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Witness: Chris B. Giles
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KCP&L Greater Missouri Operations Company
Case No.: ER-2010-0355/ER-2010-0356
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0355/ER-2010-0356

REBUTTAL TESTIMONY

OF

CHRIS B. GILES

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY
KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri
December 2010

"[redacted]**" Designates "Highly Confidential" Information Has Been Removed.**
Certain Schedules Attached To This Testimony Designated "(HC)" Have Been Removed.
Pursuant To 4 CSR 240-2.135.

REBUTTAL TESTIMONY

OF

CHRIS B. GILES

Case No. ER-2010-0355/ER-2010-0356

Q: Are you the same Chris B. Giles, who submitted Direct Testimony in this case on behalf of Kansas City Power & Light Company ("KCP&L" or the "Company") on or about June 4, 2010?

A: Yes, I am.

Q: What is the purpose of your Rebuttal Testimony?

A: My rebuttal testimony will respond to allegations by the Missouri Public Service Commission Staff Report regarding the Construction Audit and Prudence Review, Iatan Construction Project for Costs Reported as of June 30, 2010, which I will refer to as "Staff's Report" and the sponsoring Direct Testimony of Mr. Charles R. Hyneman and the Direct Testimony of Mr. Cary Featherstone. The specific areas of my rebuttal testimony will address: (1) allegations in Staff's Report that; (a) KCP&L did not prudently manage or make prudent decisions regarding the construction of the Iatan Unit 1 and Iatan Unit 2 construction projects (referred to collectively as the "Iatan Project"); (b) KCP&L did not identify or explain cost overruns on the Iatan Project pursuant to KCP&L's obligations under the Regulatory Plan that includes its Stipulation and Agreement (Case No. EO-2005-0239, referred to as the "S&A"); (c) KCP&L did not identify or mitigate risks in the construction of the Iatan Project; and (2) rebuttal to the Direct Testimony of Walter P. Drabinski of Vantage Energy Consulting, LLC on behalf of the Missouri Retailers Association.

Q: Please summarize your Rebuttal Testimony.

A: KCP&L prudently managed the Iatan Project and has fully explained its management actions both verbally and in written reports to Staff throughout the Project. In my testimony in this case and in 0089 Docket, I testify that KCP&L's actions on the Iatan Project have set new standards for transparency by a utility in a rate proceeding. KCP&L has met all of its obligations in its Regulatory Plan for the Comprehensive Energy Plan ("CEP") that includes its Stipulation and Agreement (Case No. EO-2005-0239, referred to as the "S&A"). One of those obligations, upon which I will elaborate in today's testimony, is KCP&L's obligation under the S&A to establish a cost control system for the CEP Projects including the Iatan Project that is capable of identifying and explaining cost overruns to the projects' Definitive Estimates (also referred to as the "Control Budget Estimates" or "CBEs"). I will explain how KCP&L has met this obligation and how its Cost Control System achieves the level of transparency that has been the hallmark of KCP&L's performance of these projects.

KCP&L has clearly identified and explained the reasons for every cost overrun on the Iatan Project. KCP&L provided to Staff the information it has needed to track the Iatan Project, including all cost data and other information from its Cost Control System. KCP&L has provided nineteen Quarterly Reports to Staff and responses to approximately 2150 data requests. Staff, however, has chosen to focus its auditing activities on marginal costs like executive expenses, mileage charges, fees for its oversight team and travel expenses while essentially throwing its hands in the air and claiming that KCP&L has not explained approximately $200 million in actual costs to date. Staff is simply wrong; the dollars it says it cannot find are fully identified and explained if only they

would look. I note that three individuals outside of the KCP&L project team – Mr. Daniel Meyer, Dr. Kris Nielsen, and Staff's own Mr. David Elliott – were all able to perform independent reviews of the Iatan Project's costs in ways that Staff claims it could not do.

While the Iatan Project experienced cost increases over the Control Budget Estimate, when put in context of the industry-at-large, those increases were substantially lower than other plants constructed during the same period of time that was characterized by rising costs, scarcity of resources and limited contracting options. Contrary to Staff's Report, the results show that KCP&L's plan for procuring the equipment and services for the Project was sound. I also discuss how KCP&L's management made decisions that mitigated or eliminated the most profound risks that the Iatan Project faced. KCP&L reported those risks on a quarterly basis to Staff.

In response to Walter Drabinski, I explain the basis for KCP&L's early project management and decision making including early procurements and how Mr. Drabinski overemphasizes and over-inflates the accuracy and quality of the PDR and the 2006 interim estimate.

OVERVIEW OF RESPONSE TO STAFF'S DISALLOWANCES

Q: In the section of Staff's Report entitled "Unexplained Cost Overruns," Staff alleges that: "KCPL has not even identified or explained the cost overruns, nor did it manage them or even demonstrate that it took positive steps to mitigate them." (Staff's Report p. 37, lns. 27-30) How do you respond to Staff's allegation?

A: Staff's position relative to KCP&L's management of the Iatan Project is simply incorrect. In my Direct Testimony and that of the other Company witnesses, KCP&L fully

describes how it prudently managed the costs of the Iatan Project by developing policies and procedures for corporate governance and management that allowed for prudent decision-making, identifying and mitigating risks and controlling the Projects' costs in a highly volatile market. Additionally, KCP&L has conducted quarterly meetings addressing Project issues, including cost, and provided staff with thousands of documents describing and explaining the cost overruns and has explained to Staff multiple times in face-to-face meetings how overruns on the Iatan Project are identified and explained. Staff has apparently made no effort to utilize this information. KCP&L has also provided to Staff ample evidence regarding KCP&L's identification and mitigation of the risks on the Iatan Projects. As a result of these efforts, KCP&L has successfully completed Iatan Unit 2, a highly complex project, less than three months after the target date established over five years ago and the current estimate to complete indicates that the final cost will be within 16% of the budget set four years ago. In reaching its recommendations regarding its proposed disallowances, Staff essentially ignores KCP&L's previously-filed testimony in this case and in Docket No. ER-2009-0089 (the "0089 Docket") and the documentation that KCP&L has provided Staff over the last five-plus years regarding the Iatan Project. In my Rebuttal Testimony today, I will summarize the evidence that has already been presented to Staff which it has chosen to ignore or disregard.

Q: Is Staff's Report correct in stating that both Iatan Unit 1 and Iatan Unit 2 experienced cost overruns?

A: Yes, it is true that both Iatan Unit 1 and Iatan Unit 2 experienced cost variances from their original Control Budgets. For Iatan Unit 1, the Control Budget increased from $376 million to $484 million, and for Iatan Unit 2, the Control Budget increased from $1.685

billion to a current projected cost of $1.948 billion. However, the fact that the Iatan Projects increased in cost, without more, is not definitive evidence of imprudence on the part of KCP&L. As I stated in my Direct Testimony, given the state of the construction industry from 2005-2009, I do not see how KCP&L could have avoided an increase in the projected construction costs for Iatan Unit 2, and the same would be the case for Iatan Unit 1. KCP&L's experts Kenneth Roberts and Daniel Meyer both testify that the fact KCP&L managed to hold the cost increases to below 20 percent during a time when the construction market generally experienced larger cost increases is evidence of prudent management of the Iatan Projects.

Q: Why couldn't KCP&L have avoided cost increases for the Iatan Project?

A: The marketplace at the time the Iatan Project was planned and procured was characterized by rising costs, labor scarcity and commodity cost escalation. Iatan Unit 2 was one of the first new coal plants built in the United States in 30 years and KCP&L was competing with other such projects here and around the world. In his Direct Testimony, Company witness Kenneth Roberts identified that the period of time in which Iatan Unit 2 was planned and procured was marked by commodity prices rising by more than 40% and the cost of new power plant construction rising by 27% in 2007 alone. *See* Roberts Direct Testimony at pp. 22-28, 30-31. Because KCP&L constructed the Iatan Project during such a dynamic economic environment, our best strategy was to mitigate the impact of these rising costs, which we successfully did by making sound decisions regarding the timing of procurements and negotiating and executing contracts for goods and services that have protected the Company's and our customers' interests.

Q: Staff's Report asserts that, "a major factor that led to KCPL incurring $200 million in cost overruns is KCP&L's management decision to fast track the project schedule by running the design and construction phases simultaneously." (Staff's Report p. 38, ln. 3-5) Do you agree with Staff's assessment?

A: No, I don't. First, Staff's Report cites no actual proof in support of this assertion, and makes no attempt to show linkage between the decision to fast-track the work and any of its vague proposed disallowances. Second, Staff contends that the decision to fast-track the Iatan Project was driven by a tight deadline that put budget issues secondary (see Staff's Report at pp. 24-5), which is untrue. While schedule was a concern for KCP&L, given the marketplace I just described, the major concern was cost driven. Mr. Downey and I both testify regarding the cost consequences that KCP&L was weighing if it did not enter the overheated construction market. In fact, KCP&L experienced those cost consequences first-hand on the second phase of the La Cygne project. Just a few months' delay of the La Cygne Project into the over-heated market conditions led KCP&L to make the decision to postpone that project for several years because of both rising costs and excessive lead times for environmental equipment.

The decision to proceed on a fast-track basis cannot be viewed in a vacuum. The quality of the decision KCP&L made must be reviewed in light of the circumstances at the time, which included the dynamic market forces I briefly described above. The decision to fast-track was made on the basis of quality expert advice from our external advisers regarding the market and was also made timely so that the Iatan Project could meet its early schedule milestones. KCP&L only deployed this strategy after careful vetting of all of the factors that influenced that decision. Those factors were vetted by

KCP&L's Senior Management along with the overall project contracting strategy. As I will explain, there were very few options available to KCP&L that arguably could meet the schedule; perhaps the only one was the hybrid-EPC model selected which employed a fast track methodology.

Moreover, the results bear out that the strategy was a success. Our strategy allowed for the procurement of nearly all of the Project's engineered equipment, which, in large part, was being subjected to such market-caused shortages, and a significant portion of the construction work on a fixed-price basis with high-quality, experienced vendors. As a result, we not only obtained good prices for the work, we also avoided the potential delays, cost increases and quality problems created by scarcity that have impacted other large construction projects in this timeframe. By comparison to the industry, KCP&L's construction budget for Iatan Unit 2 has grown by approximately sixteen percent (16%) (based upon the latest forecast of the estimate at completion) since the original 2006 Control Budget Estimate was established, as compared to the 30-40% increase experienced by the industry overall during this same period. *See* Roberts Direct Testimony. I will further elaborate on the decision to fast-track the Iatan Project in my testimony today and highlight the testimony of other KCP&L witnesses that Staff has chosen to ignore.

Q: Why did Iatan Unit 1's costs increase by 28% over the CBE?

