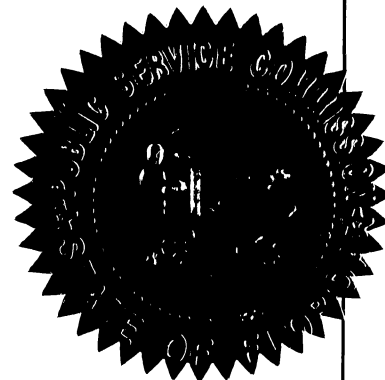


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 080009-EI

In the Matter of:

NUCLEAR COST RECOVERY CLAUSE.



VOLUME 3

Pages 370 through 612

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PROCEEDINGS: HEARING

BEFORE: CHAIRMAN MATTHEW M. CARTER, II
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER KATRINA J. McMURRIAN
COMMISSIONER NANCY ARGENZIANO
COMMISSIONER NATHAN A. SKOP

DATE: Thursday, September 11, 2008

TIME: Commenced at 9:30 p.m.
Concluded at 5:20 p.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: MARY ALLEN NEEL, RPR, FPR

APPEARANCES: (As heretofore noted.)

DOCUMENT NUMBER-DATE

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P R O C E E D I N G S

1
2 (Transcript follows in sequence from
3 Volume 2.)

4 CHAIRMAN CARTER: We are on the record. We'll
5 call this hearing to order, and we'll start at the
6 beginning. We've already had the staff read the notice,
7 and you read the notice for both cases when you did
8 that; correct?

9 MS. BENNETT: Yes, Chairman.

10 CHAIRMAN CARTER: And we've completed phase 1,
11 so as we go to part 2 of our case -- let me get my notes
12 here. We'll begin -- I think we've done everything up
13 to the opening statements for this case; is that
14 correct?

15 MS. BENNETT: That's correct. We would be
16 hearing opening statements from FPL and the other
17 parties.

18 CHAIRMAN CARTER: Okay. Well, let's get
19 going.

20 Mr. Anderson, you're recognized, sir.

21 MR. ANDERSON: Before we begin, we have two
22 more witnesses who could be sworn if you want to do
23 that, if that streamlines things.

24 CHAIRMAN CARTER: Brilliant. Outstanding.
25 Will the witnesses please stand.

1 I only see one.

2 MR. ANDERSON: Okay. Did everybody else --

3 CHAIRMAN CARTER: Have we lost one?

4 MR. ANDERSON: We're good.

5 (Witness sworn.)

6 CHAIRMAN CARTER: Mr. Anderson, you're
7 recognized.

8 MR. ANDERSON: Thank you, Chairman Carter.

9 Good afternoon, Chairman and Commissioners.
10 FPL appreciates the opportunity to appear before you
11 today in this first nuclear cost recovery rule
12 proceeding for FPL's Turkey Point 6 and 7 and nuclear
13 uprate projects.

14 Let's recall the scope and expected benefits
15 of those projects for FPL's customers. FPL's Turkey
16 Point 6 and 7 project is expected to provide two new
17 nuclear generating units on existing company property.
18 These units will provide large amounts of base load
19 generation with zero greenhouse gas emissions without
20 using fossil fuel. FPL expects that the project will
21 save customers more than \$1 billion per year in fuel
22 costs when the units are in operation.

23 FPL's updated feasibility analyses, which are
24 before you today -- Dr. Sim will tell you about those --
25 confirm these or even greater economic benefits for

1 FPL's customers, and improved benefits for from the
2 uprates as well. FPL's director of this project, Steve
3 Scroggs, is here today, and he's here to answer your
4 questions about any aspect of the Turkey Point 6 and 7
5 project.

6 Let's think about the uprate projects for a
7 moment. Those projects will add more than 400 megawatts
8 of new nuclear capacity to existing units. They'll come
9 online in 2011 and 2012. They're going to deliver
10 round-the-clock, zero-emission capacity and energy,
11 again without using fossil fuel. These uprates will
12 also provide major fuel cost savings for customers, and
13 the updated economics show at least another \$100 million
14 cumulative present value revenue requirement benefit to
15 customers in the update before you today. We have the
16 director of FPL's uprate projects, Bill Labbe, here to
17 answer any questions you have about the project.

18 With the projects in mind, let's focus on the
19 issues before us for consideration. These projects are
20 structured like other clause proceedings, in the sense
21 that prior year actuals get filed in March, current year
22 actual/estimated and projected costs in May.

23 For Turkey Point 6 and 7, of course, all of us
24 were working together on the need determination case,
25 and the order didn't come out until March. That's why

1 the first Turkey Point 6 and 7 filings were in May and
2 why we're really in the position of reasonableness
3 determinations for the new nuclear plants, which is
4 different than uprates, because you approved those last
5 December. The order came out in January. You've got
6 the March filing with 2007 actuals. You've got the
7 2008-2009 projections of things. So this case is ripe
8 for a prudence determination for the 2007 uprate costs.

9 I would like to call the Commission's
10 attention to a recent change to our 2008
11 actual/estimated costs. It's set forth in the revised
12 prehearing order now. It will be explained by FPL's
13 director of the Turkey Point 6 and 7 project,
14 Mr. Scroggs, also mentioned by our controller, Kim
15 Ousdahl.

16 FPL follows a very deliberate, step-by-step
17 approach to project development and risk management.
18 The company recently determined that at this time, it's
19 not necessary to incur certain long lead procurement
20 costs during the fourth quarter of 2008. FPL has
21 therefore reduced its 2008 actual/estimated costs and
22 decreased by 14 percent the total amount sought by FPL
23 for 2009 recovery. This amounts to a 35 million nominal
24 reduction. When carrying costs are added in, it reduces
25 the amount requested from about 258 million to about

1 221 million.

2 Turning to the uprate projects, in this case,
3 FPL is seeking a prudence determination concerning its
4 approximate \$8.6 million in 2007 actual costs. About
5 8.2 million of that is FPSC jurisdictional. We're also
6 seeking reasonableness determinations for '08 and '09
7 costs for this, and the new nuclear plants, of course,
8 as well.

9 I want to talk a little bit about where that
10 uprate work went and what those dollars were spent for
11 in looking forward to providing service to our
12 customers. In 2007, FPL focused on nuclear engineering
13 and design that must be performed in order to submit
14 these projects on schedule to the Nuclear Regulatory
15 Commission. They have to do their safety review. They
16 have to do their license amendments of our plant
17 licenses, and meeting this NRC filing is essential for
18 the company to be able to complete the uprates during
19 scheduled refueling outages. Those are the slots we're
20 looking at down the road to do the work, not special
21 outages, regular scheduled outages at FPL's nuclear
22 stations during 2011 and 2012.

23 You'll hear that the evidence in this case
24 shows that FPL hired uniquely qualified vendors for this
25 limited scope of engineering and design work in 2007.

1 OPC has submitted some criticisms that FPL entered into
2 these contracts without competitive bidding.

3 To be clear, single and sole source contracts
4 are an important and useful tool for nuclear projects
5 and are expressly provided for under FPL's procurement
6 procedures. For nuclear plant work, there are few
7 qualified vendors generally, sometimes only one
8 qualified vendor at all. This is because not just any
9 company is qualified to do work on a nuclear plant.
10 It's especially true when we're speaking of nuclear
11 safety related work, such as fuel design, safety
12 analyses for reactor internals, that type of thing, all
13 of which was done during 2007 by these vendors.

14 That said, FPL competitively bids work
15 wherever it reasonably can. For the uprate projects,
16 the large majority of costs ultimately are expected to
17 be competitively bid, probably more than a billion
18 dollars of those costs.

19 For the essential uprate nuclear steam supply
20 engineering and design work during 2007, you'll be
21 hearing about work done by Westinghouse Electric Company
22 and the Areva company. These are some of the contracts
23 criticized by OPC. You'll hear that these companies
24 were uniquely qualified to do this work. Concerning
25 design information, it's design information which only

1 they own. Only they have the right to use the design
2 information. It's work they've successfully performed
3 before for FPL and others in the nuclear industry.

4 By the same example, FPL's use of Shaw Stone &
5 Webster makes perfect sense as a good use of single or
6 sole source contracting. Shaw Stone & Webster has
7 performed engineering and design and other work on 46
8 prior nuclear uprate projects in the United States,
9 including at FPL's plants. This is a vendor we know
10 very well. It's the right vendor selection at the right
11 price. Our witnesses, Mr. Labbe and Mr. Reed, will
12 speak to these points.

13 In addition, there are similar solid business
14 reasons for where we used single and sole source
15 contracting for Turkey Point 6 and 7. Our witnesses,
16 Mr. Scroggs and Mr. Reed, will speak to those points.

17 It's worth remembering that your Commission
18 staff spent a great deal of effort this year performing
19 detailed management audits which reviewed FPL's
20 management and accounting practices in place for Turkey
21 Point 6 and 7 and the uprate projects. Among many other
22 positive findings, the staff audit found that FPL's
23 practices and procedures are reasonable and confirmed
24 that these practices were followed for the single and
25 sole source procurements.

1 This proceeding provides the Commission, the
2 parties, and the public a window into FPL's uprate and
3 new nuclear projects. It's a different way of doing
4 regulation a little bit. A great deal of information
5 has been provided to staff and the parties. FPL looks
6 forward to further enhancing public understanding and
7 Commission understanding and that of the parties about
8 these important projects. Our goal is that the
9 Commission, the parties, and our customers have comfort
10 and confidence that these major projects undertaken to
11 provide clean, zero-emitting base load electric
12 generation for FPL customers are being managed in a
13 cost-effective and safe way.

14 In conclusion, FPL requests that the
15 Commission's order in this proceeding enter prudence and
16 reasonableness findings, as stated in FPL's positions in
17 the prehearing order, and approve FPL's requested 2009
18 nuclear cost recovery.

19 Thank you.

20 CHAIRMAN CARTER: Thank you, Mr. Anderson.
21 Mr. McWhirter?

22 MR. McWHIRTER: No comments, sir.

23 CHAIRMAN CARTER: Mr. Twomey.

24 MR. TWOMEY: No, sir.

25 CHAIRMAN CARTER: Mr. McGlothlin.

1 MR. MCGLOTHLIN: Joe McGlothlin for the Office
2 of Public Counsel.

3 Commissioners, as I was thinking about what
4 the Commission and the parties are about today, it
5 occurred to me that this proceeding probably satisfies
6 the definition of test case better than any other
7 proceeding in recent memory. Consider that, like many
8 other cases that come before you, this case involves
9 requests by utilities for authority to collect hundreds
10 of millions of dollars from customers, and you certainly
11 have the traditional role of reviewing those requests
12 and making a decision.

13 But this is also an instance in which we are
14 implementing the nuclear cost recovery rule for the
15 first time. It's a proceeding in which the so-called
16 Nuclear Filing Requirements, the NFRs, are being tested
17 for adequacy for the first time. And another novel
18 feature of this proceeding, soon to be no longer novel,
19 but it is in this case, is that you're called on to
20 review the beginnings of a nuclear project as opposed to
21 being called on to review a plant that's about to enter
22 commercial service. All these aspects make this case
23 very different from most that come before you.

24 In the evidence you're about to hear, you will
25 learn that our office has initiated issues and pursued

1 issues that are related to each of those aspects that I
2 enumerated. With respect to money, we have identified
3 an issue that pertains to Florida Power & Company which
4 in our view does warrant consideration of an adjustment
5 to the company's request. With respect to the
6 application of the new rule, we initiated and pursued
7 with parties our view as to the proper limits that
8 should be imposed on the application of the rule as it
9 relates to uprate projects so that non-uprate project
10 costs will not be borne through the cost recovery rule.

11 With respect to the Nuclear Filing
12 Requirements, which have been the product of basically
13 an informal collaboration to this point, we have
14 recommended an addition to those requirements which will
15 enable the utilities to understand what's expected of
16 them next year and will give the Commission and parties
17 more information up front when we go through this
18 exercise in the next cycle.

19 Our witness with respect to all these
20 contentions is Dr. William Jacobs. As you heard, he
21 holds a Ph.D. in nuclear engineering and has worked on
22 projects at numerous nuclear power plants across the
23 country and across the globe. He will testify on three
24 issues, and the first is common to both Progress Energy
25 and Florida Power & Light. And you've heard something

1 about it before, but I think I will summarize it very
2 briefly here.

3 Dr. Jacobs -- and it's also specific to uprate
4 projects. Dr. Jacobs will testify that a utility should
5 be made to perform and show an analysis designed to
6 differentiate between those costs that are incurred and
7 are essential to an uprate project on the one hand and
8 those costs that do not qualify for the clause because
9 they are in the nature of operation and maintenance
10 costs that the utility would incur to maintain service
11 from its unit even in the absence of an uprate project.

12 As it develops, we have learned that Florida
13 Power & Light Company and Progress Energy Corporation do
14 not disagree with our view of the scope of the rule, and
15 that has led to something of a workout that you've heard
16 about already with respect to the agreement to develop
17 an additional Nuclear Filing Requirement specific to the
18 type of analysis that will be required of the utilities
19 in the next cycle.

20 Dr. Jacobs will also testify that while
21 Florida Power & Light Company's management processes
22 appropriately stress the desirability of competitive
23 bidding as the standard for choosing contractors, FPL
24 too often has awarded contracts without competitive
25 bidding and without sufficient justification.

1 He will testify that FP&L has fallen short of
2 its own internal requirements that FPL first justify the
3 decision to forgo competitive bidding, and a related and
4 equally important requirement that in that instance, FPL
5 demonstrate that the costs of a contract entered into
6 without the benefit of competitive bids is reasonable in
7 amount.

8 He will show that the justification memoranda
9 that serve as the basis for the decision to depart from
10 the otherwise applicable standard of competitive bidding
11 too often consists of standardized, perfunctory,
12 conclusory language instead of a rationale or an
13 analysis that is specific to the contract in question.

14 He will testify that FPL's practice of
15 referring to past experience, and in the case of one
16 major contract, a "back of the envelope" type of
17 analysis, are insufficient to enable this Commission to
18 gauge that the costs of the single source and sole
19 source contracts that have been entered into to this
20 point are reasonable in amount.

21 Dr. Jacobs will offer three suggestions, three
22 alternative regulatory actions designed to communicate
23 the Commission's insistence that FPL adhere to its own
24 standard of competitive bidding and demonstrate adequate
25 justification when it departs from that standard.

1 First, he identifies a very large contract
2 related to one of the uprate projects and suggests that
3 the Commission use that large contract as a proxy for
4 the general shortcoming in terms of competitive bidding
5 and disallow a portion of the return on investment that
6 FPL is seeking with respect to the investments called
7 for in that contract.

8 In order of decreasing severity, recognizing
9 that this is a test case and we're perhaps all of us
10 finding our way through this process, he suggests that
11 the Commission could withhold a portion of the revenue
12 requirements or carrying charges associated with that
13 contract and tell FPL that it cannot collect that
14 portion unless and until it is able to demonstrate the
15 reasonableness of the decision to enter a single source
16 contract in the next cycle.

17 And the final alternative, if the Commission
18 declines to undertake a financial adjustment, would be,
19 at a minimum, to admonish Florida Power & Light Company
20 that the Commission expects the utility to adhere to its
21 practice of competitive bidding and to be prepared to
22 fully justify any departure from that standard in the
23 future.

24 Thank you.

25 CHAIRMAN CARTER: Thank you, Mr. McGlothlin.

1 Just procedurally, we did it in our other
2 case, and just to dot the I's and cross the T's, staff's
3 composite exhibit list is entered into the record
4 without objections. I believe the other -- 41 and --
5 wait a minute. Let me see. Forty-one is -- we did 42
6 in the prior case, but 41, we need to add this to our
7 list.

8 MS. BENNETT: We've entered 41 into the record
9 previously. We entered all of the exhibits, the
10 comprehensive exhibit list, the composite exhibits, and
11 FPL's composite exhibits.

12 CHAIRMAN CARTER: FPL's composite exhibit,
13 that's 41. And, Mr. Anderson, at the appropriate time,
14 we can move to enter that into evidence.

15 MR. TWOMEY: Mr. Chairman.

16 CHAIRMAN CARTER: Hang on one second. I'll
17 get right back to you.

18 MR. TWOMEY: Yes, sir.

19 CHAIRMAN CARTER: We did that already? Did we
20 enter FPL's exhibit already?

21 MS. BENNETT: We did. At the very beginning
22 of the proceeding, at the opening of the record, we
23 entered all of the composites in, a little bit fast.

24 CHAIRMAN CARTER: Well, let's re-enter, then.
25 Since we've already entered it, I know there's no

1 objection, so let's show it done for Exhibit 41, just to
2 dot the I's and cross all the T's.

3 Mr. Twomey.

4 MR. TWOMEY: Mr. Chairman, thank you. While I
5 didn't want to make a formal opening statement as I did
6 in the Progress case, I want to reiterate that AARP is
7 here supportive fully of the work of the Office of
8 Public Counsel, and to that end, as reflected in the
9 prehearing order, we have supported all their positions
10 on all issues. Thank you.

11 CHAIRMAN CARTER: Thank you. For the record,
12 AARP has adopted and supports the positions of OPC in
13 toto; correct?

14 MR. TWOMEY: Yes, sir.

15 CHAIRMAN CARTER: Thank you, sir.

16 Okay. Now, let's see here. All preliminary
17 matters taken care of, staff?

18 MS. BENNETT: All that staff is aware of.

19 CHAIRMAN CARTER: Any more from the parties
20 before we begin?

21 Mr. Anderson, you're recognized, sir.

22 MR. ANDERSON: Thank you, Chairman Carter.
23 FPL would call as its first witness its controller, Kim
24 Ousdahl.

25 CHAIRMAN CARTER: Kim Ousdahl.

1 Thereupon,

2 KIM OUSDAHL

3 was called as a witness on behalf of Florida Power &
4 Light Company and, having been first duly sworn, was
5 examined and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. ANDERSON:

8 Q. Good afternoon, Ms. Ousdahl.

9 A. Good afternoon.

10 Q. Have you been sworn?

11 A. Yes, I have.

12 Q. Would you tell us your name and business
13 address?

14 A. My name is Kim Ousdahl. My business address
15 is 700 Universe Boulevard, Juno Beach, Florida.

16 Q. By whom are you employed, and in what
17 capacity?

18 A. By Florida Power & Light Company as
19 controller.

20 Q. Have you prepared and caused to be filed seven
21 pages of prefiled direct testimony in this proceeding on
22 March 3, 2008?

23 A. I have.

24 Q. Did you also prepare and cause to be filed 17
25 files of prefiled direct testimony on May 1, 2008?

1 A. I have.

2 Q. Did you submit an errata, I believe it was
3 yesterday, in relation to your testimony?

4 A. I did.

5 MR. ANDERSON: Chairman Carter, I would note
6 that the copy of the errata is being distributed. It
7 basically calls out each figure which would change in
8 her testimony, principally to implement this \$35 million
9 reduction we've talked about. There has also been one
10 other small financial adjustment between here and there,
11 but the main purpose was to implement the reduction that
12 we talked about. And Ms. Ousdahl, of course, can answer
13 any --

14 CHAIRMAN CARTER: Do we need to admit this?
15 Let's mark it as 43.

16 MR. ANDERSON: Ms. Ousdahl -- I'm sorry.

17 CHAIRMAN CARTER: Excuse me, Ms. Ousdahl. One
18 second here. You want to call it the Ousdahl errata
19 sheet?

20 MR. ANDERSON: Yes, sir.

21 CHAIRMAN CARTER: Sounds nice that way.

22 (Exhibit Number 43 was marked for
23 identification.)

24 CHAIRMAN CARTER: Okay. You may proceed.

25 BY MR. ANDERSON:

1 Q. Other than your errata, do you have any
2 changes or revisions to your prefiled direct testimony?

3 A. I do not.

4 Q. If I asked you the same questions contained in
5 your prefiled direct testimony with your errata, would
6 your answers be the same?

7 A. They would.

8 MR. ANDERSON: Chairman Carter, FPL asks that
9 Ms. Ousdahl's prefiled direct testimony be inserted into
10 the record as though read.

11 CHAIRMAN CARTER: The prefiled testimony of
12 the witness will be inserted into the record as though
13 read.

14 BY MR. ANDERSON:

15 Q. Are you co-sponsoring any exhibits to your
16 direct testimony?

17 A. I am.

18 Q. Are those portions of Exhibits STH-1, STH-2,
19 SDS-1, and SDS-2?

20 A. They are.

21 MR. ANDERSON: Mr. Chairman, I would note
22 these exhibits have been premarked for identification in
23 staff's list as Numbers 20 through 23.

24

25

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **DIRECT TESTIMONY OF KIM OUSDAHL**

4 **DOCKET NO. 080009-EI**

5 **May 1, 2008**

6

7 **Q. Please state your name and business address.**

8 A. My name is Kim Ousdahl. My business address is 700 Universe Boulevard,
9 Juno Beach, Florida 33408.

10 **Q. By whom are you employed and what is your position?**

11 A. I am employed by Florida Power & Light Company (FPL or the Company) as
12 Controller.

13 **Q. Have you previously filed testimony in this docket?**

14 A. Yes.

15 **Q. What is the purpose of your testimony?**

16 A. The purpose of my testimony is to provide an overview of FPL's filing and
17 demonstrate that the filing complies with Florida Administrative Code Rule
18 25-6.0423, Nuclear Power Plant Cost Recovery (the Rule). Consistent with
19 the Rule, my testimony requests that the Commission approve a Nuclear
20 Power Plant Cost Recovery ("NPPCR") amount of \$258,979,772 on a
21 jurisdictional adjusted basis to be recovered through the 2009 Capacity Cost
22 Recovery Clause ("CCRC"). In conjunction with approval of the NPPCR
23 amount, FPL requests that the Commission do the following:

- 1 • Review and approve recovery of carrying charges associated with the
2 2008 Actual/Estimated and 2009 Projected construction costs for the
3 Uprate Project, as presented in the testimony of FPL witness Stephen
4 Hale.
- 5 • Review and approve recovery of the 2007 Actual, 2008
6 Actual/Estimated and 2009 Projected pre-construction costs and
7 associated carrying charges for Turkey Point 6 & 7, as presented in the
8 testimony of FPL witness Steven Scroggs.
- 9 • Determine that FPL's 2007 pre-construction costs for Turkey Point 6 &
10 7 were prudently incurred, for the reasons presented in the testimony of
11 Mr. Scroggs.
- 12 • Approve FPL's proposal to recover FPL's 2006-2007 Site Selection
13 costs and associated carrying costs through the CCRC effective January
14 1, 2009 as part of FPL's NPPCR amount. Consistent with approving
15 FPL's proposal, FPL further requests that the Commission determine
16 FPL's 2006-2007 Site Selection costs for the Turkey Point 6 & 7
17 project were prudently incurred, for the reasons presented in Mr.
18 Scroggs' testimony.

19 **Q. Have you prepared or caused to be prepared under your direction,**
20 **supervision or control any exhibits in this proceeding?**

21 A. Yes. I am sponsoring portions of the following exhibits:

- 22 • STH-2, which consists of Appendix I containing the Nuclear Filing
23 Requirements Schedules (NFRs) for the Uprate Project. Page 2 of Appendix I

1 contains a table of contents listing the NFRs that are sponsored by Mr. Hale,
2 Dr. Sim and me, respectively.

3 • SDS-1, which consists of Appendix II containing the NFRs for Turkey Point 6
4 & 7 pre-construction costs. Page 2 of Appendix II contains a table of contents
5 listing the NFRs that are sponsored by Mr. Scroggs, Dr. Sim and me,
6 respectively.

7 • SDS-2, which consists of Appendix III containing the NFRs for Turkey Point
8 6 & 7 Site Selection costs. Page 2 of Appendix III contains a table of contents
9 listing the NFRS that are sponsored by Mr. Scroggs and me, respectively.

10

11 **NUCLEAR COST RECOVERY RULE**

12 **Q. Please describe the purpose of the Rule.**

13 A. On March 20, 2007, in Order No. PSC-07-0240-FOF-EI, this Commission
14 adopted the Rule to implement Section 366.93, Florida Statutes (the Statute),
15 which was enacted by the Florida Legislature in 2006. The stated purpose of
16 the Statute is to promote utility investment in nuclear power plants, and it
17 directed the Commission to establish alternative mechanisms for cost recovery
18 and step-wise, periodic prudence determinations with respect to costs incurred
19 to build nuclear power plants. The Rule provides the mechanism and the
20 annual recovery of these costs through the CCRC. FPL has been working
21 with Commission Staff, the Office of Public Counsel, Progress Energy Florida
22 and others to develop a comprehensive set of schedules, Nuclear Filing

1 Requirements, setting forth construction and cost information on a nuclear
2 project.

3 **Q. Have these schedules been formally adopted?**

4 A. Although the schedules have not been formally adopted by the Commission,
5 FPL understands that all parties agree to the use of the latest draft of the NFRs
6 for filing purposes. The Company has been collaborating with Progress
7 Energy in order to provide as much consistency as possible in the current
8 draft. However, the forms are still evolving and deviations from specific
9 details of the forms may be appropriate. The NFRs provide an overview of
10 the financial and construction aspects of nuclear plant projects, outline the
11 categories of costs represented and provide a roadmap to the calculation of
12 detailed project revenue requirements.

13 **Q. Does the Rule describe the annual filing requirements that a utility is to**
14 **make in support of a final true-up of prior year costs and a prudence**
15 **determination for those costs?**

16 A. Yes. Subsection (5) (c) of the Rule states:

17 “ 1. Each year, a utility shall submit, for Commission review and approval, as
18 part of its Capacity Cost Recovery Clause filings:

19 a. True-Up for Previous Years. By March 1, a utility shall submit its
20 final true-up of pre-construction expenditures, based on actual pre-
21 construction expenditures for the prior year and previously filed expenditures
22 for such prior year and a description of the pre-construction work actually
23 performed during such year; or, once construction begins, its final true-up of

1 carrying costs on its construction expenditures, based on actual carrying costs
2 on construction expenditures for the prior year and previously filed carrying
3 costs on construction expenditures for such prior year and a description of the
4 construction work actually performed during such year.”

5 **Q. Is FPL complying with these requirements with respect to its 2007 Uprate
6 and Turkey Point 6 & 7 Project Costs?**

7 A. Yes. FPL filed the T (Final True-up) Schedules containing the 2007 cost
8 information for the Uprate Project on March 3, 2008. Because the final order
9 regarding the need for Turkey Point 6 & 7 was not issued until after the March
10 3, 2008 filing, FPL has included its 2007 Turkey Point 6 & 7 costs on the A/E
11 (Actual/ Estimated True-up) of Appendix II to this filing. As this is the first
12 opportunity to seek recovery under the Rule, FPL believes it is appropriate to
13 use the final true-up process contemplated by the Rule as the basis for
14 determining the prudence of its 2007 expenditures.

15 **Q. Does the Rule describe the annual filing requirements that a utility is to
16 make for the Commission review and approval for the current year
17 expenditures?**

18 A. Yes. The Rule states:

19 “ 1. Each year, a utility shall submit, for Commission review and approval, as
20 part of its Capacity Cost Recovery Clause filings: ...

21 b. True-Up and Projections for Current Year. By May 1, a utility shall
22 submit for Commission review and approval its actual/estimated true-up of
23 projected pre-construction expenditures based on a comparison of current year

1 actual/estimated expenditures and the previously-filed estimated expenditures
2 for such current year and a description of the pre-construction work projected
3 to be performed during such year; or, once construction begins, its
4 actual/estimated true-up of projected carrying costs on construction
5 expenditures based on a comparison of current year actual/estimated carrying
6 costs on construction expenditures and the previously filed estimated carrying
7 costs on construction expenditures for such current year and a description of
8 the construction work projected to be performed during such year.”

9 **Q. Is FPL complying with these requirements with respect to its 2008**
10 **Actual/Estimated Uprate Project and Turkey Point 6 & 7 costs?**

11 A. Yes. FPL has included the AE (Actual/ Estimated True-up) Schedules in
12 Appendix I for the Uprate Project and Appendix II for Turkey Point 6 & 7 of
13 this filing. Although there were no previous projections to “true-up” and
14 compare to the 2008 actual/estimated expenditures, FPL believes it is
15 appropriate to use the actual/estimated true-up process contemplated by the
16 Rule as the basis for determining the reasonableness of its 2008 actual
17 expenditures and projections in its initial filing.

18 **Q. Does the Rule describe the annual filing requirements that a utility is to**
19 **make for the Commission review and approval for the projected year**
20 **expenditures?**

21 A. Yes. The Rule states:

22 “ 1. Each year, a utility shall submit, for Commission review and approval, as
23 part of its Capacity Cost Recovery Clause filings: ...

1 c. Projected Costs for Subsequent Years. By May 1, a utility shall
2 submit, for Commission review and approval, its projected pre-construction
3 expenditures for the subsequent year and a description of the pre-construction
4 work projected to be performed during such year; or, once construction
5 begins, its projected construction expenditures for the subsequent year and a
6 description of the construction work projected to be performed during such
7 year.”

8 **Q. Is FPL complying with these requirements with respect to its 2009**
9 **projected Uprate Project and Turkey Point 6 & 7 Project costs?**

10 A. Yes. FPL has included the P (Projection) Schedules in Appendix I for the
11 Uprate Project and Appendix II for Turkey Point 6 & 7 of this filing. As
12 contemplated by the Rule, these P schedules provide the basis for determining
13 the reasonableness of FPL’s 2009 projections.

14 **Q. How is FPL providing an update to the original Uprate Project and**
15 **Turkey Point Unit 6 & 7 Project costs, respectively?**

16 A. FPL has included the TOR (True up to Original) Schedules in Appendix I for
17 the Uprate Project and Appendix II for Turkey Point 6 & 7 of this filing. As
18 this is the first filing of projections under the Rule, the TOR schedules cannot
19 provide a comparison to originally filed project costs, but are necessary in
20 order to summarize the revenue requirements for the first recovery period
21 beginning 2009.

22 **Q. Please delineate the Nuclear Project Costs for which FPL is requesting a**
23 **prudence determination under the Rule.**

1 A. FPL is requesting that the Commission determine that FPL's actual 2006 and
2 2007 expenditures for the Uprate construction costs and Turkey Point 6&7
3 Site Selection and pre-construction costs were prudently incurred.

4

5 **COST RECOVERY FOR THE UPRATE PROJECT**

6 **Q. What are FPL's actual/estimated Uprate Project costs for the period**
7 **January 2008 through December 2009 for which FPL is requesting**
8 **recovery?**

9 A. FPL is requesting recovery of \$20,494,432 in carrying charges for
10 construction costs for the Uprate project through the CCRC in 2009. This
11 amount is made up of carrying charges of \$3,746,283 for the 2008
12 actual/estimated period and \$16,748,149 projected for 2009.

13

14 As presented in Mr. Hale's testimony and provided on Schedule AE-6 of
15 Appendix I, FPL's actual/estimated Uprate Project expenditures for the period
16 January 2008 through December 2008 are \$79,030,565. Schedule AE-6 of
17 Appendix I deducts the projected portion of this total for which the St. Lucie
18 Unit 2 participants may be responsible and then applies the retail jurisdictional
19 factor to the remainder. Although the St. Lucie participants are entitled to
20 elect participation in the uprate project as provided in the participation
21 agreement, that election has not yet been formally made. Should the
22 participants decline participation in the Uprate Project benefits, the Company
23 will reflect these changes in a later true-up filing. For actuals, adjustments

1 are made to present the costs on a cash basis (i.e., excluding accruals and
2 pension and welfare benefit credits) for the calculation of carrying costs. This
3 adjustment is necessary in order to comply with the Commission's current
4 practice regarding AFUDC accruals. After making these adjustments, the net
5 2008 uprate expenditures are \$74,566,687. The calculation of the carrying
6 charges for these expenditures is provided on schedules AE-3.

7
8 Additionally, as presented in Mr. Hale's testimony and provided on Schedule
9 P-6 of Appendix I, FPL's projected Uprate Project expenditures for the period
10 January 2009 through December 2009 are \$240,845,910. Schedule P-6 of
11 Appendix I deducts the portion of this total for which the St. Lucie Unit 2
12 participants may be responsible and then applies the retail jurisdictional factor
13 to the remainder. FPL did not project future noncash accruals. The amounts
14 of any such accruals are impractical to project accurately and will be trued-up,
15 with interest. After making those two adjustments, the net 2009 uprate
16 expenditures are \$233,294,413. The calculation of the carrying charges for
17 these expenditures is provided on schedules P-3.

18
19 For the reasons stated in Mr. Hale's testimony, FPL respectfully requests that
20 the Commission approve FPL's projected 2009 Uprate Project expenditures as
21 reasonable for cost recovery consistent with the Rule beginning in January
22 2009.

23

1 **COST RECOVERY FOR TURKEY POINT 6 & 7**

2 **Q. What are FPL's Turkey Point 6 & 7 expenditures for 2006 and 2007 for**
3 **which FPL is requesting a determination of prudence?**

4 A. As presented in Mr. Scroggs' testimony and provided on Schedule AE-1 of
5 Appendix II, FPL's actual pre-construction costs and associated carrying
6 charges are \$2,543,239 for 2007. FPL is making adjustments to actuals to
7 present the costs on a cash basis (i.e., excluding accruals and pension and
8 welfare benefit credits) for the calculation of carrying costs.

9 For the reasons stated in Mr. Scroggs' testimony, FPL respectfully requests
10 that the Commission approve these pre-construction costs and associated
11 carrying costs as prudent consistent with the Rule.

12 **Q. What are FPL's actual/estimated Turkey Point 6 & 7 pre-construction**
13 **costs and associated carrying costs for the period January 2008 through**
14 **December 2009 for which FPL is requesting recovery?**

15 A. FPL is requesting recovery of \$228,137,689 in pre-construction costs and
16 associated carrying charges for Turkey Point 6 & 7 through the CCRC in
17 2009. This amount is made up of pre-construction costs of \$104,561,783 and
18 carrying charges of \$3,879,731 for the 2008 actual/estimated period and pre-
19 construction costs of \$109,540,915 and carrying charges of \$10,155,260
20 projected for 2009.

