BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 110009-EI

In the Matter of:

NUCLEAR COST RECOVERY CLAUSE.
_________________________________/

VOLUME 10

Pages 1531 through 1656

PROCEEDINGS: HEARING

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

DATE: Tuesday, August 16, 2011

TIME: Commenced at 10:58 a.m.
Concluded at 1:06 p.m.

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

REPORTED BY: LINDA BOLES, RPR, CRR
Official FPSC Reporter
(850) 413-6732

APPEARANCES: (As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

NUMBER:	ID.	ADMTD.
149		1654
150		1654
151		1654
152		1654
153		1654
183		1654
184		1654
185		1654

P R O C E E D I N G S

(Transcript follows in sequence from Volume 9.)

CHAIRMAN GRAHAM: Okay. I'm sorry, Progress. We need to swear witnesses. If I can get all the witnesses that are here to stand and raise your right hand.

(Witnesses collectively sworn.)

MS. HUHTA: Progress would call Thomas G. Foster to the stand.

MR. YOUNG: Mr. Chairman, as Mr. Foster comes to the stand, Staff would note that witness summaries, if any, shall not exceed five minutes per witness for each petition, and --

CHAIRMAN GRAHAM: If I may, opening statements -- I'm sorry. Yeah, your, your summary is only going to be five minutes. During the cross-examination let's kind of stay away from being duplicative and repetitive. And I will let the editorializing go on until one of you guys decide that you want to object. And when a witness answers a yes/no question, please allow them time to at least elaborate a little bit.

That all being said, ma'am.

MS. HUHTA: Thank you.

WILLIAM G. FOSTER

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

DIRECT EXAMINATION

BY MS. HUHTA:

Q Mr. Foster, will you please introduce yourself to the Commission and provide your business address.

A Yes. I'm Thomas Geoffrey Foster, and I'm at 299 First Avenue North, St. Petersburg, Florida.

Q And you have already been sworn in as a witness, correct?

A Yes.

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

A I'm the Supervisor of Regulatory Planning for Progress Energy.

Q Have you prefiled direct and rebuttal testimony in this proceeding?

A Yes.

Q And do you have that August 12th, 2011, and July 25th, 2011, direct and rebuttal testimony with you today?

A Yes.

Q Do you have any changes to make to this prefiled testimony?

A No.

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

A Yes.

MS. HUHTA: Chairman, we request that the prefiled direct testimony of Mr. Foster dated August 12th, 2011, be moved in evidence as if it was read in the record today, as well as the prefiled rebuttal testimony of Mr. Foster, dated July 25th, 2011.

CHAIRMAN GRAHAM: We will enter Mr. Foster's direct and rebuttal testimony into the record today as if as though read.

MS. HUHTA: Thank you.

IN RE: NUCLEAR COST RECOVERY CLAUSE

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 110009-EI

DIRECT TESTIMONY OF THOMAS G. FOSTER IN SUPPORT OF ESTIMATED/ACTUAL, PROJECTION AND TRUE-UP TO ORIGINAL COSTS

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Thomas G. Foster. My business address is 299 First Avenue North, St. Petersburg, FL 33701.

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

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

Q. What are your responsibilities in that position?

A. I am responsible for regulatory planning and cost recovery for Progress Energy Florida, Inc. ("PEF"). These responsibilities include: regulatory financial reports; and analysis of state, federal and local regulations and their impact on PEF. In this capacity, I am also responsible for the Levy County Nuclear Project ("LNP") and Crystal River Unit 3 ("CR3") Uprate Project Cost Recovery Actual/Estimated, Projection and True-up to Original filings, made as part of this docket, in accordance with Rule 25-6.0423, Florida Administrative Code (F.A.C.).

Q. Please describe your educational background and professional experience.

A. I joined Progress Energy on October 31, 2005 as a Senior Financial analyst in the Regulatory group. In that capacity I supported the preparation of testimony and exhibits associated with various Dockets. In late 2008, I was promoted to Supervisor Regulatory Planning. Prior to working at Progress I was the Supervisor in the Fixed Asset group at Eckerd Drug. In this role I was responsible for ensuring proper accounting for all fixed assets as well as various other accounting responsibilities. I have 6 years of experience related to the operation and maintenance of power plants obtained while serving in the United States Navy as a Nuclear operator. I received a Bachelors of Science degree in Nuclear Engineering Technology from Thomas Edison State College. I received a Masters of Business Administration with a focus on finance from the University of South Florida and I am a Certified Public Accountant in the State of Florida.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present, for Commission review and approval, Progress Energy Florida's Estimated/Actual costs associated with the LNP and CR3 Uprate activities for the period January 2011 through December 2011, projected costs for the period January 2012 through December 2012, and the total estimated revenue requirements for 2012 for purposes of setting 2012 rates in the Capacity Cost Recovery Clause ("CCRC"). On May 2, 2011, PEF filed testimony and schedules that were true and accurate at the time it was filed in accordance with the requirements of the Nuclear Cost Recovery Statute and Rule. Subsequent to meeting these requirements, PEF filed a Motion to defer making a finding of reasonableness on the CR3 Uprate project 2011 and 2012 projected spend and feasibility until the 2012 nuclear cost recovery clause ("NCRC") Docket. Consistent with PEF's Motion to defer the reasonableness determination on 2011 and 2012 CR3 Uprate spend, the revenue requirements PEF is requesting recovery of in 2012 related to the CR3 Uprate project are associated with spend incurred prior to 2011. As stated in PEF's motion, spend in 2011 and 2012 on the CR3 Uprate project will still be tracked in actual costs and accrue a carrying cost at the appropriate rate until recovered in rates after the Commission and all parties have had the opportunity to review PEF's updated feasibility analysis and cost projections for the CR3 Uprate project in the 2012 NCRC Docket.

Q. Are you sponsoring any exhibits in support of your testimony?

A. Yes. I am sponsoring sections of the following exhibits, which were prepared under my supervision, and that now reflect the impacts of PEF's Motion as provided in response to Staff's 3rd Request for Production of Documents, Question 7:

- Exhibit No. ___ (TGF-1), consisting of Schedules AE-1 through AE-7B of the Nuclear Filing Requirements ("NFRs"), which reflect PEF's retail revenue requirements for the LNP from January 2011 through December 2011. I am sponsoring Schedules AE-1 through AE-6, and Appendices A through F and Ms. Hardison will be co-sponsoring portions of Schedules AE-4, AE-4A, and AE-6 and sponsoring Schedules AE-6A through AE-7B.

- Exhibit No. ___ (TGF-2), consisting of Schedules P-1 through P-8 of the NFRs, which reflect PEF's retail revenue requirements for the LNP from January 2012 through December 2012. I am sponsoring Schedules P-1 through P-6.3, P-8, and Appendices A through F and Ms. Hardison will be co-sponsoring portions of Schedule P-4, P-6 and sponsoring Schedules P-6A through P-7B.
- Exhibit No. ___ (TGF-3), consisting of Schedules TOR-1 through TOR-7, which reflect the total project estimated costs for the LNP. I am sponsoring Schedules TOR-1 through TOR-3 and co-sponsoring portions of TOR-4 and TOR-6. Ms. Hardison will be co-sponsoring Schedules TOR-4, 6 and 6A. Mr. Elnitsky will be co-sponsoring portions of TOR-6 and sponsoring TOR-7.
- Exhibit No. ___ (TGF-4),consisting of Schedules AE-1 through AE-7B of the NFRs, which reflect PEF's retail revenue requirements for the CR3 Uprate Project from January 2011 through December 2011, consistent with PEF's Motion to defer the reasonableness of the CR3 Uprate project 2011 spend to the 2012 NCRC docket. I am sponsoring Schedules AE-1 through AE-6.3, and Appendices A through E. Mr. Franke will be co-sponsoring Schedules AE-4, AE-4A, AE–6.3, and Appendix B and sponsoring Schedules AE-6A.3 through AE-7B.
- Exhibit No. ___ (TGF-5), consisting of Schedules P-1 through P-8 of the NFRs, which reflect PEF's retail revenue requirements for the CR3 Uprate Project from January 2012 through December 2012, consistent with PEF's Motion to defer the reasonableness of the CR3 Uprate project 2012 spend to

the 2012 NCRC docket. I am sponsoring Schedules P-1 through P-6.3, P-8, and Appendices A through D. Mr. Franke will be co-sponsoring Schedules P-4 and P-6.3 and sponsoring Schedules P-6A.3 through P-7B.

These exhibits are true and accurate.

Q. What are Schedules AE-1 through AE-7B?

A. Information now contained in some of the listed schedules for the CR3 Uprate project are for 2012 ratemaking purposes only consistent with PEF's Motion to defer and may not reflect anticipated spend. Schedules AE-1 through AE-7B are:

- Schedule AE-1 reflects the actual/estimated of total retail revenue requirements for the period.
- Schedule AE-2.2 reflects the calculation of the actual/estimated preconstruction costs for the period.
- Schedule AE-2.3 reflects the calculation of the actual/estimated carrying costs on construction expenditures for the period.
- Schedule AE-3A reflects a calculation of actual/estimated deferred tax carrying costs for the period.
- Schedule AE-3B reflects the calculation of the actual/estimated construction period interest for the period.
- Schedule AE-4 reflects CCRC recoverable Operations and Maintenance ("O&M") expenditures for the period.
- Schedule AE-4A reflects CCRC recoverable O&M expenditure variance explanations for the period.
- Schedule AE-5 reflects other recoverable O&M expenditures for the period.

- Schedule AE-6 reflects actual/estimated monthly expenditures for site selection, preconstruction and construction costs for the period.
- Schedule AE-6A reflects descriptions of the major tasks.
- Schedule AE-6B reflects annual variance explanations.
- Schedule AE-7 reflects contracts executed in excess of $1.0 million.
- Schedule AE-7A reflects details pertaining to the contracts executed in excess of $1.0 million.
- Schedule AE-7B reflects contracts executed in excess of $250,000, yet less than $1.0 million.

Q. What are the Levy AE-Appendices A through F?

A. The Levy AE Appendices are:

- Appendix A reflects the reconciliation of the beginning balances on Schedules AE-2.2 thru AE-4.
- Appendix B reflects the new jurisdictional separation factors.
- Appendix C provides support for the 2011 deferred tax asset ("DTA") activity.
- Appendix D reflects the approved Rate Management amortization schedule through YE 2011.
- Appendix E reflects the Schedule AE2.2 support.
- Appendix F reflects the reconciliation of the 2009/2010 Over/ (Under) recovery by cost category.

Q. What are the CR3 Uprate Appendices associated with Schedules AE-1 through AE-6?

A. Information now contained in some of the listed schedules for the CR3 Uprate project are for 2012 ratemaking purposes only consistent with PEF's Motion to defer and may not reflect anticipated spend. The CR3 Uprate Appendices associated with Schedules AE-1 through AE-6 are:

- Appendix A reflects the reconciliation of the beginning balances on Schedules AE-2.3 thru AE-4.
- Appendix B reflects the reconciliation of the beginning construction work in progress ("CWIP") balance for those assets placed into rate base that are not yet in service as detailed on AE-2.3.
- Appendix C reflects the new jurisdictional separation factors.
- Appendix D reflects the revenue requirement calculation adjustment for those assets not yet placed into service but which are currently collected in base rates.
- Appendix E reflects the reconciliation of the 2009/2010 Over/ (Under) recovery by cost category.

Q. What are Schedules P-1 through P-8?

A. Information now contained in some of the listed schedules for the CR3 Uprate project are for 2012 ratemaking purposes only consistent with PEF's Motion to defer and may not reflect anticipated spend. Schedules P-1 through P-8 are:

- Schedule P-1 reflects the projection of total retail revenue requirements for the period as well as true-ups for prior periods.

- Schedule P-2.2 reflects the calculation of the projected preconstruction costs for the period.
- Schedule P-2.3 reflects the calculation of the projected carrying costs on construction expenditures for the period.
- Schedule P-3A reflects a calculation of the projected deferred tax carrying costs for the period.
- Schedule P-3B reflects the calculation of the projected construction period interest for the period.
- Schedule P-4 reflects CCRC recoverable O&M expenditures for the period.
- Schedule P-5 reflects other recoverable O&M expenditures for the period.
- Schedule P-6 reflects projected monthly expenditures for site selection, preconstruction and construction costs for the period.
- Schedule P-6A reflects descriptions of the major tasks.
- Schedule P-7 reflects contracts executed in excess of $1.0 million.
- Schedule P-7A reflects details pertaining to the contracts executed in excess of $1.0 million.
- Schedule P-7B reflects contracts executed in excess of $250,000, yet less than $1.0 million.
- Schedule P-8 reflects the estimated rate impact.

Q. What are the Levy Appendices associated with Schedules P-1 through P-8?

A. The Levy Appendices associated with Schedules P-1 through P-8 are:

- Appendix A reflects the reconciliation of the beginning balance of Schedule P-2.2 through P-4.

- Appendix B reflects the new jurisdictional separation factors.
- Appendix C reflects the supporting schedules to P-3A.
- Appendix D reflects the rate management plan amortization schedule.
- Appendix E reflects the Schedule P-2.2 support.
- Appendix F reflects the reconciliation of the 2011 over/under recovery by cost category.

Q. What are the CR3 Uprate Appendices associated with Schedules P-1 through P-8?

A. Information now contained in some of the listed schedules for the CR3 Uprate project are for 2012 ratemaking purposes only consistent with PEF's Motion to defer and may not reflect anticipated spend. The CR3 Uprate Appendices associated with Schedules P-1 through P-8 are:

- Appendix A reflects the reconciliation of the beginning balances for schedules P-2 through P-4.
- Appendix B provides support for the retail portion of dollars that have been moved to base rates.
- Appendix C reflects the new jurisdictional separation factors.
- Appendix D reflects the revenue requirement calculation adjustment for those assets not yet placed into service but which are currently collected in base rates.

Q. What are Schedules TOR-1 through TOR-7?

A. Schedules TOR-1 through TOR-7 are:

- Schedule TOR-1 reflects the jurisdictional amounts used to calculate the final true up, projection, deferrals and recovery of deferrals.
- Schedule TOR-2 reflects a summary of the actual to date and projected costs for the duration of the project compared to what was originally filed.
- Schedule TOR-3 reflects the calculation of the actual to date and projected total NCRC retail revenue requirement for the duration of the project.
- Schedule TOR-4 reflects CCRC recoverable actual to date and projected O&M expenditures for the duration of the project.
- Schedule TOR-6 reflects actual to date and projected annual expenditures for site selection, preconstruction and construction costs for the duration of the project.
- Schedule TOR-6A reflects descriptions of the major tasks.
- Schedule TOR-7 reflects a summary of project cost.

