BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of

DOCKET NO. 110001-EG
FUEL AND PURCHASED POWER
COST RECOVERY CLAUSE WITH
GENERATING PERFORMANCE
INCENTIVE FACTOR.
_______________________________/

VOLUME 4

Pages 496 through 569

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

DATE: Tuesday, November 1, 2011

TIME: Commenced at 9:30 p.m.
Recessed at 4:59 p.m.

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

REPORTED BY: MARY ALLEN NEEL, RPR, FPR
(850) 878-2221

APPEARANCES: (As heretofore noted.)

DOCUMENT NUMBER-DATE
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I N D E X

WITNESSES

EXHIBITS

PROCEEDINGS

(Transcript follows in sequence from Volume 3.)

CHAIRMAN GRAHAM: Okay. I think we're all ready to go here, everybody except for me.

Mr. Burnett, let's call your next witness.

MR. BURNETT: Yes, sir. Progress calls Marcia Olivier.

Thereupon,

MARCIA OLIVIER

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

DIRECT EXAMINATION

BY MR. BURNETT:

Q. Good afternoon, Ms. Olivier. Would you please introduce yourself to the Commission and provide your business address?

A. Yes. Good afternoon, Commissioners. My name is Marcia Olivier, and my business address is 299 First Avenue North, St. Petersburg, Florida.

Q. And, Ms. Olivier, you were sworn earlier; correct?

A. Yes.

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

A. I'm employed by Progress Energy Service Company as the Supervisor of Regulatory Planning Strategy for Progress Energy Florida.

Q. Have you prefiled direct testimony and exhibits in this proceeding?

A. Yes.

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

A. No.

Q. If I asked the same questions in your prefiled testimony today, would you give the same answers that are in your prefiled testimony?

A. Yes.

MR. BURNETT: Mr. Chair, we request that the prefiled testimony be entered in the record as though read today.

CHAIRMAN GRAHAM: We will enter Ms. Olivier's prefiled testimony into the record as though read today.

PROGRESS ENERGY FLORIDA

DOCKET NO. 110001-EI

Fuel and Capacity Cost Recovery Estimated/Actual True-Up Amounts January through December 2011

DIRECT TESTIMONY OF MARCIA OLIVIER

August 1, 2011

Q. Please state your name and business address.

A. My name is Marcia Olivier. My business address is 299 1st Avenue North, St. Petersburg, Florida 33701.

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

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

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present, for Commission approval, Progress Energy Florida's (PEF or the Company) estimated/actual fuel and capacity cost recovery true-up amounts for the period of January through December 2011.

Q. Do you have an exhibit to your testimony?

A. Yes. I have prepared Exhibit No.__ (MO-1), which is attached to my prepared testimony, consisting of two parts. Part 1 consists of Schedules E1-B through E9, which include the calculation of the 2011 estimated/actual fuel and purchased power true-up balance, and a schedule to support the capital structure components and cost rates relied upon to calculate the return requirements on all capital projects recovered through the fuel clause as required per Order No. PSC-11-0132-PCO-EI. Part 2 consists of Schedules E12-A through E12-C, which include the calculation of the 2011 estimated/actual capacity true-up balance. The calculations in my exhibit are based on actual data from January through June 2011 and estimated data from July through December 2011.

FUEL COST RECOVERY

Q. What is the amount of PEF's 2011 estimated fuel true-up balance and how was it developed?

A. PEF's estimated fuel true-up balance is an under-recovery of $123,159,202. The calculation begins with the actual under-recovered balance of $289,104,728 taken from Schedule A2, page 2 of 2, line 13, for the month of June 2011. This balance less a projected over-recovery for the months of July through December 2011 comprise the estimated $123,159,202 under-recovered balance at year-end. The projected December 2011 true-up balance includes interest which is estimated from July through December 2011 based on the average of the beginning and ending commercial paper rate applied in June. That rate is 0.013% per month.

Q. How does the current fuel price forecast for July through December 2011 compare with the same period forecast used in the Company's 2011 projection filing approved in Order No.PSC-10-0738-FOF-EI?

A. Natural gas costs decreased by $0.72/mmbtu (10%), coal costs increased by $0.24/mmbtu (7%), heavy oil costs increased by $1.42/mmbtu (13%) and light oil increased by $3.30/mmbtu (18%).

Q. Have you made any adjustments to your estimated fuel costs for the period July through December 2011?

A. Yes, we made three adjustments totaling a net reduction of $221,301,243. 1) We made an adjustment to include $41,574 for the depreciation and return on investment of railcars. 2) We made an adjustment to reduce fuel costs by $220,371,428 for expected Nuclear Electric Insurance Limited (NEIL) replacement power reimbursement payments to be applied within the fuel clause. Pursuant to an insurance policy held by PEF with NEIL, in the event an unplanned outage of our nuclear unit (CR-3) extends beyond a deductible period of 12 weeks, PEF is entitled to receive reimbursement payments in the amount of $4.5 million per week for 52 weeks to cover a portion of the replacement power costs associated with the outage. An additional 71 weeks of coverage is provided at $3.6 million per week pursuant to the insurance policy. The $220,371,428 of NEIL replacement power reimbursement payments covers the period of December 2010 through the full year of 2011. These payments, when received, will be applied to the fuel and capacity clause, consistent with the methodology utilized when allocating costs found within the A-Schedules filed with the Commission each month. 3) We have made an adjustment to remove the replacement power costs and reduce incremental fuel costs by $971,389 related to the CR1 and 2 outage that occurred on January 16, 2011.

Q. Does PEF expect to exceed the three-year rolling average gain on non-separated power sales in 2010?

A. No, PEF estimates the total gain on non-separated sales during 2011 will be $381,635, which does not exceed the three-year rolling average of $841,427.

CAPACITY COST RECOVERY

Q. What is the amount of PEF's 2011 estimated capacity true-up balance and how was it developed?

A. PEF's estimated capacity true-up balance is an over-recovery of $20,667,503. The estimated true-up calculation begins with the actual over-recovered balance of $31,751,038 for the month of June 2011. This balance plus the estimated July through December 2011 monthly true-up calculations comprise the estimated $20,667,503 over-recovered balance at year-end. The projected December 2011 true-up balance includes interest which is estimated from July through December 2011 based on the average of the beginning and ending commercial paper rate applied in June. That rate is 0.013% per month.

Q. What are the primary drivers of the estimated year-end 2011 capacity over-recovery?

A. The $20,667,503 over-recovery is primarily attributable to $16,703,005 of higher than projected capacity revenues and the 2010 true-up over-recovery of $14,684,019 partially offset by higher projected retail jurisdictional capacity costs of $10,794,357. Retail sales are estimated to be 1,260,660 MWHs higher than the projection upon which rates were based.

Q. Has PEF included the costs approved in Order No. PSC 11-0095-FOF-EI

A. Yes, PEF has included $163,580,660 of 2011 recoverable expenses associated with the Levy and CR-3 Uprate projects approved in Order No. PSC 11-0095-FOF-EI.

Q. Does this conclude your estimated/actual true-up testimony?

A. Yes.

PROGRESS ENERGY FLORIDA

DOCKET NO. 110001-EI

Fuel and Capacity Cost Recovery Factors
January through December 2012

DIRECT TESTIMONY OF
MARCIA OLIVIER

September 1, 2011

Q. Please state your name and business address.

A. My name is Marcia Olivier. My business address is 299 1st Avenue North, St. Petersburg, Florida 33701.

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

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

Q. Have your duties and responsibilities remained the same since your testimony was last filed in this docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present for Commission approval the fuel and capacity cost recovery factors of Progress Energy Florida (PEF or the Company) for the period of January through December 2012.

Q. Do you have an exhibit to your testimony?

A. Yes. I have prepared Exhibit No.__(MO-2), consisting of Parts 1, 2 and 3. Part 1 contains our forecast assumptions on fuel costs. Part 2 contains fuel cost recovery (FCR) schedules E1 through E10, H1, the calculation of the inverted residential fuel rate, and a schedule that supports the rate of return applied to capital projects recovered through the fuel clause pursuant to Order No. PSC-11-0132-PCO-EI. Part 3 contains capacity cost recovery (CCR) schedules.

