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Subject:	docket no. 080148 Southern Alliance for Clean Energy

Attachments: SACE Post hearing brief.doc

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- b. Docket No. 080148-EI, In Re: Petition for Determination of Need for Levy Units 1 and 2 Nuclear Power Plants
- c. Filed on behalf of The Southern Alliance for Clean Energy, Inc.
- d. Total Pages =
- e. Southern Alliance for Clean Energy Post-hearing Brief; cover letter

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June 9, 2008

Ann Cole Director, Office of the Commission Clerk Florida Public Service Commission 2540 Shumard Oak Blvd Tallahassee, Florida 32399-0850

RE: Docket No. 080148-EI

Dear Ms. Cole:

On behalf of the Southern Alliance for Clean Energy, Inc., enclosed please find for filing the Post-hearing brief. I thank you for your attention to this matter.

Sincerely,

/s/ E. Leon Jacobs, Jr.

E. Leon Jacobs, Jr. Attorney for The Southern Alliance for Clean Energy

Enclosures

DOCUMENT NUMBER-DATE D4912 JUNIOS 

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### **BEFORE THE PUBLIC SERVICE COMMISSION**

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In re; Petition for determination of need for ) Levy Units 1 and 2 nuclear power plants, by Progress Energy, Florida, Inc.

DOCKET NO. 080148-EI

FILED: June 9, 2008

# THE SOUTHERN ALLIANCE FOR CLEAN ENERGY, INC.

#### POST HEARING STATEMENT AND BRIEF

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Attorney for for The Southern Alliance for Clean Energy, Inc.

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# TABLE OF CONTENTS

STATEMENT OF BASIC POSITION
STATEMENT OF ISSUES AND POSITIONS
STATEMENT OF ISSUES AND POSITIONS
BRIEF OF
INTRODUCTION
FACTS
ARGUMENTS11
THE PETITION FAILS TO DEMONSTRATE THAT THE LEVY UNITS ARE THE MOST
RELIABLE OR COST-EFFECTIVE ALTERNATIVES AVAILABLE TO PEF11
PEF FAILED TO PROVIDE REASONABLE AND COMPETENT EVIDENCE AS TO
WHETHER RENEWABLE ENERGY, ENERGY EFFICIENCY OR CONSERVATIONTHEIR
NEED FOR POWER FROM THE LEVY UNITS15
CONCLUSION

.

Pursuant to Order No. PSC-08-0324-PHO-Ei, issued on May 16, 2008, establishing the prehearing and posthearing procedure in this docket, the Southern Alliance for Clean Energy, Inc., hereby files its Post Hearing Statement and Brief.

#### **STATEMENT OF BASIC POSITION**

PEF has not submitted adequate data upon which the Florida Public Service Commission ("Commission") can base its decision as to whether the proposed addition of the nuclear power plant in Levy County is the most cost effective alternative available to PEF to meet projected demand. The glaring absence of finality in the projected costs, the uncertainty in the comparison analyses, and ancillary issues such as transmission reliability, represent fatal flaws in the Commission's ability to make findings of fact to support a decision under section 403.519, Florida Statutes. Most specifically, the Commission is unable to ascertain whether there is a "need for adequate electricity at reasonable cost, and whether renewable energy sources and technologies, as well as conservation measures, are utilized to the extent reasonably available." § 403.519(4), F.S.

When coupled with uncertainty in core issues resulting from the use of a new reactor technology, along with industry and market uncertainties, PEF's analysis cannot offer the Commission any assurance that this proposal is the most cost effective manner by which to supply the demand projected in the application.

For these reasons, the Commission should deny this petition. The Commission can only consider this petition with the benefit of a true and accurate definition of the design, and the requisite costs that this facility will impose, and a true and accurate analysis of cost effective alternatives.

4

Thus, the Commission should deny this petition because the need for this plant has not been demonstrated. Alternatively, the Commission can only consider this petition with a true and accurate definition of the costs this facility will impose, and a true and accurate analysis of cost effective alternatives.

