

Exhibit No.:
Issue: Revenue Requirement
Witness: Jatinder Kumar
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: National Nuclear
Security
Administration
Case No.: ER-2009-0089
Date Testimony Prepared: April 7, 2009

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2009-0089

SURREBUTTAL TESTIMONY
OF
JATINDER KUMAR

SUBMITTED ON BEHALF
OF
THE NATIONAL NUCLEAR SECURITY ADMINISTRATION AND
THE FEDERAL EXECUTIVE AGENCIES

April 7, 2009

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BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

KANSAS CITY POWER & LIGHT COMPANY
CASE NO. ER-2009-0089

SURREBUTTAL TESTIMONY
OF
JATINDER KUMAR

13 Q. ARE YOU THE SAME JATINDER KUMAR WHO SUBMITTED DIRECT AND
14 REBUTTAL TESTIMONY IN THIS PROCEEDING?

15 A. Yes, I am.
16

17 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

18 A. I will respond to Kansas City Power & Light's ("KCPL" or "the Company") rebuttal
19 testimony regarding (1) Iatan 1 prudency; and (2) in-service criteria.
20

21 Q. HAVE YOU PREPARED AN EXHIBIT IN CONNECTION WITH YOUR
22 SURREBUTTAL TESTIMONY?

23 A. Yes, I have prepared an exhibit which consists of 2 schedules. For
24 Identification purposes, this exhibit is designated as NNSA Exhibit__ (JK-3).
25

26 **PRUDENCY OF IATAN 1 COSTS**

27 Q. WHAT HAS KCPL TESTIFIED IN REGARD TO THE IATAN 1 COSTS?

28 A. At page 9, lines 5-6 of his direct testimony, KCPL witness Brent Davis testified
29 that the initial control budget estimate for the Iatan 1 Air Quality Control System
30 (AQCS) project was \$376.8 million. At page 8, line 19 of his direct testimony, he

1 acknowledged that the cost had increased substantially. He stated that "KCPL
2 currently estimates that the total cost... will not exceed \$484.2 million."
3

4 Q. AT PAGE 8, LINE 17 OF HIS DIRECT TESTIMONY, MR. DAVIS STATES THAT
5 "THE EXACT DOLLAR AMOUNT OF (IATAN 1 COSTS) WILL HAVE TO BE
6 RESOLVED AS PART OF THE TRUE-UP PROCESS IN THIS CASE." WILL
7 THE EXACT AMOUNT BE KNOWN BY THE END OF THE TRUE-UP PERIOD?

8 A. No, the exact amount will not be known by the end of the true-up period, even if
9 the Commission confirms its direction that the true-up period be extended to April
10 30, 2009. In fact, the exact amount will not be known for several months after
11 April 30, 2009.
12

13 Q. HOW DO YOU KNOW THAT THE EXACT AMOUNT OF IATAN 1 COSTS WILL
14 NOT BE KNOWN FOR SEVERAL MONTHS AFTER APRIL 30, 2009?

15 A. Earlier this year, the Company indicated that Iatan 1 would be *completed* in
16 February, 2009. In its March 2, 2009 Status Report, the Company stated that
17 Iatan 1 *might* achieve a Provisional Acceptance Date by the second or third week
18 in April, 2009. Then, KCPL witness Giles stated, at page 46 of his rebuttal
19 testimony, which was filed on March 11, 2009, that "right now," the Company
20 believes that Provisional Acceptance will occur on or before April 30, 2009. I do
21 not know whether this will be achieved. But, even if it is, the Final Completion
22 Date must, in accordance with the terms of the KCPL contract with the
23 constructor, be several months after the Provisional Acceptance Date.

1 Because latan 1 cannot achieve Final Completion for at least several months
2 after April 30, 2009, no one can know, until several months after April 30, 2009,
3 whether the plant is performing as guaranteed by the contractors and vendors.
4 And, obviously, no one can know until that time what the final costs are.

5
6 Q. CAN A RESPONSIBLE AND COMPLETE PRUDENCY INVESTIGATION BE
7 CONDUCTED AT THIS POINT?

