December 1, 2017

Mr. Reece McAlister
Executive Secretary
Georgia Public Service Commission
244 Washington Street, S.W.
Atlanta, GA 30334

Re: Docket No. 29849
Georgia Power Company’s Seventeenth Semi-Annual Vogtle Construction Monitoring Report

Dear Mr. McAlister:

On behalf of the Georgia Public Service Commission Public Interest Advocacy Staff, enclosed for filing please find the testimony of the panel of Tom Newsome, Philip Hayet, and Lane Kollen, the panel of E. Cary Cook and Shemetha Q. Jones and the panel of William R. Jacobs Jr., Ph.D., Steven D. Roetger, and Ralph Smith.

This filing contains certain information that is being filed under the trade secret rules of the Commission. A redacted version of this filing is also enclosed for public disclosure.

We have furnished an electronic and/or a copy by mail of a redacted version of this filing to all parties in this docket.

Sincerely,

Jeffrey C. Stair
Attorney

Enclosures
BEFORE THE
GEORGIA PUBLIC SERVICE COMMISSION

IN THE MATTER OF: GEORGIA POWER COMPANY'S SEVENTEENTH SEMI-ANNUAL VOGTLE CONSTRUCTION MONITORING REPORT

DOCKET NO. 29849

DIRECT TESTIMONY
AND EXHIBITS
OF
TOM NEWSOME, PE, CFA
PHILIP HAYET
LANE KOLLEN

ON BEHALF OF THE
GEORGIA PUBLIC SERVICE COMMISSION
PUBLIC INTEREST ADVOCACY STAFF

DECEMBER 1, 2017
# TABLE OF CONTENTS

I. INTRODUCTION .............................................................................................................. 2

II. COMPANY’S 17th VCM FILING .................................................................................. 7

III. STAFF COST-TO-COMPLETE ECONOMIC EVALUATION ................................. 15
   A. Economic Evaluation Assumptions ........................................................................ 15
   B. Staff’s Economic Evaluation Results ...................................................................... 21
   C. General Business Risk ............................................................................................ 23
   D. Financial Impact of Cost Overruns on the Company and Ratepayers .................. 27

IV. THE COMMISSION SHOULD DETERMINE THAT THE COSTS THAT STAFF
    HAS IDENTIFIED AS UNREASONABLE BE ALLOCATED TO
    SHAREHOLDERS, RATHER THAN RATEPAYERS. IN THE ALTERNATIVE,
    THE COMMISSION SHOULD DEFER REASONABLENESS DETERMINATIONS
    UNTIL THE PROJECT IS COMPLETE AND PROVIDING SERVICE ......................... 28
   A. Staff’s Concern Regarding Unreasonable Costs .................................................. 28
   B. Revised Co-Owner Agreement .............................................................................. 30
   C. Prudence and Reasonableness Considerations ...................................................... 33
   D. Certain Construction and Other Costs Are Not Reasonable ................................. 35
   E. Affirmation of Applicability of Supplemental Information Report Stipulation .... 39
   F. Toshiba Guarantee and Lost Tax Benefits (50% Bonus Depreciation, PTCs) ......... 40

V. STAFF’S RECOMMENDATION FOR “REASONABLE” COST ............................... 42
   A. Calculation / Recommendation ............................................................................. 44
   B. Estimate A ............................................................................................................. 45
   C. Estimate B ............................................................................................................. 46
   D. Estimate C ............................................................................................................. 47
   E. Estimate D ............................................................................................................. 47
   F. Conclusion ............................................................................................................. 48

VI. CONCLUSION .............................................................................................................. 49
In this testimony, Staff presents our economic evaluation of the Project, discusses the Company’s proposed conditions, and presents our determination of reasonable costs. Staff concludes that completion of the Project is no longer economic on a to-go (forward looking) basis given the additional costs and schedule delays, even without considering the conditions requested by the Company. Staff opposes several of the conditions requested by the Company, which would effectively shift most of the financial risk of the Project to customers. Staff’s analysis indicates the Project’s economic benefit is a negative $1.6 billion, meaning that the Project is uneconomic. We provide a matrix summarizing Staff’s analyses in Section 3 of our testimony.

Similar to Staff’s analyses in prior VCM proceedings, we performed independent economic studies over a range of assumptions that in some cases differ from the Company’s assumptions and methodologies. These differences include the natural gas price forecast and the incremental income tax effects of completion compared to cancellation, among others.

Finally, we address the regulatory concepts of prudence and reasonableness and, likewise the appropriate allocation of costs between the Company and its customers for ratemaking purposes. There is an important difference between providing the Commission a “reasonable” forecast of the remaining costs to complete the Project versus determining the amount of final project costs that are reasonable for ratepayers to pay. A reasonable forecast does not automatically mean that all of the underlying costs in the forecast are reasonable to assign to ratepayers. The facts and circumstances regarding why a cost has been incurred must be considered to determine the reasonableness of approving recovery of a cost from ratepayers.

We conclude that certain costs already incurred by the Company are not reasonable to allocate to customers. Furthermore, we conclude that certain costs in the Company’s estimate of future costs are also unreasonable to allocate to customers and
instead should be allocated to the Company and its shareholders. We recommend that the
Commission find these costs unreasonable in this proceeding or defer this determination
until after the Project is completed.\(^3\)

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A. Staff’s recommendations are as follows:

1. Staff recommends the Project go forward only if the Commission modifies the
   Company’s proposed conditions to: a) ensure that Project completion is economic
   compared to cancellation,\(^4\) b) provide an appropriate allocation of risks and costs between
   the Company and its customers, and c) determine now that the costs identified as
   unreasonable by Staff be borne by stockholders, or at the least ensure that unreasonable
   costs are not approved in advance of an in-depth review of the prudence and
   reasonableness of actual costs after they are incurred.

2. Staff recommends that the reasonable Total Project Cost be set to no more than $8.3
   billion, consisting of a Capital and Construction Cost of $5.2 billion, and Financing Cost
   of $3.1 billion.

3. If the Commission declines to adopt Staff’s going forward recommendation, we
   recommend that the Project be cancelled and that the Commission decline to prematurely
   provide assurances of recovery in this proceeding. If the Project is cancelled, Staff
   recommends that the Commission review the prudence and reasonableness of the actual
   costs incurred and determine the recovery of those actual costs in a subsequent
   proceeding established for that purpose. Such a proceeding would consider what portion
   of the costs that have been incurred and that would have to be incurred to terminate
   construction and demobilize and secure the site should be recovered from ratepayers.

4. Staff recommends that the Commission reject the Company’s proposed condition that
   effectively restates, and possibly modifies, the terms of the Supplemental Information

\(^3\) The PSO in this case provides that the Commission will determine reasonableness in this proceeding. However, the Commission’s August 23, 2017 Order in this docket also specifically provided that if the Company recommended, for whatever reason, that the Project be abandoned, the Commission could reconsider its decision to decide reasonableness now. One of the Company’s recommendations in its 17th VCM Report is that the Project be cancelled.

\(^4\) Staff proposes that certain costs be deemed unreasonable in this proceeding. These unreasonable costs would not be recoverable from the Company’s ratepayers in future ratemaking proceedings. If adopted, these disallowances, together with the terms of the SIR Stipulation, could shift the economics to favor completion on a to-go basis.
Report ("SIR") Stipulation adopted by the Commission on January 3, 2017.\textsuperscript{5} Staff also recommends that the Commission adopt the Company’s proposed condition that affirms the terms of the SIR Stipulation.\textsuperscript{6}

5. Staff recommends that the Commission decline to adopt the Company’s proposed condition that the Project costs not be reduced in a future rate proceeding if it fails to receive the Toshiba Parental Guarantee ("Toshiba Guarantee") payments.\textsuperscript{7} Instead, we recommend that the Commission adopt a condition that the failure to receive the Toshiba Guarantee payments will be reviewed in a future post-construction prudence and reasonableness review of the Company’s actual decisions, actions, and inactions, and the actual costs that were incurred.

