> Mr. Zobrist: Thank you, Judge. ...We believe that the evidence presented here today by Mr. Bassham and Mr. Davis as well as Mr. Cline indicate that it is likely that there will be no further delay in the construction schedule and no material additional costs will be incurred by KCPL and, in fact, that it may remain entirely within the reforecast that was presented to the Commission at the end of April and the beginning of May.

Thus, KCPL representatives indicated that they believed KCPL would have no financial responsibility for the costs of the crane accident, yet KCPL has continued to charge millions of dollars of costs incurred as a result of the crane accident to the Iatan 1 AQCS construction project.

The fact that KCPL made these representations to the Commission was, at least in part, the basis why Dr. Kris Nielsen, KCPL's prudence witness in File Nos. ER-2010-0355 and ER-2010-0356 would not take a position on the appropriateness of including these costs in KCPL's rate base. KCPL witness Dr. Nielsen explained his position at page 258 of his rebuttal testimony in that case:

> Q. Did Pegasus-Global review the Missouri Staff recommended disallowance for the May 23, 2008 crane accident for the Unit 1 project?
>
> A: Yes. According to the Staff **_____** was recorded to the Unit 1 AQCS project related to the crane accident which occurred on May 23, 2008 [Missouri Staff Report at page 41, line 6]. Further, according to the Staff KCP&L has previously testified that it had no financial responsibility for costs related to that crane incident [Missouri Staff Report at page 41, lines 13 – 19]. Because of the KCP&L statements which led the Staff to believe that 100% of the costs of that incident will be recoverable, the Staff has taken the position that the **_____** should be disallowed from the rate base for Unit 1 [Missouri Staff Report at page 41, lines 13 – 19]. Pegasus-Global has identified nothing within the project record which suggests that the crane incident or the resulting costs are attributable to any imprudent decision or action by KCP&L; however, given the statements by the Staff relative to KCP&L statements to it during a meeting on June 11, 2 2008, Pegasus-Global is not in a position to comment on or address the ultimate responsibility for the costs identified by the Staff. As a result, Pegasus-Global has at this time no definitive opinion relative to the appropriateness of this disallowance from the Iatan Unit 1 project. (ER-2010-0355,Dr. Kris Nielsen Rebuttal page 258 of 332 Emphasis added)

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8. Project Development Costs

Staff Expert: Charles R. Hyneman

Included in the Iatan 1 work order is $1,081,116 charged to WBS code 5071, Project Development. These costs consist mainly of consulting fees, internal KCPL labor, and legal fees incurred from September 2004 through March 2006 for work on the Iatan Project. Instead of trying to match these costs into the specific detailed WBS codes in the Cost Portfolio, KCPL grouped all these costs into a single line item and labeled them "Project Development." Monthly costs are not tracked in the cost portfolio prior to November 2006. In a review of the costs charged to WBS 5071, Project Development, Staff noted $426,017 in costs that are related to Iatan 2 instead of Iatan 1, which should be charged to the Iatan 2 work order, along with the associated AFUDC accrued on this amount. The charges are reflected below

Adaptive Ecosystem	Iatan 2 Section 404 Compliance	311,877
Spencer, Fane, Britt & Browne	Legal - Iatan 2 Permit	114,139
	Total	426,017

9. Severance Adjustment

Staff Expert: Charles R. Hyneman

KCPL charged $41,568 in employment severance charges to the Iatan 1 and $35,953 to Iatan 2. In Staff Data Request No. 837, the Staff asked for a copy of the severance agreements associated with the severance charges to the Iatan work orders. The severance agreements involve three former employees. The Staff reviewed these documents on December 22, 2009, at KCPL's headquarters. The severance agreements reviewed by the Staff contained the same clauses of typical KCPL severance agreements. The severance agreements contain language designed to protect KCPL officers and shareholders from potential litigation and embarrassment in reciprocation for the payment of additional benefits, cash compensation, medical coverage costs and outplacement services. KCPL requires the employee to waive and release any legal claims the employee may have against KCPL for any reason and prohibits the employee from making any disparaging or critical statements of any nature whatsoever about KCPL.

Staff asked KCPL why the cost was charged to the Iatan construction projects instead of operating expense. KCPL responded that "given that these employees were fully assigned to the

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Iatan construction project at the time of the severance, the decision was made that the severance cost should follow the labor cost and be charged to the construction project."

The Staff is proposing an adjustment to remove the severance charges from the Iatan work orders for two reasons. First, the Commission ruled in a recent KCPL rate case, Case No. ER-2006-0314, that severance costs should not be recovered from KCPL's ratepayers. In addition, the severance payments charged to the Iatan work order are not capital costs that are necessary to the construction of the Iatan 1 AQCS and will not provide benefits over future years. These charges are period costs which are charged to expense in the period incurred. The Staff is proposing an adjustment to remove the severance payments charged to the Iatan construction project.

10. Campus Relocation for Unit 2 Turbine Building

Staff Expert: Charles R. Hyneman

The Staff submitted Staff Data Request No. 730 ("DR 730") and supplemental requests regarding the costs incurred in relocating the Iatan Project trailer campus from its initial/original location at the Iatan site. The original campus design and location was developed in the summer and fall of 2006. Facility construction began in the summer of 2006. The initial trailers on site were for KCPL, and the major Iatan construction contractors, Kissick, Pullman and Alstom. These contractors mobilized to the construction site in late-summer and fall of 2006.

In the summer of 2007, the balance-of-plant contractor, Kiewit, developed a revised plan for laydown space needed for access to the turbine generator building. KCPL describes "laydown space" as a dedicated space for storage of material and equipment to be used during construction. This plan included providing a new path for unloading the turbine generator into the turbine bay.

Kiewit's plan required moving the existing campus trailers to provide the area for laydown space. Additionally, Kiewit's new plan of where it wanted to locate erection cranes caused concerns because Kiewit would be lifting loads near or over the campus. Each of the trailers was moved approximately 100 feet east in the spring and summer of 2008.

Total cost incurred for the campus relocation through June 2010 is **_____**. Of this amount, KCPL charged **_____** to Iatan 1 and **_____** to Iatan 2.

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In the Staff's opinion the only justifiable reasons why KCPL would to incur over **_____ _____** in costs to relocate construction trailers at the Iatan site are:

> 1) the original design and location of the Iatan campus was faulty and did not provide sufficient room and laydown space for the transporting the turbine generator into the Iatan 2 turbine bay. In this case KCPL would incur the cost and seek backcharges from the contractor who was responsible for the campus design and trailer locations. The back-charged costs would be credited against the project when collected. A backcharge is a charge against a contract for work performed by others that was the responsibility of the party being charged, or for repair or correction of a situation that was caused by the party being charged.
>
> 2) The cost savings or other benefits to the Iatan construction project resulting from the relocation would exceed the cost of the relocation charged to the project. In other words, the design and location of the campus was sufficient for the successful completion of the project but a change in the trailer locations would result in project savings and/or other benefits that exceed the cost of the relocation.

The Staff requested a meeting with KCPL on this issue, which was held on December 7, 2009. In attendance at this meeting was Mr. Eric Gould, a Schiff Hardin Project Controls Analyst. Mr. Gould advised that the relocation resulted in cost savings. He advised Staff that he was going to look for documentation of cost savings on the Balance of Plant contract as a result of the **_____** campus relocation. Subsequent to this meeting Staff has been advised that Mr. Gould was unable to locate any documentation supporting a cost savings associated with the campus relocation.

Staff Data Request No. 730 requests reasons why the trailers were moved. KCPL responded that the newly selected balance of plant contractor, Kiewit, found it necessary to revise the existing campus trailer locations in order to make room for unloading the turbine generator into the Iatan 2 turbine bay:

> The original campus design and location was developed in the summer of and fall of 2006. Facility construction began in the summer of 2006. The initial trailers on site were for KCP&L, Kissick, Pullman and ALSTOM, each of whom mobilized to the site in late-summer and fall of 2006.
>
> In the summer of 2007, the Balance of Plant contractor, Kiewit, developed a revised plan for laydown space needed for access to the turbine generator building. This plan included providing a new path for unloading the turbine generator into the turbine bay. Kiewit's plan necessitated the

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moving of the existing campus' trailers to provide the area for laydown space. Additionally, Kiewit's plan of where it wanted to locate erection cranes caused safety concerns because Kiewit would be lifting loads near or over the campus.

In File Nos. ER-2010-0355 and ER-2010-0356, KCPL's current Missouri rate cases, KCPL prudence witness Dr. Kris Nielsen of Pegasus Global Holdings, Inc. addressed this proposed Staff adjustment in his rebuttal testimony. Dr. Nielsen explains that the construction campus had to be relocated because the original site layout was completed in the fall of 2006 based on incomplete designs and preliminary information concerning the turbine generator and the building constructed to house the turbine generator. In 2007 when Kiewit was awarded the balance-of-plant contract, it determined that the campus trailers had to be moved so it could complete its work. The cost of this relocation was approximately **_____**. Dr Nielsen testified that he did not believe KCPL was imprudent in undertaking the campus relocation.

The Staff has not taken a position that the decision to relocate the campus was imprudent. The Staff does not believe that Missouri ratepayers should pay twice for setting up the construction trailers on the construction site. When KCPL or the owners' engineer designed the construction campus, it knew or should have known what type of space was necessary to move the turbine generator into the turbine building and should have designed the campus with this in mind. This incremental cost of locating the campus trailers a second time should be covered by KCPL or backcharged to whatever entity was responsible for the design of the campus. As the Staff has noted the original campus design was either incorrect or insufficient from the beginning and/or the decision to relocate the campus was made with the intention of realizing cost savings in other areas. KCPL initially suggested there would be cost savings, however, could not provide any documentation to support this suggestion. Dr. Nielsen describes the campus relocation at page 259 of his rebuttal testimony:

> In reviewing the issue Pegasus-Global found nothing in the project record which pointed to any imprudent decision or action by KCP&L. The original site layout was completed in the fall of 2006, well in advance of any detailed design having been received from either Toshiba or Alstom, which means that at the time the campus location planned by KCP&L was based on very preliminary and limited information relative to the size of the various structures and facilities which would ultimately be constructed to house the boiler or the turbine generator. By the time that information had been received (in 2007) much of the trailer campus had been located

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and set. As the plans for construction of the facilities were prepared (by KCP&L early and later Kiewit) Kiewit was concerned that the location of the campus posed difficulties to both the turbine equipment movement (access) and the safety of site personnel (crane siting and load swing paths). Such issues are normal in projects which are large, complex and involve multiple contractors, vendors and suppliers. Pegasus-Global found nothing that would lead it to believe that the original siting of the campus was imprudent and certainly found nothing imprudent in either improving equipment access or improving site safety in moving the campus. [Nielsen Rebuttal ER-2010-0355, page 259/260].

Staff finds that it is inappropriate to charge Missouri ratepayers the **_____** cost of locating the construction trailers on the Iatan site for the second time. Ratepayers should not be charged twice for the exact same service. The most appropriate method for KCPL to recover these costs is to seek backcharges for the cost of this work from the entity who was responsible for the initial design of the construction campus laydown area. If KCPL was responsible for this design, it should absorb these costs and not recover them from Missouri ratepayers.

11. Alstom Claim related to JLG Accident of August 25, 2007

Staff Expert: Charles R. Hyneman

On August 25, 2007, a JLG 1200 mobile man lift operated by one of Alstom's subcontractors tipped over and crashed to the ground at the project site (JLG accident). JLG is a company that manufactures various types of equipment that includes mobile lift platforms. This type of equipment provides a lift to access elevated work areas. Alstom submitted a claim to KCPL for additional time and an increase to its contract price for alleged impacts and delays arising from the JLG Incident.

In a September 27, 2007 letter from KCPL Iatan 2 Project Director Brent Davis to Gary Lexa of Alstom, KCPL noted that it had completed an investigation of the JLG accident. The investigation included conducting 12 soil compaction tests and the results of those tests confirmed that the soil compaction was within specified tolerances. KCPL indicated in its letter that it therefore ruled out abnormal, unusual or unknown soil conditions as the cause of the JLG accident. In the letter KCPL also advised Alstom it did not believe the JLG accident was a compensable event.

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In a report prepared by KCPL entitled Response to Alstom JLG and Construction Resurfacing Claim, dated January 9, 2009, at pages 63-64 KCPL listed the following "Summary of the Facts":

1. Alstom had been operating the JLG in the area for several days and was apparently satisfied with the soil conditions as no objections were raised.
2. Following an August 24 rain storm & prior to operation of the JLG the next day, Alstom should have checked the soil conditions as Alstom is responsible for its construction means, manner and methods.
3. Alstom failed to notify KCPL of any soil issues
4. The JLG was mis-operated, which caused it to tip over.
5. KCPL promptly took action (at its own cost) to:
    1. Re-Check the Soil compaction in all applicable areas-compaction found to either meet or exceed the specifications requirements
    2. Install up to 2 feet of bottom/fly ash mixture to additionally harden the surface.
6. The Balance of Plant contractor at the site uses steel plates for a level working surface for its JLG's and it is unclear why Alstom did not have the same policy if it was concerned about soil surface stability.
7. KCPL spent over **_____** on the resurfacing and to date has never asked Alstom for reimbursement, but now reserves its right to make a claim against Alstom to recover this cost.
8. Based on the aforementioned, KCPL is not liable for any of the repair cost of the damaged JLG. At page 66 of this report, KCPL noted again that the JLG fell over due to operator error.

