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Witness: Forrest Archibald
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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

FORREST ARCHIBALD

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.**

REBUTTAL TESTIMONY

OF

FORREST ARCHIBALD

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

1 **Q: Please state your name and business address.**

2 A: My name is Forrest Archibald. My business address is 1200 Main Street, Kansas City,
3 Missouri 64105.

4 **Q: By whom and in what capacity are you employed?**

5 A: I am employed by Kansas City Power & Light Company (“KCP&L” or the “Company”)
6 as Senior Manager of Cost for the Iatan Unit 2 Project.

7 **Q: Please summarize your role with respect to the construction of the Iatan Unit 1 and**
8 **2 projects?**

9 A: I joined the Iatan Unit 1 and 2 Project (the “Iatan Project”) in October 2006. I began as
10 the Iatan Project’s Senior Cost Engineer and in August 2007, I was promoted to my
11 current position, Senior Manager of Cost. My responsibilities have been consistent since
12 my promotion. I am responsible for managing the team that processes and maintains the
13 cost records for the Iatan Project that affect the Iatan Project’s budget I am responsible
14 for all of the various cost reports that are generated on the Iatan Project. Further, I am
15 responsible for reporting the Iatan Project’s cost trends including the velocity of certain
16 costs over time to Project’s senior leadership team, KCP&L’s Senior Management and
17 KCP&L’s joint owners. I have also prepared and provided similar reports to the Kansas
18 Corporation Commission (“KCC”) and the Missouri Public Service Commission
19 (“MPSC”) at the quarterly meetings as required under KCP&L’s Comprehensive Energy

1 Plan (the “Quarterly Meetings”). I have provided cost information requested by the
2 MPSC and KCC Staffs in response to data requests propounded by each, and I have met
3 on multiple occasions with members of each Staff and their respective consultants to
4 respond to questions regarding cost controls and status of cost trends for the Iatan Project.
5 Finally, I am responsible for all cost forecasts and reforecasts that have been prepared by
6 the Iatan Project.

7 **Q: Have you ever testified before the Missouri Public Service Commission (“MPSC”)?**

8 A: No, I have not.

9 **Q: Could you please describe your work history?**

10 A: Yes. I have over 10 years experience in managing various aspects of cost control systems
11 including technical teams associated with controlling and reporting on costs. My
12 experience in construction management includes: development and implementation of
13 cost tracking systems; forecasting and estimating project costs; contract negotiation,
14 interpretation and management; and execution of general cost engineering
15 responsibilities. I have field construction experience at various organizational levels
16 including management. My first construction experience was in 1993 as an iron worker
17 for Wichita Steel and Precast Erection Company. Between 1995 and 2000, Wichita Steel
18 promoted me from Lead Estimator to Contract Administrator. In 2004, my focus shifted
19 exclusively to cost engineering. Prior to joining KCP&L, from 2004 to 2005, I was a
20 Cost Supervisor for American Electric Power Company (AEP) where I was accountable
21 for tracking and reporting costs for projects ranging in size from \$25 million to \$600
22 million.

23 **Q: What is the purpose of your testimony?**

1 A: The purpose of my testimony is to: (1); rebut MPSC Staff's "Construction Audit and
2 Prudence Review, Iatan Construction Project for Costs Reported as of June 30, 2010 for
3 File No. ER-2010-0355 and File No. ER-2010-0356" (referred to as "Staff's Report") and
4 testimony regarding alleged deficiencies in KCP&L's Cost Control System and (2) rebut
5 MPSC Staff's allegation regarding the allocation of costs between Iatan Unit 1, Iatan Unit
6 2 and Common Plant.

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

8 A: I explain why Staff's assertion that, KCP&L "failed to justify" "\$200 million in Iatan
9 Project cost overruns" is wrong. (Staff's Report, p. 37, Ins. 27-30) Company witness
10 Chris Giles testifies regarding how KCP&L met its obligations under the Regulatory Plan
11 by developing a cost control system for the Iatan Project that identifies and explains cost
12 variances. I believe that KCP&L has developed a robust cost tracking system based on
13 the guidelines established by the Cost Control System KCP&L developed in July 2006
14 (Schedule SJ2010-1). Company witness Dan Meyer testifies regarding the development
15 of the Iatan Projects' Control Budget Estimate ("CBE"), which the KCP&L Board of
16 Directors approved in December 2006. There are separate Control Budget Estimates for
17 Iatan Unit 1 and Iatan Unit 2 which formed the basis for all cost tracking that KCP&L
18 has performed on the Iatan Project since that time.

