

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**In re: Nuclear Cost Recovery
Clause**

DOCKET NO. 120009-EI
Submitted for filing: March 1, 2012

REDACTED

**DIRECT TESTIMONY OF DARYL O'CAIN
IN SUPPORT OF ACTUAL COSTS**

**ON BEHALF OF
PROGRESS ENERGY FLORIDA, INC.**

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IN RE: NUCLEAR COST RECOVERY CLAUSE

BY PROGRESS ENERGY FLORIDA, INC.

FPSC DOCKET NO. 120009-EI

DIRECT TESTIMONY OF DARYL O'CAIN

1 **I. INTRODUCTION AND QUALIFICATIONS.**

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

3 A. My name is Daryl O'Cain. My business address is 410 South Wilmington Street,
4 PEB 10, Raleigh, North Carolina, 27601.

5
6 **Q. By whom are you employed and in what capacity?**

7 A. I am currently employed by Progress Energy Carolinas ("PEC") in the capacity of
8 Director – New Generation Programs and Projects ("NGPP") Financial Services.
9 I assumed this position with PEC on February 10, 2011, when Ms. Sue Hardison
10 assumed the role of General Manager – Energy Wise Program Office. Ms.
11 Hardison's responsibilities were re-assigned within the NGPP Department. I
12 report directly to Mr. John Elnitsky, Vice President NGPP, and am responsible for
13 all NGPP financial services. Ms. Hardison's project controls responsibilities were
14 assigned to Mr. Jon Kerin, Director – Program Coordination and Performance
15 Improvement to provide greater alignment for project governance, oversight, and
16 support.

17

1 **Q. Please summarize your educational background and work experience.**

2 A. I have a Master's degree in Accounting from Florida State University and a
3 Bachelor of Science degree in Accounting from the University of South Florida. I
4 am a licensed Certified Public Accountant in the State of North Carolina.
5 Additionally, I am a Certified Management Accountant and a Certified Associate
6 in Project Management. I have been with Progress Energy for nearly 11 years. I
7 have held various accounting, business management, and support services roles in
8 several departments in the Company including Energy Delivery, Accounting,
9 Investor Relations, and Plant Construction. I have been a manager in the
10 Company since 2006. Prior to joining the Company, I spent six years in public
11 accounting and consulting positions.

12
13 **II. PURPOSE AND SUMMARY OF TESTIMONY.**

14 **Q. What is the purpose of your direct testimony?**

15 A. My direct testimony supports the Company's request for cost recovery and a
16 prudence determination, pursuant to the Nuclear Cost Recovery Rule, Rule 25-
17 6.0423, Florida Administrative Code, for the Company's LNP generation and
18 transmission costs incurred from January 2011 through December 2011. I will
19 also explain the major variances between actual LNP costs and actual/estimated
20 costs included in the Company's May 2, 2011 filings in Docket No. 110009-EI.

21
22 **Q. Do you have any exhibits to your testimony?**

23 A. No. I will, however, be co-sponsoring the cost portions of Schedules T-4, T-4A,
24 T-6, and Appendix D of the Nuclear Filing Requirements ("NFRs"), which are

1 included as part of the exhibits to Mr. Will Garrett's testimony, Exhibit No.
2 ___(WG-1). I am also sponsoring Schedules T-6A, T-6B, T-7, T-7A, and T-7B
3 of the NFRs. Schedule T-6A is a description of the major tasks. Schedule T-6B
4 reflects capital expenditure variance explanations. Schedule T-7 is a list of the
5 contracts executed in excess of \$1.0 million and Schedule T-7A provides details
6 for those contracts. Schedule T-7B reflects details pertaining to contracts
7 executed in excess of \$250,000, but less than \$1.0 million.

8 All of these schedules are true and accurate.

9
10 **Q. Please summarize your testimony.**

11 A. PEF requests a prudence determination and approval of the recovery of its 2011
12 actual LNP costs. In 2011, the Company continued to implement its decision
13 made in 2010 to proceed with the LNP on a slower pace. The 2011 LNP costs
14 were incurred in connection with licensing application activities to support the
15 Levy Combined Operating License Application ("COLA") to the Nuclear
16 Regulatory Commission ("NRC"), engineering activities in support of the COLA,
17 and activities under PEF's LNP Engineering, Procurement and Construction
18 ("EPC") contract with Westinghouse and Shaw, Stone and Webster (the
19 "Consortium"). In addition, costs were incurred for Levy Transmission strategic
20 land acquisitions. PEF took appropriate steps to ensure that the 2011 costs were
21 reasonable and prudent and that all of these costs were necessary to the LNP.
22 Accordingly, the Commission should approve PEF's 2011 costs as reasonable and
23 prudent pursuant to the nuclear cost recovery rule.