In a document provided to the Staff by KCPL titled, *Kansas City Power & Light Company Strategic Infrastructure Investment Status Report Third Quarter 2007* KCPL described the JLG accident:

> On August 25, 2007 a serious near miss accident occurred when a JLG brand personnel lift overturned on site. The worker in the lift was able to safely make it out due to quick action by his co-workers and a nearby crane resulting in no injuries. Following the accident a root-cause investigation was conducted and operator error/mechanical failure was found to be the cause. Concern was expressed by the contractor about the soil conditions on site and soil density testing was performed. Soil samples were taken at 2 foot intervals throughout the site and all test results came back in the 100 percent + rating, thus eliminating unstable soil as the cause. A resurfacing program was undertaken by KCPL at the request of ALSTOM to install fly ash/bottom ash at the surface in access areas.

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> KCPL mandated that crane mats be used for personnel lift operational areas. No further issues have been identified.[page 37]

The JLG accident was also discussed at a Joint Owners Meeting on September 13, 2007. This meeting was attended by Mr. Blake Mertens and Ms. Karen Heady of Empire (Staff Data Request No. 437s in EO-2010-0259). The following discussion of the JLG accident took place at this meeting as reflected in the minutes of the meeting:

> Discussion of the JLG near-miss incident. The incident is still being investigated. Danny's Construction contents unstable soil was the cuase. The JLG had been working in the area for 3 days with not problem before it toppled. The individual in the basket jumped to safety in a crane basket up in the air at about 120-140 feet. By contract, the vendors must be able to deal with the soil conditions, which are sandy. Compaction testing and a scrape of 2 feet with a fill of fly ash and bottom ash has been completed. Crane mats are required as well. Danny's has violated this requirement and discussions have been held with them. Pictures of the JLG falling indicate operator error with the are over-center of gravity of the machine. Danny's released its safety manager and KCP&L is on constant watch for safety issues. Alstom sent two letters blaming KCP&L before the facts were known.

In KCPL's December 2007, Iatan 2 & Common Status Report it was noted that Alstom was willing to split the cost of the JLG accident (which it estimated to be approximately **_____**) with KCPL on a 50-50 basis. However, on December 11, 2007, Alstom rescinded this offer.

**_____

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_____** The sum of the two amounts is **_____**, and the change order effecting this March 19, 2009 settlement agreement was **_____**. This change order was signed for KCPL on April 14, 2008 by Steven Jones, an independent contractor hired by KCPL to work on the Iatan construction projects, and Steve Easley, then KCPL Vice-President of Supply.

In a Change Order Supplemental Documentation Form attached to this change order by KCPL written October 13, 2008, seven months after the JLG accident settlement agreement with

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Alstom, KCPL reiterated its belief that operator error was the cause of the JLG accident, not soil conditions. This supplemental change order documentation signed by Steven Jones and Carl Churchman, then KCPL Vice-President of Construction, provided the basis for KCPL's decision to pay Alstom **____**; costs for which KCPL believed it bore no responsibility. The rationale used by KCPL to support the payment to Alstom was that KCPL wanted to "resolve these issues and keep the project moving forward."

The JLG accident settlement with Alstom is reflected in a KCPL document referred to as R&O 360. KCPL has indicated that the cost of the JLG accident settlement claim should not be charged to the Iatan Project, at least as it relates to KCPL's Kansas jurisdiction. This matter will be addressed herein during the discussion of KCPL's payment of an Alstom claim regarding purported delays caused by KCPL's Soil Resurfacing Project.

KCPL's position that it had no financial responsibility for the JLG accident was confirmed in the rebuttal testimony of KCPL witness Brent Davis in File Nos. ER-2010-0355 and ER-2010-0356. At page 52 of his testimony, Mr. Davis reasserted KCPL's position:

> We evaluated both the merits of ALSTOM's individual claims and worked with KCP&L's senior leadership to develop a broader commercial strategy. We also reviewed the results of soil testing and KCP&L's Safety Department incident analysis which indicated that operator error or mechanical failure caused the incident and confirmed that the soil composition on site was within acceptable composition and tolerances. Based on this information, we believed that KCP&L had viable defenses to ALSTOM's claims.

In this testimony Mr. Davis describes the reasons why KCPL paid Alstom's claims for cost associated with the JLG accident despite the fact that Alstom caused the JLG Accident. Mr. Davis testified that KCPL paid Alstom's claims to get Alstom to enter into settlement discussion on other claims. In other words, KCPL used this settlement as leverage for other settlement discussions. Mr. Davis testifies:

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From Staff's review of the documentation surrounding the JLG accident, Staff concludes that KCPL developed a strong case of why it bore no responsibility for the cost of this accident. The evidence is also clear that KCPL supports Staff's conclusion. Staff does not believe it was reasonable, prudent, appropriate, or of benefit to ratepayers for KCPL to enter into this settlement agreement and pay any costs for the JLG accident. Staff is also concerned that KCPL agreed to settle this issue at exactly what Alstom originally sought to recover from KCPL. The Staff is recommending that no costs associated with the JLG accident "settlement" be charged to the Iatan construction project.

12. Alstom Claim Settlement for Delays Related to KCPL's Construction Resurfacing Project ("Resurfacing Settlement")

Staff Expert: Charles R. Hyneman

Staff reviewed several documents related to Alstom claims for delays caused by KCPL's Soil Stabilization Project, also known as the Construction Resurfacing Project. Some of these documents were provided by KCPL in response to Staff Data Request No. 408 in File No. ER-2009-0090. The Staff also reviewed KCPL documents R&O ("Risk and Opportunity") 360 and Alstom change order AP-00761. Based on its review of these and other documents, and KCPL's testimony in File Nos. ER-2010-0355 and ER-2010-0356, the Staff believes that none of the costs paid to Alstom by KCPL related to the resurfacing settlement **_____** should be included in the costs of the Iatan Project.

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This Staff position aligns with Staff of the Kansas Corporation Commission in KCPL's 2009 Kansas rate case, Docket No. 09-KCPE-246-RTS. In KCPL's 2009 Kansas rate case the KCC Staff filed testimony proposing to exclude the cost of this Alstom settlement, referred to as R&O 360. The testimony was filed by Mr. Walter Drabinski of Vantage Consulting, the KCC Staff's consultant. KCPL responded to this KCC Staff Resurfacing Settlement disallowance recommendation in the rebuttal testimony of Mr. Chris Giles, former KCPL Vice-President of Regulatory Affairs and now a consultant for KCPL. At page 2 line 19 of his rebuttal testimony, Mr. Giles testifies that KCPL "acknowledges that some of Vantage's observations have a degree of validity. KCP&L thus chooses not to challenge the disallowances Vantage proposes related to R&O 139, R&O 330 and R&O 360."

While KCPL agreed with the KCC Staff that the **_____** cost of R&O 360, the Resurfacing Settlement should not be recovered from Kansas ratepayers, KCPL continues to pursue rate recovery of these costs from Missouri ratepayers. It is important to point out that KCPL's concession on this cost is not related to any settlement between the KCC Staff and KCPL. KCPL acknowledges that these costs should not be recovered from Kansas ratepayers. KCPL should not seek to recover costs from Missouri ratepayers that KCPL has chosen not to recover from Kansas ratepayers.

According to KCPL, based on concerns for safety, it conducted a Construction Resurfacing Project on August 27, 2007 through September 27, 2007. The purpose of the project was to ensure soil conditions would support heavy equipment resting and traveling on it, and improve contractors' confidence that the soil would not be an impediment to safe operation. KCPL also advised the Staff it spent **_____** on the resurfacing project including a change order in the amount of **_____** issued to List & Clark Construction Company. As a result of KCPL's Construction Resurfacing Project, Alstom made claims for delays.

While KCPL vigorously opposed Alstom's claims, it agreed to pay Alstom **_____** to settle the claim. While the Staff is not proposing any adjustments to the cost KCPL incurred and charged to the Iatan Project for the actual cost of the soil resurfacing, it is proposing an adjustment to not include KCPL's settlement with Alstom arising from Alstom's claim that resurfacing project caused it to incur delays in accomplishing its scope of work.

As described above this settlement document between KCPL and Alstom is reflected in documents provided to the Staff in which KCPL refers to as R&O 360. The Staff also reviewed

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documentation attached to change order AP-00761 between Alstom and KCPL. The following is a statement of facts included in KCPL's R&O 360 approving the settlement:

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On March 19, 2008, Alstom and KCPL entered into an agreement to settle and resolve all claims and disputes related to the JLG accident and the Construction Surfacing Project.

As described, above in Staff's JLG accident adjustment, KCPL addressed this issue in the rebuttal testimony of KCPL witness Brent Davis in File Nos. ER-2010-0355 and ER-2010-0356. In his rebuttal testimony, Mr. Davis testified that the Iatan project team and KCPL senior management wanted to negotiate several outstanding pending issues with Alstom collectively. ** _____
_____
_____
_____
_____**

Though KCPL had strong evidence that Alstom's claims were without merit, it decided to pay them anyway. The basis of KCPL's decision to pay Alstom roughly **_____** in meritless claims was that it ** _____**

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This was an unreasonable, imprudent, inappropriate, and not of benefit to ratepayers decision of KCPL. Staff's position is supported by KCPL when KCPL agreed to the validity of the KCC Staff's adjustment to disallow the costs of these settlements. As noted above, KCPL has agreed to not seek rate recovery of the Alstom settlements related to the JLG accident and Construction Resurfacing (combined costs included in R&O 360) from its Kansas customers.

13. Employee Mileage Charges

Staff Expert: Charles R. Hyneman

In Staff Data Request No. 787 ("DR 787"), Staff asked KCPL for each KCPL employee who charged mileage to Iatan 1 environmental upgrades or Iatan 2 and to provide copies of all documentation used by the authorizing employee to verify that the mileage being reimbursed was consistent with KCPL's policy. Staff also asked for the home and business address for each KCPL employee at the time he/she requested mileage for travel to the Iatan construction site.

In its response to this Staff Data Request, KCPL stated that an authorizing employee checks to make sure a KCPL employee had business at the site and that the mileage appears reasonable given KCPL policy, and that no other documentation exists. In response to Staff's request for home and business addresses of employees who charged mileage, KCPL said that "[i]t is unduly burdensome and will not result in material information to provide home and business address for each KCP&L employee at the time they requested mileage for travel to Iatan." Staff requested this data to test KCPL's cost controls over employee mileage charges to the Iatan work orders.

KCPL eventually provided the data requested by Staff. In a supplemental response to Data Request No. 787, KCPL provided the report "*MPSC0787S – HC_Mileage_Empl_Info.xls*" that included a list of all employees who charged mileage to the Iatan Project (Iatan 1 environmental upgrades and/or Iatan 2), the employee's primary work location, and his/her home address.

Staff compared this data with the data provided by KCPL in response to Staff Data Request No. 643 in report "*Q0643_Mileage Reimbursement Charged to Iatan Projects.xls*" showing a complete list of employees who received mileage reimbursements that were charged to Iatan construction projects. A comparison of these two reports showed that KCPL reimbursed

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$51,113 of mileage charges to employees whose primary work location is listed as Iatan. The Staff is of the opinion that KCPL employees should not be reimbursed for regular commuting miles to and from their primary work location. Staff is proposing an adjustment to the Iatan 1 work order to remove this amount and the associated AFUDC.

In addition to these inappropriate employee mileage charges to the Iatan 1 AQCS work order, a review of a sample of employee expense reports showed that KCPL reimbursed its employees for excess mileage charges. Staff found that KCPL, beginning in January 2008, did make an attempt to calculate the correct reimbursable miles for these employees, but there was no indication that the mileage overcharges made prior to January 2008 were ever reimbursed by the appropriate employees and credited back to the construction work order.

After removing the mileage charges inappropriately provided to employees who were not eligible for reimbursement because their primary work location was Iatan, the pool of mileage charges remaining in the Iatan 1 work order as of May 31, 2009 was $80,234. Staff made an additional adjustment of ten percent of this amount, or $8,023, to reflect a reasonable approximation of actual overcharges that were made to the Iatan work order prior to January 2008 and estimated overcharges made after January 2008. Given the weak internal cost controls over mileage charges to the Iatan construction projects Staff believes that a 10 percent adjustment of the remaining mileage charges is reasonable.