III. COST RECOVERY FOR THE LEVY COUNTY NUCLEAR PROJECT

A. ACTUAL/ESTIMATED LNP COSTS

Q. What are the total projected revenue requirements for the Levy Nuclear Project for the calendar year ended December 2011?

A. The total projected revenue requirements for the LNP are $81 million for the calendar year ended December 2011, as reflected on Schedule AE-1, page 2 of 2, line 5. This amount includes $49.9 million in Preconstruction costs, $12.9 million for the carrying costs on the construction balance, $1.4 million in recoverable O&M costs and the carrying costs on the deferred tax asset of $16.8 million. These amounts were calculated in accordance with the provisions of Rule 25-6.0423, F.A.C.

Q. What is the carrying cost rate used in Schedules AE-2.1 through AE-2.3?

A. The carrying cost rate used on Schedule AE-2 through AE-2.3 is 8.848%. On a pre-tax basis, the rate is 13.13%. This rate represents the approved rate as of June 12, 2007, and is the appropriate rate to use consistent with Rule 25-6.0423(5)(b), F.A.C. The rate was approved by the Commission in Order No. PSC-05-0945-S-EI in Docket No. 050078-EI. The annual rate was adjusted to a monthly rate consistent with the AFUDC rule, Rule 25-6.0141, Item (3), F.A.C.

Q. What is included in the Preconstruction Plant & Carrying Cost for the Period on Schedule AE-2.2, Line 10?

A. The annual total of $49.9 million reflected on Schedule AE-2.2, line 10, page 2 of 2 represents the total preconstruction costs for 2011. This amount includes expenditures totaling $31.2 million along with the carrying cost on the average net unamortized plant eligible for return. The total return requirements of $18.6 million presented on line 9 represents the carrying costs on the average preconstruction balance.

Q. What is included in the Actual Estimated Carrying Costs for the Period on Schedule AE-2.3, line 9?

A. The total return requirements of $12.9 million on Schedule AE-2.3 at line 9 represents carrying costs on the average construction balance. The schedule starts with the 2011 beginning CWIP balance and adds the monthly construction expenditures and computes a return on the average monthly balance. The equity component of the return is grossed up for taxes to cover the income taxes that will need to be paid upon recovery in rates.

Q. What is included in Total Return Requirements on Schedule AE-3A.2, Line 12?

A. The twelve month total of $16.8 million on Schedule AE-3A.2, line 12, page 2 of 2 represents the carrying costs on the deferred tax asset balance. The deferred tax asset arises from the difference between the book and tax basis for the project. This difference is due primarily to the recovery of preconstruction and site selection costs prior to the plant going into service for tax purposes.

Q. What is included in the Recoverable O&M Expenditures on Schedule AE-4?

A. The expenses included on this schedule represent the O&M costs that the Company expects to incur in 2011 related to the LNP that PEF is seeking recovery of through the NCRC.

Q. What is included in the Recoverable O&M Variance Explanations on Schedule AE-4A?

A. The schedule provides explanations for the change in O&M costs from what the Company projected to incur in 2011 and actual estimated costs related to the LNP that PEF is seeking recovery of through the NCRC.

Q. What is Schedule AE-6 and what does it represent?

A. Schedule AE-6 reflects actual/estimated monthly expenditures for site selection, preconstruction, and construction costs by major task for 2011. This schedule includes both the Generation and Transmission costs. These costs have been adjusted to a cash basis for purposes of calculation of the carrying costs. We have also applied the appropriate jurisdictional separation factor to arrive at the total jurisdictional costs. These costs are further described in the testimony of witness Hardison.

Q. What are the total actual-estimated Preconstruction and Construction costs for 2011?

A. The total actual-estimated jurisdictional preconstruction costs for 2011 are $31.2 million. This consists of [redacted] in Generation costs and [redacted] for Transmission. The total actual-estimated jurisdictional construction costs for 2011 are $41.5 million. These costs consist of [redacted] in Generation costs and [redacted] in Transmission costs. The costs have been adjusted to a cash basis for purposes of calculating the carrying charge and the appropriate jurisdictional separation has been applied. A breakdown of these costs by major task is provided on Schedule AE-6.

Q. What was the source of the separation factors used in Schedule AE-6?

A. The jurisdictional separation factors are calculated based on the January 2011 sales forecast, using the Retail Jurisdictional Cost of Service methodology that was approved in the Final Order No. PSC-10-0131-FOF-EI in PEF's base rate proceeding in Docket No. 090079-EI.

Q. What is the estimated true-up for 2011 expected to be?

A. The total true-up is expected to be $5.8 million as can be seen on line 7 of Schedule AE-1.

B. LNP COST PROJECTIONS

Q. What are the projected total revenue requirements that PEF will recover in 2012?

A. PEF is requesting recovery of $135.4 million associated with LNP in 2012 as presented on Schedule P-1, line 10, page 2 of 2. This amount includes (i) projected total revenue requirements of $75.3 million for calendar year 2012; (ii) refund of the 2010 true-up of $60.8 million over-recovery and the actual/estimated true-up from 2010 of $5.8 million under-recovery; and (iii) the period collection of the Deferred Regulatory Asset of $115 million.

Q. What is included in the projected period Revenue Requirements for 2012?

A. The period revenue requirements of $75.3 million in 2012 as depicted on Schedule P-1, line 5 includes Preconstruction Costs of $36.8 million, carrying costs on the Construction balance of $16.3 million, recoverable O&M expenditures of $1.4 million, and the carrying costs on the deferred tax asset of $20.9 million.

Q. What is included in the Total Costs to be Recovered on Schedule P-2.2 Line 10?

A. The $36.8 million dollars included on line 10, page 2 of 2 includes the total projected Preconstruction costs and carrying costs on the average unamortized preconstruction balance for 2012.

Q. What is included in the Total Return Requirements on Schedule P-2.3, line 9?

A. The Total Return Requirements of $16.3 million depicted on this schedule represents carrying costs on the average construction balance. The schedule starts with the projected 2012 CWIP beginning balance and adds the monthly construction expenditures and computes the carrying charge on the average monthly balance. The equity component of the return is grossed up for taxes to cover the income taxes that will be paid upon recovery in rates.

Q. What is the carrying cost rate used in Schedule P-2.2 and P-2.3?

A. The carrying cost rate used on Schedule P-2.2 and P-2.3 is 8.848%. On a pre-tax basis, the rate is 13.13%. This rate represents the approved rate as of June 12, 2007, and is the appropriate rate to use consistent with Rule 25-6.0423(5)(b)1, F.A.C. The rate was approved by the Commission in Order No. PSC-05-0945-S-EI in Docket No. 050078-EI. The annual rate was adjusted to a monthly rate consistent with AFUDC rule, Rule 25-6.0141, Item (3), F.A.C.

REDACTED

Q. What is included in Total Return Requirements on Schedule P-3A.2, Line 11?

A. The twelve month total of $20.9 million on line 11, page 2 of 2 represents the carrying charge on the DTA balance. The deferred tax asset arises from the difference between the book and tax basis for the project. This difference is due to the recovery of the preconstruction costs. For tax purposes, preconstruction costs are recovered as tax depreciation when the plant goes into service and for book purposes they are recovered pursuant to the provisions of the Rule 25.6-0423, F.A.C., which creates a timing difference and this future tax benefit gives rise to a deferred tax asset.

Q. What are the total projected Preconstruction and Construction costs for 2012?

A. The total projected jurisdictional preconstruction costs for 2012 are $25.5 million. This consists of [redacted] in Generation costs and [redacted] for Transmission. The total projected jurisdictional construction costs for 2012 are $14.1 million. These costs consist of [redacted] in Generation costs and [redacted] in Transmission costs. The costs have been adjusted to a cash basis for purposes of calculating the carrying charge and the appropriate jurisdictional separation has been applied. A breakdown of these costs by major task is provided on Schedule P-6.

Q. What was the source of the separation factors used in Schedule P-6?

A. The jurisdictional separation factors are calculated based on the January 2011 sales forecast, using the Retail Jurisdictional Cost of Service methodology that was approved in the Final Order No. PSC-10-0131-FOF-EI in PEF's base rate proceeding in Docket No. 090079-EI.

Q. What is the estimated rate impact to the residential ratepayer expected to be in 2012?

A. As can be seen in Schedule P-8, based on 2012 forecasted billing determinants, the expected rate impact to the residential ratepayer is $4.47 per 1000 kWh beginning in January 2012 for the LNP.

C. LNP TRUE-UP TO ORIGINAL

Q. What do the TOR schedules reflect?

A. The TOR schedules reflect the total estimated costs of the LNP until the project is placed into service. Further details on the total project estimates are provided in Mr. Elnitsky's testimony. Schedule TOR-3 includes the estimated total NCRC revenue requirements through completion of the project. Total revenue requirements of $8.4 billion on Schedule TOR-3, line 6, are primarily comprised of the preconstruction costs, carrying charges on the construction balance and DTA, and CCRC recoverable O&M. This includes actual expenditures incurred through February 2011 and projections through 2023.

D. LNP RATE MANAGEMENT PLAN

Q. In Order No. PSC-09-0783-FOF-EI in Docket No. 090009-EI, the Commission required PEF to update its rate management plan that the Commission

approved in that Docket. What is PEF proposing in this Docket in relation to this plan?

A. In Order No. PSC-09-0783-FOF-EI, in Docket No. 090009-EI, the Commission approved PEF's proposed rate management plan and required PEF to file rate management plan testimony and schedules with its annual NCRC schedules to address any reconsideration of changes in the deferred amount and recovery schedule. For 2012 PEF is requesting the Commission approve recovery of the amortization of $115 million of the remaining deferred balance as well as the associated carrying costs of $15.1 million. As stated on page 46 of Order PSC-11-0095-FOF-EI, these amounts have already been approved for recovery but deferred in an effort to manage annual rate impacts.

Q. Have you provided schedules that show the impact of this proposed amortization as well as an update to the overall plan?

A. Yes. Appendix D attached to Exhibit TGF-2 provides an overview of PEF's updated rate management plan. Appendix E in Exhibit's TGF-1 and TGF-2 provide detail around the carrying charges being calculated on the unamortized regulatory asset balance. The schedules provided in this appendix disaggregate the total carrying costs included in schedule 2.2 into those associated with the deferred balance and those associated with other preconstruction activity.

Q. Why is PEF proposing to increase the amortization of the deferred balance in 2012 as compared to the original proposal from 2009?

A. In Order PSC-09-0783-FOF-EI at page 38, the Commission found that PEF should have the flexibility to manage rates and PEF should annually reconsider changes to the deferred amount and recovery schedule. Consistent with this Order, PEF has looked at both the short term and long term implications of the amortization schedule. In the short term, there is an opportunity to reduce the outstanding balance of already approved for recovery costs while still decreasing the overall NCRC rate from 2011 to 2012. This has the benefit of reducing the carrying costs to our customers over the next several years. Looking out into future years, it is apparent that once PEF receives the COL and gives Westinghouse a full notice to proceed, the estimated revenue requirements per year increase significantly. PEF believes it is appropriate to take advantage of this opportunity to amortize the deferred balance down faster considering the fact that this will still result in a decrease in the NCRC rate from 2011 to 2012, recognizing that rate impacts are expected to increase in 2013 and 2014, and understanding that this decreases the carrying costs the ratepayer will ultimately have to pay.

IV. COST RECOVERY FOR THE CRYSTAL RIVER 3 UPRATE PROJECT

A. ACTUAL/ESTIMATED CR3 UPRATE PROJECT COSTS

Q. What are the actual/estimated revenue requirements for the CR3 Uprate project for the 2011 calendar year?

A. Consistent with PEF's Motion to defer, the estimated total revenue requirements for the CR3 uprate project are $9.7 million for 2011 as reflected on Schedule AE-1, page 2 of 2, line 6. This amount includes $12.5 million in carrying costs on the project construction balance, a return on the deferred asset of $0.4 million, and as described more fully below, a $3.2 million credit for revenue requirements associated with assets going into service. These amounts were calculated in accordance with the provisions of Rule 25-6.0423, F.A.C.

Q. What does the credit within the Other Adjustment on line 5 of Schedule AE-1 represent?

A. The credit from January through December on line 5 of Schedule AE-1 consists primarily of the depreciation and property tax expense calculated on the phase 2 Uprate project assets transferred to base rates, but not yet placed in service due to the extended CR3 outage. As a result of the continued CR3 outage, and given the current uncertainty regarding the return to service of CR3, PEF is reflecting extension of this credit through the projection period.

Q. What is the carrying cost rate used in Schedule AE-2.3?

A. The carrying cost rate used on Schedule AE-2.3 is 8.848%. On a pre-tax basis, the rate is 13.13%. This rate represents the approved rate as of June 12, 2007, and is the appropriate rate to use consistent with Rule 25-6.0423(5)(b)1, F.A.C. The rate was approved by the Commission in Order No. PSC-05-0945-S-EI in Docket No. 050078-EI. The annual rate was adjusted to a monthly rate consistent with the AFUDC rule, Rule 25-6.0141, Item (3), F.A.C.

Q. What is included in the Total Return Requirements on Schedule AE-2.3, line 10?

A. Consistent with PEF's Motion to defer, the $12.5 million in Total Return Requirements in Schedule AE-2.3 represents the carrying costs on the average construction project balance which only include construction costs incurred prior to 2011. The dollars reflected on line 2 reflect the removal of assets placed in service. The adjustments on line 3 represent the amounts of Balance of Plant that will go in service when CR3 comes on-line. The Beginning Balance amount on line 5 reflects the actual amount of construction carrying costs that were under- recovered at the end of 2010. Line 6 represents the estimated amount of carrying costs that PEF expected to be unrecovered at the end of 2010.

Q. Can you explain the calculation of the return requirements on the Deferred Tax Asset on Schedule AE-3A, line 12?

A. Yes. We have included a return on the DTA that arises from differences between the tax basis and book basis of the project. The difference between the tax basis and book basis of the project is attributable to the difference between the interest that will be capitalized for tax purposes and the interest that will be capitalized for book purposes. We have included the carrying charge on the average deferred tax balance in the revenue requirements on this schedule.

Q. What is included in the Recoverable O&M Expenditures on Schedule AE-4?

A. Based on PEF's Motion to defer, PEF has removed all anticipated spend for 2012 ratemaking purposes. The amount shown in Schedule AE-4 is a credit to ratepayers due to an over-recovery of O&M related expenses from prior periods..

