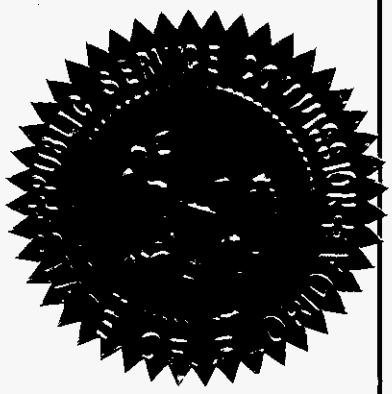
BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 090009-EI

In the Matter of:

NUCLEAR COST RECOVERY CLAUSE.
_____/



VOLUME 6

Pages 1033 through 1246

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PROCEEDINGS:	HEARING
COMMISSIONERS PARTICIPATING:	CHAIRMAN MATTHEW M. CARTER, II COMMISSIONER LISA POLAK EDGAR COMMISSIONER KATRINA J. McMURRIAN COMMISSIONER NANCY ARGENZIANO COMMISSIONER NATHAN A. SKOP
DATE:	Wednesday, September 9, 2009
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	LINDA BOLES, RPR, CRR Official FPSC Reporter (850) 413-6734
PARTICIPATING:	(As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

NUMBER:	ID.	ADMTD.
91 GRD-1	1038	1108
92 GRD-2	1038	1108
93 GRD-3	1038	1108
94 GRD-4	1038	1108
95 GRD-5	1038	1108
96 GRD-6	1038	1108
141 Levy Unit 1 Timeline	1210	
142 Excerpts From PEF COLA	1210	

P R O C E E D I N G S

(Transcript follows in sequence from Volume 5.)

COMMISSIONER EDGAR: Folks, we're going to get started in just a moment, if you could all gather together again for us. The Chairman has asked that we proceed, and he's going to watch us from above so that he can stretch out his, his back. And he has also asked that I convey that he would like us to try to adhere to the schedule that we have kind of been doing, which is run lunch around 1:00ish to 2:15ish, depending on the natural break, and that we may go to 7:00ish, not the way he put it but the way I put it, to see how far we can get. And so we'll just see how things are going later in the afternoon.

So with that, I would like you to call your next witness.

MR. ROACH: Okay. My name is Ed Roach. Our next witness is Gary Doughty.

GARY R. DOUGHTY

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

DIRECT EXAMINATION

BY MR. ROACH:

Q. Mr. Doughty, state your name and work address.

A. Gary Robert Doughty, 412 White Columns Way, Wilmington, North Carolina.

Q. And by whom are you employed and in what position?

A. I'm employed by Janus Management Associates, Incorporated, and I am president.

Q. Has your direct testimony of 57 pages and accompanying exhibits been prefiled on March 2nd in this proceeding?

A. Yes.

Q. Do you have any changes or corrections to your testimony?

A. No.

Q. If I asked you the same questions today, would you give the same answers?

A. Yes.

MR. ROACH: I'd like to ask that the prefiled testimony of Mr. Doughty be inserted into the record as if read.

COMMISSIONER EDGAR: The prefiled, the prefiled testimony of the witness will be inserted into the record as though read.

MR. ROACH: Okay. I'd like to also note that Mr. Doughty has six exhibits which are marked

GRD-1 through GRD-6.

COMMISSIONER EDGAR: Thank you.

MR. ROACH: Which have been preidentified as Exhibits 91 through 96.

(Exhibit 91 through 96 marked for identification.)

IN RE: NUCLEAR COST RECOVERY CLAUSE

FPSC DOCKET NO. 090009

DIRECT TESTIMONY OF GARY R. DOUGHTY

I. INTRODUCTION AND EXPERIENCE

Q. Please state your name, occupation, and address.

A. My name is Gary R. Doughty. I am President of Janus Management Associates, Inc. My business address is 412 White Columns Way, Wilmington, North Carolina 28411.

Q. What is the purpose of your testimony in this proceeding?

A. Janus Management Associates, Inc. (Janus) was retained by Progress Energy – Florida (PEF) to review the reasonableness and prudence of project management and project control systems in place to manage the Levy Nuclear Project (LNP). PEF is a subsidiary of Progress Energy, Inc. (PGN). PEF is in the process of seeking a combined operating license and siting approval for two AP1000 Advanced Passive nuclear power plants in Levy County, Florida and the necessary electrical baseload transmission facilities.

Q. Do you have any exhibits to your testimony?

A. Yes. I have prepared or assembled the following exhibits to my direct testimony:

- Exhibit No. ___ (GRD-1), Janus Management technical consulting firm services;
- Exhibit No. ___ (GRD-2), resume of Gary R. Doughty;
- Exhibit No. ___ (GRD-3), testimony experience in management prudence reviews;
- Exhibit No. ___ (GRD-4), outage and major capital project experience;
- Exhibit No. ___ (GRD-5), Key LNP documents reviewed and approved by the Senior Management Committee (SMC); and
- Exhibit No. ___ (GRD-6), Example contractor oversight reports to management.

These exhibits are true and correct.

Q. Please state your professional experience and education.

A. Janus is a management and technical consulting firm providing services to the electric utility industry. See Exhibit No. ___(GRD-1). As president of Janus, I have provided technical support to nuclear utilities through analyses of specific nuclear plant capital construction projects and nuclear plant outage schedule issues. See Exhibit No. ____ (GRD-2). I have led teams that provided support to nuclear utilities in decision analyses for

nuclear plant management, nuclear business strategy development, and economic analyses of nuclear plant continued operation versus License Renewal for an additional 20 years of operation or early retirement.

I have also served on independent review teams for utility boards of directors, including: (1) Ameren regarding Callaway Nuclear Power Plant performance issues; and (2) Northeast Utilities (NU) as a member of the Fundamental Cause Assessment Team to determine the reason for the decline of Millstone 1, 2, and 3 performance. I was also a member of the Mixed Oxide Fuel Fabrication Facility Independent Review Team for the Shaw / Areva Board of Governors to review project management, project controls and procurement activities of critical materials for the $4.8 billion facility at the Department of Energy's (DOE) Savannah River Site in South Carolina.

Since 1987, I have led comprehensive prudence reviews of nuclear power plant project management, electric transmission project management, corporate decision-making, capital program management, and nuclear plant outage management. I have also performed several focused strategic studies for utility senior management and the Electric Power Research Institute.

During late 1986 through 1987, I served as Manager of Industry Relations for the Institute of Nuclear Power Operations (INPO), a private organization dedicated to promoting excellence within the nuclear industry. In this position, I was responsible for administration of INPO's

communications, technical policy and informational programs to utility members, suppliers and international participants, related organizations and government agencies.

I have extensive experience in the field of nuclear power plant construction and project management. In 1975 to 1977, I was a startup engineer for the owner utility, Northeast Utilities (NU), of the Millstone 2 nuclear power plant in Waterford, CT. I was responsible for system testing and acceptance during the construction completion phase for several nuclear safety systems, fire protection systems, auxiliary equipment, and balance-of-plant components. During initial plant startup, I was a shift test engineer for the initial criticality, low-power testing and full-power operational certification.

From 1984 to 1986, I was project manager for NU of the Millstone 3 nuclear power plant prudence audit ordered by the Connecticut Department of Public Utility Control. The prudence audit reviewed all aspects of the management, engineering, procurement, construction, startup, project controls, regulatory performance and $4 billion costs of the 1150 megawatt (MW) unit.

While with NU, I was also Manager of Generation Projects for Millstone 2's program for major capital projects, major repairs and initiatives to respond to new regulatory requirements. During a major outage, I was responsible for management of more than $100 million of capital and maintenance projects, including removal of the nuclear thermal

shield from the reactor and tube sleeving of the steam generators, both first-time projects for the utility. I managed the overall efforts to prolong the life of the Millstone 2 steam generators. I was responsible for developing annual budgets and schedules for capital and major expense projects to meet operational and regulatory commitments, and I served on the Millstone 2 Nuclear Review Board to review safety-related issues.

I served as a U.S. Navy Officer in the nuclear submarine force. As an officer in the U.S. Navy nuclear submarine force, I was trained in nuclear reactor engineering concepts and qualified to operate and maintain two naval reactor plants.

I have a Bachelor of Engineering degree in Electrical Engineering from Vanderbilt University, and received a MBA from the University of New Haven.

Q. Do you have direct experience related to management prudence evaluations?

A. Yes. I have performed more than 14 independent reviews regarding the prudence of utility management with respect to nuclear power plant and electric transmission project management and project controls. I have submitted testimony related to some of these independent reviews to nine state public utility commissions. These are identified in Exhibit No. ___ (GRD-3) to my testimony.

I have also performed prudence evaluations of new nuclear power plants, major capital projects at nuclear power plants and fossil-fired plants, and construction of electric transmission facilities. The new nuclear power plants for which prudence evaluations were performed include: Comanche Peak in Texas for the Texas Public Service Commission and Millstone 3 in Connecticut for the Connecticut Department of Public Utility Control. The operating nuclear power plants for which Janus performed independent evaluations of major capital projects and long outages are presented in Exhibit No. ___ (GRD-4). These evaluations do not include the plants already listed in Exhibit No. ___ (GRD-3).

From 2005 to early 2009, Janus performed independent evaluations of Northeast Utilities $3 billion electric transmission infrastructure upgrade. Janus evaluated the siting, design, and construction of electric transmission facilities in Connecticut and Massachusetts. These projects include construction of new 345-kiloVolt (kV) transmission lines in southwest Connecticut, the construction of underground 115-kV and 345-kV lines in southwest Connecticut, the replacement of submarine cables under Long Island Sound, and the siting of transmission lines in Connecticut and Massachusetts.

II. PURPOSE AND SUMMARY OF TESTIMONY.

Q. Please describe the nature of your testimony in these proceedings.

A. This testimony presents my expert opinion with respect to the reasonableness and prudence of PEF's management decision processes and project management and controls as they relate to the LNP.

Q. How have you proceeded?

A. I started with the reasonableness or prudence standard which is accepted and utilized throughout the electric utility industry. Next, I reviewed PEF's decisions and processes as they relate to the LNP in terms of the processes used and the knowledge reasonably available to PEF managers. The areas that I reviewed were: (1) Project oversight by the PEF parent board of directors (BOD) and senior management; (2) Project concept and contract strategy; (3) Project management; (4) Project controls; (5) Risk management; (6) Policies and procedures; and (7) Project assessment. I then measured the decisions and processes against the appropriate standard of reasonableness and prudence and arrived at an opinion concerning the reasonableness and prudence of PEF's decisions and processes for the management and control of the LNP.

Q. What methods did you use to review PEF's decisions and processes?

A. I reviewed the LNP documents such as its policies, procedures, schedules, cost estimates, contracts, progress reports, BOD minutes, risk analyses, management oversight reports, regulatory information, audit reports, benchmarking reports, independent assessments, and quality assurance reports. I reviewed other appropriate PEF and industry information. Finally, I interviewed key personnel involved in the LNP work, including the baseload transmission project, internal audit, project controls, and management.

Q. What standard of reasonableness and prudence did you use in your assessment?

A. In my experience in the electric utility industry, the general standard of reasonableness or prudence is as follows: Prudence is that standard of care which a reasonable utility manager would be expected to exercise under the same circumstances encountered by utility management at the time decisions had to be made. Importantly, in determining whether a judgment was prudently made, only those facts available at the time the judgment was exercised can be considered. Hindsight review is impermissible. Further, one's own judgment should not be substituted for that of management; the prudence standard recognizes that reasonable persons can have honest differences of opinion and there may be more than one prudent decision under the circumstances.

Q. How did you apply this prudence standard to the management and project controls for the LNP?

A. I applied the prudence standard to an industry-recognized set of general evaluative criteria for a project of the size and complexity of the LNP. These general evaluative criteria for prudent decisions and project controls are: (1) PEF senior management and the BOD should maintain appropriate involvement, have in place information channels and maintain sufficient oversight to make ongoing critical project decisions; (2) the LNP project concept and contract strategy should provide the degree of control necessary to protect PEF's investment and be consistent with the magnitude of the project; (3) the implementation of the decision to build the LNP should be reasonably planned, organized and controlled by PEF to be able to meet project goals for scope, schedule, budget, regulatory, safety, and quality requirements; (4) the roles and responsibilities of the project team members and the interfaces among the Levy plant and the Levy transmission project team, other PEF functional organizations, the Owner's Engineers and other contractors, and the EPC should be documented and applied; (5) the LNP risk management process should identify risks, track identified risks, and provide management with a logical and coherent framework to evaluate, prioritize, and develop courses of action to mitigate or avoid the major project risks; (6) the LNP should have in place information systems to report costs, schedule progress, and contractor performance; and to detect threats to meeting project scope,

budget or schedule; (7) the LNP should have in place policies and procedures that define expectations and accountability for work products, identify responsibilities, and serve as training tools for new staff; and (8) the LNP should have appropriate assessment processes to ensure that regulations, procedures, quality standards, and contractual obligations are met.

Q. Please provide a summary of your testimony.

A. In my opinion PEF's LNP project management and project controls are reasonable and prudent. PEF has the requisite processes and organization to manage a project of this magnitude and complexity. PEF has reasonable and effective management practices for this project. Senior management oversight is extensive and the BOD is thoroughly informed and engaged in the project. The project governance policy provides a comprehensive guide for the project with coordinated independent oversight and management.

The LNP also has a reasonable project management organization and is appropriately transitioning to the new NPD organization with the execution of the Engineering, Procurement, and Construction Agreement (EPC) with Westinghouse Electric Corporation (WEC) and Shaw, Stone, & Webster (SSW). The EPC contract met the BOD criteria of firm design and clear visibility to costs and it is a reasonable contract that balances

risk and PEF control using a combination of fixed price, firm price, target price, and time and materials arrangements.

The LNP further has a sophisticated risk management process consistent with industry best practices. There are reasonable project controls in place to develop estimates, monitor schedules, and control contractors. There is reasonable reporting and performance monitoring and the planned expansion of performance indicators will enhance performance monitoring further. Additionally, there is an effective and comprehensive set of existing project management and execution policies and procedures that, following EPC execution, are being supplemented with specific LNP procedures. Finally, there are extensive project reviews, internal audits, benchmarking, self assessments, and quality assessment (QA). All of this demonstrates that the LNP project management and project controls are reasonable and prudent.

III. ASSESSMENT OF PEF'S MANAGEMENT PROCESSES AND PROJECT CONTROLS FOR THE LNP.

Q. Please describe the status of the LNP at the time of your assessment.

A. On August 12, 2008, the FL Public Service Commission (FPSC) issued a Determination of Need for the LNP. The LNP is in the permitting phase with the docketing of the Levy Combined Operating License Application

(COLA) with the Nuclear Regulatory Commission (NRC) and the Site Certification Application (SCA) with the Florida Department of Environmental Protection (FDEP). The LNP is being managed as two major projects. The nuclear portion of the LNP is being managed by the Nuclear Plant Development (NPD) department. The NPD department reports to the PEF chief executive officer. The Levy baseload transmission project is being managed by the PGN Generation and Transmission Construction Department (G&TC). The Levy Integrated Nuclear Committee (LINC), which is chaired by the PEF CEO, currently oversees the entire LNP and all support organizations.

The LNP submitted the COLA with the NRC on June 30, 2008, and it was docketed October 6, 2008. The SCA was submitted to the FDEP on June 2, 2008. The FDEP Agency Report was completed on January 12, 2009, and site certification hearings are currently being held.

The LNP is now starting the transition to the site preparation and licensing phase. PEF signed the EPC on December 31, 2008. Owner engineer firms have been engaged for both the Levy nuclear project and the baseload transmission project. The Levy baseload transmission project has begun engineering and design work and is in the process of engaging an acquisition program manager to handle the real estate and right of way activities. The baseload transmission scope is comprised of some 67 sub-projects including lines and substations.

Q. How is Senior Management involved in oversight and direction of LNP?

A. I determined that senior management involvement is extensive. The levels of senior management have had extensive involvement in planning and managing the LNP. The BOD receives regular updates of key LNP milestones and issues. The BOD will continue to be involved through the formation of an *ad hoc* committee to function as the primary point of contact for BOD oversight. The BOD is therefore informed and provides oversight and direction with respect to LNP matters.

Senior management has LNP oversight through several methods including the regular corporate processes of setting the corporate strategy, establishing budgets, and reviewing performance. The SMC reviews and approves the annual project plan, reviews weekly status reports, and conducts the Monthly Business Review process. Senior management also directed the participation in the NuStart Energy Development utility group and formed the Baseload Steering Committee to provide overall project coordination and oversight of new baseload generation projects. Finally, senior management provided oversight of the EPC negotiations and established the Levy Integrated Nuclear Committee (LINC).

With the signing of the EPC agreement, an ad hoc committee of the BOD was announced to focus on new nuclear construction projects. This committee functions as the primary point of contact for BOD oversight of the projects and includes at least three independent members of the BOD.

Among the duties of the committee are to review construction status, schedule adherence and regulatory compliance and reports, recommend BOD approval of major milestones and commitments when necessary, review changing business conditions and emerging issues of potential significant impact, review project leadership, governance, execution and controls for adequacy and effectiveness, conduct or authorize investigations or studies if necessary, and establish a Nuclear Project Advisory Committee comprised of industry experts to advise the Committee on the execution of its functions.

The Baseload Steering Committee was established as an appropriate vehicle to coordinate the development of options and necessary steps to consider before construction of baseload generation. The Baseload Steering Committee was led by five members of senior management, including the PEF President, with a supporting team representing key areas of investigation. The Baseload Steering Committee role was to pursue initial project design and implementation, transmission, legal and regulatory approvals, legislative initiatives, financing and communications. The Baseload Steering Committee work culminated in a recommendation to the Board to preserve the option to build nuclear generation and identified Levy County as the preferred site for Florida.

The SMC also includes the PEF President and is also involved in LNP management review. The SMC holds Monthly Business Reviews to

review project progress and address issues if necessary. It includes multi-functional Company representation to ensure appropriate senior management involvement in the LNP. The SMC reviewed and approved the key LNP documents identified in Exhibit No. ___ (GRD-5).

The LINC was established in early 2008 to enable full coordination of planning and pre-construction execution of the LNP. LINC is chaired by the PEF President and CEO and is comprised of cross functional senior leaders in PEF. LINC was established as a single point for management coordination and oversight that supplements direct line organization accountability. LINC's responsibilities include (1) review and approval of all initiatives to implement the LNP; (2) monitoring and assessing ongoing initiatives; (3) assessing risks; (4) allocating resources; (5) documenting key decisions in accordance with project assurance policies and procedures; and (6) reporting to the SMC and Boards as required. LINC is expected to adjust its role as the LNP enters the more complex execution and construction phase when the need is identified.

Q. Is the senior management and BOD involvement in the LNP prudent?

A. Yes. In my opinion senior management and the BOD maintain a high level of involvement regarding the LNP that is consistent with the magnitude, complexity and importance of the LNP. Senior management has kept the BOD informed of the project status, risk factors, costs, project management, and regulatory processes. The BOD is appropriately

involved in approving key decisions. Indeed, a specific subcommittee was established by the BOD to focus on nuclear plant construction. The SMC and the LINC also provide comprehensive oversight of the LNP and ensure management coordination and oversight that supplements direct line organization accountability. Senior management further has reasonably implemented an organizational change to establish the NPD department, which reports directly to the PEF President and provides even more direct senior management oversight of the LNP and realigns the Nuclear Generation Group so that it can focus on the operating nuclear units.

IV. ASSESSMENT OF PROJECT CONCEPT AND CONTRACT STRATEGY.

Q. Does the LNP project concept and contract strategy provide a prudent degree of control consistent with the magnitude of the LNP?

A. Yes. The LNP project concept establishes a formal organization with the responsibility to carry out a major corporate mission through the use of available resources and outside firms. This approach has been in place since the project was conceived in 2005 and is the model for the Nuclear Plant Development department and the Levy Baseload Transmission Project.

Q. Please explain the project concept and contract strategy for the Levy Nuclear Plant.

A. The initial planning and permitting phase project concept involved the formation of a new department, Nuclear Plant Development and License Renewal (NPD&LR), within the Nuclear Generation Group to develop and obtain federal and state regulatory approval for selected sites. The team included Progress personnel supported by an outside engineering team and specialized consultants. The NPD&LR team managed the regulatory interfaces with state and federal agencies, monitored the performance of supporting engineering firms, reviewed the technical and engineering products, and set the plant selection criteria. The NPD&LR department was led by an experienced nuclear manager with new plant startup experience. It included engineering, licensing and project controls personnel to manage the supporting engineering firms and interface with the NRC, FDEP, and other agencies.

The NPD&LR project team developed the Project Plan for New Nuclear Baseload Generation – COL Phase to govern the project. The team assisted in the preparation of the Business Analysis Packages (BAP) and Integrated Project Plan (IPP). The NPD&LR project team managed contractors for the preparation of the COLA, SCA and other federal and state permits through work authorizations and reviewed technical and cost parameters to approve contractor estimates. The NPD&LR department

controlled work through contractor reporting requirements, technical reviews, cost reviews and audits.

The project concept for the LNP site preparation phase is set by the formation of the NPD and by the EPC agreement. The EPC has elements of fixed price scope, firm price scope, some target price arrangements and some time and materials work. The NPD adds management resources devoted to plant construction oversight, contract administration, and project controls. The primary contract management function is management of the Levy EPC contract. The LNP team selected an owner engineer to provide the engineering function and to assist in technical reviews. The owner engineer is the team of Sargent & Lundy (S&L) and WorleyParsons, which are members of the joint venture that supported the LNP COLA.

The primary contract for the LNP is the EPC contract. PEF senior management and the BOD established criteria to select a firm design with clear visibility to costs. The selection of WEC / SSW was designed to achieve the lowest reasonable price with maximum amount of risk sharing and mitigation under prevailing circumstances. Additionally, PEF wanted to provide adequate owner control with visibility into construction and risk management and align WEC / SSW incentives and penalties with the Company's interests.

The EPC contract includes various performance incentives, penalties, warranties, liquidated damage provisions and parent

guarantees, designed to incent the contractor to perform efficiently. Over half of the contract price is fixed price or firm price with agreed-upon escalation factors. Contract costs are subject to adjustment for change orders.

The contract strategies with the Owner's Engineers for the Levy nuclear plant and the Levy Baseload Transmission Project are similar. Both contracts were competitively bid. The contract management approach engages Owners' Engineers and uses a task order approach wherein work is authorized based on a specific scope that is estimated by the owner engineer and reviewed by the respective PEF project team for technical adequacy and cost. Once released for implementation, the work is monitored by PEF technical personnel and administered by the PEF designated contract representative. The owner engineer is required to provide detailed reports of its performance of the work monthly.

Q. What is the project concept and contracting strategy for the Levy Baseload Transmission Project?

A. The project concept for the Levy Baseload Transmission Project is similar to the NPD focused approach. The initial transmission planning for the LNP generation addition to the PEF transmission system was performed by the TOPD as part of the normal system planning function. PEF recognized the magnitude of the Levy Baseload Transmission Project and formed the project team under the Vice President - G&TC to manage the

baseload transmission requirements. The team engaged consultants to assist with the scope definition, identification of the transmission line corridors, the location of substations, project procurement strategy, and major materials market assessment.

The Levy baseload transmission team was enlarged to incorporate the additional functions that are necessary for design reviews, project controls, and real estate acquisition. An owner engineer firm was selected to perform engineering and technical reviews. The plan is to engage an acquisition program manager for the substation and transmission line real estate functions including surveying, purchasing the land / rights of way, and legal work. The contracting strategy is under review at this early stage of the project to maximize PEF's control of PEF and balance the risk of an EPC approach, a design-bid-build approach, or a program management approach.

Q. What is your opinion with respect to the LNP project concept and contract strategy?

A. In my opinion PEF has established a reasonable and prudent project concept and contract strategy. The LNP project concept is a prudent approach to managing a project of this nature. It utilizes a full-time project team that manages contracts. In my opinion this project concept provides reasonable control necessary to protect the Company's investment and is

consistent with the magnitude of the LNP complexity, cost, duration, and regulatory significance.

V. ASSESSMENT OF PROJECT MANAGEMENT.

Q. In your opinion, is the LNP project management prudent?

A. Yes. In my opinion PEF Project Management is appropriately organized and has reasonably fulfilled its project management responsibilities in both the Levy plant project and the Levy baseload transmission project. The LNP Project Management has documented roles and responsibilities for LNP team members and there are appropriate interfaces between LNP and G&TC project teams and other functional organizations, owners' engineers, and contractors. The LNP Project Management is consistent with electric utility best practices and standards for nuclear and other major construction projects of this size and scope.

Q. Please explain the project management for the Levy Nuclear Plants.

A. The project organization for the NPD&LR was established in the "Project Plan for New Nuclear Baseload Generation" in December 2006. The organization included Managers of Engineering and Licensing and a Supervisor of Project Controls under the direction of a General Manager. The full team included discipline engineers for the nuclear steam supply design, the balance of plant, electrical design, instrumentation and control

design, digital systems, civil / geological engineering construction planning, and procurement. The licensing support included supervisors for license renewal of the existing nuclear plants as well as licensing staff for operations, environmental and quality assurance.

The NPD&LR department was a reasonable mix of personnel supplemented by contractor personnel on some functions. This organization has been sufficient to direct the contractors through the COLA and SCA process and the planning, permitting, and disposition of questions arising from the NRC's review of AP1000 design. During this period the NPD&LR organization's emphasis has properly been to complete the COLA and SCA. The organization met their target goals with the SCA filing with the FDEP in June, 2008, and the Levy COLA and Limited Work Authorization (LWA) request filing with the NRC in July 2008.

