

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**In re: Nuclear Cost Recovery
Clause**

DOCKET NO. 100009
Submitted for filing: March 1, 2010

REDACTED

**DIRECT TESTIMONY OF SUE HARDISON
IN SUPPORT OF ACTUAL COSTS**

**ON BEHALF OF
PROGRESS ENERGY FLORIDA**

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APA	<u>2</u>
ECR	<u>1</u>
GCL	<u>1</u>
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IN RE: NUCLEAR COST RECOVERY CLAUSE

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 100009

DIRECT TESTIMONY OF SUE HARDISON

I. INTRODUCTION AND QUALIFICATIONS

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Q. Please state your name and business address.

A. My name is Sue Hardison. My business address is 410 South Wilmington Street, Raleigh, North Carolina.

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 – Corporate Development Group Business Services.

Q. What are your responsibilities as the General Manager – Corporate Development Group Business Services.

A. This is a new position, created in November of 2009. In this role, I am responsible for financial services for the Corporate Development Group, including budgeting, capital planning and cost management. I am also responsible for project controls and contract administration for the Corporate Development Group. Although the position was not formally in

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1 place until November, I assumed responsibility for much of this work in
2 June of 2009.

3
4 **Q. Please summarize your educational background and work experience.**

5 **A.** I have BA degrees in both Economics and Accounting from North
6 Carolina State University, and a Masters in Business Administration from
7 East Carolina University. I am licensed as a Certified Public Accountant
8 in the State of North Carolina. I have been with Progress Energy -- and
9 formerly Carolina Power & Light -- for nearly 23 years. I have held
10 various accounting, business management and support services roles in
11 several departments in the Company, including Treasury, Accounting,
12 Nuclear Generation, Energy Delivery and Plant Construction. I have been
13 a manager in the Company since 1995. Prior to joining the Company, I
14 spent five years in public accounting, holding staff positions in both a
15 local firm and a 'Big 8' firm.

16
17 **II. PURPOSE AND SUMMARY OF TESTIMONY**

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

19 **A.** My direct testimony supports the Company's request for cost recovery and
20 a prudence determination, pursuant to the Nuclear Cost Recovery Rule, for
21 its Levy Nuclear Project ("LNP") costs incurred from January 2009
22 through December 2009. Overall, LNP costs were [REDACTED] less than PEF's
23 estimated projection costs for 2009. I will also explain the major variances

1 between actual LNP costs and those that were projected in the May 1,
2 2009 filings.

3
4 **Q. Do you have any exhibits to your testimony?**

5 **A.** No. I am, however, sponsoring the cost portions of Schedules T-4, T-4A,
6 T-6, T-6A, T-6B, and Appendix B, as well as portions of Schedules T-7,
7 T-7A, and T-7B of the Nuclear Filing Requirements (“NFRs”), which are
8 included as part of the exhibits to Will Garrett’s testimony. I am
9 sponsoring the generation portions of Schedule T-6, T-6A, T-6B, and
10 Appendix B, which provide actual monthly expenditures and variances to
11 projection for site selection, preconstruction and construction costs.
12 Schedule T-7 is a list of the contracts executed in excess of \$1.0M and
13 Schedule T-7A provides details for those contracts. Schedule T-7B
14 reflects details pertaining to contracts executed in excess of \$250K, but
15 less than \$1.0M. I am supporting the Generation contracts listed on T-7
16 (Lines 1 – 9), T-7A (Pages 40 – 47), and T-7B (Lines 1 – 10). Kenneth
17 Karp, the Transmission witness for PEF, is supporting the Transmission
18 contracts.

