

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 110009-EI

In the Matter of:
NUCLEAR COST RECOVERY CLAUSE.

VOLUME 8

Pages 1163 through 1323

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING: CHAIRMAN ART GRAHAM
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER RONALD A. BRISÉ
COMMISSIONER EDUARDO E. BALBIS
COMMISSIONER JULIE I. BROWN

DATE: Thursday, August 11, 2011

TIME: Commenced at 11:38 a.m.
Concluded at 1:18 p.m.

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

REPORTED BY: LINDA BOLES, RPR, CRR
Official FPSC Reporter
(850) 413-6732

APPEARANCES: (As heretofore noted.)

DOCUMENT NUMBER-DATE

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P R O C E E D I N G S

(Transcript follows in sequence from
Volume 7.)

MR. ANDERSON: May we proceed?

CHAIRMAN GRAHAM: Sure.

MR. ANDERSON: FPL calls as its next witness
John Reed.

JOHN J. REED

was called as a rebuttal witness on behalf of Florida
Power & Light Company and, having been duly sworn,
testified as follows:

DIRECT EXAMINATION

BY MR. ROSS:

Q Good morning, Mr. Reed.

A Good morning.

Q You were sworn yesterday before you even
testified; correct?

A That's correct.

Q Would you please reintroduce yourself to the
Commission.

A Yes. I'm John Reed, Chairman and CEO of
Concentric Energy Advisors.

Q Have you prepared and caused to be filed 15
pages of rebuttal testimony in this proceeding on
July 25th, 2011?

1 **A** Yes, I did.

2 **Q** Do you have any changes or revisions to your
3 rebuttal testimony?

4 **A** No. No changes.

5 **Q** If I asked you the same questions contained in
6 your prefiled rebuttal testimony, would your answers be
7 the same?

8 **A** Yes, they would be.

9 **MR. ROSS:** Mr. Chairman, I ask that the
10 prefiled rebuttal testimony of Mr. Reed be inserted into
11 the record as though read.

12 **CHAIRMAN GRAHAM:** We will insert the prefiled
13 rebuttal testimony of Mr. Reed into the record as though
14 read.

15 **MR. ROSS:** I would note there's no exhibits
16 being sponsored by Mr. Reed for his rebuttal.

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**2 **FLORIDA POWER & LIGHT COMPANY**3 **REBUTTAL TESTIMONY OF JOHN J. REED**4 **DOCKET NO. 110009**5 **July 25, 2011**6 **Q. Please state your name and business address.**7 A. My name is John J. Reed. My business address is 293 Boston Post Road West,
8 Marlborough, Massachusetts 01752.9 **Q. Have you previously filed direct testimony in this proceeding?**

10 A. Yes, I have.

11 **Q. Please state the purpose of your rebuttal testimony.**12 A. I have been asked by FPL to respond to portions of the direct testimonies of
13 William Jacobs and Brian D. Smith, submitted on behalf of the Florida Office of
14 the Public Counsel ("OPC"). Specifically, FPL has asked me to assess OPC
15 Witnesses Jacobs's and Smith's critique of the Company's approach to
16 establishing the feasibility of the Extended Power Uprate ("EPU") Project at
17 FPL's Saint Lucie Units 1 & 2 and Turkey Point Units 3 & 4 (the "EPU Project"
18 or the "Project") using a Cumulative Present Value of Revenue Requirements
19 ("CPVRR") analysis, Witness Jacobs's recommendation that the Commission
20 require FPL to perform an alternative assessment of the feasibility of the EPU
21 Project using a "breakeven" approach that incorporates prior-spent (*i.e.*, "sunk")
22 costs, and Witness Jacobs's recommendation that the Commission disallow all
23 EPU Project costs incurred by FPL that are over a hypothetical "breakeven"

1 amount. In addition, I have been asked to respond to Witness Jacobs's
2 assertions that the Company has acted imprudently by undertaking the EPU
3 Project on an expedited or "fast track" basis.

4 **Q. Please summarize your conclusions regarding the direct testimony of**
5 **OPC witnesses Jacobs and Smith.**

6 A. I believe that (1) Witness Jacobs's and Smith's concerns regarding FPL's CPVRR
7 methodology are unfounded; (2) their recommended treatment of sunk costs is
8 inappropriate for the EPU Project; (3) the OPC witnesses ignore prior prudence
9 findings by the Commission while assuming a finding of imprudence in this
10 proceeding; and (4) that their recommendations and analysis are inconsistent
11 with regulatory policy and corporate finance theory. It is also my opinion that
12 Witness Jacobs's recommendation regarding the disallowance of costs puts the
13 Company in the position in which recovery of costs is not determined by FPL's
14 actions, but rather is determined by factors that are outside of its control. For
15 these reasons, I conclude that the Commission should reject Witnesses Jacobs's
16 and Smith's recommendations regarding their proposed alternative feasibility
17 methodology.

18 **Q. Please describe FPL's approach to assessing the feasibility of the EPU**
19 **Project.**

20 A. As described in the May 2, 2011 direct testimony of FPL Witness Steven R. Sim,
21 FPL performs a feasibility analysis for the EPU Project in which it compares the
22 CPVRR of a generation portfolio that includes the EPU Project to one that does
23 not. This is the same approach that FPL used in its 2007 Determination of Need

1 filings for the EPU Project, in which the Commission determined the need for
2 the EPU Project explicitly based on a CPVRR analysis,¹ as well as in feasibility
3 analyses in 2008, 2009, and 2010.² The costs for the EPU Project that are
4 included in the feasibility analysis are the “going forward” or “to-go” costs,
5 which are simply the remaining costs of a project that is underway. Costs
6 incurred prior to the analysis, also called “sunk costs,” are excluded from the
7 analysis, although the Company provides a total of those costs as part of its
8 filings.

9 **Q. At page 6 of his direct testimony, Witness Jacobs recommends that the**
10 **Commission require FPL to perform an analysis “similar to the ‘break-**
11 **even’ study that it prepares to support the long-term feasibility of its**
12 **proposed new nuclear units,” instead of a CPVRR analysis. How do you**
13 **respond?**

14 **A.** Inasmuch as Witness Jacobs links that recommendation to the inclusion of sunk
15 costs in FPL’s analysis (which I will discuss in more detail below), he is mistaken.
16 As described by FPL Witness Sim,³ previously spent capital costs are excluded
17 from FPL’s feasibility analysis for the new nuclear units. This has been FPL’s
18 consistent practice.

19 In addition, Witness Jacobs appears to misunderstand the similarities and
20 differences between the CPVRR and breakeven analyses. The two analyses are
21 founded on the same approach (*i.e.*, a comparison of competing resource plans –
22 one with the project being considered and one without). The difference between
23 the two approaches is how the results of each analysis are expressed. Specifically,

1 the CPVRR result is expressed in the present value of the difference in revenue
2 requirements of competing resource plans whereas the breakeven result is
3 expressed as the dollars per kilowatt for the capital costs of the proposed
4 resource plan at which it has the same cost as the alternate plan. Decisions as to
5 which resource plan is lower cost, and whether to proceed with a project, are
6 exactly the same under either methodology.

7 **Q. Please review the concept of "to-go" and sunk costs.**

8 A. The "to-go" cost of a project is simply the remaining cost of a project that is
9 underway. It is the incremental cost from a point in time that will be required in
10 order to complete the project. Sunk costs, on the other hand, are essentially the
11 opposite. They are costs that have already been incurred up to a given point in a
12 project. It is important to note that sunk costs represent funds that have been
13 expended to date and cannot be recouped or avoided.

14 **Q. How are to-go and sunk costs relevant to the EPU Project?**

15 A. Large construction projects, including the EPU Project, often take years to
16 complete. Costs are incurred throughout the development process, during the
17 planning, procurement and engineering stages as well as during construction
18 itself. As the project proceeds through initial engineering and construction
19 toward completion, to-go costs gradually fall until the point at which the project
20 enters service. As I mentioned above, the to-go cost of the EPU Project is the
21 total project cost less sunk costs.

1 Q. Why are sunk costs excluded from the CPVRR analysis?

2 A. The irrelevance of sunk costs and the more appropriate consideration of to-go
3 costs for purposes of determining the forward-looking economic feasibility of a
4 project are basic principles of economics and corporate finance.⁴ Due to the fact
5 that a sunk cost cannot be changed or removed based on decision-making today,
6 those costs don't affect the analysis underlying a decision as to whether it is
7 economically advisable to complete a project or not.

8 The Nuclear Cost Recovery Rule specifically requires the company to submit an
9 analysis of the long-term feasibility of *completing* the project, consistent with a
10 forward-looking approach. The Commission also acknowledged a requirement
11 that FPL separately account for sunk costs in its economic and feasibility
12 analyses in Order No. PSC-08-0237-FOF-EI:

13 FPL shall provide a long-term feasibility analysis as part of its
14 annual cost recovery process which, in this case, shall also
15 include updated fuel forecasts, environmental forecasts,
16 break-even costs, and capital cost estimates. In addition, FPL
17 should account for sunk costs. Providing this information on
18 an annual basis will allow us to monitor the feasibility
19 regarding the continued construction of Turkey Point 6 and
20 7.

21 In order to determine the prudent path forward, the Company and the
22 Commission need to evaluate the best information available in the present.
23 Using this information and forecasts that represent appropriately calibrated
24 expectations, FPL must determine the wisdom of proceeding with the EPU
25 Project. Costs that have been incurred to date simply do not apply to this
26 analysis. In evaluating whether to proceed with construction, firms conducting
27 ongoing, capital-intensive projects must determine whether the benefits to be

1 gained from additional investment will exceed the total costs that remain. That
2 alone is the basis upon which sound decisions can be made. Witness Jacobs
3 agrees that this is the conventional approach; however, he argues that an
4 assessment of the feasibility of the EPU Project should include amounts already
5 spent. He offers no explanation or justification for why this violation of a
6 fundamental principle of economics and finance will produce a rational decision.

7 **Q. Do you have a response to Witness Jacobs's concerns?**

8 A. Yes. Including costs that have been incurred in the past in a forward-looking
9 economic feasibility analysis will quite possibly produce incorrect decisions and is
10 tantamount to a hindsight review of decisions that have already been deemed
11 prudent. The questions that need to be answered in each annual Nuclear Cost
12 Recovery Clause (NCRC) filing are: (1) whether past costs have been prudently
13 incurred, and (2) whether the project should be continued or abandoned, based
14 on a forward-looking economic feasibility test. These are two separate tests.
15 Customers remain responsible for past prudently-incurred costs regardless of
16 whether the decision to the second question is to proceed with or to abandon the
17 project. Similarly, FPL does not escape the responsibility for imprudently-
18 incurred costs based on whether the project is continued or abandoned. The
19 decision to continue or abandon the project needs to be made without regard to
20 past costs, because the recovery of and responsibility for those costs isn't
21 affected by the decision to continue with or abandon the project.

1 **Q. Is FPL's use and application of the CPVRR analysis imprudent, as**
2 **Witness Jacobs's asserts?**

3 A. Absolutely not; it is the correct approach for answering the questions that FPL
4 must answer. As stated above, this is the same approach FPL used in its 2007
5 Determination of Need filing, as well as in feasibility analyses in 2008, 2009, and
6 2010. As also stated above, the Commission explicitly relied on the CPVRR
7 approach in determining the need for the EPU Project and has not taken issue
8 with the approach in subsequent NCRC proceedings. In addition, as I noted
9 previously, the Commission has ordered FPL to separately account for sunk
10 costs in its annual filings for two new nuclear generating units at the Turkey
11 Point site. Thus, while Witness Jacobs may disagree with the appropriateness of
12 the approach, there is absolutely no basis for considering the approach
13 imprudent, especially given the repeated history with which the CPVRR analysis
14 has been proffered by the Company and incorporated (whether explicitly or
15 implicitly) in the Commission's orders.

16 **Q. Do you have a response to Witness Jacobs's suggestion that FPL acted**
17 **imprudently while developing the EPU Project?**

18 A. Yes. I believe Witness Jacobs has misapplied the prudence standard as it applies
19 to this proceeding. As described in my Direct Testimony regarding the EPU
20 Project, a reasonable application of the prudence standard involves judging a
21 utility's actions based on what was known or knowable at the time the action was
22 made. This is consistent with the prudence test the Commission has applied in
23 the past. However, Witness Jacobs has used the benefit of hindsight to question

1 FPL's prior actions without considering what was known or reasonably could
2 have been known at the time of the actions. In fact, while the decision to use an
3 expedited approach for the EPU Project was made as early as 2007⁵ (*i.e.*, two
4 years prior to the period of review in this proceeding), Witness Jacobs (or any
5 other OPC witness) made no mention of his views of the prudence or
6 imprudence of that management decision in his direct testimony in prior NCRC
7 proceedings. The Commission has approved the 2007 and 2008 costs of the
8 EPU Project in prior NCRC dockets. Thus, Witness Jacobs is clearly using facts
9 and circumstances known only years after the decision he questions were made.
10 This is an unreasonable and improper application of the prudence standard, and
11 should be rejected by the Commission.

12 **Q. Witness Jacobs recommends that all costs, including sunk costs, above a**
13 **breakeven amount be disallowed due to alleged imprudence. Do you**
14 **agree with this recommendation?**

15 A. No, I do not. Witness Jacobs's recommendation is inconsistent with the Nuclear
16 Cost Recovery Rule, and if it were accepted it could lead to the disallowance of
17 costs that were previously determined to be prudently incurred, and put FPL at
18 risk for factors that are completely out of its control. There are even plausible
19 scenarios under Witness Jacobs's approach in which costs that are disallowed in
20 one year become allowable in the following year. This is clearly unreasonable.

21 **Q. Why do you believe Witness Jacobs's recommendation is inconsistent with**
22 **the Nuclear Cost Recovery Rule?**

1 A. The Nuclear Cost Recovery Rule states that alternative cost recovery
2 mechanisms shall “promote electric utility investment in nuclear or integrated
3 gasification combined cycle power plants and allow for the recovery in rates of
4 all such prudently incurred costs.”⁶ The Nuclear Cost Recovery Rule further
5 states, “[s]uch costs shall not be subject to disallowance or further prudence
6 review.”⁷ However, under Witness Jacobs’s recommendation, the costs that are
7 allowable for recovery in rates would be set not by a Commission determination
8 of prudence, but rather by reference to the constantly changing resource plan
9 that excludes the EPU Project, and is thus in no way affected or connected to
10 the prudence or imprudence of FPL’s management of the EPU Project. In
11 addition, Witness Jacobs’s recommendation regarding the inclusion of sunk costs
12 in a prudence determination essentially calls for a reversion to the highly
13 unsuccessful all-or-nothing “used and useful” regulatory paradigm that prevailed
14 in the 1980s.

15 **Q. Please explain.**

16 A. The regulatory processes applied to the development of nuclear generation in the
17 1980s were characterized by significant cost disallowances, at times owing to
18 results-oriented hindsight reviews that determined whether plants turned out to
19 be economic a decade or more after construction was begun. The standards
20 used by regulators at that time evolved from traditional prudence reviews to
21 include also an “economically used and useful” standard that, based on hindsight,
22 determined what portion of a plant’s prudently incurred cost was “economically”
23 useful in providing service to customers. The recovery of prudently-incurred

1 costs was further narrowed by the adoption of more onerous standards such as
2 an “economic benefits test” and eventually simple “risk sharing,” whereby costs
3 were simply declared unrecoverable on the basis that the total cost was too large
4 for customers alone to bear the burden. By recommending both the setting of a
5 benchmark that is unrelated to FPL’s development of the EPU Project (*i.e.*, a
6 constantly changing resource portfolio excluding the EPU Project) and the
7 disallowance of any costs above that benchmark, regardless of the Commission’s
8 views on the prudence or imprudence of the actions of the utility, Witness Jacobs
9 is essentially calling for a return to the prior paradigm. The Nuclear Cost
10 Recovery Rule, however, strongly suggests that the Florida Legislature and the
11 Florida Public Service Commission (“PSC”) wished to provide a framework
12 within which the Commission has the opportunity to address and avoid many
13 flawed aspects of those past regulatory processes.

14 **Q. Have rating agencies expressed concerns about regulatory uncertainty**
15 **such as that which you have described above?**

16 **A.** Yes. Rating agencies are concerned that the level of infrastructure investment
17 needed to meet growing demand in an environmentally acceptable manner will
18 create the same “perfect storm” of economic and political pressures that
19 preceded the prudence disallowances and hindsight reviews of the past.

20 For example, Moody’s has noted:

21 Conceivably, the combination of rising costs, higher
22 infrastructure investment needs and larger or more frequent
23 requests for rate relief could create pressure for future
24 incremental rate relief from state regulators, or at a minimum,
25 raise the uncertainty level associated with expected

1 recoveries—thereby directly affecting one of our primary
2 rating drivers. This potential for increased regulatory
3 uncertainty and pressure for rate relief might peak several
4 years from now, at precisely the time when many companies
5 are completing their base-load generation construction
6 projects or other non-discretionary infrastructure investment
7 projects and the potential for rate shock to consumers would
8 be highest...However, none of the issues currently facing the
9 industry are new. In fact, the utility sector has faced an
10 environment with eerily similar uncertainties in the past. The
11 risk, in our opinion, is whether or not the experiences of the
12 past will be repeated in the future. The most significant risk
13 might be future disallowances of investments that were made
14 with an understanding that those investments were prudent
15 and necessary at the time they were made.⁸

16 **Q. How might Witness Jacobs's recommendation lead to the disallowance of**
17 **costs that were previously determined to be prudently incurred?**

18 A. The following example, in which I have assumed for the sake of argument that
19 the Commission adopts Witness Jacobs's recommendation, demonstrates how
20 this could happen. If the forecasted price of natural gas (or any other forecasted
21 input that may affect the resource plan that excludes the EPU Project to a
22 greater extent than the resource plan that includes the EPU Project) drops
23 precipitously in any given year, Witness Jacobs's breakeven amount could
24 theoretically drop below amounts FPL has already spent on the EPU Project that
25 the Commission has determined to have been prudently incurred. This scenario
26 would put the Commission in the position of disallowing previously approved,
27 prudently incurred costs. In addition, the reason for the disallowance would not
28 be any action or inaction on the part of FPL, but rather it would be due to
29 something that is completely out of FPL's control.

1 To extend the example, if, in the following year, the forecasted price of gas rises
2 to such a degree that the breakeven amount now exceeds FPL's costs, those
3 costs would presumably be allowed back into the recoverable balance. This is
4 clearly an unreasonable approach to determining the level of allowed costs in this
5 and future NCRC proceedings.

6 **Q. How would a more reasonable application of the prudence standard work?**

7 A. A proper application of the prudence standard in regards to the allowance or
8 disallowance of costs involves: (a) establishing the prudence or imprudence of
9 management decision making or actions and allowing the recovery of all
10 prudently-incurred costs, and (b) if imprudence is established, determining which
11 costs were higher than they would have been had management acted prudently
12 and disallowing those costs. Under this construct, the decision to continue with
13 the project is simply one of the decisions for which a prudence review is
14 appropriate, based on all of the usual rules for such a review, including a
15 prohibition on the use of hindsight to judge prudence. In my opinion, Witness
16 Jacobs has performed neither of these steps, and therefore his recommendations
17 for disallowances are not consistent with sound regulatory policy or Florida's
18 Nuclear Cost Recovery Rule.

19 **Q. Do you have any additional comments regarding Witness Smith's analysis**
20 **that he presents in his direct testimony?**

21 A. Yes. In order to perform an analysis that Witness Smith asserts will approximate
22 the economic feasibility of the EPU Project, Witness Smith has taken the net
23 benefit demonstrated in FPL's CPVRR analysis, and subtracts from that FPL's

1 sunk costs, escalated by Witness Smith to 2011 dollars. That analysis results in
2 what Witness Smith concludes is a negative customer impact. I believe this
3 analysis is faulty in that it incorporates FPL's sunk costs, and also incorporates
4 those costs inconsistently.

5 **Q. Please explain.**

6 A. My disagreement with Witnesses Jacobs and Smith regarding the treatment of
7 sunk costs is described above. In addition, even if one were to accept that an
8 analysis with sunk costs is appropriate for assessing the feasibility of the EPU
9 Project (which I do not), Witness Smith has used a one-sided approach to
10 incorporating sunk costs that assumes that all of FPL's prior costs have been
11 deemed imprudent by the Commission. This is clearly counterfactual, in that the
12 Commission made prudence determinations regarding FPL's 2007 and 2008
13 costs, making no disallowances, and has yet to make a determination regarding
14 2009 and 2010 costs.

15 **Q. What would be the proper treatment of prudently incurred sunk costs?**

16 A. If costs are determined by the Commission to have been incurred prudently,
17 then those costs should either be excluded altogether, as the Company does, or
18 included in both the generation portfolio that includes the EPU Project and the
19 portfolio that excludes the EPU Project (and thus would net to \$0). The reason
20 for this is that FPL has a right to recover prudently incurred costs, and is entitled
21 to recover all prior prudently incurred costs regardless of whether the EPU
22 Project goes forward. In that regard, Witness Smith and I are in agreement.
23 Specifically, in his direct testimony, Witness Smith states, "[i]f previous costs

1 were prudently incurred and are allowed to be included in rate base, then
2 excluding them in the current and future feasibility analyses is appropriate.”⁹

3 Witness Smith’s analysis, however, ignores this point.

4 **Q.** **Does this conclude your testimony?**

5 **A.** Yes it does.

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- ¹ FL PSC Order No. PSC-08-0021-FOF-EI, at 4.
 - ² Testimony & Exhibits of Steven R. Sim, May 2, 2011, at 10.
 - ³ *Ibid.*, at 21.
 - ⁴ *See, e.g.*, Ross, Stephen A.; Westerfield, Randolph W., and Jordan, Bradford, Jordan D., Fundamentals of Corporate Finance, 4th ed., at 280.
 - ⁵ *See*, Exhibit WRJ-11, line 12, at 5 of 30.
 - ⁶ Nuclear Power Plant Cost Recovery Rule, Section 25-6.0423, F.A.C.
 - ⁷ *Ibid.*
 - ⁸ Moody's Investors Service, Global Credit Research, "Storm Clouds Gathering on the Horizon for the North American Electric Utility Sector," August 2007, at 1, 15.
 - ⁹ Direct Testimony of Brian Smith, at 4.

1 BY MR. ROSS:

2 Q Mr. Reed, would you please provide a summary
3 of your rebuttal testimony to the Commission.

4 A Certainly. The purpose of my rebuttal
5 testimony is to respond to portions of the direct
6 testimonies of OPC Witnesses Dr. Jacobs and Mr. Smith.

