BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Nuclear Cost Recovery Clause

Docket No. 150009-EI
Submitted for Filing: March 2, 2015

DUKE ENERGY FLORIDA, INC.'S NOTICE OF FILING THE DIRECT TESTIMONY AND EXHIBITS OF CHRISTOPHER M. FALLON

Duke Energy Florida, Inc. ("DEF" or the "Company"), hereby gives notice of filing the Direct Testimony of Christopher M. Fallon with Exhibit Nos.__(CMF-1) through (CMF-6) (redacted versions) in support of DEF's Petition to Recover Costs of the Crystal River Unit 3 Uprate Project and The Levy Units 1 and 2 Nuclear Power Plant Project as Provided in Section 366.93, Florida Statutes, and Rule 25-6.0423, Florida Administrative Code.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY a true and correct copy of the foregoing has been furnished to counsel and parties of record as indicated below via electronic and U.S. Mail this 2nd day of March, 2015.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Nuclear Cost Recovery Clause	DOCKET NO. 150009-EI Submitted for filing: March 2, 2015

REDACTED

DIRECT TESTIMONY OF CHRISTOPHER M. FALLON
IN SUPPORT OF ACTUAL COSTS

ON BEHALF OF
DUKE ENERGY FLORIDA, INC.

IN RE: NUCLEAR COST RECOVERY CLAUSE

BY DUKE ENERGY FLORIDA, INC.

FPSC DOCKET NO. 150009-EI

DIRECT TESTIMONY OF CHRISTOPHER M. FALLON

I. INTRODUCTION AND QUALIFICATIONS.

Q. Please state your name and business address.

A. My name is Christopher M. Fallon. My business address is 526 South Church Street, Charlotte, North Carolina 28202.

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

A. I am employed by Duke Energy Corporation ("Duke Energy") as Vice President of Nuclear Development. Duke Energy Florida, Inc. ("DEF" or the "Company") is a fully owned subsidiary of Duke Energy.

Q. Please summarize your educational background and work experience.

A. I received Bachelor of Science and Master of Science degrees in electrical engineering from Clemson University in 1989 and 1990, respectively. I am also a registered professional engineer in North Carolina. I began my career with Duke Energy's predecessor company Duke Power in 1992 as a power quality engineer. After a series of promotions, I was named manager of transmission planning and engineering studies in 1999, general manager of asset strategy and planning in 2006, and the managing director of strategy and business planning for Duke Energy starting in 2007. In this role, I had responsibility for developing the

strategy for the company's operating utilities; commercial support for operating utility activities such as acquisition of generation assets and overseeing Requests for Proposals for renewable generation resources; and major project/initiative business case analysis. In 2009, I was named Vice President, Office of Nuclear Development for Duke Energy. In that role, I was responsible for furthering the development of new nuclear generation in the Carolinas and Midwest. This included identifying and developing nuclear partnership opportunities, as well as integrating and advancing Duke Energy's plans for the proposed Lee Nuclear Station in Cherokee County, South Carolina. I was promoted to my current position on July 1, 2012. As Vice President of Nuclear Development, I am responsible for the Levy nuclear power plant project ("LNP").

II. PURPOSE AND SUMMARY OF TESTIMONY.

Q. What is the purpose of your direct testimony?

A. My direct testimony supports DEF's request for cost recovery for the LNP actual costs in 2014. These costs were incurred for the LNP wind-down following DEF's decision not to proceed with construction of the LNP in summer 2013 and DEF's termination of the Engineering, Procurement, and Construction ("EPC") Agreement with Westinghouse Electric Company LLC ("WEC") and Stone & Webster, Inc. ("S&W") (together the "Consortium") in January 2014. DEF is seeking a prudence determination for (1) the Company's LNP wind-down costs incurred from January 2014 through December 2014, and (2) DEF's 2014 LNP project management, contracting, and cost controls, pursuant to Rule 25-6.0423(7), F.A.C. and Florida Public Service Commission ("PSC" or the

"Commission") Order No. PSC-13-0598-FOF-EI approving the Revised and Restated Stipulation and Settlement Agreement ("2013 Settlement Agreement").

Q. Do you have any exhibits to your testimony?

A. Yes, I am sponsoring the following exhibits to my testimony:

- Exhibit No. ____ (CMF-1), DEF's confidential January 2014 letter to the Consortium terminating the EPC Agreement;
- Exhibit No. ____ (CMF-2), the confidential LNP Long-Lead Equipment ("LLE") Disposition Plan;
- Exhibit No. ____ (CMF-3), the confidential final resolution with S&W for costs under the EPC Agreement;
- Exhibit No. ____ (CMF-4), the confidential Tioga LNP LLE final disposition settlement memorandum;
- Exhibit No. ____ (CMF-5), the confidential DEF letter to the Consortium accepting the Tioga LNP LLE final disposition settlement offer; and
- Exhibit No. ____ (CMF-6), the confidential January 12, 2015 Status Update for Levy Nuclear Plant Long-lead Equipment Disposition Memorandum.

I will also be co-sponsoring the cost portions of the 2014 Detail Schedule, and sponsor Appendices D and E, which are included as part of Exhibit No. ___ (TGF-1) to Mr. Thomas G. Foster's direct testimony in this proceeding. Appendix D is a description of the major tasks and reflects expenditure variance explanations. Appendix E is a list of the contracts executed in excess of $1.0 million and provides details for those contracts.

All of these exhibits, schedules, and appendices are true and accurate.

Q. What is the current status of the LNP?

A. The Company elected not to complete construction of the LNP pursuant to the nuclear cost recovery statute and rule, Section 366.93(6), Florida Statutes, and Rule 25-6.0423(7), Florida Administrative Code ("F.A.C."), as amended, with its execution of the 2013 Settlement Agreement. Subsequently, DEF commenced development of the process to start winding down the LNP in an orderly fashion, which was fully put in place after the Commission voted to approve the 2013 Settlement Agreement. In January 2014, because DEF was unable to obtain the LNP Combined Operating License ("COL") from the Nuclear Regulatory Commission ("NRC") by January 1, 2014, DEF terminated the EPC Agreement with the Consortium. The termination letter is attached as Exhibit No. ___ (CMF-1) to my direct testimony.

The LNP wind down process involves the disposition of the LNP LLE and the resolution of remaining costs under the EPC Agreement with the Consortium. As explained in more detail below, DEF developed and implemented a LLE Disposition Plan and, pursuant to that Plan, DEF has been able to disposition or will soon disposition the LNP LLE. A copy of the LNP Disposition Plan is included as Exhibit No. ___ (CMF-2).

DEF paid S&W its remaining costs after DEF terminated the EPC Agreement in January 2014 and resolved all costs with S&W under the EPC Agreement. A copy of that final resolution with S&W is included as Exhibit No. ___ (CMF-3). DEF attempted to resolve, but was unable to resolve any remaining costs with WEC under the EPC Agreement. WEC demanded substantial additional costs from DEF for terminating the EPC Agreement. These

claims, and DEF's claims against WEC under the EPC Agreement, will be resolved in the lawsuit DEF filed against WEC in March 2014 in the United States District Court for the Western District of North Carolina.

