

Exhibit No.:
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Witness: Chris B. Giles
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Sponsoring Party: Kansas City Power & Light Company
KCP&L Greater Missouri Operations Company
Case No.: ER-2010-0355/ER-2010-0356
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2010-0355/ER-2010-0356

REBUTTAL TESTIMONY

OF

CHRIS B. GILES

ON BEHALF OF

**KANSAS CITY POWER & LIGHT COMPANY
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

**Kansas City, Missouri
December 2010**

***** [REDACTED] *** Designates "Highly Confidential" Information
Has Been Removed.
Certain Schedules Attached To This Testimony Designated "(HC)"
Have Been Removed.
Pursuant To 4 CSR 240-2.135.**

**Giles
Rebuttal
NP**

REBUTTAL TESTIMONY

OF

CHRIS B. GILES

Case No. ER-2010-0355/ER-2010-0356

1 **Q: Are you the same Chris B. Giles, who submitted Direct Testimony in this case on**
2 **behalf of Kansas City Power & Light Company (“KCP&L” or the “Company”) on**
3 **or about June 4, 2010?**

4 **A: Yes, I am.**

5 **Q: What is the purpose of your Rebuttal Testimony?**

6 **A: My rebuttal testimony will respond to allegations by the Missouri Public Service**
7 **Commission Staff Report regarding the Construction Audit and Prudence Review, Iatan**
8 **Construction Project for Costs Reported as of June 30, 2010, which I will refer to as**
9 **“Staff’s Report” and the sponsoring Direct Testimony of Mr. Charles R. Hyneman and**
10 **the Direct Testimony of Mr. Cary Featherstone. The specific areas of my rebuttal**
11 **testimony will address: (1) allegations in Staff’s Report that; (a) KCP&L did not**
12 **prudently manage or make prudent decisions regarding the construction of the Iatan Unit**
13 **1 and Iatan Unit 2 construction projects (referred to collectively as the “Iatan Project”);**
14 **(b) KCP&L did not identify or explain cost overruns on the Iatan Project pursuant to**
15 **KCP&L’s obligations under the Regulatory Plan that includes its Stipulation and**
16 **Agreement (Case No. EO-2005-0239, referred to as the “S&A”); (c) KCP&L did not**
17 **identify or mitigate risks in the construction of the Iatan Project; and (2) rebuttal to the**
18 **Direct Testimony of Walter P. Drabinski of Vantage Energy Consulting, LLC on behalf**
19 **of the Missouri Retailers Association.**

1 **Q: Please summarize your Rebuttal Testimony.**

2 A: KCP&L prudently managed the Iatan Project and has fully explained its management
3 actions both verbally and in written reports to Staff throughout the Project. In my
4 testimony in this case and in 0089 Docket, I testify that KCP&L's actions on the Iatan
5 Project have set new standards for transparency by a utility in a rate proceeding. KCP&L
6 has met all of its obligations in its Regulatory Plan for the Comprehensive Energy Plan
7 ("CEP") that includes its Stipulation and Agreement (Case No. EO-2005-0239, referred
8 to as the "S&A"). One of those obligations, upon which I will elaborate in today's
9 testimony, is KCP&L's obligation under the S&A to establish a cost control system for
10 the CEP Projects including the Iatan Project that is capable of identifying and explaining
11 cost overruns to the projects' Definitive Estimates (also referred to as the "Control
12 Budget Estimates" or "CBEs"). I will explain how KCP&L has met this obligation and
13 how its Cost Control System achieves the level of transparency that has been the
14 hallmark of KCP&L's performance of these projects.

15 KCP&L has clearly identified and explained the reasons for every cost overrun on
16 the Iatan Project. KCP&L provided to Staff the information it has needed to track the
17 Iatan Project, including all cost data and other information from its Cost Control System.
18 KCP&L has provided nineteen Quarterly Reports to Staff and responses to approximately
19 2150 data requests. Staff, however, has chosen to focus its auditing activities on
20 marginal costs like executive expenses, mileage charges, fees for its oversight team and
21 travel expenses while essentially throwing its hands in the air and claiming that KCP&L
22 has not explained approximately \$200 million in actual costs to date. Staff is simply
23 wrong; the dollars it says it cannot find are fully identified and explained if only they

1 would look. I note that three individuals outside of the KCP&L project team – Mr.
2 Daniel Meyer, Dr. Kris Nielsen, and Staff's own Mr. David Elliott – were all able to
3 perform independent reviews of the Iatan Project's costs in ways that Staff claims it could
4 not do.

5 While the Iatan Project experienced cost increases over the Control Budget
6 Estimate, when put in context of the industry-at-large, those increases were substantially
7 lower than other plants constructed during the same period of time that was characterized
8 by rising costs, scarcity of resources and limited contracting options. Contrary to Staff's
9 Report, the results show that KCP&L's plan for procuring the equipment and services for
10 the Project was sound. I also discuss how KCP&L's management made decisions that
11 mitigated or eliminated the most profound risks that the Iatan Project faced. KCP&L
12 reported those risks on a quarterly basis to Staff.

13 In response to Walter Drabinski, I explain the basis for KCP&L's early project
14 management and decision making including early procurements and how Mr. Drabinski
15 overemphasizes and over-inflates the accuracy and quality of the PDR and the 2006
16 interim estimate.

17 **OVERVIEW OF RESPONSE TO STAFF'S DISALLOWANCES**

18 **Q: In the section of Staff's Report entitled "Unexplained Cost Overruns," Staff alleges**
19 **that: "KCPL has not even identified or explained the cost overruns, nor did it**
20 **manage them or even demonstrate that it took positive steps to mitigate them."**
21 **(Staff's Report p. 37, Ins. 27-30) How do you respond to Staff's allegation?**

22 **A: Staff's position relative to KCP&L's management of the Iatan Project is simply incorrect.**
23 **In my Direct Testimony and that of the other Company witnesses, KCP&L fully**

1 describes how it prudently managed the costs of the Iatan Project by developing policies
2 and procedures for corporate governance and management that allowed for prudent
3 decision-making, identifying and mitigating risks and controlling the Projects' costs in a
4 highly volatile market. Additionally, KCP&L has conducted quarterly meetings
5 addressing Project issues, including cost, and provided staff with thousands of documents
6 describing and explaining the cost overruns and has explained to Staff multiple times in
7 face-to-face meetings how overruns on the Iatan Project are identified and explained.
8 Staff has apparently made no effort to utilize this information. KCP&L has also provided
9 to Staff ample evidence regarding KCP&L's identification and mitigation of the risks on
10 the Iatan Projects. As a result of these efforts, KCP&L has successfully completed Iatan
11 Unit 2, a highly complex project, less than three months after the target date established
12 over five years ago and the current estimate to complete indicates that the final cost will
13 be within 16% of the budget set four years ago. In reaching its recommendations
14 regarding its proposed disallowances, Staff essentially ignores KCP&L's previously-filed
15 testimony in this case and in Docket No. ER-2009-0089 (the "0089 Docket") and the
16 documentation that KCP&L has provided Staff over the last five-plus years regarding the
17 Iatan Project. In my Rebuttal Testimony today, I will summarize the evidence that has
18 already been presented to Staff which it has chosen to ignore or disregard.

19 **Q: Is Staff's Report correct in stating that both Iatan Unit 1 and Iatan Unit 2**
20 **experienced cost overruns?**

21 **A:** Yes, it is true that both Iatan Unit 1 and Iatan Unit 2 experienced cost variances from
22 their original Control Budgets. For Iatan Unit 1, the Control Budget increased from \$376
23 million to \$484 million, and for Iatan Unit 2, the Control Budget increased from \$1.685

1 billion to a current projected cost of \$1.948 billion. However, the fact that the Iatan
2 Projects increased in cost, without more, is not definitive evidence of imprudence on the
3 part of KCP&L. As I stated in my Direct Testimony, given the state of the construction
4 industry from 2005-2009, I do not see how KCP&L could have avoided an increase in the
5 projected construction costs for Iatan Unit 2, and the same would be the case for Iatan
6 Unit 1. KCP&L's experts Kenneth Roberts and Daniel Meyer both testify that the fact
7 KCP&L managed to hold the cost increases to below 20 percent during a time when the
8 construction market generally experienced larger cost increases is evidence of prudent
9 management of the Iatan Projects.

10 **Q: Why couldn't KCP&L have avoided cost increases for the Iatan Project?**

11 A: The marketplace at the time the Iatan Project was planned and procured was
12 characterized by rising costs, labor scarcity and commodity cost escalation. Iatan Unit 2
13 was one of the first new coal plants built in the United States in 30 years and KCP&L
14 was competing with other such projects here and around the world. In his Direct
15 Testimony, Company witness Kenneth Roberts identified that the period of time in which
16 Iatan Unit 2 was planned and procured was marked by commodity prices rising by more
17 than 40% and the cost of new power plant construction rising by 27% in 2007 alone. *See*
18 *Roberts Direct Testimony at pp. 22-28, 30-31.* Because KCP&L constructed the Iatan
19 Project during such a dynamic economic environment, our best strategy was to mitigate
20 the impact of these rising costs, which we successfully did by making sound decisions
21 regarding the timing of procurements and negotiating and executing contracts for goods
22 and services that have protected the Company's and our customers' interests.

1 **Q: Staff's Report asserts that, "a major factor that led to KCPL incurring \$200 million**
2 **in cost overruns is KCP&L's management decision to fast track the project schedule**
3 **by running the design and construction phases simultaneously." (Staff's Report p.**
4 **38, ln. 3-5) Do you agree with Staff's assessment?**

5 **A:** No, I don't. First, Staff's Report cites no actual proof in support of this assertion, and
6 makes no attempt to show linkage between the decision to fast-track the work and any of
7 its vague proposed disallowances. Second, Staff contends that the decision to fast-track
8 the Iatan Project was driven by a tight deadline that put budget issues secondary (see
9 Staff's Report at pp. 24-5), which is untrue. While schedule was a concern for KCP&L,
10 given the marketplace I just described, the major concern was cost driven. Mr. Downey
11 and I both testify regarding the cost consequences that KCP&L was weighing if it did not
12 enter the overheated construction market. In fact, KCP&L experienced those cost
13 consequences first-hand on the second phase of the La Cygne project. Just a few months'
14 delay of the La Cygne Project into the over-heated market conditions led KCP&L to
15 make the decision to postpone that project for several years because of both rising costs
16 and excessive lead times for environmental equipment.

17 The decision to proceed on a fast-track basis cannot be viewed in a vacuum. The
18 quality of the decision KCP&L made must be reviewed in light of the circumstances at
19 the time, which included the dynamic market forces I briefly described above. The
20 decision to fast-track was made on the basis of quality expert advice from our external
21 advisers regarding the market and was also made timely so that the Iatan Project could
22 meet its early schedule milestones. KCP&L only deployed this strategy after careful
23 vetting of all of the factors that influenced that decision. Those factors were vetted by

1 KCP&L's Senior Management along with the overall project contracting strategy. As I
2 will explain, there were very few options available to KCP&L that arguably could meet
3 the schedule; perhaps the only one was the hybrid-EPC model selected which employed a
4 fast track methodology.