FUEL COST RECOVERY CLAUSE

Q. Please describe the fuel cost factors calculated by the Company for the projection period.

A. Schedule E1 shows the calculation of the Company's levelized fuel cost factor of 5.168 ¢/kWh. This factor consists of a fuel cost for the projection period of 4.83858 ¢/kWh (adjusted for jurisdictional losses), a GPIF penalty of 0.00807 ¢/kWh, and an estimated prior period under-recovery true-up of 0.33364 ¢/kWh. Utilizing this factor, Schedule E1-D shows the calculation and supporting data for the Company's levelized fuel cost factors for service taken at secondary, primary, and transmission metering voltage levels. To perform this calculation, effective jurisdictional sales at the secondary level are calculated by applying 1% and 2% metering reduction factors to primary and transmission sales, respectively (forecasted at meter level). This is consistent with the methodology used in the development of the capacity cost recovery factors. The levelized fuel cost factor for residential service is 5.175 ¢/kWh. Schedule E1-D shows the Company's proposed tiered rates of 4.860 ¢/kWh for the first 1,000 kWh and 5.860 ¢/kWh above 1,000 kWh. These rates are developed in the "Calculation of Inverted Residential Fuel Rate" schedule in Part 2.

Schedule E1-E develops the Time of Use (TOU) multipliers of 1.427 On-peak and 0.794 Off-peak. The multipliers are then applied to the levelized fuel cost factors for each metering voltage level which results in the final TOU fuel factors to be applied to customer bills during the projection period.

Q. What is the amount of the 2011 net true-up that PEF has included in the fuel cost recovery factor for 2012?

A. PEF has included a projected under-recovery of $123,159,202. This amount includes a projected actual/estimated over-recovery for 2011 of $35,666,520 net of the final 2010 true-up under-recovery of $158,825,721 as included in the Direct Testimony of Will Garrett on March 1, 2011.

Q. What is the change in the levelized residential fuel factor for the projection period from the fuel factor currently in effect?

A. The projected levelized residential fuel factor for 2012 of 5.175 ¢/kWh is an increase of 0.399 ¢/kWh or 8% from the 2011 projected levelized residential fuel factor of 4.776 ¢/kWh.

Q. Please explain the increase in the 2012 fuel factor compared with the 2011 fuel factor.

A. The primary driver of the increase in the 2012 fuel factor is the prior period under-recovery of $123,159,202 compared to the 2011 forecasted prior period under-recovery of $60,501,165 and an increase in fuel costs of $112,123,385. The increase in fuel costs is primarily due to higher natural gas generation and firm purchased power partially offset by lower natural gas prices.

Q. Have you made any adjustments to your estimated fuel costs for the period January through December 2012?

A. Yes, we made two adjustments totaling a net reduction of $118,273,606. 1) We made an adjustment to include $12,108 for the depreciation and return on investment of railcars. 2) We made an adjustment to reduce fuel costs by $118,285,714 for expected Nuclear Electric Insurance Limited (NEIL) replacement power reimbursement payments to be applied within the fuel clause. Pursuant to an insurance policy held by PEF with NEIL, in the event an unplanned outage of our nuclear unit (CR-3) extends beyond a deductible period of 12 weeks, PEF is entitled to receive reimbursement payments in the amount of $4.5 million per week for 52 weeks to cover a portion of the replacement power costs associated with the outage. An additional 71 weeks of coverage is provided at $3.6 million per week pursuant to the insurance policy. The $118,285,714 of NEIL replacement power reimbursement payments covers the period of January 1, 2012 through mid-August 2012. The NEIL payments through mid-August 2012 will cover the entire eligible payment periods outlined above. These payments, when received, will be applied to the fuel and capacity clause, consistent with the methodology utilized when allocating costs found within the A-Schedules filed with the Commission each month.

Q. Is PEF proposing to continue the tiered rate structure for residential customers?

A. Yes. PEF is proposing to continue use of the inverted rate design for residential fuel factors to encourage energy efficiency and conservation. Specifically, the Company proposes to continue a two-tiered fuel charge whereby the charge for a customer's monthly usage in excess of 1,000 kWh (second tier) is priced one cent per kWh higher than the charge for the customer's usage up to 1,000 kWh (first tier). The 1,000 kWh price change breakpoint is reasonable in that approximately 68% of all residential energy is consumed in the first tier and 32% of all energy is consumed in the second tier. The Company believes the one cent higher per unit price, targeted at the second tier of the residential class' energy consumption, will promote energy efficiency and conservation. This inverted rate design was incorporated in the Company's base rates approved in Order No. PSC-02-0655-AS-EI.

Q. How was the inverted fuel rate calculated?

A. I have included a page in Part 2 of my exhibit that shows the calculation of the fuel cost factors for the two tiers of the residential rate. The two factors are calculated on a revenue neutral basis so that the Company will recover the same fuel costs as it would under the traditional levelized approach. The two-tiered factors are determined by first calculating the amount of revenues that would be generated by the overall levelized residential factor of 5.175 ¢/kWh shown on Schedule E1-D. The two factors are then calculated by allocating the total revenues to the two tiers for residential customers based on the total annual energy usage for each tier.

Q. What is included in Schedule E1, line 3, "Coal Car Investment"?

A. The $12,108 on Line 3 represents the estimated return on investment in rail cars used to transport coal to Crystal River. The calculation used a rate of return of 7.88% that was approved in PEF's rate case Order No. PSC-10-0131-FOF-EI. A schedule showing the derivation of the debt and equity components of this rate is included in Exhibit No.__(MO-2), Part 2.

Q. How do PEF's projected gains on non-separated wholesale energy sales for 2012 compare to the incentive benchmark?

A. The total gain on non-separated sales for 2012 is estimated to be $254,628 which is below the benchmark of $905,703 by $651,075. 100% of gains below the benchmark and 80% of gains above the benchmark will be distributed to customers based on the sharing mechanism approved by the Commission in Order No. PSC-00-1744-PAA-EI. Therefore, since the total gain on non-separated sales was below the benchmark none of the gains will be retained for the shareholders. The benchmark was calculated based on the average of actual gains for 2009 of $1,219,086 and 2010 of $1,116,387 and estimated gains for 2011 of $381,635 in accordance with Order No. PSC-00-1744-PAA-EI.

Q. Please explain the entry on Schedule E1, line 17, "Fuel Cost of Stratified Sales."

A. PEF has several wholesale contracts with SECI. One contract provides for the sale of supplemental energy to supply the portion of their load in excess of SECI's own resources. The fuel costs charged to SECI for supplemental sales are calculated on a "stratified" basis in a manner which recovers the higher cost of intermediate/peaking generation used to provide the energy. There are other SECI contracts for fixed amounts of base, intermediate, peaking and plant-specific capacity. PEF is crediting average fuel cost of the appropriate strata in accordance with Order No. PSC-97-0262-FOF-EI. The fuel costs of wholesale sales are normally included in the total cost of fuel and net power transactions used to calculate the average system cost per kWh for fuel adjustment purposes. However, since the fuel costs of the stratified and plant-specific sales are not recovered on an average system cost basis, an adjustment has been made to remove these costs and the related kWh sales from the fuel adjustment calculation in the same manner that interchange sales are removed from the calculation. This adjustment is necessary to avoid an over-recovery by the Company which would result from the treatment of these fuel costs on an average system cost basis in this proceeding, while actually recovering the costs from these customers on a net higher, stratified or plant-specific cost basis. Line 17 also includes the fuel cost of sales made to the City of Tallahassee in accordance with Order No. PSC-99-1741-PAA-EI, as well as sales to Reedy Creek, Gainesville, the City of Homestead and Winter Park.

Q. Please give a brief overview of the procedure used in developing the projected fuel cost data from which the Company's fuel cost recovery factor was calculated.

A. The process begins with a fuel price forecast and a system sales forecast. These forecasts are input into the Company's production cost simulation model along with purchased power information, generating unit operating characteristics, maintenance schedules, and other pertinent data. The model then computes system fuel consumption and fuel and purchased power costs. This information is the basis for the calculation of the Company's fuel cost factors and supporting schedules.

Q. What is the source of the system sales forecast?

A. System sales are forecasted by the PEF Finance Department using normal weather conditions based on 20-year system weighted average weather conditions, population projections from the Bureau of Economic and Business Research at the University of Florida and economic assumptions from Economy.Com.

Q. What is the source of the Company's fuel price forecast?

A. The fuel price forecasts for natural gas and fuel oil (residual and distillate) are based on observable market data in the industry and are prepared jointly by the Company's Enterprise Risk Management Department and Fuels and Power Optimization Department. For coal, a third party forecast is used. Additional details and forecast assumptions are provided in Part 1 of my exhibit.