19 I explain that with the Control Budget Estimate in place, the project team
20 developed a "Cost Portfolio" which it uses for day-to-day tracking and management of
21 Iatan Project's costs. The Cost Portfolio comprises the necessary management reports
22 and information needed for cost tracking, cash flow, change order tracking and
23 management. The Cost Portfolio also provides all other cost-related information used in

1 day to day management of the Iatan Project. I testify regarding the summary report
2 within the Cost Portfolio entitled the "K-Report" which is the report that delineates
3 discrete line items of cost including budgets and each and every budget change that has
4 occurred along with all costs actually expended. For illustration purposes, I have
5 attached a copy of the K-Report for Unit 2 the period ending as of June 30, 2010 as
6 Schedule FA2010-1, and I will explain how that report tracks the Iatan Project's cost data
7 on a monthly basis, including any variances to the Control Budget Estimates. This report
8 contains 250 line items and clearly identifies all budget changes and adjustments along
9 with totaling all actual costs incurred which identifies variances from the Control Budget
10 Estimate.

11 In addition, I testify as to how the Iatan Project staff is required to explain and
12 justify each and every variance from the Control Budget Estimate. There are three
13 primary processes the Iatan project team uses to explain, justify and document cost
14 variances to the Control Budget Estimate for the Iatan Projects: (1) a "Recommendation
15 to Award Letter" which explains why a contract was awarded for an amount that exceeds
16 the Control Budget Estimate ; (2) the project team engages in periodic reforecasts of the
17 estimate at completion ("EAC") which the project team has created "Risk and
18 Opportunity Analysis Sheets" (R&O's) and "Cost Projection Folders" (CPs) that identify
19 the reasons and amounts for changes to the Control Budget Estimate; and (3) as change
20 orders and purchase orders are issued to various contractors, the change order/purchase
21 order explains the reason actual costs are impacted by events anticipated in the reforecast.

22 Through these processes, I believe the Iatan project team has documented and
23 justified each of the Iatan Project's cost increases or decreases. These documents were

1 contemporaneously prepared by the members of the project team for the purpose of not
2 only explaining and justifying cost changes but also allowing for comparison of cost
3 variances to each of the Iatan Project's Control Budget Estimates. In each of the multiple
4 EAC projections that the project team has prepared, management has focused on the
5 above justification documents as the basis for vetting and evaluating proposed increases
6 or decreases to the Iatan Project's costs. Ultimately, the explanation and justification for
7 changes to the Iatan Project's budgets as a result of each EAC review was presented to
8 the Executive Oversight Committee ("EOC") for its approval.

9 All of the documents that I have generally described and which I will further
10 discuss in my testimony today have been provided to Staff. Additionally, KCP&L has
11 employed two independent experts, Company witness Mr. Daniel Meyer and Company
12 witness Dr. Kris Nielsen, who each testify that KCP&L's cost control system for cost
13 tracking allows examination of cost variances and explanation of those variances. Both
14 Mr. Meyer and Dr. Nielsen were able to perform separate analyses of cost variances
15 using the Company's cost control system and the documentation that KCP&L regularly
16 maintains. Staff has been provided with the same documentation regarding the Iatan
17 Project's cost reporting system as provided to Mr. Meyer and Dr. Nielsen. In addition, as
18 I will discuss later, I have met with Staff on multiple occasions and provided answers to
19 Staff's data requests to help Staff understand how the Iatan Project's Cost Portfolio and
20 related documents are maintained.

21 **IATAN PROJECT'S COST CONTROL SYSTEM**

22 **Q: What is the basis for KCP&L's methodology for establishing process for tracking**
23 **costs on the Iatan Project?**

1 A: Company witnesses Mr. Steve Jones and Mr. Daniel Meyer each described in their Direct
2 Testimony the Cost Control System document that KCP&L prepared with assistance
3 from Schiff Hardin in July 2006 (Schedule SJ2010-1). Among other things, the Cost
4 Control System describes the major processes and principles for cost tracking for each of
5 the CEP Projects and provided guidance to the Iatan Project's Project Controls team
6 regarding the methods used for tracking costs on the Project.

7 **Q: Did you participate in the development of the Cost Control System (Schedule**
8 **SJ2010-1)?**

9 A: No, I did not. The document was prepared prior to my joining the Iatan Project in the fall
10 of 2006. However, since joining the project team, I have been responsible for
11 implementing the cost tracking and management processes and procedures on the Iatan
12 Project in accordance with the guidance provided by the Cost Control System. I have
13 worked closely from that time forward with the individuals from KCP&L and Schiff
14 Hardin, who contributed to the Cost Control System, to insure that the specific processes
15 and procedures the Iatan project team developed met the intent of the Cost Control
16 System document.