# STATEMENT OF ISSUES AND POSITIONS

- **<u>ISSUE 1</u>**: Is there a need for the proposed generating units, taking into account the need for electric system reliability and integrity, as this criterion is used in Section 403.519(4), Florida Statutes?
- POSITION: No.
- **ISSUE 2:** Is there a need for the proposed generating units, taking into account the need for fuel diversity, as this criterion is used in Section 403.519(4), Florida Statutes?
- POSITION: No.
- **ISSUE 3:** Is there a need for the proposed generating units, taking into account the need for base-load generating capacity, as this criterion is used in Section 403.519(4), Florida Statutes?
- POSITION: No.
- **<u>ISSUE 4</u>**: Is there a need for the proposed generating units, taking into account the need for adequate electricity at a reasonable cost, as this criterion is used in Section 403.519(4), Florida Statutes?
- POSITION: No.
- **ISSUE 5:** Are there any renewable energy sources and technologies or conservation measures taken by or reasonably available to Progress Energy Florida, Inc. which might mitigate the need for the proposed generating units?
- POSITION: Yes.

- **<u>ISSUE 6</u>**: Will the proposed generating units provide the most cost-effective source of power, as this criterion is used in Section 403.519(4), Florida Statutes?
- POSITION: No.
- **<u>ISSUE 7</u>**: Based on the resolution of the foregoing issues, should the Commission grant Progress Energy Florida, Inc.'s petition to determine the need for the proposed generating units?
- POSITION: No.
- **<u>ISSUE 8</u>**: Should this docket be closed?
- POSITION: Yes.

#### **BEFORE THE PUBLIC SERVICE COMMISSION**

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In re; Petition for determination of need for ) Levy Units 1 and 2 nuclear power plants, by Progress Energy, Florida, Inc.

DOCKET NO. 080148-EI JUNE 6, 2008 FILED:

# **BRIEF OF** THE SOUTHERN ALLIANCE FOR CLEAN ENERGY, INC.

#### <u>I</u>. **INTRODUCTION**

The proceeding was commenced when Progress Energy Florida ("PEF"), filed a Petition for Determination of Need for Levy Units 1 and 2 Nuclear Power Plants ("Levy Units"), on or about March 11, 2008. The Levy Units are proposed as two 1,092 megawatt ("MW") nuclear power reactors, located at a new 3,100 acre site in Levy County, Florida. PEF proposes to place Unit 1 in service by June, 2016, and Unit 2 in service by June 2017.

The petition of Southern Alliance for Clean Energy, Inc., to intervene was granted by Order No. PSC-08-0253-PCO-EI, issued on April 23, 2008.

PEF's petition was submitted under the Commission's revised authority in section 403.519(4), Florida Statutes, to site nuclear generation plants. These provisions establish the Commission as the exclusive forum for certification of need in nuclear plants, and require the Commission to give due consideration to a proposed plant's status in reducing Florida's dependence on fuel oil and natural gas. Section 403.519(4) further allows PEF to submit, and the Commission to consider a non-binding estimate of the cost of the generators. A kev provision is section 403.419(4)(e), F.S., which allows PEF to recover costs associated with the plant, prior to its commercial operation, so long as the Commission determines in subsequent proceedings that those costs were prudently incurred. Once costs are determined as prudent, challenges to cost recovery are prohibited. The statute further provides that all cost increases to the project which are determined to have been incurred for reasons beyond the control of the utility, are automatically deemed prudent.

Participants presented ten (10) expert witnesses in support of their petition. Intervenors presented one witness. However, after this extensive display of evidence, the record in these proceedings does not establish, as PEF submits, that the evolving nuclear technology to be constructed at the Levy Units is either established or reliable. The record also does not establish that the full and complete capital costs to build the Levy Units will ever be known. And, the record does not establish that the Levy Units will be the most cost effective power option for PEF.

The record does establish that PEF failed to provide the Commission with any reasonable inputs or analysis to meet its requirement under section 403.519, Fla. Stat., with regard to conservation, energy efficiency/DSM, and renewables. The Commission is required to consider "conservation measures *taken or reasonably available to the applicant or its members* which might mitigate the need for the proposed plant..." [emphasis added] In evaluating PEF's formal filings regarding its conservation, energy efficiency or DSM resources, it is clear that PEF is not maximizing the impact of energy efficiency, conservation and renewable energy in order to mitigate its need for the Levy Units.

