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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

UTILITY SERVICES - AUDITING

TRUE-UP DIRECT TESTIMONY

OF

CHARLES R. HYNEMAN

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2014-0370

Jefferson City, Missouri
July 2015

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1 **TRUE-UP DIRECT TESTIMONY**

2 **OF**

3 **CHARLES R. HYNEMAN**

4 **KANSAS CITY POWER & LIGHT COMPANY**

5 **CASE NO. ER-2014-0370**

6 Q. Please state your name and business address.

7 A. Charles R. Hyneman, Fletcher Daniels State Office Building, 615 East 13th
8 Street, Kansas City, Missouri.

9 Q. By whom are you employed and in what capacity?

10 A. I am a Regulatory Auditor with the Missouri Public Service Commission
11 (“Commission”).

12 Q. Are you the same Charles Hyneman who filed certain sections of the Staff's
13 Cost of Service Report, as well as rebuttal and surrebuttal testimony in this rate case?

14 A. Yes, I am.

15 Q. Mr. Hyneman, have you participated in previous Staff construction audits and
16 prudence reviews of utility construction projects?

17 A. Yes I have. I was the lead Staff auditor in the construction audit and prudence
18 review of KCPL's Iatan 1 Air Quality Control Systems (“AQCS”) environmental upgrade
19 project, which is very similar in nature and scope to KCPL’s La Cygne AQCS environmental
20 project (“La Cygne Project” or “Project”). I was also the lead Staff auditor responsible for the
21 Staff’s construction audit and prudence review of KCPL's new construction of the Iatan 2 coal
22 unit in Weston, Missouri. According to KCPL, the five-year Iatan 2 construction project was
23 one of the largest and most complex construction projects in Missouri and KCPL history.

1 The final Staff Report associated with these audits was filed with the Commission in File No.
2 ER-2010-0355.

3 I was also the lead Staff auditor in Staff's construction audit and prudence review
4 of the Empire District Electric Company's ("Empire") Plum Point Generating Station
5 ("Plum Point") construction project near Osceola, Arkansas. The Staff's report for the
6 Plum Point audit was filed in Empire's rate case docketed as No. ER-2011-0004.

7 I have supervised and participated in the Staff audit of KCPL-GMO's environmental
8 construction projects at its Jeffrey Energy Center Generating Station in St. Mary's, Kansas,
9 and I participated in and provided assistance to other Staff Audit personnel in the preliminary
10 audit work for Empire's Asbury environmental construction project.

11 Q. What is the purpose of this testimony?

12 A. The purpose is to describe the nature of and the results of Staff's construction
13 audit and prudence review ("Staff audit") of the La Cygne Project.

14 Q. Was your participation in the Staff audit of the La Cygne Project performed in
15 coordination with the Staff's Utility Operations Division personnel?

16 A. Yes. The Staff's audit was a coordinated effort between Staff Auditors and
17 Staff Engineers from the Utility Operations Division. The primary Staff Engineer assigned to
18 the construction audit is Shawn Lange, who is also providing true-up direct testimony in this
19 proceeding concerning the Staff's in-service criteria for the Project.

20 **La Cygne Project Background**

21 Q. Please describe KCPL's corporate structure.

22 A. KCPL is a wholly-owned subsidiary of Great Plains Energy, Incorporated,
23 ("GPE"), and both KCPL and GPE are headquartered in Kansas City, Missouri. GPE is a

1 public utility holding company which, in addition to KCPL, also owns KCP&L Greater
2 Missouri Operations Company (“GMO”), the former Missouri regulated operations¹ and
3 nonregulated properties of Aquila, Inc. GPE also has an ownership share in Transource
4 Energy LLC (“Transource”). Transource is a partnership between American Electric Power
5 and GPE focused on the development of competitive electric transmission projects.

6 Q. What caused the need for the La Cygne Project?

7 A. KCPL's decision to initiate the La Cygne Project was made to comply with
8 federal Environmental Protection Agency (EPA) emissions requirements and to meet separate
9 contractual commitments made between KCPL and the Sierra Club and KCPL and the Kansas
10 Department of Health (“KDHE”). The agreements between KCPL and KDHE and KCPL and
11 the Sierra Club committed KCPL to reduce emissions from the La Cygne units to satisfy a
12 federal EPA Regional Haze Rule mandate and to settle a lawsuit involving KCPL and the
13 Sierra Club. The federal EPA Regional Haze Rule is an environmental requirement to
14 enhance air quality in national parks and wilderness areas outside Kansas. The KDHE
15 developed a State Implementation Plan (SIP) to conform to these federal requirements and the
16 agreement with KCPL is a component of that Plan.