The only remaining LNP work is for the LNP Combined Operating License ("COL") from the NRC. DEF agreed to exercise reasonable and prudent efforts to obtain the LNP COL by March 31, 2015 in the 2013 Settlement Agreement. Throughout 2014 DEF continued with the work necessary to obtain the LNP COL including environmental permitting work necessary to obtain the Section 404 permit from the United States Army Corps of Engineers ("USACE"). DEF, however, is not seeking cost recovery in this proceeding for costs incurred in 2014 to obtain the LNP COL. DEF agreed to account for the 2014 COL-related costs as construction work in progress and agreed to remove them from recovery in the Nuclear Cost Recovery Clause ("NCRC") proceeding in the 2013 Settlement Agreement. DEF has segregated its 2014 COL-related costs from the 2014 LNP wind-down costs. The 2014 COL-related costs are not presented by DEF for cost recovery in the 2015 NCRC proceeding.

Q. Please summarize your testimony.

A. DEF prudently incurred necessary wind-down costs for the LNP in 2014. DEF appropriately minimized these costs pursuant to the 2013 Settlement Agreement. DEF terminated the EPC Agreement in January 2014 when DEF was unable to obtain the Levy COL from the NRC by January 1, 2014. Unnecessary project activities were eliminated and a LLE Disposition Plan was developed and implemented. DEF incurred only those contractually committed or necessary

costs for the LNP wind-down activities in 2014. DEF has prudently managed the LNP in 2014, consistent with merged policies and procedures that implement Duke Energy best practices, that in substance are similar to the project management, contracting and cost control policies and procedures previously audited by the Commission Staff and reviewed and approved by the Commission.

III. 2014 LNP WIND-DOWN COSTS.

Q. What were the total LNP actual 2014 costs?

A. As can be seen in Appendix D of Exhibit No.___(TGF-1), total actual LNP costs for 2014, excluding the carrying costs on the unrecovered investment balance, were approximately [redacted]. This is about [redacted] less than DEF's actual/estimated costs for 2014. The reasons for this variance are described below.

Q. Please describe the Levy wind-down activities and costs.

A. DEF's LNP wind-down activities involved the LLE disposition and EPC Agreement. Costs for these wind-down activities were incurred for (1) final EPC Agreement contract payments to S&W to close out S&W's module program development work for the LNP; (2) storage, insurance, and quality assurance of the completed and partially completed LNP LLE until final disposition; (3) internal Duke Energy labor to assist with the LLE disposition; (4) WEC support to gather information from its LLE suppliers and assist with LLE disposition; and (5) regulatory and administrative LNP wind-down support.

Q. What were the costs to terminate the EPC Agreement with S&W?

A. DEF incurred approximately [redacted] to close out the S&W costs for S&W's module program development work for the LNP pursuant to the EPC Agreement. A copy of the agreement to close out this work under the EPC Agreement with S&W is attached as Exhibit No. ___ (CMF-3) to my direct testimony.

Q. Is S&W a party to the lawsuit with WEC in North Carolina?

A. No. S&W only sought to recover the costs for the work actually necessary to close out the LNP module development work under the EPC Agreement. S&W did not claim that DEF owed S&W a termination fee under the EPC Agreement and S&W did not claim that DEF owed S&W termination costs for additional work on the LNP that was never billed to or included in a change order request to DEF. As a result, DEF was able to resolve all costs for the LNP with S&W under the EPC Agreement, but DEF was not able to resolve all costs for the LNP with WEC under the EPC Agreement.

Q. What were the wind-down costs for the LNP LLE disposition in 2014?

A. The principle LNP LLE disposition cost in 2014 was the negotiated settlement payment to terminate the LLE purchase order with WEC and the sub-contractor Tioga for the reactor coolant-loop ("RCL") piping components for the LNP. These costs included a [redacted] payment and the reversal of an accrual for an RCL milestone payment of approximately [redacted] that was not made because of the cancellation of the purchase order for this equipment for a net cost impact of [redacted]. The decision to make this settlement payment to disposition the

RCL LLE components was made pursuant to DEF's LLE Disposition Plan guidelines.

DEF's LLE disposition objectives in its Disposition Plan are consistent with the 2013 Settlement Agreement. DEF's objectives are to disposition the LNP LLE in a manner that (i) minimizes the financial costs and risks of the LLE disposition to DEF's customers; (ii) minimizes other costs to DEF and its customers; and (iii) evaluates the potential future use of the LNP LLE for other AP1000 power plant projects. This includes minimizing LLE evaluation costs and purchase order or contract termination costs, minimizing the risks of financial loss associated with the LNP LLE, and maximizing the LNP LLE disposition cash value. A copy of the LLE Disposition Plan in included as Exhibit No. ___ (CMF-2).

Q. Can you explain how DEF and WEC and Tioga arrived at the settlement payment for the RCL piping?

A. The manufacturing process for the RCL LLE component started in 2013. As a result, this LLE component was being manufactured when DEF elected not to complete construction of the LNP in the 2013 Settlement Agreement. Because manufacturing costs were being incurred at that point DEF contacted WEC to authorize WEC to contact Tioga about Tioga's willingness to place a manufacturing hold on the RCL piping to allow DEF additional time to analyze the disposition of this LLE. Tioga responded that there was a cost associated with a manufacturing hold and required a change order for the payment of that cost to place a hold on the RCL piping manufacture. At this point, DEF authorized WEC

to contact Tioga about the cost to cancel the RCL piping purchase order and manufacture of the RCL piping. Tioga provided WEC with an all-inclusive cancellation cost of [redacted]. This settlement offer to cancel the RCL piping purchase order and resolve all WEC and Tioga claims with respect to this LNP LLE component was evaluated by DEF under the DEF's LLE Disposition Plan objectives and determined to be the most cost-effective option for DEF and its customers.

Q. How was the RCL LLE component settlement consistent with the objectives in DEF's LLE Disposition Plan and cost effective for customers?

A. DEF evaluated the quantitative and qualitative factors in the LLE Disposition Plan guidelines to determine that the settlement was the most cost-effective option for DEF and its customers. This evaluation is explained in the confidential evaluation memo included as Exhibit No. ___ (CMF-4). The settlement with WEC and Tioga for the RCL LLE piping resulted in a minimum net savings of [redacted] to DEF's customers, compared to all other reasonably available options, accordingly, DEF accepted the offer. DEF's letter to WEC confirming that DEF accepted the Tioga LLE disposition settlement offer is included as Exhibit No. ___ (CMF-5).

Q. What is the disposition status of the remaining LNP LLE?

A. There were thirteen LNP LLE components in addition to the RCL piping component for the LNP. Four of these LLE components were with Mangiarotti

and were also in manufacture in 2013. DEF terminated the purchase orders for the Mangiarotti LNP LLE, and settled with WEC and Mangiarotti in 2013, when DEF determined the settlement was cost effective for DEF and its customers pursuant to DEF's LLE Disposition Plan. This settlement payment was explained, and the settlement costs were determined to be prudent, in the 2014 NCRC proceeding.

Fabrication was complete for only two of the remaining nine LNP LLE. These are the Steam Generator Tubing and the Variable Frequency Drives ("VFDs"). The other LNP LLE items were suspended in 2010 as part of the April 2009 notice of partial suspension of the EPC Agreement, which was reflected in Amendment Three to the EPC Agreement. For these LLE items fabrication had not started or, if it had started, the manufacturing was suspended and these LLE items remain only partially complete. DEF evaluated the disposition of these remaining nine LNP LLE items pursuant to DEF's LLE Disposition Plan in 2014. This evaluation process and the results of that process are described in detail in the confidential January 2015 Status Update for Levy Nuclear Plant Long-Lead Equipment Disposition Memorandum included as Exhibit No. ___ (CMF-6).