1 **III. CAPITAL COSTS INCURRED IN 2011 FOR THE LNP.**

2 **Q. What was the total overall difference between PEF's actual 2011 costs and**
 3 **PEF's actual/estimated costs for 2011?**

4 A. Overall LNP costs, inclusive of transmission and generation costs, were [REDACTED]
 5 [REDACTED], or [REDACTED] less than PEF's actual/estimated costs for 2011. The
 6 reasons for this variance are described below.

7
 8 A. **GENERATION.**

9 **Q. Can you please describe the work and activities that were performed for the**
 10 **LNP in 2011 to generate these costs?**

11 A. Yes. PEF performed work and incurred preconstruction and construction costs on
 12 the following activities for the LNP in 2011: (1) licensing, (2) engineering, design
 13 and procurement, (3) project management, (4) real estate acquisition, and (5)
 14 power block engineering and procurement.

15
 16 **Q. Please explain what licensing work was done for the LNP in 2011?**

17 A. Throughout 2011 the NGPP group worked with the NRC to advance the LNP
 18 COLA toward final approval and issuance. In March 2011, the NRC conducted
 19 an audit of the LNP seismic/structural Requests for Additional Information
 20 ("RAI") responses. While there were no findings, the NRC identified additional
 21 information needs and clarification required to complete the Final Safety
 22 Evaluation Report ("FSER"). NGPP completed responses to these additional
 23 seismic/structural questions in May 2011. In addition to completing the
 24 remaining open LNP RAI's associated with the seismic/structural conditions at

1 the site, NGPP completed a RAI regarding the tsunami analysis it had previously
2 submitted.

3 A significant milestone was completed near the end of 2011 when the
4 NRC completed the Levy Advanced Safety Evaluation Report (“ASER”) without
5 open items on September 15, 2011. This signified that the NRC staff had
6 completed the safety review required for issuance of the LNP COL. In addition,
7 in October 2011, NGPP actively supported the Advisory Committee on Reactor
8 Safeguards (“ACRS”) Subcommittee Meeting and then the ACRS Full
9 Committee meeting in December 2011. At these meetings, NGPP provided
10 presentations and answered technical questions from the ACRS members.
11 Following the December meeting, the ACRS issued a letter to the NRC
12 recommending approval of the Levy COLA following implementation of two
13 recommendations regarding inclusion of additional information on evaluation of
14 the tsunami hazard. The NRC staff review of the ACRS recommendations
15 determined that NRC regulations had been satisfied and no additional analyses to
16 address tsunami hazards was warranted.

17 Revision 3 to the LNP COLA was completed and submitted to the NRC in
18 October 2011. Updates to the COLA included additional information on low-
19 level radioactive waste storage. During the fourth quarter of 2011, the Atomic
20 Safety Licensing Board (“ASLB”) completed review of the pending and revised
21 contentions for the Levy COLA and based on the additional information provided
22 in Revision 3, the ASLB dismissed contention 8A regarding low-level radioactive
23 waste storage. The ASLB also denied the interveners’ motion to re-admit a
24 previously dismissed contention and to admit a new contention claiming new and

1 significant information regarding Fukushima. There is only one remaining
2 contention for consideration at ASLB hearings in 2012.

3 NGPP also worked with and supported Westinghouse in the development
4 of Revision 18 and Revision 19 to the AP1000 Design Control Document
5 (“DCD”). Notably, on December 30, 2011, DCD Revision 19 was approved and
6 issued by the NRC.

7 Regarding the Levy COLA environmental review, major environmental
8 work completed in 2011 included the Environmental Permitting Plan, which
9 identifies the scope of environmental activities required to support state and
10 federal permitting activities for LNP, and the detailed engineered Wetland
11 Mitigation Plan to facilitate continued progress on the NRC’s Final
12 Environmental Impact Statement (“FEIS”), and U.S. Army Corps of Engineers
13 (“USACE”) 404 permitting for the LNP.

14 On June 23, 2011, the USACE issued their position letter regarding the
15 Draft Environmental Impact Statement (“DEIS”). A meeting was conducted with
16 PEF, USACE, NRC, and the Environmental Protection Agency (“EPA”) to
17 address the information needs of the USACE to complete the Environmental
18 Impact Statement (“EIS”). PEF completed responses to all identified USACE
19 information needs in November 2011.

