

Docket No. 150009-EI: Nuclear Cost Recovery Clause

Duke Energy Florida, Inc.

Crystal River Unit 3 Power Uprate and the Levy Units 1 & 2 Construction

Witness: **Direct Testimony of WILLIAM COSTON**, Appearing on behalf of  
the staff of the Florida Public Service Commission

Date Filed: June 22, 2015

1                                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2   **COMMISSION STAFF**

3   **DIRECT JOINT TESTIMONY OF**

4   **WILLIAM COSTON**

5   **DOCKET NO. 150009-EI**

6   **JUNE 22, 2015**

7  
8   **Q.     Mr. Coston, please state your name and business address.**

9   A.     My name is William Coston. My business address is 2540 Shumard Oak Boulevard,  
10 Tallahassee, Florida 32399-0850.

11 **Q.     By whom are you employed?**

12 A.     I am employed by the Florida Public Service Commission (Commission) as a Public  
13 Utilities Analyst IV, within the Office of Auditing and Performance Analysis.

14 **Q.     What are your current duties and responsibilities?**

15 A.     I perform audits and investigations of Commission-regulated utilities, focusing on the  
16 effectiveness of management and company practices, adherence to company procedures, and  
17 the adequacy of internal controls. Mr. Fisher and I jointly conducted the 2014 audit of Duke  
18 Energy Florida, Inc.'s (DEF) project management internal controls for the close-out of the  
19 Extended Power Uprate project at Crystal River Unit 3 and for the Levy Nuclear Project.

20 **Q.     Please describe your educational and relevant experience.**

21 A.     I earned Bachelor of Arts and Master of Public Administration degrees from Valdosta  
22 State University. I have worked for the Commission for eleven years conducting operations  
23 audits and investigations of regulated utilities. Prior to my employment with the Commission,  
24 I worked for six years at Bank of America in the Global Corporate and Investment Banking  
25 division.

1 **Q. Have you filed testimony in any other dockets before the Commission?**

2 A. Yes. I filed similar testimony in Docket Nos. 090009-EI, 100009-EI, 110009-EI,  
3 120009-EI, 130009-EI and 140009-EI. This prior testimony addressed the audits of DEF's  
4 project management internal controls for the nuclear plant uprate at the Crystal River Unit 3  
5 and the Levy Nuclear Project for the years 2009 through 2014. Additionally, in 2005 I filed  
6 testimony in Docket No. 050078-EI, which addressed Progress Energy Florida Inc's  
7 vegetation management, lightning protection, and pole inspection processes.

8 **Q. Please describe the purpose of your testimony in this docket.**

9 A. My testimony presents the attached confidential audit report entitled *Review of Duke*  
10 *Energy Florida, Inc.'s Project Management Internal Controls for Nuclear Plant Uprate and*  
11 *Construction Projects* (Exhibit WC-1). This audit was completed to assist with the  
12 evaluations of nuclear cost recovery filings. The report describes key project events and  
13 contract activities completed during 2014 through April 2015 for the Crystal River 3 EPU  
14 project and the Levy Nuclear Project. The report also describes and assesses project  
15 management internal controls employed by DEF to close out the Extended Power Uprate  
16 (EPU) project.

17 **Q. Please summarize the areas examined by your review of controls.**

18 A. The Office of Auditing and Performance Analysis conducted an audit of the internal  
19 controls and management oversight for close-out of the CR3 EPU project, and activities  
20 around the Levy Nuclear Project.

21 The audit focuses on the organization, processes, and controls used by the company to  
22 execute the EPU project close-out at CR3, and the actions, activities, support processes, and  
23 key activities around the Levy Nuclear Project.

24 The primary objective of this audit was to assess and evaluate key project  
25 developments, along with the organization, management, internal controls, and oversight that

1 DEF used or plans to employ for these projects. The internal controls examined were related  
2 to the following key areas of project activity: planning, management and organization, cost  
3 and schedule controls, contractor selection and management, and auditing and quality  
4 assurance.

5 **Q. Are you sponsoring any exhibits?**

6 A. Yes, our audit report is attached as Exhibit WC-1. The audit report's observations are  
7 summarized in the Executive Summary chapter for both the EPU project and the Levy Nuclear  
8 Project.