A: As I just stated, the market for environmental equipment was particularly overheated at this time as utilities around the country were scrambling to retrofit existing coal plants with environmental equipment to meet both Federal and state deadlines. KCP&L had the advantage of having Iatan Unit 2 to attract labor and vendor support which created a very

attractive project, as opposed to some projects that were cancelled entirely because of lead times and cost overruns. Nonetheless, the market was very constrained. In addition, KCP&L chose to take advantage of the long outage to add scopes of work that improved the plant's operation, increased its output and increased its long-term reliability for our customers.

Q: Staff alleges in its Report that KCP&L was not transparent during the Iatan Project and withheld a "significant volume of material" from Staff it needed for its audit. Do you agree with that statement? (Staff's Report p. 33)

A: No. Staff is incorrect. I previously testified in the 0089 Docket and in this case that in my career in Regulatory Affairs, I have never been associated with a rate proceeding in which the utility was as forthcoming as KCP&L has been on the Iatan Project. From the outset of the Regulatory Plan, KCP&L agreed to an unprecedented level of transparency in documenting its decision-making and reporting of the Iatan Project's status to Staff. KCP&L agreed to certain critical obligations in the Regulatory Plan and S&A and has consistently met those obligations. Starting in the first quarter of 2006, KCP&L provided Staff with nineteen quarterly "Strategic Infrastructure Investment Status Reports" (referred to as the "Quarterly Reports") and met with Staff and the other parties in person to explain the content of those reports and the Iatan Project's status. KCP&L also informed Staff and the parties each time the Iatan Project's Control Budget was reforecasted to incorporate changes from then-current cost trends. Staff was accorded access to all of the information that KCP&L generated (e.g. recommendation to award letter, purchase orders, change orders, risk and opportunity analysis (R&Os), cost projections (CPs), contingency log) regarding the Iatan Project's cost and schedule

status. KCP&L provided Staff with its own facilities on-site and at KCP&L's corporate offices and made its project team members available to provide Staff with documentation and answer its questions. KCP&L has also answered approximately 2150 data requests from Staff since the opening of the 0089 Docket. Company witness Mr. Curtis Blanc offers additional testimony regarding KCP&L's responsiveness to Staff's requests throughout the Iatan Project.

Q: Of the nearly $200 million of alleged "Unidentified/Unexplained Cost Overruns," Staff has also recommended specific disallowances from Iatan Unit 1 of $51,314,912 and from Iatan Unit 2 of $36,553,026. Do you agree with Staff's position regarding these specific disallowances?

A: No, I do not. Company witnesses Mr. Brent Davis, Mr. William Downey, Mr. Kenneth Roberts, Mr. Daniel Meyer, Dr. Kris Nielsen and I each respond to specific allegations regarding Staff's specific disallowances in our Direct and Rebuttal Testimony.

I believe that Staff has: (1) failed to consider the evidence in the record of this case and the 0089 Docket in making its determination on these items, most notably KCP&L's justifications for the expenses Staff seeks to disallow; (2) recommended disallowances for amounts such as those associated with settlement agreements or liquidated damages from contractors without regard to the additional costs that KCP&L would have occurred had it not come to a negotiated resolution to major disputes with the contractors, or to the merits of the contractor's claims or defenses; (3) failed to draw a nexus between an alleged imprudent decision by KCP&L and the amount it seeks to disallow; and (4) has attempted to use certain types of small expense items, such as

$59,136 for charged mileage driven by KCP&L's employees, as somehow indicative of KCP&L's management of the Iatan Project.

Q: On this last point, Staff's Report states, "Inappropriate charges were found to occur at the highest level of KCP&L and the Iatan Project, increasing the concern and probability regarding the level of inappropriate charges contained in the Iatan Project." (Staff's Report p. 25, lns. 23-25) Do you agree with Staff's position?

A: No. Staff's argument is based on the premise that an individual's mileage and charges on personal expense reports are indicative of the management of the cost control system on the Iatan Project. First, Staff cannot cite a single authority that supports this proposition. In April 2010, the Commission heard over the course of a two-day hearing theories such as this from Staff in support of its audit on Iatan Unit 1. During that hearing, Staff could not identify how its method for auditing the costs for Iatan Unit 1, which focused on employee mileage charges, dinner charges, golf outings, fees from Schiff Hardin, and other such charges, had been effective in identifying for the Commission whether KCP&L had prudently managed a $464 million construction project. Second, the total amount of the "inappropriate charges" and mileage that could be found by Staff even after an extensive audit is less than .006% of the overall cost of the Iatan Projects. This amounts to less than the amount added to the project due to rounding, much less indicative of imprudent management. To this day, Staff continues to state that $69 million of the overruns to Iatan Unit 1 are unexplained, even though Iatan Unit 1 has been in-service with the new equipment since April 2009. Despite the Commission's Order requiring that Staff complete its Iatan Unit 1 audit by August 6, 2010, Staff has again failed to do so. There were less than 700 change orders related to Iatan 2. Staff

auditors received and ostensibly reviewed approximately 1200 of KCP&L's individual employee's expense reports rather than spending their time to review less than 700 change orders. Staff continues to ignore the records KCP&L has amassed on Iatan Unit 1 and resorted to this theory of sampling KCP&L's prudence via mileage charges and the like. In auditing the Iatan Unit 2 Project's costs over four years on the project, the charge repeatedly cited by Staff as the proof of this accusation is a single $400 meal charge that it found over two years ago which KCP&L removed from the costs of the Project once Staff brought the charge to KCP&L's attention. *See* Staff December 31, 2009 Report at pp. 6-7, 9, 79-81 and Schedule 14-2; and Staff November 3, 2010 Report at pp. 26-27. Staff cannot prove, because it was not the case, that KCP&L ever had a pattern of charging inappropriate charges to the Iatan projects.

Q: In the section of Staff's Report entitled "Unexplained Cost Overruns," Staff alleges that: "because KCPL cannot identify and explain its cost overruns, the Staff recommends that the Commission not allow KCPL to charge the $200 million in cost overruns to KCP&L's Missouri retail customers." (Staff's Report at p. 38, lns. 20-22) How do you respond to Staff's recommendation?

A: Staff's auditors claim that despite spending the last four-plus years receiving documentation from KCP&L, attending quarterly and special meetings, receiving hundreds of pages of testimony and exhibits that it cannot determine how KCP&L spent a significant portion of the money on the Iatan Project, which just happens to correspond to all amounts over the Iatan Projects' respective CBEs. Had Staff read the actual records of KCP&L's cost overruns on Unit 1, it may have concluded that $10 million of the allegedly $18 million it allegedly couldn't find was in two purchase orders for the

procurement of the material and the construction for increasing the surface area of the existing Unit 1 economizer. (Schedule CBG2010-1) Staff would have also discovered that the reason this was an "overrun" to KCP&L's Control Budget Estimate because KCP&L could not have anticipated needing to do this work until after the ALSTOM contract was executed and KCP&L had time to evaluate this work as compared to other alternatives to determine the least-cost option for meeting key performance requirements.

However, I note that Staff's Mr. David Elliott has had no such difficulties identifying or explaining the cost variances over the Iatan Project's CBEs.

Q: How did Mr. Elliott examine the Iatan Project's cost overruns?

A: Mr. Elliott contributed a section to Staff's Report and to its predecessor, Staff's Construction Audit and Prudence Review of Iatan 1 Environmental Upgrades for Costs Reported as of April 30, 2010 (which I will refer to as "Staff's Unit 1 Report"). Mr. Elliott's section of Staff's Unit 1 Report reveals that on the Iatan Unit 1 Project, he and his team: (1) visited the site 11 times and "discussed construction progress and future milestones, and reviewed any relevant documentation" (2) received and reviewed 227 change orders with a value over $50,000, from which he culled 126 change orders relating to "engineering issues" from which he reviewed a sample of 79 in detail that represented $34.1 million in additional costs; (3) reviewed the reasons for these change orders and found they include "design maturation, design changes, interference issues and improved operation/maintenance." Elliott notes that "Staff had determined that there are no engineering issues regarding the change orders reviewed." *See* Staff's Unit 1 Report at pp. 9-10.

In Staff's Report on Iatan Unit 2, Mr. Elliott identified that he and Mr. Shawn Lange visited the site 20 separate times and engaged KCP&L's project team in discussions of the Iatan Project's cost and schedule status. Company witness Brent Davis testifies that there were some questions raised by Mr. Elliott and Mr. Lange in these meetings regarding the circumstances on which certain change orders were necessitated. These questions were immediately answered by the project team to Mr. Elliott and Mr. Lange's satisfaction. In all, Mr. Elliott and Mr. Lange reviewed 647 change orders over $50,000, of which Staff narrowed its review to a sample size of 222 representative change orders for analysis. Mr. Elliott and Mr. Lange identified and bucketed these 222 change orders into six different categories as follows:

Type 1: Change Orders associated with final design changes or final engineering changes.

> KCPL awarded some contracts before completion of final design. Therefore, there were changes due to work that started before the final design, or the final engineering was completed. Also during construction, additional work was added to the contractor/engineer/consultant contracts.

Type 2: Change Orders associated with changes made by KCPL

> KCPL made changes for more efficient or safer operation and/or maintenance of Iatan 2 and the associated common plant after construction started. This category also includes change orders due to the selection of a particular design by KCP&L during construction.

Type 3: Change Orders associated with field design

> This type of change was made due to final design decisions left to be worked out during actual construction, and design changes made in the field. This type also includes changes in the way work was to be done in order to avoid potential problems and moving work from one contractor's work scope to another contractor's work scope.

Type 4: Change Orders associated with field construction issues

> These changes were made due to unforeseen problems or obstacles encountered during actual construction. This would include changing the design, making repairs, and/or modifying material/equipment to make it work as required. This category also includes changes due to moving contractors, or equipment, and adding equipment for easier access to work areas.

Type 5: Change Orders associated with contracts that specify the actual amounts and/or prices would be determined at time of the work.

> Some contracts were written such that the final cost would be determined at a later date. Either the amount of work, or number of items purchased, or the prices were trued-up with change orders at some point during the construction project.

Type 6: Change Orders associated with changes to the type of contract

> The type of contract changed e.g., a time-and-material contract was converted to a fixed-price contract.

(Staff's Report pp. 30-1)

Mr. Elliott submitted his work papers for this section of Staff's Report. Schedule CBG2010-2 is a chart that was produced to KCP&L from Mr. Elliott's work papers entitled "Investigation Change Order List" dated September 18, 2010, which appears to be the list of the 222 change orders Mr. Elliott reviewed for Staff's Report. As explained in Mr. Elliott's section of Staff's Report, each of the change orders he reviewed is in excess of $50,000. In total, the 222 change orders he and Mr. Lange closely examined total $150,801,534. For each of the 222 change orders, Mr. Elliott identified the change

order number, the contractor who received the change order, the amount of the change order and brief explanation of each change orders' purpose. In fact, I note that there isn't a single change order on this list that Mr. Elliott could not describe. As with Staff's Unit 1 Report, Mr. Elliott concluded that, "Based on its Engineering Review of KCP&L's change orders, Engineering Staff found no engineering concerns with any of the Iatan 2 or Iatan common plant change orders reviewed." (Staff's Report, p. 29, lns. 11-12). In other words, Mr. Elliott does not challenge that the work identified in the change orders was needed from a technical standpoint for the construction, operation or maintenance of Iatan Units 1 or 2.