Q. Are current fuel prices the same as those used in the development of the projected fuel factor?

A. No. Fuel prices can change significantly from day to day, particularly in the storm season. Consistent with past practices, PEF will continue to monitor fuel prices and update the projection filing prior to the November hearing if changes in fuel prices warrant such an update.

CAPACITY COST RECOVERY CLAUSE

Q. Please explain the schedules that are included in Exhibit__(MO-2) Part 3.

A. The following schedules are included in my exhibit:

<u>Schedule E12-A – Calculation of Projected Capacity Costs – Year 2012</u>

Page 1 of Schedule E12-A includes estimated 2012 calendar year system capacity payments to qualifying facilities (QF) and other power suppliers, as well as recovery of nuclear costs pursuant to Rule 25-6.0423. The retail portion of the capacity payments is calculated using separation factors consistent with PEF's 2011 Forecasted Earnings Surveillance Report filed March 16, 2011 in accordance with Rule 25-6.1353. Total nuclear costs of $140,919,397 are made up of $135,325,074 for the Levy plant and $5,594,323 for the CR3 Uprate project, derived from the revised direct testimony of

Thomas G. Foster filed on August 12, 2011 in Docket No. 110009-EI, Exhibit__(TGF-2) pages 3-4 and Exhibit__(TGF-5) pages 3-4, respectively. Schedule E12-A provides dates and MWs associated with the QF and purchase power contracts.

<u>Schedule E12-B – Calculation of Estimated/Actual True-Up - Year 2011</u>

Schedule E12-B, which is also included in Exhibit __(MO-1) to my direct testimony filed on August 1, 2011 in the 2011 estimated/actual true-up filing, calculates the estimated true-up capacity over-recovered balance for calendar year 2011 of $20,667,503. This balance is carried forward to Schedule E12-A to be refunded to customers from January through December 2012.

<u>Schedule E12-D – Calculation of Energy and Demand Percent by Rate Class</u>

Schedule E12-D is the calculation of the currently approved 12CP and 1/13 annual average demand allocators for each rate class.

<u>Schedule E12-E – Calculation of Capacity Cost Recovery Factors by Rate Class</u>

Schedule E12-E calculates the CCR factors for capacity and nuclear costs for each rate class based on the 12CP and 1/13 annual average demand allocators from Schedule E12-D. The CCR factors for each secondary delivery rate class in cents per kWh are calculated by multiplying total recoverable jurisdictional capacity (including revenue taxes) from Schedule E12-A by the class demand allocation factor, and then dividing by estimated effective sales at the secondary metering level. The CCR factors for primary and transmission rate classes reflect the application of metering reduction factors of 1% and 2% from the secondary CCR factor. The factors allocate capacity and nuclear costs to rate classes in the same manner in which they would be allocated if they were recovered in base rates.

Q. Has PEF used the most recent load research information in the development of its capacity cost allocation factors?

A. Yes. The 12CP load factor relationships from PEF's most recent load research conducted for the period April 2008 through March 2009 are incorporated into the capacity cost allocation factors. This information is included in PEF's Load Research Report filed with the Commission on July 31, 2009.

Q. What is the 2012 projected average retail CCR factor?

A. The 2012 average retail CCR factor is 1.342 ¢/kWh, made up of capacity and nuclear costs of 0.959 ¢/kWh and 0.383 ¢/kWh, respectively.

Q. Please explain the change in the CCR factor for the projection period compared to the CCR factor currently in effect.

A. The total projected average retail CCR factor of 1.342 ¢/kWh is .098 ¢/kWh or 8% higher than the 2011 factor of 1.244 ¢/kWh. This increase is primarily attributable to a refund of the prior period over-recovery of $20,667,503 compared to a prior period over-recovery refunded in 2011 of $52,311,070. In addition, nuclear recoveries decreased by $22,661,263.

Q. Does this conclude your testimony?

A. Yes

PROGRESS ENERGY FLORIDA

DOCKET NO. 110001-EI

Fuel and Capacity Cost Recovery Factors
January through December 2012

SUPPLEMENTAL DIRECT TESTIMONY OF
MARCIA OLIVIER

October 26, 2011

Q. Please state your name and business address.

A. My name is Marcia Olivier. My business address is 299 1st Avenue North, St. Petersburg, Florida 33701.

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

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

Q. Have your duties and responsibilities remained the same since your testimony was last filed in this docket?

A. Yes.

Q. What is the purpose of your Supplemental Direct Testimony?

A. The purpose of my testimony is to amend the 2012 capacity costs and related capacity cost recovery factors of Progress Energy Florida (PEF or the Company) for the period of January through December 2012, based on the Commission's

October 24, 2011 vote in the Nuclear Cost Recovery Clause, Docket No. 110009-EI.

Q. Do you have exhibits to your Supplemental Direct Testimony?

A. Yes. I have prepared a revised Schedule E10 in Exhibit MO-2, Part 2 and Schedules E12-A and E12-E in Exhibit MO-2, Part 3.

Q. What revisions were made to PEF's 2012 capacity costs?

A. The capacity costs were revised to include the 2012 nuclear recovery amount of $85,951,036 (before revenue tax), approved at the October 24, 2011 agenda conference in Docket No. 110009-EI.

Q. What are the appropriate projected total recoverable CCR costs to be included in the recovery factor for the period January 2012 through December 2012?

A. The appropriate amount is $439,444,805, as shown on revised Exhibit__ MO-2, Part 3, Schedule E12-A. This amount is made up of capacity payments of $353,431,884 and nuclear costs of $86,012,921, including revenue taxes.

Q. What is PEF's revised CCR factor?

A. PEF's revised retail factor is 1.192 ¢/kWh as shown on revised Exhibit __ MO-2, Part 3, Schedule E12-E.

Q. What are the appropriate capacity cost recovery factors for the period January through December 2012?

A. The appropriate capacity cost recovery factors for the period January 2012 through December 2012 are listed in the table below.

Rate Class	CCR Factor
Residential	1.460 cents/kWh
General Service Non-Demand	1.064 cents/kWh
@ Primary Voltage	1.053 cents/kWh
@ Transmission Voltage	1.043 cents/kWh
General Service 100% Load Factor	0.767 cents/kWh
General Service Demand	0.949 cents/kWh
@ Primary Voltage	0.940 cents/kWh
@ Transmission Voltage	0.930 cents/kWh
Curtailable	0.873 cents/kWh
@ Primary Voltage	0.864 cents/kWh
@ Transmission Voltage	0.856 cents/kWh
Interruptible	0.765 cents/kWh
@ Primary Voltage	0.757 cents/kWh
@ Transmission Voltage	0.750 cents/kWh
Lighting	0.223 cents/kWh

Q. Does this conclude your testimony?

A. Yes.

MR. BURNETT: Ms. Olivier is available for questions and cross-examination.

CHAIRMAN GRAHAM: Ms. Olivier, welcome.

Mr. Rehwinkel, we'll start with you.

MR. REHWINKEL: Thank you, Mr. Chairman.

CROSS-EXAMINATION

BY MR. REHWINKEL:

Q. Good afternoon, Ms. Olivier.

A. Good afternoon, Mr. Rehwinkel.

CHAIRMAN GRAHAM: Mr. Rehwinkel, hold on a second. I see a lot of panic over here. What did I forget to do?

MS. HELTON: I was just wondering if she had waived her summary and I just missed that.

MR. BURNETT: I'm sorry, sir. None of our witnesses have summaries today. They're just available for questions.

CHAIRMAN GRAHAM: Mr. Rehwinkel, I apologize. Please continue.

MR. REHWINKEL: No problem. It was a fair question to ask.

BY MR. REHWINKEL:

Q. Ms. Olivier, isn't it true that in 2010, the -- well, first of all, let me ask -- strike that. Isn't it true that in 2009, the replacement power costs for --

related to the CR 3 extended outage was $8,512,911?

A. That's correct.

Q. And there were no NEIL receipts in that year; correct?

A. That's correct.

Q. And isn't it also true that in 2010, there were $271,621,341 of -- strike that. $275,333,798 of replacement power costs on a gross basis?

A. That's correct.

Q. Of which the company received approximately $171 million in NEIL receipts?

A. Yes, that's correct.

Q. And the total included for recovery in the 2011 fuel factor would have been the sum of the net proceeds of $104,333,798 for 2010 plus the 8.5 million for 2009?

