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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY OF

DALE WILTERDINK

ON BEHALF OF

PROGRESS ENERGY FLORIDA

DOCKET NO. 080007-EI

AUGUST 4, 2008

Q. Please state your name and business address.

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

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

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

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

A. I serve as Project Manager for the Crystal River Units 4 and 5 air quality control system project ("Crystal River Project") included in PEF's Integrated Clean Air Compliance Plan, which the Commission approved in Docket No. 070007-EI. As Project Manager, I have primary overall responsibility and accountability for the Crystal River Project. I provide direct management of all aspects of the project including the installation of Flue Gas Desulfurization ("FGD" or "scrubber"), Low

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1 NOx Burners (LNBs), Selective Catalytic Reduction (“SCR”) and other related
2 activities, such as installation of a new stack, common limestone
3 preparation/dewatering system, coal pile liners, ponding, and the water supply
4 system. I also work with members of my project team to ensure that key
5 stakeholders throughout the Company, including senior management, remain
6 informed about the status of the Crystal River Project.

7

8 **Q. Please describe your educational and background.**

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

16

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

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

22

23 **Q. What is the purpose of your testimony?**

1 A. The purpose of my testimony is to summarize the status of PEF's implementation
2 of Crystal River Project, including Estimated/Actual project expenditures for 2008.
3 I also will describe some of the measures PEF has taken to ensure that the costs
4 incurred for the Crystal River Project are reasonable and prudent.

5

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

7 A. The Crystal River Project is on schedule to meet the in-service dates set forth in
8 the Integrated Clean Air Compliance Plan approved by the Commission in Docket
9 No. 070007-EI. Over the past year, we have achieved several significant project
10 milestones including:

- 11 • Completion of the access road in May, 2008;
- 12 • Completion of the vehicle barrier system in May, 2008;
- 13 • Completion of the flue gas chimney shell in June, 2008; and
- 14 • Completion of the Unit 5 FGD absorber tower in July, 2008.

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

20

21 **Q. How do the Estimated/Actual project expenditures for the Crystal River**
22 **Project compare with the original projections for the period January 2008 to**
23 **December 2008?**

1 A. We project that the total expenditures for the Crystal River Project in 2008 will be
2 approximately \$527 million, which is approximately \$42 million less than
3 projected in last year's docket. Of this difference, approximately \$12 million is
4 attributable to the fact that last year's projections were based on contract prices
5 that were not finalized until PEF executed the Engineering Procurement and
6 Construction (EPC) contract for the Project after the projects were submitted. The
7 remaining variance is attributable to work on particulate controls for which PEF is
8 no longer requesting ECRC recovery.

9

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

12 A. Since the inception of the Crystal River Project, PEF has sought to minimize the
13 risk of future cost increases to PEF and its customers and to allocate risk where it
14 can be best managed. We implemented a contracting strategy that enabled PEF to
15 negotiate contracts that mitigate the risk of price increases without jeopardizing
16 construction time-frames necessary to ensure compliance with the applicable
17 regulatory requirements. For the Engineering, Procurement and Construction
18 (EPC) contract, which represents the majority of costs for the Crystal River
19 Project, this strategy included an aggressive "open book" scoping assessment
20 which enabled the Company to identify the costs for project components in detail
21 to provide greater cost certainty. As part of the detail review process, Progress
22 Energy personnel and outside engineers carefully reviewed the reasonableness of
23 the scope and associated quantities of commodities, equipment, subcontracts, labor

1 and other project indirect components submitted by EPC contractor
2 (Environmental Partners Crystal River or "EPCR"), as well as the prices quoted
3 by EPCR.

4
5 We negotiated a portfolio of fixed price, lump sum contracts including the EPC
6 contract, as well as contracts with the primary FGD and SCR design and
7 procurement contractor (Babcock & Wilcox or "B&W"), and the vendors of major
8 equipment such as scrubber towers (Stebbins Engineering and Manufacturing
9 Company), flue gas chimney (Commonwealth Dynamics, Inc.), and SCR catalyst
10 (CERAM Environmental, Inc.). These contracts, which PEF submitted for the
11 Commission's review in last year's docket (Docket No. 070007-EI), also
12 incorporate a payment milestone structure with associated liquidated damages to
13 ensure timely performance. This contracting strategy has enabled PEF to mitigate
14 cost and performance risks during a time period in which prices for material,
15 equipment, and labor have increased substantially for major utility construction
16 projects of this nature.

17
18 **Q. Please describe the management structure being used to oversee**
19 **implementation of the Crystal River Project?**

20 **A.** PEF has established an organizational structure to ensure prudent decision-making
21 and project oversight as implementation of the Integrated Clean Air Compliance
22 Plan proceeds. The specific team for the Crystal River Project is as shown in
23 Exhibit No.__(DW-1). The Company has assigned me to be the dedicated Project

1 Manager with primary overall responsibility and accountability for the Crystal
2 River Project. I oversee all of the internal team members as well as all of the
3 external contractors working on the project. My project management team, which
4 also includes a dedicated Project Engineer and Project Controls personnel,
5 regularly works with Company personnel from other departments, including
6 Environmental Services, Corporate Services, Fossil Generation, Legal, Regulatory
7 Planning, and Health and Services as needed. The Company also has appointed a
8 designated Project Assurance Advisor to support and advise the project
9 management team.

