

Exhibit B

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DOCUMENT NUMBER-DATE

07494 AUG 20 8

FPC-COMMISSION CLERK

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Page 1 line 1, Page 2 lines 13-27, Page 3 lines 1-11, 17-20 and 23, Page 4 line 1 and 5-31, Page 5 lines 1-6, Page 6 line 17, Page 7 lines 4, 7, 13-22, Page 8 lines 8-9, 13-14 and 19-23, Page 9 lines 1-5 and 9-11, Page 10 lines 20-23, Page 11 line 1

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1 recovery of *****BEGIN CONFIDENTIAL SECTION***** *****END**

2 **CONFIDENTIAL SECTION***** in 2009 for the Levy Nuclear Project.

3
4 **Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?**

5 A. First I will briefly describe the methodology used in my evaluation of the filings by FPL
6 and PEF. Next I will describe a policy issue that is common to both FPL and PEF.

7 Following this I will present the results of my evaluation of FPL's request for
8 authorization to collect costs and then I will provide the results of my evaluation of
9 PEF's request for authorization to collect costs.

10
11 **IV. Methodology**

12
13 **Q. PLEASE DESCRIBE THE METHODOLOGY THAT YOU USED TO REVIEW**
14 **AND EVALUATE THE REQUESTS FOR AUTHORIZATION TO COLLECT**
15 **COSTS SUBMITTED BY FPL AND PEF UNDER THE NUCLEAR COST**
16 **RECOVERY RULE.**

17 A. I first reviewed the Nuclear Cost Recovery Rule to gain an understanding of the process
18 and of the schedules included in the Companies' filings. Next, I reviewed the
19 Companies' filings in this docket. Working with counsel for OPC, I helped prepare
20 numerous interrogatories and requests for production of documents. Following an initial
21 review of the documents produced by the Companies, I assisted Office of Public
22 Counsel attorneys in deposing Company witnesses to further explore areas of interest.
23 Numerous late filed exhibits were requested during the depositions to provide additional
24 information relating to the Companies' requests.

1 or single source contracts, even though FPL identified more firms than one that were
2 capable of performing the needed work.

3
4 **Q. DID YOU REVIEW FPL'S PROCEDURE THAT CONTROLS CONTRACTING
5 AND NUCLEAR RELATED PROCUREMENT ACTIVITIES?**

6 A. Yes, I reviewed FPL Nuclear Division Nuclear Policy NP-1100 Revision 15, dated
7 02/25/08. This procedure is entitled "Procurement Control." It specifically addresses the
8 requirements for issuing a sole or single source contract.

9
10 **Q. PLEASE DESCRIBE THE REQUIREMENTS OF NP-1100 RELATED TO SOLE
11 SOURCE OR SINGLE SOURCE CONTRACTS.**

12 A. NP-1100 clearly specifies that **BEGIN CONFIDENTIAL SECTION**

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]
16 [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
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[REDACTED]

[REDACTED]

Q. DID YOU FIND EXAMPLES OF SOLE OR SINGLE SOURCE JUSTIFICATIONS THAT DID NOT CONFORM TO THESE REQUIREMENTS?

A. Yes, I did. I found numerous examples in which it appears that [REDACTED]

[REDACTED]

[REDACTED]

