

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 SUE HARDISON
IN SUPPORT OF ACTUAL COSTS**

**ON BEHALF OF
PROGRESS ENERGY FLORIDA**

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ECR	<u>6</u>
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IN RE: NUCLEAR COST RECOVERY CLAUSE

BY PROGRESS ENERGY FLORIDA

FPSC DOCKET NO. 110009

DIRECT TESTIMONY OF SUE HARDISON

11 **I. INTRODUCTION AND QUALIFICATIONS.**

2 **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 in 2010?**

13 **A.** No. In 2010 I was the General Manager-Corporate Development Group ("CDG")
14 Business Services. In this role I was accountable for the financial reporting,
15 business, and project controls for CDIG-managed major projects, including the
16 Levy Nuclear Project ("LNP"). I will continue to provide support as needed for
17 the LNP in 2011.

1 **Q. Please summarize your educational background and work experience.**

2 **A.** I have a Bachelor of Arts degree in both Economics and Accounting from North
3 Carolina State University. I am a licensed Certified Public Accountant in the
4 State of North Carolina. I have been with Progress Energy – and formerly
5 Carolina Power & Light – for nearly 24 years. I have held various accounting,
6 business management and support services roles in several departments in the
7 Company including Treasury, Accounting, Nuclear Generation, Energy Delivery,
8 and Plant Construction. I have been a manager in the Company since 1995. Prior
9 to joining the Company, I spent five years in public accounting holding staff
10 positions in both a local firm and a ‘Big 8’ accounting firm.
11

12 **II. PURPOSE AND SUMMARY OF TESTIMONY.**

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

14 **A.** My direct testimony supports the Company’s request for cost recovery and a
15 prudence determination, pursuant to the Nuclear Cost Recovery Rule, Rule 25-
16 6.0423, F.A.C., for the Company’s LNP generation and transmission costs
17 incurred from January 2010 through December 2010. I will also explain the
18 major variances between actual LNP costs and actual/estimated costs included in
19 the Company’s April 30, 2010 filings in Docket No. 100009-EI. John Elnitsky
20 will also provide additional detail regarding status of LNP work and reasons for
21 the costs incurred.
22
23
24

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

2 **A.** No. I will, however, be co-sponsoring portions of Schedules T-4, T-4A, T-6, and
3 Appendix D of the Nuclear Filing Requirements (“NFRs”), which are included as
4 part of the exhibits to Will Garrett’s testimony, Exhibit No. ___(WG-2). I am
5 also sponsoring Schedules T-6A through T-7B. Schedule T-6A is a description of
6 the major tasks. Schedule T-6B reflects capital expenditure variance
7 explanations. Schedule T-7 is a list of the contracts executed in excess of \$1.0
8 million and Schedule T-7A provides details for those contracts. Schedule T-7B
9 reflects details pertaining to contracts executed in excess of \$250,000, but less
10 than \$1.0 million.

11 All of these schedules are true and accurate.

12
13 **Q. Please summarize your testimony.**

14 **A.** PEF requests a prudence determination and approval of the recovery of its 2010
15 actual LNP costs. These 2010 LNP costs were incurred in connection with
16 licensing application activities to support the Levy Combined Operating License
17 Application (“COLA”) to the Nuclear Regulatory Commission (“NRC”),
18 engineering and procurement activities in support of the COLA, and for
19 continuation of PEF’s Engineering, Procurement and Construction (“EPC”)
20 contract and disposition of Long Lead Equipment (“LLE”) Purchase Orders
21 (“PO”) for the LNP. In addition, costs were incurred for Levy Transmission
22 strategic land acquisition activities. PEF took adequate steps to ensure that the
23 2010 LNP costs were reasonable and prudent and that all of these costs were
24 necessary to the LNP for the completion and operation of Levy Units 1 and 2.

1 Accordingly, the Commission should approve PEF's 2010 costs as reasonable and
 2 prudent pursuant to the nuclear cost recovery rule.

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III. CAPITAL COSTS INCURRED IN 2010 FOR THE LNP.

Q. What was the total overall difference between PEF's actual 2010 costs and PEF's actual/estimated costs for 2010?

A. Overall LNP costs, inclusive of transmission and generation costs, were [REDACTED] [REDACTED] or [REDACTED] less than PEF's actual/estimated costs for 2010. The reasons for this variance are described below and [REDACTED] of this variance is related to one item also discussed further in Mr. Elnitsky's March 1, 2011 testimony.

A. GENERATION.

Q. Can you please describe the work and activities that were performed for the LNP in 2010 to generate these costs?

A. Yes. PEF performed work on the following activities for the LNP in 2010: Licensing; Engineering, Design and Procurement; Project Management; Real Estate Acquisition; and Power Block Engineering and Procurement. The work on these activities for the LNP in 2010 resulted in preconstruction and construction costs.