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

10 A. Yes.

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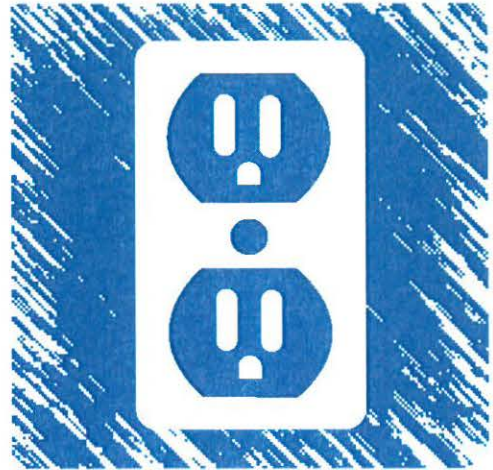
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# **Review of Duke Energy Florida Inc.'s Project Management Internal Controls for Nuclear Plant Uprate and Construction Projects**

June 2015

BY AUTHORITY OF  
The Florida Public Service Commission  
Office of Auditing and Performance Analysis



**Review of  
Duke Energy Florida's  
Project Management  
Internal Controls  
for  
Nuclear Plant Uprate and  
Construction Projects**

**William "Tripp" Coston  
Public Utility Analyst IV  
Project Manager**

**June 2015**

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

**PA-15-01-001**





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## 1.0 Executive Summary

### 1.1 At a Glance

#### Levy Nuclear Project (LNP)

- ◆ Nuclear Regulatory Commission LNP Combined Operating License (COL) application review schedule has been extended to mid-2016 due to final AP1000 design-related issues.
- ◆ Duke Energy Florida, Inc. (DEF) performed analyses to assess the process for disposing of certain contracted long-lead equipment for the Levy Nuclear Project.
- ◆ DEF and the Westinghouse Electric Company, LLC continued litigation of the Engineering Procurement and Construction (EPC) contract cancellation. The final outcome of this litigation will impact the company's overall project costs.

#### Crystal River 3 Extended Power Uprate (EPU)

- ◆ The company's Investment Recovery Project (IRP) group dispositioned all of the remaining Crystal River Unit 3 (CR3) EPU assets except the remaining Siemens components.
- ◆ The CR3 *EPU assets* were a part of a larger decision process for the overall disposition of all CR3 assets. The dispositioning decisions were made on the basis of what was best for maximizing the most efficient and highest recovery value for all CR3 assets.
- ◆ The CR3 EPU asset disposition process was executed in compliance with Duke Energy Florida's Investment Recovery governance process.
- ◆ All CR3 EPU asset dispositions should be completed by August 2015.

### 1.2 Audit Execution

#### 1.2.1 Purpose and Objective

This audit addresses DEF's project internal controls and management oversight for Levy Units 1 & 2 and the dispositioning of the Extended Power Uprate assets for Unit 3 located at the Crystal River Energy Complex. The primary objective of this audit is to provide an independent account of project activities and to evaluate internal project controls. Information in this report may be used by the Florida Public Service Commission (Commission) to assess the reasonableness of DEF's cost-recovery requests.

Commission audit staff published previous reports in 2008 through 2014; each entitled *Review of Duke Energy Florida, Inc.'s Project Management Internal Controls for Nuclear Plant Uprate and Construction Projects*. These reports are available on the Commission website at [www.floridapsc.com/publications](http://www.floridapsc.com/publications).

### 1.2.2 Scope

The period of this review is January 2014 to May 2015. Staff examined the adequacy of DEF's project management and internal controls for these projects. The internal controls assessed were related to the following key areas of project activity:

- ◆ Planning
- ◆ Management and organization
- ◆ Cost and schedule controls
- ◆ Contractor selection and management
- ◆ Auditing and quality assurance

Comprehensive controls are essential for successful project management. However, adequate and comprehensive controls are ineffective if not actively emphasized by management, embraced by the organization, and subject to oversight and revision. Proper internal controls minimize risk, enhance its mitigation and management, and aid efficient, reasoned decision making.

Risk must be timely and accurately identified. Sufficient safeguards created, vetted, and in place will help prevent and mitigate risk. Prudent decision making results from well-defined processes that address identified risks, expectations, and cost. Effective communication, adherence to clear procedures, and vigilant oversight are also essential to ensure prudent project decisions.