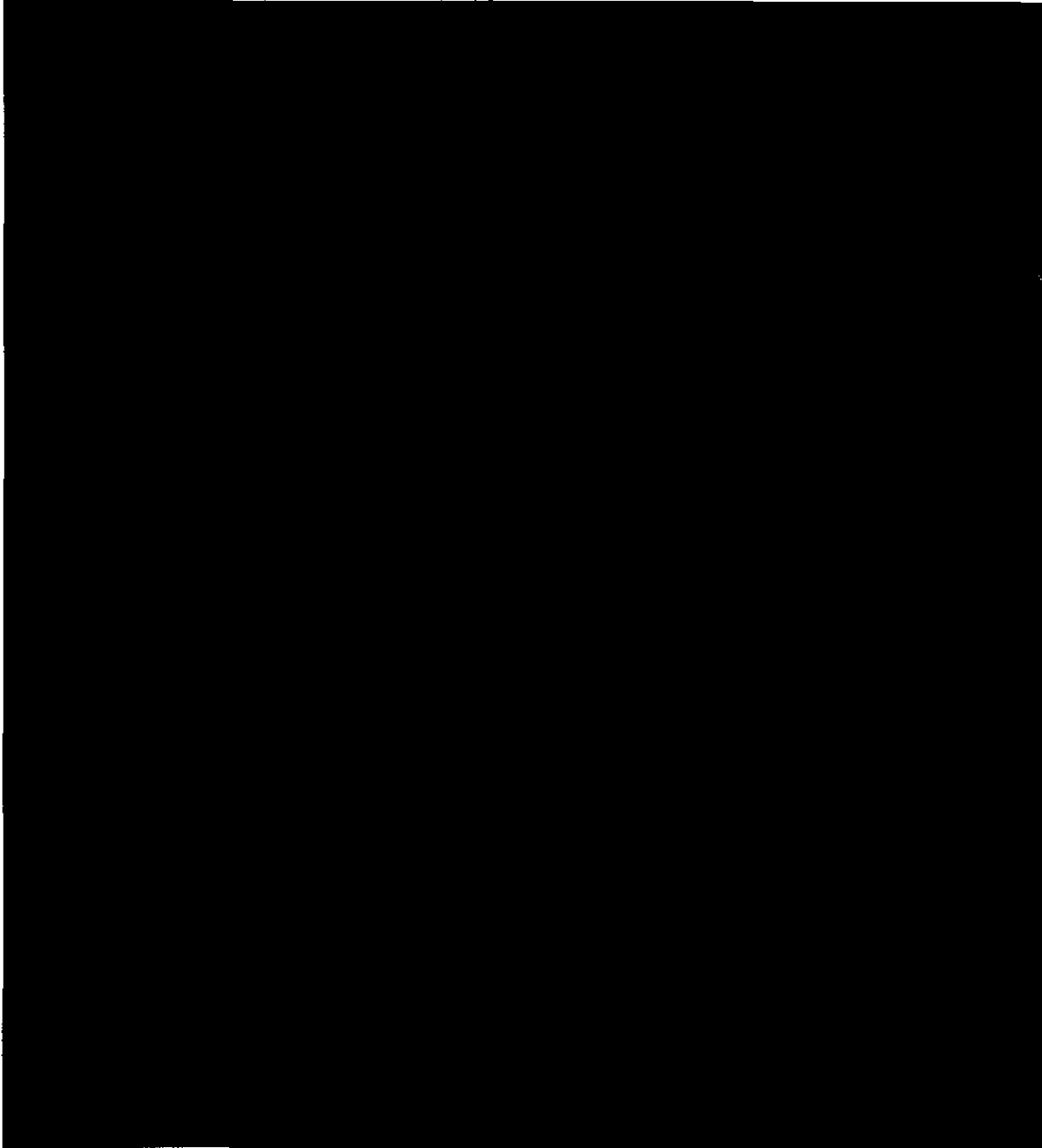
[REDACTED] I also found single source justifications that did not provide adequate assurance that the cost of the contract was reasonable. The use of sole or single source contracts appears to be a routine occurrence, [REDACTED]