10

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

21

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

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

10
11 **Q.** **Are employees involved in the Crystal River Project trained in the Company's**
12 **project management and cost control policies and procedures?**

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

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

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

20
21 **Q.** **Has the Company implemented other mechanisms to ensure proper oversight**
22 **and review of the Crystal River Project?**

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

9

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

20

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

1 significant funds. The original IPP for the Crystal River Project was prepared in
2 October 2007 in conjunction with the execution of the final EPC contract. Among
3 other things, the IPP outlined the scope of the project, project costs, the Company's
4 risk management strategy, and the economic evaluation discussed in the Integrated
5 Clean Air Compliance Plan submitted to and approved by the Commission in last
6 year's docket.

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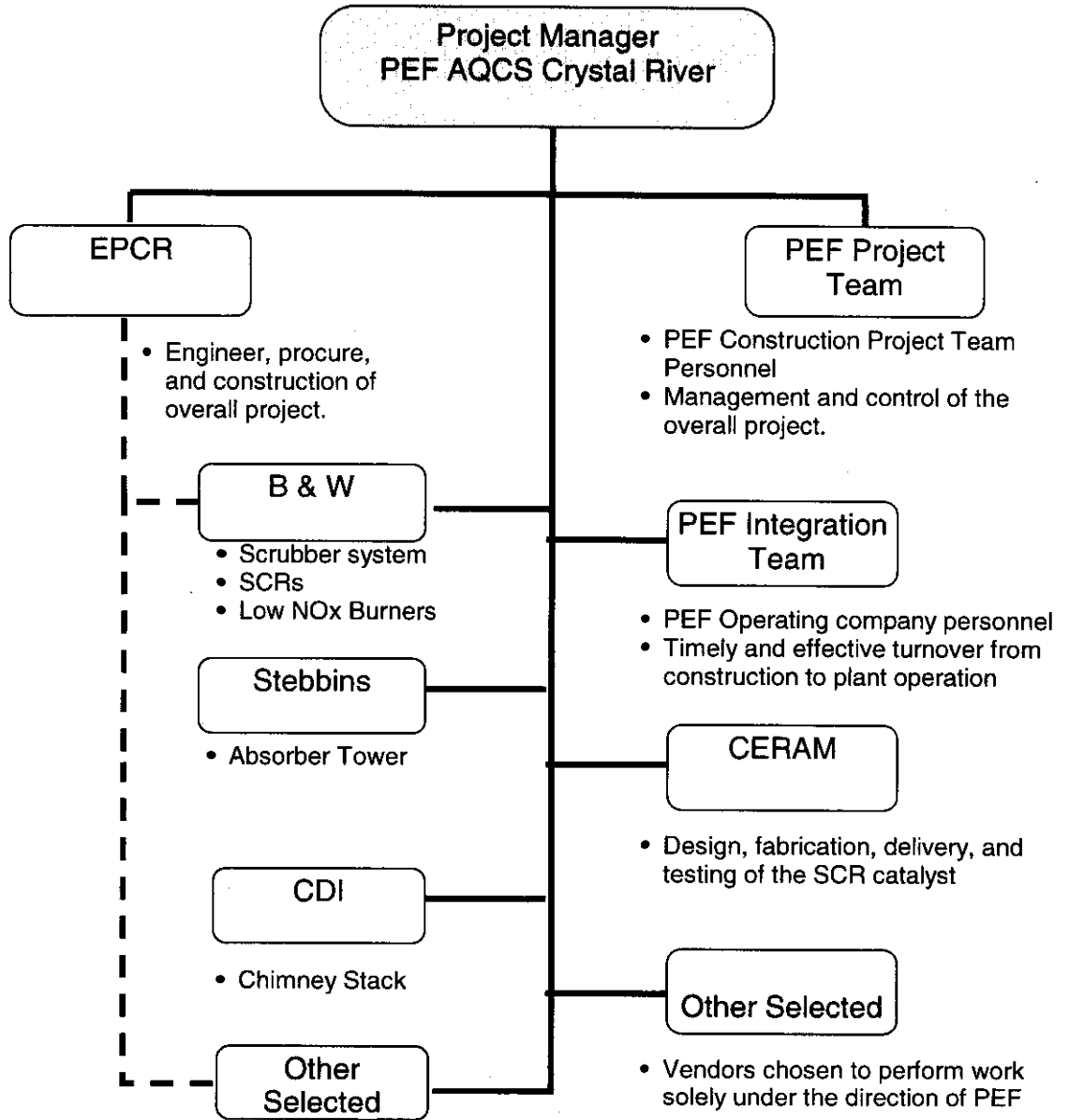
8 **Q. Have there been any recent developments concerning the Clean Air Interstate**
9 **Rule (CAIR)?**

10 **A.** Yes. As discussed in the pre-filed testimony of Patricia Q. West, the U.S. Circuit
11 Court of Appeals for the District of Columbia recently issued a decision vacating
12 CAIR. At this date, the decision is not final and it is too early to determine the full
13 impact of the Court's decision. PEF is continuing to implement its Commission-
14 approved Integrated Clean Air Compliance Plan as the Company assesses the
15 potential implications of the Court's decision. As Ms. West indicated, we will
16 update the Commission on the status of the CAIR decision and PEF's
17 implementation of its clean air compliance plan in future testimony.

18

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

20 **A.** Yes, it does.



- Vendors chosen to perform work under contract with PEF by whose day to day activities are coordinated through EPCR.