Q. Can you explain what licensing work was done for the LNP in 2010?

A. Yes. Throughout 2010, the Levy New Generation Programs and Projects ("NGPP") group continued to provide responses to NRC Requests for Additional

1 Information (“RAIs”) on safety and environmental issues. As a result of this
2 work, the Draft of the Environmental Impact Statement, which is part of the
3 COLA process, was issued by the NRC on August 13, 2010, and public hearings
4 were held to discuss this document on September 23, 2010. The NGPP group
5 further worked on Revision 2 to the Levy COLA, which was submitted to the
6 NRC on October 6, 2010.

7 On July 8, 2009, the Atomic Safety and Licensing Board (“ASLB”) ruled
8 to admit parts of three contentions that were filed by the Nuclear Information and
9 Resource Service (“NIRS”), the Ecology Party of Florida (“EPF”), and the Green
10 Party of Florida (“GPF”) in response to the Levy COLA. In 2010, the NGPP
11 developed a process to disclose and provide all documents related to the
12 contentions, and has continued in 2010 to work on and submit responsive
13 documents to the ASLB on a monthly basis.

14 The NGPP group further provided information needed by the U.S. Army
15 Corps. of Engineers (“USACE”) to complete the Jurisdictional Determination of
16 wetlands by USACE. The NGPP group responded to the USACE comments
17 regarding the Least Environmentally Damaging Practicable Alternative
18 (“LEDPA”) analysis. The NGPP group also initiated detailed environmental
19 engineering studies required to support the Wetland Mitigation Plan
20 implementation for the Florida Department of Environmental Protection
21 (“FDEP”). The Wetland Mitigation Plan was submitted on April 29, 2010, and
22 FDEP questions regarding this plan were subsequently addressed in 2010. The
23 Wetland Mitigation Plan was administratively approved by FDEP on November

1 8, 2010. The NGPP group completed the following additional, required
2 Conditions of Certification Reports for FDEP:

- 3 o Barge Canal & Withlacoohee River Monitoring Plan
- 4 o Crystal Bay Surface Water Monitoring
- 5 o Discharge Monitoring Plan
- 6 o Floodplain Compensation Plan

7 Finally, the NGPP group has continued to participate in industry groups
8 including NuStart and the AP1000 Owner's Group ("APOG"). The NGPP group
9 continues the work necessary to support the joint efforts of these industry groups.
10 Throughout 2010, NGPP provided support to NuStart for review of documents in
11 the development of AP1000 DCD Revision 18 and Revision 19 and the Reference
12 COLA ("R-COLA") and to APOG for joint licensing and operational program
13 development.

14
15 **Q. What engineering work was done for the LNP in 2010?**

16 **A.** In 2010, PEF conducted engineering activities in support of its COLA for the
17 LNP. This included ongoing engineering support to assist the licensing activities
18 in response to NRC RAIs. In 2010, PEF completed all engineering, reporting
19 activities, and RAIs related to the Offset Boring Program. PEF also completed a
20 site specific Soil-Structure Interaction Analysis ("SSI") for the proposed AP1000
21 Nuclear Island in response to NRC RAIs. PEF further developed the Roller
22 Compacted Concrete ("RCC") Mix Design and Specialty Testing Programs in
23 response to NRC RAIs and began the laboratory portion of the RCC Mix Design
24 Program. Finally, PEF engineers developed the conceptual drilled shaft

1 foundation design concept for the non-safety related structures (Turbine Building,
2 Radwaste Building and Annex Building).

3 In the beginning of 2010, PEF's engineering team also completed multiple
4 document reviews in support of the partial suspension of the EPC contract for the
5 LNP. These reviews were primarily related to ensuring that the site-specific
6 engineering work performed to date was properly documented in order to allow
7 the work to continue with minimal interruption when the partial suspension is
8 lifted. PEF engineering personnel also participated in multiple NuStart
9 Management and Design Review meetings and provided engineering support for
10 the joint APOG efforts in Engineering Program development.

11
12 **Q. Can you generally describe the project management work on the LNP in**
13 **2010?**

14 **A.** Yes. On March 25, 2010, PEF and the Consortium executed Amendment 3 to the
15 EPC contract. This amendment to the EPC agreement set the stage for the
16 Company's revised schedule for the LNP. Throughout 2010, baseline schedules
17 and costs estimates were completed for the LNP based on the new in-service date
18 as defined in revision 2 of the Levy IPP dated April 28, 2010. Project control
19 metrics were established which included metrics for cost, schedule, safety,
20 compliance, and risk. Work also continued to update the EPC Change Order
21 review and approval process procedure to ensure compliance with NGG
22 contracting procedures. The procedure was utilized to authorize incremental
23 work scopes during the partial suspension period. The work scopes were
24 evaluated and appropriate Change Orders were issued.

