

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**In re: Nuclear Cost Recovery
Clause**

**DOCKET NO. 110009
Submitted for filing:
May 2, 2011**

REDACTED

**DIRECT TESTIMONY OF SUE HARDISON
IN SUPPORT OF ACTUAL/ESTIMATED AND PROJECTED COSTS**

**ON BEHALF OF
PROGRESS ENERGY FLORIDA**

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IN RE: NUCLEAR COST RECOVERY CLAUSE

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 110009

DIRECT TESTIMONY OF SUE HARDISON

1 **I. INTRODUCTION AND QUALIFICATIONS**

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

3 **A.** My name is Sue Hardison. My business address is 100 East Davie Street, TPP 19,
4 Raleigh, NC 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 General Manager – EnergyWise Program Office. I assumed this position with
9 PEC on February 11, 2011.

10

11 **Q. Did this change in employment affect your responsibilities for the Levy**
12 **Nuclear Project?**

13 **A.** No, not at this time. In 2010 I was the General Manager-Corporate Development
14 Group ("CDG") Business Services. In this role I was accountable for the
15 financial reporting, business, and project controls for CDIG-managed major
16 projects, including the Levy Nuclear Project ("LNP"). I will continue to provide
17 support as needed for the LNP in 2011.

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Q. Please summarize your educational background and work experience.

A. I have a Bachelor of Arts degree in both Economics and Accounting from North Carolina State University. I am a licensed Certified Public Accountant in the State of North Carolina. I have been with Progress Energy – and formerly Carolina Power & Light – for nearly 24 years. I have held various accounting, business management and support services roles in several departments in the Company including Treasury, Accounting, Nuclear Generation, Energy Delivery, and Plant Construction. I have been a manager in the Company since 1995. Prior to joining the Company, I spent five years in public accounting holding staff positions in both a local firm and a ‘Big 8’ accounting firm.

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 pursuant to the Nuclear Cost Recovery Rule, for the costs it incurred for the LNP. My testimony supports the Company’s actual/estimated and projected costs for 2011 and 2012.

Q. Have you previously filed testimony in this docket?

A. Yes, I filed testimony on March 1, 2011 in support of the actual costs incurred in 2010 for the LNP.

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

2 **A.** No, however, I am sponsoring portions of the schedules attached to Thomas G.
3 Foster's testimony. Specifically, I am co-sponsoring portions of Schedules AE-4,
4 AE-4A, and AE-6 and sponsoring Schedules AE-6A through AE-7B of the
5 Nuclear Filing Requirements ("NFRs"), included as part of Exhibit No. ___ (TGF-
6 1) to Thomas G. Foster's testimony. I will also be co-sponsoring portions of
7 Schedules P-4 and P-6 and sponsoring Schedules P-6A through P-7B included as
8 part of Exhibit No. ___ (TGF-2) to Mr. Foster's testimony, and co-sponsoring
9 Schedules TOR-4, TOR-6, and TOR-6A which is Exhibit No. ___ (TGF-3) to Mr.
10 Foster's testimony. A description of these Schedules follows:

- 11 • Schedule AE-4 reflects Capacity Cost Recovery Clause ("CCRC") recoverable
12 Operations and Maintenance ("O&M") expenditures for the period.
- 13 • Schedule AE-4A reflects CCRC recoverable O&M expenditure variance
14 explanations for the period.
- 15 • Schedule AE-6 reflects actual/estimated monthly expenditures for site selection,
16 preconstruction and construction costs for the period.
- 17 • Schedule AE-6A reflects descriptions of the major tasks.
- 18 • Schedule AE-6B reflects annual variance explanations.
- 19 • Schedule AE-7 reflects contracts executed in excess of \$1.0 million.
- 20 • Schedule AE-7A reflects details pertaining to the contracts executed in excess of
21 \$1.0 million.
- 22 • Schedule AE-7B reflects contracts executed in excess of \$250,000, yet less than
23 \$1.0 million.

