

Exhibit No:	
Issue No:	Iatan 1 & 2 Prudence
Witness	Walter P. Drabinski
Type of Exhibit	Surrebuttal Testimony
Sponsoring Party	Missouri Retailers Association
Case No:	ER-2010-0355/0356
Date Testimony Prepared	January 5, 2011

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO: ER-2010-0355/0356

SURREBUTTAL TESTIMONY OF

**WALTER P. DRABINSKI
VANTAGE ENERGY CONSULTING LLC.**

ON BEHALF OF

MISSOURI RETAILERS ASSOCIATION

NP

**** _____ ** Designates Confidential Information.*

Certain Schedules Attached to This Testimony Designated

"Confidential", Also Contain Such Confidential Information.

All Such Information Should Be Treated Confidentially.



Vantage Energy Consulting, LLC

Management Consulting and Energy Services

Surrebuttal Testimony of Walter P. Drabinski, Vantage Energy Consulting, LLC.

Kansas City Power & Light Company

Docket No. ER-2010-0355/0356

1 **Q. Please state your name, Company and business address.**

2 A. Walter P. Drabinski, Vantage Energy Consulting LLC., 21460 Overseas Hwy,
3 Cudjoe Key, Fl 33042.

4 **Q. What is your occupation?**

5 A. I am the President of Vantage Energy Consulting LLC (Vantage), a
6 management consulting firm that provides services to the regulated utility
7 industry. On this assignment I have the capacity of Project Director for Vantage.

8 **Q. Please describe your educational background and professional experience.**

9 A. My education includes a BS in Electrical Engineering from the State University of
10 New York at Buffalo in 1972 and an MBA from The Wharton School (University
11 of Pennsylvania) in 1984. My experience totals 38 years, including 10 as a utility
12 company manager and 28 as a management consultant specializing in utility
13 issues. Additional detail on my consulting history was included in my direct
14 testimony.

15 **Q. What is the purpose of your surrebuttal testimony?**

16 A. The primary purpose of this testimony is to respond to portions of the
17 rebuttal testimony of KCP&L witnesses provided relative to my direct testimony
18 of November 4, 2010. These witnesses include; Mr. Downey, Mr. Davis, Mr.
19 Giles, Mr. Meyer, Mr. Roberts, and Mr. Nielsen

1 **PRUDENCE DEFINITION – MISSOURI VERSUS KANSAS**

2 **MIS-CHARACTERIZATION OF DRABINSKI DIRECT TESTIMONY**

3 **Q.** Throughout the rebuttal testimony of KCP&L witnesses, there is a mantra or
4 set of talking points that every KCP&L rebuttal witnesses adheres to. Each
5 witness claims you use hindsight in your analysis, that you do not provide a
6 nexus between your conclusions of mismanagement and the proposed
7 disallowances, that your contemporaneous power plant comparison is a red
8 herring, that you use snippets of information to reach conclusions, and taking
9 negative details out of context. Finally, they refer to the findings from the
10 Kansas Docket, quoting small sections, and imply that your testimony should
11 simply be discarded.

12 **A.** The KCP&L witnesses Mr. Downey, Mr. Giles, Mr. Davis, Mr. Roberts, Mr.
13 Meyer, and Mr. Nielsen, are all taking directions from the same playbook,
14 repeating the same terms with the hope that if they are repeated often enough,
15 the Missouri PSC will actually believe them. The facts of my testimony are truly
16 different and I would like to address each of the statements that are continuously
17 repeated one at a time.

18 **Hindsight**

19 **Q.** What is your understanding of the definition of hindsight and why do you
20 believe you are not using hindsight in your analysis?

21 **A.** The KCP&L witnesses do not really define hindsight or indicate how, within
22 their definition, the term is applicable in my testimony. (Although Mr. Roberts
23 states that quoting any Study or Audit Report from the project is hindsight).

1 Vantage was retained in mid-2008 to begin monitoring the Iatan Project.

2 Therefore, from mid 2008 we would argue that all of our observations and
3 conclusions are contemporaneous in nature. We reviewed decisions in the
4 context of the circumstances confronted by the decision maker at the time the
5 decisions were made and judged the decision not on its outcome, but on its
6 merits at the time the decision was made. Any direct observations Vantage
7 made or reports we reviewed were in a real time context.

8 We suggest that using hindsight in a prudence review, takes data from the
9 past and interprets it in a manner inconsistent with interpretations of that time.
10 In other words, did I use data from periods prior to mid-2008 and interpret it
11 differently from the interpretations of that period. I believe the answer is
12 unequivocally no. A thorough review of my testimony shows that I present all
13 evidence in the context that it was presented at the time it was published. Look
14 at some examples of the evidence I use.