19 All of these schedules are true and accurate.

20
21 **Q. Please summarize your testimony.**

22 **A.** PEF requests a prudence determination and approval of the recovery of its
23 2009 actual LNP costs. These 2009 LNP costs, in general, were incurred
24 in connection with LNP licensing, engineering, and procurement

1 activities. As demonstrated in my testimony and the attached NFR
2 schedules, PEF took adequate steps to ensure that these preconstruction
3 and construction costs were reasonable and prudent. PEF negotiated all
4 contract terms under the then-current market conditions and
5 circumstances. Therefore, the Commission should approve PEF's 2009
6 costs as reasonable and prudent pursuant to the Nuclear Cost Recovery
7 Rule. These costs were necessary to the LNP for the completion and
8 operation of Levy Units 1 and 2.
9

10 III. CAPITAL COSTS INCURRED IN 2009 FOR LEVY NUCLEAR PLANT

11 **Q. Before describing what costs were incurred, can you please describe**
12 **the licensing work and activities that were performed for the Levy**
13 **Nuclear Plant in 2009 to generate the licensing activity costs?**

14 **A.** Yes. PEF performed work for the following licensing activities for the
15 LNP in 2009:

16 (1) PEF completed responses to U.S. Nuclear Regulatory Commission
17 ("NRC") Requests for Additional Information ("RAIs") on Safety Issues
18 and Environmental Issues throughout 2009;

19 (2) PEF provided testimony and support for the Florida Department of
20 Environmental Protection ("DEP") Site Certification Application ("SCA")
21 hearings. The Governor and Cabinet, sitting as the Florida Siting Board,
22 approved the Company's SCA on August 11, 2009 and issued the Levy
23 Site Certification on August 26, 2009;

1 (3) PEF completed the SCA Conditions of Certification Reports, which
2 were due 90 days after SCA approval. PEF will complete the
3 Environmental Monitoring Plan and Aquifer Performance Test Plan later
4 in the project prior to construction commencement;

5 (4) The NRC requires that PEF submit an annual update to its Combined
6 Operating License Application (“COLA”). The Company prepared and
7 submitted this annual update (Revision 1 to the Levy COLA) to the NRC
8 on October 2, 2009;

9 (5) On February 6, 2009, three private, anti-nuclear groups, the Nuclear
10 Information and Resource Service (“NIRS”), the Ecology Party of Florida
11 (“EPF”), and the Green Party of Florida (“GPF”) petitioned to intervene
12 and requested a formal hearing in PEF’s NRC COLA docket. The
13 interveners also submitted 12 “contentions” (or technical issues) to be
14 considered by the NRC Atomic Safety and Licensing Board (“ASLB”) at
15 a formal hearing. PEF responded to this petition and the contentions. On
16 April 6, 2009, the NRC ASLB granted the groups’ motion to intervene and
17 request for a formal hearing. On July 8, 2009, the NRC ASLB also ruled
18 to admit parts of three contentions;

19 (6) PEF completed the conceptual Environmental Mitigation Plan, filed it
20 with the DEP, and provided responses to DEP RAIs;

21 (7) PEF continued work on Federal permitting, the Wetland Mitigation
22 Plan and the Baseline Ecological Survey;

23 (8) PEF supported NRC site reviews of geotechnical work activities and
24 technical evaluations; and

1 (9) As a member of Nustart, PEF provided support to the licensing
2 activities associated with the AP1000 Design Control Document (“DCD”)
3 revisions and the standard sections of the Reference Plant COLA (“R-
4 COLA”).

5
6 **Q. What engineering activities and work were performed in 2009 for the**
7 **engineering costs on the Levy Nuclear Plant?**

8 **A.** LNP engineering activities and work included the following:

9 (1) A Grout Test Program was conducted to validate the COL foundation
10 dewatering design concept. This also supported NRC review of COLA
11 Final Safety Analysis Report “FSAR” Section 2.5.4; associated with
12 dewatering, excavation and foundation design.

13 (2) Completion of multiple document reviews in support of the Levy
14 Project, primarily related to early site infrastructure and construction
15 activities in the vicinity of the Barge Slip and Heavy Haul Road and
16 NuStart reviews of the AP 1000 standard Plant design.

17 (3) Completion of an offset Boring Program required to support specific
18 NRC RAI questions associated with site characterization.