6. Staff recommends that the Commission decline to adopt the Company’s proposed condition that the Project capital costs not be reduced in a future rate proceeding if the Project does not qualify for the Production Tax Credits ("PTCs").\textsuperscript{8} Instead, Staff recommends that the Commission adopt a condition that because of the Company’s repeated schedule delays, the failure to receive the PTCs, unless extended by Congress, will be reviewed in a future post-construction prudence and reasonableness review of the Company’s actual decisions, actions, and inactions, and the actual costs that were incurred. In addition, Staff recommends the Commission consider in that review the fact that the Company is no longer eligible for 50% or any other amount of bonus tax depreciation because of the repeated schedule delays.

7. If construction of the Units continues, Staff recommends that the Company perform economic analyses of the additional 24, 36, and 48-month delay scenarios, as was done in previous VCM filings. Staff also recommends that for each such delay scenario, the Company provide the Total Project Cost and the full embedded cost revenue requirements associated with the Total Project Cost that the Company expects customers will incur both during construction and over the operating lives of the Units.

\textsuperscript{5} This is the third of five requests that the Company asks the Commission to consider and decide when it issues its Order in the 17\textsuperscript{th} VCM proceeding. See 17\textsuperscript{th} VCM Report Section IX, pg. 123.

\textsuperscript{6} This is the second of five requests that the Company asks the Commission to consider and decide when it issues its Order in the 17\textsuperscript{th} VCM proceeding. See 17\textsuperscript{th} VCM Report Section IX, pg. 123.

\textsuperscript{7} This is the fourth of five requests that the Company asks the Commission to consider and decide when it issues its Order in the 17\textsuperscript{th} VCM proceeding. See 17\textsuperscript{th} VCM Report Section IX, pg. 123.

\textsuperscript{8} Id.
II. COMPANY’S 17th VCM FILING

Q. WHAT CONVENTION DO YOU USE TO REFER TO THE DIFFERENT CASES EVALUATED IN THIS PROCEEDING?

A. For purposes of consistency in discussing economic evaluations throughout all VCM proceedings, Staff has identified delay cases based on the number of months of delay from the original certified in-service dates for the Units of April 2016/2017. Since the Company’s latest estimate is now November 2021/2022, Staff refers to this as the 68-month delay case. Staff understands the Company refers to the same case as its +29-month case in reference to its prior commercial operation dates of June 2019 and 2020, as reflected in the Company’s 15th and 16th VCM filings.

Q. PLEASE DISCUSS GEORGIA POWER’S 17TH VCM ESTIMATE OF ITS SHARE OF THE TOTAL PROJECT COST.

A. The Company’s latest estimate from Table 1.1 of the 17th VCM Report for the 68-month delay case is a Total Project Cost of $12.2 billion, consisting of $8.8 billion for construction and capital cost, and $3.4 billion for financing cost. These are the Total Project Costs that Georgia Power expects it will incur during construction of the Vogtle Project.

Q. PLEASE EXPLAIN HOW THE FINANCING COST INCURRED BY THE COMPANY DURING THE CONSTRUCTION OF THE UNITS IS RECOVERED FROM RATEPAYERS.

A. The majority of the Company’s financing cost incurred to build the Units is recovered during the construction period through the Nuclear Construction Cost Recovery

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9 See footnote 1, for an explanation of the Company’s inconsistency with using $12.170 as the Total Project Cost.
(“NCCR”) tariff. The remaining financing costs are capitalized and recovered over the operating lives of the Units. Capitalizing financing cost is the traditional approach to recovering financing costs, and is referred to as Allowance For Funds Used During Construction (“AFUDC”) accounting.

Q. **HOW MUCH WILL BE COLLECTED FROM RATEPAYERS DURING THE CONSTRUCTION PERIOD UNDER THE NUCLEAR CONSTRUCTION COST RECOVERY (“NCCR”) TARIFF?**

A. Staff estimates the Company will recover approximately $3.0 billion of the $3.4 billion of financing cost during construction. The revenue requirement to be collected from ratepayers on the $3.0 billion in financing cost is approximately $4.5 billion. The difference between the $4.5 billion value and the $3.0 billion financing cost value is $1.5 billion in income tax expense due to the gross-up of the return on equity.

Q. **HOW MUCH HAS BEEN SPENT ON THE PROJECT UP TO THE END OF THE 17TH VCM PERIOD, WHICH ENDED JUNE 30, 2017?**

A. The Company incurred $4.44 billion of capital and construction cost and $1.41 billion of financing cost for a Total Project Cost of $5.85 billion.

Q. **HOW MUCH REMAINS TO BE SPENT ON THE PROJECT THROUGH THE END OF CONSTRUCTION?**

A. The Company estimates it will incur $4.33 billion of construction and capital cost and $2.00 billion of financing cost for a Total Project Cost to be spent of $6.33 billion over

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10 Financing cost is $3.4 billion in Table 1.1; however only approximately $3.0 billion of the $3.4 billion will be recovered through the NCCR tariff during construction period. The remaining $0.4 billion of financing cost would be capitalized as AFUDC and recovered over the operating life of the Units.
11 Staff estimate.
12 See Staff data request 117-11 and attachment 117-11-c.
the remainder of the Project. Again, the $4.33 billion does not reflect the Toshiba Guarantee payments.

Q. WHAT WAS THE COMPANY'S PERSPECTIVE ON THE ASSUMPTIONS THAT IT USED IN THIS VCM PROCEEDING?

A. The direct testimony of Ms. Alison Chiock and Mr. David Poroch ("Chiock Panel") states that in this VCM "several assumptions were updated to more appropriately reflect current conditions." This included making changes in its economic analyses that increased the value of PTCs by accounting for the income tax gross up, using a later present value date (previously - 2016, currently - 2021), using a decision date that was months later than its usual practice, and modeling cancellation costs net of salvage income.

Q. WERE THERE ANY UNDERLYING MODELING ASSUMPTIONS THAT THE COMPANY DID NOT CHANGE?

A. Although the Company stated that it revisited all modeling assumptions, it did not change certain underlying planning assumptions from the 16th VCM, including its fuel and load forecasts, and its generation technology cost assumptions.

Q. WHAT ECONOMIC EVALUATIONS DID THE COMPANY PERFORM IN THE 17TH VCM PROCEEDING?

A. The Company states that it performed economic analyses using the same "core
methodologies used in all previous economic evaluations.”¹⁵ The Company’s
methodology compares the remaining cost to complete the Vogtle Project, referred to as
the “Completion Case”, to the cost to cancel Vogtle and construct an equivalent amount
of combined cycle (“CC”) capacity, referred to as the “Cancellation Case”. In this VCM,
the Company provided two variations of the analyses. The first set of analyses, or
“views” as the Company refers to them, is consistent with the analyses it has performed
in prior VCM proceedings as the “Incremental Cost to Complete Analysis.” We refer to
this first set as View 1. The Company characterized the second set of analyses as the
“Total In-Service Cost Analysis.” We refer to this second set as View 2.