5 Moreover, the results bear out that the strategy was a success. Our strategy
6 allowed for the procurement of nearly all of the Project's engineered equipment, which,
7 in large part, was being subjected to such market-caused shortages, and a significant
8 portion of the construction work on a fixed-price basis with high-quality, experienced
9 vendors. As a result, we not only obtained good prices for the work, we also avoided the
10 potential delays, cost increases and quality problems created by scarcity that have
11 impacted other large construction projects in this timeframe. By comparison to the
12 industry, KCP&L's construction budget for Iatan Unit 2 has grown by approximately
13 sixteen percent (16%) (based upon the latest forecast of the estimate at completion) since
14 the original 2006 Control Budget Estimate was established, as compared to the 30-40%
15 increase experienced by the industry overall during this same period. *See Roberts Direct*
16 *Testimony*. I will further elaborate on the decision to fast-track the Iatan Project in my
17 testimony today and highlight the testimony of other KCP&L witnesses that Staff has
18 chosen to ignore.

19 **Q: Why did Iatan Unit 1's costs increase by 28% over the CBE?**

20 **A:** As I just stated, the market for environmental equipment was particularly overheated at
21 this time as utilities around the country were scrambling to retrofit existing coal plants
22 with environmental equipment to meet both Federal and state deadlines. KCP&L had the
23 advantage of having Iatan Unit 2 to attract labor and vendor support which created a very

1 attractive project, as opposed to some projects that were cancelled entirely because of
2 lead times and cost overruns. Nonetheless, the market was very constrained. In addition,
3 KCP&L chose to take advantage of the long outage to add scopes of work that improved
4 the plant's operation, increased its output and increased its long-term reliability for our
5 customers.

6 **Q: Staff alleges in its Report that KCP&L was not transparent during the Iatan Project**
7 **and withheld a "significant volume of material" from Staff it needed for its audit.**
8 **Do you agree with that statement? (Staff's Report p. 33)**

9 A: No. Staff is incorrect. I previously testified in the 0089 Docket and in this case that in
10 my career in Regulatory Affairs, I have never been associated with a rate proceeding in
11 which the utility was as forthcoming as KCP&L has been on the Iatan Project. From the
12 outset of the Regulatory Plan, KCP&L agreed to an unprecedented level of transparency
13 in documenting its decision-making and reporting of the Iatan Project's status to Staff.
14 KCP&L agreed to certain critical obligations in the Regulatory Plan and S&A and has
15 consistently met those obligations. Starting in the first quarter of 2006, KCP&L provided
16 Staff with nineteen quarterly "Strategic Infrastructure Investment Status Reports"
17 (referred to as the "Quarterly Reports") and met with Staff and the other parties in person
18 to explain the content of those reports and the Iatan Project's status. KCP&L also
19 informed Staff and the parties each time the Iatan Project's Control Budget was
20 reforecasted to incorporate changes from then-current cost trends. Staff was accorded
21 access to all of the information that KCP&L generated (e.g. recommendation to award
22 letter, purchase orders, change orders, risk and opportunity analysis (R&Os), cost
23 projections (CPs), contingency log) regarding the Iatan Project's cost and schedule

1 status. KCP&L provided Staff with its own facilities on-site and at KCP&L's corporate
2 offices and made its project team members available to provide Staff with documentation
3 and answer its questions. KCP&L has also answered approximately 2150 data requests
4 from Staff since the opening of the 0089 Docket. Company witness Mr. Curtis Blanc
5 offers additional testimony regarding KCP&L's responsiveness to Staff's requests
6 throughout the Iatan Project.

7 **Q: Of the nearly \$200 million of alleged "Unidentified/Unexplained Cost Overruns,"**
8 **Staff has also recommended specific disallowances from Iatan Unit 1 of \$51,314,912**
9 **and from Iatan Unit 2 of \$36,553,026. Do you agree with Staff's position regarding**
10 **these specific disallowances?**

11 **A:** No, I do not. Company witnesses Mr. Brent Davis, Mr. William Downey, Mr. Kenneth
12 Roberts, Mr. Daniel Meyer, Dr. Kris Nielsen and I each respond to specific allegations
13 regarding Staff's specific disallowances in our Direct and Rebuttal Testimony.

14 I believe that Staff has: (1) failed to consider the evidence in the record of this
15 case and the 0089 Docket in making its determination on these items, most notably
16 KCP&L's justifications for the expenses Staff seeks to disallow; (2) recommended
17 disallowances for amounts such as those associated with settlement agreements or
18 liquidated damages from contractors without regard to the additional costs that KCP&L
19 would have occurred had it not come to a negotiated resolution to major disputes with the
20 contractors, or to the merits of the contractor's claims or defenses; (3) failed to draw a
21 nexus between an alleged imprudent decision by KCP&L and the amount it seeks to
22 disallow; and (4) has attempted to use certain types of small expense items, such as

1 \$59,136 for charged mileage driven by KCP&L's employees, as somehow indicative of
2 KCP&L's management of the Iatan Project.

3 **Q: On this last point, Staff's Report states, "Inappropriate charges were found to occur**
4 **at the highest level of KCP&L and the Iatan Project, increasing the concern and**
5 **probability regarding the level of inappropriate charges contained in the Iatan**
6 **Project." (Staff's Report p. 25, lns. 23-25) Do you agree with Staff's position?**

7 **A:** No. Staff's argument is based on the premise that an individual's mileage and charges on
8 personal expense reports are indicative of the management of the cost control system on
9 the Iatan Project. First, Staff cannot cite a single authority that supports this proposition.
10 In April 2010, the Commission heard over the course of a two-day hearing theories such
11 as this from Staff in support of its audit on Iatan Unit 1. During that hearing, Staff could
12 not identify how its method for auditing the costs for Iatan Unit 1, which focused on
13 employee mileage charges, dinner charges, golf outings, fees from Schiff Hardin, and
14 other such charges, had been effective in identifying for the Commission whether
15 KCP&L had prudently managed a \$464 million construction project. Second, the total
16 amount of the "inappropriate charges" and mileage that could be found by Staff even
17 after an extensive audit is less than .006% of the overall cost of the Iatan Projects. This
18 amounts to less than the amount added to the project due to rounding, much less
19 indicative of imprudent management. To this day, Staff continues to state that \$69
20 million of the overruns to Iatan Unit 1 are unexplained, even though Iatan Unit 1 has
21 been in-service with the new equipment since April 2009. Despite the Commission's
22 Order requiring that Staff complete its Iatan Unit 1 audit by August 6, 2010, Staff has
23 again failed to do so. There were less than 700 change orders related to Iatan 2. Staff

1 auditors received and ostensibly reviewed approximately 1200 of KCP&L's individual
2 employee's expense reports rather than spending their time to review less than 700
3 change orders. Staff continues to ignore the records KCP&L has amassed on Iatan Unit 1
4 and resorted to this theory of sampling KCP&L's prudence via mileage charges and the
5 like. In auditing the Iatan Unit 2 Project's costs over four years on the project, the charge
6 repeatedly cited by Staff as the proof of this accusation is a single \$400 meal charge that
7 it found over two years ago which KCP&L removed from the costs of the Project once
8 Staff brought the charge to KCP&L's attention. See Staff December 31, 2009 Report at
9 pp. 6-7, 9, 79-81 and Schedule 14-2; and Staff November 3, 2010 Report at pp. 26-27.
10 Staff cannot prove, because it was not the case, that KCP&L ever had a pattern of
11 charging inappropriate charges to the Iatan projects.

12 **Q: In the section of Staff's Report entitled "Unexplained Cost Overruns," Staff alleges**
13 **that: "because KCPL cannot identify and explain its cost overruns, the Staff**
14 **recommends that the Commission not allow KCPL to charge the \$200 million in**
15 **cost overruns to KCP&L's Missouri retail customers." (Staff's Report at p. 38, Ins.**
16 **20-22) How do you respond to Staff's recommendation?**

17 **A:** Staff's auditors claim that despite spending the last four-plus years receiving
18 documentation from KCP&L, attending quarterly and special meetings, receiving
19 hundreds of pages of testimony and exhibits that it cannot determine how KCP&L spent a
20 significant portion of the money on the Iatan Project, which just happens to correspond to
21 all amounts over the Iatan Projects' respective CBEs. Had Staff read the actual records
22 of KCP&L's cost overruns on Unit 1, it may have concluded that \$10 million of the
23 allegedly \$18 million it allegedly couldn't find was in two purchase orders for the

1 procurement of the material and the construction for increasing the surface area of the
2 existing Unit 1 economizer. (Schedule CBG2010-1) Staff would have also discovered
3 that the reason this was an “overrun” to KCP&L’s Control Budget Estimate because
4 KCP&L could not have anticipated needing to do this work until after the ALSTOM
5 contract was executed and KCP&L had time to evaluate this work as compared to other
6 alternatives to determine the least-cost option for meeting key performance requirements.

7 However, I note that Staff’s Mr. David Elliott has had no such difficulties
8 identifying or explaining the cost variances over the Iatan Project’s CBEs.

9 **Q: How did Mr. Elliott examine the Iatan Project’s cost overruns?**

10 A: Mr. Elliott contributed a section to Staff’s Report and to its predecessor, Staff’s
11 Construction Audit and Prudence Review of Iatan 1 Environmental Upgrades for Costs
12 Reported as of April 30, 2010 (which I will refer to as “Staff’s Unit 1 Report”). Mr.
13 Elliott’s section of Staff’s Unit 1 Report reveals that on the Iatan Unit 1 Project, he and
14 his team: (1) visited the site 11 times and “discussed construction progress and future
15 milestones, and reviewed any relevant documentation” (2) received and reviewed 227
16 change orders with a value over \$50,000, from which he culled 126 change orders
17 relating to “engineering issues” from which he reviewed a sample of 79 in detail that
18 represented \$34.1 million in additional costs; (3) reviewed the reasons for these change
19 orders and found they include “design maturation, design changes, interference issues
20 and improved operation/maintenance.” Elliott notes that “Staff had determined that there
21 are no engineering issues regarding the change orders reviewed.” See Staff’s Unit 1
22 Report at pp. 9-10.

1 In Staff's Report on Iatan Unit 2, Mr. Elliott identified that he and Mr. Shawn
2 Lange visited the site 20 separate times and engaged KCP&L's project team in
3 discussions of the Iatan Project's cost and schedule status. Company witness Brent Davis
4 testifies that there were some questions raised by Mr. Elliott and Mr. Lange in these
5 meetings regarding the circumstances on which certain change orders were necessitated.
6 These questions were immediately answered by the project team to Mr. Elliott and Mr.
7 Lange's satisfaction. In all, Mr. Elliott and Mr. Lange reviewed 647 change orders over
8 \$50,000, of which Staff narrowed its review to a sample size of 222 representative
9 change orders for analysis. Mr. Elliott and Mr. Lange identified and bucketed these 222
10 change orders into six different categories as follows:

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

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

18 *Type 2: Change Orders associated with changes made by KCPL*

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

1 *Type 3: Change Orders associated with field design*

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

8 *Type 4: Change Orders associated with field construction issues*

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

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

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

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

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

24 (Staff's Report pp. 30-1)

25 Mr. Elliott submitted his work papers for this section of Staff's Report. Schedule
26 CBG2010-2 is a chart that was produced to KCP&L from Mr. Elliott's work papers
27 entitled "Investigation Change Order List" dated September 18, 2010, which appears to
28 be the list of the 222 change orders Mr. Elliott reviewed for Staff's Report. As explained
29 in Mr. Elliott's section of Staff's Report, each of the change orders he reviewed is in
30 excess of \$50,000. In total, the 222 change orders he and Mr. Lange closely examined
31 total \$150,801,534. For each of the 222 change orders, Mr. Elliott identified the change

1 order number, the contractor who received the change order, the amount of the change
2 order and brief explanation of each change orders' purpose. In fact, I note that there isn't
3 a single change order on this list that Mr. Elliott could not describe. As with Staff's Unit
4 1 Report, Mr. Elliott concluded that, "Based on its Engineering Review of KCP&L's
5 change orders, Engineering Staff found no engineering concerns with any of the Iatan 2
6 or Iatan common plant change orders reviewed." (Staff's Report, p. 29, lns. 11-12). In
7 other words, Mr. Elliott does not challenge that the work identified in the change orders
8 was needed from a technical standpoint for the construction, operation or maintenance of
9 Iatan Units 1 or 2.