The Staff is not opposed to KCPL charging to the Iatan Project reasonable and prudent costs for incremental mileage incurred by KCPL employees who travel to the Iatan construction site. However, Staff notes that during 2006 and 2007 KCPL paid employees who worked at the Iatan site mileage based on the distance from KCPL headquarters building in Kansas City, Missouri to the Iatan site. This amount was paid regardless if KCPL's employees lived closer to the Iatan site than the distance from KCPL headquarters to the Iatan site. Even if employees were not incurring the incremental mileage from KCPL headquarters to the Iatan site, KCPL paid the mileage charge to its Iatan employees. This overpayment continued until it was detected in January 2008, as referenced in Denise Shumaker's email to Brent Davis and David Price dated January 9, 2008 from KCPL response to Staff Data Request No. 673.

Despite having knowledge of the mileage overpayment since January, 2008, KCPL has refused to make any adjustment to remove the excess employee mileage payments that were

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charged to the Iatan Project. The Staff's adjustment corrects for KCPL's overpayment of mileage charges to its employees.

KCPL has reimbursed certain high-level employees ("Named Executive Officers or NEOs") for incremental mileage charges to Iatan on their monthly expense reports while these employees were also being paid material ($7,200 per year) car allowances by KCPL. Thus, certain KCPL employees charged thousands of dollars of incremental mileage charges to the Iatan Project while also receiving a car allowance. KCPL justified this policy of double-reimbursement of its NEOs in its response to Staff Data Request No. 645 by saying the car allowance is a "perquisite provided to executives" and the mileage reimbursement is an "employee benefit":

> Question No. : 0645 Reference pages 32 and 37 of KCPL's 2008 annual report/proxy statement; please provide the following for all KCPL employees who received a car allowance in 2006 through 2009: name of employee, amount of car allowance received by year, account charged, business purpose of the car allowance. Does KCPL pay these employees for mileage reimbursement requests? If yes, please explain why the employee receives a car allowance and mileage reimbursement.
>
> Response: Please see attached Excel spreadsheet "Q0645_Car allowances.xls" for a listing of all employees who received car allowances during 2006 through June 2009. The attachment is **highly confidential** because it contains employee-specific information. This listing includes the name of the employee, the amount received by year, and the account charged. The business purpose for a car allowance (and all other perquisites received including mileage reimbursement) provided for Named Executive Officers ("NEOs") as well as other officers is stated on page 32 of KCPL's 2008 Proxy Statement, as follows:
>
> *3. Perquisites* NEOs are eligible to receive various perquisites provided by or paid for by the Company. These perquisites are generally consistent with those offered to executives at comparable organizations with which we compete for executive talent, and are important for retention and recruitment. The NEOs are also eligible for employment benefits that are generally available to all employees, such as vacation and medical and life insurance.
>
> The philosophy and objectives of the Company's compensation program are further explained beginning on page 25 of the 2008 Proxy Statement. It is Company practice to provide a car allowance and mileage reimbursement for the same reasons as provided in the perquisites above.
>
> KCPL Supplemental Response:

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Response: The above question was clarified with Chuck Hyneman, MPSC Staff, on July 31, 2009: As provided in data request response 645, all Officers listed including NEOs and non NEOs are provided a car allowance through the bi-monthly payroll process. It has been Company practice to provide a car allowance and mileage reimbursement. As stated in data request response 645, the car allowance is a perquisite provided to executives of the Company. The mileage reimbursement is an employee benefit that is also offered to the Officer group and not considered a part of the car allowance disbursement.

The chart below reflects some of the KCPL employees who regularly charged mileage costs to the Iatan construction project. These employees also received thousands of dollars in annual car allowance paid by KCPL's ratepayers in utility rates. The Staff believes the receipt of an annual car allowance in addition to charging mileage for each trip is inappropriate, unreasonable, imprudent, and not of benefit to ratepayers and should not be charged to the Iatan Construction Project.

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14. Welding Services Incorporated (WSI) Adjustment

Staff Expert: Charles R. Hyneman

The Staff is recommending the disallowance from recovery of $12.7 million related to payment by KCPL to Alstom for additional welding services. The Staff first learned about this cost when it attended KCPL's rate case hearing in Docket No. 10-KCPE-415-RTS in August 2010 before the KCC. KCPL prudence consultant Dr. Kris Nielsen of Pegasus-Global asserted in his rebuttal testimony in that case, and under cross-examination during the hearings that because KCPL lacked adequate documentation to support the costs included in KCPL change orders on this cost and KCPL failed to follow appropriate procedures, he determined that this cost was not prudently incurred. Pegasus-Global recommended that the total amount of

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$12.7 million paid to Alstom and expended by KCPL to manage, administer and control this work be disallowed.

** _____ ** In KCPL's concern for Alstom's delays and meeting its June 1, 2010 Iatan 2 completion date, KCPL recommended to Alstom that it could improve its productivity by hiring welders from Welding Services Incorporated (WSI). WSI was a subcontractor to Babcock and Wilcox on the Iatan 1 project and KCPL was pleased with its performance.

As Dr. Nielsen notes in his testimony, under its fixed price EPC contract, Alstom is responsible for costs due to delays unless the delays and inefficiencies were the result of actions by KCPL or a third party responsible to KCPL. In the review of the documentation surrounding the WSI change orders the Staff could find no evidence that the Alstom delays and inefficiencies that led to its being behind schedule were the result of actions by KCPL or other parties. As a result, Alstom should be responsible for the cost of employing WSI to get back on schedule. Neither KCPL nor Missouri ratepayers should be held responsible for the costs. However, KCPL made payments to Alstom in the amount of $12.7 million for WSI. The costs of this Staff disallowance are reflected in the following Iatan 2 change orders:

Change Order	Description	Amount
AP01757	Welding Augmentation	$10,616,330
AP03389	Welding Services	$2,219,762
AP04205	WSI Reconciliation	$(121,495)
		$12,714,596

Dr. Nielsen is KCPL's prudence witness in KCPL's current Missouri and GMO rate cases, ER-2010-0355 and ER-2010-0356. Dr. Nielsen provided testimony in ER-2010-0355 and ER-2010-0356 substantially the same as he did in KCPL's 2010 Kansas rate case. On pages 232 tthrough 234, in his rebuttal testimony in ER-2010-0355 dated December 8, 2010, Dr. Nielsen testified that "Pegasus-Global did conduct a full analysis and did conclude that the payment of the WSI welding costs by KCP&L was imprudent." Dr. Nielsen's rebuttal testimony on this issue is summarized below:

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[redacted]**

15. Temporary Auxiliary Boiler

Staff Expert: Charles R. Hyneman

The Staff is recommending the disallowance from recovery of $5,346,049 million incurred by KCPL as of October 31, 2010 related to the use of a temporary auxiliary boiler at Iatan 2. Similar to the WSI costs found by Dr. Nielsen to be imprudent, he also expressed on page 245 of his rebuttal testimony in Docket No.10-KCPE-415-RTS before the KCC that the costs associated with the temporary auxiliary boiler were also imprudently incurred by KCPL. Dr. Nielsen provided testimony in KCPL's current Missouri rate case File No. ER-2010-0355 that his position on KCPL's imprudence as it relates to the costs associated with the temporary auxiliary boiler have not changed since he filed his testimony in KCC Docket No.10-KCPE-415-RTS.

In his rebuttal testimony in KCC Docket No.10-KCPE-415-RTS, Dr. Nielsen explained that in June 2006 the Iatan 2 Project design included an auxiliary boiler and a procurement specification had been developed to acquire that boiler and related equipment. In January 2007 KCPL eliminated the auxiliary boiler from the Iatan 2 project scope of work after it concluded that the Iatan 1 auxiliary boiler could be used to produce startup steam for Iatan 2. In June 2009, during the Iatan 2 preparation for testing and startup it was determined that the Iatan 1 auxiliary

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boiler would not be sufficient. In August 2009 KCPL rented an auxiliary boiler and recreated the scope of work for the permanent auxiliary boiler. But instead of putting the new permanent auxiliary boiler scope of work in the Iatan 2 project, KCPL put it in the Iatan 1 project. KCPL rented an auxiliary steam boiler for use until the design, procurement and installation of the permanent auxiliary steam boiler for the project was completed.

The Staff agrees with Dr. Nielsen of Pegasus-Global that KCPL, with the same design data available in June 2006 as it had in June 2009, decided to delete the auxiliary boiler from the design in January 2007, and incur the additional costs of renting an auxiliary boiler without sufficient documentation to support the decision for deleting the original scope of work.

16. Permanent Auxiliary Electric Boilers Transfer

Staff Expert: Charles R. Hyneman

Staff proposes to transfer $633,493 from the Iatan 1 AQCS costs to the Iatan Project Common Plant costs related to the placement of three (3) additional permanent auxiliary electric boilers at the Iatan site. Auxiliary boilers are extra boilers used to produce steam when the main boiler is not producing enough steam for the plant's needs. Prior to the current Iatan Project relating to the KCPL Regulatory Plan, two (2) permanent auxiliary boilers existed at the Iatan site to support the operation of the Iatan 1 generating plant.

KCPL increased overall auxiliary boiler capacity for the Iatan Generating Station by installing two temporary auxiliary boilers to support the Iatan 2 start-up activities. Additional information regarding this matter is contained in Staff's discussion of its adjustment to Iatan 2 for the use of these temporary boilers in lieu of the use of these permanent boilers being completed earlier to provide the necessary steam to support the Iatan 2 start up activities. The costs associated with the Temporary Auxiliary Boilers are reflected in the Iatan 2 cost report. These boilers are currently operational.

The Iatan Project developed an integrated schedule to expedite the design, procurement and construction of the three (3) permanent auxiliary electric boilers. KCPL intends for the three (3) new permanent electric boilers at Iatan to be cross-tied to the two existing Iatan 1 auxiliary boilers. All five (5) permanent auxiliary boilers will be piped to feed steam to both Iatan 1 and Iatan 2 as needed. The costs associated with the three (3) permanent auxiliary electric boilers are

in the Iatan Unit 1 Cost Report which were provided as attachments to the Kansas City Power & Light Company's Strategic Infrastructure Investment Status Report for First Quarter 2010. The costs for the three (3) permanent auxiliary electric boilers are in lines X035 (Mechanical Contracts Permanent Auxiliary Boilers) and 5038 (Indirect Costs-Burns & McDonnell engineering) of the Iatan Cost Portfolio. The forecasted costs for these lines at the end of October 2010 are $6 million for X035 and $0.4 million for 5038.

These boilers will serve both Iatan 1 and Iatan 2 and therefore the costs for this equipment should be charged to the Iatan Common Plant work order. KCPL expects the total cost of the three (3) permanent auxiliary electric boilers to be $7,577,732 with costs continuing to be incurred at least through December 2010. Costs that are beyond October 31, 2010 are beyond the scope of this Report.

17. Adjustments from KCC Staff Iatan 1 Audit

Staff Expert: Charles R. Hyneman

As noted above, the KCC Staff recommended several Iatan 1 AQCS construction cost disallowances in KCPL's 2009 rate case in Kansas, Docket No.09-KCPE-246-RTS. Included in this list of adjustments are costs related to KCPL R&Os 139 and 330 which were documents created by KCPL to support its May 2008 budget reforecast. More specifically, R&Os are documents created by KCPL's Iatan project team to identify potential risks and opportunities to the project that could impact cost, schedule, or both. According to KCPL, the general purpose of R&Os is to memorialize any potential impacts to the project's contingency. Each R&O was required to establish a business purpose, and provide all documentation necessary for support of the item and proper vetting. The project team identified such items as the project progressed and recorded them in individual R&O documents. There was one such document for each identified risk or opportunity that was thought to impact the project's contingency.

Item	Description	KCPL Position	Amount
R&O 330	Accelerating Delivery of Steel for Ash Pipe Rack	KCPL not challenge	** **
R&O 139	Accelerating Building and Tank Pilings	KCPL not challenge	** **
	Total		$1,948,115

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R&O 330 is related to costs to accelerate the ash pipe rack support steel delivery by 3-6 weeks. According to the KCC Staff this need for the accelerated shipping was caused by a late start with engineering.

R&O 139 was the result of additional concrete piles that were added beneath the pre-engineered buildings and tank foundations to accelerate construction schedule. A Change Order for the value of this work was issued to Kissick in the amount of **_____ _____**. According to the KCC Staff, these costs should not have been necessary. The cost was caused due to a late start on engineering and lack of adequate resources by Burns & McDonnell, KCPL's owners' engineering firm on the Iatan Project.

KCPL has agreed that some of the KCC Staff's adjustments have merit and has decided not to challenge these adjustments in Kansas. The Missouri Staff is including these adjustments intending that no imprudent, unreasonable, inappropriate, or no benefit to Missouri ratepayers charges are included in the Iatan Construction Project. The below list of R&Os and the associated dollar amounts are the R&Os that KCPL agreed not to seek rate recovery of from its Kansas customers. This concession by KCPL was provided in the rebuttal testimony of Mr. Chris Giles, KCPL former Vice President of Regulatory Affairs. Given that KCPL agreed that these costs should not be charged to its Kansas customers, the Staff believes it is only reasonable that KCPL should not seek different rate treatment for its Missouri customers for the same costs. Therefore, the Staff is proposing to remove the costs of these R&Os from the Iatan 1 construction project.