Q. What is Schedule AE-6 and what does it represent?

A. Schedule AE-6 reflects actual/estimated monthly expenditures for Construction costs for 2011. Consistent with PEF's Motion to defer, for 2012 ratemaking purposes, PEF is not reflecting any spend in 2011 on this schedule as the reasonableness of these costs is not being considered in this docket and they are, therefore, not being included in setting 2012 rates.

Q. What was the source of the separation factors used in Schedule AE-6?

A. The jurisdictional separation factors are calculated based on the January 2011 sales forecast, using the Retail Jurisdictional Cost of Service methodology that was approved in the Final Order No. PSC-10-0131-FOF-EI in PEF's base rate proceeding, in Docket No. 090079-EI.

Q. What are the actual/estimated costs incurred for period January 2011 through December 2011?

A. Consistent with PEF's Motion to defer, total capital expenditures for 2011 excluding carrying costs are not being considered for reasonableness in this docket and, therefore, they are not being included for ratemaking purposes. As such, PEF is not presenting any actual/estimated capital spend in 2011 in this docket.

B. CR3 UPRATE PROJECT COST PROJECTION

Q. What are the total projected revenue requirements for the CR3 Uprate project for the calendar year 2012?

A. Consistent with PEF's Motion to defer, PEF is requesting approval of total projected revenue requirements of $9.6 million for the calendar year ending December 2012 as reflected on Schedule P-1, line 6. The total revenue requirements to be collected in 2012 is $5.6 million and includes the $9.6 million referenced above as well as the 2010 true-up and 2011 estimated actual true-up of $4.0 million over-recovery.

Q. What is included in the revenue requirements for 2012?

A. The revenue requirements for the 2012 period of $9.6 million reflected on line 6 of Schedule P-1 includes $12.2 million for carrying charges on the cumulative construction balance which only include construction costs incurred prior to 2011, $0.7 million for the carrying charges on the deferred tax asset, and $3.3 million credit related to the revenue requirements on the assets placed in base rates that have not yet been placed into service.

Q. What is included in the Total Return Requirements on Schedule P-2.3, Line 9?

A. Consistent with PEF's Motion to defer, the $12.2 million in Total Return Requirements on Schedule P-2.3 represents the carrying costs on the average construction project balance which only include construction costs incurred prior to 2011.

Q. What is the carrying cost rate used in Schedule P-2.3?

A. The carrying cost rate used on Schedule P-2.3 is 8.848%. On a pre-tax basis, the rate is 13.13%. This rate represents the approved rate as of June 12, 2007, and is the appropriate rate to use consistent with Rule 25-6.0423(5)(b)1, F.A.C. The rate was approved by the Commission in Order No. PSC-05-0945-S-EI in Docket No. 050078-EI. The annual rate was adjusted to a monthly rate consistent with the AFUDC rule, FPSC Rule 25-6.0141, Item (3), F.A.C.

Q. Can you explain the calculation of the return requirements on the Deferred Tax Asset on Schedule P3-A, line 11?

A. Yes. We have included a return on the deferred tax asset that arises from differences between the tax basis and book basis of the project. The difference between the tax basis and book basis of the project is attributable to the difference between the interest that will be capitalized for tax purposes and the interest that will be capitalized for book purposes. We have included the carrying charge on the average deferred tax balance in the revenue requirements on this schedule.

Q. What is included in the Recoverable O&M Expenditures on Schedule P-4?

A. Based on PEF's Motion to defer, PEF has removed all anticipated spend for 2012 ratemaking purposes. The amount shown in Schedule P-4 is a credit to ratepayers due to an over-recovery of O&M related expenses from prior periods.

Q. What are the projected capital costs that will be incurred for the period January 2012 through December 2012?

A. Consistent with PEF's Motion to defer, total capital expenditures for 2012 excluding carrying costs are not being considered for reasonableness in this docket and, therefore, they are not included for ratemaking purposes. As such, PEF is not presenting any projected capital spend in 2012 in this docket.

Q. What was the source of the separation factors used in Schedule P-6?

A. The jurisdictional separation factors are calculated based on the January 2011 sales forecast, using the Retail Jurisdictional Cost of Service methodology that was approved in the Final Order No. PSC-10-0131-FOF-EI in PEF's base rate proceeding in Docket No. 090079-EI.

Q. What is the estimated rate impact to the residential ratepayer expected to be in 2012?

A. Consistent with PEF's Motion to defer, as can be seen in Schedule P-8, the expected rate impact to the residential ratepayer is $0.18 per 1000 kWh for the CR3 uprate project.

C. CR3 UPRATE PROJECT TRUE-UP TO ORIGINAL

Q. What do the TOR schedules reflect?

A. Consistent with PEF's Motion to defer, PEF has not updated these estimates with any material changes since the May 2, 2011 filing. These schedules will be updated in the 2012 NCRC docket as more information is known about the repair of CR3.

Q. Does this conclude your testimony?

A. Yes, it does.

IN RE: NUCLEAR COST RECOVERY CLAUSE

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 110009-EI

REBUTTAL TESTIMONY OF THOMAS G. FOSTER

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Thomas G. Foster. My business address is 299 First Avenue North, St. Petersburg, FL 33701.

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

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

Q. What are your responsibilities in that position?

A. I am responsible for regulatory planning and cost recovery for Progress Energy Florida, Inc. ("PEF"). These responsibilities include: regulatory financial reports; and analysis of state, federal and local regulations and their impact on PEF. In this capacity, I am also responsible for the Levy County Nuclear Project ("LNP") and Crystal River Unit 3 ("CR3") Uprate Project Cost Recovery Actual/Estimated, Projection and True-up to Original filings, made as part of this docket, in accordance with Rule 25-6.0423, Florida Administrative Code (F.A.C.).

Q. Please describe your educational background and professional experience.

A. I joined Progress Energy on October 31, 2005 as a Senior Financial analyst in the Regulatory group. In that capacity I supported the preparation of testimony and exhibits associated with various Dockets in front of the Florida Public Service Commission (the "Commission"). In late 2008, I was promoted to Supervisor Regulatory Planning. Prior to working at Progress I was the Supervisor in the Fixed Asset group at Eckerd Drug. In this role I was responsible for ensuring proper accounting for all fixed assets as well as various other accounting responsibilities. I have 6 years of experience related to the operation and maintenance of power plants obtained while serving in the United States Navy as a Nuclear operator. I received a Bachelors of Science degree in Nuclear Engineering Technology from Thomas Edison State College. I received a Masters of Business Administration with a focus on finance from the University of South Florida and I am a Certified Public Accountant in the State of Florida.

Q. Did you file direct testimony in this proceeding?

A. Yes, I did.

Q. Have you reviewed the Intervenor and Staff Witness Testimony in this Docket?

A. Yes. I reviewed this testimony and I provide rebuttal testimony to the testimony of William R. Jacobs, Jr., Ph.D. ("Jacobs") filed on behalf of the Office of Public Counsel ("OPC").

II. PURPOSE AND SUMMARY OF REBUTTAL TESTIMONY.

Q. What is the purpose and summary of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to provide clarification regarding the Company's proposed revisions to its rate management plan for the LNP and to correct what I perceive to be mischaracterizations in Jacobs' direct testimony regarding the proposed revisions to last years' rate management plan.

Q. Are you sponsoring any exhibits in support of your rebuttal testimony?

A. Yes. I am sponsoring the following exhibits, which were prepared under my supervision:

- Exhibit No. ___ (TGF-7), Selected Pages of Commission Order No. PSC-09-0783-FOF-EI related to the LNP rate management plan;
- Exhibit No. ____ (TGF-8), Selected Pages of Commission Order No. PSC-11-0095-FOF-EI related to the LNP rate management plan; and
- Exhibit No. ___ (TGF-9), Schedule showing rate impacts of PEF's proposed rate management plan compared to what they would be under the plan presented in 2010.

These exhibits are true and accurate.

Q. Has Jacobs accurately described PEF's updated Rate Management Plan and the history behind it?

A. No. There are several statements in Jacobs' testimony that mischaracterize the Commission's Orders on the LNP rate management and PEF's proposal itself.

First, he asserts that PEF is requesting accelerated recovery of the Commission approved plan. (See Jacobs Test., p. 19, l. 17). What he is mischaracterizing is the fact that the Commission has never evaluated or approved how much will be recovered in 2012 prior to this Docket No. 110009-EI. In 2010, the Commission declined to set a specific amortization schedule to be used for recovery of the deferred balance. Order No. PSC-11-0095-FOF-EI, p. 46 ("We note our approval of the rate management plan in Order No. PSC-09-0783FOF-EI did not set or require a particular amortization schedule be used for any recovery of the deferred balance."). In fact, in Docket No. 090009-EI, PEF had originally proposed a five year amortization schedule and Staff took the position that flexibility to manage rates should be retained and PEF should be permitted to annually reconsider changes to the recovery schedule. Order No. PSC-09-0783-FOF-EI, p. 38. Further, the Commission required PEF to file updated rate management plan testimony and schedules annually with its NCRC testimony filings. Id. This is exactly what PEF has done. For evidence of this, one needs only to read the relevant Orders. In Order No. PSC-09-0783-FOF-EI on page 38 the Commission decided:

> We agree that PEF's proposed rate management plan could provide relief to ratepayers by decreasing rate impact during 2010 and that PEF shall be permitted to defer recovery of costs that have been approved for recovery through the NCRC. However, while PEF's proposal suggests recovery of the deferred balance over a five-year period, we find that greater flexibility to manage rates shall be retained and that PEF shall be permitted to annually reconsider changes to the deferred amount and recovery schedule.
>
> ...
>
> Therefore, we approve a rate management plan whereby PEF will be permitted to defer recovery of certain approved site selection and preconstruction costs and then collect those costs

> during subsequent years. The deferred costs shall be treated as a regulatory asset with carrying charges applied pursuant to Section 366.93(1)(f), F.S., and Rule 25-6.0423(5)(a), F.A.C."

Thus, Jacobs has misinterpreted or mischaracterized these Orders by asserting the Commission approved a specific amortization schedule.

Second, on page 19, lines 16-19 of Jacobs' testimony, he asserts that PEF has proposed accelerating recovery of $115 million plus carrying charges. Thereafter, at Jacobs' deposition on July 15, 2011, it is my understanding that Jacobs corrected portions of his testimony regarding the rate management plan to reflect that PEF is actually asking for proposed accelerated recovery of approximately $55 million plus carrying costs, in addition to the $60 million plus carrying costs on the unrecovered investment as presented last year, not that PEF was accelerating recovery of $115 million plus carrying charges as he had previously testified. (See Jacobs 2011 Depo. Trans. p. 15:1-25; p. 16:1-25; p. 17:1-9). As such, the difference between what PEF had shown last year for 2012 and has requested this year is less than $55 million.

Third, beginning on page 19 line 25 and continuing on page 20 lines 1 through 6, Jacobs asserts that PEF is requesting to collect the remaining balance of the deferral in 2012. Jacobs also corrected this mischaracterization of PEF's proposal, acknowledging that PEF does not propose to collect the entire deferred balance in 2012 during his deposition. (See id.). As can be seen on Exhibit No. ___ (TGF-2), Appendix D, PEF is not requesting to recover all of the remaining deferred balance at the end of 2012.

Fourth, Jacobs speculates that the updated rate plan is driven by some plot to recover dollars and then cancel the plant. What he is forgetting is that these dollars have already been approved for recovery. Their collection is not contingent upon a continued project. As described in my May 2, 2011 direct testimony on pages 17-19, PEF has updated its rate management plan exactly as the Commission requested and when we considered the short and long term PEF believes it makes sense to recover more of the deferred amount in 2012 than what PEF had presented in 2010. In the short term, there is an opportunity to keep nuclear cost recovery clause ("NCRC") rates relatively stable (in fact slightly lower) in 2012 while reducing pressure on NCRC rates in the future. This makes a lot of sense when you consider the increased spend required in 2013 and beyond for the LNP. It also has the advantage of decreasing total carrying costs to the ratepayer.

Q. Can you describe what the variances in customer rate impact will be between the 2010 plan and revised plan?

A. Yes. This is illustrated in Exhibit No. __ (TGF-9) attached to my rebuttal testimony. Looking at the near term, one can see that the 2011 Levy impact on residential rates is $4.99 and the estimated 2012 impact under our updated rate management plan is $4.47. This is a decrease in rates from 2011 to 2012 of just over 10%. It is true that if you continue to defer more of what has already been approved as recoverable that 2012 rates will be even lower. However, PEF doesn't believe it is prudent to only consider the current year when updating this rate management plan. In 2013 and 2014, there is expected to be a significant increase in spending associated with the LNP. In this timeframe there will be pressure on rates and considering this, it does not make sense to defer an additional $57 million out to 2014 when rate pressure for the LNP is expected to be higher.

Q. On pages 20 and 21 of Jacobs' testimony, Jacobs summarizes his reasons for objecting to PEF's updated rate management plan, do these reasons make sense?

A. No. The revenues PEF has requested through its updated Rate Management Plan have already been approved for recovery. This means it is not a question of whether these dollars will be collected in rates at some point, it is only a question of when. Additionally, the longer these collections are deferred, the more carrying costs will accrue on them. Considering this fact with the information in Exhibit No. ___ (TGF-9) regarding expected future rates, one can easily see how PEF's proposed plan balances short and long term rate impacts.

Q. Jacobs goes on to list three other circumstances that impact customer rates as reasons for objecting to PEF's proposed rate management plan in 2011, do you agree with these reasons?

A. No, none of these issues provide a basis for objecting to PEF's proposed rate management plan in 2011. Jacobs makes reference to issues that OPC apparently has in other dockets and makes the unremarkable observation that customer bills currently have costs for the LNP in them, but these issues do nothing to address the fact that PEF's updated plan is expected to reduce the LNP residential bill impact by approximately 10% from 2011 levels while helping provide more flexibility in the years to come when increased rate pressure from continued investment in the LNP is expected.

Q. Does this conclude your testimony?

A. Yes, it does.

BY MS. HUHTA:

Q Mr. Foster, do you have a summary of both your prefiled and -- prefiled direct and rebuttal testimonies?

A Yes.

Q Will you please summarize your prefiled testimony for the Commission, both direct and rebuttal.

A Yes.

Good morning. My name is Thomas Geoffrey Foster. My direct testimony presents PEF's actual estimated 2011 and projected 2012 costs associated with the Levy nuclear project, or LNP, for Commission review and approval. My testimony also describes and supports the company's proposal for the LNP rate management plan.

With regards to the Crystal River 3 extended power uprate project, on May 2nd, 2011, I filed testimony and schedules that were true and accurate as to the actual estimated 2011 and projected 2012 costs at the time they were filed, in accordance with the requirements of the nuclear cost recovery statute and rule. Subsequently, PEF file a motion to defer the determination of reasonableness on the 2011 and 2012 costs for the CR3 uprate project, as well as the feasibility to the 2012 cost recovery docket.

