BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for increase in rates by Progress Energy Florida.

Docket No. 090079-EI
Submitted for filing: March 20, 2009

DIRECT TESTIMONY OF
DALE E. YOUNG

On behalf of PROGRESS ENERGY FLORIDA
DIRECT TESTIMONY OF
DALE E. YOUNG

I. **Introduction and Summary.**

Q. Please state your name and business address.

A. My name is Dale E. Young. My business address is 15760 West Power Line Street, Crystal River, Florida 34428.

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

A. I am employed by Progress Energy Florida (“PEF” or the “Company”) in the capacity of Vice President – Crystal River Nuclear Plant.

Q. What are the duties and responsibilities of your position with PEF?

A. I am responsible for the safe and efficient operation of PEF’s Crystal River Unit 3 nuclear power plant (“CR3”).

Q. Please describe your educational background and professional experience.

A. From 1969 to 1977, I served as a Civil Engineering Officer in the United States Air Force, where I was responsible for a number of military construction projects. I attended college while in the service and received my Bachelor of Science degree in Electrical Engineering from the University of Missouri at Columbia in 1973. I later earned a Master’s Degree in Business and Management from Webster College in 1977. Upon my discharge from the Air Force in 1977, I was employed as a Nuclear Plant Engineer with the Westinghouse Bettis Division, where I was responsible for operation and maintenance of a Naval Prototype plant used to train Navy nuclear
operators. I moved to Union Electric Company in 1979 and was employed in Fulton, Missouri, at Union Electric’s Callaway Plant, a 1200 MW pressurized water reactor plant. I held various engineering and management positions over the fifteen year period I worked at the Callaway Plant, including Shift Supervisor, Maintenance Manager, and Operations Manager. I held a Senior Nuclear Reactor’s License from 1984 through 1994. In 1994, I was employed by Carolina Power and Light Company ("CP&L") at the Robinson Nuclear Plant in South Carolina. I was the Plant Manager from 1994 to 1997, when I was promoted to Director of Site Operations. I held that position until 1998, when I was promoted to Site Vice President, a position I held until December 2000. Since December 2000, I have been employed by Progress Energy as Vice President – Crystal River Nuclear Plant. I am a Registered Professional Engineer in the state of Missouri.

Q. What is the purpose of your direct testimony?
A. I support the reasonableness of the Nuclear Generation portion of the Company’s Capital and Operating and Maintenance ("O&M") expenses.

Q. Do you have any exhibits to your testimony?
A. Yes, I have prepared or supervised the preparation of the following exhibits to my direct testimony:

- Exhibit No. ___ (DEY-1), a list of the Minimum Filing Requirements (MFRs) Schedules that I sponsor or co-sponsor.
- Exhibit No. ___ (DEY-2), CR3 Non-Fuel O&M Two-Year Average Cost.
- Exhibit No. ___ (DEY-3), CR3 Net Generation.
• Exhibit No. ___ (DEY-4), PEF’s 2008 Nuclear Decommissioning Study.
• Exhibit No. ___ (DEY-5), Nuclear Regulatory Commission – 2008 Annual Assessment Letter.

These exhibits are true and accurate.

Q. Do you sponsor any schedules of the Company’s Minimum Filing Requirements (MFRs)?
A. Yes, I sponsor in whole or in part the MFR schedules listed on Exhibit No. ___ (DEY-1). These schedules are true and correct, subject to their being updated in the course of this proceeding.

Q. Please summarize your testimony.
A. The Crystal River Unit 3 nuclear plant is continuing to operate at a high level of efficiency and reliability. Much of this achievement is attributable to careful planning and cost control on the part of Company management and to industry-wide technological advances. Crystal River Unit 3 ranks in the top quartile of the industry in environmental stewardship and personnel safety. In the area of nuclear safety, we have achieved the industry goal of zero fuel leaks.

We see this operational excellence continuing in future years. PEF is committed to staying abreast of industry best practices through participation in information exchange programs among leading nuclear operators and to maintaining a strong working relationship with regulatory authorities. Our goal is to balance an
uncompromising operating philosophy with careful cost control so that CR3 consistently remains a top performer.