Q. DOES STAFF AGREE WITH THE METHODOLOGY USED BY THE
COMPANY IN THE VIEW 1 AND VIEW 2 ANALYSES?

A. No. The Company’s modeling of View 1 fails to incorporate the incremental income tax
benefit of cancelling the Units.¹⁶ Although View 2 includes the incremental income tax
benefit of cancelling the Units, the Company incorrectly modeled to-go costs using an
embedded debt rate rather than a marginal debt rate. Staff corrected these flawed
assumptions in its economic analyses. The Company’s failure to include the incremental
income tax effects of the abandonment loss incorrectly penalized the Cancellation Case
by more than $1 billion.

Q. WHAT SCENARIOS DID THE COMPANY PRESENT IN ITS FILING?

A. The Company presented results for its base case, the 68-month delay case, and other
delay scenarios that ranged from 59 to 80 months. However, the Company did not

¹⁵ Chiok Panel Direct Testimony, page 7, line 20.
¹⁶ The incremental tax benefit is primarily the reduction of income taxes that would result from immediately writing off the capital cost of the Project if the Project was cancelled, versus depreciating the Project over 15 years if the Project was completed.
provide evaluations of the scenarios that were ordered by the Commission in its 16th VCM Order, the prescribed additional 24, 36 and 48-month scenarios beyond the Company’s 68-month delay base case. Staff conducted analyses of the prescribed scenarios, which are discussed in Section 3 below.

The following table summarizes the Company’s expected value results in 2021 net present value dollars for Views 1 and 2. The table contains the Company’s results of the 68-month delay schedule and reflects the current situation in that bonus depreciation and PTC tax benefits are lost due to schedule delays, but includes the financing cost benefits of the additional United States Department of Energy (“DOE”) loan guarantee commitments that the Company recently received. The Company’s View 1 properly reflects the marginal cost of debt, but fails to reflect the incremental effects of the abandonment loss in the Cancellation Case. The Company’s View 2 incorrectly reflects the embedded cost of debt, but properly reflects the incremental effects of the abandonment loss in the Cancellation Case. The primary explanation for the significant variation in the results of the two Views is the abandonment loss impact reflected in the View 2 Cancellation Case, which highlights the importance of this issue.

<table>
<thead>
<tr>
<th></th>
<th>2021 Present Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>View 1</td>
<td>716</td>
</tr>
<tr>
<td>View 2</td>
<td>(524)</td>
</tr>
</tbody>
</table>

If PTCs are extended by the Federal government, this would add about $1.1 billion in benefits on a 2021 present value basis to the Company’s 17th VCM result in the
table above. However, the PTC benefit would be reduced if the federal corporate income
tax rate is reduced from 35 percent by the legislation that is currently being considered by
both houses of Congress due to a lower income tax gross-up. For example, a reduction in
the federal corporate income tax rate to 20 percent would reduce the value of the PTCs to
approximately $0.9 billion on a 2021 present value basis.

Q. THE COMPANY HAS USED 2016 AS THE DATE FOR PRESENT VALUE
CALCULATIONS IN ALL PRIOR VCMS. HOWEVER, THE COMPANY
CHANGED THE PRESENT VALUE DATE TO 2021 IN ITS 17TH VCM FILING.
PLEASE EXPLAIN THE IMPACT OF THIS CHANGE IN PRESENT VALUE
DATES ON ECONOMIC EVALUATIONS.

A. The fact that the Company presented results in 2021 dollars is a significant change for the
Company to make at this juncture. In all prior proceedings as far back as the 1st VCM
proceeding, the Company stated net present value results in 2016 dollars, based on the
original in-service date for Unit 3. In economic studies, it is important that present value
results be compared using the same present value date for consistency and to make
meaningful comparisons between different values. Any change to the present value date
made while a project is being studied could make a project appear to be more or less
economic than the project appeared in an earlier version of the same study. Changing the
date from 2016 to 2021, gives the Project the appearance of being more economic than it
otherwise would be if there are positive benefits, or more uneconomic if there are
negative benefits, all else equal. If the present value date is changed at this point, then
it is important that any comparisons to prior results be compared using the same present
value date.

17 As a hypothetical, a project that has a benefit of $5 billion when stated in 2016 present value dollars, would
appear to have a benefit of $7 billion when expressed in 2021 dollars, based on a 7% discount rate, all else equal. In
this example, the project really did not increase in value, it just appeared that it did, simply because the present value
calculation was based on a later present value date.
Q. IF A CHANGE IS MADE AT THIS POINT TO THE PRESENT VALUE DATE, WOULD THERE BE A BETTER DATE TO USE THAN 2021?

A. Yes. While the present value date should remain the same from VCM to VCM to ensure comparability of results, if it is changed, Staff’s recommendation is that it should be changed to the same date as the decision date of 2018, so that it is consistent with the date when the Commission will make a decision in this proceeding. If the present value date is changed to 2018 in this proceeding, Staff expects to use that date in all future VCM proceedings, and recommends that the Company do the same. The following table presents the same results found in Table 1 above, but also presents the results in 2018 net present value dollars.

Table 2
Georgia Power’s Expected Value Results
Comparing 2018 to 2021 NPV Dollars
68-Month Delay Case - View 1 and 2
Negative Means the Project is Uneconomic
($ Millions)

<table>
<thead>
<tr>
<th></th>
<th>2021 Present Value</th>
<th>2018 Present Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>View 1</td>
<td>716</td>
<td>577</td>
</tr>
<tr>
<td>View 2</td>
<td>(524)</td>
<td>(427)</td>
</tr>
</tbody>
</table>

Q. DID THE COMPANY MAKE ANY OTHER CHANGES TO DATE ASSUMPTIONS IN THIS PROCEEDING?

A. Yes. In all prior VCMs, the Company set the decision date to the day following the filing date of the VCM reports. The decision date represents the dividing line date used to segregate costs that the Company has already incurred (sunk cost), versus prospective costs (to-go cost) that the Company will incur in completing the Project. All else being
equal, the later the decision date, the less the to-go costs will be in the Completion Scenario, and the more economical the Project will appear. In this VCM, the Company set the decision date to February 15, 2018, which is about five months later than the September 1, 2017 date that the Company otherwise would have used had it followed the same practice it had used in prior VCMs.

Q. WHAT DECISION DATE DID STAFF USE AS THE DIVIDING LINE FOR SUNK COSTS IN ITS ECONOMIC ANALYSES?

A. Staff adopted the use of February 2018, because for all practical purposes, it is now impossible for the Company to retroactively cancel the Project in August 2017. However, that does not mean Staff agrees that the costs incurred after August 2017, when the Company made its decision to proceed, are prudent or reasonable. The Company should remain at risk for those costs in any Commission prudence or reasonableness review regardless of whether the Project is completed or cancelled.

Q. PLEASE DISCUSS THE TREND IN THE COMPANY’S BASE CASE EXPECTED VALUE BENEFITS SINCE THE 11TH VCM PROCEEDING.

A. Table 3 below, compares the Company’s cost-to-complete expected value results dating back to the 11th VCM analysis. The results are now expressed in 2018 net present value dollars for comparison purposes. The 17th VCM results account for the additional DOE benefits that the Company has secured, but do not include PTC benefits.

<table>
<thead>
<tr>
<th>Table 3(^\text{18})</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Case Vogtle vs. CCGT</td>
</tr>
<tr>
<td>2018 Expected NPV Dollars</td>
</tr>
<tr>
<td>Positive Reflects Benefit</td>
</tr>
</tbody>
</table>

\(^{18}\) The Company’s 17th VCM result is the current state, which includes the additional DOE loan guarantee benefit. Also, the appropriate discount rates were applied in restating prior VCM results to 2018 NPV dollars.
If the Project had been completed without the significant delays and costs overruns the expected benefit on a cost-to-complete basis should have increased from one VCM to the next. The reduction in the benefit from the 16th to 17th VCM is the result of the additional time and costs estimated by the Company to complete the Project. As mentioned previously, Congress is currently considering extending the PTCs, and if it does, the 17th VCM benefit would increase by about $0.9 billion on a 2018 present value basis. However, that amount would be reduced to approximately $0.7 billion if Congress also reduces the corporate federal income tax rate to 20 percent.

