures?

A. Yes. The Company utilizes its Integrated Project Plan ("IPP") procedure to provide guidance regarding evaluation and funding authorization for major projects, including the LNP. The Company adheres to this procedure, along with numerous other policies, procedures, and controls to effectively manage the LNP. Currently, an updated IPP for the LNP (Revision 4) is planned to be presented to senior management in April 2012. This IPP update will confirm funding approval for 2012 through 2013 for the LNP. The 2012 IPP will provide cost estimate updates leading up to receipt of the Levy COL, which is currently estimated to be issued by the NRC in early to mid 2013.

The LNP is also being undertaken by the Company consistent with the applicable project standards established and implemented by the Company's Project Management Center of Excellence organization ("PMCoE"). These standards are based on principles from the internationally recognized Project Management Institute Project Management Body of Knowledge ("PMBoK") and establish a standardized project management approach that spans tools, templates and processes, training and qualification programs, and adoption of best practices.

The LNP work also continues to be performed under the applicable Nuclear Generation Group ("NGG") and Corporate procedures. These procedures are reviewed on a continuous basis for changing business conditions and to incorporate improvements, clarifications, and other administrative changes.

Other corporate tools are used to support the management of the LNP work as well. The Oracle Financial Systems and Business Objects reporting tools provide monthly corporate budget comparisons to actual cost information, as well as detailed transaction information. This information, along with other financial accounting data, allows PEF to regularly monitor the costs of the LNP work compared to budgets and projections. The project schedule is maintained in the Primavera scheduling tool. Detailed schedules for near term work are developed and reviewed on a monthly basis and updated and refined as appropriate. Key Performance Indicators ("KPIs") to monitor the status of the LNP are reviewed by the management team on a regular basis, utilizing multiple project and vendor reporting mechanisms and project review forums. The Weekly NGPP Project Status Report, the Monthly NGPP Programs and Projects Review Meeting, and the Monthly New Nuclear Project Controls / Business Services Report are three examples. These reports and meetings focus on safety, current status of cost, completed and upcoming schedule milestones, Level 1 schedule status, major contract status, and the current risk matrix for the LNP.

Q. Please describe some of the enhancements to the Company's project management and cost control policies or procedures that were made in 2011.

A. During 2011 there was limited field activity for both LNP generation and transmission and, as a result, the Company's general oversight and management plan did not change in 2011. PEF did however implement several enhancements to continuously improve the oversight and management of contractors for the LNP. Corporate and nuclear contract procedures were further reviewed and revised in 2011. Overall sixty-one (61) corporate, nuclear, and EPC procedures were revised and eight (8) new procedures were created in 2011. Of these eight new procedures, two (2) were new PMCoE procedures issued in 2011. Most of these updates were minor revisions or updates to existing policies and procedures. One substantive procedure issued during 2011 was the "Development, Planning and Execution of Large Construction Projects" (PJM-NGPX-00001). This procedure updated the project flow and approval gate process, provided additional guidance for formal project review requirements, and formally aligned NGPP project management processes with PMCoE procedures.

In addition, in 2011, NGPP implemented an enhancement to the LNP Contract Administration function. Bi-weekly "Levy EPC Change Order, Letters and Invoice Review Meetings" were conducted to discuss upcoming EPC contract invoice milestones, any invoice issues identified, and any open/upcoming change orders and letters that required action.

Other 2011 improvements included conducting monthly Levy Risk Review Meetings for the COLA and approved non-COLA related work and conducting bi-weekly Levy schedule review meetings. The agenda for the latter included a review of project schedule performance, milestones achieved, and work planned for the next period.

Due to the change in the designated representative for the EPC contract, the LNP project team revised the invoice review and approval matrix. Additionally, in 2011, the LNP project team implemented a revision to the change order tracking and review process.

Q. Can you explain how the Company ensures that its selection and management of outside vendors is reasonable and prudent?

A. Yes. When selecting vendors for the LNP, PEF utilizes bidding procedures through a Request for Proposal ("RFP") when possible for the particular services or materials needed to ensure that the chosen vendors provide the best value for PEF's customers. Once proposals are submitted by potential vendors, formal bid evaluations are completed and a final selection is determined and documented. When an RFP cannot be used, PEF ensures that contracts with sole source vendors contain reasonable and prudent contract terms with adequate pricing provisions (including fixed price and/or firm price, escalated according to indexes, where possible). When deciding to use a single or sole source vendor, PEF documents a single or sole source justification for the particular work. Both Corporate and NGPP contracting procedures contain guidance on what justifies using a sole source or single source vendor. The Company requires that all sole or single source contract activity must be justified on the contract requisition and must be approved by the appropriate management level for the dollar value of the contract.

The contract development process starts when a requisition is created in the Passport Contracts module for the purchase of services. The requisition is reviewed by the appropriate Contract Specialist in Corporate Services and appropriate technical and management personnel on the Levy project, to ensure sufficient data has been provided to process the contract requisition. The Contract Specialist prepares the appropriate contract document from pre-approved contract templates in accordance with the requirements stated on the contract requisition. Once the requisition is ready to be executed, it is approved online by the appropriate levels of the management approval matrix as per the Corporate Approval Level Policy, and a contract is created. Contract invoices are received by the NGPP New Nuclear contract administration. The invoices are validated by the designated representatives/project managers and contract administration team. Payment Authorizations approving payment of the contract invoices are then entered and approved.

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

A. Yes, it does. PEF uses internal audits, self assessments, benchmarking, and quality assurance reviews and audits to verify that its program management and oversight controls are in place and being implemented. Internal audits are also conducted on outside vendors.

During 2011, the Florida Nuclear Plant Cost Recovery Rule Compliance Audit was conducted by internal audit. The overall audit opinion was effective, and no specific observations or recommendations for improvement were identified or resulted from the audit. An internal audit was also conducted in 2011 to assess overall project management effectiveness. The overall audit opinion was effective, with two minor observations/recommendations identified. The management corrective actions were included in the audit report and all items have been addressed and closed. An internal Nuclear Oversight Organization ("NOS") assessment N-NP-11-01 was conducted in September 2011. It identified one finding and two recommendations. The finding was related to the identification of incomplete quality assurance records. This finding was entered into the Progress Energy Corrective Action Program ("CAP") for investigation and resolution. The corrective actions for this finding included communicating expectations to the applicable LNP project team members and Joint Venture Team ("JVT") companies regarding quality assurance records needs and formatting, and obtaining the incomplete records for proper storage. All but one of these actions have been completed and the remaining action has a due date in April of 2012.

The NOS organization also conducted and/or participated in external audits of contractors providing goods and services in support of the LNP. While these audits identified findings that required corrective action, these actions were for the contractors to implement and as such these findings were entered into the contractors' corrective action program for resolution. These findings are monitored by NOS as part of the external audit process.

As noted above, PEF also performed vendor invoice audits in 2011. An audit of the Shaw invoice process was conducted March 28-29, 2011 at the Shaw, Stone & Webster ("SSW") Charlotte, North Carolina office. The scope of the audit was to assess and test the SSW internal project business processes and controls utilized to develop, review, and approve SSW invoices submitted to the Company. Based on the results of the audit, it was PEF's opinion that the SSW invoice process was effective. In addition, an audit of the Westinghouse time and material and LLE invoice process was conducted June 20-22, 2011 at the Westinghouse Cranberry, Pennsylvania office. The scope of the audit was to assess and test the Westinghouse internal project business processes and controls utilized to develop, review, and approve Westinghouse Time and Materials ("T&M") and LLE invoices submitted to PEF. Based on the results of the audit, it was PEF's opinion that the Westinghouse invoice process was effective. An audit of the JVT COLA review T&M invoice process was conducted September 19-21, 2011 at Sargent & Lundy's Chicago, Illinois office. The scope of the audit was to assess and test the JVT internal project business processes and controls utilized to develop, compile, review, and approve JVT COLA T&M invoices submitted to the Company. Based on the results of the audit, it was PEF's opinion that the JVT invoice process was effective.

In addition, the NRC performed an audit of the LNP seismic/structural RAI responses in March 2011 and identified additional information needs required to complete the FSER. PEF's response to the seismic/structural questions from the audit was completed in May 2011.

Q. Are these project management and costs control oversight procedures described applicable to both transmission and generation projects?

A. Yes. The generation and transmission projects associated with the LNP are subject to the same overall Company management, policies, and procedures.

Q. Were the Company's Project Management and Cost Control Oversight policies and procedures for the LNP independently reviewed?

A. PEF did not retain an independent expert to review its project management and cost oversight policies and procedures in 2011 because these policies and procedures are substantially the same as the ones reviewed in 2009 and 2010. In both 2009 and 2010 PEF hired independent expert Gary Doughty of Janus Management Associates, Inc. to review the reasonableness and prudence of the project management and control systems in place to manage the LNP. Mr. Doughty concluded in both 2009 and 2010 that PEF's LNP project management and project controls were reasonable and prudent. In addition, Office of Public Counsel ("OPC") expert witness Dr. William Jacobs, Jr. also reviewed the LNP project management and cost oversight controls in the 2009 and 2010 NCRC proceedings. He expressed no opinion in either proceeding that the Company's LNP project management and cost oversight controls were unreasonable or imprudent. In fact, he testified in the 2010 NCRC hearings that he expressed no opinion regarding the prudence of the Company's LNP project management, contracting, and oversight controls because he reviewed them in 2009 and did not see any significant concerns with them. (Docket No. 100009-EI Hearing Trans. pp. 730-731). In 2011, Mr. Doughty was not retained to review the LNP project management and cost oversight controls. At the NCRC hearings in 2011, Dr. Jacobs testified that he had no opinion in this area.

Q. Has the Commission previously determined that these LNP project management and cost oversight controls were reasonable and prudent?

A. Yes. In Order No. PSC-09-0783-FOF-EI, issued Nov. 19, 2009; Order No. PSC-11-0095-FOF-EI, issued Feb. 2, 2011; and Order No. PSC-11-0547-FOF-EI, issued Nov. 23, 2011, the Commission determined that the LNP project management and cost oversight controls were reasonable and prudent for 2008, 2009, and 2010 respectively. As I discussed above, the Company's 2011 LNP project management and cost oversight controls are substantially the same as they were in 2008, 2009, and 2010.

Q. Are the Company's LNP project management and cost control oversight policies and procedures reasonable and prudent?

A. Yes, they are. These project management policies and procedures reflect the collective experience and knowledge of the Company and have been vetted, enhanced, and revised over several years to reflect industry leading best project management and cost oversight policies, practices, and procedures. The culmination of these policies, practices, and procedures in the LNP project management, project controls, and cost control oversight measures have been independently reviewed by third party experts in 2009 and 2010 and by the Commission and they were found to be reasonable and prudent. We believe, therefore, that our project management policies and procedures are consistent with best practices for capital project management in the industry and are reasonable and prudent.

Q. Does this conclude your testimony?

A. Yes, it does.

MS. GAMBA: Progress would call Mr. Thomas Geoff Foster to the stand.

MR. LAWSON: Commissioner? Staff would like to move in some excused witnesses' exhibits at this time as well.

CHAIRMAN BRISÉ: Sure. We'll excuse --

MR. LAWSON: I'm sorry. We're out of order then.

CHAIRMAN BRISÉ: Excuse me?

MR. LAWSON: Withdrawn for the moment. Sorry.

CHAIRMAN BRISÉ: Okay. Go ahead.

MS. GAMBA: I'll call Mr. Foster to the stand.

CHAIRMAN BRISÉ: And as Mr. Foster prepares to take the seat, we also ask the witnesses to accommodate us if possible. If a question is a yes or no question, answer yes or no, and if there, it requires a short explanation to go along with the answer, that you provide a short explanation. But the emphasis there is short and brief, succinct. Okay?

Whereupon,

THOMAS G. FOSTER

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

DIRECT EXAMINATION

BY MS. GAMBA:

Q Good morning, Mr. Foster. Will you please introduce yourself to the Commission and provide your business address.

A Yes. I'm Thomas Geoffrey Foster, and I'm at 299 First Avenue North, St. Petersburg, Florida.

Q And have you already been sworn in as a witness today?

A Yes.

Q Has your title or position changed since the merger with Duke Energy in July of 2012?

A Yes. I'm now the Manager of Retail Riders and Rate Cases for the Progress Energy Service Company.

Q And have your job responsibilities with respect to the Levy Nuclear Project or Crystal River Unit 3 uprate project stayed the same, or have they changed since the merger?

A They remain the same.

Q Have you prefiled April 30th, 2012, direct testimony in this matter?

A Yes.

Q Have you prefiled revised direct testimony on September 7th, 2012, in this proceeding, based on Progress Energy's motion for deferral being granted?