17 **Q: Please describe the elements of the Cost Control System that KCP&L uses to track**
18 **the costs on the Comprehensive Energy Plan (CEP) Projects including the Iatan**
19 **Project.**

20 A: The Cost Control System identifies that KCP&L's "Project Controls include the systems
21 developed by KCP&L to monitor, control, and report the schedule, cost, and other
22 relevant information for the respective CEP Projects." (Schedule SJ2010-1, p. 4) In
23 general, the Cost Control System identifies that each of the CEP Projects will have: (1) a

1 Control Budget which is established as a result of developing the Definitive Estimate,
2 against which all costs will be reported; (2) a continual monitoring of actual costs
3 incurred as compared to the Control Budget; (3) an earned value performance system,
4 which measures and reports on planned and actual performance of contractors' work; (4)
5 reports on budgeted costs as compared to remaining or re-forecasted costs; (5) periodic
6 updates to contingency usage, cash flow and monthly budgets; (6) updates of the
7 forecasted Estimate at Completion ("EAC"); and, (7) a Change Order Management
8 system related to work scope and schedule changes. (Schedule SJ2010-1, pp. 8 – 10)

9 **Q: Are you familiar with the term "Definitive Estimate"?**

10 A: Yes.

11 **Q: What is the Definitive Estimate for the Iatan Project?**

12 A: The Definitive Estimate is the budget against which budget variances are tracked for
13 management purposes. We also call it the "Control Budget" or the "Control Budget
14 Estimate." The Definitive Estimate for the Iatan Project is the Control Budget Estimate
15 approved by the EOC and the Board of Directors in December 2006.

16 **Q: How does the Cost Control System for the CEP Projects define the term "Control
17 Budget"?**

18 A: The Cost Control System states: "The CEP Projects will be managed in accordance with
19 control budgets and baseline schedules that are established at the start of each Project. A
20 **Control Budget** is a tool that details the expected costs of the work on the Project and
21 includes the appropriate contingency. The Control Budget is balanced against the
22 authorized expenditure from the Board of Directors. The Control Budget will be defined

1 from a robust analysis of the Project's likely cost and will include a breakdown of all
2 necessary cost components." (Schedule SJ2010-1, p. 4, emphasis in original).

3 **Q: Did the Cost Control System provide specific guidance to the development of**
4 **processes and procedures to be used on the Iatan Project?**

5 A: Yes. The Cost Control System provides specific guidance to the Iatan Project for
6 developing Iatan Project's cost tracking process. The specific guidance for the Control
7 Budget includes:

8 B. Control Budget

9 1. General

10 The Iatan Project Team will develop a Control Budget for
11 managing each of the Project's costs. The Control Budget will be
12 established once the Definitive Estimate is accepted. Because of
13 the nature of the Iatan Project, the Control Budget will not be
14 comprehensive of all committed contract costs as of that time. As
15 KCP&L buys-out the work, the contract value and expected cost at
16 completion in the Control Budget will be modified to reflect these
17 values.

18 The Control Budget will identify the original budget amount
19 (whether contracted or estimated) for each line item of the
20 Project's cost and will track those budget line items against the
21 following:

- 22 • Costs committed to date
- 23 • Actual paid to date
- 24 • Change orders to date
- 25 • Expected at completion, based on current forecasts

26 In conjunction with the Control Budget, the Iatan Project will
27 develop additional tools for reporting and projecting costs as
28 described below.

29 2. Contractors and Suppliers

30 As stated, the Control Budget will include contract amounts for
31 vendors and will be updated to include any variances to those

1 contracts. In addition, the contracts with the vendors have and will
2 include language requiring detailed documentation of changes in
3 scope.

4 3. KCP&L Costs

5 KCP&L's costs will be tracked by functional group (e.g.,
6 Engineering, Project Management, Supply Chain, etc.) in the same
7 manner as described.

8 (Schedule SJ2010-1)

9 **Q: Did you and the others involved in the Iatan Project use this guidance from the Cost**
10 **Control System in developing project-specific cost controls for the Iatan Project?**

11 A: Yes. The cost control reporting regime developed for the Iatan Project, which is referred
12 to the as the Project's "Cost Portfolio", adhered to this guidance. The Cost Portfolio for
13 the Iatan Project provide reports regarding the precise elements described in the Cost
14 Control System. I will discuss the particular methods used for tracking costs later in my
15 testimony.

