This was a major decision which would significantly alter the projects risk profile and KCP&L gave it the time and attention which a decision of such magnitude must have. As the Iatan Unit 2 project was not at a place where work could simply be put on hold while KCP&L worked through this decision and the changes that such a change would entail in accepting the Kiewit propose, KCP&L continued its progress towards full implementation of the multi-prime methodology using its own forces (i.e. continuing to install project control systems and add additional technical specialist staff). Pegasus-Global found that KCP&L's reaction to the receipt of the Kiewit proposal were both reasonable and prudent when considered against the risk profile of the project at that time and the status of the project at that same time.

Q: How did the decision to change the execution methodology evolve into award of the BOP Scope of Work to Kiewit?

A: Pegasus-Global found that KCP&L adopted a strategy whereby it could take the time necessary to make a fully informed decision without having to make any immediate decision to accept or reject the Kiewit proposal. **[redacted]**

As noted above, KCP&L had to gain time to conduct and conclude its evaluation of the risks and opportunities afforded by the Kiewit proposal without halting progress on the project and while keeping the Kiewit option open. The opportunity to meet all three

[61] Schiff Hardin Report, February 28, 2007, page 4

conditions cited above presented itself in the form of the need to update project estimates as the amount of project detailed engineering increased. One of the tasks identified within the Kiewit proposal was the preparation of a detail construction cost estimate. **[redacted]** By February 16, 2007 Kiewit had submitted the BOP construction estimate proposal and the Memorandum of Understanding (MOU) was executed to enable Kiewit to execute that limited scope of work. The Kiewit BOP construction estimate was completed by mid-April 2007.

During that same period KCP&L continued to pursue its project work as planned under the original multi-prime execution methodology. KCP&L continued to prepare and release bid packages for equipment, materials and BOP construction work and continued to recruit line staff positions which were needed to perform both project management and contract administration functions for those procurement awards made during that period. Work which was underway on site was directly managed and controlled by KCP&L during that period of time.

As the estimate update was concluded, KCP&L's examination of the decision to change the BOP delivery methodology under the Kiewit proposal had been completed and KCP&L initiated focused negotiations with Kiewit for the award of the BOP scope of work. On May 17, 2007 Kiewit submitted a revised cost proposal for the BOP scope of work which in effect would place Kiewit in control of the majority of the BOP work

(thereby shifting a significant portion of the execution risk from KCP&L to Kiewit).

[redacted]

Pegasus-Global found that KCP&L's actions and decisions in consideration of the Kiewit proposal were based in a thorough examination of the contemporaneous information and project status and were ultimately both reasonable and prudent.

C. CONTRACT MANAGEMENT AND ADMINISTRATION PROCESSES AND DECISION MAKING, INCLUDING PROJECT CONTROL SYSTEMS AND CHANGE MANAGEMENT

Q: As part of your review did you evaluate KCP&L's contract management and administration processes and decision-making?

A: Yes.

Q: Can you define what you mean by Contract Administration as you have applied it in your testimony?

A: Yes. Contract Administration is simply ensuring that a contractor complies with the terms and conditions of its contract under the facts and circumstances at the time and that the final product of that contract is fit for its intended purpose. As the Contract Administrator

[62] Schiff Hardin Report, May 23, 2007, pages 1-3

KCP&L was solely responsible to ensure that the engineer/designer, construction contractors, equipment vendors, and material suppliers engaged to execute a scope of work met the conditions of their contract agreement and that the ultimate product of that contract agreement was fit for its intended purpose. In short, KCP&L as the Contract Administrator of the Iatan Project was responsible to (1) make sure that the engineer, construction contractors, vendors and suppliers did what they had been paid to do and (2) to make sure that the engineer, contractors, vendors and suppliers are paid for the work completed per the terms and conditions of the contract. KCP&L's responsibility cannot ensure that each of these parties will live up to their obligations but can mitigate the consequences consistent with the project's needs and the facts and circumstances as I explained earlier in **Section III** of this testimony.

Q: What are the primary functions of a Contract Administrator?

A: A Contract Administrator is directly responsible for, among other things, the following:

- Contract Enforcement;
- Waivers of Provisions and Conditions;
- Specification Interpretation;
- Budget Development and Cost Management;
- Schedule Management;
- Quality Assurance;
- Production Surveillance;
- Change Management;
- Payment Management;

- Penalty Management (i.e. imposition of liquidated damages);
- Warranty Enforcement;
- Subcontractor Management;
- Contract Breach;
- Resolution of Disputes;
- Project Termination; and
- Project Closeout.

Q: Why was KCP&L the Contract Administrator on the Iatan Project?

A: Because KCP&L "held" all of the contracts and procurement agreements directly, with no allocation of its responsibilities to a third party, such as, an independent Project Manager, Construction Manager or General Contractor. Because all contracts and procurement agreements were by and between KCP&L and the respective engineer, vendor, supplier or contractor, KCP&L was solely responsible to ensure that those parties all lived up to the terms and conditions of their respective agreements.

Q: When did KCP&L's Contract Administration Responsibilities begin?

A: In the summer of 2004 when B&McD was engaged to work with KCP&L to develop the first PDR for the Iatan Unit 2 project and throughout 2005 as B&McD began preparation of the critical long lead procurement specifications for the turbine generator and boiler systems. The first major equipment award was made to Toshiba for the turbine generator on March 16, 2006, with the formal contract agreement executed on April 14, 2006. That contract represented one of the first major contracts awarded on the project. The next major equipment award was made for the boiler island equipment to Alstom on April 28, 2006 under a LNTP as the formal contract was not executed until August 11, 2006. In

essence, with those two awards KCP&L's major contract administration responsibilities began in earnest. **[redacted]**

Q: Did KCP&L have the policies, procedures and personnel in place to discharge those Contract Administration functions in 2006?

A: Yes. KCP&L solicited, awarded and administered the first contracts executed in 2006 following its corporate level supply chain policies, procedures and processes. As the initial procurements were all for long lead equipment, the KCP&L Corporate supply chain policies, procedures and processes were appropriate for awarding and administering the work awarded and contracted for at that time. KCP&L was actively recruiting and adding project specific staff positions beginning in February 2006 and continuing into 2007. KCP&L utililzed staffing support from both B&McD and Schiff Hardin to assist in both the development and execution of project plans and the procurement efforts which were the dominant contract administration tasks during 2006, and during the actual execution phases of the project which continued throughout the entire project life cycle. The flow and pace of procurement through 2006 increased, as would be expected, with the majority of major equipment procured prior to the end of the first quarter of 2007. The initiation of construction procurement began in the last quarter of 2006.