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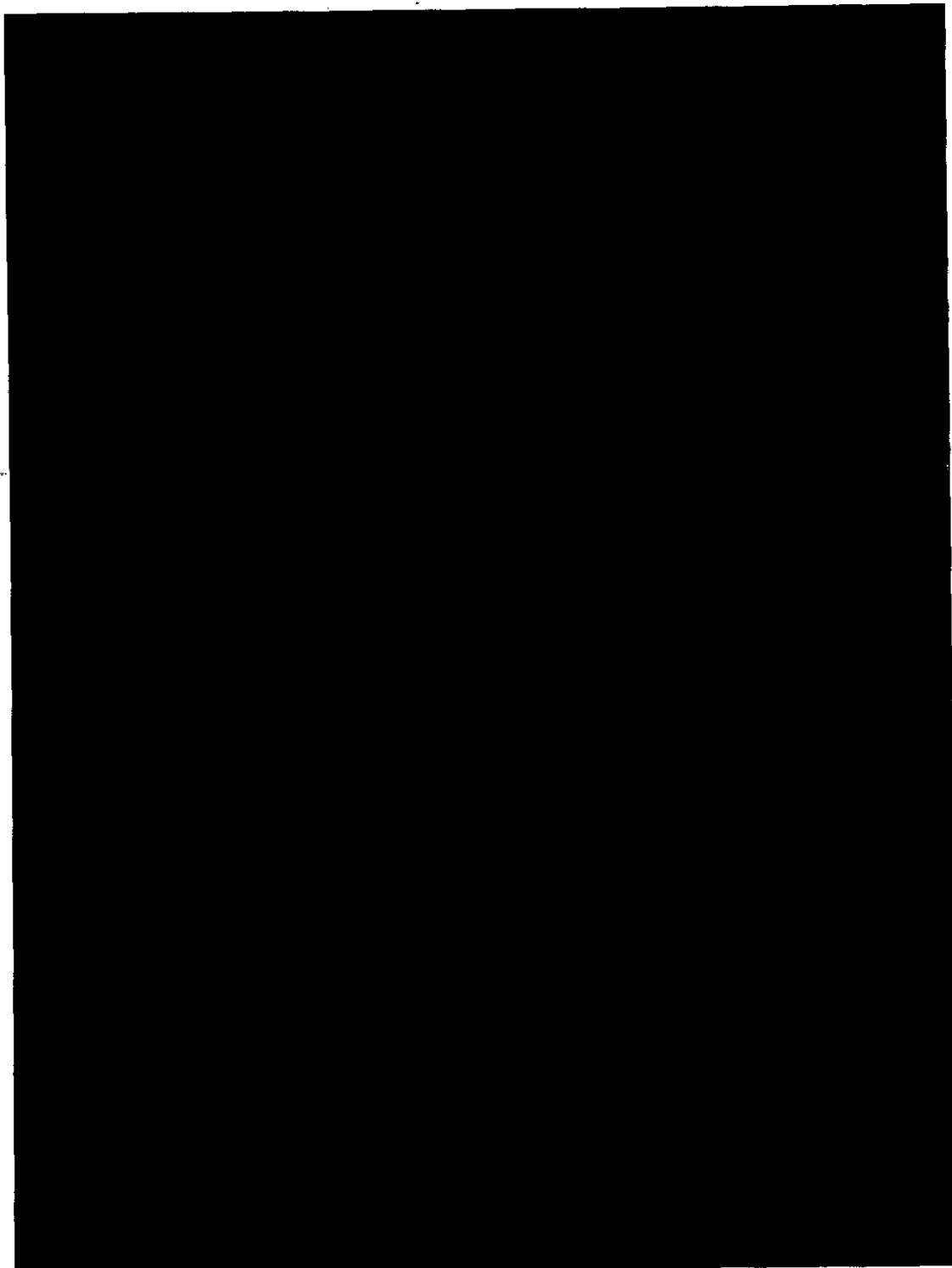
[REDACTED] END CONFIDENTIAL SECTION

The following excerpts are examples from Single and Sole Source Justifications provided by FPL:

BEGIN CONFIDENTIAL SECTION



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~~END CONFIDENTIAL SECTION~~

As seen from the above examples, many of FPL's single and sole source justifications rely on schedule pressure to justify the use of a sole or single source contract rather than a competitive bidding process required by FPL's procurement procedure.

Q. HAS FPL DEMONSTRATED, EITHER WITHIN ITS SUBMISSION OR IN ITS RESPONSES TO DISCOVERY REQUESTS, THAT THE COSTS INCURRED IN THE SOLE SOURCE AND SINGLE SOURCE CONTRACTS ARE REASONABLE?