17 Q. Is KCPL the sole owner of the La Cygne Generating Station (“La Cygne”),
18 which is located in La Cygne Kansas?

19 A. No. KCPL owns 50 percent of La Cygne located in La Cygne, Kansas.
20 Kansas Gas and Electric Company, a wholly-owned subsidiary of Westar Energy, Inc.
21 (“Westar”) controls the other 50 percent of La Cygne. KCPL and Westar have entered into an
22 ownership agreement which gives KCPL the authority and responsibility to operate La Cygne.

¹ Missouri Public Service and St. Joseph Light & Power Company.

1 Q. Who has the responsibility of managing the construction activities of the
2 La Cygne Project?

3 A. KCPL, as the operating partner of La Cygne, is managing the schedule and
4 budget for the Project through its oversight and monitoring of the activities of the Project's
5 prime contractor, La Cygne Environmental Partners ("LEP"). LEP is a joint venture formed
6 by Kiewit Industrial Contractors and Sargent and Lundy LLC, which was awarded the
7 engineer-procure-construct (EPC) contract for the Project.

8 Q. Please describe the nature of the La Cygne Project.

9 A. The Project includes installation of two Hitachi wet FGD scrubbers, new
10 Hamon fabric filters on Unit 1 and Unit 2, a selective catalytic reduction (SCR) system, low-
11 NOx burners and over-fire-air system on Unit 2. The Project also includes common dual-flue
12 chimney for both La Cygne Units 1 and 2, and other common buildings and support facilities
13 to support the newly-constructed environmental plant components. Please see the true-up
14 direct testimony of Staff witness Shawn Lange for a more detailed description of the
15 La Cygne Project.

16 Q. What was the original budgeted cost of the La Cygne Project?

17 A. In a filing made with the Kansas Corporation Commission (KCC) on
18 February 23, 2011, in Docket 11-KCPE-581-PRE, KCPL stated to the KCC that the target
19 completion date was June 1, 2015, and the estimated total cost of the Project was
20 \$1.23 billion. In this docket, KCPL requested predetermination by the KCC of the prudence
21 of the Project cost estimate. The total Project budget amount quoted above includes a
22 contingency ** _____ ** but excludes Allowance for Funds Used During Construction
23 ("AFUDC") and capitalized property taxes. KCPL's 50 percent share of the total budgeted

1 cost is approximately \$615 million with its Missouri jurisdiction currently projected to be
2 allocated \$326 million of the total Project costs.

3 Q. What level of Project costs is KCPL seeking in this case?

4 A. The following chart which was provided by KCPL to Staff shows that as of the
5 true-up date of May 31, 2015, KCPL has included approximately \$550 million of La Cygne
6 Project costs in regulated accounts on a total company (Kansas and Missouri) basis. Of this
7 amount, approximately \$292.6 million will be reflected in its Missouri-jurisdictional rate base
8 in this rate case.

Account	Total Project	KCPL Total Company	Staffs MO Allocator	KCPL MO juris
311	\$143,663,067	\$71,831,534	53.17%	\$38,192,826
312	\$861,040,293	\$430,520,147	53.17%	\$228,907,562
315	\$80,296,675	\$40,148,338	53.17%	\$21,346,871
316	\$9,663,628	\$4,831,814	53.17%	\$2,569,075
353	\$5,752,836	\$2,876,418	53.17%	\$1,529,391
355	\$104,032	\$52,016	53.17%	\$27,657
356	\$175,806	\$87,903	53.17%	\$46,738
	\$1,100,696,337	\$550,348,169		\$292,620,121

9
10 Q. Was KCPL's decision to make the environmental upgrades at La Cygne
11 determined to be prudent by the KCC?

12 A. Yes. In August 2011, the KCC issued an order ruling that KCPL's decision to
13 make environmental upgrades at La Cygne to comply with environmental regulations was
14 prudent.