10 Mr. Elliott's analysis clearly shows that cost overruns to the Iatan Project's CBEs
11 are both identified and explained. What is inexplicable is that Mr. Elliott and Mr. Lange
12 could perform such an analysis but Mr. Schallenberg, Mr. Hyneman and Mr. Majors
13 could not. Additionally, it is unknown why Staff's Auditors did not either accompany
14 Messrs. Elliott and Lange during their change order reviews or simply utilize Mr.
15 Elliott's analysis. KCP&L has fully explained every decision it has made, every action it
16 has taken and every dollar it has spent in the construction of Iatan Unit 1 and Iatan Unit
17 2, and has informed Staff of its actions in a manner that should have allowed Staff to
18 make its own judgment regarding KCP&L's prudence. In its Report, Staff has failed to
19 credibly make the case that KCP&L acted imprudently. KCP&L should not be penalized
20 by the Commission for Staff's continued and proven inaction.

21 **Q: How have KCP&L's independent experts assessed the cost overruns to the Iatan**
22 **Project?**

23 **A:** Company witnesses Mr. Meyer and Dr. Nielsen each testify that based upon their

1 considerable experience, KCP&L's cost controls meet or exceed industry standards.
2 KCP&L has engaged Schiff Hardin throughout the course of the Iatan Project to provide
3 oversight, and Company witnesses Mr. Kenneth Roberts and Mr. Daniel Meyer each
4 testify regarding how the Schiff Hardin team has tracked the Iatan Project's cost and
5 schedule performance throughout and provided KCP&L's management with its view of
6 KCP&L's prudence. Both Mr. Roberts and Mr. Meyer testify regarding the
7 reasonableness of the Iatan Project's cost increases. KCP&L has also employed an
8 independent expert, Dr. Kris Nielsen of Pegasus International, who has reviewed the
9 same documents that were presented to Staff and he has issued his own opinion of
10 KCP&L overall prudent management of the Iatan Projects. These experts prove that
11 Staff's contention that KCP&L cannot "identify" or "explain" increases to the Iatan
12 Projects' Control Budgets is simply untrue. I do not know what more the auditing Staff
13 believes they need or want. In my opinion it is not a case of KCP&L not providing
14 explanation of cost overruns it is a disingenuous strategy of the auditing Staff to disallow
15 all appropriate costs above the control budget estimate. This is apparent from the first
16 report submitted in December 2009 and continues throughout the subsequent reports
17 submitted by the auditing Staff. The Commission should reject this ill advised strategy as
18 nothing more than an excuse for the auditing Staff to once again not do their jobs.
19 KCP&L witness's Dan Meyer and Kris Nielsen use KCP&L's identification and
20 explanation of cost overruns contained in the cost control system to perform the prudence
21 analysis the Commission's auditing Staff claim they cannot do given the same
22 identification and explanation to Mr. Meyer and Dr. Nielsen.

1 **KCP&L'S PRUDENT MANAGEMENT DECISIONS**

2 **Q: What is your opinion regarding the management decisions that KCP&L made**
3 **during the Project?**

4 A: As I previously testified, I do not believe that KCP&L made any inappropriate or poor
5 management decisions in the construction of Iatan Unit 1 or Iatan Unit 2.

6 **Q: What is the basis of your opinion?**

7 A: In my Direct Testimony, I refer to testimony of Mr. Roberts regarding the appropriate
8 standards for prudence. When properly applying the prudence standard for evaluating
9 management's decisions, I believe that KCP&L's management consistently made
10 effective and timely decisions on the basis of the best information that was available at
11 the time. Those decisions resulted in mitigating the Iatan Project's costs. As I discussed
12 in my Direct Testimony in this case, KCP&L put all of the proper tools in place to
13 ensure that KCP&L's management could make decisions based upon the available data.

14 Those tools included:

- 15 • **Senior Management and External Oversight:** Company witness William
16 Downey testifies in his Direct Testimony regarding the creation of the Executive
17 Oversight Committee ("EOC"), which consists of those members of KCP&L's
18 senior management team who have direct involvement with the CEP projects, and
19 the additional oversight KCP&L brought in to assist management. Mr. Downey
20 notes that "KCP&L's Executive Management recognized that the Company had
21 not engaged in a large construction project such as the projects in our
22 Comprehensive Energy Plan since the construction of the Wolf Creek nuclear
23 station in 1978-85" and as a result, Senior Management, "recognized that it

1 needed to adopt a structured approach to the management of the contractors on
2 the CEP Projects that included heavy owner involvement.” (Downey Direct
3 Testimony, at p. 3 ll. 5-7, 14-16.)

4 • **Management Processes:** Company witness Mr. Downey also testifies as to the
5 need for KCP&L to develop new processes and procedures that were specifically
6 tailored for large construction projects. KCP&L utilized the expertise of Schiff
7 Hardin to help it develop the necessary policies and procedures for the CEP
8 Projects, including “change management, invoices, requests for proposal (“RFP”),
9 bid evaluation, claim notification, safety, quality assurance and quality control,
10 and engineering management. In addition, the KCP&L legal department, with
11 Schiff’s assistance, developed form contracts for use in procurements of various
12 types that could be adapted to the specific requirements necessary for the CEP
13 Projects.”

14 • **Construction Management:** Company witnesses Brent Davis and Robert Bell
15 testify to the increased expertise that was needed and employed for the Iatan
16 Unit 2 Project including the management of the Project, coordination of the prime
17 contractors and safety coordination. Bell Direct Testimony at pp. 4-6, 9, 11;
18 Davis Direct Testimony at pp. 20-24. Mr. Davis discusses the active management
19 techniques that were used with the major contractors in order to keep the Project
20 on track and minimize interferences. Davis Direct Testimony at pp. 20-24.

21 • **Cost Control Procedures:** Company witnesses Mr. Forrest Archibald, Mr.
22 Daniel Meyer, Mr. Steve Jones, Mr. Roberts and I each testify to the Cost Control
23 System adopted by the Company in July 2006 included as Schedule SJ2010-1 to

1 Mr. Jones's testimony. *See* Jones Direct Testimony at pp. 3-4; Archibald Rebuttal
2 Testimony; Meyer Direct Testimony at pp. 16, 37; Meyer Rebuttal Testimony;
3 Roberts Direct Testimony at pp. 6-8, 11, 17-19; Roberts Rebuttal Testimony.
4 The Cost Control System was a guidance document that outlined the project-
5 specific cost control processes that were put into place starting in the second
6 quarter of 2006. Company witnesses Mr. Forrest Archibald, Mr. Meyer and I
7 further discuss the cost controls that KCP&L put into place based upon the Cost
8 Control System guidance document to identify and explain cost overruns. *See*
9 Archibald Rebuttal Testimony; Meyer Rebuttal Testimony.

- 10 • **Contracts for Goods, Services and Construction:** KCP&L's management
11 increased the Company's procurement capabilities with a dedicated Project
12 procurement organization that employed industry-knowledgeable experts in
13 contracting and administering construction contracts. As a result of the strength
14 of the contracts we executed and implemented, KCP&L has maintained control of
15 change orders over the project's EPC contractor (ALSTOM Power, Inc, or
16 "ALSTOM") and has employed a strategy of tracking costs on the other contracts
17 that has kept the growth of the Iatan Unit 2 Project's costs at 16%, which is
18 comparable to if not significantly better than many other plants built at this time.
19 This strategy also included significant economies of scale by simultaneously
20 purchasing, engineering and constructing both the Iatan Unit 1 AQCS upgrades
21 and Iatan Unit 2. KCP&L's strategy allowed the sharing of personnel, facilities,
22 knowledge and constructability lessons learned, all of which reduced the final cost
23 of both units.

1 These tools supplied KCP&L's Senior Management with needed information to make
2 timely decisions and prudently manage the Iatan Project throughout while mitigating and
3 eliminating risks along the way.

4 **KCP&L MET ITS OBLIGATION UNDER THE S&A**
5 **TO IDENTIFY AND EXPLAIN COST INCREASES**

6 **Q: Are you familiar with the provisions of the S&A that govern the Iatan Project?**

7 A: Yes. As I previously testified, in my previous position as KCP&L's Vice President of
8 Regulatory Affairs, I was involved with all aspects of the Regulatory Plan that includes
9 its Stipulation and Agreement (Case No. EO-2005-0239, referred to as the "S&A").
10 Since the inception of the Iatan Units 1 and 2 Projects, I have been part of the Executive
11 Oversight Committee, or EOC, that was formed to provide management oversight of this
12 and the other projects that were governed by the S&A.

13 **Q: Can you identify the provision of the S&A that identifies KCP&L's obligation for**
14 **tracking costs on the Iatan Project?**

15 A: Yes. Section III.B.1.q. of the S&A entitled "Cost Control Process for Construction
16 Expenditures" states: "KCPL must develop and have a cost control system in place that
17 identifies and explains any cost overruns above the definitive estimate during the
18 construction period of the Iatan 2 project, the wind generation projects and the
19 environmental investments."

20 **Q: Staff's Report alleges that KCP&L "has disregarded this responsibility and the**
21 **terms and conditions" of the S&A. (Staff's Report, p. 33, lns. 26-27) Do you agree?**

22 A: No. As an initial point, I note that Section III.B.1.q. contains the only reference to
23 KCP&L's obligation for reporting on project costs in the S&A. This provision simply
24 states that 1) KCP&L will develop a cost control system; and 2) that cost control system

1 will identify and explain cost variances from the definitive estimate. I believe that
2 KCP&L has fully met both of these obligations and more in providing Staff with
3 unprecedented access to the Iatan Projects' costs and other documentation.

4 **Q: Can you describe how you believe KCP&L met its obligation under the S&A for**
5 **identifying cost overruns on the Iatan Project?**

6 A: Yes. KCP&L met the first obligation by developing a comprehensive Cost Control
7 System which provides key guidance to each of the CEP Projects governed by the S&A.
8 (Schedule SJ2010-1) The Cost Control System, which was transmitted to the Staff and
9 the other parties' representatives on July 10, 2006, "describes the governance
10 considerations, management procedures, and cost control protocols for the CEP Projects"
11 including the Iatan Project. (Schedule SJ2010-1, p. 3 of 30) Further, the Cost Control
12 System states that the Project's cost performance would be measured against the Project's
13 Control Budget. (Schedule SJ2010-1, p. 4 of 30). To do so, the Cost Control System
14 states that the Iatan Project's Control Budget "will identify the original budget amount
15 (whether contracted or estimated) for each line item of the Project's costs and will track
16 those budget line items against the following:

- 17 • Costs committed to date
- 18 • Actual paid to date
- 19 • Change orders to date
- 20 • Expected at completion, based on current forecasts."