This motion was granted on August 10th. As a result, my testimony presents for Commission approval PEF's revenue requirements associated with PEF's spend prior to 2011 on the CR3 uprate project. My testimony describes and supports the total estimated revenue requirements for the LNP and CR3 uprate projects for the purpose of setting 2012 rates in the capacity cost recovery clause. I'm available to answer questions related to my direct testimony, and then on to my rebuttal.

My rebuttal, my rebuttal testimony responds to the testimony of OPC Witness Dr. William Jacobs regarding PEF's LNP rate management plan. Dr. Jacobs mischaracterizes or misapprehends the Commission's prior orders regarding the, regarding PEF's LNP rate management plan.

PEF is not requesting accelerated recovery of the Commission-approved plan as he asserts, because the Commission has never before approved how much the company will recover in 2012. That decision must be made by the Commission in this docket.

Also, the company is, is entitled to collect these deferred balances from customers. The Commission's already reviewed and determined these costs were prudently incurred. Therefore, the company is entitled to recover them from customers regardless of the company's current or future decisions regarding the LNP.

The Commission declined back in 2009 to set a specific amortization schedule for recovery of the deferred balance. The Commission instead provided PEF the flexibility to manage rates by annually considering changes to the recovery schedule and filing an updated rate management plan each year. This is exactly what PEF has done.

When we looked at the short and the long-term implications in the updated LNP rate management plan, we determined that the company should recover more of the deferred amount in 2012 than what PEF had presented in 2010. There's an opportunity to keep the nuclear cost recovery clause rates relatively stable and even slightly lower in 2012 while reducing the pressure we're going to see in future years in the NCRC rates.

This makes a lot of sense when you consider the increased spending required in 2013 and 2014. It also has the advantage of decreasing total carrying costs to the ratepayer.

For these reasons, we believe the Commission should approve the company's proposed LNP rate management plan for 2012.

I am available to answer your questions

regarding my testimony. Thank you.

MS. HUHTA: We tender Mr. Foster for cross-examination.

CHAIRMAN GRAHAM: Thank you. I think this is probably just as good a time as any. Let's take about a five-minute break. We'll reconvene at about ten after.

(Recess taken.)

All right. Intervenors, who's starting first? Mr. Brew.

MR. BREW: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. BREW:

Q Good morning, Mr. Foster.

A Good morning.

Q Focusing first on your direct, I take it that you say the purpose of your testimony is to describe the Levy actual and estimated costs for 2011, projected for 2012; is that right?

A My -- the purpose of my testimony is to present, and my schedules do, the costs that we, that we project for '11 and '12, and I'd just maybe refine that a little bit to say, you know, Mr. Elnitsky is more responsible for the projections of the spend, and I convert that into the revenue requirements in accordance with the rule and statute.

Q Okay. So let's go to that. The third piece of your testimony is to present the revenue requirement for recovery in the 2012 clause?

A Yes, sir.

Q Okay. And on page 14 of your testimony you describe that requested revenue requirement for Levy of 135.4 million; is that right?

A Can I get there, please, sir?

Q Sure. Take your time.

A Which page did you say?

Q 14.

A That's accurate.

Q Okay. And of that 135.4 million, 115 million of it is associated with the deferred regulatory asset; is that right?

A Yes, sir. 115 million is associated with the costs that PEF elected to defer back in the '09 -- or asked the Commission for permission to defer back in the '09 period.

Q Okay. So of the 135.4 million, 115 million for which you seek recovery bears no relationship to 2011, 2012 actual or projected costs; is that right?

A Yes. It is specifically costs that we deferred. Although we could have recovered them in prior periods, we deferred out of recognition when we requested that in 2009.

Q Right. But those costs have absolutely nothing to do with your actual or estimated expenditure on Levy for 2011 or 2012; is that right?

A Nothing to do with the spend estimated on the project. I'd agree with that, yes, sir.

Q Okay. Thank you.

Can I refer you to your Exhibit TGF-3, schedule TOR-3, when you have a chance.

A I'm there.

Q If I could refer you to pages 5 and 6 of 17 of TOR-3.

A I'm sorry. Say that again.

Q Pages 5 and 6 of schedule TOR-3.

A 5 and 6. Are you referring to Exhibit TGF-3?

Q Excuse me. TGF-3, schedule TOR-3, page 5 and 6 of 17.

A Okay. Mine aren't labeled with that 5 and 6. That's all I'm asking. But if it's TOR-3 pages, there's two of those pages, I'm on there.

Q Okay. Good. And just so that we make sure we're on the same page, that sheet is labeled Summary of Annual Clause Recovery Amounts?

A Yes.

Q Okay. And that shows estimated amounts from

2006 all the way through 2023 on the next page; is that right?

A It shows period amounts, yes.

Q Okay. And let's just talk about that for a minute. If I looked at, for example, line 6, which is described as Total Final Period Amount, do you see that?

A Yes.

Q And for 2011 that number is 81,034,632; is that correct?

A Yes.

Q And that would, that would represent for that year the actual and estimated period costs to be recovered through the clause?

A Yes.

Q Okay. And so, by way of comparison, column H, which shows projected 2013, so it shows a final period amount of 215,994,581; is that right?

A Yes.

Q And so if we follow that line 6 across, that would give us the projected clause recovery amounts projected to be incurred for that period each year.

A Yes. That's accurate, sir.

Q Okay. Now if I can refer you to your item number 2 on the first page.

A I'm there.

Q Which is labeled Preconstruction Activity Additions, do you see that, item A?

A Yes.

Q Between 2012 and 2013, that amount goes from roughly 25 million to 156 million; is that right?

A From '12 to '13, that's -- yes, sir.

Q Okay. And the reason for that difference is, is that the company is assuming it will receive its COL in 2013?

A I think you're probably better off asking Mr. Elnitsky why the cost goes up significantly in those years. That's -- I mean, we do expect a, my understanding is we do expect to receive our COL in that time frame. And that sounds right, but Mr. Elnitsky is the witness on that.

Q Were you given these numbers, or were you, or how did you calculate them?

A The additions? We were given -- I was given those by Mr. Elnitsky's group.

Q So Mr. Elnitsky's group gave you the information that's shown on here that shows the preconstruction additions going from 25 million in 2012 to 155 million in 2013, and 666 million in 2014?

A And if I could clarify. Fundamentally, yes. These represent, I believe, jurisdictional. So on the

TOR-6 schedule is where the underlying spend is based. I do some math, some conversions to get it to a retail level, and those appear here. But they're based on the estimates given by Mr. Elnitsky's group, yes, sir.

Q Okay. Thank you.

But the amounts shown on here would be the amounts that you would use to determine the revenue requirement that Progress Energy Florida retail customers would be responsible for; is that right?

A That's accurate.

Q Okay. But you cannot explain the reasons for the change in spending levels for the preconstruction category?

A Mr. Elnitsky is really the right -- I'm not managing the project, the implementation, I'm not managing contracts. What I do is I take their estimates and I, in compliance with the statute and rule, convert those to revenue requirements.

Q Okay.

A So I guess the short answer was yes.

Q Thank you.

And then the same, if I asked you with respect to item 3, which is the construction category?

A Specifically your question is?

Q My, for the -- under line 3, which is

construction category, there is an undesignated line that's labeled Average Net Additions. Do you see that?

A Yes, sir, I do.

Q And so, for example, in 2014, average net additions would be $344 million?

A That's accurate. Yes.

Q Okay. And you can't explain the change in that value from the prior years; I should ask Mr. Elnitsky about that?

A Yes, that's accurate.

Q Okay.

A And I guess -- let me just expand on that.

Q Actually there's no question pending, so --

A I just want to clarify my response.

CHAIRMAN GRAHAM: Sir, you have to wait for the questions.

BY MR. BREW:

Q Let me go to, to the same page, the, what you can explain then, if I'm correct, is that you did the calculations that result in line 6, which is Total Final Period Amounts. Is that right?

A I did the, on TOR-3 page -- are you asking if I did the calculation for total final period amount?

Q Right. So, for example, for 2011, actual estimated, you have a line, an amount on line 6 that's

$81 million. Do you see that?

A Yes.

Q And so you were responsible for that calculation.

A Yes.

Q But you couldn't explain how those amounts progress from year to year.

A I don't do any analysis specific to exactly what they're spending money on. That comes to me from the project team.

Q Okay. But you would only calculate that -- in 2012, that amount is $75 million to be recovered, and in 2013 it goes up to 215 million, and then in 2014 it goes to $767 million; is that right?

A Yes. Based on free fall of the estimated spend for the project, that's accurate.

Q Okay. And so that would be an accurate statement of amounts that are subject for clause recovery based on the projected costs for that period?

A I might refine how you said that. I think fundamentally you're right. It's based on costs that have been incurred up to that point as well, with -- an example is obviously you have certain costs that accumulate a balance that you don't recover currently, so there are carrying costs related to those until such time as they're recovered. So some of these costs would be related to costs incurred in prior periods as well that have not been recovered.

Q Okay. So let's take a number then. Column I, Projected 2014, the $767 million, does that include carryovers from prior years or carrying charges from prior years?

A It does not include carrying charges from prior years. It includes carrying charges on costs from prior years in the current year.

Q Okay.

A Is that helpful?

Q If there, if they're as yet unrecovered?

A If they're unrecovered, absolutely. Yes, sir.

Q Okay. Now let's turn over to the next page, and let's look at Projected 2015. Are you there?

A Yes, sir.

Q So that's the first column, column J. Under the category of construction category, you show an average net addition balance of $1.4 billion; is that right?

A Say the question one more time, please.

Q Yes. It's the undesignated line that's average net additions balance.

A Right.

Q For 2015, that's $1.4 billion; is that right?

A Yes.

Q And line item A is $183 million, and that's carrying costs on those additions?

A Yes. And --

Q And the -- go ahead.

A Can I -- just to be clear on that undesignated line.

Q Please.

A It is a balance, so it doesn't necessarily mean that's spend in a given year, so.

Q Okay. Which is why it says balance at the beginning?

A I just wanted to make -- it sounded like maybe there was some confusion there, so.

Q Okay. And, and so you've got $183 million worth of carrying costs on additions for that year; right?

A That's accurate.

Q And your line 6 for that year is $213.8 million; is that right?

A Yes.

Q So for that year, 183 million of the 213 is associated with carrying costs on additions; right?

A Yes.

Q Okay. And if we go across that line, the next year, 2016, your balance is 3.4 billion of construction additions?

A It's an average balance, yes.

Q Okay. And so that's the change in balance of -- since it's an accumulative thing, so now the balance on additions has gone from 1.4 billion to 3.4 billion?

A Yes.

Q Okay. And the carrying costs on additions has gone from $183 million up to $420 million; right?

A Yes.

Q And that $420 million relates to the total of $450 million for that entire period; right?

A Say that one more time. I'm sorry. Oh, yes, I agree.

Q Line 6 --

A I agree with you.

Q Of the 452 million listed on line 6, 420 of it is carrying costs on additions; is that right?

A Yes.

Q Okay. And by the time we get to 2019, you're up to a net addition balance of $10 billion. Do you see that?

A Yes.

Q And you've got carrying costs on additions of $1.2 billion?

A Yes.

Q And you've got a final period amount on line 6 of $1.29 billion?

A Yes.

Q Okay. So as we move through this, would you agree with me that increasingly, once we're into the construction category, that the final period clause recovery amounts are dominated by carrying costs on additions?

A Yes. That's exactly how the rule and the statute is set up. If you're recovering your preconstruction costs, obviously you wouldn't expect to have any ongoing carrying costs from them. And once you get into the meat, you know, of the construction project, you would expect to be spending increased dollars. And since you don't recover those currently, you would expect a carrying cost, which is what's provided for current recovery through the statute and rule. So that dominates, yes.

Q Okay. Thank you.

For the line item construction category, the average net additions balance, can you explain how the carrying costs on additions was developed in relation to the company's financing of the project, or is that outside your expertise?

A Well, I can explain how the carrying cost was developed, because it comes right out of the framework set forth in the nuclear cost recovery statute and rule.

Q Okay. But in terms of how the company is financing the project, that would go beyond your expertise?

A Yes. I'm not responsible for financing the project.

Q Okay.

If we go on that same page to the end, column R is Projected 2023, which is when both units should now be in service; is that right?

A Yes.

Q Okay. And I look at line 6, at the far end under column S, projected total of 8.393 billion. Do you see that?

A In column S?

Q Column S, yes.

A Yes.

Q So the 8.3 billion would represent the projected total clause recovery over the period till those units are in service?

A Over the periods leading up to.

Q Over the period covered by this exhibit, which is 2006 to 2023?

A Yes. Right.

Q Okay. And if we go up to column 3, Average Net Additions, there's a figure of $14 billion. Do you see that?

A Yes.

Q How would that $14 billion -- has that $14 billion been recovered in rates yet?

A That -- again, that's an average balance. But it's a construction cost, so it would not have been recovered in rates yet. No.

Q And so at that point, once the units are in commercial service, that $14 billion would move to base rates?

A As they go in service, the investment on them will go into base rates. Yes.

Q Okay. How does that compare to the existing rate base of the company today; do you know?

A I'm not sure exactly where we are with rate base today.

Q Okay. Mr. Foster, before we started, I distributed a document that is listed Redacted Economic Analysis Results Projection of Approximate Rate Impact of Levy 1 and 2 Project. Do you have it with you?

A Yes.

MR. BREW: Mr. Chairman, for the record, I've had it distributed. This has been incorporated already in the Staff comprehensive exhibit, what would be Exhibit 176. But rather than have everybody try to search through the CD to find it, I thought it would be easier if we just looked at it. So I'm not intending to mark it because it's already, it's already in the record.

CHAIRMAN GRAHAM: Thank you.

BY MR. BREW:

Q First, Mr. Foster, this is labeled also Staff's Third Set of Interrogatories, question number 13. Were you responsible for preparing the response to that Staff interrogatory?

A It was prepared under my supervision, yes.

Q Okay. Good. So you're familiar with it?

A Yes.

Q Okay. And very quickly, the columns listed here, the column labeled 1 are the resource plan, expected total revenue requirements with Levy under its current schedule; is that right?

A Yes.

Q Okay. Column 2 would be a resource plan essentially without Levy; is that right?

A Yes.

Q Column 3 is subtracting one -- two from one to give you a net difference, differential in revenue requirements; is that right?

A Yes.

Q And these are annual revenue requirements.

A Yes.

