REDACTED

PROGRESS ENERGY FLORIDA
In re: Nuclear Cost Recovery Clause
Docket 100009-EI

Seventeenth Request for Confidential Classification

Exhibit B

COM ____
APA ____
ECR 1
GCL ____
RAD ____
SSC ____
ADM ____
OPC ____
CLK ____

Redacted

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Nuclear Cost Recovery Clause	)	Docket No. 100009-EI
	)	FILED: July 8, 2010

[redacted]

DIRECT TESTIMONY

OF

WILLIAM R. JACOBS, JR., Ph.D.

ON BEHALF OF THE CITIZENS OF

THE STATE OF FLORIDA

REVIEW OF PROGRESS ENERGY FLORIDA'S

NUCLEAR COST RECOVERY RULE FILING

J.R. Kelly
Public Counsel

Office of Public Counsel
c/o The Florida Legislature
111 W. Madison Street
Room 812
Tallahassee, FL 32399-1400

Attorney for the Citizens
Of the State of Florida

a schedule shift of at least 20 months for the Levy project (See Exhibit WRJ(PEF)-3, pages1-2). The Company issued a letter to the Consortium requesting the Consortium to conduct six schedule and cash flow analyses for the project (See 10NC-OPCPOD1-3-000005). The results of these analyses formed the basis for the Company's announced plan going forward for the Levy Nuclear Project.

Q. WHAT WERE THE COMPANY'S STATED STRATEGIC INTENT AND OBJECTIVES IN DEVELOPING THE GOING FORWARD PATH FOR THE PROJECT?

A. As stated in the March 8, 2010, Senior Management Committee presentation, the strategic intent and objectives were to:

> "...minimize near term cash flow requirements while maintaining long term flexibility to continue or pursue nuclear development projects." (See 10NC-OPCPOD1-1-000097.)

Q. BRIEFLY DESCRIBE THE SCENARIOS ANALYZED BY THE COMPANY.

A. In the Senior Management Committee presentation dated February 15, 2010 (see 10NC-OPCPOD101-000057) the Company identified three possible options for the project:

- Option 1 - Full Speed Project Continuation: This option would lead to Unit 1 Commercial Operation Date (COD) in late-2019. Estimated total cost for this option excluding AFUDC is [redacted] Expenditures in 2010 – 2012 to support this option would be [redacted]
- Option 2 - Project Cancellation – This option would result in cancellation of the project and [redacted] for the base EPC contract plus

other payments as required by contractual obligations. Expenditures in 2010 – 2012 for this option are estimated to be [redacted] If cancelled, the total cost of the LNP that customers would be expected to bear would be [redacted] through 2012 with possible additional costs pending the outcome of negotiations with the Consortium.

- Option 3 - Project Continuation with EPC Amendment – This option involves continuation of work needed to support COL issuance in late 2012. It assumes that a Notice to Proceed would be issued in 2013 with Unit 1 COD in 2021. The estimated total cost for this option excluding AFUDC is [redacted] Expenditures in 2010 – 2012 for this option are estimated to be [redacted]

Q. WHICH OPTION HAS THE COMPANY SELECTED?

A. The Company decided to proceed with Option 3 as described above.

Q. DID THE COMPANY ANALYZE ALL OF THE LIKELY SCENARIOS IN DECIDING THE PATH FORWARD FOR THE LEVY PROJECT?

A. No, they did not. I believe that another reasonably possible outcome scenario is for the project to be cancelled after receipt of the COL in late 2012.

Q. DID YOU ASK THE COMPANY FOR THIS SCENARIO ANALYSIS?

A. Yes, I did. In Interrogatory Question 46 I asked the Company if they had estimated the cost for the chosen alternative (continuation with COL and minimum continuation of the EPC contract) followed by cancellation after receipt of the COL. The Company responded:

Q. IS THERE ANOTHER REASON THAT YOU BELIEVE THAT CANCELLATION OF THE LNP AFTER ISSUANCE OF THE COL IS AN OUTCOME THAT SHOULD BE EVALUATED BY THE COMPANY?

A. Yes, there is. The April 17, 2009 Board presentation identifies the following conditions to proceed with the Levy project (see 09NC-OPCPOD3-61-000053):

- **Levy Project Success Factors**
  - [redacted]
- **Levy Project Must Support Our Financial Success Factors**
  - [redacted]

Most of these conditions have not yet been met and may prove to be difficult to meet by 2013. Again, no improvement or clarity on these risks appears to be found in the July 2009, September 2009 or March 2010 Board of Directors minutes.

Q. DO YOU BELIEVE THAT THE DECISION TO SIGN THE EPC CONTRACT FOR LEVY COUNTY ON DECEMBER 31, 2008 WAS A REASONABLE DECISION?

A. No, I do not. As I testified last year, in my opinion it was not reasonable for PEF to sign the EPC contract on December 31, 2008. PEF signed what is likely the largest contract in the history of the State of Florida without any assurance that the LWA

THE KNOWN UNCERTAINTIES DISCUSSED ABOVE RESULTED IN ADDITIONAL COSTS?

A. Yes, I do. I believe that it was unreasonable to sign the EPC contract without knowing the LWA schedule and that signing the EPC contract would result in extra costs. The additional costs incurred by PEF can be seen by comparing the costs spent to date between Levy and Florida Power and Light's Turkey Point 6 and 7 project. Both of the projects are in essentially the same place from a schedule perspective with LNP Unit 1 scheduled COD in late 2021 and Turkey Point Unit 6 COD scheduled for 2022. FPL has not signed an EPC contract for the new Turkey Point units but is continuing to pursue a COL for these units. The primary difference in the status of these projects is that PEF has committed to the procurement of long lead material and is now trying to determine the best way to dispose of this material. The difference in dollars spent between the two projects is striking. Through 2011, PEF will have spent [redacted] (PEF Exhibit JL-6, page 22) on LNP while FPL will have spent $170.1 million on the Turkey Point project. PEF will have spent [redacted] due primarily to their unreasonable decision to sign the EPC contract in December 2008. If the projects are cancelled, [redacted]

Q. **MS. GALLOWAY TESTIFIES EXTENSIVELY TO THE BENEFITS THAT PEF GAINED BY HAVING SIGNED THE EPC CONTRACT. DO YOU BELIEVE THAT THE COMPANY COULD HAVE ACHIEVED THE SAME CONTRACTUAL BENEFITS BY WAITING TO SIGN THE EPC CONTRACT UNTIL THE SCHEDULE FOR THE LWA WAS KNOWN?**