7 Contrary to the recommendations of Dr. Jacobs
8 and an analysis performed by Mr. Smith, the inclusion of
9 previously spent costs, otherwise known as sunk costs,
10 in a forward-looking feasibility study for FPL's EPU
11 project is inappropriate. Specifically due to the fact
12 that a sunk cost cannot be changed or removed based on
13 decision-making today, those costs don't affect the
14 analysis underlying a decision as to whether it is
15 economically advisable to complete a project or not.
16 That is a basic principle of economics and corporate
17 finance.

18 Dr. Jacobs has used hindsight to question
19 FPL's prior decision to use an expedited approach for
20 the EPU project, and Dr. Jacobs has not considered what
21 was known or reasonably could have been known at the
22 time of that decision. In doing so, Dr. Jacobs has
23 misapplied the prudence standard.

24 Lastly, there is no merit in Dr. Jacobs'
25 recommendation of the disallowance of all costs incurred

1 in the EPU project that exceed a hypothetical breakeven
2 amount set with reference to a constantly changing
3 resource portfolio, excluding the EPU project.

4 The resource portfolio that excludes the EPU
5 project is in no way affected by or even connected to
6 the prudence of FPL's management of the EPU project, and
7 the acceptance of Dr. Jacobs' proposal would be
8 inconsistent with the nuclear cost recovery rule, could
9 lead to the disallowance of costs that were previously
10 determined to be prudent, and would put FPL at risk for
11 factors that are completely outside of its control.

12 That concludes my testimony. Thank you.

13 **MR. ROSS:** Mr. Reed is available for
14 cross-examination.

15 **CHAIRMAN GRAHAM:** Thank you.

16 Intervenors?

17 **MR. WHITLOCK:** Thank you, Mr. Chairman.

18 **CROSS EXAMINATION**

19 **BY MR. WHITLOCK:**

20 **Q** Good morning, Mr. Reed.

21 **A** Good morning.

22 **Q** If I could ask you to look at page 5 of your
23 rebuttal testimony, please, sir.

24 **A** I have that.

25 **Q** Okay. And at line 8 you talk about the

1 nuclear cost recovery rule, and you state it
2 "specifically requires the company to submit an analysis
3 of the long-term feasibility of completing the project,
4 consistent with a forward-looking approach." Is that
5 accurate?

6 A Yes.

7 Q Okay. Now "consistent with a forward-looking
8 approach," is that part of the language of the rule?

9 A No. The language doesn't use the term
10 "forward-looking approach," but it does specifically
11 provide for the approval year to year and the recovery
12 of all prudently incurred costs. And that once those
13 costs are determined --

14 Q Okay. You've answered my question, Mr. Reed.
15 You're going a bit beyond anything I've talked, anything
16 I asked you, so --

17 MR. ROSS: Mr. Chairman, I object. He was
18 explaining his answer. He should be allowed to --

19 MR. WHITLOCK: He had plenty of time, Mr.
20 Chairman.

21 CHAIRMAN GRAHAM: I think Mr. Reed had time to
22 explain his answer. I thought he was editorializing a
23 little further.

24 MR. WHITLOCK: Thank you.

25 BY MR. WHITLOCK:

1 Q So consistent with a forward-looking approach
2 is your interpretation of what that rule says, correct,
3 Mr. Reed?

4 A That's correct.

5 Q Are you a lawyer?

6 A No.

7 Q Do you engage in statutory or regulatory
8 requirement interpretation very often?

9 A Yes, frequently with regard to regulatory
10 policies.

11 Q But you're not a lawyer; correct?

12 A I am not.

13 Q Okay. Going on there in line 10, you note
14 that "The Commission also acknowledged a requirement
15 that FPL," in your words, "separately account for sunk
16 costs in its economic and feasibility analyses."
17 Correct?

18 A Yes.

19 Q Okay. Could you read that language there from
20 the order on lines 13 through 20, please, sir?

21 A "FPL shall provide a long-term feasibility
22 analysis as part of its annual cost recovery process
23 which, in this case, shall also include updated fuel
24 forecasts, environmental forecasts, breakeven costs, and
25 capital cost estimates. In addition, FPL should account

1 for sunk costs. Providing this information on an annual
2 basis will allow us to monitor the feasibility regarding
3 the continued construction of Turkey Point 6 and 7."

4 Q Thank you, sir. And I want to focus on the
5 sentence there on line 16 over to 17. "In addition, FPL
6 should account for sunk costs."

7 So it's your testimony that in the, in the
8 order, in the order cited there, when the Commission
9 said, "FPL should account for sunk costs," that meant
10 FPL should exclude sunk costs; that's what your
11 testimony is today.

12 A No. It should account for them, as it says,
13 in addition to the long-term feasibility analysis.
14 That's how I interpret it, I think just as written.

15 Q Okay. Well, that wasn't responsive to my
16 question, so I ask you again. The Commission
17 specifically said, "FPL should account for sunk costs."
18 Correct?

19 A Yes, it did.

20 Q It's your testimony that FPL should account
21 for sunk costs by excluding them from the CPVRR
22 analysis; correct?

23 A It shouldn't exclude them from the feasibility
24 analysis. That's what it means when it says in addition
25 to the feasibility analysis it should account for sunk

1 costs.

2 Q And you say that's what it means. Were you on
3 the Commission at that time that this order was issued?

4 A I'm offering you my interpretation.

5 Q Okay. Were you part of that proceeding in
6 which that order was issued? Did you offer testimony?

7 A No, I did not offer testimony on that issue.

8 Q So simply your, that's simply your analysis,
9 your interpretation of what that, of what that sentence
10 means is that, "In addition, FPL should account for sunk
11 costs," that means they should exclude them from the
12 feasibility?

13 MR. ROSS: Objection. Asked and answered at
14 least three times.

15 CHAIRMAN GRAHAM: I agree with the objection.

16 MR. WHITLOCK: No further questions.

17 CHAIRMAN GRAHAM: Other Intervenors?

18 Mr. McGlothlin.

19 CROSS EXAMINATION

20 BY MR. MCGLOTHLIN:

21 Q Mr. Reed, please refer to page 4 of your
22 rebuttal testimony.

23 A I have that.

24 Q Beginning at, with your answer to the question
25 posed at line 14, you talk generally about the nature of

1 large construction projects, do you not?

2 A I do.

3 Q And at line 18 you say, "As the project
4 proceeds through initial engineering and construction
5 toward completion, to-go costs gradually fall until the
6 point at which the project enters service." Do you see
7 that statement?

8 A I do.

9 Q With respect to the FP&L EPU project, have you
10 seen any gradual or even appreciable decline of the
11 to-go costs reported to date?

12 A No. This is a statement in terms of all other
13 things being held constant. In this case, with the
14 total cost estimate increasing, the to-go costs from one
15 year to the next have not gone down. So we don't have
16 all other things being held constant.

17 Q And more precisely, FPL has spent about
18 \$700 million on the uprate project, and in about the
19 same time frame it's increased its estimate by, again,
20 approximately \$700 million; correct?

21 A I can accept those numbers, subject to check.

22 MR. McGLOTHLIN: Nothing further.

23 CHAIRMAN GRAHAM: Thank you.

24 Ms. Kaufman.

25

CROSS EXAMINATION

1 BY MS. KAUFMAN:

2 Q I have to look at the clock. Good morning
3 again, Mr. Reed.

4 I just want to talk to you and be sure that I
5 understand this, this concept of sunk costs that's
6 gotten a lot of attention in this proceeding.

7 What, what is the amount of sunk costs that
8 we're talking about that you have excluded or that has
9 been excluded from the feasibility analysis?

10 A The sunk costs are all of the costs that have
11 been expended as of the date that the feasibility
12 analysis is prepared. In this case, I don't have the
13 specific number at my fingertips, that was excluded from
14 Dr. Sim's analysis, but generally whenever one updates
15 or performs a feasibility test, sunk costs are all the
16 costs expended or committed to irreversibly at that
17 point in time.

18 Q Would you accept, subject to check, that that
19 amount is around \$700 million?

20 A For the two EPU projects together, yes.

21 Q Okay. So when the Commission looks at this
22 project, they should, it's your testimony that they
23 should ignore the fact that the ratepayers have already
24 expended \$700 million when they decide whether or not
25 this project is a good idea for the ratepayers?

1 A Let's be clear as to what the question being
2 asked is. When they decide whether to move forward with
3 the project or not? Yes, you should definitely exclude
4 sunk costs. When they decide whether costs have been
5 prudently incurred, that has nothing to do with sunk
6 costs. The determination of prudence goes on year by
7 year whether the costs are sunk or not. But whether
8 they -- when they are deciding whether to continue to
9 move forward with the project, the answer is quite
10 definitely yes, they should explain sunk costs from that
11 decision.

12 Q Now you would agree with me that this
13 \$700 million that, that is being termed sunk costs, that
14 the bill for those sunk costs has already been picked up
15 by the ratepayers; correct?

16 A The '07 and '08 costs have been determined to
17 be prudent and are being picked up by customers. The
18 '09 and '10 costs are, of course, subject to this
19 decision.

20 Q And if FPL prevails in its position at the end
21 of the day, there will be about \$700 million worth of
22 costs that the ratepayers have or will be responsible
23 for; right?

24 A Yes.

25 Q And in that regard it's your testimony that

1 those costs have no bearing on the go-forward of the
2 project.

3 **A** No forward on the decision -- no bearing on
4 whether to continue with the project. That's correct.
5 Those costs having been incurred irrevocably, it does
6 not make sense to include them in an analysis of whether
7 to continue or not.

8 **Q** And by saying that they've been incurred
9 irrevocably means that the ratepayers have paid for it,
10 they're never going to get that money back, regardless
11 of what happens to the project, and therefore they
12 should be ignored as the Commission proceeds in this
13 docket?

14 **A** Not completely correct. Whether ratepayers
15 have paid for them or not, whether they've been
16 determined to be prudent or not, doesn't enter into the
17 question as to whether you include them in the economic
18 viability standard going forward. If they are sunk,
19 meaning that you, whatever happens to them, incurred and
20 passed through, incurred and not passed through, the
21 fact that they're sunk is what determines that you
22 exclude them from the analysis, not the issue of whether
23 they've been recovered from ratepayers.

24 **Q** Well, you're not suggesting that FPL is
25 offering to pick up any of the \$700 million; right?

1 A No, they're not.

2 Q Okay. Do you think that to the extent that --
3 you know I represent large consumers. Do you think that
4 they might be concerned that consumers have sunk
5 \$700 million into this project thus far?

6 A I'm sure that customers are concerned about
7 the cost of the project and how much has been spent.
8 And I'm sure that they're also looking forward to the
9 benefits that'll be derived from the project when it's
10 done.

11 Q Would you agree with me that if the project is
12 never completed, not only will they have -- not see the
13 benefit of the \$700 million, but they won't receive any
14 benefits from the project?

15 A Arguably that's the case if the project were
16 to be abandoned now fully. Well, actually that's not
17 true. Some additional megawatts have already been put
18 into service, so there is a benefit actually occurring
19 today from the incremental output of the St. Lucie unit.
20 So, yes, there will be benefits from that regardless of
21 what happens from this point forward.

22 Q But it would certainly be slight in comparison
23 to the, to the Turkey Point, Turkey Point projects;
24 correct?

25 A The amount that's occurred so far is only a

1 small portion of the total increment of additional
2 capacity. That's correct.

3 Q And as I said, it's, in your view it's sunk,
4 regardless of what happens.

5 A The monies spent so far, the 700 million in
6 your example, are sunk, and there's no question that
7 they should not enter into the decision of whether to
8 proceed with the project.

9 MS. KAUFMAN: Thank you.

10 CHAIRMAN GRAHAM: Any other questions,
11 Intervenors?

12 Staff?

13 MS. NORRIS: Staff has no questions.

14 CHAIRMAN GRAHAM: Commission board? Wow.
15 Commissioner Brisé.

16 COMMISSIONER BRISÉ: Thank you, Mr. Chairman.
17 I'm going to ask you the same question I asked
18 Mr. Deason with respect to the breakeven analysis as, as
19 suggested by Dr. Jacobs.

20 Not only dealing with the instant case before
21 us but dealing in terms of broader policy, do you think
22 the application of the breakeven analysis as suggested
23 by Dr. Jacobs is a good analytical tool to apply to
24 similar cases moving forward?

25 THE WITNESS: No. I would object to that as

1 being appropriate under any structure. I mean, that is
2 an approach that says we're going to wait until the end
3 of the project, until it's done, to determine what
4 portion of the project gets included in rates. That's a
5 bad regulatory construct full stop.

6 It's a worse one when it occurs in a state in
7 which the policy to date has been that we will make
8 annual determinations of prudence and the recovery of
9 costs, because that represents a major change in policy
10 and creates a very unpleasant surprise for the financial
11 community. But I would say it's a bad policy overall,
12 and it's even worse under these circumstances.

13 **COMMISSIONER BRISE:** One follow-up question.
14 So do you think that, that if we pursued that policy, it
15 would be in direct conflict with the intention that the
16 Legislature had when it established the nuclear recovery
17 rule?

18 **THE WITNESS:** I think that's clear, yes. The
19 nuclear cost recovery rule speaks in terms of providing
20 assurances that prudently incurred costs can be
21 recovered, and that standard would, in fact, disallow
22 potentially prudently incurred costs if the economics of
23 the project changed.

24 **COMMISSIONER BRISE:** Thank you. That's all I
25 have.

1 **CHAIRMAN GRAHAM:** Commissioner Balbis.

2 **COMMISSIONER BALBIS:** Thank you, Mr. Chairman.
3 I have one question for Mr. Reed.

4 The -- you know, obviously there's been a lot
5 of discussion on the two different methods, breakeven
6 versus the CPVRR. Isn't it true then using the CPVRR
7 going forward as part of the feasibility analysis, as
8 long as the remaining costs do not exceed the
9 alternative or replacement costs, then it will continue
10 to be feasible; is that correct?

11 **THE WITNESS:** Yes, that's correct.

12 **COMMISSIONER BALBIS:** So then, in other words,
13 the only thing that would affect the feasibility, again
14 provided the remaining costs are below the replacement
15 costs, would be if the need for that generation capacity
16 changes.

17 **THE WITNESS:** No. That's not the only thing
18 that would cause you to determine that it was uneconomic
19 going forward. If the costs were to increase
20 dramatically for the project or if the cost of the
21 alternatives were to decrease substantially, for
22 example, pick an extreme example, if natural gas prices
23 went to a dollar and you predicted they would stay at a
24 dollar forever, then you could in fact have, even on an
25 incremental basis, the economics change such that the

1 decision to go forward should be changed. So it, it
2 reflects the economics of the alternative being pursued,
3 the economics of the alternative not being pursued.

4 Part of the economics of that alternative not
5 being pursued is need, the year of need for new
6 capacity. And, of course, that could be pushed off by
7 five or ten years by very bad economic circumstances.
8 But there are many factors that go into the comparison
9 of the two scenarios, including fuel cost, need is one,
10 inflation is another, capital and construction costs are
11 others.

12 **COMMISSIONER BALBIS:** Okay. Thank you.

13 **CHAIRMAN GRAHAM:** Redirect?

14 **REDIRECT EXAMINATION**

15 **BY MR. ROSS:**

16 Q Mr. Reed, to follow up on a question that
17 Commissioner Brisé asked you about the appropriateness
18 of a breakeven analysis as a suggested tool, do you have
19 an opinion as to whether using a breakeven analysis and
20 separating out the projects as OPC has recommended, the
21 Turkey Point versus St. Lucie, would impact the risk
22 profile and the financing costs for the project?

23 A I think unquestionably. I testified about
24 this issue at the very beginning of this project in 2007
25 and '08 and said you need to have certainty of recovery.

1 You need to have the investors understand and be able to
2 count on the rules for cost recovery from the very
3 beginning of this type of a project. If you don't have
4 that, your capital costs will be higher, substantially
5 higher.

6 If we have that type of a change in the
7 construct, either going to the breakeven analysis or
8 further going to breakeven and separating it into two
9 projects, that's a fundamental change in the rules of
10 the road. And that is the kind of thing that not only
11 will increase the cost of capital for this project, but
12 that in my opinion financial markets will remember going
13 forward to the next project and to bigger projects like
14 new nuclear. I would find that to be very troubling.

15 **MR. ROSS:** That's all I have, Mr. Chairman.

16 **CHAIRMAN GRAHAM:** Okay. Do we have any
17 exhibits that need to be entered into the record?

18 **MR. ROSS:** No exhibits for Mr. Reed, and we
19 would request that he be excused.

20 **CHAIRMAN GRAHAM:** If there's no objections
21 from Staff or from Intervenors. Seeing none, sir, thank
22 you very much for your testimony today. You're excused.

23 **THE WITNESS:** My pleasure. Thank you.

24 **MR. ANDERSON:** FPL would call as its next
25 witness Terry Jones, who has been previously sworn.

1 **TERRY O. JONES**

2 was called as a rebuttal witness on behalf of Florida
3 Power & Light Company and, having been duly sworn,
4 testified as follows:

5 **DIRECT EXAMINATION**

6 **BY MR. ANDERSON:**

7 **Q** Mr. Jones, would you please reintroduce
8 yourself to the Commission.

9 **A** Yes. My name is Terry Jones.

10 **Q** And by whom are you employed and in what
11 capacity?

12 **A** Florida Power & Light, Vice President of
13 Extended Power Uprates.

14 **Q** Have you prepared and caused to be filed 16
15 pages of prefiled rebuttal testimony in this proceeding
16 on July 25, 2011?

17 **A** That's correct.

18 **Q** Do you have any changes or revisions to your
19 rebuttal testimony?

20 **A** No, sir.

21 **Q** If I asked you the same questions contained in
22 your prefiled rebuttal testimony, would your answers be
23 the same?

24 **A** Yes.

25 **MR. ANDERSON:** Chairman Graham, FPL asks that

1 the prefiled rebuttal testimony be inserted into the
2 record as though read.

3 **CHAIRMAN GRAHAM:** We will insert into the
4 record Mr. Jones' prefiled rebuttal testimony into the
5 record as though read today.

6 **BY MR. ANDERSON:**

7 Q You're sponsoring two exhibits to your
8 rebuttal testimony?

9 A That's correct.

10 Q They're attached to your testimony as
11 TOJ-28 and TOJ-29?

12 A That's correct.

13 **MR. ANDERSON:** Mr. Chairman, those have been
14 premarked for identification on Staff's list as Exhibits
15 131 and 132.

16 **CHAIRMAN GRAHAM:** Noted.
17
18
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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **REBUTTAL TESTIMONY OF TERRY O. JONES**

4 **DOCKET NO. 110009-EI**

5 **JULY 25, 2011**

6
7 **Q. Please state your name and business address.**

8 A. My name is Terry Jones and my business address is 700 Universe Blvd., Juno
9 Beach, FL 33408. I am employed by Florida Power & Light Company (FPL)
10 as Vice President, Nuclear Power Uprate.

11 **Q. Have you previously provided testimony in this docket?**

12 A. Yes.

13 **Q. Are you sponsoring any rebuttal exhibits in this case?**

14 A. Yes. I am sponsoring the following exhibits, which are attached to my
15 rebuttal testimony:

- 16 • TOJ-28, FPL's Response to OPC's Sixth Set of Interrogatories No. 47
17 • TOJ-29, SL 1-24 Design Engineering Production

18 **Q. What is the purpose of your rebuttal testimony?**

19 A. My rebuttal testimony addresses the direct testimony provided by William R.
20 Jacobs on behalf of the Office of Public Counsel (OPC). Additionally, I
21 briefly respond to the testimony of Staff witnesses Lynn Fisher and David
22 Rich.

23 **Q. Please summarize your rebuttal testimony.**

1 A. Witness Jacobs criticizes the Company's 2007 decision to perform the Extend
2 Power Uprate (EPU) project on an expedited basis in a manner that implies
3 any "fast track" project is an imprudent one. That is simply not the case.
4 Expedited projects may present unique risks (as I have consistently testified
5 to), but as described by FPL Witness Sim, this expedited approach was in
6 2007 and remains today the approach that maximizes benefits for FPL's
7 customers.

8
9 Witness Jacobs also questions the current status of the EPU project,
10 characterizing the information I have provided in testimony about project
11 uncertainties as some sort of revelation that the EPU project is a difficult one.
12 This section of Witness Jacobs's testimony offers little new insight and fails to
13 disparage the project in the manner attempted.

14
15 Staff witnesses express some concern over costs associated with three "work
16 stoppages" that have occurred. Work stoppages, however, are not only
17 routine but are an appropriate response to personnel errors. FPL's actions in
18 hiring the particular vendors at issue, providing necessary training and
19 oversight, and working to minimize any schedule or cost impact have been
20 prudent.

21
22

EPU PROJECT APPROACH (2007-2011)

1

2

3 **Q. Please respond to Witness Jacobs's assertion that the EPU project is**
4 **"unsuitable" for the fast track approach (p. 7).**

5 A. Every capital project undertaken by a utility company, including expedited
6 projects, will involve challenges and benefits. In the case of the EPU project,
7 it faces increased schedule risk, for example, but will also provide benefits in
8 the form of more baseload, emission-free megawatts electric (MWe) to
9 customers sooner. In fact, FPL's customers are currently benefitting from an
10 additional 29 MWe from St. Lucie Unit 2 as a result of the expedited approach
11 FPL has taken. The fact that challenges exist does not indicate that the project
12 is ill-suited for an expedited approach – to the contrary, it is expected that
13 challenges will be faced.

14 **Q. How long has this been the project approach?**

15 A. This has been the consistent approach taken, and discussed in testimony, since
16 FPL applied for a Need Determination in 2007. I personally have consistently
17 testified to and worked to explain this approach – consisting of the four
18 overlapping project phases of Licensing, Long Lead Procurement,
19 Engineering, and Implementation – for the last two years. It is surprising that
20 any party would now, four years later, take issue with this aspect of the EPU
21 project.

22 **Q. How long would the EPU project have taken if FPL did not decide to**
23 **expedite it in 2007?**

1 A. If FPL had chosen to perform each phase of the project in sequence – and
2 perform all the necessary design engineering prior to beginning any of the
3 implementation – the project would have taken a total of approximately
4 eleven and half years, or six years longer than the current EPU project
5 schedule. This was explained in my response to OPC’s Sixth Set of
6 Interrogatories No. 47, attached as Exhibit TOJ-28.

7 **Q. What would be the project cost impact if FPL had implemented the EPU**
8 **project phases in series rather than as a fast track project?**

9 A. For the following reasons, FPL expects that the total cost of the project would
10 have been significantly greater if FPL worked the EPU project phases in
11 series:

- 12 • Costs for project personnel would have been greater due to reduced
13 efficiencies, lost continuity, increased turnover, and longer durations
14 for project personnel.
- 15 • Equipment costs would be greater due to escalation in fabrication and
16 commodity prices.
- 17 • Vendor pricing would be greater due to increased risk of longer time
18 frame to implement the project.
- 19 • Carrying charges charged to the customers through the Nuclear Cost
20 Recovery Clause, would be much greater due to longer time periods
21 between expenditures and placing equipment in service.
- 22 • Overhead and indirect costs would be much greater for an eleven and a
23 half year project than for a five and a half year project.

