

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**In re: Petition to Establish
Discovery Docket Regarding
Actual and Projected Costs for
Levy Nuclear Project, by Progress
Energy Florida, Inc.**

DOCKET NO. 080149

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**DIRECT TESTIMONY
OF GARRY MILLER**

**ON BEHALF OF
PROGRESS ENERGY FLORIDA**

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**IN RE: PETITION TO ESTABLISH DISCOVERY DOCKET REGARDING
ACTUAL AND PROJECTED COSTS FOR LEVY NUCLEAR PROJECT BY
PROGRESS ENERGY FLORIDA, INC.**

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 080149

DIRECT TESTIMONY OF GARRY MILLER

I. INTRODUCTION AND QUALIFICATIONS

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Q. Please state your name and business address.

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

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

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

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**Q. What are your responsibilities as the General Manager Nuclear Plant
Development & License Renewal?**

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A. I am responsible for new nuclear plant development in both the Carolinas and Florida, including Engineering, Licensing, and Project Controls (including scheduling, contracts, commercial matters, training, document control, records management, and project management). All the major contracts approved to date on the Levy project, and for nuclear plant development, have been under my management and responsibility.

Q. Please summarize your educational background and work experience.

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

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your direct testimony?

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

1 costs incurred from January through December 2007 for the acquisition of
2 real property necessary to support the construction of the Company's
3 proposed Levy Nuclear Power Plants.

4 Specifically, I will describe the land acquisition costs that have
5 been incurred, for which PEF is seeking recovery of the carrying costs. I
6 will explain why it was reasonable and necessary for the Company to
7 incur those land acquisition costs in the timeframe it did.

8
9 **Q. Do you have any exhibits to your testimony?**

10 **A.** No, I am not sponsoring any exhibits. I am, however, sponsoring
11 Schedules T-7 through T-8B of the Nuclear Filing Requirements
12 ("NFRs"), which are included as part of the exhibits to Will Garrett's
13 testimony. Schedule T-7 is a description of the nuclear technology
14 selected in 2007. Schedule T-8 is a list of the contracts executed in excess
15 of \$1.0 million in 2007. Schedule T-8A reflects details pertaining to the
16 contracts executed in excess of \$1.0 million. Schedule T-8B reflects
17 details pertaining to contracts executed in excess of \$200,000, but less
18 than \$1 million, of which there were none in 2007 for the Levy project.

19 All of these schedules are true and accurate.

20
21 **Q. Please summarize your testimony.**

22 **A.** The Company incurred real estate acquisition costs in 2007 to acquire land
23 necessary for its Levy Nuclear Project. PEF needed to acquire this real

1 property in 2007 to maintain the licensing and construction schedule to
2 successfully bring Levy Unit 1 into commercial service in 2016. As
3 demonstrated in my testimony and the NFR schedules attached to Mr.
4 Garrett's testimony, PEF took adequate steps to ensure these acquisition
5 costs were reasonable and prudent. PEF negotiated favorable contract
6 terms under the then-current market conditions and circumstances.

7 For all the reasons provided in my testimony and in the NFR
8 schedules, the Commission should approve PEF's costs incurred in 2007
9 as reasonable and prudent pursuant to the nuclear cost recovery rule.

10
11 **III. COSTS INCURRED IN 2007 FOR LEVY NUCLEAR PLANT**

12
13 **Q. Has PEF incurred any costs in 2007 for its Levy Nuclear Project?**

14 **A.** Yes, PEF incurred real estate acquisition costs to acquire the site for its
15 Levy Nuclear Project. Levy Units 1 and 2 are scheduled to be built at a
16 site selected in Levy County, Florida for commercial service in 2016 and
17 2017, respectively.

18
19 **Q. How did PEF choose the Levy site as the location for its new nuclear
20 power plants?**

21 **A.** The Company's Nuclear Plant Development Group ("NPD") utilized the
22 Electric Power Research Institute ("EPRI") siting guide, a widely accepted
23 guidance document for evaluating new nuclear power plant sites, and

1 applicable Nuclear Regulatory Commission (“NRC”) regulatory guidance,
2 to review and evaluate potential sites. Based on certain on-site analyses,
3 initial screening analyses, and on weighing strategic and transmission
4 considerations, NPD ultimately concluded that the Levy County site
5 presented the best overall site as compared to the other sites considered.