- 15 • **Audit Reports** – We quote the findings and recommendations of audit
16 reports as written. In no case do we reinterpret the data in the report.
- 17 • **Project Monthly Reports** – Our summaries list the observations as they
18 are stated in the reports. While we paraphrase the findings in a few
19 places, we do not interpret the data in a manner different from the
20 original authors.
- 21 • **Schedule Analysis** – Our analysis of schedule float loss is simple math.
22 We do not change the data in any schedule.

- 1 • Contractor Productivity – All of our conclusions are based on the detail
2 in Schiff Hardin reports and other sources. The concerns we note about
3 performance come directly from project documentation.
- 4 • Schiff Hardin Reports – All quotations and conclusions we present
5 sourced from Schiff Hardin reports are based on the data and conclusions
6 in the reports themselves.
- 7 • Weather Delay Analysis – KCP&L claimed that 21 days of schedule were
8 lost to weather. In response to a data request, they provided data that
9 indicated no actual schedule impact. Vantage did not make up the claim
10 by KCP&L and we did not make up the data in the response KCP&L
11 provided.
- 12 • Purchase Orders and Change Orders – The Vantage team reviewed the
13 entire data base of Purchase and Change Orders up through the end of
14 2009. We then performed a detailed analysis of over 300 sets of support
15 documents. Our analysis was based on the detail in those documents.
16 We did not modify the data. In fact, we did the exact type of analysis Mr.
17 Meyer claimed we should perform.

18 **Q. Mr. Davis and other witnesses state that you rely on snippets of information**
19 **taken out of context for your conclusions. How do you respond to this**
20 **accusation?**

21 **A. When a consultant is conducting a prudency analysis, he must use all of the**
22 **factual information available from contemporaneous reports, audits, studies,**

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1 memos and other sources. These documents provide the forensic history on a
2 project extending six years or more. They were provided by KCP&L and often
3 provide a continuous measure of progress and problem development and
4 resolution. Further, even if one argued that a single quote was not indicative of
5 problems, our analysis provides a large body of repetitive reporting, often on the
6 same problems. The summary below illustrates issues and problems the
7 historical documents recorded and at the time reflected. These are not snippets
8 and they are not hindsight, they are the history of the project, as recorded
9 contemporaneously by personnel on the project. Below are the "snippets" to
10 which Mr. Davis refers. We believe they present a body of evidence that support
11 our conclusion of imprudent management by KCP&L and they are then
12 appropriately tied to disallowances. "***

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1

1 Q. What is your opinion on the term "Red Herring" being applied to your analysis of
2 contemporary power plants?

3 A. This argument is facetious. First of all, Mr. Roberts performed the initial
4 analysis as part of his direct testimony in the KCC 415 Docket. I responded by
5 correcting major errors, by removing coal-gasification plants, fluidized bed units
6 and units that were not scheduled for completion until after 2012 or which never
7 were started. Mr. Roberts generally agrees with this analysis. However, he also
8 removes all units built under an open shop labor approach, simply claiming that
9 since these are lower cost, they should be removed.

10 Q. Do you agree with the removal of open shop plants?

11 A. No. KCP&L analyzed the cost of union versus open shop early in the project
12 and requested cost differential analysis from a number of sources, including
13 B&McD and Schiff Hardin. The Company decided that given the fact that the
14 plant work force was union and the Kansas City area was a predominantly
15 union area, it would be a union project. Having made the decision, KCP&L now
16 argues that it should not be held responsible for the incremental costs associated
17 with the decision. My analysis carefully analyzed the cost impact of union
18 versus open shop and adjusts comparisons for this. My adjustments are very
19 close to the adjustments both B&McD and Schiff Hardin estimated, although one
20 might argue that no adjustment is warranted since this cost was based on a
21 management decision within their control. Finally, I do not even suggest that
22 the incremental costs of relying on union labor be considered imprudent, I
23 simply state that these costs are relevant in any cost comparison.

1 Q. Since you are not asking for a prudence adjustment based simply on plant cost
2 comparisons, what conclusions or comments can you provide based on your and
3 Mr. Roberts continuing analysis?

4 A. There are a number of insights that can be gained by this analysis.

- 5 • EPC was the predominant means of project approach. My analysis of 16
6 contemporary plants, showed fourteen using EPC, one with a Multi-Prime
7 approach and an independent project manager and then Iatan that used a Multi-
8 Prime approach and decided to act as its own project manager.¹ Mr. Roberts
9 indicates that of the fifty plants he reviewed, only four used a Multi-Prime
10 approach.
- 11 • Eight of the plants that used EPC were started after Iatan.
- 12 • The comparison results are startling. Iatan 2 is the fourth most expensive plant
13 even with adjustments, an average cost that is \$316 million higher after
14 normalization.²
- 15 • The Trimble County 2 provides a good comparison of two projects. Both started
16 at the same time, completed within months of each other, and almost all costs are
17 finalized. Both companies faced dilemmas in early 2005. They were waiting for
18 approval of their prospective projects. KCP&L decided to do nothing. LG&E
19 decided to begin negotiations with Bechtel. It took a number of months for

¹ /Based on DOE data base info.