Beginning in the summer of 2006, with increasing project specific staffing on board, KCP&L began drafting project specific policies, procedures and processes, building upon the Supply Chain contract procurement and administration policies, procedures and process already in place. Pegasus-Global found that by the first quarter of 2007 all of the major contract administrative policies, procedures and processes were in place to enable KCP&L to effectively and efficiently administer the contracts awarded for the execution of the Project.

KCP&L was actively recruiting for the line staff positions necessary to use those policies, procedures and processes in administering the project contracts throughout 2006 and into 2007. Pegasus-Global found that the staffing was keeping up with the contract administrative needs through 2006; however, by the end of 2006 as procurement of major construction contract work was being initiated, a full complement of line staff had not been hired to administer all of the construction contracts contemplated. KCP&L's efforts to recruit that line staff were underway; however, the market conditions for qualified and experienced staff were extremely tight at that time. This difficulty, in part led to KCP&L's decision to change its BOP construction execution methodology from multi-prime contractors to a GC, Kiewit, as indicated earlier in this testimony. That decision relieved KCP&L of the burden and risk of administering multiple construction contractors during the execution of the Project.

Q: Did KCP&L administer those contracts awarded reasonably?

A: Yes. Pegasus-Global found that KCP&L actively monitored execution under each contract awarded per the terms and conditions of those contracts. For example:

- Toshiba submitted their second invoice for payment on June 30, 2006. However, KCP&L's review of that invoice and the contract revealed that Toshiba had failed to meet the payment conditions of the contract that required certain submittals be made to trigger that payment. KCP&L notified Toshiba that the invoice would not be paid but would be held until the required submittals had been received. Once the required submittals were received KCP&L made the scheduled payment (August 2006).
- In late July 2006 Toshiba notified KCP&L that the engineering of the turbine generator would take longer than specified within the contract agreement. **[redacted]**
- **[redacted]**

In every instance examined KCP&L acted as Pegasus-Global would expect a Contract Administrator to act. Specifically, KCP&L always responded in writing to any submittal or notification by a contractor; KCP&L always cited to the contract conditions and provisions in formulating its response; and, KCP&L always took allowable actions

commensurate with the situation without automatically resorting to the default position of rejecting outright a contractors position or request. This latter KCP&L practice was beneficial to the project as a whole and the relationship would continue. These actions by KCP&L are an example of KCP&L using the best of industry practices in their contract administration.

Q: Did KCP&L's Contract Administration role change once Kiewit was awarded the BOP Scope of Work as a General Contractor?

A: KCP&L's contract administration role relative to any equipment, material or construction contract not assigned to Kiewit under the BOP General Contractor contract remained the same. Kiewit was responsible under its contract to coordinate the work of all of the BOP contractors, including those with contracts directly with KCP&L; however, KCP&L remained responsible for the contract administration of those contracts which it held directly.

Q: What does Pegasus-Global conclude regarding KCP&L's Contract Administration?

A: KCP&L was prudent and their decision making process functioned as required.

Q: As part of KCP&L's contract administration processes and decision making, did you evaluate the Project Control Systems that were in place on the Iatan Project?

A: Yes.

Q: What are project controls?

A: "Project Controls" is a general term of art within the construction industry which denote those systems used by management to enable it to measure progress toward a project objective, evaluating the work remaining to be completed to achieve that project objective and reporting the status information gathered to project management in a timely

manner enabling project management to take necessary corrective action to achieve the project objective. There are three steps to project control processes; measuring, evaluating and correcting/modifying.[63] Within the construction industry the three predominant project objectives which are measured are cost, schedule/progress and quality. Other control systems exist for other project management process responsibilities, such as, contract administration (i.e. invoice review and approval), regulatory compliance (i.e. safety), materials management, etc. However, those control systems are focused on the administrative process elements of the project and not the primary project cost, schedule/progress, and quality objectives of the project. For the purposes of Pegasus-Global's prudency evaluation of Iatan Project, Pegasus-Global examined the following project control processes:

- Cost Control;
- Schedule/Progress Control;
- Change Control; and
- Quality Management.

Each of these four project elements and the development and use of the respective control processes and systems are examined in greater detail elsewhere within this testimony. The key elements of any project control system is that it enables project management to monitor/measure current project conditions against a set plan, it enables project management to evaluate that data within the context of future plans, and it provides project management with contextual information from which corrective actions can be

[63] Project Management, Kerzner, Wiley & Sons, Sixth Edition, 1998, Chapter 5.1, page 226

formulated by project management. While there are various "packaged control systems" available within the industry, project control systems are, to lesser or greater extents, always customized to conform to the project conditions, and to meet the project manager's and project owner's needs.

Q: Please discuss the Project Controls in effect for the Iatan Project?

A: The project control systems used to manage the Iatan Project in the initial stages were existing KCP&L systems and internal controls. Where it was determined that existing systems and internal controls had to be improved to reduce potential risk for specific projects, KCP&L enhanced those systems and internal controls to function appropriately for the Iatan Project as needed. Project controls consists of three major components, cost controls, scheduling, and reporting. The purpose of cost controls is to identify, trend, analyze, and report the status of project costs in a timely manner to support corrective actions by management as appropriate to the existent facts and circumstances. The purpose of the scheduling function is to prepare a schedule showing the major sequence of activities required to complete the project, assure adequate planning and execution of the project by the contractors and assure coordination of the project by all vendors. In addition, the schedule provides management with information necessary to manage the project and make necessary adjustments to meet the CEP program goals. The reporting function is necessary to create various documents to effectively manage the project.

Q: Did KCP&L have project control systems in place for cost, schedule/progress, and quality management during the Iatan Project?

A: Yes. As with project delivery methodologies, project controls are developed to meet the conditions of the project and the needs of project management. To develop controls

systems before setting the project conditions or defining the management needs at both the corporate and project levels often leads to disconnects between the output of those control systems and the input required by project and corporate management. This is particularly true of mega-projects during which project management faces some unique challenges, such as, off-shore procurements, long lead equipment purchase, transport and installation, multiple contracting entities, multiple construction contractors and engineering input sources, and the like. In early 2006, when the project delivery methodology was clarified, KCP&L and its advisor Schiff Hardin initiated an examination of KCP&L's needed control systems. That examination noted that the development of the controls systems and staffing of the senior project management positions were linked; as the team which would rely on those systems to manage and control the Iatan Project, that senior project management staff needed to be directly involved in the development of those project control systems; in other words, customize the project controls consistent with the changing project circumstances which would enable the PMT to assure reasonable maintenance of the project's goals.