## II. FACTS

PEF proposes a uniquely complex project; the first nuclear power plant built on a Greenfield site in Florida in more than thirty (30) years. PEF has selected the Westinghouse AP

1000 Advanced Nuclear Reactors for the Levy Units. Witness Bradford reports that this is a new reactor design with no construction or operating history whatsoever [TR 601] There are known and existing bottlenecks in the construction of this new design. By PEF's own admission, this project will entail the single, largest development of electric transmission infrastructure in the history of Florida. [PEF Need Petition, paragraph 31] PEF further acknowledges that the project's complexity is compounded by a host of additional challenges, such as: (i) permitting and licensing litigation and delays, at both the state and federal levels; (ii) availability of labor and equipment; (iii) construction management; (iv) inflation and cost of capital; and (v) financial management. [PEF Need Petition, paragraph 31]

NEED

PEF asserts that there is ample justification for ratepayers to accept risks of these levels because of a vital need for additional capacity to maintain reliability and system integrity. Yet the testimony in this case discloses that there is not a clear need based on reliability or integrity in PEF's network for the capacity from either of the Levy Units in 2016, the year in which PEF seeks to place them in service. [TR 519-528]

#### - COST EFFECTIVENESS

The estimates of costs to construct these units are steeped in uncertainty of historic proportions. From the time PEF initially proposed these units until the beginning of hearings on May 21, 2008, the estimates have more than tripled, and are now projected in excess of \$17 billion. In describing the cost estimates, PEF states:

9

"PEF has been in negotiations with Westinghouse and its construction partner, Shaw Stone & Webster (collectively the "Consortium"), for more than a year on pricing and the terms and conditions of an Engineering, Procurement, and Construction ("EPC") contract. Although the Consortium has provided PEF with site specific pricing for the project, EPC contract negotiations continue. PEF expects that a portion of the power plant costs will be based on firm prices. The total, non-binding cost estimate, however, will still be subject to change over the course of time it will take to achieve commercial operation of the two nuclear reactors even with these firm prices as part of the cost estimate." [PEF Need Petition, paragraph 26]

Thus, with regard to the full cost to bring these units to commercial operation, nothing is certain, and nothing will be certain in the foreseeable future, or, perhaps until the units are actually operational. And, as PEF correctly notes, the fact that the project will span more than a decade from initial analysis to final construction and commercial operation, further increases the difficulty in estimating total costs. Section 403.519(4)(e), F.S., places virtually the entire risk inherent in each of these challenges squarely on PEF's ratepayers.

The testimony is clear in acknowledging that PEF will incur more expenses to construct the Levy Units than would be incurred to build other fossil fuel alternatives. [TR 84; PEF Need Petition, paragraph 5.]

Since PEF has asserted that no renewable or energy efficiency options present themselves as alternatives, its integrated planning does not assess whether such resources, in any configuration or design, would allow PEF to experience reductions in expenses to meet the demand which the Levy Units are projected for. [TR 510-514]

PEF asserts that the essential economic support for the Levy Units is their ability to offer economies of scale through the construction of dual units at once. [TR 528; PEF Need Petition, paragraph 29; 37; 67 ] These arguments are not supported in the record. In fact, PEF has done no analysis which shows the impact of separately building Levy Unit 1 without Levy Unit 2. [TR 528] Thus, there is no substantial or persuasive evidence to support a finding that the Levy Units represent the most cost effective alternative for PEF in the timeframe proposed. To the contrary, the record seems to bear strong evidence of a substantial cost *disadvantage* in building both of the Levy Units for sometime into the future.

#### ARGUMENTS

#### III.

# THE PETITION FAILS TO DEMONSTRATE THAT THE LEVY UNITS ARE THE MOST RELIABLE OR COST-EFFECTIVE ALTERNATIVES AVAILABLE TO PEF.