As explained in more detail in confidential Exhibit No. ___ (CMF-6), DEF obtained in the litigation with WEC copies of the LNP LLE purchase orders, reviewed them, and exercised its right under the EPC Agreement to assume the purchase order for the completed VFDs. For the reasons provided in confidential Exhibit No. ___ (CMF-6) DEF did not exercise its right to assume the purchase orders for the remaining eight LLE items. DEF, however, was able to reach an agreement with WEC for the sale of certain, small items of the incomplete Squib

valve LLE components and with the vendor, SPX, for the disposition of the remaining Squib valve LLE material. Because DEF did not assume the purchase orders for the remaining seven LLE items, WEC must protect and preserve the LLE items and use commercially reasonable efforts to dispose of the remaining LLE under the EPC Agreement. DEF's remedy is to enforce these contractual obligations in the litigation with WEC.

Q. If DEF has sold parts of the LLE components why is there no salvage value indicated in the Company's 2014 Detail Revenue Requirement Calculations schedule attached to Mr. Foster's direct testimony?

A. DEF did reach an agreement with WEC for WEC's purchase of part of the Squib valve LLE components and the agreed upon price for the parts of that incomplete LLE component are included in confidential Exhibit No. ___ (CMF-6). WEC, however, has taken the position that these agreed-upon payments should be offset against WEC's claims for alleged additional costs under the EPC Agreement. DEF disputes WEC's claims for alleged additional costs, and will defend these claims in the litigation. Until that litigation is resolved DEF does not expect WEC to pay the agreed upon prices for these small parts of the Squib Valves.

DEF negotiated directly with the Squib Valves vendor, SPX, for the purchase and salvage of the remaining Squib Valve material components. The vendor agreed in December 2014 to pay DEF the amount indicated in confidential Exhibit No. ___ (CMF-6) for the remaining Squib Valve material components on the terms indicated in that Exhibit. Because the vendor only agreed to this resolution in December 2014, the payment was not recorded in 2014. This

payment will be reflected as salvage value in 2015.

Q. What does DEF plan to do with the VFDs?

A. At this time, DEF is evaluating various disposition options consistent with DEF's LLE Disposition Plan. DEF previously canvassed Duke Energy affiliates and contacted external utilities through WEC and on its own for any interest in acquiring the completed VFDs. These contacts included utilities with existing or potential AP1000 nuclear power plant projects. None of these entities expressed an interest in acquiring the VFDs. The most likely potential buyer, then, is the original equipment manufacturer. DEF is pursuing a potential sale of the VFDs to the original equipment manufacturer. DEF has also offered the VFDs for sale on RAPID, a utility industry parts sales website, and recently initiated a bid event on Feb. 15, 2015 for the VFDs utilizing Power Advocate bidding/sourcing software to further canvas the market. DEF will continue to evaluate the potential disposition of the VFDs in a reasonable and prudent manner consistent with the objectives in DEF's LLE Disposition Plan.

Q. How did DEF's actual LNP wind-down expenditures for 2014 compare to DEF's estimated/actual wind-down costs for 2014?

A. As I explained above, LNP wind-down costs were approximately [redacted], or [redacted] less than DEF's actual/estimated wind-down costs for 2014. One reason for this variance is that approximately [redacted] in projected LLE storage costs were not incurred in 2014 because DEF was able to disposition the majority of the LNP LLE items sooner than projected. The status of the majority

of the LNP LLE items is described above and in confidential Exhibit No. ___ (CMF-6).

Another reason for this variance is that DEF did not make an approximately [redacted] LLE disposition payment that it expected to make in 2014. As DEF has explained previously, DEF anticipated a [redacted]. As I explained above and as explained in confidential Exhibit No. ___ (CMF-6), DEF did not assume the purchase order for this LLE component and, therefore, WEC is obligated under the EPC Agreement to preserve and protect this LLE material and to take commercially reasonable steps to disposition this incomplete LLE component material. DEF is not aware of any actions WEC may or may not have taken to cancel the purchase order or disposition the Steam Generator Balance at this time.

Q. To summarize, were all of the wind-down costs that the Company incurred in 2014 for the LNP reasonable and prudent?

A. Yes, the specific costs for the LNP contained in the 2014 Detail schedules, which are attached as exhibits to Mr. Foster's testimony, reflect the reasonable and prudent wind-down costs DEF incurred for LNP work in 2014. DEF took

reasonable steps in 2014 to minimize the LNP work and wind-down costs. These steps are explained in my testimony above and in detail in DEF's LLE Disposition Plan included as Exhibit No. ____ (CMF-2) and in DEF's confidential Status Update for Levy Nuclear Plant Long-lead Equipment Disposition Memorandum included as Exhibit No. ___ (CMF-6). All of these wind-down activities and their associated costs were necessary, reasonable and prudent for the LNP.

In addition, DEF terminated the EPC Agreement in late January 2014, after disposition of the Tioga LLE --- the final LLE component being manufactured --- under a provision that allowed DEF to terminate the EPC Agreement without paying WEC a termination fee. Under this provision, DEF does not have to pay WEC the termination fee if either party terminated the EPC Agreement because DEF was unable to obtain the COL from the NRC by January 1, 2014. When DEF was unable to obtain the LNP COL from the NRC by January 1, 2014, DEF reasonably and prudently exercised its contractual right to terminate the EPC Agreement without paying WEC the termination fee.

Q. What is the status of DEF's lawsuit with WEC?

A. As I explained above, DEF filed a lawsuit against WEC in the United States District Court for the Western District of North Carolina in March 2014. WEC soon after filed its own lawsuit against DEF for breach of the EPC Agreement in federal district court in Pennsylvania. The lawsuit in Pennsylvania has now been dismissed, and the claims under the EPC Agreement are proceeding before the North Carolina District Court in the lawsuit filed by DEF. WEC has filed a

counterclaim against DEF in the lawsuit pending in the federal district court in North Carolina. On August 19, 2014, the federal district court issued a Pretrial Order and Case Management Plan that currently schedules a trial date to resolve the claims between DEF and WEC under the EPC Agreement in February 2016.

Q. What does DEF plan to do with its pending lawsuit with WEC in the federal district court in North Carolina?

A. DEF is vigorously pursuing its claims and defending against the claims that WEC has brought in that lawsuit. The ultimate resolution of these claims, however, will be by a court and DEF cannot predict the outcome of this litigation at this time.

IV. LNP COMBINED OPERATING LICENSE APPLICATION UPDATE.

Q. Can you summarize the Combined Operating License Application process?

A. Yes. There are three parts to the NRC Combined Operating License Application ("COLA") review process. All three parts must be complete before the NRC will issue a COL. The three parts of the NRC COLA review process are: (1) the environmental review process; (2) the safety review process; and (3) the formal hearing process. DEF also must obtain environmental permits for the LNP COL.

Q. What is the status of the LNP NRC COLA review process?

A. The environmental review for the LNP COLA was complete when DEF received the LNP final environmental impact statement ("FEIS") on April 27, 2012. The remaining two parts of the NRC COLA review process for the LNP are incomplete.

The Final Safety Evaluation Report ("FSER") for the LNP COL has not been issued. The Advanced Safety Evaluation Report ("ASER") for the LNP COLA was initially completed with no open items, however, subsequent, significant design changes due to WEC design errors were identified by WEC that now require revisions to the ASER to incorporate these design changes before NRC review can be finalized. This work must be completed before NRC review and issuance of the FSER for the LNP COL. These design changes are now the critical path items to completion of the NRC review and issuance of the LNP COL.