- 1 • Schedule P-4 reflects CCRC recoverable O&M expenditures for the projected
2 period.
- 3 • Schedule P-6 reflects projected monthly expenditures for preconstruction and
4 construction costs for the period.
- 5 • Schedule P-6A reflects descriptions of the major tasks.
- 6 • Schedule P-7 reflects contracts executed in excess of \$1.0 million.
- 7 • Schedule P-7A reflects details pertaining to the contracts executed in excess of
8 \$1.0 million.
- 9 • Schedule P-7B reflects contracts executed in excess of \$250,000, yet less than
10 \$1.0 million.
- 11 • Schedule TOR-4 reflects CCRC recoverable actual to date and projected O&M
12 expenditures for the duration of the project.
- 13 • Schedule TOR-6 reflects actual to date and projected annual expenditures for site
14 selection, preconstruction and construction costs for the duration of the project.
- 15 • Schedule TOR-6A reflects descriptions of the major tasks.

16 These schedules are true and accurate.

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18 **Q. Please summarize your testimony.**

19 **A.** In 2011 and 2012, PEF has incurred and will continue to incur reasonable costs
20 for work on its Combined Operating License Application (“COLA”) to the
21 Nuclear Regulatory Commission (“NRC”) and work related to environmental
22 permitting and implementation of the conditions of certification for its Site
23 Certification Application (“SCA”), which was approved by the Governor and

1 Cabinet sitting as the Siting Board. This work is necessary to obtain the required
2 licenses and permits for the LNP.

3 In addition, under its Engineering, Procurement, and Construction
4 Agreement (“EPC Agreement”) entered into with Westinghouse and Shaw, Stone
5 and Webster (the “Consortium”), PEF incurred and will continue to incur costs
6 for Long Lead Equipment (“LLE”) items, associated support costs, and purchase
7 order management and disposition. PEF will also prepare for and commence
8 negotiations of necessary amendments to the EPC Agreement to efficiently end
9 the current partial suspension of the LNP and continue with the LNP work on the
10 anticipated LNP schedule as discussed in the testimony of Mr. John Elnitsky filed
11 in this docket.

12 In 2011, PEF will begin work on an updated transmission study given the
13 anticipated in-service dates for the LNP. In 2012, PEF will commence work
14 related to detailed transmission design packages. In 2011 and 2012, PEF will
15 continue activity associated with strategic land acquisitions for transmission lines.

16 As demonstrated in my testimony and the NFRs filed as exhibits to Mr.
17 Foster’s testimony, PEF took adequate steps to ensure that the costs it incurred
18 were reasonable and prudent. PEF has also provided reasonable projections for
19 costs to be incurred during the remainder of 2011 and all of 2012. The costs of
20 this work are necessary for the LNP and therefore reasonable.

1 **Q. Please briefly describe the Levy Nuclear Project (“LNP”).**

2 A. The LNP involves the planned construction of two state-of-the-art Westinghouse
3 AP1000 Advanced Passive nuclear power plants in Levy County, Florida and
4 associated transmission facilities to meet the Company’s generation capacity
5 needs. The LNP will provide needed base load generation from a clean, carbon-
6 free generation resource that enhances the Company’s fuel diversity and reduces
7 PEF’s and the State of Florida’s dependence on fuel oil and natural gas to
8 generate electricity.

9
10 **III. 2011 ACTUAL/ESTIMATED AND 2012 PROJECTED PERIODS**

11 **Q. Can you generally explain what the LNP costs are for 2011 and 2012?**

12 A. Yes. As I indicated above, the LNP costs for 2011 and 2012 reflect the
13 Company’s decision to focus work on obtaining the Combined Operating License
14 (“COL”) from the NRC. PEF will continue work related to the conditions for its
15 SCA, work on environmental surveys for the transmission routes and
16 environmental permitting work for the LNP, work on strategic land acquisitions
17 for transmission lines, and will continue work in support of LLE disposition,
18 while deferring most of the capital investment in the project until after the COL is
19 obtained.