1 **Q. Witness Jacobs claims that FPL had “little grasp” of what the capital**
2 **costs would be at the beginning of the project. How do you respond?**

3 A. I disagree with Witness Jacobs’s description of the 2007 non-binding cost
4 estimate. FPL’s estimate at that time was reasonable, in that it was consistent
5 with the earliest stages of the project and the information that was known at
6 that time. FPL’s witnesses have consistently testified that additional License
7 Amendment Request (LAR) engineering and design engineering would
8 provide greater cost certainty, in an attempt to keep all parties fully informed
9 of both the approach toward the project as well as the maturity of the cost
10 information in hand. This approach was not in error – rather, it was a
11 deliberate choice to bring the EPU project benefits to customers in the
12 quickest, most cost-effective manner. For reasons described by FPL Witness
13 Sim, the economics continue to prove that this was the right choice.

14 **Q. Do you agree that FPL was “slow to recognize and take into account early**
15 **indications that its initial cost estimates were inadequate” (p. 7)?**

16 A. No. Witness Jacobs’s assertion fails to recognize all that has been disclosed
17 about this project from its inception. First, he implies that the “initial cost
18 estimates” were expected to be final and unchanging (and because they did
19 change, they were “inadequate”). That was never the case. The initial cost
20 estimates were based on preliminary scoping studies and of course subject to
21 change as additional LAR engineering and design engineering was completed.
22 Additionally, FPL was fully responsive to all potential cost increases –
23 whether due to scope growth or new estimates from its Engineering,

1 Procurement, and Construction (EPC) vendor. FPL's response was to
2 challenge such increases and mitigate them where possible. This, of course,
3 was an attempt to keep costs low for the benefit of FPL's customers. To "take
4 into account" these early estimates in the manner OPC is implying – i.e., to
5 accept them as the inevitable result and plan to incur them – would have
6 significantly eroded FPL's efforts to control costs.

7 **Q. Witness Jacobs implies on the bottom of page 15 that because of FPL's**
8 **approach, it could only hire an EPC contractor on a "time and materials"**
9 **basis. Please respond.**

10 A. Time and materials contracts are standard project management tools. Initially,
11 using a time and materials EPC contract provided FPL management the
12 greatest control of vendor costs and work scope. As the LAR engineering and
13 design engineering progressed, the work scope became more defined. FPL
14 then negotiated the target price with the EPC vendor for St. Lucie based on
15 the defined scope, as described in my May 2, 2011 testimony (p. 7). FPL
16 plans to do the same for the Turkey Point EPC contract when the scope is
17 sufficiently defined.

18 **Q. Please respond to the comparison between the EPU project and the last**
19 **round of new nuclear generation construction that occurred in the 1980s.**

20 A. This comparison is not accurate. The scope of new nuclear construction is
21 enormous compared to the EPU project, the Nuclear Regulatory Commission
22 (NRC) regulatory process in the 1980s (during the last wave of construction)
23 was far more uncertain than it is today with numerous requirements changing

1 during and following construction, including the ability to ultimately obtain an
2 operating license post construction was itself uncertain.

3
4 We all agree that the EPU project is complex, primarily because it must be
5 accomplished within operating nuclear facilities. But the NRC regulatory
6 process today is better defined than during past periods of nuclear
7 construction, and despite the complexity, FPL is confident it will be able to
8 successfully complete the project. The EPU project is therefore quite unlike
9 the projects Witness Jacobs attempts to compare it to.

10 **Q. With respect to the recommendations Witness Jacobs makes related to**
11 **FPL's feasibility analysis, he asserts that the St. Lucie and Turkey Point**
12 **uprates should be evaluated separately. Please respond.**

13 A. Witness Jacobs ignores the cost advantages of performing four uprates at four
14 units. Performing an EPU on all units within one fleet simultaneously allows
15 the project team to share resources and lessons learned from performing the
16 numerous outages with similar work scopes, thereby increasing efficiency and
17 reducing costs. Additionally, engineering and construction strategy for one
18 unit can be used to support engineering and construction strategy for the other
19 units.

20
21 Additionally, FPL was able to realize cost savings and leverage purchasing
22 power by purchasing multiple pieces of the same equipment. For example,
23 the equipment needed to upgrade the main turbines and generators to

1 accommodate the increased steam flows and electrical output is needed at
2 each unit. Instead of procuring this equipment for one unit, FPL procured the
3 equipment for four units. This was also done for the long lead equipment
4 purchases of the moisture separator reheaters and feedwater heaters.
5

6 **CURRENT STATUS OF THE EPU PROJECT**
7

8 **Q. Do you have a summary response to Witness Jacobs's testimony related**
9 **to the current status of the EPU project?**

10 A. Yes. My summary response is that Witness Jacobs tells the Commission
11 nothing new. He simply recasts the project information I have testified to
12 over the last two years in a negative light, attempting to turn FPL's efforts to
13 keep the Commission and all parties fully apprised of project status and
14 progress of prudent decision making into claims of imprudence.

15 **Q. Witness Jacobs criticizes FPL for not having "a good handle on the**
16 **ultimate cost of the uprates" (p. 7), ultimately concluding that FPL's May**
17 **2011 non-binding cost estimate is an "uneducated guess" (p. 22-23).**
18 **Please respond.**

19 A. FPL's current non-binding cost estimate is more defined now than it has been
20 in previous years. This definition comes from the completion of the LAR
21 engineering, the completion of about 70% of the design engineering, and the
22 information learned from the early stages of implementation. FPL's non-
23 binding cost estimate is therefore highly informed. It reflects three years of

1 project experience and advancement, as well as the input from an independent
2 project estimating expert, Highbridge Associates (as described in my March 1,
3 2011 testimony addressing the EPU project in 2010, p. 27), and a new target
4 price contract with one of FPL's primary vendors (as described in my May 2,
5 2011 testimony, p. 7). Nonetheless, the non-binding cost estimate still
6 accounts for the fact that more design engineering needs to be accomplished.
7 FPL continues to gain more cost certainty as the design engineering and
8 implementation planning progresses.

9 **Q. Despite his criticism related to the lack of finality of FPL's cost estimate,**
10 **Witness Jacobs also claims FPL's contingency factor is inadequate (p. 7**
11 **and 25). What is your response?**

12 A. Witness Jacobs seems to misunderstand the reference to 7% in FPL's
13 interrogatory response. It is not a contingency value; rather it simply
14 represents the spread between the low end and high end of the non-binding
15 cost forecast estimate range provided in May 2011. The contingency FPL
16 used in its May 2011 non-binding cost estimate range was systematically
17 comprised of 2 – 5% of the well defined to-go engineering, materials, and
18 FPL internal costs, and 18 - 30% of the less defined to-go construction costs,
19 which is appropriate for this stage of the Project.

20 **Q. On pages 15-16, Witness Jacobs explains his Exhibit WRJ-4, purporting**
21 **to show the needed acceleration of the design engineering to complete the**
22 **EPU on time. He again refers to FPL's current status of design**
23 **engineering and WRJ-4 on pages 20-21. Please respond.**

1 A. Witness Jacobs's Exhibit WRJ-4 is a slide from FPL's Executive Steering
2 Committee (ESC) meeting, which shows the total number of Plant Change
3 Modifications (PCMs) to be developed for St. Lucie as of October 2010. He
4 attempts to demonstrate the acceleration of work needed to meet that
5 historical plan, but FPL does not manage the EPU project in that manner. The
6 engineering plan itself has changed substantially since October 2010,
7 reflecting a number of management decisions to ensure the progression of the
8 needed design engineering. For example, FPL has prioritized the
9 development of the PCM packages by outage and scope, and the EPC vendor
10 is proceeding accordingly.

11

12 The quantity of PCMs required for support of the St. Lucie Unit 1 Fall 2011
13 EPU outage is 43. At this time, 37 are at 90% complete or greater. Exhibit
14 TOJ-29 presents the status of design engineering for the Fall 2011 St. Lucie 1
15 EPU outage. As can be seen, FPL is well-positioned to complete all necessary
16 design engineering prior to the outage start date.

17

18 The current plan for the 32 PCMs required for the Summer 2012 St. Lucie
19 Unit 2 EPU outage is to complete the PCMs by approximately April 2012.
20 Thus, not all the St. Lucie PCMs need to be completed by the end of 2011 as
21 indicated by Witness Jacobs. FPL is confident that the required PCMs will be
22 completed to support implementation during the scheduled EPU outages.

1 **Q. Does WRJ-4 indicate that FPL will employ risky methods to complete the**
2 **project by 2013?**

3 A. No. FPL has taken several reasonable steps to ensure the preparation of
4 PCMs to support the EPU work planning and implementation plans. FPL has
5 increased field engineering resources and leveraged the expertise of
6 subcontractors, to ensure the engineering and work planning are completed for
7 each respective outage.

8 **Q. Please explain when FPL might perform work without “complete design**
9 **drawings” (p. 15-16).**

10 A. FPL has well defined processes and procedures that allow planning and
11 implementation to proceed in a controlled manner, based on risk, in cases
12 when engineering is not 100% complete. As demonstrated by Exhibit TOJ-
13 29, this will likely not be necessary for the next EPU outage.

14 **Q. Please respond to Witness Jacobs’s characterization of your deposition**
15 **testimony, wherein you explain that construction may be undertaken “at**
16 **risk”.**

17 A. Witness Jacobs mischaracterizes my deposition testimony. First, at the time I
18 was speaking in generalities – not stating what FPL will or will not be doing.
19 Second, the examples I gave demonstrated that certain components of an
20 implementation effort have *very little to no risk* (such as the pouring of a
21 concrete pad or the installation of an I-beam) – and that they can be
22 undertaken while the remainder of the engineering for the modification is

1 being completed. Such activities are not “very risky from a cost, schedule and
2 NRC point of view” as Witness Jacobs would have one believe.

3 **Q. Are there other mischaracterizations of your testimony, whether in
4 deposition or prefiled?**

5 A. Yes. At pages 23-24 of Witness Jacobs’s testimony, he uses the examples of
6 project complexity I provided in my May 2, 2011 testimony to attempt to
7 explain the type of information that is unknown and discovered during the
8 course of a project (and how it may affect total project costs) and refers to
9 them as “problems” with the project. I would not categorize them as such. As
10 my testimony explains, the potential for these types of challenges are already
11 accounted for in the May 2011 non-binding cost estimate range.

12 **Q. Please respond to Witness Jacobs’s assertion on page 22 that “late”
13 engineering is causing delays.**

14 A. Due to increased scope and discovery, engineering has not progressed as
15 originally planned, mainly because more engineering has been needed, not
16 because engineers have worked too slowly. But with respect to the delays he
17 notes, it should come as no surprise that FPL will adjust its EPU project
18 schedule and outage schedules from time to time as circumstances warrant.
19 Project schedule flexibility is necessary and expected for the prudent
20 management of such a large, complex undertaking as the EPU project.

21 **Q. Please summarize FPL’s efforts over the last two years to complete the
22 necessary design engineering.**

1 A. It has been known and documented by FPL (and FPSC Internal Controls
2 auditors) from the outset of the EPU project that providing the necessary
3 specialized nuclear engineering design staffing resources would be one of the
4 major challenges for the EPU. Recognizing this, FPL has used, in addition to
5 the EPC vendor, several other engineering and specialty contractors to
6 perform specific scopes of work. Westinghouse and Areva are the Nuclear
7 Steam Supply System firms that have been engaged in the LAR licensing
8 effort. Shaw Stone and Webster has expertise in the balance of plant (non-
9 nuclear portion of the power plant), and is engaged in the secondary steam,
10 condensate, and feedwater systems evaluations. Siemens is one of the
11 Original Equipment Manufacturers (OEM) and has been contracted to modify
12 and upgrade turbine and generator equipment needed for the EPU project.
13 Other highly-qualified, major nuclear engineering and construction firms such
14 as Enercon, Sargent & Lundy, and Zachry have also all been contracted to
15 complete modification packages.

16 **Q. Is Witness Jacobs correct that FPL has just “started” to award portions**
17 **of the EPC scope to other vendors (p. 21)?**

18 A. No. FPL awarded design modification work to other vendors going back as
19 far as 2008 and will continue to do so as appropriate.

20 **Q. Witness Jacobs states that the status of project design completion is**
21 **important to the success of a project. What is your response?**

22 A. It goes without saying that design engineering must be completed to
23 successfully complete the project. If that is the point of Witness Jacobs’s

1 testimony, then we are in agreement. However, I disagree that initiating a
2 project with initial scoping information, and proceeding down parallel paths in
3 an effort to bring the project's benefits to customers on the earliest practicable
4 timetable, creates a level of uncertainty that is likely to lead to an unsuccessful
5 project. While there may be uncertainty on total installed cost in the early
6 phases of the project, that does not equate to an unsuccessful project. FPL is
7 currently on track for the successful completion of this project, and based on
8 all the information known today, customers are already benefitting and are
9 expected to benefit substantially in the future from the EPU project.

10 11 INTERNAL CONTROLS AUDIT TESTIMONY

12
13 **Q. Are you also responding to Staff's testimony?**

14 A. Yes. I am responding to the recommendation of Mr. Fisher and Mr. Rich in
15 their report that costs associated with three "work stoppages" that occurred in
16 2010 and 2011 be closely examined.

17 **Q. What is your response to Staff's recommendation?**

18 A. FPL expects the Commission and its Staff to closely examine all the costs it
19 incurs related to the EPU project. FPL is therefore providing additional
20 information to assure the Commission that costs were prudently incurred.

21
22 Staff's report at pages 24 through 25 discusses three "work stoppages" that
23 have occurred – two at Turkey Point in 2010 and one at St. Lucie in 2011.

1 Each event is a classic example of “human error” by vendor personnel.
2 Human error does not, however, indicate imprudence on the part of FPL (or
3 the vendor, for that matter). Because FPL was prudent in the hiring of each
4 particular vendor, has reasonable contract terms governing its relationship
5 with its vendors, and has provided reasonable training and/or oversight, any
6 costs resulting from such human error events are reasonable project expenses.
7 This was the case in each of the situations highlighted in Staff’s report.

8
9 FPL hired Siemens and Bechtel in 2008 to perform the work at Turkey Point
10 discussed on page 24, and FPL hired Siemens in 2008 to perform the work at
11 St. Lucie discussed on page 25. These vendors are highly specialized and
12 highly qualified for this type of work. Moreover, with respect to the St. Lucie
13 event, Siemens is the OEM of the turbine generators and therefore owns the
14 intellectual property and has the skill sets to perform this scope of work. For
15 this reason, it was appropriate to hire Siemens. The contracts governing
16 FPL’s relationships with these vendors, and specifically the terms limiting
17 FPL’s liability for costs such as those associated with personnel errors, are
18 industry-standard and reasonable.

19
20 With respect to training and oversight, as described in my March 1, 2011 and
21 May 2, 2011 testimony, FPL followed its procedures and processes to ensure
22 proper oversight of the work. It would not be appropriate – nor cost effective
23 – to provide 100% oversight of all vendor activities (to hire hundreds of

1 employees to stand over the shoulder of every contractor). Rather, FPL (and
2 its industry peers) relies on the vast experience and excellent performance
3 record of its vendors, adheres to its management procedures, and takes
4 corrective action when errors occur.

5 **Q. Does this conclude your testimony?**

6 A. Yes.

1 BY MR. ANDERSON:

2 Q Mr. Jones, would you please provide the
3 summary of your rebuttal testimony to the Commission.

4 A Yes. Good afternoon, Chairman Graham and
5 Commissioners.

6 The expedited approach to the extended power
7 uprate project approved by the Commission will maximize
8 the benefits of the EPU project for FPL's customers. If
9 FPL had decided to perform the work sequentially, as
10 Intervenors have suggested, the EPU, the EPU project
11 would have taken much longer, about six years longer.
12 This would significantly delay the major fuel cost
13 savings and other benefits for FPL's customers.
14 Additionally, the cost of the project itself would have
15 been significantly greater if done in a sequential,
16 non-expedited manner.

17 FPL has a well-informed total cost estimate
18 which includes contingency for the successful completion
19 of the project. The project is well positioned to
20 complete all necessary design engineering work prior to
21 the start of each EPU outage. The project remains on
22 track for successful completion.

23 Staff Witnesses Fisher and Rich express
24 concerns about two events which occurred in 2010 and one
25 in 2011. These were the result of human error by vendor

1 employees working on the EPU project. FPL was prudent
2 in hiring well-qualified vendors, made sure that
3 reasonable contract terms governed its relationship with
4 the vendors, and provided appropriate and reasonable
5 training and oversight for the performance of their
6 functions at our plants. Despite reasonable and prudent
7 management actions, human errors will occur on major
8 construction projects; therefore, costs resulting from
9 such events are prudently incurred and reasonable
10 project expenses. This concludes my summary.

11 **MR. ANDERSON:** Mr. Jones is available for
12 cross-examination.

13 **CHAIRMAN GRAHAM:** Intervenors? Mr.
14 McGlothlin.

15 **MR. McGLOTHLIN:** Yes, very briefly.

16 **CROSS EXAMINATION**

17 **BY MR. McGLOTHLIN:**

18 **Q** Mr. Jones, please look at page 7 of your
19 rebuttal testimony. And this is the area of your
20 rebuttal in which you respond to Dr. Jacobs'
21 recommendation of a separate breakeven analysis for each
22 of the St. Lucie and Turkey Point uprate activities. Do
23 you see that?

24 **A** Yes. I'm on page 7, line 10.

25 **Q** And among the reasons that you cite in

1 opposition to that recommendation at page -- at line
2 21 you say, "FPL was able to realize cost savings and
3 leverage purchasing power by purchasing multiple pieces
4 of the same equipment."

5 My question is this, if FPL were to perform
6 separate standalone breakeven calculations for each of
7 the St. Lucie and Turkey Point projects, wouldn't it
8 reflect the impact of those savings and economies by
9 attributing the, those economies to the capital costs
10 associated with each of the projects?

11 A Could you repeat that question? There seemed
12 to be about three questions in that question.

13 Q Well, I hope not, but I'll try.

14 With respect to the statement that FPL was
15 able to realize cost savings when it approached the EPU
16 project, isn't it true those savings would be reflected
17 in the costs attributable to each of the St. Lucie and
18 Turkey Point projects in a separated breakeven analysis?

19 A I'm sorry. I'm not familiar with the
20 breakeven, breakeven analysis and how those computations
21 are performed. That's not my, that's not my area, so I
22 don't think I can answer your question.

23 Q Would you agree that to the extent FPL was
24 able to achieve the types of savings that you describe
25 here, those savings would be reflected in the costs of

1 the Turkey Point and St. Lucie projects?

2 A I think the answer to the question is yes,
3 that by doing the four units in parallel and procuring
4 the turbines all basically at the same time, negotiating
5 that in volume, as well as large heat exchangers, that
6 cost savings is reflected in the project. Was that the
7 question?

8 Q That's the question. Thank you.

9 A Okay.

10 Q Oh, I have one more. At page 9, and the
11 question at line 9 relates to the adequacy of
12 contingency factor. And in your answer you say
13 Dr. Jacobs seems to misunderstand the reference to 7% in
14 the response.

15 At line 15 you say the contingency FPL used in
16 its May 2011 non-binding cost estimate range was
17 systematically comprised of 2 to 5% of the well defined
18 to-go engineering, and 18 to 30% of the less defined
19 to-go construction costs. Do you see that statement?

20 A Yes, I do.

21 Q Now do I understand correctly that when you
22 apply these separate ranges to the appropriate portion
23 of the overall costs and then reflect them on a
24 composite basis, you get back to the 7%?

25 A Could you repeat that question?

1 Q Yes. You were referring to the contingency
2 that FPL uses in its non-binding cost estimate range;
3 correct?

4 A That is correct.

5 Q And that consists of two components; correct?

6 A No. It, it consists of many components.

7 There are many cost centers on this, on this major
8 project. This text is to simplify it.

9 Could I explain?

10 Q Go ahead.

11 A Okay. So when I look at the cost centers
12 necessary to do this major extended power uprate, again
13 speaking in some broad categories such as LAR
14 engineering, design engineering, long-lead material,
15 there are fixed price contracts, there is implementation
16 cost in this project, some of the larger categories, and
17 so what this simply describes is -- and I heard
18 mentioned earlier in this chamber today that to-go costs
19 aren't going down, and that simply isn't true. To-go
20 costs for LAR engineering has simply gone down
21 substantially. To-go costs for design engineering is
22 going down.

23 So when we look at 70% complete on design
24 engineering, we're essentially 90% complete on LAR
25 engineering. The contingency factor that you would

1 assign to those to-go costs is very low: Anywhere on a
2 1% to 5% scale.

3 Your uncertainty is in the implementation and
4 the construction phase, and that's where we apply 18 to
5 30% contingency depending on the unit and where we
6 progress in the EPU outages. Does that clarify it?

7 Q I have a follow-up question. When you go
8 through this exercise of assigning the appropriate range
9 to the various categories, do you then calculate an
10 overall or composite contingency factor?

11 A Yes. For the multiple cost centers, and we
12 assign, we do the contingency analysis for each one of
13 those. Then that rolls up into the total contingency
14 for the project. That is correct.

15 Q And is that 7%?

16 A No.

17 Q What is it?

18 A I'd have to go pull the project controls,
19 details and do that, that calculation. I don't have
20 that with me.

21 Q I'm not asking you to do that. That's all I
22 have.

23 **CHAIRMAN GRAHAM:** Okay. Ms. Kaufman.

24 **MS. KAUFMAN:** I don't have any questions,
25 Mr. Chairman.

1 MS. WHITE: No questions.

2 CHAIRMAN GRAHAM: Mr. Whitlock?

3 MR. WHITLOCK: No questions.

4 CHAIRMAN GRAHAM: Okay. Staff?

5 MR. YOUNG: No questions.

6 CHAIRMAN GRAHAM: Commission board? Ms. --

7 I'm sorry. Commissioner Brown.

8 COMMISSIONER BROWN: Thank you, Mr. Chairman.

9 Mr. Jones, on page 8, line 19, regarding the
10 May 2011 non-binding cost estimate, you state that,
11 "FPL's current non-binding cost estimate is more defined
12 now than it has been in previous years." Can you please
13 elaborate for us on, on why it's more defined now?

14 THE WITNESS: Yes. It's more defined now
15 simply as a result of progressing through the design
16 engineering. The extended power uprate is, is really a
17 basis of what is the maximum power output that we can
18 get out of the nuclear reactor safely and efficiently
19 and with adequate margin? And so therefore through
20 engineering analysis, which is a very objective process,
21 is what changes do we need to make to achieve that power
22 uprate?