II. **Historical Perspective on Nuclear Operations.**

Q. Please provide us with an overview of actions the Company has taken since its last rate case to maintain and improve operations at CR3.

A. The nuclear power industry continues to show positive advancements since the Company’s last rate filing in 2005. The average capacity factor for the industry is at an all-time high, and average production costs continue to be lower than coal-fired plants. These continued industry advancements, combined with a number of successful and on-going management initiatives, will allow PEF to ensure the future reliability and performance of CR3 without compromising the safety of our operations.

At Crystal River 3 we have focused our performance improvement in two broad areas. These areas of focus are equipment reliability and human performance. Improvement initiatives in these areas drive more reliable operation of the equipment and a reduction in errors by the employees maintaining and operating the facility. The results can be measured in the overall reliability of the station.

In the area of equipment reliability we have executed a number of programs and initiatives to improve the safety and reliability of the plant.

- In 2006 we installed a third station diesel generator. This provides greater flexibility in the scheduling of our safety related diesel generator maintenance
by allowing such maintenance during times other than planned outages. This project has also improved the plant nuclear safety profile by giving significant redundancy in dealing with a loss of offsite power.

- We have planned and executed preventative weld overlay applications in a number of reactor coolant system components which were susceptible to long term degradation.

- A condenser tube cleaning system that became unreliable over time, routinely causing past power reductions, was replaced with a state of the art Beaudrey system.

- We have developed and are executing a comprehensive large motor refurbishment program. Two of the plant’s four large reactor coolant pump motors have been replaced in the last three years under this program.

- We have installed a new water treatment system to improve water quality for plant operations.

- In the past, the plant experienced fuel failures where the fuel rod tubes allowed increased contamination into the reactor water system. The Company worked with the fuel vendor to design a more robust fuel assembly to decrease the risk of fuel failures. This new design has been successful by not having any fuel failures of these new assemblies. Based on CR3’s experience with these new fuel assemblies, the redesigned fuel assemblies are now in use by numerous other Babcock & Wilcox plants.
We continued to make improvements in the area of human performance during the period. A new permanent position for a specialist in human error reduction has been created with the responsibility to develop and implement our human performance program initiatives. The program is designed to get the best, consistent performance from the staff. Initiatives developed under this program include the following: improving the quality and detail of our procedures; evaluating work practices for susceptibility to making mistakes; and developing expectations for human performance elements such as communication standards and work practice standards. We are constantly looking for better ways to train our employees to accurately implement their tasks the first time.

CR3 has also expanded the use of summer interns to improve the recruiting talent pool primarily for engineers. We have been successful in hiring a number of previous interns upon their graduation to fill vacancies in the engineering section. This is part of the recruiting strategy to fill some vacancies with new college graduates and train them for nuclear power positions.

Q. What additional initiatives is the Company undertaking to maintain or improve the reliability of its operations?

A. The Company is undertaking a number of initiatives to improve the reliability of the CR3 operations. These include:

- A spare Feed Water Pump Turbine Rotor has been ordered to accommodate the future change out of these two pump rotors in 2011 and 2013. Refurbishing a rotor during a refueling outage would extend the outage by approximately 15
days. Having the flexibility to pull the original rotor and insert a spare will improve the future reliability of the pumps and avoid increased outage days.

- Discharge heads will be replaced on the four Circulating Water Pumps; one in 2007, one in 2009, and two in 2011. The discharge heads have degraded over their service life and will be replaced with new heads. If these heads were not replaced, the plant in the future would experience decreased water flow to the water boxes resulting in decreased generation.

- Integrated Control System circuit cards are being rebuilt. New cards are not available for the ICS, so arrangements were made to have the existing cards rebuilt with new components. These rebuilt cards will be installed by the end of 2009 and will increase plant reliability in the future by reducing circuit card failures.

- Raw Water Pump/Motor modifications in the future will considerably increase the reliability and efficiency of this system. Starting in the next outage, new or refurbished motors will be installed on these pumps. The pumps will be modified to increase efficiency while reducing the power requirements for the motors.