21

22 As presented in Mr. Scroggs' testimony and provided on Schedule AE-6 of
23 Appendix II, FPL's actual/estimated Turkey Point 6 & 7 pre-construction

1 costs for the period January 2008 through December 2008 are \$105,000,000.

2 The calculation of the carrying charges for these expenditures is provided on
3 schedules AE-2.

4
5 Additionally, as presented in Mr. Scroggs' testimony and provided on
6 Schedule P-6 of Appendix II, FPL's projected Turkey Point 6 & 7
7 expenditures for the period January 2009 through December 2009 are
8 \$110,000,000. (The expenditures presented in the testimony of Steven
9 Scroggs found on AE-6 and P-6, are total project expenditures, which differ
10 from jurisdictional recoverable amounts described further herein.) The
11 calculation of the carrying charges for these expenditures is provided on
12 schedules P-2.

13
14 For the reasons stated in Mr. Scroggs' testimony, FPL respectfully requests
15 that the Commission approve these expenditures as reasonable for cost
16 recovery consistent with the Rule.

17

18 **PROPOSED COST RECOVERY APPROACH FOR SITE SELECTION**

19 **COSTS**

20 **Q. Does the Rule address recovery of Site Selection Costs?**

21 A. Yes, section (4) states:

22 "Site Selection Costs. After the Commission has issued a final order granting
23 a determination of need for a power plant pursuant to Section 403.519, F.S., a

1 utility may file a petition for a separate proceeding, to recover prudently
2 incurred site selection costs. This separate proceeding will be limited to only
3 those issues necessary for the determination of prudence and alternative
4 method for recovery of site selection costs of a power plant.”

5 **Q. What site selection costs were expended in 2006 and 2007?**

6 A. As described in Mr. Scroggs' testimony, Schedule AE-6 of Appendix III
7 provides the 2006 and 2007 actual site selection costs of \$6,424,121 million.

8 **Q. How does FPL propose to recover the site selection costs for the Turkey
9 Point 6 & 7 Project?**

10 A. FPL proposes to recover the Turkey Point 6 & 7 site selection costs through
11 the 2009 CCRC as part of FPL's approved NPPCR amount. FPL believes the
12 Turkey Point 6 & 7 site selection costs should be reviewed in this docket and
13 approved for recovery as part of the NPPCR amount that is to be included in
14 the CCRC for 2009 for the following reasons:

- 15 • The early stage of the project has involved both site selection and pre-
16 construction costs which have been managed consistently within the same
17 overall project development process. Therefore, although the Commission
18 rules afford the opportunity for a separate review and alternative methods
19 of recovery for site selection costs as opposed to preconstruction and
20 construction, this separation is arbitrary from the standpoint of project
21 development, project cost planning and controls and ultimately the
22 determination of prudence. Separation of the review of cost flows and
23 activities with two separate proceedings would only serve to impede and

- 1 obscure comprehensive review of the early stage project activities and
2 costs.
- 3 • This docket affords the earliest opportunity for review and approval of the
4 Turkey Point 6 & 7 site selection costs. Prompt review and approval of
5 the site selection costs is in FPL's and its customers' interests. It will
6 reduce the period of regulatory uncertainty as to recovery of those costs,
7 which is important as FPL embarks upon this lengthy, complex and costly
8 project. It will also minimize the period over which carrying charges will
9 accumulate on the site selection costs, resulting in a lower overall amount
10 to be recovered from customers than would be the case if recovery of the
11 costs were deferred to a later proceeding.
 - 12 • The NPPCR is the most appropriate vehicle for recovery of the Turkey
13 Point 6 & 7 site selection costs. Site selection is an integral part of that
14 project, and the NPPCR is the recognized mechanism for recovery of
15 nuclear project costs. If the site selection costs are included in the amount
16 that the Commission approves for recovery under the NPPCR, there will
17 be a well-defined mechanism for implementing that recovery (*i.e.*, through
18 the CCRC). Otherwise, the Commission will have to address separately
19 the issue of how to implement recovery of the site selection costs, which
20 would result in duplication of effort and a potentially inconsistent recovery
21 approach.
- 22

1 Consistent with accounting practices in the Commission's existing adjustment
2 clause proceedings and with the treatment of pre-construction costs in
3 subsection (5)(a) of the Rule, FPL proposes to accrue and recover carrying
4 charges on the unrecovered balance of site selection costs until they are fully
5 recovered through the CCRC at the end of 2009.

6

7 **ACCOUNTING CONTROLS**

8 **Q. Please describe the accounting controls that FPL has in place to ensure**
9 **proper cost capture and reporting for the duration of these projects.**

10 A. The Company relies on its comprehensive and overlapping controls for
11 incurring costs and recording transactions associated with any of its capital
12 projects including that of nuclear uprates and Turkey Point 6&7. These
13 comprehensive and overlapping controls include:

- 14 • FPL's Accounting Policies and Procedures
- 15 • Financial systems and related controls including its general ledger and
16 construction asset tracking system (CATS)
- 17 • Sarbanes-Oxley processes and testing
- 18 • Annual budgeting and planning process and reporting and monitoring of
19 plan costs to actual costs incurred as discussed in the testimony of Steven
20 Scroggs and Stephen Hale.

21 **Q. Are these controls documented, assessed and audited and/or tested on an**
22 **ongoing basis?**

1 A. Yes. The FPL accounting policies and procedures are documented and
2 published on the Company's internal web site, INFPL. In addition,
3 accounting management provides formal representation as to the continued
4 compliance with those policies and procedures each year. The Company's
5 external auditors, Deloitte & Touche LLP conduct an annual assessment of the
6 Company's internal controls over financial reporting. Sarbanes-Oxley
7 processes are identified, documented, tested and maintained, including
8 specific processes for planning and executing capital work orders and
9 acquiring and developing fixed assets. Certain of those key financial
10 processes are tested during the Company's annual test cycle. In addition,
11 Deloitte & Touche LLP, as a part of its annual external audit, will assess the
12 Company's internal controls over financial reporting and express an opinion
13 as to the effectiveness of those controls. The audit procedures performed by
14 Deloitte & Touche LLP include tests of general computer controls and of
15 those policies and procedures that pertain to the maintenance of records that,
16 in reasonable detail, accurately and fairly reflect the transactions and
17 dispositions of the assets of the Company.

18 **Q. Are there any additional controls being implemented and relied on for**
19 **this particular project and the related reporting?**

20 A. Yes. First, the Company has issued specific guidelines for charging costs to
21 the project work orders. Those guidelines describe the need for particular care
22 in charging only incremental labor to these particular projects due to the
23 CCRC recovery approach and are intended to ensure careful attention to the

1 incremental recovery guidelines during the duration of these projects. The
2 need for this care is most acute in the initial stages of the project as existing
3 resources are typically utilized until such time that the project requires a
4 greater complement of personnel resources specifically devoted to the project.
5 Secondly, the Company has initiated specific project related internal audits.
6 The initial review being performed is related to the Uprate Project. The
7 objective of this audit is to test the process of recording and capturing costs
8 related to the Uprate project in the pre established work orders to ensure
9 compliance with the Commission's Rule. That audit has just begun and a
10 final audit report is expected in June, 2008. The audit of the Turkey Point
11 6&7 project will commence this summer and a final report is expected in fall
12 2008.

13

14 **SUMMARY**

15 **Q. What is the total amount of nuclear project costs that FPL is requesting**
16 **to recover through the 2009 CCRC?**

17 A. FPL is requesting to recover a total of \$258,979,772 through the CCRC in
18 2009 for the Uprate Project and Turkey Point 6&7. This is made up of:

- 19
- For Turkey Point 6&7 \$9,082,737 for 2006-2007 actual jurisdictional
20 costs (\$6,397,310 for site selection, \$2,522,692 for pre-construction
21 and \$142,188 in carrying costs for site selection and \$20,547 in
22 carrying costs for pre-construction for Turkey Point 6&7).

- 1 • \$112,917,360 for 2008 actual/estimated jurisdictional costs
2 (\$104,561,783 for pre-construction costs and \$729,563 in carrying
3 costs for site selection and \$3,879,731 in carrying costs for Turkey
4 Point 6&7, plus \$3,746,283 in carrying costs for the Uprate Project).
- 5 • \$136,979,675 for 2009 projected jurisdictional costs (\$109,540,915 for
6 pre-construction costs and \$10,155,260 in carrying costs for pre-
7 construction and \$535,351 of site selection carrying costs for Turkey
8 Point 6&7 plus \$16,748,149 in carrying costs for the Uprate Project.

9 **Q. Does this conclude your testimony?**

10 A. Yes.

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **DIRECT TESTIMONY OF KIM OUSDAHL**

4 **DOCKET NO. 080009 -EI**

5 **March 3, 2008**

6

7 **Q. Please state your name and business address.**

8 A. My name is Kim Ousdahl. My business address is 700 Universe Boulevard,
9 Juno Beach, Florida 33408.

10 **Q. By whom are you employed and what is your position?**

11 A. I am employed by Florida Power & Light Company (FPL or the Company) as
12 Controller.

13 **Q. Please describe your duties and responsibilities in that position.**

14 A. I am responsible for financial accounting and internal reporting for FPL,
15 including property accounting and management of the regulatory accounting
16 function. In this role I have responsibility for managing the accounting and
17 financial and regulatory reporting of the nuclear capital project costs.

18 **Q. Please describe your educational background and professional
19 experience.**

20 A. I graduated from Kansas State University in 1979 with a Bachelor of Science
21 Degree in Business Administration, majoring in Accounting. That same year,
22 I was employed by Houston Lighting & Power Company in Houston, Texas.
23 During my tenure there, I held various accounting and regulatory management

1 positions. Most recently, prior to joining FPL in June 2004, I was the Vice
2 President and Controller of Reliant Energy.

3

4 I am a certified public accountant (CPA) licensed in the State of Texas and a
5 member of the American Institute of CPAs, the Texas Society of CPAs and
6 the Florida Institute of CPAs.

7 **Q. What is the purpose of your testimony?**

8 **A.** The purpose of my testimony is to provide an overview of FPL's filing and
9 demonstrate that the filing complies with Florida Administrative Code Rule
10 25-6.0423, Nuclear Power Plant Cost Recovery (the Rule). Consistent with
11 the Rule, my testimony requests that the Commission make a prudence
12 determination on FPL's 2007 power uprate costs for the Turkey Point and St.
13 Lucie nuclear power plants, as presented in the testimony of FPL witness
14 Stephen Hale.

15 **Q. Have you prepared or caused to be prepared under your direction,
16 supervision or control any exhibits in this proceeding?**

17 **A.** Yes, I have. Exhibit STH-1, sponsored by Mr. Hale, consists of Appendix 1
18 containing schedules T-1 through T-10. Page 2 of Appendix 1 contains a table
19 of contents which lists the T Schedules that are sponsored by Mr. Hale and
20 me, respectively.

21 **Q. Please describe the purpose of the Rule and the Nuclear Filing
22 Requirements (NFRs).**

1 A. On March 20, 2007, in Order No. PSC-07-0240-FOF-EI, this Commission
2 adopted the Rule to implement Section 366.93, Florida Statutes (the Statute),
3 which was enacted by the Florida Legislature in 2006. The stated purpose of
4 the Statute is to promote utility investment in nuclear power plants, and it
5 directed the Commission to establish alternative mechanisms for cost recovery
6 and step-wise, periodic prudence determinations with respect to costs incurred
7 to build nuclear power plants. The Rule implements this mechanism and
8 provides for the annual recovery of these costs through the Capacity Cost
9 Recovery Clause (CCRC). FPL has been working with Commission Staff, the
10 Office of Public Counsel, Progress Energy Florida and others to develop a
11 comprehensive set of schedules setting forth construction and cost information
12 on a nuclear project.

13
14 Those schedules are referred to as “Nuclear Filing Requirements” or “NFRs”.
15 Although not finalized, FPL understands that all parties agree to use the latest
16 draft of the NFRs for filing purposes. The NFRs provide an overview of
17 nuclear plant projects and a roadmap to the detailed project costs. The NFRs
18 consist of T, AE, P and TOR Schedules. The T Schedules are to be filed each
19 March and provide the true-up for the prior year. In May, there are three sets
20 of schedules to be filed: the AE Schedules provide the actual/estimated cost
21 information for the current year, the P Schedules provide the projected
22 expenditures for the subsequent year and the TOR Schedules provide the
23 project summary. The NFRs form a framework for the Commission to review

1 the costs projected to be incurred and the actual costs incurred during each
2 year so as to facilitate a prudence determination.

3 **Q. Does the Rule describe the annual filing requirements that a utility is to**
4 **make in support of a prudence determination?**

5 A. Yes. Section 5(c) of the Rule outlines the annual filing requirements necessary
6 to support a determination of prudence. It states:

7 “(c) Capacity Cost Recovery Clause for Nuclear or Integrated Gasification
8 Combined Cycle Power Plant Costs.

9 1. Each year, a utility shall submit, for Commission review and
10 approval, as part of its Capacity Cost Recovery Clause filings:

11 a. True-Up for Previous Years. By March 1, a utility shall submit its
12 final true-up of pre-construction expenditures, based on actual preconstruction
13 expenditures for the prior year and previously filed expenditures for such prior
14 year and a description of the pre-construction work actually performed during
15 such year; or, once construction begins, its final true-up of carrying costs on
16 its construction expenditures, based on actual carrying costs on construction
17 expenditures for the prior year and previously filed carrying costs on
18 construction expenditures for such prior year and a description of the
19 construction work actually performed during such year. . .

20 2. The Commission shall, prior to October 1 of each year, conduct a
21 hearing and determine the reasonableness of projected pre-construction
22 expenditures and the prudence of actual pre-construction expenditures
23 expended by the utility; or, once construction begins, to determine the

1 reasonableness of projected construction expenditures and the prudence of
2 actual construction expenditures expended by the utility, and the associated
3 carrying costs. Within 15 days of the Commission’s vote, the Commission
4 shall enter its order. Annually, the Commission shall make a prudence
5 determination of the prior year’s actual construction costs and associated
6 carrying costs. To facilitate this determination, the Commission shall conduct
7 an on-going auditing and monitoring program of construction costs and
8 related contracts pursuant to Section 366.08, F.S. In making its determination
9 of reasonableness and prudence the Commission shall apply the standard
10 provided pursuant to Section 403.519(4)(e), F.S.

11 3. The Commission shall include those costs it determines, pursuant to
12 this subsection, to be reasonable or prudent in setting the Capacity Cost
13 Recovery Clause factor in the annual Fuel and Purchased Power Cost
14 Recovery proceedings. Such prior year actual costs associated with power
15 plant construction subject to the annual proceeding shall not be subject to
16 disallowance or further prudence review.”

17 **Q. Is FPL complying with these requirements with respect to its 2007**
18 **nuclear uprate costs?**

19 A. Yes. FPL has included the T (Final True-up) Schedules in Appendix 1 of this
20 filing. Although there were no previous projections to “true up” and compare
21 to the 2007 actual expenditures because this is the first cycle of proceedings
22 under the Rule, FPL believes it is appropriate to use the final true-up process

1 contemplated by the Rule as the basis for determining the prudence of its 2007
2 expenditures.

3 **Q. What are FPL's uprate expenditures for the period January 2007**
4 **through December 2007 for which FPL is requesting a determination of**
5 **prudence?**

6 A. As presented in Mr. Hale's testimony and provided on Schedule T-6, FPL's
7 actual uprate expenditures for the period January 2007 through December
8 2007 are \$8,624,516. Schedule T-6 goes on to deduct the portion of this total
9 for which the St. Lucie Unit 2 participants are responsible and then applies the
10 retail jurisdictional factor to the remainder. After making those two
11 adjustments, the net 2007 uprate expenditures for which retail customers are
12 responsible are \$8,236,652. For the reasons stated in Mr. Hale's testimony,
13 FPL respectfully requests that the Commission review and approve these
14 expenditures as prudent consistent with the Rule.

15 **Q. Is FPL seeking to recover any carrying charges for 2007 with respect to**
16 **these 2007 expenditures?**

17 A. No. FPL recorded the 2007 actual uprate expenditures in FERC Account
18 183.705, "Preliminary Survey & Investigation charges". These expenditures
19 were transferred into Construction Work In Progress (CWIP) in 2008.
20 Consistent with FPL's accounting practices, the calculation of carrying
21 charges did not commence until this transfer occurred, so carrying charges
22 will first be recorded on the 2007 expenditures in 2008. Because of this
23 starting point/transition period, Schedules T-1 through T-3b covering the

1 period 2007 reflect zero carrying charges but Schedule T-6 nonetheless
2 provides the actual 2007 monthly uprate expenditures and Schedules T-8, T-
3 8a and T-8b provide the contract information underlying these expenditures.
4 FPL's May 2008 cost recovery filing is expected to include carrying charges
5 for 2008 with respect to the 2007 expenditures.

6 **Q. Does this conclude your testimony?**

7 A. Yes.

1 BY MR. ANDERSON:

2 Q. Ms. Ousdahl, have you prepared a summary of
3 your testimony?

4 A. I have.

5 Q. Would you please provide your summary to the
6 Commission?

7 A. Good afternoon Commissioners. The purpose of
8 my testimony is to provide an overview of FPL's filing
9 and to demonstrate that it complies with the nuclear
10 power plant cost recovery rule and the related statute.
11 I present the Nuclear Filing Requirements, these
12 documents we call the NFRs that quantify the request for
13 the Commission determination as to the prudence and
14 reasonableness of our costs.

15 Specifically, the company requests the
16 Commission find FPL's 2007 uprate costs were prudently
17 incurred and the revenue requirement related to the
18 total cost incurred and projected for new nuclear and
19 uprate projects of 220.5 million is reasonable and
20 eligible for recovery effective January 1, 2009, through
21 the capacity cost recovery clause.

22 The Commission adopted the rule on March 20,
23 2007, to implement Section 366.93 of the Florida
24 Statutes enacted by the legislation specifically to
25 promote investments in nuclear power plants. The

1 statute directed the Commission to establish these
2 alternative mechanisms for cost recovery with stepwise
3 periodic prudence determinations. The rule provides
4 those mechanisms and the annual recovery of these costs
5 through the CCRC.

6 FPL filed the final true-up schedules
7 containing the 2007 cost information for its uprate
8 project on March 3rd and is requesting the Commission
9 determine these costs to be prudently incurred.

10 On May 1st, FPL filed its '08 and '09 NFRs for
11 the uprate project in Appendix I of the filing, its 2007
12 through 2009 NFRs for Turkey Point 6 and 7
13 pre-construction costs in Appendix II of the filing, and
14 its 2006 through 2009 NFRs for Turkey Point 6 and 7 site
15 selection in Appendix III. We revised these NFRs on
16 August 6, 2008, to provide for a correction resulting in
17 a small reduction in the overall request.

18 More recently, as we've discussed this morning
19 and as will be provided by FPL witness Scroggs, we
20 recalculated the revenue requirements for 2008 Turkey
21 Point 6 and 7 pre-construction costs to reflect this
22 reduction in the estimate required in that year, 2008,
23 of 35 million, which has resulted in a decrease to
24 revenue requirements of 37.9 million.

25 In order to ensure reasonable and prudent

1 costs are properly incurred and reported for the uprate
2 and Turkey Point 6 and 7 projects, the company has
3 relied on its comprehensive and overlapping accounting
4 and business unit controls for incurring costs and
5 recording transactions. The above-mentioned controls
6 are documented, assessed, audited, and tested on an
7 ongoing basis by both FPL's internal and external
8 auditors.

9 FPL's internal audit department finalized its
10 initial audit of the uprate costs and controls, and for
11 the adjustments that were found, we've either committed
12 -- we've either made those or committed to making those
13 adjustments. The summary finding in this first initial
14 audit is that the controls over the uprate project are
15 adequate. The internal audit department is currently in
16 the process of conducting its audit, initial audit of
17 Turkey Point 6 and 7 costs and controls, and the company
18 will provide those results when finalized.

19 In summary, we request that the Commission
20 confirm that our filing complies with the requirements
21 of the rule and the statute, determine that our '07
22 uprate costs were prudently incurred, and determine that
23 our revenue requirements related to costs incurred for
24 the Turkey Point 6 and 7 and uprate projects totaling
25 220.5 million are reasonable and eligible for recovery

1 effective January 1, 2009, through the CCRC.

2 This concludes my summary.

3 MR. ANDERSON: Ms. Ousdahl is available for
4 cross-examination.

5 CHAIRMAN CARTER: Thank you. Mr. McGlothlin.

6 MR. MCGLOTHLIN: No questions.

7 CHAIRMAN CARTER: Mr. Twomey.

8 MR. TWOMEY: No, sir.

9 CHAIRMAN CARTER: Mr. --

10 MR. McWHIRTER: No questions.

11 CHAIRMAN CARTER: Very good. You anticipated,
12 grasshopper.

13 Any questions, staff?

14 MR. YOUNG: No questions, sir.

15 CHAIRMAN CARTER: From the bench?

16 You wowed us.

17 Okay. Mr. Anderson?

18 MR. ANDERSON: FPL would call as its next
19 witness --

20 CHAIRMAN CARTER: Wait.

21 MR. ANDERSON: I'm sorry.

22 CHAIRMAN CARTER: Exhibits 20 --

23 MR. ANDERSON: These are co-sponsored
24 exhibits, and my thought was we could offer them now or
25 we could offer them after the other co-sponsors,

1 whatever your pleasure is.

2 CHAIRMAN CARTER: Efficiency is always
3 appreciated, so let's take care of them now.

4 MR. ANDERSON: Okay. May I offer Exhibits 20,
5 21, 22, and 23 into evidence.

6 CHAIRMAN CARTER: Any objections? Without
7 objection, show it done. Exhibits 21, 22, and 23, and
8 24 -- 20, 21, 22, and 23.

9 MS. BENNETT: That's correct.

10 CHAIRMAN CARTER: Okay. Show it done.

11 (Exhibit Numbers 20, 21, 22, and 23 were
12 admitted into the record.)

13 CHAIRMAN CARTER: Mr. Anderson.

14 MR. ANDERSON: Thank you. FPL would call as
15 its next witness Mr. Bill Labbe. And may Ms. Ousdahl be
16 excused?

17 CHAIRMAN CARTER: Let me look at the list.
18 Absolutely.

19 MR. ANDERSON: Thank you.

20 CHAIRMAN CARTER: Stay dry.

21 MR. ANDERSON: Could we also show the errata
22 admitted evidence?

23 CHAIRMAN CARTER: That would be Exhibit 43, if
24 my memory serves me correctly.

25 MR. ANDERSON: That's right.

1 CHAIRMAN CARTER: Without objection, show it
2 done.

3 MR. ANDERSON: Thank you.

4 (Exhibit Number 43 was admitted into the
5 record.)

6 CHAIRMAN CARTER: Give me one second to get my
7 notes together here.

8 Witness Labbe. You may proceed.

9 MR. ANDERSON: Thank you.

10 Thereupon,

11 WILLIAM P. LABBE, JR.

12 was called as a witness on behalf of Florida Power &
13 Light Company and, having been first duly sworn, was
14 examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. ANDERSON:

17 Q. Good afternoon, Mr. Labbe.

18 A. Good afternoon.

19 Q. Have you been sworn?

20 A. Yes, I have.

21 Q. Would you tell us your full name and business
22 address?

23 A. Bill Labbe, 700 Universe Boulevard, Juno
24 Beach, Florida.

25 Q. By whom are you employed, and in what

1 capacity?

2 A. Florida Power & Light Company, Director of EPU
3 Projects.

4 Q. And when you say EPU, what does that mean?

5 A. Extended power uprate.

6 Q. Thanks. Have you adopted the prefiled
7 testimony of Mr. Hale, one of your colleagues in the
8 Nuclear Division?

9 A. Yes, I have.

10 Q. And that consisted of a March 3rd filing and a
11 May 1 filing, ten pages and eight pages; is that right?

12 A. That's correct.

13 Q. Do you have any changes or revisions to that
14 prefiled direct testimony that you're adopting?

15 A. No, I do not.

16 Q. If I asked you the same questions contained in
17 your prefiled direct testimony, would your answers be
18 the same?

19 A. Yes, they would.

20 MR. ANDERSON: FPL asks that the prefiled
21 direct testimony be inserted into the record as though
22 read.

23 CHAIRMAN CARTER: The prefiled testimony will
24 be entered into the record as though read.

25 BY MR. ANDERSON:

1 Q. Are you also sponsoring or co-sponsoring any
2 exhibits to your direct testimony?

3 A. Not at this time.

4 MR. ANDERSON: Okay. We've already admitted
5 into the record 20, 21, and those things.

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **DIRECT TESTIMONY OF STEPHEN T. HALE**

4 **DOCKET NO. 080009 -EI**

5 **MARCH 3, 2008**

6
7 **Q. Please state your name and business address.**

8 A. My name is Stephen T. Hale, and my business address is 700 Universe
9 Boulevard, Juno Beach, FL 33408.

10 **Q. By whom are you employed and what position do you hold?**

11 A. I am employed by Florida Power & Light Company (FPL) as Engineering
12 Director in the Nuclear Division.

13 **Q. Please describe your duties and responsibilities in that position.**

14 A. I am responsible for the power uprates and license renewal activities for the
15 FPL nuclear fleet as well as the nuclear fleet of FPL's affiliate, FPL Energy,
16 LLC (FPL Energy).

17 **Q. Please describe your education and professional experience.**

18 A. I graduated from the University of Tennessee in 1973 with a Bachelors of
19 Science degree in Nuclear Engineering. I obtained Professional Engineering
20 Registration for the State of Florida in 1988. Since my graduation, I have
21 worked for FPL in numerous capacities, including Engineering Manager for
22 the Turkey Point Plant, License Renewal Project Manager for the St. Lucie
23 Plant, and Manager of the uprate project for FPL Energy's Seabrook Nuclear

1 Station. I am also directing the license renewal efforts for FPL Energy's
2 Duane Arnold plant.

3 **Q. Have you prepared or caused to be prepared under your direction,**
4 **supervision or control an exhibit in this proceeding?**

5 A. Yes, I have. My exhibit STH-1, which consists of Appendix 1 containing
6 schedules T-1 through T-10. Page 2 of Appendix 1 contains a table of contents
7 listing the T schedules that are sponsored by me and FPL witness Kim
8 Ousdahl, respectively.

9 **Q. What is the purpose of your testimony?**

10 A. My testimony presents and explains FPL's 2007 power uprate costs for the
11 Turkey Point and St. Lucie nuclear power plants for purposes of a prudence
12 review.

13 **Q. Has FPL established a project management system to help ensure that**
14 **the Uprate Project is completed on a reasonable schedule and at a**
15 **reasonable cost?**

16 A. Yes, we have.

17 **Q. Please describe FPL's project management system and the key personnel**
18 **responsible for implementing it.**

19 A. Several years ago, the Nuclear Division established a project management
20 system for the management of major projects at St. Lucie Units 1 and 2, and
21 Turkey Point Units 3 and 4, as well as FPL Energy nuclear assets. The project
22 management system is implemented through a series of Nuclear Policies and
23 Procedures. The effectiveness of the system has been demonstrated through

1 the successful completion of several major projects including reactor vessel
2 head replacements at Turkey Point, and reactor vessel head, pressurizer, and
3 steam generator replacements at St. Lucie. The personnel assigned to key
4 positions for the management of the uprate project have a proven track record
5 of success managing large projects including license renewal for Turkey Point
6 and St. Lucie, and the uprate project at FPL Energy's Seabrook. These
7 projects were completed on schedule and under budget.

8 **Q. Did FPL begin incurring costs for the Uprate Project in 2007?**

9 A. Yes, we did. As shown on Schedule T-6, FPL incurred a total of \$8,624,516
10 in 2007 for the Uprate Project. As explained by Ms. Ousdahl and as shown
11 on Schedule T-6, the net retail jurisdictional portion of this total is \$8,236,652.

12 **Q. Were those costs prudently incurred?**

13 A. Yes, they were. All of the costs were for activities that are necessary to the
14 Uprate Project and were appropriately undertaken in 2007 in order to maintain
15 the Uprate Project's schedule. Furthermore, FPL has used its project
16 management system to ensure that the costs incurred for those activities were
17 reasonable.

18 **Q. What types of costs did FPL incur for the Uprate Project in 2007?**

19 A. Schedule T-6 breaks the 2007 costs down into the following categories:
20 License Application (\$357,150); Engineering and Design (\$5,700,529);
21 Permitting (\$356,485); Project Management (\$578,428); and Power Block
22 Engineering (\$1,631,924). These costs were initially recorded in FERC
23 Account 183.705, "Preliminary Survey & Investigation charges" and no

1 AFUDC was recorded. These costs were transferred into Construction Work
2 In Progress (CWIP) in 2008. Carrying charges will begin to be reflected on
3 them in the AE-6 schedule that will be filed in this docket in May 2008.

4 **Q. Please describe the activities for which FPL incurred 2007 costs in the**
5 **License Application category, the need for those activities, and the**
6 **controls used by FPL's project management system to ensure that the**
7 **costs were reasonable.**

8 A. For the period ending December 31, 2007, License Application costs total
9 \$357,150 as shown on Line 3 of Schedule T-6. This amount consists
10 primarily of employee and contractor labor and consulting services in
11 preparation of the license application. The personnel involved have a proven
12 record of success with projects of this magnitude and their labor rates are
13 competitive. The work included development of a division of responsibility
14 document for all parties involved with preparation of the License
15 Amendments, preparation of detailed schedules, meetings with the NRC, and
16 resolution of a number of scoping issues related to the design and safety
17 analyses to be performed. It is important that this work be completed now
18 because it is required to support the NRC licensing and overall
19 implementation schedule.

20 **Q. Please describe the activities for which FPL incurred 2007 costs in the**
21 **Engineering and Design category, the need for those activities, and the**
22 **controls used by FPL's project management system to ensure that the**
23 **costs were reasonable.**

1 A. For the period ending December 31, 2007, Engineering & Design costs total
2 \$5,700,529 as shown on Line 4 of Schedule T-6. The engineering and design
3 activities were initiated in 2007 in order to support the overall uprate
4 implementation schedule. This amount consists primarily of \$4,100,000 to
5 Westinghouse for engineering and safety analyses in support of the NRC
6 uprate license amendments and preparation of long lead equipment
7 specification and procurement activities. As listed on line 2 of Schedule T-8,
8 the Westinghouse contract is for \$5,600,000. This contract is for the initial
9 Nuclear Steam Supply System (NSSS) engineering support for the nuclear
10 fuel parameters, fuel burn-up rates, primary system pressure and temperature
11 operating parameters for the four units, St. Lucie Units 1 and 2 and Turkey
12 Point Units 3 and 4. The specific work activities involved in this engineering
13 support include critical path scoping studies and nuclear safety analyses.
14 Because the duration of license amendment preparation activities together
15 with the NRC review period could exceed three years, it is important that this
16 work be completed now to ensure the license amendments are issued prior to
17 the final uprate implementation refueling outages.

18
19 Westinghouse was selected as the sole source for this work since they are the
20 original equipment manufacturer of the Nuclear Steam Supply System.
21 Furthermore, Westinghouse has a proven track record with FPL Group,
22 having completed successful uprates at the Turkey Point and Seabrook plants
23 on schedule and within budget. The costs for this work were benchmarked

1 with costs for similar uprate work at Turkey Point, Seabrook and other nuclear
2 plants, and the costs were determined to be reasonable based on the work
3 scope to be performed.

4
5 Also in the Engineering & Design category is \$1,180,000 of expenses for
6 Shaw Stone & Webster. As listed on Line 1 of Schedule T-8, the overall
7 Shaw Stone & Webster contract totals \$2,290,000. This contract is for initial
8 plant engineering support including preparation of long lead equipment
9 specifications, hydraulic analyses, and heat balance calculations associated
10 with secondary plant systems and the turbine generators for the four units, St.
11 Lucie Units 1 and 2 and Turkey Point Units 3 and 4. It is important that this
12 work be completed now because it is required to support the NRC licensing
13 and overall implementation schedule. Shaw Stone & Webster was selected as
14 the sole source for this work since they are the leading engineering firm in
15 performing power uprate work in the industry. Furthermore, Shaw Stone &
16 Webster has a proven track record with FPL Group, having completed
17 successful uprates at the Turkey Point and Seabrook plants on schedule and
18 within budget.

19
20 Additionally, \$382,000 of expenses related to Areva for fuel design and
21 licensing are included in the Engineering and Design category. This work is
22 for the initial engineering support for the nuclear fuel parameters, fuel burn-up
23 rates, and fuel design. Areva was selected as the sole source for this work

1 because they are the original equipment manufacturer for St. Lucie Unit 1 fuel
2 and as such would provide the most cost effective analysis and evaluation of
3 the fuel. It is important that this work be completed now because it is required
4 to support the NRC licensing and overall implementation schedule.

5 **Q. Please describe the activities for which FPL incurred 2007 costs in the**
6 **Permitting category, the need for those activities, and the controls used**
7 **by FPL's project management system to ensure that the costs were**
8 **reasonable.**

9 A. For the period ending December 31, 2007, Permitting costs total \$356,485 as
10 shown on Line 5 of Schedule T-6. This amount consists primarily of a
11 \$200,000 payment to the State of Florida for a Site Certification Application
12 Fee for St. Lucie. Also, an expense of \$122,250 is for consulting services of
13 Golder Associates, Inc. related to environmental work for site certification.
14 This expense is part of the contract with Golder for \$218,400 as shown on
15 Line 1 of Schedule T-8B. Golder was the contractor on the Turkey Point Unit
16 5 site certification application. FPL has used their services in the past with
17 good success. The remaining amount of Permitting costs relate to numerous
18 expenses for site certification support services. It is important that this work
19 be completed now because site certification is an essential step in the licensing
20 process and hence must be completed promptly to maintain the overall
21 implementation schedule.

