BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Nuclear Cost Recovery Clause

DOCKET NO. 100009
Submitted for filing: April 30, 2010

REDACTED

DIRECT TESTIMONY OF JOHN ELNITSKY

ON BEHALF OF
PROGRESS ENERGY FLORIDA

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IN RE: NUCLEAR COST RECOVERY CLAUSE

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 100009

DIRECT TESTIMONY OF JOHN ELNITSKY

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is John Elnitsky. My business address is 299 1st Avenue North, St. Petersburg, Florida.

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

A. I am currently employed by Progress Energy, Inc. as the Vice President of the Nuclear Plant Development ("NPD") organization. I assumed this position in May, 2009. Prior to this appointment, I was employed by Progress Energy as its Vice President of Generation and Transmission Construction ("G&TC"). I joined Progress Energy in November 2007. Prior to my employment with Progress Energy, I served for more than twenty-seven years in the United States Navy rising to the rank of Rear Admiral. My assignments included responsibility for nuclear submarine construction, operation, and maintenance including holding positions as Director of Undersea Technology and Atlantic Submarine Force Chief Nuclear Power Officer.

Q. What is your role with respect to the development of the nuclear power plants, Levy Units 1 and 2?

A. As the Vice President of NPD I am responsible for the licensing and construction of the Levy Nuclear power plant project ("LNP"), including the direct management of the Engineering, Procurement, and Construction ("EPC") agreement with Westinghouse and Shaw, Stone & Webster (the "Consortium"). The Company reorganized the NPD in May 2009 to focus NPD on overall program management of the LNP including the associated base load transmission system projects. The revised NPD includes nuclear plant licensing, engineering, construction, base load transmission, and the program coordination and improvement teams for the LNP. As part of this reorganization, representatives from these areas as well as from other parts of the Company including project controls, business and financial management services, contract management and administration, and other support functions formed a Program Management Team ("PMT") within NPD that I headed up to manage the EPC agreement and the related projects under the LNP.

As the Vice President of NPD, I report directly to Jeff Lyash, the Executive Vice President of Corporate Development for Progress Energy. The Corporate Development group was formed within Progress Energy to provide additional management focus to Progress Energy capital projects that are part of Progress Energy's Balanced Solution, which includes state-of-the-art power plants like the LNP. I also report on the LNP to the Senior Management Committee ("SMC"). The SMC has senior management responsibility for the LNP and includes Mr. Lyash, as well as Progress Energy's Chief Executive Officer ("CEO"), Chief Financial Officer and the CEOs of PEF and Progress

Energy Carolinas. I have briefed the SMC with respect to the LNP, the EPC agreement, and the Consortium discussions and negotiations. Also, in my prior position as the G&TC Vice President I was indirectly responsible for the management of the transmission work for the LNP.

Q. Please describe your educational background and professional experience.

A. I earned a Bachelor of Science in Mechanical Engineering degree, with distinction, from the United States Naval Academy in Annapolis, Maryland and both a Master of Science degree and the advanced degree of Mechanical Engineer from the Naval Postgraduate School in Monterey, California. I am also a senior graduate of the Naval Nuclear Power Program and completed Executive Business education at UC Berkley's Hass School of Business and UNC's Keenan Flagler Business School. I am a Project Management Institute certified Project Management Professional and a member of the American Nuclear Society and American Society of Mechanical Engineers.

As I indicated previously, prior to joining Progress Energy, I served in the United States Navy. While I was with the United States Navy, I served on board nuclear submarines and oversaw the construction of two submarines through reactor plant initial criticality and sea trials. Prior to commanding a Trident ballistic missile submarine I served as the Atlantic Submarine Force Chief Nuclear Power Officer responsible for the safe reactor plant operations and maintenance of 30 submarines and 4 nuclear maintenance activities. My most recent role in the U.S. Navy was as the commander of the Naval Undersea Warfare Center in Newport, Rhode Island, and as the navy's Direct of Undersea Technology where I led a 4,100 member workforce and a $1.3 billion

research, development, and engineering business. In this capacity I also served as a member of the Warfare Center Board of Directors responsible for 11 laboratories and 18,500 personnel.

II. PURPOSE AND SUMMARY OF DIRECT TESTIMONY.

Q. What is the purpose of your direct testimony?

A. I will explain the Company's evaluation of options regarding the LNP in light of the schedule shift resulting from licensing delays and other enterprise risks that have affected the project. I will also explain the NPD management team recommendations to the SMC with respect to the Company's ultimate decision to move forward with the LNP at a slower pace. I will discuss the Company's negotiations with the Consortium under the EPC contract for addressing this schedule shift. Finally, I will discuss the Company's evaluation of and decisions related to the disposition of specific EPC purchase orders.

Q. Do you have any exhibits to your testimony?

A. Yes. I am sponsoring the following exhibits:

- Exhibit No. ___ (JE-1), PEF's April 30, 2009 Notice of Change;
- Exhibit No. ___ (JE-2), PEF time line of key events in the LNP schedule shift evaluation;
- Exhibit No. ___ (JE-3), Levy Nuclear Project EPC Amendment Update to SMC dated March 8, 2010; and
- Exhibit No. ___ (JE-4), Long Lead Material ("LLM") list, disposition methodology, and current timeline for disposition of LLM purchase orders.

Also, I am co-sponsoring Schedule TOR-6 and sponsoring Schedule TOR-7 included as Exhibit No. ___ (TGF-3) to Thomas G. Foster's testimony. These exhibits were prepared by the Company under my supervision and direction and they are true and correct. PEF further proposes the identification of the EPC agreement and amendments for use at the final hearing subject to the Commission's requirements for the use of confidential exhibits at Commission hearings. The EPC agreement and amendments are subject to strict contractual conditions of confidentiality, however, they have been made available pursuant to those contractual conditions to the Commission staff and intervening parties who have requested to view them.

Q. Please summarize your direct testimony.

A. PEF acted reasonably and prudently in managing the LNP, amending the EPC Agreement on March 25, 2010, and moving forward with the LNP on a slower pace. I address this in Sections III and IV of my testimony.

Beginning in early 2009, the licensing schedule for the LNP began to shift for reasons beyond PEF's control. As a result, it became clear that the original in-service dates of 2016 and 2017 for the Levy units were no longer achievable. The EPC agreement contained specific provisions in anticipation of such events. These provisions provided a clear, known process for a suspension of work, subsequent rescheduling, and amendment to the EPC agreement. PEF implemented these provisions with respect to the options PEF identified in response to the LNP schedule shift. The Consortium provided the information necessary to evaluate these options and the Company worked with the Consortium to partially suspend the work while the Company analyzed and evaluated this information and its options. This assessment included the evaluation of the principal

risks affecting the project including those risks beyond the Company's control. When the Company's assessment indicated additional options should be evaluated and further information obtained to perform the evaluation, the Company identified these options and obtained the necessary information to evaluate them. As a result of this process, the Company made a decision to amend the EPC agreement and extend the partial suspension of certain work except that required to obtain the Combined Operating License ("COL") from the Nuclear Regulatory Commission ("NRC"), to complete certain equipment purchase orders where reasonable and prudent to do so, to complete certain transmission and right-of-way ("ROW") acquisition work, and to complete work necessary to comply with the terms of the state approval of PEF's Site Certification Application (Site Conditions of Certification). We further authorized work to allow for continued partial suspension by developing status packages for engineering work performed to date to retain the value of this work. These were informed decisions as a result of a rational, deliberate decision-making process consistent with reasonable, prudent business practices in our industry.

III. BACKGROUND ON PEF LNP DECISION

Q. What was the status of the LNP at the beginning of 2009?

A. The Company signed the EPC agreement on December 31, 2008 and was moving forward with the licensing, design, engineering, procurement, and construction of Levy Units 1 and 2 to meet the 2016 and 2017 in-service dates approved by the Commission in the Levy Need case, and in accordance with the schedule in the EPC agreement. The original schedule contemplated certain preconstruction site work under a Limited Work

Authorization ("LWA") issued by the NRC in advance of the COL for the LNP. The LWA was part of the Company's Combined Operating License Application ("COLA") docketed with the NRC in October 2008. In late January 2009, the NRC determined that it would review the LWA on the same schedule as the COL under the Company's COLA. This determination meant that preconstruction site work contemplated under the LWA could not be performed early, before COL issuance, but would have to be performed after COL issuance. This determination was reflected in the NRC COLA review schedule for the LNP that was issued on February 18, 2009. The Commission concluded in Docket No. 090009-EI that PEF's actions and planning regarding an LWA leading up to the signing of the EPC contract were reasonable and consistent with good business practices.

The Company discussed possible revisions to the work scope under the proposed LWA with the NRC in February and March 2009. These discussions and the Company's options were addressed and explained in Mr. Miller's May 1, 2009 direct testimony in Docket No. 090009. As explained there, the discussions regarding the LWA scope did not result in possible scope changes that had any meaningful impact on the schedule shift caused by the NRC's LWA determination. As a result, PEF withdrew the LWA from its COLA and allowed the NRC and PEF to proceed with the LNP COLA review as defined by the revised COLA. The subsequent impact of the NRC LWA determination to the original LNP schedule was a minimum twenty (20) month schedule shift.

Q. What was the status of the Company's other licenses or permits for the LNP at that time?

A. PEF met every regulatory license or permit milestone in 2009 for the LNP except for the

LWA. For example, the Florida Department of Environmental Protection ("DEP") issued its report on the LNP Site Certification Application ("SCA") on January 12, 2009, the SCA hearings were conducted in March 2009, and the Administrative Law Judge issued his recommended decision and order to approve the LNP SCA on May 15, 2009. The Governor and Cabinet sitting as the Siting Board voted to approve the LNP SCA on August 11, 2009 and the final order on the SCA for the LNP was issued on August 26, 2009. This action signified state approval of the LNP.

