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 request for confidentiality  
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

COMMISSIONER  
CLERK

12 JUN 15 PM 1:44

RECEIVED--FPSC

In re: Nuclear Cost Recovery  
Clause

Docket No. 120009-EI  
Submitted for Filing: June 15, 2012

**PROGRESS ENERGY FLORIDA, INC.'S SIXTH REQUEST FOR CONFIDENTIAL CLASSIFICATION REGARDING PORTIONS OF THE REVIEW OF PROGRESS ENERGY FLORIDA, INC.'S PROJECT MANAGEMENT INTERNAL CONTROLS FOR NUCLEAR PLANT UPRATE AND CONSTRUCTION PROJECTS**  
**AUDIT REPORT NO. PA-11-11-004**

Progress Energy Florida, Inc. ("PEF" or the "Company"), pursuant to Section 366.093, Florida Statutes, and Rule 25-22.006(3), Florida Administrative Code, requests confidential classification of portions of the final audit report of the Florida Public Service Commission Staff ("Staff") Auditors, the Review of Progress Energy Florida, Inc.'s Project Management Internal Controls for Nuclear Plant Uprate and Construction Project Audit Report No. PA-11-11-004 (the "Audit Report"). The Audit Report contains confidential contractual information, the disclosure of which would impair PEF's competitive business interests and violate PEF's confidentiality agreements with third parties, information gleaned from internal audit controls and reports, and other financial and competitively sensitive information the disclosure of which would impair the Company's competitive business interests. Accordingly these portions of the Audit Report meet the definition of proprietary confidential business information per section 366.093(3), Florida Statutes. An unredacted copy of the Audit Report is being filed under seal with the Commission on a confidential basis to keep the competitive business information in those documents confidential.

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FPSC-COMMISSION CLERK

## **BASIS FOR CONFIDENTIAL CLASSIFICATION**

Section 366.093(1), Florida Statutes, provides that “any records received by the Commission which are shown and found by the Commission to be proprietary confidential business information shall be kept confidential and shall be exempt from [the Public Records Act].” Proprietary confidential business information means information that is (i) intended to be and is treated as private confidential information by the Company, (ii) because disclosure of the information would cause harm, (iii) either to the Company’s ratepayers or the Company’s business operation, and (iv) the information has not been voluntarily disclosed to the public. § 366.093(3), Fla. Stat. Specifically, “information concerning bids or other contractual data, the disclosure of which would impair the efforts of the public utility or its affiliates to contract for goods or services on favorable terms” is defined as proprietary confidential business information. § 366.093(3)(d), Fla. Stat. Additionally, that statute defines “[i]nternal auditing controls and reports of internal auditors,” and “information relating to competitive interests, the disclosure of which would impair the competitive business of the provider of the information,” as proprietary confidential business information. §§ 366.093(3)(b) & (e), Fla. Stat.

Portions of the Audit Report should be afforded confidential classification for the reasons set forth in the Affidavits of Mr. Jon Franke and Mr. John Elnitsky filed in support of PEF’s Request, and for the following reasons.

### **Levy Nuclear Project**

Specifically, related to the sections of the Audit Report covering the Levy Nuclear Project (“LNP”), portions of the Audit Report contain confidential contractual data, including pricing agreements and other confidential contractual financial terms, the release of which would

impair PEF's competitive business interests, and would further be a violation of the PEF's confidentiality agreements. See Elnitsky Affidavit, ¶¶ 4-6.

The Audit Report contains financial information related to work authorizations, contractual amendments, and other contractual data that is subject to confidentiality agreements between PEF and the other contracting parties. PEF negotiates each of its contracts to obtain the most competitive terms available to benefit PEF and its ratepayers. In order to successfully obtain such contracts, however, PEF must be able to assure the other parties to the contracts that the sensitive business information contained therein, such as quantity and pricing terms, will remain confidential. The public disclosure of this information would allow other parties to discover how the Company analyzes risk options, scheduling, and cost, and would impair PEF's ability to contract for such goods and services on competitive and favorable terms. See Elnitsky Affidavit, ¶¶ 4-6.

Portions of the Audit Report reflect the Company's internal strategies for evaluating its projects. If such information was disclosed to PEF's competitors and/or other potential suppliers and vendors, PEF's efforts to obtain competitive nuclear equipment and service options that provide economic value to both the Company and its customers could be compromised by the Company's competitors and/or suppliers changing their offers or negotiating strategies. PEF has kept confidential and has not publicly disclosed the proprietary terms and provisions at issue here. Absent such measures, PEF would run the risk that sensitive business information regarding what it is willing to pay for certain goods and services, as well as what the Company is willing to accept as payment for certain goods and/or services, would be made to available to the public and, as a result, other potential suppliers, vendors, and/or purchasers of such services could change their position in future negotiations with PEF. Without PEF's measures to

maintain the confidentiality of sensitive terms in these contracts, the Company's efforts to obtain competitive contracts would be undermined. In addition, by the terms of these contracts, all parties, including PEF, have agreed to protect the proprietary and confidential information, defined to include pricing arrangements, from public disclosure. See Elnitsky Affidavit, ¶¶ 4-6.