1 Members of the Levy EPC project team also worked to evaluate the
2 impacts and options on Long Lead Equipment (LLE) based on the estimated shift
3 in the in-service dates. PEF conducted the evaluation of options based on
4 information received from the Consortium and its vendors. PEF continues to
5 work with the Consortium and its vendors to negotiate the selected LLE PO
6 disposition paths. The disposition of the LLE POs is discussed in more detail in
7 the March 1, 2011 testimony of John Elnitsky.

8 PEF also finalized the Levy Estimate in March of 2010 and created a
9 Readiness Requirements document that provides an outline of the major activities
10 and key decisions that support a Full Notice to Proceed (FNTP) for the LNP. The
11 activities described in the document work in concert with the Levy Readiness
12 Requirements Timeline to provide additional clarity regarding the time frames of
13 the key activities and decision points.

14
15 **i. Preconstruction Generation Costs Incurred.**

16 **Q. Did the Company incur any Generation preconstruction costs for the LNP in**
17 **2010?**

18 **A.** Yes. As reflected on Schedule T-6.2, the Company incurred preconstruction costs
19 in the categories of License Application and Engineering, Design, and
20 Procurement.

21
22 **Q. For the License Application costs, please identify what those costs are and**
23 **why the Company had to incur them.**

24

1 A. As reflected on Line 3 of Schedule T-6.2, the Company incurred License
2 Application costs of [REDACTED] in 2010. The costs incurred were for the licensing
3 activities supporting the LNP COLA that I previously described.

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

7 A. As reflected on Line 4 of Schedule T-6.2, the Company incurred Engineering,
8 Design, and Procurement costs of [REDACTED] in 2010. The costs incurred related to:
9 (1) AP1000 design finalization royalty milestone payments of [REDACTED] pursuant to
10 PEF's contractual obligations under the partial suspension terms in the EPC
11 contract; (2) [REDACTED] in contractual payments to the Consortium for project
12 management, quality assurance, PO disposition support, and other Home Office
13 Services such as Accounting and Project Controls; (3) [REDACTED]
14 [REDACTED] under the EPC agreement; and (4) [REDACTED] of PGN labor,
15 expenses, indirects and overheads for general project management, project
16 scheduling and cost estimating, legal, and other support services that were
17 necessary for the LNP.

18
19 **Q. How did Generation preconstruction actual capital expenditures for January
20 2010 through December 2010 compare to PEF's estimated/actual costs for
21 2010?**

22 A. LNP preconstruction generation costs were [REDACTED], or [REDACTED] less than PEF's
23 actual/estimated costs for 2010. The reasons for the major (more than \$1.0
24 million) variances are provided below.

1 **License Application:** License Application capital expenditures were
2 ██████████, which was ██████████ less than the actual/estimated License
3 Application costs for 2010. This variance is primarily driven by a shift in
4 the NRC COL review schedule which resulted in lower than estimated
5 NRC fees and related licensing and consultant fees, as well as the
6 associated contingency, internal staffing and expenses and outside legal
7 counsel costs that were related to the NRC review schedule shift.

8
9 **Engineering, Design & Procurement:** As I previously indicated,
10 Engineering, Design & Procurement capital expenditures were ██████████,
11 which was ██████████ less than the actual/estimated Engineering, Design &
12 Procurement costs for 2010. This variance is driven primarily by the
13 deferral of the 2010 estimated ██████████ for one-time LLE PO disposition
14 cost to 2011 based on the continued negotiations with the Consortium and
15 its vendors regarding the LLE PO dispositions in 2010. The status of the
16 LLE PO disposition and the reason for this variance are also discussed in
17 more detail in the March 1, 2011 testimony of John Elnitsky. The
18 remaining ██████████ variance is related to lower than anticipated payments
19 for engineering and design work, associated project management and
20 development, PO disposition support, Home Office Services, and PGN
21 labor, expenses, indirects and overheads and ██████████
22 ██████████ under the EPC agreement.

1 ii. Construction Generation Costs Incurred.

2 **Q. Did the Company incur any Generation construction costs for the LNP in**
3 **2010?**

4 **A.** Yes. As reflected on Schedule T-6.3, the Company incurred generation
5 construction costs in the categories of Real Estate Acquisitions and Power Block,
6 Engineering and Procurement.

