

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**In re: Nuclear Power Plant Cost
Recovery Clause**

DOCKET NO. 080009

**Submitted for filing:
August 21, 2008**

REDACTED

**REBUTTAL TESTIMONY
OF WILL GARRETT**

**ON BEHALF OF
PROGRESS ENERGY FLORIDA**

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FPSC-COMMISSION CLERK

IN RE: NUCLEAR COST RECOVERY CLAUSE

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 080009

REBUTTAL TESTIMONY OF WILL GARRETT

I. INTRODUCTION AND QUALIFICATIONS

1
2 **Q. Please state your name.**

3 **A. My name is Will Garrett.**
4

5 **Q. Did you file Direct Testimony on April 22, 2008 in this docket?**

6 **A. Yes, I filed direct testimony in support of PEF's actual costs for the Levy**
7 **Nuclear Project. This testimony was originally filed in Docket 080149, but I**
8 **understand that it will be transferred to this nuclear cost recovery docket.**
9

10 **Q. Have you reviewed the testimony of Jeffrey A. Small, filed on behalf of the**
11 **Public Service Commission Staff?**

12 **A. Yes, I have read Mr. Small's testimony.**
13

14 **Q. What is the purpose of your rebuttal testimony?**

15 **A. The purpose of my rebuttal testimony is to respond to Mr. Small's audit finding**
16 **regarding the Company's valuation method for the portion of the Lybass**
17 **property purchased for the Levy project that will be held for future use.**

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FPSC-COMMISSION CLERK

1 **Q. Does Mr. Small contend in his audit report that PEF's decision to allocate a**
2 **portion of the property to Land Held for Future Use or PEF's valuation of**
3 **that portion of the Levy property was incorrect or imprudent?**

4 **A.** No. Mr. Small does not conclude that PEF was incorrect or imprudent. He
5 simply refers to two alternatives to PEF's valuation method that PEF considered
6 and rejected and notes that there are different ways to value the land. However,
7 he does not conclude that either of these alternative methods was more
8 appropriate than the valuation method PEF used.

9
10 **Q. What did the Company decide to do with respect to the Lybass property?**

11 **A.** As explained in my direct testimony, filed April 22, 2008, the Company
12 purchased the Lybass property because part of it was needed for the Levy
13 project. This was about 314 acres. The remainder (1,845 acres) is being
14 held for future use. The land will provide an access road from SR 19 to the
15 nuclear units and access to the barge canal (94 acres), provide transmission
16 right of way (220 acres) and the remainder will be Held for Future Use
17 (1,845 acres). Pursuant to applicable Code of Federal Regulation (CFR)
18 requirements, the Company is required to place a value on the Lybass
19 property to be Held for Future Use and allocate the appropriate portion to
20 the Levy project.

21
22 **Q. What method did the Company utilize to make this valuation and allocation**
23 **and why?**

1 A. The purchase price for the Lybass property is \$39.1 million (\$18,103/acre) plus
2 closing costs for a total of \$40.4 million. The FERC, Code of Federal Regulation
3 (CFR) Electric Plant Instruction No. 7 Land and Land Rights (G), requires
4 “When the purchase of land for electric operations requires the purchase of more
5 land than needed for such purposes, the charge to the specific land account shall
6 be based upon the cost of the land purchased, less the fair market value of that
7 portion of the land which is not to be used in utility operations. The portion of
8 the cost measured by the fair market value of the land not to be used shall be
9 included in account 105, Electric Plant Held for Future Use, or account 121,
10 Nonutility Property, as appropriate.” Based on this guidance, the portion of the
11 acquisition costs to be assigned to land held for future use is based on the fair
12 market value of that portion of the land which is not used in utility operations. In
13 this case the acreage of the land acquired that will not be used for the Levy
14 nuclear project was determined to be 1,845 acres of 2,159 acres. The fair value
15 of this land was based on several considerations including:

- 16 • The fair value of the recently acquired Greenfield site (the Rayonier
17 property) in September of 2007;
- 18 • Recognition that the fair value of the land acquired after the acquisition of
19 the Rayonier property was influenced by our announced intentions to
20 consider this area for site development for potential nuclear plant
21 construction; and
- 22 • The assessment of the likely outcome of condemnation proceedings to
23 acquire only the land needed to support the Levy project.

24 Ultimately we considered the use of the acquisition costs of the recently acquired
25 Rayonier property to be the most appropriate for valuing the land acquired that
26 would be held for future use. When acquiring the Rayonier property, PEF
27 maintained its anonymity by utilizing a third-party representative, who acted on
28 PEF’s behalf. Because of our approach to acquire the Rayonier property, the
29 value was not influenced by an announced intended use for the site, as was the
30 Lybass land acquisition. Using the Rayonier price would more properly assign

1 the impact of the costs of acquiring the Lybass land after the Rayonier property
2 to the Levy project. Furthermore, the use of this value would result in an
3 allocation of costs to the Levy project that would be consistent with the likely
4 expected outcome of a condemnation proceeding to acquire just the land to be
5 used for the Levy project, estimated to be between \$ [REDACTED]. The use
6 of the Rayonier property as a basis for the fair value of the land held for future
7 use resulted in an allocation of \$27.7M to land held for future use and \$12.7M
8 allocated to the Levy project. I consider this method appropriate under the
9 circumstances and consistent with the CFR guidance on land cost allocations.