16 **Q: Are there other elements of the Cost Control System (Schedule SJ2010-1) that**
17 **provided guidance to the Iatan Project in developing the Cost Portfolio?**

18 A: Yes. Section 5.3.2.A of the Cost Control System identified a contracting and
19 procurement strategy that needed to be captured in the Cost Portfolio. Section 5.3.2.A.1
20 of the Cost Control System states:

21 Large, complex construction projects such as the Iatan Project
22 require a procurement plan that is fully integrated with the
23 engineering and construction phases. As a result, KCP&L has
24 chosen to take the lead in Project purchases of materials,
25 equipment, and services. These functions will be centralized within
26 KCP&L and handled by KCP&L's Procurement Team in
27 coordination with the Project Team. KCP&L has added resources
28 and in-house capability to tackle this large undertaking. The
29 responsibility of KCP&L's Procurement Team will be to ensure
30 that the correct quantity and quality of materials, equipment, and
31 construction services are at the Project location when needed, at a

1 price that is competitive and consistent with the existing market
2 conditions. KCP&L's Procurement Team is working with
3 KCP&L's engineer for the Project, Burns & McDonnell, in this
4 effort. (Schedule SJ2010-1, p. 15)

5 The project team's Cost Portfolio was set up in a manner that was consistent with the
6 procurement and contracting strategy so that there would be a high-level of transparency
7 to the original Control Budget Estimate once it was established.

8 In addition, the Cost Control System identified a specific Procurement Plan that
9 was consistent with the "hybrid Multi-Prime" strategy and the needs of managing
10 multiple vendors. In the initial Procurement Plan, the Cost Control System reflected that
11 there would be multiple contractors working on a variety of work scopes, including: (1)
12 an EPC with ALSTOM; (2) multiple Balance of Plant contractors; (3) miscellaneous
13 Furnish & Erect contracts with specialty contractors; and (4) multiple "Other Engineered
14 Materials." These sections provided guidance to the cost control team as it developed the
15 Cost Portfolio so that future reports could accurately track against the original contract
16 amounts.

17 The Cost Control System also includes a "Change Order Documentation Form."
18 This form includes a section entitled "Description of Requested Change" that was used to
19 identify the purpose of proposed change orders as they were requested. This form
20 included a section for "Issue Identification" in which the requestor identified the issue
21 and provided details needed for executive review.

22 **Q: Do the Iatan Projects have Control Budgets as recommended under the Cost**
23 **Control System?**

24 **A:** Yes. There are separate Control Budgets for Iatan Unit 1 and Iatan Unit 2. Each was
25 established through an estimate vetting process that concluded in December 2006, which

1 resulted in Definitive Estimates for both units. Company witness Mr. Meyer describes
2 the process for development of the Control Budget Estimate or CBE. The Control
3 Budget for Iatan Unit 1 is \$376,803,380 and the Control Budget for Iatan Unit 2 is
4 \$1,685,000,000.

5 **Q: Have the Control Budgets for either Iatan Project changed?**

6 A: No. The Cost Portfolio and the K-Report preserve the original Control Budget or CBE
7 amount for tracking and comparison. Subsequent to the Control Budget Estimate being
8 established in December 2006, the project team has reviewed the results of each
9 examination of EAC as required under the Cost Control System and has revised the
10 Project's budgets accordingly. However, the original Control Budget has not been
11 altered and appears transparently in all reports so that any variances to this original set of
12 estimates can be readily observed and investigated, as needed.

13 **Q: Please describe how using the Cost Portfolio, one could identify variances to the**
14 **Control Budget with respect to actual or projected costs.**

15 A: The Cost Portfolio consists of multiple data inputs and reports that are generated during
16 the course of the Project. The best way to explain the Cost Portfolio and how it is used is
17 by reviewing the central summary report that is produced from the Cost Portfolio on a
18 monthly basis is entitled the "K Report." The K Report is provided to KCP&L
19 management on a monthly basis and has been included in KCP&L's submittals to the
20 Staff. As I have previously stated, I have attached the Iatan Unit 2 K Report for costs
21 through June 30, 2010 as Schedule FA2010-1.

22 The far left column entitled "Budget Line Item" is a series of items that
23 summarize the Project's individual contracts and/or cost categories. These "Line

1 Descriptions” are associated with a “B&McD Spec. No.” which correspond to the
 2 individual specification packages that Burns & McDonnell developed for the Project.
 3 KCP&L maintains this numerical designation in order to link the Cost Portfolio’s line
 4 items with the procurement effort, as predicated by the Cost Control System.
 5 Maintaining this system allowed the cost department to easily populate the data that is
 6 depicted in the remaining sections of the K Report. The various Budget Line Items
 7 transparently appear and are also subtotaled by broad category (e.g. “Procurement” and
 8 “Construction” and by engineering discipline so that the data can be summarized in
 9 multiple ways. The addition of “Procurement” and “Construction” sub-columns total the
 10 “Direct Costs.” Other Project cost categories include “Indirect Costs” and
 11 “Contingency.”