The Audit Report also includes information gleaned from the Company's internal audit process, the release of which would harm PEF's ability to conduct internal audits. Public disclosure of the information in question would compromise PEF's ability to effectively audit the Company's major projects or vendors. If the Company were to know that its internal auditing controls and process were subject to public disclosure, it would compromise the level of cooperation needed with auditors to efficiently conduct audits. See Elnitsky Affidavit, ¶ 7. In addition, such information is specifically defined by Sections 366.093(3)(b) as confidential information that is entitled to confidential status.

### **Crystal River Unit 3 Uprate Project**

With respect to the Crystal River Unit 3 ("CR3") Extended Power Uprate ("EPU") project ("CR3 Uprate") sections of the Audit Report, specifically, it contains confidential contractual information and numbers, the disclosure of which would impair PEF's competitive business interests and violate PEF's confidentiality agreements with third parties and vendors; information gleaned from internal audit controls and reports; contract and contractual amendment financial information; and other financial information the disclosure of which would impair the Company's competitive business interests. See Franke Affidavit, ¶¶ 3-4.

The Company is requesting confidential classification of this information because the Audit Report contains proprietary and confidential information that would impair PEF's competitive business interests if publicly disclosed, as well as information concerning

contractual data, the disclosure of which would impair the Company's ability to contract on favorable terms and, in many cases, the information constitutes trade secrets of the Company and its contract partners. See Franke Affidavit, ¶¶ 3-4. In many instances, the disclosure of this information would violate contractual confidentiality provisions or is the result of recent negotiations with PEF vendors or ongoing contracts with vendors. Portions of these documents reflect the Company's internal strategies for evaluating projects. The information contains sensitive information concerning the CR3 Uprate project. Information regarding the CR3 Uprate includes confidential and proprietary competitive business information and numbers, the release of which would place PEF's competitors at a relative competitive advantage, thereby harming the Company's and its customer's interests. See Franke Affidavit, ¶¶ 3-4; 6.

Furthermore, portions of the information in the Audit Report were taken from internal audit reports. If the Company were to know that its internal auditing controls and process and were subject to public disclosure, it would likely compromise the level of cooperation needed to efficiently conduct audits. See Franke Affidavit, ¶ 5. In addition, such information is specifically defined by Sections 366.093(3)(b) as confidential information that is entitled to confidential status.

### **CONCLUSION**

PEF considers this information to confidential and proprietary and continues to take steps to protect against its public disclosure, including limiting the personnel who have access to this information. If such information was disclosed to PEF's competitors and/or other potential suppliers, PEF's efforts to obtain competitive nuclear equipment and service options that provide economic value to both the Company and its customers could be compromised by the Company's competitors and/or suppliers changing their offers, consumption, or purchasing

behavior within the relevant markets. If other third parties were made aware of confidential contractual terms that PEF has with other parties, they may offer less competitive contractual terms in future contractual negotiations. Without the Company's measures to maintain the confidentiality of sensitive terms in contracts with these nuclear contractors, the Company's efforts to obtain competitive contracts could be undermined to the detriment of PEF and its ratepayers. Franke Affidavit ¶¶ 4; 6; Elnitsky Affidavit, ¶¶ 6; 8.

Upon receipt of this confidential information, strict procedures are established and followed to maintain the confidentiality of the information provided, including restricting access to those persons who need the information to assist the Company. At no time since receiving the information in question has the Company publicly disclosed that information. The Company has treated and continues to treat the information at issue as confidential. See Franke Affidavit, ¶ 7; Elnitsky Affidavit, ¶ 8.

The competitive, confidential information at issue in this Request fits the statutory definition of proprietary confidential business information under Section 366.093, Florida Statutes, and Rule 25-22.006, Florida Administrative Code, and that information should be afforded confidential classification. In support of this Request, PEF has enclosed the following:

- (1) A separate, sealed envelope containing one copy of the confidential Appendix A to PEF's Request for Confidential Classification for which PEF has requested confidential classification with the appropriate section, pages, or lines containing the confidential information highlighted. **This information should be accorded confidential treatment pending a decision on PEF's Request by the Florida Public Service Commission;**

(2) Two copies of the document with the information for which PEF has requested confidential classification redacted by section, page or lines, where appropriate, as Appendix B; and,

(3) A justification matrix supporting PEF's Request for Confidential Classification of the highlighted information contained in confidential Appendix A, as Appendix C.

WHEREFORE, PEF respectfully requests that the redacted portions of the Audit Report No. PA-11-11-004 be classified as confidential for the reasons set forth above.

Respectfully submitted,



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**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY a true and correct copy of the foregoing has been furnished to counsel and parties of record as indicated below via electronic and U.S. Mail this 15th day of June, 2012.