By October 2006, KCP&L had secured the experienced staff necessary to develop and implement project specific control systems and process for the Iatan Project. That staff immediately worked to enhance the KCP&L Iatan Project control systems for cost, schedule/progress, and quality management. By December 2006, those enhanced control systems had been completed and installed within the Iatan Project. In January 2007, the first Monthly Progress Report was issued using those systems as a basis for the Iatan Project progress reporting.

Q: Does Pegasus-Global believe that KCP&L was slow in implementing key project control systems?

A: No. In the case of KCP&L, as with many other utilities in the country, there had not been significant generation construction for a number of years. As a result, an advanced and mature project control system for complex projects was not maintained as would have been done in previous periods when a number of complex projects were initiated over a compressed time period. When the Iatan Units 1 and 2 projects were started, the use of existing project controls was reasonable as a starting point. By mid 2006, KCP&L had issued the CEP Construction Projects Cost Control System and was developing metrics for tracking engineering status and procurement.[64] Weekly Project team meetings had commenced during this time as well as the development of contract administration functions and the KCP&L Project Controls team. Further enhancement of the project control tools were developed in response to the E&Y risk analysis performed in late 2006, such as, Plan-of-the-Day meetings and establishing the Change Order process. Earned value metrics were agreed upon with B&McD in November 2006, approximately the same time the CEP EOC Committee Monthly meetings started, which further allowed weekly reporting to management in order to provide it with information from which decisions could be made, again consistent with reasonable and prudent decision making. With the Project Controls team in place and the base tracking tools established, KCP&L was then positioned to finish the development of the Level 3 schedule. This was a

[64] **[redacted]**

reasonable and prudent ramp up of systems and personnel based on the status of the Iatan Project at the time.

As the Iatan Project progressed the need for changes and enhancements was recognized, and necessary changes were made. For example, in 2007, project controls data from B&McD was provided through the project Document Locator System, thus ensuring transparency in the information that was shared all across the Iatan Project parties. In this regard, KCP&L's PMT began development of the Project Execution Plan (PEP) in January 2007, involving all the Iatan Project team participants, including contractors. Software was being assessed to track contract administration and cost management with the Project Controls team establishing protocol for policing contractor schedule updates against the detailed level 3 schedule by February 2007. KCP&L expanded its earned value reporting to other contractors at this time, including, for example, Kissick. Accordingly, with more project controls tools in place, KCP&L also during this time began reconciling actual costs and accruals with its project tracking.

KCP&L, in its oversight role of the Iatan Project, continued to refine how the earned value information was reported, and requested additional data from B&McD and its contractors in order to verify the data being reported in the earned value reports. By the first quarter of 2008, after a detailed evaluation of the various control systems and tracking, KCP&L had implemented the selected Skire software system to track Requests for Information (RFIs) and changes for the Iatan Unit 2 project. KCP&L had also begun to track performance through the use of Cost Performance Indices (CPI) and Schedule Performance Indices (SPI). A risk matrix had also been developed which tracked various

risks including schedule, labor availability, potential interferences, and potential for discovery work, startup risks, and technology risks.

Q: **[redacted]**

A: **[redacted]** ** For example, a number of process controls were refined and/or adapted from what was learned on the Iatan Unit 1 project outage including the methodology to validate Project Schedule status with Plan of the Day meetings, refinement of the earned value and schedule tracking and to have the

Iatan Unit 2 project start-up team replicate the Iatan Unit 1 project process for the Iatan Unit 2 project CTO packages.

In summary, Pegasus-Global found that the evolution of the project controls for the Iatan Project and the decision making processes were reasonable and prudent.

Q: What did Pegasus-Global find in 2006 regarding project control systems in place to manage the Iatan Project?

A: As noted earlier, KCP&L at a corporate level had various control systems in place which encompassed all four of those project control elements examined by Pegasus-Global. While those control systems were not sufficient to manage the Iatan Project through its entire life, those systems were sufficient to enable KCP&L to manage and control the Iatan Project work underway during 2006. Pegasus-Global examined the work in progress in 2006 and developed the following contextual history for that year:

- **Planning and organization**. Throughout 2006 KCP&L was finalizing its project execution plans, which generally included:
  - setting the project delivery methodologies, development of the contract approaches;
  - working with advisors to formulate the project organization structure and staffing plans;
  - working with advisors to enhance project management, control and reporting processes and systems;
  - recruiting and hiring experienced staff to fill both project and construction management roles identified with the assistance of its advisors; and

- identifying the critical data interface points between project management and corporate level within KCP&L.

- **Procurement**. Early in 2006, based on operational specifications, KCP&L with the assistance of B&McD and Schiff Hardin, identified and initiated procurement of long lead engineered equipment, such as, the turbine generator (awarded to Toshiba) and boiler island (awarded to Alstom). Pegasus-Global found that KCP&L had strong, comprehensive procurement processes, systems and staff in place at a corporate level to execute procurement which enabled it to execute those procurement functions effectively and efficiently throughout 2006. The procurement management and control systems in place enabled KCP&L to effectively monitor, evaluate and control the procurement activities executed throughout 2006 and beyond.

- **Engineering**. B&McD was awarded the Owner's Engineer scope of work and continued working on the development of the primary project operational specifications in support of long lead procurement of engineered equipment. The initial scope and schedule for detailed engineering was developed and limited detailed engineering was initiated and partially for foundation work in part based on equipment load and size data supplied by the engineered equipment suppliers, Toshiba and Alstom. KCP&L was monitoring the progress of engineering based on B&McD's internal controls reporting system (see additional detail of these control systems elsewhere in this testimony).

- **Construction**. Actual construction on site for the Iatan Project was initiated at the beginning of September, 2006[65] when Kissick mobilized to site to execute foundation work. While there was other site preparation work (i.e. demolition, site grading, facility preparation) initiated in the latter half of 2006, Kissick represented the primary project construction activity on the project at that time. Pegasus-Global determined that the project control systems in place at KCP&L at the corporate level were adequate to monitor and control Kissick's work and the work being done in preparation of the site for full scale construction.