Mr. Elliott's analysis clearly shows that cost overruns to the Iatan Project's CBEs are both identified and explained. What is inexplicable is that Mr. Elliott and Mr. Lange could perform such an analysis but Mr. Schallenberg, Mr. Hyneman and Mr. Majors could not. Additionally, it is unknown why Staff's Auditors did not either accompany Messrs. Elliott and Lange during their change order reviews or simply utilize Mr. Elliott's analysis. KCP&L has fully explained every decision it has made, every action it has taken and every dollar it has spent in the construction of Iatan Unit 1 and Iatan Unit 2, and has informed Staff of its actions in a manner that should have allowed Staff to make its own judgment regarding KCP&L's prudence. In its Report, Staff has failed to credibly make the case that KCP&L acted imprudently. KCP&L should not be penalized by the Commission for Staff's continued and proven inaction.

Q: How have KCP&L's independent experts assessed the cost overruns to the Iatan Project?

A: Company witnesses Mr. Meyer and Dr. Nielsen each testify that based upon their

considerable experience, KCP&L's cost controls meet or exceed industry standards. KCP&L has engaged Schiff Hardin throughout the course of the Iatan Project to provide oversight, and Company witnesses Mr. Kenneth Roberts and Mr. Daniel Meyer each testify regarding how the Schiff Hardin team has tracked the Iatan Project's cost and schedule performance throughout and provided KCP&L's management with its view of KCP&L's prudence. Both Mr. Roberts and Mr. Meyer testify regarding the reasonableness of the Iatan Project's cost increases. KCP&L has also employed an independent expert, Dr. Kris Nielsen of Pegasus International, who has reviewed the same documents that were presented to Staff and he has issued his own opinion of KCP&L overall prudent management of the Iatan Projects. These experts prove that Staff's contention that KCP&L cannot "identify" or "explain" increases to the Iatan Projects' Control Budgets is simply untrue. I do not know what more the auditing Staff believes they need or want. In my opinion it is not a case of KCP&L not providing explanation of cost overruns it is a disingenuous strategy of the auditing Staff to disallow all appropriate costs above the control budget estimate. This is apparent from the first report submitted in December 2009 and continues throughout the subsequent reports submitted by the auditing Staff. The Commission should reject this ill advised strategy as nothing more than an excuse for the auditing Staff to once again not do their jobs. KCP&L witness's Dan Meyer and Kris Nielsen use KCP&L's identification and explanation of cost overruns contained in the cost control system to perform the prudence analysis the Commission's auditing Staff claim they cannot do given the same identification and explanation to Mr. Meyer and Dr. Nielsen.

KCP&L'S PRUDENT MANAGEMENT DECISIONS

Q: What is your opinion regarding the management decisions that KCP&L made during the Project?

A: As I previously testified, I do not believe that KCP&L made any inappropriate or poor management decisions in the construction of Iatan Unit 1 or Iatan Unit 2.

Q: What is the basis of your opinion?

A: In my Direct Testimony, I refer to testimony of Mr. Roberts regarding the appropriate standards for prudence. When properly applying the prudence standard for evaluating management's decisions, I believe that KCP&L's management consistently made effective and timely decisions on the basis of the best information that was available at the time. Those decisions resulted in mitigating the Iatan Project's costs. As I discussed in my Direct Testimony in this case, KCP&L put all of the proper tools in place to ensure that KCP&L's management could make decisions based upon the available data. Those tools included:

- **Senior Management and External Oversight:** Company witness William Downey testifies in his Direct Testimony regarding the creation of the Executive Oversight Committee ("EOC"), which consists of those members of KCP&L's senior management team who have direct involvement with the CEP projects, and the additional oversight KCP&L brought in to assist management. Mr. Downey notes that "KCP&L's Executive Management recognized that the Company had not engaged in a large construction project such as the projects in our Comprehensive Energy Plan since the construction of the Wolf Creek nuclear station in 1978-85" and as a result, Senior Management, "recognized that it

needed to adopt a structured approach to the management of the contractors on the CEP Projects that included heavy owner involvement." (Downey Direct Testimony, at p. 3 ll. 5-7, 14-16.)

- **Management Processes:** Company witness Mr. Downey also testifies as to the need for KCP&L to develop new processes and procedures that were specifically tailored for large construction projects. KCP&L utilized the expertise of Schiff Hardin to help it develop the necessary policies and procedures for the CEP Projects, including "change management, invoices, requests for proposal ("RFP"), bid evaluation, claim notification, safety, quality assurance and quality control, and engineering management. In addition, the KCP&L legal department, with Schiff's assistance, developed form contracts for use in procurements of various types that could be adapted to the specific requirements necessary for the CEP Projects."
- **Construction Management:** Company witnesses Brent Davis and Robert Bell testify to the increased expertise that was needed and employed for the Iatan Unit 2 Project including the management of the Project, coordination of the prime contractors and safety coordination. Bell Direct Testimony at pp. 4-6, 9, 11; Davis Direct Testimony at pp. 20-24. Mr. Davis discusses the active management techniques that were used with the major contractors in order to keep the Project on track and minimize interferences. Davis Direct Testimony at pp. 20-24.
- **Cost Control Procedures**: Company witnesses Mr. Forrest Archibald, Mr. Daniel Meyer, Mr. Steve Jones, Mr. Roberts and I each testify to the Cost Control System adopted by the Company in July 2006 included as Schedule SJ2010-1 to

Mr. Jones's testimony. *See* Jones Direct Testimony at pp. 3-4; Archibald Rebuttal Testimony; Meyer Direct Testimony at pp. 16, 37; Meyer Rebuttal Testimony; Roberts Direct Testimony at pp. 6-8, 11, 17-19; Roberts Rebuttal Testimony. The Cost Control System was a guidance document that outlined the project-specific cost control processes that were put into place starting in the second quarter of 2006. Company witnesses Mr. Forrest Archibald, Mr. Meyer and I further discuss the cost controls that KCP&L put into place based upon the Cost Control System guidance document to identify and explain cost overruns. *See* Archibald Rebuttal Testimony; Meyer Rebuttal Testimony.

- **Contracts for Goods, Services and Construction:** KCP&L's management increased the Company's procurement capabilities with a dedicated Project procurement organization that employed industry-knowledgeable experts in contracting and administering construction contracts. As a result of the strength of the contracts we executed and implemented, KCP&L has maintained control of change orders over the project's EPC contractor (ALSTOM Power, Inc, or "ALSTOM") and has employed a strategy of tracking costs on the other contracts that has kept the growth of the Iatan Unit 2 Project's costs at 16%, which is comparable to if not significantly better than many other plants built at this time. This strategy also included significant economies of scale by simultaneously purchasing, engineering and constructing both the Iatan Unit 1 AQCS upgrades and Iatan Unit 2. KCP&L's strategy allowed the sharing of personnel, facilities, knowledge and constructability lessons learned, all of which reduced the final cost of both units.

These tools supplied KCP&L's Senior Management with needed information to make timely decisions and prudently manage the Iatan Project throughout while mitigating and eliminating risks along the way.

KCP&L MET ITS OBLIGATION UNDER THE S&A TO IDENTIFY AND EXPLAIN COST INCREASES

Q: Are you familiar with the provisions of the S&A that govern the Iatan Project?

A: Yes. As I previously testified, in my previous position as KCP&L's Vice President of Regulatory Affairs, I was involved with all aspects of the Regulatory Plan that includes its Stipulation and Agreement (Case No. EO-2005-0239, referred to as the "S&A"). Since the inception of the Iatan Units 1 and 2 Projects, I have been part of the Executive Oversight Committee, or EOC, that was formed to provide management oversight of this and the other projects that were governed by the S&A.

Q: Can you identify the provision of the S&A that identifies KCP&L's obligation for tracking costs on the Iatan Project?

A: Yes. Section III.B.1.q. of the S&A entitled "Cost Control Process for Construction Expenditures" states: "KCPL must develop and have a cost control system in place that identifies and explains any cost overruns above the definitive estimate during the construction period of the Iatan 2 project, the wind generation projects and the environmental investments."

Q: Staff's Report alleges that KCP&L "has disregarded this responsibility and the terms and conditions" of the S&A. (Staff's Report, p. 33, lns. 26-27) Do you agree?

A: No. As an initial point, I note that Section III.B.1.q. contains the only reference to KCP&L's obligation for reporting on project costs in the S&A. This provision simply states that 1) KCP&L will develop a cost control system; and 2) that cost control system

will identify and explain cost variances from the definitive estimate. I believe that KCP&L has fully met both of these obligations and more in providing Staff with unprecedented access to the Iatan Projects' costs and other documentation.

Q: Can you describe how you believe KCP&L met its obligation under the S&A for identifying cost overruns on the Iatan Project?

A: Yes. KCP&L met the first obligation by developing a comprehensive Cost Control System which provides key guidance to each of the CEP Projects governed by the S&A. (Schedule SJ2010-1) The Cost Control System, which was transmitted to the Staff and the other parties' representatives on July 10, 2006, "describes the governance considerations, management procedures, and cost control protocols for the CEP Projects" including the Iatan Project. (Schedule SJ2010-1, p. 3 of 30) Further, the Cost Control System states that the Project's cost performance would be measured against the Project's Control Budget. (Schedule SJ2010-1, p. 4 of 30). To do so, the Cost Control System states that the Iatan Project's Control Budget "will identify the original budget amount (whether contracted or estimated) for each line item of the Project's costs and will track those budget line items against the following:

- Costs committed to date
- Actual paid to date
- Change orders to date
- Expected at completion, based on current forecasts."

(Cost Control System, Schedule SJ2010-1)

The Cost Control System also identified that costs for the Iatan Project would be tracked through a comparison to Iatan Unit 1 Project's and Iatan Unit 2 Project's "Definitive Estimates." The Cost Control System states that:

> The Project Team will develop a Definitive Estimate for each Project that will provide an analytical baseline for evaluating Project costs. The estimate will establish anticipated costs for individual work activities and all procurements,...The Definitive Estimate will be used to establish each Project's Control Budget. (Cost Control System, Schedule SJ2010-3, p. 8 of 30)

In my Direct Testimony, I discuss in some detail the development of Iatan Project's cost estimate. (Giles Direct Testimony at pp. 15-18) Company witness Daniel Meyer describes the process used for establishing both Projects' CBEs in his Direct Testimony. (Meyer Direct Testimony at pp. 6-16) The development of the Iatan Unit 1's definitive estimate went through a similar process such that in December 2006, the Iatan Unit 1 Project's Control Budget or CBE was established at $376 million and Iatan Unit 2's CBE was set at $1.685 billion, excluding Allowance for Funds Used During Construction ("AFUDC"). Once each Project's CBE was in place, the Iatan project team began tracking costs in the manner described in the Cost Control System.