² /Vantage analysis is based on the last forecast cost we had of \$1.98 billion

1 LG&E and Bechtel, to get together. Trimble 2 was constructed for \$811/kW less
2 without any adjustments and \$585/kW with adjustments.

3 **Q. There has been a great deal of discussion by KCP&L witnesses about whether an**
4 **EPC alternative was available in 2005 and whether you claim that selecting an**
5 **alternative other than EPC was imprudent. Please discuss your position as well as**
6 **the responsibilities that KCP&L needed to commit to once it selected the Multi-**
7 **Prime approach.**

8 A. KCP&L confuses or mis-characterizes my testimony in this case as they did in the
9 KCC 415 Docket. First, let me make one thing clear. I never stated that the decision
10 to use a Multi-Prime rather than an EPC approach was, in itself, imprudent. While I
11 believe it was a mistake, given the requirements of the Iatan project and KCP&L's
12 lack of project management skills, it was not in and of itself imprudent. Mr. Davis
13 said it best in his rebuttal testimony in Kansas when he stated:³

14 "The most significant downside is that the owner accepts greater risk due to
15 accepting full coordination of construction work and responsibility for design.
16 The owner also takes on risk for the availability and quality of the labor force,
17 safety and site management, materials management and project controls." This
18 statement mirrored the warnings made by both Schiff Hardin and B&McD in
19 late 2005 when this decision was being made.

20 **Q. When, where and how was KCP&L imprudent then?**

^{3/} Brent Davis Direct Testimony, Pages 10-11

1 A. Once the decision was made to use a Multi-Prime approach, it was incumbent on
2 KCP&L to do the following:

- 3 • Assemble a Construction Management (CM) Team, with experience building
4 new, large, coal fired power plants,
- 5 • Purchase, develop and implement project control systems in a timely manner,
6 including scheduling systems and protocols, cost control management,
7 performance tracking systems. All systems should be in place, tested and
8 operating before they were needed. Experienced, trained personnel should be in
9 place and able to work effectively with these systems.
- 10 • Determine the appropriate size of the CM team and ensure that qualified
11 personnel were on board early enough to be trained and integrated into the
12 project before issues arose.
- 13 • Establish an audit and review process early in the project to identify and rectify
14 concerns before they became critical and impacted cost and schedule.

15 In fact, KCP&L's management failed in all of these areas. My direct testimony and
16 the balance of this surrebuttal testimony demonstrates the following.

- 17 1. Did not establish a PM team that was experienced.
- 18 2. Did not have adequate CM personnel until late in the project.
- 19 3. Did not have a scheduling system, operated by competent personnel until too
20 late.
- 21 4. Did not prepare a Project Execution Plan until late in the project.
- 22 5. Did not have adequate cost control systems until late in the project.

- 1 6. Did not provide adequate oversight of B&McD until problems were discovered
2 and did not conduct audits once quality issues were identified.
- 3 7. Delayed completion of B&McD contract and did not include performance
4 measures that addressed engineering quality and timeliness.
- 5 8. Recognized too late in the project that it did not have adequate resources to
6 manage Multi-Prime contracts and was therefore forced to accept Kiewit BOP
7 contract.
- 8 9. Did not take early and effective action to improve Alstom performance.

9 **Q. You have identified nine imprudent decisions or lack of decisions by KCP&L early**
10 **in the project. What was the impact of these imprudent decisions?**

11 A. There were a number of very direct and linked consequences as a result of the
12 imprudent decisions enumerated above.

13 *** [REDACTED]

14 [REDACTED]

15 • [REDACTED]

16 [REDACTED]

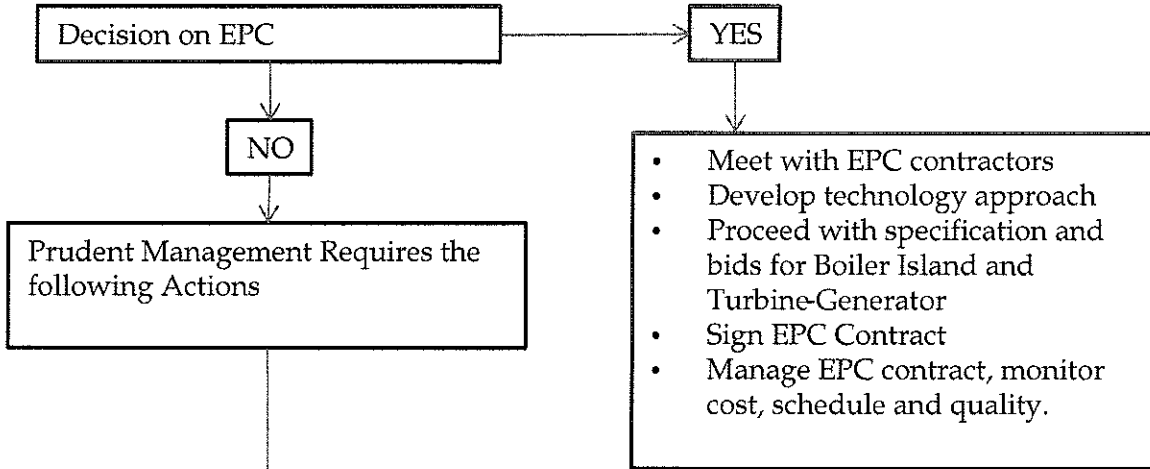
17 [REDACTED] **//

18 • The development and integration of the schedule was delayed and filled with
19 errors *** [REDACTED] **//