III. STAFF COST-TO-COMPLETE ECONOMIC EVALUATION

A. Economic Evaluation Assumptions

Q. ARE THERE INCREMENTAL EFFECTS OF SUNK COSTS THAT SHOULD BE REFLECTED IN THE INCREMENTAL ECONOMIC ANALYSES COMPARING THE COMPLETION AND CANCELLATION ALTERNATIVES?

A. Yes, there are two important incremental impacts of sunk costs that should be accounted for in the cost to complete economic evaluation of the Vogtle Project, especially at this decision inflection point. It is essential to reflect these incremental effects to provide an
accurate economic analysis.

The first relates to the Stipulation that was approved by the Commission in January 3, 2017. This impact relates to the fact that the return on common equity, which impacts the rate of return applied to all construction costs, including sunk costs, is reduced in the Completion Case based on pre-defined trigger points (related to schedule and cost) reflected in the Stipulation. Since the Stipulation only applies to the Completion Case, the same return on equity reductions do not apply to the Cancellation Case. This incremental impact associated with sunk costs must be accounted for, and Staff incorporated this impact in its analysis.

The second incremental impact of sunk costs relates to the significant and immediate income tax write-off (savings) that Georgia Power would be entitled to on the capital cost it has incurred if the Vogtle Project were cancelled. It is not appropriate to ignore the difference in incremental income tax impacts that affect the amounts customers will pay for the sunk costs depending on whether the Project is cancelled or completed.19

Q. WHAT IS THE COMPANY’S POSITION REGARDING THE INCREMENTAL IMPACT OF SUNK COSTS?

A. The Company argues that the incremental economic analyses should ignore sunk costs as well as all related incremental effects of the sunk costs even if the incremental effects differ between the Completion Case and Cancellation Case. These incremental effects of sunk costs include both the different income tax effects of sunk costs and the effects of

19 In the Completion Case, income tax expense would reflect tax depreciation deductions of the construction and capital costs over 15 years based on the Modified Accelerated Cost Recovery System (“MACRS”). In the Cancellation Case, income tax expense would reflect an immediate abandonment loss deduction of the same construction and capital costs, although this would be deducted over approximately three years as a practical matter due to the magnitude of the loss deduction.
the SIR Stipulation under the Completion and Cancellation studies. Again, it is the Company's position that these incremental effects should be ignored in the economic analyses for the to-go decision.

In response to Staff Discovery STF-120-16, the Company asserts that one reason not to include the incremental income tax effects of sunk costs in the incremental economic analysis is that the "sunk costs cannot be controlled by the Company." This is not a legitimate reason to omit the income tax benefit of cancelling the Units. Whether the Company proceeds with construction or abandons the Units, prospective costs and cost offsets such as the reduction in income taxes, should be recognized for economic evaluation purposes.

Q. DID COMPANY WITNESS DAVID POROCH AGREE THAT THE INCREMENTAL TAX IMPACT OF SUNK COSTS WOULD AFFECT THE COMPLETION AND CANCELLATION CASES DIFFERENTLY?

A. Yes, Mr. Poroch stated:\textsuperscript{20}

The tax benefits you get over the life of the project on a nominal basis is really the same. What this really comes down to is the timing in which you get that tax benefit.

This is correct. The amount of sunk cost on each side of the analysis is the same on a nominal basis, but the economic evaluation effects are significantly different due to the federal income tax treatment of the sunk costs and the timing when tax deductions are incurred. In the Completion Case, the sunk costs are depreciated over a 15-year period for federal income tax purposes, and in the Cancellation Case, the sunk costs are written off immediately, although the deduction is modeled over three years based on an estimate.

\textsuperscript{20} Company Direct Hearing, November 8, 2017, Hearing Transcript page 1096, line 2.
of the Company’s ability to take the deduction. As Mr. Poroch said, “What this really
comes down to is the timing in which you get the tax benefit.” Staff agrees. It is the
timing of future differences in costs that result in an incremental impact that must be
accounted for in the economic analysis. As the Company readily admitted at the hearing,
the “event that would trigger this income tax implication of sunk cost would occur [in]
the future rather than the past.” (Tr. 1094).

Q. WHAT IS THE AMOUNT OF BENEFIT THAT THE INCOME TAX
ABANDONMENT LOSS WOULD PROVIDE IF ACCOUNTED FOR ON THE
FULL AMOUNT OF COST SPENT AT THE FEBRUARY 2018 DECISION
DATE?

A. The sunk cost at the Commission’s decision point is estimated to be $4.7 billion. The
incremental income tax savings is $1.8 billion in the Cancellation Case compared to the
Completion Case. Staff included this impact in its analysis.

Q. IS THE COMPANY CONSISTENT IN ITS ARGUMENT THAT INCREMENTAL
IMPACTS OF SUNK COSTS SHOULD BE IGNORED?

A. No. Although the Company ignored several of the incremental effects that stem from
sunk costs, it included other incremental effects in its economic analyses. These other
incremental effects include cancellation costs, salvage income (as an offset to
cancellation costs), and DOE loan repayment costs, among others. All incremental
effects that stem from sunk costs should be included in the economic analyses, not just
selected incremental effects. The Commission should reject the Company’s selective and
inconsistent treatment of the incremental effects of the sunk costs.

Q. DID THE COMPANY ALSO FAIL TO CAPTURE IN ITS ECONOMIC
ANALYSIS ANOTHER SUNK COST IMPACT, THAT IS, A SUNK COST
IMPACT THAT RELATES TO THE SIR STIPULATION?

A. Yes. In its View 1 Cases, the Company failed to include the incremental effects of the reductions in the return on equity on the sunk costs, which differ between the Completion and Cancellation Cases. In its View 2 Cases, the Company correctly reflected these incremental effects. The Staff corrected the Company’s flawed assumptions in its economic analyses.

WHAT ANALYSES DID STAFF PERFORM IN ITS 17th VCM EVALUATION?

A. Staff conducted a series of cost-to-complete analyses to evaluate the reasonableness of the Company’s results. To develop these analyses, Staff first reviewed the Company’s modeling assumptions, and ultimately made changes to the Company’s fuel forecast, to appropriately model the incremental income tax effects of sunk costs, and to appropriately model the sunk cost impacts of the SIR Stipulation. Staff performed economic evaluations of the Company’s 68-month delay scenario, and performed evaluations of the additional 24, 36 and 48-month delay cases per the Commission’s Orders in prior VCMs, including the 16th VCM.

PLEASE DISCUSS THE DIFFERENCES IN ASSUMPTIONS BETWEEN THE STAFF’S AND COMPANY’S ANALYSES.

A. There are three primary differences: 1) a lower natural gas forecast, 2) accounting for the incremental impacts of sunk costs and the use of marginal long-term debt rates for to-go costs, and 3) use of 2018 as the net present value date.

In the 17th VCM proceeding, Staff performed an updated analysis to evaluate current natural gas price forecasts. Based on this analysis, Staff determined that its updated evaluation was similar to its 16th VCM evaluation. Given this similarity, Staff decided to rely on its 16th VCM forecast in this proceeding. Staff continues to believe
that the Company’s moderate and high gas price forecasts are overstated.