A Yes.

Q Do you have a copy of your prefiled direct testimony with you today?

A Yes.

Q Do you have any changes to make to your prefiled September 7th, 2012, direct testimony?

A No.

Q If I asked you the same questions asked in your prefiled September 7th, 2012, testimony today, would you give the same answers?

A Yes.

MS. GAMBA: We request that the prefiled direct testimony of Mr. Foster dated April 30th, 2012, as well as the revised prefiled direct testimony of Mr. Foster dated September 7th, 2012, be moved in evidence as if it was read in the record today.

CHAIRMAN BRISÉ: Okay. We will move Mr. Foster's prefiled direct testimony into the record as though read.

IN RE: NUCLEAR COST RECOVERY CLAUSE

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 120009-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" or the "Company"). 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 ("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.).

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 OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present, for Florida Public Service Commission ("Commission") review and approval, PEF's Estimated/Actual costs associated with the LNP and CR3 Uprate activities for the period January 2012 through December 2012, projected costs for the period January 2013 through December

2013, and the total estimated revenue requirements for 2013 for purposes of setting 2013 rates in the Capacity Cost Recovery Clause ("CCRC").

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

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

- Exhibit No. ___ (TGF-1), consisting of Schedules AE-1 through AE-7B of the Nuclear Filing Requirements ("NFRs"), which reflect PEF's retail revenue requirements for the LNP from January 2012 through December 2012. I am sponsoring Schedules AE-1 through AE-6.3, and Appendices A through F and Mr. John Elnitsky will be co-sponsoring portions of Schedules AE-4, AE-4A, and AE-6 and sponsoring Schedules AE-6A through AE-7B.
- Exhibit No. ___ (TGF-2), consisting of Schedules P-1 through P-8 of the NFRs, which reflect PEF's retail revenue requirements for the LNP from January 2013 through December 2013. I am sponsoring Schedules P-1 through P-6.3, P-8, and Appendices A through E and Mr. Elnitsky will be co-sponsoring portions of Schedule P-4, P-6 and sponsoring Schedules P-6A through P-7B.
- Exhibit No. ___ (TGF-3), consisting of Schedules TOR-1 through TOR-7, which reflect the total project estimated costs for the LNP. I am sponsoring Schedules TOR-1 through TOR-3 and co-sponsoring portions of TOR-4 and TOR-6. Mr. Elnitsky will be co-sponsoring Schedules TOR-4 and TOR-6 and sponsoring TOR-6A and TOR-7.

- Exhibit No. ___ (TGF-4),consisting of Schedules AE-1 through AE-7B of the NFRs, which reflect PEF's retail revenue requirements for the CR3 Uprate Project from January 2012 through December 2012. I am sponsoring Schedules AE-1 through AE-6.3, and Appendices A through E. Mr. Jon Franke will be co-sponsoring Schedules AE-4, AE-4A, AE–6.3, and Appendix B and sponsoring Schedules AE-6A.3 through AE-7B.
- Exhibit No. ___ (TGF-5), consisting of Schedules P-1 through P-8 of the NFRs, which reflect PEF's retail revenue requirements for the CR3 Uprate Project from January 2013 through December 2013. I am sponsoring Schedules P-1 through P-6.3, P-8, and Appendices A through E. Mr. Franke will be co-sponsoring Schedules P-4 and P-6.3 and sponsoring Schedules P-6A.3 through P-7B.
- Exhibit No. __ (TGF-6), consisting of Schedules TOR-1 through TOR-7, which reflect the total project estimated costs for the CR3 Uprate Project. I am sponsoring Schedules TOR-1 through TOR-3 and co-sponsoring TOR-4 and TOR-6. Mr. Franke will be co-sponsoring Schedule TOR-4 and TOR-6 and sponsoring Schedules TOR-6A and TOR-7.

These exhibits are true and accurate.

Q. What are Schedules AE-1 through AE-7B?

A. Schedules AE-1 through AE-7B are:

- Schedule AE-1 reflects the actual/estimated total retail revenue requirements for the period.

- Schedule AE-2.2 reflects the calculation of the actual/estimated preconstruction costs for the period.
- Schedule AE-2.3 reflects the calculation of the actual/estimated carrying costs on construction expenditures for the period.
- Schedule AE-3A reflects a calculation of actual/estimated deferred tax carrying costs for the period.
- Schedule AE-3B reflects the calculation of the actual/estimated construction period interest for the period.
- Schedule AE-4 reflects Capacity Clause Recovery ("CCR") recoverable Operations and Maintenance ("O&M") expenditures for the period.
- Schedule AE-4A reflects CCR recoverable O&M expenditure variance explanations for the period.
- Schedule AE-6 reflects actual/estimated monthly expenditures for site selection, preconstruction and construction costs for the period.
- Schedule AE-6A reflects descriptions of the major tasks.
- Schedule AE-6B reflects annual variance explanations.
- Schedule AE-7 reflects contracts executed in excess of $1.0 million.
- Schedule AE-7A reflects details pertaining to the contracts executed in excess of $1.0 million.
- Schedule AE-7B reflects contracts executed in excess of $250,000, yet less than $1.0 million.

Q. What are the Levy AE-Appendices A through F?

A. The Levy AE Appendices are:

- Appendix A reflects the reconciliation of the beginning balances on Schedules AE-2.2 thru AE-4.
- Appendix B reflects the new jurisdictional separation factors.
- Appendix C provides support for the 2012 deferred tax asset ("DTA") activity.
- Appendix D reflects the approved Rate Management amortization schedule through year end ("YE") 2012.
- Appendix E reflects the Schedule AE2.2 support.
- Appendix F reflects the reconciliation of the 2010/2011 Over / (Under) recovery by cost category.

Q. What are the CR3 Uprate Appendices associated with Schedules AE-1 through AE-6?

A. The CR3 Uprate Appendices associated with Schedules AE-1 through AE-6 are:

- Appendix A reflects the reconciliation of the beginning balances on Schedules AE-2.3 thru AE-4.
- Appendix B reflects the reconciliation of the beginning construction work in progress ("CWIP") balance for those assets placed into rate base that are not yet in service as detailed on AE-2.3.
- Appendix C reflects the new jurisdictional separation factors.
- Appendix D reflects the revenue requirement calculation adjustment for those assets not yet placed into service but which are currently collected in base rates.

- Appendix E reflects the reconciliation of the 2010/2011 Over / (Under) recovery by cost category.

Q. What are Schedules P-1 through P-8?

A. Schedules P-1 through P-8 are:

- Schedule P-1 reflects the projection of total retail revenue requirements for the period as well as true-ups for prior periods.
- Schedule P-2.2 reflects the calculation of the projected preconstruction costs for the period.
- Schedule P-2.3 reflects the calculation of the projected carrying costs on construction expenditures for the period.
- Schedule P-3A reflects a calculation of the projected deferred tax carrying costs for the period.
- Schedule P-3B reflects the calculation of the projected construction period interest for the period.
- Schedule P-4 reflects CCRC recoverable O&M expenditures for the period.
- Schedule P-6 reflects projected monthly expenditures for site selection, preconstruction and construction costs for the period.
- Schedule P-6A reflects descriptions of the major tasks.
- Schedule P-7 reflects contracts executed in excess of $1.0 million.
- Schedule P-7A reflects details pertaining to the contracts executed in excess of $1.0 million.
- Schedule P-7B reflects contracts executed in excess of $250,000, yet less than $1.0 million.

- Schedule P-8 reflects the estimated rate impact.

Q. What are the Levy Appendices associated with Schedules P-1 through P-8?

A. The Levy Appendices associated with Schedules P-1 through P-8 are:

- Appendix A reflects the reconciliation of the beginning balance of Schedule P-1 through P-4.
- Appendix B reflects the new jurisdictional separation factors.
- Appendix C reflects the allocation of revenue requirements to cost category and the rate management plan amortization schedule of the 2010 Regulatory Asset.
- Appendix D reflects the reconciliation of the 2012 Over / (Under) recovery by cost category.
- Appendix E reflects the Schedule P-2.2 support and disposition of the remaining 2010 regulatory asset.

Q. What are the CR3 Uprate Appendices associated with Schedules P-1 through P-8?

A. The CR3 Uprate Appendices associated with Schedules P-1 through P-8 are:

- Appendix A reflects the reconciliation of the beginning balances for schedules P-2 through P-4.
- Appendix B reflects the reconciliation of the 2011/2012 Over / (Under) recovery by cost category.
- Appendix C reflects the new jurisdictional separation factors.

- Appendix D reflects the revenue requirement calculation adjustment for those assets not yet placed into service but which are currently collected in base rates, supports dollar amounts in Line 5 of schedule P-1.
- Appendix E supports the Construction CWIP Balance, DTA and Construction Period Interest ("CPI") impacts.

Q. What are Schedules TOR-1 through TOR-7?

A. Schedules TOR-1 through TOR-7 are:

- Schedule TOR-1 reflects the jurisdictional amounts used to calculate the final true up, projection, deferrals and recovery of deferrals.
- Schedule TOR-2 reflects a summary of the actual to date and projected costs for the duration of the project compared to what was originally filed.
- Schedule TOR-3 reflects the calculation of the actual to date and projected total NCRC retail revenue requirement for the duration of the project.
- Schedule TOR-4 reflects CCR recoverable actual to date and projected O&M expenditures.
- Schedule TOR-6 reflects actual to date and projected annual expenditures for site selection, preconstruction and construction costs for the duration of the project.
- Schedule TOR-6A reflects descriptions of the major tasks.
- Schedule TOR-7 reflects a summary of project cost.

III. COST RECOVERY FOR THE LEVY COUNTY NUCLEAR PROJECT

A. ACTUAL/ESTIMATED LNP COSTS

Q. What are the total projected revenue requirements for the LNP for the calendar year ended December 2012?

A. The total projected revenue requirements for the LNP are $62.3 million for the calendar year ended December 2012, as reflected on Schedule AE-1, page 2 of 2, Line 5. This amount includes $25.2 million in preconstruction costs, $16.7 million for the carrying costs on the construction cost balance, $1 million in recoverable O&M costs and the carrying costs on the deferred tax asset of $19.5 million. These amounts were calculated in accordance with the provisions of Rule 25-6.0423, F.A.C.

Q. What is the carrying cost rate used in Schedules AE-2.1 through AE-2.3?

A. The carrying cost rate used on Schedule AE-2 through AE-2.3 is 8.848 percent. On a pre-tax basis, the rate is 13.13 percent. This rate represents the approved rate as of June 12, 2007, and is the appropriate rate to use consistent with Rule 25-6.0423(5)(b), F.A.C. The rate was approved by the Commission in Order No. PSC-05-0945-S-EI in Docket No. 050078-EI. The annual rate was adjusted to a monthly rate consistent with the Allowance for Funds Used During Construction ("AFUDC") rule, Rule 25-6.0141, Item (3), F.A.C.

Q. What is included in the Preconstruction Plant & Carrying Cost for the Period on Schedule AE-2.2, Line 10?

A. The annual total of $25.2 million reflected on Schedule AE-2.2, Line 10, page 2 of 2 represents the total preconstruction costs for 2012. This amount includes expenditures totaling $12.8 million along with the carrying cost on the average net unamortized plant eligible for return. The total return requirements of $12.3 million presented on Line 9 represents the carrying costs on the average preconstruction balance.

Q. What is included in the Actual Estimated Carrying Costs for the Period on Schedule AE-2.3, Line 9?

A. The total return requirements of $16.7 million on Schedule AE-2.3 at Line 9 represents carrying costs on the average construction balance. The schedule starts with the 2012 beginning CWIP balance and adds the monthly construction expenditures and computes a return on the average monthly balance. The equity component of the return is grossed up for taxes to cover the income taxes that will need to be paid upon recovery in rates.

Q. What is included in Total Return Requirements on Schedule AE-3A.2, Line 12?

A. The twelve month total of $19.5 million on Schedule AE-3A.2, Line 12, page 2 of 2 represents the carrying costs on the deferred tax asset balance. The deferred tax asset arises from the difference between the book and tax basis for the project. This difference is due primarily to the recovery of preconstruction and site selection costs prior to the plant going into service for tax purposes.

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

A. The expenses included on this schedule represent the O&M costs that the Company expects to incur in 2012 related to the LNP that PEF is seeking recovery of through the NCRC.

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

A. The schedule provides explanations for the change in O&M costs from what the Company projected to incur in 2012 and the actual/estimated costs related to the LNP that PEF is seeking recovery of through the NCRC.