22 **Q. Please describe the activities for which FPL incurred 2007 costs in the**
23 **Project Management category, and how those activities help to ensure**

1 **that the Uprate Project is completed on a reasonable schedule and at a**
2 **reasonable cost.**

3 A. For the period ending December 31, 2007, Project Management costs total
4 \$578,428 as shown on Line 6 of Schedule T-6. This category includes FPL
5 employee and contractor services in support of feasibility study activities,
6 including but not limited to, scope definition, cost estimates, contract
7 negotiations and project execution. These activities are needed to ensure
8 effective management of the uprate project consistent with FPL nuclear
9 project management policies and procedures as discussed earlier. Contractor
10 services include payments to FPL affiliate personnel who were available with
11 immediately transferable expertise and provided an appropriate interim
12 solution to meet personnel needs. FPL employee and contracted personnel
13 involved have a proven record of success with projects of this magnitude and
14 their labor rates are competitive.

15 **Q. Please describe the activities for which FPL incurred 2007 costs in the**
16 **Power Block Engineering category, the need for those activities, and the**
17 **controls used by FPL's project management system to ensure that the**
18 **costs were reasonable.**

19 A. For the period ending December 31, 2007, Power Block Engineering and
20 Procurement costs total \$1,631,924 as shown on Line 9 of Schedule T-6. This
21 amount consists primarily of a \$1,100,000 payment to Siemens to reserve
22 equipment manufacturing space at Siemens' facilities for the Low Pressure
23 Turbine Rotors for St. Lucie Units 1 and 2. The contract with Siemens is

1 listed on Line 3 of Schedule T-8. It is important that this manufacturing space
2 reservation be entered into now because it is required to ensure that Siemens
3 can deliver the rotors in time to support the St. Lucie uprate implementation
4 schedule. Siemens was selected as the sole source for this work since they are
5 the original turbine generator equipment supplier, and the only vendor that
6 could manufacture the equipment needed to support the project schedule.
7 Further, the costs for this equipment were benchmarked with costs of similar
8 equipment at FPL and other plants and determined to be reasonable.

9
10 Additionally, there were payments to Siemens totaling \$475,000 under two
11 contracts. As noted on Line 2 and Line 4 of Schedule T-8B, one Siemens
12 contract is for \$400,000 to perform generator rotor rewind analyses for the
13 four units and one is for \$275,000 to reserve equipment manufacturing space
14 at Siemens' facilities for a Turbine Generator rotor for Turkey Point Unit 3.
15 The generator rewind analyses are required in order to complete the
16 transmission system stability evaluations to establish the scope of any
17 modifications which may be required. The manufacturing space reservation
18 for the turbine generator rotor is required for the same reasons I just discussed
19 with respect to the low pressure turbine rotor.

20 **Q. Would you please summarize your testimony?**

21 A. FPL began the initial work to implement the Uprate Project in 2007, in order
22 to help maintain an aggressive schedule for delivering the project's benefits to
23 customers. The 2007 costs were reasonable and necessary, and the

1 Commission should determine that they were prudently incurred “prior year”
2 construction costs as contemplated by Rule 25-6.0423 - Nuclear Power Plant
3 Cost Recovery.

4 **Q. Does this conclude your testimony?**

5 **A. Yes, it does.**

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **FLORIDA POWER & LIGHT COMPANY**
3 **DIRECT TESTIMONY OF STEPHEN T. HALE**
4 **DOCKET NO. 080009-EI**

5 **May 1, 2008**

6
7 **Q. Please state your name and business address.**

8 A. My name is Stephen T. Hale, and my business address is 700 Universe
9 Boulevard, Juno Beach, FL 33408.

10 **Q. By whom are you employed and what position do you hold?**

11 A. I am employed by Florida Power & Light Company (FPL) as Engineering
12 Director in the Nuclear Division.

13 **Q. Have you previously filed testimony in this docket?**

14 A. Yes.

15 **Q. Have you prepared or caused to be prepared under your direction,**
16 **supervision or control an exhibit in this preceding?**

17 A. Yes, I am sponsoring the following exhibits:

- 18 • STH-2, which consists of Appendix 1 containing the Nuclear Filing
19 Requirements Schedules (NFRs) for FPL's power uprate project at the
20 St. Lucie and Turkey Point Nuclear Units (the "Uprate Project"). Page
21 2 of Appendix 1 contains a table of contents listing the NFRs that are
22 sponsored by Ms.Ousdahl, Dr. Sim and me, respectively.

1 **Q. What is the purpose of your testimony?**

2 A. My testimony presents and explains FPL's 2008 actual/estimated and 2009
3 projected power uprate costs for the Turkey Point and St. Lucie nuclear power
4 plants to be included for recovery in FPL's Capacity Cost Recovery Factors
5 for the period January 2009 through December 2009. My testimony also
6 presents the True-up to Original (TOR) Projections for the uprate project for
7 the years 2007 through 2012.

8

9 **2008 ACTUAL/ESTIMATED AND 2009 PROJECTED PERIODS**

10 **Q. What types of costs does FPL project to incur for the Uprate Project in**
11 **2008 and 2009?**

12 A. Schedule AE-6 of Appendix 1 breaks the 2008 actual/estimated costs down
13 into the following categories: License Application \$34,012,730; Engineering
14 and Design \$7,665,628; Permitting \$1,694,907; Project Management
15 \$12,966,855; Power Block Engineering, Procurement, etc. \$22,534,388; and
16 Non-power Block Engineering, Procurement, etc. \$156,057.

17

18 Schedule P-6 of Appendix 1 breaks the 2009 projected costs down into the
19 following categories: License Application \$37,865,177; Engineering and
20 Design \$9,064,184; Permitting \$1,690,981; Project Management \$13,164,445;
21 and Power Block Engineering, Procurement, etc. \$179,061,123.

22 **Q. Please describe the activities in the License Application category and the**
23 **need for those activities.**

1 A. For the period ending December 31, 2008, License Application costs are
2 projected to be \$34,012,730 as shown on Line 3 of Schedule AE-6 of
3 Appendix 1. For the period ending December 31, 2009, License Application
4 costs are projected to be \$37,865,177 as shown on Line 3 of Schedule P-6 of
5 Appendix 1. These amounts consist primarily of contracted services used in
6 preparation of the license application. The contractors will be selected based
7 on their proven record of success with projects of this magnitude. The work
8 includes system and component safety analyses and evaluations in support of
9 the preparation of the License Amendments to be submitted to the Nuclear
10 Regulatory Commission (NRC). It is important that this work be completed in
11 2008 and 2009 because it is required to support the NRC licensing and overall
12 implementation schedule.

13 **Q. Please describe the activities in the Engineering and Design category and**
14 **the need for those activities.**

15 A. The engineering and design activities continue in 2008 and 2009 in order to
16 support the overall uprate implementation schedule.

17 For the period ending December 31, 2008, Engineering & Design costs are
18 projected to be \$7,665,628 as shown on Line 4 of Schedule AE-6 of Appendix
19 1.

20
21 For the period ending December 31, 2009, Engineering & Design costs are
22 projected to be \$9,064,184 as shown on Line 4 of Schedule P-6 of Appendix
23 1. The amounts consist primarily of employee and contractor services for
24 owner oversight, review and approval of contracted engineering activities.

1 The personnel will be selected based on their proven record of success with
2 projects of this magnitude. The amount also includes third party reviews of
3 key evaluations and decisions.

4 **Q. Please describe the activities in the Permitting category and the need for**
5 **those activities.**

6 A. For the period ending December 31, 2008, Permitting costs are projected to be
7 \$1,694,907 as shown on Line 5 of Schedule AE-6 of Appendix 1. For the
8 period ending December 31, 2009, Permitting costs are projected to be
9 \$1,690,981 as shown on Line 5 of Schedule P-6 of Appendix 1.

10

11 These amounts consist primarily of work to be completed on site certification,
12 an essential step in the uprate approval process, and hence must be completed
13 promptly to maintain the overall implementation schedule. The remainder of
14 the amounts in the Permitting category are allocated to the community
15 outreach programs.

16 **Q. Please describe the activities in the Project Management category for the**
17 **2008 actual/estimated and 2009 projected periods and the need for those**
18 **activities to help ensure that the Uprate Project is completed on a**
19 **reasonable schedule and at a reasonable cost.**

20 A. For the period ending December 31, 2008, Project Management costs are
21 projected to be \$12,966,855 as shown on Line 6 of Schedule AE-6 of
22 Appendix 1. For the period ending December 31, 2009, Project Management
23 costs are projected to be \$13,164,445 as shown on Line 6 of Schedule P-6 of

1 Appendix 1. This category includes FPL employee and contractor services
2 including but not limited to, scope definition, cost estimates, contract
3 negotiations and project execution. These activities are needed to ensure
4 effective management of the uprate project consistent with FPL nuclear
5 project management policies and procedures as discussed earlier. Each of the
6 mentioned activities is an essential part of FPL's project management process
7 that, when executed in accordance with FPL's project management manual,
8 provides reasonable assurance on schedule and cost adherence. FPL employee
9 and contracted personnel involved have a proven record of success with
10 projects of this magnitude and their labor rates are competitive. Where FPL
11 has utilized FPL affiliate personnel, it has done so because those personnel
12 were available with immediately transferable expertise, and they provided an
13 appropriate interim solution to meet personnel needs.

14 **Q. Please describe the activities in the Power Block Engineering,**
15 **Procurement etc. category for the 2008 actual/estimated and 2009**
16 **projected periods and the need for those activities.**

17 A. For the period ending December 31, 2008, Power Block Engineering and
18 Procurement costs are projected to be \$22,534,388 as shown on Line 9 of
19 Schedule AE-6 of Appendix 1. For the period ending December 31, 2009,
20 Power Block Engineering and Procurement costs are projected to be
21 \$179,061,123 as shown on Line 9 of Schedule P-6 of Appendix 1. This
22 amount consists primarily of engineering, material, fabrication, and
23 installation costs associated with uprate plant modifications.

1 **Q. Please describe the activities in the Non-Power Block Engineering,**
2 **Procurement etc. category for 2008 and the need for those activities.**

3 A. For the period ending December 31, 2008, Non-Power Block Engineering and
4 Procurement costs are projected to be \$156,057 as shown on Line 10 of
5 Schedule AE-6 of Appendix 1. This amount consists primarily of facilities for
6 engineering and project staff at site locations. There are no Non-Power Block
7 Engineering and Procurement costs for 2009.

8 **Q. Are the cost projections presented in your testimony reasonable?**

9 A. Yes, they are. All of the 2008 actual/estimated and 2009 projected costs are
10 for activities that are necessary to the Uprate Project and are appropriately
11 undertaken in 2008 and 2009 in order to maintain the Uprate Project's
12 schedule.

13 **Q. Please describe the project management system FPL has used to ensure**
14 **that the 2008 actual/estimated and 2009 projected costs are reasonable.**

15 A. FPL has continued to utilize the project management system described in my
16 March 3, 2008 testimony to ensure that the costs projected for those activities
17 are reasonable and necessary. In addition, the project begins with a budget
18 development process that collects input from internal and external subject
19 matter experts and benchmarks those costs to FPL's experience in other
20 capital intensive power generation projects. The proposed budget was
21 independently reviewed by a senior management team from Shaw Stone and
22 Webster (SSW). SSW provided a summary report to FPL senior management.
23 In addition, the proposed budget was presented to the FPL corporate executive

1 management for critical review prior to approval. Once constructed, the
2 project budget is continually managed to maintain overall project objectives
3 and milestones. Periodic meetings are held with representatives of
4 contributing business units and principal contractors to identify upcoming
5 expenditures and ensure budgets are maintained or changes are identified and
6 approved in advance. Monthly business reports are generated, reviewed and
7 approved as a part of FPL's overall project management practices. Variances
8 are noted and explained in senior level reporting documents. Finally,
9 Concentric Energy Advisors, Inc. has reviewed and evaluated the project
10 management and budgeting processes for the Uprate Project. FPL witness
11 John Reed of Concentric, testifies as an FPL witness concerning the results of
12 that evaluation.

13

14 **TRUE-UP TO ORIGINAL PROJECTIONS**

15 **Q. Have you prepared an update to the original uprate project costs?**

16 **A.** Yes. Appendix 1 includes the TOR schedules that compare the current
17 projections to FPL's originally filed St. Lucie and Turkey Point Project costs.
18 The TOR schedules provide information on the project costs through the end
19 of 2009. FPL has revised its non-binding cost estimate for the following: 1) to
20 remove AFUDC that was originally projected beyond 2009 but is unnecessary
21 now that FPL has approval to recover the Uprate Project costs through the
22 NPPCR; and 2) to reflect reductions primarily related to reimbursement of the
23 share of costs for which the St. Lucie 2 participants are responsible. (While

1 the participants have indicated informally that they intend to take their
2 respective shares of the Uprate Project output, they have not yet made a final
3 election. If the participants decide not to take their respective shares, FPL will
4 adjust these amounts to obtain recovery as part of the true-up including
5 interest). The Company continues to evaluate the costs associated with this
6 project. As activities are more clearly defined the Company will make any
7 necessary revisions to the original cost estimate. The TOR schedules provide
8 the best information currently available for the cost recovery period through
9 2009.

10 **Q. Does this conclude your testimony?**

11 A. Yes, it does.

12

13

1 BY MR. ANDERSON:

2 Q. Have you prepared a summary of your testimony,
3 Mr. Labbe?

4 A. Yes, I have.

5 Q. Would you please provide your summary to the
6 Commission?

7 A. Good afternoon, Chairman Carter and
8 Commissioners. My name is Bill Labbe. I'm responsible
9 for leading FPL's nuclear power plant uprate. Our team
10 is safely and cost-effectively implementing the major
11 power plant uprates at FPL's St. Lucie and Turkey Point
12 nuclear plants.

13 When complete, the uprates will provide FPL's
14 customers more than 400 megawatts of additional clean,
15 zero-emission electric generation without expanding the
16 footprint of these existing plants. FPL requests that
17 the Commission find the 2007 actual costs for the uprate
18 projects totaling about 8.6 million be found prudent,
19 and the FPSC jurisdictional amount of these, which total
20 about 8.2 million, are prudent. FPL requests that the
21 Commission find that the 2008 actual/estimated and 2009
22 projected uprate costs are reasonable.

23 Let me describe the 2007 work that resulted in
24 the 2007 costs. FPL's 2007 work focused on nuclear
25 engineering and design supporting all four uprate

1 projects. This engineering and design work had to be
2 performed in 2007 in order for FPL to stay on schedule
3 and submit each project to the Nuclear Regulatory
4 Commission for safety reviews and nuclear plant license
5 amendments. These NRC reviews and amendments must occur
6 well in advance of the nuclear unit outages, during
7 which uprate component installation and plant
8 modifications will be performed.

9 Other 2007 costs include reservation payments
10 for long lead procurement of specially designed and
11 manufactured plant equipment, such as unique turbine
12 rotors that must be delivered prior to the planned
13 outages during which this equipment will be installed.

14 As described in my testimony, a substantial
15 portion of FPL's 2007 actual costs are for procurement
16 of goods and services for several uniquely well
17 qualified vendors that FPL had entered into single and
18 sole source contracts at a reasonable cost and in
19 compliance with FPL's policies and procedures. Detailed
20 reasons for these procurements are in my testimony and
21 FPL's procurement documentation.

22 Retaining these vendors was the right decision
23 and in the best interests of the customers. For
24 example, 5.6 million of FPL's 2007 total costs was for
25 engineering and design work from Westinghouse. FPL

1 selected Westinghouse to perform initial engineering and
2 design work related to the nuclear steam supply system
3 because Westinghouse is the original equipment
4 manufacturer that designed and made those systems which
5 are unique, proprietary, and safety related.

6 In addition to Westinghouse having access to
7 its own proprietary engineering and design information,
8 FPL had successful uprate experience with Westinghouse,
9 and the costs were benchmarked by FPL to be found
10 reasonable. As can be seen from my testimony, in FPL's
11 procurement documentation, FPL has similar compelling
12 reasons for contracting with Areva, Shaw Stone &
13 Webster, and Siemens, together with Westinghouse, to
14 make up the bulk of 2007 actual uprate costs.

15 Let me provide some additional information
16 concerning the business processes underlying all the
17 uprate costs and information provided in this proceeding
18 which supports the prudence of FPL's costs and
19 reasonableness of these projections. At this point in
20 the process, FPL has identified with a high degree of
21 certainty each component that needs to be procured and
22 installed and each process that needs to be followed in
23 order to successfully each uprate of the four nuclear
24 units. Only the work needed to increase the uprate of
25 each unit is included in the project scope and the costs

1 presented by it FPL.

2 All of FPL's 2007 uprate work was performed
3 and the costs incurred using FPL's well-established,
4 highly effective project management system. FPL's
5 project management system is implemented through a
6 series of nuclear policies and procedures that govern
7 our business practice. The effectiveness of the system
8 has been demonstrated through successful completion of
9 major projects at FPL's nuclear plants.

10 All of FPL's planning and budgeting for 2008
11 actual uprate costs and 2009 projected were conducted
12 under the requirements of FPL's project management
13 system, which were audited in detail by your staff this
14 year. In short, FPL has the right scope being
15 implemented with the right resources and the right
16 sequence of time.

17 In addition, the personnel assigned to key
18 positions of the uprate project have a proven track
19 record of success managing large projects, including NRC
20 license renewal for the St. Lucie and Turkey Point and
21 uprate project at FPL Energy's Seabrook Station. These
22 projects were completed on schedule and under budget.

23 This concludes my summary.

24 MR. ANDERSON: Mr. Labbe is available for
25 cross-examination.

1 CHAIRMAN CARTER: Thank you. Mr. McGlothlin.

2 MR. MCGLOTHLIN: I need some clarification
3 from counsel. Is Mr. Labbe here only on direct and only
4 on Mr. Hale, or is he being offered on rebuttal as well?

5 MR. ANDERSON: This is the two pieces of
6 direct. Mr. Labbe will return after Dr. Jacobs
7 testifies on rebuttal.

8 MR. MCGLOTHLIN: I'll reserve my questions
9 until he returns on rebuttal.

10 CHAIRMAN CARTER: Okay. Thank you.

11 Mr. Twomey.

12 MR. TWOMEY: No, sir.

13 CHAIRMAN CARTER: Mr. McWhirter.

14 MR. MCWHIRTER: No questions.

15 CHAIRMAN CARTER: Staff.

16 MR. YOUNG: No questions.

17 CHAIRMAN CARTER: Commissioner Edgar, you're
18 recognized.

19 COMMISSIONER EDGAR: Thank you. I would like
20 to ask you just a couple of questions about the issue of
21 the sole source for the uprates. Can you describe
22 briefly for me what steps FPL has taken to ensure that
23 those sole source contracts are cost-effective or lowest
24 cost?

25 THE WITNESS: Certainly. Those contracts were

1 entered into with the engineering firms and those
2 companies to do the engineering analysis work for the
3 license amendment, and that information, that
4 engineering analysis is proprietary information with
5 those companies. We have done previous uprates. We
6 have experience at St. Lucie and Turkey Point and our
7 FPL Energy units. And we looked at -- we understand the
8 scope of the work. We understand the appropriate
9 billing rates that that work has required, and we can do
10 an internal comparison of those costs as it relates to
11 the analysis that needs to be performed.

12 COMMISSIONER EDGAR: And when you say that
13 some of that is proprietary to those companies, does
14 that mean that it's your understanding, or I guess my
15 understanding, that there aren't other vendors out there
16 that have that same skill set or knowledge?

17 THE WITNESS: They may have that same skill
18 set, but they wouldn't have that knowledge. That
19 information is proprietary to the company.

20 COMMISSIONER EDGAR: Give me just a second to
21 think here.

22 So when you say that FPL has done other
23 uprates, have the similar necessary steps been done
24 through sole source for those previous uprates, or were
25 they put out for bid?

1 THE WITNESS: That is correct. It was done
2 under sole source.

3 COMMISSIONER EDGAR: They were done under sole
4 source as well?

5 THE WITNESS: Yes.

6 COMMISSIONER EDGAR: Okay. Thank you.

7 CHAIRMAN CARTER: Commissioners, anything
8 further? Commissioner Skop, you're recognized.

9 COMMISSIONER SKOP: Thank you, Mr. Chairman.
10 Just a quick question. The original manufacturer of the
11 reactor that's being operated would be also
12 Westinghouse?

13 THE WITNESS: That's correct. The st. Lucie
14 unit was originally Combustion Engineering, but that is
15 now owned by Westinghouse.

16 COMMISSIONER SKOP: Okay. And with respect to
17 the turbine deck, the existing turbines at the St. Lucie
18 facility are also Westinghouse?

19 THE WITNESS: It's a Siemens.

20 COMMISSIONER SKOP: Siemens? All right.

21 And just briefly, I think Mr. Anderson
22 mentioned that in relation to some of the costs being
23 considered that some of the long lead materials FPL had
24 chosen not to go forward with at this time, through
25 ordering those. Can you just briefly describe what

1 those long lead items would be?

2 THE WITNESS: I think the long lead items that
3 you're referring to are for the new units, Turkey Point
4 6 and 7.

5 COMMISSIONER SKOP: Okay. I'll direct my
6 question to the appropriate witness, then. Thank you.

7 MR. ANDERSON: That would be Mr. Scroggs,
8 Commissioner.

9 COMMISSIONER SKOP: Thank you.

10 CHAIRMAN CARTER: Thank you. Commissioners,
11 anything further? Thank you. I think we've already
12 entered the exhibits for this witness.

13 MR. ANDERSON: Yes, sir, we have.

14 CHAIRMAN CARTER: And he'll be back on
15 rebuttal.

16 MR. ANDERSON: Yes.

17 CHAIRMAN CARTER: Okay. Thank you, sir.
18 Mr. Anderson.

19 MR. ANDERSON: FPL would call Steven Scroggs
20 as its next witness, please.

21 CHAIRMAN CARTER: Steven Scroggs.

22 Thereupon,

23 STEVEN D. SCROGGS
24 was called as a witness on behalf of Florida Power &
25 Light Company and, having been first duly sworn, was

1 examined and testified as follows:

2 DIRECT EXAMINATION

3 BY MR. ANDERSON:

4 Q. Good afternoon, Mr. Scroggs.

5 A. Good afternoon.

6 Q. Have you been sworn?

7 A. Yes, I have.

8 Q. Please tell us your name and business address.

9 A. My name is Steven Scroggs. My business
10 address is 700 Universe Boulevard, Juno Beach, Florida.

11 Q. By whom are you employed, and in what
12 capacity?

13 A. I'm employed by Florida Power & Light Company
14 as the Director of New Nuclear Development.

15 Q. Have you prepared 30 pages of prefiled direct
16 testimony in this proceeding?

17 A. Yes, I have.

18 Q. Do you have any changes, revisions, additions,
19 or deletions to your prefiled direct testimony?

20 A. Yes, I do.

21 Q. Would you please provide that at this time?

22 A. Yes. On page 23 at line 16, please insert the
23 following additional testimony: "As a result of recent
24 developments, FPL is able to lower its 2008
25 actual/estimated pre-construction expenditure, reducing

1 the overall recovery request in this docket by
2 approximately 14 percent. Based on the most current
3 market information available, FPL has determined that it
4 will not be necessary to make the identified long lead
5 purchases during 2008 and that they can be deferred to
6 2010 or beyond. While the market for nuclear equipment
7 remains dynamic and negotiations with vendors are not
8 complete, FPL does have sufficient information to make a
9 singular adjustment in its 2008 actual/estimated
10 pre-construction costs. The revision results in
11 eliminating a long lead procurement line item from the
12 October, November, and December 2008 estimate, more
13 specifically, the entries in the 2008 pre-construction
14 cost Schedule AE-6 at line 6, columns K, L, and M. This
15 revision reduces to total requested recovery amount in
16 this proceeding from 258 million to approximately
17 221 million."

18 Q. Any other changes or additions to your
19 testimony?

20 A. No, sir.

21 Q. If you were to be asked the same questions,
22 would your answers be the same today with the addition
23 that you just provided us?

24 A. Yes, sir.

25 MR. ANDERSON: FPL would ask that Mr. Scroggs'

1 testimony be admitted into the record as though read.

2 CHAIRMAN CARTER: The testimony of the witness
3 will be entered into the record as though read.

4 BY MR. ANDERSON:

5 Q. Are you also sponsoring some exhibits to your
6 direct testimony?

7 A. Yes.

8 Q. Those are Exhibits SDS-1 and SDS-2, as well as
9 SDS-3 and SDS-4. These have been premarked as 22, 23,
10 24, and 25. I would note that 24 and 25 have not been
11 moved.

12 A. That's correct.

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **FLORIDA POWER & LIGHT COMPANY**
3 **DIRECT TESTIMONY OF STEVEN D. SCROGGS**
4 **DOCKET NO. 080009-EI**
5 **MAY 1, 2008**
6

7 **Q. Please state your name and business address.**

8 A. My name is Steven D. Scroggs. My business address is 700 Universe
9 Boulevard, Juno Beach, Florida 33408.

10 **Q. By whom are you employed and what is your position?**

11 A. I am employed by Florida Power & Light Company (FPL or the Company) as
12 Senior Director, Project Development. In this position I have responsibility
13 for the development of power generation projects to meet the needs of FPL's
14 customers.

15 **Q. Please describe your duties and responsibilities with regard to the**
16 **development of new nuclear generation to meet FPL customer needs.**

17 A. Commencing in the summer of 2006, I was assigned the responsibility for
18 leading the investigation into the potential of adding new nuclear generation
19 to FPL's system, and the subsequent development of new nuclear generation
20 additions to FPL's power generation fleet. I lead the development and
21 permitting team for FPL's Turkey Point Nuclear Units 6 and 7 (Turkey Point
22 6 & 7).

1 **Q. Please describe your education and professional experience.**

2 A. I graduated from the University of Missouri – Columbia in 1984 with a
3 Bachelor of Science Degree in Mechanical Engineering. From 1984 until
4 1994, I served in the United States Navy as a Nuclear Submarine Officer.
5 From 1994 to 1996, I was a research associate at The Pennsylvania State
6 University, where I earned a Masters Degree in Mechanical Engineering. I
7 provided consulting and management services to the power generation
8 industry through a number of positions until 2003, when I joined FPL as
9 Manager, Resource Assessment and Planning. In July 2006, I was assigned to
10 my current role as a Senior Director, Project Development.

11 **Q. What is the purpose of your testimony in this proceeding?**

12 A. The purpose of my testimony is to provide an understanding of how the
13 Turkey Point 6 & 7 project is being developed, managed and controlled to
14 meet the objective of delivering reliable, cost-effective and fuel diverse
15 generation to FPL customers under the earliest practical deployment schedule.
16 Several key decisions have been made in recent months, and a number of
17 critical information gathering activities are planned over the next two years
18 that will lead to important decisions materially affecting the nature, cost and
19 pace of the project. My testimony will provide insight into how those
20 activities are managed and the issues affecting those decisions. I will describe
21 the projected expenditures for 2008 and 2009 that will allow FPL to produce
22 applications for the required licenses and permits and otherwise enable steps
23 necessary to maintain the project schedule.

1 **Q. Please summarize your testimony.**

2 A. My testimony begins by describing the progress FPL has made in identifying
3 the preferred technology. I then describe the approach taken by FPL for
4 developing the Turkey Point 6 & 7 project and introduce the project controls
5 and risk management processes for the project. My testimony then describes
6 the Site Selection costs incurred from April 2006 to October 16, 2007 (the
7 date of the Need Determination Filing, or “Need Filing”) and Pre-construction
8 costs that have been or are estimated to be incurred in the period from October
9 16, 2007 through December 31, 2009. Moreover, I will discuss the rationale
10 for these costs or projections and how expenditures will be managed going
11 forward to meet the project objectives.

12 **Q. Have you prepared or caused to be prepared under your direction,
13 supervision or control any exhibits in this proceeding?**

14 A. Yes, I am sponsoring the following exhibits:

- 15 • SDS-1, which consists of Appendix II containing the Nuclear Filing
16 Requirements Schedules (NFRs) for Turkey Point 6 & 7 Pre-Construction
17 costs. Page 2 of Appendix II contains a table of contents listing the NFRs that
18 are sponsored by me, Ms. Kim Ousdahl, and Dr. Steve Sim, respectively.
- 19 • SDS-2, which consists of Appendix III containing the NFRs that provide the
20 Site Selection costs for Turkey Point 6 & 7 Project. Page 2 of Appendix III
21 contains a table of contents listing the NFRs that are sponsored by me and Ms.
22 Kim Ousdahl, respectively.

- 1 • SDS-3, which consists of two reports by MPR Associates, Inc. that review and
2 assess the technology selection process employed by FPL.
- 3 • SDS-4, which consists of the Engineering Evaluation conducted to evaluate
4 the technical aspects of candidate nuclear design technologies considered for
5 Turkey Point 6 & 7.

6

7

TECHNOLOGY

8 **Q. What reactor technology/design decisions has FPL made regarding**
9 **Turkey Point 6 & 7?**

10 A. FPL has identified the Westinghouse AP1000 design as our preferred
11 technology. The AP1000 technology provides for a nominal net output of
12 1,100 MW for each of the two units planned, resulting in a total project
13 capacity of 2,200 MW. The AP1000 technology has achieved design
14 certification from the Nuclear Regulatory Commission (“NRC”) and employs
15 a proven pressurized water reactor design with an improved passive safety
16 system.

17 **Q. Why is it important FPL identify a preferred technology at this stage of**
18 **the Turkey Point 6 & 7 project?**

19 A. FPL is currently in the Licensing phase of the project. Applications are being
20 prepared for submission to state and federal authorities to obtain the approvals
21 for the project. Those applications require detailed information related to the
22 specific technology FPL will use for Turkey Point 6 & 7. In order to maintain
23 the earliest practical deployment schedule, while balancing cost and risk, FPL

1 must identify a preferred technology now as a basis for its applications and
2 licenses.

3 **Q. What was the process by which FPL arrived at its decision?**

4 A. The process involved a technical evaluation, followed by a review of
5 commercial and project execution aspects. The Engineering Evaluation,
6 provided as exhibit SDS-4, was conducted by a team of FPL engineers using
7 accepted industry practices for the collection, rating and evaluation of
8 technical design information. The process resulted in a ranking of designs,
9 where the Westinghouse AP1000 and GE ESBWR technologies were the top
10 two of five considered. Additionally, FPL's participation in the NuStart
11 Consortium ("NuStart") was also considered. As a member of NuStart, FPL
12 will have access to information and documentation that will likely reduce the
13 costs and risks associated with licensing and constructing the AP1000
14 technology.

15
16 Three principal commercial issues were considered in the choice of the
17 AP1000. The first two issues are the estimated capital cost of the total
18 construction project and the ability of the vendor to contribute to managing
19 cost and schedule risk throughout the project. Westinghouse has successfully
20 achieved design certification and, in partnership with Shaw Group, has been
21 selected as the technology for many new nuclear projects currently under
22 consideration in the U.S. These two facts provide an advantage to
23 Westinghouse/Shaw as they establish the engineering and supply chain

1 partners necessary to execute future projects. This position also provides
2 significant confidence the AP1000 technology offers FPL the opportunity to
3 leverage information developed by other projects to manage cost and schedule
4 risk as Turkey Point 6 & 7 proceeds.

5
6 The last issue is the execution capability of the Technology Vendor, Engineer
7 and Constructor team that would be assembled to implement the Turkey Point
8 6 & 7 project. FPL, in discussions with Westinghouse/Shaw, has developed a
9 strategy that will result in selection of the most capable provider to conduct
10 specific portions of the project and to be able to make those selections as the
11 project proceeds. For example, instead of entering into an all-encompassing
12 Engineering, Procurement and Construction contract at the beginning of the
13 project, FPL will work with Westinghouse/Shaw to develop a contract limited
14 to Engineering and Procurement or "EP." The EP contract would define the
15 scope of project management, engineering and procurement services that are
16 required from an outside vendor to maintain the project schedule, leaving the
17 contractual arrangements for the construction component to be defined at a
18 later time. This approach is expected to provide several advantages applicable
19 to new nuclear construction. By completing the engineering efforts a better
20 definition of the scope of construction work will be developed, allowing a
21 more informed bid for construction services. Additionally, the project will
22 benefit from information and competition that will emerge in the next several
23 years that can be incorporated into FPL's approach. FPL views this

1 contracting approach as a conservative means to engender competition for
2 project services and has employed this approach successfully in its
3 Engineering and Construction program over the past ten years.

4 **Q. Has FPL made an irreversible commitment to the AP1000 technology?**

5 A. No. However, a change of preferred technologies at this stage would create a
6 cost and schedule impact to the Turkey Point 6 & 7 project. If FPL were to
7 recommend a change, it would be based on an assessment that the benefits of
8 doing so outweigh the incremental costs and schedule delays. Obviously, this
9 situation could be presented regardless of which technology was chosen. For
10 the reasons stated above, FPL is confident that the need to change the
11 preferred technology at some future point is unlikely and is less likely with the
12 choice of the AP1000 than with other technologies.

13 **Q. What processes were employed by FPL to monitor its decision process
14 and evaluate the process?**

15 A. FPL engaged MPR Associates, Inc. (MPR) a well known independent
16 engineering firm with over 40 years of experience in the commercial nuclear
17 power industry. MPR was directed to review FPL's technology selection
18 process and recommend areas where the process could be made more robust.
19 Reviews were conducted at interim points throughout the process, allowing
20 for feedback to be incorporated and the selection process to be improved.
21 MPR provided two reports documenting its conclusions that are included as
22 Exhibit SDS-3 to this direct testimony. MPR concluded "the FPL assessments
23 and considerations are appropriate and support the decisions to date".

1

2

PROJECT APPROACH

3 **Q. What is FPL’s overall approach to developing Turkey Point 6 & 7?**

4 A. FPL intends to pursue the timely development of Turkey Point 6 & 7 through
5 a deliberate, stepwise decision making process. This involves monitoring the
6 issues affecting the pace and feasibility of the Turkey Point 6 & 7 project. In
7 the event feasibility is in question, or delays present risk to timely execution,
8 FPL would have the option of slowing the project down or taking an “off
9 ramp” where the project expenditures would be halted. In short, FPL will
10 work to achieve the earliest practical deployment schedule, while monitoring
11 the project feasibility and key decision points.

