



OFFICE OF INSPECTOR GENERAL
U.S. Department of Energy

INFORMATION REPORT

OIG-IR-17-03

March 2017

**ALLEGED MISMANAGEMENT OF THE
KEMPER COUNTY PLANT UNDER THE
CLEAN COAL POWER INITIATIVE**



Department of Energy
Washington, DC 20585

March 17, 2017

MEMORANDUM FOR THE ACTING ASSISTANT SECRETARY, OFFICE OF FOSSIL ENERGY

Sarah B. Nelson

FROM: Sarah B. Nelson
Assistant Inspector General
for Audits and Administration
Office of Inspector General

SUBJECT: INFORMATION: Information Report on “Alleged Mismanagement of the Kemper County Plant Under the Clean Coal Power Initiative”

BACKGROUND

In February 2006, the Department of Energy awarded a cooperative agreement to Southern Company Services (Southern) under the Clean Coal Power Initiative to design, construct, and operate a coal-based power plant in Orlando, Florida. The project was later relocated to Kemper County, Mississippi in December 2008 due to a Florida state regulatory change that required the addition of carbon capture and storage technology, rendering the project technically and economically impractical. Based on the revised cooperative agreement, the construction and demonstration phases were to be completed by May 2018 at an estimated cost of approximately \$1.6 billion¹, of which the Department’s share was about \$270 million. Under the *Consolidated Appropriations Act of 2016*, the Department’s share was increased by over \$136 million to over \$406 million. As of January 2017, the Department had reimbursed Southern approximately \$382 million for project costs and the completion date had been revised to April 2020.

We received a complaint alleging misconduct by plant managers of the project. In particular, the complainant alleged that the project’s cost and schedule were drastically understated and problems at the plant were repeatedly concealed. Problems included time delays, cost overruns, safety violations, and shoddy work as a result of mismanagement or fraud. We initiated this inquiry to evaluate actions taken by the Department to oversee the Kemper County Project’s technical and financial performance.

RESULTS OF INQUIRY

We did not review allegations regarding misconduct by plant managers due to an on-going investigation by the Securities and Exchange Commission (SEC). The SEC initiated an

¹ The \$1.6 billion does not represent the total cost of the project because it does not include certain project expenses such as Southern labor or financing charges. According to Department officials, the estimated total project cost at the time of the revised cooperative agreement with these additional expenses totaled approximately \$2.9 billion.

investigation concerning the estimated costs and expected in-service date of the plant in Kemper County and to avoid a duplication of effort, we did not review the allegations. According to a March 2016 quarterly SEC filing, Southern indicated that the investigation was focused primarily on periods subsequent to 2010 and on accounting matters, disclosure controls and procedures, and internal controls over financial reporting associated with the plant. As of January 2017, the investigation was still ongoing.

In regard to the actions taken by the Department to oversee the Project's technical and financial performance, we identified substantial oversight activities provided by the Department. In particular, the Federal Project Manager indicated that, in addition to weekly status teleconferences with Southern officials, the Department began performing monthly on-site monitoring visits to the project location when construction started. Additionally, we noted technical and financial-related evaluations prepared by Federal officials supporting key project decisions such as approvals of budget revisions. Furthermore, we reviewed quarterly progress reports provided to the Department by Southern which identified challenges that delayed the project; progress towards meeting milestones; and the status of ongoing construction, procurement, and start-up activities. Officials also noted that the project's performance was being overseen by independent monitors, representing the Mississippi Public Service Commission, who sit on-site and prepare monthly assessment reports that identify any issues which could impact the project.

Our inquiry was limited to identifying the oversight activities provided by the Department. Given the ongoing SEC investigation, we did not independently review costs submitted by Southern to the Department for reimbursement. As such, we provide no opinion at this time regarding the allowability of those costs.

PATH FORWARD

Following the SEC investigation and, based on the results, we will make a determination regarding any necessary future work with respect to this inquiry. We discussed our report with management officials and made changes, as appropriate, based on their comments. No formal recommendations are being made in this report; therefore, a response is not required.

Attachment

cc: Deputy Secretary
Acting Under Secretary for Science and Energy
Chief of Staff

OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of this inquiry was to identify actions taken by the Department of Energy to oversee the Kemper County Plant's technical and financial performance.

SCOPE

We conducted the inquiry between August 2016 and March 2017 at the National Energy Technology Laboratory in Pittsburgh, Pennsylvania. Additionally, we are aware that the Securities and Exchange Commission has initiated an investigation concerning the estimated costs and expected in-service date of the plant in Kemper County. As a result, we excluded work related to the allegation of misconduct by plant managers to avoid a duplication of effort. Because of the ongoing SEC investigation, we also did not independently review costs submitted by Southern Company Services to the Department for reimbursement. This inquiry was conducted under the Office of Inspector General project number A16PT058.

METHODOLOGY

To accomplish the objective, we:

- Reviewed the hotline complaint and supporting documentation referenced in the complaint;
- Reviewed applicable Federal and Department regulations related to the Clean Coal Power Initiative;
- Reviewed site-level policies and procedures for administering and monitoring financial assistance awards;
- Reviewed award documentation maintained by the Department for the project, including technical- and financial-related evaluations;
- Reviewed documentation, such as the Project Management Plan and quarterly progress reports, submitted for the project; and
- Interviewed the Federal Project Manager and Contract Specialist for the project to determine their roles and responsibilities related to monitoring of the award.

Department officials waived an exit conference on February 15, 2017.

FEEDBACK

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