# Issue 1 – Is there a need for Levy Units to support system reliability and integrity Issue 2 – Is there a need for Levy Units to support fuel diversity Issue 3 – Is there a need for Levy Units as base-load capacity Issue 4 – Is there a need for Levy Units to offer adequate electricity at reasonable cost Issue 6 – Will Levy Units provide most cost effective source of power

The Florida Public Service Commission ("FPSC" or "Commission") operates in this proceeding under express authority found in section 403.519, Florida Statutes. The Commission has implemented this statutory authority in a series of administrative rules, most specifically Rules 25-22.080, 25-22.081 and 25-22.082, Florida Administrative Code ("FAC"). The revisions in section 403.519(4), F.S., do not discharge the Commission of its jurisdiction, nor of its obligation to render a decision based upon a full and complete assessment of all issues relating to system reliability and integrity, reasonableness of electricity costs, fuel diversity, fuel supply reliability, and the cost effectiveness of alternative energy resources which would mitigate the electric demand PEF purports to need from the Levy Units. The revised statute outlines broader discretion granted to the Commission, in terms of issues and facts it may consider. With one exception, the amendments of section 403.519(4), do nothing to diminish the standards of proof required to issue a certificate of need. The one exception is the waiver of the

requirements in Rule 25-22.080, F.S., to obtain outside bids for the capacity addressed in the need petition.

Section 401.519(4)(b) makes it clear that no one of these factors can be viewed in isolation, however the prevailing filter is cost effectiveness. While the need petition may include, and the Commission may consider a non-binding estimate of the cost of the nuclear power plant, the Commission is not instructed to defer its entire authority under section 409.519 to a non-binding cost estimate. This term is intended to begin the Commission's inquiry, not to conclude it. Additionally, it is most critical to note that the term "non-binding cost estimate" is not defined in the statute, and in the context of an estimate of the cost of a nuclear power plant, represents an incredibly vague term.

The facts of this case expose the egregious error that would occur should the Commission defer to a non-binding estimate alone in ruling on cost effectiveness of the Levy Units. First, the figures related to the plant equipment, delivery and construction for the Levy Units, as submitted by PEF, are based on preliminary negotiations and tentative discussions. [TR 156; 168] Labor availability, availability of key operating equipment, uncertainties of the federal and state regulatory process, and financial management costs of this project are all highly variable inputs to PEF's cost analysis, with the caveat that they are likely to increase by percentages which are unknown. [TR 168-169; 200-201] There is uncalculated risk introduced by the length of the regulatory and construction processes. Finally transmission costs represent yet an additional, substantial uncertainty.

In addition, there is persuasive evidence that neither of the Levy Units is truly necessary to meet system reliability or integrity requirements at the time they are projected for commercial operation. Though the addition of the Levy Units revises PEF's fuel generation mix, and adds

12

base-load capacity, the price and overall economic benefit of these system enhancements is patently unclear.

With this level of uncertainty, it escapes reason that the Commission could rationally compare the Levy Units to other supply or demand side alternatives in order to comply with §403.519, F.S. The evaluation of cost effectiveness is particularly complex in this case because the capacity required falls so far short of the actual output of the Levy Units. Therefore, not only does the Commission face challenges in comparing the Levy Units to alternative resources to address the demand, but it also faces challenges in determining how to configure the Levy Units were they to be approved. [TR 536-537] PEF, to its credit, states :

Levy Units 1 and 2 will be expensive, however, even based on preliminary, nonbinding cost estimates that do not yet fully reflect all site-specific cost adjustments. They may be even more expensive, once all of these costs are accounted for or as costs are incurred and circumstances change over the next decade by the time they achieve commercial operation in 2016 and 2017. On economics alone, natural gas-fired, combined cycle plants cost less to build and their capital costs tend to be more certain than construction projects of the duration and magnitude of new nuclear and associated transmission facilities. [PEF Need Petition, paragraph 5.]