Commission audit staff's review places primary importance on internal controls found in the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and in the *Internal Control - Integrated Framework* developed by the Committee of Sponsoring Organizations of the Treadway Commission. The framework states that an internal control should consist of five interrelated components:

- ◆ Control environment
- ◆ Risk assessment
- ◆ Control activities
- ◆ Information and communication
- ◆ Monitoring

To maximize operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations, all five components must be present and functioning to conclude that internal controls are effective.

### 1.2.3 Methodology

Initial planning, research, and data collection for this review occurred during January 2015. Additional data collection, analysis, and report writing were conducted in January through May 2015. The information compiled in this report was gathered via company responses to audit staff

document requests, onsite visits to the Crystal River Energy Complex and the DEF St. Petersburg office, and interviews with key project personnel. Audit staff also reviewed testimony, discovery, and other filings in Docket No. 150009-EI. A large volume of information was collected and analyzed by audit staff. Specific information collected from DEF included the following categories:

- ◆ Policies and procedures
- ◆ Organizational structures
- ◆ Contract requests for proposal
- ◆ Contractor bids
- ◆ Bid evaluation analyses
- ◆ Contracts
- ◆ Change orders
- ◆ Internal audit reports and quality assessment reviews

## **1.3 Audit Staff Observations**

### **1.3.1 Levy Nuclear Plant**

The company continues its legal dispute with Westinghouse over the cancelation of the EPC contract for the Levy plants. This has limited DEF's abilities when working to disposition the Long Lead Equipment (LLE) secured under the EPC contract. During 2014, the company worked with Westinghouse to resolve, discontinue, terminate, or sell the assets purchased through third-party vendors. Presently, the dispositions of all LLE assets, with the exception of the VFD's, were either resolved or being addressed through the EPC cancelation litigation. The remaining open item is noted in section 2.2.

It is difficult to assess the overall approach of DEF's disposition choices due to the legal issues with Westinghouse. In each case, the company was reliant on Westinghouse to be the intermediary for the dispositioning, and all the items were part of the overall contract in dispute. Prior to the cancelation of the EPC, the company made the decision to halt manufacturing of several components at its current milestone payments and negotiate a settlement for the remaining fees. In these cases the company justified its decisions through proper documentation.

The company is still working to obtain the Combined Operating License from the NRC. The application timeline has slipped due to several NRC design concerns for the AP1000. These are issues for Westinghouse to resolve; the Levy application can only be issued once the NRC approves acceptable design modifications.

### **1.3.2 CR3 Extended Power Uprate**

The company moved forward with its planned dispositioning of the eligible CR3 assets in 2014 and 2015. This was performed using Duke Energy's corporate investment recovery guidance procedures. The completion of this effort will allow the company to work with the NRC on the decommissioning plan.

The company dispositioned CR3 equipment via internal transfers, listed bid events, and a public auction. This was in accordance with the latitude given to the recovery team through the

investment recovery guidance procedures. After considering all internal transfers, the company's disposition approach evolved, starting with a listed bid approach and shifting to a public auction. Under the listed bid process, the company listed assets for a designated timeframe, allowing bids to be submitted, considered, and accepted. After evaluation, management made the decision in second quarter 2014 to shift to a public auction approach. The public auction approach allowed the company to divest the majority of remaining assets through a one time, publicized event. Factors considered for this decision included the time, resources, and costs needed to continue with the list bid approach.

The company states that both approaches yielded the same result—the ability to disposition EPU-related assets at the current market value. The company believes that it received the appropriate market value for each asset sold. An overriding consideration is the understanding that, while many nuclear plants contain similar components, the equipment in question is often designed to specification for the intended generating unit. As such, many of the high-valued assets were only marketable at salvage-value.

The company does not believe that either approach lent itself to a more advantageous outcome. Given the differences in various assets, Commission audit staff notes that it is difficult to assess whether one approach was more successful in terms of maximizing the sale price. For both approaches, marketing the assets to the appropriate buyers was a key focus. Commission audit staff believes that DEF made appropriate efforts to identify and market its assets to a wide range of potential buyers under each approach. Commission audit staff believes both approaches were reasonable and allowable under the company's written procedures.

