BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

PETITION FOR INCREASE IN RATES BY PROGRESS ENERGY FLORIDA, INC. — DOCKET NO. 090079-EI

PETITION FOR LIMITED PROCEEDING TO INCLUDE BARTOW REPOWERING PROJECT IN BASE RATES, BY PROGRESS ENERGY FLORIDA, INC. — DOCKET NO. 090144-EI

PETITION FOR EXPEDITED APPROVAL OF THE DEFERRAL OF PENSION EXPENSES, AUTHORIZATION TO CHARGE STORM HARDENING EXPENSES TO THE STORM DAMAGE RESERVE, AND VARIANCE FROM OR WAIVER OF RULE 25-6.0143(1)(C), (D), AND (F), F. A. C., BY PROGRESS ENERGY FLORIDA, INC. — DOCKET NO. 090145-EU

VOLUME 4

Pages 288 through 427

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PROCEEDINGS: HEARING

COMMISSIONERS PARTICIPATING: CHAIRMAN MATTHEW M. CARTER, II
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER KATRINA J. McMURRIAN
COMMISSIONER NANCY ARGENZIANO
COMMISSIONER NATHAN A. SKOP

DATE: Monday, September 21, 2009

TIME: Commenced at 9:30 a.m.
Concluded at 7:53 p.m.

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

REPORTED BY: MARY ALLEN NEEL, RPR, FPR

PARTICIPATING: (As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

NUMBER		ID.	ADMTD.
21			359
22			359
48			305
49			305
50	DEY-1	328	362
51	DEY-2	328	362
52	DEY-3	328	362
53	DEY-4	328	
54	DEY-5	328	362
55	DS-1	400	
56	DS-2	400	
264			305
265			307
266			307
267			308

PROCEEDINGS

(Transcript continues in sequence from Volume 3.)

Thereupon,

VINCENT DOLAN

a witness on behalf of Progress Energy Florida, Inc., continues his sworn testimony as follows:

CROSS-EXAMINATION

BY MR. WRIGHT:

Q. Do you have an opinion or any knowledge as to what it would be on a company-wide basis?

A. On an overall levelized basis, including commercial/industrial? Is that your question?

Q. Yes, sir.

A. It would be lower than the five. I don't know precisely what it would be. We can certainly get that for you as well, if that's helpful.

Q. That would be great. Thanks. Could we -- I'm not going to ask for a late-filed.

CHAIRMAN CARTER: No, let's do that.

THE WITNESS: I think we can find a tariff sheet for that.

CHAIRMAN CARTER: You can get that with one of the witnesses anyway.

MR. WRIGHT: I am more interested in the total

company value than I am in tariff components.

CHAIRMAN CARTER: Okay.

BY MR. WRIGHT:

Q. Mr. Dolan, I divided 4 1/2 cents by 12.7 cents, which is the company's current average charge on a residential 1,000 kWh thousand. I got about 35, 36 percent attributable to the base rate piece.

A. I'm sorry. What did you divide?

Q. I divided 4 1/2 cents by 12.7 cents. For practical purposes, can we use, say, 65 percent of the company's total --

A. I would suggest we use about 40-60. That would probably be more accurate, because as I said, the 4 1/2, you know, we have a two-tiered rate with our residential, and I think it goes 4 1/2, 5 1/2, again subject to check, so let's use 5 in the middle. You're probably looking at about 60-40.

Q. Okay. We can use 60. The numbers will show what they show. I think it's higher than that, but let's just use 60.

Now, when you say that the company's risk is not reduced by the availability of cost recovery and line item cost recovery charges, what's the foundation for that, when the company has virtually certain -- what's the foundation for that testimony, in light of

the fact that you recover about 60 percent through these cost recovery type charges?

A. I think there are two reasons why I answered the question the way I did, Mr. Wright. The first is, all of the cost recovery clauses that operate in Florida are contested proceedings, and certainly my observation of those proceedings are that they're not just a mathematical calculation and 100 percent cost recovery guaranteed, so I would dispute your notion about no risk associated with the clauses. So that's number one.

Number two, when I think about risk and I think about the way the clauses and the total prices have moved, unfortunately, all parts of that are moving upward. So I think about the base rates, and I think about the increasing expenditures that we're going to have to make in base rates, both in recent history and going forward, and I see that as an increasing risk. We're increasing our capital investment in rate base. As an example, over the long term, our rate base will increase with the Levy nuclear investment, and our fuel charge will come down.

So I can't agree with your premise to say, A, first and foremost, there's no risk when we have annual contested proceedings and hindsight review, so that's one. And secondly, with the increase in rate base and

the investments that are in front of us, I think as a company, and I think as the market, we look at that as increasing risk, not decreasing risk. So that's the reason I answered the question the way I did.

Q. Well, let me ask you this. Over the last, say, four years, how much of Progress Energy Florida's requested fuel cost recovery has been disallowed by this Commission?

A. Fuel?

Q. Fuel.

A. I would say a few tens of millions. I would have to check the number. I think obviously there were issues around the coal dispute. I know it was 7 or 8 this year, and it was a larger number probably -- I don't have that number in my head.

Q. The number I have in my head from the previous case is about 13.

A. Okay.

Q. So 20-odd.

A. Twenty-something, yes.

Q. Out of a fuel bill over four years of what? $8 billion?

A. That's probably not an unreasonable number. I don't know the precise number.

Q. Are you aware of any disallowance under the

company's energy conservation cost recovery charge?

A. I'm not specifically aware of any in that clause.

Q. Are you aware of any disallowance under the company's environmental cost recovery charge?

A. No, I am not.

Q. Are you aware of any disallowance under the company's nuclear cost recovery charge?

A. That matter is still pending, so I can't say yes or no to that.

Q. But not so far; correct?

A. Not so far, yes.

Q. I would like to talk about ROE a bit. Are you aware of any company that has a pending rate case or that has had a rate case decided in 2009 that has asked for a greater return on equity than Progress has requested, 12.54 percent, in this case?

A. I am not, no.

Q. You mentioned, I believe, that Progress Energy Carolinas currently has an authorized ROE of -- I think you said 12.75 percent; is that correct?

A. Yes.

Q. Are you aware that Duke Energy presently has pending rate cases in the Carolinas?

A. Yes, I am aware of that.

Q. Do you know what ROE Duke Energy is requesting in those rate cases?

A. No, I do not.

Q. Will you accept, subject to check -- and I can bring this up with Mr. Sullivan later if I need to -- that it's 11 1/2?

A. I don't know that as a fact. If you have factual information that is accurate related to that, then I don't have any reason to dispute it.

Q. I think you had a conversation with Mr. Moyle about ROE as it relates to the Levy nuclear project. Is that -- do you remember that?

A. Well, I had a lot of conversations with Mr. Moyle, so you may have to be a little more specific on that. I'm sorry.

Q. Well, I'm not sure I remember the details, but let me ask you this. Is it your understanding -- and I'm not asking you for a legal conclusion, but as the guy who has to live with this and implement it. Is it your understanding that throughout the construction period of the Levy nuclear plant, you will be entitled to recover a particular rate of return on either the pre-construction costs or the construction investment?

A. Yes.

Q. And is it your understanding that that rate is

actually the AFUDC rate that was in effect as of the time the company obtained its need determination from the Commission?

A. Yes.

Q. And is it further your understanding that that rate includes an ROE of 11.75 percent?

A. Yes, I believe that's correct.

Q. Now, you had a discussion with Mr. Moyle, I think, or it might have been Mr. Rehwinkel, about the company's bond ratings. Do you recall that?

A. I remember having a very brief discussion about that issue.

Q. Well, I think one of them asked what your bond rating is.

A. Yes, they did.

Q. A couple of questions. When we talk about bond rating in kind of a generic context, we're really talking about a company's senior unsecured bond rating, are we not?

A. I believe that's correct. And I would just say, Mr. Wright, I won't stray too far afield on this topic. I think we have folks that are in a better position to answer any real detailed questions about it.

MR. WRIGHT: Okay. Mr. Chairman, I need to approach one more time with a cross-examination exhibit.

CHAIRMAN CARTER: You may approach.

(Document distributed.)

CHAIRMAN CARTER: Mr. Wright.

MR. WRIGHT: Thank you, Mr. Chairman. Earlier I believe Mr. Dolan gave some answers as to what he believed the company's bond ratings were, and without belaboring that, I've handed him the testimony of the company's ROE witness, Mr. Thomas Sullivan. I just have a couple of questions to ask him with regard to that.

CHAIRMAN CARTER: Okay. Let's see if he can answer.

MR. WRIGHT: I just wanted you to know where I'm going.

CHAIRMAN CARTER: Okay.

BY MR. WRIGHT:

Q. Mr. Dolan, it's correct that the company is rated by three bond rating agencies; yes?

A. Yes, that is correct.

Q. And those are Standard & Poor's, Moody's, and Fitch's; correct?

A. Yes.

Q. And having had an opportunity to look at Mr. Sullivan's testimony, will you tell the Commission on the record what the bond ratings are as provided by those rating services for Progress Energy Florida?

A. For all of the items listed here?

Q. No, just for the senior unsecured debt rating.

A. Okay. Senior unsecured, for S&P, BBB+; for Moody's, A3; and for Fitch, A.

MR. WRIGHT: Thank you. Just one moment, Mr. Chairman.

CHAIRMAN CARTER: Take a moment. Take a moment.

MR. WRIGHT: Thank you very much.

Thank you, Mr. Chairman.

BY MR. WRIGHT:

Q. Mr. Dolan, I think I have either one or two more questions for you. Do I have it right that the company has no values associated with corporate aircraft included in its rate base as it would affect customers' rates?

A. Yes.

Q. Do I have it right that there are no O&M costs associated with corporate aircraft that would affect customers' rates in this case?

A. Yes, you have that right.

MR. WRIGHT: Thank you. That's all the questions I have, Mr. Chairman.

CHAIRMAN CARTER: Thank you. Staff?

MS. FLEMING: Thank you.

CROSS-EXAMINATION

BY MS. FLEMING:

Q. Good evening, Mr. Dolan. I'm Katherine Fleming.

CHAIRMAN CARTER: Hang on a sec. Let Mr. Wright retrieve his document, documents.

BY MS. FLEMING:

Q. And I actually just have one question for you, Mr. Dolan. Have there been any discussions or plans within Progress Energy Florida or the parent company to reduce Progress Energy Florida's workforce in 2010?

A. I would say -- well, let me answer your question this way. You know, we are -- we said this earlier. We had a reduction in 2008 and '9. We're all familiar with the facts that we submitted here. I would say for PEF, from where I sit, we don't have a specific plan today to reduce workforce in 2010. I think we want to continue to operate our business the way we're operating it today.

Now, having said that, I do want to say, conditions change. Say if -- you know, depending on what the circumstances are surrounding our business in 2010, I don't want to leave you with the impression here today that that's not going to happen. It's always a possibility in our business; right? But to answer your

specific question, we are not sitting around internally today planning to cut workforce in 2010.

Q. And just to be clear, you said you don't have any plans, but have there been any discussions to reduce workforce in 2010?

A. I would say that, you know, we're -- well, I'll answer your question this way. In all of our business units, they're always looking to derive more efficiency, and some of that may result in workforce reductions. But I would say that those would more be normal course of business type reductions that we would see through the years. I don't think there's a broader plan or discussion for the change, if I'm understanding your question correctly.

MS. FLEMING: Thank you. We have no further questions.

CHAIRMAN CARTER: Commissioners? Commissioner Skop, you're recognized.

COMMISSIONER SKOP: Thank you, Mr. Chairman. Good evening, Mr. Dolan.

THE WITNESS: Good evening, Commissioner.

COMMISSIONER SKOP: If you could please turn your attention to page 10 of your prefiled testimony that you've adopted, please.

THE WITNESS: Yes, I have it.

COMMISSIONER SKOP: Okay. And generally on lines 16 through 23, but to start with, lines 20 through 23, and with respect to the replacement of the steam generators that's discussed in lines 20 through 23, is it correct to understand that Progress will not be seeking recovery of the capital costs associated with the replacement of the CR3 steam generators through the nuclear cost recovery clause?

THE WITNESS: Yes.

COMMISSIONER SKOP: Okay. And with respect to the capital costs associated with the replacement of the steam generators for CR3, Progress seeks to recover those costs through base rates; is that correct?

THE WITNESS: Yes, that is correct.

COMMISSIONER SKOP: Okay. And that would be different, or it could be distinguished from the CR3 uprate that's discussed in lines 16 through 20, which I believe Mr. Wright inquired about; is that correct?

THE WITNESS: Yes, that is correct, Commissioner.

COMMISSIONER SKOP: Okay. And with respect to the steam generators for CR3, is the replacement of the steam generators a discretionary expenditure or a necessary expenditure?

THE WITNESS: I would say that's a necessary

expenditure. We're on a path to extend the life of those units, so it's necessary to accomplish that goal.

COMMISSIONER SKOP: Okay. And with respect to that, why -- if it is a necessary expenditure, why is it important to make that expenditure in terms of any benefits that would result to the ratepayers?

THE WITNESS: Well, I think it's necessary because -- you know, I'm not a nuclear engineer, so I won't substitute my judgment for Mr. Young's, but from a business perspective, this is the lowest cost unit to operate on our system, and we obviously want to make sure that it runs for as long as it reasonably can, you know, within industry standards.

We are approaching a period where we're going to file with the NRC for a life extension, as I mentioned earlier, through 2035, and in order to do that, we have to have the unit be in the sort of shape that it could run for that period of time. And this is a consistent industry practice at this point in time for us to replace those generators. And that outage begins actually this weekend coming up and will go through this fall to do that work.

COMMISSIONER SKOP: Okay. Thank you. And just one follow-up question. I didn't hear Mr. Wright's question in its entirety, so I'm going to, I guess,

express what I thought I heard. But with respect to corporate aviation expenses, you indicated that no corporate allocation -- I mean no corporate aviation expenses were allocated to Florida; is that correct?

THE WITNESS: Yes, that is correct.

COMMISSIONER SKOP: Okay. Can I get briefly -- if you could look at the confidential salary information, if you have it available?

THE WITNESS: Commissioner, I don't have -- I have not had access to that information.

COMMISSIONER SKOP: Okay. Is there an appropriate witness that I could ask later?

CHAIRMAN CARTER: Mr. Glenn?

MR. GLENN: It would be Mr. DesChamps, Masceo DesChamps.

COMMISSIONER SKOP: All right. Very well. Thank you.

THE WITNESS: You're welcome.

CHAIRMAN CARTER: Thank you. Commissioners, anything further from the bench? Redirect.

MR. GLENN: One question, Chairman Carter.

CHAIRMAN CARTER: You're recognized.

REDIRECT EXAMINATION

BY MR. GLENN:

Q. Mr. Dolan, Mr. Moyle had, I think, asked you

about ROE in 2008 and had mentioned the 9.5 percent number, the ROE number. Is that a sustainable ROE for this company?