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

A. Schedule AE-6 reflects actual/estimated monthly expenditures for site selection, preconstruction, and construction costs by major task for 2012. This schedule includes both the Generation and Transmission costs. These costs have been adjusted to a cash basis for purposes of calculation of the carrying costs. We have also applied the appropriate jurisdictional separation factor to arrive at the total jurisdictional costs. These costs are further described in the testimony of Mr. Elnitsky.

Q. What are the total actual/estimated preconstruction costs for the period January 2012 through December 2012?

A. As shown on Line 29 of Schedule AE-6.2 in Exhibit No.___(TGF-1), total actual/estimated jurisdictional preconstruction costs for 2012 are $12.8 million. The costs have been adjusted to a cash basis for purposes of calculating the carrying charge and the appropriate jurisdictional separation factor has been applied. More information about the types of costs included in this amount is indicated on Schedule AE-6A.2 and addressed in Mr. Elnitsky's testimony.

Q. What are the total actual/estimated construction costs for the period January 2012 through December 2012?

A. As shown on Line 33 of Schedule AE-6.3 in Exhibit No.___(TGF-1), total actual/estimated jurisdictional construction costs for 2012 are $8.6 million. The costs have been adjusted to a cash basis for purposes of calculating the carrying charge and the appropriate jurisdictional separation factor has been applied. More information about the types of costs included in this amount is indicated on Schedule AE-6A.3 and addressed in Mr. Elnitsky's testimony.

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

A. The jurisdictional separation factors are calculated based on the September 2011 sales forecast for the year of 2012, using the Retail Jurisdictional Cost of Service allocation methodology that was approved in the Final Order No. PSC-10-0131-FOF-EI in PEF's base rate proceeding in Docket No. 090079-EI.

Q. What is the estimated true-up for 2012 expected to be?

A. The total true-up is expected to be an over-recovery of $13.0 million as can be seen on Line 7 of Schedule AE-1.

B. LNP COST PROJECTIONS

Q. What is included in the projected period Revenue Requirements for 2013?

A. The period revenue requirements of $40.3 million in 2013 as depicted on Schedule P-1, Line 5 includes period preconstruction costs of $25 million, carrying costs on construction cost balance of $14.3 million and O&M expenditures of $1.0 million.

Q. What is included in the Total Costs to be Recovered on Schedule P-2.2 Line 10?

A. The $25 million included on Line 10, page 2 of 2 includes the total projected preconstruction costs of $17.2 million and carrying costs on the average unamortized preconstruction balance for 2013 of $7.8 million.

Q. What is included in the Total Return Requirements on Schedule P-2.3, Line 9?

A. The Total Return Requirements of $14.3 million depicted on this schedule represents carrying costs on the average construction balance. The schedule starts with the 2013 beginning balance and adds the monthly construction expenditures and computes the carrying charge on the average monthly balance. The equity component of the return is grossed up for taxes to cover the income taxes that will be paid upon recovery in rates. The LNP balance of land at year end 2012 was removed from the NCRC and reclassified to FERC Account 105 Plant Held for

Future Use on PEF's books pursuant to the terms of the Stipulation and Settlement Agreement (the "Settlement") approved by the Commission in Docket No. 120022-EI. See Exhibit 5 to the Settlement.

Q. What is the carrying cost rate used in Schedule P-2.2 and P-2.3?

A. The carrying cost rate used on Schedule P-2.2 and P-2.3 is 8.848 percent. On a pre-tax basis, the rate is 13.13 percent. This rate represents the approved rate as of June 12, 2007, and is the appropriate rate to use consistent with Rule 25-6.0423(5)(b)1, F.A.C. The rate was approved by the Commission in Order No. PSC-05-0945-S-EI in Docket No. 050078-EI. The annual rate was adjusted to a monthly rate consistent with AFUDC rule, Rule 25-6.0141, Item (3), F.A.C.

Q. Why is Schedule P-3A.2 not used for purposes of calculating the revenue requirement in 2013?

A. Pursuant to the terms of the Settlement, "[c]oncurrent with the adjustment of the LNP NCRC factor, PEF shall, effective with the first billing cycle in January 2013, transfer its collection of the annual retail revenue requirements associated with the carrying costs on the deferred tax asset in the amount reflected in Exhibit 6 from the NCRC to base rates." Settlement, ¶4, p. 4. As such, PEF is not requesting recovery of the carrying cost on the DTA through the NCRC over the Settlement term.

Q. What is the total projected preconstruction costs that will be incurred for the period January 2013 through December 2013?

A. As shown on Line 29 of Schedule P-6.2 in Exhibit No.___(TGF-2), total projected jurisdictional preconstruction costs for 2013 are $17.2 million. The costs have been adjusted to a cash basis for purposes of calculating the carrying charge and the appropriate jurisdictional separation factor has been applied. More information about the types of costs included in this amount is indicated on Schedule P-6A.2 and addressed in Mr. Elnitsky's testimony.

Q. What is the total projected construction costs that will be incurred for the period January 2013 through December 2013?

A. As shown on Line 35 of Schedule P-6.3 in Exhibit No.___(TGF-2), total projected jurisdictional construction costs for 2013 are $78.7 million. The costs have been adjusted to a cash basis for purposes of calculating the carrying charge and the appropriate jurisdictional separation factor has been applied. More information about the types of costs included in this amount is indicated on Schedule P-6A.3 and addressed in Mr. Elnitsky's testimony.

Q. What are the projected total revenue requirements that PEF will recover in 2013?

A. PEF is requesting recovery consistent with the terms of the Settlement. This means PEF will recover revenues consistent with application of the factors in Exhibit 5 of the Settlement to the sales forecast as presented in the CCR later in the year. Consistent with prior year, PEF has an estimate of what this will be but it will be updated when PEF files for recovery of CCR. PEF calculated the estimated revenue requirement by applying the rates in Exhibit 5 of the Settlement to the sales forecast included in Schedule P-8 of Exhibit TGF-2 to generate the projected revenue for 2013. As can be seen in schedule P-8 in column 2, this amount is $102.8 million. This amount is further reflected on Schedule P-1 Line 10.

Q. What do the above recoveries consist of?

A. As stated above, per the terms of the Settlement PEF projects to collect $102.8M in 2013. The revenue include dollars associated with carrying costs on uncollected preconstruction costs, carrying costs on construction costs, prior period over/under recoveries, O&M, current period preconstruction costs, and prior period preconstruction costs. In order to effectively track different cost categories and for ease of administration, PEF will apply the agreed upon collection amount to the various costs in the following manner:

- First to recovery of carrying costs on any regulatory assets, unamortized preconstruction costs, or construction cost balances,
- Second to any prior period over/under recovery,
- Third to O&M costs,
- Fourth to current period preconstruction investment,
- Fifth to prior period unrecovered preconstruction costs and
- Sixth to construction cost investment.

Please see Appendix C of Exhibit No.___(TGF-2) for the breakdown of how the $102.8M will be applied. Because there is a defined set of rates and we know the sales forecast will be updated prior to filing in the CCR, there will be some difference between the revenue requirements estimated in my Exhibits and the final approved revenue requirements in CCR. To the extent there are differences, the difference will be applied to the last bucket of costs we are assigning revenue to which in this case would be the preconstruction balance from prior to 2013 (unrecovered regulatory asset balance). For example, if after updating the sales forecast in CCR the revenue to be collected under the rates specified in the Settlement increased by $1 million, we would apply that million to reduce the unrecovered preconstruction regulatory asset balance. If it came in $1 million lower, we would reduce the regulatory asset balance by $1 million less than shown in my exhibits in 2013.

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

A. The factors are consistent with Exhibit 1 to the Settlement.

Q. What is the rate impact to the residential ratepayer in 2013?

A. The residential rate impact due to the LNP will be $3.45/1,000kWh. See Settlement, ¶ 4. This can be seen in Exhibit TGF-2 schedule P-8.

C. LNP TRUE-UP TO ORIGINAL

Q. What do the TOR schedules reflect?

A. The TOR schedules reflect the total estimated costs of the LNP until the project is placed into service. Further details on the total project estimates are provided in Mr. Elnitsky's testimony.

D. LNP RATE MANAGEMENT PLAN

Q. In Order No. PSC-09-0783-FOF-EI in Docket No. 090009-EI, the Commission required PEF to update its rate management plan that the Commission approved in that Docket. What is PEF proposing in this Docket in relation to this plan?

A. In Order No. PSC-11-0547-FOF-EI, in Docket No. 110009-EI, the Commission approved amortization of $60 million of the deferred balance in 2012. As previously discussed, the Settlement fixes the Levy NCRC rate for the period 2013-2017 and provides for a true-up in the last year. As it relates to amortization of the previously deferred balance, PEF will reflect this amortization by applying the revenues in the manner I discussed above. Applying the revenues in this manner will result in PEF collecting an estimated $88 million of the deferred balance in 2013.

Q. Have you provided schedules that show the impact of this proposed amortization as well as an update to the overall plan?

A. Yes. As I explained, Appendix C attached to Exhibit No. ___ (TGF-2) provides an overview of PEF's methodology used to allocate the 2013 revenue requirement resulting from the Settlement and the resulting updated rate management plan.

IV. COST RECOVERY FOR THE CRYSTAL RIVER 3 UPRATE PROJECT

A. ACTUAL/ESTIMATED CR3 UPRATE PROJECT COSTS

Q. What are the actual/estimated revenue requirements for the CR3 Uprate project for the 2012 calendar year?

A. The estimated total revenue requirements for the CR3 Uprate project are $17.8 million for 2012 as reflected on Schedule AE-1, page 2 of 2, Line 6. This amount includes $19.9 million in carrying costs on the project construction balance, $0.4 million for CCR recoverable O&M expenses, a return on the deferred asset of $0.8 million, and a $3.2 million credit for revenue requirements associated with assets going into service. These amounts were calculated in accordance with the provisions of Rule 25-6.0423, F.A.C.

Q. What does the credit within the Other Adjustment on Line 5 of Schedule AE-1 represent?

A. The credit from January through December on Line 5 of Schedule AE-1 consists primarily of the depreciation and property tax expense calculated on the phase 2 Uprate project assets transferred to base rates, but not yet placed in service due to the extended CR3 outage. As a result of the continued CR3 outage, PEF is reflecting the extension of this credit through 2012.

Q. What is the carrying cost rate used in Schedule AE-2.3?

A. The carrying cost rate used on Schedule AE-2.3 is 8.848 percent. On a pre-tax basis, the rate is 13.13 percent. This rate represents the approved rate as of June 12, 2007, and is the appropriate rate to use consistent with Rule 25-6.0423(5)(b)1, F.A.C. The rate was approved by the Commission in Order No. PSC-05-0945-S-EI in Docket No. 050078-EI. The annual rate was adjusted to a monthly rate consistent with the AFUDC rule, Rule 25-6.0141, Item (3), F.A.C.

Q. What is included in the Total Return Requirements on Schedule AE-2.3, Line 10?

A. The $19.9 million in Total Return Requirements in Schedule AE-2.3 represents the carrying costs on the average construction project balance. The dollars reflected on Line 2 reflect the removal of assets placed in service. The adjustments on Line 3 represent the amounts of Balance of Plant that will go in service when CR3 comes on-line. The Beginning Balance amount on Line 5 reflects the actual amount of construction carrying costs that were under-recovered at the end of 2011. Line 6 represents the estimated amount of carrying costs that PEF expected to be unrecovered at the end of 2011.

Q. Can you explain the calculation of the return requirements on the Deferred Tax Asset on Schedule AE-3A, Line 12?

A. Yes. We have included a return on the DTA that arises from differences between the tax basis and book basis of the project. The difference between the tax basis and book basis of the project is attributable to the difference between the interest that will be capitalized for tax purposes and the interest that will be capitalized for book purposes. We have included the carrying charge on the average deferred tax balance in the revenue requirements on this schedule.

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

A. The expenses included on this schedule represent the O&M costs that the Company expects to incur in 2012 related to the CR3 Uprate project that the Company is seeking recovery of through the NCRC.

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

A. Schedule AE-6 reflects actual/estimated monthly expenditures for construction costs for 2012. The amount included on Line 12 represents actual/estimated generation capital costs gross of joint owner billings and exclusive of AFUDC. The adjustment on Line 14 labeled "Non Cash Accruals" has been made to adjust these costs to a cash basis for purposes of calculation of the carrying costs. The adjustment on Line 15 labeled "Joint Owner" represents the joint owner portion of these costs and the adjustment on Line 16 labeled "Other" represents the cost of removal portion of these costs. We have applied the appropriate jurisdictional separation factor to the "Net Generation Costs" on Line 17 to arrive at the monthly jurisdictional cash expenditures represented in Line 19.