The company is still working to disposition components of the high and low pressure turbines purchased for the EPU. The company anticipates completing the negotiations for possible sale [REDACTED] by the end of summer. Audit staff notes that the company continues to incur administrative and maintenance costs for this equipment adding to a need for swift action.

## 2.0 Levy Nuclear Project

Duke Energy Florida Inc.'s (DEF) decided in July 2013 to cancel the construction schedule for the Levy Nuclear project, while still continuing to seek the Combined Operating License (COL) from the Nuclear Regulatory Commission (NRC.) The Florida Public Service Commission (Commission) approved a settlement in Docket No. 130208-EI allowing DEF to implement this plan.

### 2.1 EPC Cancellation Progress

Since January 2014, DEF has conducted negotiations with Westinghouse to close-out its Engineering, Procurement, and Construction (EPC) contract. The two companies have not been able to resolve the terms of this cancellation, and are seeking legal resolution. Both companies have filed separate lawsuits in this matter, each asking for financial compensation. DEF is seeking a \$54 million Long Lead Equipment (LLE) refund and Westinghouse is seeking \$512 million for termination fee and termination costs. The current federal court schedule is detailed in **Exhibit 1**.

Duke Energy Florida – Westinghouse Contract Litigation Trial Schedule Duke Energy	
Action	Date
Discovery Completion	August 2015
Expert Reports	June-July 2015
Mediation	August 2015
Dispositive Motions	September 2015
Trial	February 2016

**Exhibit 1**

*Source: Data Request 1.19*

Until the case is resolved, DEF management states it is not at liberty to discuss the pending litigation issues. Due to potential harm to the overall resolution, the company has provided details leading up to the lawsuit, and described how the company has worked to resolve issues outside of the specific EPC-related concerns.

The company states the litigation has not halted its efforts towards finalizing its COL application. DEF is reliant on Westinghouse for critical engineering data to proceed with its COL application. Currently, Westinghouse continues to provide DEF with the necessary critical information to assist in pursuing the operating license. DEF management agrees that it is in the best interest of both companies to complete and receive the Levy COL. This topic is further discussed in section 2.3.

**2.2 Asset Disposition**

The company developed a disposition plan for handling the LLE initiated through the EPC contract. The plan focuses on minimizing the costs and other risks to the company. The Levy management team considered two options when looking at the status of this equipment: disposal or storage. After review and evaluation, management made the decision to dispose of all LLE items under the EPC contract. The approved plan required the team to consider the following options when handling the LLE:

- ◆ Reuse the equipment at another Duke Energy plant
- ◆ Sell equipment for salvage/scrap value
- ◆ Sell equipment to another AP1000 owner group
- ◆ Sell equipment to a Westinghouse sub-contractor.

Exhibit 2 shows the company’s decision for the LLE contracts.

Duke Energy Florida Levy Nuclear Project Long Lead Equipment Disposition					
Contractor/ Equipment	Disposition Date	Original Cost	Paid	Settled Cost	Disposition Decision
Mangiarotti- various equipment components in grouping	11/7/2013				
Tioga-Cooling Loop Piping	1/09/2014				
Doosan-Steam Generators	11/18/2014				
Doosan-Reactor Vessel	11/18/2014				
Toshiba- Turbine/Generator	N/A				
Siemens-Variable Frequency Drives	Pending				
SPX-Squib Valves	12/10/2014				
EMD-reactor coolant pumps	11/18/2014				
<b>Total</b>					

**Exhibit 2**

Source: Data Request 1.22

Considering these options, during 2014, the company worked with Westinghouse to negotiate the disposition of remaining long-lead items initiated under the EPC contract. At the time of



cancelation, much of this equipment was in various stages of fabrication. Some equipment was fully constructed and maintained in controlled storage facilities. For these key items in storage—the Variable Frequency Drives (VFDs) and the steam generator tubing—the company was paying fees for maintenance and upkeep.

The company notes it has fulfilled its required milestone payments for the LLE since the initial contract inception. In some cases, the company had met all financial obligations for the equipment and this equipment was maintained in storage facilities until future installation. The company did make the decision to take possession of the VFDs, and is in the process of making a decision for long-term resolution of the equipment.