18. Alstom Unit 1 Settlement and Forgone Liquidated Damages

Staff Expert: Charles R. Hyneman

In a July 18, 2008 settlement with Alstom, KCPL agreed to pay Alstom **_____** to settle Alstom's claims against KCPL. The Staff believes that the **_____** payment made to Alstom should be borne by the party responsible for this incremental project cost. Based on its audit, the Staff has concluded that the responsible parties for this incremental cost are Alstom itself, Burns & McDonnell and KCPL. Missouri ratepayers were certainly not responsible for the creation of this additional project cost and they should not bear the responsibility for this incremental cost. KCPL also forfeited its right to assess and collect **_____** in liquidated

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damages which it believed it would be due. Staff has found no documentation supporting any reason for a change in KCPL's position that it was entitled to receive up to **_____ _____**. This amount of liquidated damages was to be due from Alstom for not meeting its Unit 1 provisional acceptance date even after **_____ _____**, based on what KCPL believed were Alstom delays for which Alstom did not bear responsibility. The Staff is taking the position in this case to remove the **_____** settlement payment by KCPL to Alstom. In addition, the Staff is reducing the cost of the Iatan Project by the **_____** in liquidated damages that KCPL decided not to assess to Alstom.

In response to Staff Data Request No. 633, Staff reviewed Risk and Opportunity (R&O) Analysis Sheets item numbers 367a, 367b and 367c prepared by KCPL on April 23, 2008. In these R&Os, KCPL noted that it had evaluated Alstom claims against KCPL in the amount of **_____** resulting from what Alstom asserted were delays to Alstom's work on the Iatan AQCS due to contract performance delays caused by KCPL and force majeure events. KCPL's Iatan Project Team evaluated a potential cost exposure in the range of **_____** to **_____ _____ _____ _____ _____**.

Because of the existing KCPL claims against Alstom and Alstom's claims against KCPL, **_____**. KCPL calculated the budget contingency amount by including the **_____** Alstom claim **_____ _____**. This amount was further reduced by the amount that KCPL moved into the current budget of **_____** for a net contingency range of **_____**.

The origin of the Alstom Unit 1 Settlement was a claim submitted by Alstom to KCPL in the amount of **_____ _____**. The claim also included amounts for KCPL paying Alstom for additional labor costs to support the acceleration. Alstom asserted that its claim is based on KCPL-caused delays and force majeure

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delays in Alstom's work on the Unit 1 AQCS. In evaluating this claim (as reflected in R&O 367a, attached as Schedule 4) **_____ _____ _____ _____ _____**.

In R&O 367b, attached as Schedule 5, **_____ _____**. This calculation was based on liquidated damages of **_____** for each day that Alstom was late in meeting its contract requirements for Provisional Acceptance. The original contract date for Provisional Acceptance was December 16, 2008. If KCPL gave Alstom the additional **_____** it requested for the Unit 1 outage, the revised Provisional Acceptance date would move **_____**. In April 2008, when this Alstom claim was being addressed in the Unit 1 budget through KCPL's R&O process, Alstom indicated that it would not complete the requirements of Provisional Acceptance until the earliest of April 1, 2009 **_____** and the latest of May 1, 2009 **_____ _____**. In adjusting its Iatan 1 budget based on this information, KCPL subtracted from Alstom's **_____** its low-end range for liquidated damages of **_____** and then subtracted what it believed could be a claim by Alstom if Alstom could establish entitlement, which as describe above is **_____ _____**. In R&O 367c, attached as Schedule 6, KCPL increased this contingency by adding **_____** to the project reserve contingency.

It is clear from the documentation provided to the Staff by KCPL that in April 2008, KCPL believed it would be entitled to liquidated damages based on Alstom's inability to meet the Unit 1 Guaranteed Provisional Acceptance date of December 16, 2008. Even after giving Alstom **_____**, and extending the Unit 1 Guaranteed Provisional Acceptance date to February 1, 2009, resulting in a cost of KCPL of approximately **_____ _____ _____** KCPL believed it was due **_____** in damages as Alstom might not finish until May 1, 2009. In fact, as reported in response to Staff Data Request No. 658 by KCPL on

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February 18, 2011, Alstom did not meet Unit 1 Guaranteed Provisional Acceptance Date until May 1, 2009. This date is **_____** after the Guaranteed Provisional Acceptance date specified in the KCPL/Alstom EPC contract and calculated to a liquidated damages amount due to KCPL of **_____**. Out of the total **_____**, KCPL gave Alstom **_____** valued at **_____** and the Staff is not taking issue with this grant by KCPL to Alstom.

However, KCPL has not made a convincing, i.e., what the Staff would consider to be reasonable and appropriate, showing why the remaining **_____** that Alstom was late was not the fault of Alstom. The end result is that due to this delay of **_____**, someone is responsible for **_____** in damages. If it is not Alstom, then Alstom should not pay these damages. If it is another contractor, that contractor ought to pay these damages. If it is KCPL through its own fault, then KCPL should absorb these damages. Missouri ratepayers should not pay for the loss of these damages without any analysis of by whose fault were they caused. For example, were these damages caused by the fault of no one? Two common examples where this would occur is through events known as Force Majeure and differing site conditions. Force Majeure is where an act or condition occurred which resulted in delays and additional costs that were beyond the control of any entity. Differing site conditions occurs when a condition at the construction site was in a condition that was not foreseeable by the contractor through its own due diligence in investigating the site conditions prior to bidding on a contract.

KCPL asserts that there were two events that caused an extension of Alstom's work and extended its Guaranteed Provisional Acceptance. One was the issue with the Unit 1 economizer which required additional repair that was unforeseen until the damage became apparent during the Unit 1 outage. Another was the damage to the rotor which occurred during Unit 1 startup. At this point, KCPL has not made a showing that the **_____** it gave away to Alstom as a part of the Unit 1 settlement was not sufficient to cover these two events. Until KCPL makes a convincing showing and proves that Alstom was entitled to each and every day of its **_____** late for Unit 1 Provisional Acceptance, the Staff is proposing that KCPL absorb the **_____** in forgone liquidated damages, which was described above.

Mr. Carl Churchman, KCPL's then Vice President of Construction, submitted testimony before this Commission in Case No. ER-2009-0089 on the July 18, 2008, Alstom Settlement Agreement. In his March 11, 2009, rebuttal testimony, starting at page 3, line 4, Mr. Churchman described his involvement in and his understanding of the terms of the Alstom Unit 1 Settlement:

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Q: What was your involvement with the ALSTOM Settlement Agreement?

A: During my first week as Vice President of Construction, I was involved in negotiation sessions with ALSTOM over the terms under which ALSTOM's would agree to implement the revised Unit 1 baseline schedule (the "Revised Unit 1 Schedule") that had been previously established by the Tiger Team. As discussed by Company witness William Downey, the Revised Unit 1 Schedule increased the outage length from fifty-six to seventy-three days to accommodate all of the necessary outage work. I was part of a team that engaged in direct negotiations with ALSTOM's management in Bethesda, Maryland, at the offices of Jonathan Marks, who facilitated those discussions. I continued to be engaged in these negotiations over the next several months until the ALSTOM Settlement Agreement was completed on July 18, 2008.

Q: Are you familiar with the terms of the ALSTOM Settlement Agreement?

A: Yes. Under the ALSTOM Settlement Agreement, ALSTOM agreed to **____**. These non conformance issues also carried considerable value to KCP&L because their resolution could have impacted KCP&L's ability to obtain an occupancy permit from Platte County.

The ALSTOM Settlement Agreement also included **____**

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To the extent that Alstom's claims were caused by improper KCPL project management actions or inactions, these costs should not be charged to the Iatan Project. Staff recognizes that force majeure claims and other potential claims by contractors may occur on this project through no fault of KCPL. Staff also recognizes that these costs may be unavoidable and it may be necessary that they be a part of the cost of the project. However, Staff is not convinced that Alstom's claims against KCPL were not the fault of KCPL's project management, raising the question of KCPL's prudence and whether Missouri ratepayers should be responsible for these costs.

Kris R. Nielsen, a consultant for KCPL, filed testimony on behalf of KCPL in Kansas Corporation Commission Docket No. 10-KCPE-415-RTS, KCPL's 2010 Kansas rate case in which the prudence issues of Iatan 2 were addressed. In his rebuttal testimony at page 41 in this docket, Mr. Nielsen addressed the issue of contractor claims on a construction project. Mr. Nielsen made the following statement with which the Staff agrees:

> The fact that a claim was submitted on a project does not suggest that a management decision was imprudent. In fact, even the validity of a claim does not suggest that a management decision was imprudent. One must review and understand the circumstances giving rise to the claim, and the event to which an allegedly imprudent decision of management – based upon facts known or reasonably available at the time of the decision – caused the costs being claimed.

In its review of the **_____** Alstom settlement, the Staff attempted to understand the circumstances which caused the claim. The Staff has concluded that both KCPL and Alstom

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bear some responsibility. Alstom was due payment for delays and other circumstances that appeared to be under the control of KCPL or other contractors who work for KCPL. KCPL and not Missouri ratepayers should assume responsibility for these costs. If KCPL bears the responsibility, it should also absorb the cost. If other vendors under KCPL's control on the project, such as its owners' engineer Burns & McDonnell caused the cost to be incurred, these contractors should absorb the cost. Missouri ratepayers should not be responsible for bearing these costs. Likewise, if Alstom was the responsible party, it is KCPL's responsibility to manage this project and hold Alstom accountable to comply with its contract terms and conditions. While it may be difficult to manage a difficult contractor like Alstom, a well-organized focused and experienced Project Management team should be up to this task. KCPL's Project Management Team, however, was not up to this task.

In accounting for the cost of the **_____**, KCPL made no attempt to quantify the costs that may have been caused by its own project management team or the engineering firm it hired to represent KCPL on the Iatan Project, Burns & McDonnell ("B&McD"), or any other Iatan 1 contractor or subcontractor. **_____

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_____**. KCPL simply paid Alstom **_____** and charged all **_____** to the Iatan Project.

For example, in a letter from KCPL to Alstom dated March 6, 2008 (attached to R&O 367a, attached as Schedule 4), Alstom noted at page 4, paragraph 1.9, Late Review of Alstom Engineering Documents, that Alstom had repeatedly advised KCPL that Burns & McDonnell was not returning drawings to Alstom within 10 business days (14 calendar days) of receipt and that this failure was adversely impacting Alstom's engineering performance. In this letter, Alstom noted that even KCPL acknowledged this Burns & McDonnell performance problem in letter KCPL/ALSTOM/009. In this letter, KCPL noted Boiler Submittals and AQCS Submittals that Burns & McDonnell were significantly late. While recognizing KCPL's data on Burns & McDonnell's delinquent performance, Alstom noted that it believes Burns & McDonnell's

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performance had actually been worse. Alstom also noted that while Burns & McDonnell's performance since April 2007 had improved, Alstom still advised KCPL that there continued to be significant delays in Burns & McDonnell returning Alstom's documents. Alstom even stated that some documents were months late and that this caused additional rework and inefficiencies in the performance of Alstom's engineering and design. Alstom estimated that the impact to its engineering and design work, just for the period November 2006 through February 2008, was ** ____________________ **. However, KCPL, even after being made aware of this data, did not backcharge Burns & McDonnell or assess any penalties or damages to Burns & McDonnell. KCPL's decision was to pass on this additional cost of substandard performance by its owner's engineering contractor to Missouri ratepayers. The Staff finds this action imprudent, unreasonable, inappropriate, and not of benefit to ratepayers.

** ____________________

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[redacted]

After reviewing the documents surrounding this transaction, Staff sees no basis that any of the **_____** paid by KCPL should be charged to the Iatan 1 project to be recovered from ratepayers. By paying off Alstom and charging the settlement to the project, KCPL is absolving itself of any mismanagement on its part or on the part of other potentially responsible parties.

An additional concern is that if the Alstom settlement is allowed to stand, KCPL's customers will suffer the harm of KCPL management's decision **_____ _____**. Staff is recommending that none of the **_____** Alstom settlement

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costs be included in the Iatan 1 work order and the Staff is adjusting the Iatan 1 work order to include the **_____**.

Kenneth M. Roberts, an attorney for Schiff Hardin LLP, filed testimony on behalf of KCPL in Kansas Corporation Commission Case No. 09-KCPE-246-RTS. In supporting the Alstom Settlement before the KCC, Mr. Roberts states at page 3 of his rebuttal testimony in that case:

> I would also like to emphasize that I agree with Dr. Nielsen's testimony that potential or actual construction claims by contractors are not an appropriate measure of prudence. It is not uncommon for contractors to submit claims for no other reason than to attempt to extract more money from an owner, particularly with a fixed-price contract. Decisions whether to settle such claims are made in the best interests of the project, and therefore, a settlement can be a prudent decision.

Mr. Roberts' comments were in response to a proposed KCC Staff adjustment, similar to the MoPSC Staff adjustment in this case to remove costs of the Alstom settlement from the Iatan 1 AQCS construction work order.