23 And when you start out initially, you have,
24 I'll call it a rough order of magnitude or conceptual
25 idea of the number of systems and the type of components

1 that you're going to have to, to replace or touch and
2 how you would go about doing that.

3 As you progress through the engineering, you
4 have both discovery in that engineering as well as you
5 are doing planning in parallel, so you start to begin,
6 you begin to understand what the logistics are going to
7 be required to do these major component replacements:
8 Other components and systems that may be, have to be
9 removed; what type of engineered, I'll call them mega
10 lift, systems that you're going to have to install to
11 move the components.

12 And so as we've progressed through time and
13 gone from little to no engineering to 1 to 2%
14 engineering that was complete for the first non-binding
15 cost estimate to 70% complete, the uncertainty is, is,
16 is reduced accordingly.

17 So the majority of the risk then remains in
18 the actual implementation in your planning and your
19 construction phase, if that -- does that answer your
20 question?

21 **COMMISSIONER BROWN:** Yes, it does. I have
22 another question. As Vice President of Nuclear Power
23 Uprate, Mr. -- I think you're capable of answering this
24 question. Earlier Mr. Scroggs testified that projects
25 adapt to the pace of the regulatory environment. I

1 understand that this has resulted in some delays. Can
2 you please tell us a little bit about the problems FPL
3 has encountered with regulatory authorities, not only
4 for the uprate projects, but also for Turkey Point 6 and
5 7, if you can?

6 **THE WITNESS:** Yes. First, on 6 and 7, that's
7 outside of my scope, so I can't comment on, on 6 and 7.

8 But in regards to the extended power uprates,
9 as I mentioned yesterday in my summary testimony, this
10 is the, really the largest, most complex licensing
11 action that the Nuclear Regulatory Commission can
12 undertake, short of constructing a new plant. And so it
13 requires you to go back and, and analysis by analysis do
14 a comparison of the current licensing basis to what the
15 impact will be on those margins and accident (phonetic)
16 analysis at the higher power level.

17 And so the document, the license amendment
18 request that you submit to describe how you did that
19 work -- I don't mean the actual work, the actual
20 calculations, but just the document that you would
21 submit to the Nuclear Regulatory Commission is over
22 2,000 pages. And it takes months for their engineers to
23 go through that, ask their follow-up questions, request
24 additional information.

25 And, and so in regards to problems

1 encountered, obviously there's resource limitations for
2 the, for the federal authorities. Also, even though we
3 follow, follow the published NRC guideline called
4 regulatory -- or Review Standard 001, the NRC didn't
5 even accept previously approved methodology in some
6 cases and wanted additional analysis. Additional
7 analysis takes more time and costs more. And so those
8 have resulted in some delays for the license amendment
9 requests.

10 As we, as we are here today, I'm still
11 expecting the Turkey Point license amendment request to
12 be approved in advance of the outage, and for the St.
13 Lucie Unit 1 and Unit 2 to be approved first and second
14 quarter. And having said that, even with these
15 challenges, and we expected them, it's progressing very
16 well. And our experience with our affiliate company is
17 we received that license amendment request during that
18 outage and that EPU was successfully implemented on that
19 unit, which I'm also responsible for. So we have one of
20 the six reactors at EPU conditions as I sit here today.

21 **COMMISSIONER BROWN:** You answered my question.
22 Thank you.

23 **THE WITNESS:** Okay.

24 **CHAIRMAN GRAHAM:** Commissioner Balbis.

25 **COMMISSIONER BALBIS:** Thank you, Mr. Chairman.

1 And I have a couple of clarifications. If you
2 could provide those, that would be great. On page 9 of
3 your rebuttal testimony where there's discussion about
4 the contingency used, and it's FPL's May 2011
5 non-binding cost estimate. And that 18 to 30%
6 contingency, was that applied by FPL or by the vendors?

7 **THE WITNESS:** No. That, that's our analysis
8 of the to-go costs in the various cost centers for the
9 project.

10 **COMMISSIONER BALBIS:** So FPL then for a cost
11 center, which is mostly a vendor, you take the price
12 from the vendor or the estimate from the vendor and then
13 apply or add another line for the contingency for each
14 individual cost center, or you --

15 **THE WITNESS:** Yes.

16 **COMMISSIONER BALBIS:** Okay.

17 **THE WITNESS:** And some of those -- excuse me.
18 Some of those cost centers for the vendors are fixed
19 price, to which we would apply no contingency.

20 **COMMISSIONER BALBIS:** Okay. And in your
21 experience based on where the design engineering is
22 now -- and I think you answered this in your testimony,
23 but I'd like for you to answer again -- do you feel that
24 that level of contingency is appropriate, and are you
25 comfortable with the to-go cost estimates which again

1 are used with the feasibility analysis are accurate and
2 are you comfortable with those contingencies?

3 **THE WITNESS:** Yes. We work very hard and, and
4 do our due diligence, and our project controls people
5 are very experienced in that regard. And as I mentioned
6 yesterday, if you look year over year, I think we said
7 it yesterday, year over year from '09 to '10, we had a
8 change of 28%. If you look year over year from 2009 to
9 2011 the non-binding cost estimate changed by only 8%.
10 I'd like it to not change at all. But the reality is,
11 is that with 30% engineering to go, there's likely to be
12 some continued discovery, or in the construction
13 planning some continued discovery that will cause some
14 upward cost pressure.

15 But the, but the, but as you can see the
16 trend, the trend is from 28% to 8%, which is in the
17 right direction based on how, based on the progress of
18 the project.

19 **COMMISSIONER BALBIS:** Thank you. And one last
20 clarification. Your Exhibit TOJ-29, which is the, the
21 chart showing design engineering EC package
22 production -- you can let me know when you get to that
23 point.

24 **THE WITNESS:** You could read that?

25 **COMMISSIONER BALBIS:** Yes.

1 **THE WITNESS:** Okay.

2 **COMMISSIONER BALBIS:** And I just have a
3 question. If you can explain the difference between the
4 plan line and the actual complete and the difference
5 between the two.

6 Because at first glance, and, again, I
7 haven't, I didn't prepare this or study this in detail,
8 is that showing that the actual complete was in
9 accordance with what was planned?

10 **THE WITNESS:** This particular, this particular
11 matrix I took right out of the, our weekly project
12 report. And on the engineering for St. Lucie -- this,
13 this is for St. Lucie Unit 1, the upcoming outage. And
14 Bechtel was not where we wanted them per the original
15 plan, and so we required them to put together a recovery
16 plan. And that recovery plan is reflected by the black
17 line.

18 The blue line illustrates actual modification
19 projects that are at 90% complete. It means they're
20 just short of getting some comments reviewed and they'll
21 go to final. And the black line would represent what
22 I'll say is done, done, the actual recovery plan. And
23 the red is the actual, actual progress.

24 **COMMISSIONER BALBIS:** And I think I used the
25 word "line" and maybe I should have used "bar." But I'm

1 referring to the Bechtel scope dates for the black bar
2 being planned, and then the red bar being actual
3 complete. And those just seem to be matching exactly,
4 and if you could explain that. Because I would assume
5 that it would be difficult -- or you would like to have
6 the actual match the plan. Am I just reading that
7 incorrectly or --

8 **THE WITNESS:** Yes. The, the -- you are, you
9 are reading that complete as, as the red bar. The, the
10 bar, the vertical bar red is the actual complete and the
11 black would be the plan, and that's on a week-to-week
12 basis. And so you can see that there's some actual
13 complete. So you -- and if you look at the black line
14 and the red line, you do see there is some variability
15 week over week.

16 And now, as I mentioned earlier, Bechtel was
17 behind plan, so this was their adjusted recovery plan.
18 So I would expect them, for the volume of work they have
19 left for Unit 1, I would expect them to stay very close
20 to this, this recovery plan and not have much
21 variability. Over the course of the project though
22 there is greater variability.

23 **COMMISSIONER BALBIS:** Okay. Thank you.

24 **THE WITNESS:** Okay.

25 **CHAIRMAN GRAHAM:** Redirect.

1 **MR. ANDERSON:** FPL doesn't have any redirect.
2 But Commissioner Balbis had asked questions about costs
3 associated with management changes. Mr. Jones is the
4 person who worked with what's called the change
5 management plan, which the nuclear division does any
6 time there are reassignments. I just wanted to indicate
7 that in case that information was desired.

8 **COMMISSIONER BALBIS:** Well, thank you for
9 bringing that up. And I don't know if you heard the
10 question that I asked Mr. Olivera, but the transition
11 with the management team, and you being the new leader
12 of that team, what was the -- how did that transition
13 occur and how can the ratepayers be assured that there
14 were no additional FPL overhead costs associated with
15 that transition that the ratepayers would be paying for?

16 **THE WITNESS:** Yes. When we have a -- when we
17 make a change within our nuclear fleet, a significant
18 change, and it could be a personnel change, it could be
19 a process change, we have a change management procedure.
20 And that change management procedure, as you can
21 imagine, is you've got to identify all the stakeholders,
22 all the potential risk vulnerabilities, schedule costs
23 and things like that, and lay out a very rigorous
24 systematic plan on how to make the, the transition and
25 minimize any perturbations that could result from that.

1 And so we put together that change management plan
2 jointly.

3 This change was to take a major project's
4 organization that had EPU projects, non-EPU projects,
5 and nuclear fuels and create two separate departments.
6 And so we, so we put together that change management
7 plan, we involve multiple stakeholders, and work through
8 that change management plan systematically. I had to
9 cover that change management plan as well as Raj
10 Kundalkar with our senior executive for review and
11 approval, and that change management plan was provided
12 in discovery and the results.

13 As far the change itself, we -- as far as the
14 leadership, we only changed a couple of people. The
15 senior directors that were running the project remained
16 with, with the project. And so other than probably some
17 administrative cost that's typical with any kind of
18 organizational change and change in title and change in
19 procedures, there really is no significant cost
20 associated with that.

21 **COMMISSIONER BALBIS:** Okay. Thank you. That
22 answers my question.

23 **CHAIRMAN GRAHAM:** Any further redirect?

24 **MR. ANDERSON:** No, sir. We would just offer
25 the exhibits.

1 **CHAIRMAN GRAHAM:** That will be Exhibits 131,
2 132?

3 **MR. ANDERSON:** Yes, sir. That is correct.

4 **CHAIRMAN GRAHAM:** We'll enter those into the
5 record.

6 (Exhibits 131 and 132 admitted into evidence.)
7 Anything else for this witness?

8 **MR. ANDERSON:** No, sir. That would conclude
9 his testimony. We'd ask that he be excused for the
10 balance of the hearing.

11 **CHAIRMAN GRAHAM:** Is there any objection to
12 this witness being excused for the balance of the
13 hearing?

14 Seeing none, thank you, sir, for your
15 testimony today.

16 **THE WITNESS:** Thank you.

17 **MR. ANDERSON:** FPL would call as its next
18 witness Art Stall.

19 **J. ART STALL**
20 was called as a rebuttal witness on behalf of Florida
21 Power & Light Company and, having been duly sworn,
22 testified as follows:

23 **DIRECT EXAMINATION**

24 **BY MR. ROSS:**

25 Q Good afternoon, Mr. Stall.

1 A Good afternoon.

2 Q You were sworn yesterday; correct?

3 A Yes, I was.

4 Q Would you please reintroduce yourself to the
5 Commission?

6 A Good afternoon, Commissioners. Art Stall,
7 consultant to FPL.

8 Q Mr. Stall, have you prepared and caused to be
9 filed six pages of prefiled direct testimony in this
10 proceeding on -- I'm sorry.

11 A Yes, I have.

12 Q I'm on rebuttal. Let me strike that question,
13 please.

14 Have you prepared and caused to be filed nine
15 pages of prefiled rebuttal testimony in this proceeding
16 on July 25th, 2011?

17 A Yes, I have.

18 Q Do you have any changes or revisions to your
19 rebuttal testimony?

20 A No.

21 Q If I asked you the same questions contained in
22 your prefiled rebuttal testimony, would your answers be
23 the same?

24 A Yes.

25 **MR. ROSS:** Mr. Chairman, I'd ask that the

1 prefiled rebuttal testimony of Mr. Stall be inserted
2 into the record as though read.

3 **CHAIRMAN GRAHAM:** We will install -- excuse
4 me. We will add to the record Mr. Stall's prefiled
5 rebuttal testimony as though read today.

6 **MR. ROSS:** I would note that there are no
7 exhibits being sponsored by Mr. Stall.

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **REBUTTAL TESTIMONY OF ART STALL**

4 **DOCKET NO. 110009-EI**

5 **JULY 25, 2011**

6

7 **Q. Please state your name and business address.**

8 A. My name is J. A. (Art) Stall. My address is 1803 SW Foxpoint Trail, Palm
9 City, Florida 34990.

10 **Q. Have you previously testified in this docket?**

11 A. Yes. I filed direct testimony in this docket on March 1, 2011.

12 **Q. What is the purpose of your rebuttal testimony?**

13 A. The purpose of my rebuttal testimony is to address certain allegations by
14 Office of Public Counsel Witness William R. Jacobs regarding Florida Power
15 & Light Company's Extended Power Uprate (EPU) project.

16

17 **EXPEDITED APPROACH TO THE EPU PROJECT**

18

19 **Q. Can you describe FPL's approach toward executing the EPU project?**

20 A. Yes. Pursuant to the Commission's need determination in Docket No.
21 070602-EI, FPL is pursuing the EPU project on an expedited basis. This
22 means that in order to enter the EPU into service in an expedited manner, the

1 project was initiated in parallel with design, engineering, procurement and
2 construction efforts.

3 **Q. Are there benefits to customers by pursuing the EPU project in an**
4 **expedited manner?**

5 A. Yes. As I explained in my deposition in this docket on June 1, 2011, in this
6 case, the benefits to customers of putting in service additional low cost, zero
7 emissions, baseload capacity of over 450 MWe in a five-year time frame, and
8 the cost savings to customers in completing the project in five years warranted
9 an expedited approach.

10 **Q. How long would the EPU project have taken if FPL had pursued project**
11 **execution only after engineering, procurement, and construction plans**
12 **had been completed?**

13 A. The project would have taken six additional years to complete. The economic
14 impacts of such delay are discussed in the rebuttal testimony of FPL Witness
15 Dr. Sim.

16 **Q. Can you comment on Witness Jacobs's assertion that FPL's expedited**
17 **approach toward the EPU project is imprudent?**

18 A. Witness Jacobs's testimony is nothing more than "Monday morning
19 quarterbacking" previous decisions made by FPL and by the Florida Public
20 Service Commission and should be disregarded. FPL was very clear with the
21 Commission in its 2007 filing seeking approval of the EPU Project as to the
22 approach to the project and the schedule to complete the project in the 2012
23 timeframe, and that FPL would not have pursued the project in such an

1 expedited manner absent the cost recovery mechanism in the Florida Statutes
2 and in the Commission's rules. In the Company's Petition filed in Docket No.
3 070602-EI on September 17, 2007, the Company stated (at page 5) that
4 "[a]bsent the increased regulatory certainty and cost recovery provisions that
5 have been provided by the Florida Legislature and Commission, FPL would
6 not be encouraged to undertake such capital-intensive nuclear uprates on such
7 an expedited basis." FPL's position was also clearly stated in the testimony of
8 its' witnesses supporting the petition. FPL Witness Stephen T. Hale stated in
9 his testimony (page 4) that FPL was required to "commence equipment orders
10 now in order to complete the necessary work on schedule. Thus, there is a
11 limited window of opportunity to obtain the full benefits of the PTN and PSL
12 Uprates."

13
14 FPL Witness Kim Ousdahl stated in her testimony (page 3):

15 The Commission's confirmation of the application of the [nuclear cost
16 recovery] Statute and the [nuclear cost recovery] Rule plays an
17 essential role in FPL's decision to pursue the development of more
18 than 400 MW of cost-effective, non-greenhouse gas emitting nuclear
19 generation in a time frame where it may not otherwise occur. The
20 Commission's timely ongoing review and determination of the
21 prudence of FPL's nuclear uprate expenditures, as well as the interim
22 cost recovery and base rate adjustment provisions contained in the
23 Statute and the Rule, provide an appropriate regulatory framework

1 within which FPL is encouraged to undertake this significant and
2 beneficial investment at the earliest feasible point in time. Absent the
3 enhanced regulatory certainty and more predictable cost recovery
4 provided for nuclear plant investment by the Florida Legislature and
5 the Commission, FPL would not be encouraged to undertake this
6 capital-intensive nuclear investment on an expedited basis.

7
8 Witness Jacobs's testimony is an attack on the Commission's need
9 determination, which considered and approved FPL's proposed project plan
10 and expedited project schedule, more than three years after that decision was
11 issued. This attack should be rejected.

12 **Q. Can you comment on Witness Jacobs's testimony regarding the "lessons
13 learned" discussed in FPL's internal documents?**

14 A. Yes. Witness Jacobs criticizes FPL for its findings regarding lessons learned
15 from its pursuit of the EPU project as candidly presented to FPL's senior
16 management. FPL is a learning and self-improving organization and
17 consistently seeks to improve its performance. Nowhere is there a culture
18 more dedicated to self-improvement than in the nuclear power industry. The
19 mere fact that FPL is self-critical and identifies areas for improvement in its
20 business practices does not mean that FPL was imprudent.

21 **Q. Can you address Witness Jacobs's assertion that the EPU project did not
22 start out as an expedited project?**

1 A. Yes. His incorrect assertion is based on a misreading of a single passage from
2 Raj Kundalkar's deposition. I was FPL's Chief Nuclear Officer at the time
3 that FPL filed its petition with the Commission for a determination of need for
4 the EPU project. As I explained in my deposition in this docket on June 1,
5 2011, FPL had previous preliminary engineering information regarding the
6 feasibility of uprating the St. Lucie and Turkey Point nuclear units suggesting
7 that the project may be feasible and cost-effective to perform but had no plans
8 to execute that project until the Commission denied FPL's petition for a
9 determination of need for the Glades coal project in 2007. At that point I was
10 directed by senior company management to pursue the EPU project as quickly
11 as reasonably possible. There was never any plan to pursue the EPU project
12 in a sequential manner.

13 **Q. Has FPL successfully executed other expedited projects in its nuclear**
14 **operations?**

15 A. Yes. During my tenure with FPL, FPL has implemented projects on an
16 expedited basis for a variety of reasons. Sometimes projects are executed on
17 an expedited basis because of new or changing regulatory requirements.
18 Examples of such projects are a number of security upgrades ordered by the
19 NRC after the terrorist attacks of September 11, 2001. Also, the Company
20 successfully executed replacement of the reactor vessel heads at all four
21 Florida nuclear units; replacement of the steam generators at St. Lucie Unit 1
22 in 1997 and St. Lucie Unit 2 in 2007, and replacement of the St. Lucie Unit 1
23 pressurizer in 2005. All of these large capital projects were executed on an

1 expedited basis, meaning that project management steps of design,
2 engineering, procurement and construction were performed in parallel, and
3 were successfully completed. FPL and its customers enjoyed a substantial
4 cost savings because FPL placed orders for the replacement components for
5 these projects on an expedited basis prior to substantial cost increases for
6 materials and prior to the extension of delivery times resulting from increased
7 demand for these materials.

8 **SEPTEMBER 2009 NCRC HEARING TESTIMONY**

9

10 **Q. Do you agree with Witness Jacobs testimony that FPL should have**
11 **revised its testimony to reflect a different EPU project cost estimate in**
12 **September 2009?**

13 A. No. I do not believe that the testimony provided to this Commission was
14 inaccurate or that it was necessary or appropriate to update that testimony
15 based on some preliminary cost figures provided to FPL from its EPC vendor
16 that were not credible.

17 **Q. Please explain why you think it would not have been appropriate to revise**
18 **the EPU testimony on this point.**

19 A. As documented in my direct testimony, in the direct testimony of FPL
20 Witness Terry Jones, in the direct testimony of Armando Olivera, and as
21 explained by Raj Kundalkar in his deposition, major factors affecting the EPU
22 total project cost estimate were in a state of flux in 2009. FPL had received
23 preliminary cost estimates from its Engineering, Procurement, and

1 Construction (EPC) vendor that were not acceptable to EPU management.
2 Senior FPL management directed the EPU project to conduct significant
3 challenging, vetting, project scope refinement, and the consideration of
4 alternatives to FPL's EPC vendor. Witness Jacobs's assertion, based on a
5 very selective reading of certain documents and testimony, that these efforts
6 had been completed by the time of the September 2009 hearing is wrong. As I
7 explained in detail in my deposition in this docket on June 1, 2011, in
8 February 2009 the Company had significant concerns regarding Bechtel's
9 EPU cost estimates. FPL directed its project controls group to exert pressure
10 on Bechtel to reduce its estimates. Over the succeeding months, FPL had
11 made no progress with Bechtel, and as a result Bechtel executives were
12 directed to attend a meeting at FPL's headquarters in July 2009. Only then
13 did Bechtel reduce its estimates, which gave FPL management the impression
14 that more progress could be made with Bechtel. Further, two former Bechtel
15 employees who worked for FPL advised, based on their prior work
16 experience, that continued pressure on Bechtel could bear fruit in lower
17 project costs. Additionally, the September 2009 Executive Steering
18 Committee presentation demonstrates that there was only ten percent certainty
19 around implementation costs. Witness Jacobs completely ignores these facts
20 in his speculative testimony.

21 **Q. Is Witness Jacobs correct that disclosure of the information to the**
22 **Commission would have no effect on negotiations with Bechtel and FPL's**
23 **attempts to control costs?**

1 A. No. If Bechtel's estimates were disclosed at the September 2009 hearings, it
2 would have impeded FPL's negotiations. Reporting Bechtel's estimates
3 would have been seen as tacit approval of them or, at a minimum, an
4 indication that FPL considered the estimates to have some validity. Those
5 estimates would have likely become a self-fulfilling prophecy, which would
6 not have been in the best interests of FPL's customers.

7 **Q. Witness Jacobs claims on page 35 of his testimony that efforts to reduce**
8 **scope and "push back" against the EPC vendor were already reflected in**
9 **the July 25, 2009 forecast that was presented to the ESC. Is he correct?**

10 A. No. The July 25, 2009 numbers only reflected Bechtel's initial response to
11 FPL's efforts to "push back" on its estimates. As I explained in my response
12 to the Concentric Report, Bechtel's initial response was unacceptable to FPL
13 senior management, and provided a strong indication that further cost
14 reductions were possible. The July 25, 2009 estimates therefore only reflected
15 the very beginning of the effort that was undertaken over the next several
16 months to challenge the future cost projections.

17 **Q. Witness Jacobs's testimony implies that FPL has been less than**
18 **forthcoming with the Commission. Please respond.**

19 A. I take serious issue with any implication that FPL has been less than
20 forthcoming. In my experience, I have never worked on a nuclear project that
21 affords such transparency into the decision making, costs, risks, and progress
22 of a project. In addition to the annual testimony and exhibits that are required
23 on a year-round basis, FPL fully responds to discovery from intervenors,

1 including OPC, responds to data requests from Staff Auditors, and hosts visits
2 and meetings with Audit Staff and other interested parties.

