

Exhibit B

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FP-30-COMMISSION CLERK

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DOCUMENT NUMBER DATE

07984 AUG2988

FPSC-COMMISSION CLERK

AUDIT FINDING NO. 2

SUBJECT: AFFILIATE OVERHEAD

1 **STATEMENT OF FACTS:** Florida Power and Light Energy (FPLE) Seabrook Station charged FPL for two employees that were assigned to the Extended Power Uprate Feasibility Study. In 2007, \$30,657.08 of salary was charged to the FPL uprate. FPLE charged 77.37% in overhead to the base salary. The overhead consists of 36.85% of non-productive charges. This loaded rate is then charged with payroll benefits of 17.26% and a space allocation of 12.33%.

2 The non-productive rate consists of 14.48% for sick time, vacation time, etc. and is based on FPLE non-productive pay code costs divided by total payroll costs. Twenty two and a half percent relates to incentive payments. The employees' total pay was compared to the base pay and it does appear that incentive pay did increase the employees total pay by a substantial percent.

3 FPLE also charged expenses for travel of \$24,522.47 and for a charge from an outside contractor of \$6,300. The invoices for these expenses were reviewed and no problems were found.

4 Affiliate transactions should be charged to the utility at the lower of cost or market. The rate of TSSD, an outside contractor, was [REDACTED] an hour. The rates of FPLE employees with overhead and excluding travel ranged from [REDACTED] to [REDACTED] which was less than the rate of the outside contractor. Actual costs were traced to payroll detail and expense reports.

EFFECT ON THE GENERAL LEDGER: This finding is for informational purposes only.

EFFECT ON THE FILING: This finding is for informational purposes only.

REDACTED

Page 1, Paragraph 3,
Page 2 Paragraphs 1-3²

AUDIT FINDING NO. 2

SUBJECT: AFFILIATE OVERHEAD

STATEMENT OF FACTS: Florida Power and Light Energy (FPLE) charged FPL for four employees that were assigned to the Turkey Point 6 & 7 project. Three were general counsel employees and one was the director of construction. In 2007, \$69,612.55 of salary and overhead was charged to the site selection work order and \$22,373.66 to the pre-construction work order. FPLE charged 77.37% in overhead to the base salary. The overhead includes 36.85% of non-productive charges. This loaded rate is then charged with payroll benefits of 17.26% and a space allocation of 12.33%.

The non-productive rate consists of 14.35% for sick time, vacation time, etc. and is based on FPLE non-productive pay code costs divided by total payroll costs. Incentive payments account for 22.5% of the non-productive costs.

The pay rates of FPLE employees including overhead ranged from [REDACTED] to [REDACTED]. Actual costs were traced to payroll detail and expense reports. These rates were less than comparable rates with outside vendors.

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AUDIT FINDING NO. 3

SUBJECT: RELOCATION COSTS AND SIGNING BONUS

STATEMENT OF FACTS: FPL has paid relocation costs and signing bonuses to attract new employees to work on the nuclear project.

The relocation costs charged in 2007 are:



The signing bonuses in 2007 were:



3 FPL has reversed the [REDACTED] signing bonus and will be amortizing it monthly to the project over the commitment period. The [REDACTED] bonus will be reversed in July 2008 because of an internal transfer of the position in June 2008.

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Page 1, Paragrah 6,
Page 2 Paragraph 1

1 Alstom, FPL management selected Siemens as the turbine-generator vendor for the uprates. FPL has since provided a binder payment to secure a long-lead manufacturing slot with Siemens, and was negotiating a final contract as of May 2008.

2 Siemens was the sole-source vendor for the initial engineering study of the turbine generator replacement evaluation, development of preliminary heat balances, and analysis of the turbine generator components and upgrades for the St. Lucie and Turkey Point units. Siemens received two lump sum contracts reserving the manufacturing slots for one generator rotor forging for the Turkey Point Unit 3 main generator rotor and for four low pressure rotors for the St. Lucie uprate. FPL states that Siemens was not truly a sole sourced vendor because it was selected as turbine generator supplier after FPL reviewed other potential Request For Proposals.

FPL appears to have followed its contractor selection procedures. Given the unique challenges and circumstances of the nuclear industry, FPL's use of sole source selections for the uprate project to date is in keeping with reasonable business practices.

Is an appropriate set of internal controls for contractor management and evaluation in place for the uprate project?

3 FPL procedures provide for basic contractor oversight by the EPU Site Project Manager, the site Technical Representative, and Contract Coordinators who administer site services. These functions coordinate contractor reviews of performance while contractors are on the site working. Upon completion of the authorized work, the Site Technical Representative verifies the contractor has met all obligations and determines whether any outstanding contract deliverable issues exist. Technical Representatives also determines whether billed work was completed and what level of approval is needed for payment.

4 The EPU Site Project Manager will provide oversight of the contractor progress and project work performance while the contractor is on site. If schedule delays are anticipated due to contractor challenges, the EPU Site Project Manager attempts to resolve the contractor challenge on site. If necessary, the Site Project Manager will bring in the EPU Project Director to help resolve issues and involve executive management.

5 In addition to providing assistance with developing and administering contracts, FPL's Nuclear Sourcing and Integrated Supply Chain completes weekly updates to the Project Contract Log and reports updated contract status to FPL executives and Project Management. Nuclear Sourcing also completes annual vendor scorecards for a selected group of FPL's largest vendors. These scorecards provide an overall rating for system-wide vendor performance for the year across all areas of FPL operations. Performance is indicated using a color rating system of: green for good performance, yellow for questionable performance, and red for poor performance. The process is intended for FPL to identify vendor performance strengths and weaknesses and to use in discussions with vendor management when improvement is needed.

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2 EPU Project Management indicated to audit staff that it would take aggressive steps to mitigate similar performance issues. Siemens is one of the few suppliers capable of providing the turbine equipment and services needed, and the only one evaluated by FPL that was able to meet the outage schedule for the uprate projects. FPL EPU Project Management also noted that this knowledge is helpful to management as they negotiate vendor contracts to include protection provisions. FPL noted that the need for close supervision of vendor performance, and early detection of schedule and cost related issues is understood by the EPU Project Management team.

FPL's approach to contractor oversight and evaluation appears to be appropriate to date. Proactive project management by FPL should require frequent communication and updates, demand contractor accountability, and challenge information provided by contractors.

3 **Has FPL implemented appropriate protections from contractor cost overruns or poor performance on the uprate projects?**

To protect itself from substandard and contractor work, FPL maintains a qualified vendor list and evaluates contractor work after major projects. Documentation of contractor performance allows FPL to identify poor performance trends with contractors and provides a tool to use in correcting contractor performance or denying the contractor future work. The Quality Assurance function also reviews contractor performance for safety-related contracts, while the contractor is on site as discussed further in Section 2.5.

4 In addition to the contractor management and evaluation process previously discussed, FPL has structured its contracts and purchase orders to identify specific scope, deliverables, completion dates, terms of payment, operational terms and conditions, reports from the contractor, and work quality specifications. Standard contract terms include suspension/termination for cause or suspension/termination for convenience address the conditions under which a contractor's services may be suspended or terminated. Limit of Liability clauses specify the liability of the company and the contractor under specific conditions and situations. Contract clauses addressing changes to scope of work and schedule changes state the conditions under which changes to work scope will be accomplished. These and other FPL contract provisions help protect the company against contractor overruns and ensure that contractors perform work on time as specified.

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