The Staff does agree, however, with Mr. Roberts that it is not unusual for a contractor to file a claim on a construction project. It may not even be unusual for a contractor to submit a claim for no other reason but to attempt to extract more money from an owner. In fact, that is what the Staff believes did occur in the Alstom Settlement.

The Staff believes that it was likely that Alstom had legitimate claims against KCPL for **_____

_____

_____**. In addition, because of KCPL's inexperienced Project Management team, Alstom seems to have been able to take advantage of this situation to the detriment of KCPL and potentially to KCPL's ratepayers. To the extent Alstom did delay the completion of the Iatan Project, KCPL failed to hold Alstom accountable.

In the March 2007, Ernst & Young Phase 1 Risk Assessment, **_____

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While the Staff is not asserting that KCPL's decision to enter into a settlement with Alstom is imprudent, the Staff is asserting that none of the additional Project costs incurred as a result of the settlement should be charged to Missouri ratepayers. Given the record, there is a lack of acceptable justification of, or any justification for, this settlement put forth by KCPL. **_____ _____ _____ _____ _____ _____ _____**. **_____ _____**. To charge Missouri retail customers for additional project costs clearly caused by both KCPL in its management of the project, Alstom in its poor contract performance, and KCPL's owner-engineering firm Burns & McDonnell, is unreasonable and should not be allowed. Furthermore, KCPL was entitled to **_____ _____**. Liquidated damages represent real costs to the Project. Just as the Staff is asserting that the parties responsible for causing the need for the **_____** Alstom Unit 1 settlement need to be identified and charged their pro rata share of these costs (primarily KCPL, Alstom and Burns & McDonnell), the Staff is also asserting the same for the foregone liquidated damages. If Alstom's actual performance compared to its contractually-required performance caused the incurrence of liquidated damages, Alstom should be assessed. If Burns & McDonnell caused Alstom's work to be delayed to the point it could not meet its contractually-required Provisional Acceptance date, Burns & McDonnell should be assessed a portion of these damages. If KCPL's lack of effective management of Alstom and Burns & McDonnell led to these costs, KCPL should absorb these costs.

19. KCPL's Iatan 2 Alstom Settlement

The Iatan 2 construction project contains an additional cost of **_____** because KCPL entered into the Unit 2 settlement agreement with Alstom that was ("January 2010 Alstom Settlement Agreement" or "Settlement Agreement") signed on January 13, 2010 by Mr. William

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Downey, KCPL's Chief Operating Officer. **_____

_____

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_____**.

In accordance with its contract with KCPL, Alstom was required to meet Guaranteed Provisional Acceptance for Iatan Unit 2 on June 1, 2010. Alstom did not actually achieve Provisional Acceptance until September 23, 2010 for a total of 114 days after this required date. The KCPL-Alstom EPC contract called for liquidated damages in the amount of **_____** per day for each day after June 1, 2010, that Alstom did not achieve Provisional Acceptance. Accordingly as shown in the chart below, KCPL would have the right to assess Alstom **_____** in liquidated damages against Alstom for failing to meet its contractual Iatan 2 Provisional Acceptance or completion date.

Iatan 2	Provisional Acceptance
Alstom Guaranteed Contract Provisional Acceptance Date	6/1/2010
Alstom's Actual Provisional Acceptance Date (DR 658)	9/23/2010
Number of days late	** **
Constract required Liquidated Damages per day late	** **
Total Liquidated Damages Assessable by KCPL to Alstom	** **

However, KCPL never assessed Alstom any liquidated damages for any of its delays in completing Unit 1 or Unit 2. KCPL has not explained the reasons why it did not assess Alstom **_____** for Alstom's **____** delay in completing Iatan Unit 2. The Staff is not aware of any justification for the delay in Unit 2 completion, such as force majeure event, extremely severe weather conditions, or other events and circumstances that occur on a efficiently-run well-managed construction project. The Staff believes based on the evidence it reviewed in its audit that the delay in the completion of Iatan Unit 2 was caused by Alstom's substandard performance as measured against its contract, poor performance by KCPL's owner-engineer, Burns & McDonnell, and KCPL's lack of effective management of the Iatan 2 construction project.

Because liquidated damages are not penalties but represent an estimate of actual costs incurred to the owner of a project when the project is not completed on time, it is logical to assume that the Iatan 2 construction project costs were increased by **_____** due to the

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project being completed on September 23, 2010, as opposed to June 1, 2010. For example, because Alstom did not complete the project on schedule on June 1, 2010, KCPL accrued an additional **_____** in AFUDC charges alone for the period June 1, 2010, through August 26, 2010, the date Iatan 2 was placed in service. KCPL incurred these costs and is proposing to charge these costs to Missouri ratepayers simply because Alstom did not complete the project on time. In addition, because Iatan 2 was not operating at June 1, 2010, KCPL potentially incurred additional purchased power costs and experienced lost opportunities for off-system sales during startup that would be credited back to the construction project. These are the types of additional costs that are included in the **_____** per day calculation of liquidated damages for each day that Iatan Unit 2 did not meet Provisional Acceptance. These liquidated damages represent real costs and foregone revenues that are being charged to Missouri ratepayers simply because Alstom could not complete the project on time or was delayed in the completion of its work.

KCPL needs to explain who was responsible for the project being delayed by **_____** and not just absolve itself from responsibility by charging its customers the full cost of this delay. KCPL needs to step up and take responsibility for these costs and the proper allocation of these costs. If it was Alstom that was at fault, it should assess liquidated damages against Alstom. If it was another contractor, it should assess costs to that contractor. If it was KCPL's fault, KCPL's shareholders should absorb the cost for this delay. If it was Force Majeure or caused by events or circumstances that were beyond the control of any entity, then KCPL needs to make an accounting of this and appropriately allocate the cost to the cost-causer. Just because this **_____** was not assessed does not mean the costs were not incurred. They were incurred and KCPL must provide an accounting of these costs

In addition to the fact that the Iatan 2 Project cost was increased by **_____

_____

_____**. Not only did Alstom not meet its original contractually-required milestone dates, it did not even meet the revised milestone dates agreed to in the Iatan Unit 2 Settlement. **_____

_____

_____**. According to KCPL's response to Staff Data Request No. 658 in File No. ER-2010-0355, received by the Staff on February 18, 2011, Alstom did not achieve Provisional Acceptance until September 23, 2010, a full 2 months

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after the milestone date in the settlement agreement. Nonetheless, KCPL paid Alstom the full **_____** on September 27, 2010, for "meeting" a milestone date it did not meet. Unless KCPL can provide reasonable justification **_____ _____**, this is a clear and distinct example of unreasonable / inappropriate behavior. As the chart below shows, except for the minor milestone dates that were presumably met by Alstom before the date of the settlement agreement (January 13, 2010), it appears that none of the substantive revised milestone dates were met or were even close to being met. ** ___ _____**

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Dr. Kris Nielsen, KCPL's prudence witness on the Iatan Project in KCPL's Kansas rate case and KCPL's current Missouri rate case, made the following statement in his rebuttal testimony in Kansas Docket No. 10-KCPE-415-RTS at page 240:

> Under its Fixed Price EPC contract, Alstom was responsible for these costs to recover delays unless the delays and inefficiencies were the result of actions by KCP&L or a third party responsible to KCP&L.

The Staff agrees completely with Dr. Nielsen's statement. Alstom has a fixed-price EPC contract. This means that Alstom is responsible for completing the contract work scope and may charge KCPL no more than the firm fixed-price amount of the contract for that work scope. In fact, because Alstom takes on more monetary risk under a fixed-price contract than under a non

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fixed-price contract, it is assumed that the fixed-price contract bid includes an extra premium for taking on this monetary risk.

KCPL witness Ken Roberts of Schiff Hardin points out in his rebuttal testimony in Docket No. 10-KCPE-415-RTS that it is not unreasonable for contract modifications or change orders to increase the price of a firm fixed-price contract. This is certainly true. There are several reasons why the cost of a firm fixed-price contract may be increased, such as increased scope of work and delays imposed upon the firm fixed-price contractor through no fault of its own. That appears to be the cause of at least part of the increased cost of Alstom's firm fixed-price contract. Since KCPL agreed to make these bonus payments, as Dr. Nielen states, "the delays and inefficiencies were likely the result of actions by KCPL or a third party responsible to KCPL." It would not make sense and it would not be prudent to pay a contractor who is performing poorly due to its own fault a bonus to perform the work faster. Effective construction management would ensure the assessment of liquidated damages and hold the contractor responsible for its performance. If these delays and inefficiencies were the result of actions by KCPL, KCPL's shareholders should absorb these costs. If these delays and inefficiencies were the result of third parties responsible to KCPL, KCPL's Project Management team should seek appropriate compensation for these bonus payments it made to Alstom under this agreement.

The facts surrounding Alstom's contractual performance on Iatan Unit 2 are clear. It was contractually required to achieve Provisional Acceptance on June 1, 2010. It did not achieve Provisional Acceptance until 114 days later on September 23, 2010. According to KCPL's contract with Alstom, if Alstom did not achieve Provisional Acceptance by June 1, 2010, it would be liable for liquidated damages to KCPL in the amount of **_____** per day. This totals to **_____ _____**. Throughout its performance on Iatan 2, Alstom continually missed meeting major milestone dates. KCPL agreed to forgive these contractually-required dates and give a Alstom a free time extension and new milestone dates. KCPL even decided to **_____** if it met these revised milestone dates. Alstom failed to meet its original and revised milestone dates, **_____ _____**. The Staff believes that the Cost of the Iatan 2 Project should

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be reduced by the **_____ _____**.

20. Enerfab Adjustment

Staff Expert: Charles R. Hyneman

Ernst & Young, KCPL's outside auditing firm hired to assist KCPL with audits of the Iatan Project, conducted an Iatan Construction Project Materials Management Review and published a Report of its audit dated October 2009. In this report, Ernst &Young made the following findings, among others:

1. **_____ _____
2. _____ _____ _____ _____
3. _____ _____ _____
4. _____ _____ _____ _____ _____
5. _____ _____**

In a deposition taken of David M. McDonald, KCPL's Director of Procurement on January 25, 2011, Mr. McDonald stated he was not aware of any contractors who had the ability to purchase good on KCPL's behalf. Mr. McDonald also indicated that he did not believe that it would be appropriate for a company to have the ability to purchase items on KCPL's behalf. However, as noted above, Enerfab did and possibly still does have that ability. A portion of the transcript of this deposition is shown below:

> Q. Do you know whether Enerfab had the authority to purchase goods on KCPL's behalf?

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A. I'm not aware of such authority.

Q. Do you know whether any Iatan contractors have the authority to purchase goods on KCPL's behalf?

A. I'm not aware of any such authority.

Q. Is it appropriate to have contractors have the ability to purchase goods on the company's behalf?

A. I would say not on the company's behalf. Sometimes in warehousing arrangements you'll have vendors maintain warehouse stock at their risk, but I wouldn't call that purchasing goods on behalf of the company. They act -- it's more of an active warehouse stocking management plan that's very common in industry.

Ernst & Young noted that KCPL entered into a contract with Enerfab for site support services under a Time and Materials contract. The initial award to Enerfab was **_____**. Through July 31, 2009, this contract amount had increased from **_____**. The Staff has reviewed additional documentation that shows Enerfab was awarded a Purchase Order (which is being used as a substitute for a contract with Enerfab) on August 3, 2006, in the amount of **_____**. At page 7 of its Audit Report, Ernst & Young provided to KCPL the following recommended action plan to address its findings:

- **_____
  _____
  _____
- _____
  _____
  _____
- _____
  _____
- _____
  _____
  _____
  _____
  _____
- _____
  _____
  _____**

KCPL's response to this recommendation as shown at page 7 of the Ernst & Young Audit Report was:

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1. **

2.

3.

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5.

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_____

_____

_____

_____**

The Staff first reviewed Enerfab Change Order EF-03238 dated September 14, 2009, for an estimated amount of **_____**. The Change Order stated that the reason for the change to the Purchase Order was that KCPL expanded the footprint to include new facilities for Start-Up/Commissioning and training. The 18-plex was installed in the third quarter of 2009 to support these activities, which will continue through December 31, 2010. In the nature of the change space on the Change Order, it indicates that the increase in the Purchase Order was to cover costs associated with labor cost and material for the cleaning of the new Start-up Complex for the period of time starting July 1, 2009, and ending December 31, 2010. This change order was signed by Brent Davis, Iatan 2 Project Director on February 9, 2010, and Robert Bell, Senior Director of Construction, also on February 9, 2010.

On March 22, 2010, Mr. Brent Davis signed Enerfab change order EF-04145 for **_____**. Mr. Bell signed this document on March 29, 2010. In the body of this change order it states that change order EF-0328 was processed for the Enerfab Purchase Order to cover costs associated with past due invoices. It also explained that this change order EF-04145 was being processed to cover the labor for cleaning the Start-up trailer for the period July 1, 2009, through December 31, 2010.