20 • Delays in instituting direct oversight over Alstom and making changes to the
21 Alstom organizational structure to overcome early and consistent levels of poor
22 productivity.

- 1 • The need to make additional payments "*** [REDACTED]
- 2 [REDACTED] ***"

EPC Vs. Multi Prime Decision



Prudent Activity	KCP&L Result
Establish Project Execution Plan	Not Completed until Mid2007, two years after start of project
Assign or Hire Experienced PM Team	Significant turnover of staff and many without CM experience
Develop Contract Strategy with Well Defined Contracts	Contract language was abandoned when problems arose
Develop and implement Effective Cost Control System	Implemented late
Select and Contract With Owner Engineer	B&McD selected, but 18 months for contract with poor performance and oversight requirements
Select Schedule System and Develop With Qualified Staff	B&McD failed in developing initial schedule and KCP&L was late in taking over responsibility
Develop Oversight Plan for Subcontractors	Ineffective oversight until 2008 when Churchman [REDACTED] realigned contractor oversight
Develop a Coordinated, Cohesive Organization That Operates To Achieve Defined Goals	[REDACTED]

3

4 **Q. Regarding your comparison of Iatan 2 and Trimble County 2 projects, LG&E first**

5 **negotiated the contracts for the Boiler Island and Turbine-Generator and then**

1 completed the EPC Contracts with Bechtel. Mr. Roberts contends that this
2 somehow was problematic.

3 A. In order to address the issue of price escalation, LG&E and Bechtel jointly went
4 through the procurement process for key components.⁴ This process took about six
5 months and when it was complete, the EPC contract was agreed to with only a
6 provision for labor escalation. Ultimately, the project was completed for only 9%
7 above the agreed upon price. Had KCP&L pursued the same approach, even in
8 November 2005, it would have had the Alstom and Toshiba contracts completed by
9 the 2nd quarter of 2006 at prices near the December 2006 Scale-up estimate.

10 **Q. So the argument that KCP&L could not have found an EPC contractor does not stand**
11 **up?**

12 A. Correct. Except for B&McD, which did not offer an EPC option and Black and
13 Veatch, which did offer one, KCP&L did not actually meet with any of the major
14 EPC contractors. While one can accept the argument that the company would not
15 proceed until it had regulatory approval, it would not have needed to invest much to
16 begin discussions with EPC contractors. After all, it spent a significant amount of
17 money over the years in the preliminary planning process for the Iatan process, yet it
18 was unwilling to commit any money to the most important decision it would be
19 required to make.

20 **Problems**

21 **Q. Both Mr. Davis and Mr. Roberts spend considerable time defending KCP&L with**
22 **regard to a question you answered in response to a data request they submitted to**

⁴ /Telephone interview with Paul Thompson, VP LG&E in April 2010

1 you in the KCC Docket 415 case. What is your response to the extensive rebuttal
2 they have provided?

3 A. KCP&L asked an open-ended question regarding poor management decisions. They
4 did not ask for decisions that were imprudent, cost money or affected schedule in
5 DR 125 - simply poor decisions. They now spend considerable effort explaining why
6 they are not poor decisions or why they had no impact on the project. The fact is
7 that the evidence shows that every one of the decisions listed below was poor and
8 demonstrate the lack of quality managements on the project. For KCP&L to suggest
9 that these decisions did not have a negative impact on the project is difficult to
10 accept. The question and my response below is self explanatory.

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

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11 [REDACTED]
12 [REDACTED]

13 **Q. Mr. Downey and Mr. Davis argue that KCP&L assembled a competent team of**
14 **construction managers for the Iatan project. Do you agree?**

15 **A.** I completely disagree. There was excessive turnover, with the few qualified outside
16 professionals leaving after only months on the project. This left KCP&L personnel
17 with no real construction management experience on projects the size of Iatan to
18 muddle along. This problem of marginal CM personnel is amplified because the
19 Multi-prime approach required adequate, competent resources from the outset of
20 the project. The following graph illustrates the lack of personnel and level of
21 turnover on the project. Please note, I do not include personnel who are not
22 dedicated to the project full time.