8 A. No it cannot. No responsible and complete prudency investigation can be
9 conducted of a facility which is not yet completed – much less actually up and
10 running – and whose final costs are unknown. For the Company to demand, as it
11 does, that latan 1 prudency be completely and finally judged in the context of this
12 proceeding is for the Company to say to the Commission, in effect: _We don't
13 know when this facility will be up and running. We don't know whether it will
14 work. We don't know how much more money we are going to spend on this
15 facility, and what we are going to spend that money for. Nevertheless, although
16 we do not know when the facility will be up and running, or whether it will work, or
17 how much more money we are going to spend and the purposes for which we
18 are going to spend it, we demand that the Commission definitively and finally
19 determine that each and every dollar of our past expenditures, and each and
20 every dollar of our entirely undefined future expenditures, was prudently incurred.

1 Q. DID KCPL'S DIRECT CASE EXPLAIN THE REASONS FOR THE INCREASE IN
2 IATAN 1 COSTS?

3 A. In his direct testimony at pages 8 and 9, Mr. Davis briefly explained the reasons
4 for the cost increase of \$107.4 million.

5

6 Q. DID ANY PARTIES QUESTION THE COST INCREASE?

7 A. Yes. On Pages 44-45 of my direct testimony, I raised concerns about the cost
8 increase and recommended a prudency review. Mr. James Dittmer, in direct
9 testimony filed on behalf of Hospital Intervenors, raised similar concerns. (page 7
10 of Dittmer's Direct Testimony) Staff witness Cary Featherstone recommended
11 that rates related to excess Iatan 1 costs be made interim subject to refund.
12 (Featherstone Direct Testimony, pages 35, 36)

13

14 Q. DID THE COMPANY RESPOND TO THESE CONCERNS?

15 A. Yes. The Company sponsored seven rebuttal witnesses. All agreed that there is
16 a need for a prudency review. They provided hundreds of pages of testimony
17 and exhibits in support of the view that all Iatan 1 costs are prudent.

18

19 Q. HAS STAFF STATED THAT THERE IS INSUFFICIENT TIME FOR A
20 PRUDENCY INVESTIGATION?

21 A. Yes. On pages 35-36 of his direct testimony, Staff witness Cary Featherstone
22 stated that Staff lacks sufficient time to conduct its investigation of the
23 reasonableness of Iatan 1 costs. Although Staff has been receiving at least

1 some KCPL documentation, the size of the half billion dollar project and the
2 constantly moving Iatan 1 project completion dates make it impossible for Staff or
3 anyone else to complete their investigation.

4
5 Q. DO YOU HAVE SUFFICIENT TIME TO REVIEW AND ANALYZE ALL THE
6 INFORMATION PROVIDED BY KCPL IN ITS REBUTTAL CASE IN SUPPORT
7 OF ITS PRUDENCY INVESTIGATION?

8 A. No. KCPL filed hundreds of pages of rebuttal testimony and exhibits on March
9 11, 2009. NNSA has timely submitted data requests to KCPL and we are
10 awaiting responses. As Iatan 1 is a large construction project, we expect that the
11 responses will be hundreds of pages in length. Our surrebuttal testimony was
12 due April 7, 2009. This gave us just 28 days to compose and file data requests,
13 receive the responses, assess the testimony and compose rebuttal. For a
14 subject so massive and complicated, there is not sufficient time to do the
15 investigation in this proceeding.

16
17 Q. ARE THERE VALID REASONS FOR CONCERN REGARDING THE
18 PRUDENCY OF IATAN 1 COSTS?

19 A. Yes. First, KCPL has acknowledged a cost increase of \$107.4 million over its
20 initial control budget estimate (page 9 of Davis Direct Testimony). Second, the
21 project has been greatly delayed and its completion date has been slipped.
22 KCPL's contract with ALSTOM ("ALSTOM Contract") provides the following
23 major construction milestones for Iatan 1:

1

2 **

3 **

4 Q. ARE THERE ADDITIONAL COSTS ASSOCIATED WITH THE DELAYS?

5 A. Yes. The delays generally result in cost increases. This is acknowledged by
6 KCPL's witnesses. For example, see pages 3-4 of Churchman's Rebuttal
7 Testimony and Page 9 of Davis' Rebuttal Testimony.