WEC has significantly delayed the NRC LNP COLA review because WEC has failed to provide information in a timely manner to the NRC regarding these design changes. In fact, due to WEC's repeated failure to provide required information regarding WEC's design changes to correct WEC design errors in a timely manner, the NRC has notified DEF that it cannot provide DEF with a new schedule until a firm schedule for resolving technical issues that have been identified with the AP1000 certified design is provided. Until a firm schedule is received from WEC, DEF cannot identify an expected receipt date for the LNP FSER and, accordingly, the LNP COL from the NRC.

Q. What is the status of the formal hearing process for the LNP COLA?

A. One part of the two-part formal hearing process for the LNP COLA was completed in March 2013 when the NRC Atomic Safety Licensing Board ("ASLB") issued its ruling on the remaining contested contention to the LNP COLA regarding the environmental impacts of dewatering and salt drift as a result

of the LNP. Following an evidentiary hearing in October and November 2012, and the submission of Findings of Fact and Conclusions of Law in December 2012, the NRC ASLB unanimously resolved all issues in DEF's favor in March 2013. The ASLB concluded that the LNP FEIS complied with all legal and regulatory requirements.

The second part of the two-part formal hearing process is the LNP COLA mandatory hearing before the NRC Commissioners. The LNP COLA mandatory hearing process cannot commence until the LNP FSER is issued. For the reasons provided above, the NRC does not presently have a schedule for issuance of the LNP FSER. As a result, the mandatory hearing for the LNP COLA has not been scheduled by the NRC.

Q. What is the status of the environmental permits for the LNP COL?

A. DEF continued its work with the USACE for the Section 404 permit for the Levy site in 2014. The USACE Section 404 permit allows for and regulates the construction of structures in wetlands and regulated waterways. This work included discussions and the development of information for USACE regarding mitigation on government lands, the assessment of secondary wetlands impacts, and revisions to the Environmental Monitoring Plan ("EMP"). Further engineering and permitting work was performed to revise Section 404 permit drawings for the USACE and to address issues regarding the EMP, specifically with respect to the timing of potential alternative water supply from desalination, to determine the use of ground water for the LNP. Other than USACE review and finalization of the proposed Wetland Mitigation Plan ("WMP"), which is needed

for the Section 404 Permit, all of these issues were resolved in 2014. The USACE is still reviewing the proposed WMP. DEF expects to resolve the WMP and any new Section 404 permit issues the USACE may raise as they finalize their review this year to allow for USACE issuance of the Section 404 permit for the LNP. Likewise, while this work continued in 2014, the 2014 costs associated with this work are not included in the NCRC.

V. PROJECT MANAGEMENT, CONTRACTING, AND COST OVERSIGHT.

Q. Can you explain the Company's 2014 LNP project management, contracting, and cost control oversight policies and procedures?

A. Yes. Nuclear Development ("ND") is responsible for the LNP management. As a result, ND is responsible for the process of implementing best practices and lessons learned for the LNP and other nuclear development projects. ND has implemented or adopted policies and procedures for the management of the LNP that reflect the collective experience, knowledge, and best practices of Duke Energy and the nuclear utility industry.

Q. Are the Company's 2014 LNP project management, contracting, and cost control oversight policies and procedures substantially the same as the Company's prior project management, contracting, and cost control oversight policies and procedures?

A. Yes. Changes in the 2014 LNP project management, contracting, and cost oversight control policies and procedures for the LNP are changes more in structure than substance. The Company's 2014 LNP project management,

contracting, and cost control oversight policies and procedures reflect best practices, lessons learned, and efficient and effective LNP management and oversight of the LNP costs.

Q. Are the Company's 2014 LNP project management, contracting, and cost control oversight policies and procedures reasonable and prudent?

A. Yes, they are. The LNP 2014 project management, contracting, and cost control policies and procedures are substantially the same as the collective policies and procedures that have been vetted in the annual project management audit in this docket and previously approved as prudent by the Commission. *See* Order No. PSC-09-0783-FOF-EI, issued Nov. 19, 2009; Order No. PSC-11-0095-FOF-EI, issued Feb. 2, 2011; Order No. PSC-11-0547-FOF-EI, issued Nov. 23, 2011; Order No. PSC-12-0650-FOF-EI, issued Dec. 11, 2012; and Order No. PSC-14-0617-FOF-EI, Issued Oct. 27, 2014. We believe, therefore, that the LNP project management policies and procedures are consistent with best practices for capital project management in the industry and continue to be reasonable and prudent.

Q. Have the Company's project management, contracting, and cost control oversight policies and procedures changed as a result of the Company's decision not to complete construction of the LNP and to terminate the EPC Agreement?

A. No, the Company's ND project management, contracting, and cost control oversight policies and procedures have not changed. These are Duke Energy-wide policies and procedures, applicable to all nuclear generation development,

and in some cases such as the fleet-wide policies and procedures, existing operating nuclear power plants. Duke Energy did not change its ND project management, contracting and cost control oversight policies and procedures because of the Company's decisions not to complete construction of the LNP and to terminate the EPC Agreement. Some of these policies and procedures are no longer applicable to the LNP going forward as a result of these decisions. Some new processes, like the LLE Disposition Plan included as Exhibit No. ____ (CMF-2) to my direct testimony, were developed and implemented as a result of these decisions. But the Company is still managing the LNP in the LNP wind-down process, and as a result, the Company is still following all applicable project management, contracting, and cost control oversight policies and procedures for the LNP.

Q. Has DEF implemented a process to ensure that costs related to the LNP COL are not included in the NCRC as of January 1, 2014?

A. Yes, from a project team perspective, DEF has always segregated project costs incurred by specific project code. This did not change for 2014 and the project team continued and will continue to charge COL-related labor, NRC fees, vendor invoices and all other COL-related cost items to the applicable COL project codes. The Regulatory Accounting and Regulatory Strategy groups ensure that the COL-related project codes and associated costs incurred in 2014 and beyond are not included in the Company's NCRC Schedules, and thus not presented for nuclear cost recovery. These COL-related costs will, however, continue to be tracked for accounting purposes consistent with the 2013 Settlement Agreement.

Q. Does this conclude your testimony?

A. Yes, it does.

REDACTED

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f: 980.373.2551

christopher.fallon@duke-energy.com

January 28, 2014
LNP-EPC-2014-0003
Response (Action) Required YES X /NO

SENT BY E-MAIL AND HAND DELIVERY

Stone & Webster, Inc.
Attn: Mr. Kevin Holderness
Consortium Project Manager
CB&I Stone & Webster
128 S. Tryon Street
Charlotte, NC 28202

Reference: Levy Nuclear Plant EPC Agreement
Progress Energy Florida Contract No. 414310

Subject: Notice of Termination

Dear Mr. Holderness:

Duke Energy Florida, Inc. (DEF, formerly known as Progress Energy Florida, Inc.) hereby gives Westinghouse Electric Company and Stone & Webster, Inc. (Contractor) notice that DEF is terminating Contract Number 414310 – the Engineering, Procurement and Construction Agreement (Agreement) for the Levy County Nuclear Plant (Levy) – under Article 22.4(a) (Failure to Obtain Regulatory Approvals), due to DEF's inability to obtain a Combined Construction Permit and Operating License (COL) for Levy by January 1, 2014.

[redacted]

Should you have any questions regarding this matter, please feel free to contact me.