15 Q. Did the KCC also determine that the \$1.23 billion Project cost estimate or
16 budget was reasonable?

17 A. Yes, it did. The KCC made this determination in its August 19, 2011, Order
18 Granting KCP&L Petition for Predetermination of Rate-Making Principles and Treatment,
19 Docket No. 11-KCPE-581-PRE.

1 Q. Has the Missouri Commission Staff determined that the La Cygne Project met
2 its in-service criteria and should be considered fully operational and used for service?

3 A. Yes. As noted in Staff witness Shawn Lange's true-up direct testimony, the
4 Staff determined that the La Cygne Project met all of Staff's in-service criteria effective
5 April 30, 2015, for La Cygne Unit 1 and effective March 24, 2015, for La Cygne Unit 2 and
6 common.

7 **Objectives of Staff's Audit**

8 Q. What were the objectives of the Staff's construction audit and prudence review
9 of the La Cygne Project?

10 A. The objectives of Staff's audit were to determine if any charges made to
11 La Cygne Project fall into any one of the following six categories of costs:

- 12 1. Inappropriate
- 13 2. Unreasonable
- 14 3. Excessive
- 15 4. Unreasonably or inappropriately allocated
- 16 5. Not of benefit to Missouri ratepayers or
- 17 6. Related to unnecessary facilities.

18 If any of these types of charges made to the Project are found by Staff to be included in the
19 La Cygne Project's construction work orders, Staff will make appropriate adjustments to
20 remove them. If any adjustments are necessary, Staff will recommend that the Commission
21 adopt the Staff adjustments in order to ensure that only fair and reasonable rates are charged
22 to Missouri ratepayers.

1 **Construction Audit Standards**

2 Q. Do Staff auditors have to meet different evidentiary standards in support of
3 their adjustments in construction audits and prudence reviews than they do in support of other
4 rate case adjustments?

5 A. Yes.

6 Q. What are the standards placed on Staff auditors as they relate to rate case
7 adjustments that are not associated with rate case adjustments proposed by Staff auditors in
8 construction audits and prudence reviews?

9 A. At page 14, paragraph 7 of its April 12, 2011, Report and Order in File No.
10 ER-2010-0355 ("2010 Report and Order"), the Commission cited Section 393.150.2 and
11 described that the burden of proof at a rate case hearing is on the utility, in that particular
12 rate case, KCPL, to show that the rate increase the utility proposes is just and reasonable.
13 This Commission described this standard as:

14 7. At any hearing involving a rate sought to be increased, the
15 burden of proof to show that the increased rate or proposed
16 increased rate is just and reasonable shall be upon the . . .
17 electrical corporation . . . and the commission shall give to the
18 hearing and decision of such questions preference over all other
19 questions pending before it and decide the same as speedily as
20 possible.

21 Q. What standard does the Commission place on Staff auditors for adjustments
22 made in construction audits and prudence reviews, such as the Staff's construction audit and
23 prudence review of the La Cygne Project?

24 A. In its 2010 Report and Order the standard the Commission places on the Staff
25 to support its adjustments in construction audits and prudence reviews is more stringent than

1 other rate case adjustments. In a construction audit and prudence review, the Staff must meet
2 a specific four-pronged test:

- 3 1. Identify that a specific imprudent action was not based upon
4 construction industry standards;
- 5 2. Identify that the specific imprudent action was based on the
6 circumstances that existed at the time the decision to incur the
7 imprudent cost was made;
- 8 3. Provide proof that increased costs resulted from the
9 imprudent decisions;
- 10 4. Provide substantive, competent evidence that establishes a
11 causal connection between the utility's imprudent action and the
12 cost incurred as a result of the action.

13 In its 2010 Report and Order at paragraph 25, the Commission summarized its standards on
14 Staff auditors as they as apply to proposed adjustments to utility construction project costs in
15 the following manner:

16 25. In other words, Staff or the other parties must satisfy the
17 following two-pronged evidentiary test to support a
18 disallowance: 1) identify the imprudent action based upon
19 industry standards and the circumstances at the time the
20 decision or action was made; and 2) provide proof of the
21 increased costs caused by KCP&L's imprudent decisions. To
22 meet this standard, a party must provide substantive, competent
23 evidence establishing a causal connection or —nexus between
24 the alleged imprudent action and the costs incurred.

25 Q. Are the standards placed on Staff auditors by the Commission in construction
26 audits and prudence reviews much more burdensome and difficult to meet than normal
27 ratemaking standards?