20 Finally, the NGPP group has continued to participate in industry groups
21 including NuStart and the AP1000 Owner’s Group (“APOG”) and continues to
22 support the joint efforts of these industry groups. Throughout 2011, NGPP
23 provided support to NuStart for review of documents in the development of
24 AP1000 DCD Revision 18 and DCD Revision 19, and for the Reference COLA

1 (“R-COLA”). APOG support work by NGPP for joint licensing and operational
2 program development also continued in 2011.
3

4 **Q. What engineering work was performed for the LNP in 2011?**

5 A. In 2011, NGPP conducted engineering activities in support of its COLA for the
6 LNP. This included ongoing engineering support to assist the licensing activities
7 in response to the NRC RAIs discussed above. Further, in 2011, NGPP
8 Engineering completed a detailed construction sequence of the foundations for the
9 non-safety related structures (Turbine Building, Radwaste Building and Annex
10 Building) for inclusion in the LNP FSAR. The laboratory portion of the Roller
11 Compacted Concrete (“RCC”) Mix Design Program was completed to determine
12 the mix proportions necessary to create a RCC mix that will meet the
13 requirements for use in the production RCC Bridging Mat. The laboratory
14 portion of the RCC Specialty Testing Program was also completed to provide
15 initial assurance that the RCC Bridging Mat constructed using the chosen RCC
16 mix design will achieve the strength parameters used in the design. PEF
17 engineering personnel also participated in multiple NuStart / APOG Committee
18 Meetings such as Engineering, Electrical, and Balance of Plant, as well as Final
19 Design Reviews for multiple AP1000 systems and structures.
20

21 **Q. Can you generally describe the project management work on the LNP in**
22 **2011?**

23 A. Yes. On March 29, 2011, Progress Energy senior management reviewed and
24 approved an Integrated Project Plan (“IPP”) update for Revision 3 to the LNP.

1 This IPP confirmed annual spending for 2011 through mid-2012 for the LNP and
2 provided an update related to the decision to continue the partial suspension.
3 Senior management approval was consistent with the Company's March 2010
4 decision to continue with the LNP on a slower pace and defer significant capital
5 investment until after the LNP COL is obtained.

6 In the second quarter of 2011, PEF issued a consolidated Levy Program
7 Execution Plan. This plan outlined the scope of the LNP and provided details
8 regarding organization, methods, systems and strategies for successful program
9 completion. The document also provided the framework for future Program
10 Execution Plan development.

11 An update was also completed to the Class 5/4 Levy Estimate for the
12 project based on updated Long Lead Equipment ("LLE") negotiations and to
13 support the 2012 budgeting process. Project control metrics were regularly
14 monitored for cost, schedule, contract compliance, risk performance, and other
15 defined metrics. Work was also completed with the Consortium and its vendors
16 to negotiate favorable disposition terms and conditions on all remaining LLE
17 components and execute change orders which documented the final disposition
18 decisions.

19 Finally, three site vendor audits were scheduled and completed by end of
20 third quarter 2011 to assess and test the vendor's internal project business
21 processes and controls utilized to develop, review, and approve invoices
22 submitted to PEF in support of the LNP. The overall audit opinions were
23 effective, and no significant observations or recommendations for improvement
24 were identified or resulted from the audit.

i. **Preconstruction Generation Costs Incurred.**

1
2 **Q. Did the Company incur any Generation preconstruction costs for the LNP in**
3 **2011?**

4 A. Yes. As reflected on Schedule T-6.2, the Company incurred preconstruction costs
5 in the categories of License Application and Engineering, Design, and
6 Procurement.

7
8 **Q. For the License Application costs, please identify what those costs are and**
9 **why the Company had to incur them.**

10 A. As reflected on Line 3 of Schedule T-6.2, the Company incurred License
11 Application costs of [REDACTED] in 2011. The costs incurred were for the
12 licensing activities supporting the LNP COLA that I described above.

13
14 **Q. For the Engineering, Design and Procurement costs, please identify what**
15 **those costs are and why the Company had to incur them.**

16 A. As reflected on Line 4 of Schedule T-6.2, the Company incurred Engineering,
17 Design, and Procurement costs of [REDACTED] in 2011. The costs incurred related
18 specifically to: (1) [REDACTED] in contractual payments to the Consortium for
19 project management, quality assurance, purchase order disposition support, and
20 other home office services such as accounting and project controls; and (2) [REDACTED]
21 [REDACTED] for direct PEF oversight of engineering activities of the Consortium
22 including project management, project scheduling and cost estimating, and legal
23 services.