21 (Cost Control System, Schedule SJ2010-1)

22 The Cost Control System also identified that costs for the Iatan Project would be
23 tracked through a comparison to Iatan Unit 1 Project's and Iatan Unit 2 Project's
24 "Definitive Estimates." The Cost Control System states that:

1 The Project Team will develop a Definitive Estimate for each Project
2 that will provide an analytical baseline for evaluating Project costs.
3 The estimate will establish anticipated costs for individual work
4 activities and all procurements,...The Definitive Estimate will be used
5 to establish each Project's Control Budget. (Cost Control System,
6 Schedule SJ2010-3, p. 8 of 30)

7 In my Direct Testimony, I discuss in some detail the development of Iatan
8 Project's cost estimate. (Giles Direct Testimony at pp. 15-18) Company witness Daniel
9 Meyer describes the process used for establishing both Projects' CBEs in his Direct
10 Testimony. (Meyer Direct Testimony at pp. 6-16) The development of the Iatan Unit 1's
11 definitive estimate went through a similar process such that in December 2006, the Iatan
12 Unit 1 Project's Control Budget or CBE was established at \$376 million and Iatan Unit
13 2's CBE was set at \$1.685 billion, excluding Allowance for Funds Used During
14 Construction ("AFUDC"). Once each Project's CBE was in place, the Iatan project team
15 began tracking costs in the manner described in the Cost Control System.

16 **Q: Did you make a formal presentation to Staff of the Cost Control System?**

17 A: Yes. We met with members of Staff and the other interested parties on July 11, 2006. I
18 recall the meeting went very well and Staff raised no concerns. To date, Staff has not
19 articulated any concerns with this document or the methodology we have used.

20 **Q: Do you believe that KCP&L's cost system identifies and explains cost overruns to
21 the Control Budget required by the S&A?**

22 A: Yes. I believe the system that was developed using the guidance from the Cost Control
23 System has met all of KCP&L's obligations under the S&A. Company witness Forrest
24 Archibald describes in his Rebuttal Testimony the guidance that the Cost Control System
25 provided the Iatan project team in developing the specific cost controls for the Iatan
26 Project and how these commitments were met. Among the things Mr. Archibald

1 describes is the Iatan Project's "Cost Portfolio" which is the suite of reports the project
2 team utilizes for tracking the cost status of the Project, and how these reports can be used
3 to identify cost variances from the Control Budget Estimate. In particular, a summary
4 report entitled "Cost Report Summation" or "K Report" which is provided to KCP&L
5 management on a monthly basis and has been included in KCP&L's Quarterly Reports to
6 Staff since the first quarter of 2007. (See Schedule FA2010-1, K Report dated June 30,
7 2010). Mr. Archibald explains in his Rebuttal Testimony that the K Report clearly
8 identifies any cost overrun from the CBE that KCP&L has experienced on either Iatan
9 Unit 1 or Iatan Unit 2. To illustrate how KCP&L established its cost controls for the
10 Iatan Project, I have provided a simple diagram which I have attached as Schedule
11 CBG2010-3. This diagram shows how the obligations in the S&A's Section III.B.1.q. led
12 KCP&L to develop the Cost Control System in mid-2006, which in turn resulted in
13 KCP&L creating the Cost Portfolio's K Report, that embodies all of the Cost Control
14 System's requirements for tracking costs and overruns to the CBE.

15 **Q: What was the method KCP&L employed for explaining the cost overruns to the**
16 **CBE for the Iatan Project?**

17 **A:** Company witness Mr. Archibald testifies to the three types of justifications for cost
18 variances, whether overruns or underruns, to the CBEs for the Iatan Projects. These are:

19 (1) the Recommendation to Award Letter ("RTA"). This documentation is
20 developed by the procurement organization to memorialize the procurement process and
21 decision-making for many of the largest bid awards on the Projects and explains why a
22 contract was awarded and any variations in the Contract Price to the amount in the
23 Control Budget;

1 (2) the multiple reforecasts of the Project's estimate at completion ("EAC").
2 During each reforecast, the project team created documents that identify the reasons and
3 amounts of expected variances to the CBE. The 2008 Reforecast used cost packages
4 referred to as "Risk and Opportunity Analysis Sheets" or R&O's and subsequent
5 reforecasts used the same process, but called the packages "Cost Projection Folders" or
6 "CPs;" and

7 (3) change order and purchase order documentation. These documents issued to
8 contractors include explicit justifications and explanations describing increases or
9 decreases in costs. The change order/purchase order supporting documentation includes
10 contract amendments, settlement agreements, contractor correspondence, emails and
11 proposal information that is comprehensive to a particular issue. Company witness Mr.
12 Archibald testifies that through these methods, the Iatan Project team has documented,
13 explained and justified each of the Iatan Project's costs increases or decreases. I have
14 depicted these justification documents on my summary chart (Schedule CBG2010-3).

15 **Q: Were these documents provided or made available to Staff?**

16 **A:** Yes. Every document that KCP&L prepared to explain or justify cost overruns on the
17 Iatan Project has been provided or made available to Staff. As I stated earlier, as a matter
18 of course, KCP&L provided Staff with copies of all executed change orders on the
19 Project that had a value of \$50,000 or greater. Attached to Company witness Brent Davis
20 rebuttal testimony as Schedule BCD2010-12 is a spreadsheet identifying each change
21 order that KCP&L provided to Mr. David Elliott of the Utility Operations Division.
22 (Schedule BCD2010-12) KCP&L also provided Staff with copies of the identical
23 presentations summarizing the Iatan Project's cost reforecasts as were provided to

1 KCP&L's Executive Oversight Committee ("EOC") and Board of Directors. (See
2 Schedule FA2010-2, Schedule FA2010-5, Schedule FA2010-6, Schedule FA2010-7)
3 KCP&L has also met with Staff approximately 20 times during the course of the Iatan
4 Projects to explain the details of issues and answer any questions raised by Staff.
5 KCP&L has provided a near-constant flow of source data to Staff throughout the course
6 of both Iatan Projects.

7 **Q: Staff also states in its Report that the S&A obligates KCP&L to "use an estimate**
8 **with a high degree of accuracy as a basis to identify and explain any cost overruns**
9 **in the event that actual costs exceeded the definitive estimate for the project." (Staff**
10 **Report, p. 3, ln. 27-30) Do you agree with Staff's Report?**

11 **A:** Staff does not define what it means by an "estimate with a high degree of accuracy" and
12 cites no provision of the S&A or any other document that either supports this contention
13 or defines what it means. There is no obligation in the S&A regarding the "level of
14 accuracy" that KCP&L agreed to provide, and certainly KCP&L did not agree in the
15 S&A that its costs for the Iatan Project were somehow fixed or bounded by percentages
16 of accuracy by the CBEs for Iatan Unit 1 and Iatan Unit 2. Notwithstanding this, the
17 Control Budget Estimate was carefully developed utilizing the expertise of KCP&L's
18 Owner's Engineer with oversight from its consultant, Schiff Hardin, and was based upon
19 the best information known at the time. It was carefully vetted by several different teams
20 of people, and discussed in detail at all levels of KCP&L. Given the level of engineering
21 maturity the time the Control Budget Estimate was completed, I do believe that the
22 estimate was as accurate as it could have been at that point in time. Company witness
23 Daniel Meyer testified in his Direct Testimony that the level of accuracy of the CBE was

1 within a range of -15 to +30, or a "Class 3" estimate according to AACE standards.
2 KCP&L acted within standard industry practice to set its budget based upon the level of
3 accuracy of the CBE. *See Meyer Direct Testimony at p. 15 lns. 5-13.*

4 **Q: Staff also asserts that KCP&L "spent months and months" preparing the CBE, and**
5 **that KCP&L had committed to providing the Definitive Estimate to Staff by August**
6 **2006, though Staff did not receive the CBE until January 2007. Are these**
7 **statements correct?**

8 **A:** Yes, the referenced timeline is accurate, however, Staff has changed its interpretation of
9 those events over the intervening time. It is true that KCP&L did not meet its initial goal
10 for producing the Definitive Estimate. In mid-Summer 2006, we made a judgment that
11 since the negotiations with ALSTOM were ongoing, it was more beneficial to wait to
12 complete the Definitive Estimate. However, I recall a conversation with Staff's Mr.
13 Robert Schallenberg during the late summer of 2006 in which I explained to Mr.
14 Schallenberg that KCP&L needed additional time to prepare the CBE. Mr. Schallenberg
15 encouraged KCP&L to take whatever time was necessary to obtain more bids and clarity
16 for the CBE, that Staff was not in a hurry to receive this from KCP&L. As Mr. Meyer's
17 states in his rebuttal testimony by the time of the May 2008 reforecast by far the majority
18 of cost increases had been identified. The Iatan 2 unit was about 70% designed at that
19 point in time and Iatan 1 about 90%. The accuracy of the 2008 reforecast is clearly
20 evident by comparing the current estimated cost at completion to the May 2008
21 reforecast. Iatan 1 is under the 2008 reforecast by about 5% and Iatan 2 above the 2008
22 reforecast by less than 2%.

1 **Q: If that was the case, why then didn't KCP&L merely wait several more months**
2 **after December 2006 to issue the CBE with even more mature numbers?**

3 **A: Because KCP&L was obligated by the S&A to report its status on the Iatan Project, and**
4 **management believed it was necessary to obtain Board of Directors approval of the**
5 **overall Project budget. Moreover, KCP&L did not believe it could wait until May of**
6 **2008 when the unit was 70% designed to begin reporting cost variances to the parties to**
7 **the Stipulation and Agreement.**

8 **KCP&L'S FAST-TRACK DECISION**

9 **Q: Staff's Report alleges the decision to fast-track was a "major factor that led to**
10 **KCPL incurring \$200 million in cost overruns" on the Iatan Project." (Staff's**
11 **Report p. 38) Do you agree?**

12 **A: No. I disagree with Staff's contention, which I believe is completely baseless. First, as I**
13 **stated earlier, Staff has not shown any linkage between the fast-track decision and any**
14 **specific cost overrun on the Project. Moreover, I dispute Staff's allegation that KCP&L**
15 **did not employ a high quality team or that the Owner's Engineer, Burns & McDonnell,**
16 **was not qualified to perform work on a fast-track project. Company witnesses Mr. Davis**
17 **and Mr. Bell each testify regarding the qualifications and experience of the project team**
18 **that effectively managed the work. Most important, KCP&L made the decision to**
19 **proceed on a fast-track based on considerable vetting of the available options and the**
20 **creation of a solid plan for execution. As I will explain, the foundation engineering was**
21 **the most critical portion of the work that needed to be expedited to support the**
22 **installation of all of the Iatan Project's major equipment. In this regard, the Iatan**
23 **Project's records show that KCP&L and its contractors met every critical foundation**

1 milestone, save one where unexpected weather impacted underground and foundation
2 work.

3 **Q: First of all, what is your understanding of the term "fast-track"?**

4 A: Company witness Kenneth Roberts states that the way the term "fast-track" is used in
5 relation to the Iatan Projects is that certain construction activities proceeded before the
6 entire design was completed. Company witness Mr. Meyer states that this method has
7 become very common in most industrial construction and in particular in the power
8 industry.