In summary, Pegasus-Global determined that during 2006 KCP&L had sufficient project control processes and systems in place to manage and control the scope of project work that was underway during that period. Pegasus-Global also determined that those project control processes and systems were not sufficient to manage the full scope of the Iatan Project, which coincides with the opinion of KCP&L and its advisors at the time. The fact that KCP&L recognized and moved expeditiously to correct the gaps in those control systems is exactly what Pegasus-Global would expect a reasonable and prudent utility to do. As noted above, additional details relative to Pegasus-Global's examination of each of the four control processes and systems examined is presented elsewhere in this testimony.

Q: Can you explain the process that KCP&L used in reporting the information gained through its project controls on the Iatan Project?

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[65] **[redacted]**

A: From a process standpoint, KCP&L project control staff managed the day-to-day inputs, which it maintained in a repository of project control information, updating it on a daily basis to ensure it was constantly tracking every opportunity or risk associated with the project. The rest of the Project Team and its staff also had inputs on a daily basis and would provide those inputs to one central repository within the Project Controls area. Monthly project control information was gathered, reviewed, evaluated, trended, analyzed and then summarized into a monthly Project Status Report. The purpose of the Iatan Project Status Reports was to document activities or potential project issues, overall project progress, and progress on the various phases of the project, engineering, procurement and construction. The Project Status Reports were prepared with the input of a number of project personnel, including the engineering leads, procurement personnel, and cost and schedule personnel.

The CEP EOC was the primary recipient of the Project Status Reports, although they were shared with the Joint Owners and senior management. Monthly cost reports were also provided to the CEP EOC and the Joint Owners that provided information on contingency status, cash flow, accruals, budget transfers, project to date costs and Estimate at Completion (EAC).[66] KCP&L provided information in its quarterly reports to both the Missouri and Kansas Commissions that included contractor earned value man-hours, trends against the Provisional Acceptance Date, engineering complete, construction complete, safety incidents, CPI, SPI, contingency use, procurement, budget

[66] ** [redacted] **

and other events including the hire of new personnel, Tiger Team efforts, and facilitation efforts with Contractors.

Q: What was your general finding relative to KCP&L's project control systems?

A: Pegasus-Global found that the project controls in use during the execution of the Iatan Project were reasonable within the context of the project status during which those controls were used and enhanced by KCP&L. Pegasus-Global would expect prudent project management to initiate a review of the project control processes and systems in place as soon as possible once the project definition was advanced to the level that the review could provide specific data as to the control systems and processes needed to effectively and efficiently manage and control the Iatan Project. Pegasus-Global found that KCP&L, with detailed input from its advisors, assessed its then-current project control processes and systems in a timely and through manner, then initiated efforts specifically intended to address the enhancements needed to those control processes and systems. Pegasus-Global found KCP&L's actions and decisions relative to the development and installation of project control processes and systems during 2006 and into 2007 to be prudent.

Q: **[redacted]**

A: **[redacted]**

[redacted]

Q: What did you conclude with respect to Iatan Unit 2 project Cost Management?

A: Pegasus-Global found the evolution of the Iatan Unit 2 project cost management decisions and the decision making process was reasonable and prudent for the reasons described below.

Q: Please describe the development of the Project Budget for the Iatan Unit 1 project.

A: The development of the budget for the Iatan Unit 1 project progressed from an initial high level estimate in the 2002 time frame to a detailed estimate first developed in spring 2006 and updated as necessary in following periods. This development is consistent with other projects I am familiar with and shows that KCP&L was diligent in updating cost estimates as the project progressed. The initial high level estimate for Iatan Unit 1 was developed in 2002 and targeted total project costs (excluding financing costs) of $210.7 million. This high level estimate was revised in conjunction with the development and negotiation of the CEP program with the Missouri and Kansas Commissions. This new

plan was based on estimates and schedules that were developed in late 2004 and reflected some of the changes that occurred in early 2005 to reflect permit application revisions. The first detailed estimate for Iatan Unit 1 project was provided to management on May 15, 2006. This detailed estimate reflected significantly more information about the project based on actual contract values and more information about commodity costs that could not have been known at the time the high level estimates were prepared.

Q: What were the reasons for the cost increases from the high level estimates to the Control Budget Estimate?

A: The major changes were caused by increases in escalation resulting from commodity cost increases, permit limits likely to require additions to Low NOx Burners, and demolition of the existing electrostatic precipitators.

Q: How does the Iatan Unit 1 project cost changes compare with cost changes on other utility projects being completed during this time frame?

A: The Iatan Unit 1 project budget was affected, in large part, by commercial and economic conditions that were impacting a wide range of other utility projects that were under construction during this time frame.

Pegasus-Global has reviewed specific industry reports and publications published during this same time period. For instance, the Edison Foundation commissioned the Brattle Group to study the costs of building infrastructure in the 2000-2007 timeframe.[67] In addition to their Edison Foundation report,[68] the study authors also published their

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[67] Chupla, Marc W. and Basheda, Gregory, Rising Utility Construction Costs, Sources and Impacts, Edison Foundation, 2007

[68] Chupla, Marc W. and Basheda, Gregory, Rising Utility Construction Costs, Sources and Impacts, Edison Foundation, 2007

findings in *"Sticker Shock"*, Public Utility Fortnightly.[69], December, 2007, pages 56-61. Among the findings reported:

- The rapid rise in construction costs was not predicted and not predictable. The U.S. Energy Information Administration "2007 Annual Energy Outlook" contained projected cost assumptions dramatically under actual costs incurred.[70]
- A surge in demand for construction services, coupled with constraints in component manufacturing capacity, engineering, material procurement and construction EPC services all "exacerbate cost pressure".[71]
- Between January 2004 and January 2007 costs for steam generation equipment, transmission facilities and distribution equipment rose by 23 to 35 percent while inflation rose only 8 percent.[72]
- For one class of plants, combined cycle, the data shows that average costs increased gradually from 2000 to 2003, with significant increases in 2004 and a very significant escalation in 2006.[73]
- Four factors have driven costs for all utility projects (1) material costs including both manufactured components and commodities like steel and cement; (2) limited shop and fabrication capacity; (3) costs for construction field labor; and (4) a competitive market for large construction project management and EPC services.[74]

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[69] *"Sticker Shock"*, Public Utilities Fortnightly, December, 2007, pages 56 - 61
[70] *"Sticker Shock"*, Public Utilities Fortnightly, December, 2007, page 57
[71] *"Sticker Shock"*, Public Utilities Fortnightly, December, 2007, page 57
[72] *"Sticker Shock"*, Public Utilities Fortnightly, December, 2007, page 57
[73] *"Sticker Shock"*, Public Utilities Fortnightly, December, 2007, page 59
[74] *"Sticker Shock"*, Public Utilities Fortnightly, December, 2007, page 59

These common elements were identified in the B&McD study, the PUF article, and also identified by Pegasus-Global at other projects where we were engaged.

