

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**In re: Nuclear Cost Recovery
Clause**

**DOCKET NO. 110009
Submitted for filing: March 1, 2011**

REDACTED

DIRECT TESTIMONY OF JOHN ELNITSKY

**ON BEHALF OF
PROGRESS ENERGY FLORIDA**

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IN RE: NUCLEAR COST RECOVERY CLAUSE

BY PROGRESS ENERGY FLORIDA

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DIRECT TESTIMONY OF JOHN ELNITSKY

1 **I. INTRODUCTION AND QUALIFICATIONS**

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

3 A. My name is John Elnitsky. My business address is 299 1st Avenue North, St. Petersburg,
4 Florida.

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

7 A. I am currently employed by Progress Energy, Inc. as Vice President of New Generation
8 Programs and Projects ("NGPP"). I assumed this position in May, 2010. Previously, my
9 position was Vice President of the Nuclear Plant Development ("NPD") organization. I
10 assumed this position in May, 2009. Prior to this appointment, I was employed by
11 Progress Energy as its Vice President of Generation and Transmission Construction
12 ("G&TC"). I joined Progress Energy in November 2007. Prior to my employment with
13 Progress Energy, I served for more than twenty-seven years in the United States Navy
14 rising to the rank of Rear Admiral. My assignments included responsibility for nuclear
15 submarine construction, operation, and maintenance including holding positions as
16 Director of Undersea Technology and Atlantic Submarine Force Chief Nuclear Power
17 Officer.

1 **Q. What is your role with respect to the development of the nuclear power plants, Levy**
2 **Units 1 and 2?**

3 A. As the Vice President of NGPP I am responsible for the licensing and construction of the
4 Levy Nuclear power plant Project (“LNP”), including the direct management of the
5 Engineering, Procurement, and Construction Agreement (“EPC Agreement”) with
6 Westinghouse and Shaw, Stone & Webster (the “Consortium”). As Vice President of
7 NGPP I am responsible for overall program management of the LNP including the
8 associated base load transmission systems projects.

9 With respect to the Levy project I report directly to Jeff Lyash, the LNP’s
10 Executive Sponsor, who has responsibility for LNP governance and execution oversight.
11 Administrative oversight of the LNP is under the Corporate Development and
12 Improvement Group under the leadership of Paula Sims, Senior Vice President of
13 Corporate Development and Improvement. I also report on the LNP to the Senior
14 Management Committee (“SMC”). The SMC has senior management responsibility for
15 the LNP and includes Mr. Lyash, as well as Progress Energy’s Chief Executive Officer
16 (“CEO”), Chief Financial Officer and the CEOs of Progress Energy Florida, Inc. (“PEF”
17 or the “Company”) and Progress Energy Carolinas.

18
19 **Q. Please describe your educational background and professional experience.**

20 A. I earned a Bachelor of Science in Mechanical Engineering degree, with distinction, from
21 the United States Naval Academy in Annapolis, Maryland and both a Master of Science
22 degree and the advanced degree of Mechanical Engineer from the Naval Postgraduate
23 School in Monterey, California. I am also a senior graduate of the Naval Nuclear Power

1 Program and completed Executive Business education at UC Berkley's Hass School of
2 Business and UNC's Keenan Flagler Business School. I am a Project Management
3 Institute certified Project Management Professional and a member of the American
4 Nuclear Society and American Society of Mechanical Engineers.

5 Prior to joining Progress Energy, I served in the United States Navy. While I was
6 with the United States Navy, I commanded nuclear submarines and oversaw the
7 construction of two nuclear submarines through reactor plant initial criticality and sea
8 trials. Prior to commanding a Trident ballistic missile submarine I served as the Atlantic
9 Submarine Force Chief Nuclear Power Officer responsible for the safe reactor plant
10 operations and maintenance of 30 submarines and 4 nuclear maintenance activities. My
11 most recent role in the U.S. Navy was as the commander of the Naval Undersea Warfare
12 Center in Newport, Rhode Island, and as the Navy's Director of Undersea Technology
13 where I led a 4,100 member workforce and a \$1.3 billion research, development, and
14 engineering business. In this capacity I also served as a member of the Warfare Center
15 Board of Directors responsible for 11 laboratories and 18,500 personnel.
16

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

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

19 A. I will describe the disposition of the purchase orders ("POs") for fourteen pieces of Long
20 Lead Equipment ("LLE") under PEF's EPC Agreement with the Consortium as a result
21 of the Company's decision to amend the EPC Agreement to focus LNP work on
22 obtaining the Combined Operating License ("COL") for the LNP and defer most other
23 LNP work until the COL is obtained. This decision was described in detail in my

1 testimony and in Mr. Lyash's testimony last year, in the Nuclear Cost Recovery Clause
2 ("NCRC") proceedings in Docket No. 100009-EI. I will explain the Company's
3 disposition decisions regarding the LLE, including the timeline and process by which the
4 Company made its disposition recommendations and ultimately reached a decision on the
5 LLE. I will also address the revised estimate for LLE disposition costs.