DEF's approach required the company to consider selling or transferring the LLE assets to other nuclear plant owners or other Duke Energy plants. The company considered the possibility of offering these assets for open auction. It determined that there was neither outside demand nor need among Duke Energy affiliates for this equipment. All future AP1000 owners were contacted. The company evaluated these options from late 2013 through April 2014.

The EPC contract contains provisions that, if exercised, allow DEF to assume and possession of individual LLE contracts. In June 2014, the company requested that Westinghouse provide all vendor/manufacture contract terms so DEF could consider the option of assuming and taking possession of the remaining LLE equipment. Assuming the subcontract and taking possession of the equipment would allow DEF the opportunity to make the determination on how to disposition an asset directly with the sub-vendor. If DEF management agreed to take over the vendor contracts, the company would also assume all remaining liability and costs. DEF considered each item individually and determined which items to offer to buy out without taking possession, purchase directly and take possession, or leave to be resolved through the legal resolution of the contract. These options were evaluated for all remaining LLE contracts. A settlement was reached on the following contracts:

- ◆ Mangiarotti equipment (Accumulator tank, PRHR heat exchanger, pressurizer, core makeup tank)
- ◆ Tioga-reactor coolant loop piping
- ◆ SPX-squib valves

After discussions with DEF,



To address these concerns, DEF management states that the company adjusted its plan to offer the equipment under an initial general interest listed-bid event in June 2014. This event

was designed to share limited information about each specific asset to potential buyers to give DEF an indication of interest in the equipment.

[REDACTED] The items were listed in a way to let potential bidders know that a follow-up event would occur with more specific details on the equipment for the interested parties. In the end, [REDACTED], eliminating the opportunity to complete the auction process.

The company resolved the disposition of the Mangiarotti Equipment and Tioga-reactor cooling looping piping prior to EPC cancelation through settlement arrangements with Westinghouse and the sub-vendors. For these items, DEF management determined it was best to discontinue the manufacturing process, and agreed upon an amount to be paid for already-incurred time and material costs. In total, the company paid approximately [REDACTED] to resolve these items. After review of company documents, Commission audit staff determined that, given the highly specialized nature of this equipment, the company's approach and decisions were reasonable.

Management made the decision under the EPC contract to assume the SPX-Squib valves. According to DEF, Westinghouse expressed an interest in purchasing this equipment, but the companies could not agree on a contract price. DEF states that in September of 2014,

[REDACTED] No sale was accomplished and company management decided to take possession of the equipment. At this point, DEF had paid approximately [REDACTED] in milestone payments for this equipment. In the end, the company settled with the manufacturer, allowing DEF to recover approximately [REDACTED]. The company believes that the selling back to the manufacturer was the appropriate decision given the limited number of potential buyers.

### 2.3 NRC Licensing

Under the Commission-approved settlement in Docket No. 130208-EI, DEF agreed to continue its efforts to obtain the Levy Combined Operating License. Though related costs are not included within the NCRC docket, the ability for the project to be completed at a future point in time is contingent upon the issuance of the COL.

Currently, at the NRC, the Levy COL application is the lead for in-process AP1000 COL applications. The NRC is using the Levy application for documenting all pending engineering modifications. The NRC has several open engineering design issues for the AP1000, and the Levy final approval schedule is contingent upon the resolution of these open items. The ongoing condensate return issue is the most impactful open design issue. A follow-up meeting with the NRC on the condensate return issue is scheduled for September 2015.

DEF management does not believe COL issuance will be impacted by these design issues. The company states that Westinghouse and the AP1000 Owner’s Group (APOG) have been working with each other and the NRC to effectively resolve all outstanding issues. DEF management states that the company believes the current issues will be resolved by the proposed changes to the Levy COL application. The specific design issues in question include:

- ◆ Condensate Return
- ◆ Main Control Room Dose Calculations
- ◆ Hydrogen Vent
- ◆ Main Control Room Heat Load

The company continues to work with the U.S. Army Corp of Engineers to finalize the wetland mitigation plan, which is necessary for final 404/10 Permit approval. **Exhibit 3** details events leading to the anticipated COL issue date of May 2016. However, the remaining dates are contingent on Westinghouse resolving open design issues for the AP1000. Currently, the NRC is requiring additional engineering design modifications. The NRC will not move forward on COLA approval until these design issues are resolved. Therefore, the remaining schedule dates are fluid, and most likely will shift.