As I previously described, with the recent signing of the EPC, the LNP entered a new phase of site preparation, detailed design, and construction planning leading to construction. The Nuclear Plant Development department was formed reporting directly to the PEF President and CEO. This move reflects senior management's appropriate recognition of the need to align the organization to focus support on Levy.

With the signing of the EPC contract, the project organizations for both the plant and baseload transmission are also appropriately transitioning into the detailed engineering, site preparation, and

construction phases. The new organization will be headed by a senior executive with overall accountability for both the plant and the associated baseload transmission, supported by a dedicated staff with strong project management experience.

Q. Can you please explain the Company's Baseload Transmission Project Management?

A. Yes. The engineering, design, and construction of the transmission system associated with the addition of the Levy Nuclear Plant is being managed by a dedicated Baseload Transmission Projects group in the G&TC Department. The GT&C Department and the Baseload Transmission Projects group were separated from the existing Transmission Operations and Planning Department in late 2007. A new Vice President was named to head the G&TC Department, and the baseload transmission program was headed by managers in land acquisition, engineering, transmission lines and substations.

In my opinion, the G&TC baseload transmission group was effective in managing the necessary planning, study and siting work associated with developing the Levy baseload transmission project required to adequately interconnect the Levy Nuclear Plant into the transmission system and deliver the incremental power to the grid consistent with pertinent criteria. Their work in 2007 and 2008 included

conducting studies to evaluate route and design options, feasibility and solutions, supporting the SCA and COLA, and developing the IPP.

The baseload transmission group developed the criteria for selecting favored technically feasible alternates. These criteria reasonably included, consistent with industry standards, the (1) total estimated cost, including that associated with the underlying grid as a result of adding the Levy generation; (2) reliability bases on performance for a comprehensive set of contingency scenarios measured against existing NERC Reliability Standards; (3) flexibility to have maximum achievable longevity for undefined demands and new generation additions, when tested against the NERC Reliability Standards; and (4) likelihood of success in overcoming difficulties in licensing, permitting, land acquisition and constructability.

The team initiated an extensive and appropriate set of studies to support the recommended baseload transmission solution. To perform the studies the baseload transmission engaged several firms with the expertise to conduct the work. These firms and the studies focused on the high level transmission options, the conceptual feasibility study for converting portions of transmission system to operate at higher voltages, fine tuning the 500-kV option, evaluating and comparing potential transmission line corridors based on factors such as land use, environmental, long range planning, and construction and maintenance costs, and evaluating underlying grid impacts.

In early 2009, the Levy Baseload Transmission Project group added a General Manager supported by an existing organization with active recruitment for additional members of the baseload transmission teams. The Levy Baseload Transmission group has identified some 67 transmission sub-projects that will comprise the baseload transmission program for Levy. Baseload Transmission management has reasonably anticipated that each of the sub-projects will benefit from assigning a project manager to provide overall direction.

VI. ASSESSMENT OF PROJECT CONTROLS

Q. Does the LNP have in place prudent project controls?

A. Yes. PEF has established and implemented reasonable and prudent project control processes to report costs, work progress, and schedule performance consistent with the current status of the project and industry standards. Further, PEF has established a reasonable and prudent process to identify, develop, and implement enhancements and improvements in the project controls process as the project transitions into the site preparation and construction phases of EPC implementation for the Levy plant and continues engineering and land acquisition activities for the Levy Baseload Transmission Project.

PEF management has made project controls a key and visible element of its management and project implementation process. PEF has

utilized a structured process for project scope development and for senior management review, capital authorization and project phase initiation through the BAP process and the IPP. PEF developed and validated project estimates consistent with available information and with appropriate input from contractors, vendors, consultants, other PEF business units, industry and other professional sources.

As the LNP transitions into the site preparation and construction phases, PEF is developing the LNP Integrated Master Plan and the Levy Baseload Transmission Schedule to meet management goals and project milestones. These schedules are being developed consistent with appropriate input from contractors, vendors, consultants, and other business units.

With the signing of the EPC, PEF is developing appropriate project based policies, procedures, and processes to supplement the existing corporate, group, and departmental policies, procedures and processes. PEF is further enhancing the contract management process with a focus on cost, schedule, contract administration, performance monitoring, and reporting.

PEF management has made cost, schedule, and performance monitoring a key element in both its project implementation and oversight process via regular status and assessment meetings and reporting. PEF is appropriately incorporating "lessons learned," industry and professional "best practices," and other industry guidelines into its project control

process. Further, PEF has in place appropriate contract management processes and procedures to administer the obligations of contractors providing services to LNP.

Q. How is budget performance monitored?

A. The budget for LNP work provides a detailed breakdown of responsibility and of accountability. Widely distributed monthly reports tie scope to identified responsible managers and track budgets, actuals and variances. The costs for contractor performed work is reviewed and controlled through the contract administration process.

At the PEF Vice President level there is also a monthly budget variance report prepared with input and analysis from the project team. Overall budgets are reviewed by senior management through the Monthly Business Review process. LINC currently monitors the overall LNP budget.

Q. How has management made cost and project controls a key and visible element of the project management and implementation process?

A. PEF has emphasized quality, cost, schedule, and project management as the continuing theme of its management processes. This emphasis directly communicates and reinforces the importance of the project

controls function. Management attention is observed throughout the management and project documents from the executive level down to the contract management and weekly project team meeting level. Management expectations are clearly stated and communicated.

PEF management has reasonably and prudently integrated the project controls function into the top levels of the LNP organization in both the Levy Plant and the Levy Baseload Transmission projects. For NPD the Supervisor of Project Controls reports directly to the General Manager (GM) of the NPD&LR department. Similarly, the project controls function on the Levy Baseload Transmission Project reports directly to the VP-G&TC via the Business and Management and Compliance Unit. Through this direct reporting, the project controls function provides organizational visibility and participation, thereby emphasizing the importance attached by management to that role.

Q. What are the Levy Nuclear Plant Project controls?

A. The Project Controls include: (1) Project Plans; (2) Financial controls (including contract earned value evaluations); (3) BAPs (and later the IPP) and coordinated budget planning; (4) Project financial cash flow analysis; (5) Schedules (engineering, contractor, and licensing); (6) Nuclear records management and document control; (7) Nuclear training coordination; (8) Risk Management Plans; (9) Nuclear quality assessments; (10) Project performance Indicators; and (11) Vendor

performance monitoring (cost, schedule, and performance). These Project Controls are consistent with industry best practices and standards.

The Project Controls group assures the project team performs Project Controls effectively. During 2008, project control and contract administration needs increased in anticipation of the transition to site preparation and implementation of the EPC.

Project Controls performs contract management. Contractors are required by the contract to meet specific performance, staffing and reporting requirements consistent with industry standards. Contractor project status reports address, when necessary, issues requiring management attention, quality issues, health and safety issues, teamwork and accountability issues, project budget and invoicing information, scope revisions, budget and schedule performance, monthly cash flow, requests for information, the project schedule, documentation submittals, and work accomplished during the month. These are the types of issues I expect to see in contractor status reports on projects of this size and scope consistent with industry practice and standards.

As a monthly summary of the project, the Supervisor of Project Controls prepares a monthly Nuclear Plant Development Performance Report. This report typically covers such topics as (1) safety, cost, schedule issues and activities, including identifying any key issues and providing a look-ahead overview; (2) performance data, including key performance indicators (KPI), integrated cost performance, contract

status, contractor cost and schedule performance, scope changes, high risk or critical issues, organization, and staffing; (3) significant project decisions; (4) self-evaluation results; (5) engineering updates; (6) licensing updates; (7) COLA and AP1000 status; and (8) public and media interaction information. Again, these topics are consistent with industry-accepted practices for project reports on projects of this size and scope.

Q. What are the Levy Baseload Transmission Project controls?

A. The Project Controls function for the Levy Baseload Transmission Project is provided by the G&TC Business Management and Compliance (BM&C) unit. The BM&C director reports directly to the Vice President – G&TC as does the Levy Baseload Transmission Project GM. This direct link to the responsible executive emphasizes the importance and visibility of the project controls function. This approach also allows dedicated and matrixed project controls personnel to be assigned to the Levy Baseload Transmission team with managerial direction and supplemental support as needed. Managers for project controls and for financial and business services, as well as a supervisor, all report to the director of BM&C.

The key responsibilities for the Baseload Transmission Project Controls group include (1) real-time schedule and critical path analysis; (2) cashflow development / assessment with contractor provided data; (3) key performance indicator development; (4) change order management; (5) estimate development and estimate reviews; (6) contractor auditing and

claims review; (7) contract administration; (8) contractor schedule and cost interface; (9) cost issue assessment; (10) management of on-site project cost contractors; and (11) lead routine contactor review sessions. This group is supported by a financial and business service group with primary responsibilities for cost management and reporting, interface with project controls, financial analysis, budget development and analysis, and project set-up and analysis. Cost estimating and other support functions have been provided by BM&C as needed. These Project Control responsibilities and supportive financial and business services are consistent with our industry experience and industry standards.

To date, contract administration on the Levy Baseload Transmission Project has been a coordinated process. The overall approach to contract administration on the project is currently and appropriately being assessed with the execution of the EPC, the recent addition of the Owner's Engineer, the possible use of a real estate acquisition manager, and the ultimate need to manage some 67 construction projects.

The BM&C unit prepares monthly reports summarizing the schedule and financial status of the transmission project for senior G&TC management. Typical reports address, when necessary, (1) actual, budget and projected expenditures; (2) actual and projected total costs by year - line, substation, and AFUDC; (3) milestone cost history; (4) schedule dates and key events; (5) required third party approvals; (6)

issues their impacts, and responses; and (7) the project risk matrix with the likelihood and consequences of identified risk items. Also, detailed month-by month graphs and tables showing individual project actual, budget, variance, and projected costs are produced.

At the project level, the Levy Baseload Transmission project conducts two monthly reviews: (1) the Monthly Executive Program Review, which provides G&TC management (including the VP- G&TC) with program status, cost and schedule updates, near-term activities, program risks and challenges; and (2) the Stakeholders Monthly Program Review, which provides information, integration, and coordination meetings between the Project Team and involved PEF Departments. The Levy Baseload Transmission team also developed a more detailed monthly report to provide more information on performance, cost, schedule, compliance, risks and other project elements. Weekly status reports are also developed by the Levy Baseload Transmission team showing overall trends, financial information, risks, 90-day look-ahead schedules, percent complete, staffing levels and actions/ issues. These levels of reviews and reports are consistent with best practices in the electric utility industry for projects of similar size and scope.

Q. Is the LNP cost estimation process prudent?

A. Yes. The cost estimating process for the LNP is reasonable and prudent. The estimate is the result of substantial effort by the Levy Plant Project

and the Levy Baseload Transmission Project. PEF has identified the full scope of the project, including all activities to secure permits, authorizations, and approvals; the cost of land and rights of way; the owner-managed project costs; the initial fuel loads; the staffing for startup and commissioning; fees and insurance; escalation and contingencies; and the financing cost. The cost estimates were developed with the input of engineering firms that had similar project knowledge. The estimates were independently reviewed to validate the documentation supporting the costs and to provide an independent assessment of the cost estimate. This process includes the elements of a sound estimating process that is consistent with industry standards.

Q. Did PEF validate the project estimates?

A. Yes. PEF conducted an internal audit of the documentation supporting the prices presented by WEC / SSW for the EPC agreement, engaged and independent firm to review the WEC / SSW estimate and schedule information to construct the AP1000 units and the Levy site specific work, and commissioned its transmission owner engineer to provide an independent source of cost information of the transmission project.

PEF contracted Burns and Roe to perform an independent evaluation review and validation of the AP1000 cost and schedule "package." Burns and Roe is a worldwide engineering and construction firm with expertise in nuclear power plant costs. The firm is currently the

owner's engineer for Entergy's next generation nuclear plant and is the architect / engineer partner for several combined COLAs. Burns and Roe is in the process of preparing its final report.

PEF also audited the LNP EPC Contractor Price Book to verify proper documentation of the WEC / SSW Price Books. A PGN Senior Auditor was assigned to verify that there is sufficient detail in the cost estimate from the EPC WEC / SSW team to fully support the total price. As part of the review, the auditor advised the EPC team of areas where there was insufficient detail and then monitored improvements until full necessary detail was present in the Price Book.

Q. Did PEF validate the Baseload Transmission Project cost estimate?

A. Yes. PEF tasked Patrick Energy Services Inc. (Patrick Engineers), as the Owner Engineer, to provide an independent estimate of four elements of the proposed baseload transmission project including: (1) Kathleen to Lake Tarpon - 230-kV Transmission Line (50 miles); (2) Central Florida South - 500-kV Transmission Line (60 miles); (3) Kathleen Substation – 230-kV; and the (4) Central Florida South Substation – 500-kV/230-kV. Patrick Engineers also provided PEF with a detailed estimate for each of the two substations and a higher level estimate for each of the two lines. PEF's estimating staff compared the PEF estimate based on the prior Power Engineering estimate with the Patrick Engineers estimate after accounting for items Patrick Engineers did not include, such as real

estate, wetlands mitigation, PEF pre-construction cost, and the difference in escalation and contingency philosophy, and, after incorporating these adjustments, PEF determined the PEF and the Patrick Engineers estimated costs for substations were essentially the same. Transmission and Project Controls management made the reasonable decision to defer any additional cost comparisons pending the completion of additional engineering and the planned development of a new project estimate within the next few months.

Q. What is PEF's approach to scheduling the LNP?

A. The overall approach to scheduling the LNP is to utilize an Integrated Master Plan (IMP) process to ensure that project activities support the key project goals and milestones established by management. The IMP is summarized as a one page barchart schedule showing major projects or other activities and the supporting milestones. The summary IMP is reviewed and approved by the Project General Manager.

The IMP scheduling database includes all activities required from COLA development and NRC review, engineering, procurement, fabrication, construction, staffing, training, and startup activities leading to commercial operation. It is being developed directly from the detailed project schedules required for individual Levy Project contractors including WEC / SSW. It also contains schedule information from various other

sources including the various PEF business units. Currently, the IMP scheduling database contains nearly 90,000 individual activities.

This schedule database is also used to generate reports to allow management to monitor and plan the overall project and to analyze individual contractor schedule performance. Such reports include (1) monthly contractor status against baseline, (2) strategic planning schedule to ensure milestone coordination, (3) critical path analysis by work break down structure (WBS), (4) float variance reports, (5) look-ahead reports, (6) weekly milestone reports, (7) project end-game reports for achievement of milestones, and (8) as-built schedule for completed projects.

For the Levy Baseload Transmission, PEF is developing an overall project schedule to serve as a baseline to assess schedule performance against project milestones and to manage and monitor the work of the Owner's Engineer, the real estate acquisition contractor, and, ultimately the construction program. It will also be used to monitor and coordinate the work of the various participating PE business units and other project participants.

This approach is consistent with my experience and industry standards for project schedules for projects of similar size and scope. Also, PEF is using industry accepted scheduling tools and processes for the incorporation of appropriate data into the schedules.

Q. How is PEF implementing this approach for The Levy Nuclear Plants?

A. In order to implement the development of the IMP for the Levy Plant, PEF added an experienced project nuclear project controls and scheduling specialist to the Project Controls Staff. This individual brought over thirty years experience at nuclear plants in startup, operations and outage management. Initial efforts to develop an IMP focused on corporate milestones and, in collaboration with S&L, the Owner's Engineer, the development of an appropriate WBS and interface with SSW and WEC's detailed schedules. By March 2008, this was accomplished with Rev. 2 of the IMP which was approved by the Project GM and issued.

The IMP development continued using Primavera scheduling software, a generally recognized and accepted electric utility scheduling tool. The IMP schedule linked to data from the WEC and SSW that contains approximately ten individual schedules with over 88,000 schedule items. In addition, schedule information from other contractors such as S&L was also imported. Finally, templates for the AP1000, Toshiba schedule, four procurement schedules, and three construction schedules were established. One source of template information is the New Plant Deployment Program Model. This Model provided a combined licensing and deployment model schedule for prospective and actual new licensing plant licensing applicants and is detailed in a 2008 Electric Power Research Institute report.

With the execution of the EPC at the end of 2008, NPD anticipates that Rev. 3 of the IMP schedule will be issued shortly and that a baseline IMP schedule will also be developed. Information from the Levy Baseload Transmission Program Schedule prepared by G&TC will also be incorporated.

Q. How is PEF implementing the project schedule approach for the Levy Baseload Transmission?

A. When the Levy Baseload Transmission project was authorized preliminary schedules with focus on the near-term objectives were developed based upon assumed scope of work. Following submittal of the SCA and the selection of a routing option, a more detailed (Level 3) project schedule was developed with a dedicated scheduler with extensive experience on large projects worldwide. The Level 3 schedule was also developed using the industry standard Primavera scheduling software with input from Levy Baseload Transmission team members, the Levy Plant team, supporting consultants, and others, such as the PEF transmission and Crystal River power station operators. The draft schedule provided a logical sequence for completing the 67 sub-projects that comprised the Levy Baseload Transmission project.

This draft schedule was peer reviewed and it was determined that the draft schedule provided a logical sequence to achieve the objectives of ensuring all key substations would have a continuous supply of power as

construction progressed. It also provided the necessary critical path sequence to be able to supply backfeed power to support the system startup and commissioning of Levy Unit 1 and to complete the Levy Baseload Transmission to support Levy 1 and Levy 2 operation. Further, it appropriately provided schedule windows for work performed by others, such as the Owner's Engineer, the land acquisition team, and by the individual construction contractors. The project cost estimate was also loaded into the schedule to obtain an updated project cash flow.

Patrick Engineers is using the schedule to plan the remaining transmission design work. Rev. 0 of this schedule will be issued during the first quarter of 2009 to serve as the baseline for future schedule updates and to monitor schedule progress against established milestones.

Q. How will PEF manage LNP contractor performance?

A. Oversight of contractors is accomplished by direct engagement of LNP technical, management, and project controls staff. This engagement includes face-to-face, e-mail, telephone, and formal and informal meetings. In addition, the quality program and internal audits provide independent reviews of contractor performance. PEF also requires contractors to provide monthly reports on their accomplishments and their performance under the contract relative to safety, quality, scope, budget, invoicing, schedule, and future work. Management reviews are conducted monthly.

Typically, work is assigned under a task order process where an assignment is made and an estimate is developed by the contractor to complete the work scope. The Company reviews the technical scope for responsiveness and the cost for reasonableness. Once approved, the contractor may proceed and report progress against the scope, cost and schedule requirements. Changes in work require similar review and analysis. Changes are evaluated by technical personnel providing oversight of the work and management. An impact evaluation is prepared to document the change and management approval.

This contract management process to monitor contractor performance is consistent with best practices and industry standards.

Q. How has PEF provided oversight so far of contractors working on the LNP?

A. PEF management was kept appropriately informed of progress through face-to-face meetings and reports, from both internal organizations and from contractors. The monthly contractor reports were an effective mechanism and therefore prudent way to monitor progress at this stage of the LNP to identify any areas requiring management action on major contract work activities. These external reports covered progress in the areas identified in Exhibit No. ___ (GRD-6) to my testimony.

VII. RISK MANAGEMENT

Q. Does PEF have a reasonable and prudent LNP risk management process?

A. Yes. The LNP risk management process incorporates the PEF corporate risk management policy and implements the risk management program for both the Levy nuclear project and the Levy baseload transmission project. This risk management process actively identifies and tracks risk and provides PEF management with a logical and coherent framework to evaluate, prioritize, and develop courses of action to mitigate or avoid major project risks. The LNP risk management process is consistent with best practices for risk management in the industry and consistent with what I have observed on well-managed projects, including nuclear construction projects, of a similar scope and size to the LNP.

The LNP risk management policy was consistent with Project Management Body of Knowledge (PMBOK) issued by the Project Management Institute (PMI), and standard risk management practices utilized by the United States Department of Defense and the DOE. The 2004 edition of the PMBOK guide identifies six processes as the main elements in a risk management process: (1) Risk Management Planning, (2) Risk Identification, (3) Qualitative Risk Analysis, (4) Quantitative Risk Analysis, (5) Risk Response Planning, and (6) Risk Monitoring and Control. These criteria were embodied in the Levy nuclear project and Levy baseload transmission risk management processes and documented

in two current process documents and the new Project Management Center of Excellence (PMCoE) standard. These documents are the "Nuclear Plant Development Process Document for Risk Management" NPD-PD-05 and the G&TC "Project Risk Planning Guideline" CON-GTCX-00008.

The PMCoE was established in 2008 to provide guidance across the entire organization regarding the standards endorsed by management which exhibit excellence in project management. In March 2009, the PMCoE will issue a new risk management standard, "Project Risk Management" PJM-SUBS-00008, which will be the new corporate standard and will be applicable to all projects. This standard builds upon best practices consistent with the industry standards that I have identified and that have been incorporated in the LNP risk management process.

Q. How did PEF implement risk management for the LNP?

A. Beginning with the COLA phase, PEF has employed risk management techniques to manage risks and opportunities on an ongoing basis. The project team identified risks and prepared a Risk Register to track them. Each risk was evaluated by the originator and then submitted for management review and risk response determination. Action plans or contingency plans were developed to mitigate the high priority risks. LNP management incorporated discussions of new, high priority, or changing risks in monthly execution review meetings as a permanent subject.

As the transmission project was formulated, the G&TC risk management policy was applied to the baseload transmission project. Joint risk identification sessions were conducted between the NPD&LR and the Levy Baseload Transmission teams.

As presented in the LNP IPP, thirteen common and specific risks to the generation and transmission projects were identified and the potential impacts and responses were delineated.

Q. Can you provide us with examples of the application of PEF's risk management strategy to the LNP?

A. Yes. PEF incorporated risk management in each LNP major decision. PEF management established an overall philosophy to preserve the option for deploying new nuclear power plants to meet the growing need for baseload generation and limit the financial risk while maximizing the Company's control. This philosophy was demonstrated in several risk mitigation strategies.

- Project scope control – The selected nuclear reactor technology is an NRC certified design which reduces the potential for scope changes. The construction methods will use modularization techniques which have resulted in shorter construction times.
- Collaboration with other utilities – PEF joined with other utilities that selected the AP1000 to use a reference COLA. The

Company also helped form a joint owners group of utilities constructing AP1000 plants.

- Independent validation of estimates – The WEC / SSW cost information for the AP1000 was independently reviewed before entering into the EPC agreement. The Internal Audit Department reviewed the cost documentation. Burns and Roe, an architect engineering firm with expertise in nuclear plant costs, was hired to perform an independent validation of the AP1000 cost and schedule estimates. Also, the baseload transmission cost model was independently reviewed by Internal Audit, and comparative estimates developed by the owner engineer were used to validate the reasonableness of the initial estimate.

- EPC contract terms and conditions review – PEF engaged Price Waterhouse Coopers to perform an independent review of the contract terms and conditions of the EPC contract and advise PEF management of their observations and make recommendations.

- EPC contract strategy – To achieve a level of price certainty, PEF negotiated performance incentives, penalties, warranties, liquidated damage provisions and parent guarantees, designed to incent the contractor to perform efficiently. Over half of the

contract price is fixed price or firm price with agreed-upon escalation factors.

- Benchmarking and Lessons Learned – PEF benchmarked the LNP construction schedule with international projects completed in late 1990s and early 2000s. Lessons learned will be used from the Haiyang, China Nuclear Power Station where six AP1000 units are being constructed. NPD&LR participated with INPO in a benchmarking visit to Japan to gain an understanding of the experience of Japanese utilities. The Levy Baseload Transmission Project benchmarked other utilities constructing major transmission projects. These utilities included American Electric Power, Allegheny Power, and Northeast Utilities.
- Research on materials pricing and supply – The Baseload Transmission Project team engaged an industry supply chain expert firm to research the availability of transmission commodities, suppliers and materials pricing.
- Additional Risk Management Techniques - As the project transitions to the Site Preparation and Construction phase, a consulting firm has been engaged to evaluate and provide recommendations to make the NPD risk management process more robust.

Q. What is your opinion with respect to PEF's LNP risk management strategy?

A. In my opinion PEF has established a sophisticated risk management process. The LNP risk management process is a prudent approach to managing a project of this nature and one that is consistent with best practices in the industry for projects of this scope and size. Risks have been identified and assessed and responses have been developed. There is awareness of the risk management strategy apparent at the PEF senior management level, and the project and support organizations.

VIII. POLICIES AND PROCEDURES.

Q. Does PEF have in place prudent LNP policies and procedures?

A. Yes. PEF has comprehensive policies and procedures for each function to be accomplished either directly or in support of the LNP. Policies and procedures are in place for resource planning and budgeting, cost management, establishing a capital project, business analysis, funding authorization, project management and procurement, and contract administration. In addition, the NPD&LR and the new NPD are governed by applicable PGN Nuclear Generation Group procedures and quality requirements. The Levy Baseload Transmission Project is also governed by G&TC Department procedures.

PEF policies are summary level documents that communicate broad management principles or philosophy and provide direction for corporate decision making. Policies often require other documentation (such as implementing procedures and forms) to support goals and directives established by the policies.

PEF procedures include specific statements, directives, instructions, processes, and supporting documentation used by PEF personnel to perform specific work processes, conduct programs, or implement policies. Procedures also include training documents, catalogs, or instructional guides or manuals. The procedures identify the purpose of the procedure, the applicable references including other procedures that are integral to the procedure, the responsibility of various participants for carrying out the procedure, and the specific steps to carry out the procedure.

PEF's policies and procedures define expectations and accountability for work product, identify responsibilities, serve as training tools for staff, and provide a program for review and updates as the LNP matures. PEF's policies and procedures are, accordingly, consistent with best practices and industry standards.

Q. Do the NPD and GT&C organizations have in place the procedures necessary to support effective project management of the Levy Nuclear Project and the associated Baseload Transmission system?