12 The remaining columns in the K Report have alpha designations at the top of the
 13 column, which I will refer to as I explain the purpose of each column in the table below.

14

Column	Title	Purpose
	Budget	The following columns make up the Project’s Budget
A	Control Budget	Itemized listing of each of the contract values and /or estimates that comprised the December 2006 Control Budget Estimate
B	May 2008 Corporate Budget Change	Revisions made to the then-current Control Budget as a result of the May 2008 Cost Reforecast
C	March 2010 Corporate Budget Change	Revisions made to the then-current Control Budget as a result of the March 2010 Cost Reforecast
D	Project Mgmt Internal Transfers	Revisions to the Control Budget resulting from changes to contracting strategy
E	Current Budget	The total of columns A+B+C+D
	Cost Tracking	The following columns identify the current status of actual and committed costs on a line item basis for comparison to the Control Budget and the Current Budget
F	Awarded Costs	All contract and purchase orders and Notice to

Column	Title	Purpose
		Proceed values associated with the individual line item
G	Approved Change Orders	All change orders approved to date
H	Current Total Commitment	The total of columns F + G
I	% Committed	This column is tracked at the summary level for Procurements and Construction only.
J	Unawarded Costs	Identification of all line items with unawarded amounts
K	Pending Change Orders	Value of approved Change Notices
L	Other	Not used to date
M	Current Forecast Total Cost at Completion	Reflects the current EAC projections at the line item level
N	Actuals including Accurals	Total cost incurred or accrued by the Project to date (through June 2010)

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The flexibility of the Cost Portfolio and the K Report provides the basis for many different types of drill-down analyses. The K Report is structured to allow the determination of whether there are: (1) current budget differences when compared to the Control Budget (compare columns A and E); (2) variances between the Committed Costs when compared to the original or revised project budget; (3) variances between the Actual costs (Column N) and the Control Budget (Column A); and variances between actual cost and projected costs (compare Column N and M) on a to-date basis. At its essence, the K Report provides a comprehensive view of the Project’s costs status and provides a starting point for performing multiple cost variance analyses.

In fact, I note that in Staff’s Report, Staff agrees that, “KCP&L’s control budget is very detailed with hundreds of line items. It is clear that KCPL has the capability to track, identify and explain control budget cost variances. This is the type of information that is critical to Staff’s audit.” (Staff Report, p. 37, ln. 10-12)

1 **Q: Staff states in its Report that the Regulatory Plan contains a specific requirement**
2 **that KCP&L “identify and explain any cost overrun.” Do you agree that the**
3 **Regulatory Plan creates this obligation?**

4 A: While I am not an expert regarding regulatory matters, and therefore must rely on
5 Company witnesses Mr. Blanc and Mr. Giles to identify KCP&L’s specific obligations
6 under the Regulatory Plan, I can nevertheless state that KCP&L has indeed identified
7 each and every significant cost variance to the Control Budget.

8 **Q: Can you describe how KCP&L identifies cost variances from the Control Budget?**

9 A: Certain variances are readily apparent from a review of the Cost Portfolio. The first step
10 would be the one that I just described: review the Cost Portfolio and compare the line
11 item amounts in the Control Budget (Column A) column to either the line item amounts
12 in the Current Forecast (Column M) or the Actuals Including Accruals (Column N).
13 Such comparisons will identify which of the Control Budget’s line items have been
14 exceeded on a to-date basis. More importantly, this comparison could provide an insight
15 as to which line item amounts are expected to be exceeded at completion. Such
16 comparisons will obviously show line items of work wherein the budget has not been
17 spent or not expected to be overtopped at completion.

18 **Q: How has KCP&L explained the cost variances from the Control Budget Estimates**
19 **for the Iatan Projects?**

20 A: As stated, every variance from the Control Budget Estimate is documented and explained
21 in either one of or all of the following: (1) an initial “Recommendation to Award” letter,
22 particularly when the amount of the award exceeds the Control Budget line item amount;
23 (2) the supporting documentation for KCP&L’s EAC including R&Os and CPs; and/or

1 (3) executed change orders and purchase orders. To the best of my knowledge, all of
2 these documents have been provided or made available to Staff at its request.

3 **Q: Please explain how a Recommendation to Award letter can explain cost variances**
4 **from the Control Budget.**

5 A: In most instances, the project team prepared and distributed Recommendation to Award
6 Letters for the Iatan Project's major procurements. Depending on the size of the award, a
7 contract for the Iatan Project could require signature by any number of KCP&L's
8 officers. The Iatan Project's Recommendation to Award Letters provided the project
9 team's rationale and justification for KCP&L's major contract awards. Among the
10 considerations discussed in a typical Recommendation to Award letter is whether the
11 award of the contract exceeds the amount of the Control Budget for that line item of
12 work.