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

A. The jurisdictional separation factors are calculated based on the September 2011 sales forecast for the year 2012, using the Retail Jurisdictional Cost of Service allocation methodology that was approved in the Final Order No. PSC-10-0131-FOF-EI in PEF's base rate proceeding in Docket No. 090079-EI.

Q. What are the total actual/estimated construction costs incurred for period January 2012 through December 2012?

A. As shown on Line 35 of Schedule AE-6.3 in Exhibit No.___(TGF-4), total actual-estimated jurisdictional construction costs for 2012 are $30.1 million. The costs have been adjusted to a cash basis for purposes of calculating the carrying charge and the appropriate jurisdictional separation factor has been applied. More information about the types of costs included in this amount is indicated on Schedule AE-6A.3 and addressed in Mr. Franke's testimony.

Q. What is the estimated true-up for 2012 expected to be?

A. As shown on Schedule AE-1 Line 8 of Exhibit No.___(TGF-4), the total true up is expected to be an under-recovery of $8.2 million.

B. CR3 UPRATE PROJECT COST PROJECTION

Q. What are the total projected revenue requirements for the CR3 Uprate project for the calendar year 2013?

A. PEF is requesting approval of total projected revenue requirements of $37.3 million for the calendar year ending December 2013 as reflected on Schedule P-1, Line 6. The total revenue requirements to be collected in 2013 are $49 million and include the $37.3 million referenced above as well as the 2011 true-up and 2012 estimated actual true-up of $11.7 million under-recovery.

Q. What is included in the revenue requirements for 2013?

A. The revenue requirements for the 2013 period of $37.3 million reflected on Line 6 of Schedule P-1 includes $34.8 million for carrying charges on the cumulative construction balance, $0.5 million in CCR recoverable O&M expenses, and $2 million for the carrying charges on the deferred tax asset.

Q. What is included in the Total Return Requirements on Schedule P-2.3, Line 9?

A. The $34.8 million in Total Return Requirements on Schedule P-2.3 represents the carrying costs on the average construction project balance. The average construction project balance includes all Uprate investment that has not been placed in-service.

Q. What is the carrying cost rate used in Schedule P-2.3?

A. The carrying cost rate used on Schedule P-2.3 is 8.848 percent. On a pre-tax basis, the rate is 13.13 percent. This rate represents the approved rate as of June 12, 2007, and is the appropriate rate to use consistent with Rule 25-6.0423(5)(b)1, F.A.C. The rate was approved by the Commission in Order No. PSC-05-0945-S-EI in Docket No. 050078-EI. The annual rate was adjusted to a monthly rate consistent with the AFUDC rule, Rule 25-6.0141, Item (3), F.A.C.

Q. Can you explain the calculation of the return requirements on the Deferred Tax Asset on Schedule P3-A, Line 11?

A. Yes. We have included a return on the deferred tax asset that arises from differences between the tax basis and book basis of the project. The difference between the tax basis and book basis of the project is attributable to the difference between the interest that will be capitalized for tax purposes and the interest that will be capitalized for book purposes. The balance CPI is being calculated on includes all Uprate investment that has not been placed in-service. We have included the carrying charge on the average deferred tax balance in the revenue requirements on this schedule.

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

A. The expenses included on this schedule represent the O&M costs that the Company expects to incur in 2013 related to the CR3 Uprate project that the Company is seeking recovery of through the NCRC.

Q. What are the projected construction costs that will be incurred for the period January 2013 through December 2013?

A. As shown on Line 35 of Schedule P-6.3 in Exhibit No.___(TGF-5), total projected jurisdictional construction costs for 2013 are $58 million. These costs have been adjusted to a cash basis for purposes of calculating the carrying charge and the appropriate jurisdictional separation factor has been applied. More information about the types of costs included in this amount is indicated on Schedule P-6A.3 and addressed in Mr. Franke's testimony.

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

A. The factors are consistent with Exhibit 1 to the Settlement.

Q. What is the estimated rate impact to the residential ratepayer expected to be in 2013?

A. As can be seen in Schedule P-8, the expected rate impact to the residential ratepayer is $1.64 per 1,000 kWh for the CR3 Uprate project.

C. CR3 UPRATE PROJECT TRUE-UP TO ORIGINAL

Q. What do the TOR schedules reflect?

A. The TOR schedules reflect the total estimated costs of the CR3 Uprate project until the project is placed into service. Further details on the total project cost estimates are provided in Mr. Franke's testimony. Schedule TOR-3 includes the estimated total retail NCRC revenue requirements through completion of the project. Total revenue requirements of $204 million on Schedule TOR-3, Line 4, are primarily comprised of the carrying charges on the construction balance, CCR recoverable O&M, and revenue requirements associated with assets going in-service recovered through the clause in 2014 and 2015 pursuant to the terms of the Settlement, ¶ 12, p. 16, which calls for a delay in transfer of in-service revenue requirements to base rates. This includes actual expenditures incurred through February 2012 and projections through 2015.

Q. Does this conclude your testimony?

A. Yes, it does.

IN RE: NUCLEAR COST RECOVERY CLAUSE

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 120009-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 Manager, Retail Riders and Rate Cases.

Q. What are your responsibilities in that position?

A. I am responsible for regulatory planning and cost recovery for Progress Energy Florida, Inc. ("PEF" or the "Company"). 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 ("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.).

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. In 2012, following the merger with Duke Energy, I was promoted to my current position. 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 OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present, for Florida Public Service Commission ("Commission") review and approval, PEF's Estimated/Actual costs associated with the LNP and CR3 Uprate activities for the period January 2012 through December 2012, projected costs for the period January 2013 through December

2013, and the total estimated revenue requirements for 2013 for purposes of setting 2013 rates in the Capacity Cost Recovery Clause ("CCRC"). On April 30, 2012, PEF filed testimony and schedules that were true and accurate at the time they were filed in accordance with the requirements of the Nuclear Cost Recovery Statute and Rule. Subsequent to meeting these requirements, PEF filed a motion to defer making a finding of reasonableness on the CR3 Uprate project 2012 and 2013 projected spend and feasibility of the project until the 2013 nuclear cost recovery clause ("NCRC") docket. Consistent with PEF's motion to defer the reasonableness determination on 2012 and 2013 CR3 Uprate project spend, the revenue requirements PEF is requesting recovery of in 2013 related to the CR3 Uprate project are associated with spend prior to 2012. As stated in PEF's motion, spend in 2012 and 2013 on the CR3 Uprate project will still be tracked in actual costs and accrue a carrying cost at the appropriate rate until recovered in rates after the Commission and all parties have had the opportunity to review PEF's feasibility analysis and costs for the CR3 Uprate project in the 2013 NCRC Docket.

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

A. Yes. I am sponsoring sections of the following exhibits, which were prepared under my supervision, and that now reflect the impacts of PEF's motion:

- Exhibit No. ___ (TGF-1), consisting of Schedules AE-1 through AE-7B of the Nuclear Filing Requirements ("NFRs"), which reflect PEF's retail revenue requirements for the LNP from January 2012 through December 2012. I am sponsoring Schedules AE-1 through AE-6.3, and Appendices A through F and Mr. John Elnitsky will be co-sponsoring portions of

Schedules AE-4, AE-4A, and AE-6 and sponsoring Schedules AE-6A through AE-7B.

- Exhibit No. ___ (TGF-2), consisting of Schedules P-1 through P-8 of the NFRs, which reflect PEF's retail revenue requirements for the LNP from January 2013 through December 2013. I am sponsoring Schedules P-1 through P-6.3, P-8, and Appendices A through E and Mr. Elnitsky will be co-sponsoring portions of Schedule P-4, P-6 and sponsoring Schedules P-6A through P-7B.
- Exhibit No. ___ (TGF-3), consisting of Schedules TOR-1 through TOR-7, which reflect the total project estimated costs for the LNP. I am sponsoring Schedules TOR-1 through TOR-3 and co-sponsoring portions of TOR-4 and TOR-6. Mr. Elnitsky will be co-sponsoring Schedules TOR-4 and TOR-6 and sponsoring TOR-6A and TOR-7.
- Exhibit No. ___ (TGF-4), consisting of Schedules AE-1 through AE-7B of the NFRs, which reflect PEF's retail revenue requirements for the CR3 Uprate Project from January 2012 through December 2012. I am sponsoring Schedules AE-1 through AE-6.3, and Appendices A through E. Mr. Jon Franke will be co-sponsoring Schedules AE-4, AE-4A, AE–6.3, and Appendix B and sponsoring Schedules AE-6A.3 through AE-7B.
- Exhibit No. ___ (TGF-5), consisting of Schedules P-1 through P-8 of the NFRs, which reflect PEF's retail revenue requirements for the CR3 Uprate Project from January 2013 through December 2013. I am sponsoring Schedules P-1 through P-6.3, P-8, and Appendices A through E. Mr.

Franke will be co-sponsoring Schedules P-4 and P-6.3 and sponsoring Schedules P-6A.3 through P-7B.

These exhibits are true and accurate.

Q. What are Schedules AE-1 through AE-7B?

A. Information now contained in some of the listed schedules for the CR3 Uprate project are for 2013 ratemaking purposes only consistent with PEF's motion to defer and may not reflect anticipated spend. Schedules AE-1 through AE-7B are:

- Schedule AE-1 reflects the actual/estimated total retail revenue requirements for the period.
- Schedule AE-2.2 reflects the calculation of the actual/estimated preconstruction costs for the period.
- Schedule AE-2.3 reflects the calculation of the actual/estimated carrying costs on construction expenditures for the period.
- Schedule AE-3A reflects a calculation of actual/estimated deferred tax carrying costs for the period.
- Schedule AE-3B reflects the calculation of the actual/estimated construction period interest for the period.
- Schedule AE-4 reflects Capacity Clause Recovery ("CCR") recoverable Operations and Maintenance ("O&M") expenditures for the period.
- Schedule AE-4A reflects CCR recoverable O&M expenditure variance explanations for the period.
- Schedule AE-6 reflects actual/estimated monthly expenditures for site selection, preconstruction and construction costs for the period.

- Schedule AE-6A reflects descriptions of the major tasks.
- Schedule AE-6B reflects annual variance explanations.
- Schedule AE-7 reflects contracts executed in excess of $1.0 million.
- Schedule AE-7A reflects details pertaining to the contracts executed in excess of $1.0 million.
- Schedule AE-7B reflects contracts executed in excess of $250,000, yet less than $1.0 million.

Q. What are the Levy AE-Appendices A through F?

A. The Levy AE Appendices are:

- Appendix A reflects the reconciliation of the beginning balances on Schedules AE-2.2 thru AE-4.
- Appendix B reflects the new jurisdictional separation factors.
- Appendix C provides support for the 2012 deferred tax asset ("DTA") activity.
- Appendix D reflects the approved Rate Management amortization schedule through year end ("YE") 2012.
- Appendix E reflects the Schedule AE2.2 support.
- Appendix F reflects the reconciliation of the 2010/2011 Over / (Under) recovery by cost category.

Q. What are the CR3 Uprate Appendices associated with Schedules AE-1 through AE-6?

A. Information now contained in some of the listed schedules for the CR3 Uprate project are for 2013 ratemaking purposes only consistent with PEF's motion to defer and may not reflect anticipated spend. The CR3 Uprate Appendices associated with Schedules AE-1 through AE-6 are:

- Appendix A reflects the reconciliation of the beginning balances on Schedules AE-2.3 thru AE-4.
- Appendix B reflects the reconciliation of the beginning construction work in progress ("CWIP") balance for those assets placed into rate base that are not yet in service as detailed on AE-2.3.
- Appendix C reflects the new jurisdictional separation factors.
- Appendix D reflects the revenue requirement calculation adjustment for those assets not yet placed into service but which are currently collected in base rates.
- Appendix E reflects the reconciliation of the 2010/2011 Over / (Under) recovery by cost category.

Q. What are Schedules P-1 through P-8?

A. Information now contained in some of the listed schedules for the CR3 Uprate project are for 2013 ratemaking purposes only consistent with PEF's motion to defer and may not reflect anticipated spend. Schedules P-1 through P-8 are:

- Schedule P-1 reflects the projection of total retail revenue requirements for the period as well as true-ups for prior periods.
- Schedule P-2.2 reflects the calculation of the projected preconstruction costs for the period.
- Schedule P-2.3 reflects the calculation of the projected carrying costs on construction expenditures for the period.

