DIRECT TESTIMONY OF
STEVEN D. ROETGER, WILLIAM R. JACOBS, JR PH.D, MARK D. RAUCKHORST AND DAVID P. POROCH,

IN SUPPORT OF THE STIPULATION REACHED BETWEEN THE GEORGIA PUBLIC SERVICE COMMISSION PUBLIC INTEREST ADVOCACY STAFF AND GEORGIA POWER COMPANY

RE: CONSTRUCTION MONITORING PROCEEDING FOR GEORGIA POWER COMPANY’S PLANT Vogtle UNITS 3 AND 4; SUPPLEMENTAL INFORMATION, STAFF REVIEW, AND OPPORTUNITY FOR SETTLEMENT

DOCKET NO. 29849

I. INTRODUCTION

Q. PLEASE STATE YOUR NAMES, TITLES, AND BUSINESS ADDRESSES.

A. My name is Steven D. Roetger. I am the lead analyst for the Georgia Public Service Commission (“Commission”) on the Semi-Annual Vogtle Construction Monitoring (“VCM”) Docket No. 29849. My business address is 244 Washington Street, S.W., Atlanta, Georgia, 30334.

My name is William R. Jacobs, Jr., Ph.D. I am an executive consultant with GDS Associates, Inc. My business address is 1850 Parkway Place, Suite 800, Marietta, Georgia, 30067.

My name is Mark D. Rauckhorst. I am Executive Vice President of Construction for the Plant Vogtle Unit 3 and 4 Project (the “Project”) for Southern Nuclear Operating Company (“Southern Nuclear”). My business address is 7825 River Road, Waynesboro, Georgia 30830.
My name is David P. Poroch. I am Vice President and Comptroller for Georgia Power Company ("Georgia Power" or the "Company"). My business address is 241 Ralph McGill Boulevard, Atlanta, Georgia 30308.

Q. MR. ROETGER, PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I hold a Bachelor of Business Administration degree from Georgia State University. I have been employed by the Commission since September 2008, primarily in the capacity as the team lead for the Project under Docket No. 29849. Also, I was a Public Interest Advocacy Staff ("Staff") team member for the Vogtle Certification and an Advisory team member for various other proceedings. Prior to joining the Commission, I held various positions in either an accounting or finance capacity for firms in different industries. My resume is included in Exhibit PSC/GPC-2.

Q. MR. ROETGER, HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

A. Yes. I have testified in all of the VCM Proceedings in this docket beginning with the 8th semi annual Proceeding.

Q. DR. JACOBS, PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I received a Bachelor of Mechanical Engineering in 1968, a Master of Science in Nuclear Engineering in 1969 and a Ph.D. in Nuclear Engineering in 1971, all from the Georgia Institute of Technology. I am a registered Professional Engineer and a member of the American Nuclear Society. I have more than forty years of experience in the electric power industry including more than twelve years of nuclear power plant construction and start-up experience. I have participated in the construction and start-up of seven nuclear
power plants in this country and overseas in management positions including start-up manager and site manager. As a loaned employee to the Institute of Nuclear Power Operations (“INPO”), I participated in the Construction Project Evaluation Program, performed operating plant evaluations and assisted in development of the Outage Management Evaluation Program. Since joining GDS Associates, Inc. in 1986, I have participated in rate case and litigation support activities related to power plant construction, operation and decommissioning. I have evaluated nuclear power plant outages at numerous nuclear plants throughout the United States. I served on the management committee during construction of Plum Point Unit 1, a 650 Megawatt Electric (“MWe”) coal fired power plant. As a member of the management committee, I assisted in providing oversight of the Engineering, Procurement and Construction (“EPC”) contractor for this Project. I have assisted the Georgia Public Service Commission as the Independent Construction Monitor in providing oversight of the Project since August 2009. My resume is included in Exhibit STF-PSC/GPC-3.