Q. What was the impact of the NRC LWA determination on the EPC agreement?

A. The NRC LWA determination impacted the LNP schedule in the EPC agreement. The LNP schedule in the contract determined the order and the timing of project activities the milestone payment schedule for this work. Since the contract schedule as written was no longer executable, the Company had to decide on a revised schedule, order of work, and milestone payment schedule for the work in an amendment to the EPC agreement.

Q. In light of the schedule shift necessitated by the NRC's LWA decision, what criteria did the Company use to determine what the revised LNP schedule should be?

A. The Company recognized that any amendment to the EPC agreement must, at a minimum, accommodate the schedule impact as a result of the LWA determination. In addition, the Company decided that the revised schedule should account for the potential risk of further unanticipated delays in the regulatory licensing review activities. Other considerations included the near-term impacts of the economic recession on customers and the Company. As a result, the Company wanted to reduce near term capital

commitments and defer as much capital investment as possible until after the COL was obtained. This objective reduced the capital investment exposed to further regulatory review schedule risk and significantly lessened the near term price impacts on customers during the recession. The Company, however, recognized the need to balance these objectives against the goal of minimizing the impact of the revised schedule on the cost of long lead items and equipment and the overall project cost. The Company also wanted to adjust the LNP schedule once, rather than initiating a series of schedule changes and contract amendments.

Q. How did the Company use these criteria with the Consortium?

A. Based on these criteria, on April 30, 2009, the Company asked the Consortium to analyze the impacts of schedule shift scenarios based on a twenty-four (24) and thirty-six (36) month shift in the in-service dates of Levy Unit 1 with various options for the in-service date of Levy Unit 2. The 24-month schedule shift scenario was based on the minimum 20-month schedule shift as a result of the LWA determination with some additional contingency time built back into the schedule. The 36-month schedule shift scenario was considered because it accommodated the minimum schedule shift due to the LWA determination and provided additional contingency for any limitations that might arise during the Consortium's analysis of the schedule shift, such as queue position limitations in the manufacturing supply chain for engineered equipment. This information was necessary to negotiate an amendment to the EPC agreement.

Q. Did the EPC agreement have a mechanism to address schedule shifts like the one caused by the NRC LWA determination?

A. Yes. Under the EPC agreement, PEF had the right to [redacted]

The suspension without cause provision was added to the agreement during original negotiations to provide PEF [redacted] if events beyond PEF's control caused a change in the work or schedule. Invoking this provision initiates an orderly, defined process for stopping and preserving the work while obtaining necessary information regarding potential work and schedule impacts in order to determine how to proceed with an amendment to the EPC agreement. These provisions require the Consortium to work with PEF throughout this process and they provide defined costs or mechanisms to determine the costs to implement the provisions to the agreement.

Q. How did this contractual mechanism work?

A. A suspension of work under this provision was a change to the contract under the change

order provisions of the agreement. PEF implemented the provisions for the adverse impact to the LNP schedule caused by the NRC's LWA determination with its April 30, 2009 notice of change to the Consortium. Following the notice of change pursuant to the suspension of work by PEF, the Consortium was required to provide PEF information as it became available regarding the effects of the change on the contract and schedule including cost, opportunities to mitigate the costs or delays associated with the change, a written proposal to execute the changed work, and any proposed revisions to the agreement to accommodate the change. The agreement further provided the method and manner for payment to the Consortium to perform these obligations under the suspension of work and change order provisions to the agreement. The specific terms of the suspension of work and change order provisions are spelled out in detail in the EPC agreement, including its exhibits.

Q. What was the effect of the notice of change to the Consortium?

A. The notice of change triggered the Consortium's contractual requirements to provide PEF with information regarding the effect of the suspension and changes to the work, including cost and schedule impacts, and any mitigation opportunities. See Exhibit No. ___ (JE-1) to my testimony. PEF needed the cost and cash flow impacts for the requested schedule scenarios to decide how to amend the EPC agreement as a result of the LNP schedule shift.

To provide PEF the information it needed to make an informed decision the Consortium had to engage in an extensive analysis of the schedule scenario impacts on all aspects of the work under the EPC agreement. This included (i) long lead material and

other equipment or material purchase orders; (ii) the availability of skilled construction labor in the future periods under consideration in the schedule scenarios considering both domestic and international nuclear construction; (iii) engineering and project management oversight support and schedules; and (iv) re-ordering hundreds of milestone and progress payments for bulk material, balance of plant material, and the thousands of man-hours of engineering, project management, and construction work on the project. To illustrate one aspect of the complexity of this analysis, with respect to a long lead material item for the project like the steam generators, the Consortium had to consult the vendor in the supply chain and have that vendor review each step in the complex and lengthy manufacturing process, consult with the vendor's second and third tier suppliers, and forecast future production schedules given the vendor's current and future production capacity. This process had to be followed for each of the thirteen long lead material items. All of this work was extensive and time consuming. The Consortium performed this work between PEF's notice of change to the Consortium in late April and mid-August 2009.

With its notice of change to the Consortium, PEF suspended most contract work while the Consortium evaluated variations of the 24-month and 36-month LNP schedule shifts for an amendment to the EPC agreement. However, work necessary to support the regulatory reviews for the SCA, COL, and other required licenses or permits continued. Common work efforts to support the overall design of the AP1000 nuclear technology also continued. Work further continued on long lead material items that were put in place prior to the notification of change to the Consortium and the Company initiated coordinated efforts to identify the status of other long-lead material and equipment

purchase orders to determine the most efficient means to deal with them during the period of the partial suspension. As a result of these coordinated efforts, decisions were made on three long-lead items to efficiently advance the work.

Q. Was PEF involved in the work required to address the LNP schedule shift?

A. Yes. PEF worked closely with the Consortium to implement PEF's notice of change to the EPC agreement. PEF and the Consortium negotiated certain change orders to continue design and analysis work consistent with schedule shift analyses under evaluation by the Consortium. PEF also worked with the Consortium to identify long lead item materials for appropriate disposition in order to maintain the viability of schedule shift analyses under review. This work resulted in change orders for the analysis of certain long lead materials. PEF also participated in Consortium discussions with vendors for major engineered equipment and components regarding schedule shift pricing. PEF engaged in an on-going dialogue with the Consortium regarding the pricing approach to the schedule shift analyses.

Q. Did the Consortium respond to the Company's notice of change and request for schedule shift scenario analyses?

A. Yes. In mid-August 2009, the Consortium provided its confidential schedule shift analyses including cash flow impacts to the Company in response to the Company's request. This was preceded by meetings with the Consortium first, to discuss the structure of the report the Consortium was going to provide and second, to receive a preview of the report. The Consortium provided detailed price estimates for some but not

all scenarios given the constraints of dealing with the extensive vendor supply chain for information. These estimates provided indicative pricing and high level schedules, and were subject to negotiation with the Company.

The Company evaluated the scenario estimates. This required a detailed review of the price estimates for the schedule shift scenarios to determine how the price estimates were determined and to better understand how the estimates were calculated and how they might change. For example, the Consortium provided written assurance that it was maintaining the existing terms and conditions of the EPC agreement [redacted] with the schedule shift scenarios it provided. We did not just take the Consortium's word that the Consortium took this action, but instead confirmed that no such changes were incorporated in the estimates.

The Consortium further had provided price estimates for the "bookend" scenario shifts, i.e. the shortest and longest schedule shifts so additional work was necessary to understand the price estimation for schedule shift cash flow sensitivities between these two "bookend" scenarios. The Company did not simply analyze the cash flows provided by the Consortium but compared those cash flows to the original EPC Agreement cash flows to determine that the revised cash flow sensitivities were consistent with the original contract schedule and cash flows.

The Company further worked with the Consortium to understand the impacts of the schedule shifts on long lead material items, given the vendor and Consortium information the Company had, and design change packages. The Company also tied the schedules in the schedule shift scenarios to the Company's internal schedules to ensure

that owner costs and schedules for such items as project management, operational readiness, owner-managed facility construction, and transmission were reflected in any changes to the schedule. These are examples of the detailed analysis the Company performed with respect to the schedule shift scenario price estimates and schedules provided by the Consortium.

The Company analyzed these scenarios between August and October through discussions with the Consortium and internal reviews of the various schedule scenario cash flow estimates. This work was necessary for the Company to better understand the price estimates under the schedule shift scenarios so that the Company could make an informed decision about them. Included as Exhibit No. ___ (JE-2) to my testimony is a detailed time line of the key schedule shift analysis events in PEF's evaluation.

IV. PEF'S EVALUATION PROCESS FOR THE LNP DECISION

Q. When the Consortium provided its schedule shift analysis in August 2009, did the Company decide at that time to negotiate a change order to the EPC agreement based on the Consortium's schedule shift scenarios analyses?

A. No. The schedule shift analyses and our subsequent review of them provided the Company with necessary information regarding estimated cash flows associated with various changes in the LNP schedule and the potential impacts of various schedule shifts on the supply chain. The Company needed time to assess the information and consider its options. By October 2009, when the Company completed its evaluation of the Consortium's schedule shift cash flow analyses, the Company concluded that there was greater uncertainty surrounding the schedule shift scenarios evaluated by the Consortium.

The Company decided that the 36-month schedule shift scenario with an 18-month spread between the in-service dates for Levy Unit 1 and Unit 2 was a more reasonable, minimum LNP schedule shift scenario than the 24-month schedule shift scenario. By October 2009, the Company considered this its base case minimum schedule shift scenario. Even this schedule shift scenario, however, was considered optimistic and aggressive in the face of the increasing enterprise risks facing the project.

Q. What are enterprise risks?

A. Enterprise risks are those risks outside the direct scope of the LNP that cannot be reasonably controlled by the Company but that can -- and do -- affect the LNP. Enterprise risks include the risk associated with schedule shifts due to licensing and permit review and approval delays. The NRC's decision on the LWA and the resulting impact on the LNP schedule is an example of just such an enterprise risk. Enterprise risks also include the potential risks associated with the economy, the Company's sales, load, and financial position, federal and state energy and environmental policy, legislation, and regulation, and federal and state support for nuclear generation development.