19 (4) Engineering support required to respond to NRC RAIs.
20

21 **Q. Did the Company incur any generation-related Site Selection and**
22 **Preconstruction costs for the Levy Nuclear Plant in 2009?**

23 **A.** While the Company did not incur any new capital spend in 2009 in the site
24 selection category, as reflected on Schedule T-6, the Company did incur

1 Preconstruction costs in the categories of License Application,
2 Engineering, Design and Procurement, and On-Site Construction
3 Facilities.

4
5 **Q. For the License Application costs, please identify what those costs are**
6 **and why the Company had to incur them.**

7 **A.** As reflected on line 3 of Schedule T-6.2, the Company incurred License
8 Application costs of \$26.4M. Costs incurred related to:

9 (i) the completion of Revision 1 to the Levy COLA, which was submitted
10 to the NRC on October 2, 2009,

11 (ii) support for the Site Certification hearings,

12 (iii) completion of SCA Conditions of Certification,

13 (iv) completion of a conceptual Environmental Mitigation Plan,

14 (v) responses to contentions filed and admitted in the LNP NRC COLA
15 proceedings,

16 (vi) responses to regulatory agency RAIs related to the SCA and COLA,
17 and

18 (vii) support for Nustart licensing activities associated with the AP1000
19 DCD and R-COLA.

20
21 **Q. For the Engineering, Design and Procurement costs, please identify**
22 **what those costs are and why the Company had to incur them.**

23 **A.** As reflected on line 4 of Schedule T-6.2, the Company incurred
24 Engineering, Design, and Procurement costs of [REDACTED] in 2009. The

1 majority of these costs were incurred pursuant to the terms of the
2 Engineering, Procurement & Construction (“EPC”) agreement. The
3 Company executed the EPC agreement with Westinghouse and Shaw
4 Stone & Webster (the “Consortium”) on December 31, 2008. In the 2009
5 NRC docket, the Commission determined that the timing of PEF’s
6 decision to execute the EPC agreement when it did was reasonable. Upon
7 executing the EPC agreement, [REDACTED]

8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]

16 In late January 2009, the NRC determined that the Company’s
17 Limited Work Authorization (“LWA”) would be reviewed on the same
18 schedule as the Company’s COLA for the LNP precluding issuance of the
19 LWA prior to COL issuance. This determination was reflected in the LNP
20 review schedule the NRC issued in late February 2009. The result of this
21 determination was a minimum 20 month shift in the LNP schedule.
22 Discussions with the NRC did not yield a different result or sufficient
23 modification and, as a result, the Company withdrew its LWA application.
24 PEF formally notified the Consortium on April 30, 2009 of the change

1 pursuant to the contract and requested schedule analyses for potential
2 amendment of the EPC agreement. During the January through April
3 2009 time period PEF incurred approximately [REDACTED] pursuant to the EPC
4 contract for progress payments, long lead equipment, and other associated
5 contractual work.

6 The Consortium formally responded to PEF's notice of change
7 request in August 2009. From May through August 2009 when PEF
8 received the Consortium's response, PEF and the Consortium analyzed the
9 impacts of the schedule shift in 2009 on the LNP work, deferring
10 engineering and the majority of certain procurement activities and project
11 staffing where economical, while continuing the necessary support work
12 for the SCA, the COLA, and the AP1000 design certification. As a result,
13 PEF continued to make certain payments totaling approximately [REDACTED] for
14 the LNP work under the EPC contract during this period.

