

February 22, 2012: Southern Alliance for Clean Energy Response to FL PSC Approval of Crystal River/Levy Co. PEF Settlement

Today the FL PSC unanimously approved a stipulation and settlement agreement for Progress Energy Florida (PEF) relating to their troubled, 'Humpty Dumpty' Crystal River 3 reactor and proposed Levy Co. reactors. Southern Alliance for Clean Energy (SACE) was the only party involved that opposed the settlement due to our sincere concerns about the long-term financial risks for PEF customers posed by both projects.

While we applaud the refund of \$288 million to customers for replacement power costs associated with Crystal River being out-of-service that the Office of Public Counsel spearheaded, the PSC once again failed to protect PEF customers from the 'big-ticket' costs and risks. For instance, the PSC's approval of the 2008 Need Determination for the Levy reactors analyzed significantly lower-cost projections for the Levy reactors and that they would be online before the end of this decade. Now, the costs have soared, the possible operation date may not be until 2030 and PEF hasn't even committed to building the reactors. Additionally, energy demand has plummeted and other energy options have become more economical.

Below are public comments provided by Attorney George Cavros on behalf of SACE at the FL PSC hearing held earlier this week. You can also view the hearing and comments from all public participants at http://psc-fl.granicus.com/MediaPlayer.php?view_id=2&clip_id=694.

February 20, 2012 -- Public Statement by George Cavros on behalf of Southern Alliance for Clean Energy RE: Docket 120022-EI

On July 14, 2011, SACE was granted party status in Docket No. 100437 – the docket was created to enable the Commission and all interested parties to review facts and information related to the CR3 steam generator replacement project and the subsequent cracks (delaminations) in the containment structure.

While the parties were in the discovery phase of the docket, PEF reached a stipulation and settlement agreement with Office of Public Counsel, FIPUG, the Florida Retail Federation, PCS White Springs, and FEA. SACE

respects the fact that the non-PEF parties believe this is an agreement that strikes a balance and perhaps a better deal they could have gotten for their constituents if various dockets had run their course before the commission.

PEF provided an opportunity for SACE to sign-on to a final or near-final version of the agreement. SACE declined to sign on. Here's why:

CR3

It provides incentive to repair the critically damaged CR3 nuclear unit – because if repair doesn't commence by the end of the year, the Company will be responsible for more fuel and replacement power purchase costs refunds to customers. Additionally, the parties could challenge the decision to repair if it is not commenced by year's end.

Is it a good idea to rush into a decision in favor of repairing a critically damaged nuclear reactor containment building that has suffered 3 significant delaminations in October 2009, March 2011, and most recently last summer? We think not. Here's why the Commission should be concerned about the structure of the agreement as it relates to CR3:

1. The agreement takes the Commission out of the picture as an oversight body if the company begins construction by the end of the year.
2. It essentially disposes of all 3 Phases of Docket 100437 if PEF begins repairs on CR3 by the end of the year. That means, there will be no hearings on whether PEF's actions were negligent related to the 1st, 2nd, or 3rd delamination.
3. The insurer, the Nuclear Electric Insurance Limited (NEIL), has paid out \$298 million but stopped making payments last year. Shouldn't the commission and PEF customers know how much NEIL is willing to pay, if anything, towards repair costs on CR3 before the company commences construction? Without that knowledge, no one sitting here today can tell PEF customers what repairing CR3 will cost them.
4. PEF has not made a decision whether to self-manage the repair of the CR3 unit. That means that they might self-manage the repair. You might recall what happened last time the company chose to self-manage a construction project at CR3 – it botched the job badly.

5. Progress continues to analyze cost and engineering options. Answers are not expected for at least a couple of months – according to Progress president and CEO Bill Johnson – yet the company is being incited to commence construction by the end of the year – that’s a very ambitious deadline fraught with all kinds of repercussions for PEF customers if the repair efforts fail once again. This agreement could lead to throwing a lot of good customer money after bad.
6. The company offers a 30 month time repair estimate, at the same time acknowledging that this not the worst case scenario. What if the repair takes 70 months? How much more will that cost customers and how does that change the cost benefit analysis of repair vs. retiring the unit.
7. This repair of CR3 has been projected to cost over \$1 Billion and if it is repaired and comes online by 2015, it will have been out of service for 6 years. Commissioners, nuclear power has been billed as cheap and reliable, certainly in this case, it has been neither.
8. While the agreement provides a replacement power cost refund, over 3 years of \$288 million to PEF customers (due to the CR3 outage) – it comes packaged with a base rate increase of \$150 million and – it precludes the parties from challenging up to \$1.9 billion fuel and replacement power costs from 2009 to 2016. We hope that the company and the commission will consider ramping up energy efficiency to as a low cost way to reduce those fuel and replacement power cost customer will have to bear.

Proposed Levy reactors

The agreement allows the company to recover another \$350 million from customers for the pursuance of a COL. This is wrong on several fronts:

1. PEF hasn’t committed to actually building the plant. Having customers paying for the company to maintain the “option” at a later date to build a plant is unfair to customers – and runs counter to the Commission’s “intent to build” standard.

2. The additional \$350 M that will be recovered from customers will not be subject to prudency review, and we have no idea (outside of what PEF says) of where the \$350 million number came from and what it's paying for (COL or cancellation of the EPC, etc.). While this amount will be subject to true up in the future, just approving it without any prudency review is improper.
3. It's clear that the project is in trouble. The project has been repeatedly delayed and its projected cost is spiking. It is now estimated to cost \$22.5 billion. The plant is not expected to come online for at least a decade. If it cancels its EPC contract – it will delay construction even further. It's fundamentally bad resource planning when a company gets a determination of need in 2008 for a nuclear reactor that may not be built until 2030 – if it all.
4. It clear that through this agreement, PEF is strategically retreating from any commitment to build the Levy nuclear units. PEFs retreat on the Levy projects is an indication that the so-called nuclear renaissance has finally hit economic reality.

SACE opposes this settlement agreement. Thank you.