1 Q. How did Generation preconstruction actual capital expenditures for January
2 2011 through December 2011 compare to PEF's estimated/actual costs for
3 2011?

4 A. LNP preconstruction generation costs were [REDACTED], or [REDACTED] less
5 than PEF's actual/estimated costs for 2011. The reasons for the major (more than
6 \$1.0 million) variances are provided below.

7 **License Application:** License Application capital expenditures were
8 [REDACTED], which was [REDACTED] less than the actual/estimated
9 License Application costs for 2011. This variance is attributable to lower
10 than estimated NRC review fees and lower outside legal counsel costs
11 associated with LNP COLA activities including responding to NRC RAIs.

12
13 **Engineering, Design, and Procurement:** Engineering, Design, and
14 Procurement capital expenditures were [REDACTED], which was [REDACTED]
15 [REDACTED] less than the actual/estimated Engineering, Design, and
16 Procurement costs for 2011. This variance is driven primarily by the
17 completion of negotiations with the Consortium regarding one-time LLE
18 purchase order disposition and incremental shipping/storage costs for one
19 remaining LLE component. Included in the prior year actual/estimated
20 filing were approximately [REDACTED] of estimated costs associated with
21 the disposition of one remaining LLE component, with the assumption
22 that this purchase order would be canceled and, therefore, treated as pre-
23 construction costs. Due to that component being suspended, the related

1 costs were recorded as construction costs consistent with other suspended
2 items.

3 The remaining [REDACTED] variance is related to lower than
4 anticipated payments for engineering and design work, associated project
5 management and development, purchase order disposition support, home
6 office services, and PGN labor, expenses, indirects and overheads.

7
8 **ii. Construction Generation Costs Incurred.**

9 **Q. Did the Company incur any Generation construction costs for the LNP in**
10 **2011?**

11 A. Yes. As reflected on Schedule T-6.3, the Company incurred generation
12 construction costs in the categories of Real Estate Acquisition and Power Block
13 Engineering and Procurement.

14
15 **Q. For the Real Estate Acquisition costs, please identify what those costs are and**
16 **why the Company had to incur them.**

17 A. As reflected on Line 3 of Schedule T-6.3, the Company incurred Real Estate
18 Acquisition costs of [REDACTED] in 2011. Costs incurred are related to land
19 acquisitions for the LNP, including residual generation construction costs
20 associated with the purchase of state lands for the LNP Barge Slip easement.

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Q. For the Power Block Engineering and Procurement costs, please identify what those costs are and why the Company had to incur them.

A. As reflected on Line 8 of Schedule T.6-3, the Company incurred Power Block Engineering and Procurement costs of [REDACTED] in 2011. These costs were for incremental disposition costs and milestone payments under the EPC contract for certain LLE items including the: [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED].

Q. How did actual generation construction capital expenditures for January 2011 through December 2011 compare to PEF's actual/estimated costs for 2011?

A. LNP construction generation costs were [REDACTED] or [REDACTED] greater than PEF's estimated projection costs for 2011. The reasons for the major (more than \$1.0 million) variances are provided below.

Power Block Engineering and Procurement: Power Block Engineering and Procurement capital expenditures were [REDACTED], which was [REDACTED] greater than the actual/estimated Power Block Engineering and Procurement costs for 2011. This unfavorable variance is driven primarily by the completion of negotiations with the EPC Consortium regarding one-time LLE purchase order disposition and incremental shipping/storage costs for one remaining LLE component. As I stated above, approximately [REDACTED] of estimated disposition costs were

1 included as preconstruction in the prior year actual/estimated filing. With
2 the decision to suspend, the related costs were classified as construction
3 costs, consistent with other suspended items.

4 There was also a [REDACTED] favorable variance primarily due to
5 the deferral of milestone payments for certain LLE items [REDACTED]
6 [REDACTED].

7
8 **B. TRANSMISSION.**

9 **Q. Can you describe what transmission work and activities were performed in**
10 **2011 for the LNP?**

11 A. Yes. At the beginning of the year, oversight for Levy Transmission activities was
12 assigned to the NGPP Licensing organization. Activity for 2011 was primarily
13 focused on strategic land acquisition. In 2011, PEF closed on 52 parcels equaling
14 78.3 acres in the Levy 500kV corridor, at a cost of [REDACTED]. Additionally,
15 four other parcels are under contract at a total cost of [REDACTED]. These strategic
16 Transmission corridor land purchases were targeted to key parcels that were
17 available at favorable market terms and conditions. Other transmission activities
18 were deferred due to the decision to continue the partial suspension for the LNP.

