

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**In re: Petition for Determination)
of Need for Levy Units 1 and 2)
Nuclear Power Plants)**

DOCKET NO. 080148-ET
Submitted for filing: March 11, 2008

**TESTIMONY
OF
JAVIER PORTUONDO
ON BEHALF OF
PROGRESS ENERGY FLORIDA**

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**IN RE: PETITION FOR DETERMINATION OF NEED FOR LEVY UNITS 1 AND 2
NUCLEAR POWER PLANTS**

FPSC DOCKET NO. _____

**DIRECT TESTIMONY OF
JAVIER PORTUONDO**

I. INTRODUCTION AND QUALIFICATIONS

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Q. Please state your name and business address.

A. My name is Javier J. Portuondo. My business address is 410 South Wilmington Street, Raleigh, NC 27601.

Q. By whom are you employed?

A. I am employed by Progress Energy Service Company, LLC.

Q. What is your position with Progress Energy Services Company?

A. I am the Director of Regulatory Planning.

Q. Please describe your duties as Director of Regulatory Planning.

A. I am responsible for regulatory planning, cost recovery and pricing functions for both Progress Energy Florida, Inc. ("PEF" or the "Company") and Progress Energy Carolinas, Inc. ("PEC"). These responsibilities include: cost of service analysis; regulatory financial reports; rate and tariff development and administration; analysis of state, federal and local regulations and their impact on PEC and PEF; planning, coordination and execution of general rate case proceedings as necessary; and consultant to business units of both utilities on proper rate making and regulatory compliance.

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Q. Please describe your educational and occupational history and describe your duties in the various positions you have held as an employee of Progress Energy.

A. I received a Bachelors of Science degree in Accounting from the University of South Florida. I began my employment with PEF (previously Florida Power Corporation) in 1985. During my 23 years with Florida Power Corporation and now Progress Energy Service Co. LLC., I have held a number of financial and accounting positions. In 1993, I became Manager, Regulatory Services for PEF and in 2006 I became Director of Regulatory Planning for both PEC and PEF.

II. PURPOSE AND SUMMARY OF TESTIMONY

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

A. The purpose of my testimony is to sponsor the estimated revenue requirements and rate impacts associated with the Levy nuclear plants both during construction and once the assets are placed commercially in service. I will also address how the costs of this project will be recovered consistent with Section 366.93, Florida Statutes, and Florida Public Service Commission (“PSC” or the “Commission”) Rule 25-6.0423, F.A.C.

Q. Are you sponsoring any exhibits to your testimony?

A. Yes. I am sponsoring the following exhibits that I prepared or that were prepared under my supervision and control:

- 1 • Exhibit No. ___ (JP-1), which provides a summary of the estimated first 12 months base
2 rate bill impact for Levy Unit 1, Levy Unit 2, and associated transmission facilities as
3 they go in-service.
- 4 • Exhibit No. ___ (JP-2), which provides a summary of the estimated revenue requirements
5 to be recovered through the CCRC for the period 2009-2017 per Rule 25-6.0423, F.A.C.
- 6 • Exhibit No. ___ (JP-3), which provides an estimate of the expected costs associated with
7 Site Selection & Preconstruction, Construction, and Carrying Costs for Levy Unit 1,
8 Levy Unit 2, and the associated transmission facilities.

9 These exhibits are true and accurate.

10

11 **Q. Please summarize your testimony.**

12 **A.** Levy Unit 1 is expected to go in service June 1, 2016 and has estimated revenue
13 requirements of approximately \$1.1 billion for the first 12 months of operation. Levy
14 Unit 2 is expected to go in service June 1, 2017 and has estimated revenue requirements
15 of approximately \$805 million for the first 12 months of operation. The associated
16 transmission assets have an estimated-final in service date of June 1, 2015 (but given the
17 nature of Levy transmission projects, it is expected that we will have various commercial
18 in-service dates throughout the construction phase), and have estimated revenue
19 requirements of approximately \$324 million for the first 12 months of operation.