Q. DR. JACOBS, HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

A. Yes. I have testified in numerous proceedings before the Commission including fuel cost recovery proceedings, rate cases, the Vogtle Certification in Docket No. 27800 (the “Vogtle Certification”) and all of the VCM Proceedings to date in this docket.

Q. MR. RAUCKHORST, PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I graduated from the University of Cincinnati with a Bachelor of Science degree in Nuclear Engineering. I also earned a Master of Business Administration degree from Northern Illinois University. Prior to joining Southern Nuclear, I served as Managing Director for PriceWaterhouseCoopers and Senior Vice President with Patrick
Engineering. I have more than 30 years of experience working for engineering, construction management and utility organizations on large-scale capital construction projects.

In 2011, I joined Southern Nuclear as Vice President of Construction for Plant Vogtle Units 3 and 4 and was promoted to Executive Vice President of Construction for Plant Vogtle Units 3 and 4 in February 2016. In this role, I am responsible for oversight of construction compliance and coordinating with Southern Nuclear’s Operational Readiness team to prepare for an effective transition from construction to operations.

Q. MR. RAUCKHORST, HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

A. Yes, in this docket in support of the Company’s Fifteenth Semi-Annual VCM Report.

Q. MR. POROCH, PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I graduated from Northwood University in 1991 with a Bachelor of Business Administration degree in Accounting. I began my career in the audit practice of Deloitte & Touche LLP and progressed through staff, senior, manager and senior manager positions. In 2003, I was promoted to partner. I have 19 years experience in the utilities sector of the energy industry and additional significant experience in financial services.

In January 2012, I joined Southern Company Services as Chief Audit Executive and was promoted to Vice President in August 2012. In this role, I was responsible for overseeing the internal auditing services of Southern Company and its subsidiaries. In August 2014, I assumed the position of Vice President and Comptroller of Georgia Power. As Comptroller, I am responsible for the financial and regulatory accounting functions of the
Company. My duties include overseeing the corporate accounting records in accordance with generally accepted accounting principles and various regulatory requirements, and the preparation and filing of financial and regulatory reports. I am also a Certified Public Accountant.

Q. MR. POROCH, HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?
A. The purpose of our testimony is to support, and incorporate by reference as Exhibit PSC/GPC-1, the Stipulation and to provide the Company and Staff’s justification of why the Commission should approve and adopt the Stipulation reached between the Company and the Staff in response to the Commission’s February 5, 2016 Order Regarding Supplemental Information, Staff Review, and Opportunity for Settlement (the “Order”). The Stipulation provides approximately $325 million in projected savings to customers during the construction period, based on the assumption of full recovery with and without the Stipulation. Of that approximately $185 million will never be paid by any customers, and approximately $139 million will be deferred to be collected over the 60 year life of the Units.

II. BACKGROUND

Q. PLEASE DESCRIBE THE EVENTS LEADING UP TO THE COMPANY’S STIPULATION WITH THE COMMISSION STAFF.
A. In the Eighth VCM Report, the Company requested an amendment to the Vogtle Certificate of Public Convenience and Necessity to reflect an updated forecast of the
schedule and cost to complete. During this timeframe, Georgia Power, Oglethorpe Power
Corporation (an Electric Membership Corporation), Municipal Electric Authority of
Georgia and the City of Dalton, Georgia acting by and through its Board of Water, Light
and Sinking Fund Commissioners (collectively, the “Owners”) had filed a lawsuit against
CB&I, Westinghouse Electric Co. (“Westinghouse”) and Stone & Webster (collectively,
the “Contractors”) over disputed cost increases on the Project (the “Major Claims
Litigation”). The Company and Staff recognized that many of the issues presented by the
Company’s proposed Certificate amendment were also subject to claims by the
Contractors and the pending litigation between the Owners and the Contractors. In
addition, the Company and Staff recognized the cost and schedule impacts of several
identified Company decisions and actions may not be fully ascertainable until subsequent
events unfolded. Therefore, in the Eighth VCM Stipulation, the Company and Staff
agreed that the Company’s request to amend the Certificate was not ripe for consideration
and should be held in abeyance until the completion of Unit 3 or whenever the issues
were determined by the parties to be ripe for consideration.

