

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**In re: Nuclear Cost Recovery
Clause**

**DOCKET NO. 090009
Submitted for filing:
March 2, 2009**

**DIRECT TESTIMONY OF GARRY MILLER
IN SUPPORT OF ACTUAL COSTS**

**ON BEHALF OF
PROGRESS ENERGY FLORIDA**

**DOCUMENT NUMBER - DATE
01643 MAR -28
FOSC - COMMISSION CLERK**

IN RE: NUCLEAR COST RECOVERY CLAUSE

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 090009

DIRECT TESTIMONY OF GARRY MILLER

I. INTRODUCTION AND QUALIFICATIONS

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Q. Please state your name and business address.

A. My name is Garry Miller. My business address is 100 East Davie Street, TPP 15, Raleigh, NC 27601.

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

A. I am employed by Progress Energy Carolinas ("PEC") in the capacity of General Manager – Nuclear Plant Development. As General Manager – Nuclear Plant Development, I am responsible for the siting, management, and oversight of all major land purchases, and other contracts necessary for the construction of Progress Energy Florida's ("PEF's" or the "Company's") proposed Levy Nuclear Power Plants, the Levy Nuclear Project ("LNP").

Q. What are your responsibilities as the General Manager - Nuclear Plant Development?

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A. I am responsible for new nuclear plant development in both the Carolinas and Florida, including Engineering, Licensing, and Project Controls. My responsibilities include, but are not limited to, scheduling, contracts, commercial matters, training, document control, records management, and project management. All the major contracts approved to date on the LNP, and for nuclear plant development, have been under my management and responsibility.

Q. Please summarize your educational background and work experience.

A. I have a Bachelor of Science degree in Nuclear Engineering from North Carolina State University. I also have a master's degree in Mechanical Engineering from North Carolina State University. I have approximately thirty years of experience in the nuclear industry. My experience involves engineering and maintenance experience at all of Progress Energy's nuclear plants and the Corporate office. I have held Engineering Manager positions at the Brunswick Nuclear Plant and Robinson Nuclear Plant. I was also the Chief Engineer for Nuclear Generation Group (NGG). Additionally, I was the Maintenance Manager at Progress Energy's Harris Nuclear Plant.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to support the Company's request for cost recovery and a prudence determination, pursuant to the Nuclear

1 Cost Recovery Rule, for its LNP costs incurred from January through
2 December 2008. I will also explain the major variances between actual
3 LNP costs and those that were projected in the May 1, 2008 filings. I am
4 also adopting the testimony filed in Docket 080009 of Daniel L. Roderick,
5 with respect to the actual site selection costs incurred in 2006 and 2007 for
6 the LNP. I will also be supporting my testimony regarding the land
7 purchases for the LNP, also filed in Docket 080009. I understand that the
8 Commission will be reviewing the prudence of the 2006 and 2007 LNP
9 costs in this year's proceeding, and my adoption of this testimony will
10 assist the Commission in that review.

11
12 **Q. Do you have any exhibits to your testimony?**

13 **A.** No, I am not sponsoring any exhibits. I am, however, sponsoring the cost
14 portions of Schedules T-6, T-6A, T-6B, and Appendix C, as well as
15 portions of Schedules T-8, T-8A, and T-8B of the Nuclear Filing
16 Requirements ("NFRs"), which are included as part of the exhibits to Will
17 Garrett's testimony. I am sponsoring the generation portions of Schedule
18 T-6, T-6A, T-6B, and Appendix C, which provide actual monthly
19 expenditures and variances to projection for site selection, preconstruction
20 and construction costs. Schedule T-7 is a description of the nuclear
21 technology selected in 2006 and re-affirmed in 2007. Schedule T-8 is a
22 list of the contracts executed in excess of \$1.0 million and Schedule T-8A
23 provides details for those contracts. Schedule T-8B reflects details
24 pertaining to contracts executed in excess of \$200,000, but less than \$1

1 million. I am supporting the Generation contracts listed on T-8 (Lines 1 –
2 16), T-8A (Pages 22 – 37), and T-8B (Lines 1 – 8) as Gary Furman, the
3 Transmission witness for PEF, is supporting the Transmission contracts.