III. Crystal River Nuclear Plant Operating Performance.

Q. Have the actions taken since the last rate case been effective in improving the performance of the Company’s Nuclear Operations?

A. Yes. The station continues to operate at or near historical records for production while maintaining the highest industry standards for safety. One measure of a plant’s performance is to track total electrical production over each two year nuclear
fuel cycle. Since 2000, the station has completed four of these two year cycles. These four cycles represent the four highest performing generating cycles in plant history. In 2007, the station generated more electricity than any other year in which the station had a refueling outage. As shown on Exhibit (DEY-3), net generation will decline in 2009, due to the extended 85 day refueling outage during which the unit’s steam generators will be replaced. This compares with the recent refueling outage interval of 32 days. By 2010, we expect increased generation due to completion of the second phase of our plant uprate project. Both of these projects are discussed below.

While generation has increased in recent years, our costs have also increased as a result of our equipment reliability improvement program which will provide for improved plant reliability in future years. The two-year average non-fuel production costs were 12.2 Mills/Kwh for 2004-05 and 14.1 Mills/Kwh for the years 2007-08 as shown on Exhibit (DEY-2). This Exhibit also shows a projected increase in two-year average costs in 2008-09 and 2009-10. This increase is due primarily to the effect of the extended 85 day refueling outage, which results in spreading many fixed O&M costs over a smaller base of GWH generated.

As station generation reaches current levels of performance, increases in output can only be realistically achieved by increasing the design output of the plant. During the outage in 2007, the station executed the first of a series of modifications which will increase the output of the station. When completed in 2011, these modifications will increase the station’s production by a total of 180 MW.
CR3 is an industry leader in personnel and nuclear safety. We rank in the top quartile of the industry in total industrial safety. We also meet the industry nuclear safety goal of zero fuel leaks. Our emphasis on environmental stewardship has enabled us to rank in the top quartile on the industry’s environmental index.

Q. Are there other regulatory measures of performance the Commission should consider?

A. Yes. The federal government measures nuclear performance with performance indicators that are updated monthly and are available for public review through the NRC web site. Plant inspection assessments are performed by NRC personnel on a regular basis with performance graded in each area. CR3 has maintained green status (the NRC’s highest rating) in all areas since 2006.

In addition, CR3 management has been dedicated to continuing a positive relationship with the NRC and has been successful in maintaining good regulatory performance. During the past four years, the plant has not received any cited violations resulting from NRC inspections. The NRC continues to keep CR3 on a routine baseline inspection schedule and currently does not plan to add special inspection requirements beyond the current baseline. See Exhibit No. ___ (DEY-5).

Q. Do you have plans to extend the license for the nuclear plant?
A. Yes, we do. The current license expires in 2016 and we submitted our license renewal application to the NRC in December 2008. The submittal requests a license extension of an additional 20 years, to 2036.

Q. What other projects are being performed at CR3?

A. The company is undertaking two significant capital projects at CR3: a 180 MW uprate to the plant, which will be completed in 2011, and the replacement of the unit’s two steam generators, which will be completed during this year’s refueling outage. Phase 1 of the uprate project was completed in 2007 and increased plant output by 12 MWs. Phase 2 of the uprate project will be completed during this year’s refueling outage and will increase plant output by 28 MWs. The remainder of the uprate will be completed during the 2011 refueling outage adding 140 MWs. When completed we estimate the uprate project will save customers nearly $2.6 billion in gross fuel costs over the life of the unit. The costs of the uprate project are being recovered through the nuclear cost recovery clause, and do not affect the base rate request in this proceeding.

Q. Please describe the steam generator replacement project.

A. The CR3 unit was placed in service in 1977 with once-through steam generators (OTSGs) manufactured by Babcox and Wilcox. Like every other nuclear plant using these steam generators, PEF has experienced stress corrosion and cracking in the OTSG tubes that has required an increase in tube inspection and repair activities. In addition to increasing O&M costs, these phenomena shorten the useful life of the steam generators such that a license extension beyond 2016 would be impractical. In
mid-2002, the company began a study which showed that replacement of the steam
generators would provide $517 million (CPVRR) of savings versus
decommissioning CR3 in 2016 and building new capacity. The study also showed
that it was more cost-effective to replace the OTSGs as soon as possible (2009)
rather than as late as possible (2016). In 2004, the company initiated a multi-year
project to replace the OTSGs during the 2009 refueling outage with new
components manufactured with improved, corrosion-resistant materials. The total
cost of the steam generator replacement project is currently estimated to be $299
million (including AFUDC), and the project is on-schedule to be completed during
an 85-day refueling outage in October-December of this year.