A. No, FPL has not. The best way to demonstrate that the cost of a contract is reasonable is through a competitive bidding process. Absent a competitive bidding process the Company must use cost comparisons, or benchmarking with similar work, or a detailed analysis of the work scope and labor rates to ensure that the cost of the contract is reasonable. Many of the single source justifications stated that the costs were reasonable based on FPL's experience with similar projects. In another justification, the reasonableness of costs for a project costing more than ~~BEGIN CONFIDENTIAL SECTION~~ ~~SECTION~~ ~~END CONFIDENTIAL SECTION~~ was a back-of-the-envelope type analysis based on comparison data that was 5 years old.

Q. PLEASE DESCRIBE THE EXAMPLE YOU DISCUSSED ABOVE IN MORE DETAIL.

A. In response to Staff's request for details of claimed benchmarking of costs by FPL, FPL provided a spreadsheet comparing various elements of uprate projects at the Company's

1 nuclear plants St. Lucie, Turkey Point, Seabrook, Point Beach and Ginna. I am
2 attaching the spreadsheet as Exhibit (WRJ- 7). We noticed that one of the major EPU
3 projects planned for St. Lucie, specifically ~~SECTION 2~~
4 ~~SECTION 2~~ ~~END CONFIDENTIAL SECTION 2~~
5 ~~SECTION 2~~ had no equivalent project at the other four units shown in the comparison.
6 During a deposition we asked how the benchmarking exercise showed that the cost of
7 ~~SECTION 2~~ ~~SECTION 2~~
8 ~~SECTION 2~~ project was reasonable. FPL responded that
9 they had another comparison showing the reasonableness of the cost of this project and
10 that they would provide it as a late filed exhibit. The late filed exhibit provided by FPL,
11 which I am attaching as Exhibit __ (WRJ-8), revealed that the benchmarking study
12 relied upon for this project costing more than ~~SECTION 2~~
13 ~~SECTION 2~~
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18 ~~SECTION 2~~ ~~SECTION 2~~
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21 ~~SECTION 2~~
22 ~~SECTION 2~~ ~~END CONFIDENTIAL SECTION 2~~ The
23 cost comparison used by FPL to justify this project on a single source basis is at best

1 what I would call a back-of-the-envelope calculation, and in my opinion is insufficient
2 to justify that the cost for a project of this magnitude is reasonable.

3
4 **Q. DO YOU HAVE OTHER CONCERNS WITH FPL'S USE OF SOLE OR SINGLE**
5 **SOURCE CONTRACTS?**

6 A. Yes. From my review of the sole and single source justifications for many projects, it
7 appears that FPL is not rigorously following the requirements of NP-1100 **BEGIN**

8 **CONFIDENTIAL SECTION** [REDACTED]
9 [REDACTED] **END**

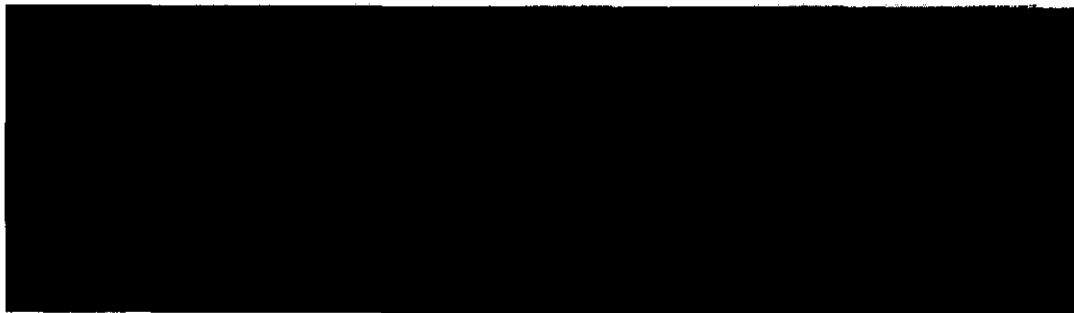
10 **CONFIDENTIAL SECTION** The language in many of these justifications is so
11 similar that it appears their preparation is a matter of rote rather than a specific,
12 individual analysis. For example, the sentence **BEGIN CONFIDENTIAL**

13 **SECTION** [REDACTED]
14 [REDACTED] **END CONFIDENTIAL**

15 **SECTION** appears in several justifications. During discovery, we learned that at
16 times there has been a disconnect between the language of the justification
17 memorandum and the actual reason on which FPL relies.