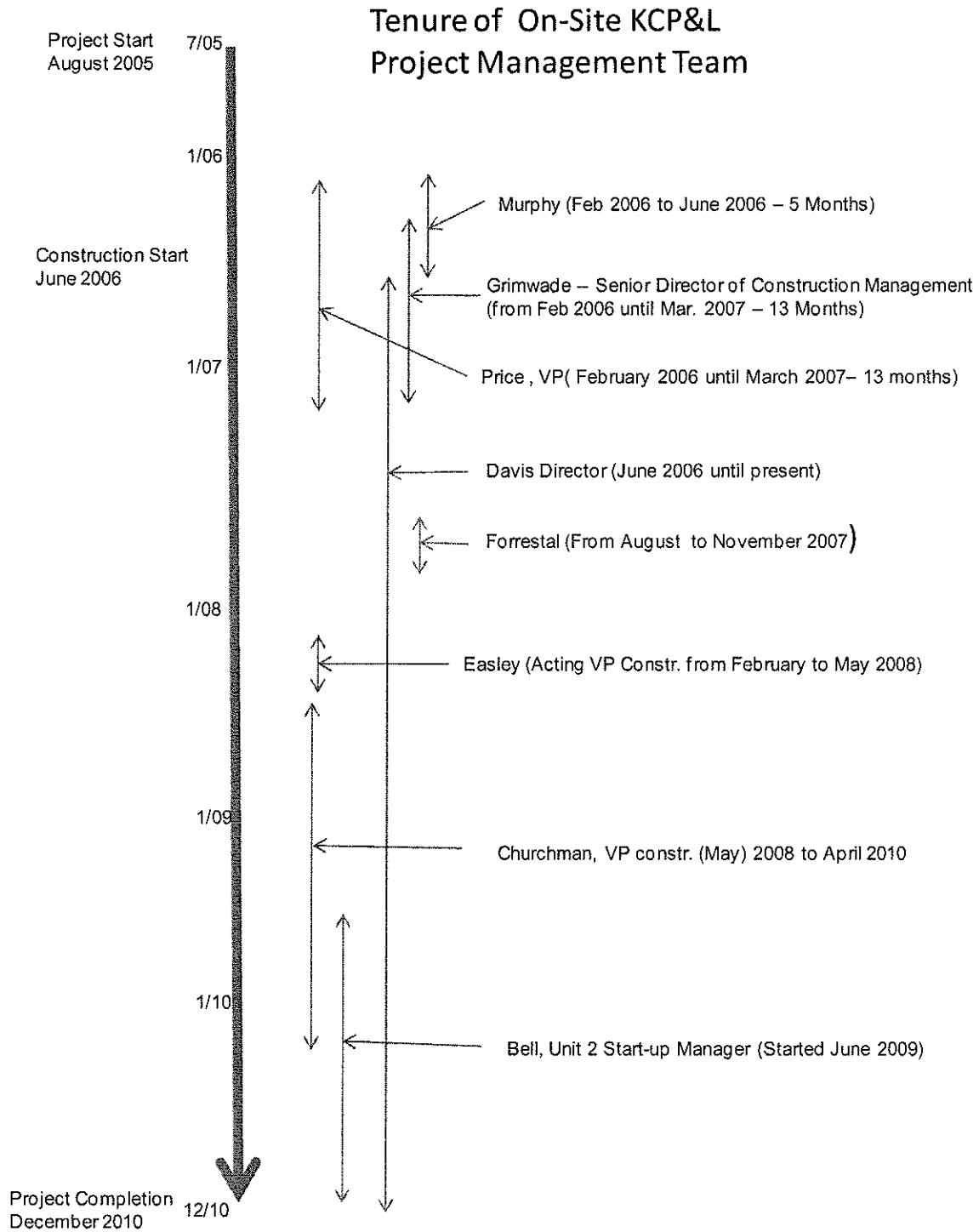
23 Some KCP&L personnel such as Mr. Grimwade, Mr. Easley and Mr. Davis are
24 presented as construction management experts with previous experience, however
25 an in-depth review of their resumes shows that they had limited actual experience in
26 power plant construction. In fact, although Mr. Davis is purported to have been

Surrebuttal Testimony of Walter P. Drabinski, Vantage Energy Consulting, LLC.

Kansas City Power & Light Company

Docket No. ER-2010-0355/0356

1 involved in the Hawthorn rebuild, it was as a representative of the Operating
2 Department and not as someone in construction management. Further, while Mr.
3 Easley had overall responsibility for the project, his direct experience was very
4 limited and Mr. Downey, of course was CEO, so his input while important was only
5 one of his many responsibilities.



1

2 **Q. Mr. Meyers, in his rebuttal testimony states that you did not review specific purchase**

3 **orders and change orders to discern whether the amounts were imprudently**

1 incurred. He also states that you never requested details on the Kiewit and
2 Alstom settlement. Please provide the Commission with the facts regarding your
3 analysis of documents.

4 A. First, Vantage requested all information regarding the Alstom/Kiewit settlement. If
5 it is true that we were not provided all details on the settlement, it was not because
6 we did not request the information.