6
7 **Q. Do you have any exhibits to your testimony?**

8 **A.** Yes. I am sponsoring the following exhibits:

- 9 ● Exhibit No. ___ (JE-1), List of the Long Lead Equipment (LLE) for the LNP;
10 ● Exhibit No. ___ (JE-2), May 2010 LLE Timeline; and
11 ● Exhibit No. ___ (JE-3), LLE Disposition Timeline.

12 These exhibits were prepared by the Company under my supervision and direction and they
13 are true and correct. PEF further proposes the identification of PEF's LLE PO disposition
14 decision documentation for use at the final hearing, as may be necessary, subject to the
15 Commission's requirements for the use of confidential exhibits at Florida Public Service
16 Commission ("FPSC" or the "Commission") hearings. These LLE PO disposition
17 documents are subject to strict contractual conditions of confidentiality under the EPC
18 Agreement and amendments, however, they have been made available pursuant to those
19 contractual conditions to the Commission staff and intervening parties who have requested to
20 review them.

1 **Q. Please summarize your direct testimony.**

2 A. The Company's decision to continue the LNP on a slower pace focusing near-term work
 3 on obtaining a COL required the Company to address the status and disposition of the
 4 LLE for the LNP. During 2010, PEF developed a long lead material purchase order
 5 disposition methodology that combined quantitative and qualitative criteria to meet the
 6 Company's objectives to minimize near term costs and impact to customers while
 7 maintaining optimal flexibility for the future LNP construction. This methodology was
 8 implemented throughout 2010 in negotiations with the Consortium and the Consortium's
 9 vendor supply chain to make reasonable and prudent decisions with respect to the LNP
 10 LLE POs consistent with the Company's objectives. PEF believes its approach to the
 11 disposition of LNP LLE POs is reasonable and prudent. The Company's negotiations
 12 resulted in internal LLE disposition decisions that reduced the overall estimate of the
 13 LLE disposition costs to an estimated [REDACTED] in 2011, versus [REDACTED] that was originally
 14 planned in 2010 for the disposition of LLE POs. The Company's step-by-step, analytical
 15 decision-making process and negotiation approach has significantly reduced the
 16 estimated LLE PO disposition cost impact to customers.

17
 18 **III. STATUS OF LONG LEAD EQUIPMENT (LLE) DISPOSITION AND**
 19 **ASSOCIATED PURCHASE ORDERS (POs)**

20 **Q. What are the LLE for the LNP?**

21 A. The LLE for the LNP are the fourteen equipment items listed in Exhibit No. ___ (JE-1) to
 22 my testimony [REDACTED]

23 [REDACTED]

1 [REDACTED] Most of these items were originally part of the Company's March
2 28, 2008 Letter of Intent with the Consortium that were later incorporated into the EPC
3 Agreement when it was executed on December 31, 2008.

4
5 **Q. Can you please describe the status of LLE disposition work following the execution**
6 **of the EPC Agreement?**

7 **A.** Yes. The work on the LLE continued to progress in accordance with the schedules for
8 the LLE in the EPC Agreement. This work continued until April 30, 2009, when PEF
9 notified the Consortium of a partial suspension in the work under the EPC Agreement as
10 a result of the Nuclear Regulatory Commission's ("NRC") determination regarding the
11 Company's then-pending Limited Work Authorization ("LWA") that impacted the LNP
12 schedule in the EPC Agreement. As required by the contract terms, the Consortium then
13 directed its vendors to suspend work on all LLE and to mitigate any additional costs to
14 the extent practicable pending further instructions from PEF.

15 As discussed in my April 30, 2010 testimony in Docket No. 100009-EI, to
16 provide PEF the information it needed to make an informed decision on the LNP
17 schedule shift the Consortium engaged in an extensive analysis of various schedule
18 scenario impacts on all aspects of the work under the EPC Agreement. This included the
19 LLE, and [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 [REDACTED]

23 [REDACTED]

1 [REDACTED]
2 [REDACTED] From July 2009 through August 2009 the Consortium requested and obtained
3 this information from vendors with respect to the pending schedule shift options.