18 **BEGIN CONFIDENTIAL SECTION**
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]

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END CONFIDENTIAL SECTION

In sum, the number of sole or single source justifications, the similarity of language found in many justifications and the lack of specificity in some justifications leads me to believe that the



CONFIDENTIAL SECTION

Q. PLEASE DESCRIBE PEF'S REQUEST FOR AUTHORIZATION TO COLLECT COSTS FOR THE CRYSTAL RIVER UNIT 3 MEASUREMENT UNCERTAINTY RECOVERY (MUR) AND EXTENDED POWER UPRATE PROJECTS.

A. PEF is requesting authorization to recover a total of \$24,899,965 related to the Crystal River 3 MUR and EPU project through the NCRC beginning in 2009. This amount includes a true-up amount of \$928,895 for 2007, estimated revenue requirements of \$7,512,933 for 2008 and projected revenue requirements of \$16,458,136 for 2009. These costs represent primarily carrying charges for costs that have been or will be incurred to support activities required for the MUR and EPU projects.

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Q. DID YOU IDENTIFY ANY ISSUES OF CONCERN WITH PEF'S REQUESTS RELATED TO THE EPU PROJECTS?

A. No, I did not.

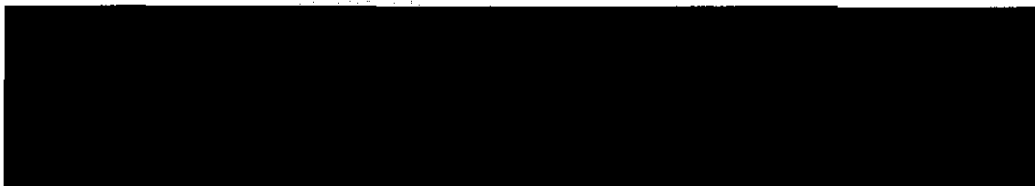
Q. DID YOU REVIEW PEF'S TESTIMONY IN SUPPORT OF COSTS FOR THE LEVY NUCLEAR PROJECT IN DOCKET NUMBER 080149?

A. I briefly reviewed PEF's testimony concerning the Levy Nuclear Project. While I did not identify any issues of concern in this filing, I did not conduct a detailed review of this filing. I will conduct a detailed review of the Levy Nuclear Project when PEF requests authorization to recover costs in the next NPCR cycle.

VI. Conclusions and Recommendations

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING FPL'S REQUEST FOR AUTHORIZATION TO COLLECT COSTS.

A. Despite its stated preference for competitive bidding, FPL has used sole and single source contracts extensively. I believe FPL has fallen short of demonstrating that the costs associated with those contracts are reasonable. For example, as described above, one project with costs of more than ~~§ 87(2)(b) CONFIDENTIAL SECTION~~



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END CONFIDENTIAL SECTION Use of a sole or single source contract eliminates competitive bidding as a means of ensuring reasonable costs. Without a competitive bidding process, reasonable cost comparisons, benchmarks or analyses must be provided to demonstrate the reasonableness of the costs of sole or single source contracts.