PEF's asserts that in this case, the cost effectiveness test should be weighted more to recognize the advances in fuel diversity and base-load capacity afforded by the Levy Units. [PEF Need Study, paragraphs 37-40 ] However, the Commission has determined that serious uncertainty in capital costs, and in current market conditions or regulatory requirements may not, as a rule, be mitigated by purported benefits to fuel diversity.<sup>1</sup> Given present economic, market and political dynamics, the Commission should ensure that the Levy Units are built only if the full, long-term costs are *planned for*, and shown to be cost effective against other competing

<sup>&</sup>lt;sup>1</sup> In re: Petition for determination of need for Glades Power Park Units 1 and 2 electrical power plants in Glades County, Florida, by Florida Power & Light, Order No. PSC-07-0557-FOF-EI, July 2, 2007, Docket No. 070098-EI.

resources.<sup>2</sup> The fact that the statute allows the Commission to consider a nonbinding estimate does not release it of this obligation. Cost effectiveness must still be demonstrated.

As to the focus on additional base-load capacity, the Commission must balance its analysis with concerns over overbuilding by the industry. The Commission has consistently held that need should not be certified for a generic statewide need as proposed by independent wholesale generator, rather than a specific utility need, In re: Petition for determination of need for electrical power plant (Amelia Island Cogeneration Facility) by Nassau Power Corporation, 92 FPSC 2:814, 827 (1992), In re Petition of Nassau Power Corporation to determine need for electrical power plant (Okeechobee County Cogeneration Facility); In re: Petition of Ark Energy, Inc., and CSW Development-1, Inc., for determination of need for electric power plant to be located in Okeechobee County, Florida; Petition of Ark Energy, Inc., and CSW Development-1, Inc., for approval of contract for the sale of capacity and energy to Florida Power & Light; Petition of Nassau Power Corporation for approval of contract for the sale of capacity and energy to Florida Power & Light, 92 FPSC 10:643 (1992). Regulated utilities cannot be exempted from this restriction. Indeed, the concern is more appropriate with regard to regulated companies because, as is readily apparent in this case, ratepayers bear much of the risk, while the utility stands to reap the benefits of wholesale transactions.

<sup>&</sup>lt;sup>2</sup> In re: Petition for determination of need for electrical power plant (Amelia Island Cogeneration Facility), 92 FPSC 2:814, 816 (1992).

#### IV.

# PEF FAILED TO PROVIDE REASONABLE AND COMPETENT EVIDENCE AS TO WHETHER RENEWABLE ENERGY, ENERGY EFFICIENCY OR CONSERVATIONTHEIR NEED FOR POWER FROM THE LEVY UNITS

# Issue 5 – Are there any renewable energy sources and technologies or conservation measures taken by or reasonably available to Progress Energy Florida, Inc. which might mitigate the need for the proposed generating units?

The evaluation of end-use energy efficiency measures is critical to the PEF integrated resource plan. DSM measures are integrated in the planning process as to determine how much load growth can be reduced. [TR 513] PEF assumes that it has maximized energy efficiency prior to examining supply-side options. In fact, Mr. Benjamin Crisp, PEF director of System Planning and regulatory Performance, stated without qualification that PEF DSM has been maximized [TR 522] Therefore, the final development of a successful and accurate integrated resource plan is contingent on a comprehensive and aggressive evaluation of energy efficiency measures by Mr. Masiello, Director of Demand Side Management. [TR 510]

PEF's energy efficiency evaluation dismissed measures that were reasonably available to reduce load growth and thereby dismissed measures that would mitigate the need for the proposed nuclear units. The reduction of load growth is critical to managing the financial risk of new nuclear units. The dismissal of energy efficiency measures because of reliance on the Rate Impact Measure (RIM) benefit cost test and the under investment in incentives to customers for measures that passed the RIM benefit cost test exemplifies a pattern of PEF avoiding energy efficiency measures that could mitigate the need for the nuclear units. For example PEF considered over 200 possible measures in most recently expanded commission-approved DSM program in Docket 060647. [TR 253]. Yet of over the 200 measures included for review approximately only 50% were adopted and made available to PEF customers. [TR 251]