A. Those are the net fuel replacement costs applicable to the period 2009 and 2010. The NEIL receipts that we have received to date are basically through the period of approximately December 17th of 2010.

Q. Okay. Thank you. For 2011, isn't it true that your gross replacement fuel costs for that period are $208,525,218?

A. Yes, that's the estimate for 2011.

Q. Okay. Against which you expect approximately $200 million in NEIL receipts for that calendar year; correct?

A. That's correct.

Q. So what you're seeking for 2011 as a part of the factor applicable to 2012 would be $8.2 million, approximately; correct?

A. That's correct.

Q. And then also for the 2012 factor will be estimated replacement power costs gross of $286,678,071?

A. Correct.

Q. Less NEIL receipts of $118,285,714; is that correct?

A. That's correct.

Q. So your total requested recovery for 2012 is $176,603,289; is that right?

A. That's correct.

Q. Okay. Could I get you to turn to page 4 of your testimony?

A. You're referring to the projection testimony?

Q. Yes, your September 1st testimony. I'm sorry.

A. Okay. I'm there.

Q. Okay. You again reference the $118,285,714 figure that I asked you about earlier related to NEIL reimbursement for 2012; correct?

A. Correct.

Q. Wouldn't you also -- would you agree with me that the NEIL receipts were received pursuant to a policy that was funded by -- for which -- the premiums for which were funded by ratepayer funds?

A. Yes.

Q. And that same answer would be applicable for each of the years that I asked you about, 2010, 2011, and 2012; correct?

A. Yes.

MR. REHWINKEL: I have no further questions. Thank you.

CHAIRMAN GRAHAM: Mr. Brew or Mr. Moyle.

MR. MOYLE: I was going to go next.

CROSS-EXAMINATION

BY MR. MOYLE:

Q. To go back to a point we've beat up pretty good today, but when I asked you that question about an expert in your depo, you said you weren't sure you were an expert. And you're not an expert; correct?

A. That's correct. I'm generally a fact witness.

Q. Okay. I want to spend a little time talking about the issue of two events versus one. And I know we spent some time talking about that previously. But I am correct that to the extent that there are two events for which insurance coverage is available, that means there's approximately 70 million less dollars that you would be looking to the ratepayers to fund; correct?

A. Yes. If NEIL determines that this is two events, then we would be -- we would -- our insurance proceeds for 2011 would be about $20 million less, primarily due to the additional 12-week deductible period in 2011. But then they would be about $90 million higher in 2012, for a net difference of $70 million.

Q. Okay. As we sit here today, though, you are seeking to recover that 90 million in 2012; correct?

A. Yes, we are.

Q. And if the Commission were to decide that rather than assuming one event, that two events should be assumed, then I guess your recovery would be reduced by 70 million for 2011, is that correct, in terms of moneys you are seeking from the ratepayers?

A. I think it's a matter of what NEIL is going to be determining here. Right now NEIL has agreed to cover one event, so we're not speculating as to whether this is going to be one or two events. We're assuming what NEIL has determined, that this is one event. So if NEIL comes back and determines later that there are two events, then that would change the amount that we would receive from NEIL. But right now, we haven't received from NEIL anything other than currently this is one event, and that's what our assumption is here in the fuel clause.

Q. And you're aware that Exhibit 89 which is in evidence talks about the delamination occurring at a different bay; correct? Do you know that?

A. I'm aware that the second delamination occurred in a different place, but I'm not familiar with Exhibit 89.

Q. Okay. And you're aware that the second delamination, to use the term that you all used, occurred more than a year after the first delamination; correct?

A. It's my understanding that that occurred due to the retensioning process.

Q. Given those facts, does that lead you to make a conclusion as to whether there's one event or two events?

A. I'm sorry. Given --

Q. Given the fact that there's an 18-month time differential and they're in different parts of the building, and your company is filing documents with the PSC referring to a second delamination, wouldn't you think that there's two events as compared to one event?

A. I cannot make a determination if it's two events. It could be a second phase of one event. It could be two events. So we're just going with what we know today.

Q. And no one is here today from Progress that can tell us the process that you went through to evaluate one event versus two events; correct?

A. That's correct. The process to evaluate one versus two events?

Q. That's right.

A. We don't have any experts here today with respect to the actual NEIL coverage of this event, so I think you're right there.

Q. And you would agree if I got in a wreck leaving this hearing today, the fuel hearing in 2011, and then next year we were out here doing the same thing and I got in another wreck leaving the building, that would be two events, wouldn't it, for car insurance purposes?

MR. BURNETT: Objection. Foundation and relevance.

CHAIRMAN GRAHAM: Mr. Moyle?

MR. MOYLE: She has some testimony about the NEIL insurance proceeds and how they're applied. I think I ought to be given some latitude to inquire as to how they came up with the notion that for the purposes of asking ratepayers to pay money, that they would only use one event as compared to two.

CHAIRMAN GRAHAM: Well, I believe she said that it was NEIL's determination that it's one event or two events, that the company was trying to seek two events, unless I misheard or misunderstood.

BY MR. MOYLE:

Q. Has NEIL told you that they are not considering the March event as a second event?

A. It's my understanding that NEIL is still evaluating that, and so I have not heard anything as to whether NEIL has made a determination on whether it's one or two events.

Q. To the extent that -- let me ask you this. Could you come in -- to the extent that NEIL makes a determination that it was a second event, or if the Commission assumed that it was two events for the purposes of this proceeding, could you come in through a mid-course type process and try to have that issue addressed after a NEIL decision was made?

A. We could come in and address that as a mid-course. Generally the way that works is, we would look at everything. We would look at all of our other factors as well, what our fuel prices have done, maybe actuals to date at that point, and we would look -- generally if -- according to the mid-course rule, if we find that our fuel costs have changed by 10 percent, then we would notify the Commission through a petition -- I mean through a letter that we've reached that 10 percent threshold, and I think we would look at this as a holistic approach at that point. Either way, once NEIL makes that determination, if NEIL were to determine that this would be two events, then the difference would go back to the customers.

Q. And just so I'm clear on this, Progress hasn't taken a position as to one event versus two events, notwithstanding some of the things that have been filed? I mean --

A. I'm not aware --

Q. -- in terms of dealing with the insurance company.

A. I'm not aware of what Progress's position is on whether it's one event or two events.

Q. If the Commission were to decide to defer recovery until after the prudence determination hearing, how much of a savings would that represent for your average residential customer?

A. If the Commission were to decide to defer the

2011 and 2012 net replacement fuel costs until after a determination of prudence is made, then the impact of deferring the entire approximately $170 million is $4.70 on the residential bill. And then if 50 percent of that were deferred, it would be half that. It would be $2.35.

Q. Okay. And then how much would be saved to the average commercial business, if you know, or can you estimate?

A. I don't have those amounts, but I imagine it would be very similar.

Q. Similar in terms of --

A. It would be close.

Q. -- dollar savings or --

A. Dollars per megawatt-hour.

Q. But businesses typically use more than your residential -- your average residential user, don't they?

A. That's correct.

Q. So we could assume that businesses would save considerably more than the $5 that the residential -- the 4.70 that the residential users would save; correct?

A. I think it just depends on what the business is. That makes sense.

Q. And to the extent that -- you're aware that there's a hearing scheduled in June to determine prudency related to issues concerning Crystal River 3; correct?

A. Yes.

Q. And that no evidence as to prudency has been presented yet as we sit here, but the hearing is coming up; correct?

A. That's my understanding.

Q. And to the extent that the Commission made a decision to defer until after they received evidence and made a determination on prudence, if the Commission did decide that Progress acted prudently, you could come in and seek the equivalent of a mid-course adjustment to pick up the fuel dollars shortly after the prudency hearing; correct?

A. We could do that, but then we -- you know, we would have to think about what that impact would be on the ratepayers of deferring costs and then collecting those later when we can't predict at this point what those -- what that's going to be added to and over what period we would be recovering it. We know today what the rates are and what the impact is on customers, but we can't predict what that is in the future.

Q. But you have a forecast for 2012; correct?

A. We do have a forecast for 2012.

Q. Okay. And that forecast is relativity stable with respect to fuel prices; correct?

A. For 2012, with respect to fuel prices, we have an increase of $3.99 per thousand kilowatt-hours on the residential bill. But if we're looking at the total residential rate, considering what was approved in the nuclear docket on October 26th and the other issues that are before the Commission here in these clause proceedings, we're looking at an increase of approximately 3 percent, $3.85 on a residential bill from 2011 to 2012.

