

1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 DIRECT TESTIMONY OF

3 **DALE WILTERDINK**

4 ON BEHALF OF

5 PROGRESS ENERGY FLORIDA

6 DOCKET NO. 090007-EI

7 AUGUST 3, 2009

8

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

10 A. My name is Dale W. Wilterdink. My business address is 15760 West Power Line Street,
11 Crystal River, Florida 34428.

12

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

14 A. I am employed by Progress Energy Florida ("PEF") as Manager of Plant Construction
15 Projects.

16

17 **Q. What are your responsibilities as Manager of Plant Construction Projects?**

18 A. I serve as Project Manager for the Crystal River Units 4 and 5 air quality control system
19 project ("Crystal River Project") included in PEF's Integrated Clean Air Compliance
20 Plan, which the Commission approved in Docket No. 080007-EI. As Project Manager, I
21 have primary overall responsibility and accountability for the Crystal River Project. I
22 provide direct management of all aspects of the project, including the installation of Flue
23 Gas Desulfurization ("FGD" or "scrubber"), Low NOx Burners (LNBs), Selective
24 Catalytic Reduction ("SCR") and other related activities, such as installation of a new

1 stack, common limestone preparation/dewatering system, coal pile liners, ponding, and
2 the water supply system. I also work with members of my project team to ensure that
3 key stakeholders throughout the Company, including senior management, remain
4 informed about the status of the Crystal River Project.

5
6 **Q. Please describe your educational background and professional experience.**

7 A. I received a B.S. degree in Chemistry and a Masters in Business Administration from
8 Grand Valley State University. I have over twenty six years experience in the power
9 industry, including direct project management for large, multi-unit air pollution control
10 projects. Prior to joining Progress Energy, I worked air quality control system projects
11 for URS Corporation, Advatech (a joint venture between URS and Mitsubishi Heavy
12 Industries), Marsulex (formerly General Electric Environmental Services), and Grand
13 Haven Board of Light and Power.

14
15 **Q. Are you sponsoring any exhibits with your testimony?**

16 A. Yes. I am sponsoring Exhibit No. __ (DW-1), which is an organization chart showing
17 the organizational structure the Company has established for management and oversight
18 of internal company personnel and contractors involved in the Crystal River Project.

19
20 **Q. What is the purpose of your testimony?**

21 A. The purpose of my testimony is to summarize the status of PEF's implementation of the
22 Crystal River Project, including Estimated/Actual project expenditures for 2009. I also
23 will describe some of the measures PEF has taken to ensure that the costs incurred for
24 the Crystal River Project are reasonable and prudent.

1 **Q. What is the current status of the Crystal River Project?**

2 A. The Crystal River Project is on schedule to meet the in-service dates set forth in the
3 Integrated Clean Air Compliance Plan approved by the Commission in Docket No.
4 070007-EI, and reaffirmed in the stipulation approved in Docket No. 080007-EI. The
5 Project has achieved several significant milestones including:

- 6 ● Completion of the access road in April, 2008;
- 7 ● Completion of the vehicle barrier system in May, 2008;
- 8 ● Completion of the flue gas chimney shell in May, 2008;
- 9 ● Completion of the Unit 5 FGD absorber tower in Sept, 2008;
- 10 ● Completion of Unit 4 low NOx burner in December,2008; and
- 11 ● Completion of the Unit 5 SCR in June 2009

12 As discussed in the annual review of PEF's compliance plan there are uncertainties
13 associated with all major construction projects including the Crystal River Project. At
14 this time, however, the Crystal River Project is on-schedule to achieve the in-service
15 dates set forth in PEF's Commission-approved Integrated Clean Air Compliance Plan.

16

17 **Q. How do the Estimated/Actual capital investment activities for the Crystal River**
18 **Project compare with the original projections for the period January 2009 to**
19 **December 2009?**

20 A. PEF's estimate of the total capital revenue requirements for the Crystal River Projects in
21 2009 will be approximately \$11.1million or 31% lower than originally projected. This
22 variance is due to the change of in-service dates of the Unit 5 SCR and FGD projects.
23 As a result of an extended spring outage, The Unit 5 SCR and related SCR Common
24 projects' in-service dates were delayed from May to June and July, respectively. The

1 Unit 5 FGD and related FGD Common and Gypsum projects' in-service dates were
2 moved from November to December because of a change in PEF's companywide outage
3 schedule.

4

5 **Q. Does PEF expect to incur CAIR costs in 2009 that were not anticipated at the time**
6 **of the Company's 2009 projection filing?**

7 A. Yes. Specifically, additional sootblowers and intelligent sootblowing systems have been
8 included in this filing and are needed in an area which is expected to encounter
9 potentially severe slagging when burning the new fuel source at Crystal River Units 4
10 and 5 that will result from the installation and operation of CAIR equipment. The
11 intelligent sootblowing system identifies these critical slagging and fouling areas and
12 determines how often and how much sootblowing is needed throughout the boiler and
13 convection pass to help maintain unit stability and reliability, as well as minimize boiler
14 tube erosion. These projects have not been included in filings to this point due to the
15 relatively new and on-going nature of the operating experience gathered within our
16 company.

