<u>Progress Energy Florida: The Case for Mismanagement</u>

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

CRYSTAL RIVER (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) of the containment building during tendon detensioning. On January 25, 2010, PEF tells the Florida Public Service Commission (FPSC) 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, but are trending upwards[4] – not including additional annual fuel and replacement power costs of up to $300 million annually. 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 Crystal River's insurer, NEIL (Nuclear Electric Insurance Limited), apparent refusal to cover matters unrelated to the initial delamination.

LEVY

- PEF garnered a determination of need in 2008 from the FPSC to build two nuclear reactors in Levy County. The cost of the proposed reactors was projected at $5 billion each in 2007 with in-service dates of 2015-16. The most recent projected cost of the reactors has more than doubled to $24 billion with projected in-service dates of 2024-2025 at the earliest.

---

[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; Ivan Penn, *Repair costs rise at Crystal River nuclear plant*, Tampa Bay Times, August 2, 2012, at: http://www.tampabay.com/news/business/energy/repair-costs-rise-at-crystal-river-nuclear-plant/1243770.

- PEF has been unsuccessful in procuring a partner to share in the cost and risk of constructing the proposed reactors. 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]

- 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 U.S. 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 $350 million dollars, or $3.45/month, from customers uncontested through 2017, while allowing it to (1) obtain a federal license (combined operating license or "COL") from the NRC and (2) cancel its engineering, procurement, and construction (EPC) contract. SACE chose not to be a party to an agreement that allows the utility to recover significant licensing and/or cancellation 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]

EFFICENCY

- 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 Progress Energy Carolina's (PEC) 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 (see the graph below).

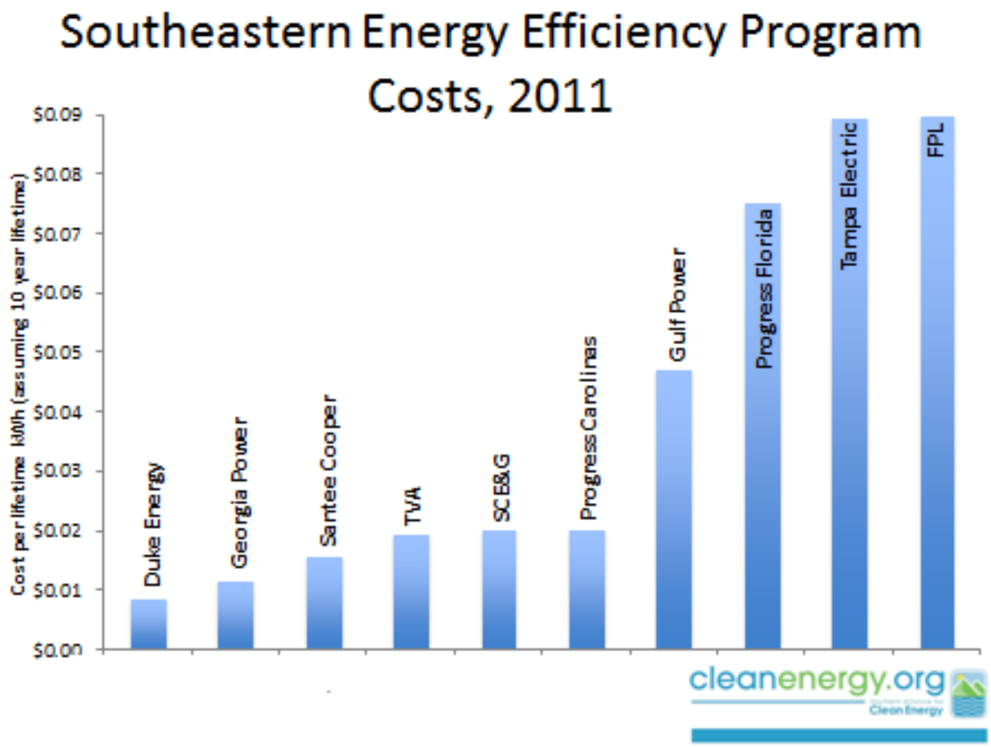
- PEF DSM programs to meet 2009 conservation goals set by the Florida Public Service Commission had significantly excessive saved energy costs as compared to peer utilities in different states with similar programs. This means customers would have overpaid for energy efficiency programs.[7]

---

[5] Progress Energy Florida, *Progress Energy Florida's Supplemental Response to Citizens Third Set of Interrogatories*, Docket No. 10009, July 7, 2010, at: http://www.cleanenergy.org/images/legal-documents/PEF_SUPPRESPONSE_OPC_ROG3_NO47.pdf.

[6] Ivan Penn, *Progress Energy looking to cancel main construction contract for building Levy County nuclear plant*, Tampa Bay Times, January 26, 2012, at: http://www.tampabay.com/news/progress-energy-looking-to-cancel-main-construction-contract-for-building/1212332.

[7] SACE comments on the FEECA utilities' proposed DSM plans, FPSC Docket No. 100160, December 22, 2010, at: http://www.psc.state.fl.us/library/FILINGS/10/10112-10/10112-10.pdf. (The causes for PEF's unnecessarily overpriced programs include: (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.)



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]

[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