A. Yes. The underlying basis for managing the Levy Plant and Baseload Transmission projects is the extensive existing procedural hierarchy by which both organizations have traditionally managed plant and line projects. In addition, PEF has established an overall governance policy to guide the construction of the projects. Further, a set of Levy-specific procedures is currently under development to address specific conditions encountered in executing this project.

The LNP governance policy is a comprehensive guide for project execution. It establishes roles and responsibilities based on using internal departmental practices and procedures. This governance approach provides coordinated LNP oversight and management and ensures independent oversight of line organization activities with accountability remaining with the line organizations. Specific governance policy goals include independent oversight, appropriate management reviews reconciliation with internal practices and procedures, creation of a framework for project controls, the provision for effective cost management, and timely management reporting.

The governance policy recognizes the significance of early detection of cost and schedule variances and commits to the continued use of performance criteria such as Cost Performance Indicators (CPIs), Schedule Performance Indicators (SPIs), and COLA performance monitoring. Other Key Performance Indicators (KPIs) will be developed as detailed design begins and construction activity is planned. The policy

addresses integrated change control as an essential management function to encourage sound decision making and alternative consideration. A specific change control process, using Passport or similar software, will be developed to control changes based on a project Work Breakdown Structure.

The basis for the development of Levy project-specific procedures is the existing NGG Project Management Program Manual (the Manual). This document provides an appropriate set of guidelines, processes and methods for project planning, execution and control to achieve effective project management for the Levy COLA development and planning phase. This Manual and the specific implementing procedures of the executing organizations also provide a reasonable set of underlying procedures to guide the project going forward.

The Levy project team expects these procedures will be evaluated and revised or supplemented as needed to ensure adequate guidance as the project proceeds through the more complex detailed engineering and construction phase. NPD specifically anticipates that more advanced and defined processes for cost engineering, schedule integration and quality for large scale nuclear construction will be developed during the construction process. The Manual includes direction for these project management tasks and for project management control of the execution of the work. The Manual also addresses project completion activities,

including functional testing, startup and integration, lessons learned development and paperwork closeout.

NPD has also created the "Levy EPC Implementing Procedure Development Plan," which identifies 33 specific new policies and procedures for development, specifies timelines for completion, and notes any triggering condition or need for specific listed policies or procedures.

For transmission activities, the G&TC guideline, Execution of Large Construction Projects and Programs (the Guideline), provides an appropriate set of directives for the baseload transmission program team assigned to the construction group. This procedure includes project management, engineering, environmental support, right-of-way acquisition, project controls and business management support. The Guideline describes the overall process flow, responsibilities, organization and interfaces for planning, executing, monitoring, controlling and closing G&TC projects, and specifically the Levy baseload transmission projects. The Guideline project management sections address project management action. The G&TC department plans future or revised policies, procedures and controls to address specific Levy Transmission Project areas.

Q. Are PEF's policies and procedures prudent?

A. In my opinion PEF has reasonable and prudent policies and procedures that are comprehensive, integrated, and enforced. The policies and

procedures are what I would expect to see for projects of this size and scope and are consistent with industry best practices.

VIII. PROJECT ASSESSMENT

Q. Does PEF have in place prudent project assessment mechanisms and processes?

A. Yes. PEF has in place a reasonable and prudent system of audits, independent reviews, benchmarking initiatives, and self assessments to ensure that procedures, standards, objectives, and contractual obligations are met. Several organizations provide assurance that PEF line organizations and contractors meet the standards required by regulatory agencies and good business practices. These organizations include: Internal Audit, Nuclear Quality Assurance (QA), Project Assurance, and Self Assessments. As part of the QA program, the NPD&LR was reviewed by a Performance Evaluation Support (PES) team. In addition, PEF sought input from industry organizations and vendors through benchmarking its performance in comparison to other projects. These LNP project assessment mechanisms and processes ensure that LNP performance is reviewed, LNP procedures are followed, quality is maintained and contractual obligations are met.

Q. Please describe the Internal Audit Project Assessment process.

A. The Internal Audit Services Department reports directly to the PGN BOD via the Audit and Corporate Performance Committee. The Audit Services Department develops an annual audit strategy for major construction projects like LNP by assessing the project's current and/or near-term lifecycle phase and then identifying the categories of high risk exposure confronting each project. These may include Business and Regulatory Environment, Schedule, Procurement and Contracts, and Cost Management. The high-risk categories are then emphasized in the annual Audit Plan, which is reviewed by the Audit and Corporate Performance Committee. The Audit Services Department also administers the Company's Ethics Program.

Guided by this audit planning process, the Audit Services Department has conducted the following internal audits on the LNP: (1) Levy Nuclear Financial and Regulatory Team Review; (2) Plant and Transmission Cost Models; (3) Compliance with the Florida Nuclear Plant Cost Recovery Rule; (4) COLA Licensing for New Nuclear Plants; and (5) Documentation supporting the EPC "Price Books." Audit reports were provided to the appropriate Vice Presidents and Directors of the audited departments, with an overall opinion and specific observations and recommendations. In consultation with the audited department's management team, each observation and recommendation issue was assigned an action plan. Each action plan identified an owner and a completion date. The audits performed on LNP were appropriately

responded to and recommendations were acted upon or are scheduled to be completed in 2009.

Q. Can you please explain the Nuclear Quality Assurance Assessment?

A. The NPD&LR assigned Quality Assurance (QA) analyst from the Nuclear QA organization ensures the nuclear project satisfies the requirements of the QA program. Audits were regularly performed of internal NPD&LR functions, such as following project plan commitments as well as evaluating the QA performance of contractors. For example, decisive action was taken by QA on two contractor firms with the issuance of "Stop Work" orders for deficiencies that did not meet QA requirements. Follow up audits were performed to verify that all deficiencies were corrected. These examples demonstrate that the Quality Assessment project assessment process works as intended.The NPD will also come under Nuclear QA oversight to ensure adherence to the PGN Nuclear QA Program.

The PES assessment concluded that the NPD&LR department was effectively meeting its performance objectives for each of the four elements of the NGG Self Evaluation Program: (1) self-assessment use, (2) corrective action effectiveness, (3) operating experience utilization, and (4) benchmarking activity. Specifically, NPD&LR's active participation in nuclear industry organizations such as NuStart, the AP1000 Builder's Group, the Design Centered Working Group, and the New Plants Working

Group ensures that the organization remains aware of new or critical industry issues. The PES assessment also commended the NPD&LR department for their efforts in utilizing lessons learned from other utilities in the industry. Specifics included COLA submittal, ESP submittal, Limited Work Authorization applications, and plans for further benchmarking of major equipment fabrication planning and other long lead time activities.

Q. Please explain the project assurance for the LNP.

A. In 2007, PGN created the Project Assurance organization to optimize institutional and project-specific understanding and awareness that decisions for which cost recovery will be sought be just, reasonable, and prudent based on the information reasonably available at the time the decision was made. The Project Assurance organization supports the LNP to ensure that documentation of key project decisions is adequate to explain the basis for, and reasonableness and prudence of, the decision. An electronic library has been established to collect significant documents, reports, and files that may have relevance to cost recovery for the LNP.

Q. What is the Self Assessment Project Assurance process?

A. The LNP management has performed self-assessments of its activities over the course of the COLA preparation effort. LNP staff performed self-assessments of (1) financial charging practices, (2) the COLA preparation

and review process, (3) the effectiveness of NPD contract administration and its interfaces with multiple vendors, and (4) the effectiveness of NPD&LR project implementation and quality controls. Planned 2009 LNP self assessments include (1) document control and records management to determine overall performance improvement from a 2008 QA focused assessment, (2) design and license basis control, (3) oversight of design finalization to ensure regulatory compliance, and (4) contractor security requirements.

Q. What benchmarking for the LNP has been performed?

A. PEF has worked closely within the industry to improve its effectiveness by participating in shared activities to support nuclear generation. This peer collaboration effort includes active membership in NuStart, which resulted in cost savings for engineering and licensing associated with COLA development and design finalization of the AP1000 design. Also, in August 2007, PEF entered into an operating agreement with other utilities planning to utilize the AP1000 reactor technology and established the AP1000 Owners Group (APOG). This peer effort is allows for collaborative sharing of common technical, engineering and support service costs associated with construction of an AP1000 reactor.

NPD&LR participated with INPO in a benchmarking visit to Japan to gain an understanding of the experience of Japanese utilities and reactor manufacturers in constructing nuclear power plants during the late 1990s

and early 2000s. NPD&LR also made a site visit to the Haiyang, China Nuclear Power Station where six AP1000 units are being constructed.

The Levy Transmission Baseload Project used benchmarking with several other utilities engaged in major transmission projects including American Electric Power, Allegheny Power, and Northeast Utilities. The project also engaged Power Advocate Inc. to perform an independent review of contract strategy and assess the transmission materials market.

IX. CONCLUSION: LNP PROJECT MANAGEMENT AND PROJECT CONTROLS ARE REASONABLE AND PRUDENT.

Q. Are the LNP project management and project controls reasonable and prudent?

A. Yes. In my opinion PEF has in place the requisite processes and organization to manage a project that has the magnitude and complexity of the LNP. PEF has undertaken the LNP using reasonable and effective management practices that demonstrate the LNP has been reasonably planned, organized, and controlled by PEF to meet LNP goals for scope, schedule, budget, regulatory, safety, and quality requirements.

Senior management oversight is extensive. Effective coordination of the supporting departments exists. The project governance policy further provides a comprehensive guide for the LNP with coordinated independent oversight and management. The LNP had a reasonable

project management organization and is appropriately transitioning to the new NPD organization with EPC execution. The EPC contract is a reasonable contract that balances risk and PEF control using a combination of fixed price, firm price, target price, and time and materials arrangements. Further, the LNP has a sophisticated risk management process consistent with industry best practices. There are reasonable project controls in place to develop estimates, monitor schedules and control contractors, there is reasonable reporting and performance monitoring, and the planned expansion of performance indicators will enhance performance monitoring further. There is an effective and comprehensive set of existing project management and execution policies and procedures that are being supplemented with specific LNP procedures. There is extensive use of project reviews, internal audits, benchmarking, self assessments, and QA. As a result, the LNP project management and project controls are reasonable and prudent.

Q. Does this complete your testimony?

A. Yes.

BY MR. ROACH:

Q. Mr. Doughty, could you summarize your testimony?

A. Yes.

COMMISSIONER EDGAR: And, I'm sorry, did you ask if he had been sworn?

MR. ROACH: He has been. Yes, ma'am.

COMMISSIONER EDGAR: He has.

THE WITNESS: Yes, I have.

COMMISSIONER EDGAR: Okay. I apologize. Go right ahead.

THE WITNESS: Chairman and Commissioners, the purpose of my testimony is to present my expert opinion that Progress Energy Florida's Levy Nuclear Plant project management and project controls are reasonable and prudent. This is a result of an independent review conducted earlier this year of the project in seven major areas: Project oversight, project concept and contract strategy, project management, project controls, risk management, policies and procedures in place and project assessment.

In my opinion, Progress Energy has the requisite processes and organization to manage a project of Levy Nuclear Plant's magnitude and complexity. Progress Energy has reasonable and effective management

practices for this project. Senior management oversight and involvement are extensive. The project governance policy provides a comprehensive guide for the project with coordinated independent oversight.

I also conclude that the Levy Nuclear Project has a sophisticated risk management process consistent with industry best practices. There are reasonable project controls in place to develop estimates, to monitor schedules and to control contractors. There is reasonable reporting and performance monitoring, and those processes are being improved with the signing of the EPC contract.

Additionally, there is an effective and comprehensive set of existing project management and execution policies and procedures. And, finally, there are extensive project reviews -- internal audits, external audits, benchmarking, self-assessment and quality control reviews -- to comply with NRC requirements. All of these demonstrate that the Levy Nuclear Plant project management and project controls are reasonable and prudent. That finishes my summary.

MR. ROACH: The witness is available for cross-examination.

COMMISSIONER EDGAR: Thank you.

Mr. Rehwinkel.

MR. REHWINKEL: No questions.

COMMISSIONER EDGAR: Mr. Brew.

MR. BREW: Thank you, Commissioner.

CROSS EXAMINATION

BY MR. BREW:

Q. Good morning, Mr. Doughty. How are you?

A. Good morning. I am fine.

Q. You said in your summary that you performed the work for Progress earlier this year. Was the work that you performed for Progress exclusively for the purpose of this proceeding?

A. Yes.

Q. Do you do any other work for Progress relating to its nuclear program?

A. No, not currently.

Q. Did you perform any work for them in 2008?

A. No.

Q. Okay. Did you attend any Progress/NRC meetings or discussions?

A. Any Progress meetings with the NRC?

Q. NRC, yes.

A. No, I did not.

Q. Okay. Your discussion in direct testimony has a considerable discussion of, of prudence reviews; is that right?

A. Yes, it does. Could you refer me to the page you're talking about?

Q. Well, I'm talking generally. But why don't we just look at GRD-3 of your exhibits.

A. Okay. I'm there.

Q. Okay. Good. And in each of the items that are listed on this, on Page 1 of 1, you provided testimony and recommendations regarding the reasonableness or prudence of the utility's activities?

A. Yes, I did.

Q. Okay. Well, let's talk --

A. And this was before the commissions that are stated there in the list.

Q. Before the public utility commissions that are listed under the heading State Commission?

A. Yes.

Q. Okay. Let's talk a little bit about prudence. Prudence reviews by a regulatory commission by definition are retrospective, are they not?

A. They generally are, although there has been a move to do some real-time prudence in some state utility commission venues.

Q. Okay. And all of the prudence matters that are discussed on GRD, or referenced on GRD-3 were retrospective reviews?

A. Not exactly. Let me go back to GRD-3. In the case of the Arkansas Nuclear One Unit 2 steam generators, that was a decision that was being considered by the Arkansas Public Service Commission with regard to Arkansas Power & Light's decision to replace the steam generators before actual work proceeded.

Q. On whether it should be done.

Okay. But the others were retrospective reviews?

A. No. The same thing would be true in the Maryland case for the replacement of the Calvert Cliffs 1 and 2 steam generators.

Q. Okay. It was in (phonetic) advance.

All right. For a prudence review, would a utility's failure to follow its own procedures constitute imprudence?

A. One would have to look at the totality of information available to be able to make that determination. You could not just simply say prima facie that the, that the utility was prudent -- imprudent.

Q. Okay. So if the company had written established procedures and didn't follow them, that wouldn't make out a case for prudence?

A. Say that again.

Q. That would not make out a case for prudence in your opinion?

A. That may indicate that there is the potential that there is imprudence, but it does not say that there was imprudence.

Q. Okay. Can there be imprudence for failure to act in the face of circumstances that dictate actions required?

A. Can there be? That's possible, yes.

Q. Sure. Okay. Let's take a look for a minute at your testimony on Page 42.

A. I'm there.

Q. And the Q and A beginning on Line 15, which discusses Progress's risk management for the Levy project. Do you see that?

A. Yes.

Q. And on Lines 17 through 20 you say, "The project team identified risks and prepared a Risk Register to track them." Do you see that?

A. Yes.

Q. If a project team member identified a risk, who vetted it?

A. The project team met and, the team that is the project team associated with the Levy Nuclear Project

met to review the risk, added to the register so it was vetted collectively. So, for instance, if it was a licensing issue, Mr. Kitchen (phonetic) or Mr. Miller would have vetted it.

Q. As part of the licensing team.

A. Yes.

Q. Okay. Would any, anybody independent of that team review it?

A. How do you mean independent? Of the Levy Nuclear Project or of the licensing team?

Q. Of the licensing team.

A. They may have, but I don't know for sure.

Q. You don't know. You didn't look at that.

A. I didn't look at external review of the Risk Register in terms of somebody vetting it. No.

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

COMMISSIONER EDGAR: Thank you.

Mr. Davis.

MR. DAVIS: No questions.

COMMISSIONER EDGAR: No questions.

Mr. Moyle.

CROSS EXAMINATION

BY MR. MOYLE:

Q. In your summary, you indicated that you looked

at how, as I understood it, as how Progress is managing this project and managing their risk with the, with the Levy planned nuclear power plants; correct?

A. Correct.

Q. Okay. Wouldn't, wouldn't you agree that in order to make a judgment as to how risk is being managed, that an important component of that would be to know the, the dollar figure to which the risk -- the ultimate dollar figure that people are using to manage risk?

A. You may not be able to know that. That's the problem with being here now and trying to anticipate what costs might be in the future. That's why you build an estimate.

Q. Okay.

A. So you do the best possible job you can in building an estimate to include contingencies to account for the possibility or potential likelihood that some occurrence may happen that will cause that estimate to be higher.

Q. You would agree that in order to determine either prudence or long-term feasibility, that cost is a, is a critical component of that; correct?

A. I would agree that it's a, that cost is an important component. But technical feasibility is just

as important. Regulatory feasibility is just as important.

Q. The -- you would also agree in terms of formulating your, your opinion and judgment that to the extent that you can have more current cost data, that that would better inform your opinion; correct?

A. It's what naturally happens in a, in a project is that you conceive the project, you estimate the cost. They have a band of uncertainty associated with them. As time marches on and you procure items and receive bids, you now have an actual price to incorporate into your estimate or budget from which to work. So in that sense, yes, that's, that's what makes sense. There is cost, more cost certainty because you've actually cleared the uncertainty bound (phonetic) into certain as in the case of a fixed price contract, say.

Q. Yes, sir. Hypothetically, let's say we're sitting here in 2015 having this annual proceeding and you're testifying about, well, I think that the, that Progress has been reasonably managing cost, you wouldn't anticipate relying on a cost estimate that was done in, you know, in 2009 for the basis of that testimony or 2008 for the basis of that testimony. You would want to try to have most current information related to cost for that testimony; correct?

A. Not necessarily. If the estimate is holding, that is the budget is holding and what you've done is transferred dollars from contingency into the actual expenditure for that, say, item of cost, then, then the estimate that we presented or that the company presented in two thousand and -- what did you say, nine --

Q. Yes.

A. -- is still holding, then, and they have processes and procedures to incorporate that cost, what you've done is I think achieved a situation in which the cost uncertainty is less but it's still holding that same budget. So you would have that current information, but it may still be that same original or that current estimate. The current estimate being earlier than the 2015 time frame that we're talking about.

Q. And it just would depend on whether, whether the cost numbers are tracking correctly or not.

A. Correct.

Q. Okay. Now as we sit here today, what understanding do you have with respect to the total cost of the planned nuclear project?

A. Say that again.

Q. What understanding, if any, do you have with respect to the total cost for the Levy project as we sit

here today?

A. I understand that the schedule shift has occurred because of the change in the LWA. That, therefore, is causing Progress Energy to renegotiate -- not renegotiate -- to establish new contract parameters within the EPC contract to adjust the schedule. But right now we know, we know that it is the current estimate. That is, that is what we know, that is the current information. And that may or may not change depending on the outcome of those negotiates.

Q. And is that the estimate that you used to formulate your opinion, the current, the current estimate?

A. That was -- when I did this work was in January and February of this year, so, yes.

Q. And just so the record is clear, what number is that that you used with respect to formulating your opinion as to the total project cost?

A. It was approximately $17 billion.

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

COMMISSIONER EDGAR: Other questions from staff?

MR. YOUNG: No questions.

COMMISSIONER EDGAR: Commissioners? Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

Just a quick question. And if you can't answer this or this is not within your scope, I'm happy to reserve it for one of the other witnesses.

But in your response to Mr. Moyle's question you mentioned the, the limited work authorization denial by the NRC on Levy 1 and 2; is that correct?

THE WITNESS: Yes, sir.

COMMISSIONER SKOP: Okay. Now I guess based upon the prior representations of the NRC regarding its newly improved and streamlined license, licensing process, was it reasonably foreseeable that the NRC would substantially depart from this process by denying the AW -- the LWA in your opinion?

THE WITNESS: I'm not familiar enough with the workings of the NRC in the current time frame, and I believe Mr. Thompson may be able to better answer that.

COMMISSIONER SKOP: Okay. All right. Thank you.

COMMISSIONER EDGAR: Redirect?

MR. ROACH: No redirect.

COMMISSIONER EDGAR: No redirect. Okay.

Exhibits.

MR. ROACH: Exhibits, I'd ask that Exhibits 91 through 96 be received into evidence.

COMMISSIONER EDGAR: Okay. Why am I not seeing them? 91, is that what you said?

MR. ROACH: Yes, ma'am. 91 through 96.

COMMISSIONER EDGAR: Okay. Staff, help me out here.

MS. CIBULA: Page 14.

COMMISSIONER EDGAR: What page?

MS. CIBULA: Page 14.

MR. ROACH: Page 14.

COMMISSIONER EDGAR: Page 14.

COMMISSIONER ARGENZIANO: I'm sorry. Madam Chair, was it Page 14?

COMMISSIONER EDGAR: That's what we are -- ah, yes. Okay. There you go. Thank you very much. So Page 14, 91 to 98.

MR. ROACH: 96, 91 through 96.

COMMISSIONER ARGENZIANO: Thank you.

COMMISSIONER EDGAR: 91 to 96. 91 to 96 are entered into the record at this time. Thank you all for getting me to the right page.

(Exhibits 91 through 96 admitted into the record.)

And the witness is excused. Thank you very much.

And you may call your next witness.

MS. TRIPLETT: Thank you, Madam Chairman. Our next witness is Gary Furman. And I believe he has also been stipulated and excused from appearing at the hearing.

COMMISSIONER EDGAR: Ah, I see that. Yes. So for Witness Furman and his exhibits that I understand have been stipulated, that remains the agreement of all parties; is that correct? I'm seeing nods. Okay. Then the prefiled testimony of Witness Furman will be entered into the record as though read.

Exhibits?

MS. TRIPLETT: There are no exhibits. And I just wanted to make sure that there were two sets of testimonies, there's a March 2nd and a May 1, and no exhibits.

COMMISSIONER EDGAR: And both the March 2nd and the May 1 prefiled testimony are entered into the record at this time.

MS. TRIPLETT: Thank you.

COMMISSIONER EDGAR: Thank you.

IN RE: NUCLEAR COST RECOVERY CLAUSE

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 090009

DIRECT TESTIMONY OF GARY FURMAN IN SUPPORT OF ACTUAL COSTS

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Gary Furman. My business address is 3300 Exchange Place, Lake Mary, FL 32746.

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

A. I am employed by Progress Energy Florida, Inc. ("PEF" or the "Company") and my title is Manager, Major Projects in the Generation & Transmission Construction Department. In this role, I am responsible for leading a cross-functional, multi-disciplinary team in the development and execution of the transmission line projects associated with the Levy Nuclear Plant.

Q. Please summarize your educational background and work experience.

A. I have a Bachelor's degree in Mechanical Engineering from the University of Florida and a MBA from the University of Tampa. I am a licensed Professional Engineer in the State of Florida. I have worked in the electric

utility industry for over 25 years, the last 14 of which have been directly related to electrical transmission line and substation siting and engineering. Prior to assuming my current role, I was the Manager of Line Engineering and Real Estate in the Transmission Operations and Planning Department at Progress Energy Florida. In this role, I was responsible for engineering new transmission lines and the acquisition of new transmission line right of way. Prior to that role, I was the Manager of Substation Engineering in the Transmission Operations and Planning Department at Progress Energy. In this role, I was responsible for engineering new substation facilities and the expansion of existing substation facilities.

Prior to joining PEF in March 2003, I was employed by Tampa Electric Company where I held a number of management and engineering positions in the transmission, distribution, environmental and generation departments.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to support the Company's request for cost recovery pursuant to the nuclear cost recovery rule for the transmission portion of the costs incurred from January 2008 through December 2008 that were related to the construction of the Company's proposed Levy Nuclear Power Plants. I am also adopting the testimony

filed in Docket 080009 of Dale Oliver, with respect to the actual costs incurred in 2007 for transmission and associated facilities. I understand that the Commission will be reviewing the prudence of the 2007 transmission costs in this year's proceeding, and my adoption of Mr. Oliver's testimony will assist the Commission in that review.

Q. Do you have any exhibits to your testimony?

A. No, I am not sponsoring any exhibits. I am, however, sponsoring the cost portions of Schedules T-6, T-6A, T-6B, and Appendix C, as well as portions of Schedules T-8, T-8A, and T-8B of the Nuclear Filing Requirements ("NFRs"), which are included as part of the exhibits to Will Garrett's testimony. Specifically, I am sponsoring those portions, related to transmission, of Schedule T-6, which provides actual monthly expenditures for site selection, preconstruction and construction costs. I also sponsor the transmission portion (Lines 17 – 22) of Schedule T-8, which lists the contracts executed in excess of $1.0 million through the end of 2008. Accordingly, I sponsor pages 17 to 22 of Schedule T-8A, which reflects details pertaining to the contracts executed in excess of $1.0 million. I am also sponsoring the transmission portion (Lines 9 – 14) of Schedule T-8B which lists the contracts between $200,000 and $1.0 million that were executed through the end of 2008.

All of the portions of these schedules, which I sponsor, are true and accurate.

Q. Please summarize your testimony.

A. PEF seeks to minimize pre-licensing expenditures while at the same time performing the necessary work to maintain the schedule required for the project.

To that end, the Company incurred pre-construction and construction costs from January 2008 to December 2008 to complete the work required to site the proposed transmission lines and substations and to complete the necessary analysis and design work required to maintain the proposed schedule for the Levy Nuclear Plant Project (LNP).

More specifically, work continued to complete selection of the proposed corridors for the transmission lines and to determine the specific routes for the lines within these corridors. The transmission line portion of the State Site Certification Application (SCA) was developed and the application was submitted to the Florida Department of Environmental Protection (FDEP) on June 2, 2008. The transmission portion of the Federal Nuclear Regulatory Commission Combined Operating License Application (COLA) was developed and submitted to the Nuclear Regulatory Commission (NRC) on July 30, 2008. Engineering work was performed to assist in determining suitable substation sites and for the development of preliminary project schedules and cost estimates.