20 More specifically, for 2011 and for 2012, PEF will incur costs related to:
21 (1) continuing COLA activities with the NRC, which includes completion of the
22 Roller Compacted Concrete (“RCC”) mix design and specialty testing programs
23 and the submission of structural, seismic, and other Requests for Additional

1 Information (“RAI”) responses for the NRC site specific review of the LNP
2 COLA; (2) completing environmental surveys for the transmission routes and the
3 work on and submittal of the United States Army Corps of Engineers (“USACE”)
4 Section 404 permit for the LNP; (3) completing annual LNP COLA update and
5 preparations for the ASLB hearings; (4) continuing work associated with
6 obtaining the Final Environmental Impact Statement (“FEIS”) from the NRC and
7 the USACE; (5) completing all LLE change orders to approve the final
8 disposition of LLE purchase orders; (6) commencing the preparations for, and the
9 negotiations of, the EPC Agreement amendment(s) necessary for the Full Notice
10 to Proceed (“FNTP”); (7) continuing AP1000 design support and work; and (8)
11 benchmarking and monitoring of licensing activities at other plants. All of this
12 work is necessary to the LNP under the current management decision and LNP
13 schedule.

14 The overall scope of the transmission activities planned for the LNP have
15 not materially changed, but PEF will move forward with an updated transmission
16 study. This study is necessary because the state-wide transmission system that the
17 LNP will connect with is not static, but instead changes with PEF and other
18 electric utility resource and transmission system additions. The initial
19 transmission study for the LNP was performed for the Levy units based on in-
20 service dates of 2016 and 2017. As discussed in the testimony of Mr. Elnitsky
21 filed in this docket, now that the Levy units are expected in-service in 2021 and
22 2022, an updated transmission study must be performed to determine the
23 transmission system impacts of the LNP given the revised in-service dates for

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Levy Units 1 and 2 and the changes in the state-wide transmission system. PEF will begin preparations for the updated transmission study in 2011. It is expected that a new transmission study will be completed by late 2012. In 2012, PEF will commence work related to detailed transmission design packages. In 2011 and 2012, PEF will continue activity associated with strategic land acquisitions for transmission lines. This transmission work scope supports PEF's decision to defer most of the transmission activities past receipt of the COL and to reschedule work based on the expected in-service dates for the LNP.

A. Generation.

Q. Does PEF have nuclear generation preconstruction costs?

A. Yes. PEF has 2011 actual/estimated and 2012 projected preconstruction costs for the LNP. Schedule AE-6 of Exhibit No. ___ (TGF-1) to Mr. Foster's testimony, shows actual/estimated generation preconstruction costs for 2011 in the following categories: License Application development costs of [REDACTED] and Engineering, Design & Procurement costs of [REDACTED] Schedule P-6 of Exhibit No. __ (TGF-2) to Mr. Foster's testimony breaks down the 2012 projected generation preconstruction costs into the following categories: License Application costs of [REDACTED] and Engineering, Design & Procurement costs of [REDACTED]

1 **Q. Please describe what the License Application costs are, and why the**
2 **Company has to incur them.**

3 A. The License Application costs are necessary to support the on-going licensing,
4 environmental, and permit activities for the LNP. This includes the COLA
5 pending before the NRC, the conditions of certification under the LNP SCA, and
6 additional, necessary environmental and other permits required for the LNP.

7 As discussed in the May 2, 2011 testimony of Mr. Elnitsky filed in this
8 docket, the NRC review includes three parts that lead up to the issuance of the
9 LNP COL: (1) the Final Safety Evaluation Report ("FSER"); (2) the FEIS; and
10 (3) the conclusion of the mandatory hearing and any contested hearing on the
11 LNP COLA before the NRC Atomic Safety and Licensing Board ("ASLB"). The
12 issuance of a FSER is preceded by NRC review of the LNP COLA and the NRC's
13 issuance of an Advanced Safety Evaluation Report ("ASER") with no open items.
14 The current NRC milestone for issuance of the ASER is September 2011. The
15 ASER will be reviewed by the Advisory Committee on Reactor Safeguards
16 ("ACRS"). The NRC milestone for the ACRS review and report is January 2012.
17 The ACRS review and report is followed by NRC review and the issuance of a
18 FSER. The NRC milestone target to issue the FSER for the LNP COLA is April
19 2012. PEF will continue to incur costs to support the NRC SER review before
20 issuance of the FSER for the LNP.