13 An example of a Recommendation to Award letter was attached to the Direct
14 Testimony of Steven Jones. The Recommendation to Award Letter regarding the
15 contract for Kiewit Power Constructors Co. ("Kiewit") for Balance of Plant work
16 (referred to as the "Kiewit Recommendation to Award Letter", Schedule SJ2010-3). The
17 Kiewit Recommendation to Award Letter explicitly identifies that the recommended
18 ** [REDACTED] ** base contract amount included a variance of ** [REDACTED] ** from
19 the "indicative estimate" that was in the Control Budget for this work. The Kiewit
20 Recommendation to Award Letter describes in detail the vetting that was performed in
21 reviewing Kiewit's estimate and the project team's justification for the increased contract
22 amount along with other key information. The Iatan project team provided the Kiewit

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1 Recommendation to Award Letter to Senior Management for its consideration when it
2 approved the Kiewit Balance of Plant contract.

3 **Q: Do you believe the Kiewit Recommendation to Award Letter included sufficient**
4 **information justifying the basis of the cost variance from the Control Budget**
5 **Estimate?**

6 A: Yes. The Kiewit Recommendation to Award Letter was comprehensive regarding the
7 considerations that KCP&L evaluated at the time and clearly delineates and supports the
8 award of the Balance of Plant work to Kiewit.

9 **Q: Are there other examples of Recommendation to Award Letters that identify**
10 **justification for increased costs to the Project?**

11 A: Yes. Another example of such a Recommendation to Award Letter is Schedule BCD-
12 2010-5, which is the Recommendation to Award Letter for the Foundations and
13 Substructures contract to Kissick Construction Company, Inc. (“Kissick”) This contract
14 was awarded after only Kissick’s bid was received in response to KCP&L’s request for
15 proposal (“RFP”). The Recommendation to Award letter details the project team’s
16 evaluation, including Kissick’s ability to manage the work, whether the work should have
17 been re-bid due to lack of competition, and additional due diligence questions raised by
18 Schiff Hardin that the project team answered. In this Recommendation to Award Letter,
19 the project team identified the rationale for the initial award to Kissick and for continued
20 awards of future reasonable change orders that resulted from the maturation of the design
21 of the foundation and substructure work.

22 **Q: Why didn’t the Recommendation to Award Letter for Kissick reference a variance**
23 **to the Control Budget Estimate?**

1 A: As is reflected in the Recommendation to Award Letter, the Control Budget amount
2 matched the contract award amount because this evaluation was made concurrent with
3 the establishment of the Control Budget Estimate, so there was no variance at the time of
4 the base contract with Kissick. However, Kissick's contract value has increased
5 considerably for the very reasons that were discussed in this Recommendation to Award
6 Letter. For the most part, the Kissick variances are due to design maturation. Each of
7 these increases is explained in a subsequent purchase order or change order.

8 **REFORECASTS OF IATAN PROJECTS' ESTIMATES AT COMPLETION**

9 **Q: You stated that the project team's reforecasts of the Iatan Project's EAC were**
10 **accompanied by additional justification of increases over the Control Budget. First,**
11 **what is the difference between a "forecast" and "reforecast"?**

12 A: A forecast is essentially performed at the end of every month when the Cost Portfolio is
13 updated to incorporate the actual data from the prior month. Each of the columns in the
14 K Report (Schedule FA2010-1) is updated to incorporate the prior month's activity. The
15 only columns that are not changed are the Control Budget (Column A), the May 2008
16 Corporate Budget Change (Column B) and the March 2010 Corporate Budget Change
17 (Column C) which are frozen. The resultant K Report reflects the most current activity
18 that allows for comparison of the various columns and understanding of cost trends,
19 which allows for a "forecast" of the Iatan Project's current cost status.

20 A "reforecast" comprises a full project team effort in performing a comprehensive
21 evaluation of the remaining work needed to complete the Project, all on a detailed, line-
22 by-line basis. Page 6 of Schedule FA2010-2 identifies the process that the project team
23 has used for each of its reforecasts the Iatan Project's EACs. In summary, during each of

1 the Iatan Project's reforecasts, the project team engaged in a thorough vetting of all
2 remaining known issues at the time that could impact cost, and that process involved all
3 accountable members of the project team. For example, the Lead Engineers were
4 required to identify in writing the status of the remaining work and any risks, added
5 work, added scope or other potential changes that might impact the Iatan Projects'
6 budgets. Once all the data was collected, analyzed and vetted, the project team made a
7 recommendation to KCP&L's management regarding the amount of contingency
8 appropriately required so as to cover the Project's remaining risks. Our consultants from
9 Schiff Hardin reviewed our data, asked their own questions of the project team regarding
10 these items and performed an independent analysis of the remaining costs and potential
11 risks. The process culminated with a formal presentation of the findings and
12 recommendations of both the project team and Schiff Hardin to the EOC for its review
13 and approval. These recommendations were discussed in detail with the EOC so that
14 senior management fully understood the reasons for changes to the Iatan Projects'
15 budgets at both a macro and micro level.