17

18 **Q. What measures has the Company taken to minimize the risk of costs increases for**
19 **the Crystal River Project?**

20 A. Since the inception of the Crystal River Project, PEF has sought to minimize the risk of
21 future cost increases to PEF and its customers and to allocate risk where it can be best
22 managed. We implemented a contracting strategy that enabled PEF to negotiate
23 contracts that mitigate the risk of price increases without jeopardizing construction time-
24 frames necessary to ensure compliance with the applicable regulatory requirements. For

1 the Engineering, Procurement and Construction (EPC) contract, which represents the
2 majority of costs for the Crystal River Project, this strategy included an aggressive “open
3 book” scoping assessment which enabled the Company to identify the costs for project
4 components in detail to provide greater cost certainty. As part of the detail review
5 process, Progress Energy personnel and outside engineers carefully reviewed the
6 reasonableness of the scope and associated quantities of commodities, equipment,
7 subcontracts, labor and other project indirect components submitted by EPC contractor
8 (Environmental Partners Crystal River or “EPCR”), as well as the prices quoted by
9 EPCR.

10
11 We negotiated a portfolio of fixed price, lump sum contracts including the EPC contract,
12 as well as contracts with the primary FGD and SCR design and procurement contractor
13 (Babcock & Wilcox or “B&W”), and the vendors of major equipment such as scrubber
14 towers (Stebbins Engineering and Manufacturing Company), flue gas chimney
15 (Commonwealth Dynamics, Inc.), and SCR catalyst (CERAM Environmental, Inc.).
16 These contracts, which PEF submitted for the Commission’s review in Docket No.
17 070007-EI, also incorporate a payment milestone structure with associated liquidated
18 damages to ensure timely performance. This contracting strategy has enabled PEF to
19 mitigate cost and performance risks.

20
21 **Q. Please describe the management structure being used to oversee implementation of**
22 **the Crystal River Project?**

23 A. PEF has established an organizational structure to ensure prudent decision-making and
24 project oversight as implementation of the Integrated Clean Air Compliance Plan

1 proceeds. The specific team for the Crystal River Project is as shown in Exhibit
2 No.__(DW-1). The Company has assigned me to be the dedicated Project Manager with
3 primary overall responsibility and accountability for the Crystal River Project. I oversee
4 all of the internal team members as well as all of the external contractors working on the
5 project. My project management team, which also includes a dedicated Project Engineer
6 and Project Controls personnel, regularly works with Company personnel from other
7 departments, including Environmental Services, Corporate Services, Fossil Generation,
8 Legal, Regulatory Planning, and Health and Services as needed. The Company also has
9 appointed a designated Project Assurance Advisor to support and advise the project
10 management team.

11
12 To promote efficient integration of the new equipment with current operations, the
13 Company also has established a Plant Integration Team (PIT) that will be involved
14 through the startup and commissioning process. The PIT was established early in the
15 life of the Project to allow for plant operational input into the technical and functional
16 requirements incorporated in the Project design, the operational design features, the
17 anticipated operation of the new systems and the performance guarantees. During the
18 construction phase, the PIT provides interface between me and plant operations and has
19 the primary responsibility for developing operational maintenance procedures for the
20 new equipment. The PIT also will participate in startup integration for commercial
21 operation.

1 **Q. Has the Company implemented policies and procedures to ensure proper**
2 **management of the Crystal River Project and to control project costs?**

3 A. Yes. The project is being implemented in accordance with the Generation
4 Construction Department's policies and procedures, which prescribe specific
5 requirements for project management, quality assurance/quality control (QA/QC),
6 schedule management, cost accounting and reporting, and other aspects of the project
7 implementation. These policies and procedures reflect the collective experience and
8 knowledge of the Company. They have been tested on other capital projects of this
9 nature and reflect lessons learned from those projects. They also are consistent with best
10 practices for capital project management in the industry.

11

12 **Q. Are employees involved in the Crystal River Project trained in the Company's**
13 **project management and cost control policies and procedures?**

14 A. Yes, they are. The project management team for the Crystal River Project has been
15 trained in these policies and procedures.

16

17 **Q. Does the Company verify that the project management and cost control policies**
18 **and procedures are followed?**

19 A. Yes, it does. PEF uses internal audits to verify that its program management and
20 oversight control are in place and being implemented.

21

22

23

1 **Q. Has the Company implemented other mechanisms to ensure proper oversight and**
2 **review of the Crystal River Project?**

3 A. Yes. We have implemented several mechanisms to ensure proper oversight and review
4 of the Crystal River Project. My project management team and I work closely with the
5 Project Assurance Advisor to identify key project decisions and milestones to ensure that
6 adequate documentation is prepared and maintained. Among other things, the project
7 management team regularly prepares Project Cost Reports to track project expenditures
8 against the detailed project scopes to ensure that PEF receives what it contracted for and
9 that any scope changes are properly evaluated and documented.

10

11 We also conduct a wide variety of meetings to maintain supervision of the project and to
12 ensure that Company management remains fully informed. We conduct regularly
13 scheduled, monthly meetings with the EPC contractor (EPCR) and primary FGD and
14 SCR design and procurement contractor (B&W) to review construction progress and the
15 remaining scope of work. Following those meetings, we hold regular monthly meetings
16 with executive management to review the status of the project and its costs, as well as
17 the administration of the various contracts. Executives from EPCR and B&W
18 participate in these meetings to ensure that management expectations are communicated
19 to the outside vendors as well as the project team.

20

21 The Company also reviews the feasibility of the Crystal River Project with senior
22 management through the Company's Integrated Project Plan ("IPP") process, which has
23 been established for gaining management approval for expenditures of significant funds.

24 The original IPP for the Crystal River Project was prepared in October 2007 in

1 conjunction with the execution of the final EPC contract. Among other things, the IPP
2 outlined the scope of the project, project costs, the Company's risk management
3 strategy, and the economic evaluation discussed in the Integrated Clean Air Compliance
4 Plan submitted to and approved by the Commission in last year's docket.

5

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

7 A. Yes, it does.