Pegasus-Global observes that these types of comparisons with other projects are collaborative in evaluating the prudence of KCP&L management. The fact that costs increased is not, again, in and of itself, evidence of imprudence. In this situation, reasonable and prudent managers on scores of projects were making the same or similar decisions based on the same knowledge, facts and conditions and incurring similar results – cost escalation that could not be avoided and had to be reflected in revised budgets.

Q: Have there been revisions to the Iatan Project estimate since the May 2006 presentation?

A: Yes, there were additional estimates required as a result of ongoing reviews of the cost to complete the Iatan Unit 1 project. This process was evidence of prudent management of the project to insure that responsible management was aware of the progress of the plant and could make necessary changes to address changed conditions, such as described above.

Q: What was the relationship of schedule and cost impacts impacting Iatan Unit 1 project with activities on the Iatan Unit 2 project?

A: The Iatan Unit 1 project activities were integrated into the Iatan Unit 2 project schedule since these projects are managed in an integrated fashion. However, the only hard constraints on Iatan Unit 1 project completion dealt with the tie-in outage and the Iatan Unit 2 project start up activities.

Q: Please describe the development of the Project Budget for Iatan Unit 2 project over the life of the Project.

A: The development of the budget for the Iatan Unit 2 project progressed from an initial high level conceptual estimate in 2004 based on the 2004 PDR conceptual project to a detailed definitive CBE in 2006 which was updated with design maturation in 2008. In July 2009 the Cost Reforecast Validation was conducted to review the CBE and it was determined that the estimate was accurate in total, but adjustments were made within the budget details. **[redacted]**[75] This budget development process is consistent with other projects Pegasus-Global has evaluated and shows that KCP&L was diligent in updating cost estimates as the Iatan Project progressed. It is important to understand the development of the budget for the Iatan Unit 2 project in light of the evolution of the permitting events and market conditions surrounding the Iatan Unit 2 project, in light of the economic conditions affecting all utility projects during this period of time.

Q: What did Pegasus-Global find regarding the use of the manual process discussed in the E&Y CEP Risk Assessment Report?

A: Pegasus-Global reviewed the process implemented on the project and finds it to be reasonable. In late 2006 and early 2007 KCP&L transitioned to cost reports as discussed above. These cost reports were developed utilizing project costs recorded in the General Ledger of the utility and reported through an Excel work sheet to the project cost system. While there was manual processing necessary at the project level the practice was not

[75] **[redacted]**

unique to KCP&L. In June 2007 a presentation was made to the CEP EOC regarding the Cost Tracking System in response to the audit findings. In that presentation the CEP EOC was informed that a survey of other Edison Electric Industry (EEI) members had confirmed that other large utilities, including America Electric Power and Pacific Gas and Electric, utilized Excel or similar programs to report costs of the project contained in the General Ledger to the project management group.[76]

Q: **What information was available to KCP&L when it was considering the design and construction of the Iatan Project, how did KCP&L use this information in its decision making process, how did this information change over time and how did KCP&L use this information in its decision making over the course of the Project as it relates to the increased cost of the Iatan Project?**

A: In its initial decision making process of whether to build the Iatan Unit 2 project, KCP&L retained B&McD in 2004 to prepare a Project Definition Report (PDR), regarding the feasibility of building a new Iatan Unit 2 facility on the same site with the existing Iatan Unit 1 facility. The intent for the PDR was to provide preliminary engineering and cost estimates, contracting approach and other early development information so that KCP&L could begin scoping and provide feasibility inputs for use by KCP&L in its production cost modeling. The PDR provided KCP&L some gross information for what it was going to build and how the costs would translate to the equipment that would be installed. The PDR was also used to provide some sense to KCP&L on how it was going to construct the project and the type of packages that would be involved. An understanding of the

[76] **[redacted]**

various technology options and the framework from which to evaluate those options was also an important aspect of the PDR's function. It allowed KCP&L to work through the various options with economic and technology analysis to arrive at a base assumption for what the Iatan Unit 2 project would eventually look like. The PDR was only considered to be a conceptual estimate based on a "generic" schedule and several assumptions regarding the plant design to provide KCP&L management with the sufficient information to make an informed decision at the time as to whether to proceed with the project, and if so, in what context. While the PDR did contain certain performance parameters for the Iatan Unit 2 project, the PDR did not identify any detailed level of design as having been completed as of the PDR.

As so stated in the PDR, the purpose of the study was to define preferred design parameters of major components of the project and provide adequate information to support the following activities:

- Development of adequate detail to support permitting requirements;
- Integration of project design and financial data into KCP&L's IRP;
- Discussion within KCP&L management; and
- Internal budget appropriations.

Risks were also identified in the PDR including:

- Planning, design and construction for a project of this size to take between 5-6 years.
- This 5+ year time span provides a significant amount of time for labor and material pricing and market conditions to change from that originally anticipated.

- The risk is heightened by the fact that the skilled workforce that constructed coal plants in the 1970s and 1980s has aged without a significant influx of younger workers with similar specialized skills and experience.
- Recent significant increases in natural gas prices have led to a number of utilities looking at coal as an alternative and economic fuel source.
- Proposed new emission requirements could have impacts to the project.
- All projects anticipated in the market would be competing for a limited labor force.

A review of the PDR demonstrated that B&McD followed standard industry practices during the development of the conceptual estimate, clearly establishing the limited basis of that estimate and citing the intended management purpose for that estimate (i.e. to assist in decision making relative to the basic technical parameters of the project to ultimately be executed).

Since the original PDR based on an 800 MW unit, KCP&L evaluated alternatives and proceeded with the Iatan Unit 2 project as an 850 MW unit. In addition, KCP&L decided to prepare a comprehensive emissions permit application for both Iatan Unit 1 and Unit 2 projects to reduce net emissions from the existing plant site.

Q: What were the permitting issues that impacted the cost estimate during and after this period?