7
8 **Q. For the Real Estate Acquisition costs, please identify what those costs are and**
9 **why the Company had to incur them.**

10 **A.** As reflected on Line 3 of Schedule T-6.3, the Company incurred Real Estate
11 Acquisition costs of [REDACTED] in 2010. Costs incurred related to land acquisitions
12 for the LNP, including [REDACTED] for the purchase of state lands for the LNP Barge
13 Slip easement and [REDACTED] for the Inglis Island Bike Trail.

14
15 **Q. For the Power Block Engineering and Procurement costs, please identify**
16 **what those costs are and why the Company had to incur them.**

17 **A.** As reflected on Line 8 of Schedule T.6-3, the Company incurred Power Block
18 Engineering and Procurement costs of [REDACTED] in 2010. These costs were for EPC
19 milestone payments for certain LLE items including the: [REDACTED]

20 [REDACTED]
21 [REDACTED]
22 [REDACTED]

1 **Q. How did actual generation construction capital expenditures for January**
2 **2010 through December 2010 compare to PEF's actual/estimated costs for**
3 **2010?**

4 **A.** LNP construction generation costs were [REDACTED], or [REDACTED] greater than PEF's
5 estimated projection costs for 2010. The reasons for the major (more than \$1.0
6 million) variances are provided below.

7 **Real Estate Acquisition:** Real Estate Acquisition capital expenditures
8 were [REDACTED] which was [REDACTED] greater than the actual/estimated Real
9 Estate Acquisition costs for 2010. This variance is primarily driven by the
10 transfer of funding responsibility and payment for state lands Barge Slip
11 easement from Levy Transmission to Generation. The transfer was
12 reflected in cost management reports after the April 30, 2010
13 actual/estimated cost filings.

14 **Power Block Engineering and Procurement:** Power Block Engineering
15 and Procurement capital expenditures were [REDACTED], which was [REDACTED]
16 greater than the actual/estimated Power Block Engineering and
17 Procurement costs for 2010. This variance is driven primarily by
18 payments to the Consortium under the EPC contract for the earlier than
19 scheduled completion of partial milestones for certain items of LLE --
20 including the [REDACTED]

21
22 **B. TRANSMISSION.**

23 **Q. Can you describe what transmission work and activities were performed in**
24 **2010 for the LNP?**

1 A. Yes. At the beginning of the year, responsibility for any active Levy
2 Transmission activities was re-assigned to the NGPP Licensing organization.
3 Primary activities for 2010 included review and closeout of transmission activity
4 contracts, project management reviews related to adjusting entries for the Levy
5 portion of the road widening construction project along Sunshine Grove Road
6 completed by Transmission Operations in 2010, and minimal strategic right-of-
7 way ("ROW") acquisition work in the 500kV common corridor. The work focus
8 was on strategic acquisition and planning for the new Transmission Study
9 scheduled to start in the fourth quarter of 2011. Further transmission activities
10 were suspended due to the partial work suspension for the LNP and the schedule
11 for the revised in-service dates for the Levy nuclear units.

12
13 i. **Preconstruction Transmission Costs Incurred.**

14 Q. **Did the Company incur transmission-related preconstruction costs for this**
15 **transmission work and activity for the LNP in 2010?**

16 A. Yes, as reflected on Schedule T-6.2 the Company incurred transmission-related
17 preconstruction costs in the categories of Line Engineering, Substation
18 Engineering, Clearing, and Other.

19
20 Q. **For the Line Engineering costs, please identify what those costs are and why**
21 **the Company had to incur them.**

22 A. As reflected on Line 17 of Schedule T-6.2, the Company incurred Line
23 Engineering costs of [REDACTED]. These costs included the residual trailing charges
24 from 2009 to complete payments for contracted design and engineering, wetlands

1 delineation, survey and mapping, and other general environmental services from
2 the Patrick Energy Services and Golder & Associates contracts.

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

6 **A.** As reflected on Line 18 of Schedule T-6.2, the Company incurred Substation
7 Engineering costs of [REDACTED]. This decrease results from a true-up of residual
8 charges from 2009 to complete adjusting entries to transfer responsibility for the
9 Levy Central Florida South substation projects to Transmission Operations.

10
11 **Q. For the Clearing costs, please identify what those costs are and why the
12 Company had to incur them.**

13 **A.** As reflected on Line 19 of Schedule T-6.2, Clearing costs were [REDACTED]. These
14 costs reflect accounting entries for the Levy portion of the road widening
15 construction project along Sunshine Grove Road completed by Transmission
16 Operations in 2010.