Q. And that includes the nuclear costs; is that right?

A. That's true.

Q. Do you know how much it is if you don't include the nuclear?

A. That includes the adjusted nuclear rate that was approved on October 26th. So when you say how much it is if we exclude the nuclear, you mean the nuclear adjustment or the all nuclear?

Q. Yes, the nuclear adjustment.

A. The nuclear costs that we are including right now are $2.67 on the residential bill, and we had included $4.49.

Q. All right. And when you said that, well, if the costs were deferred, the ratepayers, it would cost them more in the future, wouldn't that be because they would, in effect, be having to pay whatever the money is at a later point in time?

A. They would have to pay that in addition to all the other costs that are being charged to them at that point in time.

Q. And you're aware that all of the consumers who are represented by counsel have taken a position that they would prefer to have the moneys deferred rather than paid now; correct?

A. You're asking if I'm aware that the consumers all want to pay --

Q. Yes. Public Counsel, they represent the people of Florida; my client, the industrial users; Mr. Brew has the phosphate company; the Federal Executive Agencies. All the consumer groups are advocating for a deferral of the moneys; correct?

A. It is my understanding, yes, that you're all advocating for deferring recovery.

Q. So at least from the standpoint of if you assume that they're reasonably intelligent folks, they're not going to be advocating against their economic interests, are they?

A. My understanding is that they're advocating to defer those costs. But what I'm saying is that we can't predict what that will be added to in the future today. Today, we know what that cost impact is on customers today, but we don't know what that is later. And I understand that you're advocating to defer those costs, and I'm just saying you're advocating to defer something that could put customers at risk in the future if costs go up and then we have an additional amount that has to be recovered from customers at that future time.

Q. But as we sit here today, we don't know whether costs are going to up or down, do we, in the future?

A. We cannot predict the future today.

Q. And it's possible that costs could go down; correct?

A. It's possible that costs could go down, and it's possible that costs could go up, correct.

Q. Isn't it true that part of the reason you're trying to get the moneys now from the ratepayers is because it makes it easier for you to finance the obligation to buy fuel? Even if you were determined to be imprudent later, basically you're making use of the customer's money at 1 or 2 percent interest, the commercial paper rate, should a refund be ordered?

A. The reason that we're asking to recover to our fuel costs is because they are being spent. The Commission allows us to recover our fuel costs as we spend those based on our projections, and then there's the true-up mechanism. So these are costs that we are expending today for fuel, and then we recover those costs as they are spent.

Q. So if recovery was permitted from the ratepayers and then it was later found that you were imprudent, you would be ordered to pay back those dollars; correct?

A. That's correct.

Q. And you would have to pay it back with interest; correct?

A. That's correct.

Q. And the interest would be at what rate?

A. At the commercial paper rate.

Q. And what is that rate?

A. Approximately 1 percent.

Q. And if the Commission made a decision to defer recovery, you would have to use other capital sources to purchase the fuel; correct?

A. That's correct.

Q. And what other capital sources would you consider using, and what is the cost of that capital?

A. I am not in the treasury department, so I probably can't speak to exactly how they're going to fund those operations.

Q. Do you know your average cost of capital?

A. Our average weighted -- our weighted average cost of capital is approximately 8 percent.

Q. So the difference between the commercial paper rate and the average cost of capital is 700 basis points or 7 percent; is that right?

A. That's correct, approximately. Of course, that weighted average cost of capital includes all sources of financing, so that would include equity and debt.

Q. So if you were looking at it purely from a financing perspective, wouldn't -- you know, looking out for shareholders' interests, wouldn't you prefer to have access to money that would cost you 1 percent as compared to 7 percent?

A. Yes.

Q. I want to touch on one more area that we spent some time talking about last week or the week before, and that is costs related to the Crystal River 3 outage that you're seeking to recover through the environmental cost recovery clause. There are dollars that you're seeking to recover through the environmental cost recovery clause related to the Crystal River 3 outage;

correct?

A. That's correct.

Q. Do you know how much that is, approximately?

MS. BROWN: Mr. Chairman, if I might just interrupt for a minute, Ms. Olivier has not filed any testimony in the 07 docket. I'm not quite sure why she's testifying to those numbers in this docket. I wasn't aware that she was going to be doing that.

CHAIRMAN GRAHAM: Your objection is that she's answering questions to the 07 docket?

MS. BROWN: Yes, and we're not in the 07 docket.

CHAIRMAN GRAHAM: Mr. Moyle?

MR. MOYLE: Well, I guess a number of points. In this docket, number 77 has a question 104, "Please explain the incremental environmental expenses," and there's numbers associated with that that's contained within this docket.

I will have some questions about this in the environmental docket. I don't plan on spending a lot of time with her on this issue, but we did talk about it in the deposition, and I would like to be able to ask her some of those questions and just get it on the record.

And to the extent that it wasn't part of prefiled testimony, I think we've already set precedent earlier about witnesses testifying about things that were not part of prefiled testimony, so I think it should be allowed.

CHAIRMAN GRAHAM: But you're asking her questions about another docket, not this docket. You're asking her about the environmental docket, which is 07.

MR. MOYLE: Well, there's some overlap. There's some tie-in, because I think some of the costs end up flowing through the fuel clause, as I understand it. I may not have this exactly right, but I do think there's some overlap with respect to environmental costs that they're seeking to recover related to the Crystal River 3 outage.

CHAIRMAN GRAHAM: I will allow the question. Let's see where this is going.

BY MR. MOYLE:

Q. I think we established that there are some environmental costs that you all are seeking recovery of; correct?

A. Yes. As part of the cost simulation model that portfolio management runs, they run the model with the nuclear plant running, and then they run another run without the nuclear plant. So the difference is how we get the replacement fuel costs.

And part of the output of that model is to also provide the incremental emissions costs, the SO_2 and the NO_X costs. Those costs are all recovered in the environmental clause. So we're not including any of those costs in the fuel clause. It's just the output from the model provides both the fuel, the replacement fuel and the environmental costs.

Q. And the model you're running, you run it for the fuel, but it has an environmental aspect to it; is that right? Is that fair?

A. We don't run those costs through fuel. It's the simulation model that calculates both the fuel and the environmental costs, but no environmental costs are going through the fuel clause.

Q. Okay. And do you know if the model provides the basis for the numbers for which you seek to recover moneys from the ratepayers?

A. The model calculates the replacement fuel costs.

Q. How about with respect to any SO_X or NO_X allowances? Does the model address those issues?

A. The model addresses those issues to the extent that the inputs in the model are the market prices of emissions, and then it multiplies that price by the additional tons of emissions that would be emitted. So the model calculates a number that is not necessarily the same as what the company calculates as far as what the actual cost to the company is of those emissions.

Q. So do you know how much money you're seeking to recover related to the NO_X and SO_X allowances that are focused only on if Crystal River 3 were running as compared to if it were not running?

A. I don't have that information with me. That is included in the environmental docket.

Q. All right. And then I think just one or two more questions. To the extent that you're seeing to recover those moneys -- and we can talk to your witnesses in the environmental docket -- do you know if those numbers are based on your actual cost basis for the NO_x and SO_x credits, or are they based on the model market rates that we've been discussing or on some other basis?

A. I want to make sure I understand your question. You're asking me what we're actually recovering in the environmental clause? And that's based on the costs that -- the price that we have in inventory for those allowances multiplied by the emitted tons.

Q. Based on an inventory price?

A. That's my understanding.

Q. And do you have information about how that inventory price is calculated or determined or who makes a decision as to which credit to pull off the shelf in terms of an inventory?

A. No, I do not.

Q. All right. Who would be the best witness to ask that question of?

A. Mr. Foster is going to be a witness in the environmental clause, and he can answer how those are calculated.

MR. MOYLE: Okay. Mr. Chairman, thank you for the latitude to explore that with the witness. I don't have any further questions.

CHAIRMAN GRAHAM: Mr. Wright.

MR. MOYLE: Thank you, Mr. Chairman. I don't have very much, but I appreciate it.