8

9

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11 Q. HAVE YOU BEEN ABLE TO IDENTIFY AT LEAST SOME OF THE CAUSES
12 FOR THE DELAY?

13 A. Yes. Based on my review of the Company's rebuttal testimony, I have identified
14 three major causes for the delay.

15 **

16 **

17 ECONOMIZER CASING PROBLEMS

18 Q. WHAT IS AN ECONOMIZER?

19 A. An economizer that is installed at a generator is a counterflow heat exchanger.
20 Its purpose is to recover energy from the flue gas beyond the superheater and, if
21 used, the reheater. This increases the temperature of the water entering the
22 steam drum. The tube bundle is typically an arrangement of parallel horizontal

1 serpentine tubes with the water flowing inside but in the opposite direction
2 (counterflow) of the flue gas.

3 **

4 **

5 Q BESIDES DIRECT COST ASSOCIATED WITH THE CHRONIC DELAYS IN
6 IATAN 1'S COMPLETION, ARE THERE OTHER COSTS ASSOCIATED WITH
7 THE DELAYS?

8 A. Yes. The delays caused KCPL to have a lesser amount of available coal fired
9 generation. This probably resulted in higher fuel and purchased power costs and
10 lower off system sales and revenues. The delays probably resulted as well in a
11 need to acquire more emission credits and/or having fewer emission credits
12 available for sale. There may be a permanent heat loss at the plant due to the
13 rotor damage. This would result in higher fuel consumption and consequently
14 higher fuel costs and emissions. All these potential factors require a thorough
15 investigation of Iatan 1 costs.

16

17 Q. WHAT ARE YOUR CONCLUSIONS AND RECOMMENDATIONS?

18 A. **** I believe that the large dollar amount of the cost overrun strongly suggests
19 that there might have been other serious problems with Iatan 1. I recommend
20 that the Commission order:

21

22 (1) a full investigation of Iatan 1 costs, and:

1 (2) that the part of Iatan 1-related rates that is associated with the excess of the
2 \$376.8 million initial estimates be effectuated subject to refund.

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8 IN-SERVICE CRITERIA

9 Q. ON PAGES 46-47 OF HIS REBUTTAL TESTIMONY, MR. GILES DESCRIBES
10 THE AGREEMENT REACHED BY KCPL WITH STAFF AND THE OFFICE OF
11 PUBLIC COUNSEL ("OPC") WITH RESPECT TO IN-SERVICE CRITERIA FOR
12 IATAN 1. DO YOU HAVE ANY COMMENTS ON THIS?

13 A. Yes, I have. First, Mr. Giles does not state that any such agreement was ever
14 executed by anyone. The EFIS website does not show that any such agreement
15 has been filed with and approved by the Commission. On page 47 of his rebuttal
16 testimony, Mr. Giles refers to Schedule BCD-2 filed with Mr. Davis' direct
17 testimony. A copy of this is attached as Schedule No. 2 of Exhibit___(JK-3). I
18 have concerns with the first three criteria listed in Schedule BCD-2.

19 Q. WHAT IS YOUR FIRST CONCERN?

1 A. The first criterion is “All major construction work is complete.” This criterion does
2 not clearly specify the nature of “major construction work” or provide any other
3 details. It also does not refer to the ALSTOM Contract..

4

5 Q. WHAT IS YOUR SECOND CONCERN?

6 A. The second criterion is “All preoperational tests have been successfully
7 completed.” This criterion does not list the preoperational tests. This criterion
8 does not require any evidence that the guarantee tests for Substantial
9 Completion and Final Completion have ever been accomplished.

10

11 Q. WHAT IS YOUR THIRD CONCERN?

12 A. The third criterion is “Equipment successfully meets operational contract
13 guarantees. (Note: Some operational contract guarantee verification periods
14 may extend beyond the duration of the schedule for a rate case. These
15 guarantees will be evaluated for applicability.)” This is different from the
16 Contract’s requirements. It is true that the equipment must meet the operational
17 contract guarantees. These are contained in Exhibit E 1.52 and Exhibit S to the
18 ALSTOM Contract and are discussed below. But nothing in the ALSTOM
19 Contract requires that these guarantees be evaluated for applicability.