15 The Consortium's formal response to PEF's notice of change
16 request included schedule shift analyses for negotiations between PEF and
17 the Consortium. From late August through October, PEF analyzed and
18 evaluated the schedule shift proposals and, based on that evaluation, PEF
19 requested additional schedule analysis impacts from the Consortium.
20 From September through the end of the year, PEF incurred about [REDACTED]
21 for the LNP under the EPC agreement. These costs were necessary for the
22 LNP for milestone payments on long lead equipment, engineering and
23 design work, and associated project management and development, [REDACTED]

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[REDACTED]

[REDACTED]

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

A. As reflected on line 7 of Schedule T-6.2, the Company incurred On-Site Construction Facilities costs of (\$274K). PEF recorded the On-Site Construction Facility credit to transfer costs associated with a construction trailer and related computer equipment and furniture to the Crystal River Extended Power Uprate (“EPU”). These assets were originally to be used for the LNP, but after a reorganization of the Nuclear Generation Group in early 2009, they were transferred for utilization by the Crystal River EPU personnel.

Q. How did actual capital expenditures for January 2009 through December 2009 compare to PEF’s estimated/actual projection costs for 2009?

A. Overall, total LNP costs were [REDACTED] less than PEF’s estimated projection costs for 2009. The reasons for the major (more than \$1.0M) variances are provided below.

License Application:

License Application capital expenditures were \$26.6M, which was \$12.4M lower than the estimated/actual projection. This variance is primarily driven by lower than anticipated project scope change requests related to required field work associated with RAI responses for geotechnical and hydrological NRC requests and lower than expected legal expenses and NRC fees.

Engineering, Design & Procurement:

As discussed, Engineering, Design & Procurement capital expenditures were [REDACTED], which was [REDACTED] higher than the estimated/actual projection. The Company's original estimate of this work was based on initial efforts to determine the impact in 2009 resulting from the minimum 20-month schedule shift as a result of the NRC LWA determination. This variance is driven by the completion of material orders for long-lead item work in process by the Consortium before the schedule shift that was not anticipated in the Company's estimate of actual/estimated 2009 costs.

IV. O&M COSTS INCURRED IN 2009 FOR LEVY NUCLEAR PLANT

Q. Did the Company incur any Operation & Maintenance (O&M) costs for the Levy Nuclear Plant in 2009?

A. Yes, as reflected on Schedule T-4, the Company incurred O&M expenditures in the amount of \$4.5M related to internal labor and expenses, legal costs, the NuStart Energy Development LLC program, and

1 financing retainer fees. The explanations for major variances are provided
2 below.

3 **Legal:** O&M expenditures for Legal were \$833K or \$1.2M lower than
4 projected. This variance was primarily attributable to lower than expected
5 outside legal counsel services.

6
7 **Generation:** O&M expenditures for Generation were \$1.7M or \$743K
8 higher than projected. This variance is primarily due to internal costs
9 related to the formation of the Operational Readiness Group and retainer
10 fees for firms evaluating project financing options that were not previously
11 included.

12
13 **Q. To summarize, were all the costs that the Company incurred in 2009
14 for the Levy Nuclear Project reasonable and prudent?**

15 **A.** Yes, the specific cost amounts for the LNP contained in the NFR
16 schedules, which are attached as exhibits to Mr. Garrett's testimony,
17 reflect the reasonable and prudent costs PEF incurred for work in 2009.
18 All of these costs were necessary for the LNP.

19
20 **V. PROJECT MANAGEMENT AND COST CONTROL OVERSIGHT**

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

23 **A.** Yes. The Company continues to utilize applicable policies and procedures
24 to ensure that the costs for the LNP are reasonably and prudently incurred.

1 New corporate procedures introduced in 2009 for project and program
2 management governance are now being utilized on the LNP. As described
3 further in the testimony of Kenneth Karp, a new Real Estate Governance
4 document was approved in 2009. In addition, existing procedures in the
5 areas of contract management, procurement, and accounting were revised
6 to incorporate improvement updates in 2009. The Integrated Project Plan
7 (“IPP”) procedure and several quality-related nuclear specific procedures
8 were also revised in 2009.