28 A. Yes. From my experience, the burden of proof placed on Staff auditors in
29 construction audits and prudence reviews is much more difficult to meet than the standards
30 placed on Staff auditors to support its adjustments in normal rate case audits.

1 Q. Since the Commission's Report and Order in File No. ER-2010-0355, do you
2 believe the Staff has taken and will continue to take a new approach to its construction audits
3 and prudence reviews?

4 A. Yes. In my opinion, the standards placed on Staff auditors by the Commission
5 in its 2010 Report and Order, both in how it described its standards for adjustments and how it
6 applied these standards in its specific decisions on Staff's adjustments, has caused the Staff to
7 alter its approach to construction audits and prudence reviews.

8 **Preliminary Risk Assessment of the La Cygne Project**

9 Q. How did the Staff determine the scope of its construction audit and prudence
10 review of the La Cygne Project?

11 A. Early in the construction phase of the La Cygne Project, I met with members of
12 the Staff's Utility Operations Division and Staff Counsel's Office to develop the preliminary
13 audit plan for the La Cygne Project, as well as other ongoing or planned utility construction
14 projects. To determine the audit scope and audit procedures for the La Cygne Project an
15 informal preliminary risk assessment of the project was developed.

16 Q. Can you describe the Staff's preliminary risk assessment for the La Cygne
17 Project?

18 A. The Staff, when it made its preliminary risk assessment, considered the known
19 facts of the Project and other circumstances at a certain point in time and made a
20 determination of the level of risk (low, medium or high) that material costs that are
21 inappropriate, unreasonable, excessive, unreasonably or inappropriately allocated, not of
22 benefit to Missouri ratepayers or related to unnecessary facilities will be charged to the
23 La Cygne Project.

1 Q. When did the Staff conduct its preliminary risk assessment for the La Cygne
2 Project?

3 A. The assessment was completed sometime after the Staff's site visit to the
4 La Cygne construction site on September 26, 2013.

5 Q. What were some of the issues discussed at the Staff's construction site visit?

6 A. In addition to a detailed tour and review of the ongoing construction activities,
7 the Staff and KCPL discussed the following agenda items during a meeting following the tour
8 of the ongoing construction activities:

- 9 1. Project Update – cost and schedule
- 10 2. Major change orders
- 11 3. Major milestones completed and soon to be completed
- 12 4. Project scope changes (increase or decrease)
- 13 5. Major contractors on site
- 14 6. Project oversight – Project Management Team and KCPL
- 15 senior management, Project Management Plan
- 16 7. Staff Data Requests and related items

17 Q. Did the Staff continue to make periodic site visits to the La Cygne construction
18 site after its September 26, 2013 site visit?

19 A. Yes, it did.

20 Q. How did Staff classify the preliminary risk assessment for the La Cygne
21 Project?

22 A. Based on several factors that I will describe below, the Staff classified the risk
23 of the project being charged material costs, of the nature described above, was low.

24 Q. Did this preliminary risk assessment affect the audit scope and audit
25 procedures?

1 A. Yes. In addition to affecting the audit scope and audit procedures, the
2 preliminary risk assessment was considered in making determinations on audit staffing and
3 the level of resources necessary to meet the audit objectives.

4 Q. Did the Staff continually review throughout the Project's duration the factors
5 included in the preliminary risk assessment to see if any material facts or circumstances
6 changed to increase the risk of the project?

7 A. Yes, it did. Part of the Staff's audit procedures was to continuously review the
8 factors that were considered in its preliminary risk assessment to see any factors had changed
9 and any resulting impact on the risk to meeting the objectives of the Staff's audit.

10 Q. During the Project's duration did the Staff note any changes that would affect
11 its preliminary risk assessment?

12 A. No, it did not.

13 Q. What actions would the Staff had taken as a result of any change that caused
14 increased risk to the Staff's successful completion of its audit objectives?

15 A. An increase in the risk of Staff not successfully meeting its audit objectives
16 would have resulted in an increase in the resources and effort devoted to the audit and an
17 increase in the number and design of Staff's audit procedures.