6 After initially selecting the Levy County site, PEF executed a
7 Purchase and Sales Agreement to acquire the parcel, known as the
8 Rayonier parcel, from the land owner in 2006. This allowed PEF to
9 conduct more detailed testing to ensure the viability of the site for a
10 nuclear plant, consistent with NRC regulatory guidance and regulations.
11 These analyses showed that the site was suitable for new nuclear plants.

12
13 **Q. Please generally describe the Rayonier Purchase and Sales**
14 **Agreement.**

15 **A.** PEF negotiated the Rayonier Purchase and Sales Agreement to provide
16 PEF the opportunity to ensure that the site was suitable for nuclear plant
17 development. Once those evaluations were complete, PEF closed on the
18 property in September 2007. PEF took several steps during the
19 negotiation of the Agreement to ensure that it received favorable terms
20 under the circumstances and market conditions. First, during the initial
21 negotiations for the Rayonier property, PEF maintained its anonymity by
22 utilizing a third-party representative, who acted on PEF’s behalf. PEF did
23 this to reduce the likelihood that property owners would inflate their initial

1 asking price solely based on the knowledge that the buyer was a large
2 utility. PEF also used comparable sales from the area to negotiate the
3 most appropriate price for that real estate market. In addition, PEF
4 engaged in lengthy negotiations with the property owner to obtain the
5 lowest possible price on the best possible terms.

6 One favorable contract term is that the Agreement provides for an
7 additional payment to the land owner once PEF has obtained its Combined
8 Operating License (“COL”) from the NRC. Thus, in the event the
9 Company does not complete the process of obtaining a COL for the
10 nuclear plants for any reason, the Company will not have to pay any
11 additional money for the land. In addition to this price benefit, PEF’s
12 acquisition of this parcel will be a benefit to its customers even if Levy
13 Units 1 and 2 are not ultimately constructed. Good sites, such as this one,
14 with access to an adequate water supply that can accommodate base load
15 and other generating units, are rare in Florida and becoming harder to find
16 and acquire. PEF may be able to utilize this site for alternative generating
17 units in the future.

18 The purchase price negotiated for the Rayonier parcel is a
19 reasonable and prudent price, given the circumstances and nature of the
20 transaction. The other terms of the Rayonier contract are also reasonable
21 and prudent. Further details of this contract are contained in Schedule T-8
22 and T-8A, attached as an exhibit to Mr. Garrett’s testimony.
23

1 **Q. Why did PEF acquire land at this time?**

2 **A.** PEF needed to acquire this parcel in 2007 to ensure that the NRC licensing
3 process and construction would be completed timely for Levy Unit 1 to go
4 on-line in 2016. For example, PEF has already started to order long lead-
5 time materials for the Westinghouse AP-1000 reactors, which allows PEF
6 to stay on schedule and to preserve favorable pricing for key components.
7 Additionally, and most significantly, PEF plans to file its Site Certification
8 Application (“SCA”) with the Florida Department of Environmental
9 Protection (“DEP”) in the second quarter of 2008, and the Combined
10 Construction and Operating License Application (“COLA”) with the NRC
11 in the third quarter of 2008. We expect the DEP approval process to take
12 12-15 months and the NRC license approval process to take approximately
13 42 months. Placing these orders and obtaining key regulatory approvals
14 on a timely basis will be critical to maintaining the construction schedule,
15 meeting budgets, and moving forward with the project. All of these
16 efforts required PEF to have a site already selected for its nuclear reactor
17 units.

18 In addition, certain pre-construction activities, such as construction
19 of site access roads, office building, and training center, must commence
20 in 2008 to ensure the proposed commercial in-service date can be met.
21 Assuming PEF receives all regulatory approvals on schedule, it will
22 commence on-site preparation and pre-construction activities in 2010.
23 PEF plans to begin the pour of safety-related concrete; i.e., starting with

1 the reactor foundation in 2012, and expects completion of the balance of
2 plant by the end of 2015. Thus, the acquisition of the property in 2007
3 was necessary, reasonable, and prudent to maintain PEF's construction
4 schedule.