Sincerely,

Christopher M. Fallon

Christopher M. Fallon
Owner's Project Director
Vice President, Nuclear Development

cc: Dhiaa Jamil (DE)
Joe Donahue (DE)
John Thrasher (DE)
Bob Morgan (DE)
Bob Kitchen (DE)
Betsy Solakoglu (DE)
Erik Wagner (DE)
Mike Taylor (DE)
Michael Franklin (DE)
John Burnett (DEF)
David Conley (DE)
David Fountain (DE)
Matt Martin (DE)
Lawrence Denney (DE)
Kate Nolan (DE)
Patricia C. Smith (DE)
Tom Weir (WEC)
Linda Iller (WEC)
Lee Stern (WEC)
Cheryl Halaszynski (WEC)
Linda Williams (WEC)
Joni Falascino (WEC)

LNP-EPCInbox@duke-energy.com (Duke Energy)
LevyProjectCorrespondenceInbox@westinghouse.com (Westinghouse)

Westinghouse Electric Company, LLC
Attn: General Counsel
1000 Westinghouse Drive
Suite 138
Cranberry Township, PA 16066

Stone & Webster, Inc.
Attn: Ed Hubner
228 Strawbridge Drive
Morristown, NJ 08057

Stone & Webster, Inc.
Attn: E.K. Jenkins
150 Royall Street
Canton, MA 02021

REDACTED

MEMORANDUM

Date: January 16, 2014

To: Chris Fallon

cc: LNP-EPCInbox@pgnmail.com

From: Lawrence Denney

Subject: Levy Nuclear Plant Long-lead Equipment Disposition Plan

---

Introduction

This memo describes the methodology DEF is using to disposition the long-lead equipment (LLE) purchased for the Levy Nuclear Plant (Levy) pursuant to the Engineering, Procurement, and Construction (EPC) Agreement executed by Florida Power Corporation (d/b/a Duke Energy Florida) and a consortium of Westinghouse Electric Company and Chicago Bridge & Iron (the Consortium). This memorandum describes the general process for the financial quantification, risk assessment and other qualitative assessments to support a final disposition decision for long-lead equipment (LLE) components. As such, this memo describes the principles and general process that are being employed to achieve the below stated objectives for LLE disposition.

On December 31, 2008 the EPC agreement was executed and on April 30, 2009 was partially suspended, due to a slip in the NRC licensing schedule. Current Levy project work is limited to activities required to obtain the COL and major environmental permits and to resolve certain long-lead equipment procurement activities associated with the eventual termination of the EPC agreement. Presently, the EPC agreement as amended maintains the existing terms and conditions of the EPC agreement and allows the orderly cancellation or disposition of long-lead equipment procurement activities once DEF has completed its evaluation of available options.

On July 31, 2013 a Revised and Restated Settlement Agreement (the Settlement) was reached resolving "certain future actions regarding" Levy and on November 12, 2013 was approved by the Florida Public Service Commission. Among the stipulations in the Settlement is the requirement that DEF will terminate the Levy EPC agreement at the "earliest reasonable and prudent time" and "use its reasonable and prudent efforts to curtail avoidable future LNP costs, to sell or otherwise salvage LNP assets, or otherwise refund any costs that can be recaptured for the benefit of the customers." This plan addresses these regulatory requirements insofar as they are associated with the disposition of LLE for the Levy project.

LLE Disposition Objectives

To support and fulfil the responsibilities and obligations for DEF stated in the Settlement the following are the objectives of the Levy LLE disposition:

- Minimize the financial cost and risks associated with the disposition of LLE
  - Minimize LLE evaluation costs and contract termination costs
  - Maximize Levy LLE cash value
  - Minimize risks of financial loss associated with LLE

— Minimize other costs to Duke Energy
— Evaluate the possibility for future use of LLE to AP1000 projects.

Scope
This plan covers the process of reaching and approving disposition decisions on the LLE components as well as the execution of the decisions. The specific LLE components which are covered by this plan are listed in Table 1. Levy project activities associated with receipt of the COL and other major permits are not within the scope of this plan.

Component	Status	Manufacturer
VFDs	Complete – In storage	Siemens
Steam Generator Tubing	Complete – In storage	Doosan
Reactor Vessel	Suspended- Materials in storage	Doosan
Steam Generator Balance	Suspended- Materials in storage	Doosan
Squib Valves	Suspended- Materials in storage	SPX
Reactor Coolant Pumps	Suspended- Materials in storage	EMD
RCL Pipe	Terminated	Tioga/IBF
CRDM	Not started	WEC
Reactor Vessel Internals	Not started	WEC
Turbine Generator	Not started	Toshiba
Accumulator Tank	Terminated	Mangiarotti
Core Make-Up Tank	Terminated	Mangiarotti
Pressurizer	Terminated	Mangiarotti
PRHR Hx	Terminated	Mangiarotti

Table 1. List of LLE Components

Schedule
Table 2 provides an approximate schedule for the activities associated with the disposition of the LLE. Given the complexity and the many entities, e.g. WEC, various sub-contractors to WEC, which are involved in this analysis providing precise schedule dates is not possible at this time. Therefore, general timeframes when certain major activities are expected to occur are presented in Table 2. This schedule projection supports the evaluation and disposition decision of each LLE component by the June-July timeframe.

Schedule Projection	EPC Contract Wind-Down Activities
TBD	Formal EPC Contract termination
July – Nov 2013	DEF requests information from Westinghouse; refer to letters LNP-EPC-2013-0016, LVP_LVG_000401, LVP_LVG_000421, LNP-EPC-2013-0024

Oct – Dec 2013	Westinghouse develops RFQs for sub-contractors
Oct 2013 – May 2014	Westinghouse works with suppliers for RFQ responses
Oct 2013 – June 2014	Westinghouse reviews RFQ results with Duke
Nov 2013– July 2014	Duke Energy finalizes decisions on LLE components

Table 2. Approximate schedule for EPC contract wind-down activities

Disposition Decision Methodology

There are six disposition options currently being considered for the LLE which can be grouped into two categories: (1) options which permanently dispose of the LLE today and (2) options which store the LLE for future use or disposition. Each LLE component will be analyzed for which option best meets the LLE disposition objectives. A schematic representation of the LLE disposition evaluation process is presented in Figure 1 and each disposition option is described more fully below.

[redacted]

Figure 1. Schematic illustration of the LLE disposition evaluation process[1]

Options which permanently dispose of LLE[2]

Reuse: For some LLE components there could be an alternate application beyond use at Levy or another AP1000 station. [redacted]

[1] Grey shading indicates the option is no longer under consideration.

[2] [redacted]

[redacted]

Salvage: The constituent materials of each LLE component have residual value as a raw material. These constituent materials can be sold for recycling, with an offsetting cost to prepare the raw materials for salvage. For this option [redacted]

Sell: The LLE components could be used on another AP1000 project which is either under construction or in the planning stage. DEF requested [redacted]

Purchase: Because some LLE components are in fabrication and are not complete there is the possibility for reuse of the in-process material for an alternate use. [redacted]

Options which store LLE for later disposition

Consignment: Given the costs incurred to produce the LLE and Levy or another AP1000 project in the future, DEF proposed a [redacted]

Continue storage: The final option considered is to continue the status quo with DEF continuing to pay for storage of the LLE. Initially, there were two possibilities which, if realized, would provide value for this option: construction of Levy or future sale of the LLE if the market for AP1000s improves. If neither of these options could be realized, then the LLE would have to be disposed of through one of the disposition options listed in the "Options which permanently dispose of LLE" section.