20 The current, non-binding, estimate of project costs includes approximately \$25
21 million of site selection costs, \$893 million of preconstruction costs, \$12 billion of
22 construction costs, and \$3.9 billion of carrying costs exclusive of tax gross up and
23 carrying cost associated with deferred taxes. The carrying cost PEF will collect from

1 customers through the CCRC prior to the units being placed commercially in-service will
2 include a return on the construction costs as well as a return on any deferred tax asset that
3 arises over the life of the project. The carrying costs will be calculated using PEF's
4 pretax Allowance for Funds Used During Construction ("AFUDC") rate as provided in
5 section (5)(b)2 of Rule 25-6.0423, F.A.C.. PEF will also seek recovery of incremental
6 Operating and Maintenance ("O&M") costs throughout the construction of the plants
7 consistent with the Rule.

8 The impact to customer bills when Levy Unit 1 and Levy Unit 2 go in service will
9 be partially offset by associated reductions in the cost for fuel and environmental
10 compliance as compared to operating without the added nuclear capacity. The CCRC
11 rate will also decrease by the carrying cost associated with the Construction Work in
12 Progress ("CWIP") balance once the plants go in service. For example, with Levy Unit 1
13 we estimate that the base retail revenue requirements for the first 12 months of service
14 will be \$1.1 billion. A large portion of this revenue requirement is associated with the
15 return on the construction capital investment that has been collected through the CCRC
16 prior to the Unit being placed in-service. The retail revenue requirements associated with
17 Unit 1 in 2015 (the last full year before Unit 1 is placed in service), it assumes a carrying
18 cost of approximately \$693 million. Once the unit goes into service, this carrying cost
19 will be part of the return portion of the base rate increase. This illustrates the point that
20 although base revenue requirements will increase by approximately \$1.1 billion once
21 Unit 1 goes in service, the total incremental rate impact will be significantly less due to
22 the simultaneous decrease in the CCRC revenue requirements. We expect to see
23 additional benefits to total rate impacts due to the displacement of fossil fuel and

1 purchased power with nuclear fuel as well as potential reductions in environmental
2 compliance costs. We expect similar offsets for Unit 2. These offsets, along with the
3 other recovery provisions in Rule 25-6.0423, F.A.C. will help reduce the rate increases as
4 these plants go in service.

6 III. TOTAL PROJECT COSTS AND REVENUE REQUIREMENTS

7 **Q. What is the estimated total projected cost for both the nuclear generating facilities
8 and the associated transmission facilities and what are the projected in-service
9 dates?**

10 **A.** PEF is currently estimating to spend \$13 billion, before Carrying Cost/AFUDC, to
11 construct the Levy nuclear power plants, including associated transmission facilities.
12 This estimate includes approximately \$10.5 billion for Levy Units 1 and 2 nuclear
13 generating plants, and approximately \$2.5 billion for the associated transmission
14 facilities. Carrying Cost/AFUDC is expected to amount to approximately \$3.9 billion for
15 both Units 1 and 2 and the associated transmission facilities. This amount represents the
16 carrying cost before any gross up for taxes on a system basis associated with the CWIP
17 balance. It does not include any return on deferred tax balances, incremental O&M, or
18 other tax impacts. The projected in-service date for Levy Unit 1 is June 2016. The
19 projected in-service date for Levy Unit 2 is June 2017. For estimated cost purposes, the
20 projected in-service of associated transmission facilities is June 2015, but given the
21 nature of this portion of the Levy project some assets are expected to be commercially in
22 service at various times throughout the construction period.