16 **Q: In what form was the presentation of a reforecast to the EOC?**

17 A: The project team prepared and presented a findings summary for each reforecast in a
18 PowerPoint format that delineated the conclusions and recommendations. Copies of the
19 above are attached as Schedule FA2010-2. I should note that after the EOC and the
20 Board of Directors approved of the findings of the project team's cost reforecasts,
21 KCP&L provided the same PowerPoint presentations to the MPSC Staff and KCC Staff
22 that were presented to the EOC. KCP&L provided the Staffs the same opportunity to ask
23 questions regarding the results.

1 **Q: Why was the Control Budget reforecasted?**

2 A: As stated earlier, KCP&L's Cost Control System provided guidance regarding the need
3 and the frequency of examination of the Iatan Project's Control Budget. Moreover,
4 Company witness Mr. Meyer testified that performing periodic reforecasts of a project's
5 EAC is good practice, and I agree with that testimony. In addition, by the Summer of
6 2007, the Project's cost trends were indicating that the contingency established in the
7 Control Budget Estimate for Iatan Unit 1 would not be sufficient and that Iatan Unit 2's
8 contingency amount was also unlikely to cover all of the costs that were being identified
9 as the Project's design matured.

10 **Q: What alerted you to the fact that the Control Budget Estimate's contingency would**
11 **not be sufficient in mid-2007?**

12 A: There were a number of different factors that all came to light in the spring/summer 2007
13 time frame regarding the Iatan Project's cost status. Once the Control Budget Estimate
14 was established, on a monthly basis and as necessary, my group began drawing down
15 amounts from the Iatan Project's general contingency to use in specific line items of work
16 to cover the cost of change orders and purchase orders that had been approved through
17 the Change Management process. Attached as Schedule FA2010-3 is the Project's
18 Contingency Log that shows the contingency draw-downs and allocations to various
19 work accounts. Our cost control team developed and monitored these trends and
20 identified the likelihood that the Iatan Projects would require more funding. Within the
21 first quarter of 2007, the project team identified needed changes to the scope of the Iatan
22 Unit 1 Outage work which were not covered in the Iatan Unit 1 Control Budget Estimate.
23 The addition of this work, including the rework of the existing Unit 1 economizer, the

1 replacement of the submerged flight conveyor, and addition of low NO_x burners, required
2 the Project to commit additional funds to the Iatan Unit 1 Project. Similar trends were
3 also being noted on Iatan Unit 2 as the Project's design matured.

4 Also at this time, as Company witnesses Mr. Davis, Mr. Jones and Mr. Meyer
5 testify, in early 2007, Kiewit approached KCP&L regarding KCP&L's interest in a
6 single-contractor for the Balance of Plant work. Kiewit's proposal naturally brought
7 additional focus on the amount of risk and consequently the amount of contingency that
8 might be needed to cover the Balance of Plant work. Additionally, as Company witness
9 Mr. Davis testifies, the project team was in the process of re-examining its overall
10 staffing plan for proceeding with work.

11 By the summer of 2007, the trends that I and others were observing indicated that
12 the contingency would not be sufficient to cover all of the variances that were being
13 identified by the project team.

14 **Q: How did you communicate this information to the Iatan Project's management**
15 **team?**

16 A: I first raised this issue to David Price, who was then the Vice President of Construction,
17 and Mr. Price asked that I report the status of the contingency and the perceived project
18 risks to the EOC. Schedule DFM2010-6 is the report that I prepared for the EOC's July
19 11, 2007 meeting at which these issues were discussed. Schedule DFM2010-06 includes
20 charts that indicated the "Best", "Most Probable" and "Worst" cases known at that time.
21 That presentation indicated that based on the then-current trends, Iatan Unit 1 required
22 additional funding of between \$15.6 million and \$35.6 million to cover the added scope
23 items that had been identified, and Iatan Unit 2, while not yet requiring additional funds

1 was trending in that direction. This analysis also included textual summaries of the
2 justification for adding cost to the two Projects.