Dispose of LLE: This option will occur if no future use for the LLE is realized and DEF chooses to either storage or consign the LLE. Permanent disposition of the LLE will occur if there is no future use for the LLE. The continue storage option for potential future construction of Levy was considered and rejected as a viable option at this time based on the qualitative analysis of the risks of proceeding with this option under the 2013 statutory amendments to the nuclear cost recovery statute, Section 366.93, F.S. DEF determined at the time of the Settlement that the statutory amendments to Section 366.93 fundamentally changed the external risks to the Levy Nuclear Project, resulting in substantial uncertainty and unacceptable risk to DEF and its customers to proceed with the Levy Nuclear Project. The same analysis results in the determination that the disposition of LLE by continuing to store LLE for potential future construction of Levy is not at this time a viable option.

The statutory amendments to Section 366.93 sequentially stage regulatory approval to proceed with the project, precluding preconstruction and construction work until the COL is obtained, and requiring Commission approval based upon untested and in some cases undefined statutory standards to proceed with preconstruction, certain material and equipment purchases for the project, and then construction of the project. Receipt of the required regulatory approvals therefore is uncertain, and the time required to obtain them and address any potential appeals during the regulatory approval process is unknown. In addition, the statutory amendments establish new, undefined, and potentially subjective requirements for the utility to demonstrate annually its intent to build the nuclear power plants. For these reasons, DEF determined that the statutory amendments qualitatively result in additional uncertainty and therefore

unacceptable additional risk to the schedule and cost of the Levy Nuclear Project. As a result of this determination, DEF elected not to complete construction of the Levy nuclear power plants pursuant to Section 366.93(6) and Rule 25-6.0423(6). That decision is reflected in the Settlement provisions providing for the recovery of prudent Levy Nuclear Project wind down costs, including the cost to prudently disposition LLE.

The disposition of LLE by continuing to store LLE for future construction of Levy presents DEF and its customers with the same uncertainty and unacceptable risk that resulted in the election not to complete the Levy Nuclear Project that is reflected in the Settlement. Under the statutory amendments DEF cannot determine if and when the sequential regulatory approvals would be obtained and the project constructed, precluding DEF from determining with any accuracy the period necessary to store LLE for potential future construction of Levy. As a result of this uncertainty, there is substantial risk and therefore additional cost to DEF and customers to continue to store LLE for potential future construction of Levy. For all these reasons, this was not considered a viable LLE disposition option.

Decisional process

DEF is in the process of gathering the information needed to accomplish the LLE disposition objectives for each Levy LLE component. Once this information is accumulated, a financial analysis will be prepared for each LLE component that will compare the future costs of each proposed option. Additionally, the risks and other qualitative considerations will be described for each option and each component. For each LLE component the option which minimizes both the financial cost and risks given the qualitative constraints will be selected by the Levy project team.

The approval of the decision on each LLE component will follow the requirements of the appropriate internal policy as provided in the Nuclear Development Project Governance Procedure, PD-BO-NDP-0001. The best effort will be made to aggregate the decisions on each component into a single decision for all of the LLE components, but, at times, the optimal path may prevent such aggregation.

Equipment in fabrication

Mangiarotti supplied components: The LLE components supplied by Mangiarotti have been dispositioned consistent with this LLE disposition plan. The permanent disposition of these LLE components has been completed as documented in letter LNP-EPC-2013-0023.

Tioga equipment: The reactor coolant loop piping supplied by Tioga has been dispositioned consistent with this LLE disposition plan. The permanent disposition of this LLE component has been completed as documented in letter LNP-EPC-2014-00001.

Post-decision activities

For each LLE component the execution of the optimal disposition decision will depend on which option is selected. If the optimum course is:

[redacted]

Levy LLE Disposition

I. General Scope

This section outlines the asset pricing requirements and minimum reviews and approvals required for the execution of transactions and the record keeping requirements necessary for the disposition of LLE assets for Levy.

Transactions under this section must conform to all existing applicable company policies. It is essential that asset divesture records of all transactions are documented and preserved.

All transactions will comply with tax regulations. Internal transfers within DEF, or to DEC, DEP, DEO, DEI, and DEK do not require a tax surcharge as these entities have a Direct Pay Permit.

II. Disposition Path

a. Internal Disposition

Generally, capital assets are transferred among regulated affiliated utilities at Net Book Value (NBV). However, asymmetrical pricing is used for transfers between regulated affiliates and non-regulated utility affiliates and/or non-utility affiliates – the higher of NBV or Fair Market Value (FMV).

For regulated utility to regulated utility transfers, there may be instances where NBV may be at a higher value than FMV, in these cases, Commission(s) approval will be required to transfer at less than NBV.

b. External Bids

If not transferred internally, determine the FMV by obtaining external bids.

The bidding process for the disposition of materials and equipment shall be conducted as follows:

The bidding process shall follow MCP-NGGC-0001.

The Power Advocate sourcing tool should be used for all bid events, thereby maintaining consistency with all bid event sales and document retention.

The standard approved legal form contracts shall be used for all third party asset contract sales in accordance with MCP-NGGC-0001.

III. Approvals

Levy LLE internal sales will follow the Intercompany Affiliate Asset Transfer Agreement (IATA) utilizing the Affiliate Asset Transfer e-form found on the PORTAL. If the value is over $10 M dollars or an internal sale/transfer is proposed at a value less than NBV, then commission(s) approval may be necessary for a transfer/sale to an internal Regulated Entity. Any internal transfer to a non-regulated internal entity must comply with FERC 107, asymmetrical pricing, and/or Rule 25-6.1351, Florida Administrative Code.

All Levy LLE asset external sales will follow the company's DOA guidance for the Business Unit (Nuclear Development) and Supply Chain. Additionally, each sale will be reviewed by the DEF Rates and Regulatory Strategy Director or designee, the DEF Regulatory Legal Associate General Counsel or designee, and the Tax Manager.

CB&I Stone & Webster, Inc.
128 South Tryon Street
Suite 1000
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Tel: +1 704-343-7500
Fax: +1 704-331-5646
www.CBI.com

March 20, 2014
L-SHAW-DUKE-000002
Project: Levy Nuclear Project
Response Required Y ☒ N ☐
Response Due By: 3/30/2014

Duke Energy Corporation
Attention: Mr. Christopher Fallon
Vice President, Nuclear Development
526 South Church Street
Mail Code: EC12L
Charlotte, NC 28202

Subject: Levy Termination Costs Estimate for CB&I Stone & Webster, Inc.

Reference:
1. Levy Nuclear Plant EPC Agreement
2. Duke Energy Letter LNP-EPC-2014-0003 dated 28 January 2014
3. Letter APC_LVG-000068 dated 20 February 2014

Dear Mr. Fallon:

As follow-up to Letter APC_LVG_000068 (Reference 3), CB&I Stone & Webster, Inc. (CB&I), is pleased to submit this description of activity and estimate of cost associated with the termination of CB&I work under the Levy Nuclear Plant EPC Agreement.

Orderly Conclusion of CB&I Activity and Proposal for Payment of Cost

Pursuant to discussions with Duke Energy Florida (DEF) under EPC Agreement Article 22.6, CB&I is proceeding with the orderly conclusion of all Levy contract activities. Project Management anticipates the following activities to close:

[redacted]

CMF

[redacted]

Please indicate binding consent by signing below. Contact the undersigned with any questions regarding this correspondence.