The Company conducted one of, if not the, largest community outreach programs in the history of the state for this project to inform the public and obtain suggestions on transmission routing during 2008. This

outreach program included sixteen open house sessions that were held throughout the nine county project area, over 117,000 direct mailings sent to the communities in the project area, and over 3,000 people attending the open house/outreach sessions. Work with the community and local governments through established community working groups also continued throughout the year. The Company also incurred construction costs for the purchase of certain substation property and transmission line easements.

As demonstrated in my testimony and the NFR schedules attached to Mr. Garrett's testimony, PEF took adequate steps to ensure that these pre-construction and construction costs were reasonable and prudent. PEF negotiated favorable contract terms under the then-current market conditions and circumstances.

For all the reasons provided in my testimony and in the NFR schedules, the Commission should approve PEF's transmission pre-construction and construction costs incurred in 2007 and 2008 as reasonable and prudent pursuant to the nuclear cost recovery rule.

III. CAPITAL COSTS INCURRED IN 2008 FOR LEVY NUCLEAR PLANT

Q. Did the Company incur any transmission-related Site Selection/Pre-construction costs for the Levy Nuclear Plant in 2008?

A. Yes, as reflected on Schedule T-6, the Company incurred Site Selection/Pre-construction costs in the categories of Line Engineering, Substation Engineering, and Other.

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

A. As reflected on line 20 of Schedule T-6, the Company incurred Line Engineering costs of $3,602,300. These costs include the conceptual and preliminary engineering design of the transmission lines and facilities. This engineering work identified the typical size, type, and general locations of various options for the transmission lines and substation facilities necessary to successfully and reliably accommodate the additional power from Levy Units 1 and 2 on PEF's system and to reliably incorporate the plants into the PEF transmission system and the state-wide electric grid. This work allowed the Company to refine the scope, expected schedules, and costs of the proposed system facilities and facility upgrades.

Q. Did the Company incur any other costs associated with the Line Engineering work for the Levy Nuclear Plant Project?

A. Yes. The Company incurred costs to perform corridor selection studies to identify corridors that can be permitted and utilized for construction. This work included development of quantitative and qualitative corridor

analysis using data developed from ecological, land use and engineering analysis, as well as field work to validate the data collected. The work also involved the development of the documentation, figures, drawings and specifications for the proposed corridors necessary to support the final report, and development of the necessary testimony in support of licensing.

The work that defined the proposed transmission corridors was used to prepare the necessary corridor and transmission line and facility information for the submittal of the COLA to the NRC and the SCA to the FDEP. Both applications addressed and described the transmission corridors and the necessary transmission system facilities and upgrades for the LNP. The Company submitted the SCA to the FDEP on June 2, 2008 and submitted the COLA to the NRC on July 30, 2008. In 2008, the Company further refined the corridors to establish specific routes for the transmission line Right-of-Way (ROW) and sites for the substation facilities.

Also in 2008, PEF incurred costs for engineering studies to support the transmission line and facility designs necessitated by the addition of the Levy units. These studies included an analysis of structure and conductor options to determine cost efficient and reliable structures and wires to be used on the project. A switching study was initiated to determine the necessary design requirements for the switching equipment required for the project.

Line Engineering costs were also incurred in 2008 for engineering services to support the review, analysis and revisions as needed to refine associated scopes, cost estimates, and schedules for the Levy Transmission Program's discrete line projects. This work included the review and analysis to support the development of design criteria and specifications for the Levy Transmission Program and engineering support for addressing external and internal Requests for Information (RFI) or Requests for Proposals (RFP) by providing documentation, figures, drawings, and reports.

All of these Line Engineering costs were incurred in 2008 to maintain the project schedule for the 2016 in-service date of Levy Unit 1 and 2017 in-service date of Levy Unit 2.

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

A. As reflected on line 21 of Schedule T-6, the Company incurred Substation Engineering costs of $1,179,857. These costs include the conceptual and preliminary engineering design and engineering detail work for substations. This work was necessary to identify the number of substations, their general location, size and equipment needs required to incorporate the Levy nuclear power plants into the PEF transmission system and the state-wide electric grid.

Such work was necessary to identify and select the appropriate substation sites and prepare the necessary transmission facility information for the submission of the COLA to the NRC. The application addressed and described the necessary transmission system facilities and upgrades for the Levy nuclear power plants. The Company submitted the COLA to the NRC on July 30, 2008.

Substation engineering costs in 2008 include engineering services to support the review, analysis, and revisions to all associated scopes, cost estimates, and schedules for the Levy Transmission program's individual substation and relay and protection projects. This work also included the review, analysis, and implementation of technical studies to support the development of design criteria and specifications and to provide assistance for the Levy Transmission program's engineering quantitative and qualitative efforts to support external and internal RFIs or RFPs by providing documentation, figures, drawings and reports.

The Company had to incur these costs in 2008 to ensure that licensing applications were completed timely and the schedule was maintained so the necessary transmission infrastructure will be in place prior to the planned commercial in-service dates of 2016 and 2017 for Levy Units 1 and 2 respectively.

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

A. As reflected on line 23 of Schedule T-6, the Company incurred "Other" costs of $3,185,914. These costs included project management, project scheduling, development of contracting strategies and related overhead, public outreach/open house activities, legal services, and other miscellaneous costs associated with planning and siting the transmission projects for the LNP.

To explain further, the Company incurred these costs: (1) working with the public and governmental agencies to incorporate their comments into the corridor and route selection studies and include their input in the selection of the proposed transmission corridors; (2) reviewing and providing input to the corridor and routing selection processes and the SCA and COLA applications; and (3) performing project management and scheduling activities, external and community relations support, and consulting support for the development of contracting strategies, which could not be directly attributable to Line Engineering or Substation Engineering.

These costs were necessary to maintain the project schedule for the 2016 in-service date of Levy Unit 1 and the 2017 in-service date of Levy Unit 2.

Q. How did actual Site Selection/Preconstruction capital expenditures for January 2008 through December 2008 compare to PEF's estimated/actual projection for 2008?

A. Line Engineering and Substation Engineering costs were lower than PEF projected while Other transmission costs were higher than PEF expected. I will explain the reasons for the major (more than $1 million) variances below.

Line Engineering:

Line Engineering capital expenditures were $3,602,300 which was $2,499,886 under the estimated/actual projection. This variance was primarily driven by a change in scope that led to a re-sequencing of scheduled engineering activities. The change in scope was made after additional studies and analyses were completed. Also, the Company decided to allow additional time for community outreach efforts to gather input to the siting process. The combination of extending the community outreach activities and the change in scope resulted in lower than expected Line Engineering expenditures for 2008.

Substation Engineering:

Substation Engineering capital expenditures were $1,179,857 which was $5,238,714 under the estimated/actual projection. This variance was primarily driven by a re-alignment of scheduled engineering activities for the substation projects. It was expected that engineering work would be performed sooner on the Levy Plant Administrative substations and the existing Crystal River Energy Complex (CREC) switchyard. Engineering

work was re-sequenced to align with schedule activity refinements and coordination with the planned completion of environmental licensing activities. PEF determined, based on discussions with Crystal River plant and planning personnel, that construction at the CREC site could only occur during plant outages. This resulted in phasing of the planned work to correspond with CREC plant outages and spreading of the CREC work activities over the 2009 to 2015 time frame.

Other:

Other capital expenditures were $3,185,914 which was $1,443,295 over the estimated/actual projection. This variance was primarily driven by more extensive community outreach activities than was originally projected. Due to the large number of land parcels included in the corridor study areas, and the resulting high number of invitations mailed to impacted property owners for the outreach meetings, it was necessary to hold more open houses as part of the outreach plan than originally contemplated. Costs to conduct the open houses included development of presentation materials, facility rent for the open house venues, labor costs for the participants, including internal and external consultants, mailings, advertisements, and project web site development. The response from these open houses was very positive based on feedback received from the attendees, community leaders, local officials, and media reports.

Information obtained from the community in this process was incorporated into the transmission corridor selection process.

Q. Did the Company incur any transmission-related Construction costs for the Levy Nuclear Plant in 2008?

A. Yes, as reflected on Schedule T-6, the Company incurred Construction costs in the categories of Real Estate Acquisition and Other. The cost reflected in the "Other" category is an accounting adjustment that will be explained in the testimony of Mr. Will Garrett.

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

A. As reflected on line 59 of Schedule T-6, the Company incurred "Real Estate Acquisition" costs of $2,994,450. These costs include the acquisition costs of the new Citrus and Central Florida South substation sites and certain transmission line ROW. PEF incurred costs to acquire five parcels of land for the new Citrus substation project. One parcel of land and a transmission line easement were placed under contract for the new Central Florida South substation project. The purchase deposit for this property was processed in 2008. PEF also acquired an easement for the ROW expansion of the Pinellas-Hillsborough-Polk (PHP) 230kV transmission line rebuild project.

These real estate acquisition costs include the siting, survey, appraisals, title commitments, permitting, legal and related costs, ordinance review, and actual purchase costs for the land and easement rights necessary for the transmission facilities for the LNP. These costs are needed to ensure that the ROW and other land upon which the transmission facilities will be located are available when required to maintain the project schedule for the 2016 in-service date of Levy Unit 1 and Levy Unit 2 in 2017.

Q. How did actual Construction capital expenditures for January 2008 through December 2008 compare to PEF's estimated/actual projection for 2008 costs?

A. Substation Engineering and Substation Construction costs were lower than PEF projected. I will explain the reasons for the major (more than $1 million) variances below.

Substation Engineering:

PEF did not incur capital expenditures for Substation Engineering in 2008 but projected costs of $2,091,550. At the time PEF projected these costs, the Company expected that engineering activities would occur in 2008 to support the construction at the Levy Plant Administrative substations and the existing CREC switchyard. It was determined, however, that construction activities at the Levy Plant site would not occur until the

environmental licensing activities are complete which is expected in late 2009 or early 2010. In addition, PEF determined, based on discussions with Crystal River plant and planning personnel, that construction activity at the CREC site could only occur during certain plant outages. This resulted in phasing of the planned work to correspond with CREC plant outages and spreading of the CREC work activities over the 2009 to 2015 time frame.

Substation Construction:

PEF did not incur any capital expenditures for Substation Construction in 2008 but projected costs of $2,175,212. At the time PEF projected these costs, the Company expected that there would be a need to purchase long lead time substation major equipment items for the Levy Administration Substations and the CREC switchyard expansion projects. The start of construction for these projects was re-sequenced due to licensing, permitting, and plant outage requirements and, therefore, the need to purchase this equipment was deferred.

Q. To summarize, were all the costs that the Company incurred in 2008 for the Levy Nuclear Project reasonable and prudent?

A. Yes. The specific cost amounts for the transmission portion of the LNP contained in the NFR schedules, which are attached as exhibits to Mr. Garrett's testimony, reflect the reasonable and prudent costs PEF incurred

for the LNP transmission work in 2008. Together with the LNP transmission costs PEF prudently incurred in 2007, PEF (1) obtained a need determination for the LNP; (2) studied and selected a preferred transmission line corridor for the transmission lines; (3) further narrowed the corridor to the specific routes for the transmission lines; (4) developed the transmission portion of the SCA for submittal to the FDEP; (5) developed the transmission portion of the COLA for the submittal to the NRC; (6) performed engineering work for transmission lines and substation sites and developed project schedules and cost estimates; (7) performed extensive community outreach regarding the proposed location of the transmission lines; and (8) purchased land for substation sites and easements for transmission lines. All of these costs were necessary to maintain the project schedule and move the LNP transmission projects forward to successful completion.

IV. PROJECT MANAGEMENT AND COST CONTROL OVERSIGHT

Q. Has the Company implemented any project management or cost control oversight mechanisms for the transmission portion of the Levy Nuclear project?

A. Yes. The Company is using numerous existing policies and procedures to ensure that the transmission costs for the LNP are prudently incurred, managed, and controlled and that the project remains on schedule. The transmission projects associated with the LNP are subject to the same

overall Company management as the generation side of the LNP. Mr. Miller describes the LNP management in some detail in his testimony. LNP management is accomplished by adherence to the Company's Integrated Project Plan (IPP) for the LNP. The Company's Project Governance Policy, Execution of Large Construction Projects and Programs Procedure, and Generation and Transmission Construction Guidelines, along with numerous other policies, procedures, and controls, also apply to the Levy transmission projects.

To further promote best practices for project management, the Company has created the Project Management Center of Excellence (PMCoE), which will standardize best practices of project management across the Company. The PMCoE will improve Progress Energy's project management approach so that it is more efficient, flexible, and cost effective. Specifically, its goals are to standardize processes, establish a project management career path, provide common training and qualification programs, and adopt best practices from both internal and industry groups. The processes developed by PMCoE will ultimately apply to all Progress Energy projects.

The Project Assurance Program Policy and the Project Assurance Program Manual, which implement procedures to identify and document key project decisions, also apply to the LNP transmission projects. Similarly, the Document Management System for the Generation &

Transmission Construction Department is used to manage the documents associated with the LNP transmission work.

To maintain control over the transmission projects and related work, a detailed schedule is regularly updated. The schedule defines the transmission task order, specific time frame allocated to the task, and the task start and finish dates. The schedule is used to provide management with timely information necessary to make decisions related to the LNP transmission work. The schedule also allows the Company to coordinate LNP transmission work with internal Company departments such as Planning, Engineering, Construction, Energy Control, and the Generating Stations, among others. The schedule further serves as a link between the Company and the Company's contractors and as a management tool with the outside contractors. Various levels of supporting schedules are also developed and used throughout the course of the LNP transmission projects.

Other corporate tools support the management of the LNP transmission work. The Oracle Financial Systems/Business Objects reporting tool provides monthly corporate budget comparisons to actual cost information, as well as detailed transaction information. This information, along with other financial accounting data, allows us to regularly monitor the costs of the transmission work compared to budgets and projections and make decisions accordingly to ensure that the costs incurred are reasonable and prudent for the work obtained. Similarly, the

PassPort system is used under the Contract Development and Administration Policy to manage contracts for LNP transmission work. This system routes contracts for approval, including contract amendments and work authorizations, and facilitates routing and approval of contractor invoices and payments in accordance with Company policies and procedures.

Q. What procedures are used by PEF to ensure the reasonable and prudent selection of contractors and vendors for the transmission projects for the Levy Units?

A. PEF typically uses RFP bidding procedures to ensure that the selected contractors and vendors provide the best value for PEF's customers. In 2008, the RFP process was utilized for the Route Selection Study, Conductor Study, Switching Study, and Owner-Engineer contracts. The RFP process was also utilized to award a purchase order for 500kV substation switches to be installed in 2009. Other RFP's started in 2008 that will be completed in 2009 include the Light Detection and Ranging (LiDAR) survey, the Crystal River Switchyard Design and Engineering work, and the Acquisition Program Manager (APM).

RFPs cannot always be used, however, to obtain services or materials. When deciding to use a sole/single source contractor or vendor, PEF provides sole/single source justifications for not using an RFP for the particular work or material. When PEF contracts with sole/single source

contractors or vendors, PEF further ensures that the contracts contain reasonable and prudent contract terms with adequate pricing provisions (including fixed price and/or firm price escalated according to indexes, where possible).

Sole/single source contractor or vendor relationships are sometimes necessary to provide the services or materials at all or at the most reasonable cost under the circumstance. To illustrate, in some instances, the particular contractor or vendor has particular experience with the plant or the work required, thus making it advantageous for that vendor to accomplish the work.

Q. Does PEF have any mechanisms in place to ensure that the policies and procedures described above are effective?

A. Yes, PEF has a Project Assurance Department with support personnel assigned specifically to the project to be involved in key meetings and decision-making discussions. Project Assurance works collaboratively with project personnel to provide advice, support, and guidance to ensure documentation demonstrating the prudence of key decisions is developed, organized, and readily retrievable throughout the project lifecycle. In addition, Project Assurance personnel provide training to ensure that project team members and other stakeholders understand the fundamentals of the regulatory process, prudent decision-making, and the importance of developing timely and thorough project documentation.

PEF also uses internal auditing to verify that its program management and cost oversight controls are effective. These internal audits occur regularly for large projects like the Levy Transmission Program. Recommendations and results from Internal Audit reviews are provided to management as well as members of the project team for continuous improvement.

Q. Do PEF's policies provide for senior management review of project costs and schedules?

A. Yes, the Levy Integrated Nuclear Committee ("LINC"), comprised of Senior Management, reviews key milestones, cost and emergent issue information related to both the Generation and Transmission portions of the LNP on a regular basis. This Committee also documents key project decisions in compliance with Project Assurance policies and procedures. This Committee was chartered by Senior Management and the PEF Board to manage all aspects of planning and execution of the LNP, with clear accountability in functional areas along each phase from design to commercial operation. The LINC serves as a means to ensure proper coordination and appropriate documentation of activities that cross multiple organizational boundaries.

Additionally, a monthly summary report is provided to members of Progress Energy Senior Management that highlights financial, schedule,

and current issue information. This information is provided in summary format to the Company's Board of Directors on a periodic basis.

On-going funding and project review for the transmission projects in the LNP is prepared on a periodic basis for members of Senior Management and presented as an IPP in accordance with the Company's Capital Projects guidance. Detailed project cost and schedule information is monitored regularly by the project management and cost management personnel within the functional department, and monthly reviews of the project status are presented to the Department Vice President.

Q. Does this conclude your testimony?

A. Yes, it does.

IN RE: NUCLEAR COST RECOVERY CLAUSE

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 090009-EI

DIRECT TESTIMONY OF GARY FURMAN

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Gary Furman. My business address is 3300 Exchange Place, Lake Mary, FL 32746.

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

A. I am employed by Progress Energy Florida, Inc. ("PEF" or the "Company") and my title is Manager, Major Projects in the Generation & Transmission Construction Department. In this role, I am responsible for leading a cross-functional, multi-disciplinary team in the development and execution of the transmission line projects associated with the Levy Nuclear Plant.

Q. Please summarize your educational background and work experience.

A. I have a Bachelor's degree in Mechanical Engineering from the University of Florida and a MBA from the University of Tampa. I am a licensed Professional Engineer in the State of Florida. I have worked in the electric

utility industry for over 25 years, the last 14 of which have been directly related to electrical transmission line and substation siting and engineering. Prior to assuming my current role, I was the Manager of Line Engineering and Real Estate in the Transmission Operations and Planning Department at Progress Energy Florida. In this role, I was responsible for engineering new transmission lines and the acquisition of new transmission line right of way. Prior to that role, I was the Manager of Substation Engineering in the Transmission Operations and Planning Department at Progress Energy. In this role, I was responsible for engineering new substation facilities and the expansion of existing substation facilities.

Prior to joining PEF in March 2003, I was employed by Tampa Electric Company where I held a number of management and engineering positions in the transmission, distribution, environmental and generation departments.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to support the Company's request for cost recovery pursuant to the nuclear cost recovery rule for certain costs incurred in 2009 for transmission work in support of the Levy Nuclear Project ("LNP"). My testimony will also support the Company's

actual/estimated costs for the remainder of 2009 and the projected costs for 2010.

Q. Have you previously filed testimony in this docket?

A. Yes, I filed testimony on March 2, 2009 in support of the actual costs incurred through December 2008 for the transmission work necessitated by the LNP.

Q. Do you have any exhibits to your testimony?

A. No, I am not sponsoring any exhibits. I am, however, sponsoring portions of the schedules attached to Mr. Foster's testimony. Specifically, I am sponsoring the cost portions, related to transmission, of Schedule AE-6, AE-6A, AE-6B, AE-8 and AE-8A of the Nuclear Filing Requirements ("NFRs"), which are included as part of Exhibit No. ___ (TGF-1) to Mr. Foster's testimony. Schedule AE-8 is a list of the contracts executed in excess of $1.0 million that have been executed to date. Schedule AE-8A reflects details pertaining to the contracts executed in excess of $1.0 million.

I am also sponsoring the transmission cost portions of Schedule P-6, P-6A, P-8, and P-8A, part of Exhibit No. ___ (TGF-2), which provide similar details for contracts as the AE schedules.

These portions of the schedules are true and accurate.

Q. Please summarize your testimony.

A. From January to March 2009, PEF has incurred reasonable and prudent costs to complete the selection of the proposed routes that will be used for the planned transmission lines for the LNP. Community outreach activities for transmission projects were completed in the first quarter of 2009. Also, certain substation properties were acquired and other right-of-way ("ROW") activities supporting the land acquisition process were performed. Work was also performed related to the development and submittal of several regulatory filings. During 2009, surveying and engineering design work will continue on the proposed lines and substation facilities. Also, certain substation construction activities will be started in 2009. In 2010, principal projected costs include costs associated with the acquisition of transmission line ROWs, surveying, engineering design, and community relations and outreach.

PEF has provided reasonable projections for costs that will be incurred during the remainder of 2009 and all of 2010. These projected costs were developed using the best available information to the Company at this time. Thus, the Commission should approve PEF's projections as reasonable.

Q. Has the scope of these activities changed since you last filed testimony in this Docket?

A. Yes, as explained in Mr. Garry Miller's testimony, based on the U.S. Nuclear Regulatory Commission's ("NRC") treatment of certain work prior to the issuance of the Levy construction and operating license ("COL"), PEF now expects a schedule shift in the commercial operation dates of the LNP. Although the overall schedule impact is not certain at this time, PEF expects the schedule to shift at least 20 months. Accordingly, PEF is reviewing the overall program schedule for the transmission facilities and any potential impact on the transmission portion of the project due to the schedule shift.

Q. Have you determined what impact, if any, this schedule shift may have on the transmission project schedule?

A. PEF has undertaken a preliminary review of the potential impact of a schedule shift on the transmission portion of the LNP. Our initial review indicates that most construction work, excluding ROW acquisition, will be deferred to accommodate a total LNP schedule shift of at least 20 months.

Q. What impact, if any, will the schedule shift have on PEF's 2009 and 2010 transmission costs?

A. The schedule shift will result in a significant decrease in the amount of engineering and construction costs for the project in 2009 and 2010 primarily related to transmission line and substation field engineering and construction labor, material and equipment costs. The actual/estimated

and projected figures for both 2009 and 2010, explained in more detail below, reflect these reductions in costs. Although we will be decreasing our LNP transmission engineering and construction spending in 2009 and 2010, we plan to continue certain ROW acquisition and engineering activities for the project, which we believe is a reasonable and prudent course of action at this time.

III. TRANSMISSION PRE-CONSTRUCTION ACTIVITIES

Q. What pre-construction activities are you undertaking in 2009?

A. The principal pre-construction activities to be performed in 2009 include engineering work to develop the designs for clearing, grading, foundations and structures for the proposed transmission lines and engineering activities to develop the detailed designs for the substations, including protection and control (relay) equipment that will support the Levy Units. Activities for route selection, including engineering support of qualitative and quantitative route analysis, field work required to support routing from an engineering perspective, and studies to identify constructible and permittable transmission line routes within PEF's proposed corridors, will also be performed in 2009.

Other key activities to be completed in 2009 include support of community outreach/open house sessions in the project area and other activities to perform project management, project scheduling and cost estimating, external community relations activities, development of

contracting strategies, legal services, and general activities required to manage the overall transmission work necessitated by the LNP.

Q What pre-construction activities do you expect to undertake in 2010?

A. In 2010, PEF expects to perform principal activities related to continuing transmission line and substation engineering to support development of the designs for clearing, grading, foundations and structures for the proposed transmission lines and for the substations, including protection and control (relay) equipment, that will support the Levy Units. Other key activities such as project management, project scheduling and cost estimating, external community relations activities, development of contracting strategies, legal services, and general activities required to manage the overall transmission work necessitated by the LNP are expected to continue in 2010.

Q. What costs has PEF included in this filing for transmission pre-construction costs?

A. PEF has filed actual/estimated 2009 and projected 2010 pre-construction costs for transmission for the LNP. Schedule AE-6 of Exhibit No. ___ (TGF-1) shows transmission pre-construction costs for 2009 actual/estimated in the following categories: Line Engineering $6.1 million; Substation Engineering $5.2 million; Clearing $0.009 million; and Other $4.7 million. Schedule P-6 of Exhibit No. ___ (TGF-2) breaks

down the 2010 projected transmission pre-construction costs into the following categories: Line Engineering $6.5 million; Substation Engineering $6.0 million; Clearing $0.006 million; and Other $10.9 million.

Q. Please describe what the projected pre-construction Line Engineering costs are and explain why the Company has to incur them.

A. These costs include engineering work to develop the designs for clearing, grading, foundations and structures for the proposed transmission lines that will support the Levy Units. These costs also include engineering work for route selection including engineering support of qualitative and quantitative route analysis, field work required to support routing from an engineering perspective, and associated costs for studies to identify constructible and permittable transmission line routes within the Owner's proposed corridors.

These pre-construction Line Engineering costs are necessary for the LNP transmission project work with the expected schedule shift of at least 20 months. Because transmission facilities must be designed, constructed, and operational in time for the expected commercial in-service of the LNP, we have preliminarily identified what work must be done to ensure the transmission facilities will be ready with this schedule shift. The pre-construction Line Engineering costs included for 2009 and 2010 in this filing reasonably reflect that preliminary assessment.

Q. Please describe what the pre-construction Substation Engineering costs are and explain why the Company has to incur them.