19
20 **i. Preconstruction Transmission Costs Incurred.**

21 **Q. Did the Company incur transmission-related preconstruction costs for this**
22 **transmission work and activity for the LNP in 2011?**

23 A. No. As reflected on Schedule T-6.2 the Company did not incur transmission-
24 related preconstruction costs in 2011.

1 **Q. How did actual transmission-related preconstruction capital expenditures for**
2 **January 2011 through December 2011 compare to PEF's actual/estimated**
3 **costs for 2011?**

4 A. Consistent with PEF's actual/estimated filing for 2011, PEF did not incur
5 preconstruction capital transmission costs in 2011.
6

7 **ii. Construction Transmission Costs Incurred.**

8 **Q. Did the Company incur any transmission-related construction costs for**
9 **transmission work and activities for the LNP in 2011?**

10 A. Yes, as reflected on Schedule T-6.3, the Company incurred transmission-related
11 construction costs in the categories of Real Estate Acquisition and Other.
12

13 **Q. For the Real Estate Acquisition costs, please identify what those costs are and**
14 **why the Company had to incur them.**

15 A. As reflected on Line 21 of Schedule T-6.3, the Company incurred Real Estate
16 Acquisition costs of [REDACTED]. These costs included strategic Right-of-Way
17 ("ROW") acquisition in the Levy 500kV corridor of [REDACTED] and associated
18 survey and title services, environment assessments, and signage costs of just
19 under [REDACTED]
20

21 **Q. For the Other costs, please identify what those costs are and why the**
22 **Company had to incur them.**

23 A. As reflected on Line 24 of Schedule T-6.3, the Company incurred Other costs of
24 [REDACTED]. These costs included Levy transmission labor and related expenses,

1 indirects and overheads to perform general project management and strategic land
 2 acquisition activities.

3
 4 **Q. How did actual transmission-related construction capital expenditures for**
 5 **January 2011 through December 2011 compare to PEF’s actual/estimated**
 6 **2011 costs?**

7 A. LNP construction transmission costs were [REDACTED], or [REDACTED] less than
 8 PEF’s actual/estimated construction transmission costs for 2011. I will explain
 9 the reasons for the major (more than \$1 million) variances below.

10 **Real Estate Acquisition:** Real Estate Acquisition capital expenditures
 11 were [REDACTED], which was [REDACTED] less than the actual/estimated
 12 Real Estate Acquisition costs for 2011. This variance is attributable to
 13 fewer purchases of strategic ROWs than originally anticipated for 2011
 14 based on available land and obtainable terms and conditions.

15
 16 **IV. O&M COSTS INCURRED IN 2011 FOR THE LEVY NUCLEAR PLANT.**

17 **Q. Did the Company incur any Operation & Maintenance (“O&M”) costs for**
 18 **the LNP in 2011?**

19 A. Yes, as reflected on Schedule T-4 the Company incurred O&M expenditures in
 20 the amount of \$1.3 million for internal labor, legal services, and for the NuStart
 21 Energy Development, LLC program that were necessary for the LNP. The
 22 explanations for major variances are provided below:

1 **Legal:** O&M expenditures for Legal services were \$0.4 million, or \$0.2
2 million lower than the actual/estimated costs. This variance is primarily
3 due to lower than expected outside legal counsel costs.
4

5 **Nuclear Generation:** O&M expenditures for Nuclear Generation were
6 \$0.6 million, or \$0.1 million higher than actual/estimated costs. This
7 variance is primarily due to higher than estimated expenses related to the
8 Company's involvement and investment in the NuStart program.
9

10 **Q. To summarize, were all the costs that the Company incurred in 2011 for the**
11 **LNP reasonable and prudent?**

12 **A.** Yes, the specific cost amounts for the LNP contained in the NFR schedules,
13 which are attached as exhibits to Mr. Garrett's testimony, reflect the reasonable
14 and prudent costs PEF incurred for LNP work in 2011. All of these activities and
15 costs were necessary for the LNP.
16

17 **V. PROJECT MANAGEMENT AND COST CONTROL OVERSIGHT.**

18 **Q. Were the LNP Project Management and Cost Control Oversight policies and**
19 **procedures the same in 2011 as they were for 2008, 2009, and 2010?**

20 **A.** Yes, they are essentially the same. There have been no substantial changes to the
21 LNP project management and cost oversight controls since the process was
22 described in Ms. Hardison's March 1, 2011, testimony in Docket No. 110009-EI
23 and in prior NCRC testimony. The Company continues to review policies,
24 procedures, and controls on an ongoing basis and makes revisions and

1 enhancements based on changing business conditions, organizational changes,
2 and lessons learned, as necessary. This process of continuous review of our
3 policies, procedures, and controls is a best practice in our industry and is part of
4 our existing LNP project management and cost control oversight.