IV. Proposed Nuclear Operations Cost.

Q. Please provide an overview of the Nuclear Operations costs that the Company
is projecting for the 2010 test year.

A. These figures are set forth in Schedules C-37 and C-41 to the Company’s MFRs.
We are projecting an increase from the benchmark in the amount of $12.4 million.
This increase over the benchmark consists of the following:

- Contract costs have increased over the benchmark by $3.2 million due to
  Operations training and training material development required to provide
  increased license training for Operations personnel; implementing a contract
  with a third party vendor to provide water treatment services; and an increase
  in Engineering Services required for plant projects.

- License & Fee increases of $1.7 million over the benchmark are due to the
  increased cost of NRC and FEMA fees.
Company labor increased $5.3 million over the benchmark primarily for positions added to Operations and Operations Training. More Operations positions are being vacated due to retirements or other attrition, and the Company has had to increase training to maintain a pipeline of qualified, licensed and non-licensed personnel to fill these vacancies.

- Commodity prices have increased at a rate greater than the CPI, resulting in material costs of $2.4 million over the benchmark amount.

- Incremental security costs have increased $2.8 million over the benchmark. These incremental costs have previously been recovered through the Capacity Cost Recovery clause in the year in which they were incurred. They are now being included in base rates.

These increases are off-set by a $3.0 million reduction in the outage accrual due to the impact of the steam generator replacement project.

Q. Do the MFRs reflect any O&M cost impact due to the steam generator replacement project?

A. Yes. The degradation of the OTSG tubes which necessitated the steam generator replacement project has resulted in increased tube inspection and repair costs. These costs totaled approximately $9 million during the 2007 refueling outage and, without the steam generator replacement, would increase over time. The time required for these inspections and repairs has also increased the duration of the refueling outages by approximately 9 days. Without the steam generator replacement project, PEF projected that mid-cycle maintenance outages of
approximately 22 days would be required beginning in 2010 for additional tube
inspection and repair.

The replacement of the steam generators will eliminate the additional tube
inspection activities of at least $9 million for each refueling outage and will enable
the Company to reduce the typical refueling outage duration by 9 days. It will also
avoid the need for the additional mid-cycle outages beginning in 2010. Over a two
year cycle, this reduction in outage duration will avoid approximately $36.7 million
in replacement power costs.

Q. Would you explain the procedures the Company has in place to monitor and
control Nuclear Operations costs.

A. PEF has adopted a three-step approach to cost control so that expenditures are
scrutinized and evaluated first at the strategic planning phase, again at the design
phase, and once more at the implementation phase. All plant modifications must be
supported by sound business considerations and cost-benefit analysis in addition to
operational justifications. These considerations are carefully assessed at the outset
of each phase to take into account any change in circumstances or market
conditions. Cost estimates are thoroughly examined for reasonableness and
accuracy. This iterative approach has proven quite successful in allowing the
Company to assess the reasonableness of O&M and capital expenditures throughout
the life of a project.

Q. Would you please explain the adjustments made to the Company MFRs.
A. We have included a Company adjustment to the MFRs to account for updated costs relating to the “last core” of nuclear fuel and end-of-life nuclear materials and supplies (“M&S”) as they relate to plant life extension through 2036. The cost of the last core of nuclear fuel is established to be $43 million which, prorated over the remaining plant life, results in a $1.2 million annual decrease in pre-tax net operating income (“NOI”). We estimate the value of end-of-life M&S to be $41 million which, prorated over the remaining plant life, results in a $1.1 million annual decrease in pre-tax NOI.