  
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**PROGRESS ENERGY FLORIDA**  
**In re: Nuclear Cost Recovery Clause**  
**Docket 120009-EI**  
**Sixth Request for Confidential Classification**

Exhibit B

**REDACTED**

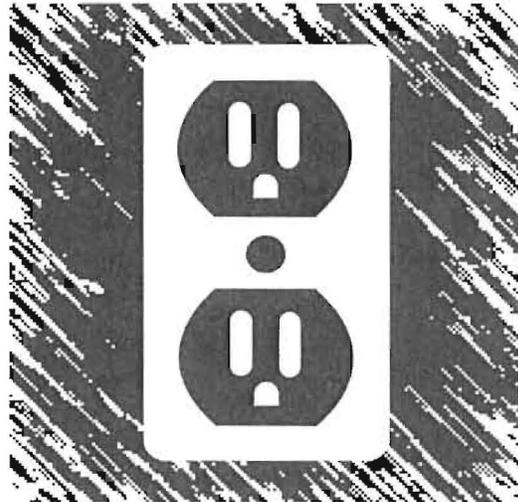
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Review of  
**Progress Energy  
Florida, Inc.'s  
Project Management Internal  
Controls  
For  
Nuclear Plant Uprate and  
Construction Projects**

June 2012

BY AUTHORITY OF

DOCUMENT NUMBER - DATE  
03911 JUN 15 2012  
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The Florida Public Service Commission  
Office of Auditing and Performance Analysis

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**Review of  
Progress Energy Florida, Inc.'s  
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Nuclear Plant Uprate and  
Construction Projects**

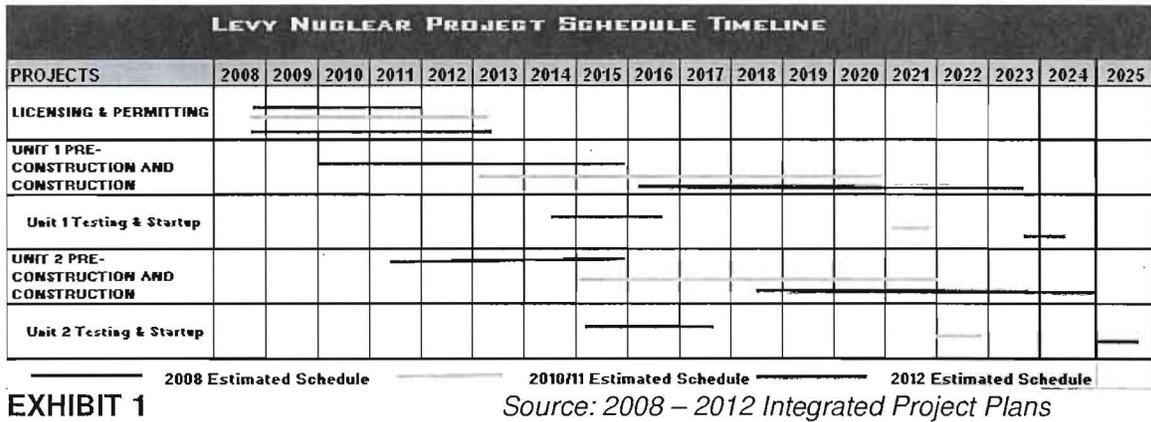
**William "Tripp" Coston**  
Government Analyst II  
Project Manager

**Jerry Hallenstein**  
Government Analyst II

**June 2012**

**By Authority of  
The State of Florida  
Public Service Commission  
Office of Auditing and Performance Analysis**

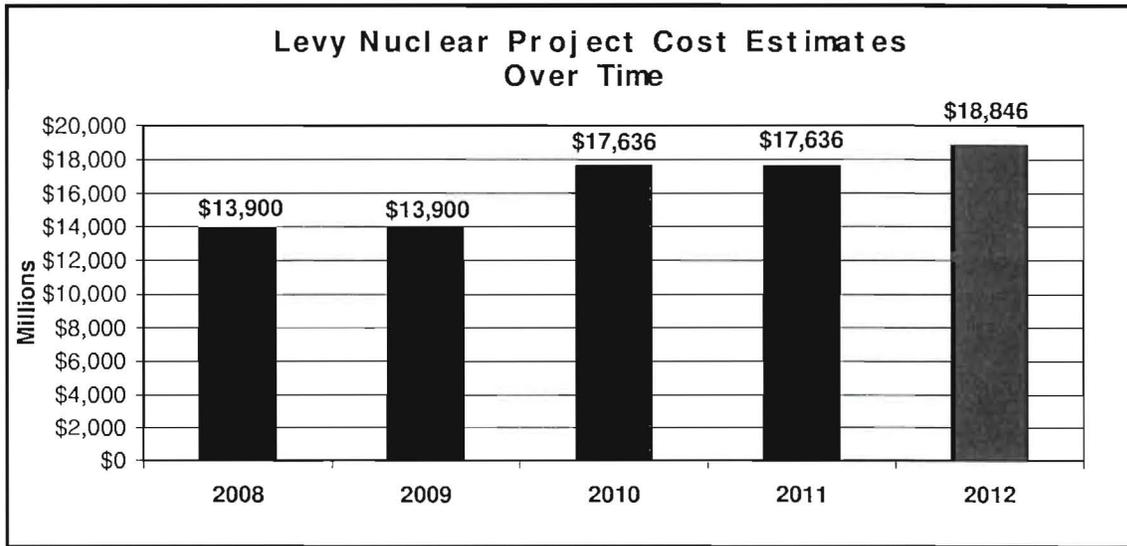
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As a result of the shift in the commercial operation dates, the estimated project costs have increased 6.8 percent from \$17.64 billion in 2011 to \$18.85 billion in 2012. The company states that this increased cost will primarily be a result of labor and material escalation. **EXHIBIT 2** shows PEF's estimated total project costs for the years 2008 through 2012.