9 **Q: What experience did KCP&L management have with fast-track construction of**
10 **power plants prior to the Iatan Project?**

11 A: The rebuilding of Hawthorn 5 after the explosion that destroyed the boiler was an
12 extremely challenging fast-track project. Because the Hawthorn 5 project was financed
13 with insurance proceeds, and the cost of replacing the boiler was significantly lower than
14 the cost of replacement power, it fit the mold Staff described in its Report of a fast-track
15 project being driven largely by schedule. Nonetheless, Hawthorn 5 was a very large,
16 very complex undertaking and provided both KCP&L and Burns & McDonnell, who was
17 also the Owner's Engineer on Hawthorn 5, some significant work experience that is
18 applicable to the Iatan Projects.

19 In addition, the LaCygne 1 SCR Project, which started in fourth quarter of 2005,
20 provided KCP&L's management with additional experience with fast-track construction.
21 The EPC contract with Babcock & Wilcox ("B&W") for the LaCygne 1 SCR required
22 B&W to mobilize within a few days of its execution to install dampers during an already-
23 scheduled maintenance outage well in advance of the final design. B&W was able to

1 take advantage of this outage window, without which it would not have completed the
2 Project on time and on budget.

3 These prior and concurrent experiences with fast-track construction provided
4 KCP&L's management with some context for its decision-making.

5 **Q: Can you describe the information KCP&L's management vetted regarding the**
6 **option to fast-track the Iatan Project?**

7 **A:** Yes. The decisions regarding fast-tracking the work were intertwined with
8 management's contracting strategy decisions. I testified at some length in my Direct
9 Testimony regarding the multiple options that were presented by Burns & McDonnell
10 and Black & Veatch regarding the Iatan Project's contracting strategy. See Giles Direct
11 Testimony at pp. 8-15. In November 2005, Burns & McDonnell and Black & Veatch
12 were asked to provide recommendations regarding contracting models. The following
13 depicts the options that these firms presented to KCP&L's management:

14 Burns & McDonnell provided four separate schedule scenarios summarized
15 below:

Burns & McDonnell Scenarios	Months	Completion Date
Normal EPC – competitive bid – 12 months required for award of EPC during which price would be not known	59.5	11/20/2010
Accelerated EPC – Accelerate Construction	56	7/25/2010
Multi-Prime	54	5/22/2010
Open Book EPC	60	12/22/2010

16
17 The multiple schedule scenarios presented by Black & Veatch in its presentation
18 included a direct comparison between a competitively bid EPC and a multi-prime
19 contracting strategy.

Black & Veatch Scenarios	Months	Completion Date
Normal EPC - Competitive Bid	76	2/1/2012
Multi-Prime – assumes award of turbine 9 months before start of construction	59	9/1/2010
Open Book EPC – indicative pricing not known for 12 months; contract not executed for 18 months	54	6/1/2010

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The two proposals with the shortest schedules, Burns & McDonnell’s multi-prime and Black & Veatch’s Open Book EPC, were both fast-track models in that they depended upon making up schedule time by simultaneously engineering and constructing.

Burns & McDonnell presented a multi-prime fast-track scenario that fit the schedule and appeared reasonable, provided that the major equipment suppliers would agree to meet the dates. Burns & McDonnell’s plan was based on design proceeding in parallel with aspects of construction. Burns & McDonnell had broken the Iatan Project into a series of design packages that would be let to contractors on an “as-designed” basis. Using the earlier example of the ductbank, Burns & McDonnell could design the underground structures long before the electrical design was completed, and once the electrical wire that runs through the underground embeds was designed, it would be part of a later execution package.

Black & Veatch’s Open Book EPC option was also based on a fast-track method, though its proposal suffered from significant flaws: this proposal would have been a single-source award with no competition, and Black & Veatch would have not be able to confirm pricing for a year or more. In addition, Black & Veatch’s proposal would have locked KCP&L into this contract with no opportunity to turn back and with no other

1 commercial options for proceeding with the Project if Black & Veatch's price was
2 untenable.

3 **Q: How did the EOC arrive at its decision regarding the Iatan Project's contracting**
4 **strategy?**

5 A: On November 23, 2005, KCP&L's Senior Management met with Burns & McDonnell's
6 key executives and members of Schiff's team met to review the contracting options
7 presented by Burns & McDonnell and Black & Veatch. The following were the key
8 points discussed in that meeting that led to decisions by KCP&L's Senior Management:
9 (1) Burns & McDonnell, Black & Veatch and Schiff agreed that engineering was critical
10 path and needed to work on a "fast-track" basis to meet the June 1, 2010 target. To meet
11 these dates, engineering needed to accelerate the design and construction of the structural
12 steel and foundations, which resulted in an overall savings to the Iatan Unit 2 Project of
13 approximately six to nine months of schedule time; (2) it was important to management
14 that KCP&L was able to enter the market ahead of its competition in an effort to lock up
15 major contracts at favorable prices; (3) KCP&L had to assemble a Project team to
16 coordinate all the work on the owner's behalf ; (4) There was also a clear understanding
17 that the market for the major equipment would be the ultimate determining factor in
18 formulating the Project's schedule and in-service date. From a schedule standpoint, the
19 options available at that time were dependent to a large degree on the boiler
20 manufacturers. The Project's critical path would be through the procurement and
21 construction of the boiler. ** [REDACTED]

22 [REDACTED]

23 [REDACTED]**

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1 In addition to the above, the EOC considered all of the following issues before
2 deciding to proceed with the project on a multi-prime/fast-track basis:

- 3 • Full-wrap EPC contracts, while having the potential for greater cost
4 certainty, were generally viewed to be 8-10% higher in cost than multi-
5 prime projects. The ability to hold the line on costs depended upon the
6 quality of the specifications and upfront identification of risks;
- 7 • A full EPC specification would take 6 to 9 months to write and 3 to
8 6 months to negotiate;
- 9 • The number of EPC contractors in the market was small and with backlogs
10 filling up, those contractors were “less inclined to take risks” for such
11 major issues as labor productivity and availability;
- 12 • The market was causing the assumption of risk to increase the price, so
13 that the cost of an EPC relative to multi-prime was more likely 12 to 15%
14 higher with less risk assumption by the contractor for this increased price;
- 15 • Labor remains a significant risk, and local contractors were more likely to
16 fill the void;
- 17 • Local contractors were more likely to meet KCP&L’s targets for minority
18 and women-owned enterprises;
- 19 • Overall, management assessed the relative potential cost savings of a
20 multi-prime contracting model between \$150 million to \$200 million.

21 **Q: What decision did KCP&L make regarding the fast-track multi-prime option?**

22 **A:** KCP&L made two critical decisions regarding the contracting strategy that resulted from
23 the November 23, 2005 meeting: (1) to hire Burns & McDonnell as its Owner's Engineer;

1 and (2) to develop a strategic schedule that confirms that the Summer 2010 completion
2 date was feasible. The development of the strategic schedule led KCP&L, Burns &
3 McDonnell and Schiff to coalesce around certain key dates and durations to pursue in
4 procurement based on a fast-track design. The strategy we employed followed the
5 general recommendations and many of the very specific recommendations that Schiff and
6 Burns & McDonnell made.

7 **Q: Did KCP&L adhere to this plan in the execution of the Iatan Unit 2 Project?**

8 A: Generally, yes. The major engineering, procurement and construction dates outlined in
9 this early plan were all met or nearly met by KCP&L and its vendors. The most critical
10 milestones to KCP&L at this stage related to completion of foundations in time for the
11 start of our major vendor's construction. Adhering to these milestones and the strategic
12 schedule was critical to the Iatan Unit 2 Project getting off to a good start. The strategic
13 schedule that Schiff and Burns & McDonnell jointly developed in the winter of 2005-6
14 showed a 45-month duration from the completion of foundations for the boiler to the
15 Provisional Acceptance date of June 1, 2010. ALSTOM's bid schedule accommodated
16 these and other key dates in the Strategic Schedule and provided KCP&L with
17 confidence that the dates could be met. The key to the schedule was mitigating
18 engineering risks that emanate from a fast-track project.

19 **Q: Please explain in detail how KCP&L mitigated engineering risks.**

20 A: Company witnesses Kenneth Roberts, Brent Davis, and William Downey each testify to
21 aspects of KCP&L's plan to mitigate the risks of fast-track engineering. The decision to
22 contract with Black & Veatch to begin the boiler specification immediately after the
23 approval of the S&A is one such action that had a positive impact on the Project's

1 schedule. Establishing the strategic schedule in late 2005 identified the parts of the
2 schedule that needed the greatest emphasis. The following is a summary of these
3 Company witnesses testimony regarding the significant mitigation measures KCP&L
4 took with respect to engineering were:

- 5 • On February 28, 2006, during the bidding period for the boiler, KCP&L issued
6 separate limited notices to proceed ("LNTP") to both ALSTOM and Babcock &
7 Wilcox, who were competing for the boiler and AQCS work, for each to supply
8 structural loads and other key information so that Burns & McDonnell could begin
9 designing the foundations for the boiler concurrent with the award and negotiation
10 of the contract (Downey Direct Testimony at pp. 20-21);
- 11 • On April 27, 2006, KCP&L issued a notice of award and LNTP to ALSTOM for
12 the boiler and AQCS contract, and released ALSTOM to begin its design of the
13 boiler's structural steel, which Burns & McDonnell and Schiff had identified as the
14 critical path to the Iatan Unit 2 Project at that time;
- 15 • In June 2006, Burns & McDonnell was given the full release to perform Balance of
16 Plant engineering. As Steven Jones testifies, Burns & McDonnell and KCP&L's
17 procurement team prioritized its engineering work according to a procurement
18 schedule that was optimized to purchase goods and services to support the strategic
19 schedule. To date, there have been very few procurements that have had any
20 impact on the construction schedule and none have had an impact on the Iatan Unit
21 2 Project's in-service date;
- 22 • As Brent Davis testifies, in April 2007, with input from the contractors who were
23 on site at the time, namely ALSTOM, Kissick Construction and Pullman Power,

1 Inc., and with appropriate place holders for Balance of Plant work that had not yet
2 been released, KCP&L's Project Controls team baselined the Iatan Unit 2 Project's
3 schedule. Burns & McDonnell recognized that certain of its schedule activities for
4 engineering work did not support the construction plan and revised its design
5 schedule accordingly. Burns & McDonnell also improved its tracking metrics for
6 the remaining design work so that it could report at a more granular level once it
7 entered into the detailed design phase.

- 8 • In June of 2007, KCP&L and Kiewit entered into an LNTP for the remaining
9 Balance of Plant work that led to the contract with Kiewit in November 2007.
10 Under the LNTP, Kiewit "co-located" its project team with Burns & McDonnell to
11 review the engineering product and begin its planning of the construction work,
12 and Kiewit identified changes to Burns & McDonnell that would increase the
13 overall efficiency of the construction process. (Davis Direct Testimony at p. 35)
- 14 • Through the remainder of 2007 and into 2008, the KCP&L project team engaged
15 in the reforecast of the Project's costs, during which the engineering team revisited
16 all aspects of the Project's design status and any changes that were necessary to
17 improve the Project's design, and these considerations were incorporated into the
18 final design.

19 **Q: What was the result of KCP&L's efforts to manage these various risks associated**
20 **with engineering?**

21 **A:** The Iatan Unit 2 project team succeeded in fast-tracking the engineering and early
22 construction work and eliminated significant risks to the Iatan Project as a result.