Q. Taking the last core adjustment first, please explain how PEF arrived at $43 million as the estimated value of surplus fuel remaining at end of life.

A. The current budget projection for the 2023 core’s end-of-cycle value is approximately $59 million. We assume that the final operating cycle will be 18 months instead of 24 months and that the fuel batch size will be reduced from 88 to 66 assemblies. To account for anticipated last cycle loading and operating efficiencies, we applied the ratio of 3/4 to the $59 million current end-of-cycle fuel value, which equals $44.5 million. We then applied the ratio of 66/88 to the $44.5 million to account for the reduced fuel batch size, which equals $33.4 million in 2023 dollars. To account for future increases in fuel cost, the $33.4 million value is adjusted by 2 percent per year for 13 years (i.e. 2023 to 2036) to arrive at $43 million as the estimated value of the last core.

Q. Is it possible to operate during the final cycle so that no surplus fuel remains at end of life?
A. No. Every core must have excess energy to counter power-reducing effects that
necessarily exist during operation. For example, nuclear fuel must have enough
excess energy to overcome the negative effects of coolant and fuel temperature,
fission products, and required enrichment. This surplus energy must be sufficient to
last for the duration of the current operating cycle and for the next one or two cycles
of operation. Ordinarily, the excess energy remaining in a fuel assembly at the end
of a particular operating cycle is used in the next one or two cycles of operation. At
the end of the last operating cycle, however, there are no future cycles in which to
use the surplus fuel.

Q. Can the surplus fuel remaining at end-of-life be used in another nuclear
reactor?

A. No. Because different reactors use different core designs, the surplus fuel remaining
at end-of-life cannot be used in another reactor. Moreover, the fuel reprocessing
that would be required to support different core designs is restricted in the United
States.

Q. Turning next to the adjustment for M&S, please explain how you arrived at the
value of $41 million for materials and supplies remaining at end-of-life.

A. We currently have $48 million in inventory. Of this, $7 million is in spare parts and
supplies that are capitalized over the remaining plant life and which will have no
value at end of life. The remaining $41 million is in spare replacement parts and
supplies that we must keep in inventory to make certain that we are operating safely
and reliably. While this value is subject to some fluctuation over time, we can
reasonably estimate that the value of M&S that we must maintain in inventory to
ensure the safety and reliability of our operation will be approximately $41 million.
Accordingly, we can reasonably conclude that the value of M&S on hand at end-of-
life will be $41 million.

Q. Is there any way to recoup the value of these M&S, for example, selling them to
other nuclear plants at end of life?

A. It would be cost prohibitive to do so. Most of these M&S have been specially
manufactured for use at CR3 and all have been qualified by thorough engineering
analysis to be suitable replacements for existing components in service at CR3.
These materials and supplies include such things as: spare pumps and
subassemblies, motors, control modules, circuit boards, switch gear, circuit
breakers, valves and valve parts, ventilation parts and filters, radiation monitoring
parts, and similar types of equipment. Before these items could be used in another
nuclear plant, an extensive engineering analysis would be required to confirm their
suitability as replacements for existing components at that particular plant. This
expensive and time-consuming process makes it impractical to transfer M&S among
different nuclear plants.

Moreover, the potential market for these specialized M&S is quite limited. There
are only a few nuclear plants with designs similar to CR3, and those plants will be
facing end-of-life issues at approximately the same time as CR3. Because of this,
the prospect of finding a buyer for CR3’s M&S remaining at end-of-life is
extremely unlikely.
Q. What is the status of the nuclear decommissioning funding?
   A. PEF completed an updated decommissioning cost analysis study for CR3 in 2008. See Exhibit No. ____ (DEY-4). The least cost alternative is currently estimated at $818 million in 2008 dollars. The NRC-approved decommissioning alternative referenced in the study is for decontamination of all equipment and structures containing radioactive contaminants and removal or decontamination to a level that permits the property to be released for unrestricted use shortly (within 10 years) after cessation of operations. The current decommissioning fund balance is sufficient to cover this cost to the end of extended plant life in 2036.