On October 27, 2015, Westinghouse and the Owners entered into a Binding Term Sheet
and agreed to finalize a Definitive Settlement Agreement to resolve the Major Claims
Litigation and other unresolved claims, including change notices and change disputes
under the EPC Agreement. On December 31, 2015, the Owners entered into a Definitive
Settlement Agreement with Westinghouse that effectively resolves all claims between the
parties to the Major Claims Litigation, all claims that were or could have been asserted by
the litigants at the time of the agreement and all claims arising from events or
circumstances occurring up to the date of the Definitive Settlement Agreement. On
January 5, 2016, the Owners, Westinghouse and Stone & Webster, Inc. executed
Amendment 7 to the EPC Agreement (the form and substance of which was agreed to in
the Definitive Settlement Agreement) which effectuates many of the terms and conditions
of the Binding Term Sheet. Also, on April 20, 2016, the parties executed Amendment 8
to the EPC Agreement to realign the Milestone Payments Schedule per the terms of the Definitive Settlement Agreement.

As a result of the Major Claims Litigation settlement, on January 21, 2016, Georgia Power filed an Application for Review and Approval of the Definitive Settlement Agreement for Plant Vogtle Units 3 and 4 and Amendment 7 to the Engineering, Procurement and Construction Agreement (the “January Application”). In the January Application, Georgia Power requested that the Commission “review and approve the Definitive Settlement Agreement and Amendment 7 to the EPC Agreement as prudent and reasonable and in the best interest of the Company’s customers.”

In lieu of considering the Company’s request at that time, the Commission issued a Procedural and Scheduling Order creating a process for the Company to provide supplemental information supporting its request, an opportunity for the co-owners and intervenors to provide comments on the supplemental information filing, and for Staff to review the filings and engage in settlement discussions regarding any costs Staff believed should be disallowed as imprudent or unreasonable.

In compliance with the Commission’s Order, the Company filed its Supplemental Information Report (“SIR”) on April 5, 2016 setting forth its justification for its request for approval of the Definitive Settlement Agreement. The Staff and the Construction Monitor also conducted an in depth and detailed review of the reports filed on April 5, examined the record in this VCM proceeding, and considered copious amounts of information developed during their oversight of the construction of Vogtle Units 3 & 4. The Staff and Construction Monitor submitted numerous data requests, met with the Company and its experts, and performed its analysis.

On October 20, 2016, the Staff filed a Stipulation entered into between the Company and the Staff addressing the issues identified in the Commission’s February 2016 PSO. Considering the magnitude and impact of the issues in this case, and the amount of
information generated during the VCM process including the SIR and comments received from intervenors and the co-owners, reaching a Stipulation between the Company and the Staff was an intensive and challenging endeavor. However, both the Company and the Staff worked together diligently and persisted in their negotiations and held comprehensive discussions on the past and prospective activities associated with the Project’s development and financing. As a result, the Staff and the Company reached a Stipulation that is in the best interest of customers and supports the Company’s efforts to provide customers with a cost-effective, reliable source of energy for sixty or more years.

Q. PLEASE DESCRIBE STAFF’S ACTIVITIES TO DATE MONITORING THE CONSTRUCTION OF THE FACILITY AND STAFF’S ACTIONS IN RESPONSE TO THE COMMISSION’S ORDER.