CROSS-EXAMINATION

BY MR. WRIGHT:

Q. Good afternoon, Ms. Olivier.

A. Good afternoon.

Q. A couple of predicate questions. You will agree that no prudence determination has been made with respect to Progress Energy's actions that resulted in the delamination and resulting replacement fuel costs at Crystal River 3; correct?

A. That's correct.

Q. How much in replacement fuel costs will Progress Energy Florida have recovered through the fuel and purchased power cost recovery charges as of December 31 of this year?

A. As of December 31st, included in the 2011 rate, we have approximately $139 million of net replacement fuel costs, and that's applicable to the period of -- the beginning of the outage in December '09 through 2010, because what's in the current --

Q. Right.

A. What's in the current rate is based on the projection that was filed last year.

Q. Correct. And at that time, the company expected the unit to come back on line right around the end of December 2010; correct?

A. That's correct.

Q. Thank you. And just -- I know this is in the record somewhere, but just to confirm, you're asking the Commission -- Progress is asking the Commission to recover $176,603,289 in its 2012 charges for replacement fuel costs; correct?

A. Well, those are the net replacement fuel costs applicable to the period of 2011 and 2012. However, there's a true-up component associated with the 2010 recovery, so the actual amount that we're looking for in rates here for 2011 and 2012 is $143 million.

So we had $139 million in our 2011 rate. Our 2012 rate is 143 million.

Q. Do I deduce from that that the 139 was more than necessary to cover the 2010 replacement fuel costs?

A. That's correct. We had overprojected our replacement fuel costs by 20 million and underprojected our NEIL recoveries by 10 million, so there were 30 million.

Q. Okay. So the number I used of $110 million or so was a pretty accurate net number through 2011? 139 minus 20 minus 10 is 109.

A. Considering the actuals for the period of 2010.

Q. Okay. Thank you. There have been four different numbers used that seem to relate to the same thing, and I'm just trying to understand what they are. I think we've confirmed that the impact of allowing your proposed recovery in 2012 would be $4.70 per 1,000 KWH residential; correct?

A. That's for 2011 and 2012.

Q. But that's the rate impact in 2012 to recover the costs from '11 and '12?

A. Just for the period of '11 and '12 if you don't consider any true-ups or adjustments from prior period.

Q. And so if you put in the true-up, what does that number become?

A. Then the rate impact is $3.88 compared to $3.82 in our 2011 fuel rate.

Q. So the 3.82 was the 139 million?

A. That's correct.

Q. The rate equivalent of that? Okay.

And I think somewhere in response to a question from one of my colleagues over here, you said something about a $3.99 number. Does that ring a bell?

A. Yes. The $3.99 is the increase in the fuel rate from -- the total fuel from 2011 to 2012. So we've got an increase from $44.61 currently to $48.60 in 2012. And that entire increase is a result of the true-up mechanism, basically. It doesn't have anything to do with the CR 3 outage. That increase is to recover prior period under-recoveries not associated with CR 3, with the nuclear unit.

Q. Okay. I apologize, but you lost me a little bit there. I understand the total fuel cost rate you said is going to go from 44.61 to 48.60.

A. That's correct.
Q. And that difference is the 3.99.
A. Yes.
Q. But does that include the replacement fuel costs for Crystal River 3?
A. Those rates include the replacement fuel costs, so the $44.61, our current rate for 2011, includes 3.82 for Crystal River Unit 3-on net replacement fuel costs, and then the $48.60 includes $3.88 for the nuclear replacement costs.
Q. Thank you. I want to just talk briefly from a slightly different direction about the impacts of deferral on customers. I read your testimony, and you have degree in finance; correct?
A. Yes.
Q. I would hope that you're familiar with the concept of opportunity cost.
A. I am.
Q. In the context of a customer who has some money, they could either pay more to Progress if the Commission approves the recovery here, or they could use that money, for example, to pay off other consumer debt that they might have; correct?
A. Correct.
Q. And their alternate application of available

funds would be the opportunity cost of paying you all the money instead; right?

A. The alternative is -- I'm sorry. Say that one more time.

Q. The opportunity cost -- let's say I've got a credit card, and the balance on my credit card is costing me 12 percent. If I would otherwise pay you all the money, that money I could not use to pay off my 12 percent credit card debt; correct?

A. That's correct.

Q. And that's the opportunity cost to me of paying you all the extra money that's at issue here, my share of it?

A. Right. And in this case, if you don't pay it today, then you will pay it later in addition to all of your other costs later.

Q. You bet. Now, will you agree that a rational customer would prefer to use available money to pay off higher interest debt now, and if necessary, after the PSC were, by hypothesis, to have allowed recovery of these costs later, wouldn't the customer rather pay off existing consumer credit debt bearing a higher interest rate and risk paying y'all the 1 percent or so later?

MR. BURNETT: Mr. Chairman, I'll object to that on relevance and materiality. Mr. Wright is suggesting that customers have the option to receive our products and services but not pay for them if it's optimized, that they could use money in a better place. That suggestion is immaterial, irrelevant, and unfounded.

MR. WRIGHT: Mr. Chairman, it goes directly to customer impact.

CHAIRMAN GRAHAM: I'll allow the question.

MR. WRIGHT: Thank you.

A. You know, I can't speak for what the customers would prefer. I know that I might prefer to have more of a levelized payment than to have a decrease today and then have to pay more later. So I can speak for myself. I'm not sure that I would want to see big changes in what I would have to pay for electricity.

Q. In your opinion, would it be rational for a customer to want to use money that the customer could use to pay off 12 percent credit debt instead of paying y'all -- risking paying y'all an extra 1 percent on the same amount of money nine or ten months from now?

A. Knowing that they might have to pay it later, so it's really just a timing issue, you're saying. It's a deferral.

Q. Yes, subject to --

A. I can't speak for what a customer would prefer.

Q. So if we use the $140 million or so for the amount for next year, that works out to about 12 million a month; correct?

A. Approximately.

Q. If you know, is that an unusual amount for the company to use to finance fuel purchases using commercial paper?

A. I would say that 12 million a month or 144 million a month may or may not be an unusual amount, but I can say that coupled with other deferrals that we have done here in the past, and considering where we are today with -- in our rate settlement, where we've agreed to take no cash, that if you continue to layer on deferrals, then at some point, then that could become a problem for the company.

Q. I'm sorry, but I need to pursue your statement there that you agreed to take no cash. The company got a $126 million a year annualized rate increase for Bartow in its base rates coming out of the last rate case, did it not?

A. We got an increase for the Bartow repower.

Q. And that was cash in your base rates; right?

A. That was an interim agreement, and then we filed a case for $500 million and got no cash from that case.

Q. The 126 million was part of the 500 million, was it not?

A. I'm trying to remember. I cannot remember if it was part of the 500 million. I'm sorry.

Q. That's okay. In your deposition, you had some discussion with the staff attorney, Ms. Barrera, and also with Mr. Moyle, and we've had a little bit so far right now about current versus future rate impacts of deferring the amount that's at issue in this case. I'm sure you're familiar with that discussion. Yes?

A. I'm sorry. A schedule?

Q. I'm sorry. We've been having a little bit of a discussion, and you had a discussion with Ms. Barrera in your deposition, and also with Mr. Moyle in your deposition, about recovery starting in January versus recovery starting, say, in September of next year after the Commission rules in the 100437 docket; right?

A. Yes.

Q. Okay. Now, you didn't address this at all in your direct testimony, did you?

A. No, I did not.

Q. So it was just in your deposition?

A. Correct.

Q. And your testimony in your deposition is that if the Commission were to defer -- let me make it more of a question. Would you agree that a fair summary of your deposition testimony is that if the Commission were to defer recovery until after the prudence determination in 100437, then customers would be at risk for later rate increases plus interest?

A. That's correct.

Q. Are you testifying that the Commission should allow recovery now -- by that I mean starting in January -- of this $140 million to avoid future rate shock?

A. Yes. In the final order that came out in last year's fuel docket, the Commission stated that they have the ability to defer costs, and when they do that, they have to look at a number of factors in that deferral. And one of those factors is rate shock, but they're considering it as a holistic approach to making that adjustment. So they're looking at a number of factors.

Q. Just so the record is clear, I asked you a specific question. I think that you answered yes and then proceeded to explain. Just so we're clear, my question was, are you testifying that the Commission should allow recovery starting in January 2012 to avoid future rate shock? Was your answer to that question yes?

A. Yes.

Q. Okay. Thank you. I know you were a witness in the 2008 fuel cost recovery docket. Were you present at the agenda conference that was held in this room on January 1, 2008?