4 In August – October, 2009, PEF made preliminary decisions on three LLE items
5 where work had progressed to the initial manufacturing stages to efficiently advance the
6 work on these LLE items. A summary of our decisions on these items was included in
7 the LLE timeline that was provided as an exhibit to my April 30, 2010 testimony, which I
8 have included as Exhibit No. ___ (JE-2) to my current testimony.

9 As I described in detail in my testimony in the docket last year, PEF received the
10 confidential schedule shift analyses including cash flow impacts by mid-August 2009 and
11 evaluated these scenario estimates. This evaluation included developing an
12 understanding of the impacts of schedule shifts on LLE given the vendor and Consortium
13 information the Company had at that time. The Company's detailed analysis of this
14 information occurred between August and October 2009. As a result of the Company's
15 initial analysis, the Company met with the Consortium on October 23, 2009 to discuss
16 PEF's initial decision on LLE PO dispositions. At that time, the LLE disposition options
17 included continue manufacturing and store completed equipment, PO cancellation, and
18 PO suspension under four schedule shift scenarios, with the longest shift in the first in-
19 service date being 36 months. Accordingly, in early 2010 the Company requested the
20 Consortium to obtain information regarding the costs of the cancellation option that was
21 necessary for the Company to make an informed decision with respect to a longer term
22 schedule shift.
23

1 For the reasons described in detail in my testimony and in Mr. Lyash's testimony
2 in Docket No. 100009-EI, the Company evaluated a longer term schedule shift to
3 minimize the near term capital investment in the LNP until the COL was obtained. In
4 October 2009, PEF initiated discussions with the Consortium regarding this longer term
5 schedule shift option and the necessary contractual amendment to implement it. These
6 discussions continued into 2010 as the Company evaluated this option against proceeding
7 with the LNP as quickly as possible or cancelling the project, and culminated with the
8 Company's decision to implement a longer term schedule shift by extending the partial
9 suspension until the COL was obtained. As a result of this decision, Amendment 3 to the
10 EPC Agreement was executed.

11
12 **Q. How did the process continue into 2010?**

13 A. Through the first quarter of 2010 PEF and the Consortium worked together reviewing
14 and discussing the potential options for disposition of all remaining LLE items for which
15 disposition decisions had not yet been made. In January 2010, as I indicated above, PEF
16 requested that the Consortium quantify the potential costs of cancelling the LLE vendor
17 orders that had been placed for the LNP pursuant to the terms of the EPC Agreement.
18 The Consortium worked with its vendors during the first quarter of 2010 to compile this
19 information, and presented preliminary cost data to PEF related to cancellation fees for
20 LLE POs on February 26, 2010.

21
22 **Q. How were the LLE PO disposition costs incorporated into the decision on whether**
23 **to continue, shift, or cancel the LNP as a whole?**

1 A. LLE PO disposition costs were always one of the factors that PEF and the Consortium
2 were looking at and analyzing as PEF reviewed the schedule shift scenario options. On
3 February 15, 2010, I made a presentation to the SMC regarding the Company's options
4 for the LNP. This presentation included a preliminary overview of PEF's discussions
5 with the Consortium on potential cost impacts for deciding to continue or cancel specific
6 pieces of LLE. The cost data we had at that time was still in draft form and preliminary;
7 however, it was the best data available.

8
9 **Q. What cost estimate for LLE PO disposition costs was included in the February 15,**
10 **2010 presentation?**

11 A. Based on the preliminary information and discussions with the Consortium a
12 conservative estimate was that PEF would incur ██████ in LLE PO disposition costs in
13 2010. These costs were attributable to the applicable cancellation fees. This preliminary
14 cost estimate was based on dialogue with the Consortium regarding most likely LLE
15 disposition options under a longer-term partial suspension scenario. These LLE
16 disposition costs were presented to senior management in February as estimated costs
17 based on best available information at the time.

18
19 **Q. Did PEF receive additional information related to the LLE PO disposition options**
20 **and cost impacts?**

21 A. Yes. Following additional discussions with PEF, the Consortium provided refinements to
22 the preliminary LLE disposition data on March 15, 2010. This information, however,
23 was still preliminary; therefore, in order to make a more informed decision regarding the

1 LLE disposition options of continuation or cancellation at that time PEF needed more
2 information from the Consortium. In April 2010, PEF requested additional supporting
3 information from the Consortium, and documentation of the cost data that had previously
4 been presented to PEF.