1 **Q. Please provide the revenue requirements upon the commercial in-service date for**
2 **each phase of the generation and transmission projects.**

3 **A.** Exhibit No.__(JP-1) shows the first 12 months estimated revenue requirements for Levy
4 Unit 1, Levy Unit 2, and the associated transmission facilities as well as the estimated in-
5 service dates. For the purposes of estimating these revenue requirements it has been
6 assumed that all assets associated with the transmission project go in-service in June
7 2015. As noted previously, given the nature of the transmission projects some assets are
8 expected to be commercially in service at various times throughout the construction
9 period. This will result in more frequent increases in base rates than has been presented
10 in Exhibit No. ___(JP-1) consistent with Commission Rule 25-6.0423, F.A.C.(5)(c).

11

12 **IV. IMPACT TO CUSTOMERS BILLS**

13 **Q. What are the total revenue requirements expected to be recovered through the**
14 **CCRC from 2009-2017 relating to the project?**

15 **A.** As can be seen in Exhibit JP-2, the total revenue requirements expected to be recovered
16 through CCRC from 2009-2017 are estimated to be approximately \$6.1 billion. Of this,
17 approximately \$5.3 billion are project carrying costs and approximately \$794 million are
18 site selection/preconstruction costs. Once the assets are placed commercially in service
19 the establishment of the revenue requirements included in base rates will be consistent
20 with the provisions of Florida Statute Section 366.93 and Commission Rule 25-6.0423.

21

22 **Q. How were the carrying costs to be collected through the CCRC estimated?**

1 A. The carrying cost on CWIP was calculated by applying the approved carrying cost rate
2 per Rule 25-6.0423 to the estimated average balance in CWIP each year. The carrying
3 cost on the deferred tax balance was calculated by applying the approved carrying cost
4 rate to the average deferred tax balance associated with the project by year.

5
6 **Q. What will tend to impact the actual carrying cost that may differ from current**
7 **assumptions?**

8 A. There are several factors that will impact the actual carrying costs of the project. As with
9 all projects, differences to current projections in timing or amount of expenditures will
10 have a significant impact on the final carrying charges that are collected from the
11 customer. Differences between actual in service dates and estimated in service dates
12 will also have an impact. As discussed in previous sections of this testimony, one area
13 where simplifying assumptions have been made is in the in-service dates of the
14 transmission projects. It is likely that there will be more than one in service date
15 associated with the transmission required for Levy. At this stage of the project PEF
16 doesn't have enough information to be able to segregate project components down with
17 any level of accuracy. To the extent portions of the transmission project go in service
18 earlier than the assumed June 2015 date, carrying costs could decrease. This scenario
19 could also reduce the deferred tax balance faster than is currently being modeled which
20 would reduce the carrying cost associated with this part of the project

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22 **Q. What is your current estimate of the impact on an average residential customer bill**
23 **while the plants are under construction?**

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A. The estimated impact on an average residential customer bill is expected to range from \$6.43 in 2009 to \$24.75 in 2015, per 1000 KWh. This estimated price impact assumes the recovery of the site selection and pre-construction costs while the plants are under construction, the carrying costs on the construction costs, as well as the carrying costs on the deferred tax asset. Exhibit No.__(JP-2) provides further details at the estimated customer impact on a yearly basis.

Q. What is your current estimate of the impact on average residential customer base rates once the plants are placed commercially in service?

A. Exhibit No.__(JP-1) provides the estimated revenue requirements and the corresponding levelized base rate increase per 1000 KWh on the residential bill upon the in-service dates of the generation and transmission assets. By the time the plants are placed commercially in service, PEF will have already recovered the preconstruction and carrying costs on the construction balance, reducing the book basis that would have otherwise been recorded as a cost of construction for rate base setting purposes. This accelerated recovery will reduce the overall customer price impact once the plants are placed commercially in service. The total customer bill impact will also include offsets due to reduced fuel and environmental costs as compared to operating without the additional nuclear generating capacity. Additionally, as discussed previously, the component of return that was previously being recovered through the CCRC will move to base rates. This will result in decreases in the CCRC rate as the assets are brought online.

1 plant; costs of clearing, grading, and excavation; and costs of on-site construction
2 facilities (i.e. construction offices, warehouses, etc.).”