12 **Q. Please expand on the concept of “off-ramps” and how the pace of the**
13 **Turkey Point 6 & 7 project is determined based on the assessment of**
14 **risks.**

15 A. The project team is managing a host of issues at local, state and federal levels
16 and across technical, commercial and regulatory areas of concern. As these
17 issues incorporated into the project plan the impact on cost, schedule and
18 resources will be assessed. If that assessment indicates there will be a
19 considerable cost or schedule impact, mitigation actions are identified that
20 may help manage or reduce the impact. If the magnitude of the impact is such
21 that the cost or schedule impact materially changes the feasibility of the
22 project or significantly increases risk, a decision could be made. The options
23 would be to continue with modifying budget and schedule as needed and

1 taking available mitigation actions, or halt the project temporarily while the
2 impact issue is further assessed or resolved. This allows the pace of the
3 project to be controlled based on the best information available. The option of
4 slowing or halting the project in response to significant events, although it
5 would postpone delivery of Turkey Point 6 & 7's benefits, offers a high level
6 of exposure control for FPL and its customers. Such decisions would also
7 need to address how FPL system capacity and reliability needs would be
8 satisfied if delivery were to be delayed.

9 **Q. How is the management of the Turkey Point 6 & 7 project structured and**
10 **how does this structure assist in maintaining a risk management focus?**

11 A. The management structure relies on a working combination of two key
12 groups: Project Development and New Nuclear Projects. The organization of
13 the project into these two key groups helps maintain a consistent management
14 and reporting structure, while allowing the project the flexibility to grow and
15 adapt over time. Project Development, which I lead, has the overall
16 responsibility for the management and organization of the project, utilizing
17 matrix relationships with key business units in the company to provide
18 essential support. For example, legal services and environmental services are
19 provided by those business units through dedicated personnel. The Project
20 Development team is focused on overall project management, state regulatory
21 and all non-NRC licenses and approvals.

22

1 FPL established the New Nuclear Project team within the Engineering,
2 Construction and Corporate Services group to manage the complex and
3 specialized nature of the Combined Operating License Application (COLA)
4 process and the engineering, procurement and construction activities. This
5 team is managed by Martin Gettler, Vice President of New Nuclear Projects.
6 The New Nuclear Project team has direct responsibility for the development
7 of the COLA and manages the engineering, procurement, site preparation and
8 construction aspects of the project.

9 **Q. How does FPL intend to contract for services associated with the Turkey**
10 **Point 6 & 7 project?**

11 A. FPL utilizes proven corporate processes to solicit, qualify, negotiate, select
12 and manage service providers for capital projects such as Turkey Point 6 & 7.
13 Leveraging our many years of successful power project development and
14 construction, FPL approaches the process with an understanding of the key
15 players in each specialty field. Where it is appropriate to assign a
16 comprehensive scope to a specific contractor, FPL clearly specifies the
17 deliverables, budget and schedule and then monitors the contractors' progress
18 closely to obtain compliance. Often it is more efficient to divide the scope
19 among multiple contractors to obtain an appropriate level of competition and
20 maintain the "best athlete" approach of assigning appropriate scope to the
21 most capable provider. In such cases FPL acts as the overall coordinator of
22 the function to obtain integration of the various sub-portions of the work.

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PROCESS AND RISK MANAGEMENT

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Q. What process and risk management tools does FPL apply to obtain cost, risk and schedule objectives?

A. FPL uses industry accepted project controls, systems and practices to obtain a high level of fidelity in the expenditures incurred and projected for all projects. The primary means of control are 1) the project budgeting and reporting process, 2) project schedule and activity reporting processes, 3) the contract management process for external service providers, and 4) internal and external oversight processes.

Q. Please describe the budgeting and reporting processes for the Turkey Point 6 & 7 project.

A. The project begins with a budget development process that collects input from internal and external subject matter experts and benchmarks those costs to FPL's experience in other capital intensive power generation projects. Once constructed, the project budget is managed to maintain overall project objectives and milestones. Regular meetings are held with representatives of all contributing business units to identify upcoming expenditures, maintain budgets and identify changes. Monthly business reports are generated, reviewed and approved as a part of FPL's overall project management practices. Variances are noted and explained.

Due to the size, complexity, duration and unique nature of the Turkey Point 6 & 7 project, the budget was developed in stages and is refined as additional

1 information is obtained. The initial project budget, developed in 2006,
2 focused on project licensing and permitting activities to support the local, state
3 and federal permit applications through 2012. Costs associated with
4 engineering, design and long lead procurement were being investigated at that
5 time. In 2007, FPL completed its non-binding cost estimate range provided in
6 the Need filing. This estimate provided a cost estimate range for all phases of
7 the project through completion of construction. In late 2007 and early 2008,
8 FPL conducted an additional review and refinement of near term cost
9 estimates in all areas through 2009 in support of this filing. This routine
10 process of review and refinement will continue throughout the project.

11 **Q. Please describe the project schedule and activity reporting processes for**
12 **the Turkey Point 6 & 7 project.**

13 A. FPL project management teams establish reporting processes, both internal
14 and external to the project team, to track and communicate status. These
15 processes may be periodic reports or scheduled meetings. Internal reporting
16 mechanisms focus on work execution, issue identification and resolution. An
17 example of an internal reporting process is the routine production of a six
18 week look-ahead schedule monitoring the development of the COLA. This
19 schedule is used in periodic meetings by the FPL project team and all
20 contractors to determine work organization and coordination. The process
21 allows for management of the process and allocation of resources to maintain
22 schedule.

23

1 Reports external to the project team allow for project activities to be
2 summarized and communicated. For example, periodic reports are provided
3 to Miami-Dade County regarding compliance with conditions of approval
4 associated with site zoning.

5 **Q. Please describe the contract management processes for the Turkey Point
6 6 & 7 project.**

7 A. FPL's Integrated Supply Chain team provides procurement and contract
8 management support services to the project to apply and monitor corporate
9 policies. Contractual arrangements are supported by detailed scope of work
10 descriptions and specific terms and conditions that define the content and
11 schedule of products and services needed by the project. Daily contract
12 oversight is provided by the initiating business unit, such as Environmental or
13 New Nuclear Projects. These managers are responsible to review the
14 contracted products or services satisfy the agreements and meet FPL's quality
15 and documentation requirements. Supporting and executing these project
16 controls programs are an experienced team of personnel with a record of
17 success with large licensing and construction projects.

18 **Q. Please describe the internal and external oversight processes for Turkey
19 Point 6 & 7.**

20 A. FPL conducts a number of self-auditing functions throughout the course of
21 each business year. Projects are audited for general financial and accounting
22 practices, tax related issues and regulatory obligations such as Sarbanes-Oxley
23 compliance. Additionally, project management may request specific reviews

1 by third party subject matter experts to validate FPL processes and obtain
2 additional perspectives to be applied to critical project decisions. An example
3 of this is the engagement of MPR to review our technology selection process.

4 **Q. How is the effectiveness of these tools reviewed over time?**

5 A. Effectiveness measures are included within some mechanisms and provided
6 by external review processes for all. As an example, the Engineering &
7 Construction Division Project Dashboard presents issues and the current
8 trends for those issues. Over time, if a problematic issue continues to trend
9 down or remains neutral, the effectiveness of the project management controls
10 are investigated to determine if modifications are needed to affect
11 improvement. Effectiveness of project control processes is also reviewed as a
12 part of the higher level organization reviews and audits, described above.

13

14 **PROJECT SCHEDULE**

15 **Q. How does the current project schedule compare to the Milestone**
16 **Schedule provided as Exhibit SDS-5 to your testimony in FPL's Need**
17 **Determination Filing?**

18 A. The current project schedule for Turkey Point 6 & 7 is unchanged from the
19 Milestone Schedule.

20 **Q. What planning activities were undertaken related to the licensing and**
21 **preparation phases of the Turkey Point 6 & 7 project, and what were the**
22 **results of those activities?**

1 A. One of the first tasks conducted was the development of a comprehensive
2 COLA schedule. This is the primary driver of the 2008 and early 2009 project
3 schedule. With the COLA schedule established and underway, the schedule
4 for development of the other licenses and permits began and are currently
5 being completed. Likewise, other supporting activities such as conceptual
6 engineering were defined and are being pursued. Procurement of these
7 services is currently underway.

8

9 **SITE SELECTION ACTIVITIES**

10 **Q. What costs has FPL incurred for Turkey Point 6 & 7 that would be**
11 **classified as Site Selection costs in accordance with the Nuclear Power**
12 **Plant Cost Recovery Rule (NPPCR Rule, FAC 25-6.0423)?**

13 A. Schedule AE-6 of Appendix III provides a summary of Site Selection costs
14 totaling \$6,424,121.

15 **Q. What period of time was covered by the Site Selection costs, and what**
16 **major activities were undertaken during that period?**

17 A. The project accounts were established in April 2006 and the Site Selection
18 period ended with the submittal of the Need Filing on October 16, 2007.
19 During the summer of 2006, a core project team was formed and several key
20 investigations were initiated. Primary among these early studies were the Site
21 Analysis Study and the Engineering Review of candidate technologies.
22 Project planning activities also addressed major issues, such as transmission
23 integration, project organization, project schedule and budget. At the end of

1 2006, the Site Analysis Study, combined with site specific investigations,
2 identified the Turkey Point site as the location for the project. In 2007 the
3 project team pursued the development and defense of the Public Hearing
4 Application in Miami-Dade County, continued investigations of design
5 alternatives, project issues and the Need Determination filing.

6 **Q. Please describe the major cost categories for the Site Selection costs.**

7 A. The major cost categories of Site Selection costs included project Staffing,
8 Engineering, environmental licensing and legal expenditures. Project Staffing
9 included project management and controls and support from matrix
10 organizations such as Environmental, Power Supply, Marketing and
11 Communications, Nuclear Engineering, and Legal. Engineering was provided
12 to support technical activities associated with the engineering review of
13 candidate technologies, site investigations and the establishment of schedule
14 and processes that would eventually form the current New Nuclear Projects
15 team. Environmental licensing encompassed the studies, investigations and
16 preparation of the Public Hearing Application in Miami-Dade County that
17 resulted in the necessary zoning approvals supporting the project. Legal
18 services were primarily associated with the development and review of the
19 Public Hearing Application. The following summarizes the Site Selection
20 expenditures by major cost category.

1	<u>Category</u>	<u>Total</u>
2	Project Staffing	\$1,068,856
3	Engineering	\$3,351,744
4	Environmental	\$1,220,290
5	Legal	\$ 783,231
6	TOTAL	\$6,424,121

7

8

PRE-CONSTRUCTION ACTIVITIES

9 **Q. What costs has FPL included in this filing for Turkey Point 6&7 Pre-**
10 **Construction activities?**

11 A. FPL has actual 2007, actual/estimated 2008 and projected 2009 Pre-
12 Construction costs for Turkey Point 6 & 7. Schedule AE-6 of Appendix II
13 presents the 2007 actual and 2008 actual/estimated costs in the following
14 categories: Licensing (\$48,039,775); Permitting (\$2,833,949); Engineering &
15 Design (\$7,910,661); Long Lead Procurement (\$45,860,960) and Power
16 Block Engineering and Procurement (\$2,887,920).

17

18 Schedule P-6 of Appendix II breaks the 2009 projected costs down into the
19 following categories: Licensing (\$26,668,968); Permitting (\$2,422,095);
20 Engineering & Design (\$10,121,791); and Power Block Engineering &
21 Procurement (\$70,787,145).

1 **Q. Please describe the activities for the Licensing category, the need for**
2 **those activities and the process used to develop estimates for 2008 and**
3 **2009 expenditures.**

4 A. For the period ended December 31, 2007, Licensing costs are \$2,017,181 as
5 shown on Line 4 of Schedule AE-6 of Appendix II. For the period ending
6 December 31, 2008, Licensing costs are projected to be \$46,022,594 as shown
7 on Line 3 of Schedule AE-6 of Appendix II. For the period ending December
8 31, 2009, Licensing costs are projected to be \$26,668,968 as shown on Line 3
9 of Schedule P-6 of Appendix II.

10

11 These Licensing costs consist primarily of employee and contractor labor and
12 consulting services necessary to develop the various license and permit
13 applications required by the Turkey Point 6 & 7 project. The federal COLA
14 requires the majority of expenditures, followed by the Site Certification
15 Application, Army Corps of Engineers permits and delegated programs such
16 as Air and Underground Injection Control. These permit and license
17 applications contain project specific information, assessments and studies that
18 are required by various regulatory authorities to support the reviews leading to
19 decisions on the technical, environmental and social acceptability of the
20 project. Some activities are common between applications, and therefore
21 offer opportunities to coordinate efforts and manage costs. However each
22 application analyzes each issue from a unique perspective and may require
23 differing levels of detail.

1

2 The COLA development costs were estimated based on the Bechtel proposal,
3 obtained through a Request for Proposals process. The proposal was reviewed
4 to verify the scope adequately described the activities necessary and that
5 reasonable labor rates and resource costs were utilized. Other licensing and
6 permitting costs were developed in accordance with FPL's budget and
7 accounting guidelines and policies. Further, these cost estimates were
8 compared to FPL's recent extensive experience with the development and
9 permitting of new generation projects in Florida and found to be reasonable.

10

11 FPL, as a member of the NuStart Consortium, pays annual membership fees
12 of \$1 million. These costs are necessary to obtain the benefits of membership
13 that are specifically relevant to the Westinghouse AP1000 design.

14

15 **Q. Please describe the activities in the Permitting category, the need for**
16 **those activities and the process used to develop estimates for 2008 and**
17 **2009 expenditures.**

18 A. For the period ending December 31, 2007, Permitting costs are \$516,084 as
19 shown on Line 4 of Schedule AE-6 of Appendix II. For the period ending
20 December 31, 2008, Permitting costs are projected to be \$2,317,865 as shown
21 on Line 4 of Schedule AE-6 of Appendix II. For the period ending December
22 31, 2009, Permitting costs are projected to be \$2,422,095 as shown on Line 4
23 of Schedule P-6 of Appendix II.

1
2 Permitting fees consist of expenditures for Project Development management
3 and public outreach/education. Additionally, there are legal support costs not
4 specifically associated with the federal or state licensing and permit activities
5 included in Permitting costs. These costs are necessary for the effective
6 management and execution of the project. Outreach is a vital process to
7 inform stakeholders of the project and educate the public with regard to the
8 many processes where they can be involved. The outreach activity involves
9 hosting informational events and providing information on the project through
10 a variety of media platforms. FPL has found that a pro-active outreach
11 approach facilitates a sharing of concerns and perspectives improving the
12 overall project. Legal support expenditures are necessary to support the
13 timely preparation, submission, and review of issues associated with the
14 project at the local, state and federal agency levels.

15
16 The estimates for Permitting costs were completed in accordance with FPL's
17 budget and accounting guidelines and policies. The costs were compared to
18 other costs being incurred by the company for similar activities and found to
19 be reasonable.

20 **Q. Please describe the activities in the Engineering & Design category, the**
21 **need for those activities and the process used to develop estimates for**
22 **2008 and 2009 expenditures.**

1 A. The Engineering & Design activities performed in 2008 and 2009 are required
2 to support the overall Turkey Point 6&7 schedule. For the period ending
3 December 31, 2008, Engineering & Design costs are projected to be
4 \$7,910,661 as shown on Line 5 of Schedule AE-6 of Appendix II. For the
5 period ending December 31, 2009, Engineering & Design costs are projected
6 to be \$10,121,791 as shown on Line 5 of Schedule P-6 of Appendix II. These
7 expenditures consist primarily of anticipated payments to qualified
8 engineering firms supporting preliminary engineering and detailed site
9 specific design of the project. The contract(s) supporting this scope of work
10 are currently being developed through a Request for Proposal process.

11
12 Conceptual level engineering and design services are necessary to define the
13 project to the level of detail necessary to support the content requirements of
14 the license and permit applications. The activities will include site layout,
15 balance of plant design, and integration with existing site utilities and new
16 infrastructure services required by the project. These include water supply,
17 wastewater, transmission and support facilities. Additionally, detailed
18 engineering and design services will provide the basis for construction
19 planning and procurement activities that will begin in 2009 and 2010.

20
21 The estimates for these costs were completed in accordance with FPL's
22 budget and accounting guidelines and policies. The costs were compared to
23 other costs being incurred by the company in similar activities and found to be

1 reasonable. Where contracted, rate sheets are provided by the contractor and
2 reviewed to verify rates being charged are consistent with FPL experience in
3 the broader industry.

4 **Q. Please describe the activities in the Long Lead Procurement category for**
5 **the 2008 actual/estimated and 2009 projected periods, the need for those**
6 **activities and the process used to develop estimates for these**
7 **expenditures.**

8 A. For the period ending December 31, 2008, Long Lead Procurement costs are
9 projected to be \$45,860,960 as shown on Line 6 of Schedule AE-6 of
10 Appendix II. This amount consists of two components: an estimated
11 \$10,860,960 payment by June 2008 to Westinghouse for a forging reservation
12 fee and an estimate for three potential long lead procurement payments in
13 October, November and December of 2008 with a cumulative value of \$35
14 million. Costs for long lead procurement items in future years are anticipated
15 to be a part of the Engineering and Procurement contract payments and are
16 included as part of the Power Block Engineering and Procurement cost line
17 item for 2009.

18
19 The Reservation Agreement for the \$10,860,960 forging reservation fee is
20 currently under negotiation. The specific terms and payments are expected to
21 be finalized by June 2008. The fee provides for reservation of the
22 manufacturing capacity necessary to produce 23 specific forgings for each of
23 two AP1000 units, or 46 forgings in total. The reservation slots are made

1 based on a fabrication schedule that supports Unit 6 commercial operation in
2 mid-2018 and Unit 7 commercial operation in mid-2020. It is necessary to
3 secure the manufacturing space for the forgings at this time based on
4 competition for the limited manufacturing capacity for these forgings and the
5 pending queue of international heavy industrial projects.

6
7 The additional \$35 million of funds estimated for long lead procurement in
8 2008 is based on the anticipated need to respond to dynamic market
9 conditions that may require early purchase of components or materials that
10 have supply system constraints or are in high demand. This would include
11 procurement of Reactor Coolant Pump components and specialty metal such
12 as containment vessel steel or stainless steel tubing. If it turns out not to be
13 necessary to procure these materials in 2008, the procurement will be deferred
14 to 2009 or later, and become a part of the larger Engineering and Procurement
15 contract being negotiated with Westinghouse/Shaw.

16
17 The estimates for these Long Lead Procurement costs were completed in
18 accordance with FPL's budget and accounting guidelines and policies. The
19 estimates rely on information from Westinghouse/Shaw due to the unique
20 features, limited market and early stage nature of these procurement activities.
21 The costs have been compared to other costs being incurred by the company
22 in similar activities and available comparable market information and found to
23 be reasonable.

1 **Q. Please describe the activities in the Power Block Engineering and**
2 **Procurement category for the 2008 actual/estimated and 2009 projected**
3 **periods, the need for those activities and the process used to develop**
4 **estimates for these expenditures.**

5 A. For the period ending December 31, 2008, Power Block Engineering and
6 Procurement costs are projected to be \$2,887,920 as shown on Line 7 of
7 Schedule AE-6 of Appendix II. This amount consists primarily of anticipated
8 payments to Westinghouse/Shaw necessary to support the development of site
9 specific adaptations of the standard AP1000 plant technology needed for the
10 license and permit applications. Additionally, these payments will support
11 specific Westinghouse project management activities and design certification
12 support.

13
14 FPL is currently negotiating the scope, terms and conditions associated with
15 an EP contract with Westinghouse/Shaw that will be one of the defining
16 commercial documents for the project. As discussed earlier, the EP contract
17 would describe the scope of equipment, materials and services provided by
18 Westinghouse/Shaw for the project management, engineering and
19 procurement of the nuclear power island. It is anticipated FPL will be in a
20 position to execute the EP contract in March 2009. The scheduled payments
21 estimated to be required to support the EP contract are listed on the Power
22 Block Engineering and Procurement line item of Schedule P-6. Payments

1 may be made monthly or quarterly depending on the final terms of the EP
2 contract.

3
4 For the period ending December 31, 2009, Power Block Engineering and
5 Procurement costs are projected to be \$70,787,145 as shown on Line 7 of
6 Schedule P-6 of Appendix II. This amount consists primarily of payments to
7 Westinghouse/Shaw under the anticipated EP contract. The initial scheduled
8 payment of \$29,347,145 would be due in May 2009 and periodic progress
9 payments thereafter. These expenditures would allow for Westinghouse/Shaw
10 to assemble and mobilize its full project team for Turkey Point 6 & 7. The
11 Westinghouse/Shaw project team will consist of dedicated Project
12 Management, Engineering and Procurement resources. This level of support
13 is necessary at this stage of the project to maintain the earliest practical
14 deployment schedule. Project Management functions provided by the
15 Westinghouse/Shaw project team includes establishing required programs
16 such as Quality Assurance, Environmental Compliance, and Health and
17 Safety. Engineering activities would undertake the site specific design of
18 Nuclear Power Island systems and safety related civil engineering design to
19 support the standard AP1000 technology at the Turkey Point site. An
20 integrated procurement function would be established to begin the commercial
21 and logistical activities necessary to establish a project specific supply chain
22 for equipment and materials. These functions are critical to be in place by

1 2009 to support the needed Preparation phase activities to prepare for nuclear
2 system construction as early as 2013.

3
4 The cost estimates developed for these cost categories are based on continued
5 negotiations and consultation with Westinghouse/Shaw to evaluate the
6 necessary engineering and procurement activities to maintain FPL's project
7 schedule, and eliminate any costs not needed at this time. The activities being
8 considered and the associated costs are consistent in timing and magnitude
9 with FPL's experience for other capital construction projects and
10 Westinghouse/Shaw's experience in similar AP1000 projects currently
11 underway internationally and in the United States. The EP contract will
12 identify rates to be charged and these rate sheets will be reviewed to verify
13 rates being charged are consistent with FPL experience in the broader
14 industry.

15

16 **COST RECOVERY REQUEST**

17 **Q. Are the actual costs incurred for Site Selection and Preconstruction in**
18 **2006 and 2007 prudent?**

19 **A.** Yes, they are. The activities were necessary and the costs were incurred under
20 a full range of project controls and procedures to verify they were appropriate
21 and priced consistent with FPL's extensive experience in power generation
22 development activities in Florida.

- 1 **Q. What processes were applied to verify the expenditures were prudently**
2 **incurred?**
- 3 A. The Site Selection and Pre-Construction activities for the Turkey Point 6 & 7
4 project were executed in accordance with FPL's budget and accounting
5 guidelines and policies. All procurement decisions were documented through
6 approved procedures and authorized after appropriate management review to
7 determine that (1) the activities were necessary to maintaining the project
8 schedule, and (2) the costs incurred for the activities were consistent with
9 applicable contract terms and were reasonable. The budgeting and oversight
10 of the project have evolved as additional information is obtained.
- 11 **Q. Are the actual/estimated and projected costs presented in your testimony**
12 **reasonable?**
- 13 A. Yes, they are. The costs represent Site Selection costs incurred in 2006 and
14 2007, actual/estimated Pre-Construction costs incurred in 2007 and 2008 and
15 projected Pre-Construction costs in 2009. All costs are the result of activities
16 necessary to accomplish Turkey Point 6&7 and are appropriately undertaken
17 in order to maintain the Turkey Point 6&7 Project schedule.
- 18 **Q. What project control and risk management tools will be used by FPL's**
19 **project management team to verify the 2008 actual/estimated and 2009**
20 **projected costs are reasonable and prudent?**
- 21 A. All the project management tools described earlier in my testimony will be
22 applied, as appropriate to verify the project costs are reasonable and prudent.

1 Further, risk factors will be identified and actively managed to reduce impact
2 to cost and/or schedule.

3 **Q. What issues might arise in 2008 and 2009 that could affect the timing or**
4 **magnitude of the costs estimated for that period?**

5 A. As I discussed earlier, there is uncertainty regarding the timing and magnitude
6 of payments associated with long lead procurement activities and the pending
7 EP contract with Westinghouse/Shaw. Most directly, this could result in a
8 reduction in expenditures of up to \$35 million in 2008. If such long lead
9 procurement expenditures are not made in 2008, some or all of these
10 expenditures may be required in 2009 in addition to the \$70,787,145 of EP
11 payments anticipated in 2009 or in 2010. The timing and magnitude of the
12 long lead procurement and EP contract payments necessary to maintain the
13 project schedule are affected by the number of U.S. and international projects
14 currently being pursued. If a majority of the announced projects are actively
15 pursued, this will increase market demand for these items. Again, as issues
16 are identified, FPL will consider the impact on project cost, risk and schedule.

17

18 **TRUE-UP TO ORIGINAL PROJECTIONS**

19 **Q. Have you prepared a true up of FPL's current cost projections to the**
20 **original projections of Turkey Point Unit 6 & 7 costs that were presented**
21 **in the Need Filing?**

22 A. Yes. Appendix II provides the TOR schedules that compare the current
23 projections to FPL's originally filed Turkey Point Unit 6 & 7 project costs.

1 The TOR schedules provide information on the project costs through the end
2 of 2009. FPL has not revised its non-binding cost estimate provided in the
3 Need Filing as we have no additional information that would warrant such a
4 revision. The TOR schedules provide the information currently available for
5 the cost recovery period through 2009.

6 **Q. Has FPL revised its cost estimate for project expenses beyond 2009?**

7 A. No. The existing non-binding cost estimate range provides the best
8 information available. When analyzed on a comparable basis, the cost range
9 is consistent with those provided by Progress Energy Florida for their Levy
10 project and other projects described in the industry press. Several significant
11 steps will be required before FPL can effectively assess the need for a revision
12 of the cost estimate range. FPL will undertake actions in 2008 and 2009 that
13 will result in a refined project schedule and a defined commercial arrangement
14 that will cover the Power Island engineering design and equipment costs.
15 Further work will allow FPL to revise Owner's scope, material estimates and
16 projected construction costs associated with the project. A review and
17 integration of this information will allow FPL to revise the overall project cost
18 estimate range.

19

20

SUMMARY

21 **Q. Please summarize your testimony.**

22 A. FPL has taken significant positive steps in developing Turkey Point 6 & 7
23 since 2006. These steps have been taken with the guidance of strong,

1 effective project controls and risk management tools. FPL has identified the
2 Westinghouse AP1000 technology as the preferred technology for the Turkey
3 Point 6 & 7 Project. Site Selection costs incurred in 2006 and 2007 and Pre-
4 Construction costs incurred in 2007 are prudent. FPL's actual/estimated costs
5 for 2008 and projected costs for 2009 are reasonable. There has been no
6 additional information developed since the Need Filing to revise the cost
7 estimate range, however significant activities will be undertaken in the next
8 two years that are expected to provide further information.

9 **Q. Does this conclude your direct testimony?**

10 **A. Yes.**

11

12

1 BY MR. ANDERSON:

2 Q. Have you prepared a summary of your direct
3 testimony?

4 A. I do.

5 Q. Would you please provide your summary to the
6 Commission?

7 A. Thank you. Mr. Chairman and Commissioners, I
8 appreciate the opportunity to come before you today.

9 The purpose of my testimony is to provide an
10 understanding of how the Turkey Point 6 and 7 project is
11 being developed, managed, and controlled to meet the
12 objective of delivering reliable, cost-effective, and
13 fuel-diverse generation to FPL customers. My testimony
14 describes how project activities are being actively
15 managed in a deliberate, transparent, and stepwise
16 process crafted to manage project risk in the face of
17 challenges and uncertainties that are unique to new
18 nuclear deployment.

19 My testimony lays out the approach taken by
20 FPL for managing the Turkey Point 6 and 7 project to
21 meet these objectives. This includes monitoring
22 regulatory and commercial issues in the industry and
23 adapting the project plan as needed to maintain schedule
24 and manage risk. Further, I describe the project
25 controls and risk management processes that the project

1 team uses, combine the adaptive management style and
2 proven project controls, provide a firm basis for the
3 responsible and prudent management of the project.

4 The balance of my testimony then describes the
5 site selection costs incurred from April 2006 to October
6 16, 2007, and pre-construction costs that have been or
7 are estimated to be incurred in the period from
8 October 16, 2007, through December 31, 2009. Moreover,
9 I discuss the rationale for these costs or projections
10 and how expenditures will be managed going forward to
11 meet the project objectives.

12 This concludes my summary.

13 MR. ANDERSON: Mr. Scroggs is available for
14 cross-examination.

15 CHAIRMAN CARTER: Thank you. Mr. McGlothlin.

16 MR. MCGLOTHLIN: I'll reserve my questions for
17 the rebuttal phase.

18 CHAIRMAN CARTER: Mr. McWhirter.

19 MR. McWHIRTER: FIPUG has no questions,
20 Mr. Chairman.

21 CHAIRMAN CARTER: Staff?

22 MS. BENNETT: No questions.

23 CHAIRMAN CARTER: Commissioner Argenziano.

24 COMMISSIONER ARGENZIANO: Thank you,
25 Mr. Chairman. And I'm not sure if it's more appropriate

1 to ask the next witness, and just feel free to tell me
2 if it is.

3 Just out of curiosity, a couple of things.
4 Why is it not necessary to ask for the long lead
5 procurements now? What was that change? And if you
6 said it, I just didn't focus in on it.

7 THE WITNESS: It's kind of two factors. One,
8 we're in the process of watching the market. And
9 essentially, there's a small group of companies that can
10 produce these specific items in an advance time that
11 they're in time for our schedule. We're watching our
12 schedule. That hasn't changed.

13 But the market, we were prepared for a market
14 that was very dynamic and where a lot of orders were
15 being placed. There are several other similar AP1000
16 projects ahead of us, including the Progress Levy
17 project. So we were watching the market, and we were
18 ready to respond to secure it if it were necessary. The
19 market hasn't developed to be that dynamic, so that is
20 not going to be necessary in 2008.

21 As we look into 2009, we'll be entering a
22 contract with Westinghouse/Shaw associated with the
23 engineering and procurement. Some of those activities
24 will be incorporated in that contract. The moneys that
25 we've already forecasted for that activity in 2009 seem

1 to be a sufficient amount to cover that right now. So
2 again, we're able to cover with what we've already
3 budgeted and defer these costs until a later time in the
4 project.

5 COMMISSIONER ARGENZIANO: And part of that is
6 because you feel there are companies out there who can
7 meet the need when you get to them?

8 THE WITNESS: Yes.

9 COMMISSIONER ARGENZIANO: And you wouldn't
10 need that long a period of time, which, of course, then
11 would save the current customers money?

12 THE WITNESS: Yes, ma'am.

13 COMMISSIONER ARGENZIANO: Okay. And what
14 makes it more cost-effective than previously thought to
15 build now?

16 THE WITNESS: Again, we haven't taken that
17 \$35 million out of the project. It has been deferred to
18 a later point in time in the project. There will be
19 savings to the customer by not having to pay the
20 interest on that now. They won't feel the effects of
21 that on their bill in the early years. But that money,
22 again, hasn't gone away. It hasn't changed our
23 assessment of cost. It's just moved later.

24 COMMISSIONER ARGENZIANO: Moved to a later
25 date. Okay. Thank you very much.

1 CHAIRMAN CARTER: Thank you. Commissioner
2 Skop.

3 COMMISSIONER SKOP: Thank you, Mr. Chairman.
4 I have to navigate around the caffeine here that's
5 blocking the button.

6 Just a quick question with respect to the
7 witness's testimony. On page 22 of the prefiled
8 testimony, I guess they discuss some of the long lead
9 procurement, and I guess it was my understanding, and I
10 just wanted to get some brief clarification. With
11 respect to the long lead items and the reductions and
12 the magnitude of those reductions, at least on 22, it
13 seems that FPL has gone forward with the reservation or
14 is in the process of finalizing the reservation
15 agreement for the ultraheavy forgings with Japan Steel
16 Works that we previously addressed in the need
17 determination. Would that be correct?

18 THE WITNESS: That's correct. In fact, we
19 have entered into that agreement through Westinghouse
20 Corporation, and that money has been expended in the
21 project.

22 COMMISSIONER SKOP: Okay. And I think on page
23 23, they address an additional amount of 35 million of
24 funds for long lead procurement, the reactor coolant
25 pump and some of the other containment vessel materials.

1 Can you just briefly explain which long lead items are
2 being deferred at this time and the magnitude of those
3 deferrals?

4 THE WITNESS: Yes, sir. In the prefiled
5 testimony, page 23, lines 7 through 15, all the long
6 lead items involved in that paragraph make up the
7 \$35 million that is being deferred to 2010 or beyond.

8 COMMISSIONER SKOP: Okay. Thank you. I guess
9 that matches up. That would result -- that 35 million
10 would be the reduction from the 258 million down to the
11 221 million for long lead procurement.

12 THE WITNESS: Yes, sir.

13 COMMISSIONER SKOP: Thank you.

14 CHAIRMAN CARTER: Thank you. Commissioner
15 Argenziano.

16 COMMISSIONER ARGENZIANO: Yes. I forgot
17 something, Mr. Chair. As I asked before with Progress,
18 is there a way you can break down for me by statutory
19 categories, you know, the costs, the site selection,
20 pre-construction, carrying charges? Can you do that?

21 THE WITNESS: Yes, ma'am.

22 COMMISSIONER ARGENZIANO: Okay. Great.

23 THE WITNESS: With the exception of carrying
24 charges, I'm afraid.

25 COMMISSIONER ARGENZIANO: Okay.

1 THE WITNESS: With respect to site selection
2 costs, those were costs that were incurred up to our
3 filing for need determination in October of last year.
4 Those costs were incurred in 2006 and 2007 and total
5 \$6,424,121, again, without AFUDC.

6 In the pre-construction, beginning in
7 October 2007, for the balance of 2007, we incurred
8 approximately \$2,533,000 in pre-construction costs. In
9 2008, we expect to incur approximately \$70 million in
10 pre-construction costs. And in 2009, we're projecting
11 \$110 million in pre-construction costs, for a total of
12 182,500,000 pre-construction costs.