Q. Are PEF's projected expenses for Nuclear Generation for 2010 reasonable?
   A. Yes, they are. The Company's Nuclear Operations continue to be reliable and efficient and operational improvements have yielded significant cost savings for our customers without compromising the safety of our operations. The expenses projected for the 2010 test year will allow us to maintain or increase plant performance levels.

Q. Does this conclude your direct testimony?
   A. Yes.
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Crystal River Unit 3 Non-Fuel O&M
Two Year Average Cost

Two-year average used to normalize for outage years
Crystal River Unit 3 Net Generation


Progress Energy
DECOMMISSIONING COST ANALYSIS
FOR THE
CRYSTAL RIVER NUCLEAR PLANT, UNIT 2

See Separate Document labeled as Exhibit No. _____ (DEY-4)
Mr. Dale E. Young, Vice President
Crystal River Nuclear Plant (NA1B)
ATTN: Supervisor, Licensing &
Regulatory Programs
15760 West Power Line Street
Crystal River, FL 34428-6708

SUBJECT: ANNUAL ASSESSMENT LETTER – CRYSTAL RIVER NUCLEAR PLANT
(NRC INSPECTION REPORT 05000302/2009001)

Dear Mr. Young:

On February 11, 2009, the NRC staff completed its performance review of the Crystal River Nuclear Plant. Our technical staff reviewed performance indicators (PIS) for the most recent quarter and inspection results for the period from January 1 through December 31, 2008. The purpose of this letter is to inform you of our assessment of your safety performance during this period and our plans for future inspections at your facility.

This performance review and enclosed inspection plan do not include security information. A separate letter designated and marked as "Official Use Only—Security-Related-Information" will include the security cornerstone review and resultant inspection plan.

Overall, Crystal River Unit 3 operated in a manner that preserved public health and safety and fully met all cornerstone objectives. Plant performance for the most recent quarter, as well as for the first three quarters of the assessment cycle, was within the Licensee Response column of the NRC's Action Matrix, based on all inspection findings being classified as having very low safety significance (Green) and all PIS indicating performance at a level requiring no additional NRC oversight (Green). Therefore, we plan to conduct reactor oversight process (ROP) baseline inspections at your facility. We also plan on conducting several special and infrequently performed inspection procedures (IPS) which include: license renewal; steam generator replacement; temporary instruction (TI) 2515/172, Reactor Coolant System Dissimilar Metal Butt Welds; TI 2515/173, Review of the Implementation of the Industry Ground Water Protection Volunteer Initiative; TI 2515/175, Emergency Response Organization, Drill/Exercise Performance Indicator, Program Review, and Operator Licensing Examinations.

The enclosed inspection plan details the inspections, less those related to physical protection scheduled through June 30, 2010. The inspection plan is provided to allow for the resolution of any scheduling conflicts and personnel availability issues well in advance of inspector arrival onsite. Routine resident inspections are not listed due to their ongoing and continuous nature. The inspections in the last nine months of the inspection plan are tentative and may be revised at the mid-cycle review.

March 4, 2009
In accordance with 10 CFR 2.390 of the NRC's "Rules of Practice," a copy of this letter and its enclosure will be made available electronically for public inspection in the NRC Public Document Room or from the Publicly Available Records (PARS) component of NRC's document system (ADAMS). ADAMS is accessible from the NRC Web site at http://www.nrc.gov/reading-rm/adams.html (the Public Electronic Reading Room).

If circumstances arise which cause us to change this inspection plan, we will contact you to discuss the change as soon as possible. Please contact me at 404-562-4629 with any questions you may have regarding this letter or the inspection plan.

Sincerely,

/RA/

Marvin D. Sykes, Chief
Reactor Projects Branch 3
Division of Reactor Projects

Docket No.: 50-302
License No.: DPR-72

Enclosure: Crystal River Inspection/Activity Plan (03/01/09 - 06/30/10)

cc w/encl: (See page 3)
### Crystal River Inspection / Activity Plan

**03/01/2009 - 06/30/2010**

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This report does not include INPO and OUTAGE activities.
This report shows only on-site and announced inspection procedures.
Crystal River
Inspection / Activity Plan
03/01/2009 - 06/30/2010

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