3 **Q. Does this conclude your rebuttal testimony?**

4 **A. Yes.**

1 BY MR. ROSS:

2 Q Mr. Stall, would you please provide a summary
3 of your testimony to the Commission.

4 A Good afternoon, Commissioners.

5 FPL's pursuit of the extended power uprate
6 project on an expedited basis will produce significant
7 benefits for the customers.

8 The company explained to the Commission in the
9 2007 need determination petition that the benefits to
10 customers of placing into service additional low cost,
11 zero emissions baseload capacity in a five-year time
12 frame warranted an expedited approach. The Commission
13 agreed with FPL's proposal, and the company relied upon
14 the need determination in pursuing this project on an
15 expedited basis.

16 I was personally involved in the 2007 decision
17 to pursue the EPU project. I can assure you at no point
18 did the company have a plan to pursue the EPU project in
19 a sequential manner. The company had previously
20 developed preliminary information regarding the
21 feasibility of uprating the St. Lucie and Turkey Point
22 nuclear plants in a cost-effective manner, but had no
23 plans to pursue that project until the Commission denied
24 FPL's petition for a determination of need for the
25 Glades coal project in 2007.

1 The testimony provided to this Commission in
2 September 2009 on the EPU cost estimate was complete and
3 accurate. It was not appropriate to update that
4 testimony based upon some preliminary cost figures and
5 management discussions provided to FPL from its
6 engineering, procurement and construction vendor that
7 simply were not credible.

8 In July of 2009, executive FPL management
9 directed the EPU project to conduct a significant,
10 challenging vetting project scope refinement and even
11 consider alternatives to FPL's primary EPC vendor.
12 These efforts had not been completed by the time of the
13 September 2009 hearing. The July 25th, 2009, estimates
14 reflected the beginning and not the end of the effort
15 undertaken to challenge future cost projections.

16 If Bechtel's cost estimates were disclosed at
17 the September of 2009 hearings, this would have been
18 seen as tacit approval of them or an indication that FPL
19 considered the estimates to have some merit or validity.
20 From a negotiating standpoint, this would not have been
21 in the best interest of our customers.

22 In my 30-year career in the nuclear industry
23 this project is as transparent and open decision-making
24 for review as any project that I've ever been involved
25 with at the company or in my career elsewhere.

1 The company annually responds to an extensive
2 discovery from Intervenors, data requests from Staff
3 auditors, and hosts visits and meetings with the audit
4 Staff and other interested parties. This concludes my
5 summary.

6 **MR. ROSS:** Mr. Chairman, Mr. Stall is
7 available for cross-examination.

8 **CHAIRMAN GRAHAM:** Thank you.

9 Intervenors.

10 **MR. McGLOTHLIN:** OPC has no questions.

11 **MR. WHITLOCK:** SACE has no questions,
12 Mr. Chairman.

13 **MS. KAUFMAN:** I just have one question.

14 **CROSS EXAMINATION**

15 **BY MS. KAUFMAN:**

16 **Q** Good afternoon, Mr. Stall.

17 **A** Good afternoon.

18 **Q** You mention in your remarks and you mention in
19 your summary that if the Bechtel estimates had been
20 disclosed at the September hearing, that that might have
21 impeded your negotiations with Bechtel; correct?

22 **A** Yes, ma'am.

23 **Q** Are you aware that the Commission has policies
24 in place to keep information confidential?

25 **A** I am aware of that.

1 Q And so if that, that procedure had been
2 followed in regard to the estimates, there would have
3 been no issue with Bechtel having received the
4 information.

5 A That's correct. Provided all of that could
6 have been maintained confidential, we would have still
7 been in a good negotiating position with Bechtel.

8 Q And are you aware that FPL has filed in this
9 very docket many requests for confidentiality?

10 A I only am aware of my specific portions of it,
11 so I accept at face value what you would say there.

12 Q And, to your knowledge, there hasn't been any
13 issue with anyone revealing confidential information,
14 has there?

15 A No.

16 **MS. KAUFMAN:** Thank you.

17 **MS. WHITE:** No questions.

18 **CHAIRMAN GRAHAM:** Staff?

19 **MS. NORRIS:** No questions.

20 **CHAIRMAN GRAHAM:** Commission board?

21 Commissioner Brown.

22 **COMMISSIONER BROWN:** Thank you, Mr. Chairman.

23 Mr. Stall, as Chief Nuclear Officer of FPL
24 from 2001 to 2009 maybe you can help answer my question
25 a little, even if it's in general terms.

1 What problems has the company encountered with
2 regard to reg -- with regulatory authorities for Turkey
3 Point 6 and 7?

4 **THE WITNESS:** Well, I can, I can only speak in
5 generalities with regard to the entire licensing process
6 that's going on in this country. There have been
7 several issues that have been raised, very technical
8 issues, with the licensing specifics and the design
9 criteria of some of the new reactor designs that are
10 being proposed by various utilities across the country,
11 and some of those technical issues have caused delays in
12 the NRC's internal approval process for those designs.
13 So to the extent that various utilities have specific
14 timetables laid out for the licensing, design, and
15 construction of new nuclear units across this country,
16 any delays that happen at the federal level with the
17 Nuclear Regulatory Commission would necessarily
18 translate themselves through to delays and changes to
19 the schedule that, internally that utilities would have.

20 **COMMISSIONER BROWN:** And in your 30-year
21 career, do you think that these delays, this is unduly
22 burdensome or unusual?

23 **THE WITNESS:** They're not unusual. They can
24 be unduly burdensome. I mean, a lot of --

25 **COMMISSIONER BROWN:** Pardon me. My focus is

1 really on unusual.

2 **THE WITNESS:** It's, it's not unusual. It's
3 customary almost in, in this industry. As new
4 information develops or as a new technical issue
5 surfaces and those issues are resolved, they translate
6 themselves quite often into new rules and regulations,
7 which can impact not only daily operations, but projects
8 such as new construction of plants or even these EPU
9 projects.

10 **COMMISSIONER BROWN:** Thank you.

11 **CHAIRMAN GRAHAM:** Redirect.

12 **MR. ROSS:** No redirect, Mr. Chairman. We'd
13 request that Mr. Stall be excused.

14 **CHAIRMAN GRAHAM:** Do we have nothing to add
15 into the record, no exhibits?

16 **MR. ROSS:** No exhibits, sir.

17 **CHAIRMAN GRAHAM:** Any objections to excusing
18 this witness?

19 **MR. YOUNG:** No objection.

20 **CHAIRMAN GRAHAM:** Seeing none, Mr. Stall,
21 thank you today for your testimony.

22 **THE WITNESS:** Thank you.

23 **MR. ANDERSON:** FPL would call as its next
24 witness Dr. Steve Sim. This is our final rebuttal
25 witness.

1 And while Dr. Sim gets seated, just for
2 information, Commissioner Balbis asked about the change
3 management plan. That document is available, if
4 desired. It was produced in response to OPC POD,
5 production of documents, 5th set, Number 50. Its Bate
6 stamp is Number 24250 to 25323. And if desired, that,
7 of course, could be made part of the record. I just
8 make that, make that offer. We have no independent need
9 or desire for that for the record, but we're happy to
10 accommodate such request if the Commission desires.

11 **CHAIRMAN GRAHAM:** Commissioner Balbis.

12 **COMMISSIONER BALBIS:** Thank you, Mr. Chairman.
13 One of the concerns that I have is that when I asked
14 Staff whether or not they reviewed specifically FPL's
15 overhead costs associated with the change in management
16 and they had indicated they had not. So maybe I'd look
17 to Staff to advise as to, as far as entering this
18 document into the record or not, is now the only time
19 that could happen or is that something that I could make
20 the decision -- or we can make the decision later?

21 **MR. YOUNG:** I think if you're going to rely on
22 it for, in terms of any decisions you make during the
23 recommendation, it needs to be entered into the record
24 because you can only rely on the record as you make your
25 decision.

1 **COMMISSIONER BALBIS:** So with that, I would
2 request that it's entered into the record.

3 **CHAIRMAN GRAHAM:** Is there any objections?
4 Seeing none, we'll give this ID Number 201, I believe.

5 **MR. ANDERSON:** Yes, sir, that would be
6 correct.

7 **CHAIRMAN GRAHAM:** And we will show that being
8 entered into the record.

9 **MR. ANDERSON:** We will take care of the
10 administrative task of reproduction and production of
11 the document to the parties. We've noted that it's been
12 accepted and admitted into the record. Thank you.

13 **MR. YOUNG:** I think we also need a title, and
14 if -- I'm sure FPL can prepare a cover sheet and then we
15 can mark it for identification purposes and deal with it
16 as we move it into the record at that time, at the
17 appropriate time.

18 **CHAIRMAN GRAHAM:** I'm sure that you're sure.
19 Yes.

20 **MR. ANDERSON:** We'll just call it Change
21 Management Plan, Exhibit 201.

22 (Exhibit 201 marked for identification and
23 admitted into evidence.)

24 **MS. CANO:** May I proceed?

25 **MR. YOUNG:** I think -- and if I'm correct,

1 Mr. Chairman, you moved that into the record.

2 CHAIRMAN GRAHAM: Yes, I did.

3 MR. YOUNG: Okay.

4 MR. ANDERSON: That's why, just for
5 clarification, we're noting it in the record for later
6 distribution with the appropriate cover sheet so we
7 don't hold the record open with our last witness.

8 MR. YOUNG: Exactly.

9 CHAIRMAN GRAHAM: That's correct. Now you can
10 go.

11 MS. CANO: Okay.

12 STEVEN R. SIM

13 was called as a rebuttal witness on behalf of Florida
14 Power & Light Company and, having been duly sworn,
15 testified as follows:

16 DIRECT EXAMINATION

17 BY MS. CANO:

18 Q Good afternoon, Dr. Sim.

19 A Good afternoon.

20 Q You were sworn yesterday; correct?

21 A Yes.

22 Q Would you please provide again your name,
23 business address and employment for the record?

24 A My name is Steven Sim. My business address is
25 9250 West Flagler Street, Miami, Florida. I work for

1 Florida Power & Light as a Senior Manager in the
2 Integrated, Integrated Resource Planning.

3 Q Thank you. Did you prepare and cause to be
4 filed 33 pages of prefiled rebuttal testimony in this
5 docket on July 25th, 2011?

6 A Yes, I did.

7 Q And did you also cause to be filed errata to
8 that rebuttal testimony on August 4th, 2011?

9 A Errata to the rebuttal testimony?

10 Q Yes.

11 A Yes, I did. Excuse me. Memory lapse here.

12 Q Do you have any other changes or revisions to
13 make to your rebuttal?

14 A No.

15 Q If I were to ask you the same questions
16 contained in your prefiled rebuttal, would your answers
17 be the same?

18 A Yes, they would.

19 MS. CANO: Mr. Chairman, I would ask that the
20 prefiled rebuttal testimony of Dr. Sim be entered into
21 the record as though read.

22 CHAIRMAN GRAHAM: We will enter into the
23 record as though read Dr. Sim's previously given
24 rebuttal.

25 MS. CANO: Thank you.

1 BY MS. CANO:

2 Q Did you also sponsor exhibits to your
3 testimony?

4 A Yes.

5 Q And did those consist of SRS-13 and SRS-14?

6 A That's correct.

7 MS. CANO: I would note that these have been
8 premarked for identification on Staff's list as Exhibits
9 133 and 134.

10 CHAIRMAN GRAHAM: So noted.

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Replace Supplement to Exhibit SRS-9
with Revised Supplement to Exhibit SRS-9

All graphed values for both resource plans
have changed (increased).

Replace Supplement to Exhibit SRS-11
with Revised Supplement to Exhibit SRS-11

All values in columns 3, 4, 5, and 6 have
changed. Values for resource plan costs in
columns 3 and 4 have decreased. Values for
differences in resource plan costs in column
5, and breakeven costs in column 6, have
changed little

REBUTTAL TESTIMONY OF STEVEN R. SIM, JULY 25, 2011

<u>PAGE#</u>	<u>LINE #</u>	
Page 4	18	Change "provided by" to "of which" and insert "was a part of" after "Jacobs"
Page 5	18	Insert ". This suggestion" after "inappropriate"
Page 14	23	Insert "Project" after "6 & 7"
Page 24	4	Change "\$139" to "\$141"

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **REBUTTAL TESTIMONY OF DR. STEVEN R. SIM**

4 **DOCKET NO. 110009 - EI**

5 **JULY 25, 2011**

6
7 **Q. Please state your name and business address.**

8 A. My name is Steven R. Sim and my business address is Florida Power & Light
9 Company, 9250 West Flagler Street, Miami, Florida 33174.

10 **Q. Have you previously submitted direct testimony in this proceeding?**

11 A. Yes.

12 **Q. Are you sponsoring any rebuttal exhibits in this case?**

13 A. Yes. I am sponsoring the following two exhibits that are attached to my
14 rebuttal testimony:

15 Exhibit SRS – 13: Transcript of Dr. Jacobs' Panel Testimony.

16 Exhibit SRS – 14: Comparison of 2009 Feasibility Analysis Results and
17 Sensitivity Analysis Results.

18 **Q. What is the purpose of your rebuttal testimony?**

19 A. The purpose of my rebuttal testimony is to explain why a number of
20 statements and recommendations made by Office of Public Counsel (OPC)
21 Witnesses Jacobs and Smith who have filed testimony in this docket are not
22 appropriate and should be disregarded by the Florida Public Service
23 Commission (FPSC). My rebuttal testimony will focus on aspects of their
24 testimonies that relate to FPL's 2011 feasibility analyses and to resource

1 planning issues. Because both of these witnesses are from the same company
2 (GDS), and appear to have virtually identical views, I will use the convention
3 of referring to their testimonies as “GDS testimony”. However, when
4 discussing a specific statement, I will identify the witness who provided that
5 statement.

6 **Q. What is your overall reaction to the GDS testimony?**

7 A. My first reaction is that now, in the 2011 NCRC docket, which represents a
8 very late point in the overall timeline of the EPU project, OPC, through the
9 GDS testimony, is attempting to introduce a new set of “rules” by which the
10 EPU project should now be judged, not only on a prospective basis, but
11 retrospectively as well. Using the analogy of an athletic contest, this strikes
12 me as not only attempting to change the rules after play has begun, but to
13 attempt to do so after play has begun in the 4th quarter of the contest. Such an
14 attempt is highly questionable.

15
16 Second, FPL’s expedited approach for the EPU project was fully disclosed in
17 the 2007 Need filing and has been openly discussed in each NCRC docket
18 since that Need filing. OPC has been a party to all of those dockets.
19 Furthermore, although the GDS testimony now criticizes the expedited
20 approach FPL has openly taken since the project’s inception in 2007, the GDS
21 testimony is not quite clear as to what other approach or path they believe FPL
22 should have taken starting in 2007. Putting aside the fact that OPC never
23 raised any of these concerns when the project and its timelines were being

1 discussed and decided in 2007 and 2008, the only other options (of either a
2 longer/slower schedule or not doing the project at all) would have resulted in
3 very poor results for FPL's customers.
4

5 Delaying the project by proceeding on a slower schedule would have
6 guaranteed that: (i) fuel costs for FPL's customers would have been at least
7 \$840 million higher based on current assumptions, and (ii) the cost-
8 effectiveness of the EPU project would have been significantly reduced due to
9 these lost fuel savings. Not undertaking the EPU project at all would have
10 meant proceeding with building more gas-fired new units. This path would
11 have resulted in FPL's customers not receiving the many benefits of the EPU
12 project that were the basis of the original decision by the FPSC for FPL to
13 proceed with the EPU project. In addition to significant projected economic
14 savings, the benefits of the EPU project include: (i) greater fuel diversity for
15 the FPL system, (ii) emission-free energy that would be delivered at very high
16 (90%) capacity factors, (iii) a hedge against unexpected cost increases in,
17 and/or unavailability of, fossil fuels, (iv) a hedge against new or unexpected
18 environmental regulations that affect fossil fuel-fired generation sources, (v)
19 generation and delivery of baseload capacity and energy at a location (Turkey
20 Point primarily) that will improve the overall efficiency in FPL's transmission
21 system, and (vi) generation and delivery of baseload capacity and energy at a
22 location (Turkey Point) that will help maintain a balance between growing
23 load and generation in Southeastern Florida.

1 Third, the new ill-advised “rules” recommended by the GDS testimony
2 should be rejected because they (i) ignore well established and widely
3 accepted economic principles, (ii) require an arbitrary selection of a single
4 “standard” rather than continuing to rely on a very wide range of information
5 regarding potential future outcomes for the EPU project, and (iii) install a
6 “moving target” by changing the “standard” each year.

7
8 Fourth, I disagree with the GDS testimony that FPL should not have excluded
9 sunk costs in its 2011 feasibility analyses of the EPU project. This
10 recommendation: (i) ignores the plain language of the FPSC’s Nuclear Cost
11 Recovery Rule and the specific guidance provided by the FPSC regarding the
12 treatment of sunk costs; (ii) seeks to turn the well established and widely
13 accepted economic principle of excluding sunk costs in economic analyses on
14 its head by advocating that this principle now be “conditional”, based on a
15 characteristic of the project being analyzed, which goes against common sense
16 and would unnecessarily introduce arbitrariness into economic analysis; and
17 (iii) is inconsistent with panel testimony provided by Witness Jacobs in a
18 recent Georgia Public Service Commission nuclear docket. Therefore, the
19 GDS testimony recommendation that the FPSC suddenly change the way in
20 which economic analyses of resource options have consistently and
21 successfully been performed in Florida for decades does not warrant serious
22 consideration. This topic is discussed below in section I of my rebuttal
23 testimony.

1 Fifth, the GDS recommendation that FPL begin using the same breakeven cost
2 analysis approach used for evaluating the Turkey Point 6 & 7 project, and to
3 then apply the results from this approach in the manner recommended in the
4 GDS testimony, should be rejected because it would result in the arbitrary
5 selection of a single value each year from this analysis to use as a standard for
6 judging future EPU project costs, despite the fact that this arbitrarily selected
7 value allows only a very narrow perspective to be taken and the arbitrarily
8 selected value will change from year to year. This approach would
9 improperly introduce both arbitrariness and confusion into the NCRC dockets.
10 This topic is discussed below in section II of my rebuttal testimony.

11
12 Sixth, from a resource planning perspective I discuss and challenge several
13 points raised in the GDS testimony in section III of my rebuttal testimony.
14 Among these is the GDS testimony suggestion that the expedited approach of
15 the EPU project was inappropriate ignores significant advantages that will be
16 realized by FPL's customers from the expedited approach.

17
18 Another such point is the GDS testimony implication that the July 2009
19 sensitivity analyses performed by FPL were something unusual, as well as the
20 GDS testimony's contention that FPL should have informed the FPSC of the
21 "*...material changes in...feasibility...*" (Witness Jacobs, page 39, lines 17 and
22 18) are also discussed in section III of my testimony. This particular
23 sensitivity analysis is merely one of many such sensitivity analyses FPL

1 performs each year in regard to various types of resource options. Therefore,
2 the fact that a sensitivity analysis was performed is not noteworthy.
3 Furthermore, the results of this sensitivity analysis are entirely consistent with
4 prior and then-current EPU feasibility analyses results. Therefore, the results
5 of the July 2009 sensitivity analyses did not represent a '*material change*' in
6 the projected feasibility of the project.

7
8 Yet another point is the inherent implication in the GDS testimony that FPL's
9 analytical approach to evaluating the feasibility of the EPU project may be
10 designed to artificially enhance the projected cost-effectiveness. However,
11 exactly the opposite is true. For example, FPL's feasibility analyses have
12 deliberately not accounted for additional benefits of the EPU project that are
13 real, but difficult to accurately quantify at this time, or for potential benefits
14 which are speculative at this time. FPL's feasibility analyses of the EPU
15 project do not currently account for two benefits that are certain to result from
16 the EPU project: (i) reduced transmission losses due to increased baseload
17 capacity and energy, particularly from the Turkey Point site, close to FPL's
18 load center, and (ii) assistance from additional baseload capacity and energy at
19 the Turkey Point site in addressing the ongoing issue of an imbalance between
20 growing load and generation in the Southeastern Florida region (i.e., in
21 Miami-Dade and Broward counties).

22

1 I believe that the FPSC and FPL's customers have been well served by the
2 economic analysis approach that FPL has been utilizing since the 2007 Need
3 filing for the EPU project. This analytical approach is straightforward, logical,
4 and utilizes well established and widely accepted economic principles.
5

6 **I. The Issue of Sunk Costs**
7

8 **Q. Please summarize the recommendation regarding sunk costs that is made**
9 **in the GDS testimony.**

10 A. The recommendation that is made in the GDS testimony regarding sunk costs
11 is that it is inappropriate to remove sunk costs in FPL's annual feasibility
12 analyses of the EPU project. The GDS testimony asserts that the well
13 established economic principle of excluding sunk costs when evaluating
14 whether to proceed with a project should be ignored if a certain "condition"
15 exists for the project. Specifically, this principle should be ignored if the costs
16 for the project increase over time.

17 **Q. Do you agree with the GDS testimony that this established economic**
18 **principle should be changed and now be made conditional?**

19 A. No. The GDS recommendation is inconsistent with both the Nuclear Cost
20 Recovery Rule and specific guidance provided by the FPSC on the treatment
21 of sunk costs, in addition to being illogical.
22

1 Rule 25-6.0423(5)(c)5 states that by May 1 of each year, the utility shall
2 submit an analysis of the long-term feasibility of **completing** the power plant.
3 This is a requirement to examine whether to proceed with the project, in light
4 of remaining costs, precisely as FPL has done. The FPSC has also provided
5 specific guidance regarding the requirements of the long-term feasibility
6 analyses for purposes of complying with this Rule. The FPSC stated in Order
7 No. PSC-08-0237-FOF-EI, on page 29, as follows:

8
9 “FPL shall provide a long-term feasibility analysis as part of its annual
10 cost recovery process which, in this case, shall also include updated
11 fuel costs, environmental forecasts, break-even costs, and capital cost
12 estimates. In addition, FPL should account for sunk costs.”

13
14 This guidance from the FPSC clearly distinguishes “sunk costs” from
15 “updated capital cost estimates” in regard to feasibility analyses.
16 Consequently, FPL has effectively separated sunk costs from its updated
17 capital cost estimates, resulting in the use of the relevant portion of the
18 updated capital cost estimate (i.e., the “going forward” portion of the capital
19 costs) in its feasibility analysis. While FPL’s approach to sunk costs complies
20 with the Rule and follows the guidance provided by the FPSC, the GDS
21 testimony recommendation to not exclude sunk costs is a recommendation to
22 violate the Rule and the FPSC’s order regarding this issue.