In response to a hearing request, the Company has now provided its most recent natural gas price forecast (2018 Budget Year Forecast).\textsuperscript{21} The 2018 Budget Year Forecast shows a decrease in natural gas prices that, all else equal, would lower the economic benefit of the Completion Case if it were reflected in the Company or Staff economic analyses. Staff still contends that its natural gas forecasts are more reasonable than the Company’s, and should be relied on in evaluating the economic benefits of the Vogtle Project in this proceeding. As stated in prior VCMs, it is Staff’s position that averaging the forecasts from several sources provides a more accurate view of market consensus rather than relying on a single source as the Company has done in all VCMs.

Regarding the incremental impacts of sunk costs, Staff captured the timing differences between the Cancellation and Completion Cases related to different income tax treatment, and the different returns on equity associated with the Stipulation. Related to the different income tax treatment of sunk costs, in the Cancellation Case, Staff captured the income tax abandonment loss deduction, and in the Completion Case, Staff modeled the MACRS depreciation income tax deduction. Related to the different return on equity treatment of sunk costs associated with the SIR Stipulation, Staff modeled the appropriate SIR Stipulation requirements in the Completion case. In addition, Staff modeled all to-go costs using marginal debt rates. Finally, Staff used February 2018 as the measurement date for present value calculations rather than 2021 for reasons described above.

Q. HAS STAFF REVIEWED THE COMPANY’S LOAD FORECAST THAT WAS USED IN THIS FILING?

\textsuperscript{21} Hearing request, VCM 17-HR-1-5.
Yes. Staff determined that the Company’s 2017 Budget load forecast reflects continued lower load growth over the long-term, which is consistent with trends observed by other utilities across the country.

**Q.** IS THE LOAD FORECAST THE ONLY FACTOR CONSIDERED IN EVALUATING WHEN A UTILITY HAS A NEED FOR CAPACITY?

**A.** No. The Company’s analysis to determine the amount and date of additional capacity need is based on a comparison of the amount of existing firm resources owned or purchased by the Company, versus the amount of firm load that the Company is obligated to serve. Besides accounting for existing resources during the study period, generating units and purchases that are expected to be added or removed, and demand side management are all accounted for in the analysis.\(^{22}\)

**Q.** HAVE YOU REVIEWED THE COMPANY’S LATEST ANALYSIS OF WHEN IT WILL REQUIRE ADDITIONAL CAPACITY?

**A.** Yes. If the Vogtle Unit 3 & 4 Project were cancelled, Georgia Power would need new capacity in 2024, because of load growth, planned coal unit retirements, and the expiration of power purchases agreements (“PPAs”). This new capacity could be generation built and owned by the Company (self-build), purchased from a third party via PPAs, or possibly a bilateral arrangement with another supplier with excess capacity.

**B.** Staff’s Economic Evaluation Results

**Q.** WHAT ARE THE RESULTS OF STAFF’S COST TO COMPLETE ECONOMIC EVALUATION?

\(^{22}\) Staff data request 113-20.
A. Staff's results are presented in Table 4 below, and reflect the "Current State" as it exists today. In other words, Staff has accounted for the additional DOE benefits. However, since PTCs are set to expire, and Congress has not yet extended them, they have not been included in these analyses. The analyses assume the Company would collect the entire amount of Toshiba Guarantee payments.

Table 4
Staff 68-Month Delay Economic Evaluation
Savings of the Project Versus CC
Feb 15, 2018 Decision and Net Present Value Date
(Billions of dollars, Negative Means Uneconomic)

<table>
<thead>
<tr>
<th>Fuel \ CO₂</th>
<th>$0 CO₂</th>
<th>$10 CO₂</th>
<th>$20 CO₂</th>
<th>Expected Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>(0.8)</td>
<td>0.0</td>
<td>0.9</td>
<td>(1.6)</td>
</tr>
<tr>
<td>Moderate</td>
<td>(3.0)</td>
<td>(2.1)</td>
<td>(1.2)</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>(3.6)</td>
<td>(2.7)</td>
<td>(1.8)</td>
<td></td>
</tr>
</tbody>
</table>

Staff's 68-month results indicate that 7 out of 9 natural gas/CO₂ cases are uneconomic, and only the high natural gas, mod and high CO2 cases are economic. Assuming equal weighting of each case, on an expected value basis, the 68-month case results indicate that the Project is expected to be uneconomic by $1.6 billion.

As required by the Commission’s 16th VCM order, Staff has provided 24, 36 and 48-month additional delay cases. The results of these cases are provided in the following tables.

Table 5
Staff 92-Month Delay Economic Evaluation
(Billions of dollars, Negative Means Uneconomic)

<table>
<thead>
<tr>
<th>Fuel \ CO₂</th>
<th>$0 CO₂</th>
<th>$10 CO₂</th>
<th>$20 CO₂</th>
<th>Expected Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>(2.6)</td>
<td>(1.7)</td>
<td>(0.8)</td>
<td></td>
</tr>
</tbody>
</table>

22
Table 6
Staff 104-Month Delay Economic Evaluation
(Billions of dollars, Negative Means Uneconomic)

<table>
<thead>
<tr>
<th>Fuel \ CO₂</th>
<th>$0 CO₂</th>
<th>$10 CO₂</th>
<th>$20 CO₂</th>
<th>Expected Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>(3.4)</td>
<td>(2.6)</td>
<td>(1.7)</td>
<td>(4.1)</td>
</tr>
<tr>
<td>Moderate</td>
<td>(5.4)</td>
<td>(4.6)</td>
<td>(3.6)</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>(6.1)</td>
<td>(5.1)</td>
<td>(4.2)</td>
<td></td>
</tr>
</tbody>
</table>

Table 7
Staff 116-Month Delay Economic Evaluation
(Billions of dollars, Negative Means Uneconomic)

<table>
<thead>
<tr>
<th>Fuel \ CO₂</th>
<th>$0 CO₂</th>
<th>$10 CO₂</th>
<th>$20 CO₂</th>
<th>Expected Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>(4.2)</td>
<td>(3.4)</td>
<td>(2.5)</td>
<td>(4.9)</td>
</tr>
<tr>
<td>Moderate</td>
<td>(6.2)</td>
<td>(5.3)</td>
<td>(4.4)</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>(6.8)</td>
<td>(5.9)</td>
<td>(5.1)</td>
<td></td>
</tr>
</tbody>
</table>

The additional 24-month delay case (92-month delay case), additional 36-month delay case (104-month delay case) and additional 48-month delay case (116-month delay case) are uneconomic by $3.3 billion, $4.1 billion and $4.9 billion, respectively. Clearly any additional delays beyond the Company’s current forecast would have a significant adverse impact on the economics of the Project.

C. General Business Risk

Q. GIVEN THE NEGATIVE ECONOMIC BENEFIT OF COMPLETING THE UNITS, ESPECIALLY IF THERE ARE ADDITIONAL DELAYS, SHOULD THE COMMISSION TAKE INTO CONSIDERATION CERTAIN GENERAL
BUSINESS RISKS CONFRONTING THE PROJECT?

A. Yes. There are significant general business risks in additional to the risks identified by the Roetger/Jacobs/Smith panel that the Commission should consider. These risks result in ratepayers being asked to take on a disproportionate amount of the risk of the Project.

Q. ARE THERE CERTAIN FACTS AND CIRCUMSTANCES THE COMMISSION SHOULD CONSIDER IN ITS DECISION OF WHETHER TO CONTINUE WITH VOGTLE UNITS 3 AND 4 AND ON WHAT TERMS?