Sincerely,

Kevin J. Holderness
Project Manager
CB&I
Levy County Project

Consent and agree on behalf of Duke Energy Corporation

Christopher M. Fallon 3/21/14

Christopher Fallon
Vice President, Nuclear Development

cc:

Franklin, Michael	Duke Energy Florida	Harrod, Bennett	CB&I
Hubner, Edward	CB&I	Document Control	

Attachments:

A. Estimate of Cost of Orderly Conclusion of CB&I Work on the Levy Nuclear Project
B. Form of Mutual Release of Claims

Please Reply To: Kevin J. Holderness
Phone: 704-378-5277
E-Mail Address: kevin.holderness@CBI.com

CMF

Attachment A
Estimate of Cost of Orderly Conclusion of
CB&I Work on the Levy Project

[redacted]

CMF

Attachment B
Form of Mutual Release of Claims

Release of Claims

[redacted]

CB&I STONE & WEBSTER, INC.

By:_____

Name:_____

Title:_____

Date: _____

DUKE ENERGY FLORIDA, INC., FLORIDA POWER CORPORATION, and PROGRESS ENERGY FLORIDA, INC.

By: _____

Name: _____

Title: _____

Date: _____

CMF

JOHN R. THRASHER
Director, Engineering
Nuclear Development

Duke Energy
EC12L / 526 South Church Street
Charlotte, NC 28202

Mailing Address:
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john.thrasher@duke-energy.com

April 30, 2014
NPD-CBI-2014-0001
Response (Action) Required YES___ /NO_X_

CB&I Stone & Webster, Inc.
Attn: Mr. Kevin Holderness
Project Manager - Levy County Project
CB&I Stone & Webster
128 S. Tryon Street
Charlotte, NC 28202

References:
1) *Levy Nuclear Plant Project EPC Agreement PEF Contract No. 414310*, dated December 31, 2008
2) LNP-EPC-2014-0003, *Levy Nuclear Plant Project EPC Agreement Notice of Termination*, dated January 28, 2014
3) L-SHAW-DUKE-000002, *Levy Termination Costs Estimate for CB&I Stone & Webster, Inc.*, dated March 20, 2014
4) L-SHAW-DUKE-000003, *CB&I Stone & Webster, Inc. Release of Claims*, Dated April 17, 2014

Subject: Levy Nuclear Plant Project EPC Agreement Mutual Release of Claims

Dear Mr. Holderness,

Duke Energy Florida (DEF) has paid all invoices associated with CB&I Stone & Webster, Inc. termination costs for the Levy EPC Agreement as outlined in Reference 3. Furthermore, DEF has fully executed the Mutual Release of Claims submitted by CB&I Stone & Webster, Inc. with Reference 4.

The attached, fully executed Mutual Release of Claims concludes all required actions and releases all potential claims in connection with the Levy EPC Agreement (Reference 1) for both DEF and CB&I Stone & Webster, Inc.

Thank you for your timely attention to closure of this matter.

Sincerely

John S. Thrasher
Director – Engineering
Nuclear Development

Attachment (Fully Executed Mutual Release of Claims)

cc w/ att: Dhiaa Jamil (DE)
Joe Donahue (DE)
Chris Fallon (DE)
Bob Morgan (DE)
Bob Kitchen (DE)
Betsy Solakoglu (DE)
Erik Wagner (DE)
Michael Franklin (DE)
Mike Taylor (DE)
John Burnett (DEF)
David Conley (DE)
David Fountain (DE)
Matt Martin (DE)
Lawrence Denney (DE)
Kate Nolan (DE)
Patricia C. Smith (DE)
Edward Hubner (CB&I)
Bennett Harrod (CB&I)

ND Document Inbox (File & Records)

Attachment B
Form of Mutual Release of Claims

Release of Claims

[redacted]

CB&I STONE & WEBSTER, INC.
By: Kevin J. Holderness
Name: Kevin J. Holderness
Title: PROJECT MANAGER
Date: 16 APRIL 2014

DUKE ENERGY FLORIDA, INC., FLORIDA POWER CORPORATION, and PROGRESS ENERGY FLORIDA, INC.
By: Christopher M. Fallon
Name: CHRISTOPHER M. Fallon
Title: VICE PRESIDENT
Date: 30 APRIL 2014

REDACTED

Background:

DEF authorized WEC to contact Tioga regarding the feasibility and potential cost impact (if any) to place a manufacturing hold on the Reactor Coolant-loop (RCL) piping components currently in manufacturing, to allow DEF time to analyze the disposition of the equipment. Tioga responded that there would be a cost associated with a manufacturing hold and that a change order would need to be negotiated. On November 14, 2013, DEF authorized WEC to contact Tioga regarding its cost should DEF terminate the purchase order and cancel manufacturing of the RCL piping. On January 7, 2014 Tioga provided WEC with an all-inclusive cancellation cost of [redacted] These all inclusive costs include such items as cancelling all material orders, purchase orders and existing contracts, bringing work to an orderly conclusion, demobilization costs, any cancellation charges to third parties, costs to scrap or salvage materials and a credit for the salvage or scrap value, etc. In addition, Tioga acquired and renovated a building in the US to store the RCL piping. If this offer is accepted, DEF and WEC shall have no further liability to Tioga for this purchase order and Tioga will have no further liability to DEF and WEC**.** Tioga indicated that because the pipes are in the queue to be bent on [redacted] The table below discusses the potential outcomes for the RCL piping to provide a framework for a decision on the Tioga offer.

Option	Costs	Comments
Terminate PO- stop manufacturing	Cost to terminate PO - [redacted]	Salvage value is included in net cost. DEF and WEC shall have no further liability to Tioga for these POs
Complete manufacturing and store RCL piping – sell when market recovers	Cost to complete manufacturing - [redacted][1] Storage, extended warranty, etc.: [redacted][2] PMO and RCL piping PMO [redacted][3] Storage Plans and obtaining Storage estimates: [redacted][3] Duties and Customs: [redacted][3]	Nuclear market is speculative at this point. Great uncertainty concerning the market for this equipment or any reasonable expectation of equipment value.
Complete manufacturing and store RCL piping – unable to sell, scrap at end of storage period	Cost to complete manufacturing - [redacted] Storage, extended warranty, etc.: [redacted][2] PMO and RCL piping PMO [redacted][3] Storage Plans and obtaining Storage estimates: [redacted][3] Duties and Customs: [redacted][3]	Scrap value estimated to be approximately [redacted][4].

[1] [redacted]
[2] From Levy EPC [redacted]
[3] From email from Linda Iller (WEC) on January 7, 2014.
[4] Estimate [redacted]

Complete manufacturing and store RCL piping – Use at Levy	Cost to complete manufacturing - [redacted] Storage/Extended Warranty Costs - [redacted] PMO and RCL piping PMO [redacted][3] Storage Plans and obtaining Storage estimates: [redacted][3] Duties and Customs: [redacted][3]	New Florida nuclear cost recovery legislation raises concerns over the feasibility of new nuclear in Florida. Need to develop a long-term storage plans. Earliest in-service date is beyond 2025 requiring long-term storage of RCL piping.

Other considerations:

[redacted]

- This is the last remaining equipment presently in fabrication under the Levy EPC agreement. For the rest of the equipment to be dispositioned the fabrication has been previously suspended.