A. These costs include the engineering work to develop the detailed designs for the substations, including protection and control (relay) equipment, required to support the Levy units. These pre-construction Substation Engineering costs are necessary for the LNP transmission project work with the expected schedule shift of at least 20 months. Because transmission facilities must be designed, constructed, and operational in time for the expected commercial in-service of the LNP, we have preliminarily identified what work must be done to ensure the transmission facilities will be ready with this schedule shift. The pre-construction Substation Engineering costs included for 2009 and 2010 in this filing reasonably reflect that preliminary assessment.

Q. Please describe what the Other category of pre-construction costs include and explain why the Company needs to incur them.

A. For 2009, these costs include activities associated with community outreach, such as open houses, and costs associated with the proposed route selection for the planned transmission lines. In January and February of 2009, Progress Energy held six (6) open house sessions in the project area. These sessions were held in order to gather input from the local communities and to share the plans and schedules for the Levy

transmission program. Also included in these costs for 2009 and 2010 are project management, project scheduling and cost estimating support, external community relations support, development of contracting strategies, legal services, related overhead, contingency and general activity costs associated with planning and siting the transmission projects for the LNP. All of these other pre-construction costs are necessary to support the LNP transmission work even with the expected schedule shift.

Q. Please describe how the transmission pre-construction cost estimates were prepared.

A. PEF developed the Line Engineering, Substation Engineering and Other pre-construction cost estimates on a reasonable engineering basis, using the best available engineering and utility market information at the time, consistent with utility industry and PEF practice. These cost estimates used preliminary transmission project plans and project schedules to determine what transmission pre-construction work will be done and when it will be done to ensure that the transmission facilities will be ready and necessary project milestones are met even with the LNP schedule shift.

IV. TRANSMISSION CONSTRUCTION ACTIVITIES

Q. What costs has PEF included in this filing for transmission construction costs?

A. PEF has actual/estimated 2009 and projected 2010 Construction costs for transmission for the LNP. Schedule AE-6 of Exhibit No. ___ (TGF-1) shows transmission construction costs for 2009 actual/estimated in the following categories: Real Estate Acquisition $23.0 million; Substation Construction $1.6 million; and Other $0.005 million. Schedule P-6 of Exhibit No. ___ (TGF-2) breaks down the 2010 projected transmission construction costs into the following categories: Substation Engineering $0.01 million; Real Estate Acquisition $54.0 million; Substation Construction $0.3 million; and Other $0.08 million.

Q. Please describe what the Substation Engineering and Substation Construction costs are and explain why the Company needs to incur them.

A. The company is projecting minimal expenditures for these engineering and construction costs in 2009 and 2010. Such costs include construction for certain substation facilities and related field engineering support for the planned substation and protection and control (relay) work required for the addition of the Levy units. These costs are necessary to ensure that the transmission substations required to support the Levy Units on PEF's transmission system are installed and ready for service even with the LNP schedule shift.

Q. Please describe the Real Estate Acquisition costs and explain why the Company needs to incur them.

A. These costs include the estimated land and ROW acquisition costs necessary for the transmission facilities to support the addition of the Levy Units to PEF's system. These costs include the siting, survey, appraisal, title commitments, legal costs, ordinance review, and actual purchase costs for the land and easements necessary for the transmission facilities for the LNP. These costs are necessary to ensure that the ROW and other land upon which the transmission facilities will be located are available for the LNP.

Q. Please describe what the Other costs are and explain why the Company needs to incur them.

A. These costs include the program management and related overhead, indirects, contingency, escalation and general activity costs associated with siting, designing and constructing the transmission projects for the LNP. Such costs include project management, project scheduling and cost estimating support, external community relations support, contract management and legal services. These construction costs are necessary for the LNP transmission project work with the expected schedule shift of at least 20 months. Because all transmission facilities must be designed, constructed, and operational in time for the expected commercial in-service of the LNP, we have preliminarily identified what work must be

done to ensure the transmission facilities will be ready with this schedule shift. The construction costs included for 2009 and 2010 in this filing reasonably reflect that preliminary assessment.

Q. Please describe briefly how the transmission construction cost estimates were prepared.

A. PEF developed these Substation Engineering, Substation Construction, Real Estate Acquisition, and Other transmission construction cost estimates on a reasonable engineering basis, using the best available construction and utility market information at the time, consistent with utility industry and PEF practice. These estimates reasonably reflect the necessary LNP transmission project work with the expected schedule shift of at least 20 months. Because transmission facilities must be designed, constructed, and operational in time for the expected commercial in-service of the LNP, we have preliminarily identified what work must be done to ensure the transmission facilities will be ready and necessary project milestones met with this schedule shift. The construction costs included for 2009 and 2010 in this filing reasonably reflect that preliminary assessment.

Q. Does this conclude your testimony?

A. Yes, it does.

COMMISSIONER EDGAR: Which brings us to Witness Miller?

MR. BURNETT: Yes, ma'am.

May I proceed, Madam Chair?

COMMISSIONER EDGAR: Yes, sir.

MR. BURNETT: Thank you.

GARRY MILLER

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

DIRECT EXAMINATION

BY MR. BURNETT:

Q. Sir, would you please introduce yourself to the Commission and provide your business address?

A. Yes. My name is Garry Miller. My business address is 100 East Davie Street, Raleigh, North Carolina.

Q. And you've been sworn today; correct, sir?

A. I have.

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

A. I work for Progress Energy Carolinas and my position is General Manager, Nuclear Plant Development.

Q. Have you filed two sets of prefiled direct testimony dated March 2nd and May 1, 2009, in this proceeding?

A. Yes, I have.

Q. And do you have any changes to make to your prefiled testimonies?

A. No, I do not.

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

A. Yes, I would.

MR. BURNETT: Madam Chair, we request that both sets of the prefiled testimony be entered into the record as if they were read today.

COMMISSIONER EDGAR: Both sets of the prefiled testimony of this witness will be entered into the record as though read.

MR. BURNETT: Thank you.

IN RE: NUCLEAR COST RECOVERY CLAUSE

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 090009

DIRECT TESTIMONY OF GARRY MILLER

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Garry Miller. My business address is 100 East Davie Street, TPP 15, Raleigh, NC 27601.

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

A. I am employed by Progress Energy Carolinas ("PEC") in the capacity of General Manager – Nuclear Plant Development. As General Manager – Nuclear Plant Development, I am responsible for the siting, management, and oversight of all major land purchases, and other contracts necessary for the construction of Progress Energy Florida's ("PEF's" or the "Company's") proposed Levy Nuclear Power Plants, the Levy Nuclear Project ("LNP").

Q. What are your responsibilities as the General Manager - Nuclear Plant Development?

A. I am responsible for new nuclear plant development in both the Carolinas and Florida, including Engineering, Licensing, and Project Controls. My responsibilities include, but are not limited to, scheduling, contracts, commercial matters, training, document control, records management, and project management. All the major contracts approved to date on the LNP, and for nuclear plant development, have been under my management and responsibility.

Q. Please summarize your educational background and work experience.

A. I have a Bachelor of Science degree in Nuclear Engineering from North Carolina State University. I also have a master's degree in Mechanical Engineering from North Carolina State University. I have approximately thirty years of experience in the nuclear industry. My experience involves engineering and maintenance experience at all of Progress Energy's nuclear plants and the Corporate office. I have held Engineering Manager positions at the Brunswick Nuclear Plant and Robinson Nuclear Plant. I was also the Chief Engineer for Nuclear Generation Group (NGG). Additionally, I was the Maintenance Manager at Progress Energy's Harris Nuclear Plant.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to support the Company's request for cost recovery and a prudence determination, pursuant to the Nuclear

Cost Recovery Rule, for its LNP costs incurred from January through December 2008. I will also explain the major variances between actual LNP costs and those that were projected in the May 1, 2008 filings. I am also adopting the testimony filed in Docket 080009 of Daniel L. Roderick, with respect to the actual site selection costs incurred in 2006 and 2007 for the LNP. I will also be supporting my testimony regarding the land purchases for the LNP, also filed in Docket 080009. I understand that the Commission will be reviewing the prudence of the 2006 and 2007 LNP costs in this year's proceeding, and my adoption of this testimony will assist the Commission in that review.

Q. Do you have any exhibits to your testimony?

A. No, I am not sponsoring any exhibits. I am, however, sponsoring the cost portions of Schedules T-6, T-6A, T-6B, and Appendix C, as well as portions of Schedules T-8, T-8A, and T-8B of the Nuclear Filing Requirements ("NFRs"), which are included as part of the exhibits to Will Garrett's testimony. I am sponsoring the generation portions of Schedule T-6, T-6A, T-6B, and Appendix C, which provide actual monthly expenditures and variances to projection for site selection, preconstruction and construction costs. Schedule T-7 is a description of the nuclear technology selected in 2006 and re-affirmed in 2007. Schedule T-8 is a list of the contracts executed in excess of $1.0 million and Schedule T-8A provides details for those contracts. Schedule T-8B reflects details pertaining to contracts executed in excess of $200,000, but less than $1

million. I am supporting the Generation contracts listed on T-8 (Lines 1 – 16), T-8A (Pages 22 – 37), and T-8B (Lines 1 – 8) as Gary Furman, the Transmission witness for PEF, is supporting the Transmission contracts.

All of these schedules are true and accurate.

Q. Please summarize your testimony.

A. PEF seeks to minimize pre-licensing expenditures while at the same time performing the necessary work to maintain the schedule required for the project.

The Company requests a prudence determination of its LNP 2006 and 2007 costs, as well as a prudence determination and approval of the recovery of its 2008 actual LNP costs. These initial LNP costs, starting in 2006 and continuing through 2007 and 2008, in general were incurred in the following LNP activities: (1) determining that nuclear power generation met PEF's need for power and obtaining a need determination for the LNP; (2) identifying a suitable site in Florida for nuclear power plants; (3) selecting an advanced nuclear power reactor technology type for construction; (4) purchasing the necessary land for the LNP generation structures and related facilities; (5) developing and submitting to the Florida Department of Environmental Protection (DEP) the Site Certification Application (SCA) and developing information for other environmental permits for the LNP; (6) developing and submitting to the Nuclear Regulatory Commission (NRC) a Combined Operating License Application (COLA) for the addition of new baseload generation nuclear

power plant units in Florida; (7) securing and procuring certain long lead-time equipment necessary to meet project schedules; and (8) obtaining an Engineering, Procurement, and Construction (EPC) contract for the LNP. Senior Management provided its initial approval of the project in accordance with the Company's Project Evaluation and Authorization Process in March of 2006. The Company completed its reactor technology evaluation in 2006, which it re-affirmed in 2007. We completed site evaluation work in 2007.

In September 2007, the project authorization was revised and approved by Senior Management. This revision increased the LNP authorization for 2007 spending by $42.6 million for the Levy County Site land acquisition and adjacent land required for access roads, a heavy hauling route, and transmission access corridors. Also, in 2007, PEF initiated the need, SCA, and COLA processes and this work continued into 2008 when the Company made the three filings with the PSC, DEP, and NRC, respectively.

In April 2008, a second revision to the Project Authorization was approved. This approval incorporated the terms of the approved Letter of Intent for Long Lead Equipment. In order to maintain the Levy project schedule, and to lock in certain equipment pricing on favorable terms, certain procurement and engineering activities had to start in early 2008. By executing the terms of the Letter of Intent with Westinghouse and Shaw Stone & Webster, PEF established the necessary terms and conditions for those activities. The revision also included the

development of price books in order to determine and document both nuclear island and site-specific project estimated costs.

As demonstrated in my testimony and the NFR schedules attached, PEF took adequate steps to ensure that these pre-construction and construction costs were reasonable and prudent. PEF negotiated favorable contract terms under the then-current market conditions and circumstances. Therefore, the Commission should approve PEF's costs incurred from 2006 to 2008 as reasonable and prudent pursuant to the Nuclear Cost Recovery Rule. These costs were necessary to move the LNP forward toward the completion and operation of Levy Units 1 and 2.

III. CAPITAL COSTS INCURRED IN 2008 FOR LEVY NUCLEAR PLANT

Q. Did the Company incur any generation-related Site Selection and Preconstruction costs for the Levy Nuclear Plant in 2008?

A. Yes, as reflected on Schedule T-6, the Company incurred Site Selection and Preconstruction costs in the categories of License Application, Engineering, Design and Procurement, and On-Site Construction Facilities.

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

A. As reflected on line 3 of Schedule T-6, the Company incurred License Application costs of $33,368,472. One category of License Application costs incurred in 2008 was the costs necessary to complete and submit the

Levy COLA to the NRC. The Levy COLA was submitted July 30, 2008 and Docketed by the NRC on October 6, 2008. After docketing, the Phase 2 COLA work also commenced. This work involves responses to NRC Requests for Additional Information (RAI's) and NRC Audits.

PEF also incurred costs in connection with its SCA, which was completed and submitted to the DEP on June 2, 2008. Along with the SCA, PEF incurred costs in 2008 for other environmental and permitting activities such as (1) Wetlands delineation, (2) the early Environmental Review Permit for construction of a barge slip, (3) design and engineering of a heavy hauling road bridge and a heavy hauling road up to the Highway 40 crossing, and (4) the U.S. Army Corps of Engineers review and approval of 404 (Clean Water Act) permits that will be required to support the Levy site development.

PEF incurred further costs for the Levy Site Regional Logistical and Site Transportation Study. This Study addressed the economic and schedule impact associated with transportation alternatives, and was completed in 2008. As a result of this Study, PEF decided to utilize an alternate shipping means other than rail.

PEF also incurred costs for various land use work for the LNP in 2007 and 2008. As a result of this work, the Levy County Comprehensive Land Use Amendment was approved on March 18, 2008, and the Levy site "Special Exception Use Permit" Zoning Application was approved on September 3, 2008. Plans were finalized for Grout Testing and Roller Compacted Concrete Testing at the Levy site. This testing supports the

NRC COLA review by mitigating the risk of delay in responding to NRC RAI questions related to Levy geotechnical items.

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

A. As reflected on line 4 of Schedule T-6, the Company incurred Engineering, Design, and Procurement costs of $110,684,010. In order to maintain a 2016 nuclear option for PEF, certain procurement and engineering activities were required to begin in early 2008. Specifically, on March 28, 2008, PEF executed a letter of intent (LOI) with Westinghouse and Shaw Stone & Webster. Executing the terms of the Letter of Intent with Westinghouse and Shaw Stone & Webster provided Progress Energy with the necessary terms and conditions to execute and maintain the project schedule. PEF's Senior Management and Board of Directors approved the LOI authorizing payments for these procurement and engineering activities.

Q. Please explain why the Company decided to negotiate and contract with the Consortium for its nuclear reactor.

A. As explained in the need determination proceeding, as well as last year's nuclear cost recovery clause, the Company undertook a detailed analysis to select the technology for the new nuclear plants. In 2008, PEF filed a need determination for two AP1000 units. After the Commission approved this need determination, the Company continued and then

completed negotiations with the technology's sole provider, Westinghouse, and its preferred construction vendor, Shaw Stone & Webster (together the "Consortium") for the EPC contract.

Q. What is the status of the EPC contract?

A. PEF signed the EPC contract with the Consortium on December 31, 2008, after negotiations throughout 2007 and 2008. Costs were incurred by the Consortium for the EPC negotiations to develop price books. These price books helped determine and document both nuclear island and site-specific LNP project estimated costs. The EPC contract project scope is based on an Engineering, Procurement, and Construction offer between PEF and the Consortium. The Consortium will provide contracted services to engineer, procure, and construct two Advanced Passive Light Water reactors at the Levy Site. The EPC contract scope also includes design finalization of the standard AP1000 Power Block, site-specific detailed design, and construction of the Levy Nuclear Steam Supply System ("NSSS"), and balance of plant structures (turbine generator, etc.), including site buildings/structures/systems (such as cooling tower make-up intake structure, mechanical cooling towers, etc.).

Q. For the On-Site Construction Facilities costs reflected on Schedule T-6, please identify what those costs are and why the Company had to incur them.

A. As reflected on line 7 of Schedule T-6, the Company incurred On-Site Construction Facilities costs of $401,538. PEF incurred the On-Site Construction Facility costs to purchase, install, and equip an office for individuals supporting Levy nuclear plant development.

Q. How did actual Site Selection and Preconstruction capital expenditures for January 2008 through December 2008 compare to PEF's estimated/actual projection costs for 2008?

A. The LNP actual Site Selection and Preconstruction capital expenditures for 2008 were lower than PEF projected. The reasons for the major (more than $1 million) variances are provided below.

License Application:

License Application capital expenditures were $33,368,472, which was $4,069,708 under the estimated/actual projection. This variance is primarily driven by lower than expected NRC fees.

Engineering & Design:

Engineering & Design capital expenditures were $110,684,010, which was $56,854,990 under the estimated/actual projection. This variance was primarily driven by the fact that EPC Contract negotiations and approval extended into December 2008. As a result, additional payments for procurement and detailed design activities were rescheduled from 2008 to 2009.

On-Site Construction Facilities:

On-Site Construction Facilities capital expenditures were $401,538, which was $3,428,462 under the estimated/actual projection. This variance was primarily driven by the decision to minimize On-Site Construction Facility expenditures pending the execution of the EPC contract, which occurred December 31, 2008. Minimizing these activities does not impact the overall project schedule.

Q. Did the Company incur any Generation-related Construction costs for the Levy Nuclear Plant in 2008?

A. Yes, as reflected on Schedule T-6, the Company did incur minimal Construction costs for On-Site Construction Facilities but did not incur Construction costs for Real Estate Acquisitions. The schedule reflects a negative value for Real Estate Acquisitions, which will be explained in the testimony of Will Garrett.

Q. How did actual Construction capital expenditures for January 2008 through December 2008 compare to PEF's estimated/actual projection costs for 2008?

A. Actual Construction capital expenditures for 2008 are less than PEF projected. The only major (more than $1 million) variance was for Real Estate Acquisitions costs with expenditures that were ($115,764) which was $5,158,703 under the estimated/actual projection. This variance was

primarily driven by our decision to revise our plans for bulk quantity deliveries to the Levy site. At the time of the May 2008 filing, PEF anticipated that it would have additional land acquisition needs to allow rail access to the plant. During 2008, the land purchase requirements were revised based on a Logistical and Transportation Plan Study that determined that barge and truck delivery of bulk quantities is preferable to rail delivery.

IV. O&M COSTS INCURRED IN 2008 FOR LEVY NUCLEAR PLANT

Q. Did the Company incur any Generation-related Operation & Maintenance (O&M) costs for the Levy Nuclear Plant in 2008?

A. Yes, as reflected on Schedule T-4, the Company incurred O&M costs in the amount of $1,571,800. The majority of these costs were incurred in connection with the NuStart Energy Development, LLC program which is a consortium of utilities with the sole purpose of sharing in the costs to develop and obtain Combined Operating Licenses (COLs) for new reactor technologies and to complete the design for these technologies.

Q. How did actual Nuclear Generation CCRC recoverable O&M expenditures for January 2008 through December 2008 compare to PEF's estimated/actual projection as presented in previous testimony and exhibits?

A. Nuclear Generation CCRC recoverable O&M expenditures were $1,571,800 which was $1,566,350 over the estimated/actual projection.

This variance is primarily driven by $1,448,042 in costs for the NuStart program.

Q. To summarize, were all the costs that the Company incurred in 2008 for the Levy Nuclear Project reasonable and prudent?

A. Yes, the specific cost amounts for the LNP contained in the NFR schedules, which are attached as exhibits to Mr. Garrett's testimony, reflect the reasonable and prudent costs PEF incurred for work in 2008. Together with the LNP costs PEF prudently incurred in 2006 and 2007, PEF (1) determined that nuclear power generation met PEF's need for power and obtaining a need determination for the LNP; (2) identified a suitable site in Florida for nuclear power plants; (3) selected a reasonable and prudent advanced nuclear power reactor technology type for construction; (4) purchased the necessary land for the LNP generation structures and related facilities and obtained necessary land use designations; (5) developed and submitted to the DEP the SCA and developed information for other environmental permits for the LNP; (6) developed and submitted to the NRC a COLA for the LNP and provided engineering support for the NRC review of that application; (7) securing and procuring certain long lead-time equipment necessary to meet project schedules; and (8) obtained an EPC contract for the LNP. All of these costs were necessary to move the LNP forward to successful completion.

V. PROJECT MANAGEMENT AND COST CONTROL OVERSIGHT

Q. Has the Company implemented project management and cost control oversight mechanisms for the Levy project?

A. Yes. The Company is utilizing several policies and procedures to ensure that the costs for the LNP are reasonably and prudently incurred and that the project remains on schedule. The LNP is being undertaken by the Company consistent with its Project Management Program Manual, which has been in place at the Company and used to manage capital projects since early in this decade. The LNP was approved in accordance with the Company's Project Evaluation and Authorization Process. This evaluation and project authorization process has been in place at the Company for many years. The generation portion of the Levy project is subject to the same overall Company management as the transmission portion of the LNP that is discussed in the testimony of Mr. Furman. This is accomplished through adherence to the Company's Integrated Project Plan (IPP) for the LNP. Finally, the LNP is subject to the Progress Energy Project Governance Policy, which also has been in place for many years.

Q. Can you describe some of the project management and cost control policies or procedures in the Company's project management documents that are being used to manage the Levy project and control project costs?

A. Yes. PEF has several control mechanisms in place to manage the LNP and the costs incurred on the project. By utilizing these policies, PEF is

able to effectively keep the LNP on schedule and ensure that costs incurred are reasonable and prudent. For example, the LNP management team has regular, internal meetings. These regular meetings allow the project management team to monitor the progress of the project and its costs, and to incorporate the collective knowledge and experience of the team in addressing the scope of the work, the cost of the work, engineering and construction implementation of the work items, and schedule performance. The status of work on the COLA and SCA applications is discussed. Risk management is also discussed and addressed. Finally, project management expectations are communicated and implemented by the LNP management team.

PEF's LNP Management Team also meets regularly with outside contract vendors working on the project to review the contract scope of work, engineering and construction implementation of that work scope, and the schedule for the work under the vendor contracts. Contract requisitions, purchase orders, and invoices are discussed. Project management expectations are communicated to the outside vendors. By maintaining supervision over the project, project schedule, and scope of work performed by outside vendors, PEF is able to anticipate and manage scope changes, if any, and project expenditures. There are other regular project reviews as well. LNP Financial Services personnel prepare monthly Cost Management Reports that include all contract, labor, equipment, material and other project cost transactions recorded to the LNP. Financials included in the report include comparison of actual costs

to budget, with explanations for any variances. These reports are regularly reviewed by the LNP management team.

PEF also has regular PEF Finance Committee meetings, in which management reviews the LNP project costs. Prior to these meetings, responsible operations managers and Finance Management for the organization review various monthly cost and variance analysis reports for the capital budget. Variances from project budget or projections are reviewed and any discrepancies are also identified, and corrections made as needed. The specific reports used are the Cost Management Reports produced by PEF Accounting. All cost reporting for the LNP is tied back to the Cost Management Reports, which are tied back to the Legal Entity Financial Statements. In addition to the monthly Finance Committee meetings, Senior Management periodically reviews the LNP to monitor its cost and ensure that it is on schedule.

Additionally, the Company has developed the Levy Integrated Nuclear Committee ("LINC"), which is comprised of PEF leaders with organizational accountability for areas that support the LNP. The group helps coordinate activities that cross multiple organizational areas because of the integrated nature of the LNP. LINC schedules meetings at least monthly to review project activities, evaluate business conditions, address emerging issues, and discuss agenda items. LINC is intended to serve at this time as the single point for management oversight of all phases of the project.

Q. Has the Company developed a separate organization to specifically oversee and manage the Levy project?

A. Yes, to effectively manage the EPC contract and the entire Levy project, Progress Energy has formed a new department, Nuclear Plant Development (NPD). This organizational realignment will effectively support the state-of-the-art plant portion of the Company's balanced solution. NPD will also provide a concentrated leadership focus on the LNP that is separate and distinct from the ongoing Steam Generator Replacement (SGR) and Extended Power Uprate (EPU) at PEF's existing nuclear plant, Crystal River 3. The new Department reports directly to Jeff Lyash, the President and CEO of Progress Energy Florida.

NPD will continue to work under the Nuclear Generation Group (NGG) procedures, as applicable. As a result of these changes, the NPD LNP areas are transitioning to an organization that will experience rapid growth. The leadership structure of the new NPD organization has been designed, including the identification of phases from the first quarter 2009 through completion of the project, when it will transition back to a traditional NGG plant organization. Analyses of Individual Contributor (IC) needs are in progress, starting with the first quarter of 2009, and then will be followed by IC analysis for future phases of the project. A significant amount of job content questionnaire (JCQ) development, recruiting, interviewing, and hiring is planned for NPD.

In addition, the Company is in the process of making significant revisions to the Project Execution Plan, establishing EPC implementing

procedures, and developing broader NPD Implementing procedures. My group will also update its Risk Management Processes to continue development of the integrated schedule, enhance its Performance Monitoring Report, and align with the Project Management Center of Excellence Standards (PMCoE). The PMCoE is an organization created by Progress Energy to instill best practices of project management across the Company. PMCoE will improve project management practices by standardizing processes, establishing a project management career path, providing common training and qualifications programs, and adopting best practices from both internal and industry groups.

Q. Does PEF continually review and revise its policies and procedures for the Levy project?

A. Yes, company procedures are reviewed and revised on an ongoing basis. In 2008, approximately 50 corporate and NGG procedures that the LNP adheres to were revised. Two key examples that are associated with how the Project is managed and how Quality Assurance is implemented are the NGG-Project Management Program Manual and the NPD QA plan, which were both revised in 2008.