5 Throughout April 2010, PEF and the Consortium continued discussions between
6 themselves and with vendors regarding the potential LLE disposition options. These
7 discussions revealed a third, alternative option involving the suspension of LLE items,
8 rather than continuation or cancellation. As a result, PEF began verbal inquiries
9 regarding the types of costs that might be incurred if PEF elected to suspend LLE items
10 as a potential path forward. Negotiations on suspension of an LLE PO involved several
11 issues including [REDACTED]
12 [REDACTED]

13 The Consortium responded to PEF's inquiries on May 5, 2010 with preliminary,
14 estimated values and data on the costs of the cancellation, continuation, and suspension
15 options for each piece of LLE equipment. PEF used this information to begin its internal
16 PO disposition analysis.

17
18 **Q. What was involved in PEF's internal LLE disposition analysis?**

19 **A.** PEF developed a LLE PO disposition methodology that combined quantitative and
20 qualitative criteria to meet the Company's objectives to minimize the near term costs and
21 impact to customers while maintaining optimal flexibility for the future LNP
22 construction. PEF retained an independent third party to work with its internal PO
23 disposition team to review and refine criteria used to analyze disposition options and to

1 assess PEF's final decisions. In April through mid-June 2010, the PO disposition team
2 developed a disposition package for each item of equipment using the quantitative and
3 qualitative criteria outlined above. Each detailed analytics spreadsheet analyzed
4 estimated cost and schedule impacts for each piece of LLE for the three potential paths,
5 1) continue and store, 2) suspend and resume, and 3) cancel and re-negotiate.
6

7 **Q. What did PEF's internal PO disposition team recommend regarding PEF's**
8 **proposed disposition of the LLE items?**

9 A. At the end of June 2010, PEF completed its LLE disposition evaluation and
10 recommendations to senior management. Seven (7) items were dispositioned as
11 "Continue Manufacturing to Completion" and seven (7) items were dispositioned as
12 "Suspend and Resume." PEF officially notified the Consortium of its preliminary
13 decisions regarding the disposition of the LLEs and associated POs. Under the EPC
14 Agreement, this notification triggered the Consortium's contractual obligation [REDACTED]

15 [REDACTED]
16 [REDACTED] The Consortium sent the RFPs out to its vendors at the end of July
17 2010. Pursuant to the EPC Agreement [REDACTED]

18 [REDACTED] For the LLE POs that PEF initially decided to "Suspend and Resume," PEF
19 thereafter continued to work with the Consortium and its vendors to negotiate favorable
20 suspension terms.
21

22 **Q. Was PEF's decision on LLE disposition final at this point?**

23 A. No. We provided recommendations to Company management on paths forward based on

1 the best available information at the time the recommendations were made. However, at
 2 that time, formal RFPs had yet to be issued and vendor negotiations, while ongoing, were
 3 not concluded. Thus, PEF's recommendations regarding the disposition of LLE POs
 4 reflected initial decisions that were subject to change based on refined, formalized cost
 5 data from the RFP responses and the conclusion of negotiations with the Consortium and
 6 its vendors on the terms and conditions.

7
 8 **Q. Please describe the information received from the Consortium in response to the**
 9 **RFPs?**

10 A. By mid-September 2010, the Consortium had received a portion of the requested
 11 information in response to the RFPs from its vendors. The Consortium proceeded to
 12 evaluate, review, and package the data prior to PEF's review. On September 29, 2010,
 13 the Consortium provided an update to PEF on the status of the vendor data it had received
 14 and reviewed. [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 Thereafter, from mid-September through mid-December 2010, the Consortium
 19 and PEF held discussions regarding analyzing data to try to separate LLEs into similar
 20 categories to facilitate decisions on certain pieces of equipment. These categories were
 21 identified as "Near-term," "Intermediate-term," and "Longer-term." The "Near-term"
 22 designation indicated that the vendor suspension and resume option information was
 23 complete and change orders were finalized for these LLE items. There were three (3)

1 "Near-term" LLE items. The "Intermediate-term" designation indicated that most
2 information regarding the suspension and resume option from the vendor was available,
3 but certain, additional follow-up refinement of the information by the Consortium was
4 necessary. Still, the Company expected to be able to execute change orders to implement
5 the selected options with these particular vendors. There were five (5) "Intermediate-
6 term" LLE items. Finally, the "Longer-term" designation indicated that gaps in
7 Consortium and/or vendor information existed, requiring further negotiations with the
8 Consortium and their vendors and a more thorough analysis of the option based on
9 obtaining additional information and the on-going negotiations. As a result, the
10 execution of change orders to implement the selected option with respect to these
11 "Longer-term" LLE items was less certain and expected to take longer, to the end of the
12 first quarter 2011 at least, to execute if the suspend and resume option was determined to
13 be the reasonable option. There were four (4) "Longer-term" LLE items. Two (2) LLE
14 items did not require change orders.