The Staff and Construction Monitor have closely monitored the construction of the Vogtle 3 and 4 nuclear facility (“Facility”) since it was certified in 2009. As part of the VCM process, the Staff and Construction Monitor actively monitor the Project, including participation in monthly meetings between Staff and Company personnel to discuss the Project status and regular trips to the construction site to observe the Monthly Project Review meeting and to witness firsthand the progress of construction. Staff reviews the Company’s Weekly Metrics report and submits questions raised by this report to the Company for additional information. The Staff team has continued its reviews of the Company’s process for handling Project invoices from Westinghouse. This includes review of the Project cost control procedures and sampling of processed invoices. Other activities conducted by Staff and the Construction Monitor include (but are not limited to):

- Review of Monthly Project status reports issued by the Company;
- Review of Monthly EPC status reports;
- Review of the Company’s Semi-Annual VCM reports;
• Preparation of discovery requests for additional information as needed following review of the monthly status reports, Semi-Annual VCM Reports or meetings with the Company;

• Participation in Nuclear Regulatory Commission (“NRC”) public meetings in person and via conference call as appropriate;

• Review of publicly-available correspondence between the Company and the NRC and information from the NRC related to the Project;

• Review of correspondence between the Contractors and the Company;

• Visits to vendor/supplier sites to observe fabrication and inspections;

• Review of trade articles and journals related to new nuclear power plant development; and

• Tours of the Facility and witnessing significant construction activities at the Facility site as well as at other AP1000 units currently under construction world-wide.

In addition to the Staff and Construction Monitor’s regular monitoring activities, upon the Company’s filing of the Settlement Application and the SIR, the Staff reviewed the Company’s filings, issued data requests, met with Company representatives, including Mr. Rauckhorst and Mr. Poroch, and met with experts Charlie Huston, Loren Plisco, The Kenrich Group, and Dr. Chip Wright to discuss their respective report findings before commencing settlement discussions with the Company.

III. THE STIPULATION

Q. PLEASE BRIEFLY DESCRIBE THE STIPULATION.
A. While the full Stipulation is attached as Exhibit PSC/GPC-1, some of the major provisions of the Stipulation provide that:

- No costs incurred through December 31, 2015, the Fourteenth VCM Reporting Period, were imprudently incurred;

- The Definitive Settlement Agreement resolving the Major Claims Litigation is reasonable and prudent and none of the amounts paid, or to be paid to Westinghouse pursuant to that settlement should be disallowed from rate base on the basis of imprudence;

- The capital cost forecast is revised to $5.680 billion which includes a $240 million cost contingency and is presumed to be reasonable and prudent;

- The original Certificate of Public Convenience and Necessity for Plant Vogtle Units 3 & 4 will not be amended;

- The Nuclear Construction Cost Recovery ("NCCR") tariff will apply only to the certified capital cost of $4.418 billion;

- The Company’s Return on Equity ("ROE") will be reduced from 10.95% to 10.00% when calculating the NCCR tariff and Allowance for Funds Used During Construction ("AFUDC") on amounts incurred up to $5.44 billion effective January 1, 2016;

- The Project will not be placed into retail base rates until December 31, 2020; and

- If the Project is not Commercially Operational by December 31, 2020, the ROE used to calculate NCCR will be reduced an additional 300 basis points and the ROE used to calculate AFUDC will be reduced to the Company’s average cost of long-term debt.
Q. WHY DID THE STAFF AGREE THAT “NONE OF THE COSTS THAT WERE INCURRED, VERIFIED AND APPROVED THROUGH THE 14TH VOGLTE CONSTRUCTION MONITORING REPORT SHOULD BE DISALLOWED FROM RATE BASE ON THE BASIS OF IMPRUDENCE”?

A. As with all stipulations, each party gives and takes to arrive at a reasonable outcome. In this situation, even if the Staff had pressed a case of imprudence, the Company would have put up a vigorous defense against such a claim. In the end, the Commission would decide the issue after a protracted and costly hearing and appellate process. The issues would have been complex, detailed and hearings would have involved numerous disagreeing experts on both sides. We could expect such a hearing to last at least a year, followed by another year or 18 months of appeals. If the Commission found there was no imprudence, all costs and capital at the full allowed ROE would have been subject to the NCCR tariff and recovered by the Company. If the Commission found there was imprudence, any reduction in the capital cost and related reduction in financing costs would have been a deferred benefit for future customers spread over the 60 year life of the Project. One of the Staff’s goals in the settlement negotiations was to secure benefits for current customers over the remaining construction period. The current structure of immediate savings could only be accomplished by a stipulation.