13 COMMISSIONER ARGENZIANO: Okay. That's fine.
14 Thank you.

15 CHAIRMAN CARTER: Thank you. Commissioner
16 Skop.

17 COMMISSIONER SKOP: Thank you, Mr. Chairman.
18 Just one final question. Page 19 of the prefilled
19 testimony mentions that FPL is a member of the NuStart
20 Consortium and pays the annual membership fee. Can you
21 briefly just further elaborate on the benefits of that
22 membership? Is that a recoverable cost? And then also
23 the expected benefit to the extent of lessons learned
24 that would mitigate the cost of membership if that is in
25 fact a recoverable cost.

1 THE WITNESS: Yes, sir. The NuStart
2 Consortium, of course, is a group of industry --
3 potential owners of new nuclear plants as well as
4 vendors that are involved in the production, including
5 General Electric and Westinghouse Corporation.

6 This group was formed essentially to provide a
7 private industry response or pairing with the federal
8 regulators to develop the combined operating license
9 process, to test it, and to help work the bugs out of
10 system. Without this organization, no individual
11 utility would have taken on the task and considerable
12 effort to get to the point where we are today.

13 So FPL's involvement in NuStart has been
14 extremely valuable for our customers to spread the cost
15 over multiple industry participants, to kick-start the
16 new nuclear deployment process in the United States. So
17 that has really been the right thing for us to do, is to
18 be involved with a group of other interested potential
19 owners for power and to work together to solve these
20 early problems so that at the time that Progress and
21 ourselves submit our license application, a lot of these
22 bugs have already been worked out, a lot of the path has
23 been well paved, and everybody understands their roles
24 and responsibilities as we're going forward.

25 So our participation in NuStart at present is

1 approximately a million dollars a year and has been a
2 real bargain in terms of allowing the national level
3 licensing and industry support to be ready and mature
4 enough to take on the challenges of new nuclear
5 deployment.

6 COMMISSIONER SKOP: Mr. Chairman, just two
7 follow-ups.

8 So essentially, that should serve to
9 streamline the licensing process to avoid cost delays
10 resulting from -- to streamline the regulatory process
11 and avoid cost increases resulting from regulatory
12 delays in siting and permitting and licensing and all
13 the above?

14 THE WITNESS: Absolutely. A good portion of
15 our combined operating license application will be
16 directly adopted from the Tennessee Valley Authority
17 Bellefonte application, which is determined to be the
18 reference application for this technology. So in a
19 sense, we'll just be taking the sections out of their
20 application and adopting it in total. It will be
21 something that the NRC has already seen and reviewed and
22 should greatly facilitate our process.

23 COMMISSIONER SKOP: So in a sense, it's like
24 bootstrapping based on lessons learned such that the
25 first one that's the straw horse, if you will, the next

1 one goes through smoother and assures a continual
2 approval process.

3 THE WITNESS: Absolutely.

4 COMMISSIONER SKOP: And also, too, in relation
5 to the consortium, at least from my knowledge, many
6 members of the consortium have picked the AP1000 as
7 their reactor, and certainly those that come online
8 sooner than later should be able to share their lessons
9 learned throughout the consortium to avoid any
10 additional increases and lessons learned. Would that be
11 also correct?

12 THE WITNESS: That's correct. In fact, maybe
13 not through the NuStart Consortium, but through a group
14 called the AP Owners Group that has been developed
15 specifically with an eye towards those pre-operational
16 and operational issues to share procedures, to share the
17 best practices in the company and the industry so that
18 everybody is operating from the same manual and
19 benefiting from the same streamlining.

20 COMMISSIONER SKOP: Thank you.

21 CHAIRMAN CARTER: Thank you, Commissioner.
22 Commissioners, anything further from the
23 bench?

24 Okay. Hearing none, Mr. Anderson.

25 MR. ANDERSON: We have no questions for

1 Mr. Scroggs.

2 CHAIRMAN CARTER: Will Mr. Scroggs be coming
3 back for rebuttal?

4 MR. ANDERSON: Yes, sir, he will. We would
5 like to offer his Exhibits 23 and 24.

6 CHAIRMAN CARTER: Exhibits 23 and 24. I think
7 23 is in; right?

8 MS. BENNETT: It's 24 and 25.

9 MR. ANDERSON: Thank you. My notes are wrong.
10 Twenty-four and 25.

11 CHAIRMAN CARTER: Twenty-four and 25, any
12 objections? Without objection, show it done.

13 (Exhibit Numbers 24 and 25 were admitted into
14 the record.)

15 CHAIRMAN CARTER: Call your next witness.

16 MR. ANDERSON: FPL would call as its next
17 witness Dr. Steven Sim.

18 CHAIRMAN CARTER: You're recognized.

19 MR. ANDERSON: Thank you.

20 Thereupon,

21 STEVEN R. SIM
22 was called as a witness on behalf of Florida Power &
23 Light Company and, having been first duly sworn, was
24 examined and testified as follows:

25

DIRECT EXAMINATION

1
2 BY MR. ANDERSON:

3 Q. Good afternoon, Dr. Sim.

4 A. Good afternoon.

5 Q. Have you been sworn?

6 A. Yes, I have.

7 Q. Please state your name and business address.

8 A. My name is Steve Sim. My business address is
9 9250 West Flagler Street, Miami.

10 Q. By whom are you employed, and in what
11 capacity?

12 A. By Florida Power & Light Company as a senior
13 manager in the Integrated Resource Planning Group.

14 Q. Have you prepared and caused to be filed 11
15 pages of prefiled direct testimony in this proceeding?

16 A. Yes, I have.

17 Q. Do you have any changes or revisions to your
18 prefiled direct testimony?

19 A. No, I don't.

20 Q. If I asked you the same questions contained in
21 your prefiled direct testimony, would your answers be
22 the same?

23 A. Yes, they would.

24 MR. ANDERSON: FPL asks that Dr. Sim's
25 prefiled direct be inserted into the record as though

1 read.

2 CHAIRMAN CARTER: The prefiled testimony will
3 be adopted into the testimony as though read.

4 BY MR. ANDERSON:

5 Q. I think you co-sponsored some exhibits already
6 in evidence, Numbers 21 and 22?

7 A. Yes.

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **DIRECT TESTIMONY OF STEVEN R. SIM**

4 **DOCKET NO. 080009 - EI**

5 **May 1, 2008**

6
7 **Q. Please state your name and business address.**

8 A. My name is Steven R. Sim, and my business address is 9250 West Flagler
9 Street, Miami, Florida 33174.

10 **Q. By whom are you employed and what position do you hold?**

11 A. I am employed by Florida Power & Light Company (FPL) as Senior Manager
12 of Integrated Resource Planning in the Resource Assessment & Planning
13 Business Unit.

14 **Q. Please describe your duties and responsibilities in that position.**

15 A. I supervise and coordinate analyses that are designed to determine the
16 magnitude and timing of FPL's resource needs and then develop the
17 integrated resource plan with which FPL will meet those resource needs.

18 **Q. Please describe your education and professional experience.**

19 A. I graduated from the University of Miami (Florida) with a Bachelor's degree
20 in Mathematics in 1973. I subsequently earned a Master's degree in
21 Mathematics from the University of Miami (Florida) in 1975 and a Doctorate
22 in Environmental Science and Engineering from the University of California
23 at Los Angeles (UCLA) in 1979.

1 While completing my degree program at UCLA, I was also employed full-
2 time as a Research Associate at the Florida Solar Energy Center during 1977 -
3 1979. My responsibilities at the Florida Solar Energy Center included an
4 evaluation of Florida consumers' experiences with solar water heaters and an
5 analysis of potential renewable resources including photovoltaics, biomass,
6 wind power, etc., applicable in the Southeastern United States.

7
8 In 1979 I joined FPL. From 1979 until 1991 I worked in various departments
9 including Marketing, Energy Management Research, and Load Management,
10 where my responsibilities concerned the development, monitoring, and cost-
11 effectiveness of demand side management (DSM) programs. In 1991 I joined
12 my current department, then named the System Planning Department, where I
13 held different supervisory positions dealing with integrated resource planning.
14 In late 2007 I assumed my present position.

15 **Q. What is the purpose of your testimony?**

16 A. My testimony provides an update to the long-term economic analyses filed in
17 the Nuclear Uprate Need Docket No. 070062-EI and in the Turkey Point 6 &
18 7 Need Docket No. 070650-EI. These updates are presented to satisfy the
19 requirement of Subsection 5(c)5 of the Florida Administrative Code Rule 25-
20 6.0423, Nuclear Power Plant Cost Recovery which states "By May 1 of each
21 year, along with the filings required by this paragraph, a utility shall submit
22 for Commission review and approval a detailed analysis of the long-term
23 feasibility of completing the power plant." The updated long-term economic

1 analyses will generally be referred to as the “detailed feasibility analysis” in
2 the remainder of my testimony.

3 **Q. Are you sponsoring or co-sponsoring any exhibits in this case?**

4 A. Yes, I am co-sponsoring portions of the following exhibits:

5 - STH-2, an exhibit of FPL witness Stephen Hale, which consists of
6 Appendix I containing the Nuclear Filing Requirements Schedules
7 (NFRs) for the nuclear uprates Project. Page 2 of Appendix I contains
8 a table of contents listing the NFRs that are sponsored by Mr. Hale,
9 Ms. Ousdahl, and me, respectively. I am sponsoring all portions of
10 Schedule P9 of Appendix I except for the Section B portion discussing
11 the nuclear uprate capital cost amounts and schedule that is being
12 sponsored by FPL witness Hale.

13 - SDS-1, an exhibit of FPL witness Steve Scroggs, which consists of
14 Appendix II containing the NFRs for the Turkey Point 6 & 7 project.
15 Page 2 of Appendix II contains a table of contents listing the NFRs
16 that are sponsored by Mr. Scroggs, Ms. Ousdahl, and me, respectively.
17 I am sponsoring Schedule P9 of Appendix II.

18 **Q. What is the scope of your testimony?**

19 A. My testimony addresses three main points:

20 (1) I briefly discuss changes in the analytical approach and assumptions
21 used in the detailed feasibility analysis provided in this filing
22 compared to the economic analyses that were provided in FPL’s

1 determination of need filings for the nuclear uprates and for Turkey
2 Point 6 & 7.

3 (2) I provide the results of the detailed feasibility analysis of the nuclear
4 uprates.

5 (3) I provide the results of the detailed feasibility analysis of Turkey Point
6 6 & 7.

7

8 **Detailed Feasibility Analysis - Approach & Assumptions**

9

10 **Q. Were the analytical approaches used in the detailed feasibility analyses of**
11 **the nuclear uprates and Turkey Point 6 & 7 similar to those used in the**
12 **determination of need filings for these projects?**

13 **A.** Yes. The analytical approaches that were used in the detailed feasibility
14 analysis for each project were virtually identical to the approaches used in the
15 determination of need filings.

16

17 In regard to the nuclear uprates project, FPL believes that the analytical
18 approach used currently, and that was used in the determination of need filing;
19 i.e., the direct comparison of resource plans with and without the uprates, is
20 the appropriate approach for analyzing this project.

21

22 In regard to the Turkey Point 6 & 7 project, FPL believes that the analytical
23 approach used currently, and in the determination of need filing, i.e., the

1 calculation of breakeven 2007\$ overnight capital costs for the new nuclear
2 units, remains the appropriate approach to use at this time for the detailed
3 feasibility analysis of this project. (In later years, as more information
4 becomes available regarding the cost and other aspects of the new nuclear
5 units, another analytical approach may emerge as more appropriate.)

6 **Q. What differences exist between these detailed feasibility analyses and the**
7 **analyses used in the determination of need filings?**

8 A. When comparing the analyses, there are only four meaningful differences.
9 One of these differences is in regard to the scope of the detailed feasibility
10 analysis of Turkey Point 6 & 7. In the economic analyses supporting the
11 determination of need filing analyses, a Resource Plan with Nuclear that
12 included Turkey Point 6 & 7 was compared to two alternative resource plans.
13 One of these resource plans included a comparable amount of combined cycle
14 (CC) capacity added in the same years the two new nuclear units are projected
15 to come in-service. This resource plan was labeled as the Resource Plan
16 without Nuclear – CC. The other resource plan included a comparable amount
17 of integrated gasification combined cycle (IGCC) capacity in the same years
18 the two new nuclear units are projected to come in-service. This resource plan
19 was labeled as the Resource Plan without Nuclear – ICGG.

20
21 As shown in the determination of need filing analyses, the Resource Plan
22 without Nuclear – CC was superior economically to the Resource Plan

1 without Nuclear – IGCC and, therefore, the former was the alternative
2 resource plan that was closer economically to the Resource Plan with Nuclear.

3
4 Due to this previous result, FPL decided it was unnecessary to perform further
5 analysis of the Resource Plan without Nuclear – IGCC. Therefore, FPL has
6 focused its detailed feasibility analysis on the Resource Plan with Nuclear and
7 the more competitive alternative Resource Plan without Nuclear – CC.

8
9 The second meaningful difference was a decision to focus solely on analyzing
10 the economics of the resource plans for both the nuclear uprates and Turkey
11 Point 6 & 7 projects. The determination of need filings for the two projects
12 clearly demonstrated that the new nuclear capacity from the two projects
13 would significantly increase FPL's system fuel diversity and decrease system
14 carbon dioxide (CO₂) emissions. The changes in assumptions used in the
15 analysis, discussed below, will have very little effect on projections of system
16 fuel diversity and emissions. The previous projections of increased FPL
17 system fuel diversity and decreased system CO₂ emission from both nuclear
18 projects is expected to remain essentially unchanged, thus leaving these
19 impacts as very beneficial attributes of the nuclear projects.

20
21 In contrast, the assumption changes will have more significant impacts on the
22 projected economics of the projects. Consequently, FPL's analytical focus is
23 the relative economics of the two projects.

1 The third meaningful difference is in regard to the schedules for capital costs
2 for the two nuclear projects. The detailed feasibility analyses use updated
3 capital cost expenditure schedules for both projects compared to the schedules
4 used in the determination of need filings.

5
6 The fourth meaningful difference between the detailed feasibility analysis and
7 the analyses conducted for the determination of need filings was that certain
8 assumptions were revised based on more current information.

9 **Q. What assumptions were revised for the detailed feasibility analyses?**

10 A. Several assumptions were revised for the current analyses based on more
11 current information that was available to FPL in the first quarter of 2008.

12 These updated assumptions include:

- 13 - FPL's load forecast that includes the Lee County Electric Cooperative
14 (Lee County) load. The revised load forecast resulted in changes to
15 FPL's projected capacity needs (and, subsequently, resulted in minor
16 changes in the resource plans being analyzed compared to those used
17 in the determination of need filings);
- 18 - The forecast for environmental compliance costs. This updated
19 forecast is based on ICF's most recent forecast of environmental
20 compliance costs;
- 21 - The forecasts for fuel costs;
- 22 - The forecasted capital costs of non-nuclear combined cycle (CC)
23 generation units; and,

- 1 - The cost of debt and the discount rate used for both generation and
2 transmission costs.

3

4 These updated assumptions are identical to those used in the analyses for, and
5 presented in, FPL's recent determination of need filing for the conversions of
6 FPL's existing Cape Canaveral and Riviera plants.

7

8 **Detailed Feasibility Analysis Results for the Nuclear Uprates Project**

9

10 **Q. What were the results of the detailed feasibility analysis for the nuclear**
11 **uprates project?**

12 A. The results of this analysis are presented in section C of Schedule P-9 of
13 Exhibit STH-2. As shown in this Schedule, the Resource Plan with Nuclear
14 Uprates is projected to have a lower cumulative present value of revenue
15 requirements (CPVRR) cost, compared to the Resource Plan without Nuclear
16 Uprates, in 8 of 9 scenarios of fuel cost and environmental compliance cost
17 forecasts utilized in the analyses.

18 **Q. How do the results of the detailed feasibility analyses compare with the**
19 **results of the economic analyses provided in the determination of need**
20 **filing for the nuclear uprates?**

21 A. In the determination of need filing, the Resource Plan with Nuclear Uprates
22 was also projected to have a lower CPVRR cost in 8 of the 9 scenarios of fuel
23 cost and environmental compliance cost forecasts. In these 8 scenarios, the

1 economic advantage of the Resource Plan with Nuclear Uprates ranged from
2 \$222 million CPVRR to \$963 million CPVRR.

3

4 In the detailed feasibility analysis for these same 8 scenarios, the economic
5 advantage of the Resource Plan with Nuclear Uprates now ranges from \$346
6 million CPVRR to \$1,109 million CPVRR.

7

8 Also, for the remaining scenario in the determination of need filing, one that
9 features low natural gas costs and low environmental compliance costs, the
10 Resource Plan with Nuclear Uprates was projected to have a higher cost of
11 \$214 million CPVRR. The detailed feasibility analysis for this same scenario
12 shows that the Resource Plan with Nuclear Uprates is now projected to result
13 in a higher cost of \$127 million CPVRR.

14

15 Consequently, the already significant economic advantage of the nuclear
16 uprates previously presented in the determination of need filing has further
17 increased. These results fully support the feasibility of continuing the nuclear
18 uprates project.

19

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1 **Detailed Feasibility Analysis Results for the Turkey Point**

2 **6 & 7 Project**

3

4 **Q. What were the results of the detailed feasibility analysis for the Turkey**
5 **Point 6 & 7 project?**

6 **A.** The results of this analysis are presented in section C of Schedule P-9 of
7 Exhibit SDS-1. As shown in this Schedule, the Resource Plan with Nuclear is
8 projected to have a higher breakeven cost (in terms of \$/kw in 2007\$) for
9 Turkey Point 6 & 7 than the range of non-binding capital costs for new
10 nuclear units of \$3,108/kw to \$4,540/kw in 8 of 9 scenarios of fuel cost and
11 environmental compliance cost forecasts. In these 8 scenarios, the updated
12 breakeven costs range from \$5,994/kw to \$8,835/kw. For the remaining
13 scenario, one that features low natural gas costs and low environmental
14 compliance costs, the projected breakeven cost of \$4,408/kw is in the upper
15 range of the non-binding capital cost estimate for new nuclear units.

16 **Q. How do the results of the detailed feasibility analyses compare with the**
17 **results of the economic analyses provided in the determination of need**
18 **filing?**

19 **A.** In the determination of need filing, the Resource Plan with Nuclear was also
20 projected to have a higher breakeven cost (\$/kw in 2007\$) for Turkey Point 6
21 & 7 than the range of non-binding capital costs for new nuclear units of
22 \$3,108/kw to \$4,540/kw in the same 8 of 9 scenarios of fuel cost and
23 environmental compliance cost forecasts. In these 8 scenarios, the range of

1 breakeven costs was \$4,543/kw to \$7,281/kw. For the remaining scenario, the
2 projected breakeven cost of \$3,206/kw was in the lower range of the non-
3 binding capital cost estimate for new nuclear units.

4
5 Consequently, the already promising breakeven capital costs for Turkey Point
6 & 7 previously presented in the determination of need filing have become
7 even more promising in the detailed feasibility analysis. These results fully
8 support the feasibility of continuing the Turkey Point 6 & 7 project.

9 **Q. Does this conclude your testimony?**

10 **A. Yes.**

1 BY MR. ANDERSON:

2 Q. Do you have a summary for the Commission?

3 A. Yes, I do.

4 Q. Would you please present your summary?

5 A. Certainly. Good afternoon, Chairman Carter
6 and Commissioners. My testimony discusses the detailed
7 feasibility analysis conducted for FPL's nuclear uprates
8 and Turkey Point 6 and 7 projects and presents the
9 results of those analyses.

10 First, in regard to the analytical approach
11 and the assumptions, let me start by going back to the
12 analytical approach that we used in the determination of
13 need filings for both projects. Essentially, we looked
14 at one resource plan that had the nuclear capacity
15 addition in question versus one or more resource plans
16 that did not have the new nuclear capacity, and we
17 analyzed both resource plans in regard to nine different
18 scenarios of fuel cost forecasts and environmental
19 compliance cost forecasts.

20 We utilized the same basic analytical approach
21 in the detailed feasibility analysis presented in this
22 docket. However, there were a few changes in regard to
23 what I'll call tightening the scope of the analysis as
24 well as a few assumption changes. In regard to
25 tightening the scope, one of those was in regard to the

1 Turkey Point 6 and 7 project. We originally in the
2 determination of need filing had compared that to
3 competing combined cycle capacity as well as competing
4 integrated gasification combined cycle capacity. In
5 that, the IGCC turned out to be a distant third in the
6 economic analysis, and for that reason, we chose not to
7 continue that comparison in the updated analysis that is
8 before you today.

9 Also, in both the uprates and in the Turkey
10 Point 6 and 7, we chose in this analysis to focus solely
11 on the economics of the projects. We felt that it was
12 clearly developed in the determination of need analyses
13 that both projects would supply significant increases in
14 fuel diversity, as well as result in significant
15 decreases in system emissions.

16 In regard to the assumptions, there were a
17 number of assumption changes that were made this
18 go-round. We updated the capital cost expenditure
19 schedules for both of the nuclear projects, and we also
20 used updated forecasts for fuel costs, environmental
21 compliance costs, load forecasts, the combined cycle
22 unit cost, and updated cost of debt and discount rate
23 values.

24 Let me turn to the results of the analyses.
25 First let me tackle the nuclear uprates. In the

1 determination of need filings, our results were that the
2 nuclear uprates were projected to have a significantly
3 lower cumulative present value of revenue requirements
4 costs in eight of the nine scenarios that we examined,
5 and in the one scenario in which it was not projected to
6 be the most economic option, that was in a scenario of
7 low gas costs and low environmental compliance costs,
8 which we felt was a fairly unlikely occurrence.

9 In the updated analysis, we saw essentially
10 the same thing. The uprates are still projected to be
11 the cost-effective addition in eight of the nine
12 scenarios. However, the projected economics for the
13 nuclear uprates has improved in seven of those scenarios
14 to the tune of roughly 70 million to 300 million
15 cumulative present value revenue requirements of cost
16 savings for FPL's customers. Therefore, for the
17 uprates, the economics have definitely improved in the
18 updated analysis.

19 In regard to the Turkey Point 6 and 7 project,
20 in the determination of need filing, we had compared the
21 breakeven cost of new nuclear capacity to a nonbinding
22 cost range for new nuclear units of roughly \$3,100 a kW
23 to \$4,500 a kW in 2007 dollars. And what we found is
24 that the projected breakeven costs for the new nuclear
25 units were above that cost range in eight of the nine

1 scenarios, and it was within that range in the ninth
2 scenario.

3 In the updated analysis, what we see now is
4 that we have essentially the same result in terms of
5 higher breakeven costs in eight of the nine scenarios
6 and within the range in the ninth. However, we see
7 improvement, significant improvement economically in all
8 nine scenarios for the new nuclear units, and the
9 breakeven costs have increased from a range from \$900 a
10 kW to about \$2,100 a kW in 2007 dollars.

11 In conclusion, for both projects, the already
12 significant projected economic advantage of the nuclear
13 uprates and the projected breakeven costs for Turkey
14 Point 6 and 7 are even now more promising in the updated
15 analysis than in the need filings, and these results
16 fully support the feasibility of continuing both
17 projects.

18 And that concludes my summary.

19 MR. ANDERSON: Dr. Sim is available for
20 cross-examination.

21 CHAIRMAN CARTER: Thank you. Dr. Sim, you
22 said that the uprate saved how much? And I'm going to
23 ask you the same on Turkey Point, too, in terms of your
24 projections.

25 THE WITNESS: In regard to the uprates, we saw

1 the economics had improved in seven of the nine
2 scenarios, and the range of that improvement in
3 cumulative present value of revenue requirements was
4 from 70 million to 300 million.

5 CHAIRMAN CARTER: Okay.

6 THE WITNESS: And in regard to Turkey Point 6
7 and 7, in regard to breakeven costs, the breakeven costs
8 increased in all nine scenarios, and that range was from
9 \$900 a kW to \$2,100 a kW in 2007 dollars.

10 CHAIRMAN CARTER: How much is that in American
11 money?

12 THE WITNESS: Well, to give you an example, a
13 brand new combined cycle would cost you approximate
14 \$1,000 a kW.

15 CHAIRMAN CARTER: So \$1,000 at --

16 THE WITNESS: It would depend upon the number
17 of kW you're --

18 CHAIRMAN CARTER: I don't have my solar
19 powered calculator. Have you got a bottom line number
20 for me? I think -- and I'm sure you were here today as
21 Commissioner Argenziano was asking questions that really
22 relate to the folks out there at home trying to -- they
23 don't know a kW from a megawatt, so I'm really just
24 trying to get a bottom line number. That's all we're
25 really trying to find, so can you just kind of break it

1 down? I do read Greek, but don't put it in Greek. Just
2 put it in English for us today.

3 THE WITNESS: Yes, sir. Perhaps the easiest
4 way to convert this is to look at this in terms of the
5 increase in the breakeven cost as if we were talking
6 about a combined cycle, since the Commission has seen
7 those most recently from FPL. The \$1,000 a kW is
8 roughly the cost of, say, the West County 3 unit and the
9 conversions that we had, and those were on the order of,
10 again, in very round numbers, about a billion dollars.

11 CHAIRMAN CARTER: Okay. Thank you. I know
12 that you're getting ready for cross-examination, but I
13 wanted to ask that, Commissioners, before I lost my
14 train of thought.

15 Commissioner Skop.

16 COMMISSIONER SKOP: Thank, Mr. Chairman. Just
17 one quick question with respect to the ongoing
18 feasibility analysis and studies that have been
19 conducted and the more beneficial economic advantage.
20 Was that analysis rerun in correlation to, you know, gas
21 has recently run up, and then over the last month or so,
22 the price of natural gas has kind of receded back to,
23 thank God, \$7 per MMBtu, around there. But I'm just
24 trying to get some perspective on the influence of gas
25 prices in terms of the numbers that you just presented.

1 THE WITNESS: Yes, sir. The analysis used
2 assumptions that were virtually identical to those used
3 in the recent West County 3 and conversion filing, which
4 were looked into place in roughly the February-March
5 time frame. So it would not reflect any changes in
6 assumptions that occurred since the filing for this
7 docket.

8 COMMISSIONER SKOP: Okay. Thank you.

9 CHAIRMAN CARTER: Okay. Commissioners,
10 anything further at this time?

11 Mr. McGlothlin.

12 MR. MCGLOTHLIN: No questions.

13 CHAIRMAN CARTER: Mr. Twomey.

14 MR. TWOMEY: No, sir.

15 CHAIRMAN CARTER: Mr. McWhirter.

16 CROSS-EXAMINATION

17 BY MR. McWHIRTER:

18 Q. You indicated that a combined cycle would cost
19 a thousand per kW. My recollection of the need
20 proceeding was that this would cost -- the nuclear
21 plants would cost between 4,500 and 7,500 per kW.

22 A. I'm sorry. Could you rephrase or repeat the
23 question, please, sir?

24 Q. What will be the cost of these nuclear plants
25 that you're building based on the kilowatt of capacity?

1 A. I think it's safe to say that we don't know
2 with a great deal of accuracy at this point what the
3 units will cost. For our original determination in the
4 need filing, we used a nonbinding capital cost estimate
5 of, in 2007 dollars, between roughly \$3,100 a kW and
6 \$4,500 a kW.

7 Q. And if you compare the fixed costs of the
8 capacity to the fixed costs of the combined cycle, it
9 sounds like the nuclear plant costs considerably more
10 than a combined cycle. Can you explain why it is that
11 these savings come into play in your economic analysis?

12 A. Yes, sir. Commissioner, as we indicated in
13 the determination of need filing for Turkey Point 6 and
14 7, and I believe as Mr. Anderson alluded to earlier this
15 afternoon, we were projecting at that time, using the
16 fuel cost forecasts that were somewhat lower than what
17 we are currently projecting, that once both nuclear
18 units come into service, we are projecting or were
19 projecting at that time \$1 billion a year for the first
20 year of fuel savings on our system from the nuclear
21 units, growing a bit every year, to where at the end of
22 the 40-year projected life, our projection at that time
23 was about \$93 billion nominal in fuel savings for our
24 customers, and with higher fuel cost forecasts, that
25 93 billion number would be even higher today. And that

1 does not count the environmental compliance cost savings
2 that are also higher today than what we projected in the
3 determination of need filing.

4 Q. And what year do those cost savings begin?

5 A. The cost savings would begin -- the \$1 billion
6 number I mentioned would be the first year in which both
7 units were in service for the full year, and that would
8 be in 2021, assuming a 2018 and 2020 in-service date,
9 midyear, for both units. We would begin to see fuel
10 savings in 2018 as the first nuclear unit went in
11 service, but the full \$1 billion number is based upon
12 both units being in service nor a full year.

13 Q. Are you using 2007 dollars in those savings
14 calculations, or are you using some other --

15 A. The 1 billion and \$93 billion are not
16 discounted to 2007. Those are nominal, in that year
17 dollars for each year.

18 Q. And how much do you anticipate that 2007
19 dollars will depreciate in value between now and 2021?

20 A. I'm not sure I would think of it in terms of
21 depreciation, but I don't have that number in front of
22 me, sir.

23 MR. McWHIRTER: I have no further questions.

24 CHAIRMAN CARTER: Thank you, Mr. McWhirter.
25 Staff.

1 MR. YOUNG: No questions.

2 CHAIRMAN CARTER: Commissioners.

3 Okay. Mr. Anderson.

4 MR. ANDERSON: We have no questions. He had
5 no exhibits also.

6 CHAIRMAN CARTER: No exhibits? Okay. Good.
7 Thank you. Dr. Sim, thank you. You may be excused.
8 He's not a rebuttal witness, so --

9 MR. ANDERSON: We would ask that he be
10 excused, yes.

11 CHAIRMAN CARTER: Hasta la bye-bye.

12 Mr. Anderson.

13 MR. ANDERSON: FPL would call as its next
14 witness John Reed.

15 CHAIRMAN CARTER: Mr. John Reed.

16 Thereupon,

17 JOHN J. REED

18 was called as a witness on behalf of Florida Power &
19 Light Company and, having been first duly sworn, was
20 examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. ANDERSON:

23 Q. Good afternoon, Mr. Reed.

24 A. Good afternoon.

25 Q. Have you been sworn?

1 A. Yes, I have.

2 Q. Would you tell us your full name and business
3 address?

4 A. My name is John J. Reed. My business address
5 is 293 Boston Post Road, Marlborough, Massachusetts.

6 Q. By whom are you employed, and in what
7 capacity?

8 A. I am the chief executive officer of Concentric
9 Energy Advisors.

10 Q. Have you prepared and caused to be filed 38
11 pages of prefiled direct testimony in this proceeding?

12 A. Yes, I have.

13 Q. Do you have any changes or revision to your
14 prefiled direct testimony?

15 A. No, I do not.

16 Q. If I asked you the same questions contained in
17 your prefiled direct testimony, would your answers be
18 the same?

19 A. Yes, they would.

20 MR. ANDERSON: FPL asks that the prefiled
21 direct testimony of Mr. Reed be inserted into the record
22 as though read.

23 COMMISSIONER EDGAR: The prefiled direct
24 testimony will be entered into the record as though
25 read.

1 BY MR. ANDERSON:

2 Q. You are sponsoring two exhibits?

3 A. Yes.

4 Q. Those are JJR-1 and JJR-2?

5 A. That is correct.

6 MR. ANDERSON: These have been premarked in
7 staff's list as Exhibits 26 and 27.

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **DIRECT TESTIMONY OF JOHN J. REED**

4 **DOCKET NO. 080009-EI**

5 **MAY 1, 2008**

6

7 **Q. Please state your name and business address.**

8 A. My name is John J. Reed. My business address is 293 Boston Post Road
9 West, Marlborough, Massachusetts 01752.

10 **Q. By whom are you employed and what is your position?**

11 A. I am the Chairman and Chief Executive Officer of Concentric Energy
12 Advisors, Inc. ("Concentric").

13 **Q. Please describe Concentric.**

14 A. Concentric is an economic advisory and management consulting firm,
15 headquartered in Marlborough, Massachusetts, which provides consulting
16 services relating to energy industry transactions, energy market analysis,
17 litigation, and regulatory support.

18 **Q. Please describe your educational background and professional
19 experience.**

20 A. I have more than 30 years of experience in the energy industry, having served
21 as an executive in energy consulting firms, including the position of Co-Chief
22 Executive Officer of the largest publicly-traded management consulting firm
23 in the United States and as Chief Economist for the largest gas utility in the

1 United States. I have provided expert testimony on a wide variety of
 2 economic and financial issues related to the energy and utility industry on
 3 numerous occasions before administrative agencies, utility commissions,
 4 courts, arbitration panels, and elected bodies across North America.

5 **Q. Have you previously provided expert testimony?**

6 A. Yes. I have been accepted as an expert in dozens of jurisdictions located in
 7 the United States and Canada.

8 **Q. Are you sponsoring any exhibits in this case?**

9 A. Yes. I am sponsoring Exhibits JJR-1 and JJR-2, which are attached to my
 10 direct testimony.

11 Exhibit JJR- 1 Curriculum Vitae

12 Exhibit JJR- 2 Testimony of John J. Reed 1997 – 2008

13 **Q. What is the purpose of your testimony in this proceeding?**

14 A. The purpose of my testimony is to review the processes and procedures used
 15 by Florida Power and Light (“FPL” or the “Company”) to manage the
 16 development and implementation of the Extended Power Uprate (“EPU”)
 17 Projects at FPL’s St. Lucie Units 1 & 2 and Turkey Point Units 3 & 4 (“PSL 1
 18 & 2” and “PTN 3 & 4” respectively) in the 2011 to 2012 timeframe, and the
 19 development and construction of two new nuclear generating units at FPL’s
 20 Turkey Point site (PTN 6 & 7, collectively the “Projects”). Specifically, I
 21 have reviewed FPL’s policies and procedures governing their development of
 22 the Projects and will offer an opinion as to the reasonableness of these policies
 23 and procedures relative to other nuclear generating facilities currently being

1 developed in the United States. I have not reviewed and do not offer an
 2 opinion as to the reasonableness of the specific costs of which FPL requests
 3 recovery in this proceeding. My review is solely related to the processes used
 4 to develop such costs and the risk management and project development
 5 practices utilized by FPL to administer the Projects.