4 All of these schedules are true and accurate.

5
6 **Q. Please summarize your testimony.**

7 **A.** PEF seeks to minimize pre-licensing expenditures while at the
8 same time performing the necessary work to maintain the schedule
9 required for the project.

10 The Company requests a prudence determination of its LNP 2006
11 and 2007 costs, as well as a prudence determination and approval of the
12 recovery of its 2008 actual LNP costs. These initial LNP costs, starting in
13 2006 and continuing through 2007 and 2008, in general were incurred in
14 the following LNP activities: (1) determining that nuclear power
15 generation met PEF's need for power and obtaining a need determination
16 for the LNP; (2) identifying a suitable site in Florida for nuclear power
17 plants; (3) selecting an advanced nuclear power reactor technology type
18 for construction; (4) purchasing the necessary land for the LNP generation
19 structures and related facilities; (5) developing and submitting to the
20 Florida Department of Environmental Protection (DEP) the Site
21 Certification Application (SCA) and developing information for other
22 environmental permits for the LNP; (6) developing and submitting to the
23 Nuclear Regulatory Commission (NRC) a Combined Operating License
24 Application (COLA) for the addition of new baseload generation nuclear

1 power plant units in Florida; (7) securing and procuring certain long lead-
2 time equipment necessary to meet project schedules; and (8) obtaining an
3 Engineering, Procurement, and Construction (EPC) contract for the LNP.
4 Senior Management provided its initial approval of the project in
5 accordance with the Company's Project Evaluation and Authorization
6 Process in March of 2006. The Company completed its reactor
7 technology evaluation in 2006, which it re-affirmed in 2007. We
8 completed site evaluation work in 2007.

9 In September 2007, the project authorization was revised and
10 approved by Senior Management. This revision increased the LNP
11 authorization for 2007 spending by \$42.6 million for the Levy County Site
12 land acquisition and adjacent land required for access roads, a heavy
13 hauling route, and transmission access corridors. Also, in 2007, PEF
14 initiated the need, SCA, and COLA processes and this work continued
15 into 2008 when the Company made the three filings with the PSC, DEP,
16 and NRC, respectively.

17 In April 2008, a second revision to the Project Authorization was
18 approved. This approval incorporated the terms of the approved Letter of
19 Intent for Long Lead Equipment. In order to maintain the Levy project
20 schedule, and to lock in certain equipment pricing on favorable terms,
21 certain procurement and engineering activities had to start in early 2008.
22 By executing the terms of the Letter of Intent with Westinghouse and
23 Shaw Stone & Webster, PEF established the necessary terms and
24 conditions for those activities. The revision also included the

1 Levy COLA to the NRC. The Levy COLA was submitted July 30, 2008
2 and Docketed by the NRC on October 6, 2008. After docketing, the Phase
3 2 COLA work also commenced. This work involves responses to NRC
4 Requests for Additional Information (RAI's) and NRC Audits.

5 PEF also incurred costs in connection with its SCA, which was
6 completed and submitted to the DEP on June 2, 2008. Along with the
7 SCA, PEF incurred costs in 2008 for other environmental and permitting
8 activities such as (1) Wetlands delineation, (2) the early Environmental
9 Review Permit for construction of a barge slip, (3) design and engineering
10 of a heavy hauling road bridge and a heavy hauling road up to the
11 Highway 40 crossing, and (4) the U.S. Army Corps of Engineers review
12 and approval of 404 (Clean Water Act) permits that will be required to
13 support the Levy site development.

14 PEF incurred further costs for the Levy Site Regional Logistical
15 and Site Transportation Study. This Study addressed the economic and
16 schedule impact associated with transportation alternatives, and was
17 completed in 2008. As a result of this Study, PEF decided to utilize an
18 alternate shipping means other than rail.