21 The draft Environmental Impact Statement ("EIS") for the LNP was
22 issued in August 2010 and the public comment period ended on October 27, 2010.
23 The NRC staff responses to the public comments on the LNP draft EIS are due

1 November 2011. The current NRC milestone for the FEIS is April 2012. PEF
2 will continue to incur costs to support issuance of the FEIS for the LNP.

3 The ASLB allowed three groups to intervene in PEF's NRC LNP COLA
4 docket and admitted parts of three contentions to the LNP COL. Some of these
5 contentions were subsequently dismissed, but the remaining contentions will go to
6 a final hearing before the ASLB. The Company currently anticipates that the
7 ASLB hearings will start in October 2012. PEF will reasonably incur costs in
8 2011 and 2012 to prepare for and participate in these hearings.

9 As discussed in more detail by Mr. Elnitsky, due to regulatory schedule
10 uncertainty at the NRC with respect to the LNP COLA review, we now expect
11 issuance of the LNP COL in mid-2013. PEF will continue to reasonably incur
12 costs in 2011 and 2012 to support the NRC's review and issuance of the FSER,
13 FEIS, and the COL for the LNP.

14 PEF will also complete environmental surveys for the transmission routes,
15 work supporting submittal of the USACE Section 404 permit, and other
16 conditions of certification and environmental permitting activities for the LNP.
17 PEF will further provide the NRC with its annual LNP COLA update.

18 These License Application costs are necessary for the LNP. PEF
19 developed the preconstruction License Application cost estimates on a reasonable
20 licensing and engineering basis, using the best available information to the
21 Company, and consistent with utility industry and PEF practices. For the costs
22 associated with the COLA review and other permit processes, PEF used the terms
23 of its existing contracts as well as updated forecasts, which are provided on a

1 monthly basis by the contractors, to estimate the costs they will incur for the
 2 technical and engineering support necessary for these license and permit review
 3 processes. In addition, PEF based its projections on known project milestones
 4 necessary to obtain the requisite approvals. Because PEF is using actual or
 5 expected contract costs, NRC estimates, and its own experience including
 6 industry lessons learned, PEF's cost estimates for the preconstruction License
 7 Application work are reasonable.

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 9 **Q. Can you please describe the reasons for the difference between the system**
 10 **projected amount for 2011 and the system actual/estimated amount for LNP**
 11 **License Application costs?**

12 **A.** Yes. On April 30, 2010 I filed testimony in Docket No. 100009-EI, including a
 13 projection of License Application costs in 2011 of [REDACTED]. The
 14 actual/estimated costs, as described above, are [REDACTED], a variance of [REDACTED]
 15 [REDACTED]. The variance is primarily attributable to additional costs and activities in
 16 support of providing the NRC responses to open structural, seismic, and other
 17 RAIs such as, completing activities for the RCC mix design and specialty testing
 18 programs, completing site specific Soil-Structure Interaction ("SSI") and other
 19 seismic/structural analyses and costs incurred in support of foundation design
 20 calculation revisions.

1 **Q. Please describe what the Engineering, Design & Procurement costs are, and**
2 **explain why the Company has to incur them.**

3 A. PEF must incur certain Engineering, Design & Procurement costs in 2011 and
4 2012 to move forward with the LNP. Key work scope in 2011 and 2012 by the
5 Consortium and the Company includes completing all LLE negotiations and
6 related change orders, as well as execution, implementation, and oversight of the
7 LLE terms and conditions as described in each approved change order.

8 As discussed in the testimony of Mr. Elnitsky, the majority of the
9 outstanding LLE information needed for final LLE disposition was provided by
10 the Consortium to PEF on February 1, 2011. Following the receipt of this
11 information, PEF completed its reviews and made its final disposition of all
12 outstanding LLE purchase orders. PEF and the Consortium are in the process of
13 executing change orders to implement PEF's disposition options for the LLE.

14 In addition to the LLE work, there will be shared module program
15 development work and defined Project Management Organization ("PMO")
16 activities. Also, PEF will commence preparations for, and the negotiations of, the
17 EPC Agreement amendment(s) necessary to terminate the partial suspension
18 terms and establish the basis for a FNTP to move the LNP forward on a schedule
19 with the expected in-service date for Levy Unit 1 in 2021 and Unit 2 in-service
20 eighteen (18) months later in 2022.