17
18 **Q. For the Other costs, please identify what those costs are and why the
19 Company had to incur them.**

20 **A.** As reflected on Line 20 of Schedule T-6.2, the Other costs were [REDACTED]. These
21 costs included [REDACTED] for PGN labor and related expenses, indirects and
22 overheads to perform general project management, project scheduling and cost
23 estimating activities, and costs for external relations and legal services necessary
24 for the transmission aspects of the LNP. These costs were offset by a negative

1 [REDACTED] of remaining residual project indirect costs to complete the true-up of the
2 transfer of the Levy Central Florida South substation projects to Transmission
3 Operations.

4
5 **Q. How did actual transmission-related preconstruction capital expenditures for**
6 **January 2010 through December 2010 compare to PEF's actual/estimated**
7 **costs for 2010?**

8 **A.** LNP preconstruction capital transmission costs were [REDACTED] or [REDACTED] less than
9 PEF's actual/estimated transmission-related preconstruction capital costs for
10 2010. The reasons for the major (more than \$1.0 million) variances are provided
11 below.

12 **Substation Engineering:** As I previously indicated, Substation
13 Engineering capital expenditures were [REDACTED] which was [REDACTED] less
14 than the actual/estimated costs. This variance is mainly driven by the
15 deferral of Crystal River Energy Center ("CREC") switchyard design
16 engineering and environmental permitting work for the LNP due to
17 Crystal River 3 plant outage schedule adjustments and coordination with
18 planned completion of environmental licensing activities.

19
20 **ii. Construction Transmission Costs Incurred.**

21 **Q. Did the Company incur any transmission-related construction costs for the**
22 **transmission work and activities you identified for the LNP in 2010?**

1 A. Yes, as reflected on Schedule T-6.3, the Company incurred transmission-related
2 construction costs in the categories of Real Estate Acquisition, Line Construction,
3 Substation Engineering, Substation Construction, and Other.

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

7 A. As reflected on Line 21 of Schedule T-6.3, the Company incurred Real Estate
8 Acquisition costs of [REDACTED]. These costs included survey and title services for
9 minimal strategic ROW acquisition in the Levy 500kV common corridor.

10
11 **Q. For the Line Construction costs, please identify what those costs are and why**
12 **the Company had to incur them.**

13 A. As reflected on Line 22 of Schedule T-6.3, the Company incurred Line
14 Construction costs of [REDACTED]. These costs were for the Levy portion of the road
15 widening construction project along Sunshine Grove Road completed by
16 Transmission Operations in 2010.

17
18 **Q. For the Substation Engineering costs, please identify what those costs are**
19 **and why the Company had to incur them.**

20 A. As reflected on Line 20 of Schedule T-6.3, the Company incurred Substation
21 Construction costs of [REDACTED]. These costs were the remaining adjusting entries to
22 complete the transfer of responsibility for the Levy Central Florida South
23 substation projects to Transmission Operations.

1 **Q. For the Substation Construction costs, please identify what those costs are**
2 **and why the Company had to incur them.**

3 **A.** As reflected on Line 23 of Schedule T-6.3, the Company incurred Substation
4 Construction costs of [REDACTED]. These costs were final contractor payments and
5 material inventory credit adjustments for work to complete the installation of
6 three new 500kV switches at the Levy CREC switchyard.

7
8 **Q. For the Other costs, please identify what those costs are and why the**
9 **Company had to incur them.**

10 **A.** As reflected on Line 24 of Schedule T-6.3, the Company incurred Other costs of
11 [REDACTED]. These costs included labor and related expenses, indirects and overheads
12 to perform general project management activities, and the Levy portion of indirect
13 and overhead costs related to the road widening construction project along
14 Sunshine Grove Road completed by Transmission Operations in 2010.

15
16 **Q. How did actual transmission-related construction capital expenditures for**
17 **January 2010 through December 2010 compare to PEF's actual/estimated**
18 **2010 costs?**

19 **A.** LNP construction transmission costs were [REDACTED], or [REDACTED] less than PEF's
20 actual/estimated construction transmission costs for 2010. I will explain the
21 reasons for the major (more than \$1 million) variances below.

22 **Real Estate Acquisition:** Real Estate Acquisition capital expenditures
23 were [REDACTED], which was [REDACTED] less than the actual/estimated Real Estate
24 Acquisition costs for 2010. This variance was primarily driven by the

1 shift in the Levy Project schedule. The land acquisition plan was re-
2 evaluated in light of the schedule shift changes and resulted in a
3 significant reduction of actual strategic ROW land acquisition and siting
4 expenditures in 2010. Also included in the variance above was the
5 transfer of funding responsibility and payment for the state lands Barge
6 Slip easement from Levy Transmission to Generation. The transfer was
7 reflected in cost management reports after the April 30, 2010
8 actual/estimated filings.