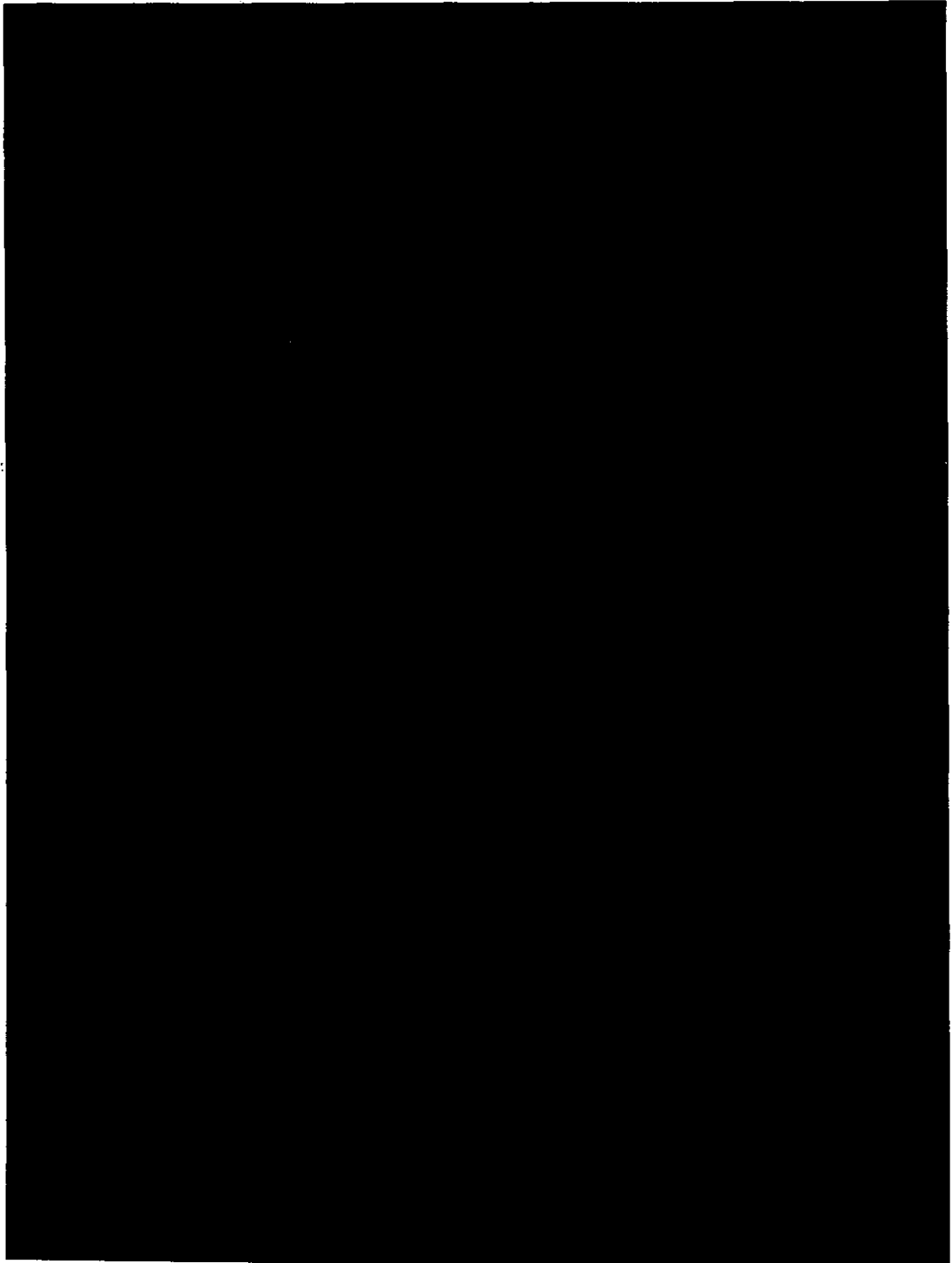
Q. PLEASE PROVIDE YOUR RECOMMENDATIONS REGARDING FPL'S REQUEST FOR AUTHORIZATION TO COLLECT COSTS RELATED TO SOLE SOURCE AND SINGLE SOURCE CONTRACTS.

A. My observation applies to numerous sole and single source contracts, only several of which I have described in my testimony. The contracts vary widely in terms of the amounts of money they involve. Because of the materiality of the contract to which Exhibits __ and __ (WRJ-7 and WRJ-8) apply, I suggest the Commission focus on this item as the vehicle for communicating to FPL the importance of either adhering to a competitive bidding standard or justifying thoroughly a departure from this standard. I believe the Commission has several alternatives under the circumstances. My first recommendation stems from the fact that FPL's obligation to demonstrate the costs of the contract are reasonable is based on the need to apply its own standard as well as the requirement that it satisfy the Commission on this point. I believe it would be appropriate to disallow, and remove from the amount that flows through the cost recovery clause, that portion of the carrying cost of the contract that represents the return that FPL is seeking to earn on its equity investment in the capital asset.

REDACTED

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Page 5 lines 7-34

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