Q Column 4 is projected total retail sales, and that comes straight out of the company's Ten-Year Site Plan; is that right?

A Yes.

Q Okay. And then column 5 is just a mathematical difference of the differential divided by sales based on 1,000 kilowatt hours; is that right?

A Yes.

Q And column 6 then is that same differential applied on residential average electric rates; is that right?

A Yes.

Q So if we look at 2011 in column 6, there's a 00 number, and that's simply because there's no differential because there's no alternative plan?

A That's correct. We're in 2011. Rates have been set. Any differential would be put in 2012, or at least that's the assumption we took.

Q Right. But it doesn't mean that the costs of Levy are zero. In fact, you proposed the cost recovery factor of about $4.50 a month.

A Yes, sir. Let me make sure we're clear on what these represent. Column 1, as you said, exactly is, is kind of that future view. Column 2, as you said, is without Levy. However, without Levy, it doesn't just mean that you just remove all revenue requirements that were included in column 1 for Levy, because there is no without Levy where there aren't some wind-down type of costs. There's no without Levy where the future generation maybe doesn't change, or it would have to change, right, because you'd have to add certain different types of plants.

So I just want to make it clear that this isn't just, column 2 is not just column 1 minus anything you would assume for Levy, because that's not a realistic view. You can't have a without Levy without there being some additional other costs as composed (phonetic) to the plan with Levy.

Q Okay. That's helpful, because I do want to make that clear that column 2 is a non-nuclear, where the company has made certain assumptions about its resource plan, and developed a projected revenue requirement based on that.

A Absolutely.

Q So when we look at column 6 then, we're not looking at the expected Levy factor, we're expected -- we're looking at the difference in cost to residential customers of the Levy option versus your alternative resource plan.

A That's accurate.

Q Okay. And so that's why for 2011 it's zero, because there's no differential to speak of.

On this document, which we're looking at the redacted version, the assumptions for 2012 through '15 are blacked out. So rather than go through what is confidential information, I wanted to pick up from there.

For 2016, the residential level, it shows $16.02 per 1,000 kilowatt hours; is that right?

A Yes.

Q So that means that, in effect, the revenue requirement associated with Levy will, will, is 1.6 cents per kilowatt hour higher than your alternative revenue plan.

A My alternative -- generation plan?

Q Than the alternative rev -- the revenue requirements for your alternative plan; is that right?

A Yes.

Q Okay. And that $16 amounts to about $102 a year for the average residential customer.

A I don't know. Is that your testimony to me or was that a question? I'm sorry.

Q I'm asking you if 16 times 12 is about $192 a year.

A I don't have a calculator. Sounds about right though.

Q Okay. And in 20 -- in 2017, that differential in residential rates associated with Levy goes up to $25.19; is that right?

A You're right. And I think if you carry your example forward, you're going to see in future years where it turns very favorable for, for consumers.

Q Well, you're getting ahead of me. I'm talking about before they get into service. I'm -- for 2017, the additional costs associated with Levy for your residential consumer is $25.19 a month; right?

A In 2017, that is the calculation and the impact.

Q Okay. So that would be over $300 a year for the average residential customer; right?

A That sounds right. Again, I don't have a calculator with me.

Q 25 times 12 is about 300; right?

A Yes.

Q Okay. In 2018, it goes up another penny a kilowatt hour, up to $35.24, in the increased cost of Levy compared to your alternative; is that right?

A Yes.

Q So now we're up to about $420 a year for the average residential customer?

A Yeah. Again, I don't have a calculator. If there's some math you want me to do --

Q I'll ask you --

A If you have a calculator, I'll be happy to do that.

Q Okay. I'll ask you --

A But I want to make it clear that it's an unfair characterization --

Q Excuse me.

CHAIRMAN GRAHAM: Sir, that question wasn't asked.

BY MR. BREW:

Q What I'm asking you to do is accept the math based on your calculation that, which shows a differential in average electric rates of dollars per 1,000 kilowatt hours, is that if the annual amount for that, which is that amount times 12, would be, for 2018, is over $420 for the average residential customer.

A Again, I haven't done that math.

CHAIRMAN GRAHAM: Sir, you may have to keep it on a monthly basis, either that or give him a calculator because he's just taking the word that your math is correct.

And, Mr. Foster, so you know that you have the opportunity during redirect to continue on down that list and explain what the balance really is. But right now you just have to answer his questions.

THE WITNESS: Yes, sir.

BY MR. BREW:

Q Okay. And just, just to complete for 2019, that differential in terms of the increased cost for the average residential customer is up to $44.23 a month?

A Yes.

Q Okay. And for 2020, that differential in rates, the increased cost for Levy compared to the alternative resource is up to $49.52 a month?

A Yes.

Q Okay. So would you accept then, again, accepting my math, you're welcome to check it, for that period the average in round numbers is that residential customers during that period will average over $400 per year in increased costs for Levy?

A I would have to check that math. I mean, it sounds reasonable, but that's a little bit -- I don't know that I can do in my head a four-year average of something that's shown on a monthly basis.

Q Okay. Would you accept -- okay.

A It sounds reasonable, subject to check. Does that help?

Q Okay. Subject to check, that it comes out to an average of $408 a year per average residential customer?

A Subject to check, yes.

Q Okay. In looking at this same exhibit, back to column A, or column 1, excuse me, that shows your projected resource plan with Levy; right?

A Yes.

Q And that shows a total retail revenue requirement, say, for 2019 of $4.99 billion, or about $5 billion; is that right?

A Yes. It shows 4.993,698.

Q Okay.

A May I just explain a little bit, because I want to make sure.

Q Absolutely not. I just want you to confirm what the number is.

A The number reflected there is 4,993, 698.

Q And that reflects in your description the total retail revenue requirements for that year?

A No.

Q Well, isn't it labeled Resource Plan with Nuclear Annual Total Retail Revenue Requirements?

A That's what I wanted to explain. This is, this is --

Q Is the label correct or not?

A The label is correct, yes.

Q Okay. That's all I need to know.

If I can refer you to, back to TOR, or Schedule TOR-3 on TGF-3.

A You said TOR-3?

Q Yes.

A Okay. I'm there, sir.

Q On page 6 of 7 we have projected 2019 costs on column N. Do you see that?

A Where is it?

Q Column N, as in Nancy.

A Yes, I see it.

Q Okay. On your line 6, Total Final Period Amount is the 1.297 billion. Do you see that?

A Yes.

Q So if that, if that's right, then in 2019, clause recovery associated with Levy will be 25% of Progress's total revenue, retail revenue requirement for the year?

A That roughly approximates to 25%. I think you need to read note one for column 1 on that exhibit we've been discussing, I think it's 125, which explains that this isn't necessarily meant to be a comprehensive estimate of what base rates and whatnot are in 2019. It's more used to show a differential between two generation plans.

Q Is it designed to be consistent across the board for both columns?

A Column 1 and 2?

Q 1 and 2. Yes.

A Yes.

Q So you're not using two different methods to come up with two different sets of numbers?

A Other than they're different -- we're not using two different methods. I agree with that. Yes, sir.

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

CHAIRMAN GRAHAM: Thank you, sir.

Mr. Rehwinkel?

MR. REHWINKEL: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. REHWINKEL:

Q And still good morning. Good morning, Mr. Foster.
A Good morning, Charles. Mr. Rehwinkel.
Q I want to turn first to your rebuttal testimony, and I guess I want to ask you, in your summary, you mentioned Dr. Jacobs' characterization of the rate management plan, did you not?
A Yes, sir.
Q And in it you said he mischaracterized the company's position regarding whether the amortization in this year would completely take the rate management deferred balance to zero or not; is that fair?
A I said, I said that he either mischaracterized or misapprehended, misunderstood. Yes.
Q Okay. But it is true, is it not, that at the time you filed your testimony you are aware that Dr. Jacobs ten days earlier in his deposition had corrected his testimony; correct?
A When this testimony was filed?
Q Yes.
A I was aware that he corrected some things, yes. And I think it's in my rebuttal testimony.
Q Okay. But you were aware when you filed your testimony that, that he did not believe that the amortization that you proposed would take the deferred

balance to zero; is that right?

A Yes. And in my introduction or summary -- I don't know, that's probably the more appropriate term -- I wasn't specifically speaking about us taking it to zero. I was more referring to the history of what's been approved and presented for these rate management plans that, that he's either mischaracterizing or misunderstanding, at least in his initial testimony, what has been done in the past and where we are today.

Q Okay. You would agree, would you not, that, that if the company isn't allowed to amortize the additional $55 million that you're requesting in this year, that you would still have the right to and every expectation of recovering the full rate management plan balance; right?

A Yes. Again, these dollars have already been found prudent, so it's a question of when, not if. I agree with that.

Q Okay. And you would also agree that Dr. Jacobs never recommended to the Commission that they deny recovery of any of the amount of the deferred balance; correct?

A I don't recollect him doing that in his testimony. I agree with that, yes.

Q Okay. And so you would agree that the company is held harmless if you recover the $55 million from the deferred, deferred rate management plan balance in another period other than 2012; correct?

A No, not necessarily.

Q Okay. You get carrying charges on the unrecovered deferred balance of the rate management plan, do you not?

A You're absolutely right. So there's, there's a tradeoff. It's a, it's a now or later. If we recover it now, there will be less carrying costs over the life of the project associated with those dollars. But when it comes to harm, there's not just, you know, carrying costs. There's more of an earnings type of thing. But there's also a cash flow type of issue. And any time you defer collecting cash, I can't say that's completely harmless to the company.

Q It is true, is it not, that the company is the one that proposed deferring recovery over a five-year period of $273 million; correct?

A Yeah, that's accurate. We did, in 2009, we did propose deferring it over five years. And, and I think wisely what you saw was the Commission deciding that, yes, we approve a plan to defer some dollars and we are not going to set an amortization schedule. We want the customer -- the customer, excuse me -- the company to come back every year and update their rate management plan, and that's exactly what we've done this year.

Q I think you're demonstrating that I'm a much nicer person than Mr. Brew.

(Laughter.)

A I'll try to keep it shorter, Mr. Rehwinkel.

Q Okay. But I would appreciate you just answering my questions.

The -- and isn't it true that when the company originally proposed a rate management plan in 2009, you didn't ask that the carrying costs associated with the unrecovered deferred balance be the 8.848% AFUDC rate; is that correct?

A Help me out. I'm sorry. I'm --

Q Isn't it true that the, that the company asked for a commercial paper rate to be applied to the unrecovered deferred balance of the rate management plan when you initially proposed the rate management plan?

A No. That's not true. I'll expand, if you want now. I think originally there was in 2009 -- and forgive me. I'm reaching a little bit back here. I think originally we deferred some dollars out of the 2009 rate. It had been set at a certain level and we deferred it out, deferred some dollars out and said, okay, we'll collect it in 2010, all of it.

That was not really in the context of this five-year rate management plan. When we got into the 2009 docket, we proposed a rate management plan whereby we deferred over five years. Now that's significantly different than a year that was originally proposed. And, and the Commission approved that plan and also approved what carrying cost rate -- there was a specific issue in 2009 of what rate should be applied to those dollars.

Q Okay. So your testimony is that when you initially proposed deferral of the costs that make up the rate management plan today, your initial proposal was a one-year deferral with a commercial paper rate carrying cost; is that right?

A Again, Charles, it's been a long time. I don't remember that being exactly the way it happened. I remember when we initially reduced rates in '09, we had, we were prepared to collect it in 2010. And I think that there may have been an agreement to the commercial paper rate.

And then in -- there was -- we proposed to extend that over five years in our, really our initial rate management plan. That was the first time that term was used. That's why, you know, I don't want to quibble too much, but --

Q Okay.

A But -- and in the 2009 docket there was an issue and a decision by the Commission what the appropriate carrying cost was on those deferred dollars.

Q Okay. And when I asked you about being held harmless, let me ask it to you again. From a financial standpoint the company is held harmless if you recover the $55 million that you are requesting recovery for in this docket in another period other than 2012; correct?

A I don't think so, because there's a cash flow implication.

Q Okay. It's not your testimony here today that the 8.84% -- 8% AFUDC rate is insufficient to cover your carrying costs on the unrecovered balance of the rate management plan, is it?

A No, that's not my testimony.

Q Okay. Can I get you to turn to page 19 of your -- and I'm going to ask you to turn to your, use your August 12th, 2011, testimony.

A What page did you say again?

Q Page 19. And this testimony, just for the record, is, it was filed after the July 25th rebuttal filing date, but it is just to update -- the only changes in this from your original testimony are to update the deferred CR3?

A That's the only significant change. I think there was errata identified shortly after our initial May 2nd filing of about $8,000. But we went ahead and incorporated those too.

Q Okay. So for the purposes of my cross-examination, the, this August 12th testimony is the same as what you filed in May 2nd with respect to the Levy plant, except for maybe an $8,000 adjustment?

A Yes.

Q Okay. Now on page 19, lines 3 through 5.

A Yes, sir.

Q You would agree, would you not, that the, the Commission -- while the Commission has given you the flexibility to manage your rates and to reconsider the amortization schedule of the deferred rate management plan, it is the Commission's final approval -- authorization -- it is the Commission's final authority to approve whatever you propose; correct?

A The Commission approves our annual revenue requirements.

Q Okay. You're not contending here that it is within your sole discretion how much to amortize from the rate management plan for purposes of cost recovery in any given period, are you?

A I'm not sure that that was specifically in any of the orders. I can say my recollection of what the past order said is that the Commission didn't approve an amortization plan, a specific amortization plan. What they did was leave more flexibility for the company to propose changes in the future and required us to present that to you each year. And I --

Q The key being propose. The Commission has the final approval authority. You would agree with that; right?

A They, they, they approve the revenue requirements we're going to recover in 2012.

Q But you would concede that the Commission has the authority to approve whether the amortization amount from the rate management plan is $60 million or $115 million; correct?

A I would say I'm not 100 percent sure on that one because of how the old orders were, were phrased. I haven't thought of it in that way. We proposed a plan and we're here asking the Commission to look at it and approve it.

Q Okay. So I guess by implication of asking the Commission to look at it and approve it, you're saying that they have the final authority on this; right?

A They have the authority to say what we get to recover in 2012.

Q Okay. Let's look at -- can you -- can I get you to turn to TGF-2 and Appendix A. Do you know where that is?

A Give me a second, sir, I'll get there. Okay. I'm there.

Q Okay. Could you just tell me generally what this document is supposed -- this schedule is supposed to do?

A Appendix A?

Q Yes.

A This is really just a bit of a road map to help, to help tie out where beginning balances primarily come from throughout the schedules.

Q Okay. And the top part, there's two halves of this schedule. The top part, can you tell me what this relates to?