9
10 **IV. O&M COSTS INCURRED IN 2010 FOR THE LEVY NUCLEAR PLANT.**

11 **Q. Did the Company incur any Operation & Maintenance (“O&M”) costs for**
12 **the LNP in 2010?**

13 **A.** Yes, as reflected on Schedule T-4 the Company incurred O&M expenditures in
14 the amount of \$2.9M for internal labor and expenses, legal costs, and the NuStart
15 Energy Development, LLC program that were necessary for the LNP. The
16 explanations for major variances are provided below:

17 **Corporate Planning:** O&M expenditures for Corporate Planning were
18 \$0.2M, or \$0.1M lower than the actual/estimated costs. This variance is
19 primarily due to fewer corporate planning internal labor hours than
20 anticipated due to the project shift.

21 **Legal:** O&M expenditures for Legal were \$1.2M, or \$0.3M lower than
22 the actual/estimated costs. This variance is primarily due to lower than
23 expected outside legal counsel services.

1 **Project Assurance:** O&M expenditures for Project Assurance were
2 \$0.2M, or \$0.1M lower than the actual/estimated costs. This variance is
3 primarily due to fewer project assurance internal labor hours than
4 anticipated due to the project shift.

5 **Nuclear Generation:** O&M expenditures for Nuclear Generation were
6 \$0.9M, or \$0.6M lower than actual/estimated costs. This variance is
7 primarily due to the deferral of operational readiness activities due to the
8 LNP schedule shift.

9
10 **Q. To summarize, were all the costs that the Company incurred in 2010 for the**
11 **LNP reasonable and prudent?**

12 **A.** Yes, the specific cost amounts for the LNP contained in the NFR schedules,
13 which are attached as exhibits to Mr. Garrett's testimony, reflect the reasonable
14 and prudent costs PEF incurred for LNP work in 2010. All of these costs were
15 necessary for the LNP.

16
17 **V. PROJECT MANAGEMENT AND COST CONTROL OVERSIGHT.**

18 **Q. Are the LNP Project Management and Cost Control Oversight policies and**
19 **procedures the same in 2010 as they were for 2008 and 2009?**

20 **A.** Yes, they are essentially the same. There have been no substantial changes to the
21 LNP project management and cost oversight controls since I described the process
22 in my March 1, 2010 testimony last year in Docket No. 100009-EI. However, the
23 Company continues to review policies, procedures, and controls on an ongoing
24 basis and makes revisions and enhancements based on changing business

1 conditions, organizational changes, and lessons learned, as necessary. This
2 process of continuous review of our policies, procedures, and controls is a best
3 practice in our industry and is part of our existing LNP project management and
4 cost control oversight.

5
6 **Q. Can you please provide an overview of the Company's applicable LNP**
7 **project management and cost control oversight policies and procedures?**

8 **A.** Yes. The Company maintains an Integrated Project Plan ("IPP") procedure to
9 provide guidance regarding evaluation and funding authorization for major
10 projects, including the LNP. The Company adheres to this procedure, along with
11 numerous other policies, procedures, and controls to effectively manage the LNP.
12 In March of 2011, Progress Energy senior management will review an IPP update
13 for the LNP (Revision 3 to the Levy IPP). This IPP update will confirm funding
14 approval for 2011 through 2013 on the LNP consistent with the Company's
15 March 2010 decision to continue with the LNP on a slower pace and defer
16 significant capital investment until after the LNP Combined Operating License
17 ("COL") is obtained. This decision benefits PEF's customers by reducing the
18 near-term project costs during the immediate recessionary period. A 2012 IPP
19 annual update is scheduled for mid-year 2012. The 2012 mid-year IPP will
20 provide cost estimates leading up to FNTP, which is anticipated in conjunction
21 with the receipt of the Levy COL estimated for early 2013.

22 The LNP is also being undertaken by the Company consistent with the
23 applicable project standards established and implemented by Progress Energy's
24 Project Management Center of Excellence organization ("PMCoE"). These

1 standards are based on principles from the internationally recognized Project
2 Management Institute Project Management Body of Knowledge and establish a
3 standardized project management approach that spans tools, templates and
4 processes, training and qualification programs, and adoption of best practices.

5 The LNP work also continues to be performed under Nuclear Generation
6 Group ("NGG") and Corporate procedures as well. These procedures are
7 reviewed on a continuous basis for changing business conditions and to
8 incorporate improvements, clarifications, and other administrative changes. Other
9 corporate tools are used to support the management of the LNP work. The Oracle
10 Financial Systems/Business Objects reporting tool provides monthly corporate
11 budget comparisons to actual cost information, as well as detailed transaction
12 information. This information, along with other financial accounting data, allows
13 PEF to regularly monitor the costs of the LNP work compared to budgets and
14 projections. The project schedule is maintained in the Primavera scheduling tool.
15 Detailed schedules for near term work are developed and reviewed on a bi-weekly
16 basis and updated and refined as appropriate.