- Schedule P-3A reflects a calculation of the projected deferred tax carrying costs for the period.
- Schedule P-3B reflects the calculation of the projected construction period interest for the period.
- Schedule P-4 reflects CCRC recoverable O&M expenditures for the period.
- Schedule P-6 reflects projected monthly expenditures for site selection, preconstruction and construction costs for the period.
- Schedule P-6A reflects descriptions of the major tasks.
- Schedule P-7 reflects contracts executed in excess of $1.0 million.
- Schedule P-7A reflects details pertaining to the contracts executed in excess of $1.0 million.
- Schedule P-7B reflects contracts executed in excess of $250,000, yet less than $1.0 million.
- Schedule P-8 reflects the estimated rate impact.

Q. What are the Levy Appendices associated with Schedules P-1 through P-8?

A. The Levy Appendices associated with Schedules P-1 through P-8 are:

- Appendix A reflects the reconciliation of the beginning balance of Schedule P-1 through P-4.
- Appendix B reflects the new jurisdictional separation factors.
- Appendix C reflects the allocation of revenue requirements to cost category and the rate management plan amortization schedule of the 2010 Regulatory Asset.

- Appendix D reflects the reconciliation of the 2012 Over / (Under) recovery by cost category.
- Appendix E reflects the Schedule P-2.2 support and disposition of the remaining 2010 regulatory asset.

Q. What are the CR3 Uprate Appendices associated with Schedules P-1 through P-8?

A. Information now contained in some of the listed schedules for the CR3 Uprate project are for 2013 ratemaking purposes only consistent with PEF's motion to defer and may not reflect anticipated spend. The CR3 Uprate Appendices associated with Schedules P-1 through P-8 are:

- Appendix A reflects the reconciliation of the beginning balances for schedules P-2 through P-4.
- Appendix B reflects the reconciliation of the 2011/2012 Over / (Under) recovery by cost category.
- Appendix C reflects the new jurisdictional separation factors.
- Appendix D reflects the revenue requirement calculation adjustment for those assets not yet placed into service but which are currently collected in base rates, supports dollar amounts in Line 5 of schedule P-1.
- Appendix E supports the Construction CWIP Balance, DTA and Construction Period Interest ("CPI") impacts.

Q. What are Schedules TOR-1 through TOR-7?

A. Schedules TOR-1 through TOR-7 are:

- Schedule TOR-1 reflects the jurisdictional amounts used to calculate the final true up, projection, deferrals and recovery of deferrals.
- Schedule TOR-2 reflects a summary of the actual to date and projected costs for the duration of the project compared to what was originally filed.
- Schedule TOR-3 reflects the calculation of the actual to date and projected total NCRC retail revenue requirement for the duration of the project.
- Schedule TOR-4 reflects CCR recoverable actual to date and projected O&M expenditures.
- Schedule TOR-6 reflects actual to date and projected annual expenditures for site selection, preconstruction and construction costs for the duration of the project.
- Schedule TOR-6A reflects descriptions of the major tasks.
- Schedule TOR-7 reflects a summary of project cost.

III. COST RECOVERY FOR THE LEVY COUNTY NUCLEAR PROJECT

A. ACTUAL/ESTIMATED LNP COSTS

Q. What are the total projected revenue requirements for the LNP for the calendar year ended December 2012?

A. The total projected revenue requirements for the LNP are $62.3 million for the calendar year ended December 2012, as reflected on Schedule AE-1, page 2 of 2, Line 5. This amount includes $25.2 million in preconstruction costs, $16.7 million for the carrying costs on the construction cost balance, $1 million in recoverable O&M costs and the carrying costs on the deferred tax asset of $19.5 million. These amounts were calculated in accordance with the provisions of Rule 25-6.0423, F.A.C.

Q. What is the carrying cost rate used in Schedules AE-2.1 through AE-2.3?

A. The carrying cost rate used on Schedule AE-2 through AE-2.3 is 8.848 percent. On a pre-tax basis, the rate is 13.13 percent. This rate represents the approved rate as of June 12, 2007, and is the appropriate rate to use consistent with Rule 25-6.0423(5)(b), F.A.C. The rate was approved by the Commission in Order No. PSC-05-0945-S-EI in Docket No. 050078-EI. The annual rate was adjusted to a monthly rate consistent with the Allowance for Funds Used During Construction ("AFUDC") rule, Rule 25-6.0141, Item (3), F.A.C.

Q. What is included in the Preconstruction Plant & Carrying Cost for the Period on Schedule AE-2.2, Line 10?

A. The annual total of $25.2 million reflected on Schedule AE-2.2, Line 10, page 2 of 2 represents the total preconstruction costs for 2012. This amount includes expenditures totaling $12.8 million along with the carrying cost on the average net unamortized plant eligible for return. The total return requirements of $12.3 million presented on Line 9 represents the carrying costs on the average preconstruction balance.

Q. What is included in the Actual Estimated Carrying Costs for the Period on Schedule AE-2.3, Line 9?

A. The total return requirements of $16.7 million on Schedule AE-2.3 at Line 9 represents carrying costs on the average construction balance. The schedule starts with the 2012 beginning CWIP balance and adds the monthly construction expenditures and computes a return on the average monthly balance. The equity component of the return is grossed up for taxes to cover the income taxes that will need to be paid upon recovery in rates.

Q. What is included in Total Return Requirements on Schedule AE-3A.2, Line 12?

A. The twelve month total of $19.5 million on Schedule AE-3A.2, Line 12, page 2 of 2 represents the carrying costs on the deferred tax asset balance. The deferred tax asset arises from the difference between the book and tax basis for the project. This difference is due primarily to the recovery of preconstruction and site selection costs prior to the plant going into service for tax purposes.

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

A. The expenses included on this schedule represent the O&M costs that the Company expects to incur in 2012 related to the LNP that PEF is seeking recovery of through the NCRC.

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

A. The schedule provides explanations for the change in O&M costs from what the Company projected to incur in 2012 and the actual/estimated costs related to the LNP that PEF is seeking recovery of through the NCRC.

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

A. Schedule AE-6 reflects actual/estimated monthly expenditures for site selection, preconstruction, and construction costs by major task for 2012. This schedule includes both the Generation and Transmission costs. These costs have been adjusted to a cash basis for purposes of calculation of the carrying costs. We have also applied the appropriate jurisdictional separation factor to arrive at the total jurisdictional costs. These costs are further described in the testimony of Mr. Elnitsky.

Q. What are the total actual/estimated preconstruction costs for the period January 2012 through December 2012?

A. As shown on Line 29 of Schedule AE-6.2 in Exhibit No.___(TGF-1), total actual/estimated jurisdictional preconstruction costs for 2012 are $12.8 million. The costs have been adjusted to a cash basis for purposes of calculating the carrying charge and the appropriate jurisdictional separation factor has been applied. More information about the types of costs included in this amount is indicated on Schedule AE-6A.2 and addressed in Mr. Elnitsky's testimony.

Q. What are the total actual/estimated construction costs for the period January 2012 through December 2012?

A. As shown on Line 33 of Schedule AE-6.3 in Exhibit No.___(TGF-1), total actual/estimated jurisdictional construction costs for 2012 are $8.6 million. The costs have been adjusted to a cash basis for purposes of calculating the carrying charge and the appropriate jurisdictional separation factor has been applied. More information about the types of costs included in this amount is indicated on Schedule AE-6A.3 and addressed in Mr. Elnitsky's testimony.

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

A. The jurisdictional separation factors are calculated based on the September 2011 sales forecast for the year of 2012, using the Retail Jurisdictional Cost of Service allocation methodology that was approved in the Final Order No. PSC-10-0131-FOF-EI in PEF's base rate proceeding in Docket No. 090079-EI.

Q. What is the estimated true-up for 2012 expected to be?

A. The total true-up is expected to be an over-recovery of $13.0 million as can be seen on Line 7 of Schedule AE-1.

B. LNP COST PROJECTIONS

Q. What is included in the projected period Revenue Requirements for 2013?

A. The period revenue requirements of $40.3 million in 2013 as depicted on Schedule P-1, Line 5 includes period preconstruction costs of $25 million, carrying costs on construction cost balance of $14.3 million and O&M expenditures of $1.0 million.

Q. What is included in the Total Costs to be Recovered on Schedule P-2.2 Line 10?

A. The $25 million included on Line 10, page 2 of 2 includes the total projected preconstruction costs of $17.2 million and carrying costs on the average unamortized preconstruction balance for 2013 of $7.8 million.

Q. What is included in the Total Return Requirements on Schedule P-2.3, Line 9?

A. The Total Return Requirements of $14.3 million depicted on this schedule represents carrying costs on the average construction balance. The schedule starts with the 2013 beginning balance and adds the monthly construction expenditures and computes the carrying charge on the average monthly balance. The equity component of the return is grossed up for taxes to cover the income taxes that will be paid upon recovery in rates. The LNP balance of land at year end 2012 was removed from the NCRC and reclassified to FERC Account 105 Plant Held for Future Use on PEF's books pursuant to the terms of the Stipulation and Settlement Agreement (the "Settlement") approved by the Commission in Docket No. 120022-EI. See Exhibit 5 to the Settlement.

Q. What is the carrying cost rate used in Schedule P-2.2 and P-2.3?

A. The carrying cost rate used on Schedule P-2.2 and P-2.3 is 8.848 percent. On a pre-tax basis, the rate is 13.13 percent. This rate represents the approved rate as of June 12, 2007, and is the appropriate rate to use consistent with Rule 25-6.0423(5)(b)1, F.A.C. The rate was approved by the Commission in Order No.

PSC-05-0945-S-EI in Docket No. 050078-EI. The annual rate was adjusted to a monthly rate consistent with AFUDC rule, Rule 25-6.0141, Item (3), F.A.C.

Q. Why is Schedule P-3A.2 not used for purposes of calculating the revenue requirement in 2013?

A. Pursuant to the terms of the Settlement, "[c]oncurrent with the adjustment of the LNP NCRC factor, PEF shall, effective with the first billing cycle in January 2013, transfer its collection of the annual retail revenue requirements associated with the carrying costs on the deferred tax asset in the amount reflected in Exhibit 6 from the NCRC to base rates." Settlement, ¶4, p. 4. As such, PEF is not requesting recovery of the carrying cost on the DTA through the NCRC over the Settlement term.

Q. What is the total projected preconstruction costs that will be incurred for the period January 2013 through December 2013?

A. As shown on Line 29 of Schedule P-6.2 in Exhibit No.___(TGF-2), total projected jurisdictional preconstruction costs for 2013 are $17.2 million. The costs have been adjusted to a cash basis for purposes of calculating the carrying charge and the appropriate jurisdictional separation factor has been applied. More information about the types of costs included in this amount is indicated on Schedule P-6A.2 and addressed in Mr. Elnitsky's testimony.

Q. What is the total projected construction costs that will be incurred for the period January 2013 through December 2013?

A. As shown on Line 35 of Schedule P-6.3 in Exhibit No.___(TGF-2), total projected jurisdictional construction costs for 2013 are $78.7 million. The costs have been adjusted to a cash basis for purposes of calculating the carrying charge and the appropriate jurisdictional separation factor has been applied. More information about the types of costs included in this amount is indicated on Schedule P-6A.3 and addressed in Mr. Elnitsky's testimony.

Q. What are the projected total revenue requirements that PEF will recover in 2013?

A. PEF is requesting recovery consistent with the terms of the Settlement. This means PEF will recover revenues consistent with application of the factors in Exhibit 5 of the Settlement to the sales forecast as presented in the CCR later in the year. Consistent with prior year, PEF has an estimate of what this will be but it will be updated when PEF files for recovery of CCR. PEF calculated the estimated revenue requirement by applying the rates in Exhibit 5 of the Settlement to the sales forecast included in Schedule P-8 of Exhibit TGF-2 to generate the projected revenue for 2013. As can be seen in schedule P-8 in column 2, this amount is $102.8 million. This amount is further reflected on Schedule P-1 Line 10.

Q. What do the above recoveries consist of?

A. As stated above, per the terms of the Settlement PEF projects to collect $102.8M in 2013. The revenue include dollars associated with carrying costs on uncollected preconstruction costs, carrying costs on construction costs, prior period over/under recoveries, O&M, current period preconstruction costs, and prior period preconstruction costs. In order to effectively track different cost categories and for ease of administration, PEF will apply the agreed upon collection amount to the various costs in the following manner:

- First to recovery of carrying costs on any regulatory assets, unamortized preconstruction costs, or construction cost balances,
- Second to any prior period over/under recovery,
- Third to O&M costs,
- Fourth to current period preconstruction investment,
- Fifth to prior period unrecovered preconstruction costs and
- Sixth to construction cost investment.