[redacted]

Recommendation:

Given the uncertainty regarding the potential in-service date for Levy, the incremental costs to store the RCL piping and the uncertain market for the RCL piping, the offer from Tioga results in approximately [redacted] in savings versus completion of the equipment it is recommended that DEF terminate the Tioga purchase order and cancel manufacturing of the RCL piping.

[5] Have not been provided an estimate for long-term storage, escalated 5 year storage costs for an additional 7 years.

CHRISTOPHER M. FALLON
Vice President
Nuclear Development

Duke Energy
EC12L/526 South Church Street
Charlotte, NC 28202

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f: 980.373.2551

christopher.fallon@duke-energy.com

January 9, 2014
LNP-EPC-2014-0001
Response (Action) Required YES X / NO __

Stone & Webster, Inc.
Attn: Kevin Holderness
Consortium Project Manager
CB&I Stone & Webster
128 S. Tryon Street
Charlotte, NC 28202

References: 1) E-mail from Linda Iller (WEC) to Christopher Fallon (DEF), Tioga PO – Cancellation Offer, sent January 7, 2013
2) Levy Nuclear Plant Project EPC Agreement PEF Contract No. 414310

Subject: Levy Long Lead Equipment Disposition for the Tioga Manufactured Equipment

Dear Mr. Holderness:

The purpose of this letter is to inform the Consortium of Duke Energy Florida's (DEF) acceptance of the cancellation offer for all components Tioga is manufacturing for Levy Units 1 and 2 as provided in Reference 1. This offer includes all cancellation costs from Tioga in the total amount of [redacted] After payment of this amount, DEF will have no further liability to Tioga or the Consortium for the long lead equipment to be supplied by Tioga for Levy Units 1 and 2.

We ask that you proceed with cancellation of the Tioga orders, pending the issuance of a Change Order to formalize our agreement as required by Section 22.1(h) of Reference 2 (which was added by Amendment Number Three).

DEF appreciates the Consortium's assistance in this matter. Should you have any questions, please contact either Mike Franklin (919-546-6967) or myself.

Sincerely,

Christopher M. Fallon

Christopher M. Fallon
Owner's Project Director
Vice President, Nuclear Development

cc: Dhiaa Jamil (DE)
John Thrasher (DE)
Bob Morgan (DE)
Bob Kitchen (DE)
Lawrence Denney (DE)
Betsy Solakoglu (DE)
Erik Wagner (DE)
Mike Franklin (DE)
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Michael Taylor (DE)
Tom Weir (WEC)
Linda Iller (WEC)
Lee Stern (WEC)
Linda Williams (WEC)
Cheryl Halaszynski (WEC)
Joni Falascino (WEC)
LevyProjectCorrespondenceInbox@westinghouse.com
LNP-EPCInbox@pgnmail.com

MEMORANDUM

Date: January 12, 2015

To: Chris Fallon, Vice President -- Nuclear Development

cc: NDDocumentInbox@duke-energy.com

From: Lawrence Denney, Nuclear Regulated Generation & Commercial Support Manager

Subject: Status Update for Levy Nuclear Plant Long-lead Equipment Disposition

---

Introduction

This memo responds to your request for a summary and update of the present status of the disposition of the Levy Nuclear Plant long-lead equipment (LLE). It outlines the progress towards and obstacles encountered in executing the plans documented in the "Levy Nuclear Plant Long-lead Equipment Disposition Plan" memo dated January 16, 2014. That memo documented the plan Duke Energy Florida, Inc. (Duke) established to dispose of the remaining LLE purchased for the Levy County Nuclear Plant (Levy) under the Engineering, Procurement and Construction (EPC) agreement. It presented five different options[1] to maximize the value of the recovery of the disposition of the remaining LLE while simultaneously minimizing any risks that could be incurred from a particular option or action.

Levy LLE

[redacted]

[redacted]

Disposition Options

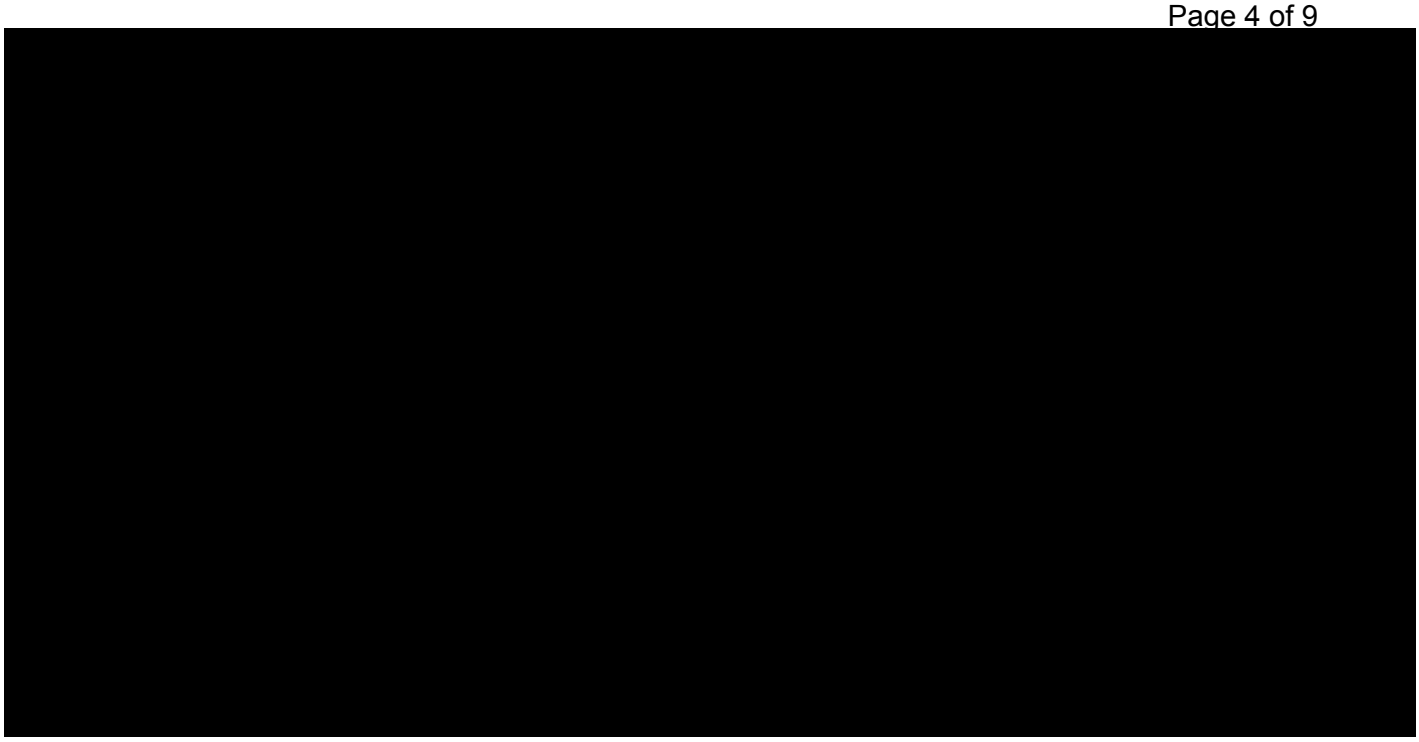
[redacted]

[redacted]

Challenges in working with Westinghouse

Letter Agreement

[redacted]



[redacted]

Review of Purchase Orders

[redacted]

[redacted]

LLE disposition

[redacted]

[redacted]

Summary of the Status of LLE

The table below itemizes the disposition status of the LLE since the 2013 Settlement Agreement.