21 PEF developed the preconstruction Engineering, Design & Procurement
22 cost estimates on a reasonable engineering basis, using the best available
23 information. To develop the costs, PEF utilized cost information from the EPC

1 Agreement and information obtained through negotiations with the Consortium.
2 Because PEF is using actual or expected contract costs and a documented detailed
3 qualitative and quantitative analysis to disposition LLE purchase orders, PEF's
4 cost estimates for the preconstruction Engineering, Design & Procurement work
5 are reasonable.

6
7 **Q. Can you please describe the reasons for the difference between the system**
8 **projected amount for 2011 and the system actual/estimated amount for**
9 **Engineering, Design & Procurement costs?**

10 A. Yes. On April 30, 2010 I filed testimony in Docket No. 100009-EI, including a
11 projection of Engineering, Design & Procurement costs in 2011 of [REDACTED].
12 The actual/estimated costs, as described above, are [REDACTED], a variance of
13 [REDACTED] This variance is attributable mainly to the deferred estimated one-
14 time LLE purchase order disposition costs for the [REDACTED]
15 [REDACTED]
16 [REDACTED], offset by lower LLE purchase order disposition and PMO support
17 costs, lower PGN labor, expenses, indirects and overheads

18
19 **Q. Does PEF have generation construction costs?**

20 A. Yes. PEF will have 2011 actual/estimated and 2012 projected construction costs
21 for nuclear generation for the LNP. Schedule AE-6 of Exhibit No. __ (TGF-1) to
22 Mr. Foster's testimony breaks down the 2011 actual/estimated generation
23 construction costs into the following categories: Real Estate Acquisition costs of

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██████████ and Power Block Engineering and Procurement costs of ██████████.
Schedule P-6 of Exhibit No. __ (TGF-2) to Mr. Foster's testimony breaks down
the 2012 projected generation construction costs into the following categories:
Real Estate Acquisition costs of ██████████ and Power Block Engineering and
Procurement costs of ██████████.

**Q. Please describe what the Real Estate Acquisitions costs are, and explain why
the Company has to incur them.**

A. For 2011, real estate acquisition costs will be incurred for residual costs to record
fees related to the LNP barge slip easement payment made in December 2010.
Costs will be incurred in 2012 for a portion of the remaining barge slip easement
acquisition. Costs will also be incurred in 2012 to convey the bike trail state lands
easement, and to acquire a portion of the Blowdown pipeline easement.

The NGPP Real Estate Governance Document (REI-NPDF-00001)
provides guidance for the acquisition of land needed for PEF's nuclear plant
development. This document identifies participants; outlines the acquisition
procedure and payment process; outlines document tracking, approval, filing,
reporting and document management and retention procedures. It was developed
to define and formalize the management and execution of acquiring land and land
rights and to provide for cost oversight and management concerning land
acquisition. This document was updated in December 2010 to incorporate NGPP
organization changes and payment process refinements. Utilizing these
procedures, PEF developed these construction Real Estate Acquisition cost

1 estimates on a reasonable basis, using the best available information, consistent
2 with utility industry and PEF practice.

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Q. Please describe what the Power Block Engineering and Procurement costs are, and explain why the Company has to incur them.

A. Power Block Engineering and Procurement costs in both 2011 and 2012 are for contractual milestone payments and incremental storage and shipping, insurance, and warranty costs on select LLE items and associated support work from the Consortium. For example, in 2011, these LLE contract milestone payments include [REDACTED] which were executed by EPC Agreement Change Order No. 23 and EPC Change Order No. 22, respectively. Final disposition on other LLE items will be documented in forthcoming change orders. As previously discussed, as a result of these final LLE purchase order dispositions, PEF and the Consortium are executing change orders to implement PEF's LLE disposition options for the remaining LLE items described in Exhibit JE-3 to Mr. Elnitsky's May 2, 2011 testimony.

PEF developed these cost estimates utilizing cost information from the EPC Agreement and from information obtained directly through extensive negotiations with the Consortium. PEF's cost estimates for the construction Power Block Engineering and Procurement work are reasonable.

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B. Transmission.