Please see Appendix C of Exhibit No.___(TGF-2) for the breakdown of how the $102.8M will be applied. Because there is a defined set of rates and we know the sales forecast will be updated prior to filing in the CCR, there will be some difference between the revenue requirements estimated in my Exhibits and the final approved revenue requirements in CCR. To the extent there are differences, the difference will be applied to the last bucket of costs we are assigning revenue to which in this case would be the preconstruction balance from prior to 2013 (unrecovered regulatory asset balance). For example, if after updating the sales forecast in CCR the revenue to be collected under the rates specified in the Settlement increased by $1 million, we would apply that million to reduce the unrecovered preconstruction regulatory asset balance. If it came in $1 million lower, we would reduce the regulatory asset balance by $1 million less than shown in my exhibits in 2013.

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

A. The factors are consistent with Exhibit 1 to the Settlement.

Q. What is the rate impact to the residential ratepayer in 2013?

A. The residential rate impact due to the LNP will be $3.45/1,000kWh. See Settlement, ¶ 4. This can be seen in Exhibit TGF-2 schedule P-8.

C. LNP TRUE-UP TO ORIGINAL

Q. What do the TOR schedules reflect?

A. The TOR schedules reflect the total estimated costs of the LNP until the project is placed into service. Further details on the total project estimates are provided in Mr. Elnitsky's testimony.

D. LNP RATE MANAGEMENT PLAN

Q. In Order No. PSC-09-0783-FOF-EI in Docket No. 090009-EI, the Commission required PEF to update its rate management plan that the Commission approved in that Docket. What is PEF proposing in this Docket in relation to this plan?

A. In Order No. PSC-11-0547-FOF-EI, in Docket No. 110009-EI, the Commission approved amortization of $60 million of the deferred balance in 2012. As previously discussed, the Settlement fixes the Levy NCRC rate for the period 2013-

2017 and provides for a true-up in the last year. As it relates to amortization of the previously deferred balance, PEF will reflect this amortization by applying the revenues in the manner I discussed above. Applying the revenues in this manner will result in PEF collecting an estimated $88 million of the deferred balance in 2013.

Q. Have you provided schedules that show the impact of this proposed amortization as well as an update to the overall plan?

A. Yes. As I explained, Appendix C attached to Exhibit No. ___ (TGF-2) provides an overview of PEF's methodology used to allocate the 2013 revenue requirement resulting from the Settlement and the resulting updated rate management plan.

IV. COST RECOVERY FOR THE CRYSTAL RIVER 3 UPRATE PROJECT

A. ACTUAL/ESTIMATED CR3 UPRATE PROJECT COSTS

Q. What are the actual/estimated revenue requirements for the CR3 Uprate project for the 2012 calendar year?

A. Consistent with PEF's motion to defer, the estimated total revenue requirements for the CR3 Uprate project are $15.8 million for 2012 as reflected on Schedule AE-1, page 2 of 2, Line 6. This amount includes $18.3 million in carrying costs on the project construction balance, $0.0 million for CCR recoverable O&M expenses, a return on the deferred asset of $0.8 million, and a $3.2 million credit for revenue requirements associated with assets going into service. These amounts were calculated in accordance with the provisions of Rule 25-6.0423, F.A.C.

Q. What does the credit within the Other Adjustment on Line 5 of Schedule AE-1 represent?

A. The credit from January through December on Line 5 of Schedule AE-1 consists primarily of the depreciation and property tax expense calculated on the phase 2 Uprate project assets transferred to base rates, but not yet placed in service due to the extended CR3 outage. As a result of the continued CR3 outage, PEF is reflecting the extension of this credit through 2012.

Q. What is the carrying cost rate used in Schedule AE-2.3?

A. The carrying cost rate used on Schedule AE-2.3 is 8.848 percent. On a pre-tax basis, the rate is 13.13 percent. This rate represents the approved rate as of June 12, 2007, and is the appropriate rate to use consistent with Rule 25-6.0423(5)(b)1, F.A.C. The rate was approved by the Commission in Order No. PSC-05-0945-S-EI in Docket No. 050078-EI. The annual rate was adjusted to a monthly rate consistent with the AFUDC rule, Rule 25-6.0141, Item (3), F.A.C.

Q. What is included in the Total Return Requirements on Schedule AE-2.3, Line 10?

A. Consistent with PEF's motion to defer, the $18.3 million in Total Return Requirements in Schedule AE-2.3 represents the carrying costs on the average construction project balance. The dollars reflected on Line 2 reflect the removal of assets placed in service. The adjustments on Line 3 represent the amounts of Balance of Plant that will go in service when CR3 comes on-line. The Beginning Balance amount on Line 5 reflects the actual amount of construction carrying costs that were under-recovered at the end of 2011. Line 6 represents the estimated amount of carrying costs that PEF expected to be unrecovered at the end of 2011.

Q. Can you explain the calculation of the return requirements on the Deferred Tax Asset on Schedule AE-3A, Line 12?

A. Yes. We have included a return on the DTA that arises from differences between the tax basis and book basis of the project. The difference between the tax basis and book basis of the project is attributable to the difference between the interest that will be capitalized for tax purposes and the interest that will be capitalized for book purposes. We have included the carrying charge on the average deferred tax balance in the revenue requirements on this schedule.

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

A. Based on PEF's motion to defer, PEF has removed all anticipatory spend for 2013 ratemaking purposes. The amount shown in Schedule AE-4 is a charge to ratepayers due to an under-recovery of O&M related expenses from prior periods.

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

A. Schedule AE-6 reflects actual/estimated monthly expenditures for construction costs for 2012. Consistent with PEF's motion to defer, for 2013 ratemaking purposes, PEF is not reflecting any spend in 2012 on this schedule as the reasonableness of those costs is not being considered in this docket and they are, therefore, not being included in setting 2013 rates.

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

A. The jurisdictional separation factors are calculated based on the September 2011 sales forecast for the year 2012, using the Retail Jurisdictional Cost of Service allocation methodology that was approved in the Final Order No. PSC-10-0131-FOF-EI in PEF's base rate proceeding in Docket No. 090079-EI.

Q. What are the total actual/estimated construction costs incurred for period January 2012 through December 2012?

A. Consistent with PEF's motion to defer, total capital expenditures for 2012 excluding carrying costs are not being considered for reasonableness in this docket and, therefore, they are not being included for ratemaking purposes. As such, PEF is not presenting any actual/estimated capital spend in 2012 in this docket.

Q. What is the estimated true-up for 2012 expected to be?

A. Consistent with PEF's motion to defer, and as shown on Schedule AE-1 Line 8 of Exhibit No.___(TGF-4), the total true up is expected to be an under-recovery of $6.2 million.

B. CR3 UPRATE PROJECT COST PROJECTION

Q. What are the total projected revenue requirements for the CR3 Uprate project for the calendar year 2013?

A. Consistent with PEF's motion to defer, PEF is requesting approval of total projected revenue requirements of $30.3 million for the calendar year ending December 2013 as reflected on Schedule P-1, Line 6. The total revenue requirements to be collected in 2013 are $40 million and include the $30.3 million referenced above as well as the 2011 true-up and 2012 estimated actual true-up of $9.7 million under-recovery.

Q. What is included in the revenue requirements for 2013?

A. Consistent with PEF's motion to defer, the revenue requirements for the 2013 period of $30.3 million reflected on Line 6 of Schedule P-1 include $28.4 million for carrying charges on the cumulative construction balance, $0.0 million in CCR recoverable O&M expenses, and $2 million for the carrying charges on the deferred tax asset.

Q. What is included in the Total Return Requirements on Schedule P-2.3, Line 9?

A. Consistent with PEF's motion to defer, the $28.4 million in Total Return Requirements on Schedule P-2.3 represents the carrying costs on the average construction project balance. The average construction project balance includes all Uprate investment that has not been placed in-service.

Q. What is the carrying cost rate used in Schedule P-2.3?

A. The carrying cost rate used on Schedule P-2.3 is 8.848 percent. On a pre-tax basis, the rate is 13.13 percent. This rate represents the approved rate as of June 12, 2007, and is the appropriate rate to use consistent with Rule 25-6.0423(5)(b)1, F.A.C. The rate was approved by the Commission in Order No. PSC-05-0945-S-EI in Docket No. 050078-EI. The annual rate was adjusted to a monthly rate consistent with the AFUDC rule, Rule 25-6.0141, Item (3), F.A.C.

Q. Can you explain the calculation of the return requirements on the Deferred Tax Asset on Schedule P3-A, Line 11?

A. Yes. We have included a return on the deferred tax asset that arises from differences between the tax basis and book basis of the project. The difference between the tax basis and book basis of the project is attributable to the difference between the interest that will be capitalized for tax purposes and the interest that will be capitalized for book purposes. The balance CPI is being calculated on includes all Uprate investment that has not been placed in-service. We have included the carrying charge on the average deferred tax balance in the revenue requirements on this schedule.

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

A. Based on PEF's motion to defer, PEF has removed all anticipated spend for 2013 ratemaking purposes. The amount shown in Schedule P-4 is a charge to ratepayers due to an under-recovery of O&M related expenses from prior periods.

Q. What are the projected construction costs that will be incurred for the period January 2013 through December 2013?

A. Consistent with PEF's motion to defer, total capital expenditures for 2013 excluding carrying costs are not being considered for reasonableness in this docket and, therefore, they are not included for ratemaking purposes. As such, PEF is not presenting any projected capital spend in 2013 in this docket.

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

A. The factors are consistent with Exhibit 1 to the Settlement.

Q. What is the estimated rate impact to the residential ratepayer expected to be in 2013?

A. Consistent with PEF's motion to defer, as can be seen in Schedule P-8, the expected rate impact to the residential ratepayer is $1.34 per 1,000 kWh for the CR3 Uprate project.

C. CR3 UPRATE PROJECT TRUE-UP TO ORIGINAL

Q. What do the TOR schedules reflect?

A. Consistent with PEF's motion to defer, PEF has not updated these estimates with any material changes since the April 30, 2012 filings. These schedules will be updated in the 2013 NCRC docket as more information is known about CR3.

Q. Does this conclude your testimony?

A. Yes, it does.

BY MS. GAMBA:

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

A Yes, I do. Thank you.

Q Will you please provide that summary for the Commission?

A Yes. And good morning, Commissioners.

My direct testimony presents PEF's actual estimated 2012 and projected 2013 costs for the Levy Nuclear Project for Commission review and approval.

With regard to the Crystal River Unit 3 uprate project, PEF filed a motion to defer the determination of the reasonableness of the 2012 and 2013 projected costs on the CR3 uprate project until the 2013 nuclear cost recovery docket. This motion was granted by the Commission on September 5, 2012.

As a result, my revised September 7, 2012, direct testimony presents for Commission approval -- for Commission approval PEF's revenue requirements associated with PEF's spend prior to 2012 on the CR3 uprate project.

My testimony also describes and supports the total estimated revenue requirement for the LNP and CR3 uprate project for the purpose of setting 2013 rates in the capacity cost recovery clause.

I'm available to answer any questions related to my testimony. Thank you.

MS. GAMBA: We would tender Mr. Foster at this time for cross-examination.

CHAIRMAN BRISÉ: All right. OPC?

MR. REHWINKEL: Thank you, Mr. Chairman.

I have, before I start my questioning, I want to let the Commission know I usually don't do discovery during the hearing. I like to ask yes or no questions.

I intend to ask a few questions of Mr. Foster to go through some of the documents in the exhibits that he has filed for purposes of identifying the dollars that have been taken out of the request based on the motion to defer, and if I could just get a little leeway.

I don't intend to take a lot of time doing it, but I need to take the witness through, through the information to show what is out and, and ask a few questions along that line.

I have passed out, for efficiency's sake, I hope -- I mean, I've asked, I'm going to ask the staff to distribute an exhibit that will not -- you can give it a number, if you like, but it does not need to go into the record, because it contains schedules that will be part of what is already in the record. And this is --

CHAIRMAN BRISÉ: So we'll mark it for identification purposes.

MR. REHWINKEL: Okay.

CHAIRMAN BRISÉ: It'll be 121.

(Exhibit 121 marked for identification.)

MR. REHWINKEL: And it is WGT, TGF-4 -- WG-2, TGF-4, and TGF-5 schedule, and these are excerpts, of course.

And, Mr. Chairman, if I could ask staff also, I should have asked if, if the, the document that I mentioned before we started with the witnesses, the PEF response to staff's first data request, if that could be distributed as well.

CHAIRMAN BRISÉ: Did you desire to have that marked?

MR. REHWINKEL: Yes. This one probably should be given a number.

CHAIRMAN BRISÉ: Okay. This would be 122.

MR. REHWINKEL: Okay.

(Exhibit 122 marked for identification.)

CROSS EXAMINATION

BY MR. REHWINKEL:

Q Good morning, Mr. Foster.

A Good morning, Mr. Rehwinkel.