20

21 Q. KCPL’S RECENT STATUS REPORT REFERS TO THE “PROVISIONAL
22 ACCEPTANCE DATE” AS THE IN-SERVICE” DATE. DOES SCHEDULE BCD-2

1 REFER TO THE “PROVISIONAL ACCEPTANCE DATE” AS THE IN-SERVICE
2 DATE?

3 A. No, it does not. Further, neither Messrs. Giles and Davis nor anyone else has
4 recommended the use of the Provisional Acceptance Date as the “In-Service
5 Date” for the Iatan 1 project.

6

7 Q. WHAT ALSTOM CONTRACT PROVISIONS ARE RELEVANT TO THE IN-
8 SERVICE STATUS OF THE IATAN1 PROJECT? .

9 As shown in ¶1.5, Provisional Acceptance requires only that Iatan 1 meet the
10 provisional acceptance guarantees are set out in the table in ¶ 1.52. Condition
11 Precedent to Provisional Acceptance.

12

13 As shown in ¶ 1.8, Substantial Completion requires that the unit meet the
14 Guaranteed Performance Tests that are set out in Exhibit S to the ALSTOM
15 Contract.

16

17 As shown in ¶ 1.10, the Final Completion Criteria require that the work on Iatan 1
18 be 100% complete, and that the owner have issued a Certificate of Substantial
19 Completion. This requires that the unit has met the Guaranteed Performance
20 Tests of Exhibit S.

21

22 The contractual requirements for Final Completion are much more extensive and
23 numerous than the tests required for Provisional Acceptance. A comparison of

1 the two sets of requirements demonstrates that construction is not complete until
2 the Final Completion Criteria have been met.

3 It is my opinion that allowing Iatan 1 to attain rate base treatment at the time of
4 Provisional Acceptance would amount to placing Iatan 1 in rate base while
5 construction is still in progress, and before the contractual requirements for
6 completion of construction are met.

7 Q. WHAT DO YOU RECOMMEND REGARDING THE IATAN 1 IN-SERVICE
8 DATE?

9 A. Neither Schedule BCD-2 nor anything else clearly specifies what the in-service
10 criteria will be. For this reason, and, as discussed above, I reiterate my earlier-
11 expressed recommendation that, for the purposes that are at issue here, the
12 Final Acceptance Date, as specified in the ALSTOM Contract, be considered the
13 Iatan 1 in-service date.

14

15 Q WHAT ARE THE CONSEQUENCES OF PREMATURELY DESIGNATING THE
16 PLANT AS BEING IN SERVICE FOR RATEMAKING PURPOSES?

17 A Once a plant is considered in service for ratemaking, it is added to rate base. The
18 utility then starts earning a return on the investment in the plant, together with a
19 return of the plant investment in the form of depreciation expense. The utility
20 continues to earn these returns – and the ratepayers continue to pay them - even
21 if the plant fails to attain “in-service” status, or if it experiences an outage
22 immediately or soon after it is placed in service. For this reason, plant should not

1 be placed in rate base prior to all significant requirements in its construction
2 contract being completed.

3

4 Q. ON PAGE 14 OF HIS REBUTTAL TESTIMONY, KCPL'S WITNESS MICHAEL
5 CLINE STATES THAT STAFF'S WITNESS FEATHERSTONE'S PRUDENCY-
6 RELATED RECOMMENDATION "WOULD REDUCE KCPL'S NEAR-TERM
7 CASH FLOW SUBSTANTIALLY." DO YOU AGREE WITH HIM?

8 A. No, I do not. Even, if a part of the rate increase is made subject to refund, the
9 entire increase will become effective. The portion of the rate that is made
10 effective subject to refund will actually be refunded only if the Commission finds
11 that the costs that underlie it are imprudent. Therefore, making the rate increase
12 subject to refund will not reduce cash flow.

13

14 Q. DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY?

15 A. Yes, it does.

KANSAS CITY POWER & LIGHT -- Schedule 1
PROBLEMS IMPACTING IATAN 1 SCHEDULE

KANSAS CITY POWER & LIGHT -- Schedule 2

IN-SERVICE CRITERIA FOR IATAN 1