The first concern the Staff has with these change orders is that is shows that KCPL is allowing contractors to perform work in excess of the contract amount. There was no documentation provided with the change order that indicated that Enerfab was authorized to perform work and incur costs that exceeded the authorized funds in its Purchase Order. After the apparently unauthorized work was completed, KCPL issued a Purchase Order to fund the unauthorized work. This appears to be breakdown in KCPL's change management and cost control system. As a standard rule, no contract work should be authorized without a contract or purchase order in place to cover the cost of that work.

The second concern is the cost of this change order. From the documentation reviewed by the Staff, KCPL agreed to pay Enerfab over **_____** based on an estimated cost of cleaning a startup trailer. KCPL, without any apparent negotiation or attempt to justify the

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reasonableness of the price, decided to pay Enerfab for two laborers **_____** of straight time per week (at $54 per hour) and **___** of overtime at ** _____** for a total of **_____** to clean construction site trailers. Added to this estimate was 10 hours of night shift work per week for **___** and "a few Saturdays" for a cost of **___**. Added to this cost was **___** in supplies and a **____** markup on supplies. The total cost was **____**. This amount is arrived at by adding the Enerfab Change Order EF-03238 dated September 14, 2009, and the Enerfab Change Order EF-04145 for **_____** dated February 25, 2010. This contract proposal was submitted from Enerfab to KCPL on June 23, 2009. The total amount "estimated" by Enerfab was **_____**, the same amount adopted by KCPL in its change orders.

The cost for this type of service is excessive and unreasonable. As noted in a October 2009 Project Controls KCPL internal audit, there is specific required documentation to be included with Change Orders:

**_____
_____
_____
_____
_____
_____
_____
_____**

Because there is no documentation included with the change order documentation to support how KCPL determined the reasonableness of this **_____** charge to Iatan 2 (which included **___** per hour rates for cleaning site trailers) coupled with the fact that this cost appears excessive and unreasonable, the Staff has determined to adjust the cleaning labor rates to 50 percent of the rate charged by Enerfab to KCPL (**___** per hour for **_____** a week for **_____** plus cleaning supplies). Since the Iatan Unit 2 was declared in service on August 26, 2010, the Staff will continue the trailer cleaning through August 2010 (July 2009 through August 2010 is 58 weeks). Costs incurred subsequent to this date should not be charged to the construction work order. This adjustment totals **_____**. If KCPL did not charge this full amount to the Iatan 2 project, as it apparently did, the Staff will refine this adjustment at a later date.

The Staff also reviewed Enerfab Change Order EF-01855 dated February 19, 2009. In the Change Order it explains the reason for this contact change as follows:

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> The original Purchase Order was established in the amount of **_____** at the time of project mobilization. The verbiage granted KCP&L the option to expand the PO value, as the workforce grew and temporary infrastructure expanded to accommodate a peak headcount of what would become roughly 3800 personnel. The Pos value has methodically grown through specific changes to Enerfab's Scope as well as by annual estimates jointly developed by KCP&L Supply Chain, KCP&L Project Controls and Enerfab management.

The amount requested in the Change Order is the latest incremental increase to account for November and December 2008 invoices and a 2009 estimate. This Change Order was signed by Mr. Brent Davis on March 11, 2009. The other approving signature block was for Ms. Lora Cheatum as VP Procurement; however, Ms. Cheatum did not sign this document. The document, under Ms Cheatum's signature block, was signed by Mr. Carl Churchman on March 13, 2009. It was also signed by KCPL's President and Chief Operating Officer, Mr. William Downey, on March 18, 2009. This Change Order represented additional funding for Unit 1 in the amount of **_____** and additional funding for Unit 2 of **_____** for a total Change Order amount of **_____**

In the Nature of Change section of the Change Order it states that the Change Order was needed to increase the Purchase Order to account for fourth quarter 2008 invoicing and capture anticipated Site Support costs through December 31, 2009. As noted, this Change Order was not authorized by Mr. Downey of KCPL until March 18, 2009, and through this Change Order, he authorized payment for services that were performed during the period August through December 2008. This is another example where KCPL authorized changes to the contract price after the work has been completed. This behavior is contrary to the way Change Order procedures are supposed to work. Without documentation to support a finding that Enerfab was authorize to perform contract services in the fourth quarter 2008 through March 18, 2009, the date the Change Order was signed, it can only be assumed that Enerfab was performing unauthorized work on the project. Also, there was no documentation with this Change Order indicating that the **_____** cost for this work was fair and reasonable.

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21. Iatan 2 Executive Bonus

Staff Expert: Charles R. Hyneman

KCPL hired Mr. Carl Churchman as Vice-President of Construction in May 2008 and put him in charge of the day-to-day operations of the Iatan Construction Project. Mr. Churchman was hired at a base salary of $252,000 (Staff Data Request No. 153). In late 2009, KCPL removed Mr. Churchman from day-to-day responsibility of the Iatan Project and moved him to its headquarters building in Kansas City. Mr. Churchman left KCPL shortly thereafter. According to KCPL's response to Staff Data Request No. 406 in this case, question No. 3, KCPL stated that the "effective date of Mr. Churchman's termination was 5/19/10." This data request also shows that Mr. Churchman was paid an "ad hoc" bonus of $100,000 on February 13, 2009, charged to Project 52-00123, which is the primary KCPL project for Iatan 2. During the course of its audit, the Staff reviewed Mr. Churchman's employment letter with KCPL as well as other compensation-related documents and GPE Board of Director materials related to Mr. Churchman's compensation. From the reading of these documents, the Staff developed the understanding that bonus payments payable to Mr. Churchman were contingent on meeting certain specific criteria related to the successful completion of Iatan 1 AQCS and Iatan 2 that were not met. There is also specific language in these documents that state that "no part of this bonus shall be payable upon termination for any reason prior to December 31, 2010." Given that both Iatan 1 AQCS and Iatan 2 resulted in significant cost overruns and both projects were completed after the budgeted completion date, that Mr. Churchman was removed from the day-to-day management of the Iatan 2 project, and that Mr. Churchman's termination date was three months prior to the Iatan 2 completion date, there does not appear to be any justification for Mr. Churchman's $100,000 bonus charged to Iatan 2.

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IX. Empire's imprudence in failing to engage in activity such that there was not a cost control system developed and in place that identifies and explains any cost overruns above the definitive estimate during the construction period of Iatan 2 and the environmental enhancements at Iatan 1.

1. Unidentified and Unexplained Cost Overruns

Staff Expert: Charles R. Hyneman

During the Staff's Iatan construction audit/prudence review, the Staff reminded KCPL of its obligation under the Regulatory Plan to document, identify and explain any cost overrun above the definitive cost estimate of both of its Iatan 1 and Iatan 2 construction projects. In the Staff's opinion, KCPL has disregarded this responsibility and the terms and conditions of the Regulatory Plan. The Experimental Alternative Regulatory Plan Stipulation and Agreement, page 28, Case No. EO-2005-0329 states:

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

Cost control can be defined as the application of procedures to monitor expenditures and performance against progress of projects or manufacturing operations; to measure variance from authorized budgets and allow effective action to be taken to achieve minimum costs. Likewise, a Cost Control System can be defined as any system of managing costs within the bounds of budgets or standards based upon work actually performed. (AACE International Recommended Practice No. 10S-90, Cost Engineering Terminology March 5, 2010).

On February 21, 2008, Staff counsel sent a letter to Messrs. William Riggins and Curtis Blanc of KCPL, among others, requesting a prompt meeting with the Signatory Parties to the Regulatory Plan Stipulation and Agreement. The Staff requested the meeting to discuss six topics:

> 1) the actual practice respecting, and content of, notification to the Signatory Parties of changed factors or circumstances relating to the adequacy and reasonableness of KCPL's Resource Plan;

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2) the decision to construct and build Iatan 2 without completion of substantial engineering design;

3) the status of the construction schedule and definitive cost estimate for the completion of the Iatan 2 and 1 projects;

4) the cost and schedule controls that have resulted in the expected costs and schedule of the Iatan 2 and 1 projects being unknown at this time;

5) the notification process related to KCPL's decision to defer the LaCygne 1 scrubber and baghouse; and

6) the notification process related to KCPL's decision that it would not proceed with the additional 100 megawatts of wind generation facilities in 2008.

In Staff Data Request Nos. 969 for Iatan 1 ("DR 969") and 970 for Iatan 2 ("DR 970") in File No. EO-2010-0259, the Staff asked KCPL to provide a list of cost overruns through April 2010. A cost overrun is the amount of actual costs incurred that exceed the sum of (1) the budget plus (2) the contingency, plus (3) other cost areas, where the actual costs incurred were less than the budget. KCPL's response to DR 970 is shown below for Iatan 2. KCPL's response to DR 969 is exactly the same with the exception that it included different amounts for the Iatan 1 cost overruns. In these responses, KCPL merely advises Staff how budget variances can be tracked, which is not the issue at all and it is not the data the Staff requested. The Staff asked for a listing and description and explanation of all cost overruns. KCPL made no attempt to answer these Staff data requests and the responses it did provide reflectd that KCPL know and understand what the Staff is requesting but is not going to provide the information.

Data Request No. 0970
Company Name Kansas City Power & Light Company-Investor (Electric)
Case/Tracking No. EO-2010-0259
Date Requested 7/13/2010
Brief Description Iatan 2 Cost Overruns

Question: For Iatan 2, please provide a list of all cost overruns (from KCPL's original Definitive Estimate / Control Budget Estimate) through April 2010, the amount for each cost overrun, a detailed description of the overrun, why each cost overrun was incurred and charged to the project, and how the cost overrun was mitigated, if it was mitigated.

Response: As discussed in Question No. 0445A, all variances from the Project Control Budget estimate are captured in, and reported from, the Cost Control System. The System provides the detailed tracking process in the Cost Portfolio, which includes the Control Budget as well as each budget change, the Committed Costs, the Uncommitted Costs, the Current Forecast Total Cost At Completion and the Actuals Including Accruals. These details are maintained by Budget Line

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Item and the supporting documentation is voluminous. There is not a single set of output documents resulting from the process.

Utilizing the April 2010, Iatan 2 K[(a)] Cost Report, the Control Budget Estimate (Column A) is $1,685.0 billion. As of April 2010, the Actuals Including Accruals (Column M) total $1,782.4 billion. The justification for the additional $97.4 million is located within the documentation previously provided to staff in multiple data requests. As discussed above, the variance is explained within the documentation previously provided in data requests such Contingency Logs, PO logs, Change Order logs, Reforecast Presentations and supporting documentation, Budget Transfer Logs, etcetera. (Emphasis Added)

The K Cost Reports are routinely provided in hard copy in the Strategic Infrastructure Investment Status Reports on a quarterly basis and has been provided in Microsoft Excel format in data requests question series number 0622.

A drawing illustrating how to track variances is attached, "*Example for DR 0970 Rev 1.xls*." Mr. Forrest Archibald has walked through the portfolio in previous meetings and would be able to provide the assistance again if requested.

Consistent with what the Staff believes KCPL was required by its Regulatory Plan to create, which is a system that "identifies and explains" any cost overrun above the Definitive Estimate, or what KCPL refers to as the Control Budget Estimate ("CBE"), in DRs 969 and 970 Staff requested a list that shows the amount of each cost overrun and an explanation of each cost overrun. KCPL's response, in substance, was that it was unable to or unwilling to identify and explain the cost overrun for the Staff but the Staff was welcome to undertake the task itself regardless of KCPL's commitment in the KCPL Regulatory Plan. In its responses to DRs 969 and 970, KCPL indicated that the Iatan Project cost overruns are reported in its Cost Portfolio (an Excel-based worksheet that lists the CBE by category and monthly costs incurred) and the Staff can do the calculations of the amounts in the Cost Portfolio. KCPL responded that the supporting documents for the cost overruns are included in documents that KCPL provided in previous responses to Staff data requests. KCPL refers to tens of thousands of pages of documents and suggests that Staff should go through each document to determine the cost overruns.

The Staff did calculate the amount of cost overruns at October 31, 2010 (calculated as actual October 31, 2010 costs less the Control Budget Estimate) to arrive at a cost overrun

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amount of $186.5 million. The cost overrun amount at October 31, 2010, for Iatan 1 is $73.2 million.