6 **Q. Please describe your experience with nuclear power plants, and**
 7 **specifically your experience with major construction programs at these**
 8 **plants.**

9 A. My consulting experience with nuclear power plants spans more than 25
 10 years. My clients have retained me for assignments relating to the
 11 construction of nuclear plants, the purchase and sale of nuclear plants, power
 12 uprates and major capital improvement projects at nuclear plants, and the
 13 decommissioning of nuclear plants. I have had significant experience with
 14 these activities at the following plants:

15	Pilgrim	Ginna
16	Oyster Creek	Duane Arnold
17	Seabrook	Palisades
18	Hope Creek	Point Beach 1 and 2
19	Peach Bottom	Big Rock Point
20	Salem	Wolf Creek
21	Nine Mile Pt. 1 and 2	Callaway

1 I was also extensively involved in nuclear construction audits and prudence
2 reviews for nuclear plants built in the 1980s, including Vogtle, Limerick,
3 Susquehanna, Wolf Creek and Callaway.

4
5 I am currently active on behalf of a number of clients in pre-construction
6 activities for new nuclear plants across the U.S., including state and federal
7 regulatory processes, raising debt and equity financing for new projects, and
8 evaluating the costs schedules and economics of new nuclear facilities. These
9 activities have included detailed reviews of cost estimation and construction
10 project management activities of other nuclear project developers.

11 **Q. Please describe how the remainder of your testimony is organized.**

12 A. The remainder of my testimony is organized into the following three (3)
13 sections listed below.

14 Section 1: The framework of my review

15 Section 2: A description of each of the FPL processes I
16 reviewed

17 Section 3: My conclusions and opinions of FPL's project
18 development, risk management and cost
19 estimation practices.

20 **Q. Please generally describe how, in your experience, the FPL project**
21 **management processes compare with other EPU projects and new**
22 **nuclear development projects around the country.**

1 A. Based on my review of FPL's practices used to manage the Projects, I find
2 that the FPL EPU and new nuclear development projects compare favorably
3 with other similar nuclear projects in the United States. The project
4 management, cost estimation and risk management attributes of FPL are
5 highly developed, well documented, and conscientiously adhered to, and are
6 well positioned to meet FPL's needs as these projects continue to develop.

7

8

Section 1 Framework of Review

9 **Q. Please describe the process by which you reviewed FPL's project**
10 **development capabilities.**

11 A. In order to assess FPL's project development, risk management and cost
12 estimation capabilities, my staff and I reviewed numerous documents
13 provided to us by FPL. These documents included FPL's general corporate
14 procedures, the Company's nuclear procedures and instructions, various status
15 reports prepared by the Company to monitor the progress of the Projects,
16 contracts executed by the Company for materials and services related to the
17 Projects, and the Company's cost estimates for the Projects for the calendar
18 years 2008 and 2009. In addition, our team interviewed several members of
19 FPL's project teams at FPL's corporate offices in Juno Beach, Florida.

20 **Q. Prior to commencing your review of FPL's capabilities was there a**
21 **framework you used to organize your review?**

22 A. Yes. My review was developed based on a framework that Concentric
23 developed in a recent evaluation of another new nuclear power development

1 project. This framework was established to specifically address an investor's
2 evaluation of a multi-billion dollar investment in that facility.

3 **Q. Please describe that framework.**

4 A. My review was focused on six (6) primary elements. Each of these elements
5 is necessary to promote proper communication among the project team,
6 interested stakeholders and the Company's vendors. In addition, these
7 elements represent best practices that I have observed throughout my career.
8 These six elements are listed below.

- 9 • Defined corporate procedures
- 10 • Written project execution plans
- 11 • Involvement of key internal stakeholders
- 12 • Reporting and oversight requirements
- 13 • Corrective action mechanisms
- 14 • Reliance on a viable technology

15 I have attempted to review each of these elements for the five processes
16 described below and later in my testimony. In addition, I have attempted to
17 provide examples from both projects in each case. The five processes are:

- 18 • Project Estimating and Budgeting Process
- 19 • Project Schedule and Management
- 20 • Contract Management and Administration
- 21 • Internal Oversight Mechanisms
- 22 • External Oversight Mechanisms

1 **Q. Please describe why you believe it is important for FPL to have defined**
2 **corporate procedures in place prior to commencing development of the**
3 **Projects.**

4 A. Defined corporate procedures are critical to any project development process
5 as they explicitly define the steps required to successfully complete the project
6 in the most prudent and cost effective manner. These procedures detail the
7 methodology in which certain aspects of the project, such as the cost
8 estimation and execution of key contracts, will be completed and to make
9 certain that processes are consistently applied to the projects. To be effective,
10 these procedures should be documented with sufficient detail to allow the
11 project teams to implement the procedures, and they should be clear enough to
12 allow the project teams to easily comprehend the procedures. Similarly, the
13 most recent version of the procedures should be readily accessible by
14 members of the project teams.

15
16 It is also important to assess whether the procedures are known by the project
17 teams and adopted into the company's culture. This includes a process that
18 allows staff to openly challenge and seek to improve the existing procedures
19 and to incorporate lessons learned from other projects into the company's
20 procedures. Within FPL, the Project Controls staff is responsible for ensuring
21 FPL's corporate procedures are applied correctly.

22 **Q. Please explain the importance of written project execution plans.**

1 A. Written project execution plans are necessary to establish a framework for
2 executing the project development plans. These plans lay out the resource
3 needs of the project, the scope of the project, key project milestones or
4 activities and the objectives of the project. These documents are critical as
5 they provide a “roadmap” for completing the project as well as a “yardstick”
6 by which overall performance can be monitored and managed. It is also
7 important for the project sponsor to require its large-value contract vendors to
8 provide similar execution plans. Such plans allow the project sponsor to
9 accurately monitor the performance of these vendors and makes certain at an
10 early stage of the project that the vendor’s approach to achieving key project
11 milestones is consistent with the project sponsor’s needs.

12 **Q. Why is it important that key internal stakeholders are involved in the**
13 **project development process?**

14 A. One of the most difficult aspects of developing a large project is the ability to
15 balance the needs of all stakeholders. This balance is necessary to make
16 certain that the maximum value of the project is realized. For example, it is
17 important that an extended power uprate project can be successfully
18 implemented in a timely manner to avoid interfering with the project
19 sponsor’s ability to provide safe and reliable electric service to its customers.
20 By including these customers as stakeholders in a transparent project
21 development process, the project sponsor will be better able to deliver on
22 these high-value projects.

1 **Q. Why is it important to have established reporting and oversight**
2 **requirements?**

3 A. By having an established reporting structure and periodic reporting
4 requirements, the project sponsor's senior management will be well informed
5 on the status of the project's various activities. The purpose of a well
6 informed senior management team is two-fold. First, reporting requirements
7 give senior management the information they need in order to leverage their
8 background and previous experience on an as-needed basis. Second,
9 established reporting requirements are critical to make certain that senior
10 management is fully aware of the activities of the respective project teams so
11 management can effectively control the overall project risks. This level of
12 project administration by senior management is appropriate considering the
13 large expenditures that will be required to complete the Projects.

14
15 In order to be considered robust, these reporting requirements should be
16 frequent and periodic (i.e., established daily, weekly and/or monthly reporting
17 requirements) and should include varying levels of detail based on the
18 frequency of the report. For instance, a daily status report may not need as
19 much detail as it will soon be reviewed by a project manager who is able to
20 quickly address issues and concerns. In contrast, a monthly status report will
21 require significantly more detail to discuss the status of the Projects, as well as
22 plans for near-term activities. The need for timely and effective project
23 reporting is well recognized in the industry:

1 “Cost and time control information must be timely with little
2 delay between field work and management review of
3 performance. This timely information gives the project
4 manager a chance to evaluate alternatives and take corrective
5 action while an opportunity still exists to rectify the problem
6 areas¹.”

7 Lastly, these reports should include a mechanism to identify problem areas
8 and document lessons learned for future project enhancements.

9 **Q. What is the purpose of corrective action mechanisms and why is it
10 important for robust project management processes?**

11 A. Corrective action mechanisms are a defined process by which a learning
12 culture is implemented across an organization to eliminate reoccurring
13 concerns that can interfere with the successful completion of the project.
14 Specifically, corrective action mechanisms help to identify the root cause of
15 issues such as an activity that is trending behind schedule, and provides the
16 opportunity to adopt mechanisms to mitigate the negative impact from these
17 issues. A robust corrective action mechanism should assign responsibility for
18 implementing the corrective actions and a means by which these activities are
19 managed.

20 **Q. Please explain why you believe it is important for a project sponsor to
21 rely on viable technologies.**

22 A. Nuclear projects are inherently subjected to several significant risks. One of
23 the largest of these risks, particularly when developing a new nuclear power
24 generating facility, is selecting the type of technology to be used at the

¹ Sears, Keoki S., Glenn A. Sears, and Richard H. Clough, Construction Project Management: A Practical Guide to Field Construction Management. 5th Edition, John Wiley & Sons, Hoboken, NJ, 2008, Pg. 20.

1 facility. Similar to the corrective action mechanisms described above, relying
2 upon a viable technology allows the project sponsor to implement lessons
3 learned from other projects and avoid the costly mistakes or delays that they
4 may have experienced.

5 **Q. Are there any other categories that were included in your review?**

6 A. No, there were no other categories included in this general framework of my
7 review. While I have attempted to review the categories for each process,
8 some processes require greater emphasis in certain categories than the others
9 included in my review.

10

11 **Project Estimating and Budgeting Process**

12 **Q. Please explain why the project estimating and budgeting process are**
13 **important to FPL's project development capabilities.**

14 A. The project estimating and budgeting process is one of the most important
15 processes for assessing FPL's project development capabilities for a number
16 of reasons. Foremost is that the project budgets are used to determine the
17 feasibility of the Projects (i.e., is the project cost-effective and worth pursuing
18 from an economic point of view). If the project budgets are estimated
19 unrealistically low FPL might pursue a project that, in the end, will not benefit
20 FPL's customers and other stakeholders. In the alternative, FPL might not
21 pursue a project that would benefit FPL's customers and other stakeholders in
22 the long-term due to an unrealistically high budget. Additionally, the project
23 budget is a useful tool for continuous monitoring of the project's performance.

1 In the context of the Public Service Commission's Nuclear Power Plant Cost
2 Recovery Rule, the budgets will also be used as initial levels of costs to be
3 recovered by FPL.

4 **Q. Does FPL have corporate guidelines that dictate how a cost estimate**
5 **should be prepared?**

6 A. Yes, FPL has a set of corporate procedures that are broken down further into a
7 set of department procedures and instructions that explicitly document the
8 process for developing a cost estimate. The PTN 6 & 7 is not covered by a
9 specific set of department procedures and instructions at this time, but appears
10 to follow a process similar to that put in place by the Nuclear Project
11 Department and is consistent with corporate procedures. Nuclear Project
12 Department Instruction 304 Revision 0 covers the preparation of cost
13 estimates.

14 **Q. In general terms, please describe FPL's corporate procedures and their**
15 **purpose.**

16 A. FPL Group maintains a set of corporate procedures known as General
17 Operating Procedures ("GOs") that dictate how the Company's policies and
18 objectives are implemented across FPL Group's various business lines. The
19 procedures are relatively detailed and help to make certain that the same high
20 standards of excellence are demonstrated within each department. In addition
21 to the corporate GOs, each department can develop and maintain its own set
22 of procedures and instructions. The additional procedures are developed to
23 cover aspects of the division's business lines that may not be applicable to the

1 entire Company. For example, the Nuclear Division relies on several
2 additional procedures known as Nuclear Administrative Procedures (“NAP”)
3 that incorporate NRC regulatory requirements and nuclear industry best
4 practices in the Nuclear Division’s practices. Further, various departments
5 then establish more detailed instructions for implementing the GOs and NAPs
6 in their groups’ daily activities.

7
8 The department-specific procedures and instructions are maintained on an
9 FPL internal database that is accessible by each employee for whom they are
10 applicable. These procedures and instructions include highly detailed
11 descriptions that guide the employee through a step-wise process for
12 completing these activities. The activities covered by the GOs, NAPs or
13 department instructions include, but are not limited to:

- 14 • Cost estimation or budgeting
- 15 • Contract negotiations
- 16 • Contract administration
- 17 • Project governance

18 **Q. What is the process utilized by FPL to develop their budgets for each**
19 **project?**

20 A. FPL utilizes a robust, bottoms-up approach to develop their cost estimates and
21 budgets. In general, there are two accepted methods for developing a project
22 cost estimate. A top-down estimate is a process where the Project Estimator
23 develops a budget for the entire project based on their experience building

1 similar plants, and then allocates portions of this budget total to each task or
2 activity. While this typically results in a cost estimate that compares similarly
3 to other projects, it does not necessarily result in the most accurate estimate
4 for individual activities or site-specific changes to the project's design. FPL
5 has chosen the alternative of a bottoms-up cost estimating procedure.

6
7 FPL begins this process by defining the project using scoping documents,
8 system walk-downs, as-built drawings, project plans and plant modification
9 packages. The project is then broken into the various discrete activities
10 required to complete each stage of the project. A Project Estimator then
11 quantifies the material required to complete each activity. For instance, the
12 Project Estimator determines the number of cubic yards of concrete that must
13 be poured, or the length of 3-inch pipe that must be fitted. Project Estimators
14 then estimate the labor requirements using the crew method to identify the
15 number of craft personnel that are required to process the material quantities
16 determined for each activity. The Project Estimator identifies the applicable
17 wage rates by researching contracts and seeking quotes if available and
18 applies the applicable wage rates to the man-hour estimates along with
19 uncertainty or contingency factors. These labor cost adjustments account for
20 productivity losses for activities that involve more complex work including
21 above-grade work or work conducted in a radiological environment. For
22 equipment and materials pricing, the Nuclear Materials Management and
23 Integrated Supply Chain Organizations obtain equipment costs including the

1 cost of mobilization, fuel and demobilization. Materials prices are determined
2 using the FPL materials management system and by obtaining vendor
3 budgetary quotes for engineered materials or materials for which an existing
4 purchase order does not exist. The instructions then direct the Project
5 Estimator to determine and apply a contingency factor based on the level of
6 risk in the project at that time. In general, FPL guidelines for this contingency
7 factor are as follows:

- 8 • 25-30 percent for conceptual estimates
- 9 • 15-20 percent for Level 1 or preliminary estimates
- 10 • 5-10 percent for Level 2 or definitive estimates

11 These contingencies are applied on a case-by-case basis, and are generally
12 consistent with my prior experience, as well as with direction from the United
13 States Department of Energy². The final steps in the cost estimation
14 instruction are to review the estimate for accuracy and to assemble the
15 documentation for each assumption. These final two steps are necessary to
16 promote accuracy and credibility of the estimates³.

17 **Q. Is FPL's cost estimation procedure consistent with general industry**
18 **practices?**

19 **A.** Yes. FPL's cost estimation procedure is known as a partial takeoff estimate.
20 While several authors note that this method is difficult to undertake at an early

² United States Department of Energy, Cost Estimating Guide DOE G 430.1-1, March 28, 1997, Chapter 11. Oberlender, Garold D., Project Mangement for Engineering and Construction, Mcgraw-Hill, 2000, Pg. 49.

³ Oberlender, Garold D., Project Mangement for Engineering and Construction, Mcgraw-Hill, 2000, Pg. 64-65.

1 stage in a project's development, it is recognized that this type of estimate
2 provides the most accurate preliminary cost estimate⁴.

3 **Q. Does FPL appear to have followed this procedure in developing the cost**
4 **estimates for the EPU and PTN 6 & 7 projects?**

5 **A.** Yes. FPL has implemented the procedure as described. It is important to note
6 that while the Nuclear Projects Department Instruction currently applies only
7 to the Nuclear Projects Department, which is responsible for the Extended
8 Power Uprate, the methodology for developing the cost estimate for both
9 projects appears to be similar.

10

11 Further, estimating the cost of the Projects produced a substantial volume of
12 supporting documentation that serves as evidence of this process being
13 thoroughly implemented. Both Projects maintain multiple large volumes that
14 document each of the activities' cost estimate assumptions and their source.

15 **Q. What processes are in place to track actual expenditures relative the**
16 **budget?**

17 **A.** Actual expenditures relative to the budget are tracked on a weekly, monthly,
18 and annual basis to determine if the project is meeting its goals. On a weekly
19 basis the EPU project produce status reports that includes budget
20 performance. These reports are distributed to the Company's Chief Nuclear
21 Officer, who is responsible for overseeing the EPU project.

22

⁴ Sears, Keoki S., Glenn A. Sears, and Richard H. Clough, Construction Project Management: A Practical Guide to Field Construction Management. 5th Edition, John Wiley & Sons, Hoboken, NJ,

1 Monthly reports also monitor budget performance. For the EPU project, these
2 take the form of a Key Project Indicator report that tracks overall project
3 performance over time. The PTN 6 & 7 project produces similar reports,
4 known as Project Dashboard Reports which use a green, yellow and red color
5 code system to visually indicate the status of several performance indicators
6 including the development budget⁵. Within both Projects, the Project Controls
7 Manager is responsible for preparing a monthly variance report that tracks
8 deviations from the project budget as a method to monitor expenditures. This
9 document also includes a section known as a “Risk Tracker” which requires a
10 description of each project risk as it becomes known and a determination of its
11 status. The variances are tracked within this document until such time as
12 money has been allocated in the project budgets to account for the risks or
13 when the risk no longer exists.

14
15 On an annual basis, or at major project milestones, the project teams update
16 their respective budgets to reflect a better-defined scope of work, executed
17 contracts, and performance to-date. Through this process they are able to
18 maintain a relatively current estimate of the Projects’ ultimate costs.

19
20 Additionally, staff from the Project Controls and Integrated Supply Chain
21 Management organizations are assigned to monitor the activities of outside
22 contractors to make certain that they are delivering the agreed upon scope and

2008, Pg. 33.

⁵ “Dashboard tab – Guidelines,” Project Dashboard Template 2-14-2008 – Guidelines & Definitions.

1 terms. At times both projects are periodically asked to report their status to
2 FPL's senior executive team. These reports typically include the Projects'
3 ability to meet their budget projections.

4 **Q. What processes does FPL have in place to manage higher than expected**
5 **costs?**

6 **A.** In the event actual expenditures significantly exceed the Projects' budgets, the
7 project teams are responsible for immediately identifying the root cause of
8 these increases and for developing a strategy to mitigate future increases.
9 Once identified, the mitigation strategy or corrective action is maintained on a
10 consolidated list of corrective actions for each project that is maintained by
11 the respective project managers. In each case, the corrective action cannot be
12 removed from this list until the employee responsible for its implementation
13 signs-off on the corrective action. The EPU Key Performance Indicators and
14 PTN 6 & 7 Project Dashboards are also tracked over time to establish trends
15 that monitor performance and make certain the corrective actions are
16 implemented appropriately.

17 **Q. Are there any other tools utilized by FPL to make certain that robust cost**
18 **estimates are developed or to control the project's projected costs?**

19 **A.** Yes, FPL has selected a relatively viable technology in the Westinghouse AP
20 1000 reactor design and developed project execution plans from which to
21 effectively manage the projects. As noted in the testimony of FPL witness
22 Scroggs⁶, the AP 1000 has been selected by many of the companies who are
23 currently seeking to develop new nuclear power facilities. Thus, FPL should

1 be able to leverage the experience of those companies in developing its own
 2 cost estimates. FPL's project execution plans for the Projects are also
 3 important for developing the scope of work and resource needs. With regard
 4 to the PTN 6 & 7 project, FPL has required Bechtel to develop a similar plan
 5 for their completion of the project's COLA⁷. Ultimately these plans will serve
 6 as a benchmark with which to measure performance.

7

8

Project Schedule and Management

9 **Q. What mechanism governs the process for establishing project schedules?**

10 A. Similar to the cost estimation procedure, the method for establishing project
 11 schedules is governed by corporate procedures that define the process for
 12 developing each schedule⁸.

13 **Q. Please describe the process for establishing project schedules as defined
 14 in the corporate procedures.**

15 A. While each project team or business unit may develop its own specific
 16 procedures or instructions, the method for developing the Projects' schedules
 17 is similar to that employed when developing the Projects' budget. The
 18 process begins by defining the projects' scope as best as possible given the
 19 development status of the projects. The scope is then broken into individual
 20 activities and productivity and man-hour estimates are used to develop an

⁶ Direct Testimony of Steven D. Scroggs, Docket No. 080009-EI, Pg 6.

⁷ Bechtel Project Execution Plan For the Florida Power and Light Turkey Point Combined License Applicatoin Project, Bechtel Job No 25409.

⁸ FPL Extended Power Uprate Project Instruction – 310, Rev 0.

1 estimated schedule for each activity. Each activity schedule is then
2 consolidated into an overall project schedule.

3 **Q. What tools does FPL use to develop and manage the Projects' schedules?**

4 A. FPL relies upon an industry standard software application developed by
5 Primavera Systems Inc. Specifically, Primavera "provides Critical Path
6 Method Scheduling ("CPM"), which uses the activity duration, relationships
7 between activities, and calendars to calculate a schedule for the project. CPM
8 identifies the critical path of activities that affect the completion date for the
9 project or an intermediate deadline, and how these activity schedules may
10 affect the completion of the project⁹." This software is used throughout the
11 nuclear power industry to schedule refueling outages and major capital
12 projects. In addition, the CPM is a commonly cited scheduling methodology
13 for the civil engineering field as a whole¹⁰.

14 **Q. Is it your opinion that the EPU and PTN 6 & 7 project teams have**
15 **followed this procedure and utilized the Primavera software to manage**
16 **their projects' schedules?**

17 A. Yes, my review indicates the project teams have followed this procedure and
18 moreover are appropriately relying on the Primavera software to manage their
19 existing development schedules. Further, as the Projects are still very much in
20 the development stage, it is my understanding that the schedulers assigned to

⁹ www.primavera.com/products/p6/planning_man.asp. April 19 2008.

¹⁰ Oberlender, Garold D., Project Mangement for Engineering and Construction, McGraw-Hill, 2000, Pg. 143.

Sears, S Keoki, Glenn A. Sears and Richard H. Clough, Construction Project Management: A Practical Guide to Field Construction Management, 5th Edition, John Wiley & Sons, Inc., Hoboken, NJ, 2008, Pg. 21.

1 each project team are currently adjusting certain activities within the schedule
2 to maximize the flexibility of the schedules.

3 **Q. How do the EPU and NTP 6 & 7 project teams monitor the performance**
4 **of each activity that is currently underway?**

5 A. As discussed earlier in my testimony, the EPU project team is required to
6 prepare weekly, monthly and annual reports, while the NTP 6 & 7 project
7 team prepares monthly and annual reports. Included among those reports is a
8 discussion of the project staffs' ability to meet their projected schedules. A
9 six week look forward report is also used to identify key upcoming milestones
10 and make certain the relevant project team members are focused on meeting
11 their respective deadlines.

12

13 Additionally, for the PTN 6 & 7 project, the Project Controls Manager
14 prepares an activity-by-activity project performance indicator report that
15 tracks the status of each of the COLA's sections and the vendor's ability to
16 meet the project's schedule. This report uses the following color-coded
17 system to indicate the sections status relative to the original schedule.

- 18 • Green if the activity is less than or equal to 5 days behind
19 schedule
- 20 • Yellow if the activity is greater than 1 week but less than 2
21 weeks behind schedule
- 22 • Red if the activity is greater than or equal to two weeks behind
23 schedule.

1 **Q. How does FPL respond when an activity is determined to be behind**
2 **schedule?**

3 A. In the event that an EPU activity falls behind schedule, the EPU project team
4 begins a corrective action program to identify the root cause of the delay and
5 to develop a mitigation strategy to bring the activity back on schedule. This
6 corrective action is added to a consolidated list of corrective actions
7 maintained by each project manager and a project team member is assigned to
8 implement the corrective action to bring the activity back on-schedule. A
9 corrective action cannot be removed from this list until the project team
10 member responsible for its implementation has indicated that the corrective
11 action has been satisfactorily implemented. The Project Manager is
12 responsible for administering the corrective action process.

13

14 The PTN 6 & 7 project team includes a dedicated Integrated Supply Chain
15 Manager. This employee is responsible for working with the outside
16 contractors to meet deadlines and ensuring the vendors comply with the terms
17 of their contracts. In the event that an activity falls behind schedule, the
18 Integrated Supply Chain Manager and the Project Manager work with the
19 vendor to bring that activity back on-schedule.

20

21 **Contract Management and Administration**

22 **Q. Please explain why it was important to review FPL's contract**
23 **management and administration procedures.**

1 A. For large projects such as the EPU and PTN 6 & 7 projects, FPL will rely on a
2 large number of outside vendors to complete the work. Thus, a large portion
3 of the cost associated with developing and constructing the facilities will be
4 paid to parties outside of FPL. This represents a significant risk to both
5 Projects' cost estimates and schedules.

6 **Q. Do you believe FPL should avoid using outside vendors for the EPU and**
7 **PTN 6 & 7 projects to eliminate this risk?**

8 A. No, I do not. It is a standard industry practice to use outside vendors to
9 complete the activities associated with these types of projects. The use of
10 outside vendors allows FPL to retain the services of specialists who are
11 experts in their fields without having to invest the time and resources to
12 recruit these experts and maintain a sizeable workforce on FPL's payroll.
13 Instead, it is important that FPL have robust procedures in place for obtaining
14 services from, and managing relationships with, outside vendors.

15 **Q. Does FPL have specific corporate procedures and instructions in place to**
16 **adequately manage vendors' contracts?**

17 A. Yes, FPL has specific procedures or instructions that appear to cover every
18 stage of contract development including:

- 19 • Selecting and auditing appropriate vendors
- 20 • Maintaining and administering an approved vendor list
- 21 • The process for issuing a Request for Proposal ("RFP") to
22 prospective vendors

- 1 • Contract negotiations, including the process for making
- 2 certain that the appropriate legal, integrated supply chain
- 3 management and subject matter personnel are included in
- 4 the negotiations
- 5 • Issuing a purchase order to commence work under a
- 6 contract
- 7 • The means for managing changes in scope and/or budget
- 8 • The inspection of certain deliverables under the contract
- 9 terms to make certain they are adequate.

10

11 **Q. Please briefly describe the contract management process as implemented**
12 **by FPL.**

13 A. FPL's contract management process begins by approving or qualifying a
14 vendor onto an approved vendor list. In order to be qualified, the vendor
15 should demonstrate the ability to deliver on the terms of its contracts and to
16 deliver goods and services which are sufficient for their use within FPL's
17 facilities. This approved vendor list is maintained by the integrated supply
18 chain management organization.

19

20 Once a need for an outside vendor is determined, FPL considers the various
21 suppliers who are capable of performing the services. If more than one
22 vendor is capable of providing the service, FPL will typically issue an RFP to
23 those vendors. The RFP contains sufficient detail for the bidder to submit its

1 qualifications and proposed pricing and terms and often offers an opportunity
2 to meet with the Company. In the event that the RFP requires further
3 clarification, FPL will amend the original RFP and provide this amendment to
4 all potential vendors. This is done to preserve a level playing field throughout
5 the vendor selection process. Once FPL has received proposals from each of
6 the prospective vendors, FPL uses a scorecard approach to evaluate the
7 proposals. This scorecard is completed by various groups from within FPL
8 depending on the service being sought, but may include departments such as
9 engineering, integrated supply chain management, legal, and/or site
10 operations. Once the Company has completed its evaluation of the proposals,
11 FPL will seek to negotiate a definitive agreement with the winning vendor.
12 The process of negotiating a definitive agreement includes several functions
13 from within FPL, such as the integrated supply chain management, legal and
14 risk management functions, among others. Finally, in order for the vendor to
15 proceed with the scope of work defined by the contract, FPL will issue a
16 purchase order (“PO”) allowing the contractor to proceed with either the
17 entire scope of work or on a more limited basis as project needs dictate.

18
19 In the event that FPL is unable to locate more than one vendor that is qualified
20 to perform the work sought by the project team, the Company will seek a sole
21 or single source contract with this vendor. A sole source contract refers to
22 instances where only one provider is able to perform the work. A single
23 source contract refers to instances where a provider is selected by FPL without

1 issuing a competitive solicitation. Prior to entering into a single source
2 agreement however, the project team should first complete a Single or Sole
3 Source Justification Memorandum that explains in sufficient detail why a
4 single source contract is being pursued. Acceptable reasons for a single
5 source contract may include the original equipment manufacturer is the only
6 qualified vendor, or prior high quality service and competitive pricing from a
7 specific vendor. In the event that a sole or single source contract is sought,
8 additional approvals should be obtained before executing in the agreement.

9 **Q. What is your opinion regarding the use of sole or single source contracts**
10 **in the nuclear industry?**

11 A. In my experience, the use of sole or single source contracts is frequently
12 unavoidable, but any risk from using such contracts can be effectively
13 controlled. In general, the United States faces a shortage of qualified vendors
14 for many nuclear-related or safety-related activities. This lack of vendors
15 stems from the nearly 30 years that have passed since a new nuclear power
16 facility has been ordered, and the aging, consolidation and contraction of
17 industry participants. As a result, graduation rates in nuclear engineering
18 programs have steadily declined since the 1970s. This has led to increased
19 competition for qualified nuclear engineers and increased labor costs, which
20 has led some vendors to give up their nuclear-related certifications. Further,
21 the NRC requires vendors performing safety-related work to maintain or adopt
22 quality assurance programs which must be maintained at a high cost. While
23 these programs certainly are necessary to promote safe and reliable operation

1 of nuclear power facilities, their costs, along with an increasing number of
2 reactors that have ceased commercial operations in the last 20 years, have
3 caused some vendors to exit the nuclear service industry. As a point of
4 comparison, in 1980 there were more than 500 companies certified to perform
5 nuclear-related work; today there are approximately 100 companies with such
6 certifications¹¹.

7 **Q. Please provide an example of how contract review processes have been**
8 **implemented for the PTN 6 & 7 project.**

9 A. The contract with Bechtel Corporation for the preparation of the PTN 6 & 7
10 COLA is currently the highest-value contract associated with the project.
11 Work on this contract began in June, 2007 when FPL began evaluating
12 potential vendors capable of completing this work. At that time, it was
13 determined that Black & Veatch and Bechtel were the most qualified vendors
14 based on their experience completing COLAs for other nuclear power project
15 developers. FPL then began a process to develop an RFP based on feedback
16 from other project developers that completed similar processes and from the
17 NuStart Consortium. Specifically, the Company sought feedback from other
18 utilities as to what should be included in the RFP to obtain timely and
19 adequate vendor responses. Based upon this information, FPL issued a RFP
20 to Black & Veatch and Bechtel on July 13, 2007. Two amendments were
21 subsequently issued to the prospective vendors on July 13, 2007 and July 25,
22 2007. These amendments narrowed FPL's likely choice of reactor
23 technologies to the ESBWR and the AP 1000, provided additional

¹¹ Hansen, Teresa. "The Nuclear Renaissance's Future," Power Engineering, September 2007.

1 documentation and extended the original bid submission deadline from
2 August 3, 2007 to August 17, 2007. On August 17, 2007 FPL received
3 detailed proposals from both Black & Veatch and Bechtel. FPL then
4 evaluated the proposal using evaluation “scorecards” that listed certain criteria
5 and were distributed to internal subject matter experts responsible for
6 reviewing the proposals. The criteria included in the evaluation scorecards
7 included:

- 8 • Quality and detail of the response
- 9 • Experience, including the specific experience of the proposed
10 project team
- 11 • Proposed sub-contractors
- 12 • Pricing

13 Upon completion of this evaluation, FPL established a negotiation team that
14 negotiated with Bechtel, the winning vendor, to finalize a definitive
15 agreement. This agreement was executed on November 16, 2007 and a
16 purchase order to commence work was issued on that same day.

17
18 Since issuing the purchase order, FPL has issued three modifications for
19 changes to the project’s scope and budget. These changes have generally
20 been associated with a delayed start to the project (the original proposal had
21 anticipated work commencing in October 2007), site conditions that
22 necessitated the use of additional equipment and an FPL decision to have
23 Bechtel investigate multiple cooling water options. In each case, however,

1 FPL has used a process to review Bechtel's proposed budgets for these
2 changes. This process includes the Project Controls Manager who reviews the
3 proposed budget with the various subject matter experts to determine the
4 reasonableness of the budget. Once a final budget has been agreed upon, the
5 change of scope is submitted for approval and responsibility transfers to the
6 Integrated Supply Chain Manager who makes certain that proper authorization
7 for the changes are obtained and issues the appropriate purchase order.

8 **Q. Please provide an example of how contract review processes have been**
9 **implemented within the EPU project team.**

10 A. In contrast to the PTN 6 & 7 project, whose largest contract was the result of a
11 competitive bidding process, the EPU project has been forced to rely heavily
12 upon sole or single source contracts. This is a common issue with power
13 uprate projects because the work is being implemented at an existing facility.
14 In this case, the Original Equipment Manufacturer ("OEM") is often best
15 positioned or the only vendor capable of completing the work necessary to
16 execute the project, alternate vendors prior experience with the existing
17 nuclear facility.

18
19 Consistent with FPL's GOs and the nuclear divisions NAPs, FPL provided me
20 with sole source or single source justifications for the following vendors:

- 21 • Shaw Stone & Webster
- 22 • Westinghouse
- 23 • Siemens

- 1 • Golder Associates
- 2 • Areva

3 In each case, these sole or single source justifications followed a review of the
4 prospective vendors, if any others were available, and were completed prior to
5 entering into any definitive agreements. In addition, each sole or single
6 source justification completed by the EPU project team required approval by
7 the Vice President of Technical Services prior to executing a definitive
8 agreement.