18 Q. What is an audit scope?

19 A. Audit scope includes audit objectives; nature and extent of auditing procedures
20 performed; time period audited; and related activities not audited in order to define the
21 boundaries of the audit. The Staff's audit objectives, described above, define what the Staff is
22 trying to achieve in its construction audit and prudence review and that is to identify any of

1 the six types of costs listed and, if any are found to exist, to take specific actions to prevent
2 these costs from being charged to KCPL's Missouri ratepayers.

3 Q. How was the audit scope of the La Cygne Project determined?

4 A. The audit scope was determined through a review of the Project's activities at a
5 specific point in time and was based, primarily, on the Staff's preliminary risk assessment for
6 the La Cygne Project.

7 Some of the factors considered included the results of meetings with KCPL Project
8 personnel, tour of the construction site facilities and construction activities, review of
9 contractual documents, review of the then-current construction progress and budget status,
10 complexity of the project, experience of KCPL's projection management team, quality of the
11 relationship between KCPL and the major contractors, quality of the Project's cost control
12 system and cost control personnel and a review of audit work performed by other independent
13 professional auditors.

14 Q. Did the Commission authorize Staff to open up a docket to obtain La Cygne
15 Project information from KCPL that Staff would use in its preliminary risk assessment?

16 A. Yes. File No. EO-2014-0042 was created to obtain construction project data
17 and information, including data to use in the development of a preliminary risk assessment for
18 the Staff.

19 Q. What were some of the important factors that Staff considered in making the
20 preliminary risk assessment for the La Cygne Project?

21 A. In my opinion, the most important factor in this assessment was the experience
22 and quality of the key members of KCPL's construction management team. The Staff

1 considered whether the level of experience was appropriate for the size, complexity and
2 responsibilities of the La Cygne Project.

3 Staff concluded that KCPL selected members of the project management team,
4 including cost controls personnel, who are competent, have significant construction
5 experience and are well qualified to manage and control a project the size and complexity of
6 the La Cygne Project.

7 Q. Do key members of the La Cygne Project management team have the
8 experience of working on both the Iatan 1 AQCS project (a project similar to the La Cygne
9 Project) as well as the significantly more complex Iatan 2 construction project?

10 A. Yes, they do.

11 Q. Was your conclusion concerning the experience of KCPL's La Cygne Project
12 management team consistent with the opinion of other professional auditors who performed
13 audit work of the La Cygne Project?

14 A. Yes. Staff Data Request No. 10 in File No. EO-2014-0042 included
15 a report based on the work of Ernst & Young LLP's ("E&Y") professional auditors.
16 E&Y was engaged by KCPL to assist KCPL's Internal Audit Department in the performance
17 of internal audits of various aspects of the La Cygne Project. As noted by E&Y auditors,

18 ** _____
19 _____
20 _____ **

21 Q. Did you review the work performed by E&Y and KCPL's Internal Audit
22 Department?

1 A. Yes. In KCPL's response to Staff Data Request No. 140 KCPL provided a
2 copy of and amendments to the Professional Services Agreement between Ernst & Young
3 LLP (E&Y") and Great Plains Energy Services Incorporated ("GPES") dated October 12,
4 2011. In response to Data Request 623, KCPL advised the Staff that "KCP&L Audit Services
5 with the assistance of E&Y performed audits of processes and controls over cost management
6 and tracking...." In Data Request No. 10 in File No. EO-2014-0042, KCPL provided
7 copies of the La Cygne Project audit work performed by E&Y as assisted by KCPL's Internal
8 Audit Department.

9 Q. In your review of the audit work performed and audit reports completed by
10 E&Y did you note any factors that would affect the Staff's low risk preliminary risk
11 assessment?

12 A. No, I did not.

13 Q. Does the Staff believe KCPL was prudent in obtaining the audit services of
14 E&Y to assist in the La Cygne Project?

15 A. Yes, it does. KCPL contracted with E&Y to perform audit services on its
16 previous Iatan 1 and Iatan 2 construction projects. The Staff has relied in part on this work
17 and has found that E&Y's audit work in the Iatan 1 and Iatan 2 construction projects to be
18 reliable and of good quality.

19 Q. Does the Staff believe that the construction audit services performed by E&Y
20 would have the appearance of greater objectivity and transparency if E&Y auditors performed
21 the audit work independent of KCPL's Internal Auditors?

1 A. Yes, it does. In my opinion E&Y's audit work on KCPL's construction
2 projects would be viewed as more independent and more reliable if the work was performed
3 independently and not in conjunction with or under the guidance of KCPL employees.