Q Are you familiar, first of all, with the schedules, the excerpts from the schedules that I've attached to Exhibit 121?

A I'm familiar -- obviously the ones that I've sponsored I'm very familiar with.

Q Yes.

A And then I, I notice we've got some from WG-2. I'm generally familiar with those.

Q Okay. These are in a similar format, but these are Mr. Garrett's actuals in his, from his March testimony. Is that the way you understand it?

A Yes, sir.

Q Okay. And also, are you familiar with Exhibit 122, which is the data request response to staff data request number 1?

A Yes, sir, I am.

Q Okay. And just so, let's turn to 122, first of all, which is the data request response. Would it be fair to say that this data request response is the roadmap to showing what the revenue requirements are for Crystal River for 2011, after removing 2012 and 2013, pursuant to the motion to defer?

A No, but close.

Q Okay.

A There are other revenue -- there are other --

there's spend prior to 2011 in there too.

Q Okay.

A So it's, if you were to say it's kind of a roadmap showing the 2013 revenue requirements based on spend prior to the end of 2011, I think that would be accurate.

Q Okay. Fair enough. So if I could get you to go to Bates numbered 00046 of 122.

A Oh, last page.

Q Okay. Do you see -- are you there?

A Yes, I'm there. Thank you.

Q And this is also the same as Attachment A to the motion to defer; is that right?

A Yes.

Q Okay. And just so we understand what this document is, it explains, it illustrates in numerical form what you just described to me, the spend that is for Commission approval through the end of 2011; is that right?

A The revenue requirements on that spend, yes, sir.

Q That's correct, yes. So it -- so what we have here is in the April 30 column your original ask for revenue requirements for the 2013 billing cycle was $49,005,381; is that right?

A Yes.

Q Okay. And then what you are now asking for is $40,062,500; right?

A Yes.

Q Okay. And so the resulting reduction in revenue requirements is, is shown in the change column; correct?

A Yes, sir.

Q Okay. So let's go back to the April 30th column. You have -- you're showing here carrying costs on additions, and these are construction additions; correct?

A Yes, sir.

Q All right. And that's $34.756 million?

A Yes.

Q So now, in the adjusted revenue requirement column, the carrying costs on additions, on construction additions is $28,401,000; right?

A Approximately, yes.

Q Yes. Okay. And then the same would go for the carrying costs on the deferred taxes. You originally asked for 2.069 million. Now it's 1.951,664 million; right?

A Yes.

Q Okay. So my question to you is, can you explain why when you take two years of carrying costs for construction additions out, the reduction in revenue requirements for the carrying cost is, is only 6.355 million when all that is in is what we have called 2011. I know you said there are spends prior to 2011. Do you understand the gist of my question?

A I think so. I'll take a stab.

Q Yes.

A And then if I'm off track, you can rein me in.

So, sure, to, to your point, there is spend prior to 2011. So what we've done is in our schedules, and we've got this DR request had the actual estimated, which are the 2012, and then the projection schedules, and what we did is there's a Schedule 6 there that basically we zeroed out spend for '11 and '12.

And what happens is in the schedule 6, that's kind of your cap spend, and then it rolls into schedules where you calculate carrying costs. By not having it there it doesn't roll into the basis on which carrying costs are calculated.

I think, if you, if you were to look at as originally filed, you're talking about between '12 and '13, somewhere in the nature of $88 million in, in bases that would have been added had we not proposed this, this deferral.

What you need, what -- I shouldn't say what you need to realize. What's not maybe apparent is that so in '12 we had projected spend of about $30 million, but it doesn't all go in on January. So it's not, it's not as if you're getting two years of, of deferral benefit. It's really after it would have occurred otherwise.

And I believe in both '12 and '13 the spend was a little more weighted towards the end of the year. Definitely in '13 it was. And then in '13 you had a little bigger chunk of projected spend that, again, it only calculates after you make the addition. So the additions were more heavily weighted towards the end of the year, so you're not getting -- you know, you only defer it from where it was projected to be. So it's not as if you're getting two years of deferral, two full years of deferral on two years of spend.

And I guess on '11 it's almost the opposite is true. That spend, because it was deferred out of the 2012 rates, there have never been carrying costs placed on that spend. So really when that gets embedded in our rates, it's for 2011, '12, and '13 is how it flows.

Q Okay.

A Did I get at it, Mr. Rehwinkel or --

Q Yes. And let me -- let's, let's take a little bit closer look at, at that.

If you go down -- we essentially covered the big items, and let's go back to the April 30th column of this page 46. Okay? So we covered the 34.7 million of carrying costs on additions, and then the deferred tax carrying costs. You have some O&M that the statute allows you to recover; right?

A Yes, sir.

Q And that would be O&M for '11.

A Yes. That 173 is specifically an under-recovery --

Q Okay.

A -- from prior periods.

Q All right. So that's -- those amounts there with some other minor dollars totals to $37.3 million roughly; right?

A Yes, sir.

Q Okay. Then you had $11,674,317 of prior period true-up provisions; is that right?

A Yes, sir.

Q And could you describe what that refers to?

A Sure. That basically trues up, for '13 you're truing up your '11 and '12 revenue requirements. So basically, you know, obviously we do our best to project and estimate our costs. Baked into '12, which is part of this 11-point, I'm going to say approximately 11.7 million, would be the deferral from last year. So we projected no spend in '12 due to the deferral. And so there is an under-recovery that you are kind of baking into rates that naturally occurs with that.

Q Okay. Let's go to page 41 of this data request response.

A Yes, sir.

Q All right. So put your thumb on 41, and let's go back to 46 though. I want to ask you about a number on, on 46. If I look in the adjusted revenue requirements column, we've already talked about what remains for carrying costs associated with the spend through 12/31/11; right? That's the deferred tax carrying costs and the carrying costs on additions; correct?

A Yes, sir.

Q All right. We go down here below and there's 9,684,269. Do you see that?

A Yes, sir.

Q Okay. That's the carrying costs that, that are related to the, the periods where you've had carrying costs associated with these expenditures but no cost recovery, including '12, '11 and '12; is that right?

A So it's the under-recovery for '11 and '12. And, yes, embedded in there would be anything that we didn't recover.

Q Okay. So if you go back to 41, we see at the very bottom, in the, in the last section there that 9,684,269, and there are two components of that that are detailed in this section; is that right?

A Yes, sir.

Q So you have a 2011 under-recovery of 3,498,125, and that is shown in Mr. Garrett's schedule, correct, his WGT schedule?

A Yes. Yes, sir.

Q Okay. And then the, there is a $6.2 million roughly of 2012 estimated under-recovery. Do you see that?

A Yes, sir.

Q Could you tell me what that relates to? And that's, that's shown, I guess, at the front of the data request response. The TGF-1 schedule is not your TGF-1 that's filed in your testimony. It's the TGF-1 that was done specifically for this data request?

A Right.

Q Okay. So that, that number is shown on page 4 of the data request; is that right?

A Yes, sir.

Q That's how this is -- now, it's shown in 2012, but it doesn't, it's not a 2012 spend item. It is a true-up for 2011 and prior expenditures; correct? It was, it was to be recovered in '12, but it wasn't because there was a deferral; is that, is that correct?

A That would be my expectation. It's not based on 2012 spend. I would agree with that --

Q Okay.

A -- because we've -- again, if you go through the schedules, you can see we've included no, no additions.

Q Okay. So this is purely a true-up from prior periods that was to be recovered in '12, but is now being recovered in '13; is that right?

A I believe that's correct.

Q Okay.

A I haven't thought about it in that way, so, but I can, I can say that it's not due to having projected spend for '12 and projecting carrying costs on that spend in '12.

Q Okay. So if you could now turn, put that aside for a second and turn to 121.

A Yes, sir.

Q And if I could get you to turn, I'm in the WGT schedules, which are the first four pages of this exhibit, and get you to turn to WGT-2, Schedule T-6.3, which at the bottom says 15 of 36. Do you see that?

A Yes. I'm there.

Q Okay. In the column N, which is the 12-month total column, I see in line 12 a total system generation construction cost additions of 49,049,270. Do you see that?

A Yes.

Q And then after making the appropriate adjustments for, to put it on a cash basis and to assign it to joint owners and then to jurisdictionalize it, the jurisdictional construction additions for 2011 is $43.648 million; is that right?

A Yes, sir.

Q And that's the actual that the company spent for 2011; correct?

A Yes.

Q Okay. Now, if I could get you to turn to Schedule AE6.3, and this is one of your schedules, and at the bottom it says page 14 of 50.

A I'm there.

Q This is the 2012. This is, this shows in column 0, line 19, you see 30,124,279. Do you see that?

A Yes. Yes, sir.

Q Okay. And the same kind of math that we went through, that is the result of, that's, that results from the $51.5 million number that's on line 12 of the same column; right?

A Yes.

Q Okay. And this is the amount that you estimate that you will spend in 2012; right?

A That was our estimate, yes.

Q Right. And then, likewise, if I could get you to turn one more over, if I can get you to go to the last two -- well, to P-2.3 for 2013, page 6 of 47.

A I'm there.

Q This is a little bit different format. It's not the same detail. But if I look in column 0, line 1, there's 57.990 million. Do you see that?

A Uh-huh. Yes, sir.

Q Okay.

A And the same format as we looked at the last two pages back, if that's helpful.

Q Oh, yeah. I'm sorry. Let's go to that last page there. That puts it on the same basis we've been looking at. This is 14 of 47, and this is P6.3, and this is your projections for 2013. And this shows that same 57.990 million, and it is derived from 110 million that's in line 12.

A Yes, sir.

Q Okay. So we had 2012 amount of 30.1 million and for 2013 an amount of 57.9 million, and together those roughly total 88, 88 million; right?

A Yes, sir.

Q Okay. So that 88 million are the estimated and projected construction additions for 2012 and 2013 that are the basis for the carrying costs that, that were removed --

A Yes, sir.

Q -- from revenue requirements. And the carrying costs for those dollars are included in the 6.355 million that is shown on page 46 of that data request; is that right?

A Say that number one more time.

Q 6,335,793, and the deferred tax piece is $118,312.

A Yes, sir. That's the result of those deferrals. Yes, sir.

Q Okay. So that's the reason I asked you the question about you have $43 million related to 2011, and that generates the carrying costs that are shown in the adjusted revenue requirements column, and you have $88 million for '12 and '13, and the resulting carrying costs that are shown in the change column here. And your explanation about the timing is why those revenue requirements that are associated are intuitively disproportionate. Do you understand my question?

A Yes. Yes. I mean, that's right. It's a small period of time that they're being deferred for.

Q Okay. Now, I have not -- your counsel served on us the revisions to your TGF-4 and 5. Those revisions are consistent with what we went through in the DR-1; is that right?

A Yes, sir. Yes, sir.

Q They're basically the same numbers, just formatted a little differently in the data request response, but shown in your schedule on the same basis as you originally filed it but without that $88 million and the associated '12 and '13 O&M?

A Yes. Yes. Absolutely.

MR. REHWINKEL: Okay. If you could give me just a second, Mr. Chairman. I may be close to being done.

(Pause.)

Those are all the questions I have. Thank you.

Thank you, Mr. Foster.

CHAIRMAN BRISÉ: Thank you.

Mr. Brew?

MR. BREW: Thank you, Mr. Commissioner.

CROSS EXAMINATION

BY MR. BREW:

Q Good morning, Mr. Foster. Very briefly.

The September 7th revised testimony and exhibits that Mr. Rehwinkel just went through with you, was the sole purpose of that to make the conforming changes related to the motion to deferral that you just discussed?

A Yes. We did update my title as well, but other than that.

Q Other than that. But there are no other changes for any other purpose in any other exhibit?

A No, sir.

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

CHAIRMAN BRISÉ: All right. Mr. Moyle.

MR. MOYLE: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. MOYLE:

Q You provide testimony on costs both for Levy and for the Crystal River 3 update; correct?

A Yes, sir.

Q Or uprate. I'm sorry. And these questions, if you're not comfortable asking [sic] them, I can ask Mr. Lyash, but I think they're really designed just so that we have a, a clean record.

But as we sit here today, there has not yet been a decision by your company as to whether to repair or retire the Crystal River 3 nuclear unit; correct?

A My understanding is there hasn't, but that's something probably for Mr. Franke.

Q Okay. And in order for the CR3 uprate to work, you have to have an operating Crystal River 3 nuclear plant; correct?

A Yes.

Q Okay. So to stick with my analogy, new tires are not needed for a car that can't run. The same, the same reasoning would apply to the Crystal River 3 nuclear project, the work related to the uprate ultimately would not be necessary if the decision is made to retire the unit; correct?