A: **[redacted]

[redacted]

[redacted]**[77]

The environmental permitting process implementing emissions netting resulted in KCP&L receiving a permit, but the permit requirements were more stringent on both the Iatan Unit 1 project and the overall site operation, including the Iatan Unit 2 project, than had been initially anticipated. These more stringent requirements required changes to both the then current operations of the Iatan Unit 1 project, as well as the need to modify the scope of the emissions equipment. These changes were necessary to ensure long term compliance once the permit takes full effect for each of the units. Any increases to cost due to "netting" decisions are not, in and of itself, evidence of imprudent management. To the contrary, KCP&L management evaluated options and made a decision which produced more energy and lower emissions. This type of decision by management is within a prudent zone of reasonableness.

Q: Was the process for estimating the Iatan Project reasonable and prudent for a coal utility in the industry contemplating a similar project?

A: Yes. First, the Iatan Project was a "fast-track" mega project as presented earlier in this testimony which essentially means that engineering would not be fully completed prior to the initiation of major procurement or construction of the project; rather engineering would "pace the project" by being just ahead of procurement and construction needs rather than fully completed prior to the initiation and construction of the project. A fast-track project reduces the total time for project execution by essentially overlapping the

[77]** [redacted] **

engineering, procurement and construction phases sequentially; in volatile market conditions, such time savings can have a significant cost benefit for the owner. As discussed more fully below, KCP&L acted reasonably in its decision to fast-track the project based on market conditions and KCP&L's Iatan Unit 1 joint owner's generation needs forecasts.

The Iatan Unit 2 project produced a number of iterative estimates between its initial definitions in the summer of 2004 through to the current status as of July 2010, which is fully anticipated in any project on a fast-track execution profile. In addition, KCP&L relied upon industry experts to provide input and review of the cost estimating process.

When engineering was approximately 25% complete, KCP&L prepared its Control Budget for the Iatan Project which served as a starting point from which KCP&L could evaluate all changes as it proceeded with the project. As the Alstom contract was in place by August 2006 and KCP&L had some specifics around some of the major components of the Plant, given the fast-track approach, the timing and basis of the Control Budget was reasonable. **[redacted]

[redacted]** Pegasus-Global confirmed that KCP&L has maintained the Control Budget Estimate exactly as frozen in November 2006 and that any changes to that estimate have been reported directly against that CBE. This is in keeping with accepted industry practice for control estimating of mega-projects. It is common practice for procurement and construction to be initiated prior to the design engineering achieving 30% on fast track mega-projects as it is critical that the project establish a detailed Control Budget Estimate as soon as significant procurement and construction activity is initiated. Pegasus-Global found that the CBE produced by B&McD and adopted by KCP&L in late 2006 was developed following generally accepted estimating practices used for a fast-track, mega-project execution plan. The development of the Iatan Project estimates into the Project CBE for management and control of the Iatan Project costs during execution was also done following generally accepted estimating practices.

KCP&L acted prudently in its development and use of project control metrics and data to identify trends in project cost or schedule which would either threaten the projects costs or schedule or provide it with the possibility of improving the project's cost or schedule. KCP&L's decision to initiate trend based estimate forecasts is representative of an industry best practice as it provides KCP&L with the optimum number of responses and actions to address any overruns which might occur on the Iatan Project, including increasing the Iatan Project total budget, adjusting Iatan Project scope, shifting money between line items, etc.

**[redacted]

[redacted]

[redacted] ** Further, the Kansas Commission in its November 22, 2010 Order found that: "*It is factually undisputed that KCP&L executed the Regulatory Plan and constructed Iatan 2 in a difficult economic environment. We find that KCP&L knew the risks Iatan 2 represented to its customers, took steps to mitigate those risks, and developed tools for further mitigating, reporting and managing those risks*" [Kansas Commission November 22, 2010 Order, page 31].

Q: Can you please define a Risk and Opportunity analysis?

A: A Risk and Opportunity analysis is a repetitive function on mega-projects during which the risk profile is upgraded to reflect the status of the project as it exists and as it continues forward through the remaining execution. At certain points in a project life cycle the risk profile is analyzed to remove risk elements which no longer confront the project and add risk elements which may be new to the project. For example: once a major milestone has been achieved then any risk elements which were linked to a failure to meet that milestone date can be removed from the project risk profile.

The "opportunity" element of a Risk and Opportunity analysis identifies situations which have arisen that offer management an opportunity to advance goals ahead of their risk element probable impact point. For example: assume that a major milestone it achieved one month ahead of schedule with two additional major milestones linked to that accomplishment. By finishing early management may have an opportunity to accelerate one (or both) of those successor milestones thereby reducing any risk elements attached to the inability to complete those milestones on time. An opportunity analysis is the somewhat more complex portion of a risk and opportunity report as it requires management to analyze the potential benefits possible against any possible risk or cost impact for taking advantage of an opportunity.

By conducting periodic risk and opportunity analyses during the life cycle of a mega-project management can ensure that it is focused on the "real time risks" facing the project and taking advantage of opportunities to reduce the future risk elements that still have the potential to impact project goals and objectives.

Q: Can you describe the Iatan Project Cost Reforecast Process?

A: A reforecast is a comprehensive process that occurs periodically during the course of a large complex construction project that involves getting input from a variety of sources, including contractors involved in the marketplace, and then taking that input and making a determination from that point to the end of the project what would be appropriate action from a cost standpoint, a schedule standpoint, and from a contractor relations standpoint to complete the project in the original time, the optimal schedule. It involves looking at every work function and requires involvement from all stakeholders. The reforecast was a look at the assumptions used in the CBE established back in 2006 and reviewing and analyzing the changes from that point to assist in forecasting where the costs would be going in the future. As knowledge is gained through a project, more information is gained around the type of project being built. Given that better information, it is prudent to evaluate that additional information and to determine how that information affects the cost and schedule of the project. At that time and consistently throughout all of KCP&L's quarterly reporting to the commissions, KCP&L has stated that the marketplace is dynamic and changes to the original estimate would continue to be tracked, documented and explained. The reason for the reforecast is to explain where the Iatan Unit 2 project was currently and where it would likely end up. A cost reforecast is one of the project trending tools used by management throughout the execution of a mega-project.

Q: Can you explain project trending?

A: Yes, it is a term of art within the construction industry used to describe the process and tools used by project management to precisely identify where a project is and how it got there, and, using that data establish trend patterns and lines that can be projected into the future of the project to conclusion. A project can trend any number of project elements,

including costs, schedule, bulk commodity installation, procurement milestones, etc. For example, a reforecast trending analysis uses four sets of data:

- The planned cost of an element of work;
- The actual cost of that element of work to date;
- The progress gained against that total element of work to date; and
- The future trend of that element of work assuming that the work is executed at the same consistent rate and at the same consistent cost experienced to date.