4 Q. What is another major factor considered in making the preliminary risk
5 assessment for the La Cygne Project?

6 A. In my opinion, the second most significant factor, after the quality and
7 experience of the construction management team, is the contracting strategy selected by utility
8 management. Unlike the Multi-Prime contracting strategy KCPL employed for the Iatan 1
9 AQCS construction project and the Iatan 2 new construction project, KCPL selected the
10 Engineer, Procure and Construct (EPC) contracting strategy for the La Cygne Project.

11 In its Iatan 1 and Iatan 2 Construction Audit and Prudence Review Report filed in File
12 No. ER-2010-0355, the Staff described how the then relatively inexperienced KCPL project
13 management team at the outset of the construction projects and the extremely demanding
14 challenges of controlling and managing both projects using a Multi-Prime contracting strategy
15 without a well-experienced team contributed significantly to the millions of dollars in cost
16 overruns in both projects and the fact that the completion of the Iatan 2 construction project
17 was three months late.

18 The EPC contracting strategy significantly reduces the risk to the utility associated
19 with the project's failure and transfers this risk to the EPC contractor. The EPC contractor for
20 the La Cygne Project is LEP. The reduction in risk associated with an EPC contracting
21 strategy as opposed to a Multi-Prime contracting strategy is explained by E&Y's professional
22 auditors. In this explanation LERP refers to the La Cygne Environmental Project and ICP
23 refers to the Iatan Construction Projects:

1 ** _____
2 _____
3 _____
4 _____
5 _____
6 _____
7 _____
8 _____
9 _____
10 _____
11 _____
12 _____
13 _____
14 _____
15 _____ ** (KCPL response to Staff Data Request
16 No. 10 in File No. EO-2014-0042).

17 Q. Are there any disadvantages with the EPC contracting strategy?

18 A. Yes, primarily because the primary risk of problems on all facets of a
19 construction project (engineering, procurement and construction) are to a very high degree
20 transferred to the contractor away from the utility, the cost of an EPC contract can be
21 significantly higher than a similar project using a Multi-Prime contracting strategy.

22 Q. Please describe other factors considered in the Staff's preliminary risk
23 assessment.

24 A. Another very significant factor in the success or failure of a construction
25 project is the relationship between the utility's construction management team and the
26 project's major contractor(s). The Staff has noted that KCPL has made its relationship with
27 its EPC contractor, LEP, a top priority and placed a significant emphasis on developing and
28 maintaining this good relationship from the very beginning to the very end of the Project.

1 On each of the several site visits made to the La Cygne Project construction site, Staff
2 specifically inquired about the current existing relationship between KCPL and LEP. KCPL's
3 Senior Director of Construction who is responsible for all aspects of the construction and
4 start-up of the La Cygne Project is Mr. Robert Bell. Mr. Bell consistently responded to
5 Staff inquiries that the relationship between KCPL and LEP was very good and at no point
6 during its audit did the Staff see any evidence to the contrary.

7 Q. Did KCPL's relationship with major contractors on the Iatan 1 and Iatan 2
8 construction projects lead to significant problems on these projects?

9 A. The less than optimal relationships between KCPL (and its project consultants)
10 and its major construction contractors on the Iatan construction projects is well documented.
11 In my opinion, these relationships contributed to the some problems experienced on these
12 projects. It is significant and noteworthy that KCPL recognized this contractor relationship as
13 a major risk of the La Cygne Project. In my opinion, KCPL's efforts to develop a strong and
14 positive working relationship with LEP was a key contributing factor to the success of the
15 La Cygne Project.

16 Q. Were other significant factors included in the Staff's preliminary risk
17 assessment?

18 A. Yes. A construction project will not likely be successful without a good cost
19 control system and a qualified and experienced cost control manager. KCPL's cost control
20 manager from the beginning to the end of the La Cygne Project was also the cost control
21 manager on the Iatan 1 and Iatan 2 projects. In my opinion, KCPL's cost control manager is
22 highly experienced and highly effective. The experience and quality of KCPL's cost control

1 manager contributed to the Staff preliminary risk assessment that the Project had low risk of
2 material cost issues.