17 During the partial suspension period, the Company meets quarterly with
18 the Consortium to review the status of approved work. Financial Services
19 personnel prepare monthly Cost Management Reports that include all contracts,
20 labor, equipment, material and other project cost transactions recorded to the
21 LNP. These reports are regularly reviewed by the LNP management team.
22 Project Controls and Business Services issue a combined monthly report which
23 provides current status of cost, completed and upcoming schedule milestones,

1 Level 1 schedules, major contract status, and the current risk matrix, which first
2 appears in the December report.

3
4 **Q. Can you describe some of the enhancements to the Company's project
5 management and cost control policies or procedures that were made in 2010?**

6 **A.** Yes. As the partial suspension period continues for the Levy project, there is
7 limited field activity for both LNP generation and transmission work. As a result,
8 the Company's oversight and management plan for contractors did not change in
9 2010, but PEF has implemented several enhancements to continuously improve
10 the oversight and management of contractors for the LNP. Corporate and nuclear
11 contract procedures were further reviewed and revised in 2010. Overall sixty-
12 nine (69) corporate, nuclear, and EPC procedures were revised and eight (8) new
13 procedures were created. Of these eight new procedures, five (5) were new
14 PMCoE procedures issued in 2010. Most of these were minor revisions or
15 updates to existing policies and procedures so I will describe a few of the more
16 substantive revisions or updates to our policies and procedures for the LNP.

17 In 2010, CDIG Business Services implemented improvements to the LNP
18 Contract Administration function. Vendor invoice audits were completed at Shaw
19 and the Joint Venture Team ("JVT") in 2010. These audits looked at vendor time,
20 expense, and subcontract procedures and verified invoices were being billed
21 according to contract terms and conditions. A Vendor Audit Schedule was also
22 approved for 2011. Other improvements include issuance of the CDIG Contract
23 Change Order Management procedure which provides Project Teams and
24 Program Managers with a standard Contract Change Management approach and

1 formal procedure to process change orders in accordance with PMCoE standards.
2 Also in 2010, the contract language was strengthened for all JVT COLA Contract
3 Work Authorizations to better define the change order process in each of the
4 contracts.

5
6 **Q. Can you explain how the Company ensures that its selection and**
7 **management of outside vendors is reasonable and prudent?**

8 **A.** Yes. When selecting vendors for the LNP, PEF utilizes bidding procedures
9 through a Request for Proposal (“RFP”) when possible for the particular services
10 or materials needed to ensure that the chosen vendors provide the best value for
11 PEF’s customers. Once proposals are submitted by potential vendors, formal bid
12 evaluations are completed and a final selection is determined and documented.
13 When an RFP cannot be used, PEF ensures that contracts with sole source
14 vendors contain reasonable and prudent contract terms with adequate pricing
15 provisions (including fixed price and/or firm price, escalated according to
16 indexes, where possible). When deciding to use a single or sole source vendor,
17 PEF documents a single or sole source justification for not doing an RFP for the
18 particular work. Both Corporate and Nuclear Generation contracting procedures
19 contain guidance on what justifies using a sole source or single source vendor.
20 The Company requires that all sole or single source contract activity must be
21 justified on the contract requisition and must be approved by the appropriate
22 management level for the dollar value of the contract. This justification for the
23 sole or single source vendor must describe in detail why a sole or single source
24 vendor approach is being taken.

1 The contract development process starts when a requisition is created in
2 the Passport Contracts module for the purchase of services. The requisition is
3 reviewed by the appropriate Contract Specialist in Corporate Services and
4 appropriate technical and management personnel on the Levy project, to ensure
5 sufficient data has been provided to process the contract requisition. The Contract
6 Specialist prepares the appropriate contract document from pre-approved contract
7 templates in accordance with the requirements stated on the contract requisition.
8 Once the contract is ready to be executed, it is approved online by the appropriate
9 levels of the management approval matrix as per the Corporate Approval Level
10 Policy, and a contract is created. Contract invoices are received by the LNP
11 Support Services. The invoices are validated by the project managers and
12 Support Services Team. Payment Authorizations approving payment of the
13 contract invoices are entered and approved.