To mitigate the increased near-term uncertainty and enterprise risks, PEF's project management has also made the decision to maintain the partial suspension of the Engineering, Procurement, and Construction (EPC) Agreement for the LNP. PEF's project management team anticipates [REDACTED]

[REDACTED] The project management team noted that construction will commence in time to place Levy Unit 1 in service in 2024. According to PEF, the decision to suspend construction provides additional time for economic conditions in Florida to improve and is in the best interests of both the company and consumers.



**EXHIBIT 2** *Source: 2008 – 2012 Integrated Project Plans*

## 2.0 Levy Nuclear Project

### 2.1 Levy Key Project Developments

During 2011 through April 2012, the work completed at Progress Energy Florida Levy Nuclear Project (LNP) primarily covered activities in the areas of licensing, environmental approvals, Long-Lead Equipment negotiations, and project controls and activities common to the overall LNP (e.g., risk assessments, quality assessment reviews, and audits.) The LNP cost estimate and schedule timeline have significantly changed. Currently, the company still expects the NRC to issue the Combined Operating License by mid-2013; however it has shifted the in-service date projections to 2024 for Unit 1 and 2025 for Unit 2.

#### 2.1.1 Progress Energy makes decision to defer plant construction

To mitigate the increased near-term uncertainty and enterprise risks (discussed in section 2.2.4, of this report) PEF's project management has also made the decision to maintain the partial suspension of the Engineering, Procurement, and Construction (EPC) Agreement for the LNP. The EPC Agreement will have to be renegotiated with Westinghouse and Shaw, Stone & Webster (the Consortium) [REDACTED]

[REDACTED] PEF's project management team anticipates [REDACTED]. The project management team noted that construction will commence in time to place Levy Unit 1 in service in 2024.

Additionally, the negotiations between the Consortium and PEF with respect to amending the EPC Agreement will include [REDACTED]

[REDACTED]

#### 2.1.2 Regulatory Approval Process Moves towards Completion

The NRC safety and environmental review schedule for the LNP Combined Operating License Application (COLA) is shown in **EXHIBIT 6**. The NRC issued the Final Environmental Impact Statement, as anticipated in April 2012. PEF expects the issuance of the Final Safety Evaluation Report in October 2012, six months later than PEF had anticipated during 2011. PEF attributes the slippage to the NRC's Requests for Additional Information (RAI) regarding risks associated with the events at the Fukushima nuclear plant in Japan (see section 2.1.4). After the Final Safety Evaluation Report is approved, the issuance of the Combined Operating License (COL) will depend upon the mandatory and contested NRC hearing process. PEF anticipates that the NRC mandatory hearing process will begin in November 2012. Based on the NRC review schedule, PEF expects the COL to be issued by the second quarter of 2013.

Reported cumulative actual costs through December 2011 were ██████████, compared to the ██████████ spent through December 2010. The LNP project team further recommends continued funding of approximately ██████████ for the period May 1, 2012 through April 30, 2013. Anticipated capital expenditures for the three-year period 2013-2015 are projected to be ██████████

Commission audit staff confirmed that the company followed its process with regards to Integrated Project Plan revisions. The company adequately updated the Integrated Project Plan to request continued funding of the Levy Nuclear Project. Audit staff verified that senior management approved the revisions to the plan.

### **2.2.2 Project management Policies and procedures issued**

PEF has procedures in place that direct the oversight and control of the Levy Nuclear Project. The company continues to review policies, procedures, and controls and revises documents as necessary based on changing business conditions, organizational changes, and project work schedules. During 2011, PEF revised 62 procedures for the Levy project in areas including interface agreements, quality assurance, development of procedures, self-assessment and benchmarking, operating experience and construction experience, engineering, condition evaluation and corrective actions, performance, contracts and purchasing, records management, the EPC contract, risk, and safety. PEF created the following eight new procedures in 2011 for the Levy project:

Conduct of Engineering Rev 0 (04/2011) - Establishes the general requirements and expectations for the conduct of the Nuclear Engineering Department (NED) and is applicable to all personnel employed by or reporting to NED. Additional procedures establish requirements and expectations for the conduct of engineering activities that are specific to the work groups within NED.

Conduct of Prejob Briefings/Post Job Critiques Rev 0 (06/2011) – Provides guidance for the preparation and conduct of pre-job briefings and post-job critiques for tasks/evolutions required by plant procedures. Also includes instructions to assist in determination of the scope of pre-job briefings and using checklists for tasks that are not identified as infrequently performed tests or evolutions.

Engineering and Technical Guidelines – Discipline Engineering Rev 0 (01/2011) – Provides general roles and responsibilities for Discipline Engineers in the Fossil and Renewable Engineering.

NGPP Interface Agreement – Environmental Responsibilities Agreement Between NGPP and ESS Rev 0 (03/2011) – Defines the roles and responsibilities for environmental-related activities performed by the New Generation Program & Projects (NGPP) and Environmental Services & Strategy (ESS).

Development, Planning, and Execution of Large Construction Projects Rev 0 (02/2011) – Provides the definition of the NGPP project flow and approval process, guidance for when formal reviews required by PJM-SUBS-00020, Integrated Logistics Support Planning Project and Program Management Standard, should be conducted, and definition of the NGPP Issue Resolution Process.

Revised Corporate Development & Improvement Group Contract Change Order Management procedures. Procedure was revised to add language for execution of changes for contracts that do not contain a change order provision and language added for internal project changes.