PEF states that the goal of utility DSM programs and *incentives* is to encourage customers to choose more energy efficient equipment than they would without a utility program. (emphasis added) [TR 254] The previous statement clearly set out that the incentive offered to PEF customers in a critical component of customer participation in energy efficiency measures that can mitigate the need for new, financially risky generation assets. Yet, PEFs energy efficiency attainment expectations have decreased in recent years. The energy efficiency programs that have decreased in capturing energy efficiency include residential HVAC programs, duct repair, and residential attic insulation upgrades is steadily decreasing. [TR 254-5] Finally, residential new construction combined annual implementations for heart pumps and insulation peaked sharply in 2003 but have settled at an annual level of implementation that is well below the 2003 level. [TR 255] PEF offers conjecture that the HVAC efficiency decline may be due more stringent appliance to programs being available once per premise. Nowhere is there a mention of providing more incentive for garner more customer participation.

PEF consistent failure to maximize incentives to its customers and thereby failure to maximize energy efficiency is evident in the appendix of PEF's most recent DSM program additions as evidenced in the petition for approval of demand side management programs. [Ex 62]. Mr. Masiello concedes that PEF has not maximized incentives in its most recent DSM offering [TR 294] which is inconsistent with above statements that DSM has been maximized; since natural human behavior dictates that penetration of a measure will grow, to some degree, if the customer is offered greater financial incentive. For example, all 8 new DSM programs have a RIM score of well over 1.0 (4 of the 8 programs are highlighted below).

Name of Program	RIM Score	\$ Benefit	\$ Cost	Additional \$\$ Incentive Potential Not Realized
Home Energy Improvement	1.68	193,895	115,644	78,251
Residential New Construction	2.27	140,833	61,998	78, 835
Residential Year Round Energy Mgmt	2.73	147,032	53,946	93,086
C/I New Construction	1.47	53,743	36,659	16,084

The above table indicates that PEF routinely does not maximize incentives to its customers pursuant to the RIM benefit cost test. Since additional incentive tends to increase participation in energy efficiency programs, therefore statements by Messrs. Crisp and Masiello indicating that they have maximized DSM are inaccurate. A cursory review of the 4 programs above indicates that that a cumulative total of over \$265, 000 of incentives could have been offered to cusotmers and still pass the RIM test. Additionally, other widely used benefit cost test, such as the Total Resource Cost (TRC) test, that was not utilized by PEF, does not include lost revenue as a cost and thereby allows for even greater incentive offerings to PEF customer.

It is evident that PEF customers have been deprived of additional incentives to participates in a at least 8 programs and over 100 measures [Ex. 68, App A]. The PEF practice of implementing programs that have a RIM test score of over 1.0 deprives PEF customers of the opportunity to consider move vibrant energy efficiency programs. Furthermore, PEF could use a benefit cost test such as the TRC test, but elects not to utilize, opting for the more restrictive RIM test energy efficiency screen. Even under the RIM test screen, PEF fails to maximize incentives to customers. PEF's practice in inconsistent with Mr. Crisp and Masiello's statements and indicates that all reasonable energy efficiency measures that could mitigate the need for the plant have not been utilized.

# V. CONCLUSION

For the reasons discussed herein, the record before the Commission does not support a conclusion that Levy Units are the most cost effective alternative to serve the need for electricity demonstrated by the PEF. The Commission should deny this petition because the need for this plant has not been demonstrated. Alternatively, the Commission can only consider this petition with a true and accurate definition of the costs this facility will impose, and a true and accurate analysis of cost effective alternatives.

Respectfully submitted this 9<sup>th</sup> day of June, 2008.

/s/ E. Leon Jacobs

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Tallahassee, Florida 32301
(850) 222-1246
Fla. Bar ID. 0714682
Attorney for The Southern Alliance for Clean Energy

# **CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true copy and correct copy of the foregoing was served on this 9<sup>th</sup> day of June, 2008, via electronic mail and via US Mail on:

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Florida Public Service Commission	Office of Public Counsel		
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This 9<sup>th</sup> day of June, 2008.

Respectfully submitted,

/s/ E. Leon Jacobs

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