3 Q. Did Staff have issues with KCPL's cost control system in the previous Iatan 1
4 and Iatan 2 construction audits?

5 A. Yes, the Staff did have issues with KCPL's cost control system on the Iatan
6 projects. KCPL has, however, advised the Staff on several occasions during its La Cygne
7 audit that it has made some adjustments to its cost control system based on the concerns
8 raised by Staff auditors in the Iatan construction projects. Staff appreciates KCPL's
9 responsiveness on this issue and has concluded that KCPL's cost control system was well
10 managed and very effective in the La Cygne Project.

11 Q. Did the Staff continually monitor and update the conclusions reached in its
12 preliminary risk assessment?

13 A. Yes. The Staff's preliminary risk assessment was made some time after its
14 visit to the La Cygne Construction site on September 26, 2013. From this preliminary risk
15 assessment the Staff developed its audit scope and audit procedures commensurate with the
16 level of risk it found in its initial assessment. The Staff continued to monitor the progress of
17 the La Cygne Project to determine if there was any change in the level of risk as it completed
18 its audit procedures during the period from its initial risk assessment in the fall of 2013
19 through the filing of this testimony.

20 **Audit Procedures**

21 Q. You stated that the Staff audit procedures were based on the results of the
22 Staff's preliminary risk assessment. What were some of the primary audit procedures that
23 were developed and employed by Staff on the La Cygne Project?

1 A. Staff monitored KCPL’s progress in the La Cygne Project through the review
2 of monthly status reports provided by KCPL to the Staff as well as continued periodic site
3 visits and tours of the Project’s progress. Staff Auditors and Engineers made La Cygne
4 construction site visits on April 24, 2013, September 26, 2013, February 23, 2015, and
5 May 18, 2015. Staff held meetings and had discussions with members of the La Cygne
6 construction management team at the construction site, met with KCPL’s cost controls
7 personnel at the construction site and, at KCPL Headquarters, reviewed the La Cygne Project
8 presentations to KCPL’s Board of Directors, reviewed written communications between
9 KCPL and its major contractors, reviewed E&Y’s La Cygne construction audit reports,
10 reviewed major indirect cost charges to the Project such as KCPL employee compensation
11 costs capitalized, reviewed project change orders, reviewed charges made to the Project
12 contingency component as reflected in the contingency log, and reviewed other documents as
13 provided by KCPL in response to Staff data requests.

14 Q. What monthly status reports did Staff review?

15 A. Since October 2011, KCPL has been submitting a monthly status report on the
16 Project to the Kansas Corporation Commission in Compliance Docket No. 12-KCPE-258-
17 CPL. Each report covers actual cost data for the Project, as well as schedule and metric data.
18 Each monthly report also includes a written description of the current Project status.

19 Q. In previous KCPL construction projects, KCPL charged costs associated
20 with transactions with its affiliates to the project. Are there any charges to the La Cygne
21 construction project from a KCPL or GPE affiliate under the definition of
22 “affiliate transaction” provided in the Commission’s Affiliate Transaction Rule?

1 A. No. In response to Staff Data Request No. 622, KCPL stated “there were
2 no affiliate charges to the La Cygne construction project.”

3 Q. Did you review the level of KCPL employee bonus payments and merit pay
4 compensation charged to the Project?

5 A. Yes, I did. KCPL provided this data in response to Staff Data Request
6 No. 624. During the course of the four-year project, KCPL paid charged to the Project
7 \$209,338 in employee bonus payments and merit pay.

8 Q. Is the Staff proposing any adjustment to this compensation?

9 A. No. In my review I noted that this compensation was paid to employees who
10 had direct day-to-day Project responsibilities and had a direct impact on the success of the
11 Project being under budget and completed on schedule. This compensation is significantly
12 different from KCPL’s bonus compensation on the Iatan project, which Staff found was
13 excessive and paid out to KCPL employees even though the goals relating to the Iatan
14 project’s cost budget and completion date were not met. The Staff finds the bonus
15 compensation charged to this Project to be reasonable in amount and paid to the appropriate
16 employees. Staff did not find in the documentation provided by KCPL of any bonus
17 compensation paid to KCPL or GPE officers who did not have day-to-day project
18 responsibilities. If the Staff did find that such compensation was paid to the Project, it would
19 likely propose an adjustment to remove these payments as inappropriate. KCPL and GPE
20 officers have incentive compensation and other bonus programs available to them that
21 members who contributed to the success of the construction project do not.