Q. How did enterprise risks associated with the licensing schedule for the LNP affect the Company's evaluation of the revised project schedules in the fall of 2009?

A. Generally, by October 2009, there were indications that the LNP COLA review schedule faced the risk of further regulatory delays. The Company received information from the NRC in September 2009 that completion of the licensing safety review was being

rescheduled from May 2011 to July 2011. There were also indications that the NRC environmental review would also be rescheduled. In addition, by this time the NRC Atomic Safety and Licensing Board ("ASLB") had admitted contentions in PEF's COLA docket that meant a litigated hearing before the NRC would be held before the LNP COL was issued. Additionally, there were indications of further potential licensing delays surrounding the NRC's acceptance of certain Westinghouse AP1000 design changes pending before the NRC for approval. All of these factors indicated an increased risk of further regulatory delay with respect to the LNP COLA.

Q. What does the NRC COLA review process for the LNP entail?

A. There are three parts to the NRC COLA review. These are (1) the review and issuance of a Final Safety Evaluation Report ("FSER"), (2) the review and issuance of a final environmental impact statement ("FEIS"), and (3) a formal hearing before the NRC Atomic Safety and Licensing Board ("ASLB") for any contentions to the LNP COLA admitted by the ASLB. In addition, the Westinghouse AP1000 Design Certification revision must be certified prior to final approval of the COL.

PEF initially requested a COL review schedule from the NRC with its COLA that allowed sufficient time for all three parts of the COL to be completed in a time frame that was consistent with the Company's initial schedule for the 2016 and 2017 in-service dates for the Levy units. In February, 2009, the NRC issued its LNP COL review schedule. As I explained earlier, the NRC's review schedule did not include the LWA PEF requested. The other dates in the NRC's LNP COL review schedule, however, were consistent with PEF's requested review schedule.

Q. During the late 2009 time frame, what indications were there from the NRC that there might be further regulatory schedule changes affecting the LNP?

A. PEF received a letter from the NRC on September 16, 2009 that identified that the FSER issuance date was being rescheduled from May 5, 2011 to July 14, 2011. The NRC confirmed this slippage in the FSER issuance date in its status report on the LNP COLA review to the ASLB on October 1, 2009. The NRC also informed us that the review schedule for the FEIS was being re-evaluated and would result in some shift in the FEIS issuance date. The NRC confirmed that it was re-evaluating the environmental review schedule in the NRC's November 1, 2009 status report on the LNP COLA review to the ASLB. The slippage in the NRC review schedule for the FSER and the schedule uncertainty with the FEIS in the fall of 2009 added to the risk of further shifts in the review schedule for the LNP COL.

Additionally, by the time that PEF was considering the Consortium's schedule shift analyses, the NRC had granted certain interveners requests for a hearing on the LNP COLA. Earlier in 2009, three private, anti-nuclear groups, the Nuclear Information and Resource Service ("NIRS"), the Ecology Party of Florida ("EPF"), and the Green Party of Florida ("GPF") had petitioned to intervene and requested a hearing in PEF's NRC LNP COLA docket. They submitted twelve "contentions" to the LNP COL issuance for consideration by the ASLB at a hearing. On April 6, 2009, the ASLB allowed them to intervene and granted their hearing request, and on July 8, 2009, the ASLB ruled on their contentions and admitted parts of three contentions to the LNP COL. The ASLB's ruling required a hearing on the admitted parts of the three contentions. The admissions of these contentions also resulted in the requirement to separately conduct contested and

mandatory hearings although they can be conducted in parallel. As a result, this event added to the uncertainty with respect to the LNP NRC COL review schedule.

Q. Were these the only events or circumstances affecting the NRC review schedule for the LNP COL in the late 2009 time frame?

A. No. PEF's LNP COL issuance also depends on the NRC's review and approval of a revision to the Westinghouse AP1000 Design Certification for the nuclear reactor design that will be constructed and operated at the Levy site. The LNP will employ the Westinghouse Advanced Passive ("AP") 1000 light water nuclear reactor design. This nuclear reactor design received NRC Design Certification through revision 15 to the AP1000 Design Control Document ("DCD"). Additional design changes and corrections through revisions 16 and 17 to the AP1000 DCD, however, were submitted to the NRC for review and approval.

These revisions are presently pending before the NRC and must be approved before the LNP COL can be issued. The NRC formalizes the AP1000 Design Certification approval through a rulemaking process. The NRC LNP COLA review schedule is therefore subject to change based on the timing of the NRC's approval of the AP1000 DCD.

On April 3, 2009, the review schedule for the AP1000 DCD Revision was revised, resulting in a schedule shift for the AP1000 DCD. Based on the reassessment, the projected completion date for the final safety evaluation report is December 2010 and for the rulemaking, August 2011. The NRC subsequently notified Westinghouse on October 15, 2009 that modifications to the shield building design were needed to

complete review of the AP1000 DCD Revision 17. The review of this modification is expected to have an additional impact on the review schedule for NRC approval of the AP1000 DCD Revision 17. This issue remains unresolved as of this filing although a resolution satisfactory to the NRC is ultimately expected. Because this revision must be approved before the LNP COL can be issued there is therefore greater risk that the NRC review schedule for the LNP COL will also be impacted.

Q. Please summarize the impact that the uncertainties related to the licensing schedule for the LNP had on PEF's assessment of the revised schedule options it was considering?

A. By October 2009, there was additional uncertainty regarding the NRC LNP COL review schedule. Changes in and events associated with the NRC review schedules for the AP1000 DCD Revision 17 indicated greater risk of adverse impacts to the LNP COL review schedule. There were also signs of possible additional slippage in the NRC review schedule for the LNP COL itself. As a result, by October 2009, a minimum 24-month LNP schedule shift was no longer realistic. The 36-month LNP schedule shift scenario still appeared to be feasible, but such a schedule provided no allowance for further delays in the project schedule. That lack of "float" in the 36-month LNP schedule was a concern for the Company as it considered its options in October 2009.

Q. Did the Company's concerns in the fall of 2009 regarding the risk of further shifts to the regulatory review schedule turn out to be well founded?

A. Yes. Early this year, on January 20, 2010, the NRC issued a revised review schedule for

the LNP COLA that included an environmental schedule revision. This review schedule provided a target date for the LNP FEIS that was about ten months after the date PEF requested. Additionally, when the ASLB scheduling order associated with the admitted contentions was issued earlier in August 2009, the ASLB identified the trigger date for the start of the contested hearings as the issuance of the FEIS and the ACRS letter recommending approval of the FSER. The schedule shift in the issuance of the FEIS, the requirement to conduct contested hearings, and the inability to start the contested hearings with the issuance of the FEIS alone resulted in a delay in issuance of the COL from late 2011 to late 2012, at the earliest. Combined with the on-going DCD Revision 17 review, the Company expected a LNP schedule shift of at least three years.

Q. What conclusion did the Company reach regarding the LNP schedule?

A. PEF concluded that the minimum possible schedule shift was 36 months for Levy Unit 1 with Levy Unit 2 to follow in eighteen months, which equates to in-service dates in 2019 and 2021 for Levy Units 1 and 2, respectively. This was the Company's base case option against which other options were compared. By the fall of 2009, however, the Company recognized that this base case option was fairly optimistic and aggressive. As I have explained, regulatory schedule uncertainty at the NRC had increased, not decreased, with changes in the target FSER and FEIS dates for the LNP COLA review and with hearings on limited contentions. Likewise, there was greater uncertainty regarding the NRC review schedule for the LNP COL as a result of licensing activities with respect to the NRC's review of the AP1000 DCD Revision. The Company still expects the NRC to approve the AP1000 DCD Revision and to issue the LNP COL. Both NRC reviews are

proceeding and the NRC's technical Requests for Additional Information ("RAIs") are being answered. There is no indication from the NRC that these reviews will not be completed and the appropriate licenses issued. The question is only when these reviews will be completed. The uncertainty surrounding this question led us to conclude the more likely minimum schedule shift for the LNP was beyond 36 months. This uncertainty is one reason the Company was addressing in October the extent of the capital investment in the LNP before the COL was issued under this new base case schedule shift scenario.

Q. Were there other reasons for the Company to be cautious about the level of investment in the LNP before the COL was issued?

A. Yes. The Company continuously monitored all enterprise risks facing the project. As I explained above, these enterprise risks include the risks associated with schedule shifts due to licensing and permit review and approval delays, the economy, the Company's sales, load, and financial position, federal and state energy and environmental policy, legislation, and regulation, and federal and state support for nuclear generation development. All of these enterprise risks can and do affect the development of the LNP. As explained by Mr. Lyash in his testimony, there was increasing uncertainty with respect to these enterprise risks in the fall of 2009. As Mr. Lyash further explains, PEF management was aware of these risks and considered them in its decision whether and how to proceed with the project.

Q. How did the Company evaluate the LNP schedule shift under these circumstances?

A. The Company considered several options in light of the enterprise risks facing the LNP in

the fall of 2009 and eventually focused its assessment on three options. One option was proceeding as quickly as possible with the LNP to try to achieve a 2019 in-service date (the 36-month shift), and to execute an amendment to the EPC agreement to meet that aggressive schedule. Based on information available from the Consortium at that time, this schedule shift substantially maintained the EPC agreement supply chain but with minimal options to lower long-lead material costs in the near term. On the other hand, this option included no float in the schedule and, therefore, carried considerable risk from a project schedule perspective. It also required the largest near-term capital investment and customer price impact, and provided the least flexibility with respect to the enterprise risks facing the project.

A second option included negotiating a LNP schedule shift longer than 36 months with the Consortium to extend the suspension of most LNP work and minimize the near term capital investment in the LNP until the COL was obtained. This option lowered the near term customer price impact during the recession and reduced the capital investment exposed to the uncertainties surrounding the regulatory review schedules and other enterprise risks before the COL was issued. This option was expected to involve some purchase order disposition and cancellation costs with the extended suspension but it would preserve the project, [redacted] and also maintain the ability to accelerate work on the project. To pursue this option, however, the Company needed additional information from the Consortium. In particular, the Company needed to know if the Consortium was willing [redacted] to enter into a longer term partial suspension of work unrelated to the COLA work until the COL was obtained.