A. No, it is not.

MR. GLENN: Thank you.

CHAIRMAN CARTER: Exhibits?

MR. GLENN: Yes. We have exhibits that are marked, I believe, 48 and 49 on the list. We would move those in evidence.

CHAIRMAN CARTER: Are there any objections? Without objection, show it done.

(Exhibits Number 48 and 49 were admitted into the record.)

CHAIRMAN CARTER: Let's go to the back pages, everybody. Mr. Moyle, I think you've got 264. Is that correct?

MR. MOYLE: Yes, sir. I would like to move it in.

CHAIRMAN CARTER: Any objections?

MR. GLENN: That's fine.

CHAIRMAN CARTER: Without objection, show it done.

(Exhibit Number 264 was admitted into the record.)

CHAIRMAN CARTER: Okay. Mr. Wright, you've

got 265 and 260 -- wait a minute. I think I missed one.

COMMISSIONER EDGAR: Mr. Chairman, I think Mr. Wright has 265, 266, and 267.

CHAIRMAN CARTER: I'm missing 266. Let me put it on my -- I'll just have to write it out of sequence. 266 is -- what's the short title?

COMMISSIONER EDGAR: Mr. Chairman, if I may, Florida unemployment article, 9/18/09.

CHAIRMAN CARTER: Maybe I mistitled it, because I've got that as 265, Florida unemployment article, 9/18/09.

MR. MOYLE: I was writing numbers on those, so I probably should raise my hand and take the blame.

CHAIRMAN CARTER: Okay. I can straighten mine out later. Are there any objections to 265, 266, and 267?

MR. GLENN: Progress has an objection to 265, the excerpts from the J.D. Power, that it lacks authentication and foundation. It's also an extract of a larger study, and to the extent that you would allow it in, I think you need to allow the entire report.

MR. WRIGHT: We would have no objection to Progress's exercising their right to preserve optional completeness, Mr. Chairman.

CHAIRMAN CARTER: Okay. Show it done.

MR. WRIGHT: So my understanding is that means Progress will furnish the entire report, and it will come in as 265.

CHAIRMAN CARTER: 265. You got it.

MR. WRIGHT: Thank you.

(Exhibit Number 265 was admitted into the record.)

CHAIRMAN CARTER: Now, 266 is the Florida unemployment article, 9/18/09. That's 266, correct, Mr. Wright?

MR. WRIGHT: 266 is the Florida unemployment article.

CHAIRMAN CARTER: Are there any objections?

MR. GLENN: No objections.

CHAIRMAN CARTER: Without objection, show it done.

(Exhibit Number 266 was admitted into the record.)

CHAIRMAN CARTER: Mr. Wright, 267, the Florida foreclosure article; is that correct?

MR. WRIGHT: I move it to be admitted, Mr. Chairman, yes, sir.

CHAIRMAN CARTER: Any objection?

MR. GLENN: No objections.

CHAIRMAN CARTER: Without objection, show it

done.

(Exhibit Number 267 was admitted into the record.)

CHAIRMAN CARTER: Anything further for this witness?

MR. GLENN: No, Your Honor. And may he be excused until rebuttal?

CHAIRMAN CARTER: Okay. Thank you. Have a great day.

THE WITNESS: Thank you, Chairman and Commissioners.

CHAIRMAN CARTER: You guys call your next witness while I'm getting my paperwork together here.

MR. MELSON: Progress calls Dale E. Young. May we proceed?

CHAIRMAN CARTER: You may proceed.

Thereupon,

DALE E. YOUNG

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

DIRECT EXAMINATION

BY MR. MELSON:

Q. Mr. Young, have you been sworn?

A. Yes, I have.

Q. Would you please state your name and business address?

A. Dale E. Young, 8564 West Venable Street, Crystal River, Florida.

Q. By whom are you employed, and what is your current job title?

A. I'm employed by Progress Energy Florida, and my current job title is vice president of operational readiness for new plants.

Q. And how long have you been in your present position?

A. About five months.

Q. And what position did you hold at the time you prefiled testimony in this docket?

A. I was site vice president for Crystal River 3 nuclear plant.

Q. And approximately how long were you in that position?

A. For eight years.

Q. And did you prefile direct testimony in this docket consisting of 17 pages?

A. I did.

Q. And except for the update we've just discussed regarding your position with Progress, do you have any changes or corrections to that testimony?

A. I do not.

Q. And with that update, if I were to ask you the same questions today, would your answers be the same?

A. They would be the same.

MR. MELSON: Mr. Chairman, I would ask that Mr. Young's direct testimony be inserted into the record as though read.

CHAIRMAN CARTER: The prefiled testimony of the witness will be inserted into the record as though read.

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 contaminates 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.

BY MR. MELSON:

Q. And, Mr. Young, did you have five exhibits to your testimony identified as DEY-1 to DEI-5?

A. Yes, to DEY-5, yes.

Q. I'm sorry. One through 5.

A. Yes.

Q. And did DEI -- DEY-1 list the MFR schedules that you are sponsoring or co-sponsoring?

A. It did.

Q. Do you have any changes or corrections to those exhibits?

A. I do not.

Q. And are they true and correct?

A. That is correct.

MR. MELSON: Mr. Chairman, those have been identified on the comprehensive exhibit list as Exhibits Number 50 through 54.

CHAIRMAN CARTER: For the record, 50 through 54.

(Exhibits Number 50 through 54 were identified for the record.)

MR. MELSON: And I'll give you a heads-up. It will be our intention at the end to move all of them except Exhibit 53. DEY-4 is the nuclear decommissioning study that as a result of the stipulation on issues this

morning has been rolled out into a docket next year.

CHAIRMAN CARTER: So then what we probably need to do is just X that out because that's not part of this matter; is that correct?

MR. MELSON: Correct. When we get to that, when we move the other exhibits, that one will just be identified, but not moved, if that's all right.

CHAIRMAN CARTER: That's fine. Just remind me when we get to that point, Mr. Melson.

MR. MELSON: Will do.

CHAIRMAN CARTER: You may proceed.

BY MR. MELSON:

Q. Mr. Young, could you give a brief summary of your testimony?

A. Yes. Good evening, Mr. Chairman and Commissioners.

My testimony today explains how Progress Energy Florida's Crystal River 3 nuclear plant continues to operate at a high level of efficiency and reliability. Because Crystal River 3 has the lowest operating cost of any plant in our fleet, it provides significant economic benefits to our customers.

The plant ranks in the top quartile in the country in environmental stewardship and personnel safety. In the area of nuclear safety, we have achieved

the industry goal of zero fuel leaks during our last operating cycle.

To ensure that these benefits will continue in the future, we have applied to the Nuclear Regulatory Commission to extend our operating license by 20 years from 2016 to 2036. To support this license extension and to reduce the frequency, length, and cost of future maintenance outages, we are replacing the plant's two steam generators this fall. The replacement will occur during our biennial refueling outage which begins Friday night and is expected to last for 85 days.

My testimony also explains other actions Progress Energy Florida has taken to control nuclear operating costs, to maintain the plant, and to ensure that we continue to have a sufficient number of trained and licensed operators.

With that, that concludes my summary.

CHAIRMAN CARTER: Outstanding. Great timing.

MR. MELSON: You didn't even have to explain the lights to him.

CHAIRMAN CARTER: No.

MR. MELSON: He's tendered for cross.

CHAIRMAN CARTER: Okay. Mr. Rehwinkel, you're recognized.

MR. REHWINKEL: Thank you, Mr. Chairman.

CROSS-EXAMINATION

BY MR. REHWINKEL:

Q. Good evening, Mr. Young. My name is Charles Rehwinkel with the Office of Public Counsel, and I just have a very few questions for you.

You testified just a few minutes ago in your summary and also in your direct testimony about the extension for the CR3 plant. Is it 20 years? Is that correct?

A. Yes, sir.

Q. Is there any doubt in your mind -- well, let me ask you this. Has an extension for a nuclear plant, a life extension for a nuclear plant application with the NRC ever been denied?

A. I'm not aware of any that have been denied. There have been several approved.

Q. Do you have every reason to believe that yours will be approved?

A. I have every reason to believe that, yes.

Q. Okay. On page 10 and 11 of your testimony, you discuss the once-through steam generator replacement project. Do you see that?

A. Yes.

Q. These steam generators are what they call a balance-of-plant part of the CR3 plant; is that right?

A. No, that's not correct.

Q. They're not?

A. They're part of the NSSS, the nuclear steam supply system.

Q. Okay. But you will not be seeking recovery of this replacement through the nuclear cost recovery clause; correct?

A. That's correct. We will not.

Q. And why is that?

A. It's an operating expense, an operating and maintenance expense on the unit. It doesn't increase the net generation.

Q. It's not eligible for it, correct, for recovery?

A. Not to my knowledge. There are others that know more about what's eligible for recovery in that, but not to my knowledge.

MR. REHWINKEL: Mr. Young, I want to ask you some questions. I believe your counsel may object to my questions because they go to part of the stipulated exhibit.

But, Mr. Chairman, I have a few questions that I would like to ask for information purposes. If it's the will of the Commission and the wish of the Commission not to take five minutes for me to ask these

questions and defer them to the subsequent docket, I'm perfectly willing to do that.

CHAIRMAN CARTER: Would it be more appropriate in another docket, Mr. Rehwinkel?

MR. REHWINKEL: It might be. I just --

CHAIRMAN CARTER: In light of the agreement made this morning and the stipulations?

MR. MELSON: I'm not sure which questions he's talking about yet. Let him ask one, and I will object if it's objectionable.

CHAIRMAN CARTER: Well, let's do this before we get down that road, because I want to keep a clean record. Why don't you take five seconds, you walk halfway, Mr. Melson, and you walk halfway, and --

MR. REHWINKEL: I'll just walk all the way down to him.

CHAIRMAN CARTER: -- you guys talk.

(Off the record briefly.)

MR. REHWINKEL: Mr. Chairman, Mr. Melson in his inestimable persuasiveness has encouraged me and convinced me not to ask these questions, so I won't.

Thank you. Mr. Young, those are all the questions I have for you. Thank you.

CHAIRMAN CARTER: Thank you. Ms. Bradley.

MS. BRADLEY: No questions.

CHAIRMAN CARTER: Mr. Moyle.

MR. MOYLE: Thank you, Mr. Chairman.

CROSS-EXAMINATION

BY MR. MOYLE:

Q. Good evening.

A. Good evening.

Q. I want to ask you a few questions about certain portions of your testimony, but before I do, I just want to make sure I have sort of the big picture straight. How long has the Crystal River nuclear power plant been in operation?

A. It went commercial in 1976.

Q. These generators that you're talking about replacing, were they original '76 generators, or have they been replaced one time previously?

A. Those are original steam generators.

Q. And you're currently scheduled to run out of life, if the NRC doesn't approve it, in 2016; is that right?

A. That's correct.

Q. Okay. Now, those generators, I mean, if you were really going to shut the plant down in 2016, those generators could have gotten you through to 2016, couldn't they have, the steam generators?

A. I do not believe that those generators will

get us to 2016.

Q. And why do you say that? Did you do a study or have some analysis done and say, "Hey, these things are end of life. You've got to get rid of them now"?

A. Each outage, we inspect the steam generators tubes, and we -- based upon the probability of detection of whether there's a flaw in the generators, in the tubes, then we can operate for another two years if we do not have, you know, degradation of the steam generators such that they will have a fault within the next two years.

Our last outage, we were barely able to say that we could operate for two years. If we do not replace the generators this outage, we would have a mid-cycle outage the following year. And ultimately, before 2016, with the degradation we had, it looks like we would have more tubes plugged on those steam generators than we would be allowed to operate with. So that's the basis of my saying that I do not believe that we could operate to 2016 with these steam generators.

Q. On a mid-cycle outage, how long are you out on a mid-cycle outage?

A. If we did a mid-cycle outage to work on the steam generators, it would be about 22 days.

Q. And is it 1.5 million per day in fuel costs?

A. That's -- someone else probably should answer that question about fuel cost.

Q. Do you have any idea what -- you know, what the cost is in terms of -- to the system of a day of outage for Crystal River?

A. Again, I think there's others that -- I mean, I could make a guess, but I think there's others that can answer precisely.

Q. So if you did a mid-cycle repair, when would you have to do that? What year?

A. 2010.

Q. And when you say mid-cycle, how long is the cycle?

A. Two years.

Q. Okay. Did you consider waiting until you got an actual approval in hand from the NRC that would extend your operating license beyond 2016 before embarking upon replacing these steam generators?

A. Did we -- would you repeat the question?

Q. Sure. The steam generators, they cost like $299 million; right?

A. That's correct.

Q. Did you consider saying, "Wait a minute. These are a big ticket item. Let's get in hand the approval from the NRC before we commit to spending

$300 million and not run that risk that" -- even if it's a slight risk that they might say no, was that part of your calculation?

A. I think when we did the cost study -- and again, I don't have the cost study with me -- that the sooner we replaced the generators, the better we were from an economic analysis.

Q. But that would assume that you do get the license; correct?

A. No. I think even with the 2016, I think that we were better off to do that.

Q. And did that include an economic analysis?

A. I believe it did, yes, sir.

Q. Is that attached to your testimony?

A. No, it is not.

Q. Who is the best witness to talk to about that analysis?

A. I would think probably Mr. Toomey.

Q. Let me refer you to -- before I do, you have some reference in your testimony to benchmarks. Are those the benchmarks that are set by this Commission? Are you familiar that the Commission sets benchmarks or no?

A. The benchmarks that I was referring to was the benchmarking within the industry.

Q. All right. So let's go to it, 12, page 12, line 1.

A. I think that that benchmark is referring to the Public Service Commission, the rate --

Q. So on line 1, when you say that the company labor increased 5.3 million over the benchmark, that benchmark refers to the benchmark set by this Commission; is that right?

A. Yes.

Q. And tell me what your understanding is of those benchmarks set by the Commission, if you will?

A. My understanding is that it's the 2006 test case multiplied by factors to bring it up into 2009 dollars.

Q. And the company exceeded what this Commission established as a reasonable benchmark by over 5 million; correct?

A. That's correct.

Q. Okay. And are you aware that another witness for your case has indicated that those benchmarks, that they're strong evidence of reasonableness? Do you have any information about that?

A. Would you repeat the question?

Q. Yes. Well, I guess I'll ask it this way. You would agree that the benchmarks set by the Commission

are reasonable when they're set; correct?

MR. MELSON: Objection. That calls for a legal conclusion.

CHAIRMAN CARTER: Rephrase.

BY MR. MOYLE:

Q. Do you believe -- do you participate in the setting of the benchmarks?

A. No, I do not.

Q. Do you know that the Commission staff reviews information and makes its best judgment about setting the benchmarks that it believes are reasonable when it sets them?

A. I guess I really don't -- I would assume that they set reasonable things, but again, it's not an area that I deal with.

