Progress Energy Florida: The Case for Mismanagement

One need not look hard to find mismanagement at Florida's second largest electric utility, Progress Energy Florida (PEF).

CR3

- When it came time to replace aging steam generators inside the thick, concrete containment building at its Crystal River Unit 3 (CR3) nuclear reactor, the company chose to self-manage the work itself to save money.[1]
- During the replacement of the Steam Generator, PEF contractors caused a crack (delamination) the containment building during tendon detensioning. On January 25, 2010, PEF tells the Public Service Commission (PSC) it expects CR3 to return to service by mid-year 2010.[2]
- After missing no less than 5 different announced in-service dates for CR3, PEF announces that it has cracked the containment structure *again* during tendon retensionsing.[3]
- The repairs are expected to cost up to $1.3 billion[4] – not including additional annual fuel and replacement power costs of up to $300 million. The company has not ruled out self-managing (again) the repair of the damaged reactor.
- PEF entered into a settlement agreement, on January 20, 2012 to remove the regulatory uncertainty over the handling of its damaged CR3 nuclear reactor – it encourages PEF to begin repair of the critically damaged reactor by year's end. SACE found this agreement condition to be imprudent and is one of the reasons it chose not to be a party to the settlement agreement.
- A rushed and unsuccessful reactor repair will further exacerbate ratepayer financial risk – especially in light of NEIL's apparent refusal to cover matters unrelated to the initial delamination.

LEVY

- PEF garnered a determination of need from the PSC to build two nuclear reactors in Levy County. The cost of the proposed reactors was projected at $5 billion in 2007 with an in-service date of 2015-16. The most recent projected cost of the reactors has escalated over 400 percent to $22.5 billion with an in-service date of 2020-21 at the earliest.
- PEF has been unsuccessful in procuring a partner to share in the cost and risk of constructing the plants. The projected bill impacts to PEF customers were projected to be an untenable $40+ per month in 2019 and over $50 per month in 2020 and beyond.[5]

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[1] Two companies bid on the Crystal River job. They were the only two companies that had any experience managing similar upgrades, and between them they had completed 34, all successfully.

[2] Progress Energy Florida, *Status Update Regarding Crystal River Unit Steam Generator and Replacement Outage*, January 25, 2010, in Docket No. 100001-EI.

[3] Progress Energy Florida, News Release, March 15, 2011. This reactor has been plagued by problems in the past. There was a delamination discovered in 1976 as electricians worked on the dome of the structure. The unit was also shut down from September 1996 to February 1998 for equipment problems stemming from process flaws.

[4] Progress Energy Florida, *Progress Energy Inc.'s Status Report Regarding Docket No. 100437*, June 27, 2011.

[5] Progress Energy Florida, *Progress Energy Florida's Supplemental Response to Citizens Third Set of Interrogatories*, Docket No. 10009, July 7, 2010.

- PEF pursued an overly aggressive construction schedule and imprudently relied upon the assumption that a Limited Work Authorization would be granted to it by the Nuclear Regulatory Commission (NRC). It was not granted, thereby derailing fundamental contracting, and scheduling and driving up cost and uncertainty for PEF customers.
- PEF entered into a settlement agreement, on January 20, 2012 to remove the "regulatory uncertainty" over the handling of its speculative proposed Levy nuclear reactors – it allows PEF to recover $3.45/month from customers uncontested through 2016, while allowing it to cancel it engineering and procurement contract. SACE chose not to be a party to an agreement that allows the utility to recover significant licensing costs for an increasingly speculative reactor project.
- So far, PEF has spent $1.1 billion on the development and planning of the proposed Levy County reactors - $545 million coming from its customers through the end of 2011. PEF customers will ultimately be faced with paying the remaining $555 million as well.[6]

EFFICIENCY

- PEF's energy savings in 2011 through its energy efficiency programs trails leading utilities in the Southeast. For instance, Duke Energy, saved 0.70 percent of its sales in 2011 through energy efficiency while PEF saved less than half that amount – only 0.30 percent of its sales through efficiency programs in that same year.
- Additionally, PEF's cost (cents per lifetime kWh saved) for achieving its tepid energy savings is significantly higher than peer utilities in the Southeast. Duke Energy, for instance, achieved a levelized cost per kWh saved of approximately $0.01 in 2011 and PEC's levelized cost was approximately $0.02. In contrast, PEF's levelized cost was completely out of step with Duke Energy's and PEC's achievements, coming in at $0.08 in 2011.
- PEF DSM programs to meet 2009 conservation goals set by Commission had significantly excessive saved energy costs as compared to peer utilities in different states with similar programs. This means customers would have overpaid for energy efficiency programs.[7]

CUSTOMER SERVICE

- Based on the above mismanagement of its energy portfolio, it should come as no surprise that PEF ranks dead last in the latest JD Power and Associates Residential Customer Satisfaction Survey of large utilities in the South.[8]

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[6] Ivan Penn, *Progress Energy looking to cancel main construction contract for building Levy County nuclear plant*, Tampa Bay Times, January 26, 2012.

[7] The causes for PEF's unnecessarily overpriced programs included: 1) failure to rely on lower cost programs to achieve energy savings; 2) poor program design of existing programs: and 3) failure to consider new innovative programs. Moreover, PEF's curious and unexplained use of an "escalation factor" in its cost development for most of its energy efficiency programs is not consistent with best practices in program design.

[8] J.D. Power and Associates, Residential Customer Satisfaction Survey, July 2011, p.5, at http://businesscenter.jdpower.com/JDPAContent/CorpComm/News/content/Releases/pdf/2011101-ere2.pdf