Alternatively, the Company considered terminating the LNP altogether, which would have included cancellation of the EPC agreement. This option exposed the Company to both [redacted] It also stopped all regulatory reviews, which would likely put an end to future nuclear generation development by the Company in Florida for the foreseeable future.

Q. What steps did you take to assess these options?

A. One step that we took was to determine whether the Consortium was interested in the option that deferred most capital spending until PEF obtained the COL for the LNP. This option was in our view attractive because it minimized the significant near term price impact to our customers, allowed time for economic conditions to improve, reduced the Company's capital investment exposure before the COL was obtained, allowed additional time for greater certainty to develop with respect to the other enterprise risks facing the project, and maintained low fuel-cost, carbon free nuclear generation as a base load generation option for the Company. This option, however, required additional agreements and information from the Consortium. We needed the Consortium to (1) extend the EPC's [redacted] and (3) provide the Company with additional information regarding the options related to disposition of long lead material for the project.

Q. How did the Company work with the Consortium to get the needed information to assess the option to move ahead with the LNP at a slower pace?

A. In late October 2009, we met with the Consortium to discuss this option and to begin negotiations with the Consortium regarding the implementation of this option and, ultimately, the amendment of the EPC agreement to meet the Company's objectives under this option. These discussions continued into December 2009 when both parties realized additional time was needed beyond the end of the year to continue the discussions and finish the negotiations. In particular, the Company needed critical additional information related to the long lead material that it did not have yet in late 2009 in order to make an informed decision. As a result, the Company and the Consortium [redacted] to obtain the necessary information to make an informed decision and conclude the negotiations with the Consortium. This resulted in an amendment to the EPC agreement [redacted]

These negotiations continued in early 2010 and resulted in an agreement with the Consortium to explore the potential longer term suspension of all work except work necessary to obtain the COL until the COL was obtained and other limited work the parties mutually agreed was cost effective to perform.

Q. What did the Company do with this information provided by the Consortium?

A. The Company was able to do a detailed assessment of all three options based on information obtained from the Consortium and the Company's internal analyses of the

cost and schedule impacts, enterprise risks, and feasibility of completing the power plants. These analyses included qualitative and quantitative comparisons to the options. The highlights of these analyses are presented in the SMC presentation dated February 15, 2010 attached as Exhibit No. ___ (JL-6) to Jeff Lyash's testimony.

Q. Did the Company's analyses include a comparison of the costs of the LNP option?

A. Yes. For each of the three options, the Company considered the costs to be incurred over the three year period from 2010 through 2012. PEF chose that time frame because 2012 is the current estimate of when the COL for the LNP is to be issued and it also provides a reasonable assessment of the near term costs of each option. In undertaking this analysis, PEF considered the costs associated with continuing project work, as well as contract cancellation and disposition costs. Obviously, not all of these costs types are applicable to each option. Also, many of the costs are estimates based on the information provided by the Consortium and the Company's internal assessments. Based on that analysis, the estimates of the cost over the next three years of the three options the Company considered were as follows:

- Cancellation of the EPC and the LNP [redacted]
- Proceeding as quickly as possible [redacted]
- Continuation of the LNP with a focus on COL activities [redacted]

These cost estimates are included in the SMC presentation attached as Exhibit No. ___ (JL-6) to Mr. Lyash's testimony.

The costs associated with the project cancellation option include the cost to cancel the EPC and that associated fuel contract, which [redacted] In addition, PEF would

incur costs to dispose of certain equipment purchase orders. Some of these purchase orders would simply be cancelled and others would be allowed to be completed, depending upon how far along the equipment manufacturing process is and the value of the completed equipment. The cost of the purchase order disposition is estimated to be [redacted] The balance of the costs for this option consists of estimated owner's costs and wind down costs to close out the LNP.

The cost associated with moving as quickly as possible includes the costs associated with pursuing the COL. In addition, this approach requires significant expenditures for transmission work and long lead time equipment in order to accommodate a 2019 in service date for the first Levy unit.

The estimated costs for the COL focused approach consist of the cost to pursue the COL, which PEF estimates to be [redacted], and purchase order disposition costs which were initially estimated at [redacted]. Under this option, the Company also expects to incur approximately [redacted] for a modest amount of transmission work and other miscellaneous amounts owner costs. There are also estimated costs under the EPC agreement totaling about [redacted].

Q. Did the Company estimate the total project costs under these options?

A. Yes, it did, for both options that involved continuation of the project. These estimates are based on information obtained from the Consortium and its vendor supply chain with respect to the impacts of schedule shifts on the schedule, long lead material purchase orders, and ultimately the cost. PEF was able to discuss this information with the Consortium and spend considerable time breaking down and understanding the costs that

made up this estimate. This information was not previously available to the Company and, therefore, this type of analysis could not be done before it was obtained.

The total project costs under both project continuation options are projected higher than total project cost previously filed with the Commission. This is due largely to the effects of cost escalation resulting from the shifts in the in-service dates for the first unit to 2019 or to 2021, respectively, under these options. The increase in the total project cost over these extended time periods is relative to the increase in the benefits from fuel cost savings and carbon cost emission savings over the same time period. The relative comparison of the total project costs to these benefits of the LNP are addressed in the Company's updated economic analysis for the feasibility of the project and discussed in detail in the testimony of Mr. Jeff Lyash. See Exhibit No. ___ (JL-6) and Exhibit No. ___ (JL-3) to Mr. Lyash's testimony. For these reasons, the total project costs for the LNP cannot be evaluated in isolation and they were not evaluated that way by the Company.

Q. What recommendation did you make to management concerning the options considered for the LNP?

A. As a result of the Company's detailed assessment of the options reasonably available to the Company for the LNP, we recommended that the SMC pursue the option of continuing the LNP with an amendment to the EPC agreement to extend the partial suspension until the COL was obtained for the LNP. The SMC accepted this recommendation for the reasons explained in detail in Mr. Jeff Lyash's testimony in this proceeding.

Q. Why did you make this recommendation to management?

A. This option best met the Company's objectives given the minimum schedule shift and enterprise risks the Company faced on the LNP. First, this option mitigated the regulatory review schedule risks associated with project continuation under a minimum 36 month schedule shift. Due to the regulatory review schedule risks there is no float in the 36 month schedule shift. As I explained previously, the Company believes the more likely minimum schedule shift is beyond 36 months. If the federal regulatory license activities that can impact the LNP schedule are delayed beyond the current 36 month LNP schedule, as the Company expects might be the case, the regulatory license review schedules will drive the scheduled in-service dates for the Levy units. In other words, the investment of significant near term capital in the LNP will not ensure a substantially earlier in-service date than the in-service date that can be achieved under the option that we selected.

Second, this option reduced the risk of capital invested in the project and exposed to the regulatory license schedule review risk and other enterprise risks before the COL is obtained. Under this option over $1 billion in capital investment in the LNP is deferred until after the COL is obtained. This capital investment is not at risk of further project impacts as a result of federal regulatory licensing activities or other enterprise risks, such as the near term impacts of poor economic conditions in Florida and the current uncertainty regarding federal and state energy and environmental legislation and regulation, including climate control legislation and greenhouse gas emission limitations. The Company evaluated all these enterprise risks in the Company's qualitative feasibility analysis that is fully discussed by Mr. Jeff Lyash in his testimony.

Third, this option significantly reduces the near term customer price impact compared to proceeding with the minimum 36 month schedule shift option. Customers are projected to pay substantially less under this option in 2011 and 2012 at a time when they face increasing costs to comply with new Demand Side Management goals and still uncertain economic conditions. This option, therefore, mitigates the price impact to customers until economic conditions are expected to improve.

Fourth, this option preserved fuel and carbon emission cost savings by preserving nuclear generation as a viable option compared to an all natural gas fired generation resource plan. The Company's economic analysis under its quantitative feasibility analysis indicated the LNP was still economically feasible considering all likely fuel and carbon emission cost scenarios even under the Company's most conservative total project cost estimate for this option. The results of this economic analysis and the Company's updated analysis for the detailed feasibility analysis in this proceeding are discussed in detail by Mr. Jeff Lyash in his testimony.

Finally, while this option will likely result in additional long lead material and other purchase order disposition costs, so does termination of the EPC agreement and cancellation of the project. Additionally, termination of the EPC agreement and cancellation of the project means the Company and its customers will lose the benefits of new nuclear generation in Florida, the benefits of sunk costs in the project, and the beneficial terms of the EPC agreement.

Q. Did management accept your recommendation?

A. Yes. The various options regarding the LNP were discussed with members of the

Company's Senior Management Committee ("SMC") and Progress Energy's Board of Directors on several occasions. Based on those discussions, management directed the Company personnel to attempt to work out an amendment to the EPC agreement with the Consortium that would accommodate the approach of deferring capital investment in the LNP until after the COL is obtained.

Q. What were the Company's next steps after management's approval of the recommendation to amend the EPC agreement to focus work on obtaining the COL for the project?

A. The Company first had to determine if the Consortium was willing to finalize an acceptable amendment to the EPC agreement to implement this option. Second, the Company needed to determine if the Company and the Consortium could reach an initial agreement on the scope of work during the extended partial suspension and the scope and disposition process for purchase orders that had to be addressed to implement this option. The Company needed this information to better understand the scope of work and resulting costs during the extended partial suspension period. Until the Company had at least a preliminary agreement on the terms of the EPC amendment with the Consortium and the scope of work during the extended partial suspension the Company was not going to commit to this option. Once this information was obtained, further management review and Board approval necessarily followed. [redacted] to obtain this information and further senior management and Board review, the Company negotiated a second amendment [redacted]

Q. Did the Company have objectives for the amendment to the EPC agreement?

A. Yes. The Company had several objectives for the amendment to the EPC agreement to implement the extended partial suspension until the LNP COL was obtained. First, the Company wanted to maintain the value of the favorable terms and conditions of the existing EPC agreement while moving risk and cash flow for capital investment past COL issuance for the project. In the Company's view, the schedule shift primarily affected [redacted]

Second, the Company wanted to [redacted] Without this term for the amendment the Company faced the risk [redacted]

Third, the Company wanted to [redacted] This provided the Company [redacted] This action also [redacted]

Finally, the Company sought to [redacted] This objective prevented the Company from being committed to a [redacted]

[redacted] with the receipt of the LNP COL were mitigated. In addition, during the partial suspension period, the Company desired to be in a position to [redacted] from completed or nearly completed AP1000 projects.