7 Regarding the purchase orders and change orders we analyzed, Vantage requested
8 and reviewed summaries of all initial purchase orders and all change orders. This
9 included 1,105 initial purchase orders (PO) totaling \$1,547,936,307 and 2,376 change
10 orders (CO) totaling \$188,453,498.93. A summary of the initial POs and COs and all
11 associated analysis is provided in Exhibit WPD-36. Vantage then selected all
12 purchase orders over \$10 million, almost three hundred selected change orders for
13 further review. Our consultants read support documentation used by KCP&L to
14 support each purchase order or change order. After reviewing the support
15 documentation, Vantage determined if all or part of the cost should not be permitted
16 into rate base. This involved looking for details related to overtime, schedule
17 compression, contract extensions, schedule extensions, work deferrals or restacking,
18 or other work that would not have been required if the project was on schedule and
19 all work was sequenced as planned. We also looked for instances in which
20 additional payments were made for services or supplies that should have been
21 included in the original contract.

1 **Q.** One of the “talking points” the KCP&L witnesses repeat in each piece of testimony is
2 that you do not provide a nexus between imprudent decisions, the consequences
3 of the decisions and the resulting cost increases. How do you respond?

4 **A.** My entire testimony is organized to establish the link between management
5 decisions/indecisions, consequences of these decisions, and the incremental,
6 imprudent costs associated with these decisions. The following flowchart illustrates
7 the link between decisions, results and costs.

Link Between Decisions, Results and Imprudent Costs

Imprudent Decisions

- Inadequate staffing
- Delayed implementation of project controls
- Poorly written contracts
- Lack of control and oversight of B&McD
- Lack of oversight of Alstom and Kiewit
- Dysfunctional management team
- Inadequate and inexperience CM team
- High turnover of CM team
- Lack of insight on unintended consequences of design changes
- Lack of cost control

Result of Imprudent Decisions

- Poor contractor productivity
- Significant claims for delays, stacking, compression, resequencing, and other construction management related deficiencies.
- Unanticipated increases in CM staff
- Significant increases in regulatory, legal, and prudence support staff
- Loss of float in non-critical path work areas
- Increased overall site manpower density with resulting additional costs and loss of productivity.

Cost of Imprudent Decisions

- Alstom and Kiewit costs escalate ** [REDACTED] **
- Other contractors are paid additional amounts due to results of imprudent decisions.
- Project and owner indirects soar in order to manage expanded site density and to overcome lost progress.
- Additional expenditures are made to support and explain KCP&L decisions and prepare for prudence defense.

1 Q. Can you provide some comments on Mr. Meyer's rebuttal testimony?

2 A. According to Mr. Meyer this was the perfect project, with no mistakes. His analysis
3 concludes that every decision was correct and that any increase in costs was due to
4 prudent decisions. However, some of his testimony warrants skepticism. For
5 example:

- 6 • on page 6, Line 7-10 he concludes that there was no alternative to the multi-
7 prime approach. This was clearly not true. Not only did Black & Veatch offer
8 that option, fourteen other contemporaneous projects selected this method;
- 9 • also on page 6, at line 20-21 he concludes that my testimony is "junk science."
10 He does not elaborate on this elsewhere in his testimony, but this kind of
11 statement simply goes to the heart of KCP&L's "talking points" where
12 accusations are made with no substance to support them;
- 13 • on page 16, lines 4-19 he states that I misrepresent Alstom's statement and that
14 they were just beginning to discuss some schedule issues. First of all this quote
15 comes from a Schiff Hardin Report, it was not mine and second, this discussion
16 was one year after the Alstom contract was awarded. A prudent project
17 manager should be beyond misunderstandings of schedule detail after one year.
- 18 • on pages 12, Line 21 through page 15, line 7 Mr. Meyer states that my testimony
19 did not establish a nexus between imprudent decisions and costs. He then goes
20 on to state that I made no effort to analyze the project costs. One must question
21 whether he even read my testimony. There are 30 pages of direct analysis of
22 purchase orders and change orders as well as a number of exhibits with
23 additional detail. While Mr. Meyer may disagree with my conclusions and

1 approach, his claim there was no analysis is not just wrong, but exhibits a lack of
2 judgement;

3 • on page 30, lines 1-2 of his rebuttal testimony, he states that the cost of using
4 union labor could be as high as \$200 million on Iatan due to wage differential
5 and inefficient work. However, he provides no analysis to support this more
6 than doubling of cost estimate. He then states that he worked in Kentucky, but
7 not at a power plant and that this is adequate support for his conclusion. Later,
8 Mr. Roberts quotes Mr. Meyer \$200 million figure in his testimony;

9 • on page 28 he disavows any belief that the January 2006 cost estimate has any
10 value, has no idea what the term "stipulation" means and suggests the numbers
11 are being used for "shock value". *** [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 [REDACTED]