Iatan 1	Control Budget Est (CBE)	Actual Cost 10/31/2010	Under/(Over) Budget
PROCUREMENT	$25,804,908	$23,372,963	$2,431,945
CONSTRUCTION	$301,149,939	$377,988,528	($76,838,589)
INDIRECTS	$24,101,996	$48,697,003	($24,595,007)
CONTINGENCY	$25,746,537	$0	$25,746,537
TOTAL COSTS	$376,803,380	$450,058,494	($73,255,114)

Iatan 2	Control Budget Est (CBE)	Actual Cost 10/31/2010	Under/(Over) Budget
PROCUREMENT	$188,913,508	$180,696,549	$8,216,959
CONSTRUCTION	$1,018,128,405	$1,382,231,508	($364,103,103)
INDIRECTS	$257,958,087	$308,626,742	($50,668,655)
CONTINGENCY	$220,000,000	$0	$220,000,000
TOTAL COSTS	$1,685,000,000	$1,871,554,799	($186,554,799)

As shown in the above table for Iatan 2, KCPL's control budget includes $1.465 billion of Procurement, Construction and Indirect costs. This is what KCPL and its advisors and consultants expected the final cost of construction to be if costs, escalations, labor rate increases, and other events occurred as planned. However, construction projects typically include a budget of dollars for events and circumstances that are unforeseen at the time the budget is set, i.e., a contingency. This bucket of cost dollars represents the risk that unforeseen cost increases will not be offset by unforeseen cost decreases. This bucket of dollars is called a contingency. Included in Iatan 1's control budget is a construction contingency amount of $220 million. Included in Iatan 2's control budget is a construction contingency amount of $145 million. This $145 million contingency for Iatan 2 represents 10 percent (10%) of the estimated construction cost. **_____

_____

_____

_____**.

To incur a cost overrun on Iatan 2, KCPL had to first spend the entire budget for procurement, construction and indirect of $1.465 billion. Additionally, KCPL had to incur an additional $225 million, the total contingency amount for Iatan 1 and Iatan 2, above this amount

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before it reached a point that it incurred cost overruns. As noted earlier in this Report, KCPL cut out of its budget $40.7 million as a result of its decision not to purchase unit train coal rail cars for Iatan. This decision effectively gave KCPL another $40.7 million of contingency which increased the "effective contingency" to $261 million. Not only did KCPL expend its entire budget of $1.465 billion, plus its total contingency amount of $225 million, but it spent another $186.5 million in cost overruns. This $186.5 million is the amount that the Staff must address in this Report.

Staff insisted on including in KCPL's Regulatory Plan the specific requirement that KCPL identify and explain any cost overrun. In the early to mid-1980s, the Wolf Creek nuclear generating station construction audit and prudence review significant costs overruns and lack of appropriate documentation placed a great hardship on Staff's resources and ability to perform a construction audit and prudence review. In the Iatan Project, Staff attempted to avoid a repeat of the Wolf Creek situation. The Staff's insistence on including the previously noted language in KCPL's Regulatory Plan was an attempt to make sure that various practical and formal legal considerations were addressed – e.g., from a non-attorney's perspective keeping the burden of proof on the entity seeking to increase the rates. Despite's Staff's success at securing a commitment from KCPL that it track, identify and explain each cost overrun, KCPL abandoned this commitment. The result is that Staff is in same position it was in the Wolf Creek construction audit. This enormous burden has significantly strained Staff's resources.

Staff's audit identified costs that were not prudent, reasonable, appropriate, or of benefit to Missouri ratepayers and should not be borne by Missouri ratepayers. These costs are reflected in the Staff's Schedule 1 audit adjustments. In addition to these adjustments, the Staff supports exclusion of cost overruns until KCPL identifies the specific cost overruns and explains the reasons why each specific cost overrun was incurred. Once a rationale for the cost overrun is given, Staff will make a determination whether the cost overruns were reasonable, prudent, appropriate, and of benefit to Missouri ratepayers.

The Staff believes that a major factor that led to KCPL incurring $260 million in combined Iatan 1 and Iatan 2 cost overruns is KCPL's management decision to fast-track the project schedule by running the design and construction phases simultaneously. While this technique is not unusual in the construction industry, it has to be employed by a very experienced project management team and demands very high quality work from the owner's

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engineer. The Staff believes that both of these requirements were absent in the Iatan construction projects. Regardless of the specific causes of the $260 million in cost overruns, the fact remains that, among other things, KCPL's failure to document and explain these overruns means that it is responsible to absorb these costs. KCPL in fact did not properly acknowledge this risk.

In response to Staff Data Request No. 443, KCPL provided a copy of its Iatan Construction Project Risk Assessment. **_____

_____

_____

_____

_____

_____

_____**. Certainly, KCPL would regard compliance with its Regulatory Plan as a success criterion in its CEP.

Empire's Regulatory Plan in Case No. EO-2005-0263 in the Stipulation And Agreement filed on July 18, 2005 and approved by the Commission on August 2, 2005, at pages 5-6 states, in part:

> If any party proposes the disallowance of Iatan 1 or Iatan 2 costs, Empire agrees not to seek to avoid such disallowance on the ground that such expenditures were the responsibility of KCPL and were not within Empire's control. Empire maintains the ability to litigate prudence issues related to these expenditures on any basis.

Because of all of these factors, the Staff recommends that the Commission not authorize Empire to charge its Missouri retail customers its share of the Iatan Project unidentified and unexplained costs.

2. Ernst & Young's Findings Related to KCPL's Cost Control System

Ernst & Young performed an Iatan Construction Project Audit dated July 2007. The audit was performed in March 2007 using data through January 2007. The audit was conducted in accordance with Statements on Standards for Consulting Services of the American Institute of Certified Public Accountants. The original audit focus was to identify processes and evaluate

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costs. Because Ernst & Young found the Cost Portfolio and the underlying documents so complex, it had to switch the focus of the audit to reconciling the various source documents. In fact, the audit report indicated that the Cost Portfolio was so complex that the audit evolved into a mapping exercise to determine what information the Cost Portfolio represented. (Audit Report page 6).

Some of Ernst & Young's Overall Assessment of the Audit were:

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6.

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[redacted]**

X. Iatan Project Common Plant Costs

The Staff proposes five adjustments related to Iatan Common Plant. The first adjustment is to transfer $114,358,544 from the October 31, 2010, Iatan 1 AQCS cost segment to the Iatan Project Common Plant segment. This amount is traceable to the Iatan 1 AQCS "K Report" for costs through October 2010. The second adjustment is to transfer $11,828,658 of Iatan 1 AQCS indirect costs to the Iatan Project Common Plant for the direct common plant costs charged to the Iatan 1 AQCS. This amount is traceable to Schedule 7 attached to this Report. The third adjustment is to transfer $280,576,068 from the October 31, 2010, Iatan 2 cost segment to the Iatan Project Common Plant segment. This amount is traceable to the Iatan 2 "K Report" for costs through October 2010. The fourth adjustment is to reduce the $280,576,068 of Iatan

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Common Plant transfer by $2,923,086. This adjustment is to reduce the $30,665,000 contained in the Iatan Common Plant documentation supplied to Staff and alleged to support the valuation of Iatan Common Plant to $27,741,914 as calculated by Staff and as shown on Schedule 7 attached to this Report. The fifth adjustment is to remove $19,646,346 from the Iatan Common Plant. Staff has not received adequate documentation to support the inclusion of these expenditures in rate base. The amount of this adjustment is derived from the Company's response to Staff Data Request No. 665 less the cost of the Permanent Auxiliary Boiler that is addressed elsewhere in this Report.

In KCPL's general rate File No. ER-2009-0089, KCPL filed Schedule SJ-5 attached to the rebuttal testimony of KPCL witness Steven Jones. Schedule SJ-5 represented that the Iatan Project had $382,965,000 of common plant related to the operation of Iatan 1 and Iatan 2. The assets identified in this schedule were assigned an estimated value of $382,965,000. These common costs are contained either in the project budgets of Iatan 1 AQCS or Iatan 2 segments. The Iatan 1 AQCS and Iatan 2 budgets contained $114,109,251 and $268,855,749 of these common costs, respectively. KCPL's common plant numbers are not based on any actual traceable costs but were calculated by KCPL based on the work performed by KCPL and reflected in what has been commonly referred to throughout this audit as the "Jones Binder."

There is one component of the Iatan Project Common Plant Estimate that impacts the Iatan 1 AQCS actual costs. The assignment of indirect costs to the Iatan Project Common Plant Estimate is traceable to actual costs as KCPL assigned $30,665,000 of Iatan 2 Project Indirect Committed Costs at December 31, 2008. The Iatan 2 indirect costs assignment excluded Burns & McDonnell engineering costs because these costs were already considered in the Iatan Project Common Plant Estimate.

While KCPL represented that its position to transfer its Iatan Project Common Plant Estimate from the Iatan 1 AQCS and Iatan 2 budgets creates no increase to the Iatan Project overall costs, the Staff's risk assessment for this area indicates that KCPL's share of the Iatan Project costs is influenced by the amounts transferred from the Iatan 1 AQCS, Iatan 2, and Iatan Project Common Plant segments. KCPL is charged seventy percent (70%) of the dollars assigned to Iatan 1, approximately fifty-five percent (54.71%) for Iatan 2, and approximately sixty-one percent (61.45%) for Iatan Project Common Plant. The transfer of Iatan Project Common Plant Estimate from the Iatan 1 AQCS and Iatan 2 budgets increases KCPL's costs

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from the Iatan Project by $8,364,537. The following table shows the impact of the Iatan Common Plant Estimate transfer on KCPL's Iatan Project costs:

	Dollars to Common	Percent	Impact on KCPL
Iatan 1	$114,109,251	8.55%	$9,756,351
Iatan 2	$268,855,749	6.74%	$18,120,877
Total	$382,965,000		$8,364,537

Since KCPL's ownership percentage in Iatan 2 differs from its ownership percentage in Iatan 1, KCPL's share of the total Iatan Project cost is impacted by the amount of funds transferred to Iatan Common Plant from either the Iatan 1 AQCS or Iatan 2 segments of the Iatan Project.

Only Iatan 2 Indirect Costs are assigned to the Iatan Project Common Plant Estimate in the Jones Binder. No Iatan 1 AQCS Indirect Costs are included in the Iatan Project Common Plant Estimate in the Jones Binder. This appears to be unreasonable because the Iatan 1 AQCS direct costs being transferred represent approximately 32% of all the Iatan Common Plant direct costs being transferred from the combined Iatan 1 AQCS and Iatan 2 budgets. This issue overstates the Iatan 1 AQCS costs and thus increased the Iatan Project costs charged to KCPL.

The Staff understands the reason Iatan 1 AQCS indirect costs were excluded from the cost assignment of indirect costs to Iatan Common Plant was that all indirect costs for Iatan Common Plant were charged to Iatan 2. If the Staff's understanding of KCPL's position is correct, then there would be no need to use an allocation methodology to transfer indirect costs from Iatan 2 to the Iatan Common Plant. If all the Iatan Common Plant indirect costs were charged against the Iatan 2 budget, then the amount of those costs charged to Iatan 2 should be transferred to the Iatan Common Plant and no allocation process would be necessary. Allocation methodologies are used when the amount of costs in question (i.e., indirect costs) is unknown and is commingled with other costs that cannot be separately identified. Staff found no general accounting instruction requiring the charge of all Iatan Common Plant indirect costs against the Iatan 2 budget.

Schedule 7, attached to this Report, is Staff's calculation of the Iatan 1 AQCS Indirect Costs that should be assigned to the Iatan Project Common Plant Estimate based upon April 30, 2009. Schedule 7 is a two (2) page schedule. The April 30, 2009, date was selected because of

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its proximity to the April 19, 2009, in-service date for the Iatan 1 AQCS. This schedule also shows that Staff recommends that $27,741,914 of Iatan 2 Indirect Costs should be transferred from the Iatan 2 October 31, 2010, costs to the Iatan Project Common Plant Estimate for the Iatan Common Plant direct costs contained in the Iatan Project. Staff's adjustment intends to replace the $30,665,000 indirect costs assignment contained in the Jones binder with the $27,741,914 amount shown on Schedule 7.

An additional amount of Iatan Common Plant has been identified outside the facilities specified in the Jones Binder. Staff became aware of the discrepancy after Staff discovered a difference from the Jones Binder and the October 2010 Report. Schedule 8 to this Report is KCPL's response to Staff Data Request No. 665. This KCPL response identifies $21,925,623 of additional Iatan Common Plant projects outside the projects indentified in the Jones Binder. KCPL has not supplemented the Jones Binder to include and support these projects. KCPL never identified any additional Iatan Common Plant projects other than the Permanent Auxiliary Boiler in its Quarterly Meetings discussions with Staff. If KCPL can provide adequate documentation to support these expenditures, then Staff will reduce the adjustment accordingly.

XI. Allowance for Funds used During Construction (AFUDC)

Staff Expert: Keith A. Majors

1. Definition

For regulated utility companies, the Allowance for Funds used During Construction (AFUDC) is the non-cash cost of financing particular construction projects. During construction and prior to the plant providing utility service, this finance cost is capitalized to the construction work order in the same manner as other construction costs of labor and materials. The Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA) identifies under Electric Plant Instructions, paragraph 17, that AFUDC:

> ...includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used, not to exceed, without prior approval of the Commission, allowances computed in accordance with the formula prescribed in paragraph (a) of this subparagraph. No allowance for funds used during

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construction charges shall be included in these accounts upon expenditures for construction projects which have been abandoned.