19 PEF also incurred costs for various land use work for the LNP in
20 2007 and 2008. As a result of this work, the Levy County Comprehensive
21 Land Use Amendment was approved on March 18, 2008, and the Levy
22 site "Special Exception Use Permit" Zoning Application was approved on
23 September 3, 2008. Plans were finalized for Grout Testing and Roller
24 Compacted Concrete Testing at the Levy site. This testing supports the

1 NRC COLA review by mitigating the risk of delay in responding to NRC
2 RAI questions related to Levy geotechnical items.

3
4 **Q. For the Engineering, Design and Procurement costs, please identify
5 what those costs are and why the Company had to incur them.**

6 **A.** As reflected on line 4 of Schedule T-6, the Company incurred
7 Engineering, Design, and Procurement costs of \$110,684,010. In order to
8 maintain a 2016 nuclear option for PEF, certain procurement and
9 engineering activities were required to begin in early 2008. Specifically,
10 on March 28, 2008, PEF executed a letter of intent (LOI) with
11 Westinghouse and Shaw Stone & Webster. Executing the terms of the
12 Letter of Intent with Westinghouse and Shaw Stone & Webster provided
13 Progress Energy with the necessary terms and conditions to execute and
14 maintain the project schedule. PEF's Senior Management and Board of
15 Directors approved the LOI authorizing payments for these procurement
16 and engineering activities.

17
18 **Q. Please explain why the Company decided to negotiate and contract
19 with the Consortium for its nuclear reactor.**

20 **A.** As explained in the need determination proceeding, as well as last year's
21 nuclear cost recovery clause, the Company undertook a detailed analysis
22 to select the technology for the new nuclear plants. In 2008, PEF filed a
23 need determination for two AP1000 units. After the Commission
24 approved this need determination, the Company continued and then

1 completed negotiations with the technology's sole provider,
2 Westinghouse, and its preferred construction vendor, Shaw Stone &
3 Webster (together the "Consortium") for the EPC contract.
4

5 **Q. What is the status of the EPC contract?**

6 **A.** *PEF signed the EPC contract with the Consortium on December 31, 2008,*
7 *after negotiations throughout 2007 and 2008. Costs were incurred by the*
8 *Consortium for the EPC negotiations to develop price books. These price*
9 *books helped determine and document both nuclear island and site-*
10 *specific LNP project estimated costs. The EPC contract project scope is*
11 *based on an Engineering, Procurement, and Construction offer between*
12 *PEF and the Consortium. The Consortium will provide contracted*
13 *services to engineer, procure, and construct two Advanced Passive Light*
14 *Water reactors at the Levy Site. The EPC contract scope also includes*
15 *design finalization of the standard AP1000 Power Block, site-specific*
16 *detailed design, and construction of the Levy Nuclear Steam Supply*
17 *System ("NSSS"), and balance of plant structures (turbine generator, etc.),*
18 *including site buildings/structures/systems (such as cooling tower make-*
19 *up intake structure, mechanical cooling towers, etc.).*

20
21 **Q. For the On-Site Construction Facilities costs reflected on Schedule T-**
22 **6, please identify what those costs are and why the Company had to**
23 **incur them.**

1 A. As reflected on line 7 of Schedule T-6, the Company incurred On-Site
2 Construction Facilities costs of \$401,538. PEF incurred the On-Site
3 Construction Facility costs to purchase, install, and equip an office for
4 individuals supporting Levy nuclear plant development.

5
6 **Q. How did actual Site Selection and Preconstruction capital**
7 **expenditures for January 2008 through December 2008 compare to**
8 **PEF's estimated/actual projection costs for 2008?**

9 A. The LNP actual Site Selection and Preconstruction capital expenditures
10 for 2008 were lower than PEF projected. The reasons for the major (more
11 than \$1 million) variances are provided below.

12
13 **License Application:**

14 License Application capital expenditures were \$33,368,472, which was
15 \$4,069,708 under the estimated/actual projection. This variance is
16 primarily driven by lower than expected NRC fees.