A. Yes. The facts and circumstances of the Project have changed a great deal since certification and materially since the 15th VCM with the Contractor’s bankruptcy. The economic cornerstones of the Project are no longer in place. The EPC Agreement which required the Contractor to absorb certain capital cost overruns is no longer in place. The threats of high natural gas prices and carbon dioxide emission cost (CO2 legislation) have diminished. Without these economic cornerstones, the economic rationale for the Units is diminished.

Q. ARE THERE OTHER FACTS AND CIRCUMSTANCES THE COMMISSION SHOULD CONSIDER IN ITS DECISION WHETHER TO APPROVE CONTINUATION OF THE VOGTLE UNITS 3 AND 4 PROJECT AND ON WHAT TERMS?

A. Yes. The Contractor’s bankruptcy led to the rejection of the EPC Agreement and the loss of certain ratepayer protections. Certain capital costs that were the responsibility of the Contractor under the EPC Agreement are now the responsibility of the co-owners including Georgia Power. The technology provider (Westinghouse) and constructor (Bechtel) are taking no financial risk on the Project going forward. Both of their contracts with Southern Nuclear are “cost plus” arrangements. Under a “cost plus” contract,
Westinghouse and Bechtel are ensured full recovery of their costs and a fixed percentage mark up on every dollar they spend. The Commission should take into account the stark differences of how parties are bearing the financial impact of additional delays and cost overruns. The fact that the protections of the original EPC Agreement for ratepayers are now gone, and Westinghouse and Bechtel have no “skin in the game” going forward are indicators that the Project may incur additional delays and cost overruns. Georgia Power wants ratepayers to be wholly responsible for these cost overruns.

WHAT IS THE COMPANY’S FINANCIAL EXPOSURE TO ADDITIONAL DELAYS AND COST OVERRUNS RELATIVE TO RATEPAYERS?

The Company’s exposure is quite limited under the terms they requested in their 17th VCM filing. The Company wants all the capital cost approved as reasonable including capital costs that have not yet been incurred. This would negate a very important ratepayer protection and shift the financial impact of additional delays and cost overruns almost entirely to ratepayers.

HOW DOES SOUTHERN NUCLEAR ASSUMING CONTROL OF THE PROJECT WITH WESTINGHOUSE AND BECHTEL FUNCTIONING AS SUBCONTRACTORS IMPACT THE PROJECT’S FINANCIAL RISK?

While Southern Nuclear may manage the Project better than the Contractor previously did, Southern Nuclear is an operator of nuclear power plants, not a nuclear power plant architectural/engineering design firm, or a mega-project construction company. Its core competence is in nuclear power plant operations rather than engineering design or

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23 Based on the Company’s 17th VCM filing it appears the Company wants $8.8 billion in capital cost to be approved as reasonable. This would give the Company a contingency of $1.7 billion if Toshiba Guarantee payments are received.
construction. Southern Nuclear has subcontracted construction to Bechtel which has construction experience on large projects; however, this was precisely what the Contractor had done previously by subcontracting construction to three large construction companies (Shaw, Chicago Bridge & Iron and Fluor) over the life of the Project, and the Project’s progress, as well as financial results, has been poor for the ratepayer.

It should be noted that Southern Nuclear affiliates Georgia Power and Mississippi Power have had their difficulties with recent large power plant construction projects. Georgia Power incurred a $400 million or 24% cost overrun on the Plant McDonough combined cycle units and revised their estimate four times. Mississippi Power recently abandoned a large investment in the Plant Kemper Integrated Gasification Combined Cycle (“IGCC”) by converting it to a combined cycle project after the original estimate of $2.9 billion increased to $7.5 billion.

While the Vogtle Unit 3 and 4 Project is a distinct and separate project, having Southern Company or an affiliate take charge does not necessarily mean the Project will be completed on schedule and budget. These circumstances should be considered by the Commissioners in making their decision whether to continue with the Project, and as important, whether to allocate all of the risks to the ratepayers.

Q. PLEASE EXPLAIN HOW GEORGIA POWER AND PRESUMABLY THE RATEPAYER ARE ABSORBING ADDITIONAL TECHNOLOGY RISK.

A. The Toshiba Guarantee is a positive development for the economics of the Project. However, the rejection of the EPC Agreement eliminated a protection that Toshiba or Westinghouse bore some financial responsibility if the Units did not function as required under the EPC Agreement. If the Units require modifications or do not operate as

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24 Moody’s Investors Service, Issuer Comment 31 August 2017
intended or not as efficiently as expected, any cost to address such problems is entirely the responsibility of the Company, and potentially the ratepayers. The Toshiba Guarantee payments eliminate effectively all liability for Toshiba and Westinghouse regarding performance of the Units. The Commission should take into consideration the unusual nature and potential magnitude of the Project’s technology risk.

D. **Financial Impact of Cost Overruns on the Company and Ratepayers**

Q. **WHAT IS THE FINANCIAL IMPACT ON THE COMPANY OF THE COST OVERRUNS THE PROJECT HAS EXPERIENCED THUS FAR?**

A. Due to the delays in the Project, the Company will collect considerably more in profit over the entire lifecycle of the Units (construction period and operating period) from ratepayers than it would have had the Project been completed under the original schedule. The profit the Company will collect will increase from approximately $7.4 billion\(^{25}\) to approximately $12.6 billion over Unit’s entire lifecycle. The $500 million in reduced profits from the ROE reductions in the SIR Stipulation, noted as “severe” by the Company’s CEO,\(^{26}\) only prevents the Company’s profit from increasing to approximately $13.1 billion.

Q. **WHAT IS THE FINANCIAL IMPACT OF COST OVERRUNS ON THE RATEPAYERS?**

A. The nominal lifecycle capital cost revenue requirement collected from ratepayers would

\(^{25}\) This value is based on the Units going into service in April 2016/2017 as anticipated in the Company’s Certification Filing.

increase from $23 billion to $37 billion.\textsuperscript{27}

Q. WHAT IS THE FINANCIAL IMPACT OF COST OVERRUNS ON THE ECONOMIC BENEFIT OF THE PROJECT FOR RATEPAYERS?

A. The economic benefit has decreased from negative $5.7 billion to negative $9.3 billion on a 2018 net present value basis.\textsuperscript{28}

Q. WHAT IS STAFF'S CONCLUSION OF THE RELATIVE IMPACT OF THE COST OVERRUNS ON THE COMPANY VERSUS RATEPAYERS?

A. Assuming the Project is completed, ratepayers would incur significantly higher revenue requirements and a reduced economic benefit while the Company’s profits would increase.

IV. THE COMMISSION SHOULD DETERMINE THAT THE COSTS THAT STAFF HAS IDENTIFIED AS UNREASONABLE BE ALLOCATED TO SHAREHOLDERS, RATHER THAN RATEPAYERS. IN THE ALTERNATIVE, THE COMMISSION SHOULD DEFER REASONABLENESS DETERMINATIONS UNTIL THE PROJECT IS COMPLETE AND PROVIDING SERVICE.

A. Staff's Concern Regarding Unreasonable Costs

Q. PLEASE DESCRIBE THE COMPANY’S REQUEST THAT THE COMMISSION APPROVE THE NEW SCHEDULE AND COST FORECAST.

\textsuperscript{27} Capital cost revenue requirement consist of depreciation, interest, profit (ROE) and income taxes. It does not include fuel, O&M or decommissioning cost.