A It relates to Schedule P2.2.

Q And what dollars does it refer, does it relate to?

A For Levy? Let me just refresh -- sorry. I've got a lot of schedules.

Q Well, let me ask you, isn't it, doesn't the 114,968,361 that is in the box on the top half of that schedule, isn't that the total amount of the deferred rate management plan dollars that you're seeking recovery for?

A In 2012?

Q In 2012.

A Yeah. Thanks for making it easy for me, but yes.

Q Okay. So if I could just get you to keep your finger on that page and turn to TGF-3, Schedule TOR-1, and direct you to column 11, line 1, is that the same dollar amount? Does that refer to the same pot of dollars?

A Yes.

Q Okay. So what TG -- TOR-1 does is it shows at some level how the $135.3 million revenue requirement that you're requesting for Levy is calculated; is that fair?

A I would agree. It's kind of a summary of the past couple of years as well as the current year and how that rolls into '12.

Q Okay. So going back to Appendix A, in that top half of the page under item 3, the $114.968 million is made up of two components, a flat $60 million, and then $54,968,361. Do you see that?

A Yes.

Q Okay. Now is it fair to say that the

$60 million was the assumed amount of amortization from the rate management plan?

A It was the amount that we had assumed in our 2010 rate management plan when we looked at 2012, yes.

Q Okay. So the 54.968,361 million is the additional amount that you're proposing to amortize into this year; correct?

A Yes.

Q Okay. Now if I go back over to TOR-1 and I look in column 3, line 7, I see a negative amount of 60,743,423. Do you see that?

A Yes.

Q Okay. And is that the overrecovery for 2010?

A Yes.

Q Okay. And that's what you reference in your testimony --

A Are we on direct still?

Q -- on page 14, line, lines 12 and 13?

A The 60.8, is that what you're saying in line --

Q Yes.

A Yes.

Q The 60.8 is the same as the 60 point -- 60,743,423 on TOR-1?

A Yes. Obviously just rounded up.

Q Okay. So, and on line 12 of page 14 of your testimony, you use the term "refund"; is that correct?
A Yes. That's --
Q Okay.
A -- standard, so it's an overrecovery. And standard methodology, when you go in, let's say in the prior years, you had overcollected, you would basically put a credit in the revenue requirements of the current year. It's not a period revenue requirement, but it's, you know, it's the true-up mechanism.
Q Okay. And do you know what was the main cause of the overrecovery in 2011?
A My understanding, and you'll probably have to talk to Mr. Elnitsky to get any details, but -- and I want to be careful here because I don't want to say anything that might be confidential.
Q All I want to know is what subject -- what -- I don't want to know any dollars. I just want to know what was the, what was the main --
A There were some, there were some estimates that were being negotiated and came in lower, I would say.
Q Okay.
A And I think Mr. Elnitsky --
Q Related to long-lead materials?

A Yes.

Q If you don't --

A Yes, sir.

Q Okay. All right. On page 19 of your testimony, would you agree with me that starting on line 3 through line 17, those 14 lines, that is the substantive explanation that you provide on behalf of the company justifying the additional $55 million amortization from the rate management plan?

A Let me just review it again. Like I said, I've got a lot of pages here.

Q That's okay.

A I would agree that hits most of the key notes. I'm not sure -- there may be something, if I look in my rebuttal, that are a little more bodied (phonetic), but I'd say that's largely representative of what we're --

Q But with, with respect to this testimony, this testimony that was originally filed on May 2nd, this is it?

A I'd say at the top of page 18 I do reference an order, a couple, the '09 order, 09-0783. 11-009 was the other order I referenced. So, I mean, I'd be more comfortable agreeing that, you know, from the bottom of 17 through that paragraph of 19 represents --

Q Okay. Would you agree with me that page 18 describes the mechanics of what you're asking for, and that the 14 lines that I referenced on page 19 are your justification for why they ought to be allowed in 2012 for rate recovery?

A I think there's some information on page -- I think largely in principle I agree with you.

Q Okay.

A But there's some information on page 18 that I think is relevant.

Q Okay. Now would you also agree that if the refund that you reference on page 14, line 13, were to be effectuated by a lower rate in 2012, that the annual -- the monthly impact on a residential customer would be $1.75? In other words, no acceleration of the 55 million.

A So you're asking me what would the rate impact be if we didn't -- if it kept it 60 million --

Q That's correct.

A -- versus 115. And I think, I'm pretty sure I've got what you're probably going to give me. But there was a discovery response to that.

Q Yes.

A If you'll just give me a second, I can probably get there. Okay. Let's see. And what was your question again one more time? I'm sorry. Because now I've got a number I can look at.

Q That's fine.

My question is if you effectuated the $60.8 million refund that you reference on page 14, line 13 of your testimony and did not accelerate the $55 million from the deferred rate management plan balance, that the impact on residential customers based on a thousand-kilowatt-hour basis would be $1.75 per month.

A I think I have to make sure I understand your question. The only thing you're saying to change is instead of amortizing 115 million, amortize 60.

Q That's right.

A Because there is -- we're already effectuating the refund of the 60.8; right? I want to just make sure that's clear to everyone.

Q Yes.

A The overrecovery is already embedded in our rates being flowed back. The only difference is the 55 million roughly.

And so you're saying if we just took it back to 60 million, what would the residential impact be? And I think you said $2.72. Is that what you said, sir?

Q Well, I was asking if the difference between what you're asking for and what the rate would be would be $1.75.

A Oh, man. You're making me do math again. That looks right, yes, subject to check. Can we do that?

Q Yes. So I assume $4.47 is your Levy component. And if it's -- if you took the 55 million out, it would leave you with $2.72. My math says that's $1.75 difference.

A I'm sure it is. I don't have a calculator, and I hesitate to trust my math skills in my head.

Q Okay.

A But it looks like right, yes, I agree with you.

Q Thank you.

And finally, on page 19, lines 10 through 12, I mean, 10 through -- yes, 10 through 12, you state, "Looking out into the future, it is apparent that once PEF receives a COL and gives Westinghouse a full notice to proceed, the estimated revenue requirements per year increase significantly." Do you see that?

A Yes.

Q Now you're not stating in here any particular year that a full notice to proceed will be given, are you?

A No, I'm not.

Q Okay.

A That's accurate.

Q And you're also not testifying here that a full notice to proceed will ever be given, are you?

A I would not testify to that. No.

MR. REHWINKEL: Okay. I have no further questions, Mr. Chairman. Thank you.

CHAIRMAN GRAHAM: Thank you.

Ms. White?

CROSS EXAMINATION

BY MS. WHITE:

Q Good afternoon. I just have a couple of questions -- I had to check -- generally about planning. And from your title and your job description, I'm assuming that you're familiar with basic project planning. Is that a, is that a fair statement?

A I really don't do project planning, so I'm going to have to say, no, I don't manage projects per se.

Q Okay. Is it fair to say that you record the costs that are associated with project planning, so you're familiar with the costing of project planning?

A I present the costs that other business units record, so, I mean, I'm familiar with accounting. I'm, you know, familiar with finance.

Q Okay. I think --

A I'm familiar generally with the projects.

Q I think you're familiar enough with what I want to ask you.

In your experience, you have seen projects other than nuclear projects and the costing associated with those that has fluctuated over time. Is that a fair statement?

A I've seen other projects other than nuclear. Yes.

Q Okay. So you're familiar that in general project planning and project costing is a fairly fluid process. Things change, in other words.

A I agree things change. I mean, they're projections or estimates.

Q Okay. And in your experience, is it a fair statement that you have seen projects that were started that didn't finish?

A Let me think if I can say that I have. None are jumping to mind. I'm sure there have been though.

Q Okay. And so you would -- in your, in your experience you would say it's fair to say that not all projects that start continue to be smart?

MS. HUHTA: Objection. Vague and ambiguous and irrelevant.

CHAIRMAN GRAHAM: I have to agree with the objection.

MS. WHITE: Okay.

CHAIRMAN GRAHAM: You need to be a little bit more specific, or ask a direct question.

BY MS. WHITE:

Q In your experience with projects as they change over time, those, if there's a project that is not, as, as the costs flow out, and that project is not economical or feasible, that project is not continued. Is that a fair statement?

A Well, you know, feasible is a, a good word. When something is not feasible, that typically, to me at least, how I understand it, means it can't be done.

Q Okay.

A So if something is not feasible, then I would say it makes sense to not continue with the project.

MS. WHITE: Okay. Thanks. That's all I have. Thanks.

CHAIRMAN GRAHAM: Mr. Moyle.

MR. MOYLE: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. MOYLE:

Q Mr. Foster, good afternoon. I have a few questions for you.

First of all, you do have an MBA; correct?

A Yes, sir.

Q And you got it from the University of South Florida?

A Yes, sir.

Q And while you were there, you had a focus on finance; is that right?

A Yes, sir.

Q You'd agree there's a lot of finance associated with these Levy projects; correct?

A I'd agree that any time you have a lot of investment, there's, there's going to be some finance. Yes.

Q And do you know what the, what the total amount of the Levy project is currently projected to be in terms of dollars spent?

A I am aware of what the estimate is. Yes.

Q What is it?

A Let me just make sure I don't misquote. I believe the dollar amount is on my Schedule TOR-7 of the spend there, and that's the actual spend, and that's 17.1 before fuel, 17.6 with. If you include AFUDC type costs, it's about 22.5.

Q So with the AFUDC it's 22.5. Without it 17, roughly?

A Yes.

Q And that increment starts with a B, not a M, right, billion?

A That's accurate, sir. Yes.

Q Now when Mr. Rehwinkel was asking you a question, you had made a comment, I thought I took the note properly, about you -- maybe I interpreted it about, you were talking about collection of cash and deferring collection of cash. Did you indicate that you don't like, as someone schooled in business, to defer collection of cash, or was that a position that Progress would prefer not to have a situation where they defer collection of taxes -- I'm sorry, defer collection of cash?

A I got you. I would say that typically the company prefers dollars that are collectible, appropriately collectible, as the deferred amounts are. The company would -- any time you defer collecting cash there is some, some harm there, I would say. Yes.

Q So you would rather have the dollars collected and in hand, all things being equal; is that correct?

A Generally I'd say that's, that's an accurate statement, if they're properly collectible.

Q Okay. And, and, and why is that?

A You're probably getting maybe a little bit out of my, my area here because I'd say, you know, your question is a little bit black and white. Would you always rather have cash? And obviously, as an investment-intensive industry, we have a lot of investment out there that gets collected over a long period of time. So when it comes to collecting these dollars or not, there's a tradeoff to the company. Leaving them out there and having them deferred longer, you will earn more carrying costs, and those will be collected from the customers over time. So, you know, that could be seen as a benefit. On the other hand, you've got cash that doesn't come in, which could be seen. So there's a balancing act there, I guess I'd say.

Q Okay. You would agree that cash is a commodity. It has value, it's an asset; correct?

A I would agree that cash has value. Yes.

Q And I want to make sure I'm understanding, you had referenced the carrying costs, and on page 11 of your testimony.

A Is this direct or rebuttal, sir?

Q This is the direct.

A Thank you.

Q Up on lines 1 through 7 you spent some time talking about the carrying cost rate. And I just want to make sure I understand. So currently, with respect to the carrying costs, you're earning 8.84 percent on the carrying costs; is that right?

A That's the after-tax number. Yes.

Q Okay. And then on a pretax basis, the rate is 13.13. Can you explain what you mean by on the pretax basis the rate is 13.13?

A There is -- there are taxes, taxes. Any revenues that come into a utility get taxed, so we have to pay taxes. And consistent with the statute and rule, the carrying cost is on the pretax, AFUDC rate approved at the time you get your need.

Q And it's also true that the customers pay for the taxes. I mean, their rates are, the rates they pay pay for taxes; isn't that correct?

A Yes. The customers pay, because the investment is all for their benefit.

Q So would the actual real rate, you know, given your testimony here, that customers are paying, be 13 percent for the carrying costs associated with this project?

A I think that's, yeah, exactly what my testimony says on page 11.

Q Okay. And you and Mr. Rehwinkel I think talked a little bit about the commercial paper rate versus the AFUDC rate. Do you know what the commercial paper rate is currently?

A You know, I don't have that offhand. I know it's low.

Q It's not double digits, is it?

A No, I don't believe it is.

Q I mean, right now you keep up, as part of your job and your major, you keep up with economic conditions, do you not?

A I do. But, you know, commercial paper rates change, can change day to day, I believe. So I know it's very low. I mean, other than that, I'd hesitate to speculate. But definitely not in the double digits; I can agree to that.

Q With respect to the real time cost of money, you would agree that the commercial paper rate more accurately reflects the market conditions for cost of money than the AFUDC rate; correct?

A No, I would not agree with that.

Q And why would you not agree with that?

A Commercial paper is not something -- the utility doesn't go out and finance investment in projects with commercial paper.

Q But you do deal in commercial paper on a regular basis, don't you? You have corporate, corporate debt that you sell?

A I'm sure we do. I'm not, I'm not an expert on our debt issuances or equity issuances by any means.

Q The reason I'm asking these questions, I'm trying to understand project finance on this. You know, you said it's 22 and a half billion, 17 billion of cost.

A Maybe, maybe I can help. We certainly are not financing it with commercial paper.

Q Let me ask this question, if I could. Roughly speaking, so what would be the percent of the cost for 2010 that represent carrying costs?

A 2010?

Q Yeah.

A Are you asking me about 2010?

Q Yeah. I think on my notes on page 14 you have some numbers that include the carrying costs, and I calculated it around 20 percent. Would you confirm that?

A Are you talking -- I'm sorry. I don't think I do for 2010.

Q I'm sorry. 2012. On page 14 --

A Okay.

Q -- you were asked the question, "What is included in the projected period revenue requirements for 2012?"

And you provide an answer in there where you talk about the carrying cost of the construction being 16.3; correct?

A Uh-huh. Yes. 16.3 for carrying cost construction. Yes.

Q Okay. And would you just confirm, you know, subject to check, that that carrying cost amount is approximately 20 percent?

A Of what?

Q Of the total amount sought for recovery. The projected revenue requirements for 2012.

A Period or the amount sought for recovery for 2012?

Q What are you referring to in your testimony?

A If you're asking me is that approximately 20 percent of 75 million, is that what you're asking me?

Q Yes.

A Approximately. I would say yes. It is approximately 20 percent of 75 million.

Q Have you all done an analysis? I mean, this project is not expected to come online until, what, 2021, 2022; is that right?

A Yes.

Q Have y'all done a separate analysis about the feasibility, viability, sustainability of the carrying costs associated with this project?