17
18 **Engineering & Design:**

19 Engineering & Design capital expenditures were \$110,684,010, which was
20 \$56,854,990 under the estimated/actual projection. This variance was
21 primarily driven by the fact that EPC Contract negotiations and approval
22 extended into December 2008. As a result, additional payments for
23 procurement and detailed design activities were rescheduled from 2008 to
24 2009.

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On-Site Construction Facilities:

On-Site Construction Facilities capital expenditures were \$401,538, which was \$3,428,462 under the estimated/actual projection. This variance was primarily driven by the decision to minimize On-Site Construction Facility expenditures pending the execution of the EPC contract, which occurred December 31, 2008. Minimizing these activities does not impact the overall project schedule.

Q. Did the Company incur any Generation-related Construction costs for the Levy Nuclear Plant in 2008?

A. Yes, as reflected on Schedule T-6, the Company did incur minimal Construction costs for On-Site Construction Facilities but did not incur Construction costs for Real Estate Acquisitions. The schedule reflects a negative value for Real Estate Acquisitions, which will be explained in the testimony of Will Garrett.

Q. How did actual Construction capital expenditures for January 2008 through December 2008 compare to PEF's estimated/actual projection costs for 2008?

A. Actual Construction capital expenditures for 2008 are less than PEF projected. The only major (more than \$1 million) variance was for Real Estate Acquisitions costs with expenditures that were (\$115,764) which was \$5,158,703 under the estimated/actual projection. This variance was

1 primarily driven by our decision to revise our plans for bulk quantity
2 deliveries to the Levy site. At the time of the May 2008 filing, PEF
3 anticipated that it would have additional land acquisition needs to allow
4 rail access to the plant. During 2008, the land purchase requirements were
5 revised based on a Logistical and Transportation Plan Study that
6 determined that barge and truck delivery of bulk quantities is preferable to
7 rail delivery.

8
9 **IV. O&M COSTS INCURRED IN 2008 FOR LEVY NUCLEAR PLANT**

10 **Q. Did the Company incur any Generation-related Operation &**
11 **Maintenance (O&M) costs for the Levy Nuclear Plant in 2008?**

12 **A.** Yes, as reflected on Schedule T-4, the Company incurred O&M costs in
13 the amount of \$1,571,800. The majority of these costs were incurred in
14 connection with the NuStart Energy Development, LLC program which is
15 a consortium of utilities with the sole purpose of sharing in the costs to
16 develop and obtain Combined Operating Licenses (COLs) for new reactor
17 technologies and to complete the design for these technologies.

18
19 **Q. How did actual Nuclear Generation CCRC recoverable O&M**
20 **expenditures for January 2008 through December 2008 compare to**
21 **PEF's estimated/actual projection as presented in previous testimony**
22 **and exhibits?**

23 **A.** Nuclear Generation CCRC recoverable O&M expenditures were
24 \$1,571,800 which was \$1,566,350 over the estimated/actual projection.

1 This variance is primarily driven by \$1,448,042 in costs for the NuStart
2 program.

3
4 **Q. To summarize, were all the costs that the Company incurred in 2008**
5 **for the Levy Nuclear Project reasonable and prudent?**

6 **A.** Yes, the specific cost amounts for the LNP contained in the NFR
7 schedules, which are attached as exhibits to Mr. Garrett's testimony,
8 reflect the reasonable and prudent costs PEF incurred for work in 2008.
9 Together with the LNP costs PEF prudently incurred in 2006 and 2007,
10 PEF (1) determined that nuclear power generation met PEF's need for
11 power and obtaining a need determination for the LNP; (2) identified a
12 suitable site in Florida for nuclear power plants; (3) selected a reasonable
13 and prudent advanced nuclear power reactor technology type for
14 construction; (4) purchased the necessary land for the LNP generation
15 structures and related facilities and obtained necessary land use
16 designations; (5) developed and submitted to the DEP the SCA and
17 developed information for other environmental permits for the LNP; (6)
18 developed and submitted to the NRC a COLA for the LNP and provided
19 engineering support for the NRC review of that application; (7) securing
20 and procuring certain long lead-time equipment necessary to meet project
21 schedules; and (8) obtained an EPC contract for the LNP. All of these
22 costs were necessary to move the LNP forward to successful completion.
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V. PROJECT MANAGEMENT AND COST CONTROL OVERSIGHT