<b>Levy Nuclear Project NRC COLA Review Schedule</b>	
<b>Environmental Review</b>	<b>Status</b>
Phase 1 – Environmental Impact Statement (EIS) scoping summary report issued	Completed- May 2009
Phase 2 – Draft EIS issued to the Environmental Protection Agency (EPA)	Completed - August 2010
Phase 3 – Responses to public comments on draft EIS completed	Completed – April 2012
Phase 4 – Final EIS issued to the EPA	Completed - April 2012
<b>Safety Review</b>	<b>Status</b>
Phase A – Requests for Additional Information (RAIs) and Supplemental RAIs	Completed - March 2010
Phase B – Advanced Final Safety Evaluation Report (SER) without Open Items	Completed - September 2011
Phase C – Advisory Committee on Reactor Safeguards (ACRS) Review of Advanced Final SER	Completed – January 2012
ACRS Final Review Complete	Projected—November 2015
Phase D – Final SER	Projected – January 2016
<b>COL Hearing and Approval</b>	<b>Status</b>
Formal Hearing	Projected – March 2016
Final Order – COL	Projected –May 2016

**Exhibit 3**

*Source: DEF Response to Staff Data Request LNP DR 2.1*

DEF does not believe the litigation issues with the EPC contract will impact its cooperation with Westinghouse in addressing the open engineering issues. Management believes that with the two AP1000 projects under construction in the United States, it is in Westinghouse’s best interest to resolve these issues timely. DEF states that it believes that Westinghouse is working on the issues, but that the response timeline has not been as efficient as possible.

## 2. 4 Levy Construction Close-Out Costs

In 2014, the company states it incurred an estimated [REDACTED] in wind-down costs for the company's effort to terminate the EPC contract with Westinghouse. The company notes that these costs were required for the following efforts:

- ◆ Tioga long-lead equipment resolution
- ◆ Final payments for the Stone & Webster work completed under the EPC
- ◆ Storage, insurance, and monitoring of the LLE (complete and in current production)
- ◆ DEF labor involved with LLE disposition
- ◆ Westinghouse support necessary to negotiate LLE resolution
- ◆ Regulatory and administrative costs

These actions are required to finalize the termination of the EPC contract. Audit staff reviewed these costs and believes the actions supporting the request were reasonable to minimize total costs and comply with contractual obligations.

## 3.0 Crystal River 3 Extended Power Uprate Project

During 2014, Duke Energy Florida Inc.'s (DEF) Investment Recovery Project (IRP) team continued the process of disposing of certain assets from the Crystal River Unit 3 (CR3), including remaining assets from the Extended Power Uprate project. Originally, DEF expected to complete the EPU portion of the investment recovery project by December 31, 2014. However, the company is still evaluating the options for its Siemens components including the Low Pressure and High Pressure turbines. The IRP team identified limited opportunities to transfer assets within Duke Energy, and then used listed bid events and a public auction to divest itself of most of the targeted CR3 assets.

In making its decisions on the best course of action for disposition of assets, the IRP team considered feasible approaches to disposition of both the EPU-related and non-EPU related items. There was a much greater volume of non-EPU CR3 components than EPU-related components offered for sale. Therefore, while the EPU assets were a factor, the company's decision considered the dispositioning of all CR3 assets.

### 3.1 EPU Corporate Investment Recovery Plan Execution

Through this process, the company was able to close out the EPU project. The company was able to disposition the major components purchased for this project. In addition to the major assets purchased for the uprate project, secondary EPU project assets such as tents and tools were also included in the disposition sale.

The organizational structure for the IRP team did not change during 2014. Towards the end of 2014, needed resources declined. For the remainder of 2015, the company has committed two part-time staff members to manage and support the completion of EPU assets disposition. The company is in the process of completing a self-assessment of the IRP process.

The corporate-approved Investment Recovery Plan outlined the approach the IRP team used for the disposition all of CR3 assets. This plan allowed the IRP team the flexibility to implement a program for divesting this equipment in an effective and timely manner. Specific plan components included:

- ◆ Organization
- ◆ Schedule Management
- ◆ Cost Management
- ◆ Risk Management
- ◆ Reporting

To maximize the overall recovery amount, the IRP team evaluated various approaches to marketing and selling available assets. The company assessed the total inventory of the CR3 unit, developed a listing of these assets and evaluated the marketability of each asset. The plan also required the company to assess any potential use for these assets within Duke Energy.