Q. Do you all from a management standpoint try to hit the benchmarks set by the Commission or stay underneath them?

A. In my area, basically, we try to stay under our budgets.

Q. And this is your testimony. You mention the benchmark. Do you set your budgets and consider the benchmarks set by the Commission when establishing your budget?

MR. MELSON: Object to the form of the

question. He assumes the Commission sets the benchmarks. The benchmark is simply a calculation that's performed by the company at the time of filing the MFRs in accordance with the MFR requirements. I think the questions simply don't track the nature of the benchmark.

CHAIRMAN CARTER: To the objection, Mr. Moyle.

MR. MOYLE: Well, I can ask him how he understands the benchmark. I asked him previously, and he said he understood it to be a PSC benchmark.

CHAIRMAN CARTER: Ms. Gervasi.

MS. GERVASI: He can give his opinion, I think, about it. If he doesn't know, "I don't know" is a perfectly good answer.

CHAIRMAN CARTER: Overruled.

THE WITNESS: Would you restate the question, please?

BY MR. MOYLE:

Q. Sure. You had used the term "benchmark." Before we even looked at this, you had said, "Well, I think that's a PSC benchmark." What did you mean when you said "PSC benchmark"?

A. The rate case, the benchmark that was used to determine the rate case.

Q. Okay. And I was trying to understand. When

you say it's over the benchmark, that leads me to believe that when you budget, that you consider the benchmark in budgeting. Is that a correct assumption?

A. It is not a correct assumption.

Q. You do consider the benchmark to have a meaningful connotation, given the fact that you refer to it with respect to your company labor costs; correct?

A. Yes, sir.

Q. Page 13, you talk about controlling costs.

A. Yes, sir.

Q. When you all are seeking goods and labor and materials for work relating to Crystal River, do you all competitively bid goods, labor, and material, or do you sole source it, or is it a mixed bag?

A. Generally we competitively bid it unless there is a justification for a sole source.

Q. Is that your policy?

A. Yes.

Q. Page 17 of your testimony, you were asked about the status of the nuclear decommissioning funding. Do you see that?

A. Yes, I do.

Q. And the last sentence, you state, quote, "The current decommissioning fund balance is sufficient to cover this cost to the end of the extended plant life in

2036." Isn't it true that the nuclear decommission fund has overaccrued approximately $50 million as we sit here today?

A. That's my understanding, yes.

Q. Okay. And isn't it true that Progress Energy has previously sought an exception from the NRC guidelines on nuclear decommissioning reserves?

A. I'm not aware of that.

Q. Do you know -- if I showed you a response to an interrogatory, would this refresh your memory as to whether you helped prepare this response?

A. It might.

MR. MOYLE: I'm going to show him, just for counsel for Progress, the response to Interrogatory Number 76, if I could.

CHAIRMAN CARTER: You may approach.

MR. MELSON: Interrogatory 76?

MR. MOYLE: I'm sorry?

MR. MELSON: Staff or OPC 76?

MR. MOYLE: I'm sorry. Are you saying staff?

MR. MELSON: Is it a staff interrogatory or is it an OPC interrogatory? We've got lot of 76s.

MR. YOUNG: Mr. Chairman?

CHAIRMAN CARTER: Yes, sir.

MR. YOUNG: If Mr. Moyle can tell me, like

Mr. -- I want to know whose response to interrogatory? Is it PEF's response to staff or PEF's response to OPC?

MR. MELSON: It's PEF's Response to Staff's Fifth Set, Number 76. And when we get a question, I may have objection.

CHAIRMAN CARTER: Let's first of all make sure everybody is on the same page. Mr. Young, are you there?

THE WITNESS: Yes, I have the --

CHAIRMAN CARTER: No, no. I'm talking about our Mr. Young.

THE WITNESS: Oh, I'm sorry.

MR. YOUNG: Yes, sir.

CHAIRMAN CARTER: Okay. All right. Let's see what happens. Mr. Moyle.

BY MR. MOYLE:

Q. Sir, this is Interrogatory 76. You assisted in the preparation and sponsorship of the answer to this interrogatory; isn't that correct?

A. That is correct.

Q. Okay. Would you just read the question and the answer into the record, please?

MR. MELSON: I'm going to object at this point. We have stipulated that the decommissioning study will be rolled out into another docket. The only

decommissioning issue remaining in this case is what is the appropriate accrual for the test year, and the parties have stipulated that that's zero, so this question is not relevant to any issue in the case.

CHAIRMAN CARTER: Mr. Moyle, to the objection.

MR. MOYLE: Well, there's testimony found on page 17 that says, quote, "The current decommissioning fund balance is sufficient to cover this cost to the end of extended plant life in 2036." I mean, it's in play in his direct testimony. I've asked him is it overfunded, he said yes, and my next line of inquiry is, has Progress ever tried to approach the NRC about any kind of waiver from the rule, and it's --

CHAIRMAN CARTER: Did you hear Mr. Melson's objection?

MR. MOYLE: Yes, but I don't understand that decommissioning study to be the whole kit and caboodle. I understand this to be a very limited -- a limited question, which the ultimate objective is to see whether there's not any money that can flow back to ratepayers.

MR. MELSON: Chairman Carter, if I could respond.

CHAIRMAN CARTER: Mr. Melson.

MR. MELSON: If you want an issue about flowing money back to ratepayers, that should have been

raised by the time of the prehearing conference. There's an issue about -- a similar issue, corrective reserve measures with respect to the depreciation. There's an issue of corrective reserve measures with respect to fossil dismantlement. There's no issue even hinting at anything with respect to the nuclear decommissioning fund.

My understanding is that he had a line of questions like this in the Florida Power & Light case, so he was aware of the issue by the time of the prehearing conference in this case. I don't think he can show good cause why an issue hasn't been raised, and it's simply beyond the scope of any issue in this docket.

CHAIRMAN CARTER: Before I go to Ms. Gervasi, Mr. Moyle, to the objection.

MR. MOYLE: Well, I think the line of questioning -- and I don't know the exact timing. It's all starting to blur in my head, but the line of questioning in the Power & Light case, I'm not sure if the point in time was indeed prior to the prehearing conference, but whatever it is, it is.

I guess the point that I want to make and I think deserves to be made, to the extent that this witness is not talking about the decommissioning fund

balance, which are his express words, then maybe Mr. Melson would be correct. But when this witness talks about the decommissioning fund balance is sufficient, it begs the question, well, how much is in there? And given, you know, what you've been hearing about the state of the economy and, you know, the need for consumers, I'm simply trying to ask if there's not a way that Progress can explore approaching the NRC about flowing some money back.

CHAIRMAN CARTER: Thank you. Ms. Gervasi.

MS. GERVASI: Sounds to me like it is irrelevant for the purposes of this proceeding, Mr. Chairman.

CHAIRMAN CARTER: Okay. Sustained. Move on.

MR. MOYLE: I would like -- can we go ahead and have it read into the record, just so the record is clear, as a proffer?

I'll do it if you don't want to do it.

MR. MELSON: I'm going to object to that as well. If it is not relevant to any issue in the case, then it doesn't need to be in the record.

MR. MOYLE: Well, to preserve it for appeal, I think I have a legal right to make a proffer of it, Mr. Melson.

MR. MELSON: If you would like to read it into

the record.

MR. MOYLE: Sure. Mr. Chairman, if I may.

CHAIRMAN CARTER: You may.

MR. MOYLE: Question 76, "Please refer to Exhibit DEY-4 attached to the direct testimony of witness Dale E. Young. Please explain or describe any exceptions that PEF had requested from the NRC guidelines on decommissioning reserves."

Response, "Progress Energy Florida has not requested any recent exceptions to the NRC guidelines on decommissioning reserves. However, any exemption request was submitted" -- I'm sorry. "However, an exemption request was submitted to the NRC in 1994 and later withdrawn by CR3. Please see Staff's Sixth Request for Production of Documents, Number 23, for documents related to this 1994 activity."

Thank you.

CHAIRMAN CARTER: Thank you.

BY MR. MOYLE:

Q. Let me ask you a question. On page 15 of your testimony, you're talking about excess energy remaining in the fuel assembly at the end of a particular operating cycle. Do you see that?

A. Yes.

MR. MELSON: Objection.

CHAIRMAN CARTER: State the basis of your objection.

MR. MELSON: The parties have stipulated to the amortization of costs associated with the last core of nuclear fuel, so this is no longer a live issue in this case. It's a stipulation to Issue 79 appearing on page 109 of the Prehearing Order.

CHAIRMAN CARTER: Mr. Moyle, to the objection.

MR. MOYLE: When was the stipulation entered?

MR. MELSON: It was approved by the Commission this morning. It was entered by the parties last week sometime.

MR. MOYLE: Well, I guess where I have a concern is, in terms of testimony, if we're going to stipulate and try to clean up the record, I mean, this is full of -- there was no errata done. He didn't take the stand and say, "This is no longer relevant." He talks about the surplus fuel in his testimony. If we're going to stipulate and it's going to come out, it ought to come out everywhere.

MR. MELSON: Commissioner, we don't ordinarily -- at least in my experience, the Commission has not gone through testimony and stricken testimony that relates to stipulated issues. In essence, the testimony is in and supports the stipulation. But as a

result of the stipulation, Mr. Moyle and his client have no basis to challenge the underlying facts at this point. If they disputed the underlying facts, they should not have agreed for this to be a category to a stipulation.

CHAIRMAN CARTER: Mr. Moyle, before I go to staff, final.

MR. MOYLE: I don't have anything.

CHAIRMAN CARTER: Ms. Gervasi.

MS. GERVASI: I think it's irrelevant for the purposes of this proceeding.

CHAIRMAN CARTER: Sustained. Move on.

MR. MOYLE: No further questions.

CHAIRMAN CARTER: Okay. Mr. Brew.

MR. BREW: Thank you, Mr. Chairman.

CROSS-EXAMINATION

BY MR. BREW:

Q. Good afternoon, Mr. Young. I just have a couple of quick questions for you regarding your testimony on page 12, specifically, the question and answer that begin on line 15. Do you see that?

A. Yes.

Q. Okay. When you refer to the degradation of the OTSG tubes, you're referring to the outer leg of the steam generator, OT?

A. When I refer to the tubes of the steam generator -- the question is what is it?

Q. The reference to OT.

A. OT is once-through steam generators.

Q. Now, does the company sleeve as well as plug tubes?

A. Yes, we have sleeved tubes in the Crystal River 3 generator.

Q. Okay. Am I correct that the Crystal River output rating will not change due to the steam generator replacement?

A. You are correct.

Q. Okay. So there had been no derating of the unit due to any degradation of the existing tubes?

A. There is no derating. There's a slight loss of efficiency due to the plugging of the tubes.

Q. But the replacement of the steam generator will not lead to an increase in output?

A. That is correct.

Q. And the principal near-term benefits of the steam generator replacement described in your testimony are the elimination of the need for a mid-cycle outage?

A. Yes.

Q. And the avoidance of $9 million in additional inspection and repair costs; is that right?

A. Yes.

Q. Which is referenced on line 19 of your testimony.

A. Yes.

Q. So am I correct that compared to the 2007 refueling outage, refueling costs should be at least $9 million cheaper in the future?

A. Compared to the -- which outage? The '7 outage?

Q. Let's stick to line 19 of your testimony. You refer to inspection and repair costs of approximately 9 million during the 2007 refueling outage. Do you see that?

A. Yes, I see that.

Q. So my question would be that that $9 million should be a nonrecurring cost once you've done the steam generator replacement; is that right?

A. Not all of the 9 million will be nonrecurring. We will still have to do steam generator inspections. It will be significantly less than the 9 million. I don't know the exact number. I would estimate it would be about 3 million.

Q. So is your testimony designed to suggest that the $9 million in inspection and repair costs are associated with the degradation of the tubes, or would

that inspection occur anyway?

A. We have to inspect steam generator tubes regardless.

Q. Regardless. So are you saying that that $9 million in inspection costs would be incurred anyway?

A. No. I'm saying that a portion of that 9 million would occur anyway, and I believe it would be closer to 3 million instead of the 9 million.

Q. Okay. So the steam generator replacement should save about $6 million in inspection and repair costs?

A. Yes, I would believe that would be fair.

Q. And that should be nonrecurring then once the steam generator replacement goes into service?

A. That's correct.

Q. And you're also suggesting that the time required for these inspections and repairs should be shortened -- have increased the last refueling, the 2007, by about nine days. Do you see that?

A. Yes, I do.

Q. Okay. So can I take it from that then that with the steam generator replacement, refueling outages should be shorter by at least that amount?

A. Our objective will be to reduce the steam generator outage to the normal refueling outages,

depending on what else we're working on, but we would not have the nine days required -- the additional nine days required to work on the steam generators.

Q. So future refueling outages should not have to do the inspection work that you now say takes an additional nine days?

A. That's correct.

Q. So we should see shorter refueling outages in the future; is that right?

A. That is our objective.

Q. And that's the justification for doing the -- that's one of the justifications for doing the steam generator replacement?

A. That's correct.

Q. Okay. So we should have fewer inspection costs and shorter refueling outages as a result?

A. We hope so.

Q. And ratepayers should be able to bank on that?

A. We hope so.

Q. Okay. And you're also suggesting that there will be no need for mid-cycle inspection outages; is that right?

A. With the new generators, we would not anticipate having to do a mid-cycle outage.

Q. Okay. So without the mid-cycle outage and

with shorter refueling outages, should we be expecting increased annual production from Crystal River 3 after the steam generator repair goes into effect?

A. By reducing the outage duration, we would -- in the outage years, we would increase production, yes, that's correct.

Q. And in the non-outage years, you would be avoiding the mid-cycle maintenance, so that should also lead to increased production in those years as well?

A. Except that we haven't had to have the mid-cycle outage, so it's an avoidance. But we haven't had the mid-cycle outages in previous years, so I guess there would be no real increase, if I understand the question correctly.

Q. So it's a phantom outage. You're avoiding an outage that you historically haven't incurred?

A. Yes. I don't know that we call them phantom outages, but . . .

Q. But I like it.

A. Okay.

MR. BREW: We can get into double negatives real quick, but I'm not going to go there.

Okay. That's it. Thank you.

CHAIRMAN CARTER: Thank you, Mr. Brew. Ms. Van Dyke.

MS. VAN DYKE: No questions.

CHAIRMAN CARTER: Mr. Wright.

MR. WRIGHT: Thank you, Mr. Chairman.

CROSS-EXAMINATION

BY MR. WRIGHT:

Q. Good evening, Mr. Young.

A. Good evening.

Q. I think that I have just a couple of questions for you if you can answer them. They were referred to me by -- they were referred to you by, I should say, by Mr. Dolan.

If I could ask you to look at page 10 of your testimony.

A. Okay. I'm on page 10.

Q. Thanks. At lines 13 through 14, you make the statement, "When completed, we estimate the uprate project will save customers nearly 2.6 billion in gross fuel costs over the life of the unit." I'm just trying to understand what that value represents, and I have a couple of questions to ask you in that regard.

Is that a net present value number or a nominal number, if you know?