A. I can't remember.

Q. I'm sure you remember what I'm talking about. The company sought a mid-course correction, seeking approximately $213 million of additional revenues; correct?

A. Yes. Was it in January or August? August was when the rate impact took effect; correct?

Q. That's correct. And the agenda conference, I will aver to you, was on July the 1st, 2008.

A. Okay. I'm sorry. I thought you said January 1st.

Q. Well, you know, it's late, and I may have. If I did, I'm sorry. It was definitely July the 1st.

A. Okay.

Q. In that case, the company was seeking $213 million to be recovered over approximately five months, August through December of the same year; correct?

A. That's correct.

Q. And rate impact of that amount was, by my notes and recollection, on the order of $12 a megawatt-hour. Does that sound about right?

A. Subject to check.

Q. And the Commission awarded the company -- I think number was 106 million. Does that sound about right?

A. Yes.

Q. Did the company consider possible rate shock of that $12 increase when it made its filing for the mid-course correction?

A. The company was seeking to recover that under-recovery in that current year. And so again, when we're considering rate shock, we have to look at what we think will happen in the future. And so I think the company was -- we were looking at where our fuel prices were projected to go and looking at the other impacts here on the fuel clause when we were asking to recover that cost. So we always consider rate shock, but we also have to consider all the other factors that are known at that time.

MR. WRIGHT: Excuse me one second.

Mr. Chairman, I've asked my colleague, Mr. Rehwinkel, to pass out a document that consists of two pages that I'm sure you all will readily recognize as reports that appear on your website, and I would ask that this be marked for identification. I think it's going to be 90.

CHAIRMAN GRAHAM: I believe you're right. Do you have a short title for this, Mr. Wright?

MR. WRIGHT: Residential Rate Comparisons, 2008 and 2009.

CHAIRMAN GRAHAM: And this will be Exhibit 90. Please continue.

MR. WRIGHT: Thank you.

(Exhibit Number 90 was marked for identification.)

BY MR. WRIGHT:

Q. Ms. Olivier, you're familiar with these documents, are you not?

A. I don't know that I have seen these actual documents. I don't recall having seen them, but I --

Q. Well, we can pass on that part. I aver to you that they're available on the PSC's website, and I thought that you would have seen them there, but if not, that's okay.

A. Okay.

Q. If you could just look at the respective columns labeled "Progress Energy Florida" for the two tables, you'll agree that Progress Energy's bill for August to December of 2008 was $110.59; correct?

A. Yes.

Q. And that starting in January, for a thousand

KWH residential, the bill was $137.87?

A. Yes.

Q. So the increase imposed by the company in January of 2009 was a total of $27.28 a residential megawatt-hour for the first thousand; correct?

A. Yes.

Q. And for that level of bill, the thousand KWH, that was a rate increase of a little less than 25 percent; right?

A. Subject to check.

Q. Now, would you agree that that amount constitutes rate shock?

A. Would I agree that this would constitute rate shock? Is that your question? I'm sorry.

Q. That's the question, yes, ma'am.

A. That is a large increase, and so that could constitute rate stock.

Q. Given the reaction that was publicly observed afterwards, wouldn't you agree that the public generally regarded that as rate shock?

A. Yes.

Q. My question for you then is: Did Progress Energy consider the rate shock aspect of those increases in late 2008 when it decided to impose those increases on its customers starting in January 2009?

A. Again, the company would consider that as a factor, but the company would also have to consider all the other variables in looking at what fuel prices were doing at the time and, you know, just what the other variables were at the time. So the company makes a decision not just based on one factor, but based on a holistic approach of where rates are going and what our expectations are at any given time.

Q. Now, the company subsequently decided to smooth out those rate impacts in the spring of 2009, did it not?

A. The company filed another mid-course correction that was effective April of '09.

Q. And that was also a smoothing out of the revenues associated with the nuclear cost recovery charge, CCR; correct?

A. That's my understanding, yes.

Q. If you know, why didn't the company decide to smooth out those impacts starting in January of 2009?

A. I can't answer that. I don't know why we didn't do that in January.

Q. Thanks. I have just a couple more questions, for real, relating to some questions asked by others about the NEIL insurance.

In a few of your statements, you indicated the company has assumed that the delamination event will be treated as one event by NEIL; correct?

A. Currently that's the information that we have from NEIL, is that there is one event, and we are waiting to receive a determination from NEIL on whether there is one event or two events.

Q. If you know, does the company have a role in suggesting or stating a formal position to NEIL as to whether the company believes it to be one event or two events?

A. What I know is that we work with NEIL, but I don't know how the negotiations go with NEIL. I'm not part of that process, and I just don't know they -- how those discussions take place or what is being said.

Q. Thank you. That's a completely fair answer.

Are any of your other witnesses able to answer that question? Do you know?

A. I don't think so.

Q. If you know, has -- and I think the answer is that you don't know, but I'll ask anyway. If you know, has Progress taken a formal position as to one event or two events in its dealings with NEIL?

A. I do not know.

MR. WRIGHT: Thank you every much. Thank you, Mr. Chairman.

CHAIRMAN GRAHAM: Mr. Brew.

MR. BREW: Thank you, Mr. Chairman.

CROSS-EXAMINATION

BY MR. BREW:

Q. Good evening, Ms. Olivier. This should be brief, but I'll be jumping around to avoid covering what other people got into.

First, by way of clarification, I think you talked with Mr. Rehwinkel that the total CR 3 replacement power costs net of NEIL receipts for 2011 and 2012 is the 176 million. Is that right?

A. That's correct.

Q. Okay. But to get to the proposed factor for 2012, you've offset some true-up amounts that were over-recoveries to come up with the 143; is that right?

A. That's correct.

Q. Okay. So if I were to go to your Exhibit M0-2, Schedule E-10, which shows the requested factors -- is that right?

A. Yes.

Q. And that shows in the middle column a requested factor of $48.60 per thousand; is that right?

A. Yes.

Q. And that's a difference of 3.99?

A. That's correct.

Q. And is the 3.99 an accurate statement of the differential, or is there something else we need to consider? I was confused by the reference to the 3.82.

A. Oh, well, the 3.82 is the rate impact of the net CR 3 replacement fuel costs, so included in the rate for 2012, the $48.60, we have $3.82. That's not an increase or a decrease. That is the amount that is incorporated in that $48.60.

Q. So the --

A. I'm sorry. It's 3.88 that's included in the $48.60. The amount included in the 2011 fuel factor of $44.61 is $3.82.

Q. Okay. So in the $48.60, that includes 3.88 associated with the CR 3 replacement costs; is that right?

A. That's correct.

Q. And so 3.88 of the 3.99 difference is related to the CR 3 replacement power costs?

A. No. 3.88 of the $48.60 is related to the CR 3 replacement costs.

Q. And 3.88 of that --

A. 3.82.

Q. Well, the total difference from 2011 to 2012 was $3.99?

A. So about 6 cents of that, the difference bwetween $3.82 and $3.88, is associated with the nuclear outage. So $3.3 is not related to the nuclear outage.

Q. Were you responsible for preparing the company's response to Interrogatory 102?

A. Yes.

Q. Which is in Exhibit 77, as I understand it. And can you read for me the last sentence of the answer to Part C of 102?

A. Yes. "An adjustment to defer all of the net replacement power costs to 2013 would reduce the 2012 fuel factor by $4.70 per thousand kilowatt-hours, from $48.60 to $43.90."

Q. So that would represent -- that $4.70 subtraction from the proposed factor of 48.60 would reflect the net impact to consumers, or conversely, to Progress, of deferring all of the CR 3 replacement power costs?

A. Of deferring the 2011 and 2012.

Q. Right, which are both proposed for recovery in the 2012 factor?

A. Correct, in addition to a true-up for 2010.

Q. Okay. You testified last year; right?

A. Yes.

Q. And presented many of the same exhibits as you did this year?

A. Yes.

Q. Okay. Including an exhibit for System Net Generation and Fuel Cost, which would have been your Schedule E-4?

A. Yes.

Q. Would you agree that last year in your filing, you included a projection that Crystal River 3 would run for all 12 months of 2011?

A. I believe that's what was in the filing.

Q. And the filing included an expected net generation from Crystal River 3 of 6,775,872 megawatt-hours of net generation?