The Commission's rule on the USOA for electric utilities states, in part, as follows:

> 4 CSR 240-20.030 Uniform System of Accounts—Electrical Corporations
>
> Purpose: This rule directs electrical corporations within the commission's jurisdiction to use the uniform system of accounts prescribed by the Federal Energy Regulatory Commission for major electric utilities and licensees, as modified herein. . . .
>
> * * * *
>
> (4) In prescribing this system of accounts, the commission does not commit itself to the approval or acceptance of any item set out in any account for the purpose of fixing rates or in determining other matters before the commission. This rule shall not be construed as waiving any recordkeeping requirement in effect prior to 1994.

2. AFUDC Accrued on Staff's Prudency Adjustments

Staff Expert: Keith A. Majors

Staff captured the AFUDC value of the prudence adjustments proposed in this Report. To calculate the value of AFUDC accrued for these Staff adjustments, Staff obtained the monthly AFUDC rates for the Iatan projects and applied the monthly AFUDC rates to each adjustment by the months in which the costs were charged to the project. Staff proposes a distinct AFUDC adjustment for each prudence adjustment proposed in this Report.

3. Additional AFUDC due to Iatan 1 Turbine Start-Up Failure

Staff Expert: Keith A. Majors

On February 4, 2009, the Iatan 1 turbine tripped during start-up activities due to vibration in the turbine that was beyond its operating parameters. This event occurred following the replacement of the high pressure turbine by KCPL contractor General Electric (GE). The turbine replacement and costs associated with the turbine incident, although relevant to the project, were not within the scope of the Iatan 1 AQCS project and are similar to other period or capital costs not within the scope of this audit such as fuel, maintenance, etc. The unit was repaired and

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returned to availability for in-service testing on March 9, 2009. The 33-day delay of the unit's ability to perform in-service testing increased the amount of AFUDC accrued on the balance of Iatan 1 plant in construction as it could not be declared in-service until April 19, 2009.

On July 7, 2009, Staff filed its "Motion to Open Incident Investigation Case" requesting the Commission to open a case for the purpose of receiving an Incident Report pertaining to Staff's investigation of the February 4, 2009, incident at Unit 1 of the Iatan Generating Station. In "Staff's Incident Report" dated January 29, 2010, in File No. ES-2010-0009, Staff states that:

> It is not the purpose of this report to make any determination regarding the prudence or imprudence of the actions of KCPL or GE with respect to this incident.

Although Staff made no determination of the prudence of KCPL's actions concerning the February 4, 2009, incident in File No. ES-2010-0009, KCPL's response to Staff Data Request No. 721 in File No. ER-2009-0089 suggests that both KCPL and GE had some responsibility for the incident:

> The total cost of the repairs to the rotor including engineering, parts, and field assistance was $1,975,829. KCP&L's investigation of the Turbine Incident provided some evidence suggesting GE had some potential culpability for the Turbine Incident. Prior to KCP&L paying the invoice relating to the repair, GE agreed to provide KCP&L a $993,878 credit toward the total costs of $1,975,829. The credit represents an approximate 50/50 sharing of the repair costs. KCP&L does not anticipate making any additional claims against GE relating to the Turbine Incident. However, KCP&L's investigation continues with respect to potential claims against other parties.

To Staff's knowledge, KCPL did not pursue recovery from GE of the additional financing costs incurred because of the turbine trip. Based on the excerpt from KCPL's response to Staff Data Request No. 721 above, it appears KCPL accepted approximately 50% of the responsibility for the rotor incident. GE took responsibility for half the costs of the turbine trip, yet KCPL did not pursue GE for the additional AFUDC costs incurred due to the rotor incident.

Staff has made no adjustment to the actual costs of the turbine incident or the subsequent repair and return to service of the turbine. However, given the apparent responsibility of both KCPL and GE, Staff sees no reason to include in the Iatan Unit 1 plant balance the additional AFUDC accrued caused by the delay attributed to the turbine incident. The AFUDC represents

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Empire's carrying cost and profit directly attributable to the turbine incident but should not also receive the incremental AFUDC caused by the turbine incident.

XII. Engineering Reviews and In-Service Criteria

Staff Expert: David W. Elliott

1. Scope

The Engineering Analysis Section of the Energy Department, Utility Operations Division, is responsible for and conducts Engineering Reviews of major electric utility construction projects. The Engineering Review consists of two activities-monitor project construction progress and review construction project change orders. To monitor the progress of the project during construction, Engineering Staff makes periodic field visits to the site.[1] Ideally, Engineering Staff begin making field visits at the on-set of the construction and continue visits until a project is determined to meet the criteria to be considered fully operational and useful for service. During a field visit, Engineering Staff meet with construction and company personnel to review the overall progress of construction, review documents related to changes affecting the project, including documents of changes in the schedule and changes in costs, and to receive updates of safety-related aspects of the project. Engineering Staff review construction project change orders associated with the project for the following:

- To understand the reason for the change at the point in time when the change order was issued;
- To determine whether the change corrected an engineering-related problem,
- resulted in a better design, or improved the operation or construction of the plant; and
- To determine whether the change resulted in a safety concern, caused unnecessary construction, or caused unnecessary duplication of facilities or work.

In any particular Engineering Review the number of field visits to monitor construction progress, the number of meetings with construction and company personnel and the number of construction project change orders that Engineering Staff reviews vary depending on a number of factors, including the project type, the project size, the project location, and the availability of Engineering Staff to perform the Engineering Review. Other than as it relates to the foregoing

list, the Engineering Staff's review of change orders does not include a review of events preceding issuance of a change order, any change in construction project costs due to a change order, or any other action or inaction by the company which resulted in a change order. During an Engineering Review, the Engineering Staff discuss the change orders with company and construction project personnel to understand the reasons for the change orders. In addition, the Engineering Staff review contracts, agreements, purchase orders, drawings, and correspondences related to the change orders. If Engineering Staff determine there is an engineering concern with a change order, such as an unnecessary coal conveyor, the Engineering Staff would share its concern with the Commission's Auditing Staff and consult with Staff management to determine the appropriate response to take to address the concern.

2. Activities and Conclusions related to the Staff Engineering Review of Iatan 1

1. Staff visited the Iatan site eleven (11) times starting in June 2007. During these site visits staff toured the construction site, discussed construction progress and future milestones, and reviewed any relevant documentation. Occasionally Staff also attended progress meeting of multiple contractors and KCPL where scheduling issues, safety issues, and contractor interference issues were discussed.

2. Staff requested copies of all KCPL approved change orders with a value of $50,000 or greater for the project. Staff received copies of 227 change orders in total. Of these change orders, 101 were determined to be non-engineering issues, such as insurance payments, site cleanup, labor rate revisions, etc. Staff reviewed 79 of the remaining 126 change orders which represented approximately $34.1 million or 92.7% of the total amount of 126 KCPL approved change orders.

3. Staff discussed with KCPL a majority of these change orders in order to better understand the reason for the change order. Reasons include design maturation, design changes, interference issues, and improved operation/maintenance.

4. Staff has determined there are no engineering issues regarding the change orders reviewed.

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3. Activities and Conclusions related to the Staff Engineering Review of Iatan 2

Based on its Engineering Review of KCPL's change orders, Engineering Staff found no engineering concerns with any of the Iatan 2 or Iatan common plant change orders reviewed. Engineering Staff began visits to the Iatan site shortly after construction started, visiting the site twenty (20) times in the period June 2007 to September 2010. The last visit, in September 2010, took place shortly after testing was completed to determine if Iatan 2 met the in-service criteria, as set out in KCPL's Experimental Alternative Regulatory Plan the Commission approved in Case No. EO-2005-0329. During these site visits, Engineering Staff toured the construction site, discussed construction progress and future milestones, and reviewed any documentation relevant to change orders they reviewed or construction progress since they were last at the plant.

During some of the plant visits, the Engineering Staff attended progress meetings between multiple contractors and KCPL construction project personnel where scheduling issues, safety issues, or contractor interference issues were discussed. During the period June 2007 through July 2010 there were numerous change orders for the Iatan 2 construction project with a magnitude of the change in cost associated with a change order ranging from zero to 33 million dollars ($0 to $33 million). Based on prior construction project engineering review experience, Engineering Staff selected $50,000 as an appropriate benchmark minimum level of cost change associated with a change order to limit the number of change orders Engineering Staff reviewed, but still allow Engineering Staff to review the change orders for major work. Therefore, Engineering Staff requested from KCPL copies of all approved change orders with a value change (increase or decrease) of $50,000 or more. As of September 20, 2010, Engineering Staff has received from KCPL copies of 647 change orders dated through July 2010 having associated cost changes of $50,000 or more.

The Engineering Staff did an initial review of the 647 change orders and determined that 262 were non-engineering issues, such as insurance coverage, temporary support personnel, equipment leasing, purchase order/accounting corrections, negotiated settlements, and project schedule delays. Engineering Staff further selectively reviewed the remaining 385 change orders because of the large number of remaining change orders and the limits on the availability of the Engineering Staff. Engineering Staff decided to comprehensively review 222 of the 385 change orders. To ensure the 222 change orders comprehensively reviewed included the major work,

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Engineering Staff again used the change order dollar amounts as benchmarks. Engineering Staff selected the 109 change orders with associated cost increases of more than $250,000 and the 13 change orders with associated cost decrease of more than $250,000. Engineering Staff then randomly selected 100 of the remaining 263 change orders as a representative sample of the remaining 263 change orders. If, in reviewing the sample of 100 change orders, Engineering Staff had found concerns, it would have reviewed the remaining 163 change orders.

The Engineering Staff discussed the 222 change orders selected with KCPL construction project personnel to understand the reasons for each of the change orders. In addition, the Engineering Staff reviewed contractor/vendor contracts, purchase orders, drawings, and correspondences related to the change orders. To better understand the different types of circumstances for the 222 change orders, Engineering Staff created six categories representing general reasons for a change order. Staff then sorted the 222 change orders into these categories. The six categories are:

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

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

Type 2: Change Orders associated with changes made by KCPL.

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

Type 3: Change Orders associated with field design.

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

Type 4: Change Orders associated with field construction issues.

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

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

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

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

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

SUMMARY OF CATAGORIES

Change Order Category	Type of Change Order	Number of Change Orders Reviewed
Type 1	Final Design or Engineering Change	36
Type 2	KCPL change	35
Type 3	Field Design Change	66
Type 4	Field Construction Change	44
Type 5	Contract Term Defined at Performance	38
Type 6	Change in Contract Type	3
Total Number of Change Orders		222

The Engineering Staff will attend future Staff meetings in regard to Iatan 2 commercial issues and discussions of possible adjustments. The Engineering Staff will also continue to monitor the construction project to determine if any updated information concerning the change orders initially included in the engineering review requires additional review.

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4. In-Service of Iatan Units 1 and 2.

a. Iatan 1 In-Service

Staff Expert: Michael Taylor

The AQCS installed on Iatan 1 included a selective catalytic reduction unit for reduction of nitrogen oxide, a sulfur dioxide scrubber and a baghouse to reduce particulate emissions. Staff has evaluated this emission control equipment under agreed upon in-service criteria. Based on Staff's observations and review, the Staff concludes this emission control equipment met all of the in-service criteria by April 2009 and recommends the Commission determine it to be fully operational and used for service.

b. Iatan 2 In-Service

Staff Expert: David W. Elliott

Iatan 2 is an 850 MW supercritical, pulverized coal generating unit located next to the existing Iatan 1 unit in Platte County, Missouri. The in-service criteria to be used for this coal generating unit and for the associated pollution reduction equipment were developed by Staff and KCPL. These criteria appear in Appendix H of KCPL's Experimental Alternative Regulatory Plan that the Commission approved in Case No. EO-2005-0329. The basis for the in-service criteria for the pollution reduction equipment is found in paragraph 8 on page H-2 of Appendix H. When the Commission approved KCPL's Experimental Alternative Regulatory Plan, the in-service criteria for the pollution reduction equipment had not been agreed upon. Based on subsequent discussions between Staff and KCPL, pollution reduction equipment in-service criteria were finalized. The final agreed upon in-service criteria Staff used for Iatan 2, including the Iatan 2 pollution reduction equipment, appears in Schedule BCD2010-10 of KCPL Witness Brent C. Davis' pre-filed direct testimony in this File No. ER-2010-0355. In addition,

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Item 4(g) coal handling systems was added to the Iatan 2 coal unit in-service criteria. Staff used these in-service criteria for determining whether Iatan 2, including the pollution reduction equipment, is fully operational and used for service.

The specific in-service criteria and Staff's evaluation notes are attached as Schedule 8 attached to this Report. Based on the Staff's on-site observation of Iatan 2, supplemented by Staff's review of Iatan 2 test data, test results, operating logs, computer data, and other documentation, Staff concludes that the Iatan 2 generating unit successfully met all of the in-service criteria and was fully operational and used for service as of August 26, 2010.

As Staff utilized the agreed upon in-service criteria for Iatan 2, Staff found some instances where the criteria could have been better defined. Therefore, Staff plans to review its current coal generating unit in-service criteria and revise them for use in determining whether future coal generating units are .fully operational and used for service.

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