23 [REDACTED] ***

1 **Q. Beginning on page 32 and continuing until page 58, Mr. Meyer purportedly reviews**
2 **your analysis of purchase orders and change orders and offers his own opinion on**
3 **the prudence of these expenditures. What is your comment?**

4 **A.** I think it is ironic that he spends 28 pages dissecting my analysis when he earlier
5 said there was no analysis. However, there is no real rebuttal to my conclusions
6 regarding imprudent expenditures. Mr. Meyer simply says he doesn't know where
7 the numbers came from so they can't be correct. For example on page 33 he
8 discusses various numbers we provide in my direct testimony regarding the Kiewit
9 Contract, claiming he doesn't understand them. However, all of these numbers
10 came from Mr. Downey's testimony or responses to data requests provided by
11 KCP&L. He uses a similar tactic on the other disallowances, simply claiming that
12 they were created from thin air. In fact, he provides no analysis himself that
13 supports his argument or discredits my analysis.

14 **Q. How long have you been performing this type of cost analysis?**

15 **A.** My first assignment, after receiving an MBA in Management and Finance from the
16 Wharton School, was conducting "cost reconciliations" of large nuclear plants. In
17 one case, I had the responsibility for assembling the entire cost profile of a \$4.5
18 billion project into discernable cost categories for use in a prudence hearing. Since
19 that time I have reviewed costs and made assessments as to prudence on dozens of
20 separate and grouped projects. Never before has anyone suggested my work was
21 "junk science."

22 **Q. Looking at Mr. Roberts testimony, is there any one issue that you believe needs**
23 **highlighting?**

1 A. Yes. On page 4, Line 20, Mr. Roberts claims it is a red herring for me to suggest that
2 "KCP&L's overruns on the Iatan Unit 2 should be measured by a preliminary
3 estimate that the Project Team developed in January 2006, or by an estimate
4 prepared by Burns & McDonnell in a preliminary design study known as the Project
5 Definition report of PDR"

6 This statement goes to the heart of KCP&L's strategy in this case. KCP&L sets the
7 Definitive Estimate when they want, at the level they want and any expenditures
8 prior to that are off the table. If this absurd approach were followed to its end,
9 KCP&L would wait until the project was complete, issue a Definitive Estimate and
10 claim they completed the project on budget and schedule. KCP&L has essentially
11 claimed that any expenditure, no matter how imprudent, made prior to December
12 2006 cannot be reviewed or deducted from the total cost. Let's look at some facts
13 regarding cost estimates as presented in the context of the project itself.

- 14 • The 2004 PDR was prepared with a "bottom up" and "top down" approach by
15 B&McD. It utilized their experience on other similar projects as well as estimates
16 received by vendors at the time. They claimed a 90% confidence that the cost
17 would be within 10% of the estimate at that time.
- 18 • The January 2006 "Scale-up" is what I believe to be the real starting estimate for
19 Iatan 2. It addresses the changes in size, technology enhancements, labor and
20 inflation corrections and additional contingency. It also had a 90% probability of
21 project completion within 10% of the estimate. It is this estimate that was
22 presented to the Missouri and Kansas Commissions and this estimate that Schiff
23 Hardin raised concerns about in April 2006.

1 Should the Commission accept this argument that the most current Definitive
2 Estimate be used as the starting estimate, the scope of prudence review would be
3 decided hindsight by the company and not the facts of the project, as they occurred
4 at the time.

5 **Q. Beginning on Page 11 and continuing through page 31, Mr. Roberts rebuts your plant**
6 **comparison analysis. Please provide a summary comment on this extensive**
7 **rebuttal.**

8 A. This power plant rebuttal is dripping with irony. Mr. Roberts admits that he
9 initiated the analysis in his direct testimony in KCC Docket 415 and that I responded
10 with corrections and constraints on types of technology and period of construction.
11 Even after I adjusted my group of plants for labor differentials and other identifiable
12 difference, Mr. Roberts was unhappy with the results and has now turned to what I
13 would describe as "obfuscation" of the facts. He simply discards plants he doesn't
14 like (open shop), adjusts costs in an arbitrary manner, or adds units that may never
15 be completed or which have gone through regulatory or other litigation casting
16 doubt on their validity for comparison. He also supports his conclusions with the
17 testimony of witnesses such as Mr. Meyer, who simply stated, without support, that
18 in his opinion labor costs were \$200 million more at Iatan due to the union
19 requirements. Mr. Meyer, of course, did no actual analysis to support his argument,
20 he simply stated that he had been to Kentucky so trust him. The bottom line is that
21 Mr. Roberts spends 20 pages to cloud an analysis that shows management of the
22 Iatan Project in a poor light.

1 Q. Please discuss the issue of contingency and KCP&L's argument that your use of the
 2 2004 PDR and January 2006 scale up are not reasonable estimates for the project.