Q: Did you make a formal presentation to Staff of the Cost Control System?

A: Yes. We met with members of Staff and the other interested parties on July 11, 2006. I recall the meeting went very well and Staff raised no concerns. To date, Staff has not articulated any concerns with this document or the methodology we have used.

Q: Do you believe that KCP&L's cost system identifies and explains cost overruns to the Control Budget required by the S&A?

A: Yes. I believe the system that was developed using the guidance from the Cost Control System has met all of KCP&L's obligations under the S&A. Company witness Forrest Archibald describes in his Rebuttal Testimony the guidance that the Cost Control System provided the Iatan project team in developing the specific cost controls for the Iatan Project and how these commitments were met. Among the things Mr. Archibald

describes is the Iatan Project's "Cost Portfolio" which is the suite of reports the project team utilizes for tracking the cost status of the Project, and how these reports can be used to identify cost variances from the Control Budget Estimate. In particular, a summary report entitled "Cost Report Summation" or "K Report" which is provided to KCP&L management on a monthly basis and has been included in KCP&L's Quarterly Reports to Staff since the first quarter of 2007. (*See* Schedule FA2010-1, K Report dated June 30, 2010). Mr. Archibald explains in his Rebuttal Testimony that the K Report clearly identifies any cost overrun from the CBE that KCP&L has experienced on either Iatan Unit 1 or Iatan Unit 2. To illustrate how KCP&L established its cost controls for the Iatan Project, I have provided a simple diagram which I have attached as Schedule CBG2010-3. This diagram shows how the obligations in the S&A's Section III.B.1.q. led KCP&L to develop the Cost Control System in mid-2006, which in turn resulted in KCP&L creating the Cost Portfolio's K Report, that embodies all of the Cost Control System's requirements for tracking costs and overruns to the CBE.

Q: What was the method KCP&L employed for explaining the cost overruns to the CBE for the Iatan Project?

A: Company witness Mr. Archibald testifies to the three types of justifications for cost variances, whether overruns or underruns, to the CBEs for the Iatan Projects. These are:

(1) the Recommendation to Award Letter ("RTA"). This documentation is developed by the procurement organization to memorialize the procurement process and decision-making for many of the largest bid awards on the Projects and explains why a contract was awarded and any variations in the Contract Price to the amount in the Control Budget;

(2) the multiple reforecasts of the Project's estimate at completion ("EAC"). During each reforecast, the project team created documents that identify the reasons and amounts of expected variances to the CBE. The 2008 Reforecast used cost packages referred to as "Risk and Opportunity Analysis Sheets" or R&O's and subsequent reforecasts used the same process, but called the packages "Cost Projection Folders" or "CPs;" and

(3) change order and purchase order documentation. These documents issued to contractors include explicit justifications and explanations describing increases or decreases in costs. The change order/purchase order supporting documentation includes contract amendments, settlement agreements, contractor correspondence, emails and proposal information that is comprehensive to a particular issue. Company witness Mr. Archibald testifies that through these methods, the Iatan Project team has documented, explained and justifified each of the Iatan Project's costs increases or decreases. I have depicted these justification documents on my summary chart (Schedule CBG2010-3).

Q: Were these documents provided or made available to Staff?

A: Yes. Every document that KCP&L prepared to explain or justify cost overruns on the Iatan Project has been provided or made available to Staff. As I stated earlier, as a matter of course, KCP&L provided Staff with copies of all executed change orders on the Project that had a value of $50,000 or greater. Attached to Company witness Brent Davis rebuttal testimony as Schedule BCD2010-12 is a spreadsheet identifying each change order that KCP&L provided to Mr. David Elliott of the Utility Operations Division. (Schedule BCD2010-12) KCP&L also provided Staff with copies of the identical presentations summarizing the Iatan Project's cost reforecasts as were provided to

KCP&L's Executive Oversight Committee ("EOC") and Board of Directors. (See Schedule FA2010-2, Schedule FA2010-5, Schedule FA2010-6, Schedule FA2010-7) KCP&L has also met with Staff approximately 20 times during the course of the Iatan Projects to explain the details of issues and answer any questions raised by Staff. KCP&L has provided a near-constant flow of source data to Staff throughout the course of both Iatan Projects.

Q: Staff also states in its Report that the S&A obligates KCP&L to "use an estimate with a high degree of accuracy as a basis to identify and explain any cost overruns in the event that actual costs exceeded the definitive estimate for the project." (Staff Report, p. 3, ln. 27-30) Do you agree with Staff's Report?

A: Staff does not define what it means by an "estimate with a high degree of accuracy" and cites no provision of the S&A or any other document that either supports this contention or defines what it means. There is no obligation in the S&A regarding the "level of accuracy" that KCP&L agreed to provide, and certainly KCP&L did not agree in the S&A that its costs for the Iatan Project were somehow fixed or bounded by percentages of accuracy by the CBEs for Iatan Unit 1 and Iatan Unit 2. Notwithstanding this, the Control Budget Estimate was carefully developed utilizing the expertise of KCP&L's Owner's Engineer with oversight from its consultant, Schiff Hardin, and was based upon the best information known at the time. It was carefully vetted by several different teams of people, and discussed in detail at all levels of KCP&L. Given the level of engineering maturity the time the Control Budget Estimate was completed, I do believe that the estimate was as accurate as it could have been at that point in time. Company witness Daniel Meyer testified in his Direct Testimony that the level of accuracy of the CBE was

within a range of -15 to +30, or a "Class 3" estimate according to AACE standards. KCP&L acted within standard industry practice to set its budget based upon the level of accuracy of the CBE. *See* Meyer Direct Testimony at p. 15 lns. 5-13.

Q: Staff also asserts that KCP&L "spent months and months" preparing the CBE, and that KCP&L had committed to providing the Definitive Estimate to Staff by August 2006, though Staff did not receive the CBE until January 2007. Are these statements correct?

A: Yes, the referenced timeline is accurate, however, Staff has changed its interpretation of those events over the intervening time. It is true that KCP&L did not meet its initial goal for producing the Definitive Estimate. In mid-Summer 2006, we made a judgment that since the negotiations with ALSTOM were ongoing, it was more beneficial to wait to complete the Definitive Estimate. However, I recall a conversation with Staff's Mr. Robert Schallenberg during the late summer of 2006 in which I explained to Mr. Schallenberg that KCP&L needed additional time to prepare the CBE. Mr. Schallenberg encouraged KCP&L to take whatever time was necessary to obtain more bids and clarity for the CBE, that Staff was not in a hurry to receive this from KCP&L. As Mr. Meyer's states in his rebuttal testimony by the time of the May 2008 reforecast by far the majority of cost increases had been identified. The Iatan 2 unit was about 70% designed at that point in time and Iatan 1 about 90%. The accuracy of the 2008 reforecast is clearly evident by comparing the current estimated cost at completion to the May 2008 reforecast. Iatan 1 is under the 2008 reforecast by about 5% and Iatan 2 above the 2008 reforecast by less than 2%.

Q: If that was the case, why then didn't KCP&L merely wait several more months after December 2006 to issue the CBE with even more mature numbers?

A: Because KCP&L was obligated by the S&A to report its status on the Iatan Project, and management believed it was necessary to obtain Board of Directors approval of the overall Project budget. Moreover, KCP&L did not believe it could wait until May of 2008 when the unit was 70% designed to begin reporting cost variances to the parties to the Stipulation and Agreement.

KCP&L'S FAST-TRACK DECISION

Q: Staff's Report alleges the decision to fast-track was a "major factor that led to KCPL incurring $200 million in cost overruns" on the Iatan Project." (Staff's Report p. 38) Do you agree?

A: No. I disagree with Staff's contention, which I believe is completely baseless. First, as I stated earlier, Staff has not shown any linkage between the fast-track decision and any specific cost overrun on the Project. Moreover, I dispute Staff's allegation that KCP&L did not employ a high quality team or that the Owner's Engineer, Burns & McDonnell, was not qualified to perform work on a fast-track project. Company witnesses Mr. Davis and Mr. Bell each testify regarding the qualifications and experience of the project team that effectively managed the work. Most important, KCP&L made the decision to proceed on a fast-track based on considerable vetting of the available options and the creation of a solid plan for execution. As I will explain, the foundation engineering was the most critical portion of the work that needed to be expedited to support the installation of all of the Iatan Project's major equipment. In this regard, the Iatan Project's records show that KCP&L and its contractors met every critical foundation

milestone, save one where unexpected weather impacted underground and foundation work.

Q: First of all, what is your understanding of the term "fast-track"?

A: Company witness Kenneth Roberts states that the way the term "fast-track" is used in relation to the Iatan Projects is that certain construction activities proceeded before the entire design was completed. Company witness Mr. Meyer states that this method has become very common in most industrial construction and in particular in the power industry.

Q: What experience did KCP&L management have with fast-track construction of power plants prior to the Iatan Project?

A: The rebuilding of Hawthorn 5 after the explosion that destroyed the boiler was an extremely challenging fast-track project. Because the Hawthorn 5 project was financed with insurance proceeds, and the cost of replacing the boiler was significantly lower than the cost of replacement power, it fit the mold Staff described in its Report of a fast-track project being driven largely by schedule. Nonetheless, Hawthorn 5 was a very large, very complex undertaking and provided both KCP&L and Burns & McDonnell, who was also the Owner's Engineer on Hawthorn 5, some significant work experience that is applicable to the Iatan Projects.

In addition, the LaCygne 1 SCR Project, which started in fourth quarter of 2005, provided KCP&L's management with additional experience with fast-track construction. The EPC contract with Babcock & Wilcox ("B&W") for the LaCygne 1 SCR required B&W to mobilize within a few days of its execution to install dampers during an already-scheduled maintenance outage well in advance of the final design. B&W was able to

take advantage of this outage window, without which it would not have completed the Project on time and on budget.

These prior and concurrent experiences with fast-track construction provided KCP&L's management with some context for its decision-making.

Q: Can you describe the information KCP&L's management vetted regarding the option to fast-track the Iatan Project?