Amended contract language in the Joint Venture Team Master Services Agreement to update [REDACTED], and updated language in other sections of the contract as applicable.

Conducted bi-weekly Levy EPC change order, letters and invoice review meetings. Meetings included discussions of; the EPC invoice look-ahead, any invoice issues identified, open or upcoming EPC change orders, any open or upcoming letters, and open or upcoming non-COLA related change notices.

Audit staff continued to review these enhancements, including the audit of the Shaw invoice process, audit of the WEC and LLE invoice process, and the Joint Venture invoice process. Audit staff believes that these enhancements will strengthen internal controls.

#### **2.2.4 Risk Assessment and Mitigation Executed**

Beginning in January 2011, PEF began holding monthly Levy Risk Review Meetings for COLA and near term non-COLA work. These risk review meetings are facilitated by the New Generation Programs and Project (NGPP) team and attended by assigned Levy project team personnel.

During the partial suspension period and consistent with the approach in 2010, project management for the Levy COLA and near term non-COLA projects identify, review, and monitor project risks and mitigation strategies. Following these meetings, Levy project risk registers are updated and published in the "Levy & Harris Monthly Project Controls/Business Services Report." The April 2012 Levy COLA Post Mitigation Risk Matrix is shown in **APPENDIX A**. The April 2012 Levy Non-COLA Near-Term Post Mitigation Risk Matrix is shown in **APPENDIX B**.

#### **Project enterprise risks**

There are a number of enterprise risks that are outside of the control of the company and can affect PEF's ability to proceed with the LNP project. Below is a summary of the enterprise risks identified in PEF's April 23, 2012 IPP.

Florida Economic Conditions – Nation has not yet recovered from recession. Economic conditions have been flat the last year in Florida, with growth far below the rate prior to recession. Florida unemployment higher than the national average and Florida's housing and construction industries have not yet recovered.

Load Growth – Florida's economy adversely impacting growth in energy consumption, retail sales, and sales revenue in the near term. Over the long-term customer growth, customer energy use and, thus, retail energy sales and load, are expected to increase.

REDACTED

[REDACTED]

The four Source Surveillance reviews were conducted to verify the work activities performed by two vendors, Westinghouse Electric and Sargent and Lundy. In three of the reviews, the surveillance team identified failures to comply with quality assurance program requirements. The failures ranged from the need for additional attention to detail in the conduct of work activities to inadequate conditions of the warehouse where the Levy Nuclear Plant material was being stored. Each vendor addressed and resolved each failure to meet the requirements of their respective quality assurance programs.

PEF's NOS Department performed an assessment to determine the effectiveness, performance, and implementation of the Quality Assurance Program activities associated with new nuclear plant development within the New Generation Programs and Projects (NGPP) organization. The assessment was intended to ensure that applicable NGPP activities were being conducted in accordance with applicable rules, regulations, procedures and company policy. With the exception of a finding related to incomplete Quality Assurance record retention of calculations for some NGPP activities, NOS found NGPP to be effectively implementing its Quality Assurance Program.

Three quality assurance assessments and audits are planned for 2012. Two of them will be conducted by NUPIC; one on Westinghouse Electric and one on Shaw Nuclear Services. NOS will also be conducting an assessment of nuclear plant development and operational readiness. The quality assurance assessments and audits planned for 2012 are shown in EXHIBIT 8.

Levy Nuclear Project Quality Assurance Assessments and Audits Planned for 2012	
Description	Scheduled Dates
NUPIC Audit of Westinghouse AP1000	Third Quarter 2012
Internal NOS Assessment of Nuclear Plant Development and Operational Readiness	September 10-14, 2012
NUPIC Audit of Shaw Nuclear Services	Fourth Quarter 2012

EXHIBIT 8

Source: PEF Response to Staff Data Request LNP 1.32

## 2.3 Levy Project Controls and Oversight

### 2.3.1 Changes to Contracts and Contract Management

REDACTED

Detailed Wetland Mitigation Planning -The scope of work supplements the work already completed for the April 2010 Wetland Mitigation Plan. In particular it addresses the work necessary to provide the final design level of detail to support the Section 404 permit application and post-certification submittals.

Cultural and Archeological Resource Consulting Work -The project involves proper coordination, execution and evaluation of Cultural and Archeological Resources required for the design, construction, and commissioning of the transmission lines, right of ways, and substations associated with the Levy Baseload Transmission Program.

PEF provided work authorizations, change orders, and impact evaluations on all contracts previously examined in Commission audit staff's 2008, 2009, 2010, and 2011 reviews. There were 16 change orders executed for the Levy EPC contract in 2011, and 29 Joint Venture Team impact evaluations (assessment) written against the work authorizations (approval to proceed.) All but two of the impact evaluations have been incorporated into executed amendments to the contract work authorizations.

A list of PEF contracts valued greater than \$100,000 that have been executed or updated since the last review (excluding 2011 EPC contract activity) and work authorization is found in **EXHIBIT 9**. The two largest contracts (255934-05 and 255934-06), in terms of dollars, were necessary in support of PEF's COLA preparation in response to NRC's request for additional information.