A Feasibility. I'm not sure what you're asking with that question. I don't know of any feasibility, viability, sustainability study done on the carrying costs of this project.

Q At the end of day, it's more than 5 billion in carrying costs; correct?

A Let me just look, if I could.

Q Okay.

A Yes. I'd agree that through the, through the in-service date of the projects, PEF is projecting, based on current estimates, more than 5 billion in carrying costs.

Q I was looking at your testimony. I may get an objection for being irrelevant, but we've had a lot of discussions about budget and interests and carrying costs. Do you know if the Federal Government finances less than 20 percent of its debt?

MS. HUHTA: Objection. Outside of the scope and irrelevant.

MR. MOYLE: I'll move on.

CHAIRMAN GRAHAM: Okay.

BY MR. MOYLE:

Q Let me ask you a couple of questions about your testimony on page 12. You were asked a question at line 4: "What is included in the Total Return Requirements on Schedule AE-3A.2, Line 12?"

A On -- what page are you on, sir?

Q This is page 12 of your direct testimony, lines 4 through 10.

A What was the question again? My numbers don't, my page numbers don't seem to be lining up. That's the only reason I ask. Sorry.

Q I don't, I don't want us to be talking past each other. You're familiar with your testimony where you were asked the question: "What is included in the Total Return Requirements on Schedule AE-3A.2, Line 12"?

A I'm there. I got you now. Thank you.

Q And your answer is, you say that the 12-month total of 16.8 million represents the carrying costs on the deferred tax asset balance. You also state that the deferred tax asset arises from the difference between the book and tax basis for the project, and the difference is primarily due to the recovery of preconstruction and site selection costs prior to the plant going into service for tax purposes. Correct?

A That's what it says. Yes, sir.

Q Okay. So can you explain to me -- you're a CPA in Florida; correct?

A Yes, sir.

Q Okay. So can you explain to me how, how, from an accounting perspective, you have this carrying cost on a deferred tax asset balance?

A Yes, I can. The provisions of the statute and the rule provide for current recovery of certain costs, site selection, preconstruction; right? When those are recovered, what happens is for book purposes you basically depreciate or amortize that, that value down. There's no basis there, which is a good thing, because then when, you know, when eventually it goes in service, you're not calculating a carrying cost on it.

For tax purposes you can't do that. And this is something that's, you know, historically it was discussed when these schedules were developed, and I know we weren't all -- fortunately for a lot of folks -- weren't around when that was being done. But -- so basically what you have is the utility still has a remaining investment out there associated with the taxes on those collections, and those will reverse once the units go in service. But until that time there is a deferred tax asset created, which represents a continuing investment.

Did that -- does that get to your question, Mr. Moyle?

Q Well, I think so. I guess, I guess what I'm trying to understand is, you know, I understand that this nuclear cost recovery statute and the rule is advantageous to the utility because it gets money sooner rather than later; correct?

A I would say that it does -- we do collect money sooner rather than later under the statute and rule. Yes.

Q Would you agree that the nuclear cost recovery statute is a good thing, as compared to not a good thing from the utility's perspective?

A I would agree that the statute and the rule were put in place to encourage nuclear investment.

Q And if I'm reading your testimony and understand your answer correctly, is it true that by you having early recovery of your site selection and preconstruction costs, which the customers pay for now, dollars out of their pocket, which I think we've agreed has value, that that early payment also then results in a liability for a carrying charge of $16.8 million; is that, is that correct?

A As it relates to this specific time period, yes. There is, you know, there is a tax consequence. And, you know, I just want to make it -- this is not something new. It's been presented every year.

Q Well, I appreciate that. But does this then continue on every year that the plant doesn't go into service? The customers, in addition to paying early money, they also have to pay $17 million in carrying costs for this?

A They pay carrying costs on the, basically the investment balance that the utility has to carry based on those deferred tax implications. Yes.

Q Did you, did you have an opportunity to testify in front of the Legislature when this policy consideration was being made, the nuclear cost recovery statute?

A No.

Q Do you know if this tax consequence was brought to the Legislature's attention when the nuclear cost recovery statute was being discussed?

MS. HUHTA: Objection. Lacks foundation. Mr. Foster has already testified he didn't testify in front of the Legislature.

CHAIRMAN GRAHAM: I'll let him answer the question. He just wanted to know if it came up.

THE WITNESS: I'll say that the statute clearly says recovery of all costs, and I believe it says including taxes. So I don't know if this specific topic came up, but I would suppose by that that they considered that taxes were a cost of the project.

BY MR. MOYLE:

Q Let me direct you to page 19 of your testimony. And specifically on line 13 you state in part of the sentence, quote, "recognizing that rate impacts are expected to increase in 2013 and 2014." That is a true statement, the rate impacts are expected to increase in 2013 and 2014; is that right?

A Under the, the estimates that were provided to me, yes. The fallout of that or the implications of that, we would expect rate impacts to increase in 2013 and 2014.

Q Okay. And by what order of magnitude? You don't have to nail it precisely. If you can just give me, you know, best estimates, or if you need to refer to something.

A Yeah. Give me a second, if you don't mind. Let me see. Sorry about this. Once again, too many pages of stuff.

Let me see where would be the best place. I don't specifically have that in front of me. I may be able to -- I think when we looked at my TOR schedules earlier --

Q It's important, because my, my clients want to know what, what the future is going to look like in terms of if things move forward, what their rates are going to look like. So, you know, you had filed the testimony that, saying the rates are going to increase, so I'd like to just understand that.

A TOR, Schedule TOR-3, on the second page, when you look at the years 2013 and 2014. We were there with Mr., Mr. Brew a while ago I guess now, this morning. You can see on line 6, revenue requirements for 2013 are projected to be, for that period are projected to be 215, almost 216 million. And for the next year they go up to 767 million.

Q All right. Let me make sure I'm with you on that. Tell me again where you're referring.

A TOR-3, columns H and I, line 6.

Q And this is page 5 of 17?

A You know, mine aren't numbered that way, but it's 2013 and 2014, so.

Q Okay. So let me, let me just ask a couple of questions about this, this chart, and make sure we're on the same chart.

The title of the document I'm looking at says Levy County Nuclear Units 1 and 2, Site Selection, Preconstruction Costs, and Carrying Costs on Construction Cost Balance, Summary of Annual Clause Recovery Amounts. Do you see that?

A I do. Yes.

Q Okay. And line 6, you I think said the last column has a number of 767,168,505.

A Uh-huh.

Q All right. So the question that I had asked you was what kind of rate impacts are we looking at in '13 and '14? And if I -- just help me with my simple math. In the column for 2011, there's a number of $81 million; correct?

A That's a period number, yes.

Q Okay. And so if we say, okay, well, right now it's 81 million, in 2013 it's going to 215 million. According to my math, that's more than a two and a half, two and a half times increase; isn't that right?

A For the period, that's accurate.

Q Right. So if you were doing, what is it, you know, 2011, it's 81 million. 2013, it's going to 215 million; correct?

A I may be able to help out.

Q Is that right?

A Hopefully you can forgive me. I think I found a better thing to look at actually.

Q Well, I'm -- let me just stay on this, if I can.

A Okay. Could you restate the question, please?

Q Sure. I was just, I was just getting you to confirm that from 2011 to 2013 the increase was more than two and a half times.

A Yeah. About two and a half times.

Q Okay. And if you then look and say, okay, well, two and a half times increase for 2013, what does 2014 look like? That number is nearly ten times the 81 million, isn't it?

A It is. The period costs are. And I think you should look at the next page, column J. It goes down in 2015 to 213 again. I just want to bring that, because one of the nice things I think about the rate management update that we've given is it moves collecting deferrals out of that 2014 time period, or it contemplates that anyway. So it recognizes those --

(Simultaneous conversation.)

MR. MOYLE: Mr. Chairman, he'll, he'll -- I'd like an answer to my question. He'll have a chance on redirect to explain some things.

CHAIRMAN GRAHAM: You just need to specifically answer the question. And you get -- after your yes or no, you can explain a little bit. You've just got to cut back a little on the editorial. Thank you.

THE WITNESS: Yes, sir.

BY MR. MOYLE:

Q All right. So I want to stay on costs a little bit longer. You have in front of you the exhibit that Mr. Brew provided. Exhibit 176, I think he marked it.

A Yes, sir, I do. 125 or --

Q It's the one that -- I'm sorry?

A I don't know. On, on the page it says 110009 Hearing Exhibit 00125?

CHAIRMAN GRAHAM: That's correct, sir.

MR. MOYLE: Yes, sir.

THE WITNESS: Okay.

BY MR. MOYLE:

Q All right. And you had pointed out the Footnote 1, it says that you put this -- this document was put together for illustrative purposes. I mean, you would agree illustrative purposes are making a point, showing someone making a decision what things would look like; correct?

A Yes.

Q And I know you worked in finance with the company. Do you have any information about, about bills? We talked a lot about residential bills, but do you have any information about specific customers and monthly, monthly electric bills that they may pay?

A I do not have specific customer bills.

Q You don't? Okay. Well, maybe I'll ask Mr. Elnitsky this. But just for the purposes of my questions, assume somebody currently is paying -- it's a big, big business, maybe a hospital or a cement company, and let's assume they're paying $450,000 per month, okay, in electric bills. Are you with me?

A I'm with you. Yes, sir.

Q All right. And to my way of thinking that is kind of easy because it tracks to the $4.50 per month that a, that a resident may pay. But assume a business is paying $450,000 per month, based on, based on the information in this column, am I correct that, that a business currently paying $450,000 per month would in 2016 be confronted with an electric bill of 1.6 million?

A No.

Q And tell me, tell me why -- well, Mr. Brew, you heard his opening where he said the residential folks are going to go from $4.50 to more than $16, correct, in 2016?

A I did hear that. Yes.

Q Did you agree with it?

A I agree that it represents what's illustrated in this exhibit. Yes.

Q Okay. So for my question, if you assume a business is paying $450,000 per month currently, in 2016 what would that business be paying based on the information contained in the exhibit we're talking about?

A That's a lot of math right there. Because what this represents is a differential based on, on two generation plans. The $16 you're speaking about is comparable to the four, but it's in the context of a total bill amount. And you said they were paying $450,000 a month. I'm not sure -- I'd have to try to break it out into what's specifically associated with this project.

Q For the purposes of our discussion, just assume -- we'll get away from the 450. Assume it's 100,000 that they're paying, that equates to the 450. Isn't it true that in 2016 that number would be times by four approximately, so we'd go from 100,000 to 400,000?

A I think I get where you're going here. The portion of their bill that they're currently paying associated with, you know, Levy NCRC, I agree that this exhibit represents they're going to go from about 4.50 to about $16 in 2016.

Just to make sure we're clear, this is a relatively small -- I don't want to say it's a small piece of their bill, but in context of the total dollars they're paying, you can't just say, well, then we multiply their bill by four times. You'd have to isolate the specific amount.

Q That's a fair point. I didn't mean to suggest that the whole bill is going to get times. It's the, it's the nuclear cost recovery portion.

A Okay. I think that's roughly right. It's a little less than that I think, but --

Q So, just so we're in agreement, in 2016 the nuclear cost recovery portion would go up approximately four times; correct?

A From 12 --

Q From today.

A Under our proposal, I'd agree that's -- it's a little, little less than that.

Q Okay. And let's just look at what would happen in 2019. That, that nuclear cost recovery portion then goes up approximately ten times; correct?

A From the levels -- yes. From 12.

Q So in my hypothetical, if a business has $100,000 currently per month that's being earmarked and is the nuclear cost recovery, then it would be a million dollars in 2019, according to this chart; correct?

A I'll say ten times 100,000 is a million.

Q No calculator, for the record.

A Thank you. I appreciate you making it easy on me.

Q And you would agree, would you not, that while you prepared this chart -- well, did you prepare this chart?

A I reviewed it. I didn't do all the calculations myself.

Q Okay. But you're comfortable talking about it; correct?

A I am. Yes, sir.

Q Okay. That you, you prepared it for the purpose of preparing -- of comparing what life looks like with Levy as compared to what life looks like without Levy; correct?

A Specifically we prepared it because we were requested to in an interrogatory. But that's what it does show, yes.

Q Okay. But you would also agree that the document and the information in the document can be also used to show the impacts going forward in the future of the nuclear cost recovery increases; correct? If you assume Levy is going to continue on, you continue building it, that the, the information set forth in here shows the increase that ratepayers will be subjected to in the nuclear cost recovery portion; correct?

A It gives you a comparison of what rate -- what we expect the differential in rates to be between a scenario where Levy is built in the '21, '22 time period and, you know, the all gas reference case. So it does -- it is meant to illustrate the difference that a customer, the residential rates will, will be over time through 2050.

Did that answer your question, or --

Q I think so. I was just trying to get you to admit that, you know, it didn't necessarily have to be used to compare to gas. It can also be used to show what the numbers are if you move forward with Levy, that the nuclear cost recovery charge is going to increase over time; correct?

A In, in the short term you can look at it that way. Of course, if the short term is all you were worried about, you would never embark on a project like this. So it's very -- I would never look at this and only look at the years in which it's under construction.

Q You would agree though, in order to, in order to get to the long term and maybe get some benefits, that a business or a resident would, would have to hang in there for at least ten years, correct, before the units come online?

A I'd agree that the benefits of, of nuclear production come once the units are online.

Q All right. And the units aren't slated to come online for at least ten years currently; correct?

A Approximately that time.

MR. MOYLE: I have nothing further. Thank you.

CHAIRMAN GRAHAM: Thank you, sir.

MR. WHITLOCK: No questions for this witness, Mr. Chairman.

CHAIRMAN GRAHAM: Is that all the Intervenors? Staff?

MR. YOUNG: No questions.

CHAIRMAN GRAHAM: Commission board? Commissioner Brown.

COMMISSIONER BROWN: Thank you, Mr. Chairman. A couple of questions, Mr. Foster. Are you familiar with exactly where Progress is in the licensing process?

THE WITNESS: That's really something Mr. Elnitsky is very up to speed on, ma'am.

COMMISSIONER BROWN: Okay. Another question. I don't know if you're familiar with it or if Mr. Elnitsky is. Has the company prepared a cost allocation scenario if a joint owner comes on board?

THE WITNESS: Has the company prepared a -- I don't think -- I have not, I have not seen one. And I -- it would be something that would be negotiated. Probably that's something, again, Mr. Elnitsky can speak better to. He's, he's more involved with the joint owners.

COMMISSIONER BROWN: I guess my question is has the company considered -- if it's -- do you have knowledge whether the company has considered possibly the rate impact with a joint owner on board?