1 **Conclusion**

2 Q. Based on the Staff's review of the costs charged to the La Cygne Project as of
3 May 31, 2015, does the Staff propose any adjustments to the level of costs KCPL is proposing
4 to include in this rate case for the La Cygne Project?

5 A. No, it does not. The La Cygne Project was completed and declared in
6 service by the Staff prior to its scheduled June 1, 2015, budgeted completion date. While
7 final costs of the Project are not yet determined, there is an indication that the Project will be
8 completed, not only within its original \$1.23 billion budget, but at some level under this
9 budgeted Project cost.

10 Q. Did KCPL recently release the status of the La Cygne Project to the
11 general public?

12 A. Yes. In its joint SEC Form 8-K, Current Report filing on June 18, 2015,
13 KCPL and Great Plains provided the presentation slides for the Investor Presentation it
14 scheduled to make the next day, June 19, 2015 ("June 19, 2015 Investor Presentation").
15 At page 3 of this presentation, under the title Current Events, KCPL stated that "La Cygne
16 environmental upgrade project placed into service and final costs are expected to be below
17 budget."

18 In its June 19, 2015, Investor Presentation, KCPL noted:

- 19 • La Cygne Coal Unit 1 367 MW1 -Wet scrubber, baghouse,
20 activated carbon injection
- 21 • La Cygne Coal Unit 2 329 MW1 - Selective catalytic
22 reduction system, wet scrubber, baghouse, activated carbon
23 injection, over-fired air, low Nox burners
- 24 • Initial cost estimate, excluding AFUDC, \$615 million Kansas
25 jurisdictional share is approximately \$280 million
- 26 • 2011 predetermination order issued in Kansas deeming project
27 as requested and cost estimate to be reasonable
- 28 • Project has been placed into service and final costs are
29 expected to be below budget

1 Q. Does the Staff's conclusion that it is not proposing any adjustments to the level
2 of costs charged to the La Cygne Project in this rate case restrict the Staff recommendations to
3 the Commission concerning La Cygne Project costs in future KCPL rate cases?

4 A. I am not an attorney, but it is my understanding based on advice from
5 Staff counsel that the Staff is not restricted from reviewing these costs and
6 making recommendations as to the ratemaking treatment of these costs in any future KCPL
7 rate proceeding. In addition, the level of La Cygne Project plant costs KCPL included in its
8 true-up revenue requirement request does not represent the final costs of the La Cygne
9 Project. There is a number of contractor invoices that have not been approved for final
10 payment and recorded in the La Cygne work orders as well as other costs that will not be final
11 and complete until all contractual project work is completed and approved.

12 Q. Are there still potential risks that significant costs may be charged to the
13 La Cygne Project after the May 31, 2015, true-up cutoff date for this current rate case?

14 A. Yes. ** _____
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25 _____ **

True-Up Direct Testimony of
Charles R. Hyneman

1 Q. ** _____

2 _____ **

3 A. ** _____

4 _____

5 _____

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8 _____ **

9 Q. Does this conclude your true-up direct testimony?

10 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

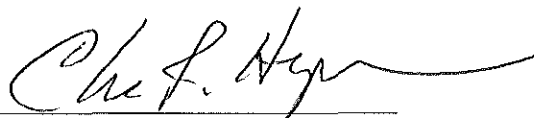
In the Matter of Kansas City Power & Light)
Company's Request for Authority to)
Implement a General Rate Increase for Electric)
Service)

Case No. ER-2014-0370

AFFIDAVIT

COMES NOW Charles R. Hyneman and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached True-Up Direct Testimony; and that the same is true and correct according to his best knowledge and belief.

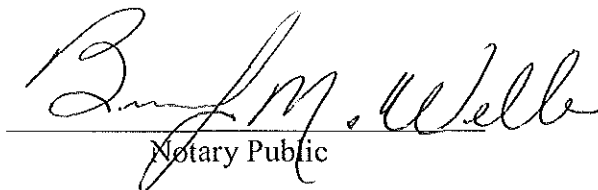
Further the Affiant sayeth not.



Charles R. Hyneman

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 7th day of July, 2015.



Notary Public



BEVERLY M. WEBB
My Commission Expires
April 14, 2016
Clay County
Commission #12464070