9 In addition, the LNP is being undertaken by the Company
10 consistent with the project standards established and implemented by
11 Progress Energy’s Project Management Center of Excellence organization
12 (“PMCoE”). The PMCoE was chartered in 2008 to establish enterprise
13 wide project standards. These standards are based on principles from the
14 internationally recognized Project Management Institute Project
15 Management Body of Knowledge and establish a standardized project
16 management approach that spans tools, templates and processes; training
17 and qualification programs; and adoption of best practices. Training and
18 roll out of these standards was completed in 2009 with fifteen procedures
19 approved. The approved procedures implement best practices for all
20 aspects of Project Management.

21 The Company maintains an IPP procedure to provide guidance
22 regarding evaluation and funding authorization for major projects. The
23 Company adheres to this procedure, along with numerous other policies,
24 procedures, and controls to effectively manage the LNP. In December

1 2009, Progress Energy Senior Management approved an interim IPP
2 update for the LNP effective through March ■, 2010. The interim IPP
3 approves work scope funding to support COLA, SCA Conditions of
4 Certification, strategic land purchases, and continued EPC negotiations,
5 which analyze potential schedule revisions to amend the EPC contract.
6 Also, in June 2009, management approved the Levy Program Governance
7 Policy to establish a sound governance framework with well-defined roles
8 and responsibilities designed to enable timely decision making and ensure
9 rigorous project execution and control. This procedure was revised in
10 2009 to incorporate updates in the areas of quality and nuclear safety.

11 The Records Management System ("RMS") is also used to manage
12 the documents associated with the LNP generation work. To maintain
13 control over the COLA and related work, baseline schedules were
14 completed for projects contained in the program.

15 Nuclear Plant Development ("NPD") continues to work under
16 Nuclear Generation Group ("NGG") and Corporate procedures, as
17 applicable. In 2009, PEF developed and issued multiple EPC procedures,
18 including, Consortium Sub-contracting, Contract Change Control, and
19 Invoice Analysis & Processing. Additional EPC procedures will be issued
20 as the project moves forward. These EPC procedures, along with pending
21 Consortium Project Execution Plans, will be in place to help ensure that
22 effective contractor engagement and oversight is implemented and that all
23 project related activities are performed safely and effectively to achieve
24 goals and objectives. The Company also employs rigorous corrective

1 implementation, identified risk, safety and schedule performance. The
2 status of work on the COLA and SCA applications is discussed, as well as
3 other projects in the Levy Program such as environmental mitigation and
4 strategic land acquisition. Finally, project management expectations are
5 communicated and implemented by the LNP management team. To
6 facilitate these discussions, the Project Managers provide input to the NPD
7 Weekly Program report that is issued to the NPD team and reviewed on an
8 ongoing basis.

9 PEF's LNP management team also meets regularly with outside
10 contract vendors working on the Levy Project to review issues around
11 contract scope of work, safety, technical items, production progress and
12 the work schedule that falls under the vendor contracts. Open change
13 orders, contract requisitions and invoice status are also discussed. To
14 better facilitate contractor oversight, large contracted scopes such as the
15 COLA and SCA are divided into individual tasks that can be more closely
16 managed and monitored. Project management expectations are
17 communicated to the outside vendors. By maintaining supervision over
18 the project, PEF is able to anticipate and manage scope changes, if any,
19 and project expenditure cash flows. The Company also meets regularly
20 with the Consortium to review the status of approved work. Financial
21 Services personnel prepare monthly Cost Management Reports that
22 include all contract, labor, equipment, material and other project cost
23 transactions recorded to the LNP. As stated above, financials included in
24 the report include comparison of actual costs to budget, with explanations

1 for any variances. These reports are regularly reviewed by the LNP
2 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 Project Managers and Finance Management responsible 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, any discrepancies are identified, and corrections are made as
9 needed. In addition to the monthly Finance Committee meetings, Senior
10 Management reviews the LNP to monitor progress.