23 **Q. Please explain why the GDS recommendation is illogical.**

1 A. The economic principle that sunk costs should not be included when
2 evaluating whether to proceed with a project is not contingent upon a certain
3 condition such as whether costs of a project are changing. Nor should the
4 economic principle now be warped into being contingent upon such a
5 condition.

6
7 A simple analogy or example should help demonstrate this. Let's assume that
8 a couple is faced with a decision of whether to remodel their home or
9 purchase a new home. Let's also assume that the couple will be equally
10 satisfied with both alternatives so the sole decision criterion is cost.

11
12 At the start of the process, the couple obtains estimates of the costs for the two
13 options. The remodeling option initially had an estimated (i.e., non-binding)
14 cost of \$300,000 and the new home option had a projected cost of \$500,000.
15 The couple chooses the remodeling option. Skipping ahead to a point in time
16 when a significant portion of the remodeling work has now been completed,
17 the couple is informed that \$200,000 has already been spent on the
18 remodeling effort, and they receive an updated projection of costs to complete
19 the project.

20 At this point we will take a look at two different, updated cost-to-complete
21 projection scenarios which the couple might receive in order to see how the
22 couple should respond. In Scenario 1, we assume that the cost-to-complete is
23 now projected to be an additional \$250,000. Therefore, the total cost of the

1 entire remodeling project is now projected to be \$450,000 (= \$200,000 of
2 costs already spent, or sunk costs, + \$250,000 to complete the project). The
3 couple once again considers its two options: complete the remodeling, or stop
4 the remodeling work and buy a new house (which we will assume still costs
5 \$500,000). If our couple is thinking rationally from an economic perspective,
6 it understands that its true cost options are: (i) spend \$250,000 to complete the
7 remodeling, or (ii) spend \$500,000 for a new home. The \$200,000 that has
8 already been spent (i.e., sunk costs) has no bearing from an economic decision
9 making perspective on the choice the couple now faces. The couple chooses
10 to continue the remodeling because it is clearly the economic choice.

11
12 In Scenario 2, we assume that the cost-to-complete is projected to be
13 \$350,000. Therefore, the total cost of the entire remodeling project is now
14 projected to be \$550,000 (= \$200,000 in sunk costs + \$350,000 to complete
15 the project). The total cost of the remodeling project is now projected to be
16 higher than the \$500,000 cost of buying a new home. The couple will again
17 consider its two options: complete the remodeling or stop the remodeling
18 work and buy a new house (which still costs \$500,000). If our couple is still
19 thinking rationally from an economic perspective, it understands that its cost
20 options are: (i) spend \$350,000 to complete the remodeling, or (ii) spend
21 \$500,000 to purchase a new home. The \$200,000 that has already been spent
22 (i.e., sunk costs) again has no bearing from an economic decision making

1 perspective on the choice it now faces. The couple chooses to continue the
2 remodeling because it is clearly the economic choice.

3

4 Under either scenario, the couple has made the economically sound choice by
5 ignoring sunk costs and selecting the option that results in the lowest going
6 forward costs. If the couple ignored the economic principle of sunk costs,
7 they could end up much worse off by spending a total of \$700,000 (=\$200,000
8 of remodeling costs already incurred + \$500,000 for a new home purchase).

9 **Q. What conclusion do you draw from this example?**

10 A. It is clear that there should be no “conditional” corollary attached to the well
11 established economic principle of excluding costs already spent when
12 evaluating the economics of proceeding with a project, even when the
13 projected costs of the project are increasing. To do otherwise fails the basic
14 test of common sense. However, the GDS testimony calls for just such a
15 corollary to be attached to this sound economic principle.

16 **Q. Does the fact that we are examining the costs of the EPU project in a**
17 **regulated utility environment suggest that there should somehow be a**
18 **change in this economic principle?**

19 A. No. However, Witness Smith attempts to make this case in his testimony at
20 page 4, lines 9-18 of his testimony.

21 **Q. In this testimony, Witness Smith seems to believe that it is important in a**
22 **“going forward” analysis to know if a past cost has been allowed or**
23 **disallowed for cost recovery. Do you share this belief?**

1 A. No. If a past cost for the EPU project is deemed prudent, and is allowed to be
2 recovered from FPL's customers, that cost will be recovered in both the
3 Resource Plan with EPU and the Resource Plan without EPU. However, if a
4 past cost for the EPU project is not deemed prudent, and is not allowed to be
5 recovered from FPL's customers, that cost will not be recovered in either the
6 Resource Plan with EPU or the Resource Plan without EPU. From a going
7 forward economic analysis perspective, the past cost can be properly excluded
8 from the analysis for both resource plans in either case.

9 **Q. Are there any other aspects of the GDS testimony regarding the issue of**
10 **sunk costs that you would care to comment on?**

11 A. Yes. I was surprised by the fact that Witness Jacobs's statement that sunk
12 costs should be thought of as somehow conditional is not consistent with
13 recent testimony he was a part of. In Docket No. 29849, the Georgia Public
14 Service Commission addressed the "Review of Proposed Revisions and
15 Verification of Expenditures Pursuant to GEORGIA POWER COMPANY's
16 Certificate of Public Convenience and Necessity for Plant Vogtle Units 3 and
17 4".

18

19 In testimony on December 16, 2009, Dr. Jacobs was on the stand as part of
20 panel testimony with a Mr. Hayet. The relevant part of that testimony appears
21 starting on page 202, line 18, through page 203, line 7:

22

1 “Q. In Georgia Power’s economic analysis, you make reference to the
2 fact that they ignore sunk costs and also they said that they ignore
3 the weighting of various factors. I think that’s page 25. Could
4 you kind of elaborate on that, please? And why that matters or
5 doesn’t matter?”

6 A. (Witness Hayet) “The point there is just to point out that the
7 economic analysis as you go forward with the project, the question
8 that you have to answer is what are the future costs that will be
9 incurred and what do those costs – how do those costs compare to
10 your next best alternative. So, the notion of the costs that have
11 already been spent as being sunk is something that you ignore and
12 we’re just simply pointing that out, that’s the company’s practice,
13 **we agree with it and that’s fairly industry standard.**” (emphasis
14 added)

15
16 Pages 202 and 203 of testimony in this docket are presented in Exhibit SRS –
17 13.

18
19 Yet Witness Jacobs, who is now recommending that the concept of sunk costs
20 should be thought of as being somehow conditional, was comfortable with his
21 co-panelist Mr. Hayet stating that both of them agreed with the conventional
22 approach to sunk costs; i.e., sunk costs should be removed from economic
23 decision-making regarding whether to proceed with a resource option, even

1 for new nuclear plants whose cost is inherently uncertain. Witness Jacobs does
2 not appear to have offered any suggestion that “conditions” should be placed
3 on the treatment of sunk costs in the Georgia Public Service Commission
4 docket.

5 6 **II. The Concept of a Breakeven Cost Approach**

7
8 **Q. Another aspect of the GDS testimony that deals with FPL’s feasibility**
9 **analyses of the EPU project is a dual recommendation that FPL be**
10 **required to: (i) now utilize a specific breakeven cost analytical approach**
11 **for the EPU project that is being used to evaluate the Turkey Point 6 & 7**
12 **project, and (ii) perform such a breakeven cost analysis separately for**
13 **Turkey Point and St. Lucie. Do you believe that either of these**
14 **recommendations is warranted or advisable?**

15 A. No.

16 **Q. FPL is using a type of breakeven cost approach for analyzing its Turkey**
17 **Point 6 & 7 project. Why did FPL utilize this approach for the Turkey**
18 **Point 6 & 7?**

19 A. The traditional and historically acceptable way in which the evaluation of two
20 generation options is performed is to compare the total cumulative present
21 value of revenue requirements (CPVRR) costs of two resource plans in which
22 each resource plan has one of the two competing generation options. In such

1 analyses, projections for key parameters of both generation options are known
2 or can be reasonably estimated.

3
4 However, in 2007 when FPL began evaluating the Turkey Point 6 & 7 project,
5 many of these key parameters were unknown and could not be reasonably
6 estimated. For example, at that time FPL had not yet decided on a reactor
7 technology. As a consequence of that, there was a wide range of potential
8 MW that could be supplied by two new nuclear units: 2,200 MW to 3,020
9 MW. This wide range in technology size also contributed to a wide range in
10 potential costs for the two units.

11
12 In order to perform a traditional CPVRR analysis of the new nuclear units
13 versus CC capacity, FPL would have had to assume a technology and
14 associated MW size and costs at a time when no selection of the technology
15 had been made. It was believed that this would likely lead to confusion
16 regarding the results of economic analyses carried out in later years which
17 might be compared back to these original analysis results and assumptions,
18 particularly in regard to the assumed costs of new nuclear units.
19 Consequently, FPL chose to introduce what was (in regard to FPL's FPSC
20 filings) a new and different breakeven cost approach for evaluating the Turkey
21 Point 6 & 7 project.

22 **Q. Please describe this breakeven cost approach.**

1 A. In this type of breakeven cost approach, the capital cost of one of the two
2 resource options being evaluated is omitted. In the breakeven cost analyses for
3 Turkey Point 6 & 7, a traditional CPVRR evaluation of the two resource plans
4 is first carried out, but with the assumption of zero capital costs for Turkey
5 Point 6 & 7. In this analysis, the Resource Plan with Turkey Point 6 & 7 has
6 significantly lower CPVRR costs than the Resource Plan without Turkey
7 Point 6 & 7. Then, using that CPVRR cost differential between the two
8 resource plans, a “breakeven” overnight capital cost value for Turkey Point 6
9 & 7 is calculated that will result in the total CPVRR costs for the two resource
10 plans being identical.

11
12 However, as FPL’s feasibility analyses of Turkey Point 6 & 7 have shown,
13 there: (i) is a different breakeven cost for each scenario of fuel cost and
14 environmental compliance cost, and (ii) those different breakeven costs by
15 scenario change from year-to-year as numerous assumptions are updated.

16
17 In regard to FPL’s initial analyses of the EPU project that was to be included
18 in its 2007 Need filing, FPL could have selected either a CPVRR approach or
19 this same type of breakeven cost approach. My view of the assumptions
20 regarding the EPU project was that, although there was less certainty
21 regarding various aspects of the EPU project than is typically the case with
22 new CC capacity, the uncertainty level of the EPU project was significantly
23 less than with the Turkey Point 6 & 7 project. For that reason, a decision was

1 made to utilize the traditional CPVRR analytical approach for evaluating the
2 EPU project instead of the type of breakeven cost analysis approach used for
3 evaluating Turkey Point 6 & 7. As I mentioned earlier, this proposed
4 approach was clearly delineated in the 2007 EPU project need determination
5 docket that culminated in the FPSC's approval.

6 **Q. Does FPL's current CPVRR analysis provide breakeven information**
7 **similar to that sought by Witness Jacobs?**

8 A. Yes. While Witness Jacobs asserts that a breakeven analysis should be done,
9 he misses the point that the CPVRR analysis already provides breakeven cost
10 information. The CPVRR-based approach that FPL has used in its feasibility
11 analyses of the EPU project uses the currently projected going forward capital
12 costs of completing the EPU project. The result of these analyses is a
13 projection of net CPVRR benefits for the EPU project for each fuel cost and
14 environmental compliance cost scenario. The result for each such scenario
15 represents not only the projected net CPVRR benefits for the EPU project for
16 that scenario, but also represents the CPVRR amount of additional money that
17 could be spent on the EPU project so that the projected net CPVRR benefits
18 become zero; i.e., to reach a breakeven point.

19 **Q. Do you believe the way in which the GDS testimony recommends to use**
20 **breakeven cost information would provide the FPSC with a more**
21 **meaningful way to judge the going forward cost-effectiveness of the EPU**
22 **project?**

1 A. No. This is the real problem with the GDS testimony recommendation
2 regarding breakeven costs. FPL's long standing approach examines the
3 feasibility of the project in a wide range of fuel cost and environmental cost
4 scenarios. The current results of FPL's analyses show that the EPU project
5 will be cost-effective in each of these scenarios. The GDS recommendation
6 would seem to require that a single breakeven cost value be used. If a single
7 value is to be used, then a single fuel cost and environmental compliance cost
8 scenario must be chosen to be the basis or standard by which the economics of
9 the EPU project are judged.

10

11 This forces the perspective by which the EPU project may be judged from the
12 current perspective in which a wide range of future fuel and environmental
13 compliance costs is used, into a much narrower perspective in which only one
14 view of future fuel and environmental compliance costs will be used to judge
15 the project (the GDS recommended single breakeven cost approach). In my
16 opinion, seeking to restrict the breadth of the view by which the EPU project
17 may be judged to a single scenario of fuel and environmental compliance
18 costs is not a move in a positive direction.

19 **Q. What is your opinion regarding Witness Jacobs' recommendation that**
20 ***"The amount of the breakeven cost could be reviewed and trued up each***
21 ***year."***?

22 A. My opinion is that Witness Jacobs recognizes that not only is his
23 recommendation to select a single breakeven cost value by which to judge the

1 EPU project a call to use an arbitrarily selected single value as a standard, but
2 he recognizes that this projected value will change from one year to the next.

3
4 He recognizes that, due to the annual updating of assumptions, the projected
5 breakeven cost values will change each year. Therefore, he attempts to
6 account for this in his above 'true up' statement. But his proposed 'remedy'
7 to this inherent problem in his ill-advised recommendation makes his
8 "standard" a moving target. This strikes me as a poor solution to a problem
9 created by a poor recommendation.

10
11 The result of his recommendation to select an arbitrarily chosen single value
12 as the standard in one year, then to adjust to a different arbitrarily chosen
13 single value in each subsequent year (i.e., his moving target remedy), can only
14 be described as a recommendation to pile confusion on top of arbitrariness.

15
16 In no way is the GDS testimony's recommendation, to impose an arbitrarily
17 set standard that will change from year to year, an improvement to the current
18 feasibility analysis approach which allows the FPSC to judge the feasibility of
19 the EPU project using a wide range of future fuel and environmental
20 compliance costs.

21 **Q. The second aspect of the GDS testimony recommendation is to require a**
22 **separate analysis of those portions of the EPU project that are being**
23 **carried out at the St. Lucie site and at the Turkey Point site. Please**

1 **discuss why FPL has chosen to consider the economics of the EPU project**
2 **as a whole.**

3 A. FPL's analyses of the EPU project have consistently evaluated the EPU work
4 as a single project for several reasons. First, FPL has viewed the EPU project
5 as a single comprehensive project since the Need filing in 2007 and continues
6 with that view today. In the 2007 Need docket, FPL proposed the project to
7 the FPSC as a comprehensive project, and was granted a determination of
8 need on that basis.

9
10 Second, although FPL has separate contracts with Bechtel for work at the St.
11 Lucie and Turkey Point sites, and separate contracts with Siemens for work at
12 the St. Lucie and Turkey Point sites, all of these contracts were negotiated on
13 the basis that FPL would proceed with the EPU projects at all four units.
14 Therefore, all of FPL's projected costs for the EPU project are based on the
15 total EPU project and would not be appropriate for analyzing EPU work being
16 conducted at only one site, but with no EPU work at the other site. Thus it
17 would be meaningless to attempt an analysis of conducting EPU work at only
18 one site using the current cost projections that are based upon the total EPU
19 project proceeding at both sites.

20
21 Third, even if one were to try a different approach of first assuming that the
22 total EPU project would continue (in an attempt to use the current cost
23 projections), but then try to somehow dissect the current economic analyses of

1 the total EPU project into two site-based results, one would run into trouble
2 regarding the benefits. It would not be possible to accurately determine the
3 site-specific benefits contributions from each site using such an approach.
4

5 The in-service dates for EPU work at the four units are currently projected to
6 be as follows: May 2012 (St. Lucie 1), July 2012 (Turkey Point 3), November
7 2012 (St. Lucie 2), and March 2013 (Turkey Point 4). This means that almost
8 as soon as the benefits begin to appear at one site, benefits from the other site
9 also begin to appear. The “mixing” of benefits that occurs is due to the back-
10 and-forth in-service dates for units between the two sites. This means that
11 there is no clear chronological dividing line with which to attempt to dissect
12 the contribution to benefits from the total EPU work from each site. Because
13 of this, trying to accurately determine EPU benefits separately at each site
14 from the current feasibility analysis results of the total EPU project is not
15 workable.
16

17 In summary, the EPU project has been conceived as a total project from its
18 inception, all projected costs are based on performing the EPU work at all four
19 units, and it is not possible to accurately dissect the benefits from the
20 feasibility analysis results into site-specific components. Consequently, the
21 GDS testimony recommendation to require site-specific analyses is not
22 practical and should not be given serious consideration.
23

III. Other Topics

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Q. What other topics from the GDS testimony regarding the EPU project and FPL's feasibility analyses will you discuss?

A. There are three other such topics that I will discuss from a resource planning/economic analysis perspective. These topics are: (1) the GDS testimony implication that the "fast tracking" of the EPU project was inappropriate; (2) the GDS testimony implication that the July 2009 sensitivity analyses were something out of the ordinary, and the testimony contention that FPL should have informed the FPSC of the "*...material changes in...feasibility...*" (Witness Jacobs, page 39, lines 17 and 18); and (3) the GDS testimony's general characterization of FPL's feasibility analysis approach as inappropriate. In regard to the third topic, specific aspects of this issue have been discussed in sections I and II of my rebuttal testimony. There are other aspects related to this statement that I will also address.

Q. Please discuss the first topic: the GDS testimony's contention that "fast tracking" of the EPU project was inappropriate.

A. From the perspective of a resource planner who is evaluating the projected economics of two competing resource options, there were, and are, significant benefits to be gained for FPL's customers by expediting the EPU project.

To see this, let's recall what is being analyzed in the Resource Plan with EPU and the Resource Plan without EPU. In the Resource Plan with EPU, the resource option in question, the uprating of existing nuclear plants, is an

1 option that currently has what I will call a “hard stop”. Each of these existing
2 nuclear units has a firm date at which their current operating license will end.
3 At that time, the operation of the nuclear plant in question, and the benefits
4 derived from the EPU project, will end.

5
6 On the other hand, in the Resource Plan without EPU, the resource option in
7 question is new combined cycle (CC) capacity. This resource option does not
8 have a hard stop in the same sense. Instead, it has a projected 30-year life, the
9 duration of which remains the same regardless of whether the resource option
10 is placed in-service today or some time in the future.

11
12 Assume for a moment that instead of proceeding with the EPU project in an
13 expedited approach as the FPSC authorized, FPL had performed all of the
14 work in a deliberate sequence. Such an approach would have delayed the
15 completion of the EPU work by approximately 6 years. (This 6-year estimate
16 of additional time was previously provided by FPL Witness Jones in response
17 to OPC Interrogatory 47 and is discussed in FPL Witness Jones’ rebuttal
18 testimony.) Because of the hard stop characteristic of the EPU project, this 6-
19 year project delay would have automatically resulted in a loss up front of 6
20 years of fuel savings for FPL’s customers.

21 **Q. Would these lost fuel savings for FPL’s customers have been significant?**

22 A. Yes. The projected first full year nominal fuel savings for the EPU project
23 (presented in Supplement to Exhibit SRS – 1 to my Supplemental Direct

1 Testimony) is \$139 million. Even using an approximate annual fuel savings
2 value of \$140 million, without accounting for expected annual fuel cost
3 escalation, a 6-year delay in the project would have resulted in approximately
4 \$840 million of higher fuel costs for FPL's customers over those 6 years.

5 **Q. What would have been the impact of these significant lost fuel savings on**
6 **the projected cost-effectiveness of the EPU project?**

7 A. From the perspective of project feasibility, these lost fuel savings for FPL's
8 customers also represent lowered net benefits for the project, thus lowering
9 the projected cost-effectiveness of the project. Note also that there would
10 have been no such negative impact for the competing CC capacity because,
11 all else equal, its 30-year life duration could simply "slide" out in time and
12 begin six years later.

13 **Q. What is your conclusion with respect to FPL's decision to expedite the**
14 **EPU project.**

15 A. If FPL had not expedited the EPU project, the resulting delays would have
16 guaranteed: (i) significant lost fuel savings for FPL's customers, and (ii)
17 decreased cost-effectiveness of the project.

18 **Q. Please discuss the second topic: the GDS testimony implication that the**
19 **July 2009 sensitivity analyses were something out of the ordinary, and the**
20 **testimony contention that FPL should have informed the FPSC of the**
21 **"...material changes in...feasibility..." (Witness Jacobs, page 39, lines 17**
22 **and 18).**

1 A. In regard to the inherent implication that such analyses are out of the ordinary,
2 quite the contrary is true. Sensitivity or scenario analyses are conducted all
3 the time by FPL for a wide variety of resource options, particularly when
4 preliminary information is first received regarding a resource option.

5 **Q. Is there another aspect of the GDS testimony regarding this sensitivity**
6 **analysis that you wish to comment on?**

7 A. Yes. In Witness Jacobs' testimony, on page 39, lines 16 through 19, he states
8 that FPL has an obligation to inform the FPSC of information regarding the
9 EPU project including "*...material changes in...feasibility that occur*
10 *following the regular submission date.*" There are two aspects of that
11 statement that warrant a response.

12
13 First, the NCRC dockets are not "one look only" dockets. By that I mean that
14 the FPSC regularly sees updated feasibility analyses that use completely
15 updated assumptions on an established, set schedule. Therefore, if an
16 assumption used in a current NCRC filing has changed after the filing of the
17 feasibility analyses for that year is made, this changed assumption – once the
18 change in the assumption has been fully vetted and accepted – will be used in
19 the next round of feasibility analyses the following year. Those results will
20 then be presented to the FPSC. Witness Jacobs' concern over changing
21 assumptions would seem to be more appropriate for a more regular "one look
22 only" type of docket than for an NCRC docket which is explicitly designed to

1 update assumptions annually, and provide updated analysis results based on
2 the updated assumptions, on an established, set schedule.

3
4 Second, I do not agree that there were in 2009 "...*material changes in...*
5 *feasibility*". This is apparent when the results of the 2009 feasibility analyses
6 filed with the FPSC are compared with the results of the July 2009 sensitivity
7 analyses. This comparison is presented in Exhibit SRS – 14.

8 **Q. What does this comparison show?**

9 A. The results of the two sensitivity analyses that were performed in July 2009
10 were either very similar to the results of feasibility analyses previously
11 presented to the FPSC in the 2007 Need and 2008 NCRC dockets (in which
12 the EPU project was projected to be cost-effective in all scenarios of fuel and
13 environmental compliance costs except one), or were very similar to the
14 results of feasibility analyses previously presented to the FPSC in the then-
15 current 2009 NCRC docket (in which the EPU project was projected to be
16 cost-effective in all fuel and environmental compliance cost scenarios). When
17 viewed as part of a continuum of feasibility results for the EPU project that
18 had been presented to the FPSC from the 2007 Need docket through the 2009
19 NCRC filing, the results of the July 2009 sensitivity analyses are very similar.
20 Consequently, I disagree with Witness Jacobs' charge that the results of the
21 July 2009 sensitivity analyses represent a "*material change*" in the projected
22 feasibility of the EPU project. That is simply not an accurate characterization
23 of the results.