A. I do not know.

Q. Is there another witness in the case who would know?

A. I would believe one of our financial witnesses would be better to answer that.

MR. WRIGHT: Thank you. Mr. Chairman, if I could just ask that we have the same deal we had before, that the Company will endeavor to identify the appropriate witness to address this for me later.

CHAIRMAN CARTER: Mr. Melson.

MR. MELSON: We will do that. We're arguing about who it is, and we will let you know once we decide.

CHAIRMAN CARTER: You guys can make that call.

MR. WRIGHT: Thank you, Mr. Chairman.

BY MR. WRIGHT:

Q. Continuing on, on line 14 you -- well, the phrase is used that it will save customers nearly 2.6 billion in gross fuel costs. And my question for you is, what does the phrase "gross fuel costs" mean there, if you know?

A. I believe we're talking about the difference between the cost of fuel for Crystal River 3, nuclear fuel, versus the replacement cost of power for it.

Q. That kind of brings me to my next question, which is, what then would be the difference between gross and net, if you know?

A. I think someone else should answer that.

Q. Okay. And finally, my understanding of Progress's system is that the replacement fuel when CR3 is not online is predominantly natural gas. Would that be consistent with your understanding?

A. It would be consistent with my understanding, yes.

Q. And my question for you, if you know, in computing the $2.6 million value referenced in your testimony, what escalation rate did the company assume for the price of natural gas?

A. And again, I think we need to identify someone else to answer that.

MR. WRIGHT: That was very easy. Thank you, Mr. Young, and thank you, Mr. Chairman.

CHAIRMAN CARTER: Thank you, Mr. Wright. Staff.

MR. YOUNG: Thank you, Mr. Chairman. Mr. Chairman, for the record, my name is Keino Young. I'm with the Commission staff. Good afternoon -- good evening, Mr. Young.

THE WITNESS: Good evening.

MR. YOUNG: It's kind of weird saying that.

Mr. Chairman, all the parties -- just for the record, all the parties have agreed to staff's composite -- to the interrogatories and PODs going into the record

as staff's composite exhibit, as items number 21 and 22. And I just want to put it on the record that all the parties have agreed to moving those items into the record.

CHAIRMAN CARTER: Is that the understanding of the parties? Okay.

MR. YOUNG: I don't see Mr. Moyle.

CHAIRMAN CARTER: Ms. Kaufman is here.

MR. YOUNG: And, Mr. Chairman, this is in lieu of cross.

CHAIRMAN CARTER: Okay. Ms. Kaufman, is that your understanding?

MS. KAUFMAN: Yes, sir, it is.

CHAIRMAN CARTER: So in lieu of cross, you would move 21 and 22; is that correct?

MR. YOUNG: Yes, sir. And just for the record, item number 23 has been spun out to -- that's the decommissioning study, nuclear decommissioning study, and that has been spun out, so staff is not going to move that into the record.

CHAIRMAN CARTER: That's pursuant to what Mr. Melson had said earlier, that we would take that out of this docket here.

MR. YOUNG: Yes, sir.

CHAIRMAN CARTER: Okay. Without objection,

then, on 21 and 22, show it done.

(Exhibits Number 21 and 22 were admitted into the record.)

CHAIRMAN CARTER: Mr. Young.

MR. YOUNG: Staff has no questions.

CHAIRMAN CARTER: Okay. Commissioners? Commissioner Skop, you're recognized.

COMMISSIONER SKOP: Thank you, Mr. Chairman. Good evening, Mr. Young.

THE WITNESS: Good evening.

COMMISSIONER SKOP: If you could turn your attention to page 10 and 11 on your prefiled testimony, please.

THE WITNESS: Okay.

COMMISSIONER SKOP: And on line 21 of page 10, I guess you indicate that Progress Energy Florida has experienced stress corrosion and cracking with the steam generator tubes; is that correct?

THE WITNESS: That is correct.

COMMISSIONER SKOP: Okay. And that's part of the reason for the replacements of those steam generators?

THE WITNESS: Yes, the major reason.

COMMISSIONER SKOP: Okay. And is that also the subject of an NRC guidance in terms of corrosion and

cracking?

THE WITNESS: Yes.

COMMISSIONER SKOP: So it's also a safety issue?

THE WITNESS: Yes, very much so.

COMMISSIONER SKOP: And I think in response to a previous question -- if I could turn your attention to page 11 of your prefiled testimony, lines 1 and 2, I think a question arose as to whether an economic study was done. And looking at your testimony, I don't see a direct reference to it, but apparently your testimony indicates that a study was performed that indicated that the cumulative present value revenue requirement in terms of replacing the steam generators exceeded the -- resulted in savings to the ratepayers; is that correct?

THE WITNESS: That is correct.

COMMISSIONER SKOP: Okay. And to that same study, on page 4, it was also deemed more cost-effective to replace the steam generators as quickly as possible instead of waiting until the end of their life based on some of the problems that you've previously indicated; is that correct?

THE WITNESS: That's correct.

COMMISSIONER SKOP: All right. And just one follow-up question. On page 12 of your testimony, you

talk about the savings that might be resultant from replacing the steam generators sooner rather than later in terms of the additional tube inspections that have to be done. Would it be correct to understand that even with new steam generators, you would still have to do some form of periodic inspection on the tube bundles?

THE WITNESS: Yes. Every refuel, we will be required to inspect a certain percentage of the tubes.

COMMISSIONER SKOP: Okay. But it would be certainly less inspection than would currently be required with the aging tubes; is that correct?

THE WITNESS: That's correct. I don't think we could inspect any more than we're currently inspecting.

COMMISSIONER SKOP: Okay. Thank you.

CHAIRMAN CARTER: Thank you, Commissioners. Anything further from the bench?

Redirect.

MR. MELSON: No redirect.

CHAIRMAN CARTER: Exhibits.

MR. MELSON: We would move Exhibit 50, 51, 52, and 54.

CHAIRMAN CARTER: Are there any objections? Without objection, show it done, Exhibits 50, 51, 52, and 54.

(Exhibit Number 51, 51, 52, and 54 were admitted into the record.)

MR. MELSON: And we are not offering 53.

CHAIRMAN CARTER: To the Commissioners and the parties, this was -- as Mr. Melson said earlier, this was part of the spin-off of the issue pursuant to the stipulation, so we won't admit 53. Okay?

MR. MELSON: And, Commissioner, while we're on this page, we've also identified the MFR schedules that are dealt with essentially by every witness in the case as Exhibit 47. I wonder if it would be appropriate to move those at this time so we don't forget?

CHAIRMAN CARTER: Okay. Let's -- are there any objections to that?

MR. REHWINKEL: Mr. Chairman.

CHAIRMAN CARTER: Mr. Rehwinkel.

MR. REHWINKEL: I'm not sure that I have an objection, but there was -- there are several MFR schedules that have been revised over the course of the case, and I don't --

CHAIRMAN CARTER: You want a chance to look it over?

MR. REHWINKEL: I just want to make sure what we're talking about.

CHAIRMAN CARTER: Mr. Melson.

MR. REHWINKEL: And I guess I would like for the company to address -- to actually list which ones -- because I think I have them all, but I'm just not sure.

MR. MELSON: Why don't we prepare -- why doesn't the company prepare a list of the schedules that have been modified, and then we will move them as modified when we have that list.

CHAIRMAN CARTER: Okay. Let's do it that way. Mr. Wright.

MR. WRIGHT: Thank you, Mr. Chairman. I just want to keep up with the exhibit list, and I'm wondering about Exhibit Number 23, which is identified as an exhibit for Mr. Young, staff's Composite 23. I note that it relates to nuclear decommissioning, so it may have been withdrawn, but I --

CHAIRMAN CARTER: It was. It was.

MR. WRIGHT: It was?

CHAIRMAN CARTER: It was withdrawn, 23. I'm sorry I wasn't more explicit to the parties. Exhibit 23 was withdrawn.

MR. WRIGHT: You probably were and I just missed it. Thank you, Mr. Chairman.

CHAIRMAN CARTER: Okay. All right. Let's do this, boys and girls.

MR. MELSON: And before you do that, may

Mr. Young be excused?

CHAIRMAN CARTER: Oh, yes, Mr. Young. Well, we're going to be excused temporarily with Mr. Young. Let's take 10, everybody.

(Short recess.)

CHAIRMAN CARTER: We are back on the record, and when we last left, we had just completed with Mr. Young, Mr. Young and Mr. Young. So now call your next witness.

MR. BURNETT: Thank you, sir. We would call David Sorrick as the next witness, but I understand that Mr. Glenn by your leave would address a clarification matter.

CHAIRMAN CARTER: Okay. Let's do this. Let's have our preliminary matter. Mr. Glenn, you're recognized, sir.

MR. GLENN: Thank you, Mr. Chairman. I wanted to clarify just for the record one of the statements that Mr. Dolan made in response to a question from Commissioner Skop regarding corporate aircraft.

I think the answer that Mr. Dolan gave was that that is not included in our case, and that's accurate. The shareholders pay for that. How it's allocated and how it is, it's above the line for SEC and FERC reporting purposes, but if you look at Schedule C-2

on the MFRs, we then go ahead and take that out, so shareholders pay for the corporate aircraft and the use of any corporate aircraft.

So I just wanted to clarify that, because it may show up I think in some salary information where you might see a director of aviation services or something like that. That's included just because it fell within the portion. And, yes, it is allocated, but it is then subsequently taken out of that. So when you see the C-2 MFR, that takes out that salary as well. So I just wanted to clarify that for the record.

CHAIRMAN CARTER: Okay. Commissioner Skop.

COMMISSIONER SKOP: Thank you, Mr. Chair, and thank you, Mr. Glenn. That was my concern with respect to the key on line number 86 on the 2008 and 159 on the 2009. I saw that allocation. But relating that back to the MFR, I'm sure that will address my concern. Thank you.

MR. GLENN: And I think Mr. -- I think I may have mentioned that Mr. DesChamps is the witness on salary information. He's not on that. It would be Mr. Toomey, who's the final witness in the case. So to the extent you have any additional questions that I haven't been able to explain, he's the guy.

COMMISSIONER SKOP: No, the only thing that

threw me was the allocation on that comment sheet, and if I can resolve it on my own, there will be no further questions. Thank you.

MR. GLENN: Thank you.

CHAIRMAN CARTER: Thank you. Any further preliminary matters before we begin with this witness? Any of the parties, staff?

MS. KLANCKE: I'm not aware of any at this time.

CHAIRMAN CARTER: Okay. Let's proceed. Mr. Burnett.

MR. BURNETT: Thank you, sir.

Thereupon,

DAVID SORRICK

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

DIRECT EXAMINATION

BY MR. BURNETT:

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

A. Yes. My name is David --

CHAIRMAN CARTER: Hold on. Turn your microphones on.

THE WITNESS: Oh. There? Is that good?

CHAIRMAN CARTER: Turn that one on too just in case you turn while you're talking.

THE WITNESS: Okay.

CHAIRMAN CARTER: There you go. Okay.

THE WITNESS: Are we good?

CHAIRMAN CARTER: We're good now.

THE WITNESS: My name is David Sorrick, and I'm the Vice President of Power Generation Florida, and my business address is 299 First Avenue North, St. Petersburg.

BY MR. BURNETT:

Q. And have you already been sworn, Mr. Sorrick?

A. Yes, I have.

Q. And you have filed prefiled direct testimony in this case; correct?

A. Yes.

Q. Do you have any changes to make to your prefiled direct testimony?

A. No, I don't.

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

A. Yes.

MR. BURNETT: Mr. Chairman, we would request

that the prefiled direct testimony of this witness be entered into the record as if read today.

CHAIRMAN CARTER: The prefiled testimony of the witness will be inserted into the record as though read.

MR. BURNETT: Thank you.

In re: Petition for rate increase by Progress Energy Florida, Inc.
Docket No. 090079

DIRECT TESTIMONY OF
DAVID SORRICK

I. Introduction.

Q. Please state your name and business address.

A. My name is David Sorrick. My business address is 299 First Avenue North, St. Petersburg, Florida 33701.

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

A. I am employed by Progress Energy Florida in the capacity of Vice President Power Generation – Florida ("PGF").

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

A. As Vice President of PEF's Power Generation organization, my responsibilities include overall leadership and strategic direction of PEF's power generation fleet including 18 steam units and 46 simple cycle CT units which employ over 700 people and provide more than 9,400 nominal MW of total winter generation for PEF customers.

In this position, it is part of my responsibility to develop and implement strategic and tactical plans to operate and maintain the generation fleet, recommend major modifications and additions to the fleet, and recommend retirement of generation facilities. I am also responsible for budget allocation decisions that determine funding levels within the fleet utilizing the allocated budget for PGF. My duties further include workforce planning and staffing, major maintenance programs

strategy and implementations, outage and project management, and support services for the fleet. My responsibilities also include organizational alignment and design. This includes the review and analysis of the organizational structure within PGF and making the appropriate changes to optimize the organization. I am also responsible for the conduct of continuous business improvement within PGF. These efforts are focused on the review of current business processes and making appropriate changes to them in an effort to make the organization function more efficient. I am also engaged in efforts to attract, hire and retain employees across PGF.

Q. Please describe your educational background and professional experience.

A. I earned a Bachelor of Science degree in Engineering from the University of Tennessee at Chattanooga in 1986 and an MBA from University of South Florida in 2006. I am also a Registered Professional Engineer and Licensed Electrical Contractor (inactive) in the state of Florida.

I have over 20 years of power plant and production experience in various engineering, supervisory, managerial and executive positions at Progress Energy managing Combustion Turbine (CT) Operations, Fossil Steam Operations, and CT Services as well as new plant construction. While at Progress Energy, I have managed new unit construction, start-up, and commissioning of major combustion turbine installations and retrofits at our Intercession City and Debary sites. In addition, I have managed new unit projects from construction to operations and I have extensive contract negotiation and management experience with Progress Energy and General Electric. I also have extensive bargaining unit management and

negotiation experience. My prior experience also includes nuclear engineering positions at Tennessee Valley Authority and project management experience with General Electric.

II. Purpose and Summary of Testimony.

Q. What is the purpose of your direct testimony?

A. I appear on behalf of PEF to support the reasonableness of its power operation costs reflected in the Company's Minimum Filing Requirements ("MFRs").

Q. Have you prepared any exhibits to your testimony?

A. Yes, I have prepared or supervised the preparation of the following exhibits to my direct testimony:

- Exhibit No. __ (DS-1), a list of the MFR schedules I sponsor or co-sponsor; and
- Exhibit No. __ (DS-2), Tables: Power Plant Performance – Combined Cycle ("CC") Equivalent Availability Factor, Fossil Equivalent Availability Rates, CC Equivalent Forced Outage Rate, Fossil Equivalent Forced Outage Rates and Simple Cycle Starting Reliability.

In addition, I am co-sponsoring a portion of the Fossil Dismantlement Cost Study attached as an exhibit to Peter Toomey's testimony, specifically Section 7 of that study. These exhibits, and the portion of the Fossil Dismantlement Cost Study that I sponsor, are true and accurate.