11
12 **Q. Has the Company developed a separate organization to specifically
13 oversee and manage the Levy project?**

14 **A.** Yes, to effectively manage the EPC contract and the entire Levy project,
15 Progress Energy formed the Nuclear Plant Development (“NPD”) group,
16 which reports to Mr. John Elnitsky, the Vice President of the NPD group.
17 Mr. Elnitsky joined Progress Energy in November 2007 as Vice President
18 of Generation and Transmission Construction (“G&TC”). Mr. Elnitsky is
19 a project Management Institute certified Project Management Professional
20 and a member of the American Nuclear Society and American Society of
21 Mechanical Engineers. Before joining Progress Energy, Mr. Elnitsky
22 served for more than 27 years in the United States Navy rising to the rank
23 of Rear Admiral and holding such positions as Director of Undersea
24 Technology and Atlantic Submarine Force Chief Nuclear Power Officer.

1 He has extensive experience managing the construction and operation of
2 nuclear submarines. The NPD group effectively supports the state-of-the-
3 art plant portion of the Company's balanced solution and provides a
4 concentrated leadership focus on the LNP.

5 In August 2009, Progress Energy formed the Corporate
6 Development Group ("CDG") to bring a more focused review,
7 management, and control of large capital investments. The new
8 Department reports directly to Mr. Jeff Lyash, the Executive Vice
9 President of the Corporate Development Group, and former President and
10 CEO of PEF. The NPD Project Controls organization has been
11 reorganized and reports to the General Manager of CDG, Business
12 Services. This reorganization provides dedicated support in the areas of
13 financial, contracts, and project controls management for NPD and other
14 CDG projects and programs.

15
16 **Q. Does PEF continually review and revise its policies and procedures for**
17 **the Levy project?**

18 **A.** Yes, company procedures are reviewed and revised on an ongoing basis.
19 In 2009, approximately 47 corporate and NGG procedures that apply to
20 the LNP were revised. As stated earlier, existing procedures in the areas
21 of contract management, procurement, and accounting were revised in
22 2009 to incorporate updates and improvements. The IPP procedure and
23 several nuclear specific procedures that focused on the areas of quality
24 assurance and self assessment were also revised in 2009. The Company

1 continuously reviews and updates all applicable project procedures. In
2 addition to the revised procedures, approximately 19 new procedures were
3 developed in 2009. Most of these new procedures were related to PMCoE
4 procedures previously discussed.

5
6 **Q. Are employees involved in the Levy Project trained in the Company's**
7 **project management and cost control policies and procedures?**

8 **A.** Yes, they are. PEF's project management team for the Levy project has
9 been trained in these Company policies. Our employees with
10 responsibilities for managing capital projects receive training on the
11 Company's project management and cost control policies and procedures.
12 Also, when the Company decides to commence a major capital project like
13 the Levy project, additional training is provided to reinforce the
14 Company's policies and procedures. Also, members of the Levy project
15 management team have experience implementing these project
16 management and cost control policies and procedures successfully on
17 other Progress Energy projects.

18
19 **Q. How does the Company ensure that its selection and management of**
20 **outside vendors is reasonable and prudent?**

21 **A.** When selecting vendors for the LNP, PEF utilizes bidding procedures
22 through a Request for Proposal ("RFP") when possible for the particular
23 services or materials needed to ensure that the chosen vendors provide the
24 best value for PEF's customers. Once proposals are submitted by

1 potential vendors, formal bid evaluations are completed and a final
2 selection is determined and documented.

3 When an RFP cannot be used, PEF ensures that the contracts with
4 the sole source vendors contain reasonable and prudent contract terms
5 with adequate pricing provisions (including fixed price and/or firm price,
6 escalated according to indexes, where possible). When deciding to use a
7 sole source vendor, PEF documents a sole source justification for not
8 doing an RFP for the particular work. Both Corporate and Nuclear
9 Generation contracting procedures contain guidance on what justifies
10 using a sole source or single source vendor. The Company requires that
11 all sole or single source contract activity must be justified on the contract
12 requisition and must be approved by the appropriate management level for
13 the dollar value of the contract. This justification for the sole or single
14 source vendor must describe in detail why a sole or single source vendor
15 approach is being taken.