A: Yes. The decisions regarding fast-tracking the work were intertwined with management's contracting strategy decisions. I testified at some length in my Direct Testimony regarding the multiple options that were presented by Burns & McDonnell and Black & Veatch regarding the Iatan Project's contracting strategy. *See* Giles Direct Testimony at pp. 8-15. In November 2005, Burns & McDonnell and Black & Veatch were asked to provide recommendations regarding contracting models. The following depicts the options that these firms presented to KCP&L's management:

Burns & McDonnell provided four separate schedule scenarios summarized below:

Burns & McDonnell Scenarios	**Months**	**Completion Date**
Normal EPC – competitive bid – 12 months required for award of EPC during which price would be not known	59.5	11/20/2010
Accelerated EPC – Accelerate Construction	56	7/25/2010
Multi-Prime	54	5/22/2010
Open Book EPC	60	12/22/2010

The multiple schedule scenarios presented by Black & Veatch in its presentation included a direct comparison between a competitively bid EPC and a multi-prime contracting strategy.

Black & Veatch Scenarios	Months	Completion Date
Normal EPC - Competitive Bid	76	2/1/2012
Multi-Prime – assumes award of turbine 9 months before start of construction	59	9/1/2010
Open Book EPC – indicative pricing not known for 12 months; contact not executed for 18 months	54	6/1/2010

The two proposals with the shortest schedules, Burns & McDonnell's multi-prime and Black & Veatch's Open Book EPC, were both fast-track models in that they depended upon making up schedule time by simultaneously engineering and constructing.

Burns & McDonnell presented a multi-prime fast-track scenario that fit the schedule and appeared reasonable, provided that the major equipment suppliers would agree to meet the dates. Burns & McDonnell's plan was based on design proceeding in parallel with aspects of construction. Burns & McDonnell had broken the Iatan Project into a series of design packages that would be let to contractors on as "as-designed" basis. Using the earlier example of the ductbank, Burns & McDonnell could design the underground structures long before the electrical design was completed, and once the electrical wire that runs through the underground embeds was designed, it would be part of a later execution package.

Black & Veatch's Open Book EPC option was also based on a fast-track method, though its proposal suffered from significant flaws: this proposal would have been a single-source award with no competition, and Black & Veatch would have not be able to confirm pricing for a year or more. In addition, Black & Veatch's proposal would have locked KCP&L into this contract with no opportunity to turn back and with no other

commercial options for proceeding with the Project if Black & Veatch's price was untenable.

Q: How did the EOC arrive at its decision regarding the Iatan Project's contracting strategy?

A: On November 23, 2005, KCP&L's Senior Management met with Burns & McDonnell's key executives and members of Schiff's team met to review the contracting options presented by Burns & McDonnell and Black & Veatch. The following were the key points discussed in that meeting that led to decisions by KCP&L's Senior Management: (1) Burns & McDonnell, Black & Veatch and Schiff agreed that engineering was critical path and needed to work on a "fast-track" basis to meet the June 1, 2010 target. To meet these dates, engineering needed to accelerate the design and construction of the structural steel and foundations, which resulted in an overall savings to the Iatan Unit 2 Project of approximately six to nine months of schedule time; (2) it was important to management that KCP&L was able to enter the market ahead of its competition in an effort to lock up major contracts at favorable prices; (3) KCP&L had to assemble a Project team to coordinate all the work on the owner's behalf ; (4) There was also a clear understanding that the market for the major equipment would be the ultimate determining factor in formulating the Project's schedule and in-service date. From a schedule standpoint, the options available at that time were dependent to a large degree on the boiler manufacturers. The Project's critical path would be through the procurement and construction of the boiler. **[redacted]**

In addition to the above, the EOC considered all of the following issues before deciding to proceed with the project on a multi-prime/fast-track basis:

- Full-wrap EPC contracts, while having the potential for greater cost certainty, were generally viewed to be 8-10% higher in cost than multi-prime projects. The ability to hold the line on costs depended upon the quality of the specifications and upfront identification of risks;
- A full EPC specification would take 6 to 9 months to write and 3 to 6 months to negotiate;
- The number of EPC contractors in the market was small and with backlogs filling up, those contractors were "less inclined to take risks" for such major issues as labor productivity and availability;
- The market was causing the assumption of risk to increase the price, so that the cost of an EPC relative to multi-prime was more likely 12 to 15% higher with less risk assumption by the contractor for this increased price;
- Labor remains a significant risk, and local contractors were more likely to fill the void;
- Local contractors were more likely to meet KCP&L's targets for minority and women-owned enterprises;
- Overall, management assessed the relative potential cost savings of a multi-prime contracting model between $150 million to $200 million.

Q: What decision did KCP&L make regarding the fast-track multi-prime option?

A: KCP&L made two critical decisions regarding the contracting strategy that resulted from the November 23, 2005 meeting: (1) to hire Burns & McDonnell as its Owner's Engineer;

and (2) to develop a strategic schedule that confirms that the Summer 2010 completion date was feasible. The development of the strategic schedule led KCP&L, Burns & McDonnell and Schiff to coalesce around certain key dates and durations to pursue in procurement based on a fast-track design. The strategy we employed followed the general recommendations and many of the very specific recommendations that Schiff and Burns & McDonnell made.

Q: Did KCP&L adhere to this plan in the execution of the Iatan Unit 2 Project?

A: Generally, yes. The major engineering, procurement and construction dates outlined in this early plan were all met or nearly met by KCP&L and its vendors. The most critical milestones to KCP&L at this stage related to completion of foundations in time for the start of our major vendor's construction. Adhering to these milestones and the strategic schedule was critical to the Iatan Unit 2 Project getting off to a good start. The strategic schedule that Schiff and Burns & McDonnell jointly developed in the winter of 2005-6 showed a 45-month duration from the completion of foundations for the boiler to the Provisional Acceptance date of June 1, 2010. ALSTOM's bid schedule accommodated these and other key dates in the Strategic Schedule and provided KCP&L with confidence that the dates could be met. The key to the schedule was mitigating engineering risks that emanate from a fast-track project.

Q: Please explain in detail how KCP&L mitigated engineering risks.

A: Company witnesses Kenneth Roberts, Brent Davis, and William Downey each testify to aspects of KCP&L's plan to mitigate the risks of fast-track engineering. The decision to contract with Black & Veatch to begin the boiler specification immediately after the approval of the S&A is one such action that had a positive impact on the Project's

schedule. Establishing the strategic schedule in late 2005 identified the parts of the schedule that needed the greatest emphasis. The following is a summary of these Company witnesses testimony regarding the significant mitigation measures KCP&L took with respect to engineering were:

- On February 28, 2006, during the bidding period for the boiler, KCP&L issued separate limited notices to proceed ("LNTP") to both ALSTOM and Babcock & Wilcox, who were competing for the boiler and AQCS work, for each to supply structural loads and other key information so that Burns & McDonnell could begin designing the foundations for the boiler concurrent with the award and negotiation of the contract (Downey Direct Testimony at pp. 20-21);
- On April 27, 2006, KCP&L issued a notice of award and LNTP to ALSTOM for the boiler and AQCS contract, and released ALSTOM to begin its design of the boiler's structural steel, which Burns & McDonnell and Schiff had identified as the critical path to the Iatan Unit 2 Project at that time;
- In June 2006, Burns & McDonnell was given the full release to perform Balance of Plant engineering. As Steven Jones testifies, Burns & McDonnell and KCP&L's procurement team prioritized its engineering work according to a procurement schedule that was optimized to purchase goods and services to support the strategic schedule. To date, there have been very few procurements that have had any impact on the construction schedule and none have had an impact on the Iatan Unit 2 Project's in-service date;
- As Brent Davis testifies, in April 2007, with input from the contractors who were on site at the time, namely ALSTOM, Kissick Construction and Pullman Power,

Inc., and with appropriate place holders for Balance of Plant work that had not yet been released, KCP&L's Project Controls team baselined the Iatan Unit 2 Project's schedule. Burns & McDonnell recognized that certain of its schedule activities for engineering work did not support the construction plan and revised its design schedule accordingly. Burns & McDonnell also improved its tracking metrics for the remaining design work so that it could report at a more granular level once it entered into the detailed design phase.

- In June of 2007, KCP&L and Kiewit entered into an LNTP for the remaining Balance of Plant work that led to the contract with Kiewit in November 2007. Under the LNTP, Kiewit "co-located" its project team with Burns & McDonnell to review the engineering product and begin its planning of the construction work, and Kiewit identified changes to Burns & McDonnell that would increase the overall efficiency of the construction process. (Davis Direct Testimony at p. 35)
- Through the remainder of 2007 and into 2008, the KCP&L project team engaged in the reforecast of the Project's costs, during which the engineering team revisited all aspects of the Project's design status and any changes that were necessary to improve the Project's design, and these considerations were incorporated into the final design.

Q: What was the result of KCP&L's efforts to manage these various risks associated with engineering?

A: The Iatan Unit 2 project team succeeded in fast-tracking the engineering and early construction work and eliminated significant risks to the Iatan Project as a result.

Q: Staff asserts that the "primary benefits of fast tracking are (1) reduced planning lead times and (2) parallel execution of tasks." Do you agree that KCP&L was able to derive those benefits?

A: Yes. KCP&L was able to meet the critical dates necessary to support ALSTOM's construction schedule through reduced lead times and parallel execution.

Q: Staff also asserts that, "Fast tracked projects are harder to oversee and plan, and may result in errors when incorrect assumptions about engineering design are made." Did this risk materialize to any extent?

A: Not to the extent that engineering errors were a significant result, no. It is true that our key advisors Burns & McDonnell and Schiff Hardin explained the need for a strong project team on many occasions. However, I believe that KCP&L mitigated those risks throughout the Project.

Q: Staff also states, "Since the focus [of a fast-track project] is geared on beating the clock, many times the loss of focus on the project as a whole results in inefficient spending and planning." (Staff's Report pp. 24-5) Are you aware of any "loss of focus" that resulted in inefficient spending and planning?

A: No, and I note that Staff, while making this allegation, never identifies a single example of this actually occurring on the Iatan Project.

Q: Staff also claims that the "Specific risks of fast tracking include:

Increased costs due to estimating errors
Work not completed as desired
Poor quality workmanship
Cost overruns
Overbillings
Unapproved or undesirable changes from plan
Problems may be duplicated, making corrections more costly
Increased "cascading" of problems"

(Staff's Report, pp. 24-25) Do you agree with Staff that these are potential problems with fast-tracking of a project?

A: I don't disagree that each of the above could conceivably result from a poorly executed fast-track project. However, this list is too generic and overly broad. Each of these risks is equally applicable from a non-fast track project. Moreover, Staff does not cite a single fact that indicates that any of these risks materialized on the Iatan Project and Staff does not identify with any specificity the amount of money that such risks resulted in increased costs. Even the most common issues associated with a fast track project, delay in construction because engineering is not completed and rework of already completed construction did not occur on the Iatan project. Company witness Dan Meyer testifies further regarding the reasons for costs to increase in the Iatan Project. Furthermore, KCP&L was able to mitigate many of the Iatan Project's risks by entering into a fixed-price EPC contract with ALSTOM for the boiler for Unit 2 and the air quality control systems for Units 1 and 2.

RISK MITIGATION

Q: Staff's report accuses KCP&L of failing to mitigate cost overruns on the Project. Do you agree with Staff's conclusion?