5
6 **Q. Has the Company purchased other real property for the Levy Nuclear**
7 **Project?**

8 **A.** Yes, PEF executed a purchase agreement and closed on another parcel,
9 known as the Lybass parcel, in December 2007. This parcel is contiguous
10 to the southern border of the Rayonier parcel, and also includes a smaller
11 parcel contiguous to the northwest corner of the Rayonier property and
12 abutting the U.S. 19 highway. Acquisition of this property was necessary
13 to provide access to the Levy site to the Cross Florida Barge Canal, which
14 in turn provides access to the Gulf of Mexico -- the cooling water source
15 for the nuclear units. The Lybass parcel also permits greater construction
16 and employee access to the Levy site along the U.S. 19 highway. In
17 addition, part of the Lybass parcel provides access to transmission exit
18 corridors from the Levy nuclear units.

19 Like the Rayonier Purchase and Sale Agreement described above,
20 the Lybass contract was required to maintain the licensing and
21 construction schedule for Levy Units 1 and 2. The Lybass parcel will
22 likewise provide benefits to PEF's customers by serving as a potential
23 future site for alternative generation. Indeed, as described more fully in

1 Mr. Garrett's testimony, the Company will allocate a portion of the parcel
2 as land held for future use.

3 The purchase price for the Lybass parcel is reasonable and prudent,
4 given the nature and circumstances of the transaction. The remainder of
5 the contract provisions are also reasonable and prudent. Further details of
6 the Lybass contract are contained in Schedule T-8 and T-8A, attached as
7 an exhibit to Mr. Garrett's testimony.

8
9 **Q. Why did the Company purchase a greater amount of the Lybass
10 property than was needed for the Levy project?**

11 **A.** The landowners would only sell a minimum of 2,150 acres, therefore, the
12 only way PEF could acquire the necessary land rights for the transmission,
13 piping and heavy haul path corridors, would have been to condemn a
14 portion of the Lybass property. The Company first analyzed how much
15 land was necessary to accommodate the four 500kV transmission lines
16 exiting the site and the corridor necessary to locate the intake and
17 discharge piping and heavy haul road on the Lybass property. The
18 Company estimated that it would need at least a 1,000 foot corridor
19 through the western portion of the Lybass property comprising
20 approximately 220 acres. The Company next retained a qualified Florida
21 real estate appraiser, and outside eminent domain counsel, to assist the
22 Company in its evaluation of the alternative cost to condemn the 1,000
23 foot corridor for the Levy Nuclear Project. Under Florida law, the costs

1 included the likely value of the property, hiatus damages, any damages to
2 the remainder of the Lybass property, and any legal fees and other costs
3 resulting from a condemnation proceeding that PEF likely would be
4 required to pay. Based on this evaluation, and considering that any
5 eminent domain trial would be before a Levy County jury, the Company
6 decided to purchase the entire property.
7

8 **Q. Has the Company incurred any other costs for the Levy Nuclear**
9 **Project?**

10 **A.** Yes, PEF incurred costs pursuant to a third, separate contract. PEF
11 executed a Nominee Agreement with a real estate agent to provide real
12 estate acquisition services to identify potential sites and help the Company
13 choose, negotiate, and contract for what ultimately became the Rayonier
14 and Lybass parcels. The company acted as PEF's agent in this process.
15 This contract was necessary for the acquisition of the two parcels that
16 make up the Levy site. The company was chosen for its familiarity with
17 Florida real estate, its experience with negotiating large real estate
18 purchase contracts, and its familiarity with PEF. For this contract, PEF
19 negotiated favorable contract terms under the then-current market
20 conditions and circumstances. Indeed, PEF's real estate agent performed
21 its contract services successfully and below the original contract price.
22 The costs incurred under this contract are thus reasonable and prudent.

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Further details of the contract are contained in Schedule T-8 and T-8A, attached as an exhibit to Mr. Garrett's testimony.

Q. To summarize, were all the costs that the Company incurred in 2007 for the Levy Nuclear Project reasonable and prudent?

A. Yes, the specific cost amounts contained in the schedules, which are attached as exhibits to Mr. Garrett's testimony, reflect the reasonably and prudently incurred costs which are described above for the Levy Nuclear Project work in 2007.

Q. Does this conclude your testimony?

A. Yes, it does.