A. I would agree with that subject to check.

Q. And would you also accept subject to check that the company's total proposed net generation in that same exhibit was 35,799,877 megawatt-hours?

A. I would agree subject to check.

Q. So last year, roughly 19 percent of the company's total net generation was supposed to come from Crystal River?

A. I'll accept that.

Q. And then company then announced after the decision in the fuel factor last year that the unit was no longer expected to be online in January, would be hopefully on line by the end of the first quarter; is that right?

A. I'm sorry. Could you repeat that? I missed the first part.

Q. At the end of November last year, after the Commission voted on its the determination in the fuel factor case, the company announced that CR 3 was not expected to be available until the end of the first quarter of 2011; is that right?

A. Yes, I'll accept that.

Q. Okay. So that wasn't in your exhibits?

A. No.

Q. And that was not in the derivation of the fuel factor that customers are now paying?

A. Correct. 2011 was not in the derivation of the fuel factor that customers are currently paying.

Q. Okay. On page 4 of your testimony, do you see the answer that begins on line 1?

A. Yes.

Q. And so that answer explains the primary driver for the increase in the 2012 factor was the prior period under-recovery of roughly $123 million as compared to the 2011 forecast period under-recovery of 60.5 million?

A. Right.

Q. And an increase in fuel costs of $112 million. Do you see that?

A. Yes.

Q. Is that roughly accurate, give or take the numbers?

A. Yes.

Q. Okay. And the next sentence says, "The increase in fuel costs is primarily due to higher natural gas generation and firm purchased power partially offset by lower natural gas prices." Is that substantially correct?

A. Yes. One thing we didn't do here in this testimony is --

Q. What I'm asking is whether I've accurately characterized your testimony.

A. With an exception that I would like to explain.

Q. Only if it's confirming what's in your testimony, not if you're now offering new testimony.

A. Then the answer is yes.

Q. And so would it be correct to say then that both the need for higher natural gas generation and more firm purchased power was required to compensate for the loss of roughly 20 percent of your base load generation at CR 3?

A. Yes.

Q. Okay. We talked a little bit about NEIL payments and environmental costs, but I don't want to tread over that too far. I just want to get some clarifications. The $176 million for 2011 and 2012, the replacement CR 3 costs, does that $176 million include environmental costs, or is that subject to recovery someplace else?

A. Yes. The $176 million includes the environmental costs. That's not -- it's kind of a geography issue, because the actual environmental costs are in the environmental clause, but the replacement fuel costs that we provided in response to discovery include those environmental costs. It's the total cost. So it's just a matter of where those are being recovered. The total replacement costs here in this 176 million, that would include the environmental costs.

Q. So the 176 million for fuel cost purposes should remove the environmental costs because they're recovered someplace else?

A. Yes.

Q. And was the removal of those costs considered in getting down to your $143 million, or is that a different calculation too?

A. No. The 143 million includes as well the environmental costs. Those are all included in these numbers, in both the 2011 rate and the 2012 rate. Those costs are relatively minimal compared to the costs of the replacement fuel, but it does include to those minimal environmental costs.

Q. Okay. What I'm trying to figure out is, in the fuel clause, are we recovering those on your Exhibit Schedule 10? Because we talked earlier about the 143 leading to the proposed rate. Does that 48.60 include coverage in the fuel cost recovery of the environmental costs?

A. No. The 48.60 does not include the environmental costs. The only place that we've included the environmental is in showing those replacement fuel costs in the discovery responses. What's in the fuel clause is our projected fuel costs for running our system. What's in the environmental clause is our environmental costs associated with running our system.

So in total, they're in the right place. It's just the actual replacement costs that we're providing in discovery. We've given you -- out of our cost simulation model, we've given you the total fuel replacement costs, which also include the environmental costs.

Q. Okay. So just to clarify what we talked about earlier, the proposed fuel rate of $48.60 would include the $143 million that we talked about earlier of replacement Crystal River 3 costs for 2011 and 2012 minus any environmental costs that you would be recovering through the ECRC?

A. Yes. And the costs that we have in our model associated with that, approximately -- less than $3 million.

Q. Okay. With reference to what that cost is, the company treats what cost basis for allowances that have been allocated to it? If you've been allocated SO_X allowances by the EPA, is that booked at zero cost or at market value?

A. Again, I'm, not the environmental witness, but it's my understanding that anything that has been allocated to the company that we haven't paid for would have a zero cost basis.

Q. And is that zero cost basis used in your dispatch model for calculating the replacement power costs?

A. It's my understanding that the cost basis that's used in that dispatch model would be the market prices. So that's where there would be a difference between what is included in these replacement fuel costs and what has actually been included in the environmental cost recovery clause, because that's based on actual inventory balances, costs in inventory.

Q. So you calculate the replacement -- the replacement power cost in the environmental component at market value, not at cost?

MS. BROWN: Mr. Chairman, if I might object again, or just mention that Mr. Foster and Mr. Garrett and Ms. West will be here to testify in the 07 docket on these matters. It seems to me more appropriate to consider them there.

CHAIRMAN GRAHAM: I think we can move on.

MR. BREW: I was just trying to figure out what was actually in the fuel factor and trying to ascertain whether there was any double counting of those costs in this factor.

THE WITNESS: And if toe may just -- clarify.

MR. BREW: Actually, there's no question pending.

CHAIRMAN GRAHAM: Your guys can handle that on redirect.

THE WITNESS: Okay.

BY MR. BREW:

Q. Where do you stand with respect to NEIL payments that are due to the company for 2011?

A. For the period of 2011, we have not received any NEIL payments for the period of 2011.

Q. Are you assuming for the purposes of

calculating the 2012 factor that those receivables will be received?

A. Yes. For both 2011 and 2012, we assuming that we're receiving the NEIL reimbursements.

Q. Do the NEIL payments include environmental costs?

A. The NEIL payments are based on a straight amount. After the 12-week deductible period, we receive 4.5 million per week for 52 weeks, and then an additional 3.6 million per week for 71 weeks.

Q. According to the schedule, then?

A. Correct.

Q. Okay. There has been considerable discussion of the status of the recoveries with respect to NEIL. Very quickly, my understanding is your filing here was premised upon a one-event claim; is that right?

A. That's right.

Q. With respect to that one-event claim, are all issues settled, both capital cost recovery and replacement fuel recovery, or are there outstanding issues?

A. I'm sorry. I don't understand the question. When you say with respect to the one event, the amounts -- we still have amounts due to us from NEIL with respect to the replacement fuel costs, and then I'm not sure where we are on the capital recoveries.

Q. Okay. So your statements would only go to your knowledge with respect to the replacement fuel portion of the NEIL coverage?

A. That's correct.

Q. And not as to anything else?

A. Yes.

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

CHAIRMAN GRAHAM: Thank you.

Staff? I guess the question I have before you get started, do you have quite a bit of questions for this witness.

MS. BARRERA: As of last count, I believe I have seven questions. I would hate to say I'm going to be brief, because that usually jinxes the proceeding.

CHAIRMAN GRAHAM: All right. Well, my commitment was that we were going to end here at five o'clock, so rather than you get started and have to end your questions or end the Commission's questions, let's just go ahead and take a recess until tomorrow at 9:30.

MR. BURNETT: Mr. Chair, may I ask just one logistic question before we break?

CHAIRMAN GRAHAM: Sure.

MR. BURNETT: I was not clear if FIPUG still had questions for Mark Oliver, our witness who is here from Raleigh. My understanding was that no one else had questions. I'm not sure if the Commissioners did. But if we could just -- if I could just check that to see. He may be subject to being released if you guys did not.

CHAIRMAN GRAHAM: Of Robert M. Oliver?

MR. BURNETT: Yes, sir.

CHAIRMAN GRAHAM: I guess that question is to the intervenors, FIPUG specifically.

MR. MOYLE: I plan on asking him a few questions.

MR. BURNETT: Thank you.

CHAIRMAN GRAHAM: Okay. Any other questions before we recess until tomorrow morning?

Seeing none, then we are in recess until tomorrow morning at 9:30. Thank you very much. Travel safe.

(Proceedings recessed at 4:59 p.m.)

(Transcript continues in sequence in Volume 5.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA:

COUNTY OF LEON:

I, MARY ALLEN NEEL, Registered Professional Reporter, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages numbered 496 through 569 are a true and correct record of the aforesaid proceedings.

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

DATED THIS 2nd day of November, 2011.

Mary Allen Neel

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