A: No. As I discussed in my Direct Testimony, KCP&L knew the risks that the Iatan Unit 2 Project represented to its customers and sought the advice of numerous experts in the utility construction industry to help us: (1) identify the potential risks; (2) mitigate those risks; and (3) develop tools for mitigating, reporting and managing those risks. These risk items were monitored on a monthly basis and reported to the Staff in summary form in the Quarterly Reports.

Q: In your Direct Testimony in this case, you discussed the commitments KCP&L made in the S&A to inform the Staff and the other parties as to the CEP Projects' status. Could you summarize that testimony?

A: In the S&A, KCP&L agreed to provide quarterly status updates on these infrastructure commitments that would include detailed information regarding actual expenditures in comparison to planned expenditures and a description of any and all efforts by KCP&L to efficiently and reasonably procure equipment and services related to the investments. In addition, KCP&L was to continue with its current process of working with the parties in its long-term resource planning efforts to ensure that its current plans and commitments are consistent with the future needs of its customers and the energy needs of the State of Missouri.

Q: Did KCP&L prepare such reports?

A: Yes. Beginning with the first quarter of 2006, KCP&L has submitted on a quarterly basis "Strategic Infrastructure Investment Status Reports," or simply the "Quarterly Reports," to Staff and the other signatory parties to the S&A. We have also been available to meet with the Staff and representatives of the S&A signatories[1] on a quarterly basis ("Quarterly Meetings") at the Commission offices in Jefferson City, Missouri. I prepared a summary of the risks identified in the Quarterly Reports that is attached as Schedule CBG2010-4.

Q: Did you provide information to the Staff regarding management's decision-making process with respect to these risks?

[1] All S&A signatories were invited to these meetings. However, not all S&A signatories attend every meeting.

A: Yes. As noted in Schedule CBG2010-4, the Quarterly Reports highlighted these and other risks and discussed the methods used for mitigation or avoidance of risks from first quarter of 2006 to the most recent report of first quarter of 2010.

Q: In addition to the Quarterly Meetings and the Quarterly Reports, has KCP&L provided other opportunities to Staff to review the Iatan Unit 2 Project?

A: Yes. Members of KCP&L's team have met with Staff on approximately 20 occasions and have responded to over 2150 data requests.

Q: What is your opinion regarding the level of transparency KCP&L has provided to Staff during the Iatan Unit 2 Project?

A: As stated, based upon my experience, the high degree of transparency in this process between KCP&L and Staff is unprecedented.

Q: What were the major risks that KCP&L management anticipated in the fall of 2005 with developing KCP&L's capabilities for managing the Iatan Unit 2 Project?

A: Mr. William Downey testifies to the major risks that we were facing as of that time. Because KCP&L had not undertaken a construction project of this magnitude in some time, we needed to attract project management talent and develop and refine the tools needed to manage such a complex project.

Q: Did KCP&L report those risks to the Staff?

A: Yes. Our Quarterly Reports track our build-up of staff and capabilities.

Q: How did KCP&L mitigate these issues?

A: We immediately began establishing the Iatan Unit 2 Project team and developed appropriate processes and procedures. In July 2006, we provided the Staff with the Cost Control System for the CEP Projects including the Iatan Unit 2 Project. As Company

witness Steven Jones testifies, we used this document as a template for developing the Project Controls and procurement procedures that have been successfully deployed on the Project.

Q: What has been the impact of mitigating these risks on the Iatan Unit 2 Project?

A: Company witness Kenneth Roberts testifies as to the effectiveness of the Project Controls that KCP&L has implemented for the Iatan Unit 2 Project and how those controls have allowed management to clearly see and timely react to challenges as they have occurred. Mr. Jones testifies to KCP&L's success in procuring the equipment on time to meet schedule and reduce cost in an overheated market for such procurements.

Q: Were there other significant risks that KCP&L addressed as the Iatan Unit 2 Project progressed?

A: As we documented in the Quarterly Reports, there were many other decisions that management had to make to reduce risk on the Iatan Unit 2 Project including the decision to award Kiewit the Balance of Plant contract. I discussed the mitigation of engineering risks earlier in my testimony. In addition, the procurement strategy and internal staffing were constantly being evaluated.

Q: What were the major procurement risks that KCP&L management anticipated in the fall of 2005?

A: Mr. William Downey testifies to the major risks that we were facing as of that time. Clearly, procurement of the boiler, turbine generator and AQCS equipment were the major risks requiring action on management's part in late 2005 to early 2006. Both Burns & McDonnell and Black & Veatch advised us of the market constraints for these procurements in their respective presentations in November 2005.

Q: Did KCP&L report those risks to the Staff?

A: Yes.

Q: How did KCP&L mitigate these risks?

A: Many of the issues discussed in prior testimony regarding engineering also apply to procurement. The initial mitigation of procurement risk occurred with the bidding and awarding of the ALSTOM contract for the boiler and AQCS. Company witness William Downey testifies to the ways in which the ALSTOM contract benefitted KCP&L by combining the performance risk of the equipment, the transparency required from ALSTOM under the contract and the advantageous price KCP&L received from the competitive bid process. After the award of the ALSTOM contract, we were aware of the need to aggressively manage the ALSTOM contract, and so informed Staff of our acknowledgement of that risk in the Quarterly Reports. As we reported to Staff, KCP&L management recognized the importance of maintaining a strong working relationship at the executive level with ALSTOM and enforcing the contract as necessary.

Q: With respect to ALSTOM, what has been the result of KCP&L's efforts to manage the various risks presented by the ALSTOM contract?

A: KCP&L's success at managing ALSTOM is demonstrated by the limited increase in contract price to ALSTOM as discussed by Company witness Robert N. Bell. Moreover, KCP&L's efforts to manage ALSTOM performance on the Project have been critical to the scheduled completion of the Project during the summer of 2010.

COMMON FACILITIES

Q: Do you agree with the Staff's allocation of indirect costs to common facilities?

A: No, I don't. Staff asserts or implies in its report that KCP&L somehow manipulated the allocation of indirect costs to its benefit purportedly because it is KCP&L's desire to have more rate base. This is incorrect. KCP&L does not care how indirect costs are allocated as long as the method is reasonable and equitable to each of the owners of the project. KCP&L did not allocate Unit 1 indirect costs to Common. Staff's Report indicates that this is the only issue with the Company's allocation of indirect costs. However, in its allocation of indirect costs Staff incorrectly lumps the two units indirect costs together and allocates when they should be done separately. In addition Staff allocates all actual indirect costs through June 2010 rather than cutting off actual indirect costs as of December 2008 consistent with the Company's allocation of direct construction costs. This results in a substantial over-allocation of indirect costs to Common facilities. KCP&L has discussed these differences with the Staff and believe a reasonable and equitable method of allocation of indirect costs can be agreed to among the Staff, KCP&L, and the other owners of the project. We will continue to work toward resolution of this issue but in the event an agreement cannot be reached it is the Company's position that its allocation of indirect costs results in a more reasonable and equitable allocation of indirect costs to Common facilities than that proposed by Staff.

RESPONSE TO THE DIRECT TESTIMONY OF WALTER DRABINSKI

Q: Are you familiar with the direct testimony that Mr. Walter P. Drabinski of Vantage Consulting Inc. filed in this case on behalf of the Missouri Retailers Association?

A: Yes, I am.

Q: Do you have any general impressions of Mr. Drabinski's testimony?

A: In general, it appears that Mr. Drabinski has not reviewed KCP&L's decision-making

process based upon the circumstances at the time the decision was made. Instead, he has engaged in a hindsight analysis. Furthermore, Mr. Drabinski has failed to explain why he believes the disallowances he has identified were the result of KCP&L's imprudent decisions.

IATAN PROJECT DEVELOPMENT

Q: Mr. Drabinski asserts that, "KCP&L management, during the period of 2005 to mid 2007, made inappropriate decisions and did not provide adequate control of the Iatan project resulting in conditions that led to schedule impacts and cost overruns which were the basis for later project cost adjustment and schedule delays." (Drabinski Direct Testimony at p. 42, ll. 10-13.) Could you elaborate on the ways in which you disagree with that testimony?

A: As stated, I do not believe that Mr. Drabinski has based his testimony on a review of the actual decision-making process that KCP&L employed during this time frame and he has improperly applied hindsight regarding the results of KCP&L's decisions. Contrary to Mr. Drabinski's unsupported conclusions, KCP&L's management made prudent decisions that were timely and continued to mitigate the Project's risks throughout the course of the work. The following is a summary of the major activities that led to management's critical decision points:

- In 2004, KCP&L first had to determine whether it was prudent to build Iatan Unit 2. Once it was clear to KCP&L that the demand for additional power existed, KCP&L sought professional advice from Burns & McDonnell to develop a preliminary design study regarding the type of plant that was most suitable for meeting our customers' needs, and that advice was for KCP&L to develop a

supercritical coal plant approximately 800 MW in output with state-of-the-art environmental controls. Concurrent to the preparation of this design study, KCP&L engaged in discussions with our future partners, customers and the regulatory bodies of both Kansas and Missouri and developed a regulatory strategy to confirm that the options we selected were appropriate. Management was careful to not get too far ahead of our partners' and customers' needs, since we needed to confirm the size of the plant and the type of technology that would be employed.

- As of August 2005 when both the Kansas and Missouri Stipulations were final, KCP&L was willing to consider any contract model that allowed for the Project to succeed. KCP&L's management sought opinions from Schiff, Burns & McDonnell and Black & Veatch regarding options for proceeding, while at the same time advancing engineering work by having Black & Veatch begin the design and RFP of the boiler.
- On November 7-8, 2005, Black & Veatch and Burns & McDonnell each presented multiple contracting methods, including multi-prime and EPC, and provided schedules for each path based on what was known at that time in the industry. Black & Veatch recommended that KCP&L enter into an agreement with Black & Veatch for an EPC contract that would give Black & Veatch an immediate release to begin engineering. However, Black & Veatch could not commit to providing KCP&L with an indicative project cost for approximately one year and would not enter into a competitive bid for an EPC that could have completed any time prior than fourth quarter 2011. Burns & McDonnell also

provided scenarios that ranged from EPC to multi-prime. However, Burns & McDonnell stated that an EPC, even a negotiated one such as Black & Veatch recommended, could not be performed by June 1, 2010. Burns & McDonnell proposed a particular variant of a multi-prime method in part because it was successful with the same KCP&L team on a multi-prime in the rebuilding of Hawthorn Unit 5. That method can best be described as an EPC Hybrid in which the major components (boiler, AQCS, and perhaps the turbine generator) are all procured from one vendor while the Balance of Plant is split among multiple contracts.