1 **Q. Please summarize your view of the significance of the July 2009**
2 **sensitivity analyses and the results of those analyses.**

3 A. The fact that FPL conducted such an analysis has little/no significance in itself
4 because sensitivity or scenario analyses are often conducted by FPL to test the
5 effect of different assumptions regarding the economics of various resource
6 options. If there is any significance related to the July 2009 sensitivity
7 analyses, it is that the results of the sensitivity analyses reaffirmed, once
8 again, that the EPU project is a cost-effective choice for FPL's customers.

9 **Q. In regard to the third topic regarding the GDS testimony, how would you**
10 **characterize this analytical approach as applied to the EPU project?**

11 A. I would characterize FPL's analytical approach for evaluating the EPU project
12 as appropriate, providing meaningful results, and as being conservative by
13 design.

14 **Q. Would you please explain what you mean by "conservative by design"?**

15 A. Yes. As indicated earlier in my testimony, FPL's analytical approach, as
16 applied to the EPU project, is conservative by design because it does not
17 currently include in its calculation two types of benefits that will definitely
18 result from the EPU project. In addition, there are other types of benefits that
19 may result from the EPU project, but which are not currently included in
20 FPL's evaluation because they are speculative in nature at this time.

21

1 Therefore, the projected net benefits for the EPU project that are provided by
2 FPL's analytical approach are understated. Consequently, FPL's analytical
3 approach can accurately be described as being conservative by design.

4 **Q. Please discuss the two types of benefits that will definitely occur from the**
5 **EPU project, but which are not currently included in FPL's feasibility**
6 **analyses of the project.**

7 A. The first type of benefit that will definitely result from the EPU project, but
8 which has not been included to-date in FPL's feasibility analyses of the
9 project, is reduced FPL system transmission losses. This outcome of reduced
10 losses is due to the additional capacity derived from the EPU project being
11 generated and delivered close to FPL's load center. This effect is primarily
12 driven by the additional EPU capacity that will be gained at the Turkey Point
13 site. This additional baseload capacity at the Turkey Point site will not only
14 reduce system losses at peak hours, but will also reduce system losses
15 throughout the year. The result is enhanced system efficiency which results in
16 savings for FPL's customers. These customer savings also represent
17 additional net benefits for the EPU project.

18
19 The second type of benefit that will definitely result from the EPU project, but
20 which has not been included to-date in FPL's feasibility analyses of the
21 project, is the contribution that the EPU project will make to maintain a
22 balance between load and generating capacity in Southeastern Florida (i.e., in
23 Miami-Dade and Broward counties). As the load continues to grow in these

1 two counties, one of two things must happen. Either generating capacity in
2 this area must also continue to grow to keep pace with the load, or additional
3 transmission lines to transport energy into this area must be built.

4

5 The addition of generating capacity in Southeastern Florida will avoid or defer
6 the need to build expensive additional transmission lines to bring electricity
7 into Miami-Dade and Broward counties from elsewhere. If new generating
8 capacity can be added in this area, the avoided or deferred transmission
9 expenditures represent savings for FPL's customers.

10

11 In these two populous counties, it is very difficult to find greenfield sites on
12 which to build new generating capacity. In regard to FPL's feasibility
13 analyses and its Resource Plan without EPU, the greenfield CC capacity that
14 would be added absent the EPU project would almost certainly not be added
15 in either of these two counties. Thus this greenfield capacity would not help
16 address the Southeastern Florida imbalance issue.

17

18 However, the EPU project will add more than 200 MW of baseload capacity
19 and energy at the Turkey Point site in Miami-Dade County. This capacity
20 addition will definitely assist in avoiding or deferring transmission
21 expenditures. This will result in savings for FPL's customers which also
22 represents additional net benefits for the EPU project.

1 **Q. Has FPL discussed these two types of additional benefits for the EPU**
2 **project before and why has FPL not accounted for these additional**
3 **benefits in its feasibility analyses of the project to-date?**

4 A. Yes, both of these additional benefits that will definitely result from the EPU
5 project were discussed at the beginning of FPL's presentation of the EPU
6 project to the FPSC; i.e., in my direct testimony in the 2007 Need docket for
7 the EPU project starting on page 47, line 20. However, FPL has not included
8 these additional benefits from the EPU project in its feasibility analyses to-
9 date for several practical reasons including, but not limited to, the
10 combination of lack of specific locations for greenfield CC units and the
11 different in-service dates of greenfield units between the Resource Plan with
12 EPU and the Resource Plan without EPU.

13 **Q. You also mentioned that there are other types of benefits that are not**
14 **included in FPL's feasibility analyses of the EPU project because they are**
15 **speculative at this time. Please provide an example of such a potential**
16 **benefit.**

17 A. One such example is that FPL has not included in its feasibility analyses of the
18 EPU project the additional benefits that would be realized from the project if
19 there were a further extension of the operating licenses for the four existing
20 nuclear units. The first expiration date among those operating licenses is
21 approximately 20 years in the future. Consequently, FPL has not had to make
22 a decision yet regarding a possible license extension request.

23

1 Although the projected benefits for the EPU project that would result from
2 license extensions are very large, these benefits are speculative at this time
3 because FPL has not yet applied for, or received, a license extension.
4 Consequently, FPL has not included the projected benefits from an extension
5 in its feasibility analyses to-date. However, completing the project ensures
6 the opportunity to realize these potential additional benefits.

7 **Q. Accepting the fact that a projection of additional benefits from the EPU**
8 **project due to license extensions is speculative at this time, can you**
9 **provide approximate values of the potential benefits and costs for the**
10 **EPU project if license extensions became a reality?**

11 A. Yes. Assuming that the operating licenses for each of the four nuclear units
12 were extended for 20 years beyond their current license expiration dates, the
13 projected additional benefits for the EPU project using a Medium Fuel Cost,
14 Environmental Compliance Cost Env II scenario are approximately \$1,300
15 million CPVRR. In contrast, the total cost for previously obtaining the license
16 extensions for all four nuclear units about a decade ago was approximately
17 \$22 million (nominal \$). Consequently, if license extensions for FPL's four
18 nuclear units were to occur, the additional benefits from the EPU project that
19 would be realized by FPL's customers would be very large indeed.

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IV. Conclusions

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Q. Please summarize the conclusions you have reached in your rebuttal testimony.

A. Based on my review of the GDS testimony, I have reached the following 4 conclusions:

- 1) The GDS testimony recommendation that Florida abandon the well established and widely accepted economic principle of excluding sunk costs from current analyses in the sole case of the EPU project has no merit. This recommendation has the dubious distinction of simultaneously: (i) ignoring the basic common sense foundation upon which this well established economic principle was based, and (ii) ignoring the plain language of the Nuclear Cost Recovery Rule, as supported by the FPSC's order regarding how economic analyses of new nuclear capacity are to be performed.
- 2) The GDS testimony recommendation that the FPSC abandon the current economic analysis approach (a CPVRR comparison) it has consistently used to evaluate the EPU project since the 2007 Need docket is also without merit and should be rejected. The CPVRR method provides the Commission with a wide range of fuel and environmental compliance costs from which to judge the EPU project and its economic feasibility. In contrast, the GDS testimony's

1 recommended approach would sacrifice this robust assessment in
2 exchange for a single, arbitrary snapshot obtained from a breakeven
3 analysis that would change the following year.

4 3) The GDS testimony recommendation to require that the analysis of the
5 EPU project be broken out into two separate, site-specific parts should
6 be rejected for several reasons. Most importantly, FPL proposed and
7 has managed the EPU project as a comprehensive project
8 encompassing both sites since its inception, and the FPSC approved
9 the project in its entirety for the overall system and customer benefits
10 that would be realized from the project.

11 4) GDS testimony's criticism of the expedited nature of the EPU project
12 should be rejected. The GDS testimony's claims fail to acknowledge
13 that proceeding with the EPU project on a slower, sequential schedule
14 would deprive FPL's customers of more than \$800 million in fuel cost
15 savings compared with the expedited approach proposed by FPL and
16 approved by the Commission. FPL's approach maximizes the number
17 of years that fuel savings, and other benefits, will be realized by FPL's
18 customers, thus maximizing the cost-effectiveness of the EPU project.

19 **Q. Does this conclude your rebuttal testimony?**

20 **A. Yes.**

1 BY MS. CANO:

2 Q Would you please provide a summary of your
3 rebuttal testimony to the Commission at this time?

4 A Yes, I'd be happy to.

5 Good afternoon again, Chairman Graham and
6 Commissioners.

7 My rebuttal testimony addresses the direct
8 testimony of OPC Witnesses Jacobs and Smith, who seek to
9 attack the EPU project at this very late stage in the
10 overall process through various recommendations and
11 assertions. In this summary I'll focus on four of
12 these.

13 First, these witnesses recommend that sunk
14 costs should not be excluded in FPL's feasibility
15 analyses. Their recommendation seeks to both violate
16 the Commission's nuclear cost recovery rule and ignore
17 specific guidance provided by the Commission order
18 regarding the treatment of sunk costs.

19 Furthermore, this misguided recommendation
20 seeks to alter the well-established economic analysis
21 principle that past costs should not be considered when
22 deciding whether to complete a project.

23 Second, these witnesses also recommend that
24 feasibility analysis of the EPU project should be
25 switched from a CPVRR approach to a break, to the

1 breakeven cost approach used for evaluating Turkey Point
2 6 and 7 and should select then a single result from
3 these analyses to use as a standard for judging the
4 project. This late arriving recommendation ignores the
5 fact that the EPU project was initially approved in 2007
6 and has been evaluated in NCRC dockets ever since based
7 on CPVRR analyses.

8 Furthermore, these witnesses do not appear to
9 realize that a CPVRR analysis automatically provides
10 breakeven cost information they contend should be
11 provided.

12 Their recommendation that the Commission then
13 select a result from only one of seven fuel and
14 environmental cost scenarios each year and use it as a
15 standard to judge the project is illogical and confusion
16 -- and confusing because it is a call to utilize a
17 moving target as a standard.

18 Third, they recommend that FPL break the EPU
19 project into two site-specific pieces. Again, this
20 recommendation ignores the previous decisions of this
21 Commission. The EPU project was presented to and
22 approved by the Commission as a total two-site,
23 four-unit package. In addition, all costs and benefits
24 of the project are based on completing work at all four
25 units. Attempting to evaluate pieces of the project at

1 this late date would require a number of assumptions
2 dating all the way back to the inception of the project.

3 Fourth, these witnesses assert that FPL's
4 expedited approach to the EPU project is inappropriate.
5 This late-in-the-game assertion totally ignores the fact
6 that the EPU project was presented to and approved by
7 the Commission based solely on FPL utilizing an
8 expedited approach. Their assertion also ignores the
9 fact that a slower sequential approach would delay the
10 project six years, which would in turn guarantee at
11 least \$800 million in higher fuel costs for FPL's
12 customers, which would in turn significantly decrease
13 the cost-effectiveness of the EPU project.

14 In conclusion, Commissioners, these four
15 recommendations or assertions, in addition to seeking to
16 change the rules long after the process has been
17 underway, are poorly thought out and do not warrant
18 serious consideration.

19 Commissioners, FPL's analytical approach for
20 evaluating the EPU project is appropriate and it
21 provides meaningful results. The results of FPL's 2011
22 feasibility analyses support continuing both the EPU and
23 the Turkey Point 6 and 7 projects for the benefit of
24 FPL's customers. Thank you.

25 **MS. CANO:** The witness is available for cross.

1 **CHAIRMAN GRAHAM:** Intervenors.

2 **MR. WHITLOCK:** Thank you, Mr. Chairman.

3 **CROSS EXAMINATION**

4 **BY MR. WHITLOCK:**

5 Q Good afternoon, Dr. Sim.

6 I'd like to continue a discussion we were
7 having, it doesn't seem like it was all that long ago,
8 late yesterday evening, regarding sunk costs. If you'd
9 turn to page 8 of your rebuttal testimony, please, sir.

10 Now you've stated in your summary that the
11 testimony -- or the opinion of OPC Witness Jacobs in
12 regards to sunk costs would violate the cost recovery
13 rule, guidance provided by the Commission, and a -- what
14 I think you refer to it as a well-established economic
15 principle; is that correct?

16 A That is correct.

17 Q Okay. So let's start with your contention
18 that it would violate the rule. It looks like on lines
19 5 and 6 of your testimony on page 8 you paraphrase the,
20 the portion of the cost recovery rule there that talks
21 about the long-term feasibility of a project. Is that
22 correct?

23 A The long-term feasibility of completing a
24 power plant.

25 Q Okay.

1 A And I believe that's the key point.

2 Q Okay. And then you go on to say, "This is a
3 requirement to examine whether to proceed with the
4 project, in light of remaining costs." And my question
5 for you is, is that's your interpretation of the rule;
6 correct?

7 A It is certainly my interpretation of the rule,
8 and I think it is a most reasonable interpretation when
9 one looks at the portion of the rule that states the
10 feasibility of completing the power plant. So you're
11 looking at projected costs from that point forward of
12 completing a project.

13 Q Does the rule say that?

14 A No. As I stated, that is my interpretation of
15 what the rule states in regard to completing a power
16 plant. Costs that have already been incurred are no
17 longer costs of completing the power plant. Those costs
18 are now behind you at that point in time.

19 Q So that would be your interpretation of the
20 rule; correct?

21 A Yes, that is certainly my interpretation.

22 Q Did you take part in the rulemaking when that
23 rule was promulgated by the Commission?

24 A No, I did not.

25 Q So you have, you have no, you have no basis to

1 state what the intent of the Commission was when they
2 promulgated that rule, do you?

3 A I don't know -- the answer to your question is
4 I do not know what the deliberations were. I only know
5 what the rule currently says, and I know how the
6 analyses that have been performed all the way from 2007
7 up to now have been applied. And it is only now in
8 essentially the fourth quarter of the process that this
9 issue is being raised.

10 Q Okay. Let's move on to the guidance that the
11 Commission provided in Order Number PSC-080237-FOF-EI.
12 Would you read lines 13 through 16 there where you quote
13 the guidance, please, sir? Read that out loud.

14 A Yes. Quote, FPL shall provide -- let me back
15 up. This was in regard to the Turkey Point 6 and
16 7 project as I recall.

17 Q Correct.

18 A Quote, FPL shall provide a long-term
19 feasibility analysis as part of its annual cost recovery
20 process which, in this case, shall also include updated
21 fuel costs, environmental forecasts, breakeven costs,
22 and capital cost estimates. In addition, FPL should
23 account for sunk costs, close quote.

24 Q Were you here when I asked some questions of
25 Mr. Reed earlier this morning, Dr. Sim?

1 A No, I was not here.

2 Q Okay. So you go on to say at lines 18 and 19
3 that this guidance clearly distinguishes sunk costs from
4 updated capital cost estimates; correct?

5 A That's correct.

6 Q Okay. And so it's, again it's your
7 interpretation of this guidance that the statement, "In
8 addition, FPL should account for sunk costs," means that
9 FPL should exclude them from the annual feasibility
10 analysis. Is that accurate?

11 A Yes. That is -- it is my view that the
12 Commission statement speaks for itself and that it
13 clearly distinguished between capital cost estimates and
14 sunk costs.

15 Q So "FPL should account for sunk costs" means
16 to you FPL should exclude sunk costs from its annual
17 feasibility analysis?

18 A Yes. Consistent with the Commission
19 regulation which we discussed earlier regarding cost to
20 complete and --

21 Q Consistent with your interpretation of that
22 regulation.

23 A That's correct.

24 Q And you're not a lawyer, are you?

25 A Fortunately or unfortunately, that's correct.

1 Q Are you an expert in statutory construction
2 interpretation?

3 A No. No. Basic common sense as to a reading
4 of a regulation, as well as several years of it being
5 applied in the need filing, as well as the follow-up
6 nuclear cost recovery dockets.

7 Q Now as far as you said it violated an
8 established economic principle, if, if the rule of the
9 Commission and/or the guidance of the Commission was in
10 conflict with an economic principle, certainly FPL would
11 be willing to comply with what the Commission requested;
12 correct?

13 A Yes. That's correct.

14 MR. WHITLOCK: Okay. Thank you. No more
15 questions.

16 CHAIRMAN GRAHAM: Okay. Mr. McGlothlin.

17 **CROSS EXAMINATION**

18 **BY MR. MCGLOTHLIN:**

19 Q Hello, Dr. Sim. I'm looking at page 13 of
20 your rebuttal testimony, and there you quote from some
21 panel testimony in a Georgia case. Do you see that?

22 A Yes, sir.

23 Q And the subject is your comments on
24 Dr. Jacobs' treatment of sunk costs in the feasibility
25 study prepared for this FPL uprate; correct?

1 A Specifically the discussion here is in regard
2 not to FPL's project, but in regard to panel testimony
3 he was a part of in a Georgia Power new nuclear hearing.

4 Q Yes. I understand that. But you bring that
5 in as a way of criticizing his treatment of sunk costs
6 or his proposed treatment of sunk costs in this case;
7 correct?

8 A I'm not so sure I'd characterize it as much in
9 terms of criticizing as simply saying that it's an
10 inconsistent, to me, treatment of sunk costs.

11 Q Well, looking at the quotation, first, you
12 agree that the quotation is not from Dr. Jacobs'
13 statement but from a Mr. Hayet, who is on the panel;
14 correct?

15 A That's correct. That's indicated as Witness
16 Hayet on line 10 on that page.

17 Q Now you've read Dr. Jacobs' testimony with
18 some care, have you not?

19 A Yes, I have read it.

20 Q So you are aware that Dr. Jacobs does not
21 recommend that sunk costs be excluded -- that sunk costs
22 be included in every analysis; correct?

23 A That's correct.

24 Q And that he recommends that the -- his
25 treatment in this case in view of the rapidly increasing

1 capital cost estimates associated with the FPL uprate
2 activities?

3 A That is his contention.

4 Q Now do you know whether the project that was
5 the subject of the Georgia proceeding had similar rapid
6 increases in projected capital costs?

7 A No, sir, I do not know the specifics of the
8 Georgia Power case, other than to say that it was in
9 regard to new nuclear generation, which is inherently
10 uncertain in regard to costs. And, in my opinion, far
11 more uncertain in regard to costs than is the, FPL's EPU
12 project.

13 Q Well, did you not -- you did not investigate
14 the pattern of cost estimates year over year in that
15 proceeding to see if there was any parallel to this
16 case, did you, Dr. Sim?

17 A No, sir, I did not. I relied upon my reading
18 of Dr. Jacobs' testimony in which he claimed that FPL's
19 EPU project was at least as uncertain, if not more so,
20 than costs for new nuclear units, which I find to be a
21 fairly incredible statement.

22 Q I think you've answered my question.

23 Now Dr. Jacobs attributes the rapid increase
24 in the cost estimates in this case to the decision to
25 fast track the EPU; correct?

1 **A** I'm sorry. Can you repeat the question,
2 please sir?

3 **Q** Yes. You agree that Dr. Jacobs attributes the
4 rapid increase in capital cost estimates for FPL's EPU
5 to the decision to fast track the project.

6 **MS. CANO:** Excuse me. I'm going to object to
7 counsel's continuous characterization of the costs of
8 the EPU project.

9 **MR. McGLOTHLIN:** In what way do you object?

10 **MS. CANO:** I think about four times you've
11 referred to them as rapidly increasing, and I don't
12 believe we've presented any testimony or evidence that
13 supports that characterization.

14 **BY MR. McGLOTHLIN:**

15 **Q** Okay. Dr. Sim, if you know, has FPL increased
16 the estimated cost of the EPU project by approximately
17 \$700 million over the course of the last two years?

18 **A** That's approximately correct.

19 **Q** Okay. And that's what I characterize as
20 rapidly increasing costs for purposes of my question.

21 Did you -- and you understand that Dr. Jacobs
22 attributes that pattern of cost increases to the
23 decision to fast track the project.

24 **A** I believe that is a correct interpretation of
25 Dr. Jacobs' testimony; however, I also am aware that

1 Mr. Jones' testimony disagrees with that conclusion.

2 Q Okay. Did you check to see whether the
3 project that is the subject of the Georgia proceeding is
4 being fast tracked?

5 A No, sir. I do not know the, the approach
6 being taken in the Georgia Power case.

7 Q At page, pages 9 and 10 you have some
8 hypothetical scenarios, the assumptions of which vary
9 with respect to the amount of to-go costs relative to
10 the cost of a new home. Are you, are you at that point
11 in your testimony? I'm going to ask you some questions
12 about that.

13 A Yes, sir. I'm on page 9.

14 Q And as I understand it, the comparison being
15 made is for the homeowner to decide between the
16 remodeling of the house or the purchase of a new home,
17 each of which is a satisfactory outcome in terms of
18 preference; correct?

19 A Yes, sir.

20 Q And in scenario number one -- in all cases the
21 cost of the new house is \$500,000; correct?

22 A That was the simplifying assumption in this
23 analogy, yes.

24 Q Yes. And the -- and originally anticipated
25 costs of the remodeling was \$300,000. Am I correct

1 about that?

2 A That's correct.

3 Q In scenario number one the homeowner has
4 expended \$200,000, but learns that the to-go costs are
5 an additional \$250,000; correct?

6 A That's correct.

7 Q So in total they would spend \$450,000, and you
8 make the point that in terms of that decision versus
9 spending \$500,000, that's a rational decision. Is that
10 the point of your analogy there?

11 A No, sir, I don't believe it is.

12 The analogy was taking one to the point where
13 one had already, the homeowner had already spent
14 \$200,000 and was faced with two alternatives. They
15 could either stop work on the project and go forward
16 with the projected cost to complete of \$250,000, or stop
17 work on the remodeling project, purchase a new home for
18 \$500,000. And I point out that the rational choice
19 economically would be to proceed with the remodeling,
20 \$250,000 in additional costs versus \$500,000 additional
21 for purchasing a new home.

22 Q The second scenario, the homeowners expended
23 \$200,000, and then the to-go costs were \$350,000;
24 correct?

25 A That's correct.

1 Q So in that instance the homeowner would spend
2 in total \$550,000, but the decision to go forward would
3 still be favorable; correct?

4 A Can you define what you mean by favorable,
5 please?

6 Q The homeowner would be spending less on a
7 to-go basis than it would spend on the \$500,000
8 alternative.

9 A Yes. In scenario 2, the homeowner is faced
10 with the, much the same choice, except it's \$350,000 to
11 complete the remodeling versus stopping work and
12 spending \$500,000 for a new home. And, again, the
13 economic choice going forward is you proceed with the
14 remodeling and spend \$350,000 rather than the \$500,000.