16 The contract development process starts when a requisition is
17 created in the Passport Contracts module for the purchase of services. The
18 requisition is reviewed by the appropriate Contract Specialist in Corporate
19 Services and appropriate technical and management personnel on the Levy
20 project, to ensure sufficient data has been provided to process the contract
21 requisition. The Contract Specialist prepares the appropriate contract
22 document from pre-approved contract templates in accordance with the
23 requirements stated on the contract requisition.

1 Once the contract is ready to be executed, it is approved online by
2 the appropriate levels of the management approval matrix as per the
3 Approval Level Policy, and a contract is created. Contract invoices are
4 received by the LNP Support Services. The invoices are validated by the
5 project managers and Support Services Team. Payment Authorizations
6 approving payment of the contract invoices are entered and approved.
7

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

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

1 **Q. Did the Company prudently implement these project management**
2 **and cost control policies and procedures on the LNP in 2009?**

3 **A.** Yes. The Company has managed the LNP in 2009 consistent with the
4 Company's project management and cost control policies and procedures.
5 The LNP is in the licensing and permitting phase. The COLA was
6 docketed by the NRC in 2009 and is under NRC review. The LNP SCA
7 was obtained in 2009 and the DEP and the Army Corps of Engineers are
8 conducting their review of the LNP site wetlands mitigation program.
9 PEF is performing engineering, environmental and project management
10 activities to support this licensing and permitting process.

11 With the NRC LWA determination in 2009, however, the NRC
12 will not authorize excavation and foundation preparation work until the
13 COL is issued. PEF management reasonably examined possible
14 modifications of this determination with the NRC without success.

15 Without an LWA to perform excavation and foundation preparation work
16 prior to COL issuance there is a minimum 20 month shift in the original
17 LNP schedule. PEF management, accordingly, issued a notice of change
18 to the Consortium consistent with the EPC agreement and requested the
19 Consortium to perform schedule shift scenario analyses. The results of
20 these analyses are necessary for PEF to make an informed decision during
21 negotiations for an EPC contract change order or amendment.

22 PEF negotiated change orders in accordance with the EPC
23 agreement for the schedule analyses work. PEF also negotiated change
24 orders consistent with the EPC agreement to evaluate the deferral of long

1 lead procurements in an economical manner and, where appropriate, took
2 action to defer procurements and other LNP work in response to the
3 schedule shift that occurred as a result of the NRC LWA determination.
4 These change orders were reviewed and approved by PEF management
5 consistent with PEF's project management and cost control policies and
6 procedures.

7 PEF has adjusted the LNP work in 2009 to continue the
8 engineering and other work activities necessary to obtain the required
9 federal and state permits and licenses for the LNP while limiting
10 preconstruction and procurement activities as a result of the minimum 20-
11 month schedule shift. Throughout this process in 2009 PEF continued to
12 manage the licensing, permitting, and change order work, administer the
13 contracts, change orders, and work authorizations, and monitor the project
14 costs for this work consistent with its LNP project management and cost
15 control procedures.

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

19 **A.** Yes, it does. PEF uses internal audits to verify that its program
20 management and oversight controls are in place and being implemented.
21 Internal audits are also conducted on outside vendors. During 2009
22 multiple planned audits were completed, including the EPC Contract
23 Audit, Levy County Governance and Controls Audit, and Cost Recovery
24 Rule Compliance Audit. Based on the results of the audits, Audit Services

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opinion was that the EPC Contract, Cost Recovery Rule Compliance and Levy County Governance and Controls audits were determined to be effective. Process improvement recommendations were noted to promote continuous business excellence and enhanced accountability. Action plans were created to incorporate the recommendations listed in each audit. The Company's project management policies themselves, included in the Company project management documents that I have described above, also contain their own mechanisms to ensure that they are followed and effectively implemented.

Q. Does this conclude your testimony?

A. Yes, it does.