- On November 23, 2005, KCP&L's Senior Management met with principals of Burns & McDonnell and members of the Schiff team. As of that date, Management was fully aware that the targeted in-service date of June 1, 2010 was 54 months away. In that meeting, Burns & McDonnell and Schiff presented various options for contracting models and schedules. Based on this information, KCP&L management decided to proceed with Burns & McDonnell as the owner's engineer, to proceed with the procurement of the major equipment (boiler, turbine generator and AQCS) and consider options for the Balance of Plant ("BOP") work based on the procurement cycle. KCP&L Senior Management asked Schiff to work with Burns & McDonnell to develop a strategic schedule, which was completed before the end of 2005 (the "Strategic Schedule", Schedule CBG2010-5). The Strategic Schedule showed that to meet the June 1, 2010 target date, engineering needed to be accomplished on an expedited basis so that the foundations for the major equipment were ready to

receive the engineered equipment KCP&L needed to buy. The most important date was August 15, 2007, which projected to be the date KCP&L needed to meet in order for the boiler of the then-unknown boiler supplier to begin erection.

- KCP&L was able to preserve the major milestone dates through early procurements of the major equipment. KCP&L was able to procure the turbine generator from Toshiba in late March 2006 and entered into a Limited Notice to Proceed with ALSTOM on April 15, 2006, and both contractors were willing to meet the June 1, 2010 date. During the bid review process, in late-February 2006, KCP&L gave both bidders on the boiler limited notices to proceed to begin design engineering for the boiler's structure, which allowed ALSTOM to provide critical information to KCP&L months sooner. ALSTOM's schedule was premised on a 44-month schedule for boiler erection starting on August 15, 2007.
- In the spring of 2006, KCP&L pursued BOP options from the select group of potential large general contractors but found no interest. KCP&L management authorized Burns & McDonnell to proceed with design work on the BOP in April 2006 to meet ALSTOM's schedule for foundations for its equipment. Burns & McDonnell agreed it could support this schedule. Ultimately, Burns & McDonnell and Kissick were able to meet all of the key Iatan Unit 2 dates, and the boiler foundation was turned-over to ALSTOM on August 14, 2007.

This sequence of facts shows that KCP&L recognized the issues created by having a shortened timeframe for engineering and mitigated the potential impacts.

Q: Do you believe that any of the decisions that KCP&L's management made during this time period were imprudent?

A: No, I do not.

EARLY PROJECT DEVELOPMENT

Q: What were the major decisions facing KCP&L's management in 2004 regarding the building of Iatan Unit 2?

A: First, KCP&L had to establish the need for constructing the plant.

Q: How did KCP&L begin studying the addition of Iatan Unit 2 to its fleet?

A: In 2004 we established through our Integrated Resource Plan the need to add baseload capacity. From this assessment, the Company engaged in a series of public forums with multiple interested parties. As I stated in my direct testimony:

> "The Iatan project is part of KCP&L's Regulatory Plan. KCP&L engaged in a year-long public dialogue with outside interveners and interested parties to arrive at a solution for the Kansas City area's energy needs as well as identification of certain environmental upgrades required for the existing KCP&L fleet."
>
> (Giles Direct Testimony at p. 6, lines 4-8)

This Plan is often referred to as the Comprehensive Energy Plan ("CEP"). The CEP was presented to the Missouri Public Service and Kansas Corporation Commissioners in early spring 2004. Subsequent to those presentations both jurisdictional Commissions established workshops for interested parties to participate with KCP&L and the Commissions' Staffs to further explore and refine the CEP. Equally important and critical to KCP&L's ability to move forward with the CEP was a Regulatory Plan to implement the CEP. As I have previously discussed, the Company's Missouri Regulatory Plan is embodied in the S&A. The Regulatory Plan shows that KCP&L engaged in an open process that resulted in a prudent decision to proceed with the building of a coal plant.

Q: Once the decision to pursue the development of the CEP was made, what did KCP&L's management do next with regard to Iatan Unit 2?

A: As I stated in my Direct Testimony in this case, in September 2004, we engaged Burns & McDonnell to provide KCP&L with a Project Definition Report ("PDR"). In his Direct Testimony Brent Davis summarized the purpose of the PDR, which was to "discuss the possible expansion of the Iatan facility to include an 800 MW (net) coal plant, and included evaluations regarding permitting, economics of major technology components, integration of the project into KCP&L's Integrated Resource Plan and it provided for internal budget appropriations." (Davis Direct Testimony at p. 38.) The PDR also contained general sections on the Project's potential scope, general design criteria, a high-level estimate and schedule of certain milestones. In summary, the PDR was a preliminary design study that identified certain choices for KCP&L to make should the Project advance forward.

Q: How would you characterize the maturity level of the Project's design in the PDR?

A: Mr. Davis identified the PDR as "a pre-cursor to even conceptual design work and is only highly representative of the broad outlines of the project." (Davis Direct Testimony at p. 38.) I agree with that testimony.

Q: Did Burns & McDonnell identify risks to the potential cost of the Iatan Unit 2 Project in the PDR?

A: **[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]** To mitigate these risks, Burns & McDonnell advised KCP&L to determine whether the Project was economically viable and, assuming that it was viable, begin engineering work as quickly as possible. (Davis Direct Testimony at pp. 39.)

Q: How much contingency was included in the PDR estimate?

A: Burns & McDonnell included **[redacted]** as part of its PDR cost estimate. **[redacted]**

Q: How did Burns & McDonnell characterize an **[redacted] contingency for this project in the PDR?**

A: Burns & McDonnell stated that an **[redacted]** contingency was adequate to cover normal deviations in pricing and normal deviations in the assumptions used to develop the project costs. **[redacted]**

[redacted]

[redacted]

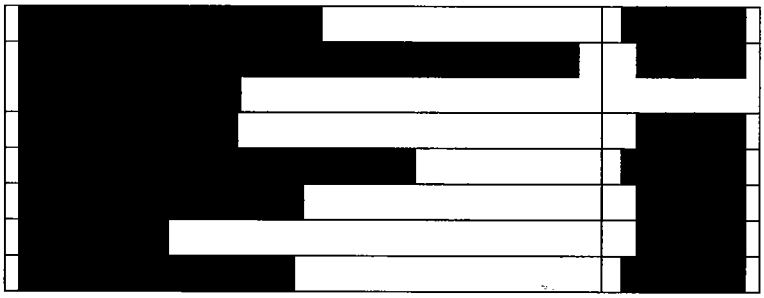
[redacted]

[redacted]

[redacted]**

Q: Did Burns & McDonnell provide a proposed schedule for the Project in connection with this preliminary design study?

A: Yes. **[redacted]



[redacted]

[redacted]

[redacted]

[redacted]**

Q: Why didn't KCP&L follow the advice Burns & McDonnell provided in this preliminary design study and begin engineering in late 2004?

A: While Burns & McDonnell may have offered good advice, KCP&L was not in a position to proceed with such a large step at that time. As of that time, KCP&L had not: (1) identified its partners; (2) identified the plant's size and capacity; (3) completed the collaborative process we started early in 2004; nor (4) fully developed our Regulatory Plan. Until these issues were worked out, KCP&L management felt it would have been presumptuous to begin engineering or procurement work beyond the study and feasibility phase.

Q: What would have been presumptuous about proceeding with engineering at that time?

A: KCP&L's management did not feel that proceeding with design of a project was appropriate at the same time we were requesting our partners, regulators, customers, and the public's opinions in open meetings and asking them to contribute to our CEP and subsequent Regulatory Plan. Unless a Regulatory Plan could be agreed upon, KCP&L could not and would not have moved forward with the CEP. All of the parties to the Regulatory Plan collaboration and negotiation understood this fact. Obviously, to be engaged in the design of a coal generation plant during negotiations of a regulatory plan would not only be presumptuous but would beg the question why a regulatory plan was an absolute necessity in the first place. Under such circumstances, I don't believe a plan could have been achieved, and the CEP, in particular, Iatan Unit 2, would not have been constructed.

Q: How does the preliminary schedule in the PDR compare to the ultimate strategic schedule that was developed once the Iatan Unit 2 Project was underway?

A: The preliminary schedule Burns & McDonnell provided in the PDR and the ultimate schedule for the Iatan Unit 2 Project itself are very different, and those differences are most readily seen in the design stage. In late 2004 to mid-2005, as KCP&L was obtaining regulatory approval for the Project, it continued to review the possible in-service dates. When the S&A was signed, it was apparent that the completion date had to change. The duration of the project was about the same but with a later start date due to the need to agree to a regulatory plan. To my knowledge Burns and McDonnell was not aware KCP&L was pursuing a regulatory plan in order to implement the CEP. We

ultimately committed to completing the Project in summer of 2010.

Q: What was the basis in Burns & McDonnell's preliminary design study for its cost estimate?

A: **[redacted]**

Q: How would you characterize the estimate that Burns & McDonnell provided in the PDR?

A: Daniel Meyer testifies that the cost estimate embedded in the PDR was very preliminary, at best, and I agree with that testimony. Brent Davis testifies that, "The design was conceptual at this time, and the concept in the PDR was for a plant that was substantially different than the project KCP&L ultimately chose to build. Also, the proposed Project duration upon which the estimate was based could not be met, because there was no longer 60 months remaining to design, procure and construct the Project if the goal was to meet a Provisional Acceptance in the summer of 2010. **[redacted]** (Davis Direct Testimony at pp. 40-41.) I agree with that testimony.

PROJECT BUDGET

Q: Mr. Drabinski asserts on p. 16-17 of his Direct Testimony that an estimate prepared in January 2006 was, or at least should have been, the Iatan Unit 2 Project's budget. Do you agree?

A: No. Mr. Drabinski is completely wrong. The only budget for the Iatan Unit 2 Project is the CBE that was approved on December 6, 2006 by KCP&L's Board of Directors. Any other cost estimate prior to that time is just that – a cost estimate.

Q: Mr. Drabinski states that as of January 2006, KCP&L knew of all of its requirements for the Project and therefore this would have been an appropriate point for measuring overruns. Do you agree?

A: Absolutely not. The January 2006 estimate was not mature in any fashion. Company witness Mr. Meyer explains the estimating process that occurred.

KCP&L DECISIONS – PROJECT SCHEDULE

Q: Was it important to KCP&L to complete the Iatan Unit 2 Project on June 1, 2010?

A: Absolutely. There were a number of ways in which meeting that date was important, including:

- Senior Management understood that the costs of commodities, equipment and labor would continue to increase because of the demand for both new coal based-generation and for air quality control systems.
- KCP&L and the joint owners needed additional capacity in and around the summer of 2010.
- In late 2005 and early 2006, KCP&L was able to sell excess energy into the off-system sales market at a price that would offset nearly the total increase in revenue requirement associated with the fixed costs of Iatan Unit 2. Reduced

market prices of electricity are tied to current lower gas prices. However, once the economy returns to pre-recession growth I would expect an increase in wholesale margins.