5
6 **Q. Can you please provide an overview of the Company's applicable LNP**
7 **project management and cost control oversight policies and procedures?**

8 A. Yes. The Company utilizes its Integrated Project Plan ("IPP") procedure to
9 provide guidance regarding evaluation and funding authorization for major
10 projects, including the LNP. The Company adheres to this procedure, along with
11 numerous other policies, procedures, and controls to effectively manage the LNP.
12 Currently, an updated IPP for the LNP (Revision 4) is planned to be presented to
13 senior management in April 2012. This IPP update will confirm funding approval
14 for 2012 through 2013 for the LNP. The 2012 IPP will provide cost estimate
15 updates leading up to receipt of the Levy COL, which is currently estimated to be
16 issued by the NRC in early to mid 2013.

17 The LNP is also being undertaken by the Company consistent with the
18 applicable project standards established and implemented by the Company's
19 Project Management Center of Excellence organization ("PMCoE"). These
20 standards are based on principles from the internationally recognized Project
21 Management Institute Project Management Body of Knowledge ("PMBok") and
22 establish a standardized project management approach that spans tools, templates
23 and processes, training and qualification programs, and adoption of best practices.

1 The LNP work also continues to be performed under the applicable
2 Nuclear Generation Group (“NGG”) and Corporate procedures. These procedures
3 are reviewed on a continuous basis for changing business conditions and to
4 incorporate improvements, clarifications, and other administrative changes.

5 Other corporate tools are used to support the management of the LNP
6 work as well. The Oracle Financial Systems and Business Objects reporting tools
7 provide monthly corporate budget comparisons to actual cost information, as well
8 as detailed transaction information. This information, along with other financial
9 accounting data, allows PEF to regularly monitor the costs of the LNP work
10 compared to budgets and projections. The project schedule is maintained in the
11 Primavera scheduling tool. Detailed schedules for near term work are developed
12 and reviewed on a monthly basis and updated and refined as appropriate. Key
13 Performance Indicators (“KPIs”) to monitor the status of the LNP are reviewed by
14 the management team on a regular basis, utilizing multiple project and vendor
15 reporting mechanisms and project review forums. The Weekly NGPP Project
16 Status Report, the Monthly NGPP Programs and Projects Review Meeting, and
17 the Monthly New Nuclear Project Controls / Business Services Report are three
18 examples. These reports and meetings focus on safety, current status of cost,
19 completed and upcoming schedule milestones, Level 1 schedule status, major
20 contract status, and the current risk matrix for the LNP.

1 **Q. Please describe some of the enhancements to the Company's project**
2 **management and cost control policies or procedures that were made in 2011.**

3 A. During 2011 there was limited field activity for both LNP generation and
4 transmission and, as a result, the Company's general oversight and management
5 plan did not change in 2011. PEF did however implement several enhancements
6 to continuously improve the oversight and management of contractors for the
7 LNP. Corporate and nuclear contract procedures were further reviewed and
8 revised in 2011. Overall sixty-one (61) corporate, nuclear, and EPC procedures
9 were revised and eight (8) new procedures were created in 2011. Of these eight
10 new procedures, two (2) were new PMCoE procedures issued in 2011. Most of
11 these updates were minor revisions or updates to existing policies and procedures.
12 One substantive procedure issued during 2011 was the "Development, Planning
13 and Execution of Large Construction Projects" (PJM-NGPX-00001). This
14 procedure updated the project flow and approval gate process, provided additional
15 guidance for formal project review requirements, and formally aligned NGPP
16 project management processes with PMCoE procedures.

17 In addition, in 2011, NGPP implemented an enhancement to the LNP
18 Contract Administration function. Bi-weekly "Levy EPC Change Order, Letters
19 and Invoice Review Meetings" were conducted to discuss upcoming EPC contract
20 invoice milestones, any invoice issues identified, and any open/upcoming change
21 orders and letters that required action.