1 **Q: Staff asserts that the “primary benefits of fast tracking are (1) reduced planning**
2 **lead times and (2) parallel execution of tasks.” Do you agree that KCP&L was able**
3 **to derive those benefits?**

4 A: Yes. KCP&L was able to meet the critical dates necessary to support ALSTOM’s
5 construction schedule through reduced lead times and parallel execution.

6 **Q: Staff also asserts that, “Fast tracked projects are harder to oversee and plan, and**
7 **may result in errors when incorrect assumptions about engineering design are**
8 **made.” Did this risk materialize to any extent?**

9 A: Not to the extent that engineering errors were a significant result, no. It is true that our
10 key advisors Burns & McDonnell and Schiff Hardin explained the need for a strong
11 project team on many occasions. However, I believe that KCP&L mitigated those risks
12 throughout the Project.

13 **Q: Staff also states, “Since the focus [of a fast-track project] is geared on beating the**
14 **clock, many times the loss of focus on the project as a whole results in inefficient**
15 **spending and planning.” (Staff’s Report pp. 24-5) Are you aware of any “loss of**
16 **focus” that resulted in inefficient spending and planning?**

17 A: No, and I note that Staff, while making this allegation, never identifies a single example
18 of this actually occurring on the Iatan Project.

19 **Q: Staff also claims that the “Specific risks of fast tracking include:**

- 20 **Increased costs due to estimating errors**
- 21 **Work not completed as desired**
- 22 **Poor quality workmanship**
- 23 **Cost overruns**
- 24 **Overbillings**
- 25 **Unapproved or undesirable changes from plan**
- 26 **Problems may be duplicated, making corrections more costly**
- 27 **Increased “cascading” of problems”**

1 **Q: In your Direct Testimony in this case, you discussed the commitments KCP&L**
2 **made in the S&A to inform the Staff and the other parties as to the CEP Projects'**
3 **status. Could you summarize that testimony?**

4 A: In the S&A, KCP&L agreed to provide quarterly status updates on these infrastructure
5 commitments that would include detailed information regarding actual expenditures in
6 comparison to planned expenditures and a description of any and all efforts by KCP&L to
7 efficiently and reasonably procure equipment and services related to the investments. In
8 addition, KCP&L was to continue with its current process of working with the parties in
9 its long-term resource planning efforts to ensure that its current plans and commitments
10 are consistent with the future needs of its customers and the energy needs of the State of
11 Missouri.

12 **Q: Did KCP&L prepare such reports?**

13 A: Yes. Beginning with the first quarter of 2006, KCP&L has submitted on a quarterly basis
14 "Strategic Infrastructure Investment Status Reports," or simply the "Quarterly Reports,"
15 to Staff and the other signatory parties to the S&A. We have also been available to meet
16 with the Staff and representatives of the S&A signatories¹ on a quarterly basis
17 ("Quarterly Meetings") at the Commission offices in Jefferson City, Missouri. I prepared
18 a summary of the risks identified in the Quarterly Reports that is attached as Schedule
19 CBG2010-4.

20 **Q: Did you provide information to the Staff regarding management's decision-making**
21 **process with respect to these risks?**

¹ All S&A signatories were invited to these meetings. However, not all S&A signatories attend every meeting.

1 A: Yes. As noted in Schedule CBG2010-4, the Quarterly Reports highlighted these and
2 other risks and discussed the methods used for mitigation or avoidance of risks from first
3 quarter of 2006 to the most recent report of first quarter of 2010.

4 **Q: In addition to the Quarterly Meetings and the Quarterly Reports, has KCP&L**
5 **provided other opportunities to Staff to review the Iatan Unit 2 Project?**

6 A: Yes. Members of KCP&L's team have met with Staff on approximately 20 occasions
7 and have responded to over 2150 data requests.

8 **Q: What is your opinion regarding the level of transparency KCP&L has provided to**
9 **Staff during the Iatan Unit 2 Project?**

10 A: As stated, based upon my experience, the high degree of transparency in this process
11 between KCP&L and Staff is unprecedented.

12 **Q: What were the major risks that KCP&L management anticipated in the fall of 2005**
13 **with developing KCP&L's capabilities for managing the Iatan Unit 2 Project?**

14 A: Mr. William Downey testifies to the major risks that we were facing as of that time.
15 Because KCP&L had not undertaken a construction project of this magnitude in some
16 time, we needed to attract project management talent and develop and refine the tools
17 needed to manage such a complex project.

18 **Q: Did KCP&L report those risks to the Staff?**

19 A: Yes. Our Quarterly Reports track our build-up of staff and capabilities.

20 **Q: How did KCP&L mitigate these issues?**

21 A: We immediately began establishing the Iatan Unit 2 Project team and developed
22 appropriate processes and procedures. In July 2006, we provided the Staff with the Cost
23 Control System for the CEP Projects including the Iatan Unit 2 Project. As Company

1 witness Steven Jones testifies, we used this document as a template for developing the
2 Project Controls and procurement procedures that have been successfully deployed on the
3 Project.

4 **Q: What has been the impact of mitigating these risks on the Iatan Unit 2 Project?**

5 A: Company witness Kenneth Roberts testifies as to the effectiveness of the Project Controls
6 that KCP&L has implemented for the Iatan Unit 2 Project and how those controls have
7 allowed management to clearly see and timely react to challenges as they have occurred.
8 Mr. Jones testifies to KCP&L's success in procuring the equipment on time to meet
9 schedule and reduce cost in an overheated market for such procurements.

10 **Q: Were there other significant risks that KCP&L addressed as the Iatan Unit 2
11 Project progressed?**

12 A: As we documented in the Quarterly Reports, there were many other decisions that
13 management had to make to reduce risk on the Iatan Unit 2 Project including the decision
14 to award Kiewit the Balance of Plant contract. I discussed the mitigation of engineering
15 risks earlier in my testimony. In addition, the procurement strategy and internal staffing
16 were constantly being evaluated.

17 **Q: What were the major procurement risks that KCP&L management anticipated in
18 the fall of 2005?**

19 A: Mr. William Downey testifies to the major risks that we were facing as of that time.
20 Clearly, procurement of the boiler, turbine generator and AQCS equipment were the
21 major risks requiring action on management's part in late 2005 to early 2006. Both
22 Burns & McDonnell and Black & Veatch advised us of the market constraints for these
23 procurements in their respective presentations in November 2005.

1 **Q: Did KCP&L report those risks to the Staff?**

2 A: Yes.

3 **Q: How did KCP&L mitigate these risks?**

4 A: Many of the issues discussed in prior testimony regarding engineering also apply to
5 procurement. The initial mitigation of procurement risk occurred with the bidding and
6 awarding of the ALSTOM contract for the boiler and AQCS. Company witness William
7 Downey testifies to the ways in which the ALSTOM contract benefitted KCP&L by
8 combining the performance risk of the equipment, the transparency required from
9 ALSTOM under the contract and the advantageous price KCP&L received from the
10 competitive bid process. After the award of the ALSTOM contract, we were aware of the
11 need to aggressively manage the ALSTOM contract, and so informed Staff of our
12 acknowledgement of that risk in the Quarterly Reports. As we reported to Staff, KCP&L
13 management recognized the importance of maintaining a strong working relationship at
14 the executive level with ALSTOM and enforcing the contract as necessary.

15 **Q: With respect to ALSTOM, what has been the result of KCP&L's efforts to manage
16 the various risks presented by the ALSTOM contract?**

17 A: KCP&L's success at managing ALSTOM is demonstrated by the limited increase in
18 contract price to ALSTOM as discussed by Company witness Robert N. Bell. Moreover,
19 KCP&L's efforts to manage ALSTOM performance on the Project have been critical to
20 the scheduled completion of the Project during the summer of 2010.

21 **COMMON FACILITIES**

22 **Q: Do you agree with the Staff's allocation of indirect costs to common facilities?**

1 A: No, I don't. Staff asserts or implies in its report that KCP&L somehow manipulated the
2 allocation of indirect costs to its benefit purportedly because it is KCP&L's desire to have
3 more rate base. This is incorrect. KCP&L does not care how indirect costs are allocated
4 as long as the method is reasonable and equitable to each of the owners of the project.
5 KCP&L did not allocate Unit 1 indirect costs to Common. Staff's Report indicates that
6 this is the only issue with the Company's allocation of indirect costs. However, in its
7 allocation of indirect costs Staff incorrectly lumps the two units indirect costs together
8 and allocates when they should be done separately. In addition Staff allocates all actual
9 indirect costs through June 2010 rather than cutting off actual indirect costs as of
10 December 2008 consistent with the Company's allocation of direct construction costs.
11 This results in a substantial over-allocation of indirect costs to Common facilities.
12 KCP&L has discussed these differences with the Staff and believe a reasonable and
13 equitable method of allocation of indirect costs can be agreed to among the Staff,
14 KCP&L, and the other owners of the project. We will continue to work toward resolution
15 of this issue but in the event an agreement cannot be reached it is the Company's position
16 that its allocation of indirect costs results in a more reasonable and equitable allocation of
17 indirect costs to Common facilities than that proposed by Staff.

18 **RESPONSE TO THE DIRECT TESTIMONY OF WALTER DRABINSKI**

19 **Q: Are you familiar with the direct testimony that Mr. Walter P. Drabinski of Vantage**
20 **Consulting Inc. filed in this case on behalf of the Missouri Retailers Association?**

21 A: Yes, I am.

22 **Q: Do you have any general impressions of Mr. Drabinski's testimony?**

23 A: In general, it appears that Mr. Drabinski has not reviewed KCP&L's decision-making

1 process based upon the circumstances at the time the decision was made. Instead, he has
2 engaged in a hindsight analysis. Furthermore, Mr. Drabinski has failed to explain why he
3 believes the disallowances he has identified were the result of KCP&L's imprudent
4 decisions.

5 IATAN PROJECT DEVELOPMENT

6 **Q: Mr. Drabinski asserts that, "KCP&L management, during the period of 2005 to mid**
7 **2007, made inappropriate decisions and did not provide adequate control of the**
8 **Iatan project resulting in conditions that led to schedule impacts and cost overruns**
9 **which were the basis for later project cost adjustment and schedule delays."**
10 **(Drabinski Direct Testimony at p. 42, ll. 10-13.) Could you elaborate on the ways in**
11 **which you disagree with that testimony?**

12 **A:** As stated, I do not believe that Mr. Drabinski has based his testimony on a review of the
13 actual decision-making process that KCP&L employed during this time frame and he has
14 improperly applied hindsight regarding the results of KCP&L's decisions. Contrary to
15 Mr. Drabinski's unsupported conclusions, KCP&L's management made prudent
16 decisions that were timely and continued to mitigate the Project's risks throughout the
17 course of the work. The following is a summary of the major activities that led to
18 management's critical decision points:

- 19 • In 2004, KCP&L first had to determine whether it was prudent to build Iatan
20 Unit 2. Once it was clear to KCP&L that the demand for additional power
21 existed, KCP&L sought professional advice from Burns & McDonnell to develop
22 a preliminary design study regarding the type of plant that was most suitable for
23 meeting our customers' needs, and that advice was for KCP&L to develop a

1 supercritical coal plant approximately 800 MW in output with state-of-the-art
2 environmental controls. Concurrent to the preparation of this design study,
3 KCP&L engaged in discussions with our future partners, customers and the
4 regulatory bodies of both Kansas and Missouri and developed a regulatory
5 strategy to confirm that the options we selected were appropriate. Management
6 was careful to not get too far ahead of our partners' and customers' needs, since
7 we needed to confirm the size of the plant and the type of technology that would
8 be employed.