Levy Nuclear Project Contracts Greater Than \$100,000 Executed During 2011				
Company	Contract #	Amend . Or WA #	Specific Scope	New Contract Activity for 2011 (\$000's)
Environmental Services	551338		Provide Wetland Mitigation Detailed Design Plan	██████
Environmental Services	551338	1	Amendment to implement a revised milestone payment schedule.	██████
Environmental Services	551338	2	Additional work which includes supplemental surveys and design.	██████
Environmental Services	551338	3	Amendment extended end date only.	██████
Golder Assoc.	453352-03		Provide U.S. Army Corps of Engineers Section 404 Permit support for the Levy Project,	██████
Golder Assoc.	453352-03	1	Amendment extended end date only.	██████
Golder Assoc.	453352-03	2	Add additional scope: USACE Jurisdictional Wetland Determination; USFWS Threatened and Endangered Species Evaluation and As-Needed Services.	██████
Joint Venture	255934-05		COLA Phase II Support to respond to NRC Requests for Additional Information and other COLA support.	██████
Joint Venture	255934-05	7	Response to NRC letter 093 RAI 02.04.03-6 (L-0868) and NRC letter 094 RAI 02.04.06-16 (L-0867).	██████
Joint Venture	255934-05	8	Response Package NRC Letter 104 RAI 02.04.05-11 (L-0937) & Supporting Probable Maximum Hurricane (PMH) Surge Calculation.	██████
Joint Venture	255934-06		LNP Site Certification Application 2009 Follow On Activities.	██████

Levy Nuclear Project Contracts Greater Than \$100,000 Executed During 2011				
Company	Contract #	Amend . Or WA #	Specific Scope	New Contract Activity for 2011 (\$000's)
Joint Venture	255934-06	6	Amendment extended end date only.	█
Joint Venture	255934-09		Levy COLA Revision 2 for submittal to NRC.	█
Joint Venture	255934-09	4	Amendment to capture the work scope description and identified schedule impact detail associated with approved JVT change orders.	█
Joint Venture	255934-09	5	Amendment to capture work scope description and identified schedule impact detail associated with approved JVT change orders.	█
Joint Venture	255934-09	6	Amendment to capture work scope description and identified schedule impact detail associated with approved JVT change orders.	█
Southeastern Archaeological	442498-03		Provide cultural resources for FEIS and 404 Permit.	█
Southeastern Archaeological	442498-03	1	Amendment extended end date only.	█
Southeastern Archaeological	442498-03	2	Amendment extended end date only	█
Westinghouse Energy Develop.	3382-155		Scope of work is to support the COLA review process, as needed, for both the Harris and Levy Nuclear Plants.	█
Westinghouse	3382-155	6	Additional funding for 2012 to support request for additional information (RAI) responses to the NRC and request for information responses received and extend contract end date	█
Energy Develop.	3382-208		Provide a Levy Nuclear Site Soil Structure Interaction Analysis in response to NRC letter #085.	█
Westinghouse	3382-208	1	Contract end date is being extended to allow for Westinghouse's support of the NRC review of the SSI analysis and report.	█
Energy Develop.	3382-208	2	Additional scope required as a result of an NRC Structural Branch Audit for LNP SSI Analysis and RCC Test program.	█
Westinghouse	3382-208	3	Schedule and scope is modified to update SSI analysis-time histories provided to Westinghouse for the Levy SSI analysis.	█

**EXHIBIT 9**

Source: PEF Response to Staff Data Request LNP 1.25

**2.3.2 Evaluation of contract invoices**

In testing PEF compliance with published procedures, Commission audit staff reviewed a sample of invoices paid by PEF to support the LNP project during 2011. Commission audit staff obtained a sampling of invoices from the population of all LNP invoices paid, greater than \$50,000. Out of approximately 100 invoices paid by the company, Commission audit staff sampled 20 invoices. The invoices reviewed included payments for legal support, Westinghouse/Shaw, Stone & Webster, and the Joint Venture Team. Commission audit staff determined whether PEF followed its policies and procedures with respect to the processing of these invoices.

Commission audit staff confirmed that the sample of invoices reviewed were accurate and that PEF's analyst used the appropriate contract exhibit (billing rates) to verify the accuracy of the amounts. Additionally, Commission audit staff confirmed management approvals of each

REDACTED

invoice. Commission audit staff did not find any instances where PEF failed to follow existing procedures with respect to the sampled invoices.

### **2.3.2 Continued interest in joint ownership**

In April 2011, PEF provided an update to potential joint owners [REDACTED] on the LNP. These entities expressed continued interest in joint ownership in the LNP. However, according to PEF, while the interest exists, it has not led to joint ownership commitments because of the effects of the economic recession, NRC licensing delays, and the uncertainty with respect to project cost, timing, and federal and state energy and environmental policy. PEF plans additional meetings with potential joint owners during 2012.

REDACTED

Project Area	Amount
Engineering	██████████
Procurement	██████████
Construction	██████████
Project Management/Administration	██████████
<b>Total Increase</b>	<b>\$124,800,000</b>

**EXHIBIT 10**

Source: PEF Response to Staff Data Request 1.17

The company plans to hire a general contractor to manage the construction of the Phase III installation. The project team anticipates the initiation of the contract RFP process in 2012—after the company moves forward with the containment repair initiative. For the general contractor contract, the company is using a 2010 Rough Order of Magnitude evaluation to establish its construction costs portion, approximately ██████████ of the \$124 million total scope increase. If the actual contract price exceeds this estimate, the overall project costs will increase.