A trend analysis enables project management to identify elements that are ahead of their planned trends and elements of work that are behind their trends. Using that data management can then make necessary adjustments to either bring those elements "back on line" (the planned trend line) or adjust the planned line to reflect the actual conditions which need to be addressed relative to that particular work elements or the relationship of that work element with other, interrelated work elements. A detailed trend analysis enables project management to make necessary mid-project adjustments in the project execution plans, which is crucial during the execution of any mega-project.

Q: What was the result of the Reforecast Process?

A: Two findings made early in the process and consistent with the potential risks that KCP&L had identified in its Business Planning Process involved the discovery that (1) the bulk commodities (i.e. electrical cable and wire, pulling, etc.) quantities installed were trending greater than the commodity quantities used within the Control Budget Estimate, and (2) that the current market pricing by contractors was trending higher than assumed in the Control Budget Estimate, as discussed later in this testimony regarding plant comparisons. Thus, KCP&L acted prudently in its decision to address both of these

impact issues in its re-estimate of the total project cost. The May 2008 cost reforecast was presented to the CEP EOC, the Board of Directors, the Missouri and Kansas Commissions and the Project Joint Owners. **[redacted]** Pegasus-Global's review of KCP&L's actions concluded that KCP&L's actions were consistent with best industry practice and the decisions regarding the reforecast estimate were deemed to have been prudently made based on the following findings:

1. KCP&L had converted the project control estimate into a project control line item budget, which enabled it to monitor and trend commitments, spending, changes and contingency allocation on a monthly basis.
2. KCP&L was monitoring costs closely on a monthly basis, providing snapshot reports of cash flow, commitments, spending, changes and contingency allocation and on an aggregate basis, which enabled KCP&L to discern patterns and trends which threatened specific estimate and budget line item cost limits. This enabled KCP&L to identify trends at a very early point in time rather than picking up trends only when line items "went negative".
3. KCP&L used trend data to forecast probable impacts; for example, the fact that several contracts came in higher than assumed within the Control Budget Estimate was treated as a holistic trend in the industry marketplace and not a series of isolated contract pricing events. By combining trend data from multiple

perspectives, KCP&L was able to forecast probable cost impacts at a very early point in the execution of the Iatan Project.

4. In industries, the earlier in the project one identifies potential impacts the more alternatives the project team has to address and overcome those impacts. Early identification of trends by KCP&L enabled it to not simply increase the project total estimated budget but to examine and employ several actions aimed at managing and controlling project costs through to completion. For example: KCP&L examined the budget estimate by line item, and using the same trend data, moved money from line items trending under the control budget into line items which were trending over the control budget.
5. KCP&L appropriately took the time to examine the "root cause" for the trends it had detected in order to ensure that its responsive actions not only addressed the cost impact, but also enabled project management to address the underlying causes to the extent those causes were within its control (for example, market conditions are not within the project's control but scope creep is, to some extent, within the control of the PMT). This action by KCP&L would represent a "best practice" within the industry.
6. KCP&L acted well before the Iatan Unit 2 project cost control budget "went negative", that is reflected an actual overrun in the total cost of the project. It is easy in a fast-track project to lose sight of the future when attempting to address the pressures to coordinate multiple activities (engineering, procurement and multiple construction efforts). By acting proactively, KCP&L avoided having to make a series of "budget increase requests", without being able to understand or

explain why those budget increases were necessary. These actions evidence good and prudent management decision making.

Q: Did Pegasus-Global review the Iatan Unit 2 project Cost Revalidation Process?

A: Yes. As engineering neared completion, 90% complete by September 2008, KCP&L again acted as a reasonable and prudent utility in its decision to move forward with a revalidation of the May 2008 Iatan Project reforecast to gauge the accuracy of the original reforecast and measure how the Iatan Project was tracking against the revised project budget, including evaluating the current known schedule to complete the work, current trends on additions to the project's scope and the velocity of those changes in light of the status of design completion. KCP&L specifically included the following evaluations in its revalidation of the May 2008 reforecast:

- Review of schedule and any post-effect of any changed milestones to the completion date;
- Evaluation of all cost trends;
- Determination of any unknowns from design maturation;
- Quantity growth in the BOP contract to determine velocity and timing of Change Orders emanating from design maturation; and
- Vetting of the contingency assumptions.

** [redacted] ** The revalidation work performed by KCP&L enabled it to weigh

the benefit of accelerating the work to maintain the original schedule versus the cost of the acceleration effort required to maintain the schedule. Based on changed market conditions and a drop in demand, Pegasus-Global concluded that KCP&L's decision was prudent in light of the information available to it at the time and based on the analysis KCP&L conducted to consider the alternatives before making its decision. Pegasus-Global found that the cost reforecast revalidation effort has enabled KCP&L to again stay ahead of critical issues and cost drivers, making decisions in a timely and reasoned manner.

Q: **[redacted]**

A: As described in the Supplement 2 to the PDR issued on June 28, 2007, there were several changes to the Iatan Unit 2 project's base assumptions and refinements that were made to the PDR based on additional information that became available to KCP&L after August 2004, as well as changes to market conditions from what was known in 2004. **[redacted]** The original Iatan Unit 2 project PDR was based on many assumptions and excluded several owner-furnished costs. Subsequently, the cost estimate was modified to include all expected costs, including owner costs pending refinement during the budgeting phase of the project development and indirect costs that have now been included in the current budget. These changes and refinements included:

- Steam generator and turbine generator technology upgrades;
- Unit generating capacity increase from 800 MW to 850 MW;
- Postponement of the in-service date:
    - Additional time required for the completion of the regulatory plan reduced the amount of time available in the Project Schedule for contingency.
- Scope refinements of the facility (as so detailed in an Appendix to Supplement 2 of the PDR);
- Market escalation;
- Risk assessments to establish project contingency; and
- Permitted emission requirements finalized.

In addition, while the Iatan Unit 2 project PDR suggested a contracting approach of a combination of EPC and multiple contracts with a single EPC for the boiler and air pollution control equipment and multiple contracts for the BOP, the contracting strategy was only an assumption for purposes of the study. As discussed elsewhere, several options have been considered over the course of the Iatan Project to consolidate multiple construction contracts into one of two general construction contracts.