THE WITNESS: I think we have had some scenarios with some different levels of assumed joint ownership. And I think even in -- gosh, I don't want to get into Mr. Elnitsky's testimony, but I think even in the feasibility realm maybe there have been some, some things presented.

COMMISSIONER BROWN: Okay. If I may.

CHAIRMAN GRAHAM: Sure.

COMMISSIONER BROWN: I know OPC earlier asked you what the rate impact would be if Progress took out the 54 million in deferred expenses.

As a hypothetical here, what would the rate impact be now and in the future if the Commission were to accelerate recovery of the deferred amounts, the balance?

THE WITNESS: Okay. I'm sorry. I'm hitting this. I'm too tall, I guess.

If you were to accelerate it, what you would see -- and I, I think we gave in discovery, in a discovery response, and that's what I was trying to find.

COMMISSIONER BROWN: Uh-huh.

THE WITNESS: If you can maybe give me a second.

COMMISSIONER BROWN: Take your time.

THE WITNESS: Oh, thank you. I appreciate it, Mr. Rehwinkel.

So in discovery, and this was in response to Staff's 20 -- Interrogatory Number 24. If the Commission accelerated into 2012 recovery of the entire asset, regulatory asset, the rate impact in 2012 would be about -- let me make sure -- about 645, as compared to, I think it's 447 we're presenting now.

COMMISSIONER BROWN: Does that, does the response in the interrogatory also provide what the rate impact would be in the future?

THE WITNESS: It does not. And I'm not -- I don't think I have that anywhere. What you'd see is you'd see some lower carrying costs going into the future. And I guess, in my, my rebuttal I don't speak to specifically if we'd accelerated the, the recovery.

I do compare the 115 versus the 60 in my Exhibit TGF-9 in my rebuttal, and that does show the impact going out. So I could maybe give a proxy for what it would look like in '13 and '14, but it would go down somewhat.

COMMISSIONER BROWN: Okay. I know you testified earlier that, I believe you said five -- there's going -- through 2021, 2022, the total carrying costs were 5 billion, so I just kind of wanted to get an understanding if we accelerated at this point.

THE WITNESS: Yes. Let me, let me look. I think I can -- I'm just trying to think. I think there's somewhere where I can give you a proxy for that, or something that's meaningful, but not your exact number.

COMMISSIONER BROWN: Again, take your time.

THE WITNESS: So in my Exhibit TGF-2, Appendix D, that's where we show the rate plan we proposed, and it shows you the carrying costs associated.

COMMISSIONER BROWN: I'm sorry. Did you say the TG --

THE WITNESS: TGF-2.

COMMISSIONER BROWN: Two? And what page?

THE WITNESS: It's Appendix D.

COMMISSIONER BROWN: Appendix D.

THE WITNESS: Would a Bates work for you?

COMMISSIONER BROWN: Yes.

THE WITNESS: I think the last four are 7166.

COMMISSIONER BROWN: Okay.

THE WITNESS: And you can see there the carrying costs associated with the outstanding balance in the column Carrying Costs there.

COMMISSIONER BROWN: Uh-huh.

THE WITNESS: And you can see our, you know, our average balance over '10 was, you know, the midpoint between the 230 -- 273 and 237, carrying costs of about 32 million. It goes down in '11 to about 26 million when you amortize that 60 million. So, and you can see the final year it's about 3.9 million.

So you'd see in '12 -- you'd see none in 2013, so that 3.9 would go away. And then the, the 15 in 2012 would decrease somewhat. I'd probably have to do some math to give you a really good estimate on that. I'm sorry.

COMMISSIONER BROWN: Okay. Thank you.

CHAIRMAN GRAHAM: Any other Commission questions?

Commissioner Balbis.

COMMISSIONER BALBIS: Thank you, Mr. Chairman. I just have one or two questions.

On the exhibit that was listed as part of 176, the third set of interrogatories, question number 13.

THE WITNESS: Yes, sir. I'm there.

COMMISSIONER BALBIS: Could you just describe briefly or summarize what the mid-reference fuel case is.

THE WITNESS: I can give you a high level. When it comes to these costs, and maybe it helps to kind of explain where some of these costs come from, these costs are generated when we do our feasibility analysis primarily. And, as y'all are probably pretty well aware, they do a series of estimates around what expected fuel prices are going to be. The mid-reference is what, you know, we present as kind of the middle of the band where we think it'll be. And if you need to get too much into how they do that, that's probably a little better for Mr. Elnitsky.

COMMISSIONER BALBIS: But I guess what I wanted to know is does that represent a high coal cost, high natural gas, midpoint where it is today, certain inflationary factors? I mean, just some sort of sense of what that, that referenced fuel case is.

THE WITNESS: And again, probably Mr. Elnitsky can speak more, more to this.

COMMISSIONER BALBIS: Okay.

THE WITNESS: But I think we give kind of a range of estimates in the band, and it's one that would be more in the middle of the band as far as assumed fuel costs.

COMMISSIONER BALBIS: Okay. And then just one last question. You had responded to Mr. Moyle on his questioning on the 16 million for the 75 total million, where it was about a 20 percent carrying cost for that year in question. My question to you is what would be some of the techniques or actions a company could take to reduce carrying costs?

THE WITNESS: Well, the primary action the company took was presented last year associated with Levy. And that was, you know, I think presented kind of as a move ahead a little bit slower. So, you know, the carrying cost rate on the investment in the project is statutorily defined. 366.93 is, you know, very clear on it, and that's what we apply to the project.

So the only way to have lower carrying costs is through lower investment. Did that make sense? So we -- last year we presented that we were going to move forward a little slower -- and I think Mr. Elnitsky can talk at great length to that I know, because he did last year -- and push some of that investment out. So by virtue of having lower investment outstanding, you have to finance less, you have less carrying costs on that.

COMMISSIONER BALBIS: Okay. Thank you.

CHAIRMAN GRAHAM: Any other Commissioners? Redirect?

MS. HUHTA: Thank you, Chairman.

REDIRECT EXAMINATION

BY MS. HUHTA:

Q Mr. Foster, could you turn back to the exhibit that Mr. Brew proffered, Staff's Third Set of Interrogatories, Question 13.

A I'm there.

Q Mr. Brew asked you a couple of questions about, under number one, the column entitled Resource Planning with Nuclear Annual Total Revenue Requirements, and referenced the number under 2019, 4.993,698 million. You wanted to provide a clarification of that number. Could you provide that to the Commission?

A Yeah. I think as, as the note one to that states, these aren't necessarily supposed to represent exactly what base rates are expected to be in the future. They're meant to represent two different generation plans, so they take kind of a starting point and just move forward with estimated costs.

So they're very useful from a comparative standpoint, but I don't want anybody to take the, you know, look at that and say, oh, that's our base, that's going to be the base revenue or the total revenue requirement in 2019. Although it's a good proxy for it, that's not really what it's intended to be used for.

Q And still staying on that same exhibit, Mr. Foster, looking at the column, column 6, Differential and Residential Average Electric Rates, could you explain to the Commission what that column is intended to show?

A Again, I mean, it is, it's intended to show the estimated differential over, through 2050, which this project would expect, I believe, to have life beyond 2050. So the benefits you see ending there in 2050 don't really end there. But it's expected to show the difference.

And something I think we need to keep in mind is the scenario without Levy or without new nuclear, there is, there is a difference in how costs are recovered, and it's something that the Legislature enacted to provide for early recovery. So it is going to look different, and it is a big investment.

And in the early years when you see these numbers, if that's all you're thinking about, you're absolutely not going to make a decision. But it's when you come down, and if you were to look at, you know, ask some of the same questions Mr. Moyle asked me about, you know, 2040 and 2045 or even, even 2030ish, even as far back as, you know, 2028 or 2029 there, I'd have to line it up. 2029, you'd be saying by not having new nuclear, the customer is going to be paying more.

So it's a balancing act. It's absolutely not just look at one or two or a couple of years until it's in service, because that's not why these projects would be undertaken.

Q And under that column 6, Differential and Residential Average Electric Rates for 2029, what's that differential?

A Our estimate is that having Levy in service will result in a reduction to the residential ratepayer, as compared to an all gas portfolio, in the amount of $2.28.

Q And how about for 2030?

A It goes up to $6.56.

Q 2031?

A $7.31.

Q And for 2050?

A $69.49.

Q You filed rebuttal testimony in this docket; correct?

A Yes. Yes.

Q Could we turn to your rebuttal testimony?

A Absolutely.

Q Could you explain to the Commission the purpose of TGF-9 exhibit to your rebuttal testimony.

A Yes. Basically this was, and it kind of goes to Commissioner Brown's question, was to, just to show alternatives here. And as compared to -- the top shows what we proposed on May 2nd and what we're proposing here today of the $115 million amortization of the deferred balance.

And the bottom section shows what if you reduce it to 60 million, and then spread some amortization into the 2014 period. And what it shows, you know, if you go to the rate impact area, it shows absolutely, if you collect more in 2012, you're going to have a higher rate impact in 2012.

Q And what is the, what is the differential between those, the rate impact variance between those two plans, the one proposed by Progress Energy May 2nd in your testimony and the one from last year?

A Sorry. I probably paused too long there because I wasn't quite done. But if you see those in 2013, by collecting more in 2012, there's a four-cent reduction in the rate, and in 2014 there's a $1.89. So an increase of $1.75 in '12, offset by between '13 and '14 a reduction of $1.93.

Another thing I think that it illustrates is just what, what we looked at when we were, when we were thinking about what we should propose this year. You see the 2011 rate in the top section -- or the bottom of 499. You see our proposal of $4.47. So you're about a 10, 10% increase in 2012 from our 2011 rates -- or decrease. Did I say increase? I may have. About a 10% decrease.

But then you see in 2013 that there's increased price pressure, and in 2014 there's quite a bit. So I think when I went back and I looked at the Commission orders, I mean, they were right on point for what they told us to do. They said, we're not going to approve a five-year amortization plan whereby you amortize 60 million a year. We're going to approve a plan where you defer recovery of X dollars, approximately 273 million, we're going to approve how much you're going to amortize in -- at the time it was 2010 and then last year it was in 2011 -- but we're going to require you to come present us a plan every year.

And, you know, basically they're saying, we want you to look and think about it and, and look at your rate management plan. And when I look at the trajectory of rates from '11 through '14, it just clearly seems to make sense to me that the right thing to do in 2012 is to try to minimize rate pressure in 2012, or '13 and '14.

Q And approving this rate management plan will have the effect of decreasing the carrying costs the ratepayer will ultimately have to pay; is that accurate?

A Yes, that's accurate.

Q Turning, Mr. Foster, to TOR-3 that Mr. Brew asked you about.

A I'm there.

Q You were asked several questions regarding carrying costs prior to when the project goes in service. Do you remember those?

A Yes.

Q After the plant goes into rate base, are carrying costs higher or lower because of the advanced recovery?

A They would be lower because there would be a lower investment basis.

Q And what are the benefits of incurring carrying costs? What are the benefits of incurring carrying costs basically now in advance?

MR. MOYLE: Mr. Chairman, I think this is beyond the cross. I mean, this is kind of getting into testimony that should have been offered on direct. You know, the carrying costs, they have testimony about it. It's kind of an opportunity to bolster the record through direct testimony that should have been filed, so we'd object.

MS. HUHTA: May I respond?

CHAIRMAN GRAHAM: Yes.

MS. HUHTA: Mr. Chairman, certainly, as Mr. Foster was testifying, he was not provided the opportunity to provide clarification on some of the questions and references that some of, some of the attorneys pointed him to. And we believe he should have the opportunity to have his full testimony heard and to provide that clarification, and I was simply trying to do that on redirect. Thank you.

MR. BREW: Mr. Chairman, if I could be heard on that.

CHAIRMAN GRAHAM: Yes.

MR. BREW: My question to Mr. Foster went to whether or not the carrying costs constituted the majority of the recoverable costs. I didn't ask him any questions about why or how carrying costs were recovered, so this question is clearly beyond the scope of the cross-examination.

CHAIRMAN GRAHAM: Staff?

MR. YOUNG: I believe -- I recommend that you sustain the objection. The Intervenors are correct. The -- I think Ms. Huhta's testimony goes to the benefits, and they did not talk about the benefits. They just talked about the carrying costs and moving forward.

CHAIRMAN GRAHAM: Do you have a different question?

MR. YOUNG: And that would be my, my recommendation also, if Ms. Huhta can rephrase the question.

MS. HUHTA: Certainly. Thank you. Give me one moment. Thank you.

CHAIRMAN GRAHAM: Take your time.

(Pause.)

MS. HUHTA: Thank you. That's all the questions we have.

CHAIRMAN GRAHAM: Okay. Do we have any exhibits that have to go in for this witness?

MS. HUHTA: Yes. We do have exhibits for Mr. Foster. We would move into evidence the witness exhibits TGF-1, TGF-2, TGF-3, 4, and 5, as Exhibits 149, 150, 151, 152, 153 on the Comprehensive Exhibit List.

CHAIRMAN GRAHAM: Not 154?

MS. HUHTA: No. 154 will not be moved into the record based on the motion for deferral that was granted on August 10th.

CHAIRMAN GRAHAM: Okay.

MS. HUHTA: Those are the direct exhibits, Chairman. Also, Mr. Foster has rebuttal exhibits listed as TGF-7, TGF-8, and TGF-9. On the Comprehensive Exhibit List, 183, 184, and 185, we would also move into evidence at this time.

CHAIRMAN GRAHAM: Okay. So we're looking to move 149, 150, 151, 152, 153, and 183, 184, 185, if there's no objections to those.

MR. YOUNG: No objection.

CHAIRMAN GRAHAM: Seeing none, we'll move those into the record.

(Exhibits 149, 150, 151, 152, 153, 183, 184, and 185 admitted into evidence.)

Is that it?

MS. HUHTA: Yes, Chairman.

CHAIRMAN GRAHAM: We didn't have anything from the Intervenors going into the record? That's correct?

Okay. The witness is excused temporarily.

MR. YOUNG: Mr. Chairman, I'm sorry. Based on the stipulation, the witness will not be excused.

CHAIRMAN GRAHAM: Temporarily.

MR. YOUNG: He will temporarily be --

CHAIRMAN GRAHAM: Until after Mr. Elnitsky is done.

MR. YOUNG: Elnitsky, yes.

CHAIRMAN GRAHAM: That being said, it looks like a good time to take a break for lunch, so we will take a recess for lunch. We'll reconvene, let's say at 1:45. That gives us about 40 minutes. Thank you.

(Transcript continues in sequence with Volume 11.)

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 19th day of August, 2011.

Linda Boles

LINDA BOLES, RPR, CRR
FPSC Official Commission Reporter
(850) 413-6734