## 3.2 EPU Key Project Developments

### 3.2.1 EPU Phase III schedule shifted into the current repair outage

The company originally planned to complete the final phase of the EPU project during the next refueling outage (R17 fuel outage), which was originally scheduled for Fall 2011 but has been delayed until 24 months after the unit returns to service. With the extension of the R16 outage due to the delamination repairs, the company re-evaluated its options to complete this work under the expectation that the CR3 unit would be repaired and returned to service.

In 2011, the company made the decision to move forward with the repair option for CR3. Senior management directed the EPU project team to evaluate the options of continuing on the original schedule timeline versus shifting the final EPU work into the current extended outage. The project team completed an evaluation of the two options, and determined that the shift in schedule would provide the greatest benefit to the end users.

The team's evaluation indicated that deferring the project until the R17 outage would add \$33 million to the final construction cost estimate. There would be additional rate impact due to forgone expected fuel savings from the EPU's additional MWe output during the interim. In February 2012, the project team presented its findings and recommendation, and the Senior Management Committee approved retaining the option of shifting the Phase III construction into the current outage. The company plans to incorporate this change into the next revision to the project's IPP.

With the shift, the project team will have additional time to complete the EPU construction work. The original R17 schedule included 45 days of construction to complete the work, while the shift into the current outage will extend that by an additional 325 days. In the original R17 schedule, the EPU Phase III work was the planned Critical Path for that outage, and any delays in construction would have extended the outage timeline. With the EPU work

REDACTED

In addition to the CR3-specific findings, the NOS department observed that there has been repeated turnover within the upper management of the Major Projects group in recent years. The report points out that three different employees over the last year had served as the General Manager of Nuclear Projects. Additionally, the company filled the Director of Major Projects in 2011, but that individual was re-assigned to the CR3 repair project. Regarding the impact of this turnover upon the individual Upgrade projects, the NOS auditor does not believe the lack of leadership continuity has impacted the success of these projects. The NOS team noted that CR3's project management team has been constant and its members are very knowledgeable in the project scope.

### 3.4 EPU Contract Oversight and Management

#### 3.4.1 Changes and additions Made to Contracts and Contract Management

During 2011, the company issued three new contracts for Phase III of the EPU project. This was primarily due to the lack of ongoing project work during the company's evaluation of the containment building delamination impact. Management states the contracts initiated during 2011 were necessary to ensure the project could continue within a reasonable timeframe once the impact to the project schedule was known. **EXHIBIT 12** lists the contracts initiated in 2011 for the final EPU construction phase and the total contract amount.

EPU Project Contracts Over \$100,000 Initiated in 2011			
Vendor	Initiation Date	Work Scope	Contract Price
SPX Heat Transfer, Inc Contract 590686	11/ 2011	Replace High Pressure Closed Feedwater Heaters	████████
Impact Services, Inc Contract 548483	04/ 2011	Disposal of old Moisture Separator Reheaters	████████
Curtis Wright/Scientech	3/ 2011	ICCMS equipment	████████
<b>Total</b>			████████

**EXHIBIT 12**

Source: PEF Response to Staff Data Request 1.19

Commission audit staff reviewed each contract issuance process against PEFs policies and procedures. In each case, it appears the company followed appropriate processes. Audit staff verified that each item was included in the required Phase III scope of work.

In addition to the new contracts executed in 2011, the company initiated amendments to several of its existing contracts. **EXHIBIT 13** lists the 2011 amendment and Change Orders over \$100,000 that the company initiated on existing contracts. All the amendments and change orders were initiated with AREVA and the engineering work involving the Phase III scope.

For each amendment, audit staff reviewed each impact evaluation and Integrated Change Form to confirm the company was in compliance with its project management and procurement procedures. The company requires that management authorize any scope or schedule change identified within the Integrated Change Forms. In each case, audit staff determined that the authorized approval was obtained for each change and that the company initiated these contracts in accordance with its current process and procedures.

EPU Project Work Authorization and Amendments Initiated during 2011		
Amendment	Work Scope	Amendment Price
Areva Contract 101659-84, Amd 11	Engineering work for the NSSS	██████████
Areva Contract 101659-84 Amd 12	Engineering work for the NSSS	██████████
Areva Contract 101659-93 Amd 13	Balance of Plant engineering work	██████████
Areva Contract 101659-93 Amd 14	Balance of Plant engineering work	██████████
Areva Contract 101659-84 CO 55 R3	Project planning-Boron Precip Issue	██████████
Areva Contract 101659-84 CO 63 R0	Feedwater Line Break with Failed First Reactor analysis	██████████
Areva Contract 101659-84 CO 46 R1	Staff augmentation engineering scope support for ECs	██████████
Areva Contract 101659-84 CO 56R1	Analyze the SGTR Dose and Safety Analysis	██████████
Areva Contract 101659-84 CO 62 R1	Safety related calculations	██████████
Areva Contract 101659-84 CO 60 R2	Support NRC Request for Additional Information	██████████
<b>Total</b>		██████████

**EXHIBIT 13**

Source: PEF Response to Staff Data Request 1.22

**3.4.2 Testing of Contract Management to Procedures**

In addition to verifying the Integrated Change Forms for each contract amendment and new contract, audit staff performed a sample review of the contract payment process to confirm compliance with company procedures. Audit staff requested invoices from a sample of current contracts to assess compliance with contract management policies and procedures. For each invoice, audit staff verified the Integrated Change Form in relation to the contract terms, the vendor invoice, and corresponding company payment.