Q. Do you sponsor any schedules of the Company's Minimum Filing Requirements (MFRs)?

A. I sponsor or co-sponsor the MFR schedules listed on Exhibit No. ___ (DS-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 Power Generation organization's mission is to provide safe, environmentally responsible, reliable, and competitively priced power to our customers.

PEF's capital ($134 million) and O&M ($175 million) expenditures for power plant generation support Progress Energy's "Balanced Solution" initiative. PEF is committed to maintaining the existing generation fleet by making investments in these plants to ensure they run efficiently while meeting the highest standards of safety and environmental stewardship. PEF is also committed to pursuing options for building new, state-of-the-art plants, such as the new Bartow Combined Cycle units, while at the same time delivering superior performance from our existing fleet. Because power plants take many years to plan and build, PEF is engaged in careful planning and prudent investment today to make sure we are ready for the future. PEF's long term strategy is designed to deliver reliable, affordable power with less dependence on foreign fuel and for a cleaner environment. The Bartow Repowering project is an example of successfully fulfilling this strategic objective. PEF is further committed to provide the infrastructure necessary to minimize power outages and to ensure that our power plants are reliable. PEF's generation fleet in

Florida continues to operate at high levels of performance while integrating new fleet additions, like the Hines 3 and Hines 4 Power Blocks, and minimizing production costs. This performance is made possible through the implementation of effective maintenance and human performance programs that facilitate the prioritization of work activities. These programs are aimed at optimizing planned outage activities and minimizing unplanned outages and will be further discussed later in my testimony.

PEF has provided and continues to provide, superior performance from its generation fleet while balancing costs with the multiple challenges and requirements facing the Power Generation Florida (PGF) organization. PGF's capital and O&M revenue requirements are reasonable and prudent, and should be approved.

III. PEF's Generation Fleet.

Q. Please describe PEF's generation fleet.

A. PEF's generation fleet consists of 12 fossil steam units, 5 combined cycle units (not including the new Bartow units), 1 cogeneration unit and 46 simple cycle combustion turbine units. PEF's generation fleet can produce approximately 9,400 megawatts of power. The fleet provides safe and reliable power to PEF's customers 365 days a year.

Q. Has PEF added additional megawatts since January 1, 2005?

A. Since 2005, PEF has continued to grow its generation fleet in order to meet increasing demand. In response to this increase in load, PEF added Hines Power

Block 3 (PB3), a 570 MW combined cycle power block in November of 2005. Moreover, in December of 2007, PEF added Hines Power Block 4 (PB4), a 517 MW combined cycle power block.

Q. Are there any other plants that will be placed in service before the test year?

A. Yes. PEF is scheduled to bring the Bartow Combined Cycle plant on line by June 1, 2009. This state of the art plant is a repowering project that will replace the existing Bartow Steam plant, which consists of three heavy oil units which came on-line between 1958 and 1963. The new Bartow Combined Cycle facility consists of four combustion turbines (CTs) and four heat recovery steam generators (HRSGs) feeding one steam turbine -- a 4x4x1 configuration -- capable of producing a combined approximate 1,279 MW, or an increase of approximately 827 MW over the existing site capacity. The project design includes auxiliary duct firing for the HRSGs, steam power augmentation for the CTs, by-pass stack dampers on the CTs and ultra-low NOx burners and state of the art pollution control equipment. These design features provide maximum output and system dispatch flexibility. PEF has entered into a contract with Gulfstream Natural Gas System for the firm pipeline transportation needed to support operation of the plant. The transmission and substation improvements needed to integrate the repowered plant into the electric grid and handle the increased MW output will also be in-service by June 1, 2009. The total capital cost of the project, including generation, transmission, and AFUDC, is $800.2 million.

Q. What are the benefits of the Bartow repowering project?

A. The analysis performed at the study phase in 2005 and 2006 showed that repowering the Bartow plant was the most cost-effective option to provide additional capacity by summer 2009 in order to meet PEF's 20 percent minimum reserve margin obligation. Based on that analysis, the repowering provides $171 million net present value (NPV) of after-tax cash flow savings and avoids the need for a capacity purchase in the summer of 2009, the Hines 5 combined cycle unit, and CTs originally planned for 2010 and 2012. Other benefits of the project include: reduced plant start-up time and increased dispatch flexibility; its location near the Pinellas County load center reduces loading on existing transmission used for importing power into the area; the project reduces site emissions, including a 98% reduction in SO_2 and reduced levels of NOx, enabling PEF to meet CAIR requirements without installing costly Selective Catalytic Reduction equipment at the Anclote Plant; and it allows the Company to take advantage of existing site assets and further avoids the need to develop a new site in the area.

Q. Does the addition of generation units to PEF's system increase PEF's generation fleet capital and operation and maintenance costs?

A. Yes. Fleet growth has been and continues to be a significant cost driver for the Company. Fleet growth drives cost increases in two distinct ways: 1) through plant base budget increases; and 2) through major maintenance budget increases. When a new unit has been added to the fleet, costs associated with staffing the plant to perform routine operations and maintenance of the plant is covered by the plant's

base budget increase. The types of incremental costs being incurred include labor, materials, and permit fees among other costs. As new equipment is added to the fleet and begins operations, maintenance is required to keep the equipment in good repair. The frequency and cost of this major maintenance depends upon the type of equipment and how it is operated. Examples of major maintenance work include: combustion turbine combustion inspections, hot gas path inspections, and major inspections. This work also includes steam turbine outages, generator outages, and boiler outages.

Q. What does it take to operate and maintain PEF's generation fleet?

A. The operation and maintenance of PEF's generation fleet requires substantial human and financial resources. PGF employs over 700 employees to operate and maintain the fleet. These employees have a wide range of diverse skills and experience sets. These include managers, engineers, technical specialists, craft employees, finance professionals, safety professionals and administrative staff. It takes each of these employees performing their job duties well in order to operate and maintain the fleet in the most cost effective manner possible.

The operation and maintenance of the fleet also requires substantial O&M and capital funding. This funding can be divided into two primary categories of work: 1) base budgets and 2) outage & project budgets. The base budgets include funding for all of the routine activities for each plant and the support of centralized groups for each plant. Examples of base budget items include base labor, tools, materials required for routine activities, plant environmental permits, basic utility services and

other such costs. The outage and project budgets include all major maintenance activities and non-routine projects that improve unit operating reliability or efficiency. Examples include combustion turbine major maintenance, steam turbine outage work, generator major maintenance work, minor construction projects and other projects of this type.

Q. What is PGF's maintenance philosophy?

A. By their very nature, electrical and mechanical equipment require periodic maintenance in order to maintain their reliability, efficiency and usefulness. The bulk of the generation-producing equipment is no different. Just as an automobile requires varying degrees of maintenance at different intervals, combustion turbines, steam turbines, boilers, generators and other significant pieces of equipment require different inspections, repairs, refurbishments and replacement of components on periodic intervals. PGF weighs several factors in the scheduling and execution of our major maintenance program.

First among these is the "tiering" strategy of our generation assets. Each unit is classified by fuel cost, unit efficiency (heat rate), size of output, impact to the transmission system reliability and strategic importance to determine the unit's tier. There are 3 total tiers. Tier 1 primarily consists of base loaded units; tier 2 is primarily comprised of intermediate and gas-fired simple cycle combustion turbine units, while tier 3 units are more typically simple cycle CT units utilizing fuel oil.

Second, the manufacturer's recommended maintenance intervals are used as a guideline when planning the major maintenance expenditures of the department.

There are three distinct maintenance intervals for a combustion turbine. Each of these intervals is driven by actual unit performance (unit starts or actual hours operated). In order of increasing expense, they are:

1. Combustion Inspection - this is the major maintenance activity performed on the combustion components of the unit (burners, transition pieces, combustion liners, etc.). This is the most frequent maintenance performed.
2. Hot Gas Path Inspection – this is the maintenance activity that includes all elements of the combustion inspection work scope plus activities performed on the power turbine components of the unit (blades, vanes, diaphragms, etc.).
3. Major Inspection – this is the maintenance activity that includes all elements of the combustion inspection, hot gas path inspection, plus activities performed on the compressor section of the unit.

The steam turbine fleet also has two major maintenance cycles based on periodicity and the operational profile. The first is Turbine Valve Outage, which typically occurs every three years and includes major maintenance activities on the turbine control valves, main and reheat steam valves. The other maintenance cycle is Major Turbine Outage, which typically occurs every 9-12 years depending on the unit type. It includes the activity performed during the turbine valve outages plus the disassembly of the turbine for inspection and repairs of the internal components.

The steam boilers, generators and other plant equipment also have periodic maintenance requirements that have recommended maintenance intervals associated with them.

Third, a system operating forecast is utilized to estimate unit operational hours and unit starts. This data allows comparisons between a given unit's expected operational parameters and that unit's position in the maintenance schedule.

The actual material condition of the equipment is also taken into consideration. This condition assessment is made by inspections, operating data analysis, past equipment history, predictive maintenance techniques (specifically oil analysis, vibration and thermography) and industry knowledge.

Finally, all of the information above is compiled and analyzed in an effort to identify and prioritize maintenance requirements for any given unit in any given year for business planning purposes. These maintenance requirements are then prioritized with other projects in the given year the maintenance is required. Funding decisions are made based upon budget targets assuming the methodology explained above.

IV. Power Operations Performance.

Q. Please explain the operating performance of PEF's generation fleet.

A. All segments of PEF's steam fleet have performed well since 2005. The fleet's Equivalent Availability ("EA") rates have compared favorably to the industry and have generally exceeded the NERC average EA rates for coal, oil, and combined cycle units. The EA metric is a measure of a unit's availability over the course of a year. Higher EA rates compared to industry averages, which is the case for PEF's coal, oil, and gas-fired combined cycle units, indicates PGF generation is typically available when needed to meet increasing customer demand. As a result, PEF's

generation fleet can be efficiently committed to meet load, therefore, providing customers with an optimized fuel cost. See pages 4 and 5 of Exhibit No. __ (DS-2).

The PEF fleet has also outperformed the NERC average with respect to Equivalent Forced Outage Rates ("EFOR") over the same time period. EFOR is an industry measurement of how often a unit is off-line due to an unexpected or forced condition. The lower the EFOR, the higher percentage of time the unit is available. This availability allows PEF to again optimize its unit dispatch to meet load and subsequently minimizes fuel cost impacts to the customer. In particular, the combined cycle fleet outperformed the industry average EFOR by almost 4.5%. See page 3 of Exhibit No. __ (DS-2). The coal & oil fleet also outperformed the industry by achieving a combined EFOR that was less than half the industry average for similar type units. See page 2 of Exhibit No. __ (DS-2). These results are indicative of an effective major maintenance program.

PEF's simple cycle fleet has demonstrated extremely high levels of starting reliability since 2005. In fact, starting reliability levels have exceeded 99.5% over the last 4 years. See page 1 of Exhibit No. __(DS-2). Between 2005 and 2007, the fleet was called upon to start an average of over 5,200 times per year. PGF has maintained this starting reliability performance across the entire fleet even though the average age of the fleet is over 29 years old. This performance is indicative of an effective preventive maintenance program at each plant. For example, regular proactive maintenance performed on plant instrumentation, pumps, motors, etc. will allow the plant maintenance staff to discover and correct problems before the units

are committed for system needs. These actions will make the units more likely to start successfully when called upon.

Q. How do PEF's customers benefit from this positive operating performance?

A. Positive fleet operating performance enables PEF to minimize fuel cost. These fuel cost savings are realized by ensuring that units with the lowest average fuel cost are available to meet customer demand. Otherwise, units with higher average fuel costs must be committed or potentially higher priced purchased power scheduled to meet demand which, in turn, increases the customers' overall fuel bill. Therefore, the reliability of the generating units with lower average fuel costs is very important to minimizing fuel costs to our customers. Moreover, unit reliability increases the probability that generation is available during times of lower customer demand to enter the off-system sales market and further offset customer fuel costs.

Increased levels of operating performance also enhance system reliability by providing PEF's Energy Control Center ("ECC") more reliable generation alternatives to address system contingencies. In day-to-day operation of the interconnected system, ECC is tasked with ensuring that grid instability will not occur as a result of the loss of a transmission element or generator. Increased unit reliability reduces the number of contingencies a transmission operator must mitigate. In addition, the loss of a transmission element can result in the overload of subsequent transmission lines. In such situations, generation units can be brought on to relieve adverse line loading. Failure of a unit to respond when called upon may

result in a requirement for the ECC to initiate more drastic measures (e.g. load reduction).

Q. How has PEF achieved its positive operating performance?

A. PEF focuses on operational efficiencies and performance improvements in order to maximize the benefits from its generation fleet. PEF invested substantial dollars since 2005 targeting projects and work that improved unit flexibility, increased unit capacity, and increased unit reliability. Examples of these projects and work include:

- Fleet Major Maintenance Program. PGF's major maintenance program is designed to enhance the fleet's reliability through the proactive performance of major maintenance activities. Each unit in the fleet has regularly scheduled major maintenance requirements based on the amount of operating hours, number of unit starts, condition assessment of the equipment, or other operational parameters. The majority of the PGF annual project budget is spent on major maintenance activities. The PGF major maintenance program is designed to invest O&M and capital dollars to optimize the fleet. For example, we have a process in which an entire set of operating parts is replaced during an outage with a set of spares. The unit is returned to service and the set of parts removed from the unit are sent for repair. This facilitates less outage time and more operating availability. These parts repairs extend the beneficial use of most unit parts over several cycles of unit operation, thus prolonging their useful life.

- Hines Power Block 4 Combustion Optimization Package. This project, completed in 2007, increased the capacity of the Hines Power Block 4 by 14 MW. Installation of the combustion optimization package also allows PGF to monitor combustion dynamics for gas turbines in order to lower combustion part wear. PGF expects this monitoring capability to reduce future parts' repair costs.
- Crystal River 2 Boiler Pressure Parts Replacement. In the spring of 2007, Boiler Pressure Parts replacement work at Crystal River Unit 2 was performed in order to reduce unplanned outage time due to tube leaks. As a result of the CR2 replacement project, EFOR has improved from a rate of 6.45% in 2006 to 5.55% in 2007 and 2.78% in 2008. The improved EFOR for CR2 means greater unit availability when it is most economical to dispatch CR2 to meet load, thus, minimizing customer fuel costs.
- Hines Low Load Carbon Monoxide (LLCO) Modification. In 2008, PGF negotiated and executed gas turbine mechanical retrofits and control changes on Hines Power Block 2 in order to allow lower load operation at Hines which prevents having to cycle off units or reduce load on less expensive units. The modification is expected to decrease fuel costs for the fleet in 2009 and beyond.
- Tiger Bay Combustion Turbine Rotor Replacement. The original rotor for this unit was nearing end of life due to design limitations. This rotor was replaced in 2008 with a rotor of improved design which increased capacity of the power block by 9 MW. This work means this unit provides even more power at a more efficient fuel cost to meet customer load.