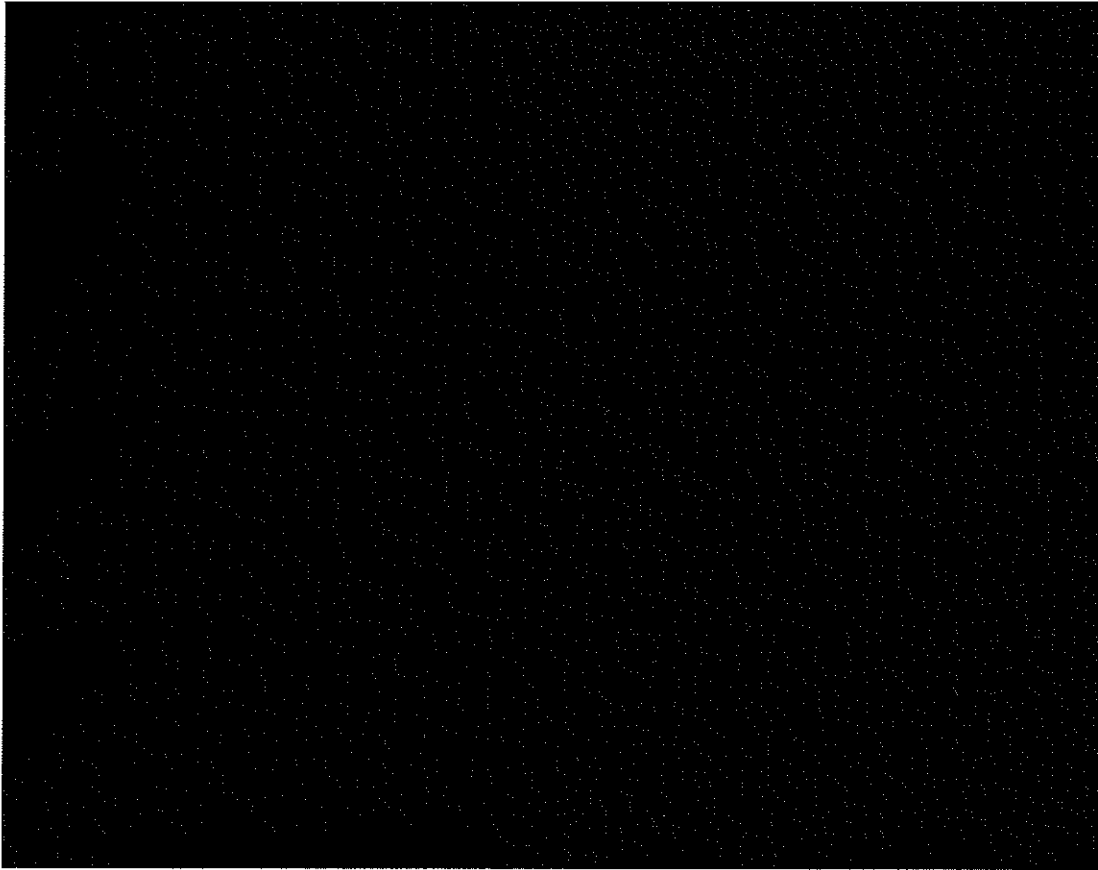
3 A First, contingency dollars included with budget estimates are provided to address
 4 unforeseen costs. A view of how contingency increased through the life of the Iatan
 5 2 project is interesting and sheds light on the root cause of cost overruns.

Estimate (\$ millions)	Base Budget	Contingency	Percent of Estimate	Percent from 1/06 Estimate
January 2006 Scale-up Estimate	\$1,246	\$97.4	8%	8%
December 2006 CBE	\$1,465	\$220.0	15%	18%
May 2008 Update	\$1,723	\$163.7	10%	38%
March 2010 Update	\$1,961	\$26.3	1%	57%

6
 7 The 2004 PDR and Scale-up in December 2006 proposed 8% of contingency and there
 8 is a great deal of discussion as to why this is reasonable. Once the CBE was
 9 produced in December 2006 both the budget and contingency were increased. Now,
 10 if one were to hold the budget to the January 2006 level we see that the contingency
 11 is at 18%. The May 2008 and March 2010 show similar increases in the budget and
 12 ultimately the percent of contingency from the January 2006 budget increases to 57%.

13 Q. What is the significance of this analysis?

14 A. This gets to the heart of the problem on Iatan 2. While the boiler island and turbine-
 15 generator were built at amounts close to the original estimate, the balance of plant
 16 costs escalated tremendously. The analysis in my direct testimony demonstrates the
 17 root cause of cost increases on this project. ***



1

2

3



4 **Q. What is significant about this \$624 million increase with regards to your testimony?**

5 A. The BOP was the area that KCP&L and its CM had direct responsibility for. Their
6 failure to properly manage the project resulted in this increase and it is this that they
7 must be held accountable for.

8 **Q. Is the end of your testimony?**

9 A. Yes.

10