Q. Has the Company implemented project management and cost control oversight mechanisms for the Levy project?

A. Yes. The Company is utilizing several policies and procedures to ensure that the costs for the LNP are reasonably and prudently incurred and that the project remains on schedule. The LNP is being undertaken by the Company consistent with its Project Management Program Manual, which has been in place at the Company and used to manage capital projects since early in this decade. The LNP was approved in accordance with the Company's Project Evaluation and Authorization Process. This evaluation and project authorization process has been in place at the Company for many years. The generation portion of the Levy project is subject to the same overall Company management as the transmission portion of the LNP that is discussed in the testimony of Mr. Furman. This is accomplished through adherence to the Company's Integrated Project Plan (IPP) for the LNP. Finally, the LNP is subject to the Progress Energy Project Governance Policy, which also has been in place for many years.

Q. Can you describe some of the project management and cost control policies or procedures in the Company's project management documents that are being used to manage the Levy project and control project costs?

A. Yes. PEF has several control mechanisms in place to manage the LNP and the costs incurred on the project. By utilizing these policies, PEF is

1 able to effectively keep the LNP on schedule and ensure that costs
2 incurred are reasonable and prudent. For example, the LNP management
3 team has regular, internal meetings. These regular meetings allow the
4 project management team to monitor the progress of the project and its
5 costs, and to incorporate the collective knowledge and experience of the
6 team in addressing the scope of the work, the cost of the work,
7 engineering and construction implementation of the work items, and
8 schedule performance. The status of work on the COLA and SCA
9 applications is discussed. Risk management is also discussed and
10 addressed. Finally, project management expectations are communicated
11 and implemented by the LNP management team.

12 PEF's LNP Management Team also meets regularly with outside
13 contract vendors working on the project to review the contract scope of
14 work, engineering and construction implementation of that work scope,
15 and the schedule for the work under the vendor contracts. Contract
16 requisitions, purchase orders, and invoices are discussed. Project
17 management expectations are communicated to the outside vendors. By
18 maintaining supervision over the project, project schedule, and scope of
19 work performed by outside vendors, PEF is able to anticipate and manage
20 scope changes, if any, and project expenditures. There are other regular
21 project reviews as well. LNP Financial Services personnel prepare
22 monthly Cost Management Reports that include all contract, labor,
23 equipment, material and other project cost transactions recorded to the
24 LNP. Financials included in the report include comparison of actual costs

1 to budget, with explanations for any variances. These reports are regularly
2 reviewed by the LNP management team.

3 PEF also has regular PEF Finance Committee meetings, in which
4 management reviews the LNP project costs. Prior to these meetings,
5 responsible operations managers and Finance Management for the
6 organization review various monthly cost and variance analysis reports for
7 the capital budget. Variances from project budget or projections are
8 reviewed and any discrepancies are also identified, and corrections made
9 as needed. The specific reports used are the Cost Management Reports
10 produced by PEF Accounting. All cost reporting for the LNP is tied back
11 to the Cost Management Reports, which are tied back to the Legal Entity
12 Financial Statements. In addition to the monthly Finance Committee
13 meetings, Senior Management periodically reviews the LNP to monitor its
14 cost and ensure that it is on schedule.

15 Additionally, the Company has developed the Levy Integrated
16 Nuclear Committee ("LINC"), which is comprised of PEF leaders with
17 organizational accountability for areas that support the LNP. The group
18 helps coordinate activities that cross multiple organizational areas because
19 of the integrated nature of the LNP. LINC schedules meetings at least
20 monthly to review project activities, evaluate business conditions, address
21 emerging issues, and discuss agenda items. LINC is intended to serve at
22 this time as the single point for management oversight of all phases of the
23 project.
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Q. Has the Company developed a separate organization to specifically oversee and manage the Levy project?