Q. Did the Company achieve those objectives?

A. Yes. The Company was able to reach an agreement in principle on the terms of an amendment to the EPC agreement to extend the partial suspension until the COL is obtained on the project. This agreement maintained the favorable terms and conditions of the existing EPC agreement. The agreement further shifted risk and substantial capital costs for the LNP until after the COL is obtained. The Company eliminated the Consortium's [redacted] As a result, the Company determined that its objectives for the amendment to the EPC agreement were met. These objectives are described in the senior management presentation included as Exhibit No. ___ (JE-3) to my testimony.

Q. Was the Company able to better define the scope of work under this amendment with the Consortium?

A. Yes. The Company defined the [redacted] These provisions provided the Company better control over the management of costs incurred during the extended partial suspension. The Company also arrived at an understanding that the Consortium's primary work scope during this period was [redacted]

Q. Was this information provided to senior management and the Progress Energy and PEF Boards?

A. Yes. This information was presented to the SMC and to the Progress Energy, Inc. ("PGN") and PEF Boards and the recommendation to approve the amendment to the EPC agreement to implement the extended partial suspension was approved. The Company subsequently executed this amendment to the EPC agreement.

Q. Do you have a process in place to address the disposition of long lead material purchase orders?

A. Yes, we do. PEF developed a long lead material purchase order disposition methodology that combines quantitative and qualitative criteria to meet the Company's objectives to minimize the near term costs and impact to our customers while maintaining optimal

flexibility for the future LNP construction. This methodology, the existing long lead material purchase orders, and the Company's current time line to address the disposition of long lead material purchase orders is included in Exhibit No. ___ (JE-4) to my testimony.

V. TRUE UP TO ORIGINAL COST FILING FOR 2010

Q. Has the Company filed schedules to provide information truing up the original estimates to the actual costs incurred?

A. Yes. These true up to original cost ("TOR") schedules are attached as Exhibit ___ (TGF-3) to Mr. Foster's testimony and I am co-sponsoring schedule TOR-6 and sponsoring schedule TOR-7 attached as Exhibit No. ___ (TGF-3) to Mr. Foster's testimony. A conservative Class4/Class5 estimate was completed consistent with the best practices of the Association for the Advancement of Cost Engineering ("AACE"). This estimate assumes the fundamental terms and conditions of the existing EPC Agreement remain in place including escalation factors and approaches to construction. This updated project baseline estimate is further consistent with the Company's selection of a project schedule option that minimizes near term spending and customer rate impact while maintaining long term flexibility and is used in the quantitative feasibility analysis, which is included as an exhibit to and discussed in Mr. Lyash's testimony.

VI. CONCLUSION

Q. Was the Company reasonable and prudent in deciding to proceed with the LNP on a slower pace and in executing the EPC Amendments?

A. Yes, it was. We employed a deliberate, rational, decision-making process consistent with best management practices in our industry. We believe our process was reasonable and prudent and necessary to make a decision in the best interests of the Company and its customers.

When we were faced in 2009 with the schedule shift caused by the NRC LWA determination we did not make a rash, uninformed decision in response to this event. To do so would have been imprudent. Instead, we identified what our options were at that time and obtained the information necessary to make an informed decision about these options before making our final decision. The EPC agreement provided the necessary framework. It includes provisions for events like this and provides an orderly, deliberate process to deal with the immediate impact of the event and to obtain the information necessary to make an informed decision.

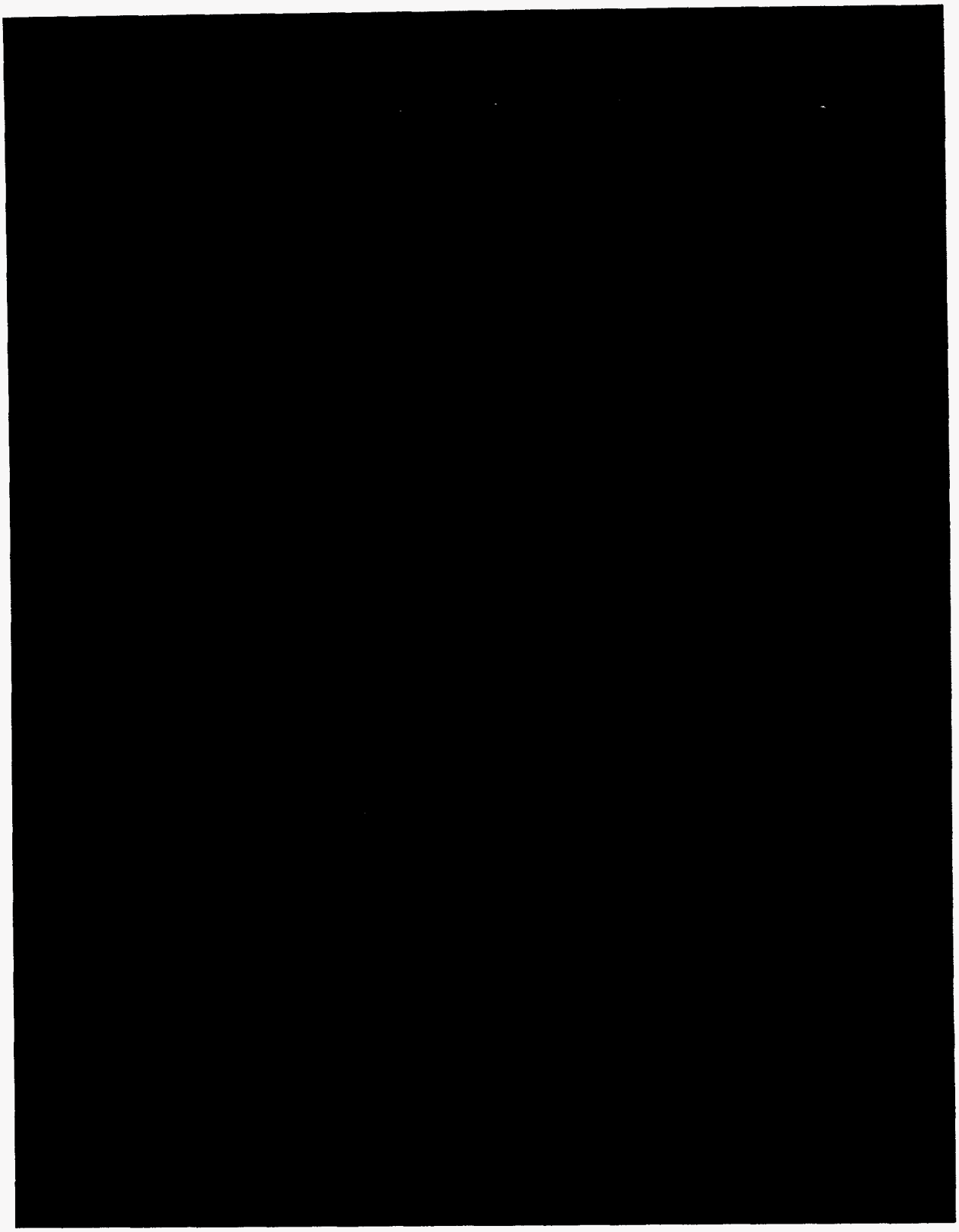
We employed the contractual mechanisms under the EPC contract to initiate this orderly, deliberate process to obtain the information we needed to make an informed decision. We analyzed and evaluated this information when it was provided and we considered all relevant factors including enterprise risks beyond our control that can affect our decision with respect to the project. When this evaluation process required us to obtain additional information to make an informed decision we obtained the necessary information. When this evaluation process required us to consider additional or different options we did so. The process of gathering, analyzing, and evaluating this information

and the various options does take time, but it is necessary to invest that time in the process to ensure that the ultimate decision is the best decision for the Company and its customers. This is what a reasonable, prudent electric utility does in order to make a decision and it is what PEF did in this case.