In addition, as previously discussed, the Nuclear Plant Development Department will make a significant update to the Project Execution Plan in 2009, now that the EPC contract has been executed. Initial work on updating the plan has started. Nuclear Plant Development is also in the process of developing additional implementing procedures in

2009. The Levy EPC Contract Implementing Procedure Development Plan identifies 33 tasks such as procedure development for Invoice Validation & Processing, Change Control, and Cost & Schedule Performance Analysis activities. Broader NPD processes that will require implementing procedures will be developed. Also, in 2009 Progress Energy's Project Management Center of Excellence organization will be developing and implementing procedures that will be standard for the Company. In January 2009, PJM-SUBS-00001, Achieving Excellence in Project Management procedure was issued. The purpose of this document is to provide guidance to project teams regarding standard processes endorsed by the Company that exhibits excellence in project management. The procedure includes additional procedures that will be established related to project management processes.

Q. Are employees involved in the Levy Project trained in the Company's project management and cost control policies and procedures?

A. Yes, they are. PEF's project management team for the Levy project has been trained in these Company policies. Our employees with responsibilities for managing capital projects receive training on the Company's project management and cost control policies and procedures. Also, when we decide to commence a major capital project like the Levy project, additional training is provided as a reminder of the Company's policies and procedures. This training was provided to the members of the Levy project management team. Also, members of the Levy project

management team have experience implementing these project management and cost control policies and procedures successfully on other Progress Energy projects.

Q. You mentioned outside vendors on the Levy project. How does the Company ensure that its selection and management of outside vendors is reasonable and prudent?

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

The contract requisition then goes through the bidding or finalization process. Once the contract is ready to be executed, it is approved online by the appropriate levels of the approval matrix as per the Approval Level Policy, and a contract is created. Contract invoices are received by the LNP managers. The invoices are validated by the project managers and Financial Services Team. Payment Authorizations approving payment of the contract invoices are entered and approved in the Contracts module of the PassPort system.

When selecting vendors for the LNP, PEF utilizes bidding procedures through a Request for Proposal ("RFP") when possible for the

particular services or material needed to ensure that the chosen vendors provide the best value for PEF's customers. When an RFP cannot be used, PEF ensures that the contracts with the sole source vendors contain reasonable and prudent contract terms with adequate pricing provisions (including fixed price and/or firm price, escalated according to indexes, where possible). When deciding to use a sole source vendor, PEF documents a sole source justification for not doing an RFP for the particular work.

In those instances where a sole source vendor must be used, there is a justification for choosing that vendor which makes it advantageous for that vendor to perform the work. This occurred, for example, with PEF's decision to execute the EPC contract with the Consortium. PEF selected the AP1000 as its nuclear reactor technology after completing a thorough and extensive evaluation of vendor proposal responses received from three potential vendors. The factors evaluated included technical and operational requirements for licensing, design, construction, and capability input by the vendors. After the technology vendor, Westinghouse and Shaw Stone & Webster, was selected pursuant to this analysis, there was no need to competitively bid for the EPC contract.

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

A. Yes, it does. PEF uses internal audits to verify that its program management and oversight controls are in place and being implemented.

Internal audits are conducted on outside vendors. During 2008 multiple planned audits were completed, including the AP1000 EPC Contract Review, the Levy Cost Model Audit, the Levy County Data Repository Audit, and cost recovery rule compliance. In addition, several audits are planned in 2009, including an EPC Controls Audit, Levy Project Controls Audit, and Cost Recovery Rule Compliance Audit. The Company's project management policies themselves, included in the Company project management documents that I have described above, also contain their own mechanisms to ensure that they are followed and effectively implemented.

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

A. Yes, they are. These project management policies and procedures reflect the collective experience and knowledge of the Company. As a result, Company employees have, in preparing the policies and procedures reflected in the Company's major capital project management documents that I have identified above, incorporated their experience and knowledge of project management policies and procedures that work within the Company and within the industry. These policies and procedures have also been tested by the Company on other capital projects. Any lessons learned from those projects have been incorporated in the current policies and procedures. We believe, therefore, that our project management

policies and procedures are consistent with best practices for capital project management in the industry.

Q. Does this conclude your testimony?

A. Yes, it does.

IN RE: NUCLEAR COST RECOVERY CLAUSE

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 090009

DIRECT TESTIMONY OF GARRY MILLER

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Garry Miller. My business address is 100 East Davie Street, TPP 15, Raleigh, NC 27602.

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

A. I am employed by Progress Energy Carolinas ("PEC") in the capacity of General Manager – Nuclear Plant Development ("NPD"). As General Manager – Nuclear Plant Development, I am responsible for the siting, licensing, engineering, construction, and overall management of Progress Energy Florida's ("PEF's" or the "Company's") proposed Levy Nuclear Power Plants, the Levy Nuclear Project ("LNP").

Q. What are your responsibilities as the General Manager - Nuclear Plant Development?

A. I am responsible for new nuclear plant development in both the Carolinas and Florida, including the siting, licensing, engineering, construction and

overall management of the Levy Nuclear Project. Specifically, my responsibilities include, but are not limited to, scheduling, contracts, commercial matters, training, document control, records management, and project management. All the major contracts approved to date on the LNP, and for Nuclear Plant Development, have been under my management and responsibility.

Q. Please summarize your educational background and work experience.

A. I have a Bachelor of Science degree in Nuclear Engineering from North Carolina State University. I also have a Master's degree in Mechanical Engineering from North Carolina State University. I have approximately thirty years of experience in the nuclear industry. My experience involves engineering and maintenance experience at all of Progress Energy's nuclear plants and the corporate office. I have held Engineering Manager positions at the Brunswick Nuclear Plant and Robinson Nuclear Plant. I was also the Chief Engineer for Nuclear Generation Group ("NGG"). Additionally, I was the Maintenance Manager at Progress Energy's Harris Nuclear Plant.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to support the Company's request for cost recovery pursuant to the nuclear cost recovery statute and rule for

certain costs either already incurred or to be incurred in 2009 for the LNP. My testimony will also support the Company's actual/estimated and projected costs for the remainder of 2009 and 2010. Finally, my testimony explains why the LNP is feasible, pursuant to Rule 25-6.0423(5)(c)5, F.A.C.

Q. Have you previously filed testimony in this docket?

A. Yes, I filed testimony on March 2, 2009 in support of the actual costs incurred in 2008 for the LNP.

Q. Do you have any exhibits to your testimony?

A. Yes, I am sponsoring the following exhibits:

- Exhibit No. __ (GM-1), which is an updated fuel forecast; and
- Exhibit No. __ (GM-2), which is an updated environmental forecast.

I am also sponsoring portions of the schedules attached to Thomas G. Foster's testimony. Specifically, I am sponsoring the cost portions of Schedule AE-6, as well as Schedules AE-6A, AE6B, and AE-7 through AE-8A of the Nuclear Filing Requirements ("NFRs"), included as part of Exhibit No. __ (TGF-1) to Thomas G. Foster's testimony. Schedule AE-7 is a description of the nuclear technology selected. Schedule AE-8 is a list of the contracts executed in excess of $1.0 million that have been executed to date. Schedule AE-8A reflects details pertaining to the contracts executed in excess of $1.0 million.

I am also sponsoring the cost portions of Schedule P-6, as well as Schedules P-6A, P-7, P-8, and P-8A, part of Exhibit No. __ (TGF-2) to Mr. Foster's testimony, which provide similar details for cost, technology selected, and contracts as the AE schedules do, as well as Appendix B.

These exhibits and all of these schedules are true and accurate.

III. SUMMARY OF LNP AND TESTIMONY.

Q. Please briefly describe the Levy Nuclear Project (LNP).

A. The LNP involves the planned construction of two state-of-the-art Westinghouse AP1000 Advanced Passive nuclear power plants in Levy County, Florida and associated transmission facilities to meet the Company's generation capacity needs. The LNP will provide needed base load generation from a clean, carbon-free generation resource that enhances the Company's fuel diversity and reduces PEF's and the State of Florida's dependence on fuel oil and natural gas to generate electricity.

Q. What major milestones for the Levy Nuclear Project were completed in 2008?

A. On March 11, 2008, PEF filed a petition with this Commission for an affirmative determination of need for the proposed Levy Units 1 and 2 nuclear power plants together with the associated facilities including transmission lines and substation facilities. This filing followed a detailed reactor technology evaluation and update and the selection of the Westinghouse AP1000 nuclear power plant

technology for the LNP. This filing also followed a detailed analysis of available sites and the selection and purchase of the current site for the LNP in Levy County. This Commission voted to affirm the need for the LNP on July 15, 2008 and issued its Order granting the determination of need on August 12, 2008.

On March 28, 2008, the Letter of Intent ("LOI") was signed with Westinghouse for long lead components for the LNP. Negotiations continued with Westinghouse and Shaw, Stone & Webster (the "Consortium") for an Engineering, Procurement, and Construction ("EPC") contract. An EPC contract with the Consortium for the LNP was ultimately executed on December 31, 2008.

Additionally, PEF obtained amendments to the Levy County Comprehensive Land Use Plan. In September 2008, Levy County approved a Special Exception Use Permit zoning application for LNP, as provided for under an amendment to the Levy County Land Development Plan made in 2007 for generating facilities. PEF also prepared and filed on June 2, 2008 its Site Certification Application ("SCA") with the Florida Department of Environmental Protection ("FDEP"). PEF further completed and submitted the Combined License Application ("COLA") for the LNP to the Nuclear Regulatory Commission ("NRC") on July 30, 2008. The NRC completed its sufficiency review on the Levy COLA and docketed the COLA on October 6, 2008. PEF also completed and submitted to the NRC its Limited Work Authorization ("LWA") request for the LNP concurrent with the Levy COLA. This LWA request was subsequently updated on September 12, 2008 to include the diaphragm wall and grouting site work based on interactions with the NRC.

Q. You mentioned an LWA in your previous response. What is an LWA?

A. An LWA is a limited work authorization issued by the NRC under 10 CFR Parts 50 and 52. It allows a utility that is constructing a nuclear plant to do certain site work prior to the issuance of the Combined Operating License ("COL"). Thus, when the COL is issued, the utility can begin actual construction of the safety-related nuclear reactor building. The LWA request was part of the COLA and can be reviewed and authorized by the NRC in advance of the overall issuance of the COL.

PEF's NRC submittal requested a schedule that included issuance of the Final Environmental Impact Statement ("FEIS") in June 2010, the LWA in September 2010, the Final Safety Evaluation Report ("FSER") in January 2012, and the COL in the first quarter of 2012.

Q. What is the current status of the Company's 2008 DEP and NRC regulatory filings?

A. The DEP issued its SCA report to PEF on January 12, 2009, and the SCA hearing concluded in March 2009. DEP is scheduled to issue its order on PEF's SCA in May 2009, and the Governor and Cabinet sitting as the Siting Board are expected to vote on the Levy SCA by the end of the summer of 2009. The Levy SCA is on schedule.

The NRC Staff recently indicated that the COL review is on schedule but the proposed LWA scope review will require the same duration as the COLA to complete, meaning the LWA and COL issuance would be expected at the same time. Specifically, the NRC Staff determined in late January that the NRC review and approval process of the proposed LWA scope could not be completed sooner than the corresponding geotechnical review and approval of the broader COLA, particularly the Final Safety Analysis Report ("FSAR") portion of the COLA. As a result of this NRC determination, the site work that PEF planned to perform under the LWA prior to COL issuance will have to be deferred until after COL issuance. Based on this NRC determination PEF also expects a schedule shift in the commercial operation dates of the LNP. This NRC determination will force PEF to shift substantial site work until much later in the process, which will in turn result in a deferral of various construction activities.

Q. Did PEF's LWA application for the Levy site comply with NRC LWA requirements?

A. Yes, the Company complied with all requirements for the LWA. The NRC confirmed that PEF's LWA met the NRC's requirements on October 6, 2008 when the NRC informed PEF that the NRC Staff had completed its acceptance review and determined that PEF's COLA, which included

the LWA, was acceptable for docketing. Docketing of the COLA commences NRC review of the substance of the COLA.

Q. Did the NRC approve the Company's proposed schedule when it docketed the COLA?

A. No. Docketing of the COLA by the NRC does not mean the NRC has approved the utility's proposed schedule for LWA and COL issuance. Typically, the NRC issues its review schedule thirty (30) days following the docketing of the COLA, but the NRC can take longer to issue the review schedule; it is not required to issue a schedule within 30 days. The NRC uses this additional time to evaluate information necessary to determine the NRC's review critical path and associated schedule milestones. The NRC obtains this information through Requests for Additional Information ("RAIs"). RAIs are expected in the COLA process and typically issued by the NRC with respect to every COLA.

Q. Did the NRC issue any RAIs when PEF's COLA was docketed?

A. Yes. The NRC issued several RAIs regarding the Levy site geotechnical characteristics to develop a complete review schedule. The NRC indicated that although the acceptance review determined that the LNP COLA was complete and technically sufficient, the geotechnical characteristics of the Levy County site required additional information in

order to develop a complete and integrated review schedule. There was no indication that an LWA would not be issued for the scope requested.

Q. Did PEF work with the NRC Staff with respect to the LNP COLA schedule?

A. Yes. PEF worked with NRC staff regarding the COLA review schedule and, in particular, the proposed LWA issuance. Prior to submitting the LWA, PEF met with NRC New Reactors Office ("NRO") managers on two occasions to ensure that the NRO managers understood the LNP scheduling needs and that the desired timelines were identified prior to license submittal. In addition, PEF met with NRC technical reviewers twice before submitting the LWA to ensure that the NRC understood Levy site-specific geotechnical features and the proposed foundation design for the Nuclear Island ("NI"). PEF continued to work with the NRC Staff after PEF submitted its COLA, including the LWA. PEF timely provided the NRC Staff the requested answers to the geotechnical RAIs, and met with and discussed with the NRC Staff the RAIs and the LWA.

Q. Did the NRC Staff indicate during the RAI review that an LWA could not be issued for Levy in advance of the COL?

A. No. The discussions focused on the Levy site's geotechnical characteristics, but the NRC accepted the Company's RAI responses and did not indicate that an LWA could not be issued or that there was any

additional information they needed to make that determination. Discussions on January 23, 2009 were the first indication that the NRC Staff deemed the LWA geotechnical scope review duration to be concurrent with the COL, such that both the LWA and COL issuance would be concurrent.

Q. Did the inclusion of the diaphragm wall and grouting activities in the September 2008 LWA revision to the LWA scope necessitate a shift in the proposed LWA issuance date?

A. No. The mere inclusion of these site work activities in the scope of the LWA did not mean that the LWA issuance date would shift. At that point in time, PEF had requested review milestone dates (in the COLA submittal) but the NRC had not yet developed a review milestone schedule for the Levy COLA. PEF believed that the NRC had adequate time to review the Company's LWA request and issue the LWA prior to the COL, consistent with PEF's original project schedule, even if these site work activities were included in the LWA. This was particularly true given that PEF was able to complete its own evaluation of the site and identify approaches for dewatering and excavation, including the diaphragm wall and grouting, in about eighteen months.

Further, the site work associated with dewatering and excavation, are activities normally done prior to receiving the COL. Consequently, we reasonably believed that the work necessary to support dewatering and

excavation of the area where the Nuclear Island would be constructed would not require such extensive NRC review as the NRC has now determined to be necessary. Similar dewatering measures are in fact typical of large construction projects in Florida and other areas with similar geotechnical characteristics to Florida. While these issues are complex, that complexity does not mean they cannot and have not been completed on other projects and these same or similar dewatering activities have been successfully employed.

Q. What did the Company do in response to the NRC's determination?

A. Since late January, the Company has engaged in ongoing discussions with the NRC Staff regarding the LWA, potential modifications to the LWA, or other alternatives that allow the Company to proceed with site work prior to COL issuance. The Company first offered to reduce the scope of the LWA to only include diaphragm wall and grout work, in an effort to reduce the potential impact on the schedule. The Company believed that this reduced LWA scope would establish the water barrier required to conduct dewatering and excavation of the Nuclear Island, and would require a simpler review, since the Levy COLA does not credit either the diaphragm wall or the grout for any nuclear safety related function of the Nuclear Island. The NRC indicated, however, that any permeation grout work would also require an extended geotechnical review to confirm that all safety questions were addressed and so that scope would not allow for

review and issuance of the LWA before the COLA. The NRC did agree that inclusion of only the diaphragm wall in the LWA could be reviewed and issued prior to the COL. The NRC issued the Milestone Review Schedule in mid-February 2009 showing the COL issuance on schedule but noting that the LWA scope and schedule was not yet resolved.

Q. What options did the Company evaluate with respect to the LWA?

A. PEF considered the following options: (i) revising the scope of the LWA to include only the diaphragm wall; (ii) requesting an exemption from the LWA requirement; and (iii) shifting the project schedule by not requesting an LWA. As discussed below, the Company chose the third option.

Upon further evaluation of the first option, the Company determined that limiting the scope of the LWA for only the diaphragm wall would not benefit the overall project schedule. The most time-consuming site work, like the permeation grout work, was contained in the scope of the updated LWA request and without an LWA to authorize it, that work will have to be done after the COL issuance. Both the installation of the diaphragm wall and permeation grouting are necessary to allow dewatering and excavation for the Nuclear Island. The Company therefore determined that the schedule improvements from this more limited LWA scope were not beneficial to the LNP.

PEF also considered seeking an exemption from the LWA requirement, consistent with Parts 50 and 52 of the Code of Federal

Regulations ("CFR"). If approved, an exemption allows the Company to do the site work without a formal LWA issued by the NRC. The Company determined, however, that obtaining an exemption for the LWA is uncertain and risks even further delay. Specifically, the NRC may decline to issue an exemption. And, even if the NRC issued the exemption, the Company believes there is a likelihood that the exemption would be challenged. The process to resolve a challenge to an exemption can take several years, and the Company is not allowed to proceed with the work until the challenge is favorably resolved, thus negating any benefit of an LWA exemption from a scheduling perspective. In addition, seeking such an exemption may negatively impact the COLA approval process, since some of the NRC personnel tasked with evaluating the LWA exemption are needed to review the COLA. For all these reasons, PEF decided that it is prudent not to pursue an LWA exemption.

Finally, PEF considered and ultimately opted not to seek the LWA. A schedule shift is prudent for several reasons. First, a schedule shift allows the Company to limit the near-term price impact on its customers during the current economic conditions. This impacts our customers, and by only incurring those costs that are necessary to maintain the COLA timeline and certain other, limited costs to keep the project on task, we are able to limit customer bills for the next couple of years.

In addition, the schedule shift allows time for the Company to gain greater clarity on a number of issues that are important to the successful

completion of the LNP. Shifting the schedule should help mitigate the impact of any further regulatory process delays by shifting capital spending to a later date, after regulatory approvals are expected. The shift also reduces the financial demands on the Company and its customers during a period of uncertain federal energy policy regulation and the current economic downturn.

Q. What is the impact of the NRC Staff determination on the Company's EPC contract?

A. PEF is currently working with the Consortium to assess the impact of the NRC Staff's position on the pre-construction LWA. Pursuant to the EPC contract, PEF notified the Consortium and has begun negotiations with the Consortium for an amendment to the EPC contract to incorporate a new schedule. Although the overall schedule impact is not certain at this time, PEF expects the schedule to shift at least 20 months. Any impact on the total LNP cost is also uncertain at this time. The schedule impacts and the cost impacts, if any, will be better known upon completion of negotiations with the Consortium to amend the EPC contract between PEF and the Consortium.

Q. How is the Company addressing the expected LNP schedule shift?

A. In reviewing the impact of the schedule shift on the LNP, PEF will be weighing a number of factors in assessing how best to proceed with the

project. The impact, if any, on overall project cost will be an important factor, but PEF will also take into consideration how the shift may allow it to minimize the nearer-term costs of the LNP to the Company's customers, mitigate any further regulatory process delays by shifting capital spending, and reduce the financial demands on the Company and its customers during a period of uncertain federal energy policy regulation and the current economic downturn.

The Company believes that continuing, although at a slower pace than initially anticipated, is a reasonable and prudent course at this early stage of the project. PEF continues to need base load advanced nuclear generating capacity on its system, and PEF and Florida need a more diverse energy portfolio to decrease their dependence on fossil fuels such as coal, natural gas, and oil, which can be extremely volatile in price and supply. New, advanced-design nuclear power remains the best available technology to provide reliable electric service and to make significant reductions in greenhouse gas emissions, and Florida remains the national leader in progressive public policy to support the development of new, advanced nuclear power. The LNP continues to be the best base load generation option, taking into account cost, potential carbon regulation, fossil fuel volatility, and the benefits of fuel diversification. PEF, accordingly, remains committed to the project and the LNP remains feasible.

Q. What are the Company's current plans for the LNP?

A. PEF will focus on obtaining key state and federal permits, such as the SCA and COL. The Company is already working with the Consortium to amend the EPC contract to reflect the schedule shift and, to the extent possible, PEF's nearer-term focus on obtaining the Levy COL.

PEF has also filed with the Commission its actual/estimated 2009 and 2010 costs for the LNP reflecting this reordered focus on obtaining key LNP permits as a result of the schedule shift. PEF has provided reasonable projections for costs to be incurred during the remainder of 2009 and all of 2010. These costs are explained in more detail below and in Mr. Foster's testimony and exhibits. These projected costs were developed using the best available information to the Company at this time. Because of the schedule shift associated with the LNP, and its affect on the expenditures PEF must make during the near-term period, however, some of PEF's projected costs may change after the date of this filing. The Company's projections still are based upon its best-available information, therefore, the Commission should approve PEF's projections as reasonable pursuant to the Nuclear Cost Recovery Rule.

Alternatively and consistent with the Company's nearer-term focus on the impact of the LNP costs on the Company's customers, PEF proposes a nearly 50 percent reduction in cost recovery in 2010 over what the Company is otherwise entitled to collect under the Florida nuclear cost recovery legislation and applicable PSC rule. This alternative proposal to

the Company's request for recovery of its prudent LNP costs prior to 2009 and reasonable 2009 and 2010 projected costs under the statute and rule is explained in detail in the testimony of Mr. Foster.

.Q. Can you generally explain what the LNP costs are for 2009 and 2010?

A. Yes. From January to March 2009, PEF incurred reasonable and prudent EPC costs for the contract agreement with the Consortium. Costs incurred to date are for payments of contract milestones that are well defined in a number of areas, including equipment, manufacturing, procurement, and scheduling that have clear scope descriptions and division of responsibility.

From January to March 2009, PEF also incurred reasonable and prudent license application costs for the COL involving responses to the NRC's on-going RAIs and NRC Audits. PEF further incurred costs in connection with its SCA. PEF has been supporting the SCA review process during 2009. Along with the SCA, PEF is incurring costs in 2009 for other environmental and permitting activities such as wetlands mitigation, the early Environmental Review Permit ("ERP") for construction of a barge slip (issued March 15, 2009), and the U.S. Army Corps of Engineers review and approval of Section 404 (Clean Water Act) permits that will be required to support the Levy site development. PEF will continue to focus its efforts, and corresponding costs, on these permits and the COL in 2009 and 2010.

III. GENERATION PRE-CONSTRUCTION ACTIVITIES

Q. What costs has PEF included in this filing for nuclear generation pre-construction costs?

A. PEF has 2009 actual/estimated and 2010 projected Pre-Construction costs for generation for the Levy Nuclear Plant. PEF's total estimated 2009 costs associated with the LNP, excluding transmission costs, are approximately $275.9 million. PEF projects its 2010 costs for the LNP, excluding transmission costs, to be approximately $100.4 million. Schedule AE-6 of Exhibit No. __(TGF-1) shows generation pre-construction costs for 2009 actual/estimates in the following categories: License Application development costs of $38.8 million; Engineering, Design & Procurement costs of $237.2 million; Clearing, Grading, and Excavation costs of $0.2 million, and On-Site Construction Facilities costs of $(0.3) million. Schedule P-6 of Exhibit No. __ (TGF-2) breaks down the 2010 projected generation pre-construction costs into the following categories: License Application costs of $24.1 million; Engineering, Design & Procurement costs of $76.1 million; and On-Site Construction Facilities costs of $0.1 million.

Q. Please describe what the License Application costs are, and why the Company has to incur them.

A. These License Application costs are necessary to support the Levy COLA, SCA, and necessary environmental and other permits. The LNP COLA was submitted July 30, 2008 and docketed by the NRC on October 6, 2008. After docketing, PEF entered Phase 2 of the COLA work. This work involves providing responses to NRC RAIs and NRC Audits. PEF expects the NRC license approval process to take approximately 42 months, following the RAIs, Audits, and any necessary hearings. PEF will continue to incur costs in 2009 and 2010 to support the LNP COL.

PEF also incurred costs in connection with its SCA, which was completed and submitted to DEP on June 2, 2008. PEF has been supporting the SCA review process during 2009. The DEP issued its SCA report to PEF on January 12, 2009, and the SCA hearing concluded in March 2009. DEP is scheduled to issue its order on PEF's SCA in May 2009, and the Governor and Cabinet sitting as the Siting Board are expected to vote on the Levy SCA by the end of the summer of 2009. PEF expects to continue to incur costs in 2009 to support the SCA.

Along with the SCA, PEF is incurring costs in 2009 for other environmental and permitting activities such as wetlands mitigation, the early ERP for construction of a barge slip (issued March 15, 2009), and the U.S. Army Corps of Engineers review and approval of Section 404 (Clean Water Act) permits that will be required to support the Levy site development.

These License Application costs are necessary to ensure the timely approval of the Company's COLA and SCA filings. Obtaining these key

regulatory approvals on a timely basis is currently the focus of PEF's efforts on the LNP.

PEF developed these preconstruction License Application cost estimates on a reasonable licensing and engineering basis, using the best available information to the Company, and consistent with utility industry and PEF practices. For the costs associated with the COLA review, PEF used the terms of its COLA contract as well as updated forecasts which are provided on a monthly basis by the contractor to estimate the costs it will incur for the technical support necessary for the NRC review. In addition, PEF based its projections on known project milestones necessary to obtain the requisite NRC and DEP licenses. Because PEF is using actual or expected contract costs, NRC estimates, its own experience, and relevant utility industry insight, PEF's cost estimates for the preconstruction License Application work are reasonable.