Both the unit size and schedule changed from the original PDR and influenced the project costs. Meanwhile, the market shifted to become more volatile generally trending toward higher costs. During 2005 and 2006, the market for engineered equipment and material was volatile as niche market suppliers became constrained; steel based products were subject to price and availability pressures and the price and availability of other commodities, like copper, also exhibited significant volatility. The major drivers to the cost increases include:

- Base labor costs which have increased since the original PDR Union rates used for conceptual estimating purposes;
- Labor availability;
- Incentives to attract labor;
- Major equipment increases;
- [redacted]**
- [redacted]**
  - The volume of the power house building (steam turbine-generator building) increased substantially from the expected size during the detailed design layout based on the purchased equipment.) Bids for the structural steel supply contract were received in October 2006 and when the bid-to-estimated steel quantities were compared, it became obvious that the Powerhouse building required about twice the volume as originally expected.
- Owner site management costs;
- The Substation & Interconnect costs that were originally carried independently by KCP&L (an Iatan Unit 2 PDR assumption) are included with each estimate revision;
- Refined Risk Assessment:
  - The initial Iatan Unit 2 project PDR and the subsequent cost estimate updates that were made in January 2006 maintained a consistent 8% cost estimate contingency.

- A more sophisticated Monte Carlo analysis of the remaining expected costs and schedule variations were performed during the period after January 2006 and continued into November 2006. The objective was to predict the contingency necessary to achieve 80% confidence that the project would be within budget and on or ahead of schedule. ** [redacted] ** Multiple evaluations were performed during the course of procurement as pricing information provided feedback regarding estimated versus actual values for procurement.
- In addition to the Monte Carlo analyses performed by B&McD, ** [redacted] ** Risk was a significant concern and specifically the impact that could occur due to a low probability-high impact event. A low probability – high impact event is defined as a specific risk issue that has a low probability of actually occurring during the execution of the project but if that risk event does occur the impact on the project goals and objectives would be very high. For example, a the probability of there being a 500 year flood on the Missouri River during the execution of the Iatan Unit 2 project would be classified as a low probability risk event; however, the impact of

that event should it occur would have a very high impact on the ultimate cost and schedule of the project.

- **[redacted]**

- Commodity cost increases.

Q: Please describe the changes in commodity costs that impacted the Iatan Project estimate?

A: KCP&L found that there had been a major shift in the construction market from the conceptual estimate to the detailed estimates. In 2005 the Environmental Protection Agency (EPA) issued both the Clean Air Institute Rule (CAIR) and the Clean Air Mercury Rule (CAMR) that required all coal fired plants in the Eastern half of the United States to install a SCR, Wet Scrubber and a Bag house by 2009 or buy credits. These new requirements caused a flurry of projects across the country, all of which are on the same general timeline. In turn, this increase in demand stressed the material and labor supplies, thus causing pricing to increase and lead-times to extend. **[redacted]**

[redacted]

[redacted]**[78]

Q: Was the information collection and analysis done by KCP&L in making its Reforecast of the Iatan Unit 2 project reasonable?

A: Yes. In Pegasus-Global's review of the KCP&L Business Plans for 2006-2009, and the quarterly reports that were issued by KCP&L, Pegasus-Global found that KCP&L based its decisions and conducted its decision making process through analysis of several key factors and risks, which it continued to and still continues to review and evaluate through the project execution.

KCP&L recognized in its 2006 Business Plan that execution success was influenced by several key factors including:

- Clear understanding of drivers for each project;
- Construction strategy;
- Dedicated team with proper experience (KCP&L, Engineer and Contractors);
- Effective Project Controls and reporting systems; and
- Decision making process and documentation to support.

KCP&L continued to recognize and evaluate several market drivers, as so noted in its Business Plans from 2006-2009. Although some of the risks were identified in the original August 2004 PDR, the impact of those risks manifesting themselves could not be quantified based on the information available at the time. In addition, other risks

[78] Iatan Projects Cost Estimate and Schedule, July 17, 2006, page 6

emerged.[79] KCP&L further recognized that it understood its risks, and developed and implemented prudent management techniques to mitigate them, as discussed later in this testimony regarding the Corporate and Project risk management and project control processes that were established.

Both known and emerging risks impacted the project's cost and schedule including:[80]

- Labor and Manufacturing Capacity:
  - Strong market demand for new coal units as well as environmental retrofits for existing units to comply with CAIR and CAMR had put several other projects out for bid at the same time as the Iatan Unit 2 project resulting in additional demand on supplier's engineering and manufacturing resources. Construction of new facilities and retrofitting existing facilities constrained the available construction resources, resulting in significant higher prices and long lead times; and
  - Labor productivity.
- Supplier failures;
- Ability to attract and retain talent:
  - Changing workforce demographics;
  - Changing workforce expectations;
  - Changing Business Environment regarding employee culture; and

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[79] An emerging risk is a risk element or condition which was not present or identified at any earlier stage in the project's risk management profile. Emerging risks often arise as a consequence of the long duration and complexity of mega-projects, especially for elements which are outside the control of, but impact upon, the execution of a mega-project. For example, sudden changes in the global economy such as those which impacted in the last 3 years would be an example of an emergent risk.

[80] Congressional Research Service Report for Congress, Power Plants: Characteristics and Costs, November 13, 2008; Black & Veatch, MMEA Presentation, Building New Baseload Generation in the Midwest, May 11, 2006

- Employee skills.

- Commodity price volatility:
  - Already volatile commodity markets were even being further impacted by 2005 hurricanes which impacted the timing and availability of major steel contracts.
- Base operations affected by weather and natural gas volatility, coal conservation and unit outages;
- Fuel and energy prices exhibited volatile movement:
  - Coal transportation performance and costs.
- Environmental regulations;
- Rising interest rates which drive down share price, valuation and increase financing costs;
- Capital liquidity markets; and
- Tight budgets which strained technology, training and staffing

Q: Did Pegasus-Global find KCP&L's Project Budget and Cost Management systems prudent?

A: Yes. Pegasus-Global found that KCP&L employed the industry standards in both areas, and that decision making and decisions regarding Iatan Unit 2 costs were prudent.

Q: The Missouri Staff report discusses at page 34 alleged unexplained cost increases in the reports by KCP&L of cost changes from the Control Budget Estimate. Do you agree with Staff's statements?

A: No, I do not. The Staff asserts that KCP&L has not complied with section III.B.1.q of the Experimental Alternative Regulatory Plan Stipulation and Agreement filed in Case No.