\textsuperscript{28} These values compare economic benefit if the Units were completed in April 2016 and 2017 versus Company’s current forecast of November 2021 and 2022. This analysis considers all cost, including sunk cost, of Vogtle 3&4 versus natural gas combined cycle. If Vogtle 3&4 had been completed on the original schedule of April 2016 and 2017, it would have had negative economic benefit of $5.7 billion relative to combined cycle installed when capacity is needed.
A. The Company seeks a Commission Order making the following findings, among others:

1. That pursuant to O.C.G.A. §46-3A-7(b), the Commission in the VCM 17 proceeding approves the new cost and schedule forecast and finds that it is a reasonable basis for going forward; and that if the Commission disapproves all or part of the proposed cost and schedule revisions, the Company may cancel Units 3 and 4 and recover its actual investment in the partially completed Facility pursuant to O.C.G.A. §46-3A-7(d).  

Q. HAS THE COMPANY MODIFIED ITS REQUEST FROM THAT WHICH WAS REFLECTED IN THE VCM 17 REPORT?

A. Yes. In response to Staff discovery, the Company states:

The Company is asking the Georgia Public Service Commission approve and deem reasonable all costs that make up the Total Construction & Capital Cost forecast of $8,771 million listed on page 103 of the 17th VCM Report.

Q. PLEASE DESCRIBE THE RELATED ISSUE IN THE COMMISSION’S PROCEDURAL AND SCHEDULING ORDER (“PSO”) IN THIS PROCEEDING.

A. The Commission included the following issue in the PSO:

Whether the Commission should approve, disapprove, or modify the Company’s proposed revisions in the cost estimates, construction schedule, or project configuration and whether the proposed costs are reasonable.

Q. HOW DOES THE PROJECT CONFIGURATION RELATE TO THE

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29 Sec 17th VCM Report Section IX, pg. 123.
30 STF-121-14
REASONABLENESS OF COSTS IN THIS PROCEEDING?

A. The Commission included the reasonableness of the Project Configuration and the proposed cost and schedule estimates as issues that should be considered in this proceeding. Furthermore, the Company stated in the 17th VCM Report that it is supposed to supply information to the Commission as part of the VCM filings that the Commission could use to review and approve proposed modifications to the Project Configuration. The 17th VCM Report identified the new Project Configuration consisting of the Revised Project Ownership Participation Agreement ("Co-Owner’s Agreement"), SNC’s Proposed Management Structure, and Bechtel as the Construction Contractor. Though Company Witness David McKinney testified at hearing that the Company was not seeking approval of the revisions to the Co-Owner Agreement, Staff is concerned about a provision of that agreement.

B. Revised Co-Owner Agreement

Q. WHAT IS STAFF’S CONCERNS WITH THE REVISED CO-OWNER AGREEMENT?

A. Staff’s concern is that the revisions to the Co-Owner Agreement provide the co-owners the right to cancel the Project in the event that the Commission fails “to approve Georgia Power’s share of the proposed revised cost forecast and construction schedule”, or finds that “any part of Georgia Power’s capital investment or associated financing costs (other than already provided in the Stipulation) are not recoverable or will be presumed non recoverable,” unless ninety percent of the owners vote to proceed with the Project.
Georgia Power’s discussion of this provision makes it clear that the Co-Owner Agreement provides the co-owners the right to cancel the Project unless the Commission approves the latest Total Project Cost as being reasonable. Staff believes this provision is unacceptable and that it may impair the ability of Georgia Power to meet its obligation to its customers.

Q. WOULD IT BE REASONABLE FOR THE CO-OWNERS TO ABANDON THE PROJECT IF THE COMMISSION ALLOCATES CERTAIN UNREASONABLE COSTS TO GEORGIA POWER AND ITS SHAREHOLDER RATHER THAN TO CUSTOMERS?

A. No. First, the Commission’s jurisdiction and responsibility, per State law, is to ensure that Georgia Power’s customers are not forced to pay for unreasonable costs, not to ensure that co-owners’ customers are treated the same as the Company’s customers. The co-owners were fully aware the Commission had the authority to disallow certain costs incurred by the Company from the very beginning of the Project. Now that circumstances have changed, the Revised Co-Owner Agreement could penalize the Company customers, which is unacceptable. Furthermore, any suggestion that the co-owners would be at a competitive disadvantage if the Commission were to disallow certain costs incurred by the Company is incorrect. If this Commission were to disallow costs, any impacts on the co-owner’s customers would be immaterial, if they occurred at all.

Q. WOULD CO-OWNERS BE AT A COMPETITIVE DISADVANTAGE IF THE COMMISSION WERE TO DISALLOW ANY COST INCURRED BY GEORGIA POWER?

A. No. In Georgia, the only competition is for new large load customers. For new load, the Company and co-owners compete not only on price, but also on other factors. As to
price, the Company and co-owners already have cost structural differences, with the
cooperatives and municipals generally at a cost advantage due to their lower financing
costs. As to the incremental effects of the Project costs, Staff estimates Georgia Power’s
revenue requirement is approximately 25 percent higher than the co-owners for the same
amount of capacity.\(^{34}\) This is the result of Georgia Power having a substantially higher
cost of capital which increases its financing cost relative to the other co-owners over the
construction and operating life of Vogtle 3 and 4.

It should be noted that Staff issued data requests to each of the co-owners
requesting, among other documents, a copy of all documents relating to any potential
impact on the co-owners’ ability to compete for new large load customers if the
Commission disallows any Vogtle 3 and 4 costs for Georgia Power. As of the date of this
testimony, neither Oglethorpe Power nor Dalton Utilities has responded to the data
request. MEAG, in its response, stated that the request was not relevant to the matters in
this proceeding. Further, MEAG stated that it has not yet undertaken any analysis of the
impacts of a disallowance of Vogtle 3 and 4 costs.

Q. **IF THE COMMISSION WERE TO DISALLOW $1.5 BILLION TO $2.5 BILLION IN CAPITAL COST HOW WOULD GEORGIA POWER’S VOGTLE 3 AND 4 REVENUE REQUIREMENT COMPARE TO THE OTHER CO-OWNERS?**

A. Georgia Power’s revenue requirement for the Project would still be approximately 5
percent to 15 percent higher than the other co-owners.

Q. **WOULD THE CO-OWNERS EVER BE AT A COMPETITIVE DISADVANTAGE TO GEORGIA POWER REGARDING VOGTLE 3 AND 4 IF THE COMMISSION WERE TO DISALLOW GEORGIA POWER CAPITAL COST?**

\(^{34}\) The 25 percent value was calculated based on publicly available information and simplifying assumptions.
A. No, but even if it were true, for the co-owners to abandon the Project unless the Commission makes Georgia Power customers pay costs that should be paid for by shareholders simply to allow the co-owners a competitive advantage is inherently unfair and hurts competition.

Q. **IS IT REASONABLE FOR THE COMPANY TO AGREE TO ALLOW THE CO-OWNERS TO ABANDON THE PROJECT IF THE COMMISSION REQUIRES GEORGIA POWER TO ABSORB CERTAIN COST?**

A. No. For the Company to enter into such an agreement is also inherently unfair and a breach of its regulatory compact.

Q. **WHAT IS STAFF’S RECOMMENDATION REGARDING THE REVISED CO-OWNER AGREEMENT?**

A. Staff recommends that the Commission not approve the revised co-owner agreement. Staff does not believe that the Commission should intentionally or unintentionally cede its authority over the Project to the co-owners.