Q. HOW DOES THE STIPULATION AFFECT THE COMPANY’S PROJECTED RATE IMPACT OF THE FACILITY?

A. Even with the revised capital cost and contingency agreed to in the Settlement Agreement, the Company continues to estimate the peak rate impact of the Facility will remain between 6-8% with approximately 4.5% currently collected through the NCCR tariff. This estimate takes into consideration Construction Work In Process (“CWIP”) in rate base treatment, the full impact of the revisions to the forecasted construction schedule and capital cost including the $240 million contingency, the effects of the lower
Q. HOW DOES THE STIPULATION IMPACT THE COMPANY’S COLLECTIONS OF THE FINANCING COSTS FOR CONSTRUCTION OF THE FACILITY UNDER THE NCCR TARIFF?

A. The NCCR tariff will continue to be applied to the capital costs expended by the Company in the development of the Project until the units are in base rates; however, under the terms of the Stipulation, financing costs above the certified amount of $4.4 billion capital cost will not be recovered through the NCCR tariff. The Company will instead accrue AFUDC on the amounts spent in excess of the certified amount to be recovered after the Facility goes in service.

Absent the Stipulation with Staff and the Company’s agreement to earn a lower ROE on its investment in the Facility, NCCR-7 revenues would have increased approximately $70 million. However, as a result of the Settlement with Staff, the NCCR rate will remain flat in 2017, as proposed by the Company in its November 1, 2016 NCCR tariff filing pending consideration by the Commission.

Q. PLEASE FURTHER EXPLAIN THE COMPANY’S AGREEMENT TO REDUCE THE ROE RECOVERED ON ITS INVESTMENT IN THE FACILITY.

A. The Company’s ROE used to determine the NCCR rate will be reduced from 10.95% to 10.00% effective January 1, 2016, which is the bottom of the Company’s current earnings band as established in the Company’s 2013 Rate Case in Docket No. 36989. The 10.00%
ROE will first be used when adjusting the NCCR rate effective January 1, 2017 and in every annual adjustment through the units being placed into base rates.

Q. DOES THE STIPULATION PROVIDE FOR AN ADJUSTMENT TO THE COMPANY’S ALLOWED ROE ON ITS INVESTMENT IN THE FACILITY IF THE COMPANY’S ROE IS ADJUSTED IN A RATE CASE?

A. Yes. Under the terms of the Stipulation, if the Commission adjusts the Company’s ROE rate setting point in a rate case prior to the Vogtle Units 3 & 4 being placed into retail rate base, then the ROE to be used to calculate the Company’s carrying cost on its investment in the Project will be the new Company ROE set point, less 95 basis points.

Q. DOES THE ROE ADJUSTMENT ALSO APPLY TO THE AFUDC CALCULATION ON THE CWIP BALANCE ABOVE THE $4.418 BILLION CERTIFIED AMOUNT?

A. Yes. As it relates to the current projected capital costs above the original certified capital amount of $4.418 billion, the Company will use a 10.00% ROE to calculate AFUDC on those amounts up to $5.44 billion until the units are placed in commercial operation. The same ROE adjustment to 95 basis points below the new Company ROE applies to the AFUDC calculation if the Commission changes the ROE set point in a rate case before the units are placed in commercial operation. If the cost of the Project exceeds $5.44 billion, the Company will use its average cost of long-term debt, including the benefit of the federal loan guarantees, as the ROE to calculate AFUDC on any amounts above $5.440 billion until the units reach commercial operation.