Q. Please describe what the Engineering, Design & Procurement costs are, and explain why the Company has to incur them.

A. These costs include contracted services to engineer, procure, and construct two Advanced Passive Light Water reactors at the Levy Site. The EPC contract scope also includes design finalization of the standard AP1000 Power Block, site-specific detailed design, and construction of the Levy Nuclear Steam Supply System ("NSSS"), and balance of plant structures (turbine generator, etc.), including site buildings/structures/systems (such as cooling tower make-up intake structure, mechanical cooling towers, etc.).

PEF must incur these Engineering, Design & Procurements costs to support the timely approval of the COLA and SCA applications. Given the expected shift in the schedule due to the NRC Staff determination on the requested LWA scope, PEF has made the reasonable and prudent decision to limit its expenditures until the COL is issued.

PEF developed these preconstruction Engineering, Design & Procurement cost estimates on a reasonable engineering basis, using the best available information, consistent with utility industry and PEF practices. To develop the costs, PEF utilized cost information from the EPC contract. These projected costs may, however, change depending on the outcome of the contract amendment negotiations with the Consortium. For example, PEF currently expects that it can limit its 2009 and 2010 costs to completion of the engineering work that was already started until PEF and the Consortium have reached agreement on the scope of work necessitated by the shift in schedule. Further work or costs under the EPC, including long-lead equipment payments to maintain its place in the queue for such equipment, however, depend on PEF's negotiations with the Consortium to amend the EPC contract agreement. Because PEF is using actual or expected contract costs, its own experience, and utility industry practice, PEF's cost estimates for the preconstruction Engineering, Design & Procurement work are reasonable.

IV. GENERATION CONSTRUCTION ACTIVITIES

Q. What costs has PEF included in this filing for generation construction costs?

A. PEF has 2010 projected Construction costs for nuclear generation for the Levy Nuclear Plant. Schedule P-6 of Exhibit No. __ (TGF-2) breaks down the 2010 projected generation construction costs into the following categories: Real Estate Acquisition costs of $10 million and Permanent Staff/Training costs of $0.3 million.

Q. Please describe what the Real Estate Acquisitions costs are, and explain why the Company has to incur them.

A. These costs include costs associated with acquisition of real estate for wetlands mitigation and for the blowdown path right-of-way corridor to the Crystal River Energy Complex ("CREC") discharge canal. It is critical to obtain this land now because if PEF were to wait to acquire access to this land until a later time, the land may not be available for purchase, since a governmental agency is involved. PEF believed that it is reasonable and prudent to acquire rights to this property at this time. Accordingly, PEF has decided to move forward with this purchase and lock in the price for the land, which is necessary for the LNP.

PEF developed these construction Real Estate Acquisition cost estimates on a reasonable engineering basis, using the best available information, consistent with utility industry and PEF practice. For the make-up structure easement, these cost estimates are based on the actual offer negotiated between

the State and PEF for purchase of the land at issue. Because PEF is using an actual offer upon which to base its costs, PEF's cost estimates for the construction Real Estate Acquisition work are reasonable.

Q. Please describe what the Permanent Staff/Training costs are, and explain why the Company has to incur them.

A. These costs include initial staffing of experienced personnel necessary to develop the Levy Training program. AP1000 passive plant training program and simulator development is now underway in the U.S. industry, and this work is shared among specific AP1000 announced utilities. This training development work is a necessary step in advance of delivering training to permanent plant personnel who will operate and maintain the new Levy Nuclear Plant.

These Permanent Staff/Training costs are necessary to ensure that the required staff will be trained and ready when the fuel is loaded into the reactor. PEF needs highly skilled staff to operate the Levy units, and this training takes months to complete. Without an adequate number of trained and licensed staff, the Company will not be able to load the nuclear fuel and the project will necessarily be delayed.

PEF developed these Permanent Staff/Training construction cost estimates on a reasonable engineering basis, using the best available information, consistent with utility industry and PEF practice. PEF was able to use the knowledge gained from operating and training operators for its Crystal River 3

("CR3") nuclear unit to develop these cost estimates. Because PEF is using its own experience and utility industry practice, PEF's cost estimates for the construction Permanent Staff/Training work are reasonable.

V. TRUE UP TO ORIGINAL COST FILING FOR 2009

Q. Has the Company filed schedules to provide information truing up the original estimates to the actual costs incurred?

A. Not at this time. As discussed in Mr. Foster's testimony and addressed above, while PEF does have a reasonable basis for projecting near term project costs, until PEF is able to negotiate an EPC contract amendment with the Consortium, PEF will not be able to provide meaningful updates to the total project costs beyond the total project cost estimate that PEF has already provided.

Q. What is the total project estimate?

A. The total project budgeted cost estimate, inclusive of AFUDC and fully loaded, remains about $17.2 billion, as provided in the Company's September 2008 LNP Integrated Project Plan ("IPP"). The total project cost estimate, however, may change depending upon the ultimate outcome of negotiations with the Consortium to amend the EPC contract. At that point, PEF will prepare, review, and obtain internal management approval of a revised budgeted cost estimate for the LNP. Until that occurs, the

Company-approved budgeted total costs for the LNP remains approximately $17.2 billion. Simply put, there is no better total project cost estimate that can be provided at this time.

VI. RULE 25-6.0423(5)(c)5: LONG-TERM FEASIBILITY OF COMPLETING THE LNP

Q. Is the Levy Nuclear Project still feasible?

A. Yes.

Q. Why is the LNP feasible?

A. The LNP continues to be feasible for a number of reasons. First, the AP 1000 reactor design remains a viable nuclear technology. Other utilities, including Southern Company and SCANA, continue to move forward with licensing of nuclear units using the AP 1000 design, and the Haiyang and Sanmen Projects in China have been progressing on schedule with the AP 1000 design. PEF expects that the AP 1000 technology will continue to represent a viable and feasible choice for its LNP.

The LNP is also feasible from a project milestone perspective. To date, PEF has achieved every major LNP project milestone, with the exception of the LWA. Specifically, PEF chose a site, selected a reactor technology, obtained a need determination, applied for the SCA, applied for the COL, and executed an EPC agreement. The COL and the SCA are expected to be issued within the timeframe originally estimated by the

Company. There will be a schedule shift, but there is no reason now to believe that the SCA, COL, or any other permit needed for the LNP will not be issued and, therefore, the Company is confident the LNP can be completed.

Additionally, the essential reasons the Company selected the LNP to meet customer needs for future generation capacity have not fundamentally changed. PEF continues to need base load capacity in the future and new, advanced-design nuclear power remains the best available technology to provide reliable, base load electric service and to make significant reductions in greenhouse gas emissions. PEF and Florida continue to need a more diverse energy portfolio to reduce their reliance on fossil fuels such as coal, natural gas, and oil that can be volatile in price, subject to supply disruptions, and susceptible to foreign government and market influences. The LNP, accordingly, continues to be the best base load generation option, taking into account all the reasons PEF committed to the project in the first place.

Q. Does the project remain feasible despite the schedule shift?

A. Yes, it does. The Company has analyzed the schedule shift, and it remains committed to the LNP to bring new nuclear generation to the State of Florida and its customers. Shifting the project for this time period is a reasonable and prudent course of action, given the unexpected events that have transpired.

Q. Has the Company updated its fuel forecasts and environmental forecasts presented in the need proceeding?

A. Yes, consistent with the requirements set forth in Order Number PSC-08-0518-FOF-EI, the need order, the Company prepared updated fuel forecasts and environmental forecasts. The updated fuel forecast is reflected in my Exhibit No. __ (GM-1), and the updated environmental forecast is reflected in my Exhibit No. __ (GM-2).

Q. What is the updated non-binding capital cost estimate for the LNP?

A. Pursuant to the Company's LNP IPP, the updated non-binding capital cost estimate for the LNP is approximately $17.2 billion. As I explained above, this remains the Company's approved, budgeted total cost for the LNP at this time, but the total project cost estimate may change depending upon the ultimate outcome of negotiations with the Consortium to amend the EPC contract. Until those negotiations are concluded, and the Company revises and management approves its budgeted total costs for the LNP based on the results of those negotiations, the total capital cost estimate remains about $17.2 billion.

Q. Consistent with the requirements set forth in the need order, please provide information regarding discussions pertaining to potential joint ownership in the LNP.

A. PEF is continuing its negotiations with municipal, electric cooperative, and investor-owned utilities regarding potential joint ownership in the LNP. Although we cannot predict the ultimate outcome of these discussions, we remain confident that we will complete negotiations and execute joint ownership agreements with at least some potential co-owners. [redacted]

VII. PROJECT MANAGEMENT AND COST CONTROL OVERSIGHT

Q. Has the Company implemented any additional project management and cost control oversight mechanisms for the Levy project, since the testimony you filed on March 2, 2009?

A. Yes, the Company implemented several new policies to implement the EPC contract upon its execution. For example, an EPC Invoice Validation and Processing implementation procedure has been developed and implemented. The new procedure is utilized for each EPC invoice that is submitted. Prior to payment of invoices under the EPC contract, the costs go through a thorough review process for completeness, accuracy, and supporting documentation. All payments are approved utilizing the Company's Corporate Approval Policy. PEF is continuing to work on

developing, refining, and implementing these EPC implementing procedures, which provide specific project management tools to appropriately manage the execution of the EPC contract. Even though negotiations for an EPC contract amendment are underway, the EPC contract remains in force, and therefore the NPD project management controls, such as the EPC implementing procedures, are necessary and important to effective contract execution.

In addition to the EPC implementing procedures discussed above, NPD Management is in the process of reviewing the Project Execution Plan Submittal List completed and submitted by the Consortium on March 31, 2009. The execution plan includes specific plans in the areas of Risk Management, Lessons Learned, Quality, Project Controls, and other project management plans delineated in the overall Project Execution Plan submitted. NPD Management has also worked with the Consortium and taken specific actions to improve the EPC Monthly Project Status Report with respect to both contractual requirements and project management areas required by NPD to effectively manage the project. Risk Management, Key Performance Indicators ("KPIs"), Audits, and Procurement are some of the focus areas that NPD is requiring more specific details in the Consortium's report.

NPD has also significantly expanded the format of the NPD Performance Report upon execution of the EPC Agreement. The expanded format includes a more metrics based focus. KPIs continue to

contract execution. Section contributors to the plan are in the process of developing inputs for their assigned subject areas and submitting the sections to Project Controls for review. NPD continues to recruit and secure appropriate staffing to build out all aspects of the project infrastructure to ensure appropriate overall project controls.

Q. Does this conclude your testimony?

A. Yes, it does.

be identified. The report also contains a section dedicated to project risk and status updates from the vendor prepared monthly reports. A KPI Lead Team was established to develop and monitor project KPI's.

NPD continues to develop the process that implements a more robust NPD Risk Management process that aligns the LNP with the standards set by the Company's Project Management Center of Excellence. NPD has completed the Owner Acceptance Review of the Risk Software Platform Evaluation Report and the NPD Risk Register and Action Plan documents submitted by the Owner Engineer. A platform has been selected and the process has commenced to procure the new software and implement the plan to migrate the data to the new software. The NPD Risk Management procedure will also be revised to align with the new Project Management Center of Excellence standards and incorporate the process steps NPD is implementing for Risk Management. In addition to Risk Management, NPD will continue to implement additional procedures that the Project Management Center of Excellence will be establishing for project management processes. Cost Management and Time Management are two examples.

Project Controls is in process of completing and issuing a Schedule Controls procedure. This procedure provides instructions for developing and maintaining the Levy Integrated Master Schedule and Integrated Master Work Breakdown Structure. Also, work has started on developing significant revisions to the Levy Project Execution Plan since EPC

BY MR. BURNETT:

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

A. I do.

Q. Will you please give it?

A. Yes. My name is Garry Miller. My direct testimony supports the prudence of the company's costs incurred in furtherance of the Levy Nuclear Project in 2006, 2007 and 2008. These costs were necessary to advance the Levy Nuclear Project and they are prudent. Indeed, I understand that no Intervenor has challenged the prudence of any specific actual cost incurred by the company from 2006 through 2008 for the Levy Nuclear Project.

I also explain in my direct testimony that the company's estimated 2009 and 2010 costs for the Levy Nuclear Project are reasonable. These estimated costs reflect a lower level of spending that accounts for the unexpected schedule shift for the Levy Nuclear Project due to the NRC's determination that it cannot timely review and therefore issue the limited work authorization, LWA, requested by the company.

These estimated costs primarily involve scheduled long-lead item payments and the necessary cost to obtain a combined operating license from the NRC for

the nuclear project and other federal and state regulatory approvals. These costs would have been incurred in 2009 and 2010 regardless of the NRC's decision with respect to the LWA. As I understand too, no Intervenor has challenged the reasonableness of any specific estimated cost for 2009 and 2010 for the Levy Nuclear Project.

Finally, my testimony supports the long-term feasibility of the LNP. The LNP continues to be feasible for a number of reasons including, number one, the Westinghouse AP 1000 reactor design remains a viable nuclear technology for the deployment at the Levy site, with, among other factors, AP 1000 construction is proceeding at two sites in China.

Number two, the Levy, the LNP remains feasible from a project milestone perspective as evidenced by the fact that PEF has achieved every major milestone as planned with the exception of the LWA, which is now part of the COL issuance.

And, third, the essential reasons for the LNP have not fundamentally changed. Therefore, the long-term completion of the Levy nuclear power plants is feasible. Thank you.

MR. BURNETT: Madam Chair, before tendering Mr. Miller I would just like to note for Mr. Miller and

the parties that he has quite a bit of confidential information in his testimony. So I'd just ask for Mr. Miller to be cognizant of that in giving his responses, but we tender him for cross.

COMMISSIONER EDGAR: Okay. Thank you for the point. We ask everyone, of course, to be sensitive to that and we'll work our way through it together, if need be.

Mr. Rehwinkel, do you have cross.

MR. REHWINKEL: Yes I do, Madam Chairman. And along the lines of Mr. Burnett's comments, I have fairly lengthy cross-examination for this witness, and a good bit of it deals with confidential information. So I am going to endeavor to be very cautious about that. I would beg the Commission's indulgence with respect to the pace of cross-examination because I want to be very cautious and make sure that any answer I elicit is given consideration by the witness as to the nature of the information, and the need to point to information and ask people to read it versus stating it out loud. So I'd just ask for your indulgence on that.

COMMISSIONER EDGAR: I understand. And, again, we appreciate your sensitivity.

MR. REHWINKEL: Thank you.

CROSS EXAMINATION

BY MR. REHWINKEL:

Q. Good afternoon, Mr. Miller.

A. Good afternoon.

Q. My name is Charles Rehwinkel. We've met before. It's good to see you again.

A. You too.

Q. You are the person or the individual in the most direct, most directly, in management most directly responsible for the building of the LNP project; is that correct?

A. That is correct.

Q. In your testimony that you've given in this matter so far, including your deposition, you have described a series of events culminating in a schedule shift of between 20 to 36 months; is that correct?

A. That is correct.

Q. And by schedule shift, I mean in the schedule of the licensing, construction and completion of the LNP project.

A. That is correct. It is a schedule shift in the in-service date of the LNP project.

Q. Okay. And is that still a good estimate?

A. The 20 to 36 month is still a good estimate. Yes.

Q. Okay. And do you still have -- do you have

any idea when you might decide whether it's 20 or 36 or some other number?

A. Yes. The, the, the decision-making is ongoing in our company with regard to the final decision of what that schedule shift would be, incorporating information that we're getting from Westinghouse and Shaw and considering other relevant information. And so we would anticipate we would make that decision here maybe in the next two months.

Q. Okay. But here today you cannot say what that schedule shift number actually will be; is that right?

A. It is correct to say that our company has not made a decision as of today on the schedule shift.

Q. Okay. Do you have with you, just so I can take care of this before I move on, do you have with you the testimony of Thomas Foster or Geoff Foster?

A. I do not, but I have the exhibits that I sponsored.

Q. Okay. Do you have the exhibit I asked Mr. Foster about, which is P8 TGF-2, Page 3 of 3?

A. I have TGF-2. Let me go to the specific page you're talking about. Schedule P8?

Q. Yes.

A. At the bottom it says Page 20 of 46? At the bottom of the document.

Q. I don't have that.

A. I believe it's, I believe I know which page you're talking about, so let's proceed.

Q. Okay. What I'm asking you about is Line 15, Column H. And it is a confidential number; is that correct?

A. That is correct.

Q. Okay. Can you tell me, without telling me what the number is, can you state publicly what this number represents, represented at the time it was put on the schedule?

A. It represented the overnight contract price for the EPC.

Q. Okay. And that's the EPC to construct Levy Nuclear Units 1 and 2?

A. That is correct.

Q. Can you tell me whether the number on Line 15, Column H has changed?

A. Yes, it has changed.

Q. Do you know what it has changed to?

A. I cannot give you the specific number, but I do know why it changed and sort of the magnitude of the change.

Q. Okay. Can you state publicly what the magnitude of the change is?

A. No, because it's a change order, which is a confidential document.

Q. Okay. Is it possible that you could provide that, that number that represents change to the parties who have executed nondisclosure agreements in this docket?

A. I would have to consult with the legal team of how to do that.

Q. Okay. Is it possible that that number could be provided before you get on the stand for rebuttal?

A. Yes, assuming that we work through the legal mechanism to do that.

MR. REHWINKEL: Okay. Madam Chairman, what I would like to do, similar to the request I had of Mr. Franke, is ask for the incremental change in the figure, Line 15, Column H, to be provided informally to parties who have a, have executed the appropriate legal documents to view it, if any.

COMMISSIONER EDGAR: Mr. Burnett.

MR. BURNETT: No objection.

COMMISSIONER EDGAR: Okay.

MR. REHWINKEL: And that we be shown this information between culmination of his direct testimony and his reappearance for rebuttal.

COMMISSIONER EDGAR: Okay. If it's possible

to do that on the lunch break to get it started, please do so. If not, just as soon as reasonably able.

MR. REHWINKEL: Okay.

MR. BURNETT: Yes, ma'am.

MR. REHWINKEL: Thank you. And I will not ask as a late-filed exhibit. We'll deal with that, if necessary, at that time.

COMMISSIONER EDGAR: Okay.

BY MR. REHWINKEL:

Q. Okay. Do you know if, Mr. Miller, if any other numbers on this TGF-2 schedule have changed because of the schedule shift?

A. I have not reviewed these lines on this particular, on P8 in that regard. As you can imagine, there are contracts on here related to the overall project execution. And so while you picked the one that was related to the EPC, there are others such as related to transmission, and all of that schedule is being shipped accordingly. So there are some other contracts on here that could possibly change.

Q. Okay. Do you know with any degree of certainty -- or let me ask it this way. Do you know with the same degree of certainty that you know about the number we just discussed, the incremental change to the EPC number, those other numbers?

A. No, because the activities to reflow that work is still in progress. So, no.

Q. Okay. I'm done with this schedule then for now. Thank you.

Now in your testimony, isn't it correct that the cause, according to you, for -- well, let me, let me strike that question.

And, Commissioner, I would like to ask for an exhibit, two exhibits to be passed out at this time for cross-examination. And these are not confidential.

COMMISSIONER EDGAR: Okay.

MR. REHWINKEL: And while Ms. Vandiver passes those out, while Ms. Vandiver passes those exhibits out --

COMMISSIONER EDGAR: So I am on 141, I believe.

MR. REHWINKEL: Okay. Item 141 would be a one-page exhibit called Levy Unit 1 Timeline.

COMMISSIONER EDGAR: Yes, please.

MR. REHWINKEL: And the second exhibit is Excerpts from PEF COLA, C-O-L-A. That's a four- page exhibit.

COMMISSIONER EDGAR: Okay. Exhibit marked 141, Levy Unit 1 Timeline. 142, Excerpts from PEF COLA.

MR. REHWINKEL: Actually it's a seven-page

exhibit. I misstated it.

COMMISSIONER EDGAR: This says Page 4 -- Pages 4 at the top.

MR. REHWINKEL: Yes. So what says four needs to be changed to seven.

COMMISSIONER EDGAR: So noted. Thank you.

MR. REHWINKEL: Thank you.

(Exhibits 141 and 142 marked for identification.)

BY MR. REHWINKEL:

Q. Mr. Miller, do you have the exhibits that have been marked 141 and 142 --

A. I do.

Q. -- in front of you?

Exhibit 141 is the Levy estimated timeline of the first unit. Do you see that?

A. I do.

Q. Are you familiar with this document or this, a document similar to this?

A. Yes.

Q. Okay. And I'll represent to you this came from a September 2008 slide presentation that included confidential information, so I've excerpted just this document.

A. Okay.

Q. Is it fair to say that this document here represented, represents what your intent was with respect to the timeline from filing of -- well, from the preparation of your combined license application through to commercial operation date for the Levy Unit 1?

A. I would characterize this as a graphic illustration of how the schedule flows sort of in a graphical form.

Q. Okay.

A. That's what this document is.

Q. So at a very high level, this is, this is the major time milestone points for your project for Number 1.

A. At the time this document was produced, that is correct.

Q. Okay. And the green box here with the arrow pointing from the words LWA, that is the time frame that the company intended to do the, essentially the dewatering and excavation work that was the essence of the LWA request; is that correct?

A. Well, based on the timeline of this, depending on when it was exactly in September, this LWA scope could have been from excavation forward, meaning engineered (phonetic) backfill, mud mat, those kind of things, forms, drilled shafts into some of the other

buildings. So depending on when it was this actual document was produced, as with respect to the September 12th letter where we modified the LWA scope, subject to that clarification, it's describing where we need LWA to come in to complete certain preconstruction work prior to the work governed by the COL.

Q. Okay. And it is correct, is it not, that performing the excavation and dewatering work as well as the other work that was described in your LWA request to the, to the NRC that was filed on September 12th, that was crucial to meeting the September, I mean the 2016 COD; is that correct?

A. Yes. It is correct that the LWA as requested, to complete that work in advance of early 2012, that was necessary to achieve the mid 2016 date.

Q. Okay. Could you turn to Exhibit 142, which are, as I represent to you, excerpts from the various sections of your COLA that was on the Nuclear, the NRC's website. Are you generally familiar with, with these documents?

A. I am.

Q. Okay. And just the page, the first page there is just a graphic representation of the way the two units would look on the, superimposed on a photograph of the site; is that right?

A. That is correct.

Q. Okay. And then the next page just shows the location of the, the, the site with a star representing the location of the units; is that correct?

A. Correct. That broken line which represents the property boundary, which is defined as the site, and the star is the general location of the power blocks within that site.

Q. Okay. And the location of the star within the dotted line is, is not an accident. That was something that was, although it's probably an approximation of the unit site, there is a reason for it being in that location; is that right?

A. There is a reason. Nuclear plants require an exclusionary area boundary, if you will, a buffer around the plant where you control all the property for emergency purposes. And so it, it's ideal to be able to place the facilities in the center of the property and take advantage of the property boundaries to the maximum extent.

Q. Okay. And on the next page, this is the same outline that's shown on the, with the dotted line, but this shows where wetlands exist on the property site and in the, in the surrounding land; is that correct?

A. That is correct. It shows an outline of the

power blocks and then it shows a wetland delineation.

Q. Okay. And those, those locations also played a role in where you designated the exact location of the units; is that correct?

A. Well, it's correct in a sense. When I go back and remind you that the goal would be to place the units in the center of the property to maximize the boundaries to all the site boundaries, it turned out the way that property was laid out that there were upland areas in the center of the site that did not require a permit to get into the wetlands. And so it was, it just happened that we were able to start the work in the very center of the site.

Q. Okay. And then on the next page there's a representation of where a 100-year flood zone is relative to the site; is that correct?

A. It is a representation of the 100-year flood zone with respect to the current grade of the site.

Q. Okay. Did that play any role in the location of the units within the property boundaries?

A. No. But the reason is is because the current grade of the site is approximately 42 feet above sea level. And as part of the preparation of the site, we will remove some of the soil overburden that has roots and vegetative matter and then raise that level to

approximately 50 feet at the power blocks.

Q. Okay. Thank you. The next page is sort of a chart representation of the strata, the various strata of soils and rocks in the area, the hydrology and kind of the classification of, of the strata and geological terms; is that correct?

A. Yes. This is a representation graphically of the layers of the geosubstrate.

Q. And I, I am just taking you through this to get some context for some of the questions that I'm going to ask you.

The next page shows kind of the geology of the area, the surface rock and the sediment types within ten feet of the, of the land surface relative to the location of the plant; is that right?

A. One moment. Let me review this document.

Q. Sure.

A. So this is a representation of what's in the top ten feet of the soil overburden, if you will.

Q. Okay. And so where the star is shows that --

COMMISSIONER EDGAR: Mr. Rehwinkel, could you pause for a moment?

MR. REHWINKEL: Yes.

COMMISSIONER EDGAR: I think Commissioner Skop would like to ask a question.

COMMISSIONER SKOP: Yes. I just want to make sure I'm understanding, because we're flipping through the pages. You're looking at the cross section of the, the soil top layers; is that correct? Okay. A different one. Never mind. I'll reserve my question.

COMMISSIONER EDGAR: Thank you.

Mr. Rehwinkel.

MR. REHWINKEL: Okay. Thank you. Yes.

BY MR. REHWINKEL:

Q. The star shows that the site is, is on what would be kind of medium/fine sand and silt; is that right?

A. Just for clarification, let me verify you're on Figure 2.3-17?

Q. I apologize. Yes, that's correct.

A. All right. What this document shows is what is present within ten feet of the land surface. So at the star location it would be the top ten feet surface is medium/fine sand and silt.