3 Site selection costs are further identified as those costs that meet the above
4 definition and are expended prior to the selection of a site. Pursuant to section (2)(c) of
5 Rule 25-6.0423, a site is deemed to be selected once a need petition is filed. PEF expects
6 to incur approximately \$25 million in site selection costs. The majority of these costs are
7 expected to be associated with COLA preparation and site studies.

8 Pre-construction costs are further identified as those costs that meet the definition
9 above that are expended after selection of the site and up to the date site clearing is
10 complete. PEF currently expects to incur approximately \$893 million in pre-construction
11 costs. Some examples of costs we expect to be associated with pre-construction are:
12 COLA preparation, engineering, surveying, site clearing, site grading, access roads,
13 parking, and drainage costs.

14 Both site selection and pre-construction costs will include transmission costs
15 associated with the Levy project. These will largely consist of engineering, survey, and
16 road and right-of-way clearing costs. The estimated transmission site selection and pre-
17 construction costs are included in the above numbers.

18 As discussed more fully in Mr. Danny Roderick’s and Mr. Dale Oliver’s
19 testimony, these costs are estimates based on the best information available to the
20 Company at the time of this filing.

21
22 **Q. How will the costs of this project be recovered?**

1 A. The method of recovery will be consistent with sections (4) and (5) of Commission Rule
2 25-6.0423.

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4 **Q. What is the appropriate rate to use in estimating the carrying costs on the project?**

5 A. As stated in section (5)(b)1. of Rule 25-6.0423, "For nuclear power plant need petitions
6 submitted on or before December 31, 2010, the associated carrying costs shall be
7 computed based on the pretax AFUDC rate in effect on June 19, 2006." PEF will
8 estimate the carrying costs using the annual pretax allowance for funds used during
9 construction (AFUDC) rate of 13.13%, based on the aftertax AFUDC rate of 8.848%
10 which was approved in Docket No. 050078-EI, Order No. PSC-05-0945-S-EI.

11
12 **Q. What are the income tax costs associated with the nuclear cost recovery rule?**

13 A. For tax purposes, all revenue collected from the customer for site selection and
14 preconstruction will be included in taxable income when it is received. Primarily all of
15 the expenses for site selection and preconstruction will be capitalized as part of the cost
16 of the plant and will then be deducted for tax purposes as depreciation expense over the
17 tax life of the plant. For tax purposes, the Company is also required to capitalize the
18 interest associated with the construction as part of the cost of the plant and this will be
19 deducted for tax purposes as depreciation expense over the life of the plant. These timing
20 differences will create a deferred tax asset on the Company's books. In other words, the
21 Company will have paid taxes for which it is entitled to a future tax deduction. As the
22 carrying costs on these taxes will be part of the cost of construction, the Company is
23 entitled to recover these carrying costs through the Nuclear Cost Recovery mechanism.

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Q. How will the Company recover the carrying costs on any deferred taxes that results from the early recovery of the preconstruction expenses and the carrying costs on construction?

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A. Consistent with the intent of the legislation to afford timely cost recovery, PEF will include recovery of the carrying charge on the deferred tax balance through the CCRC construction phase of the Levy nuclear project. PEF will have a deferred tax asset that will be long term in nature and will require capital funding for which PEF is not being compensated in base rates.

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VI. CONCLUSION

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Q. Does this conclude your direct testimony?

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A. Yes.