Q. Does this conclude your testimony?

A. Yes.

REDACTED



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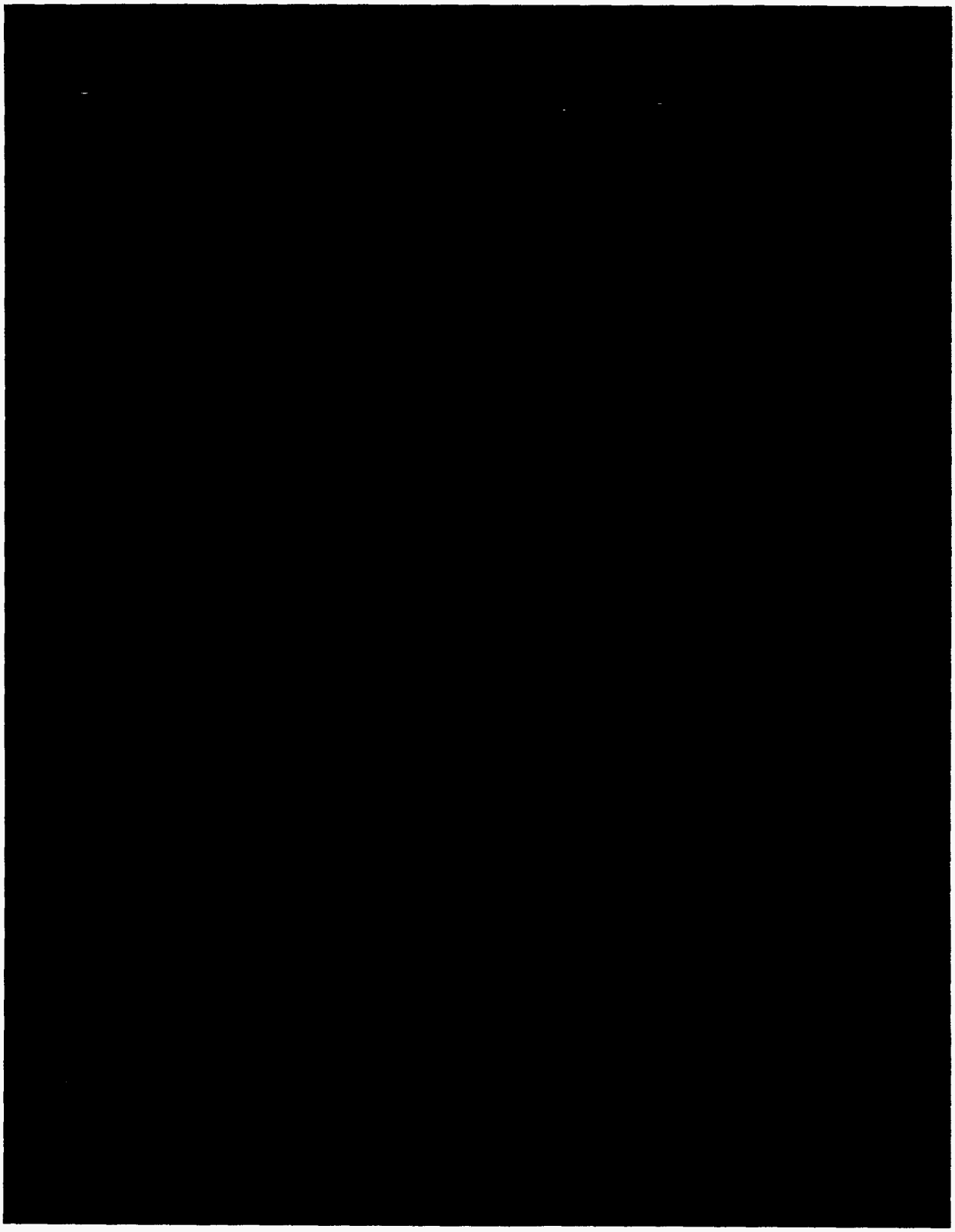

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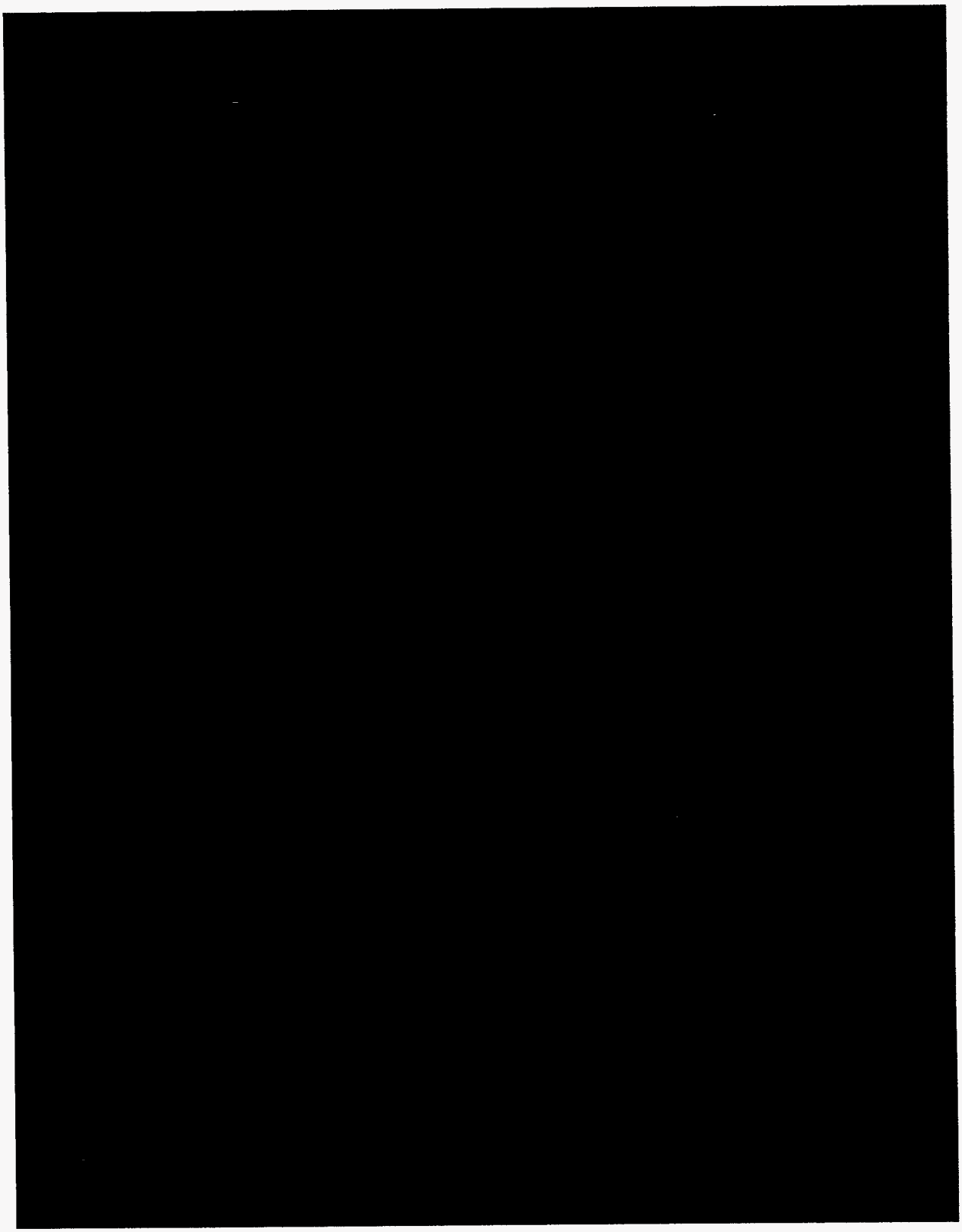

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Levy Nuclear Project
EPC Amendment Update

SMC Presentation
March 8, 2010

Confidential & Proprietary

Progress Energy

REDACTED

Levy Project Options (Reviewed on 2/15)

- ***Strategic Intent and Objectives:*** *Given uncertainties in licensing schedules and other factors influencing development, minimize near term cash flow requirements while maintaining long term flexibility to continue or pursue nuclear development projects.*

- ***Options Considered:***

  Full Sped Project Continuation

  Project Cancellation

  Project Continuation w/EPC Amendment

- ***Next Steps:*** Finalize EPC Amendment and Purchase order disposition

Summary of Investments and Recovered Costs (Reviewed on 2/15)

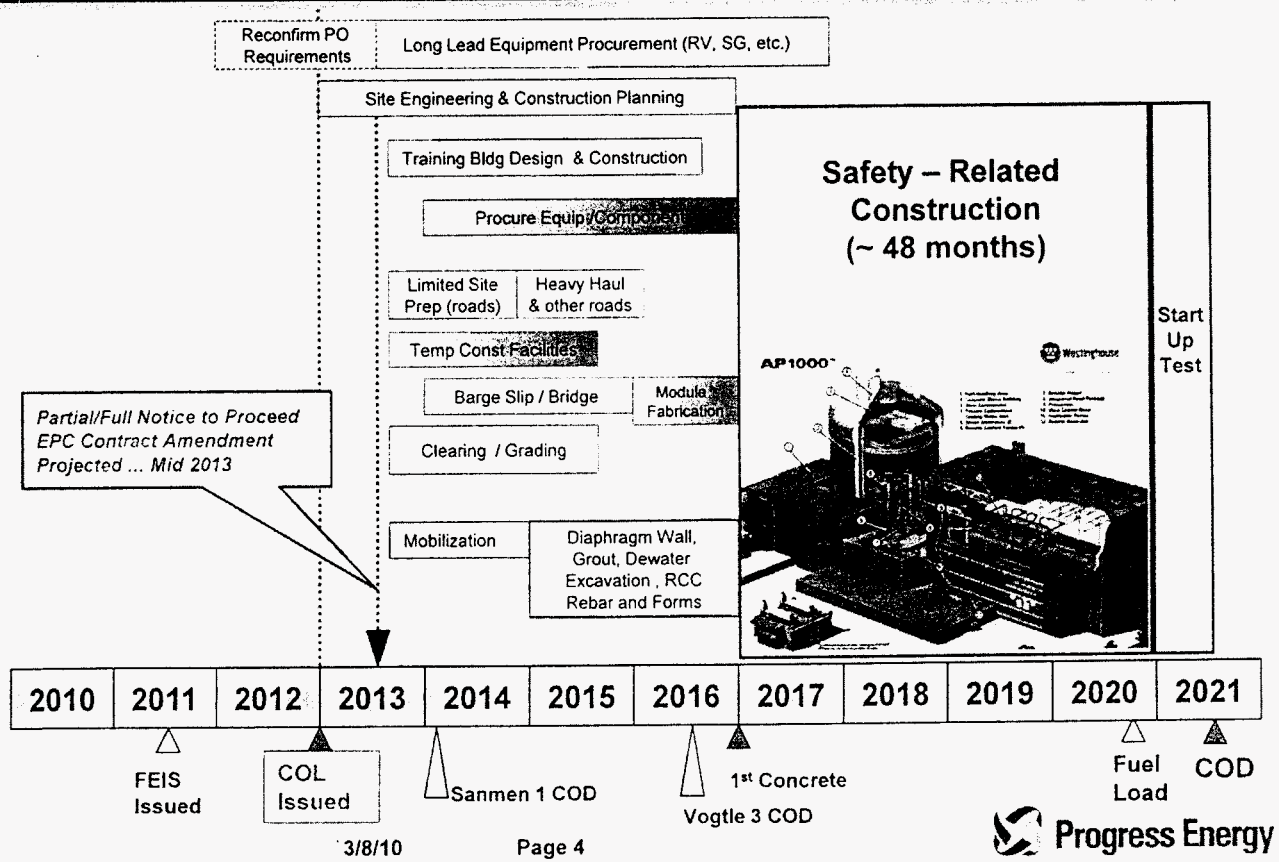
- Total Project Spent to Date (1) — $601M
  - $197M collected/$404M remains as of YE 2009
- Amount spent pending prudence review — $326M
- Potential 2010 spend pending prudence review (2) — $250M
- Total Amount at risk pending prudence review — $576M

Notes:

1) Total includes carrying costs, incremental O&M, and 66.2M for purchase of land
2) Depends on option selection and carrying cost assumption. Includes purchase order management and associated costs.