15 Q And in both those scenarios the original
16 anticipated cost of the remodeling was \$300,000;
17 correct?

18 A That's correct.

19 Q I want to suggest a third scenario. In this
20 one, again, the going in cost is \$300,000 and the
21 homeowner has expended \$200,000, but the homeowner has
22 also engaged an architect to spec the house. And on the
23 basis of specifications, the contractor has entered a
24 contract that is price certain so that the alternative
25 is to spend only \$300,000 for the, for the remodeling.

1 Would that also be a rational decision?

2 A I'm sorry. You'll have to repeat the premise.
3 I missed the first part of it, sir.

4 Q In the third scenario, the one I'm posing to
5 you, the homeowner has expended \$200,000, but because
6 the homeowner has also engaged an architect to draw
7 plans and specifications for the house and has a
8 contract that is price certain and is looking at only a
9 to-go cost of an additional \$100,000; is that also a
10 rational decision?

11 A If that option existed, that would be an
12 option for the homeowners.

13 MR. McGLOTHLIN: That's all. Thank you.

14 CHAIRMAN GRAHAM: Thank you.

15 Ms. Kaufman.

16 MS. KAUFMAN: I don't have any questions.
17 Thank you, Mr. Chairman.

18 MS. WHITE: Nor do I. Thank you.

19 CHAIRMAN GRAHAM: Staff?

20 MR. YOUNG: Staff has about -- a few
21 questions.

22 CHAIRMAN GRAHAM: Sure.

23 CROSS EXAMINATION

24 BY MR. YOUNG:

25 Q Dr. Sim, in your, in your opinion, would a

1 comparison of the total project costs for the fast track
2 EPU project and, what I like to call, compared to the go
3 slow, which the is non-EPU fast track, provide insight
4 to the ratepayers' costs and savings associated with the
5 two approaches?

6 A Sir, could you repeat the question, please?

7 Q In your opinion, would a comparison of the
8 total project costs for a fast track EPU project to a go
9 slow, which is a non-EPU, non-fast track EPU project,
10 provide insight into ratepayers' costs and savings
11 associated with these two approaches?

12 A My understanding of the question would lead me
13 to answer no. If you considered only the costs of the
14 project, fast track versus non-fast track, you'd be
15 missing an important part of the equation, which would
16 be the benefits to be derived from fast track versus
17 non-fast track.

18 As I point out in rebuttal testimony, the go
19 slow approach is estimated to have -- would have delayed
20 the project six years. Those six years are up-front
21 \$140 million a year in fuel savings that would have been
22 foregone if we had gone the delayed slow approach.

23 So not only would there be a question in
24 regard to the cost of the project, which Witness Jones
25 has indicated would likely be higher, if not

1 significantly higher, if we had done the go slow
2 approach, we also would have foregone six years of very
3 significant fuel savings benefits for our customers.

4 **MR. YOUNG:** Thank you. No further questions.

5 **CHAIRMAN GRAHAM:** Okay. Commissioner Brisé.

6 **COMMISSIONER BRISÉ:** Thank you, Mr. Chairman.

7 Dr. Sim, I have one question -- maybe one or
8 maybe two questions for you.

9 Earlier we had a discussion about the sunk
10 costs in terms of them being irrevocable basically. I
11 just want to know if there are any benefits to the
12 consumer from your perspective since they're paying for
13 these sunk costs.

14 **THE WITNESS:** I think as, Commissioner, as
15 indicated earlier, we're already receiving benefits from
16 the St. Lucie 2 project. I believe the -- there are 29
17 additional megawatts of nuclear capacity and energy that
18 we're receiving benefits from.

19 But, again, it's early in the game, and at
20 this point the benefits are relegated to that portion of
21 the project that has provided an interim amount of
22 megawatts.

23 **COMMISSIONER BRISÉ:** Follow up. So then the
24 assertion that there is absolutely no benefit to the
25 consumer with respect to the sunk costs would be

1 incorrect.

2 **THE WITNESS:** Yes. It is -- that would be an
3 incorrect statement, because our customers, as of
4 May of this year, began receiving benefits from an
5 additional 29 megawatts of nuclear capacity out of the
6 St. Lucie 2 project.

7 **COMMISSIONER BRISÉ:** Okay. I want to ask you
8 if this were a different set of circumstances and we're
9 looking at \$700 million, is \$700 million worth the 29 --
10 what did you say, megawatts?

11 **THE WITNESS:** Yes, sir. 29 megawatts.

12 **COMMISSIONER BRISÉ:** 29 megawatts that they
13 have paid for, is it worth it under -- if you took that
14 separate from what we're dealing with, is, is that worth
15 the price?

16 **THE WITNESS:** In all likelihood, no, sir.
17 But what we're looking at in this situation is
18 hypothetically a situation in which the project were
19 stopped cold, you had spent \$700 million, and you had
20 only achieved a portion of the very large scale benefits
21 that you'd be receiving from this project.

22 So my, my reading of that is this would be an
23 awfully strange place to try to stop the project,
24 knowing that work is ongoing and you will begin to
25 receive much more significant amounts of nuclear

1 capacity beginning, I believe, in March of 2012, another
2 increment shows up July of 2012, another November of
3 2012 -- well, let me back up for a moment.

4 By a year from today two of the nuclear uprate
5 projects will be completed. Then approximately three or
6 four months later, in November of 2012, a third one will
7 be completed. In March of 2013 the fourth will be
8 completed. So we're relatively close to significant
9 amounts of megawatts coming on the system from the
10 project. We're not there yet, but the first small
11 pieces have, have shown up.

12 **COMMISSIONER BRISE:** So from your perspective,
13 over time the benefit would be achieved for the
14 \$700 million that the consumers have expended, so long
15 as the project continues to go forward?

16 **THE WITNESS:** Yes, sir. It's the only way in
17 which those additional benefits would be realized by our
18 customers by proceeding with the project.

19 **COMMISSIONER BRISE:** Okay. Thank you.

20 **CHAIRMAN GRAHAM:** Redirect?

21 **MS. CANO:** Briefly, yes.

22 **CHAIRMAN GRAHAM:** Sure.

23 **REDIRECT EXAMINATION**

24 **BY MS. CANO:**

25 **Q** Dr. Sim, Mr. McGlothlin pointed you to page 13

1 of your rebuttal testimony and to some panel testimony
2 supporting the exclusion of sunk costs. Do you recall
3 that -- those questions?

4 A Yes, I do.

5 Q And he pointed out that the quote here in your
6 testimony is attributed to a Witness Hayet. Do you
7 recall that?

8 A Yes.

9 Q On what basis do you attribute the statement
10 to Dr. Jacobs?

11 A Dr. Jacobs was part of a panel testimony, and
12 the quote from Witness Hayet is, "So, the notion of the
13 costs that have already been spent as being sunk is
14 something that you ignore and we're," emphasis on we're,
15 "just simply pointing that out, that's the company's
16 practice, we agree with it and that's fairly industry
17 standard."

18 At no point in that testimony did I find a
19 fact when Witness Jacobs, who was part of that panel
20 testimony, took issue with his fellow panelist and said,
21 I don't agree with that; there are conditions for
22 certain projects in which it is not appropriate to treat
23 sunk costs in that manner.

24 All I can say is if I were on a panel and my
25 fellow panelist made a statement that I could not agree

1 with 100%, I would make a point to bring that
2 information out as part of my testimony. And I see no
3 evidence that Witness Jacobs made any such clarification
4 to his fellow co-panelist.

5 **MS. CANO:** Thank you. Nothing further.

6 **CHAIRMAN GRAHAM:** Are there any exhibits to be
7 entered?

8 **MS. CANO:** Yes. FPL moves Exhibits 133 and
9 134 into the record.

10 **CHAIRMAN GRAHAM:** Are there any objections to
11 133 and 134 being entered into the record? Seeing none,
12 let it be, let it happen.

13 (Exhibits 133 and 134 admitted into evidence.)

14 **MS. CANO:** And FPL asks that Dr. Sim be
15 excused.

16 **CHAIRMAN GRAHAM:** If there are no objections
17 to excusing Dr. Sim, Dr. Sim, thank you very much for
18 your testimony today.

19 **THE WITNESS:** Thank you, sir.

20 **CHAIRMAN GRAHAM:** I'm looking at the witness
21 list. We have -- Powers and Derrickson have already did
22 their rebuttal and their direct together, and Welch was
23 stipulated at the beginning.

24 **MR. YOUNG:** Yes, sir.

25 **CHAIRMAN GRAHAM:** Are there any additional

1 concluding matters?

2 **MR. YOUNG:** Yes, sir, there are. The clerical
3 dates: The hearing transcripts are expedited; briefs
4 are due on September the 8th, 2011; for a Staff
5 recommendation on October 2012; for a Special Agenda on
6 October 2000 -- October 24th, 2011.

7 **CHAIRMAN GRAHAM:** Are those dates understood
8 and okay with everybody?

9 **MR. McGLOTHLIN:** Yes. I'd like to bring one
10 more housecleaning item up at the appropriate time.

11 **CHAIRMAN GRAHAM:** Okay. The dates are okay?

12 **MR. ANDERSON:** Yes, sir, they are.

13 **CHAIRMAN GRAHAM:** Okay. Staff.

14 **MR. YOUNG:** That is all Staff is aware of in
15 this case. But, as Mr. McGlothlin said, he has to bring
16 a housekeeping item.

17 And also, when we conclude FPL's portion,
18 Staff recommends that the Commission conclude the FPL
19 portion and then discuss a scheduling matter in Progress
20 Energy Florida's case.

21 **CHAIRMAN GRAHAM:** Okay.

22 **MR. ANDERSON:** We would also just ask that at
23 the conclusion that counsel also be excused from the
24 Progress portion of the hearing.

25 **CHAIRMAN GRAHAM:** I don't know. I think I may

1 want to see you guys hang out for a while.

2 **MR. ANDERSON:** In my private law firm days,
3 hanging around for a few days would have been great.

4 **CHAIRMAN GRAHAM:** Let's see what he's got to
5 say first.

6 Mr. McGlothlin.

7 **MR. McGLOTHLIN:** Yesterday when Mr. Jones was
8 on the stand during my cross-examination I contacted
9 counsel for FPL regarding whether certain questions I
10 had covered in a deposition involved confidential
11 information. And after reviewing the transcript, it
12 does appear that the subject matter I was going to pose
13 in cross was treated as confidential. This morning I
14 have with me an excerpt from that transcript ready to be
15 marked as a confidential exhibit. I would do that in
16 lieu of the cross-examination I had planned to propose
17 to Mr. Jones when he was on direct.

18 **MR. ANDERSON:** No objection. We appreciate
19 counsel's courtesy in treating the confidential matter
20 in that way.

21 **MR. McGLOTHLIN:** Charles raises a good
22 question. Are there parties who should not get this?

23 **MS. CANO:** All the parties here have signed
24 confidentiality agreements and may receive it.

25 **MR. McGLOTHLIN:** We do need an exhibit number,

1 Chairman.

2 CHAIRMAN GRAHAM: Yes.

3 MR. YOUNG: And that's 202.

4 CHAIRMAN GRAHAM: Exhibit Number 202. And is
5 there a short title?

6 MR. McGLOTHLIN: And I'd move the admission of
7 202.

8 MR. YOUNG: A short title?

9 MR. McGLOTHLIN: What do we call it? Excerpt,
10 confidential deposition, Terry Jones.

11 (Exhibit 202 marked for identification.)

12 CHAIRMAN GRAHAM: Did the court reporter get
13 that?

14 THE COURT REPORTER: Yes.

15 CHAIRMAN GRAHAM: Okay. If there's no
16 objection to move 202 into the record --

17 MR. ANDERSON: None.

18 CHAIRMAN GRAHAM: -- we'll make that happen.

19 (Exhibit 202 admitted into the record.)

20 Was that it, Mr. McGlothlin?

21 MR. McGLOTHLIN: That's all.

22 CHAIRMAN GRAHAM: Okay. Is there any need to
23 hold on to the attorneys at Florida Power & Light for
24 the remaining --

25 MR. YOUNG: Not that I know of, sir. At this

1 time I would note that the FPL's portion of this year's
2 2011 NCRC hearing is concluded.

3 **MR. ANDERSON:** We thank the parties, the
4 Commission and the Staff for a very efficient,
5 expeditious hearing. Thank you very much.

6 **CHAIRMAN GRAHAM:** Thank you for your time and
7 patience and for the way you conducted yourself. Thank
8 you very much. Travel safe. Enjoy your weekend.

9 Mr. Young, talk to me about why Progress
10 Energy is not here in front of me.

11 **MR. YOUNG:** Paul Lewis is here. I think Paul
12 Lewis may be able to answer that question.

13 **CHAIRMAN GRAHAM:** Mr. Lewis, you might as well
14 come on up to the front. I've got to yell at somebody.

15 Welcome, sir. I don't know if your mike is
16 on.

17 **MR. LEWIS:** Thank you, Chairman.

18 **CHAIRMAN GRAHAM:** Mr. Young.

19 **MR. YOUNG:** I think Mr. Rehwinkel would like
20 to be heard as relates to the scheduling and, and some,
21 and some proposed stipulations that's being in the
22 works.

23 **MR. REHWINKEL:** Thank you, Mr. Chairman and
24 Commissioners. Charles Rehwinkel with the Public
25 Counsel's Office.

1 For the last day and a half or two days we've
2 been working, all of the parties, including Progress,
3 have been working on a proposed stipulation that would
4 give us a hearing time of one and a half to one day
5 potentially for Progress. We haven't completed all of
6 the approvals, so I can't say that we have a
7 stipulation, but I think we're close to doing that. And
8 if we can do that, it would mean that Progress would
9 only have to bring two witnesses to Tallahassee, and we
10 would have our one witness, and the Staff witnesses
11 would be stipulated.

12 We are still trying to work on that. I've
13 been in contact with Mr. Brew in Washington with respect
14 to PCS and the other parties here. We're not there yet,
15 but I think we will be. And I think we can guarantee
16 the Commission that we'll have a very abbreviated
17 Progress portion of the hearing.

18 It would also -- I think one of the, the
19 company's concerns is to make sure that these logistics
20 were done and sealed and they could make their
21 arrangements to be in Tallahassee. It would be helpful
22 for us to have a little bit of breathing room to do this
23 stipulation and so we could give the Commission a very
24 tightly knit hearing time for Progress. And so we would
25 ask that, that we be allowed to continue pursuing this

1 and start first thing Monday.

2 **CHAIRMAN GRAHAM:** Mr. Lewis.

3 **MR. LEWIS:** Thank you, Chairman. We agree
4 with that. I think that we're real close to bringing
5 this in for a landing. I think the extra time will
6 certainly, you know, get us there -- or hope it will get
7 us there. So we would request a start time of Monday as
8 well.

9 **CHAIRMAN GRAHAM:** Staff?

10 **MR. YOUNG:** Staff is comfortable with starting
11 on Monday.

12 **CHAIRMAN GRAHAM:** Well, I think I'm a little
13 comfortable starting on Tuesday. Is that a problem with
14 anybody?

15 **MR. REHWINKEL:** Tuesday is not a problem for
16 us. We wanted a no earlier than Monday start time.

17 **CHAIRMAN GRAHAM:** No. It's just -- I mean,
18 that's fine because just in case there's anything else
19 that comes out over the weekend or you guys need to iron
20 things out so we make sure that we're ready to go 9:30
21 Tuesday morning.

22 Is there any, anybody that's got a conflict
23 with that? I know we had the entire week set aside for
24 this. I just wanted to make sure that -- well, I do
25 appreciate you guys working on stipulating a lot of

1 these things and trying to streamline this process.

2 If there's nothing else -- Staff, is there
3 anything to be added?

4 **MR. YOUNG:** No, sir.

5 **MR. REHWINKEL:** Mr. Chairman, if I -- I also
6 want to just add, because I know this has been an issue
7 and has been a valid concern in the General Counsel's
8 Office. We're working to make the hearing, the focus of
9 the hearing next week all about the Levy nuclear
10 project. The Crystal River uprate project is a very
11 difficult issue to deal with because of the
12 uncertainties that have, have arisen due to events this
13 year.

14 So what we're trying to arrange is, is a
15 scenario where we can deal with Levy now, and all of the
16 parties believe we can, we can address the relevant
17 remaining CR3 issues in the next cycle. So none of this
18 is, is an attempt to kind of sweep anything under the
19 rug. It is a very pragmatic situation all the parties
20 recognize in our agreement, and I think the Commission
21 has facilitated that as well.

22 **CHAIRMAN GRAHAM:** Yeah. I agree. By no means
23 are we done with Crystal River. And that anything we
24 can do to clarify this and streamline this, I think it's
25 a good thing. And if you would reach out to Staff

1 sometime Monday morning and give them an idea of where
2 you are in the process, make sure that we know that
3 everything is moving smoothly.

4 **MR. REHWINKEL:** Okay.

5 **MR. YOUNG:** You took the words right out of my
6 mouth. I was going to request that the company notify
7 Staff as soon as possible on any proposed stipulations
8 and where they are, where they're at in terms of the
9 proposed stipulations so we can brief the Commissioners
10 before we get back here Tuesday morning at 9:30 or
11 whatever time the Chairman decides.

12 **CHAIRMAN GRAHAM:** So you would give us, the
13 Commissioners, reach out to our offices at least by
14 1:00 on Monday?

15 **MR. YOUNG:** Yes, sir.

16 **MR. REHWINKEL:** With the concurrence of the
17 parties, I have been keeping Staff posted on what we're
18 proposing to do so that we don't have any last minute
19 surprises or things that would, that would be a problem.
20 Especially with the Commissioners, if you wanted to hear
21 from certain witnesses.

22 **CHAIRMAN GRAHAM:** As you guys probably know by
23 now, I don't like surprises.

24 Commissioner Brisé.

25 **COMMISSIONER BRISÉ:** Thank you, Mr. Chairman.

1 And I thank the parties for working certain
2 things out together, and hopefully we can go further
3 with that. And that is precisely, with respect to CR3,
4 that is precisely the reason why it came to the full
5 Commission so that there was an affirmative decision to
6 move the issue to, 'til next year so that it was clear
7 to the public that we are not leaving the issue behind,
8 but we will deal with the issue at hand, which is Levy.
9 And so I think when we did that, I think that message
10 was sent loud and clear and there's nothing under the
11 rug or anything to that effect. So I thank you for, for
12 making that statement on the record as well.

13 **CHAIRMAN GRAHAM:** Commissioner Edgar.

14 **COMMISSIONER EDGAR:** Thank you. I know that
15 Mr. Rehwinkel, on behalf of OPC, represented that you
16 have been in contact with Mr. Brew, and he, of course,
17 on behalf of his client, was not a party to the FPL
18 portion and was excused from being here during that
19 portion. But as long as we do have the other
20 Intervenors that are still with us here today that will
21 be participating in the Progress, I would just like to
22 hear, you know, on the record if there are any, any
23 concerns or any other issues with the process that has
24 been laid out, and looking forward to a Tuesday time to
25 be all gathered again together.

1 **MS. KAUFMAN:** Commissioner Edgar,
2 Commissioners, on behalf of FIPUG, we are fine with the
3 process that has been laid out. We are hopeful that we
4 will come to agreement, and we think that the time
5 that's been discussed should be sufficient.

6 **COMMISSIONER EDGAR:** Thank you.

7 **MS. WHITE:** Yes. On behalf of the Federal
8 Executive Agencies, we echo those. I thank
9 Mr. Rehwinkel for his work to try to streamline this.
10 It makes all of our jobs a lot easier.

11 **MR. WHITLOCK:** Thank you, Commissioner Edgar.
12 I'd also, on behalf of SACE, like to thank Mr. Rehwinkel
13 and Progress for moving towards this stipulation. And
14 I, too, would echo the same, and I think we're very
15 close. And SACE is fine with a 9:30 a.m. Tuesday start
16 time. Thank you.

17 **COMMISSIONER EDGAR:** Thank you.

18 **CHAIRMAN GRAHAM:** Commissioner Balbis.

19 **COMMISSIONER BALBIS:** Thank you, Mr. Chairman.

20 And, again, in the -- as far as transparency
21 goes, I just wanted to point out for the public -- I
22 mean, all those that are here understand that the issues
23 associated with the CR3 repairs are a separate docket,
24 and that as Prehearing Officer I'm working with the
25 parties on addressing that and bringing that forth to

1 the Commission. But that issue again is separate from,
2 from this proceeding. I just wanted to point that out
3 for all those listening or watching.

4 **CHAIRMAN GRAHAM:** Thank you. Well,
5 Intervenors, I want to thank you for what we've done so
6 far, and I look forward to continuing on Tuesday.

7 Staff members, I want to thank you for making
8 this easy, expediting this process and lining it out
9 pretty clearly. Especially our court reporter, thank
10 you for your patience and your little fingers.

11 (Laughter.)

12 So just as long as we make sure that we're
13 clear that we're going to get back to Staff sometime
14 Monday morning, Staff is going to get back to the
15 Commissioners by 1:00 on Monday and give us a status
16 update on where things stand, but we are going to recess
17 until Tuesday morning at 9:30 a.m.

18 **MR. REHWINKEL:** We will get back with Staff
19 before Monday if we have an agreement. Yeah.

20 **CHAIRMAN GRAHAM:** That's fine. I'm just
21 giving you like a deadline.

22 All right. If there's nothing else, Mr.
23 Young.

24 **MR. YOUNG:** There's nothing else. The
25 confidentialities, if you want to hold onto them or if

1 you want us to pick them up, we can do that.

2 **CHAIRMAN GRAHAM:** All right. That all being
3 said, then we are recessed until 9:30 Tuesday morning.
4 Thank you very much, and have a safe weekend.

5 (Recess taken at 1:18 p.m.)

6 (Transcript continues in sequence with Volume
7 9.)

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1 CERTIFICATE OF REPORTER

2

3 STATE OF FLORIDA)

4 COUNTY OF LEON)

5

6 I, LINDA BOLES, RPR, CRR, Official Commission

7 Reporter, do hereby certify that the foregoing

8 proceeding was heard at the time and place herein

9 stated.

10

11 IT IS FURTHER CERTIFIED that I

12 stenographically reported the said proceedings; that the

13 same has been transcribed under my direct supervision;

14 and that this transcript constitutes a true

15 transcription of my notes of said proceedings.

16

17 I FURTHER CERTIFY that I am not a relative,

18 employee, attorney or counsel of any of the parties, nor

19 am I a relative or employee of any of the parties'

20 attorneys or counsel connected with the action, nor am I


21 financially interested in the action.

22

23 DATED THIS 16th day of August,

24 2011.

25



LINDA BOLES, RPR, CRR

FPSC Official Commission Reporter

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