Audit staff requested a listing of invoice payments from all vendor invoices paid in 2011 greater than \$50,000. From this population, audit collected a sample of invoices that included invoices for engineering scope and other expenditures related to the Phase III scheduled work, such as long-lead equipment manufacturing. After review, audit staff did not observe any variances to the company's policies and procedures for any of the invoices' reviewed.

## 4.0 CONCLUSIONS

### 4.1 Levy Nuclear Project

#### 4.1.1 Project Events and Developments

In April 2012, the PEF's Levy Nuclear Project (LNP) management team announced a shift in the in-service dates for Units 1 and 2. The expected in-service date for Unit 1 has shifted from 2021 (estimated in 2010 and 2011) to 2024, while the in-service date for Unit 2 has shifted from 2022 (also estimated in 2010 and 2011) to 2025. The project management team attributes the shift to the current uncertainty with respect to federal and state energy and environmental policies and increased enterprise risks.

Federal and state energy and environmental policies include obtaining federal support for nuclear development and, in Florida, the uncertainty surrounding repeated legislative attempts to repeal or overturn the cost recovery statute. Enterprise risks include current unfavorable economic conditions in Florida, low growth in energy consumption and sales, depressed natural gas prices, and risks associated with the events at the Fukushima plants in Japan. As a result of the shift in the commercial operation dates, the estimated project costs have increased 6.8 percent from \$17.64 billion in 2011 to \$18.85 billion in 2012.

To mitigate the increased near-term uncertainty and enterprise risks, PEF's project management has also made the decision to currently maintain the suspension of the Engineering, Procurement, and Construction (EPC) Agreement for the LNP. PEF's project management team anticipates [REDACTED]

[REDACTED] The project management team noted that construction will commence in time to place Levy Unit 1 in service in 2024. According to PEF, the decision to suspend construction provides additional time for economic conditions in Florida to improve and is in the best interests of both the company and consumers.

In 2012, PEF continued to focus its efforts in obtaining the Combined Operating License Application (COLA) approval from the Nuclear Regulatory Commission (NRC). There are three major milestones in obtaining the COLA: (1) The NRC's review and issuance of the Final Environmental Impact Statement; (2) The NRC's review and issuance of the Safety Evaluation Report, and; (3) The formal hearing process with the NRC.

The NRC issued the Final Environmental Impact Statement (FEIS) for the Levy Nuclear Project (LNP) in April, 2012. Issuance of the Final Safety Evaluation Report (FSER) is expected in October 2012, six months later than originally anticipated. PEF attributes the setback to additional requests for information from the NRC to address concerns regarding the events that occurred at the Fukushima plants in Japan as a result of the March 2011 tsunami. Upon issuance of the FSER in October 2012, PEF anticipates the mandatory hearing process with the NRC to start and complete within four months. PEF expects the COLA to be issued in the second quarter of 2013.

In addition to performing work to obtain the COLA, PEF continues to monitor environmental concerns (e.g., wetland mitigation plan and aquifer performance test), perform transmission study-related activities, and participate in industry groups to evaluate the

## 5.0 APPENDICES

### 5.1 Appendix A

#### Levy Nuclear Project COLA Risk Matrix April 2012

Probability							Impact
Very High (90-100%)							
High (66-89%)							
Moderate (34-65%)							
Low (11-33%)	4,5,7						
Very Low (0-10%)	8	9					
	Minimal	Moderate	Significant	Severe	Critical		
	<\$2M	<\$5M	<\$10M	<\$15M	>\$15M		

Marker	Short Name	Project Risk Exposure
4	Contested hearings could impact schedule	■
5	██	■
7	Delay in environmental permit review and issuance	■
8	QA Program Implementation	■
9	Resolution of LEDPA analysis for USACE could delay licensing proceedings	■
Total Risk Exposure – All Risks [\$M]		■

APPENDIX A

Source: PEF Response to Staff Data Request LNP 1.7

REDACTED

## 5.2 Appendix B

### Levy Nuclear Project Non COLA Risk Matrix April 2012

Probability							Impact
Very High (90-100%)							
High (66-89%)							
Moderate (34-65%)	5	8			6		
Low (11-33%)	13	17	11,16				
Very Low (0-10%)	12	10					
	Minimal	Moderate	Significant	Severe	Critical		
	<\$20M	<\$50M	<\$100M	<\$150M	>\$150M		

Marker	Short Name	Project Risk Exposure
5	Modified Transmission Scope Uncertainty	█
6	█	█
8	█	█
10	Change in Timing and Scope of Crystal River Switchyard work	█
11	█	█
12	Recruiting Nuclear Operators	█
13	Land Acquisition required to support transmission, pipeline routing and wetland mitigation	█
16	RCC Test Pad Resolution	█
17	Aquifer Performance Test	█
Total Risk Exposure – All Risks [\$M]		█

APPENDIX B

Source: PEF Response to Staff Data Request LNP 1.7