A. Yes, to effectively manage the EPC contract and the entire Levy project, Progress Energy has formed a new department, Nuclear Plant Development (NPD). This organizational realignment will effectively support the state-of-the-art plant portion of the Company's balanced solution. NPD will also provide a concentrated leadership focus on the LNP that is separate and distinct from the ongoing Steam Generator Replacement (SGR) and Extended Power Uprate (EPU) at PEF's existing nuclear plant, Crystal River 3. The new Department reports directly to Jeff Lyash, the President and CEO of Progress Energy Florida.

NPD will continue to work under the Nuclear Generation Group (NGG) procedures, as applicable. As a result of these changes, the NPD LNP areas are transitioning to an organization that will experience rapid growth. The leadership structure of the new NPD organization has been designed, including the identification of phases from the first quarter 2009 through completion of the project, when it will transition back to a traditional NGG plant organization. Analyses of Individual Contributor (IC) needs are in progress, starting with the first quarter of 2009, and then will be followed by IC analysis for future phases of the project. A significant amount of job content questionnaire (JCQ) development, recruiting, interviewing, and hiring is planned for NPD.

In addition, the Company is in the process of making significant revisions to the Project Execution Plan, establishing EPC implementing

1 procedures, and developing broader NPD Implementing procedures. My
2 group will also update its Risk Management Processes to continue
3 development of the integrated schedule, enhance its Performance
4 Monitoring Report, and align with the Project Management Center of
5 Excellence Standards (PMCoE). The PMCoE is an organization created
6 by Progress Energy to instill best practices of project management across
7 the Company. PMCoE will improve project management practices by
8 standardizing processes, establishing a project management career path,
9 providing common training and qualifications programs, and adopting best
10 practices from both internal and industry groups.

11
12 **Q. Does PEF continually review and revise its policies and procedures for**
13 **the Levy project?**

14 **A.** Yes, company procedures are reviewed and revised on an ongoing basis.
15 In 2008, approximately 50 corporate and NGG procedures that the LNP
16 adheres to were revised. Two key examples that are associated with how
17 the Project is managed and how Quality Assurance is implemented are the
18 NGG-Project Management Program Manual and the NPD QA plan, which
19 were both revised in 2008.

20 In addition, as previously discussed, the Nuclear Plant
21 Development Department will make a significant update to the Project
22 Execution Plan in 2009, now that the EPC contract has been executed.
23 Initial work on updating the plan has started. Nuclear Plant Development
24 is also in the process of developing additional implementing procedures in

1 2009. The Levy EPC Contract Implementing Procedure Development
2 Plan identifies 33 tasks such as procedure development for Invoice
3 Validation & Processing, Change Control, and Cost & Schedule
4 Performance Analysis activities. Broader NPD processes that will require
5 implementing procedures will be developed. Also, in 2009 Progress
6 Energy's Project Management Center of Excellence organization will be
7 developing and implementing procedures that will be standard for the
8 Company. In January 2009, PJM-SUBS-00001, Achieving Excellence in
9 Project Management procedure was issued. The purpose of this document
10 is to provide guidance to project teams regarding standard processes
11 endorsed by the Company that exhibits excellence in project management.
12 The procedure includes additional procedures that will be established
13 related to project management processes.

14
15 **Q. Are employees involved in the Levy Project trained in the Company's**
16 **project management and cost control policies and procedures?**

17 **A.** Yes, they are. PEF's project management team for the Levy project has
18 been trained in these Company policies. Our employees with
19 responsibilities for managing capital projects receive training on the
20 Company's project management and cost control policies and procedures.
21 Also, when we decide to commence a major capital project like the Levy
22 project, additional training is provided as a reminder of the Company's
23 policies and procedures. This training was provided to the members of the
24 Levy project management team. Also, members of the Levy project

1 management team have experience implementing these project
2 management and cost control policies and procedures successfully on
3 other Progress Energy projects.