22 Other 2011 improvements included conducting monthly Levy Risk
23 Review Meetings for the COLA and approved non-COLA related work and
24 conducting bi-weekly Levy schedule review meetings. The agenda for the latter

1 included a review of project schedule performance, milestones achieved, and
2 work planned for the next period.

3 Due to the change in the designated representative for the EPC contract,
4 the LNP project team revised the invoice review and approval matrix.

5 Additionally, in 2011, the LNP project team implemented a revision to the change
6 order tracking and review process.

7
8 **Q. Can you explain how the Company ensures that its selection and
9 management of outside vendors is reasonable and prudent?**

10 A. Yes. When selecting vendors for the LNP, PEF utilizes bidding procedures
11 through a Request for Proposal (“RFP”) when possible for the particular services
12 or materials needed to ensure that the chosen vendors provide the best value for
13 PEF’s customers. Once proposals are submitted by potential vendors, formal bid
14 evaluations are completed and a final selection is determined and documented.
15 When an RFP cannot be used, PEF ensures that contracts with sole source
16 vendors contain reasonable and prudent contract terms with adequate pricing
17 provisions (including fixed price and/or firm price, escalated according to
18 indexes, where possible). When deciding to use a single or sole source vendor,
19 PEF documents a single or sole source justification for the particular work. Both
20 Corporate and NGPP contracting procedures contain guidance on what justifies
21 using a sole source or single source vendor. The Company requires that all sole
22 or single source contract activity must be justified on the contract requisition and
23 must be approved by the appropriate management level for the dollar value of the
24 contract.

1 The contract development process starts when a requisition is created in
2 the Passport Contracts module for the purchase of services. The requisition is
3 reviewed by the appropriate Contract Specialist in Corporate Services and
4 appropriate technical and management personnel on the Levy project, to ensure
5 sufficient data has been provided to process the contract requisition. The Contract
6 Specialist prepares the appropriate contract document from pre-approved contract
7 templates in accordance with the requirements stated on the contract requisition.
8 Once the requisition is ready to be executed, it is approved online by the
9 appropriate levels of the management approval matrix as per the Corporate
10 Approval Level Policy, and a contract is created. Contract invoices are received
11 by the NGPP New Nuclear contract administration. The invoices are validated by
12 the designated representatives/project managers and contract administration team.
13 Payment Authorizations approving payment of the contract invoices are then
14 entered and approved.

15
16 **Q. Does the Company verify that the Company's project management and cost**
17 **control policies and procedures are followed?**

18 A. Yes, it does. PEF uses internal audits, self assessments, benchmarking, and
19 quality assurance reviews and audits to verify that its program management and
20 oversight controls are in place and being implemented. Internal audits are also
21 conducted on outside vendors.

22 During 2011, the Florida Nuclear Plant Cost Recovery Rule Compliance
23 Audit was conducted by internal audit. The overall audit opinion was effective,
24 and no specific observations or recommendations for improvement were

1 identified or resulted from the audit. An internal audit was also conducted in
2 2011 to assess overall project management effectiveness. The overall audit
3 opinion was effective, with two minor observations/recommendations identified.
4 The management corrective actions were included in the audit report and all items
5 have been addressed and closed. An internal Nuclear Oversight Organization
6 (“NOS”) assessment N-NP-11-01 was conducted in September 2011. It identified
7 one finding and two recommendations. The finding was related to the
8 identification of incomplete quality assurance records. This finding was entered
9 into the Progress Energy Corrective Action Program (“CAP”) for investigation
10 and resolution. The corrective actions for this finding included communicating
11 expectations to the applicable LNP project team members and Joint Venture
12 Team (“JVT”) companies regarding quality assurance records needs and
13 formatting, and obtaining the incomplete records for proper storage. All but one
14 of these actions have been completed and the remaining action has a due date in
15 April of 2012.

16 The NOS organization also conducted and/or participated in external
17 audits of contractors providing goods and services in support of the LNP. While
18 these audits identified findings that required corrective action, these actions were
19 for the contractors to implement and as such these findings were entered into the
20 contractors’ corrective action program for resolution. These findings are
21 monitored by NOS as part of the external audit process.