Progress Energy

Project Continuation with EPC Amendment (Reviewed on 2/15)



REDACTED

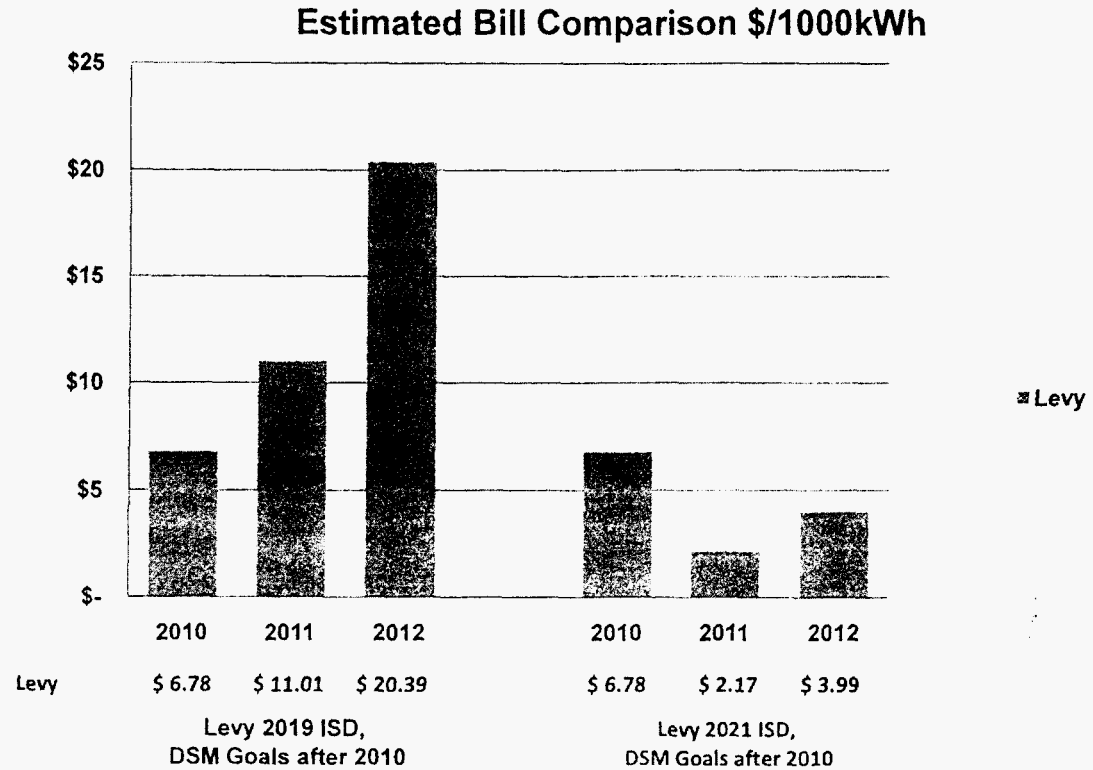
Summary CapEx Information:
Option 3: Project Continuation with EPC Amendment
(Reviewed on 2/15)

Option 3: Continue w/ EPC Amendment	PTD
EPC Payments	86.0
LLM Payments & WEC Support	240.0
LLM PO Dispositon Costs	-
Transmission	36.8
COLA	83.2
Wetland mitigation	-
Other Owner's Cost	82.2
Total Option 3	528.2

[redacted]

Notes:
(1) Dollars in millions; excluding AFUDC
(2) Estimate is DRAFT pending final review and approval, and pending negotiations with Consortium
(3) [redacted]

Illustrative Example of Bill Impact (Reviewed on 2/15)



Progress Energy

REDACTED

Progress since SMC Retreat Brief

[redacted]

- Initial decisions on Purchase Order disposition and continued work scope during partial suspension.

REDACTED

EPC Amendment for continuation of Partial Suspension

- Maintains favorable terms and conditions of existing EPC contract while moving some risk and significant costs beyond COL receipt.

[redacted]

REDACTED

EPC Amendment (continued)

[redacted]

REDACTED

Disposition of Long Lead Material Purchase Orders

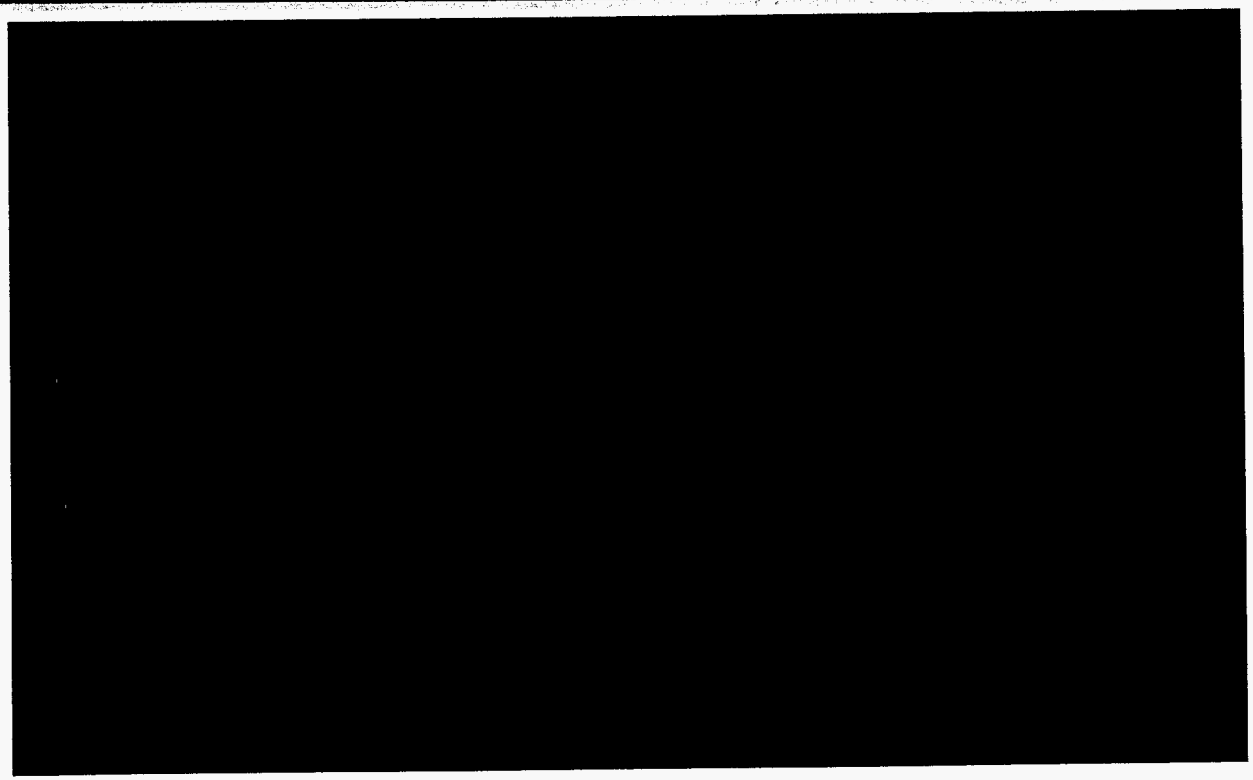
- Minimize near-term costs & customer price impact, reduce resumption cost uncertainty, and capture value of procured assets.

[redacted]

Progress Energy

REDACTED

Disposition of Long Lean Material Purchase Orders



REDACTED

Partial Suspension Work Scope

- Consortium Scope: [redacted]
  - Ongoing WEC support for open long-lead material purchase orders and disposition activities.
    - QA/QC and vendor surveillance
  - [redacted]
  - COLA and other permit support as requested by owner
  - Closure status reports for engineering packages
  - Limited Project Management Office support
    - Business management activities associated with active contract

Partial Suspension Work Scope (cont.)