- KCP&L had made a commitment under the Regulatory Plan to complete Iatan Unit 2 by June 2010 and wanted to meet its commitment.

Q: In the fall of 2005, did KCP&L Senior Management consider moving the June 1, 2010 completion date?

A: Senior Management believed at that time that delaying the Project's completion would only add to the costs of the plant, reduce revenues from wholesale market opportunities, and thus increase the revenue required from customers once Iatan Unit 2 was placed into service. Management was looking for a way to balance the market issues with maintaining its commitments in the Regulatory Plan. The primary goal expressed at this early planning stage was mitigating engineering and procurement risks at the outset of the Iatan Project.

Q: Once the S&A was approved, what did KCP&L's management do to investigate whether the original schedule could be met?

A: As I have already testified, management marched through a series of key decisions from the Owner's Engineer to the contracting strategy to the development of the strategic schedule to the bidding and contracting of the ALSTOM contract, all of which affirmed that the June 1, 2010 target in-service date was very possible. I discuss some of those details below.

KCP&L MANAGEMENT DECISIONS – OWNER'S ENGINEER AND CONTRACTING METHODOLOGY

Q: In his Direct Testimony, Mr. Drabinski states that KCP&L management never considered an EPC project approach and "by November 2005, having never considered a different approach, KCP&L had no choice but to accept the Multi-Prime approach if it was to maintain the possibility of meeting its completion date." (Drabinski Direct Testimony at p. 43.) Do you agree with Mr. Drabinski's testimony?

A: Absolutely not. As previously noted, KCP&L was preserving all options at that time. Company Witness Mr. Downey testified:

> **Q: What procurement options for the Iatan project did KCP&L consider after obtaining regulatory approval?**
>
> A: KCP&L was open to any method for procurement that would result in a high probability of meeting schedule and budget goals while also providing the necessary level of transparency to the Kansas and Missouri Commissions. On September 29, 2005, Schiff gave a presentation to the KCP&L executive team regarding multiple procurement options for the work at Iatan. The options included: an Engineering-Procurement-Construction or EPC contract with a single source; a hybrid EPC contract in which the majority of the performance requirements would be covered under a single supplier; and a larger multi-prime method in which multiple contracts would be procured and managed by KCP&L as the overall construction manager.
>
> (Downey Direct Testimony at p. 10.)

I agree with that testimony. The selection of the contracting path, as with all aspects of the [CEP] projects, was based on which method would yield the lowest evaluated cost. We utilized the vetting process of the Owner's Engineer candidates to also analyze the contracting options that were then-available, which allowed us to also evaluate how the candidates would work within the contracting model we selected.

Q: Mr. Drabinski's Direct Testimony asserts that "KCP&L Management's decision to not proceed with any activities in 2005 until after the Comprehensive Energy Plan

("CEP") was approved, against the advice of its experts, created a schedule crisis which led to other poor decisions." (Drabinski Direct at p. 37) Do you agree with that testimony?

A: No, and this conclusion and many others in Mr. Drabinski's testimony help demonstrate the defects in the method Mr. Drabinski has used as he improperly: (1) ignores the standards for prudence; (2) ignores or misstates the facts in the Project's record and in the hundreds of pages of direct testimony in this case and in the 0089 Docket; and (3) draws a conclusion based entirely on hindsight. First, as I explained, it would have been both presumptuous and imprudent for us to proceed as Mr. Drabinski suggests we should have. Second, Mr. Drabinski completely misreads the advice KCP&L was being given by the experts it employed. KCP&L followed the advice of Burns & McDonnell in November 2005 because, based on the information that was available at that time, this advice gave KCP&L the greatest prospect of success. Schiff and Burns & McDonnell worked together on developing a Strategic Schedule that was used as the basis for the Project's major procurements, and which was used to confirm the Project's ability to meet the summer 2010 targets.

I note that Mr. Drabinski repeatedly states in his Direct Testimony that Schiff made a presentation to KCP&L's Board of Directors on February 1, 2005:

** [redacted] ** (Drabinski Direct Testimony, pp. 73, ll. 8-11.)

Schiff made no such presentation and was not hired by KCP&L until August 2005. Mr. Drabinski ignores the actual presentation that KCP&L's Management made on February 1, 2005 in which the Board of Directors was informed of the essential pieces

needed for the Project to move forward and the risks that the Project's development was facing at the time. This presentation indicated KCP&L was considering an EPC contracting strategy. Giving this no regard, Mr. Drabinski concludes, improperly utilizing hindsight, that KCP&L Management should have done something it could not have even tried doing in early 2005, and because of that "mistake," the entire project was doomed.

Q: Based on your reading of Mr. Drabinski's testimony, what do you believe he suggests KCP&L's Management should have done differently on the Iatan Unit 2 Project?

A: Mr. Drabinski concludes that KCP&L should have performed the Project on an EPC-basis and that apparently would have been a panacea for avoiding all of the issues that KCP&L encountered. Company witnesses Mr. Roberts and Mr. Meyer address in their rebuttal testimony the significantly flawed analysis Mr. Drabinski utilized in drawing mistaken conclusions regarding Iatan Unit 2's cost when compared to other similar projects. Mr. Drabinski also ignores the prudence standard in drawing this conclusion by failing to acknowledge the actual process I described in my testimony that KCP&L's management actually used in choosing the Project's contracting method. He also fails, as Mr. Meyer testifies, to draw a nexus between the alleged poor decision KCP&L made and his recommendation for disallowances in this case.

MITIGATION OF PROJECT RISKS

Q: Mr. Drabinski's testimony indicates KCP&L was impeded from effectively managing the Iatan Project due to early issues with lack of processes controls. Do you agree with Mr. Drabinski?

A: No, I do not. Evidence of KCP&L's prudent decisions throughout the execution of the Iatan 2 Project are easily identified by examining the risks identified during the project and KCP&L's effective and timely mitigation of those risks. I discussed this topic above and the risks identified in the Quarterly Reports are summarized in Schedule CBG2010-4.

Q: Does that conclude your testimony?

A: Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company to Modify Its Tariffs to Continue the Implementation of Its Regulatory Plan	)))	Docket No. ER-2010-0355

AFFIDAVIT OF CHRIS B. GILES

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

Chris B. Giles, being first duly sworn on his oath, states:

1. My name is Chris B. Giles. I work in Kansas City, Missouri, and I am currently a regulatory consultant to Kansas City Power & Light Company.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of fifty-eight (58) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Chris B. Giles

Chris B. Giles

Subscribed and sworn before me this 8th day of December, 2010.

Nicole A. Wehry

Notary Public

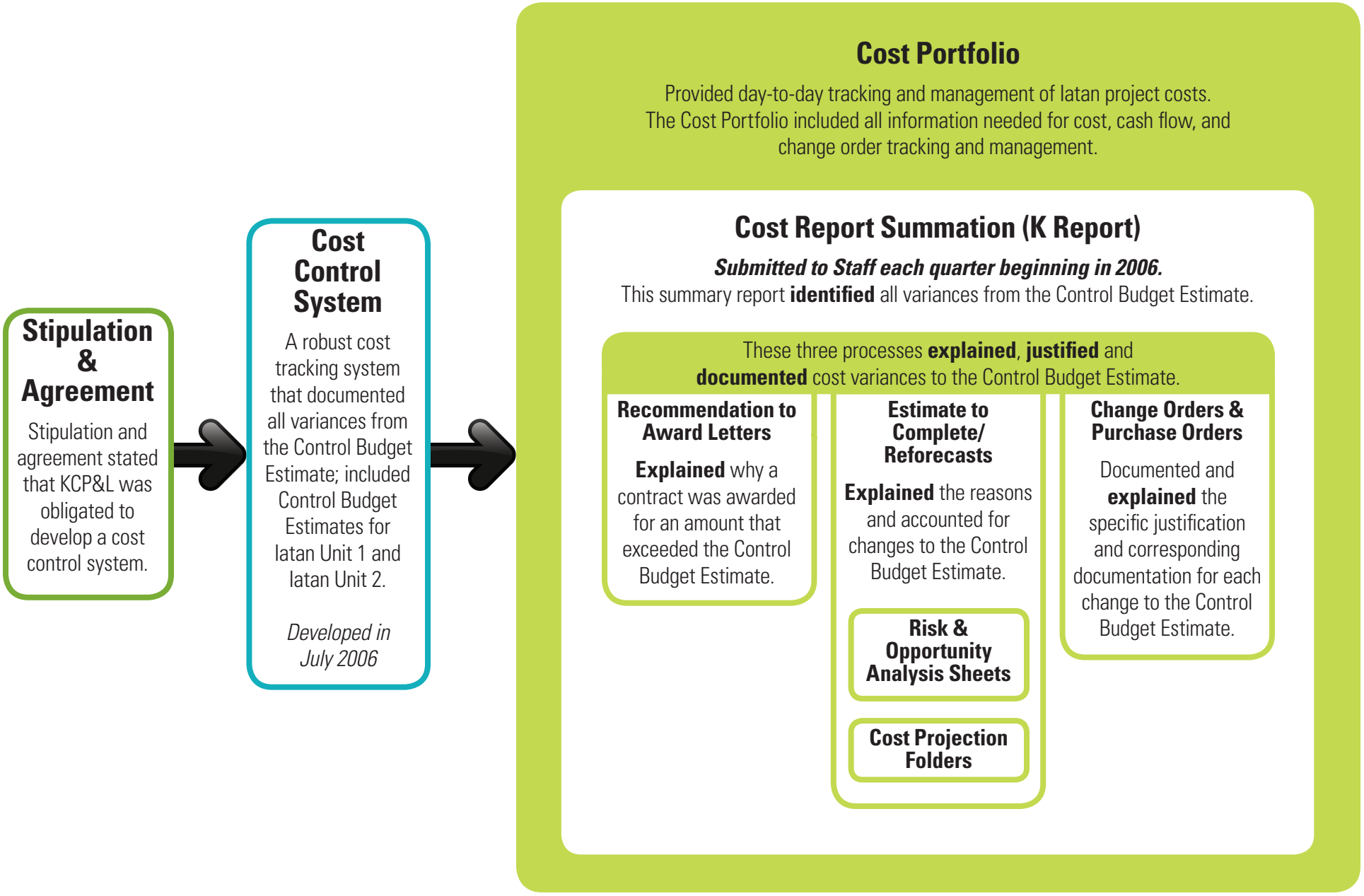
My commission expires: Feb 4, 2011

"NOTARY SEAL"
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07391200

SCHEDULES CBG2010-1 through CBG2010-2

THESE DOCUMENTS CONTAIN HIGHLY CONFIDENTIAL INFORMATION NOT AVAILABLE TO THE PUBLIC

Cost Control System



Schedule CBG2010-3

SCHEDULE CBG2010-4

THIS DOCUMENT CONTAINS HIGHLY CONFIDENTIAL INFORMATION NOT AVAILABLE TO THE PUBLIC