### 3.2 Listed Bid Event Approach for Disposition

In the spring of 2014, the IRP team conducted a series of specialized listed bid events for certain EPU assets. The events were online offerings that advertised equipment to targeted potential electric industry buyers. These included resources such as industry websites and industry publications. Offers were handled through a closed bid process. The items and events were offered throughout the industry via targeted marketing and industry-focused websites. Marketing included print advertisements in trade publications, and on industry websites.

The IRP team managed these events with coordination from Duke Energy Corporate Procurement. Concurrently, the IRP group hosted similar bid events for non-EPU CR3 assets. As shown on **Exhibit 4**, the company hosted 11 EPU-related bid events yielding sales revenues of \$1,032,418. For the EPU assets, the company finalized four bid events during March 2014, four during April 2014, and three during May 2014. Lot groupings included EPU-related items such as storage equipment, cooling tower components, construction tools, and motors.

Company Initiated Listed Bid Events CR3 EPU Assets 2014			
Asset	Cost	Sale Amount	Month Sold
Tent, Lighting, Structural Members			March 2014
3500 HP Motors—(3)			March 2014
Lube Oil Skids—(2)			March 2014
Tent with tools and materials			March 2014
Fire Cabinets—(8)			March 2014
Gantry Crane			April 2014
Cooling Tower (all)			April 2014
Sealand-(1)			April 2014
Sealand-(4)			April 2014
Relief Valves			May 2014
Relief Valves			May 2014
AKPD 5 stage Pumps—(34)			May 2014
<b>Total</b>	<b>\$15,341,111</b>	<b>\$1,032,418</b>	<b>11 Bid Events</b>

**Exhibit 4**

Source: Data Request 1.5

IRP management states that leading up to these bid events, the team organized and grouped items for maximum bid interest and value. Management stated that when determining the order of items to list, the company considered the logistics of how and where the assets were housed on the site. This approach allowed the company to move larger items off-site first and free-up space on the site.

One large asset sold through this process was the Cooling Tower equipment. The company received several bids for this equipment, and accepted the highest bid for the entire lot. This equipment was one of the largest assets sold, and a portion of the proceeds were credited back through the NCRC.

Prior to initiating the listed bid events, the IRP team provided a listing of assets for internal distribution within Duke Energy. The IRP team was able to transfer four assets within the company using this process. The sale and proceeds comported with the requirement to transfer the assets at book value, as shown in **Exhibit 5** which details these transactions.

<b>Transfers to Duke Energy Affiliates CR3 EPU Assets 2014</b>			
<b>Asset</b>	<b>Cost</b>	<b>Sale Amount</b>	<b>Month Sold</b>
Blade Vibration Sensor and Sensor Adapter	██████	██████	February 2014
Sealand—two	██████	██████	April 2014
Gang Boxes—(2) Fire Safe Chest Carts—(5) Various tools	██████	██████	April 2014
Gang Boxes—(4) Carts—(4) Various tools	██████	██████	April 2014
<b>Total</b>	<b>\$36,336</b>	<b>\$35,972</b>	<b>4 Events</b>

**Exhibit 5**

Source: Data Request 1.5

### **3.3 Public Auction Approach for Disposition**

In mid-2014, the company made the decision to shift its approach from a listed bid event process to a public auction for the remaining EPU and non-EPU assets. Management states its rationale for this decision was the challenge and cost of working the high volume of equipment through the bid event process. Management states that substantial additional resources would be needed to fully process all the equipment through the listed bid event approach. The company believed that the additional costs for hiring resources for this disposal method would negatively impact any additional revenue obtained through this approach.

In March 2014, Southern California Edison conducted a public auction of its non-nuclear assets from its San Onofre Nuclear Generating Station. DEF sent representatives to this event to assess its success and determine whether this approach would be a viable option for its remaining CR3 assets. After reviewing the process and discussions with Southern California Edison, DEF believed this approach was viable, and that the event garnered enough public interest to support the effort. The IRP team made a proposal that the company use the one-time, public auction approach for the remaining assets. This recommendation was presented and approved by senior management. Commission audit staff believes the decision to shift from a listed bid event approach to a public auction was reasonable.