- Owner Scope:
  - Continued COLA/ SCA activities
    - Execution of near-term wetland mitigation activities
    - RAI Resolution
  - Regulatory filing/ hearings support
  - Assessment of strategic land acquisitions for Plant and Transmission routes
  - Long Lead Material vendor oversight.
  - AP1000 Owners Group support and common work

REDACTED

Levy Key Milestone Schedule

Confidential & Proprietary Brief 3/8/10

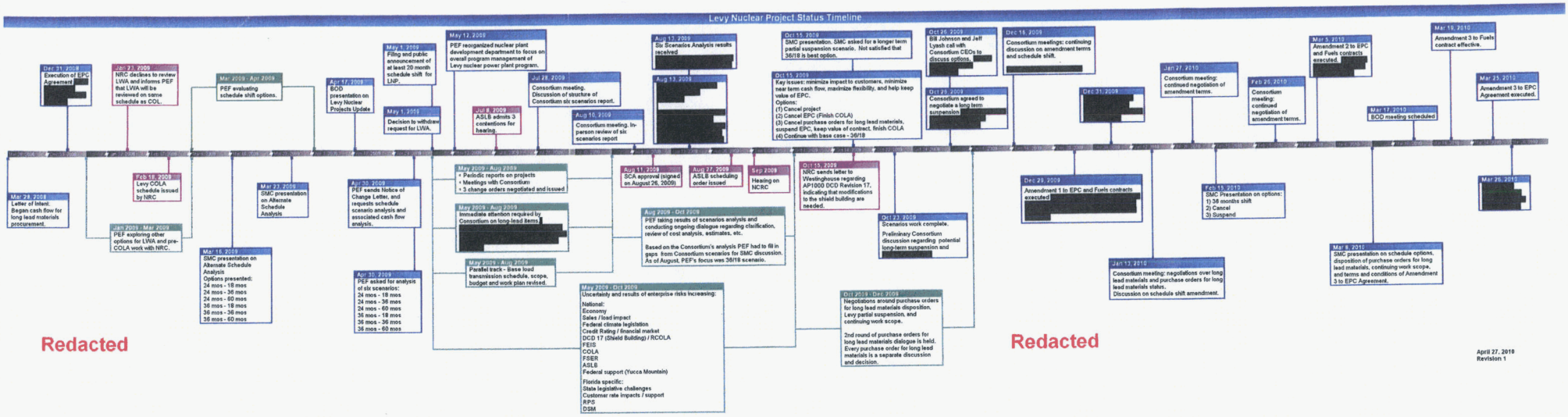
	February	March	April	May
Corporate and Project Schedule Milestones				
SMC Retreat/Levy Decision Review	▲ 2/15			
[redacted]		▲3/1		
SMC Update and Review of Supplemental Materials		▲ 3/8		
[redacted]		▲ 3/10		
PEF Board Meeting		▲ 3/15		
PGN Board Meeting		▲3/17		
[redacted]		▲3/18		
Potential 8K Filing		▲ 3/19		
[redacted]				
Legislative and Regulatory Schedule Milestones				
File NCRC 2009 True-up		▲3/1		
FL Legislative Session Begins		▲3/1		
Rate Case Reconsideration Filing		▲3/12		
PSC DSM Reconsideration Vote		▲3/16		
NCRC Audit of Mar 1 Filing		▲3/17		
File TYSP			▲4/1	
File NCRC Projections & Feasibility				▲5/1
FL Legislative Session Ends				▲5/2

REDACTED

Communications Plan Recommendations

- Reactive plan for inquires regarding potential 8K filing and Ten Year Site Plan.
- Proactive communication in conjunction with May 1 Filing.

Docket No. 100009-EI
Progress Energy Florida
Exhibit No. _____ (JE-3)
Page 1 of 1



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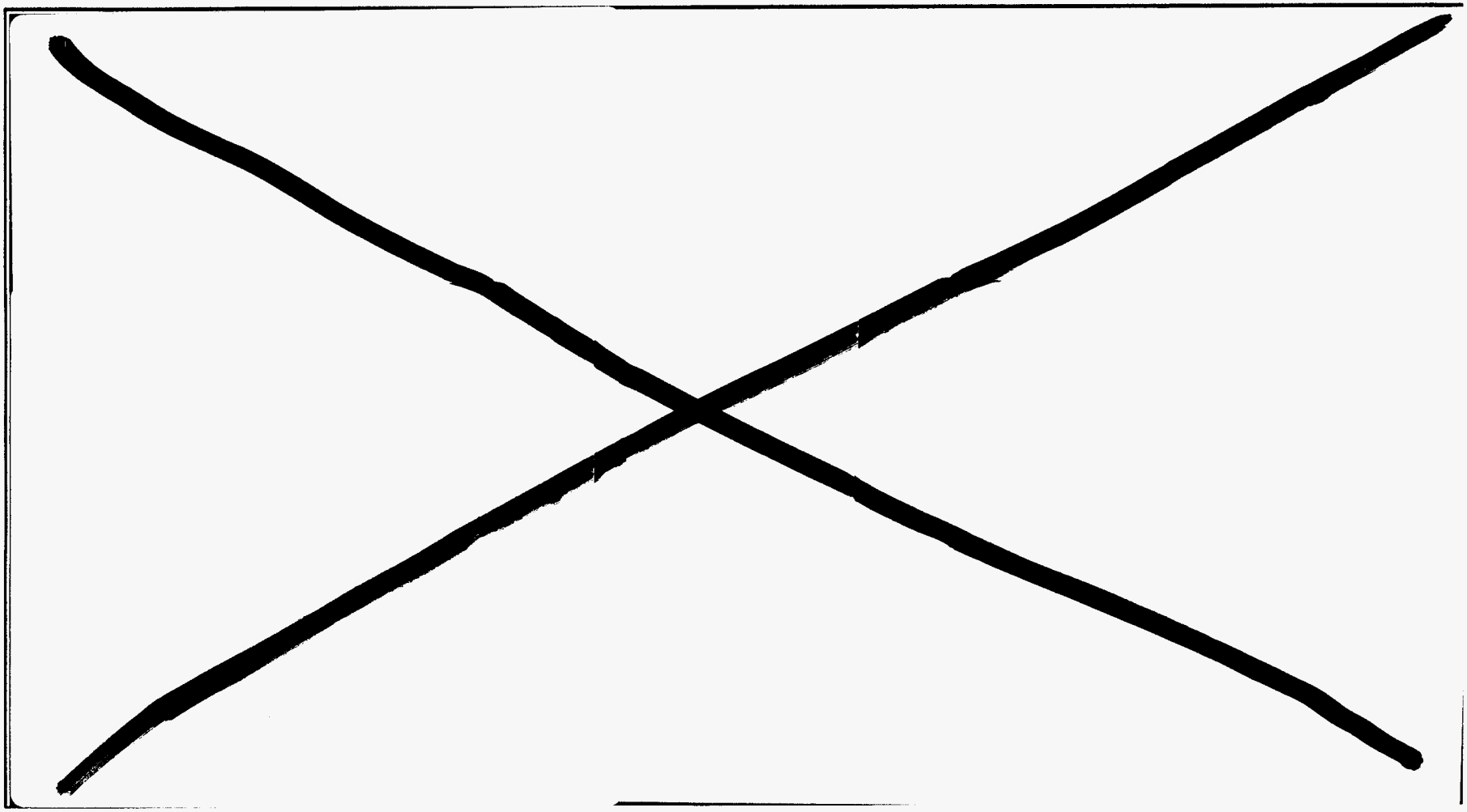
Long Lead Equipment- PO Listing



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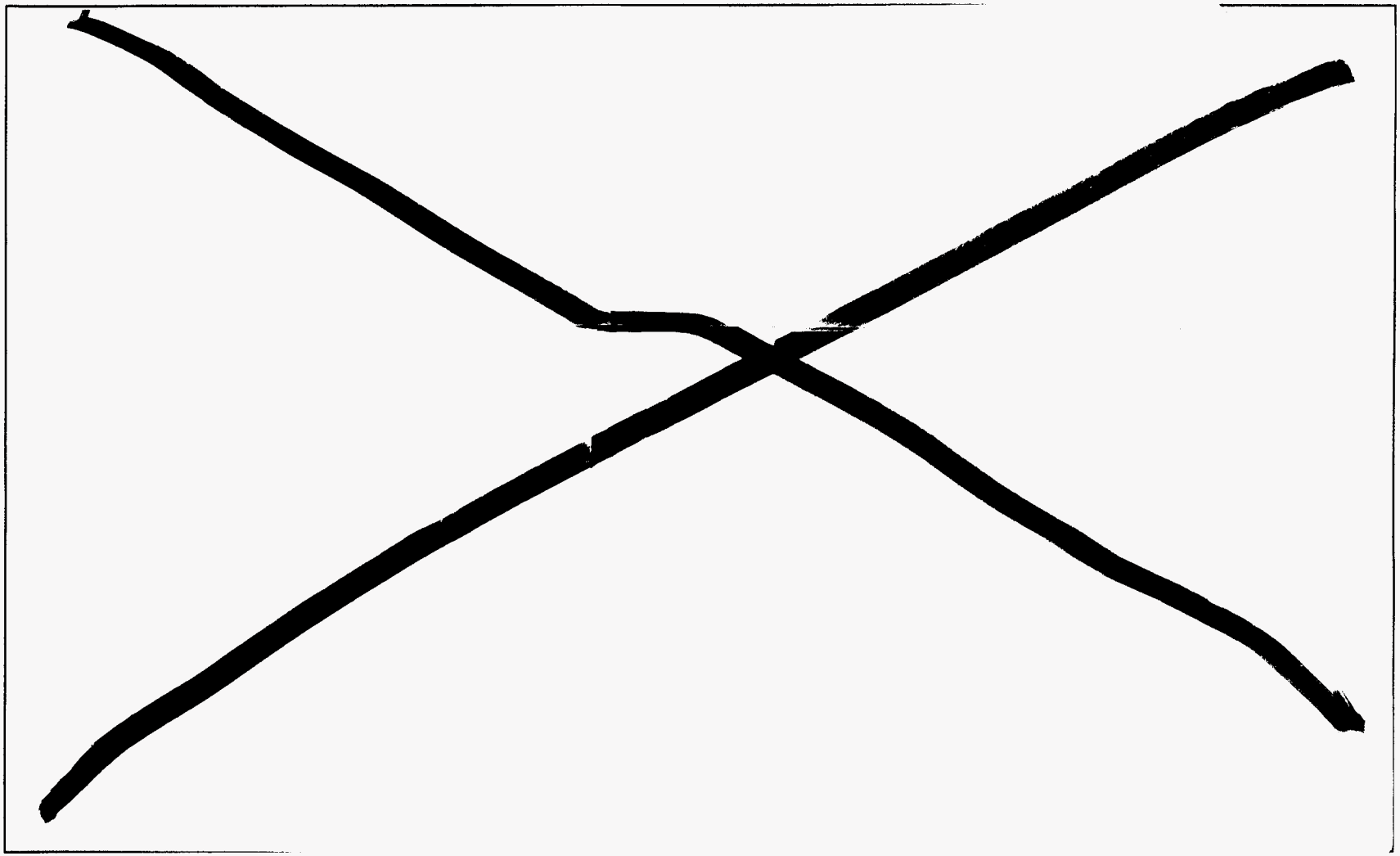
Long Lead Equipment Timeline



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Long Lead Equipment Criteria