15
16 **Q. What are the next steps in the process for PEF?**

17 A. For the "Intermediate-term" and "Longer-term" LLE items the final response from the
18 Consortium was provided on February 1, 2011. PEF is in the process of reviewing the
19 information and will reanalyze the information using the same analytical process as
20 described earlier. PEF expects to conclude all LLE negotiations by April 2011.

21
22 **Q. Has the LLE PO disposition cost estimate been updated since 2010?**

23 A. Yes, PEF has refined the estimate based on the additional, more detailed Consortium and

1 vendor information that PEF has received since that estimate was generated in 2010 and
2 that I have described above. As a result, of this additional information PEF has reduced
3 the overall estimate of the LLE disposition costs to an estimated [REDACTED] in 2011, versus
4 [REDACTED] that was originally planned in 2010.

5
6 **Q. Why is this different from PEF's original estimate to management in February 2010**
7 **or PEF's April 2010 filing?**

8 A. As I indicated previously, PEF originally included [REDACTED] for the estimated LLE PO
9 disposition costs in its presentations to senior management in February and March 2010
10 that were the foundation of the Company's decision to proceed more slowly with the
11 LNP by extending the partial suspension and deferring substantial capital costs to after
12 the COL for the LNP was obtained. This was a conservative estimate, as I again
13 indicated above, based on the estimated costs to continue or cancel the LLE POs for later
14 re-negotiation. Those were the viable options presented by the Consortium at that time
15 for the disposition of LLE items, given the Company's decision. The Company included
16 [REDACTED] of this estimated cost in its actual/estimated 2010 cost estimates in the docket last
17 year. This decision was made because the Company anticipated obtaining the
18 information needed and concluding negotiations to a point where it could make LLE
19 disposition decisions in 2010, thus, leading to the incurrence of LLE disposition costs in
20 2010.

21 As PEF obtained information regarding the disposition of LLE items and
22 continued LLE disposition negotiations with the Consortium and vendors in 2010 the
23 Company's ability to identify suspension and resumption of the work as a third option in

1 these negotiations had the greatest positive impact on the estimation of the LLE
2 disposition costs and the timing of when they might be incurred. The ability to negotiate
3 a suspension and resumption of LLE work option with the Consortium provided the
4 Company the opportunity to minimize the LLE disposition costs estimated as a result of
5 the cancellation option. PEF successfully pursued this opportunity in 2010, by first
6 obtaining information to confirm that this was in fact a more cost-effective option to
7 cancellation with most LLE vendors, and then, by reaching the point in negotiations with
8 the Consortium and most LLE vendors where this option could be selected and a change
9 order executed. This process, of course, took time as I have described above, and as a
10 result the timing of the expected incurrence of any LLE disposition costs was deferred to
11 2011. The successful negotiations of this option further reduced the estimated cost impact
12 to PEF and its customers from the originally estimated [REDACTED] for primarily cancellation
13 to an estimated [REDACTED] for disposition. As mentioned above, the [REDACTED] estimate included
14 in the 2010 Actual/Estimated NFR's last year was not incurred in 2010. The most up-to-
15 date estimate (approximately [REDACTED]) will be included in the 2011 Actual/Estimated
16 NFR's filed later this year. As a result, there is a variance associated with the [REDACTED]
17 estimated amount in the true-up of actual estimated 2010 costs to 2010 actual costs, as
18 indicated on Schedule T-6B.2 line 2 in Exhibit No. ____ (WG-2) to Mr. Garrett's
19 testimony.

1 **Q. Was this LLE PO disposition evaluation process conducted in a reasonable and**
2 **prudent manner?**

3 A. Yes, this process was conducted in a reasonable and prudent manner and was directly in
4 line with the Company's goal to minimize the near term costs and impact to customers
5 while maintaining optimal flexibility for the future LNP construction. In fact, the step-
6 by-step analytical decision process and negotiation approach ultimately significantly
7 reduced the estimated LLE PO disposition costs and thus customer impact.

8
9 **Q. Does this conclude your testimony?**

10 A. Yes it does.
11

Docket No. 110009
Progress Energy Florida
Exhibit No. _____ (JE-1)
Page 1 of 1

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Docket No. 110009
Progress Energy Florida
Exhibit No. _____ (JE-2)
Page 1 of 1

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Docket No. 110009
Progress Energy Florida
Exhibit No. _____ (JE-3)
Page 1 of 1

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