The company issued a Request for Proposals to twelve large and small auction groups. Proposals were received from five auction companies and two finalists were brought in for on-site presentations. Management states the company chose to limit the number of potential vendors due to the specialized nature of conducting a large-scale industrial auction. DEF states that these

auction companies had experience in large-industrial based auctions, and demonstrated successful marketing to buyers interested in industrial equipment. The contract executed with the selected vendor specified the auction approach and the budget. According to DEF, compensation for expenses and commissions were in keeping with standard investment recovery practices.

A factor in selecting the chosen vendor was its global marketing presence. One asset—the EPU-related Low Pressure turbines—was potentially the highest value sale opportunity, and DEF believed that there was potential for a sale to an overseas company. The selected vendor proposed and used a mix of printed advertising in both industry publications and flyers at industry conferences, targeted calls to potential buyers, social media to industry groups, and general advertising to the public and non-industry bidders such as salvage dealers. DEF believes that this marketing effort reached a global 100,000 potential bidders. Commission audit staff believes the company’s justifications for selecting this vendor were reasonable.

The auction was held September 24 through 26, 2014, with bids accepted via the Internet and phone. The auction was a sell-all event with no price reserves on lots. DEF reserved the right to reject the final bid only if the company believed that the sale price was below the cost of removal from the unit or site.

In total, the auction included 100 bidders, and the company sold 50 lots/groupings of EPU-assets. The total collected for these items was approximately \$90,500. The original cost for these assets was approximately \$5,229,212, not including the original cost for the NUS Rapid Cool Down System equipment which was not broken out separately in its contract.

Several large installed items offered did not sell through the closed-bid or public auction process. For this equipment, the company made the decision in January 2015 to discontinue sales efforts and to abandon in-place during decommissioning. This equipment is highly-specialized with limited marketability and the salvage value would not support the cost for removal. These assets and their original value are shown in **Exhibit 6**.

Major Installed EPU-Assets to be Abandoned In Place	
Equipment	Value
Stator Core and Rewound Generator Rotor	[REDACTED]
Feedwater Heat Exchangers	[REDACTED]
Belly Drain Heat Exchangers	[REDACTED]
Isophase Bus Duct Cooling Skid	[REDACTED]
Moisture Separator Reheaters	[REDACTED]

**Exhibit 6**

Source: Data Request 3.1

### 3.4 EPU Siemens Components Disposition

Certain Siemens componets did not sell during the auction. These are one-of-a-kind specialized components with limited marketability. In one case, [REDACTED] The details of this were [REDACTED]



discussed in the Commission audit report in the Docket No. 120009-EI. [REDACTED]  
 [REDACTED] DEF made the decision to list the equipment in the auction, in hopes of selling the entire component set.

[REDACTED]  
 [REDACTED] The equipment and components [REDACTED] are shown in **Exhibit 7** and are currently installed or housed in the CR3 unit.

Remaining EPU-Equipment Considered for Disposition	
Components	Original Equipment Cost
High Pressure Turbine and Equipment (uninstalled)	[REDACTED]
Turbine Lubricating Oil Cooler Tube Bundles	[REDACTED]
Siemens Exciter (installed)	[REDACTED]
Siemens Hydrogen Cooler (installed) <sup>1</sup>	[REDACTED]
Siemens Low Pressure Turbine Rotors, Blades, Cylinders, and parts (uninstalled)	[REDACTED]

**Exhibit 7** Source: Data Request 3.2

[REDACTED]

The company is in the process of closing out its Investment Recovery Program for CR3. The company will continue to maintain the remaining Siemens equipment [REDACTED]. The company will continue to maintain monthly maintenance and administrative costs for the EPU project. The company believes the project will be closed in fall 2015, with costs continuing through that time.

<sup>1</sup> The cost provided for the Hydrogen Cooler is a subset of the overall Generator work. The company estimated the amount attributed for this equipment.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Nuclear cost recovery clause.

DOCKET NO. 150009-EI

DATED: June 22, 2015

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that the direct testimony of William Coston on behalf of the Florida Public Service Commission was filed electronically with the Office of Commission Clerk, Florida Public Service Commission, and copies were furnished to the following by electronic mail on this 22nd day of June, 2015.

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