Q. So if you, if you go back to the prior page and you look under the column that's headed Geology and Lithology, the sand is at the top.

A. I would characterize it as sandy soil.

Q. Okay. And as you go down vertically, you encounter under the blocks that are under sand, sand and

clay, phosphate, sand limestone and dolostone, limestone and dolostone, limestone and dolostone, et cetera. And to, to the left under Stratigraphic Unit shows the classification of those strata under the geological classification system; is that right?

A. That's correct.

Q. Okay. Now the Levy site and the issues that are part of the geotechnical presentation you made to the NRC as part of your LWA and your COLA relate primarily to the Avon Park foundation -- Formation; is that right?

A. That is correct.

Q. Okay. So the Avon Park Formation is the, the formation that would be most impacted by the geotechnical analysis that the NRC staff would be making of your filing; is that right?

A. That is correct.

Q. Okay. And right above the Avon Park foundation (sic.) is Ocala Limestone; is that right?

A. That is correct.

Q. As it shows here. Now --

A. If it's present.

Q. Yes. Let's turn to the last page of the exhibit, and this is Figure 2.3-18, and it shows the regional aquifer system analysis; is that correct?

A. Yes. I see this as Figure 2.3-18, regional aquifer system analysis.

Q. Okay. And just for the record, the yellow highlighting on here is mine, not, not what, part of what you filed.

But is it correct that the, on the right-hand side --

COMMISSIONER EDGAR: Mr. Rehwinkel, I'm sorry, one more time. Commissioner Skop -- and maybe a time after that, too. Commissioner Skop.

COMMISSIONER SKOP: Thank you, Madam Chair.

Just to Mr. Rehwinkel and to the witness, I just want to make sure I'm understanding this particular figure, and I was a page ahead of you as I was trying to form my question. But the yellow line that you drew, Mr. Rehwinkel, is the section view from D to D prime. And that, is that the cross section that is illustrated in the top left-hand corner?

MR. REHWINKEL: That was my next question. Yes.

COMMISSIONER SKOP: All right. Thank you.

BY MR. REHWINKEL:

Q. Is that, is that correct, Mr. Miller?

A. I'm not familiar enough with this graphic to make that, make that determination. However, I do know

that there, the limestone has slope in that area. And in the case of the Levy nuclear site, it's Avon Park which comes closest to the surface. As a matter of fact, that's represented up in the inset figure where it says Levy Nuclear Plant location, and you can see, if you follow the shaded crosshatched area, it's predominantly the Avon Park Limestone.

Q. Okay. So where you see at the bottom of that inset the word "Cedar Key Limestone," and line that goes up from that points to a little, tiny piece of Ocala Limestone; is that correct?

A. I see that. Yes.

Q. Okay. But surrounding that is, everything that touches the surface in the crosshatching is in the Ocala Limestone and Lake City Limestone undifferentiated strata; is that right?

A. Again, I'm trying to interpret the graphic because I've not seen this in quite a while. And as I looked at it again, I do agree that the D to D prime is the, what you characterize as that yellow line that you've marked on the larger figure. It's a cross section.

I cannot discern because the granularity of this image is not so great in the Levy Nuclear Plant area location, but I see either Avon, Avon Park

Limestone at the surface or Ocala Limestone at the surface, and in some places farther on up you get Suwannee Limestone and others. But at the Levy Nuclear Plant location it's dominated by the Avon Park.

Q. Okay. So it looks like on this that the line that comes from Levy Nuclear Plant location touches what is Avon Park Limestone as it comes to the surface; is that correct?

A. That's what this graphic appears to show.

Q. Okay. And that's what you filed with the NRC.

A. That's my understanding from my general understanding of the geology of the site.

Q. Okay. And I ask you these questions because isn't it true that the geology of the site was very crucial with respect to the evaluation and consideration by the NRC of your LWA?

A. I would answer your question as it's certainly relevant. As the NRC makes a deliberation on the LWA, they need to understand the geology and how the foundation design is going to progress to be able to make that determination.

Q. And you recognize when you -- well, let me ask it to you this way. Isn't it true that selecting the site for your nuclear plant is a crucial part of the planning of your, of the construction of a nuclear

plant?

A. The site selection is probably the most critical first step you take.

Q. Okay. And one of the major considerations that you undertook was a site that would support various needs for location to transmission, et cetera, but, but significantly geology.

A. Yes. And I was involved and led the siting study for the Levy site, and we considered, as you said, geology or geotechnical features, we considered availability of water, the ability to deliver the transmission capacity from that site, other parameters such as nearby land uses, all of those were considered, but certainly geology and geotechnical is an area that's very significant to that decision-making.

Q. Okay. And is it fair to say that from a time constraint standpoint you were fairly challenged to get a site selected such that you could meet a date that you identified in your need analysis?

A. I would not characterize it that way, sir. Because as when we started the siting process in late 2005, we had not established the 2016 in-service date at that time. Our goal was to identify a site and start the process, and then build a schedule that would then, you know, yield the in-service date we desired.

I would characterize it more as bookends. You have a, you'll have a need that'll establish the end date, the in-service date, but you cannot start until your site is selected because you must have that to begin to do the analysis on that particular site. But the siting would drive the overall schedule. It cannot start before that --

Q. Okay.

A. -- until the site is selected.

Q. So was it -- is it fair to say that by the time you selected a site, you were approaching a very critical stage to meet a 2016 in-service or COD date?

A. It would be correct to say that as we selected the site and announced it in December of 2006, we had approximately 18 months to be able to complete an application and submit it in July of 2008 that would yield an overall schedule of 2016.

Q. Okay. So that was your window of opportunity to develop a COLA, the 18 months?

A. For a 2016 in-service date.

Q. Okay. Yes. And sometime between the December 2006 announcement of the site and the first part of 2007 you realized, did you not, that you would need an LWA in order to meet the 2016 COD?

A. During 2007, yes, we did identify the fact

that an LWA would be necessary for the Levy site to achieve a 2016 in-service date.

Q. And would it be fair to say that the LWA that you envision would be somewhat of a linchpin in meeting that schedule?

A. It was -- yes, it was an important element. I don't know if the term "linchpin" is the correct phrase. But it was certainly an important element of the overall schedule to achieve the mid 2016 date.

Q. Did you realize at the time you decided you needed an LWA that without an LWA and the ability to do -- or the ability to do the dewatering and excavation before the issuance of a COL, that you would not be able to meet the 2016 COD?

A. Yes. Yes. As the schedule was built and as the schedule was presented in our need determination last year, it actually incorporated LWA as an integral part of that schedule that was necessary to achieve a mid 2016 in-service date.

Q. Okay. Now having established the need for an LWA and the time frame for an LWA, that, that played a significant role in the negotiation of the EPC, did it not?

A. The -- I wouldn't say -- it's not a significant role. It is a parameter that affects the

execution of the EPC that had to be considered in the timing of how the EPC would flow from a work perspective.

Q. Well, did the LWA influence the cash flows that you negotiated within the EPC?

A. No, and let me explain why. Because the LWA scope of work which currently -- which would have been diaphragm wall installation, permeation grouting, excavation dewatering then engineered backfill, mud mat, and that sequence all through that, that scope of work has to be done regardless of whether it's authorized through an LWA or authorized through a COL. Because it is necessary to do that to be able to establish the conditions for the first pour of safety-related concrete. So that scope of work and the cost of that scope of work is in the EPC irrespective of what regulatory approval authorizes it.

Q. Okay. I think your question was directly responsive to the question that I asked, but I don't think I asked the question I intended.

A. Okay.

Q. So my question is this, the, the ability to do the work that was subsumed ultimately in the LWA directly affected the schedule that influenced the cash flows in the EPC; is that correct?

A. Yes.

Q. Okay.

A. The milestones that are in the EPC, such as first concrete pour, they assume certain regulatory approvals in advance of that. And so those milestones do flow assuming that an LWA was authorized in the current version of the EPC.

Q. Okay. And without the LWA or the ability to do the work that was subsumed in the LWA, the EPC that you negotiated would not meet the reality of meeting a COD of 2016; is that right?

A. State your question again. It was --

Q. Okay. Without doing the work that was in the LWA prior to 2012, the, the milestones and the cash flows that you negotiated in the EPC would be meaningless; is that correct?

A. The phrase "meaningless" is not an accurate representation. I would say to you that without meeting the regulatory, getting the regulatory approval that the schedule was based on, that means that the preconstruction work in advance of the COL that is governed by the LWA, that scope of work, that work would then necessarily have to move in time. And so the schedules which were in the EPC and the associated cash flow that goes with them would be changed. They

wouldn't be meaningless because a lot of that work would be -- you can use that same information to move it in time.

Q. So my question -- and I understand. That's a fair answer to my question. But with respect to meeting a 2016 date, not achievable if you had to do the LWA work inside of the COL; is that correct?

A. It is correct to say that without an LWA approval in advance of the COL, the schedule that's in the current EPC could not be executed as it exists.

Q. Okay. And there is no way that you would proceed under an EPC with -- let me strike that question.

So having determined that -- well, we've established that the LWA was critical to meeting the schedule that you negotiated in your EPC; is that correct?

A. That's correct.

Q. Okay. That in turn affected your negotiations -- well, let me say this. That in turn affected your ability to lock down joint owner commitments; is that correct?

A. No. I don't see the connection you're making. I don't understand your question.

Q. Okay. Negotiating towards certain milestones

within the EPC drove your ability to get commitments from joint owners; is that correct?

A. I believe I understand your question is is the, was the timing and the ultimate execution of the EPC related to the timing and execution of joint owner agreements?

Q. Yes.

A. Is that your question?

Q. That's my question.

A. The answer is those are linked together, and we would expect that the EPC would be executed and then you would follow that with the joint owners' agreements. And so they are linked in that perspective.

Q. Okay. Is it fair to say that there's kind of a domino analogy? Is it the LWA being done at the time you assumed is linked to the assumptions about when, about how you structure your EPC that you're going to agree to, which is also then linked to what you can negotiate with joint owners?

A. I don't agree with the term "domino." But it is accurate to say that the EPC considered the LWA as part of the regulatory approval, and so the schedules in the EPC reflected the ability to, to complete certain work in advance of first concrete as authorized by the NRC under an LWA. And then following through with that,

then obviously the final execution of the EPC, as I said earlier, that is linked to the joint owner agreements.

Q. Okay. Well, if you -- your testimony has been that absent execution of an EPC, you could not get legal commitments from joint owners for the LNP project.

A. My testimony is, just to be accurate, is that we, it was our intention to execute the EPC. And in advance of that, we would have negotiations with joint owners. And then once the EPC was executed, that would then afford the ability to close the joint owner negotiations.

Q. Okay. Were any joint owners willing to sign a binding commitment to the project without knowing what the EPC agreement would look like and execute it -- without seeing an executed EPC?

A. I was not involved directly in those negotiations, so I cannot answer your question.

Q. Okay.

A. I cannot answer that.

Q. So that might be better asked to Mr. Lyash?

A. That would be correct.

Q. Okay. So is it -- it's true, is it not, that your testimony before this Commission is that the NRC's determination on an LWA is the sole cause for the delay in LNP schedule?

A. It is my, it is my testimony that the LWA determination by the NRC necessarily drives a schedule shift in the Levy project.

Q. And when you -- I asked NRC's determination. I think in your testimony you characterize it as the NRC staff's determination. Is there a difference?

A. In this case I would not characterize it. When I refer to NRC or NRC staff, I'm talking about the collective NRC organization.

Q. Okay. And do the Commissioners at the NRC make, have any role in deciding whether or not they're going to -- or the schedule of the LWA?

A. In this particular case, no, the Commissioners were not involved in this determination of whether an LWA would be granted in advance of the COL. That's done at the staff level.

Q. Okay. That's something that's delegated to them?

A. It's their responsibility. It's not necessarily a delegation.

Q. Okay. And you also assert or testify that you did not know that the NRC staff would decide that it would review the LWA concurrently with a COL; is that correct?

A. It is correct. We absolutely had no previous

insight or knowledge that the NRC would not grant an LWA in advance of the COL prior to January 23rd, 2009.

Q. Okay. And specifically your testimony is that your first indication that the NRC staff would do so, which is place the review of the LWA inside of the COL review, was on January 23rd, 2009, and not a, not a minute sooner?

A. That is correct.

Q. Okay. And by saying this, are you also testifying that you could not reasonably have known that this would be the outcome, this meaning the decision you got from the NRC staff on January 23rd?

A. Yes. I am testifying that I would not reasonably have known that outcome based on the ongoing interactions we had with the NRC and the actions that they were taking as late as December 4th of 2009 (sic.) where our project manager, his name was Brian Anderson, made public statements about the length it takes for the entire review process for an LWA.

Q. Okay. Now I'm trying to limit my questioning to --

COMMISSIONER EDGAR: Mr. Rehwinkel, just a moment.

MR. REHWINKEL: Okay.

COMMISSIONER EDGAR: Commissioner.

COMMISSIONER SKOP: Just potentially on the record, I believe the date you said was December 2009. I don't think we've got there yet. I thought that you might have --

THE WITNESS: Thank you, Commissioner. December 4th, 2008.

BY MR. REHWINKEL:

Q. Now just to be clear, and I'm limiting my cross-examination to your direct testimony --

A. I understand.

Q. -- and I'm not asking you to not, to act like you don't know certain things. But what you just mentioned, December 4th, 2008, that appears nowhere in your direct testimony; is that correct?

A. That is correct.

Q. Okay. And you did not mention that date in your deposition that I took on December -- on July 2nd, 2008, did you?

A. That is correct.

Q. Okay. And that deposition lasted about eight hours; correct?

A. About nine.

Q. Nine? Okay. That is not a precursor to how long this is going to take, hopefully.

(Laughter.)

You also contend in your testimony here that you reasonably believed that the NRC staff could review the application for the LWA because you put it together in 18 months, and that they should be able to look at it and make a determination before -- in what time period?

A. The time period would be approximately 30 months. And let me amplify what you just said.

What we thought was based on the announcement of the site in December 2006 through the period that we submitted our application in July 2008, about 18 months, we investigated the site, we drilled over 108 borings and selected soil samples and core samples. We did geotechnical analysis of that site, foundation design, we completed all that work in 18 months and handed over that analysis to the NRC staff as part of our submittal. So we reasonably expected for the NRC to be able to complete their LWA review in the, in the time frame we requested in the letter that we submitted July of 2008.

Q. Okay. And when you say you did the analysis over that 18-month period, it's not your testimony that you handed over every bit of analysis that you did for site characterization, et cetera, to the NRC staff; is that right?

A. No, that's not what I meant. As you know, the application itself is a summary of analysis. And so

what we do is we make available through requests for additional informations, or RAIs, analysis that they request on demand, the basis for some summary statement or some analysis summary that shows up in the application itself.

Q. Okay.

A. But the point is that work was done and available to support that application going in July 2008.

Q. I understand. Thank you.

You've also testified that you believed that the fact that dewatering and excavation measures have been done elsewhere in Florida on a similar scale under similar conditions supported your view that the timeline you just described, a 30-month review, could be accomplished; is that correct?

A. That was pertinent, yes. That is correct. That is pertinent information to this decision-making because there are lots of examples of this being done. And as you'll see in the rebuttal testimony, I have an exhibit that lists some of those for convenience.

Q. Now just for the record, none of those sites involved nuclear facilities or where there was public safety issues being reviewed in a nuclear power plant environment; is that correct?

A. Your statement is not correct because public safety is not a nuclear issue. So, for example, the work done at the Capitol building when they did the expansion for the visitor center, which used dewatering techniques of diaphragm walls, that's certainly public safety. But in the context of a nuclear application and protection of the public health and safety by nuclear reasons, I'm not aware of a site that had a dewatering while grouting configuration like this.

Q. Thank you. Is it also your testimony or can I glean from your testimony that the perception of the ability of the NRC staff to meet this 30-month time frame was PEF's management's collective belief as well?

A. Ask your question again.

Q. Okay. Yeah. Let me ask it, let me ask it a little bit different way.

All of the things that we've reviewed that influence your belief that the NRC staff could meet this 30-month time frame, was that the unanimous collective belief of PEF's management?

A. I don't know if the right phrase is "unanimous."

The way this process works is we, my organization is involved in industry groups and licensing interactions with the NRC. And we provide

recommendations and information to our senior management, and they depend on us for that information. So to say it's unanimous is not the right characterization of how this works. It's an informed process where we make recommendations.

Q. It is true, is it not, that no one in management challenged the assessment that the 30-month schedule could be met?

A. I'm not sure that the word "challenged" is the correct word. We discussed it, we had questions and back and forth dialogue. And based on the reasonableness of what we had heard from industry interactions and NRC statements, we believed that was representative of what would actually happen with an LWA execution.

Q. When you say we had back and forth dialogue, are you talking about within your organization or above with the people that you reported to?

A. When, when I talk about back and forth dialogue, I'm talking about as I interfaced with my senior management and the leadership of our company. As we talk about subjects, there's a dialogue back and forth on various things and we discuss those.

Q. Do you have with you, and I'm not going to ask you about your rebuttal testimony, but do you have with

you your rebuttal testimony and Exhibit GM-7?

A. I do.

Q. Do I have it? I just had it.

Can I ask you to turn -- well, first of all, are you familiar with what GM-7 is?

A. Yes, I am.

Q. Is this a document that you were involved in the preparation of?

A. Yes, it is.

Q. Okay. Can I ask you to turn to Page 4 of 6?

A. I'm there.

Q. Okay. Now this is, this is an interrogatory that, that purports, the answer purports to describe all discussions that the company had with the NRC prior to and following the submission of the LWA.

A. That is correct.

Q. Okay. Now were you present at, at any of these, any meetings that are described here?

A. Yes. I was present at some of those meetings, but not all of them. And I was present on some of the calls that are in here.

Q. Can you tell me which ones?

A. So, for an example, I would have been at the September 12th call, I believe I was there. Certainly the January 23rd call I was on. There was management

meetings in here that I was involved in. So different ones. For example, I was at the February 20th meeting as an example. So not all, but some of those meetings I was present at. And certainly the one that was the most significant was the January 23rd, 2009. I was there.

Q. You mean you were on the phone?

A. I was on the phone. Correct.

Q. Okay. But you filed your LWA on September 12th; is that correct? You're -- let me, let me step back.

You supplemented your LWA on September 12th, 2008; is that correct?

A. Correct. We filed as part of our COLA application an LWA request in July 2008, and we then updated that request in a September 12th submittal. And we had a call September 5th with the NRC prior to that submittal.

Q. The September 12th supplement included in the LWA the dewatering and permeation grouting aspects of what became your LWA request; is that correct?

A. The -- it is correct to say that those two were added as part of the LWA scope, and then there was scope that was removed from the original LWA request also.

Q. The dewatering, the, the installation of the

wall and the, the permeation grouting to prepare a bottom for the excavated pit were the crucial parts of the LWA; is that correct?

A. It's not correct the way you phrased it. The dewatering is not an NRC LWA activity. The installation of the diaphragm wall and the installation of the permeation grouting were added per the NRC's request and were part of the scope. However, dewatering and excavation is not part of the scope of LWA.

Q. Okay. So what I should have asked you is were the diaphragm wall and the permeation grouting aspects of the LWA the crucial aspects of the LWA in order to meet your, your 2016 COD?

A. They were important, but I wouldn't use the word "crucial" because what we did when this decision was made to revise and update the September 12th, 2008, letter to the NRC reducing scope of the LWA and adding scope to it, we then went back to our preconstruction logic schedule and worked on how we could take the time back out associated with this change and we were able to overlap certain activities and still achieve an in-service date of mid 2016 by overlapping some of the work for the dewatering wall installation and the grout installation.

Q. Okay. But once the permeation, permeation

grouting and the diaphragm wall were added to the LWA, you could not do those activities without authorization in the, in the LWA; is that correct?

A. That is correct. Without the LWA being subsequently changed to remove those, we were not allowed to install those two items without prior LWA issuance.

Q. Okay. So once those items were put inside of the LWA and dependent upon NRC authorization to proceed, they became crucial to achieve in an LWA in order to meet your 2016 COD; is that correct?

A. Again, your word "crucial," it is -- I wouldn't characterize it as any more crucial than the placement of the engineered backfill, which is part of that same scope of the LWA. It became an important component of the LWA scope that had to be considered in the schedule development.

Q. In the meetings that are described in GM-7 after September 12, 2008, that would be the October 1 call; is that correct?

A. Yes.

Q. October 6th is just a letter -- not just, but it is a letter. It's not a meeting.

A. It's not a meeting.

Q. Are those the only two meetings post

September 12th, 2008, that deal with communications about the LWA schedule?

A. From our --

Q. Between the company and the NRC?

A. Right. From our recollection, as we created this interrogatory response, we have an ongoing dialogue with the NRC routinely, but these are the dates that we remember discussions concerning LWA and that's why these were added on to this schedule. But there were discussions in between these or unrelated topics on these same dates that could have occurred because we have a project manager who we interface with routinely.

Q. Okay. Can you tell me the dates of those additional --

A. I cannot, sir, because they're so frequent that it's -- there are calls routinely made, so I cannot tell, tell you those.

Q. Okay. And you mentioned a December 4th statement by the NRC. You didn't include this on this, this interrogatory response for what reason?

A. We did not include it because we had not identified that in his transcript at the time we created this response. We certainly would have otherwise. And I would tell you the reason that's the case is we had many interactions with the NRC all throughout 2008. And

when the NRC project manager made that statement that the entire LWA review process could be completed in a ballpark 24 months, we didn't consider it a remarkable statement. It's what we would expect him to say, so we didn't remember him saying it in this public forum in response to a public question. So as we created this interrogatory response, it did not, you know, we didn't remember that as a key event, and it was discovered as part of our preparation of our rebuttal testimony in a transcript.

Q. Is it, is it true that Mr. Thompson told you about it?

A. It is true that Mr. Thompson found it in the transcript --

Q. Okay.

A. -- of the public meeting.

Q. Mr. Thompson was not advising you at any point in time about the filing of the LWA, was he?

A. No.

Q. Okay. Isn't it true that after you filed the LWA or nearing time of the filing of the LWA supplemental on September 12th that company officials met with senior NRC officials and told them that they were asking for an aggressive schedule for the COL including the LWA, the environmental impact statement

and the safety report?

A. Yes. It is correct to say that senior, that senior management in our company met with NRC senior officials in the September time frame.

Q. Is it also correct that they said that the, that the schedule was aggressive?

A. At the time -- I was present at that meeting. I don't remember the exact language, but I think they probably did acknowledge that we were asking for an aggressive schedule and they were reviewing it.

Q. And by aggressive, I mean it was aggressive with respect to the typical milestones that you would expect to be approved by the NRC in their review of a, of a COLA and LWA?

A. No. Specifically I would consider it to be aggressive with respect to the EIS schedule. The LWA approval requires an EIS or a partial EIS. And in our company's decision-making, we chose to have a full EIS available in support of the LWA decision. So we knew that the EIS constrained the LWA, so the aggressive date we were particularly asking for related to an EIS. That would typically take approximately 24 months, and we were asking for something less than that so the EIS would be available to support an LWA decision.

Q. Would you agree that the company -- wouldn't

you agree that the company recognized that they were requesting an aggressive schedule not for just one of the milestones but generally for the review schedule?

A. No, I would not agree with that.

Q. You wouldn't agree with that?

A. No.

Q. You wouldn't agree that you were asking for delivery of each of the LWA, the environmental impact statement and the COLA at aggressive time points in what you thought would be a typical consideration timeline?

A. No, and let me explain why. Again, we announced our site December 2006. We developed a full application and submitted it July 2008, in about 18 months. And so the overall time frame for the COL we requested and for those timeframes for the LWA and EIS we thought were reasonable considering the amount of time it took us to conclude our activities and deliver that analysis, a summary analysis to them.

Q. Okay. Did the NRC staff think your schedule was aggressive?

A. Are you asking me did they say that?

Q. Yes.

A. I don't recall if they said those specific words. I think they probably did with regard to the EIS because it's typically 24 months.

Q. So would you agree with the statement that the ultimate COLA issue that you were asking for was a, was a relatively aggressive set of milestones?

A. No, I wouldn't agree. With the overall COL date?

Q. Yes.

A. No, I would not agree with that. Again, put in perspective, we developed our application fully in 18 months. And from the period of July of 2008 through what we were asking for, which was, what, December of 2011 or January of 2012, that's almost 42 months. And so we did not think that was unreasonable.

MR. REHWINKEL: Okay. Commissioner, Madam Chairman, I have a line of questioning that I am about to go into that involves use of cross-examination exhibits. And it's almost 1:00. Would this be a good time?

COMMISSIONER EDGAR: Yes, sir. I think that you and I are thinking along the same line. I was just going to ask you if this might be an appropriate breaking spot.

MR. REHWINKEL: Yes.

COMMISSIONER EDGAR: So if -- you know, it may be helpful on the lunch break to go ahead and pass out documents so that we have them all before us and we can

go through and mark them at the beginning. But it is your pleasure, your, your cross.

MR. REHWINKEL: I think what I would like to do, since they are, 90 percent of them are red, confidential --

COMMISSIONER EDGAR: Oh, I did not, I did not realize that. Okay.

MR. REHWINKEL: I will, I will do that though right before we, when we get the one-minute warning or whatever, we can do it then so we can make sure that everything is safeguarded correctly.

COMMISSIONER EDGAR: Okay. Thank you. We will, again, of course, work with you and all the parties to do that.

All right. We are going on lunch break until 2:15. We are on recess.

(Recess taken.)

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

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

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

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

DATED THIS 10th day of September, 2009.

Linda Boles

LINDA BOLES, RPR, CRR
FPSC Official Commission Reporter
(850) 413-6734