10
11 **Q. Did PEF consider alternative methods of valuing the Lybass land?**

12 **A.** Yes, PEF considered each of the two alternatives raised by Mr. Small in his
13 audit. Based on these alternatives, the Levy project would have been charged
14 \$7.0 million or \$10.4 million, respectively (see table illustrated below).
15 However, based on sound accounting principles, PEF rejected the use of these
16 alternatives.

1

TABLE SUMMARIZING METHODOLOGIES

(\$-amounts in millions, except per acre amounts)

	PEF Preferred Approach	Alternative 1	Alternative 2
Property	Rayonier	Lybass	Combined
Fair value	\$ 46.6	\$ 39.1	\$ 85.7
Acreage purchased	3,105	2,159	5,264
(a) Fair value per acre (before closing costs)	\$ 15,000	\$ 18,103	\$ 16,274
(b) Acreage of Land held for Future use	1,845	1,845	1,845
(a) X (b) Land Held For Future Use	\$ 27.7	\$ 33.4	\$ 30.0
Levy project – (314 acres) (1)	\$ 12.7	\$ 7.0	\$ 10.4
Purchase Price – Lybass land (2,159 acres)	\$ 40.4	\$ 40.4	\$ 40.4

(1) The Company's assessment of the value of the land to be used as part of the Levy project resulting from a condemnation proceeding was a range of \$ [REDACTED] million

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Q. What is the first alternative method for valuation?

5

A. The first alternative method for valuation considered was to assign value on a prorata basis based on the purchase price of the Lybass land. Accordingly, Land Held for Future Use would be valued by multiplying the acreage to be held for future use of 1,845 times the average cost per acre of the Lybass property of \$18,103 (excluding closing costs). The result using this method would be to assign \$33.4 million to Land Held for Future Use. This value is subtracted from the total Lybass purchase price of \$40.4 million to result in a value assigned to the Levy project of \$7.0 million.

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1 **Q. Why was this methodology rejected?**

2 **A.** This method was rejected for several reasons. First, it does not take into
3 consideration the market value of the most recently purchased Greenfield site,
4 the Rayonier site. As such this method overstates the fair value of the land held
5 for future use as it makes no adjustment to the fair value for any impact of the
6 timing of the acquisition of the Rayonier property or our announced intentions to
7 consider this area for site development for potential nuclear plant construction.
8 Additionally, the value ultimately assigned by this method to Levy was below
9 the range of our assessment of possible outcomes of the condemnation process,
10 should PEF have chosen this path to acquire the land.

11
12 **Q. What is the second alternative method for valuation?**

13 **A.** The second alternative method for valuation considered was to utilize an
14 average of the combined purchase price of the Rayonier and Lybass properties.
15 This method sums the purchase price excluding closing costs of the Rayonier
16 (\$46.6M) and Lybass purchases (\$39.1M) divided by the total acreage
17 purchased of 5,264 (3,105 Rayonier + 2,159 Lybass) resulting in a value of
18 \$16,274 per acre. Accordingly, Land Held For Future use would be valued by
19 multiplying the acreage to be held for future use of 1,845 times the average cost
20 per acre of the combined Rayonier and Lybass property of \$16,274. The result
21 using this method would be to assign \$30 million to Land Held for Future Use.
22 This value is subtracted from the total Lybass purchase price of \$40.4 million to
23 result in a value assigned to the Levy project of \$10.4 million.

24

1 **Q. Why was this methodology rejected?**

2 **A.** This method was rejected for several reasons. First this method overstates the
3 fair value of the land held for future use. While it makes some adjustment to the
4 fair value for impact of the timing of the acquisition of the Rayonier property or
5 our announced intentions to consider this area for site development for potential
6 nuclear plant construction, it does not fully reflect the impact as the use of the
7 Rayonier property value. Additionally, the value ultimately assigned by this
8 method to Levy was at approximately [REDACTED]
9 [REDACTED], should PEF
10 have chosen this path to acquire the land. We considered it more likely the
11 expected outcome of a condemnation proceeding would be [REDACTED]
12 [REDACTED]

13
14 **Q. Does anything Mr. Small mentions in his audit finding cause PEF to**
15 **reconsider the prudence of its decision to allocate the Lybass land in the**
16 **manner it chose?**

17 **A.** No. In fact, Mr. Small simply pointed out alternatives that PEF considered and
18 rejected, as described above, when evaluating how to make this allocation.
19 PEF's method is the fair and prudent method to make this valuation under the
20 circumstances, pursuant to the applicable accounting regulations.

21
22 **Q. Does this conclude your testimony?**

23 **A.** Yes, it does.
24