- Hines Gas Blending Station. In 2007, PEF installed a state of the art gas blending station at the Hines Energy Complex to allow blending of gas supplies between FGT and Gulfstream. This allows flexibility to achieve fuel savings and increases the reliability of plant capacity to meet load in the event one source of gas supply is interrupted.
- Aeroderivative Modular Maintenance. PEF purchased several spare engine modules in 2005 to minimize downtime during engine overhauls. As a result of this strategy, PGF has increased aeroderivative fleet availability. This strategy has allowed PGF to utilize modules from different engines to expedite the units' return to service from scheduled outages. PGF's aeroderivative fleet is primarily used to provide fast start/black start capabilities to the PEF system. These units are versatile and provide significant system reliability benefits. Specifically, these units represent the primary mitigation measure for responding to interruptions on the system, such as the loss of a transmission line or the loss of a generating unit. Because they can be started so quickly, they provide needed generation when such events occur.
- Anclote 2 Major Turbine Outage. In 2006, PEF replaced the low pressure feed water heaters, one row of turbine blades, and the high and intermediate pressure packing strips at Anclote 2. These replacements improved turbine efficiency. Installation of a debris filter system also improved condenser cleanliness resulting in improved turbine efficiency. These efficiency improvements resulted in lower costs for Anclote 2 for each hour of operation.
- Anclote Cooling Towers. The concrete cooling towers at the Anclote facility were replaced with corrosion resistant fiberglass structures which reduce the amount of

chloride attack from the salt water environment they are in. This reduces maintenance requirements and thus reduces future maintenance costs.

- Anclote Fuel Flexibility. At Anclote units 1 and 2, modifications to the bottom ash hoppers of the boilers and changes to the operational procedures now enable the plant to burn a combination of No. 6 oil and natural gas. This modification can reduce fuel costs for running the plant, and provides additional flexibility when choosing fuels.

Many of these projects are on-going and will continue to yield unit performance benefits for customers in 2010 and beyond.

Q. Has the Company undertaken any other initiatives to improve the operating performance of its generation fleet?

A. Yes. In addition to major projects, PGF has invested in several initiatives and programs that are aimed at improving fleet equipment performance and/or workforce performance. Some of these include:

- Operations Excellence Program. The purpose of the Operations Excellence Program ("OEP") is to develop and maintain a highly skilled operational workforce. The OEP is an effort to rapidly develop qualified employees while preserving and disseminating the experiential knowledge of our current experienced employees.
- Simulators. PEF utilizes simulators in the execution of the OEP. Simulators that replicate facility operation provide continuing training for existing operating personnel. Infrequently performed tasks can be practiced, thus increasing skills and reducing potential errors. The simulators also can be used for troubleshooting actual

unit controls utilizing "what if" scenarios and locating logic and control problems in the actual plant system they simulate. Finally, simulators can be used to verify procedure and plant modification changes.

- Automated Training Manager ("ATM"). The ATM module is a web-based learning management system that provides web-based training, electronic skill signoffs, progression tracking, trainee profiles, and supervisor mentoring functions. The ATM allows users to self-enroll in selected technical or required regulatory courses. It also allows supervisors to assign site-specific qualification criteria and course materials to their direct reports. ATM also provides administrative tools for reporting and tracking opportunities to monitor an employee's progress in their training assignments.
- Human Performance Improvement. The Human Performance Improvement Program ("HPI") efforts involve error reduction training at all levels in the organization. The primary goal of the program is to eliminate those errors that result in Significant Human Performance Events, which are defined as any event resulting from human error that results in any of the following events: (1) an OSHA recordable or lost time injury; (2) asset damage in excess of $25,000; (3) significant environmental impact; (4) significant loss of power generation capability; or (5) an event deemed by management to be significant by virtue of the value of lessons learned. Since the inception of the HPI program in 2001, the number of human performance events has declined considerably. For example, from 2003 to 2008 PGF reduced significant events from 153 to 26 resulting in an 83 percent reduction.

This program has allowed PGF to improve in the areas of safety and operational performance.

- Apprentice Program. The Apprentice Program provides structured training to increase the capabilities of new craft employees entering the work force. The program includes the following positions: Operators, Mechanics, Electricians, Instrumentation and Control Technicians, Laboratory Technicians, and Combustion Turbine Maintenance Operators. The program provides final assessment of qualification levels for apprentices to become Journeymen and provides a cost effective mechanism for training new employees to equip them with the skills and knowledge needed in today's workforce.

These are on-going initiatives and programs that continue in 2010 and beyond to provide efficient workforce performance for the ultimate benefits of customers through lower capital and O&M costs.

Q. Please describe any PEF Power Generation organizational changes and associated benefits since 2005.

A. Over the past three years, PEF's Power Generation Group has re-aligned resources in order to more effectively operate and maintain the fleet of assets. In 2006 PEF implemented the Crystal River Maintenance Organization ("CRMO"). CRMO's purpose is to coordinate and perform maintenance activities across the Crystal River Fossil site. These activities include normal preventative maintenance, corrective maintenance, and equipment outage response. This realignment has resulted in

efficiency gains, enhanced forced outage response which minimizes impacts to EFOR, and overtime savings. The overtime savings alone have been estimated at nearly $1 million. This money has been reinvested into additional maintenance activities.

In addition to the organizational changes made at Crystal River, PGF executed a consolidation strategy starting in 2007 focused on integrating fossil and CT operations organizations. The results of this integration to date include the elimination of four plant manager positions as well as two service manager positions. These consolidations were accomplished by using attrition and redeploying resources to other areas of the Company.

Q. Has the Power Generation group been able to sustain a good safety record while improving performance?

A. Yes. At PEF, safety is the highest priority in every task we perform and is an integral part of our decision making process. PEF is committed to a healthy and injury-free workplace. PGF is also committed to the safety of our employees, families, customers, contractors, visitors and the communities in which we operate. In 2005, PGF incurred five OSHA recordable injuries which was Top Quartile Performance for EEI utilities. In 2006, twelve workplace injuries occurred. As a result of this increase, the Company did not achieve top quartile performance for 2006. Therefore, Progress Energy took action and launched a "Zero in on Safety" Campaign that focuses on eliminating accidents and injuries from the work place. The campaign focuses on personal accountability, job hazard recognition and

mitigation, and active caring and peer coaching. Furthermore, the campaign emphasizes that whatever the nature of the work, the first and most important outcome is that employees sustain zero injuries in the preparation and completion of their tasks. Subsequently, workplace injuries in 2007 declined to nine. This performance represented a return to top quartile. In 2008, PGF again improved safety performance by reducing the number of workplace injuries to seven. PGF's goal is zero accidents in the work place and we will continue to work toward that goal.

Q. Please explains PGF's approach to environmental performance.

A. PGF takes its environmental responsibilities very seriously. PGF measures and tracks environmental performance through a mechanism called the PGF Environmental Index ("EI"). This metric is comprised of performance standards representing compliance to air and water permit compliance, and total waste generation. For example, exceedances on real time air emission limits, any amount of oil spilled in state waters or generation of hazardous waste all adversely impact the index. PGF's overall performance with respect to the EI has exceeded targets since 2005. The environmental index measures performance on a scale from 1.0 to 5.0 with 5.0 being the highest level. A rating of 4.0 is defined as good and a rating of 5.0 is defined as outstanding and should only be reached by achieving stretch goals and demonstrating high levels of environmental performance in all areas. PGF has consistently exceeded the goal of 4.0. Over the last 3 years, PGF's performance against the index has averaged 4.63. This indicates a strong commitment to

environmental stewardship by consistently adhering to permit conditions and, in many cases, performing better than permitted requirements. Compliance and good stewardship are the cornerstones of our environmental programs.

Q. Has the Company efficiently managed its costs in achieving the positive operating performance of its generating fleet?

A. Yes. Since 2006, PEF has invested nearly $220 million in capital improvements to our fossil steam, CT and CC plants. The majority of these capital improvements include major maintenance on gas turbines, steam turbines, boilers, generators and other balance of plant equipment. In addition to maintenance capital, investment has also been made in unit uprates and fuel flexibility modifications. Specific projects include replacement of the Anclote Cooling Towers, multiple pressure parts replacements in several fossil plant boilers, condenser replacement projects, Crystal River coal yard improvements, as well as turbine parts replacements and refurbishments. By choosing those projects that deliver the most benefits in terms of unit reliability, fuel savings, and increased efficiencies, the Company has made the most of its capital and O&M dollars for the generation fleet.

V. Major Maintenance Outages.

Q. Please describe PEF's planned outages since 2005.

A. Planned maintenance outages are performed to address known equipment issues in an effort to increase unit availability and reliability and/or to reestablish unit capabilities. Since January 2005, a total of 120 planned outages greater than one

week in duration have been performed across the PGF fleet. These outages were performed on a wide range of equipment including steam turbines, combustion turbine engines, generators, boilers, heat recovery steam generators, and miscellaneous balance of plant equipment. PGF utilizes a maintenance planning procedure using actual equipment condition, unit operational missions, and original equipment manufacturer ("OEM") recommendations regarding maintenance intervals. PGF seeks to execute planned outages in the most cost effective manner possible.

Q. Have any unplanned outages occurred since 2005?

A. Yes, unfortunately unplanned outages are bound to happen because of the number, type, and vintage of the generation fleet that PGF operates. The effectiveness of avoiding unplanned outages, however, is measured by EFOR. PGF has outperformed the NERC average with respect to EFOR, thus, demonstrating that PGF has effectively avoided and managed unplanned outages on its system. See pages 2 and 3 of Exhibit No. __ (DS-2).

Since 2005, PGF has incurred 40 unplanned outages of one week or greater in duration. Only 7 of the 40 unplanned outages occurred on a steam unit (coal, oil or combined cycle). The remaining 33 unplanned outages occurred on various simple cycle CT units, predominantly the older units in the fleet. This performance indicates that the major maintenance planning methodology has been effective in minimizing forced outages on the base load and intermediate load segments of the fleet.

PGF's excellence in avoiding unplanned outages and managing them when they cannot be avoided is demonstrated by PGF's record regarding FRCC Reserve Sharing Group (RSG) reserve calls from 2005 to 2007. Typically, reserve calls are initiated by RSG members upon an unplanned loss of generation in excess of 200 MWs. PGF represents about 25 percent of the state's generation capacity. However, PEF was responsible for only about 12 percent of the FRCC reserve calls from 2005 through 2007.

PGF will continue to work towards improving EFOR across the entire fleet by proactively performing major maintenance activities. These maintenance requirements continue to increase as PEF's fleet continues to grow.

VI. Generation Fleet Revenue Requirements.

Q. What are the Company's generation capital and O&M expenditures for 2010?

A. The Company needs $134 million in capital and $175 million for O&M expenses for generation for the test year 2010.

Q. How do the Company's O&M expenditures compare to others in the industry?

A. Industry benchmarks indicate that PGF is performing extremely well as compared to other generating fleets in the industry. The Non-fuel O&M dollars per MWh for the Oil-fired steam and Combined Cycle fleet is in top quartile. Non-fuel O&M represents the O&M costs without the costs associated with fuel. The Non-fuel O&M dollars per KW for our Oil-fired Steam, Combustion Turbine and Combined Cycle fleet are also well below the industry averages. This is based on the GKS

Gold benchmarking study that was produced in 2008 which includes 2005 through 2007 data.

Q. Are the Company's O&M revenue requirements within the Commission benchmark?

A. No. Despite best efforts from the PGF management team, there is a $53.1 million variance between the costs to operate and maintain the fleet and the Commission benchmark target amount. There are various reasons why the generation revenue requirements are above the benchmark amount. One reason is that labor and material escalations have increased the costs to perform unit operations and maintenance, but the work must be done despite these increasing costs. To illustrate, approximately $7.3 million of additional employees, flyash disposal costs, and maintenance work associated with boiler waterwall replacements, boiler circulating pumps, circulating water pump system repairs, generator stator rewedge, and other boiler repair work in the pendant reheat section of these units must be completed despite increasing costs to ensure the continued efficient operation of these base load units. Simply put, additional O&M expenditures are necessary to perform essential routine and major maintenance activities.

Fully 85 percent of the $53.1 million variance in PEF's O&M costs from the benchmark target cost, however, is attributable to O&M requirements that have nothing to do with the mere escalation in costs over time that the benchmark test using the Consumer Price Index (CPI) captures and measures PEF's costs against. These are (1) additional maintenance requirements for fleet growth from new

generation of $21.3 million with an offsetting retirement of a unit ($7.2 million), (2) additional, combined outage projects of $15.1 million, (3) incremental security costs of $1.9 million, and (4) major maintenance and other miscellaneous cost increases of $14.7 million for the CC and CT fleet driven by the unique mechanical and operational characteristics of these units.

More specifically, the new generation portion of the variance is due to the addition of two power blocks at the Hines Energy Complex ("HEC"), as well as the addition of the Bartow Combined Cycle plant. These units were not online in 2006, which is the base year against which the Commission benchmark is measured, and, therefore, the O&M costs associated with these additional generation units are fairly outside the scope of the costs the benchmark test is intended to address.

To illustrate, the additional Hines power blocks require higher staffing levels and an increase in maintenance projects outlays, resulting in an increase of approximately $10.1 million. In addition, with the Bartow Combined Cycle plant coming online in June 2009, there will be higher staffing and maintenance needs for 2010, the unit's first full year of operation. This represents an additional $6.6 million of costs over 2006 benchmark levels. The first scheduled outage for Bartow will take place in 2010, pursuant to the Bartow Long-Term Service Agreement ("LTSA"). The LTSA benefits PEF by providing more protection for key components and less financial exposure to unexpected events that would otherwise result in additional costs to the Company. The maintenance work in 2010 under the LTSA is estimated at $4.6 million. Finally, because the Bartow Steam facility will be retired in 2009, the Company will save approximately $7.2 million due to

reduced staffing. The net impact represents $21.3 million of the benchmark variance.

Another major driver of the variance is additional, combined outage projects. PEF will be adding major Clean Air equipment, Flue Gas Desulferization Systems ("FGD") and Selective Catalytic Reduction ("SCRs"), to Crystal River Unit 4 during an extended outage in the Spring of 2010. To take advantage of this lengthy outage, PEF has scheduled the Unit 4 major boiler and turbine maintenance outages during the same outage. PEF would normally schedule these maintenance outages in the normal course of its operations but PEF decided to accelerate them to capture synergies in outage costs with the outage for the FGD and SCR work as well as minimize lost generation by doing the work while the plant is already down. This represents a significant cost savings to customers in replacement fuel costs, because additional future outages will be reduced in scope and duration, and the corresponding replacement of generation with higher average costs during those future outages will be reduced or avoided. To achieve these efficiency and potential fuel savings benefits, however, the combined outage work must be done in 2010 with the resulting $15.1 million variance from the benchmark.