Q. PLEASE EXPAND ON THE TERMS OF THE STIPULATION ADDRESSING WHEN THE FACILITY WILL BE PLACED INTO RETAIL RATES AND RATEBASE.
A. As noted above, the Facility will not be placed into retail base rates until the latter of December 31, 2020 or upon the Facility reaching commercial operation. Under the terms of the Stipulation, commercial operation is defined as “the Unit being fully dispatchable on demand at the stated Net Electrical Output of 1,102 MWe of the Unit.” In addition, the Commission shall determine the process for transitioning the Facility from a construction project to an operating plant for retail ratemaking purposes in the Company’s 2019 Rate Case or, if the Commission chooses, at such earlier time that for good cause the Company may request.

Q. ARE THERE ANY FURTHER PROTECTIONS FOR CUSTOMERS IF THE UNITS DO NOT REACH COMMERCIAL OPERATION BY DECEMBER 31, 2020?

A. Yes. Another of the Staff’s goals in the settlement negotiations was to secure benefits for future customers in the event of cost overruns or schedule delays at the Facility. If the Facility is not commercially operational by December 31, 2020, the Company will reduce its ROE used to calculate the NCCR by an additional 300 basis points and the ROE used to calculate all AFUDC pursuant to the Stipulation to its average cost of long-term debt, including the benefits of the federal loan guarantees, until such time as the Facility reaches commercial operation. If the NCCR ROE is lowered as a result of the Facility not reaching commercial operation by December 31, 2020, the Commission has discretion to lower the NCCR rate to reflect the lower ROE at that time or to accrue the difference to be used for the benefit of ratepayers in the transition to placing the asset in rate base.

Q. ARE THERE ANY ADDITIONAL PROTECTIONS FOR CUSTOMERS PROVIDED FOR IN THE STIPULATION?

A. Yes. If any system, structure or component, or portion thereof, included in such costs does not perform as required or specified in the design documents, or does not meet any
NRC requirement, and subsequently delays the commercial operation of the Unit(s), the Commission expressly reserves its right to review and disallow any cost and or schedule impacts of such deficiency.

Q. **IS THE STIPULATION IN THE BEST INTEREST OF GEORGIA POWER’S CUSTOMERS?**

A. Yes. The Stipulation is a fair and reasonable resolution of the issues in the Commission’s Order and saves the Company’s current customers approximately $325 million while providing customers further protections and savings if the units are delayed past December 31, 2020. In addition, adoption of the Stipulation would evidence continued constructive regulatory environment and regulatory certainty, factors that are viewed favorably by the financial community. The Company believes that the Stipulation supports the Company’s strong credit ratings allowing it to access the capital markets on favorable terms to the benefit of the Company’s customers. Following the announcement, S&P Global Ratings reported that it considers the agreement favorable for the Company’s credit quality because it reduces uncertainty over the Company’s ability to recover Facility construction costs. Similarly, Fitch Ratings announced that it views the Stipulation as constructive and supportive of its Long-Term Issuer Default Rating of ‘A’/Stable Outlook and the certainty achieved relating to Project costs as “a key positive.” Fitch Ratings further recognized that the “stiff reductions in ROE for cost and schedule overruns until the units are in service ensures that customers’ share of any potential overruns is minimized.”

This is the most important infrastructure project currently underway in Georgia, providing thousands of construction jobs, more than 800 permanent careers once the new units come online, and positioning Georgia for future economic growth. The leadership of this Commission in actively monitoring and examining the development of the Project has been critical in ensuring that the Project will have a direct economic benefit not only
for the state’s current electric customers, but also for those businesses and customers
looking to expand or relocate in Georgia.

IV. CONCLUSION

Q. WHAT ARE THE STAFF AND GEORGIA POWER REQUESTING AT THIS TIME?

A. The Staff and Georgia Power request that the Commission approve and adopt the
   Stipulation.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.