4
5 **Q. You mentioned outside vendors on the Levy project. How does the**
6 **Company ensure that its selection and management of outside**
7 **vendors is reasonable and prudent?**

8 **A.** First, a requisition is created in the Passport Contracts module for the
9 purchase of services. The requisition is reviewed by the appropriate
10 Contract Specialist in Corporate Services, or field personnel on the Levy
11 project, to ensure sufficient data has been provided to process the contract
12 requisition. The Contract Specialist prepares the appropriate contract
13 document from pre-approved contract templates in accordance with the
14 requirements stated on the contract requisition.

15 The contract requisition then goes through the bidding or
16 finalization process. Once the contract is ready to be executed, it is
17 approved online by the appropriate levels of the approval matrix as per the
18 Approval Level Policy, and a contract is created. Contract invoices are
19 received by the LNP managers. The invoices are validated by the project
20 managers and Financial Services Team. Payment Authorizations
21 approving payment of the contract invoices are entered and approved in
22 the Contracts module of the PassPort system.

23 When selecting vendors for the LNP, PEF utilizes bidding
24 procedures through a Request for Proposal ("RFP") when possible for the

1 particular services or material needed to ensure that the chosen vendors
2 provide the best value for PEF's customers. When an RFP cannot be
3 used, PEF ensures that the contracts with the sole source vendors contain
4 reasonable and prudent contract terms with adequate pricing provisions
5 (including fixed price and/or firm price, escalated according to indexes,
6 where possible). When deciding to use a sole source vendor, PEF
7 documents a sole source justification for not doing an RFP for the
8 particular work.

9 In those instances where a sole source vendor must be used, there
10 is a justification for choosing that vendor which makes it advantageous for
11 that vendor to perform the work. This occurred, for example, with PEF's
12 decision to execute the EPC contract with the Consortium. PEF selected
13 the AP1000 as its nuclear reactor technology after completing a thorough
14 and extensive evaluation of vendor proposal responses received from three
15 potential vendors. The factors evaluated included technical and
16 operational requirements for licensing, design, construction, and capability
17 input by the vendors. After the technology vendor, Westinghouse and
18 Shaw Stone & Webster, was selected pursuant to this analysis, there was
19 no need to competitively bid for the EPC contract.

20
21 **Q. Does the Company verify that the Company's project management**
22 **and cost control policies and procedures are followed?**

23 **A.** Yes, it does. PEF uses internal audits to verify that its program
24 management and oversight controls are in place and being implemented.

1 Internal audits are conducted on outside vendors. During 2008 multiple
2 planned audits were completed, including the AP1000 EPC Contract
3 Review, the Levy Cost Model Audit, the Levy County Data Repository
4 Audit, and cost recovery rule compliance. In addition, several audits are
5 planned in 2009, including an EPC Controls Audit, Levy Project Controls
6 Audit, and Cost Recovery Rule Compliance Audit. The Company's
7 project management policies themselves, included in the Company project
8 management documents that I have described above, also contain their
9 own mechanisms to ensure that they are followed and effectively
10 implemented.

11
12 **Q. Are the Company's project management and cost control policies and**
13 **procedures on the Levy project reasonable and prudent?**

14 **A.** Yes, they are. These project management policies and procedures reflect
15 the collective experience and knowledge of the Company. As a result,
16 Company employees have, in preparing the policies and procedures
17 reflected in the Company's major capital project management documents
18 that I have identified above, incorporated their experience and knowledge
19 of project management policies and procedures that work within the
20 Company and within the industry. These policies and procedures have
21 also been tested by the Company on other capital projects. Any lessons
22 learned from those projects have been incorporated in the current policies
23 and procedures. We believe, therefore, that our project management

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policies and procedures are consistent with best practices for capital
project management in the industry.

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Q. Does this conclude your testimony?

5

A. Yes, it does.

6

7