9 **Q. Are there other tools which FPL uses to manage and administer contracts**
10 **and relationships with outside vendors?**

11 A. Yes, first, FPL has employees assigned to each project team that previously
12 worked for the major vendors involved with each project. These employees
13 have unique insight into the vendors' processes and practices that will help
14 FPL better manage these vendor relationships. These employees are also able
15 to assist FPL in their negotiations with these vendors.

16
17 Second, for safety-related work completed by either project team, the NRC
18 requires that the vendors implement a Quality Assurance Program ("QAP") or
19 adopt FPL's QAP¹². Compliance with the QAP will make certain that the
20 materials and services provided by the vendor for use in FPL's nuclear power
21 facilities meet the standards required by the contracts and applicable
22 regulations. The programs also provide for an employee concerns program

¹² 10 CFR 50
10 CFR 52

1 that encourages Company and vendor employees to report concerns on a
2 strictly confidential basis to the NRC. These programs also provide FPL an
3 opportunity to inspect the vendor's record keeping procedures and work prior
4 to delivery of the final product.

5 **Q. What corrective action mechanisms does FPL have in place to correct**
6 **concerns that may arise with outside vendors?**

7 A. FPL has included Project Controls and Integrated Supply Chain Management
8 staff on both project teams. These employees are responsible for monitoring
9 vendor performance to identify concerns before they affect the Projects'
10 critical path schedules and budgets. Once issues are identified, these
11 employees are tasked with working with the vendor to develop a corrective
12 action plan that will help to mitigate any future impact on the project. In
13 addition, when negotiating vendor agreements, FPL seeks a set of terms and
14 conditions that will give the Company flexibility to terminate the contract
15 should the vendor fail to perform as required.

16

17 **Internal Oversight Mechanisms**

18 **Q. Please explain how the Projects are currently managed.**

19 A. The EPU and PTN 6 & 7 projects are currently managed by different divisions
20 of the Company. The EPU project is being developed by FPL's Nuclear
21 Division, whereas the PTN 6 & 7 project is being developed by a combined
22 team of FPL's Project Development group and it's Engineering Construction
23 Services Division. FPL chose to separate these projects for two reasons.

1 First, this separation allows the organization best suited to developing each
2 project to focus on their respective work. For instance, the EPU project
3 involves coordinating work activities with the existing plants' operations and
4 integrating the project schedule into the plants' previously scheduled refueling
5 outages, therefore it is necessary to use project personnel that are well
6 acquainted with site personnel and plant operations. The PTN 6 & 7 project
7 requires a focus on new project development and construction management
8 that is best handled by those who have recently been involved in large energy-
9 related construction projects. Second, by dividing the projects between FPL's
10 Nuclear and Construction Divisions, FPL is responding to NRC recognition of
11 the potential to distract employees at the existing facilities by diverting their
12 attention to the new construction projects¹³. Nonetheless, there is some
13 crossover between the two projects as certain of the employees working on the
14 PTN 6 & 7 project have experience with the Nuclear Division and its
15 procedures.

16 **Q. Please describe the reporting relationships of each of the EPU and PTN 6**
17 **& 7 project teams.**

18 A. Ultimately both project teams report to James Robo, Chief Operating Officer
19 of FPL Group. The reporting relationship below that level is quite different
20 for the Projects. In the case of the EPU project, the project team reports to the
21 Vice President – Technical Services and to FPL Group's Chief Nuclear
22 Officer. The PTN 6 & 7 project team reports to the President of Florida

¹³ Remarks of NRC Commissioner Jeffrey S. Merrifield at the 2001 ANS Annual Meeting.

1 Power & Light and the Senior Vice President of Engineering Construction
2 Services, who both report directly to James Robo.

3 **Q. What processes are in place to keep each level of the FPL organization**
4 **up-to-date regarding the Projects' status?**

5 A. Both the EPU and NTP 6 & 7 project teams are responsible for preparing
6 periodic management updates. As discussed earlier in my testimony, the
7 project teams are responsible for preparing periodic status reports that convey
8 the Projects' progress to-date and their performance relative to their original
9 schedule and budget. These reports are presented to senior management for
10 their review. In addition, the project teams routinely provide senior
11 management with presentations that cover the Projects' progress and
12 performance as well as identifying crucial issues or decisions which require
13 the attention of the senior management team.

14 **Q. Has either of the Projects completed an internal audit?**

15 A. Since the Projects are at such an early stage in their development, neither
16 project has completed an internal audit. The EPU project recently began an
17 internal audit and a final audit report is expected in June 2008. The PTN 6 &
18 7 project is expected to begin an internal audit this summer and a final report
19 is expected in fall 2008. These audits will help to make certain that the
20 project teams are complying with established accounting practices and
21 Sarbanes-Oxley reporting requirements. In the interim, the Projects will
22 utilize Project Controls Managers to perform similar duties on an on-going
23 basis. In the case of the PTN 6 & 7 project, this position has already been

1 filled. A similar position has been posted within the EPU project team and is
2 expected to be filled imminently.

3 **Q. What other internal oversight mechanisms are employed by FPL to**
4 **manage the Projects?**

5 A. In addition to the various mechanisms described above, the Projects should be
6 reviewed by FPL's Corporate Risk Committee. These reviews are expected to
7 take place just prior to the achievement of major project milestones. The
8 committee consists of employees who hold the title of director or above are
9 tasked with identifying key project risks while proposing mitigation strategies
10 based on the committee members' experience. At times, however, the
11 committee does not propose risk mitigation strategies, but may request that the
12 project teams perform further analysis to study options that may help to
13 mitigate identified risks.

14

15 **External Oversight Mechanisms**

16 **Q. What is meant by external oversight mechanisms?**

17 A. An external oversight mechanism is a process by which the project teams
18 avail themselves of outside subject matters experts in order to introduce
19 lessons learned from other projects at the Company and to improve FPL's
20 project development program procedures.

21 **Q. Why are strong external oversight mechanisms important for successful**
22 **project development programs?**

- 1 A. While not critical to the success of a project development program, the
2 application of select external oversight mechanisms shows that the Company
3 has a strong commitment to becoming a learning organization. In other
4 words, the organization is committed to implementing industry best practices
5 to help prevent issues from reoccurring to mitigate the resultant cost increases
6 and schedule delays. Project development of nuclear power facilities is a
7 dynamic process that can change on a frequent basis, thus, it is important to
8 seek constant improvement of the Company's procedures and to learn from
9 the practical experience of others involved in the industry.
- 10 **Q. Has FPL shown a commitment to external oversight?**
- 11 A. Yes. FPL has retained the services of outside expert advisors, where
12 appropriate, to review their processes and provide recommendations for
13 continuous improvement. FPL's commitment is also demonstrated by the
14 Company's membership in industry groups such as the Nuclear Energy
15 Institute and in the NuStart project development consortium. While these
16 groups do not provide oversight of the Projects, they give FPL access to the
17 experience of other nuclear power project developers.
- 18 **Q. What outside experts has FPL retained to review its processes for the**
19 **Projects?**
- 20 A. FPL has retained the engineering firm MPR Associates and Concentric to
21 review their processes. Concentric's work is detailed in this testimony. MPR
22 was retained to review FPL's reactor technology selection process and also

1 provided input on how the Company could improve the process over a period
2 of several months beginning in the fall of 2007.

3

4

Conclusions

5 **Q. What have you concluded from your review of FPL's project**
6 **management processes?**

7 A. I have found that the processes used by FPL to study the feasibility, estimate
8 costs, and manage both the EPU and PTN 6 & 7 projects are reasonable, and
9 meet or exceed the norms for these practices as used by other nuclear power
10 industry participants. This opinion is based on my more than 30 years of
11 experience in the utility industry and my recent experience assessing the
12 project management capabilities of another major nuclear project developer in
13 the United States.

14 **Q. What conclusions specific to the EPU project have you developed as**
15 **result of your review?**

16 A. I have found that the EPU practices are specifically focused on managing risk
17 and cost, and include appropriate levels of senior management oversight. In
18 addition, the practices have been applied in a manner that is generally
19 consistent with FPL's policies and procedures. These practices are designed
20 to benefit from lessons learned and to use actual experience to help prevent
21 reoccurring issues from adversely affected the project through a corrective
22 action program. More specifically, this corrective action program
23 appropriately assigns responsibility for ensuring that the corrective actions are

1 implemented and it is applicable to contractors and FPL employees alike.
2 Further, the EPU projects use a cost estimating procedure that is robust and
3 based upon obtaining budgetary quotes from vendors while leveraging FPL's
4 own very recent power plant construction experience.

5 **Q. Have you developed any specific recommendations for the EPU project**
6 **team?**

7 A. No, I have not at this time.

8 **Q. What conclusions specific to the PTN 6 & 7 project have you developed as**
9 **a result of your review?**

10 A. Similar to the EPU project, I have found that the PTN 6 & 7 project practices
11 are specifically designed to address project risks and costs. The PTN 6 & 7
12 project practices are also aimed most directly at utilizing a thoroughly
13 documented process that maintains the option to build new nuclear capacity,
14 but does not commit the Company to constructing a new nuclear power
15 facility if market conditions should change. I have also found that while the
16 current PTN 6 & 7 project cost estimation process is not yet as robust as that
17 developed for the EPU project, it is completely consistent with the extremely
18 long interval between initial project planning and the beginning of
19 construction, and meets or exceeds industry norms for a project at this stage of
20 development. Finally, the PTN 6 & 7 project appears to have appropriate
21 levels of senior management oversight.

22 **Q. Do you have any specific recommendations for the PTN 6 & 7 project**
23 **team?**

- 1 A. No, I do not at this time.
- 2 **Q. Does this conclude your direct testimony?**
- 3 A. Yes, it does.

1 BY MR. ANDERSON:

2 Q. Have you prepared a summary of your testimony,
3 Mr. Reed?

4 A. Yes, I have.

5 Q. Would you please provide your summary to the
6 Commission?

7 A. Certainly. Good afternoon. As I said, my
8 name is John J. Reed, and I'm the chief executive
9 officer of Concentric Energy Advisors. I have over 30
10 years of experience in the energy industry, and I've
11 provided expert testimony on a wide variety of economic
12 and financial issues related to the energy and utility
13 industry, including nuclear construction projects. My
14 prefiled testimony presents a list of 16 existing
15 nuclear units that I provided consulting services to.
16 As well, there are nine proposed nuclear units that I'm
17 currently providing services for.

18 The purpose of my testimony is to review the
19 processes and procedures used by FPL to manage the
20 development and implementation of the EPU projects and
21 the new nuclear projects at Turkey Point. My testimony
22 presents my opinion as to the reasonableness of these
23 policies and procedures relative to other nuclear
24 generating facilities currently being developed in the
25 United States. I have not reviewed and don't offer an

1 opinion as to the reasonableness of the specific costs
2 of which FPL requests recovery in this proceeding.

3 As part of my firm's work on this matter, my
4 staff and I reviewed thousands of documents and
5 interviewed several FPL members in order to evaluate
6 FPL's project management capabilities. Specifically, we
7 reviewed six elements for each of five processes that
8 are integral to the company's project management
9 capabilities. These six elements included defined
10 corporate procedures, written project execution plans,
11 involvement of key internal stakeholders, reporting and
12 oversight mechanisms, corrective action mechanisms, and
13 reliance upon a viable technology.

14 The six elements were reviewed for the
15 following five processes: Cost estimation and
16 budgeting, schedule management, contract management and
17 administration, internal oversight, and external
18 oversight.

19 Within the cost estimation and budgeting
20 process, we have concluded that FPL has corporate
21 procedures in place that explicitly document the process
22 for developing a cost estimate, and Concentric has found
23 that FPL has complied with those procedures in
24 developing its estimates. These procedures outline the
25 process for cost estimation on a basis that is well

1 within nuclear industry standards and viewed as being
2 the most accurate means of developing a preliminary cost
3 estimate. The FPL cost estimates have also included a
4 reasonable contingency factor that is consistent with
5 industry guidelines. Concentric has also confirmed the
6 use of a process to track actual expenditures relative
7 to budget on a weekly, monthly, and annual basis.

8 Within the schedule management function, FPL
9 has specific corporate policies for developing project
10 schedules and has complied with those procedures in
11 developing the extended power uprate and new nuclear
12 project schedules. These procedures use industry
13 standard critical path scheduling methods, and FPL
14 relies upon industry standard software to optimize each
15 schedule and to define the relationship between
16 activities. The EPU projects track their schedule
17 performance on a weekly, monthly, and annual basis,
18 while the Turkey Point new nuclear project currently
19 tracks progress on a monthly and annual basis.

20 We have also concluded that FPL has a robust
21 process for initiating corrective action mechanisms when
22 a project falls behind schedule.

23 Within the contract management function, we
24 noted that a large portion of the cost of both projects
25 will be associated with contract management and the

1 administration of outside vendors. FPL also has very
2 robust procedures that appear to cover every facet of
3 contract development, and FPL has complied with those
4 procedures.

5 FPL has a preference for competitive bidding
6 where that is possible and where it is in the best
7 interest of the company and its ratepayers. For those
8 instances where the company has not utilized competitive
9 bidding, it has valid, documented reasons for doing so.

10 With regard to the internal and external
11 oversight mechanisms, FPL has established both internal
12 and external oversight mechanisms to gauge the project
13 performance and to institute best practices on a
14 going-forward basis. This includes the development of
15 executive reporting requirements, internal audit
16 requirements, and a corporate risk committee which are
17 responsible for reviewing both projects. The company
18 has also relied on outside resources to bolster its
19 internal oversight, including two reviews of its project
20 management practices.

21 My conclusions are, first, that I found that
22 FPL's project management practices and procedures for
23 both projects are reasonable and meet or exceed industry
24 norms. These practices and procedures include an
25 appropriate level of senior level oversight of the

1 projects as well as including internal audits to ensure
2 compliance with all of the company's policies.

3 That concludes my summary.

4 MR. ANDERSON: Mr. Reed is available for
5 cross-examination.

6 CHAIRMAN CARTER: Thank you. One moment. I
7 did promise the court reporter a break. Do you feel
8 like you can go on for another hour? We've got a good
9 streak going here.

10 Okay. Let's continue. Mr. McGlothlin.

11 MR. MCGLOTHLIN: I will reserve my questions
12 until he comes back on rebuttal.

13 CHAIRMAN CARTER: Mr. Twomey?

14 MR. TWOMEY: No questions.

15 MR. McWHIRTER: Just a couple.

16 CROSS-EXAMINATION

17 BY MR. McWHIRTER:

18 Q. Are you familiar with the cost of nuclear
19 plants around the world as opposed to around the United
20 States?

21 A. In general terms, yes.

22 Q. How do FP&L's nuclear costs compare to
23 building a nuclear plant in France?

24 A. The nuclear plants that are built in France
25 use a different technology. It uses what's called the

1 Areva EPR technology currently. That technology, which
2 is more of a passive safety system as opposed to active
3 safety systems in the AP1000, results in it having a
4 different cost structure.

5 In general, the most recent estimate for an
6 EPR is that it's about \$4,500 per kW for constructions
7 costs today in 2008 dollars. That compares of course,
8 to the most recent estimate for FPL of 3,100 to 4,500.
9 So the EPR is at the upper end of that range in France.

10 MR. McWHIRTER: Thank you.

11 CHAIRMAN CARTER: Thank you, Mr. McWhirter.

12 Staff?

13 MR. YOUNG: No questions.

14 CHAIRMAN CARTER: Commissioner Skop, you're
15 recognized.

16 COMMISSIONER SKOP: Thank you, Mr. Chairman.
17 Just one quick question, and this is in the witness's
18 professional opinion. Does he believe that FPL's
19 existing project management, risk management, and cost
20 estimation capabilities are adequate to move forward at
21 this time?

22 THE WITNESS: Yes, I do. They are as good as
23 any we have seen in the industry for those companies
24 that are currently pursuing new nuclear programs.

25 COMMISSIONER SKOP: Thank you.

1 CHAIRMAN CARTER: Commissioner Argenziano.

2 COMMISSIONER ARGENZIANO: Thank you. On the
3 same line, did you find any areas that could be improved
4 as far as being more extensive and detailed on the
5 internal controls and project management controls that
6 would better help in the adequacy and effectiveness of
7 the report?

8 THE WITNESS: We have identified, and the
9 company agrees with, the need for additional controls
10 going forward. As the programs increase their level of
11 funding and their level of activities, what has worked
12 well in the past won't be adequate to cover what's
13 happening in the future. So in terms of adding staff,
14 and internal controls is one of the areas that we both
15 recognize need to have staff added, the company is in
16 agreement with us that they should add staff there and
17 they should expand that function.

18 So, yes, we did identify the need for
19 additional resources in that area on a going-forward
20 basis. What has happened is fully adequate, but the
21 company fully agrees with that assessment that
22 additional resources are needed there, especially on
23 Turkey Point as the project goes forward.

24 COMMISSIONER ARGENZIANO: Okay. Thank you.

25 CHAIRMAN CARTER: Thank you. Commissioners,

1 anything further?

2 Mr. Anderson.

3 MR. ANDERSON: We have no questions.

4 CHAIRMAN CARTER: Okay. We have an exhibit
5 marked for identification, number -- is 26 and 27?

6 MR. ANDERSON: Yes, sir.

7 CHAIRMAN CARTER: Any objections? Without
8 objection, show it done. They're moved into evidence,
9 Exhibits 26 and 27.

10 (Exhibits Number 26 and 27 were admitted into
11 the record.)

12 CHAIRMAN CARTER: And this witness will be
13 available for rebuttal; correct?

14 MR. ANDERSON: Yes, sir.

15 CHAIRMAN CARTER: Thank you. You're excused,
16 Mr. Reed, at this point in time.

17 And now, Mr. McGlothlin, you're recognized,
18 sir.

19 MR. MCGLOTHLIN: OPC calls Dr. Jacobs.

20 CHAIRMAN CARTER: Okay. Dr. Jacobs, William
21 Jacobs.

22 Okay.

23 MR. MCGLOTHLIN: It appears he has stepped
24 away for, I'm sure, just for a moment.

25 CHAIRMAN CARTER: Okay. All right. Then I

1 guess the court reporter gets her break after all. I'm
2 looking at the clock on the wall to my right. We'll
3 come back at 15 after.

4 (Short recess.)

5 MR. MCGLOTHLIN: Before we ask Dr. Jacobs to
6 summarize his testimony, there's one housekeeping matter
7 I would like to bring to the Commissioners' attention.

8 CHAIRMAN CARTER: You're recognized.

9 MR. MCGLOTHLIN: When we submitted the
10 prefiled testimony, most of it was redacted because FPL
11 at the time was claiming confidentiality for many of the
12 exhibits and the discussion of those exhibits. Very
13 recently, FPL withdrew its claim, and I'm informed that
14 staff has provided to the Commissioners somewhere in
15 your packets a new version of that testimony and
16 exhibits that is largely unredacted at this point, so it
17 should be far more accessible to you than it was
18 previously.

19 CHAIRMAN CARTER: Commissioners, it's the one
20 that looks like this.

21 Thank you, Mr. McGlothlin. You may proceed.
22 Thereupon,

23 WILLIAM R. JACOBS, JR., Ph.D.
24 was called as a witness for the citizens of the State of
25 Florida and, having been first duly sworn, was examined

1 and testified as follows:

2 DIRECT EXAMINATION

3 BY MR. McGLOTHLIN:

4 Q. Please state your name and business address.

5 A. William R. Jacobs, 1850 Parkway Place,
6 Marietta, Georgia.

7 Q. Dr. Jacobs, do you have before you a document
8 dated July 30, 2008, and captioned the revised direct
9 testimony and exhibits of William R. Jacobs, Jr.?

10 A. Yes, I do.

11 Q. Did you prepare that prefiled testimony on
12 behalf of the Office of Public Counsel?

13 A. Yes.

14 Q. With respect to the portions of testimony that
15 relate to your review and comments on FPL's pending
16 request, do you have any changes, additions or
17 correction to make to that testimony?

18 A. No, I do not.

19 Q. Do you accept the questions and answers
20 contained in this prefiled document as your testimony
21 today?

22 A. Yes.

23 MR. McGLOTHLIN: Earlier Mr. Burgess asked
24 that the prefiled testimony be incorporated into the
25 record as though read. It wasn't clear to me whether

1 there was effort to pull out only the PEF-related
2 portions, but in an abundance of caution, I request that
3 the testimony be inserted at this point.

4 CHAIRMAN CARTER: I like your style. The
5 testimony will be entered into the record as though
6 read.

7 BY MR. MCGLOTHLIN:

8 Q. Dr. Jacobs, did you also prepare the exhibits
9 to the testimony that were marked as WRJ-2 through 8?

10 A. Yes.

11 MR. MCGLOTHLIN: Commissioners, those have now
12 been identified as Exhibit Numbers 29 through 35.

13 CHAIRMAN CARTER: It will be 28 through 35.

14 MR. MCGLOTHLIN: Twenty-eight, yes.

15 BY MR. MCGLOTHLIN:

16 Q. Have you prepared a summary of your testimony
17 as it relates to Florida Power & Light Company?

18 A. Yes, I have.

19 Q. Please provide that to the Commissioners.

20 A. Okay. Good afternoon again, Mr. Chairman and
21 Commissioners. I will now summarize my testimony as it
22 relates to FPL's pending request.

23 Earlier I described my view of the analysis
24 needed to identify the incremental costs that requesting
25 utilities should be required to perform to demonstrate

1 they are adhering to the limited scope of the rule as it
2 relates to uprate projects. That summary applies to FPL
3 as well as PEF, and I will not repeat it here.

4 The second issue that relates to FPL's request
5 involves FPL's frequent decisions to award contracts
6 without first seeking competitive bids. Although FPL's
7 management procedures stress a preference for
8 competitive bidding, to date, FPL has used sole or
9 single source contracts extensively in both the extended
10 uprate and the Turkey Point 6 and 7 projects.

11 A sole source contract is one in which FPL
12 regards the contractor as the only available provider of
13 that service. A single source contract is one in which
14 other providers are available, but the utility decides
15 that a particular contractor should be selected without
16 first soliciting competitive bids.

17 In several cases, FPL cited the need to meet a
18 project schedule as justification for using the sole or
19 single source contracts. The use of schedule pressure
20 to justify using a single or sole source contract is not
21 allowed per FPL's nuclear procedure, NP 1100.

22 Further, FPL adopted a casual approach to the
23 preparation of the justification that is intended to
24 serve as the principal basis for a decision to depart
25 from the standard of competitive bidding. The language

1 in many of FPL's justification memoranda is so similar
2 that it appears their preparation is a matter of rote
3 rather than a specific individual analysis.
4 Specifically, the phrase, "Performing this work scope
5 with another vendor would not be cost-effective or
6 prudent from a schedule perspective," appears in
7 memoranda time and again. Among others, this
8 justification appears in the memorandum prepared by FPL
9 to justify awarding the contract to Westinghouse without
10 seeking competitive bids.

11 When we asked about the Westinghouse situation
12 in discovery, FPL said it would be required to change
13 fuel vendors if it used any contractor other than
14 Westinghouse. That is a very different consideration
15 than anything contained in the standardized language in
16 the justification memo. The disconnect between the
17 reason given in the required justification memorandum
18 and the very different reason later given by FPL
19 illustrates the casualness to which I refer.

20 Because the memoranda are the principal
21 instruments on which senior management bases the
22 decision to require or not require bids, they should be
23 fully developed. The fact that they are not means FPL
24 is not adhering to its own management procedures. At
25 this early stage of a nuclear project, it is important

1 that management establish high expectations that
2 procedures for procurement and project management be
3 followed. If management does not set high standards in
4 this area, the outlook for a successful project is
5 diminished.

6 Next, in my opinion, many of the
7 justifications do not demonstrate that the costs of
8 these single or sole source contracts are reasonable.
9 In my testimony, I provide an example of a \$100 million
10 contract to replace the low pressure turbine rotors at
11 St. Lucie. This is part of the St. Lucie uprate
12 project. The project was awarded to Siemens on a single
13 source basis. When asked to provide documentation
14 demonstrating that the costs of the project were
15 reasonable, FPL provided a single page, "back of the
16 envelope" type of analysis that used five-year-old bids
17 to another company to demonstrate the reasonableness of
18 the costs. In my opinion, the documentation offered by
19 FPL is inadequate to prove that the costs of a contract
20 of this magnitude entered into without bids are
21 reasonable.

22 To emphasize the importance of following the
23 requirements for single and sole source contracting and
24 the need to demonstrate the reasonableness of the costs
25 associated with these contracts, I recommend that the

1 Commission disallow FLP's return on the equity portion
2 of the investment associated with the low pressure rotor
3 contract. Alternatively, the Commission could withhold
4 a portion of the requested carrying charges associated
5 with the low pressure turbine contract unless and until
6 FPL can demonstrate the costs are reasonable in the next
7 hearing cycle.

8 If the Commission does not wish to impose
9 financial penalties because this is the first round of
10 the NCRC hearings, at a minimum, the Commission should
11 place FPL on notice that it intends to require a
12 rigorous and detailed justification for any departure
13 from the competitive bidding process in future
14 proceedings.

15 This concludes my opening statement.

16 MR. MCGLOTHLIN: Dr. Jacobs is available for
17 cross.

18 CHAIRMAN CARTER: Thank you, Mr. McGlothlin.

19 Mr. McWhirter?

20 MR. McWHIRTER: No questions, sir.

21 CHAIRMAN CARTER: Mr. Anderson.

22 MR. ANDERSON: Thank you.

23 CROSS-EXAMINATION

24 BY MR. ANDERSON:

25 Q. Good afternoon, Dr. Jacobs.

1 A. Good afternoon.

2 Q. My name is Bryan Anderson. I'm an attorney
3 representing Florida Power & Light company.

4 Your testimony discusses sole source and
5 single source contracting; is that right?

6 A. Yes, sir.

7 Q. Your firm, GDS, previously did work for the
8 Office of Public Counsel?

9 A. Yes, sir.

10 Q. That was back in the mid-1990s?

11 A. That's correct.

12 Q. For this project, you were telephoned by
13 Mr. McGlothlin; is that right?

14 A. For this particular project?

15 Q. Yes.

16 A. Yes.

17 Q. He described the nuclear cost recovery rule
18 project?

19 A. Is that a question?

20 Q. Yes.

21 A. Yes.

22 Q. Did he ask you if GDS had the time and
23 expertise needed to assist OPC?

24 A. Yes, he did.

25 Q. Your firm did not respond to a competitive

1 bidding request from OPC issued to an array of nuclear
2 consulting firms, did you?

3 A. No, it did not.

4 Q. OPC hired GDS with a single source contract;
5 isn't that right?

6 A. I believe that's true. I don't know what
7 evaluation process OPC went through to reach that.

8 Q. Was it --

9 A. -- conclusion.

10 Q. Go ahead. I'm sorry.

11 A. To reach that conclusion, but as you've
12 described it, that is how we were hired.

13 Q. Was it cost-effective for OPC to hire your
14 firm?

15 A. I believe it was, yes.

16 Q. Is cost-effectiveness a reasonable factor to
17 consider in assessing a single or sole source contract?

18 A. Yes, it clearly is.

19 Q. Your firm has the right experience to be
20 retained for this project; is that right?

21 A. That's correct.

22 Q. Is a firm's experience a reasonable factor to
23 consider in assessing a single or sole source contract?

24 A. Yes. There are a number of different factors.

25 Q. Are there efficiencies from your firm being

1 familiar with OPC and working in Florida?

2 A. Yes.

3 Q. Are efficiencies from having previously
4 performed similar work a reasonable factor to consider
5 in assessing a single or sole source contract?

6 A. That's one of many factors, yes.

7 Q. And you've had success, in the sense that OPC
8 was satisfied with your work? They hired you again; is
9 that right?

10 A. I believe so, yes.

11 Q. Is past successful experience also a
12 reasonable factor to consider in assessing a single or
13 sole source contract?

14 A. Yes, it is.

15 Q. I've had distributed some documents entitled
16 "Summary of Reasons for Choosing Westinghouse", which
17 contain direct quotations from an exhibit to your
18 testimony, which was the sole source justification for
19 Westinghouse.

20 A. Yes.

21 Q. Do you see that, with the cost-effectiveness,
22 experience, et cetera, words on there?

23 A. Yes, I do.

24 Q. Okay. First, let me ask you to take a minute
25 and read the words contained in the summary of reasons

1 for choosing Westinghouse to yourself, and I'm going to
2 ask you this question. Do you agree with me that all of
3 the words on that summary exhibit appear in the single
4 and sole source document?

5 A. Okay. Let's take a moment.

6 I believe they do. I haven't done a
7 point-by-point check, but I will agree that these
8 sound -- I recall them from reading the justification
9 memo.

10 Q. Good. Focusing on Westinghouse, you were
11 employed by Westinghouse for a number of years; is that
12 right?

13 A. That's correct.

14 Q. And you told me at your deposition that
15 Westinghouse was not in the habit of sharing proprietary
16 information with competitors, it protected its
17 information?

18 A. That's correct.

19 Q. Okay. Isn't it a fact that the work that FPL
20 hired Westinghouse for was to work on licensing and
21 engineering for major nuclear steam supply system
22 components for FPL's plant?

23 A. That's correct.

24 Q. And you would agree with me that that is
25 safety significant work as we think about those things

1 in NRC regulation?

2 A. Yes.

3 Q. You have to have credibility in the industry
4 to be able to submit those engineering analyses and have
5 them accepted for a license amendment?

6 A. Yes.

7 Q. The fact that Westinghouse had performed all
8 of the current licensing basis analyses for the major
9 nuclear steam supply system components, that would be a
10 relevant factor, wouldn't it be, in selecting a company
11 like Westinghouse?

12 A. Yes, it would.

13 Q. How about the fact that Westinghouse had done
14 this scope of work in the past for numerous uprates,
15 including the Turkey Point uprate, another FPL plant?

16 A. That would be a factor, yes.

17 Q. Wouldn't you expect there would be
18 efficiencies from Westinghouse using its own design and
19 engineering analysis for its own design basis in
20 performing this scope of work for FPL?

21 A. Yes, you would expect this. But I think the
22 point is that you don't know it for sure absent a
23 competitive bidding process. I mean, you can --
24 Westinghouse certainly has advantages, and you've
25 enumerated them here. And you would think due to these

1 advantages, Westinghouse would have a price advantage as
2 well, but without doing competitive bidding, you don't
3 really know that for sure.

4 Q. Isn't it true that no other company in the
5 world has the right to use Westinghouse's proprietary
6 information, which FPL is asking be used for its
7 project?

8 A. That's correct, but other companies have
9 similar processes.

10 Q. Isn't it true that -- let me move on to
11 another thing here. I think that's sufficient on
12 Westinghouse here.

13 I would like to turn to Areva. There's an
14 exhibit a couple of pages down.

15 A. Yes.

16 Q. I'll ask you to please take a look at that
17 summary of reasons for choosing Areva. And if you wish,
18 the sole source justification is right behind the
19 attachment. I would like you to just agree with me that
20 each of the reasons stated in this exhibit are stated in
21 the sole source justification.

22 A. Okay. I agree with that.

23 Q. Okay. And despite all these things stated in
24 these summaries, you didn't see fit to mention them in
25 your testimony, did you?

1 A. Well, I included the justification memorandum
2 in my testimony as an exhibit, so they're all included.

3 Q. Right. You attached the exhibit, and I'm glad
4 you did, because that's what we're talking about. But
5 when you gave your opinion and provided your testimony
6 asserting we had an insufficient basis, you didn't
7 disclose any of this information which reveals the
8 unique nature of these vendors and the information they
9 have which we relied on in making our decisions.

10 MR. MCGLOTHLIN: I'm going to object to the
11 form of the question in that it is inconsistent with the
12 previous answer, which was that the witness attached the
13 entire justification memorandum to his testimony as an
14 exhibit. 100 percent of it was there attached to his
15 testimony, so to say that he refused to disclose is a
16 mischaracterization of his testimony.

17 MR. ANDERSON: I'm happy to move on to another
18 question.

19 BY MR. ANDERSON:

20 Q. You used the word in your summary "back of the
21 envelope" analysis. Do you remember that?

22 A. Yes, I do.

23 Q. And this is a confidential exhibit that's
24 going around, and I'm going to structure these questions
25 in such a way as not divulge the information contained

1 in it.

2 Are you ready?

3 A. Yes, sir.

4 Q. Thank you very much. Please turn to your
5 testimony, Exhibit WRJ-8.

6 A. I'm looking in it.

7 Q. This is the document you referred to as the
8 "back of the envelope" analysis; is that right?

9 A. That's correct.

10 Q. Okay. Do you see down towards the bottom of
11 the page there, there's a "W" for a Word document
12 attachment to this e-mail?

13 A. Yes, I do.

14 Q. Okay. Did you include that Word document
15 attachment as an exhibit to your testimony?

16 A. No, I did not.

17 Q. Okay. So this "back of the envelope" analysis
18 you're talking about actually contained a Word document
19 attachment; is that right?

20 A. Yes.

21 Q. Okay. And then turning to that document,
22 which has been distributed to the Commission and to you,
23 I'm just going to count the pages. I'm counting the
24 first page, which is an e-mail. And I'll just count.
25 One, two, three, four, five, six, seven, eight pages; is

1 that right?

2 A. Yes, that's correct.

3 Q. And down at the bottom, it says Office of
4 Public Counsel, Late-filed Exhibit Number 7, EPU
5 Project; right?

6 A. Yes.

7 Q. This is one of the documents you asked for
8 when our witness's deposition was taken; is that right?

9 A. That's correct.

10 Q. Okay. And you did not mention in your
11 criticism of the "back of the envelope" analysis this
12 multi-page, single-spaced, detailed analysis anywhere in
13 your testimony. All you chose to do was include the
14 e-mail transmittal; right?

15 A. That's correct. That's because this multi --
16 seven or eight pages are not related to a determination
17 of the reasonableness of the costs. These pages are
18 showing their analysis of which option to take. They
19 talk about various options for repair and replacement of
20 the rotors, and they ultimately choose one of these
21 options, and the chosen option is then analyzed in this
22 "back of the envelope" e-mail for cost reasonableness.
23 So those attached pages aren't really a part of their
24 determination of the reasonableness of cost of the
25 option selected.