- 9 • As of August 2005 when both the Kansas and Missouri Stipulations were final,
10 KCP&L was willing to consider any contract model that allowed for the Project to
11 succeed. KCP&L's management sought opinions from Schiff, Burns &
12 McDonnell and Black & Veatch regarding options for proceeding, while at the
13 same time advancing engineering work by having Black & Veatch begin the
14 design and RFP of the boiler.
- 15 • On November 7-8, 2005, Black & Veatch and Burns & McDonnell each
16 presented multiple contracting methods, including multi-prime and EPC, and
17 provided schedules for each path based on what was known at that time in the
18 industry. Black & Veatch recommended that KCP&L enter into an agreement
19 with Black & Veatch for an EPC contract that would give Black & Veatch an
20 immediate release to begin engineering. However, Black & Veatch could not
21 commit to providing KCP&L with an indicative project cost for approximately
22 one year and would not enter into a competitive bid for an EPC that could have
23 completed any time prior than fourth quarter 2011. Burns & McDonnell also

1 provided scenarios that ranged from EPC to multi-prime. However, Burns &
2 McDonnell stated that an EPC, even a negotiated one such as Black & Veatch
3 recommended, could not be performed by June 1, 2010. Burns & McDonnell
4 proposed a particular variant of a multi-prime method in part because it was
5 successful with the same KCP&L team on a multi-prime in the rebuilding of
6 Hawthorn Unit 5. That method can best be described as an EPC Hybrid in which
7 the major components (boiler, AQCS, and perhaps the turbine generator) are all
8 procured from one vendor while the Balance of Plant is split among multiple
9 contracts.

- 10 • On November 23, 2005, KCP&L's Senior Management met with principals of
11 Burns & McDonnell and members of the Schiff team. As of that date,
12 Management was fully aware that the targeted in-service date of June 1, 2010 was
13 54 months away. In that meeting, Burns & McDonnell and Schiff presented
14 various options for contracting models and schedules. Based on this information,
15 KCP&L management decided to proceed with Burns & McDonnell as the
16 owner's engineer, to proceed with the procurement of the major equipment
17 (boiler, turbine generator and AQCS) and consider options for the Balance of
18 Plant ("BOP") work based on the procurement cycle. KCP&L Senior
19 Management asked Schiff to work with Burns & McDonnell to develop a
20 strategic schedule, which was completed before the end of 2005 (the "Strategic
21 Schedule", Schedule CBG2010-5). The Strategic Schedule showed that to meet
22 the June 1, 2010 target date, engineering needed to be accomplished on an
23 expedited basis so that the foundations for the major equipment were ready to

1 receive the engineered equipment KCP&L needed to buy. The most important
2 date was August 15, 2007, which projected to be the date KCP&L needed to meet
3 in order for the boiler of the then-unknown boiler supplier to begin erection.

- 4 • KCP&L was able to preserve the major milestone dates through early
5 procurements of the major equipment. KCP&L was able to procure the turbine
6 generator from Toshiba in late March 2006 and entered into a Limited Notice to
7 Proceed with ALSTOM on April 15, 2006, and both contractors were willing to
8 meet the June 1, 2010 date. During the bid review process, in late-February 2006,
9 KCP&L gave both bidders on the boiler limited notices to proceed to begin design
10 engineering for the boiler's structure, which allowed ALSTOM to provide critical
11 information to KCP&L months sooner. ALSTOM's schedule was premised on a
12 44-month schedule for boiler erection starting on August 15, 2007.

- 13 • In the spring of 2006, KCP&L pursued BOP options from the select group of
14 potential large general contractors but found no interest. KCP&L management
15 authorized Burns & McDonnell to proceed with design work on the BOP in April
16 2006 to meet ALSTOM's schedule for foundations for its equipment. Burns &
17 McDonnell agreed it could support this schedule. Ultimately, Burns &
18 McDonnell and Kissick were able to meet all of the key Iatan Unit 2 dates, and
19 the boiler foundation was turned-over to ALSTOM on August 14, 2007.

20 This sequence of facts shows that KCP&L recognized the issues created by having a
21 shortened timeframe for engineering and mitigated the potential impacts.

22 **Q: Do you believe that any of the decisions that KCP&L's management made during**
23 **this time period were imprudent?**

1 A: No, I do not.

2 **EARLY PROJECT DEVELOPMENT**

3 **Q: What were the major decisions facing KCP&L's management in 2004 regarding the**
4 **building of Iatan Unit 2?**

5 A: First, KCP&L had to establish the need for constructing the plant.

6 **Q: How did KCP&L begin studying the addition of Iatan Unit 2 to its fleet?**

7 A: In 2004 we established through our Integrated Resource Plan the need to add baseload
8 capacity. From this assessment, the Company engaged in a series of public forums with
9 multiple interested parties. As I stated in my direct testimony:

10 "The Iatan project is part of KCP&L's Regulatory Plan. KCP&L engaged
11 in a year-long public dialogue with outside interveners and interested
12 parties to arrive at a solution for the Kansas City area's energy needs as
13 well as identification of certain environmental upgrades required for the
14 existing KCP&L fleet."

15 (Giles Direct Testimony at p. 6, lines 4-8)

16 This Plan is often referred to as the Comprehensive Energy Plan ("CEP"). The CEP was
17 presented to the Missouri Public Service and Kansas Corporation Commissioners in early
18 spring 2004. Subsequent to those presentations both jurisdictional Commissions
19 established workshops for interested parties to participate with KCP&L and the
20 Commissions' Staffs to further explore and refine the CEP. Equally important and
21 critical to KCP&L's ability to move forward with the CEP was a Regulatory Plan to
22 implement the CEP. As I have previously discussed, the Company's Missouri
23 Regulatory Plan is embodied in the S&A. The Regulatory Plan shows that KCP&L
24 engaged in an open process that resulted in a prudent decision to proceed with the
25 building of a coal plant.

1 **Q: Once the decision to pursue the development of the CEP was made, what did**
2 **KCP&L's management do next with regard to Iatan Unit 2?**

3 A: As I stated in my Direct Testimony in this case, in September 2004, we engaged Burns &
4 McDonnell to provide KCP&L with a Project Definition Report ("PDR"). In his Direct
5 Testimony Brent Davis summarized the purpose of the PDR, which was to "discuss the
6 possible expansion of the Iatan facility to include an 800 MW (net) coal plant, and
7 included evaluations regarding permitting, economics of major technology components,
8 integration of the project into KCP&L's Integrated Resource Plan and it provided for
9 internal budget appropriations." (Davis Direct Testimony at p. 38.) The PDR also
10 contained general sections on the Project's potential scope, general design criteria, a
11 high-level estimate and schedule of certain milestones. In summary, the PDR was a
12 preliminary design study that identified certain choices for KCP&L to make should the
13 Project advance forward.

14 **Q: How would you characterize the maturity level of the Project's design in the PDR?**

15 A: Mr. Davis identified the PDR as "a pre-cursor to even conceptual design work and is only
16 highly representative of the broad outlines of the project." (Davis Direct Testimony at p.
17 38.) I agree with that testimony.

18 **Q: Did Burns & McDonnell identify risks to the potential cost of the Iatan Unit 2**
19 **Project in the PDR?**

20 A: ** [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]
25 [REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED] ** To mitigate these risks, Burns & McDonnell advised KCP&L to determine whether the Project was economically viable and, assuming that it was viable, begin engineering work as quickly as possible. (Davis Direct Testimony at pp. 39.)

Q: How much contingency was included in the PDR estimate?

A: Burns & McDonnell included ** [REDACTED] ** as part of its PDR cost estimate. ** [REDACTED] **

Q: How did Burns & McDonnell characterize an ** [REDACTED] ** contingency for this project in the PDR?

A: Burns & McDonnell stated that an ** [REDACTED] ** contingency was adequate to cover normal deviations in pricing and normal deviations in the assumptions used to develop the project costs. ** [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[Redacted]

[Redacted]**

Q: Did Burns & McDonnell provide a proposed schedule for the Project in connection with this preliminary design study?

A: Yes. ** [Redacted]

[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]
[Redacted]	[Redacted]	[Redacted]	[Redacted]
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[Redacted]

[Redacted]

[Redacted]**

Q: Why didn't KCP&L follow the advice Burns & McDonnell provided in this preliminary design study and begin engineering in late 2004?

A: While Burns & McDonnell may have offered good advice, KCP&L was not in a position to proceed with such a large step at that time. As of that time, KCP&L had not: (1) identified its partners; (2) identified the plant's size and capacity; (3) completed the collaborative process we started early in 2004; nor (4) fully developed our Regulatory Plan. Until these issues were worked out, KCP&L management felt it would have been presumptuous to begin engineering or procurement work beyond the study and feasibility phase.

1 **Q: What would have been presumptuous about proceeding with engineering at that**
2 **time?**

3 A: KCP&L's management did not feel that proceeding with design of a project was
4 appropriate at the same time we were requesting our partners, regulators, customers, and
5 the public's opinions in open meetings and asking them to contribute to our CEP and
6 subsequent Regulatory Plan. Unless a Regulatory Plan could be agreed upon, KCP&L
7 could not and would not have moved forward with the CEP. All of the parties to the
8 Regulatory Plan collaboration and negotiation understood this fact. Obviously, to be
9 engaged in the design of a coal generation plant during negotiations of a regulatory plan
10 would not only be presumptuous but would beg the question why a regulatory plan was
11 an absolute necessity in the first place. Under such circumstances, I don't believe a plan
12 could have been achieved, and the CEP, in particular, Iatan Unit 2, would not have been
13 constructed.

14 **Q: How does the preliminary schedule in the PDR compare to the ultimate strategic**
15 **schedule that was developed once the Iatan Unit 2 Project was underway?**

16 A: The preliminary schedule Burns & McDonnell provided in the PDR and the ultimate
17 schedule for the Iatan Unit 2 Project itself are very different, and those differences are
18 most readily seen in the design stage. In late 2004 to mid-2005, as KCP&L was
19 obtaining regulatory approval for the Project, it continued to review the possible in-
20 service dates. When the S&A was signed, it was apparent that the completion date had to
21 change. The duration of the project was about the same but with a later start date due to
22 the need to agree to a regulatory plan. To my knowledge Burns and McDonnell was not
23 aware KCP&L was pursuing a regulatory plan in order to implement the CEP. We

1 ultimately committed to completing the Project in summer of 2010.

2 **Q: What was the basis in Burns & McDonnell's preliminary design study for its cost**
3 **estimate?**

4 A: ** [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]**

11 **Q: How would you characterize the estimate that Burns & McDonnell provided in the**
12 **PDR?**

13 A: Daniel Meyer testifies that the cost estimate embedded in the PDR was very preliminary,
14 at best, and I agree with that testimony. Brent Davis testifies that, "The design was
15 conceptual at this time, and the concept in the PDR was for a plant that was substantially
16 different than the project KCP&L ultimately chose to build. Also, the proposed Project
17 duration upon which the estimate was based could not be met, because there was no
18 longer 60 months remaining to design, procure and construct the Project if the goal was
19 to meet a Provisional Acceptance in the summer of 2010. ** [REDACTED]

20 [REDACTED]
21 [REDACTED]**" (Davis Direct Testimony at pp. 40-41.) I
22 agree with that testimony.