Additionally, $1.9 million of the variance is attributed to incremental security costs, which were previously recovered through the Capacity Cost Recovery clause in the year incurred. These costs are now included in base rates for 2010.

The final driver of the O&M variance is associated with maintenance of PEF's CT and CC units in its existing fleet. Approximately $14.7 million of the variance is the result of various maintenance projects for these units. Specifically,

approximately $4.7 million is estimated for major maintenance projects at various CT plants, including: rotor inspections and rotor out work for the various Debary, Rio Pinar, and Turner units; combustion inspections for Debary Units 2 to 5; hot gas path inspections for Debary units 7 and 9; and a major inspection for Turner unit 3. The Hines Energy Complex and Tiger Bay units have approximately $4.7 million worth of projects associated with Hines Power Blocks 1 and 2 and Tiger Bay. The type of work includes the removal of the Combustion Turbine rotor, inspection and repair of the combustion part, inspection and repair of the power turbine components and repair work on other balance of plant components. Additionally, there is approximately $5.3 million budgeted for emerging equipment issues and parts repairs. This funding would be used for forced outage repairs or to take advantage of opportunities to enhance the fleet.

Q. Do you believe the Commission O&M benchmark test accurately reflects the Company's experience with maintenance of CT and CC generating units?

A. No, I do not. For power plant O&M, as I explained previously, the Commission O&M benchmark test uses the CPI to escalate costs and therefore assumes that all O&M costs will increase at the same rate. This may be a reasonable assumption for some O&M costs but it is not appropriate for maintenance of generating units like CTs and CCs, which are impacted by how often the units are started, how long the units run, and other factors regarding how the system is operated.

Unlike the maintenance associated with fossil steam generating units, which have conventional turbines and therefore more readily anticipated maintenance

needs, maintenance of CT and CC units is dynamic and dependent on unit operations. The combustion turbines in these units are high performance engines, and their maintenance needs are heavily impacted by their usage. The fossil steam plants, because they are either base load or intermediate plants, tend to run more predictably and more often. Conversely, the usage rates of CTs and CCs can vary dramatically. The Commission O&M benchmark test, therefore, simply does not and cannot capture the dynamic nature of the ever-changing maintenance needs of the CT and CC units. PEF prudently considers whether to bring these units down and perform maintenance on them based on all these unique mechanical and operational characteristics as well as the continued benefit to customers to continue to operate the units to get the most value from them. Accordingly, the Commission benchmark test is an inappropriate mechanism to evaluate the O&M costs attributable to the CC and CT units in PEF's existing fleet.

Q. Why does PEF need the capital investment and O&M expenses in generation that it requests?

A. PEF needs the capital investment and O&M expenses to reliably and efficiently operate the generation equipment. For example, PEF's capital investment includes approximately $25 million to upgrade the turbines at Crystal River Unit 4 during the extended outage in 2010. This upgrade will result in the production of an additional 14 MWs of base load capacity from an existing unit for the benefit of the Company's customers. The Company further needs the requested capital and O&M investment to continue the maintenance programs I described earlier that have

produced proven results in generation unit availability and efficiently, providing customers with the continuing fuel savings benefits of a generation system that is efficiently dispatched to meet their energy needs. Simply put, the capital investment and O&M expenses the Company requests are needed so that we can continue to efficiently and reliably operate our generating fleet.

Any reduction in the maintenance capital and O&M activities that we need means the overall cost to the customer will increase. Undoubtedly, if the Company's needs are not met, tough choices will have to be made and deferred maintenance may occur. Deferred maintenance can be more expensive than planned maintenance due to more extensive repair requirements on the components because of longer run cycles. Deferred maintenance also reduces the flexibility of the generation fleet to take advantage of the daily energy spot market in Florida which can reduce the overall fuel cost to the customer by realizing off-system sales. Further, forced outages may occur more frequently and forced outages are typically more expensive than planned outages in terms of capital and O&M costs and higher fuel costs. Proper capital investment in and maintenance of the equipment and systems is essential for continued safe operations of the equipment.

Q. Are the Company's generation capital and O&M revenue requirements reasonable and prudent?

A. Yes. PEF's long term generation strategy is designed to deliver reliable, affordable power with less dependence on foreign fuel from cleaner power sources. PEF is committed to provide the infrastructure necessary to minimize power outages and to

ensure that our power plants are reliable, efficient, and meet or exceed environmental requirements. PEF has provided and will continue to provide superior performance from its generation fleet while balancing costs and expenses with the multiple challenges and requirements facing the Power Generation organization but PEF must be provided the necessary capital and O&M resources to do so.

PEF's generation capital and O&M revenue requirements will allow us to continue to provide that superior performance and they are therefore reasonable and prudent, and should be approved.

VII. Fossil Dismantlement Cost Study

Q. Please describe PEF's Fossil Dismantlement Cost Study filed as an exhibit to Mr. Toomey's testimony.

A. PEF commissioned Burns and McDonnell to prepare a fossil dismantlement study to determine the ultimate cost to dismantle and decommission the Company's fossil power plant fleet. Burns and McDonnell is a nationally recognized consulting firm with extensive expertise in preparing studies, such as the one commissioned by PEF. A copy of the fossil dismantlement study is contained in Section 7 of Mr. Toomey's Exhibit No. ___ (PT-10).

Q. Does this conclude your direct testimony?

A. Yes.

BY MR. BURNETT:

Q. Mr. Sorrick, do you have a summary of your prefiled direct testimony?

A. I do.

CHAIRMAN CARTER: Just for the record, on staff's Comprehensive Exhibit List, I think we're showing Exhibit Number 55 and 56. Is that right, Mr. Burnett?

MR. BURNETT: Yes, sir.

CHAIRMAN CARTER: Okay. Just for the record. You may proceed.

MR. BURNETT: Thank you, sir.

(Exhibits Number 55 and 56 were identified for for the record.)

BY MR. BURNETT:

Q. Keeping in mind the lights in front of you and the five-minute limitation, will you please give your summary?

A. Sure. Good day, Commissioners, or I guess good evening now.

I am the Vice President of Power Generation Florida for Progress Energy. In this role, I am responsible for the overall leadership and strategic direction of PEF's power generation fleet, including 18 steam units and 46 simple cycle combustion turbine

units. And we employ over 700 people and provide more than 9,400 nominal megawatts of total winter generation for PEF customers.

In this position, I recommend major modifications and additions to the fleet, and I recommend retirement of generation facilities. I am also responsible for budget allocation decisions and workforce planning and staffing for major maintenance programs and outages. Additionally, I am responsible for the conduct of continuous business improvement within power generation that focuses on the review of current business processes and making appropriate changes to them in an effort to make the organization function more efficiently.

The power generation organization's mission is to provide safe, environmentally responsible, reliable, and competitively priced power to our customers. PEF's capital and O&M expenditures for power plant generation support Progress Energy's balanced solution initiative. PEF is committed to maintaining the existing generation fleet by making investments in these plants to ensure they run efficiently, while meeting the highest standards of safety and environmental stewardship. PEF is also committed to pursuing options for building new, state-of-the-art plants such as the new Bartow combined

cycle units, while at the same time delivering superior performance from our existing fleet.

Because power plants take many years to plan and build, PEF is engaged in careful planning and prudent investment today to make sure that we are ready for the future. PEF's long-term strategy is designed to deliver reliable, affordable power with less dependence on foreign fuel, and also to provide for a cleaner environment. The Bartow repowering project is an example of successfully fulfilling these strategic objectives.

PEF is further committed to provide the infrastructure necessary to minimize power outages and to ensure that our power plants are reliable. PEF's generation fleet in Florida continues to operate at high levels of performance while integrating new fleet additions like Hines Power Block 3, Hines Power Block 4, and the new Bartow combined cycle units, while we minimize production costs. This performance is made possible through the implementation of effective maintenance and human performance programs that facilitate the prioritization of work activities. These programs are aimed at optimizing planned outage activities and minimizing unplanned outages.

PEF has provided and continues to provide

superior performance from its generation fleet while balancing costs with the multiple challenges and requirements facing the Power Generation Florida organization. The operation and maintenance of the fleet requires substantial O&M and capital funding. PEF needs the capital investment and O&M expenses to reliably and efficiently operate the generation equipment. Proper capital investment in and maintenance of the equipment and systems is essential for continued safe operations of the equipment. PGF's capital and O&M revenue requirements are reasonable and prudent and should be approved by this Commission.

This concludes my summary, and I'm happy to answer any questions that you may have.

MR. BURNETT: Thank you, sir. We tender Mr. Sorrick for cross-exam.

CHAIRMAN CARTER: Thank you. Mr. Rehwinkel.

MR. REHWINKEL: Thank you, Mr. Chairman.

CROSS-EXAMINATION

BY MR. WRIGHT:

Q. Good evening, Mr. Sorrick.

A. Good evening.

Q. My name is Charles Rehwinkel. I'm with the Office of Public Counsel, and I do have a few questions for you about your direct testimony.

A. Okay.

Q. Mr. Sorrick, would you agree with me that the projected O&M expense for power operations and maintenance for the 2010 year is $175.838 million?

A. Yes.

Q. Can I just confirm to you -- with you where those numbers come from? If I could ask you to turn to MFR C-6. Do you have that?

A. I don't have that with me.

Q. You don't? Those are the MFRs that you sponsor.

MR. REHWINKEL: Okay. Well, Mr. Chairman, if I could approach the witness.

CHAIRMAN CARTER: You may. Mr. Wright is going to help you there.

MR. REHWINKEL: Mr. Wright is going to loan me and Mr. Sorrick his --

CHAIRMAN CARTER: Mr. Wright is much better at presenting the exhibits than he is at passing them out. Maybe we found a position for you, Mr. Wright.

MR. WRIGHT: Thank you, Mr. Chairman.

MR. REHWINKEL: Thank you, Mr. Wright.

BY MR. REHWINKEL:

Q. Mr. Sorrick, can you turn to C-6, which is -- page 68, which is page 3 of 7?

A. Okay.

Q. Are you there?

A. I am.

Q. And this is an MFR schedule that you have some responsibility for; is that correct?

A. That's correct.

Q. So just so I know that these are the right numbers, on page 3, line 13, column G, $5.08 million, is that part of the 2010 budgeted O&M expense for power operations and maintenance?

A. Yes, I believe so.

Q. Okay. And on line 28 of the same page, 35.404 million under column G, is that . . .

A. I believe so.

Q. Okay. And if I could get you to turn to page 4, which is page 69 of the MFRs, line 5, under column G, 22.073 million, is that part of the budgeted --

A. Yes.

Q. And then on line 9, column G, 2.152 million?

A. I hesitate because of that description on line 7. That appears to me to be energy control center expenses.

Q. So you're saying that is not one of --

A. I'm saying I'm not sure.

Q. Okay. So we'll set that one aside. On page

6, line 7, do you see under column G, 58.818 million? Is that part of that budgeted expense?

A. Yes, sir.

Q. And then again on line 20 of the same page, 52.311 million?

A. Yes.

Q. Okay. So except for line 9 of page 5 -- I'm sorry, of page 4, column G, all the numbers that we went through are part of the budget dollars that you're testifying about here in power operations?

A. I believe so.

Q. And the 2.152 million on line 9 of page 4 of C-6 may or may not be part of that number?

A. It may or may not be. I would have to clarify what that line item is, sir.

Q. How would you -- what would you do to clarify that.

A. I would probably ask for some of the finance folks to help clarify exactly what's in that line item.

Q. Do you know how long that would take? I mean, is it a matter --

A. Well, the answer is, no, sir, I don't know how long that would take.

CHAIRMAN CARTER: I think what Mr. Rehwinkel was suggesting was, is there someone here who you can go

over and talk to for a couple of seconds?

THE WITNESS: There may be.

CHAIRMAN CARTER: If so, let's take a break in place, and you can do that now.

THE WITNESS: Okay.

MR. REHWINKEL: Thank you.

(Off the record briefly.)

CHAIRMAN CARTER: Okay. We're back.

MR. REHWINKEL: Mr. Chairman, if I may?

CHAIRMAN CARTER: You may proceed.

MR. REHWINKEL: Thank you.

BY MR. REHWINKEL:

Q. Mr. Sorrick, were you able to --

A. Yes, we were. With respect to page 4 of 7 of C-6, line 9, those are not under my purview. Those would not be included in my budget.

Q. Okay. So if I added the numbers that we just reviewed and got 175,838,000 and included that 2.152 million, I should subtract that 2,152,000 to get the actual amount of your 2010 power operations and maintenance budget; is that correct?

A. That's my understanding, yes, sir.

Q. Okay. So the number is more like 173,686,000, subject to check; is that correct?

A. Subject to check.

Q. Okay. Can you tell me what the budgeted O&M expense for power operations and maintenance was for -- or is for 2009 based on Schedule C-6?

A. I would have to add those same line items up again.

Q. Well, would you accept, subject to check, that it's 139,423,000 minus the 2.129 million on line 9 of page 4 of 7?

A. Can you repeat that figure? Again, subject to check.

Q. This would be 139,423,000 minus the 2.129 million in column F, line 9, page 4 of 7, which would be about 137 million or so.

A. I would say that's very close.

Q. Okay. So in order to calculate the percentage increase from your 2009 budgeted amount to the 2010 budgeted amount shown -- or projected amount shown in your MFRs on C-6, would it be appropriate to divide the 173 million by the 139 million number?

A. I guess the way I would do that is, I would take 173 minus 137 divided by 137.

Q. Okay. And would you accept, subject to check, that the increase there is about 25 percent?

A. Subject to check.

Q. For 2008, would you accept, subject to check,

that the same power operations and maintenance amount is roughly $136 million?

A. Subject to check.

Q. Okay. Does that sound right to you?

A. (Nodding head affirmatively.)

Q. Is that a yes?

A. Sounds reasonable.

Q. Okay. Would you accept, subject to check, that the increase from 2008 to 2009 -- the actual 2008 power operations and maintenance expense increased to -- the budgeted 2009 amount was -- Mr. Chairman, strike that question. Let me ask it a different way.

On this MFR C-6, you also show the similar amounts for 2007; is that correct?

A. Yes.

Q. Would you accept, subject to check, that the increase shown for these same numbers for 2007 to 2008 is about a 9 percent increase?

A. Subject to check, yes.

Q. And again, that's based on Schedule C-6 numbers?

A. Yes, correct.

Q. Does it sound correct to you that the -- subject to check, that the 2007 O&M expense for power operations and maintenance is 120 -- let me ask this

question a different way. The actual O&M expense for power operations and maintenance for 2007 based on Schedule C-6 is 127.2 million minus 3.384. And that again is line 9, column D actual amount. And I'm going to represent to you that I have added the same numbers for 2007 and included the line 9, page 4 number, so that my addition needs to back out that line 9 number. Do you follow me?

A. Yes, I do.

Q. Okay. So subject to check, it would be 127,205,000 minus the 3.384 million shown in column D, line 9, of page 4?

A. Again, subject to check.

Q. Yes, sir. And for 2006, would you accept, subject to check, that the comparable number for power operations and maintenance expense is 111.728 million minus the $3.906 million number shown on line 9, column C, of page 4?