1 Q. Well, that's your interpretation. You're
2 saying that FPL in justifying a very, very large capital
3 cost attached an irrelevant document to the e-mail. Is
4 that what you're saying?

5 A. It's not relevant to their attempt to
6 demonstrate that the cost was reasonable. It
7 demonstrates which option they chose, which was, I
8 believe, Option 4. And then Option 4 is shown or
9 attempted to be shown to be reasonable by this
10 comparison to five-year-old data from another utility.

11 MR. ANDERSON: FPL has no more questions.

12 CHAIRMAN CARTER: Thank you, Mr. Anderson.
13 Commissioner Skop.

14 COMMISSIONER SKOP: Thank you, Mr. Chairman.
15 I just have a few questions for Mr. Jacobs.

16 I guess, just trying to get your opinion, I
17 recognize the tensions and the issues before us, and
18 generally when it comes to a competitive bid process,
19 I'm in favor of one when it's in favor to do so. But,
20 you know, a combined cycle plant that's readily
21 available, commercial, off the shelf, is significantly
22 different than a nuclear reactor plant that no one has
23 built in 30 years.

24 But that being said, I wanted to go back to
25 some points that you made in your testimony to try and

1 better understand from your perspective. I've heard
2 FPL's. But with respect to the sole source issue that
3 OPC is raising, could FPL's decision to sole source
4 various contracts be justified in a sense as a business
5 reality or a necessity resulting from the significant
6 decline of the U.S. nuclear construction industrial base
7 that we've seen? I mean, there's not a lot of suppliers
8 out there, so I just wanted to just ask that straight up
9 and get a straightforward answer.

10 THE WITNESS: Well, it depends on -- there are
11 certainly certain of the tasks involved that would
12 logically fall to one particular vendor. However,
13 that's not to say that there aren't other vendors in the
14 world that can perform that task. And so in my mind,
15 the approach would be to put it out for competitive bid,
16 see who wants to compete. You know, it's likely that
17 the logical vendor should have a cost advantage and
18 should win the project, but you don't really know that
19 unless you do it.

20 COMMISSIONER SKOP: I understand. And to that
21 point, I mean, I can understand that various vendors may
22 have technical capability to do something, but how do
23 you overcome the proprietary information argument?
24 Because there's many people that can build a house, but
25 unless they have the blueprints, they're going to kind

1 of be hamstrung.

2 THE WITNESS: Well, that can be developed
3 independently, or it can be transferred to one or the
4 other under confidentiality agreements, you know, for a
5 certain utility.

6 COMMISSIONER SKOP: But to develop it
7 independently rather than transfer it would result in
8 significant increased costs.

9 THE WITNESS: That's true, and that would be
10 reflected in their bid.

11 COMMISSIONER SKOP: And on page 13 of your
12 prefiled testimony, the confidential exhibit -- and I'm
13 not going to go into confidential matters.

14 THE WITNESS: Okay.

15 COMMISSIONER SKOP: But you reference NP 1100,
16 and I think that, at least from what I've heard in the
17 summary of your testimony, that OPC is taking issue to
18 the extent that apparently FPL in OPC's opinion is not
19 adhering to its own internal procedures as well as some
20 might like. Is that simply, in your opinion, maybe a
21 matter of semantics or presenting the information or
22 providing a better justification that would read better,
23 or is that endemic of a larger problem?

24 THE WITNESS: Well, that's a good question.

25 COMMISSIONER SKOP: And just to put that in

1 context, in light of the fact that the industrial base
2 is so diminished, I mean, reactors not built -- I had
3 the same reaction when we were building nuclear
4 submarines, the industrial base. So if you could
5 respond in the context of, are there --- if you don't
6 have options, then what may be presented as nefarious
7 may not be nefarious, to the extent that, you know,
8 they're doing the best you can, and there's not a whole
9 lot of options.

10 THE WITNESS: Well, there are several points I
11 want to make here. We talked a lot about schedule and
12 that the NP 1100 does not allow schedule pressure to
13 enter into -- to be a requirement for a sole source or
14 single source bid.

15 Now, obviously, every project has a schedule,
16 and the schedule has to be met, and if you go out for
17 competitive bids, one of the requirements would be that
18 you can meet the schedule. That would be in your bid
19 package. The schedule pressure that the NP 1100 is
20 referring to is, "We don't have time to do competitive
21 bidding, so we're going to issue a sole source
22 contract." That is the type of schedule pressure that
23 should not aloud as a justification.

24 Many of these sole source contracts that I
25 looked at did in fact talk about schedule pressure. I'm

1 looking at the one -- it's my Exhibit WRJ-5, and it's
2 for McNabb Hydrologic Consulting, and in the fourth
3 paragraph it says, "Due to the project schedule, and
4 considering the time required to obtain quotes and other
5 schedule necessities" -- you have the complexity and so
6 forth, that they want to issue this contract as a sole
7 source. So, again, the time required to obtain quotes
8 should not be a factor in determining if you use a sole
9 source contract. You should be able to plan your work
10 far enough in advance to have time for that.

11 COMMISSIONER SKOP: And I respect that, and
12 I'll move on to -- I just have two more questions.

13 I noticed that there was some discussion made
14 on what the appropriate remedy the Commission should
15 adopt in response to what OPC is asserting on this issue
16 with respect to perhaps deviating from internal
17 procedure or what have you. But I guess where I'm
18 coming from, would penalizing FPL as you suggest have a
19 chilling effect on management discretion and their
20 ability to make cost-effective decisions? I guess to
21 me, we're talking about a procedural issue that's based
22 somewhat on management discretion and somewhat on the
23 realities of the situation, that there's not a whole lot
24 of competition out there for these type of nuclear
25 construction activities.

1 THE WITNESS: Yes, sir. I don't see that it
2 would have a chilling effect on that. They have the
3 burden, the company has the burden to demonstrate that
4 their costs are reasonable. They have to demonstrate it
5 their up upper management and ultimately to the
6 Commission. And in this particular case we're talking
7 about, I don't believe they did.

8 COMMISSIONER SKOP: Okay. And just in
9 relation -- on page 9, you give an example, and I guess
10 this is an ongoing discussion and tension that comes
11 into -- I think the example you cited was that a reactor
12 had been extended beyond its useful life, and there was
13 the main generator, a step-up transformer that would
14 need to be replaced.

15 THE WITNESS: Yes, sir.

16 COMMISSIONER SKOP: And I guess the issue that
17 I'm struggling with is, I see both sides of the
18 argument, as my colleagues probably do also. To me, if
19 you look at it like an uprate situation, because I think
20 a transformer is at issue in one of the uprates. But if
21 you do nothing, there's an argument to be made, well,
22 you would have to replace the generator at some point in
23 the future later. But there's also an equally valid
24 argument that but for uprate, you wouldn't have to
25 replace the generator, you need the -- I mean the

1 transformer, you need the transformer for reliability
2 and the additional incremental generation that it's
3 going to be able to -- you know, the power that's
4 produced.

5 So I guess I'm trying to understand -- and I
6 appreciate the cost impact analysis, but the nexus
7 relationship between, you know, improvements that are
8 deemed supportive of adding additional nuclear
9 generation, whether they be new nuclear units or whether
10 they be uprates to existing units, versus the
11 legislative mandate that basically states that nuclear
12 related -- and I think as this Commission has construed
13 in its need determination as well as its subsequent --
14 I'm having an over 40 moment here -- declaratory
15 statement basically provided some guidance to the extent
16 that the Legislature has expressly mandated that certain
17 nuclear related costs be recoverable subject to
18 prudence.

19 And I guess -- how do you distinguish between
20 what has a logical -- where do you draw the line? I
21 mean, there seems to be a logical nexus for having to
22 add components, you know, factoring in reliability. So
23 it's easy to nitpick, but I don't think there's an
24 extremely bright line. And perhaps if you know of one
25 other than, you know, just embracing both sides of the

1 argument, but also relating those to the statutory
2 direction that we've been given from our Legislature.

3 THE WITNESS: Yes, sir. Well, first of all, I
4 think both PEF and FPL have agreed with this concept,
5 and they've agreed to provide analyses in future filings
6 that would show the relationship there between what's
7 needed for the uprate and what's needed for ongoing
8 maintenance. We're not saying that they wouldn't
9 recover the cost. For example, if they need a new
10 transformer, if it weren't for the uprate, they would
11 buy a new transformer, and it would be recovered through
12 the normal ratemaking mechanism. And what we're saying
13 is, if they buy a transformer for the uprate that they
14 would have had to buy anyway, but perhaps it has to be a
15 bigger transformer because you're getting more power out
16 of it, then the nuclear cost recovery clause would be
17 used to recover the incremental costs between what they
18 would have done in a normal maintenance situation and
19 what they did to support the uprate. But they would --
20 in any event, they would recover the full cost. It's
21 just a matter of how they would recover them.

22 MR. ANDERSON: Commissioner Carter, I'm sorry.
23 Just for clarification, for our case, we didn't put in
24 any information on the separate and apart things. And I
25 take it -- we, of course, have no objection to the

1 Commission getting whatever information it needs about
2 the projects generally. But to be clear, our
3 understanding is that this is a stipulated issue. We
4 put on nothing in our summaries and things, and I just
5 want to make sure that we're good relying on that.

6 COMMISSIONER SKOP: And I respect that. I'm
7 not going down that direction. I guess what I'm saying
8 is that there's such a breadth and volume of
9 information, and some things tend to merge in. I'm
10 looking at each individual witness's testimony, and
11 sometimes those issues tend to blend in with themselves.
12 So if it is pre-stipulated issue, I respect that. I
13 remember that from earlier this morning.

14 But I guess just one final question in
15 passing. You know, there's a lot of discussion over the
16 sole source, but there's equally not a lot of industrial
17 base. So taking that into account, what improvements
18 would you state? I mean, what would be your solution
19 for addressing such a situation where it implicates
20 management discretion without unduly penalizing FPL for
21 trying to do the right thing in accordance with the
22 needs of its customers and the needs for Florida to
23 bring on additional nuclear generation?

24 THE WITNESS: I guess one of the things I was
25 concerned with was, as I mentioned in my testimony, it

1 seemed like the justifications were sort of being done
2 by rote. The same language appeared in many of them.
3 It didn't seem like it was given the importance that it
4 should have been given. And perhaps -- one thing we
5 asked for was all the material that the vice president
6 who would be approving it would see, and we didn't
7 receive any additional information. I think he's
8 looking at this one-page justification.

9 So, you know, I would say they need to do a
10 better job of using competitive bidding when it's
11 available and don't just assume that, well, there's not
12 anybody else here that can do it, because there may be
13 other folks out there and they're want to get in the
14 business of doing it. And ultimately, there would be a
15 number of factors. That's just one of them. There
16 would be a number of factors in selecting the
17 contractor. But I would say they need to do a better
18 job of following their own corporate guidance to use
19 competitive bidding whenever possible.

20 COMMISSIONER SKOP: Thank you.

21 CHAIRMAN CARTER: Thank you. Commissioner
22 Argenziano.

23 COMMISSIONER ARGENZIANO: Yes. On that line
24 of questioning, I understand what OPC is indicating. I
25 mean, I guess -- let me ask it this way. The way this

1 is done now, without competitive bidding or going out
2 and looking, do you know that -- is it known that there
3 could be a better price or cost someplace else?

4 THE WITNESS: I think that's the whole point.
5 It's not known. There's no way of knowing that without
6 doing the competitive bidding.

7 COMMISSIONER ARGENZIANO: Thank you.

8 CHAIRMAN CARTER: Thank you. Commissioner
9 Edgar, is it on the same line here? If not, I'll follow
10 up, and then I'll come back to you, Commissioner.

11 COMMISSIONER EDGAR: I believe so,
12 Mr. Chairman.

13 CHAIRMAN CARTER: Commissioner Edgar, you're
14 recognized.

15 COMMISSIONER EDGAR: Thank you.

16 Are you aware of vendors in the market that
17 provide the same service with the same expertise?

18 THE WITNESS: Anyone in particular that you're
19 referring to, or just in general?

20 COMMISSIONER EDGAR: In general, in general.

21 THE WITNESS: Yes, there's a number of vendors
22 in the market. For example, they selected Shaw, Stone &
23 Webster to do some design work. There's a company
24 called Bechtel, which is a large nuclear engineering
25 company. It likely could have done the same work.

1 Whether it would be more expensive or less is unknown
2 until you give them a chance to bid on it.

3 COMMISSIONER EDGAR: Okay. So with your
4 answer there, are you telling me that it's your belief
5 that there are other vendors that could provide the same
6 level of management, contracting, oversight, control
7 services as an outside vendor?

8 THE WITNESS: Yes.

9 COMMISSIONER EDGAR: But you're not aware as
10 to whether that would be more or less cost-effective?

11 THE WITNESS: That's correct. We don't know.

12 COMMISSIONER EDGAR: Okay. And then following
13 up I think on a comment or an answer that you gave in
14 response a few moments ago, can you describe to me how
15 you see this -- what has gone on here as a departure
16 from their normal competitive bidding practice?

17 THE WITNESS: Well, they didn't -- I mean, the
18 departure is that they didn't use competitive bidding.
19 They used sole source and single source contracting,
20 which is a departure from their stated corporate
21 preference and belief to use competitive bidding when
22 possible.

23 COMMISSIONER EDGAR: Because I thought that I
24 heard -- and I don't remember which witness. I
25 apologize vice for that. But I think one of the FPL

1 witnesses just a little earlier this afternoon said that
2 for this -- excuse me. For this step in the process,
3 that they had sole source previously.

4 THE WITNESS: Yes, I recall hearing that, yes,
5 for another -- I believe it was for another uprate
6 project on a different plant, that they had used a sole
7 source.

8 COMMISSIONER EDGAR: Okay. Then I guess I'm a
9 little confused as to why then you see this as a
10 departure from their general corporate practice or
11 policies. And if I've missed it or confused it, please
12 feel free to clarify for me.

13 THE WITNESS: Well, they departed in both
14 cases.

15 COMMISSIONER EDGAR: Okay. All right. Thank
16 you.

17 CHAIRMAN CARTER: Thank you. Before you,
18 Commissioner McMurrian, I'm on that same line.

19 Dr. Jacobs, on the charts that were before
20 you, you agreed that the -- and I think it's from your
21 exhibits in terms of the parameters for doing sole
22 source, cost-effectiveness, experience, efficiency,
23 success; is that correct?

24 THE WITNESS: Yes.

25 CHAIRMAN CARTER: Now, unlike my colleague,

1 I've not built nuclear submarines, but I've done a lot
2 of contracts, I mean, thousands of regular contracts,
3 and maybe a couple hundred sole source. And you go with
4 the sole source contract for, as I can see it -- there
5 was some testimony given that was objected to,
6 cross-examination and whatever the case may be, credible
7 testimony given that this was a specific design by a
8 specific manufacturer that had specific knowledge about
9 its equipment; is that correct?

10 THE WITNESS: That's correct.

11 CHAIRMAN CARTER: Secondly, and I think you
12 said in response to a question from Commissioner Skop,
13 in that context, that the sole source would probably be
14 cheaper. That's my term, cheaper. You said less
15 expensive.

16 THE WITNESS: That's correct.

17 CHAIRMAN CARTER: Now, let me kind of stop
18 there for a moment and back up. In the regular
19 contracting process in those thousand or so contracts
20 that I've handled, generally it's a very litigious
21 process, even if you're not the success bidder, whether
22 you could do the work or not, and a lot of that
23 litigation goes on to drag the process out. Wouldn't
24 you agree with that?

25 THE WITNESS: I'm sorry. I don't quite follow

1 that.

2 CHAIRMAN CARTER: Okay. Contracting. We're
3 talking about contracting, not single source, but just
4 general contracting.

5 THE WITNESS: Okay.

6 CHAIRMAN CARTER: And I believe that you've
7 examined more than just sole source contracts; right?

8 THE WITNESS: Yes.

9 CHAIRMAN CARTER: Wouldn't you agree that a
10 lot of times in the process of going through the normal
11 parameters that a lot of contractors, unsuccessful
12 contractors, will go through a highly litigious process
13 that will drag the process on, raise the cost, and then
14 subject the process to sometimes going back and
15 rebidding the whole process?

16 THE WITNESS: That may be. That has not been
17 my experience, but as an attorney, you've probably been
18 on that end of a lot of it.

19 CHAIRMAN CARTER: Yes, sir.

20 THE WITNESS: But I've been in a lot of
21 contracts and bid on a lot of contracts and didn't win
22 some of them, and that was, you know, the end of the
23 story.

24 CHAIRMAN CARTER: And you would agree that
25 time is of the essence in this contract in terms of this

1 process?

2 THE WITNESS: There is a schedule that needs
3 to be met.

4 CHAIRMAN CARTER: Yes, sir. And also I think
5 with Commissioner Skop in you response that experience
6 was I -- I think to Mr. Anderson you talked about the
7 experience as well, about it being critical,
8 particularly having subject matter knowledge of the
9 equipment.

10 THE WITNESS: Yes. There's a number of
11 factors that would be determinative.

12 CHAIRMAN CARTER: And I think initially on in
13 the process, from cost-effectiveness, experience,
14 efficiencies, and success, unless I misread you, you
15 said those are the parameters that you would use in
16 justifying a sole source or a single source contract; is
17 that correct?

18 THE WITNESS: Or any contract.

19 CHAIRMAN CARTER: Or any contract.

20 THE WITNESS: I mean, those are all factors
21 that would need to be considered in selecting the
22 winning bidder.

23 CHAIRMAN CARTER: So my problem is, I'm at a
24 loss trying to ascertain why, if that's appropriate,
25 where did this not occur in the case at bar.

1 THE WITNESS: Well, the point is, I think
2 there may be other firms that also have these same
3 qualifications.

4 CHAIRMAN CARTER: But they may be more
5 expensive, or they may take longer time.

6 THE WITNESS: Or they may not, and you don't
7 know that until you put it out for bid.

8 CHAIRMAN CARTER: But the subject matter
9 knowledge of the equipment is such that there's some
10 prior -- what's the word I'm looking for?

11 THE WITNESS: Proprietary.

12 CHAIRMAN CARTER: Proprietary knowledge about
13 the equipment. That's significant, isn't it?

14 THE WITNESS: Yes.

15 CHAIRMAN CARTER: So you see, I'm just trying
16 to understand --

17 THE WITNESS: I guess what we're -- you know,
18 we're not saying that they ended up with the wrong
19 contractor per se. It's probably the right contractor.
20 But they didn't follow their process, and because they
21 didn't follow the process, you don't really know for
22 sure that it couldn't have been done by somebody else as
23 well for less cost.

24 CHAIRMAN CARTER: And in your response to
25 Commissioner Edgar, you said that in the prior time they

1 used the sole source, they didn't follow their process.
2 But they followed the same process in this sole source
3 as they did in that sole source; is that correct?

4 THE WITNESS: Yes. I don't know what they did
5 the prior time it came up, but if they did a sole source
6 contract and the corporate preference was for
7 competitive bidding, you know, it appears they didn't
8 follow that.

9 CHAIRMAN CARTER: Commissioner Argenziano.

10 COMMISSIONER ARGENZIANO: I guess -- can I ask
11 staff a question at this point?

12 CHAIRMAN CARTER: You're recognized.

13 COMMISSIONER ARGENZIANO: If we are -- let's
14 say this is -- somewhere down the line, the sole
15 sourcing is subject to prudence. How do you determine
16 prudence at that point if there are no other bids?

17 MS. BENNETT: That's a good question. The
18 standard legal definition of prudence is what would a
19 reasonable, in this situation, nuclear utility do in
20 this set of facts and circumstances. And you have to
21 weigh the facts and circumstances of what they present
22 to you at that time to determine if they were reasonable
23 or not.

24 COMMISSIONER ARGENZIANO: Let me just put it
25 as -- because it's late and my brain is almost somewhere

1 else. Let me ask it as bluntly as I can. Here's a
2 dilemma we're trying to figure out. If you go to sole
3 sourcing, how do you ever know that couldn't have gotten
4 a better bid? How do you know you couldn't have saved
5 the public money? And that's a concern. On the other
6 hand, you have designs and proprietary information that
7 are in there. Are there any rules or statutes that say
8 that they have to go to competitive bidding? That's my
9 first question.

10 MS. BENNETT: There are no rules or statutes.
11 What I believe the witness is telling you is, in the
12 testimony, they have some procedures that FPL
13 established on how to sole source and single source, and
14 I think the witness is telling you --

15 COMMISSIONER ARGENZIANO: Okay. So FPU&L is
16 not following its own procedures is what the witness is
17 probably saying, but yet FPL probably has a full -- a
18 better understanding of what it really needs and how
19 fast and all those things. My concern was, is there a
20 rule or a statute. And if not, okay, then I go back to
21 the original question, and we say, well, how do we know
22 that, because you didn't go out for bid, you didn't save
23 anybody any money. But then again, if there's no rule
24 or statute -- but how do we get to prudence? And I
25 guess what you're saying is you just take into

1 consideration the factors of maybe scheduling, of
2 proprietary information, and that type of thing.

3 Okay. All right. Thank you.

4 CHAIRMAN CARTER: Thank you, Commissioner.
5 Commissioner McMurrin.

6 COMMISSIONER McMURRIAN: Thank you. My
7 question is somewhat along those lines, but a little bit
8 different too. I was looking over your recommendations,
9 and I guess I was just trying to clear something up in
10 my mind with respect to the positions in this case where
11 the parties have agreed to defer a prudence
12 determination on some aspects of the case, where we
13 would have been if we had had the information perhaps
14 sooner. Had those stipulations to defer a prudence
15 determination on some of those costs in any way affected
16 your recommendations?

17 THE WITNESS: No, not in this particular case.
18 On this one particular contract, we feel the company as
19 imprudent in their demonstration or determination that
20 the cost was reasonable.

21 COMMISSIONER McMURRIAN: And then to follow up
22 on that, Mr. Chairman, I was looking kind of more
23 specifically, I think, at number 2, where you're talking
24 about withholding a portion of the carrying charges.
25 You suggested 10 percent, and only give it to them if

1 they can demonstrate the costs are reasonable in the
2 next hearing cycle. So you're saying that even with the
3 reasonableness determination that you would suggest, at
4 least with respect to number 2 -- and I realize you have
5 three different recommendations, and they are somewhat
6 varying in degree. You're saying you would not allow
7 10 percent of those costs as reasonable, and then they
8 would be able to address that in the next hearing cycle
9 as reasonable or prudent, depending on whether or not
10 we're at that final stage with those dollars or still in
11 a reprojection phase.

12 THE WITNESS: Yes, yes.

13 COMMISSIONER McMURRIAN: Okay. Thank you.

14 CHAIRMAN CARTER: Thank you. Anything further
15 from the bench?

16 Mr. McGlothlin.

17 MR. MCGLOTHLIN: Yes. Commissioners, I have
18 some redirect, and because of the significance of some
19 of the questions that have been put to the witness, I
20 will need maybe 10 or 12 minutes. I know it's toward
21 the end of the day. What's your preference in terms
22 of --

23 CHAIRMAN CARTER: You have 10 or 12 minutes.
24 Proceed.

25 REDIRECT EXAMINATION

1 BY MR. McGLOTHLIN:

2 Q. Dr. Jacobs, counsel for FPL asked you to agree
3 that your firm did not submit a bid to an RFP type
4 solicitation from our office. Do you recall that
5 exchange?

6 A. Yes.

7 Q. Now, a request for proposals where the RFP is
8 disseminated to a universe of potential bidders and then
9 everybody provides an answer by the deadline is one way
10 to test the market. In your opinion, is that the only
11 way that testing the market can be done?

12 A. No. It could be done by using a benchmarking
13 process for very similar projects in the same time
14 frame. Another way would be, if the scope of the
15 project is very well known, you could evaluate the
16 man-hours and hourly rates and so forth to come up with
17 a conclusion of the reasonableness of the cost.

18 Q. Now, if hypothetically our office were to call
19 you and say, "Dr. Jacobs, what are your qualifications
20 and what would it cost to use you in this case?" and
21 then without your knowledge we called consultants B and
22 C and put the same question to them, would that be
23 another way of testing the market in terms of ensuring
24 that we've assessed the qualifications and chosen the
25 most cost-effective?

1 A. It certainly would. In fact, that almost is a
2 competitive bidding process, it would seem to me. It's
3 not an open competitive bidding, but it is competitive
4 bidding.

5 Q. Now, when you answered Mr. Anderson's question
6 and as you're answering mine, do you know to whom we
7 talked other than yourself?

8 A. No, I do not.

9 Q. Now, counsel for FPL distributed the
10 confidential document that consists of the one-page
11 document that you had described as the "back of an
12 envelope" type of analysis; correct?

13 A. That's correct.

14 Q. And attached to that is the Word document that
15 was the source of some questions?

16 A. Yes.

17 Q. And you recall that counsel for FPL counted
18 for everybody that there were eight pages attached to
19 that and made the point that you did not refer to them
20 in your testimony?

21 A. That's correct.

22 Q. I think this is important. If you will, turn
23 to the Word document, and look at the first page of
24 eight. Is there anything on this first of eight pages
25 that adds anything to the treatment of the

1 reasonableness of the contract that appears on the
2 one-pager that you characterized as "back of the
3 envelope"?

4 A. No, it does not.

5 Q. Same question with page 2. Is there anything
6 on page 2 of 8 that adds to the treatment of the
7 reasonableness of the cost of the contract that you
8 referred to as "back of the envelope"?

9 A. No. This is an evaluation of one particular
10 repair option that they were evaluating against other
11 options.

12 Q. Same question with respect to page 3 of 8. Is
13 there anything on that page of the Word document that
14 contributes to the analysis of the reasonableness of the
15 contract?

16 A. No.

17 Q. Page 4 of 8?

18 A. No.

19 Q. Page 5 of 8?

20 A. No, sir.

21 Q. Page 6 of 8?

22 A. No.

23 Q. Page 7 of 8?

24 A. No.

25 Q. Page 8 of 8?

1 A. No.

2 Q. So this one-pager was before your cross, and
3 it remains the only justification in terms of the
4 reasonableness of the contract that has been offered by
5 FPL in this case?

6 A. That's correct.

7 Q. Now, during the questioning, reference was
8 made to the idea that timing and scheduling may be an
9 important consideration; is that correct?

10 A. That's correct.

11 Q. Is there a way to conduct competitive bids in
12 a way that incorporates and reflects the importance of
13 the ability to maintain a schedule?

14 A. Yes, and I thought I had addressed that. But
15 as part of your request for a proposal, you would have a
16 schedule requirement in the RFP, that you must be able
17 to meet the schedule, and that would incorporate that
18 requirement into your bidding process.

19 Q. Now, reference was made to experience as an
20 important consideration. Do you recall that?

21 A. That's correct.

22 Q. Is there a way to structure a competitive
23 bidding process that tests the market while
24 incorporating and giving due weight to the importance of
25 experience?

1 A. Yes, of course. As part of your evaluation of
2 the bids that you receive from the competitive bidding,
3 one of the criteria would be the experience of the
4 bidder in that area.

5 Q. Reference was made to proprietary information.
6 Do you recall those questions and answers?

7 A. Yes.

8 Q. And in response to one question, you
9 acknowledged that Westinghouse would have certain
10 advantages by virtue of its experience and proprietary
11 information. Do you recall that?

12 A. That's correct.

13 Q. Is there a way to structure a competitive
14 solicitation in a manner that would test the market
15 while giving due consideration to any advantages such as
16 proprietary information that the particular vendor may
17 have as an advantage?

18 A. Well, I think you would have to make them
19 aware in the RFP that there was proprietary information
20 that they would either have to re-create on their own or
21 perhaps get from the original vendor.

22 Q. On the same subject, in response to a question
23 that made the point that Westinghouse uses proprietary
24 information, you said other companies have similar --
25 may have similar processes. Would you explain further

1 what you meant by that?

2 **A.** Yes. There's a number of -- internationally,
3 a number of companies that design and build nuclear
4 power stations. There are Japanese companies, French
5 companies. Some of them are actually bidding and
6 getting their designs licensed in the U.S. So any of
7 those companies would have the requisite skills and
8 experience to be able to perform those designs.

9 **Q.** If a vendor performs work for a utility such
10 as FP&L, and in the course of doing that applies and
11 uses proprietary information, does it follow necessarily
12 that the vendor having proprietary information will
13 always be the vendor of choice in future projects.

14 **A.** No, not necessarily. I think an example of
15 that would be in the supply and fabrication of nuclear
16 fuel. That's under proprietary information, but that's
17 a highly competitive market, and utilities bid out
18 typically their contracts for nuclear fuel on a regular
19 basis, and sometimes new vendors are chosen and use
20 their own processes to conduct the design.

21 **Q.** Let me refer you to the first document that
22 counsel for FPL distributed captioned "Summary of
23 Reasons for Choosing Westinghouse." Do you have that
24 available to you?

25 **A.** Yes.

1 Q. And attached to that is the sole source
2 justification for the Westinghouse contract?

3 A. That's correct.

4 Q. Now, counsel for FPL asked you to agree that
5 each of the items enumerated in paragraphs 1 through 4,
6 with quotations from the justification memo, appear in
7 that memo. Do you recall that question and answer?

8 A. Yes.

9 Q. Have you read FPL's rebuttal testimony as it
10 relates to your criticism of the sole source contract
11 awarded to Westinghouse?

12 A. Yes.

13 Q. Is there anything in rebuttal testimony
14 offered in support of the contracting process that is
15 contained in their testimony, but does not appear in the
16 justification memo?

17 A. Not that I can recall.

18 Q. If you recall, does the justification memo
19 develop to the same extent the theme of the difficulty
20 of using contractors other than one who has the fuel
21 specifications that is contained in the rebuttal
22 testimony?

23 A. I'm sorry. Could you repeat that?

24 Q. I'll move on.

25 In one answer you referred to the decision of

1 the vice president.

2 A. Yes.

3 Q. Would you take a moment and explain for the
4 Commissioners how the management procedure that you've
5 identified as NP 1100 works with respect to the standard
6 for competitive bidding, the preparation of a
7 justification memo in support of a departure from that,
8 and the role of the vice president to whom you referred
9 in your answer?

10 A. Yes. If the manager of the project decides
11 that he wants to use a sole source bid, he is required
12 to develop the reasons and the rationale in what's
13 called a sole source justification memo. And in that
14 memo, he puts down -- there are certain requirements
15 that shows why it's needed, why it would be to the
16 company's advantage, and how they have determined that
17 the costs will be reasonable use being sole source. And
18 then this is put together in a memo and submitted to a
19 vice president, or even perhaps a higher level manager,
20 depending on the value of the contract, for his
21 signature and approval.

22 Q. And when it's presented to the vice president,
23 what decision, what choice does the vice president make
24 based upon the justification memo offered?

25 A. Well, he either agrees that it can proceed as

1 a sole source contract, or if he rejects that, then they
2 would be forced to go back to bid it competitively.

3 MR. MCGLOTHLIN: Those are all my questions on
4 redirect.

5 CHAIRMAN CARTER: Thank you, Mr. McGlothlin.
6 Let's look at the exhibits.

7 MR. MCGLOTHLIN: We move Exhibits 29 through
8 35.

9 CHAIRMAN CARTER: Twenty-eight.

10 MR. MCGLOTHLIN: Well, 28 through 35.

11 CHAIRMAN CARTER: Twenty-eight through 35?

12 MR. MCGLOTHLIN: Twenty-eight through 35.

13 CHAIRMAN CARTER: Any objections?

14 MR. ANDERSON: No, but I just had a couple of
15 very, very short recross questions.

16 MR. MCGLOTHLIN: That's very unusual. I'm not
17 sure that I've done anything by redirect should occasion
18 recross.

19 CHAIRMAN CARTER: Mr. Anderson, is it
20 absolutely, positively necessary?

21 MR. ANDERSON: I think it will be helpful to
22 you, because it will tell you who to ask about this.

23 CHAIRMAN CARTER: Mr. McGlothlin, I'll give
24 you leave -- after he asks further questions, I'll give
25 you leave for further redirect.

1 MR. MCGLOTHLIN: All right.

2 CHAIRMAN CARTER: You're recognized.

3 MR. ANDERSON: Thank you.

4 RE-CROSS-EXAMINATION

5 BY MR. ANDERSON:

6 Q. At the top of the confidential document -- do
7 you have that in front of you?

8 A. No. I just put it away, but I'll dig it back
9 out.

10 Q. Do you see who that is to?

11 A. Yes.

12 Q. That's William Labbe, our witness and project
13 director; is that right?

14 A. That's correct.

15 Q. Okay. Who do you think knows more about this
16 document, this attachment, and this procurement, you or
17 Mr. Labbe?

18 MR. MCGLOTHLIN: Object. That's not anything
19 that flows from any question I posed to the witness
20 during redirect.

21 MR. ANDERSON: Well, he speculated about all
22 kinds of things, about how the document was not related
23 to the decision. And in fact, this document is a
24 important element of the decision that Mr. Labbe knew
25 and relied on. And the right question there is, who

1 would know these facts, is it this witness who's
2 speculating, or is it our witness, Mr. Labbe, who will
3 be available to testify. The document, by the way,
4 already speaks for itself. That's was my only point.

5 MR. MCGLOTHLIN: That's completely
6 argumentative and does not demonstrate any basis for
7 recross that stems from anything I asked the witness.

8 CHAIRMAN CARTER: You know, I think this a
9 good point of -- you always have a point of beginning,
10 and you need to have a point of ending too. And we've
11 entered the -- without objection, the exhibits have been
12 entered in evidence.

13 (Exhibits Number 28 through 35 were admitted
14 into the record.)

15 CHAIRMAN CARTER: We will pick up tomorrow
16 morning at 9:30.

17 (Proceedings recessed at 5:20 p.m.)
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CERTIFICATE OF REPORTER


STATE OF FLORIDA:

COUNTY OF LEON:

I, MARY ALLEN NEEL, Registered Professional Reporter, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages numbered 370 through 611 are a true and correct record of the aforesaid proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor relative or employee of such attorney or counsel, or financially interested in the foregoing action.

DATED THIS 12th day of September, 2008.


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