C. **Prudence and Reasonableness Considerations**

Q. **COULD THIS COMMISSION’S DETERMINATION OF THE ISSUES AS SET FORTH IN THIS PROCEEDING LIMIT A FUTURE COMMISSION’S ABILITY TO REVIEW THE ACTUAL COSTS INCURRED AND DISALLOW UNREASONABLE COSTS?**

A. Yes. The Commission should carefully consider how its determination of reasonableness in this proceeding, if in fact decided, will affect the ability of a future Commission to review the actual costs incurred and its ability to disallow unreasonable costs. In part, the extent of Staff’s concern depends on how broadly and carefully the Commission
defines and/or applies a finding of reasonableness. The Commission could limit its
determination in this VCM to whether the revised schedule and costs are sufficiently
reasonable to allow the Company to proceed with construction, subject to an appropriate
allocation of risk and costs between the Company and its customers. This approach
would be consistent with the Commission’s prior VCM Orders where it certifies and
approves costs up to the certified amount of $4.4 billion that were spent during the review
period. Staff favors this approach.

Q. PLEASE DESCRIBE THE PRUDENCE AND REASONABLENESS STANDARDS
AND HOW THESE STANDARDS ARE NORMALLY APPLIED FOR
RATEMAKING PURPOSES.

A. The prudence and reasonableness standards are two different, but interrelated and
complementary regulatory standards. While the prudence standard focuses on the
appropriateness of the decision-making process, actions, or inactions given the facts and
circumstances known or knowable at the time, the reasonableness standard focuses on the
costs resulting from the decision-making process and who should bear those costs, i.e.,
how the costs should be allocated between the Company and its customers.

Imprudent decisions, actions, or inactions generally result in unreasonable costs.
However, even if the Company’s decisions, actions, or inactions are prudent, there still
may be unreasonable costs resulting from those prudent decisions that should not be
allocated to customers. In the Vogtle 1 and 2 case, the Commission found, and the Court
of Appeals affirmed, that for reasonableness: "[t]he determinative issue is ... who should
bear such costs."35 One consideration in this determination is whether the additional cost
was “more in the control of utility management than the ratepayers.” Id. at 579. For
example, in the case of damages caused by one of the parties to the construction project,

the Court stated that “[t]he public is not one of those parties and had nothing within its control during the process. As noted by the PSC during the hearings, if the subcontractor ... was contractually or negligently responsible for the delays, the Company has remedies against those parties and that loss need not be visited upon the rate payers.” Id. at 584.

Q. WHAT ARE THE PRACTICAL IMPLICATIONS IF THE COMMISSION APPROVES THE COMPANY’S PROPOSED REVISIONS IN THE COST ESTIMATES, CONSTRUCTION SCHEDULE, OR PROJECT CONFIGURATION AND FINDS THAT THE PROPOSED COSTS ARE REASONABLE?

A. If the Company’s requests are granted, then these findings and approvals likely will preclude the ability of a future Commission to perform a post-construction review of the actual costs incurred to determine if they were reasonable and to disallow unreasonable costs. The Commission still would have the ability to perform a post-construction review of the actual costs incurred to determine if they were prudent and to disallow imprudent costs.

D. Certain Construction and Other Costs Are Not Reasonable

Q. ARE ALL PROJECT COSTS THAT HAVE BEEN OR ARE ESTIMATED TO BE INCURRED THROUGH THE COMMISSION’S DECISION DATE (SUNK COSTS) AND PROSPECTIVE COSTS REASONABLE?

A. No. As described by Mr. Roetger, Dr. Jacobs, and Mr. Smith, the Company failed to manage the Project and its EPC contractor in a reasonable manner. The EPC Contractor itself failed to manage its responsibilities in a reasonable manner, declared bankruptcy, and rejected the EPC Agreement. The Company’s failure to manage the Project in a reasonable manner resulted in repeated schedule delays and increases in actual and
projected costs compared to the certification cost, as well as increases in financing costs and lost tax benefits (bonus depreciation and PTCs, which no longer are available to the Project under present tax law). The Company and Contractor’s decisions, actions, and inactions resulted in the Project’s increased cost. The Commission has not increased the certification cost. Thus, any costs in excess of the $4.418 billion certification cost, including the related effects on the financing costs, remain subject to Commission review for reasonableness and prudence.

Another consideration in the assessment of reasonableness is whether the Company minimized the Project construction and financing costs, as well as other effects on the costs that already have been and will be imposed on customers consistent with its legal obligations and good utility practice. This obligation extends to the financing costs and tax benefits, among other costs and benefits. The repeated schedule delays and cost increases have caused the financing costs to balloon. This obligation to ensure that costs are minimized also extends to the Toshiba Guarantee payments.

In addition, ratepayers should not have to bear the costs related to the loss of the bonus depreciation and PTC benefits, assuming PTC benefits are not extended. Ratepayers would have received the benefit of the 50% bonus depreciation had the Project been completed within four years of its original completion date. Throughout the certification proceeding, the Company emphasized that it would be an active manager of the project. In this VCM, the Company has attributed the delay in large part to Westinghouse’s inefficient performance as contractor. It is unreasonable for ratepayers to have to bear increased costs as a result of the Units not being constructed efficiently. This cost is in addition to the increased construction and financing costs.

Q. DOES STAFF MAKE ANY DISTINCTION BETWEEN THE COMPANY OR THE CONTRACTOR WHEN REVIEWING COST FOR UNREASONABLENESS?
A. No. The Commission is charged with reviewing the costs that the Company actually incurred for reasonableness and prudence. These costs include all costs incurred by the Company on the Project, including the cost that it incurred due to its own decisions, actions and inactions, as well as the costs incurred on its behalf by its contractors. There is no distinction between the Company and its contractors.

Q. ARE THERE REASONS FOR THE COMMISSION TO DEFER REVIEW OF PROSPECTIVE COST?

A. Yes. Although the Commission could review sunk costs for reasonableness in this proceeding, it realistically cannot review costs that have not yet been incurred for reasonableness until they actually are incurred. This is particularly true for contingency costs, which, by definition, are not yet known, and have not yet been incurred.

Given the requirements of the PSO, Staff has identified various costs that are unreasonable and that should not be allocated to ratepayers. In the alternative, the Commission could defer making reasonableness determinations now and do so when it reviews prudence at the end of the Project.

Q. WHAT COSTS DOES STAFF BELIEVE THE COMMISSION SHOULD FIND ARE UNREASONABLE, OR IN THE ALTERNATIVE SHOULD DEFER TO BE CONSIDERED IN A PRUENCY PROCEEDING AT THE END OF THE PROJECT?

A. Staff has identified the following unreasonable costs:

- increases in costs due to construction mismanagement;
• increases in direct engineering, procurement and construction costs of the Project due to loss of fixed price cost protection after bankruptcy and rejection of EPC Agreement by WEC.

• increases in direct engineering, procurement and construction costs of the Project due to transition from WEC to Southern Nuclear and from Fluor to Bechtel, including incremental costs to restructure management of project, develop construction schedule, EPC cost estimates, etc.;

• increases in owners’ costs due to schedule delays;

• increases in direct engineering, procurement and construction costs of project due to GPC’s payment of contractor liens against WEC;

• increases in financing costs incurred through the NCCR and capitalized as AFUDC due to the schedule delays and increased construction costs;

• increases in ad valorem taxes due to schedule delays and increased construction costs;

• increases in ratepayer revenue requirements due to the lost bonus depreciation and production tax credit tax benefits due to the schedule delays.

These costs are described in greater detail in the Roetger/Jacobs/Smith panel testimony, except for the lost bonus depreciation and PTCs, which we discuss. Also, the Commission should decline to deem the contingency costs included in the revised cost estimate as reasonable because the costs are unknown, have not been incurred, and cannot be reviewed for reasonableness.
CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the within and foregoing
TESTIMONY OF THE GEORGIA PUBLIC SERVICE COMMISSION PUBLIC
INTEREST ADVOCACY STAFF upon all parties listed below via electronic service
or by hand delivery and addressed as follows:

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