MS. GAMBA: Objection. Lack of foundation.

CHAIRMAN BRISÉ: Mr. Moyle?

MR. MOYLE: I thought he established the foundation. He said that Crystal River 3 has to be working in order for the uprate to, to be applicable.

MS. GAMBA: Mr. Foster, as his testimony has specified, is here to present costs for Levy and the CR3 uprate project. He is not the witness on any other substance as far -- in that regard. So Mr. Foster is not the appropriate witness here.

CHAIRMAN BRISÉ: So you're saying this is beyond the scope of Mr. Foster's testimony?

MS. GAMBA: Yes. Precisely, Commissioner.

CHAIRMAN BRISÉ: Okay. Mr. Moyle?

MR. MOYLE: Okay. Well, who would you suggest is the appropriate witness?

MS. GAMBA: Mr. Franke.

CHAIRMAN BRISÉ: Okay. So if we could move on.

MR. MOYLE: Thank you.

BY MR. MOYLE:

Q The amount that you're requesting for the Levy, the current revenue requirements for the year 2011, I'm going to ask you questions on 2011 Levy as compared to the Crystal River 3 uprate project. But is it correct that you're asking for 62.3 million for the Levy revenue requirements for 2011? I have it on page 10, line 5.

A Of my revised, direct? I'm looking at my revised. I'm sorry. What did you --

Q Let me just ask you this way. What's the total projected revenue requirements for the nuclear -- for the Levy project that you're requesting?

A We're requesting revenue requirements for Levy consistent with the terms of the global settlement. So

I guess where it's different than in prior years is in prior years we went through and we did, okay, what are the true-ups that go into the, you know, for instance, last year, into 2012; what are the current period revenue requirements; and then how much are we going to amortize of the rate management plan?

Well, this year it kind of works backwards, right? Because we have a set rate per the settlement that's going to generate revenue requirements. So at the time my schedules were filed, that amount for 2013, for kind of all the true-ups, '11, '12, and then '13, came to be 102 point -- I better get it, make sure I get it exactly right.

Q Okay. So just help me though. You have -- do you have your direct testimony that, that you filed on, on August -- I'm sorry -- on April 30th, 2012?

A Yes, sir. Let me get to that, that version.

Q Okay.

A I'm there. What page, sir?

Q And on page 10, line 5, you were asked the question, What are the total projected revenue requirements for the LNP for the calendar year ended December 2012?

And you answered, The total projected revenue requirements for the LNP are 62.3 million for the calendar year ended 2012.

Is that right?

A Yes, sir, that's accurate. And I'm sorry if I misheard you earlier. I thought you said 2011. So if I looked a little confused, that may have been it.

Q Okay. Well, I may have been confused.

All right. And the Levy, Levy project is north of a thousand-megawatt nuclear project; correct?

A Yes.

Q All right. And, and to compare the amount that is set forth on your testimony for Levy for the year ending 2012 to the amount of money that you're seeking for the Crystal River 3 uprate project, are you aware of the position taken by Progress in the, in their prehearing statement with respect to the system and jurisdictional amounts that the Commission should approve as Progress's 2011 prudently incurred costs and final true-up amounts for the Crystal River Unit 3 uprate project?

This is issue number four -- I'm sorry -- 15, and it's found on page 45 of the Prehearing Order.

A Forgive me. I don't have the Prehearing Order in front of me. So if there is a copy I could get, that would be great.

Q I think your counsel will bring it to you.

A All right. And what page was it again, sir?
Q It's page 45, down at the bottom. Issue 45.
A Issue 15?
Q I'm sorry. 15.
A Okay. I'm there. So that's related to the 2011.
Q Right. And that's what you're seeking money for this year; right? That has not been deferred?
A A request generally is a determination of prudence on those dollars, yes, sir.
Q Okay. And so isn't it true that if you -- I mean, is your position accurate as reflected on here, that you're seeking 49 million in capital costs for the system and approximately half a million for O&M costs and 16 million for carrying costs? Are those, is that accurate?
A So, first, I'm not sponsoring testimony on 2011, so I don't -- this is something that Mr. Garrett would have sponsored those numbers.
Q But you don't have reason to disbelieve them?
A I do not have reason to disbelieve them, no.
Q Okay. So, so just so, looking at, at Levy vis-a-vis the Crystal River 3 uprate, the Crystal River 3 uprate, if it is done successfully, is 180 megawatts approximately if it's completed?

A Approximately, yes, sir.

Q Okay. And the monies that you're requesting for 2011, 66 million, according to my math, exceed the numbers that you're requesting for Levy in 2012 for the thousand-megawatt nuclear plant; is that right? If you can give me a yes or --

A I'm not sure. Let me answer I'm not sure, because I think the place in my testimony you directed me to, the 62.3 million, is a revenue requirement, and we're comparing it here to, I believe we're comparing it to the capital cost of the 49 million. So I think we may have a little bit of an apples and oranges thing going on. So I'm not sure whether you want to be focused on the capital or the revenue requirement.

Q Well, what's, what's the -- how much are you seeking from this Commission for 2011 costs that you're in saying these were prudent costs for the Crystal River 3 uprate, please approve them?

A Well, Issue 15 outlines our position there. Again, I don't sponsor those numbers, but I don't have any reason to believe they're inaccurate.

Q All right. So you -- when did the second delam occur in 2011?

MS. GAMBA: Objection. Outside the scope of this witness's testimony.

CHAIRMAN BRISÉ: Mr. Moyle?

MR. MOYLE: This witness, as I understand it, is asking, he's sponsoring testimony as to the costs that he's asking to be recovered related to the Crystal River 3 uprate project. You know, FIPUG is saying that the costs after the delam should not be included, so I don't know if -- I think it's a fair question for him. I can ask Mr. Lyash or Mr. Franke, if you'd prefer.

CHAIRMAN BRISÉ: And this was related to 2011?

MR. MOYLE: Yes, sir.

CHAIRMAN BRISÉ: I think this witness has stated that he does not deal with costs for 2011. So if you could ask another question.

BY MR. MOYLE:

Q The -- do you, you do have some testimony related to costs for 2011, do you not? Are you sponsoring any testimony related to the costs for 2011 for the Crystal River 3 uprate?

A No, I am not.

MR. MOYLE: Okay. All right. I'll move on with somebody else. Thank you. That's all I have.

CHAIRMAN BRISÉ: Thank you.

FEA.

LIEUTENANT COLONEL FIKE: FEA has no questions for this witness.

CHAIRMAN BRISÉ: Okay. SACE?

MR. WHITLOCK: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. WHITLOCK:

Q Good morning, Mr. Foster.

A Good morning.

Q Just quickly, try to see if I can clarify here, and I'm focused on Levy. You testified, I believe, that, page 10, line 5 of your direct testimony, the revenue requirements for the, for year ending 2012 was 60 -- 62.3 million for Levy; is that correct?

A Yes, sir.

Q Okay. And so for 2012 and 2013, what's the total amount of cost recovery that the company is seeking for Levy, adding in 2013 essentially?

A Right.

Q I think, I think you were about to answer that when Mr. Moyle asked you another question but never got there.

A So, and let me make, let me say it back, because I think -- I'm not sure I've got your question.

Q Sure.

A I think what you're -- are you asking what is, what is the revenue requirement we're requesting to recover in 2013?

Q 2012 and 2013, the total revenue requirement that the company is requesting for Levy.

A Okay. Well, at this time, 2012, as it states on page 10, the LNP revenue requirements are 62.3 million. Now, I'd just make clear that obviously we've had collections in 2012, so it won't all flow into 2013. And then I should have here the 2013.

Q I'm sorry. I don't have a reference for you.

A No, that's fine. I'm sure I can find it. The revenue requirements for the 2013 period are projected to be 40.3 million.

Q 40.3. So it would be accurate to say about 102, approximately $102 million in revenue requirements for 2012 and 2013?

A And these are estimates obviously, but yes.

MR. WHITLOCK: Sure. Thank you.

No further questions, Mr. Chair.

CHAIRMAN BRISÉ: All right. Thank you.

Mr. Wright?

MR. WRIGHT: No questions, Mr. Chairman. Thank you.

CHAIRMAN BRISÉ: All right. Staff?

MR. LAWSON: No questions. Thank you.

CHAIRMAN BRISÉ: Commissioners?

All right. Redirect?

MS. GAMBA: No redirect.

CHAIRMAN BRISÉ: All right. Thank you. Call your next witness.

MS. GAMBA: At this time we would ask --

CHAIRMAN BRISÉ: Oh, exhibits. Sorry.

MS. GAMBA: Oh, yeah. We would move into evidence Thomas G. Foster's exhibits TGF-1, TGF-2, TGF-3, TGF-4, TGF-5, and TGF-6. I believe those are on the Comprehensive Exhibit List as Exhibits 5, 6, 7, 8, and 9.

We would also ask, I'm not sure how staff wants to proceed, but that the revised exhibits TGF-4 revised and TGF-5 revised attached to the September 7th testimony also be moved into evidence, and we probably need numbers for those.

MR. LAWSON: Yes. We could just sort of identify the two that she indicated as new exhibits.

MS. GAMBA: The two new exhibits are revised TGF-4 and revised TGF-5 to Thomas G. Foster's September 7th, 2012, testimony.

CHAIRMAN BRISÉ: Okay. So TGF-4 would be 124, and TGF-5 would be 125, the revised.

MS. HELTON: Mr. Chairman?

CHAIRMAN BRISÉ: Yes.

MS. HELTON: I'm sorry. I was confused.

CHAIRMAN BRISÉ: Are we -- thank you. Are we to 7 -- I think 7 and 8 or something like that reflect that?

MR. LAWSON: Give us one second, please.

CHAIRMAN BRISÉ: Okay.

MR. LAWSON: Just a quick correction. When we checked the Comprehensive Exhibit List, we noticed that Exhibit Numbers 7 and 8 are marked revised, so I believe we need to swap what we just did and make 123 and 125 the, the full testimony, if we could just confirm that. I think we got our numbers mixed up.

MR. WHITLOCK: Mr. Chairman, I believe we might have skipped Exhibit 123, if that's helpful.

CHAIRMAN BRISÉ: Yes, we did. We did.

MS. GAMBA: However staff prefers to proceed in entering all of them is fine.

CHAIRMAN BRISÉ: All right. Just for, for my clarity, so what are we doing with Number 7 and Number 8?

MR. LAWSON: Number 7 and Number 8 shall be the revised testimony as currently marked on the Comprehensive Exhibit List, and then the 123 and 124 will be, will be TGF-4 and TGF-5, April 30th, that were submitted on April 30th.

CHAIRMAN BRISÉ: Okay. Okay. So 123 will be

TGF-4, submitted on April 30th, and 124 will be TGF-5, submitted on April 30th. Okay.

(Exhibits 123 and 124 marked for identification and admitted into the record.)

(Exhibits 5, 6, 7, 8, and 9 admitted into the record.)

MR. LAWSON: Thank you. Sorry about the confusion.

CHAIRMAN BRISÉ: No problem.

MR. REHWINKEL: If I could ask, but that is the revised -- did you say the revised is going to be 7 and 8?

MR. LAWSON: Yes.

MR. REHWINKEL: Got you. Okay. Thank you.

CHAIRMAN BRISÉ: Okay.

MR. REHWINKEL: And Public Counsel would move 121. I'm sorry. I apologize. 122, not 121.

CHAIRMAN BRISÉ: Okay. Perfect.

Any objections to 122? Okay. Seeing none, so we will move 122 into the record.

(Exhibit 122 admitted into the record.)

MR. REHWINKEL: And I want to thank staff for preparing that, facilitating. Thank you.

CHAIRMAN BRISÉ: Okay. Make sure that I got everything moved into the record appropriately. So we moved in 4, 5, was it 6? And then 123, 124.

(Exhibit 4 admitted into the record.)

MS. GAMBA: And also 7 and 8.

CHAIRMAN BRISÉ: Okay. 7, 8. And were we seeking to move in 9 at this point?

MS. GAMBA: Yes.

CHAIRMAN BRISÉ: Okay. So we're also moving 7, 8, and 9 into the record, along with 123 and 124. Okay?

All right. I think now we can call our next witness.

MS. GAMBA: Mr. Foster does not have any rebuttal testimony. We would ask that he be excused from the remainder of the proceeding.

CHAIRMAN BRISÉ: You don't want to stick around with us? You're excused.

THE WITNESS: Thank you.

CHAIRMAN BRISÉ: All right.

(Transcript continues in sequence in Volume 3.)

STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, LINDA BOLES, RPR, CRR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 17th day of September, 2012.

Linda Boles
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FPSC Official Commission Reporter
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