23 **PROJECT BUDGET**

HIGHLY CONFIDENTIAL

1 **Q: Mr. Drabinski asserts on p. 16-17 of his Direct Testimony that an estimate prepared**
2 **in January 2006 was, or at least should have been, the Iatan Unit 2 Project's budget.**
3 **Do you agree?**

4 A: No. Mr. Drabinski is completely wrong. The only budget for the Iatan Unit 2 Project is
5 the CBE that was approved on December 6, 2006 by KCP&L's Board of Directors. Any
6 other cost estimate prior to that time is just that – a cost estimate.

7 **Q: Mr. Drabinski states that as of January 2006, KCP&L knew of all of its**
8 **requirements for the Project and therefore this would have been an appropriate**
9 **point for measuring overruns. Do you agree?**

10 A: Absolutely not. The January 2006 estimate was not mature in any fashion. Company
11 witness Mr. Meyer explains the estimating process that occurred.

12 **KCP&L DECISIONS – PROJECT SCHEDULE**

13 **Q: Was it important to KCP&L to complete the Iatan Unit 2 Project on June 1, 2010?**

14 A: Absolutely. There were a number of ways in which meeting that date was important,
15 including:

- 16 • Senior Management understood that the costs of commodities, equipment and
17 labor would continue to increase because of the demand for both new coal based-
18 generation and for air quality control systems.
- 19 • KCP&L and the joint owners needed additional capacity in and around the
20 summer of 2010.
- 21 • In late 2005 and early 2006, KCP&L was able to sell excess energy into the off-
22 system sales market at a price that would offset nearly the total increase in
23 revenue requirement associated with the fixed costs of Iatan Unit 2. Reduced

1 market prices of electricity are tied to current lower gas prices. However, once
2 the economy returns to pre-recession growth I would expect an increase in
3 wholesale margins.

- 4 • KCP&L had made a commitment under the Regulatory Plan to complete Iatan
5 Unit 2 by June 2010 and wanted to meet its commitment.

6 **Q: In the fall of 2005, did KCP&L Senior Management consider moving the June 1,**
7 **2010 completion date?**

8 A: Senior Management believed at that time that delaying the Project's completion would
9 only add to the costs of the plant, reduce revenues from wholesale market opportunities,
10 and thus increase the revenue required from customers once Iatan Unit 2 was placed into
11 service. Management was looking for a way to balance the market issues with
12 maintaining its commitments in the Regulatory Plan. The primary goal expressed at this
13 early planning stage was mitigating engineering and procurement risks at the outset of the
14 Iatan Project.

15 **Q: Once the S&A was approved, what did KCP&L's management do to investigate**
16 **whether the original schedule could be met?**

17 A: As I have already testified, management marched through a series of key decisions from
18 the Owner's Engineer to the contracting strategy to the development of the strategic
19 schedule to the bidding and contracting of the ALSTOM contract, all of which affirmed
20 that the June 1, 2010 target in-service date was very possible. I discuss some of those
21 details below.

22 **KCP&L MANAGEMENT DECISIONS – OWNER'S ENGINEER**
23 **AND CONTRACTING METHODOLOGY**

1 **Q: In his Direct Testimony, Mr. Drabinski states that KCP&L management never**
2 **considered an EPC project approach and “by November 2005, having never**
3 **considered a different approach, KCP&L had no choice but to accept the Multi-**
4 **Prime approach if it was to maintain the possibility of meeting its completion date.”**
5 **(Drabinski Direct Testimony at p. 43.) Do you agree with Mr. Drabinski’s**
6 **testimony?**

7 **A: Absolutely not. As previously noted, KCP&L was preserving all options at that time.**
8 **Company Witness Mr. Downey testified:**

9 **Q: What procurement options for the Iatan project did**
10 **KCP&L consider after obtaining regulatory approval?**

11 **A: KCP&L was open to any method for procurement that**
12 **would result in a high probability of meeting schedule and**
13 **budget goals while also providing the necessary level of**
14 **transparency to the Kansas and Missouri Commissions. On**
15 **September 29, 2005, Schiff gave a presentation to the**
16 **KCP&L executive team regarding multiple procurement**
17 **options for the work at Iatan. The options included: an**
18 **Engineering-Procurement-Construction or EPC contract**
19 **with a single source; a hybrid EPC contract in which the**
20 **majority of the performance requirements would be covered**
21 **under a single supplier; and a larger multi-prime method in**
22 **which multiple contracts would be procured and managed**
23 **by KCP&L as the overall construction manager.**

24 **(Downey Direct Testimony at p. 10.)**

25 **I agree with that testimony. The selection of the contracting path, as with all aspects of**
26 **the [CEP] projects, was based on which method would yield the lowest evaluated cost.**

27 **We utilized the vetting process of the Owner's Engineer candidates to also analyze the**
28 **contracting options that were then-available, which allowed us to also evaluate how the**
29 **candidates would work within the contracting model we selected.**

30 **Q: Mr. Drabinski’s Direct Testimony asserts that “KCP&L Management’s decision to**
31 **not proceed with any activities in 2005 until after the Comprehensive Energy Plan**

1 (“CEP”) was approved, against the advice of its experts, created a schedule crisis
2 which led to other poor decisions.” (Drabinski Direct at p. 37) Do you agree with
3 that testimony?

4 A: No, and this conclusion and many others in Mr. Drabinski’s testimony help demonstrate
5 the defects in the method Mr. Drabinski has used as he improperly: (1) ignores the
6 standards for prudence; (2) ignores or misstates the facts in the Project’s record and in the
7 hundreds of pages of direct testimony in this case and in the 0089 Docket; and (3) draws
8 a conclusion based entirely on hindsight. First, as I explained, it would have been both
9 presumptuous and imprudent for us to proceed as Mr. Drabinski suggests we should
10 have. Second, Mr. Drabinski completely misreads the advice KCP&L was being given
11 by the experts it employed. KCP&L followed the advice of Burns & McDonnell in
12 November 2005 because, based on the information that was available at that time, this
13 advice gave KCP&L the greatest prospect of success. Schiff and Burns & McDonnell
14 worked together on developing a Strategic Schedule that was used as the basis for the
15 Project’s major procurements, and which was used to confirm the Project’s ability to
16 meet the summer 2010 targets.

17 I note that Mr. Drabinski repeatedly states in his Direct Testimony that Schiff
18 made a presentation to KCP&L’s Board of Directors on February 1, 2005:

19 ** [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED] ** (Drabinski
23 Direct Testimony, pp. 73, ll. 8-11.)

24 Schiff made no such presentation and was not hired by KCP&L until August 2005.
25 Mr. Drabinski ignores the actual presentation that KCP&L’s Management made on
26 February 1, 2005 in which the Board of Directors was informed of the essential pieces

1 needed for the Project to move forward and the risks that the Project's development was
2 facing at the time. This presentation indicated KCP&L was considering an EPC
3 contracting strategy. Giving this no regard, Mr. Drabinski concludes, improperly
4 utilizing hindsight, that KCP&L Management should have done something it could not
5 have even tried doing in early 2005, and because of that "mistake," the entire project was
6 doomed.

7 **Q: Based on your reading of Mr. Drabinski's testimony, what do you believe he**
8 **suggests KCP&L's Management should have done differently on the Iatan Unit 2**
9 **Project?**

10 **A:** Mr. Drabinski concludes that KCP&L should have performed the Project on an EPC-
11 basis and that apparently would have been a panacea for avoiding all of the issues that
12 KCP&L encountered. Company witnesses Mr. Roberts and Mr. Meyer address in their
13 rebuttal testimony the significantly flawed analysis Mr. Drabinski utilized in drawing
14 mistaken conclusions regarding Iatan Unit 2's cost when compared to other similar
15 projects. Mr. Drabinski also ignores the prudence standard in drawing this conclusion by
16 failing to acknowledge the actual process I described in my testimony that KCP&L's
17 management actually used in choosing the Project's contracting method. He also fails, as
18 Mr. Meyer testifies, to draw a nexus between the alleged poor decision KCP&L made
19 and his recommendation for disallowances in this case.

20 MITIGATION OF PROJECT RISKS

21 **Q: Mr. Drabinski's testimony indicates KCP&L was impeded from effectively**
22 **managing the Iatan Project due to early issues with lack of processes controls. Do**
23 **you agree with Mr. Drabinski?**

1 A: No, I do not. Evidence of KCP&L's prudent decisions throughout the execution of the
2 Iatan 2 Project are easily identified by examining the risks identified during the project
3 and KCP&L's effective and timely mitigation of those risks. I discussed this topic above
4 and the risks identified in the Quarterly Reports are summarized in Schedule CBG2010-
5 4.

6 **Q: Does that conclude your testimony?**

7 A: Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of Kansas City)
Power & Light Company to Modify Its Tariffs to)
Continue the Implementation of Its Regulatory Plan) Docket No. ER-2010-0355

AFFIDAVIT OF CHRIS B. GILES

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Chris B. Giles, being first duly sworn on his oath, states:

1. My name is Chris B. Giles. I work in Kansas City, Missouri, and I am currently a regulatory consultant to Kansas City Power & Light Company.

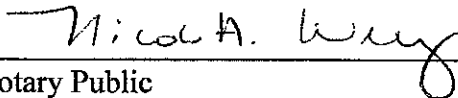
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company consisting of fifty-eight (58) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.



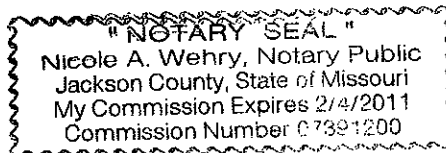
Chris B. Giles

Subscribed and sworn before me this 8th day of December, 2010.



Notary Public

My commission expires: Feb. 4, 2011



**SCHEDULES CBG2010-1
through CBG2010-2**

**THESE DOCUMENTS CONTAIN
HIGHLY CONFIDENTIAL
INFORMATION NOT AVAILABLE
TO THE PUBLIC**

Cost Control System

Stipulation & Agreement

Stipulation and agreement stated that KCP&L was obligated to develop a cost control system.

Cost Control System

A robust cost tracking system that documented all variances from the Control Budget Estimate; included Control Budget Estimates for Iatan Unit 1 and Iatan Unit 2.

Developed in July 2006

Cost Portfolio

Provided day-to-day tracking and management of Iatan project costs. The Cost Portfolio included all information needed for cost, cash flow, and change order tracking and management.

Cost Report Summation (K Report)

Submitted to Staff each quarter beginning in 2006.

This summary report **identified** all variances from the Control Budget Estimate.

These three processes **explained, justified** and **documented** cost variances to the Control Budget Estimate.

Recommendation to Award Letters

Explained why a contract was awarded for an amount that exceeded the Control Budget Estimate.

Estimate to Complete/ Reforecasts

Explained the reasons and accounted for changes to the Control Budget Estimate.

Risk & Opportunity Analysis Sheets

Cost Projection Folders

Change Orders & Purchase Orders

Documented and **explained** the specific justification and corresponding documentation for each change to the Control Budget Estimate.

SCHEDULE CBG2010-4

**THIS DOCUMENT CONTAINS
HIGHLY CONFIDENTIAL
INFORMATION NOT AVAILABLE
TO THE PUBLIC**