14
15 **Q. Does the Company verify that the Company's project management and cost**
16 **control policies and procedures are followed?**

17 **A.** Yes, it does. PEF uses internal audits, self assessments, benchmarking, and
18 quality assurance reviews and audits to verify that its program management and
19 oversight controls are in place and being implemented. Internal audits are also
20 conducted on outside vendors. During 2010 the Florida Nuclear Plant Cost
21 Recovery Rule Compliance Monitoring Review Audit was conducted. This
22 internal audit did not have any findings and did not require any corrective action.
23 Two internal audits are scheduled for 2011. An internal Nuclear Oversight
24 Organization ("NOS") assessment N-NP-10-01, was conducted in September

1 2010. It identified one finding and four recommendations. The finding was
2 related to the process and procedures for the identification and evaluation of
3 industry Operating Experience and Construction Experience as it applies to new
4 nuclear plant activities. This finding was entered into the Progress Energy
5 Corrective Action Program as Nuclear Condition Report 425609 for investigation
6 and resolution. The corrective actions for this finding included revising existing
7 fleet procedures to include the identification of new nuclear plant operating and
8 construction experience for screen and evaluation. A due date for corrective
9 action is in early 2011.

10 From November 30, 2010 through December 2, 2010 PEF completed an
11 audit of the JVT Invoice Process to ensure invoice compliance with contract
12 terms. PEF concluded that appropriate controls are in place for the invoice
13 process. On January 29, 2010, PEF completed an audit of EPC Monthly Invoice
14 # 927917-R8-00361. The audit focused on two areas: 1) engineering deliverables
15 associated with authorized design tasks included on the invoice and the reference
16 letter, and 2) a review of project controls utilized by the Consortium for the actual
17 T&M hours invoiced. PEF concluded that appropriate controls are in place for
18 the invoice process.

19 In addition, the NRC performed an inspection of the Progress Energy
20 Nuclear Quality Assurance Program, processes, and procedures as they applied to
21 the LNP from April 12-16, 2010. During this inspection, the NRC did not
22 identify any violations or non-conformances with program implementation
23 associated with the LNP.

24

1 **Q. Are these project management and costs control oversight procedures**
2 **described applicable to both transmission and generation projects?**

3 A. Yes. The generation and transmission projects associated with the LNP are
4 subject to the same overall Company management.
5

6 **Q. Were the Company's Project Management and Cost Control Oversight**
7 **policies and procedures for the LNP independently reviewed?**

8 A. Yes. In both 2009 and 2010 PEF hired independent expert Gary Doughty of
9 Janus Management Associates, Inc. to review the reasonableness and prudence of
10 the project management and control systems in place to manage the LNP. Mr.
11 Doughty concluded in both 2009 and 2010 that PEF's LNP project management
12 and project controls were reasonable and prudent. In addition, Office of Public
13 Counsel ("OPC") expert witness Dr. William Jacobs, Jr. also reviewed the LNP
14 project management and cost oversight controls in the 2009 and 2010 NCRC
15 proceedings. He expressed no opinion in either proceeding that the Company's
16 LNP project management and cost oversight controls were unreasonable or
17 imprudent. In fact, he testified in the 2010 NCRC hearings that he expressed no
18 opinion regarding the prudence of the Company's LNP project management,
19 contracting, and oversight controls because he reviewed them in 2009 and did not
20 see any significant concerns with them. (Docket 10009-EI Hearing Trans. pp.
21 730-731). Mr. Doughty has not been retained this year to review the LNP project
22 management and oversight controls because there have been no substantial
23 changes since his review in 2010.
24

1 **Q. Has the Commission previously determined that these LNP project**
2 **management and cost oversight controls were reasonable and prudent?**

3 A. Yes. In Order No. PSC-09-0783-FOF-EI, issued Nov. 19, 2009, and No. PSC-11-
4 0095-FOF-EI, issued Feb. 2, 2011, the Commission determined that the LNP
5 project management and cost oversight controls were reasonable and prudent for
6 2008 and 2009. The Company's 2010 LNP project management and cost
7 oversight controls are substantially the same as they were in 2008 and 2009.

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

11 A. Yes, they are. These project management policies and procedures reflect the
12 collective experience and knowledge of the Company and have been vetted,
13 enhanced, and revised over several years to reflect industry leading best project
14 management and cost oversight policies, practices, and procedures. The
15 culmination of these policies, practices, and procedures in the LNP project
16 management and cost control oversight measures have been independently
17 reviewed by third party experts in 2009 and 2010 and by the Commission and
18 they were found to be reasonable and prudent. We believe, therefore, that our
19 project management policies and procedures are consistent with best practices for
20 capital project management in the industry and are reasonable and prudent.

21
22 **Q. Does this conclude your testimony?**

23 A. Yes, it does.