22 As noted above, PEF also performed vendor invoice audits in 2011. An
23 audit of the Shaw invoice process was conducted March 28-29, 2011 at the Shaw,
24 Stone & Webster (“SSW”) Charlotte, North Carolina office. The scope of the

1 audit was to assess and test the SSW internal project business processes and
2 controls utilized to develop, review, and approve SSW invoices submitted to the
3 Company. Based on the results of the audit, it was PEF's opinion that the SSW
4 invoice process was effective. In addition, an audit of the Westinghouse time and
5 material and LLE invoice process was conducted June 20-22, 2011 at the
6 Westinghouse Cranberry, Pennsylvania office. The scope of the audit was to
7 assess and test the Westinghouse internal project business processes and controls
8 utilized to develop, review, and approve Westinghouse Time and Materials
9 ("T&M") and LLE invoices submitted to PEF. Based on the results of the audit,
10 it was PEF's opinion that the Westinghouse invoice process was effective. An
11 audit of the JVT COLA review T&M invoice process was conducted September
12 19-21, 2011 at Sargent & Lundy's Chicago, Illinois office. The scope of the audit
13 was to assess and test the JVT internal project business processes and controls
14 utilized to develop, compile, review, and approve JVT COLA T&M invoices
15 submitted to the Company. Based on the results of the audit, it was PEF's
16 opinion that the JVT invoice process was effective.

17 In addition, the NRC performed an audit of the LNP seismic/structural
18 RAI responses in March 2011 and identified additional information needs
19 required to complete the FSER. PEF's response to the seismic/structural
20 questions from the audit was completed in May 2011.

1 **Q. Are these project management and costs control oversight procedures**
2 **described applicable to both transmission and generation projects?**

3 A. Yes. The generation and transmission projects associated with the LNP are
4 subject to the same overall Company management, policies, and procedures.
5

6 **Q. Were the Company's Project Management and Cost Control Oversight**
7 **policies and procedures for the LNP independently reviewed?**

8 A. PEF did not retain an independent expert to review its project management and
9 cost oversight policies and procedures in 2011 because these policies and
10 procedures are substantially the same as the ones reviewed in 2009 and 2010. In
11 both 2009 and 2010 PEF hired independent expert Gary Doughty of Janus
12 Management Associates, Inc. to review the reasonableness and prudence of the
13 project management and control systems in place to manage the LNP. Mr.
14 Doughty concluded in both 2009 and 2010 that PEF's LNP project management
15 and project controls were reasonable and prudent. In addition, Office of Public
16 Counsel ("OPC") expert witness Dr. William Jacobs, Jr. also reviewed the LNP
17 project management and cost oversight controls in the 2009 and 2010 NCRC
18 proceedings. He expressed no opinion in either proceeding that the Company's
19 LNP project management and cost oversight controls were unreasonable or
20 imprudent. In fact, he testified in the 2010 NCRC hearings that he expressed no
21 opinion regarding the prudence of the Company's LNP project management,
22 contracting, and oversight controls because he reviewed them in 2009 and did not
23 see any significant concerns with them. (Docket No. 100009-EI Hearing Trans.
24 pp. 730-731). In 2011, Mr. Doughty was not retained to review the LNP project

1 management and cost oversight controls. At the NCRC hearings in 2011, Dr.
2 Jacobs testified that he had no opinion in this area.
3

4 **Q. Has the Commission previously determined that these LNP project**
5 **management and cost oversight controls were reasonable and prudent?**

6 A. Yes. In Order No. PSC-09-0783-FOF-EI, issued Nov. 19, 2009; Order No. PSC-
7 11-0095-FOF-EI, issued Feb. 2, 2011; and Order No. PSC-11-0547-FOF-EI,
8 issued Nov. 23, 2011, the Commission determined that the LNP project
9 management and cost oversight controls were reasonable and prudent for 2008,
10 2009, and 2010 respectively. As I discussed above, the Company's 2011 LNP
11 project management and cost oversight controls are substantially the same as they
12 were in 2008, 2009, and 2010.
13

14 **Q. Are the Company's LNP project management and cost control oversight**
15 **policies and procedures reasonable and prudent?**

16 A. Yes, they are. These project management policies and procedures reflect the
17 collective experience and knowledge of the Company and have been vetted,
18 enhanced, and revised over several years to reflect industry leading best project
19 management and cost oversight policies, practices, and procedures. The
20 culmination of these policies, practices, and procedures in the LNP project
21 management, project controls, and cost control oversight measures have been
22 independently reviewed by third party experts in 2009 and 2010 and by the
23 Commission and they were found to be reasonable and prudent. We believe,
24 therefore, that our project management policies and procedures are consistent

1 with best practices for capital project management in the industry and are
2 reasonable and prudent.

3

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

5 A. Yes, it does.