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Levy Nuclear Project
In-service Estimated Base Rate Retail Revenue Requirement and Residential Bill Impacts (1st 12 Months)

Levy Unit 1		
Estimated in-service date	June 1, 2016	
	Retail Revenue Requirements (000's)	Residential Rate Impact/MWh
Base Rate	\$ 1,134,645	\$ 26.17

Levy Unit 2		
Estimated in-service date	June 1, 2017	
	Retail Revenue Requirements (000's)	Residential Rate Impact/MWh
Base Rate	\$ 804,513	\$ 18.11

Transmission		
Estimated in-service date	June 1, 2015	
	Retail Revenue Requirements (000's)	Residential Rate Impact/MWh
Base Rate	\$ 323,625	\$ 7.64

Notes:

- (1) It is expected that there will be more than one in-service date associated with the transmission project and possibly the plants as well. At this time a simplifying assumption is being made that all assets go in-service together due to the early stage of the project and lack of more definitive information being available at this time.
- (2) Jurisdictional factors based on commission order PSC- 05-0945-S-EI, in docket 050078-EI



Levy Nuclear Project
 Estimated Revenue Requirements Recoverable Through CCRC (000's)
 Years 2009-2017

Levy Unit 1 Retail Revenue Requirements

	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Site Selection & Pre-construction	149,062	209,121	152,142	-	-	-	-	-	-	510,325
Carrying Costs (Note 1)	66,529	98,899	195,465	318,726	455,540	591,530	692,996	309,903	-	2,729,587
Total Levy Unit 1	215,591	308,019	347,607	318,726	455,540	591,530	692,996	309,903	-	3,239,912

Levy Unit 2 Retail Revenue Requirements

	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Site Selection & Pre-construction	-	296	74,167	6,198	1,764	-	-	-	-	82,425
Carrying Costs (Note 1)	13,409	45,626	92,232	159,713	257,114	356,556	436,308	492,770	158,133	2,011,861
Total Levy Unit 2	\$ 13,409	\$ 45,923	\$ 166,399	\$ 165,911	\$ 258,878	\$ 356,556	\$ 436,308	\$ 492,770	\$ 158,133	\$ 2,094,286

Transmission Retail Revenue Requirements

	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Site Selection & Pre-construction	33,174	19,646	71,748	19,826	36,373	17,124	2,963	-	-	200,853
Carrying Costs (Note 1)	10,515	23,892	52,927	94,065	136,296	168,263	83,513	-	-	569,470
Total Transmission	\$ 43,689	\$ 43,537	\$ 124,675	\$ 113,890	\$ 172,669	\$ 185,387	\$ 86,475	\$ -	\$ -	\$ 770,323

Site Selection & Pre-construction	182,236	229,063	298,057	26,023	38,137	17,124	2,963	-	-	793,603
Carrying Costs (Note 1)	90,452	168,417	340,824	572,504	848,950	1,116,349	1,212,817	802,672	158,133	5,310,918
Total Estimated Retail Revenue Requirements Recoverable Through CCRC	\$ 272,688	\$ 397,479	\$ 638,882	\$ 598,527	\$ 887,087	\$ 1,133,473	\$ 1,215,779	\$ 802,672	\$ 158,133	\$ 6,104,521

Total Estimated Retail Rate Impact	\$ 6.43	\$ 9.16	\$ 14.33	\$ 13.09	\$ 18.92	\$ 23.61	\$ 24.75	\$ 15.98	\$ 3.07	
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Note 1: Carrying Costs include the estimated carrying costs on construction balance as well as the carrying costs on the deferred tax balance.



Levy Nuclear Project
Estimated Cost Summary (System)
(000's)

	Site Selection & Preconstruction	Construction	AFUDC (1)	Initial Core Fuel	Total Project Costs
Levy Unit 1	\$ 544,347	\$ 5,795,080	\$ 1,813,742	\$ 162,000	\$ 8,315,169
Levy Unit 2	\$ 87,920	\$ 4,088,750	\$ 1,431,335	\$ 165,000	\$ 5,773,005
Transmission	\$ 284,506	\$ 2,162,335	\$ 631,159	\$ -	\$ 3,078,000
Total	\$ 916,773	\$ 12,046,165	\$ 3,876,236	\$ 327,000	\$ 17,166,174

Notes:

(1) AFUDC includes amounts collected from the retail ratepayer before tax gross up (part of carrying cost) as well as the wholesale portion of AFUDC.