Q. Does PEF have transmission-related preconstruction costs?

A. No.

Q. Does PEF have transmission-related construction costs?

A. Yes. PEF will have 2011 actual/estimated and 2012 projected construction costs for the LNP. Schedule AE-6 of Exhibit No. ___ (TGF-1) to Mr. Foster's testimony shows transmission construction costs for 2011 actual/estimated in the following categories: Real Estate Acquisition costs of [REDACTED] and Other costs of [REDACTED] Schedule P-6 of Exhibit No. __ (TGF-2) to Mr. Foster's testimony breaks down the 2012 projected transmission construction costs into the following categories: Real Estate Acquisition costs of [REDACTED] and Other costs of [REDACTED]

Q. Please describe what the Real Estate Acquisition costs are, and why the Company has to incur them.

A. In 2011 and 2012, Real Estate Acquisition activity for the LNP includes ongoing costs related to strategic Right-of-Way ("ROW") acquisition for the transmission lines during the partial suspension period. These costs are necessary to ensure that the ROW and other land upon which the transmission facilities will be located are available for the LNP.

1 **Q. Please describe what Other costs are, and why the Company has to incur**
2 **them,**

3 A. For 2011 and 2012, these costs include labor and related indirect costs, overheads
4 and contingency in support of strategic transmission ROW acquisition activities.
5 They also include general project management, project scheduling and cost
6 estimating, legal services and external community relations outreach to local,
7 state, and federal agencies. These construction costs are necessary for the
8 transmission project work in support of the LNP.

9
10 **Q. Please describe briefly how the transmission construction cost estimates were**
11 **prepared.**

12 A. PEF developed these Real Estate Acquisition and Other transmission construction
13 cost estimates on a reasonable engineering basis, in accordance with the
14 Association for the Advancement of Cost Engineering International (“AAACEI”)
15 standards, using the best available construction and utility market information at
16 the time, consistent with utility industry and PEF practice. Real estate costs
17 within the project estimates are based on an expected dollar per acre amount
18 based on the type and location of the property using current route selection
19 analysis. The management and indirect costs within the project estimates were
20 developed based on the project schedule and staffing requirements. Costs include
21 PGN labor and related overheads and indirect costs, contingency and escalation
22 related to the inherent risk associated with a conceptual and preliminary design.

1 These estimates reasonably reflect the necessary LNP transmission project work
2 for 2011 and 2012.

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4 **IV. PROJECT MANAGEMENT AND COST CONTROL OVERSIGHT**

5 **Q. Has the Company implemented any additional project management and cost**
6 **control oversight mechanisms for the LNP since the testimony you filed on**
7 **March 1, 2011?**

8 **A.** No, there have been no substantial changes to the LNP project management and
9 cost oversight controls since I described the process in my March 1, 2011
10 testimony in Docket No. 110009. However, there are two additional updates to
11 provide.

12 First, on March 1, 2011, the project team completed a true-up of the 2010
13 baseline estimate to reflect actual 2010 costs incurred and to incorporate
14 completed LLE purchase order disposition costs for certain components. Based
15 upon this true-up, there was no change to the overall expected project cost of the
16 LNP, and the estimate approved in 2010 was maintained by the project team.

17 Second, on March 29, 2011, Progress Energy senior management
18 reviewed an Integrated Project Plan (“IPP”) update for the LNP (Revision 3 to the
19 Levy IPP). This IPP was intended to confirm annual spending for 2011 through
20 mid-2012 for the Levy partial suspension and provide an update related to the
21 decision to continue the partial suspension. Management approved the IPP update
22 and confirmed funding for 2011 through mid-2012 on the LNP consistent with the

1 Company's March 2010 decision to continue with the LNP on a slower pace and
2 defer significant capital investment until after the LNP COL is obtained.

3 With regard to the Company's policies and procedures discussed in my
4 March 1, 2011 testimony, the Company continues to review policies, procedures,
5 and controls on an ongoing basis and makes revisions and enhancements based on
6 changing business conditions, organizational changes, and lessons learned, as
7 necessary. This process of continuous review of our policies, procedures, and
8 controls is a best practice in our industry and is part of our existing LNP project
9 management and cost control oversight.

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

12 **A. Yes, it does.**