A. The only hesitancy I have is, I believe those energy control numbers used to be in POG.

Q. Power operations?

A. Yes, sir, Power Operations Group. And I'm not sure when that change was made, but if you want to continue making it an apples-to-apples comparison, we can --

MR. REHWINKEL: Okay. Well, I'll tell you what I'll do. Mr. Chairman, at the end of my cross, if there's an appropriate break in time, we may revisit this issue with this witness, and I won't interrupt the flow to have him go check again.

CHAIRMAN CARTER: Okay. That will be fine.

BY MR. REHWINKEL:

Q. So is the -- this is a system control and load dispatch number, Account 556? Is that what we're talking about?

A. Yes, sir.

Q. Okay. Is it both Account 556 and 557?

A. I will readily admit that I'm not an accountant and I am not the FERC account number expert, nor do I ever really aspire to be.

Q. I thought it was lawyers that no one wanted to be.

A. Well, that's what my dad wanted me to be, so I disappointed him as well.

Q. Okay. Well, we'll revisit that, but generally it's the line 9 amount, which is the sum of the two line items above that; is that correct?

A. Yes, sir.

Q. And those are either in or out of your group, depending on when that change-over occurred?

A. Yes, sir.

Q. You would agree with me, would you not, that the projected expense of about 173 million for 2010 is a significant increase over the budgeted expense for 2009 as well as the historical expenses for 2007 and 2008, wouldn't you?

A. I would say that "significant" is a somewhat relative term. It is an increase over those years.

Q. Okay. I guess the math is what it is, and people can make the judgment they want; is that right?

A. Yes, that's probably a good way to put it.

Q. Would you say that the increase in the 2010 projected power operations and maintenance expense has something to do with 2010 being a test year?

A. No, I would not. We have based the increase in the ask year on the major maintenance requirements of the fleet. And I believe I address this in my direct and my rebuttal testimony, how the major maintenance requirements of the fleet build and what our maintenance philosophy is.

Basically, with our fleet, as you run the fleet, you begin to trip major maintenance intervals, and as those major maintenance intervals come due, it's very important to perform the maintenance, or it will be more expensive. So, for example, in a combustion

turbine, as you run combustion turbines, they accrue major maintenance. And that may be a misuse of an accounting term, so bear with me.

You click the counter on major maintenance in two ways. One is through unit starts, and one is through actual fired hours of operation, or some OEMs actually have equivalent starts and equivalent hours of operation that factor in more than one to one. And it depends on the type of machine and the type of service, but every time you start a simple cycle combustion turbine, for example, that's manufactured by GE, every start clicks the counter towards another major maintenance interval. So that's what we based our ask on in 2010.

Now, that's an example using a combustion turbine. We also have major maintenance that comes due on our boilers, generators, and steam turbines, and that's the basis of our ask for 2010.

Q. Okay. If I could ask you to turn in your direct testimony to page 5, line 17.

A. Yes, sir.

Q. The reference to 9,400 megawatts, do you see that?

A. Yes.

Q. Is that as of the end of 2008?

A. That would be prior to the -- it was whenever we submitted this testimony. It would be prior to the Bartow repower commercial operation.

Q. Okay. And your testimony was filed sometime in March, March 20th?

A. I'll accept that.

Q. Well, it says it on the front.

A. Well, then I'll agree with it.

Q. So that's probably pretty close to the end of 2008 number?

A. Yes.

Q. Okay. In December of 2007, did you add about 517 megawatts to your fleet that includes this 9,400 megawatts?

A. Yes. That would have been Hines Power Block 4.

Q. So would it be fair to say that in 2006 and 2007, there were approximately 8,883 megawatts in your fleet?

A. Okay. I'm sorry. Run through that one more time.

Q. This would just be 9,400 minus the 517. And my question to you is, for 2006 and 2007, the megawatts available in your fleet would be about 8,883; is that correct?

A. Close, yes.

Q. And in June, you mentioned Bartow. You added a net of 827 megawatts after adding the Bartow and taking offline the two units?

A. That's about right, yes, sir.

Q. So in 2010, there would be approximately 10,227 megawatts in your fleet; is that correct?

A. That would be close, yes, nominal megawatts, nominal megawatts.

Q. Nominal. Okay.

A. Nominal, yes.

Q. All right. So if I asked you to go to page 7 at line 17, the question and answer there generally concludes that with the addition of generating units, there will be an increase in O&M costs; is that correct?

A. Yes, through two distinct drivers. One is through base costs of the plant, which would include the staffing, day-to-day operations, and maintenance, permit fees, materials for normal preventive maintenance activities. And then another significant cost driver is again these major maintenance costs as we operate the equipment.

Q. Okay. Wouldn't it be true that with the replacement that occurred at Bartow, with Bartow coming online and the oil-fired units going offline, that you

would expect that you would have a savings on maintenance costs?

A. We did have a savings, and it's shown in the MFRs through the shutdown of the Bartow steam plant, but we have additional costs coming online with the Bartow combined cycle and the base cost there. But we also have additional costs coming from major maintenance activities at Hines 3 and 4, and not only Hines 3 and 4, but now we're starting to get into the more expensive major maintenance cycles for Hines 1 and 2.

There are really three types of major maintenance that you do on a combustion turbine. There's a combustion inspection, and that's an outage where you go and you disassemble the unit to get to the combustion components, and you'll take those components out, you'll inspect them, and you'll refurbish the components that are in there and replace them. So that's the first and probably most common type of major maintenance that you would have on a combustion turbine. It's also the least expensive type of major maintenance you would have.

The second type of major maintenance is a hot gas path inspection, and that's where you go deeper in the machine. It includes everything that you would do on a combustion inspection, and then you go into the

power turbine section. So you would disassemble the power turbine, you would look at the power turbine buckets and nozzles, and you would insect and refurbish those.

And then the most expensive type of inspection is a major inspection, and that's where you do everything associated with a combustion inspection, hot gas path inspection, but then you open up the compressor section, and you go in and you look at basically the entire machine and refurbish components along the way.

And so part of the struggle here is, as you go from a brand new unit in a year with a base budget increase, that's one thing. But then the next year, or within 18 months or so forth, the way the unit is run, you may trigger a combustion inspection, and in another 18 months, another combustion inspection, maybe a year, depending on how the unit is run. But then you start getting into the hot gas path inspection and some major inspections. And that's what we're starting to get into from Hines 1 and 2, and to an extent, we're getting into some of the more expensive major maintenance activities on Hines 3 as well.

Q. Are you -- okay. Thank you.

A. I'm just trying to clarify what the major cost drivers are, is all.

Q. I understand. If one was to divide the cost of power operations by the megawatts available, would we see a significant increase in the cost per megawatt in the O&M cost per megawatt in the 2010 year?

A. I'm not sure. I haven't done that math.

Q. Would you be surprised if your cost per megawatt, your O&M cost per megawatt was greater in 2010 than in 2008 and 2009?

A. I'm not sure I would be surprised, but I think if you look at it from that respect on just a cost per megawatt basis, that's really looking at it from a capacity standpoint. And depending on what your major maintenance activities are, you may have years when your combined cycle fleet are more expensive, and you may have years where they're less expensive. But then you've got the rest of the fleet to consider, because we can't give up maintenance on the steam fleet as well as we continue to run those units.

Q. Okay. Are you familiar with the level of overhaul expense in the 2010 projected year, or your projected overhaul expense?

A. To what extent, just to clarify your question?

Q. Well, are you aware of how it compares to the prior four years?

A. I have not done any kind of an analysis on

overhaul expense going back four years. I'm aware generally of what we have and what we've submitted here in testimony and specifically in C-41 from an overhaul standpoint.

Q. Okay. Well, I have some questions about C-41. Maybe we can look at that. Is that in your O&M expense variance portion of C-41, the explanation?

A. Yes, I believe so.

Q. Okay. We don't need to go to that just now.

Would you be surprised if the overhaul expense for 2010 is more than twice the amount in any of the prior four years?

A. I would have to check that before I have speculated on whether I would be surprised or not.

Q. Okay. Would you accept, subject to check, that it is twice the amount of any of the prior four years?

A. I guess, subject to check -- I would be willing to check it. Let's put it that way.

Q. Well, maybe I can get you to check it when there's a break.

A. Okay. Well, can you clarify exactly what you would like me to check?

Q. Well, in OPC Interrogatory 150, the overhaul expense is shown there, and if you could check that, I

would appreciate it.

A. Okay.

Q. Do you think it's reasonable to request customers to pay for an extraordinary level of cost just because it happens to occur in a year that rates are being adjusted?

Let me ask that question a different way. Do you think it is reasonable to request ratepayers to pay for an extraordinary level of O&M costs just because that level happens to occur in a year that rates are being adjusted?

A. I would say again, extraordinary, or an extraordinary level is a relative term, and what I've proposed here is the maintenance that's due on the fleet. And I guess I would say I didn't pick the year. As the fleet operates, the major maintenance intervals become due, and that's what we've tried to forward, to make sure that we maintain a proactive maintenance plan to keep the fleet operating in the condition that it's in.

Q. Can I ask you to turn to page 5 of your testimony, lines 10 and 11? There you say that PGF's capital and O&M revenue requirement -- requirements are reasonable and should be approved. Do you see that?

A. Yes, sir.

Q. Does the term "reasonable" have any meaning with respect to whether the amount in 2010 is representative of the amount of capital and O&M costs that you will incur in 2011 and 2012?

A. Can you repeat that?

Q. Sure. Does the term "reasonable" here on line 11, does it represent your testimony that the capital -- the PGF capital and O&M revenue requirements in 2010 are representative of the levels that you will incur in 2011 and 2012?

A. Offhand I'm not sure what the levels are, but to play on your word "representative," yes, I do believe they are representative. And again, I've mentioned at a very high level some of the outages that we're doing or planning to do in 2010, but again, we have 75 different turbines on our system and 75 different generators and lots of boilers and HRHTs, so every year brings its own complement of major maintenance requirements.

Q. So is it your testimony that it is likely that the 2011 level of O&M expense, for example, would be very much the same as the 2010 level of O&M expense?

A. I'm not -- we have not completed our 2011 planning yet, so I would not want to hazard to guess that as far as using qualified words, is likely or the same or more or less. I think it would be

representative, though.

Q. Have you done any preliminary looks at 2011 to know what the level of 2011 O&M expense for the PGF organization will be?

A. I believe we've done some preliminary work. And I don't have that with me, so I don't know it is right now.

Q. Well, this is something that would be central to your duties in your job?

A. Yes.

Q. Okay. And is it your testimony here today that you don't have an idea of whether they were the same or less or more with respect to that preliminary look that you say you've done?

A. I would say right now -- until I checked, I would not want to speculate on what it is. But again, I believe it's representative.

Q. What would you have to do to check?

A. I would have to get together with my staff and see a little more than walking over to the corner over here.

Q. Is there a document that would show the corresponding level in 2011, based on this preliminary look, that corresponds to the $173 million number that we discussed earlier in your testimony about -- for

projected 2010?

A. I don't have a document. Now, we're at the point where my staff and others, the plant managers and so forth, are working on the major maintenance or support service groups are working on the budgets from a preliminary standpoint for 2011. I just don't have that information yet.

Q. I guess my question to you is, is there a document that exists that has a number on it that corresponds -- for 2011 that corresponds to that $173 million number that we discussed earlier?

A. And again, I don't have one. I would have to go check.

Q. My question isn't whether you have it. Is there a document that exists?

A. I'm not aware of -- I don't know. I have not seen one or cannot recall seeing one.

Q. Okay.

A. I would be more than happy to check.

Q. My exasperation is not necessarily directed at you, because I'm about to ask for a late-filed exhibit, and I'm afraid I'm going to get objected to by my --

CHAIRMAN CARTER: Ms. Bradley is already tuning up, and Ms. Kaufman is saying she's going to second the motion on that.

MR. REHWINKEL: Mr. Chairman, I would like to ask for a late-filed exhibit, but I will be willing to make a request and ask if the company could look into it overnight to avoid that.

CHAIRMAN CARTER: I would be willing to ask the company to look into it rather than asking them for a late-filed exhibit.

MR. REHWINKEL: That's what I would prefer.

CHAIRMAN CARTER: Mr. Burnett.

MR. BURNETT: Mr. Chairman, we could certainly look into it. I would just note that Mr. Sorrick has testified that his group is in the preliminary stages of looking at these budgets. There are several of his organizations contributing to it, and he has testified that the number is representative. But I'm happy to look into it if the Commission sees value into that, but --

CHAIRMAN CARTER: Well, if you've got a preliminary number, then that's what it is.

MR. BURNETT: Yes, sir. We'll be happy to.

MR. REHWINKEL: That was my understanding of his testimony, is that they had done a preliminary view. And that's all I can ask, is what exists.

CHAIRMAN CARTER: Okay. Hang on a second. Mr. Wright.

MR. WRIGHT: Mr. Chairman, just an offer here. Mr. Sorrick is coming back on rebuttal, so maybe one way of skinning the late-filed exhibit cat would be, if they can't come up with a document overnight, he could bring it back, and Mr. Rehwinkel could be allowed to inquire of him about it on rebuttal.

CHAIRMAN CARTER: Mr. Rehwinkel.

MR. REHWINKEL: That's fine with me. I just wouldn't want to have an objection that it was an issue that was relevant to direct in rebuttal. But I'm perfectly willing to do what's most expedient in the administration of justice here, so --

CHAIRMAN CARTER: Okay. Mr. Rehwinkel -- Mr. Burnett, you say you could do that -- well, if you can have the preliminary, we'll go with the preliminary. If you don't have the preliminary, we'll see where we are during rebuttal. Okay?

MR. BURNETT: Yes, sir. I just wanted a level set of expectations. They're thinking of a document already. I don't know if one exists, so I don't want them to be disappointed if their stocking is empty on Christmas morning.

CHAIRMAN CARTER: We heard the witness say that he's got his people doing some stuff, and then there are some financial folks doing some stuff, folks

doing different stuff and all, and he's got to connect the dots and all that sort of thing. That's my term, connect the dots.

MR. BURNETT: Fair enough, sir. Will do.

CHAIRMAN CARTER: Mr. Rehwinkel.

MR. WRIGHT: I stopped believing in Santa Claus a while back, Mr. Burnett. Thank you.

CHAIRMAN CARTER: You know what? We need to end on a high note, so let's don't -- we're starting down a rabbit trail, and we'll just get bogged down from there, so we'll start at 9:30 tomorrow.

(Proceedings recessed at 7:53 p.m.)

(Transcript continues in sequence in Volume 5.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA:

COUNTY OF LEON:

I, MARY ALLEN NEEL, Registered Professional Reporter, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages numbered 288 through 426 are a true and correct record of the aforesaid proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor relative or employee of such attorney or counsel, or financially interested in the foregoing action.

DATED THIS 24th day of September, 2009.

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