3 **Q: How did you proceed after the July 11, 2007 presentation?**

4 A: After that meeting, Mr. Price directed Mr. Foster and me to work with Schiff Hardin and
5 Mr. George Burnett, who was the Project's Engineering Manager at that time, to develop
6 a process for identifying, documenting and reviewing potential changes to the Project's
7 projected costs. This process resulted in the further development and refinement of the
8 Risk and Opportunity Analyses, or "R&O's" that became the foundation of the Project's
9 initial May 2008 cost reforecast. R&O's were documents that were developed to capture
10 information regarding identified risks and opportunities including the purpose, projected
11 costs if known, and other such information. I will explain how the R&Os were
12 developed later in my testimony,

13 **Q: How often has KCP&L reforecasted the EAC for the Iatan Project?**

14 A: Iatan Unit 1's EAC was reforecasted once in May 2008, while Iatan Unit 2's EAC has
15 been reforecasted four times: May 2008, August 2009, March 2010 and November 2010.

16 **Q: Please summarize the results of these multiple reforecasts of the Iatan Project's
17 EAC.**

18 A: As noted above, the first reforecast was initiated during the summer of 2007 when the
19 project team had started the process of assessing risks to the Control Budget Estimate
20 arising out of completion of the Project's design and from review of the contracting
21 strategy for the Balance of Plant work. Once the estimate for the Balance of Plant work
22 from Kiewit was vetted, the project team engaged in a detailed review of potential
23 outstanding project scope additions and risks. This initial reforecast was completed in

1 May 2008 (the “May 2008 Reforecast). As of that time, the design of Unit 1 was in
2 excess of 90% complete and the design of Iatan Unit 2 project had matured to
3 approximately 70% complete. The May 2008 Reforecast was intended in part to capture
4 the budget effects of the maturation of the design and the related schedule considerations
5 necessary to complete the work. The result of this reforecast was Iatan Unit 1’s EAC was
6 increased from \$376 million to \$484 million. Iatan 2’s EAC was increased from \$1.685
7 billion to \$1.901 billion.

8 The next reforecast was completed in August 2009 (the “August 2009
9 Reforecast”). This reforecast reviewed only Iatan Unit 2’s EAC because Unit 1 had been
10 completed earlier in 2009. The August 2009 reforecast focused primarily on the balance
11 between schedule and cost considerations as related to two different schedule scenarios:
12 (1) accelerating to meet the original June 1, 2010 target for Iatan Unit 2 in-service, or (2)
13 slipping the in-service date for Iatan Unit 2 by two months. Through this analysis, in
14 conducting the August 2009 Reforecast, the project team determined that the most cost
15 effective solution was to slip the completion date. In fact, doing so had no impact on the
16 then-current budget of \$1.901 billion.

17 The “March 2010 Reforecast” determined that more funds were required to
18 complete the start-up of Iatan Unit 2 than had been previously allocated. Further, there
19 were significant start-up risks with a high likelihood of occurring and this justified
20 additional Project contingency.

21 The most recent review of the Project’s EAC was completed in mid-November
22 2010 (the “November 2010 reforecast). KCP&L was able to improve upon even the most
23 optimistic prediction for when Iatan Unit 2 would come on line, thus reducing indirect

1 costs for time-function expenses such as staffing. Moreover, KCP&L determined that it
2 had avoided of the majority of the Project's remaining schedule and technical risks.

3 **Q: How did KCP&L document and explain the cost variances that were identified in**
4 **the May 2008 Reforecast?**

5 A: As stated, KCP&L identified risks and opportunities to the Project's Control Budget.
6 These items were transparently documented in written form by the members of the
7 project team who were responsible for the relevant items of cost. An example of an R&O
8 (R&O #9) is attached as Schedule FA2010-4. The R&Os developed for the May 2008
9 Reforecast required the following : (1) date identified; (2) name (or corresponding budget
10 item); (3) a "reason code" that identifies why the reforecasted number changed; (4) a cost
11 category that corresponds to the Control Budget; (5) the "Likelihood of Occurrence"
12 which gauges the probability of the item described as occurring; (6) the estimated cost of
13 the R&O item; and (7) supporting documentation. Once completed, the R&O's were
14 subjected to vetting by the Schiff Hardin oversight team and by the Iatan Project's Project
15 Leadership Team before the results were presented to senior management. All of the
16 above steps and completed documentation were required in order to vet and justify
17 revisions to the Control Budget.

18 **Q: Can you explain the substance behind R&O example you provided?**

19 A: Yes. Schedule FA2010-4 is R&O #009 for "Owners CM Staff" dated April 2007. This
20 R&O #009 documents the analysis that was performed regarding the size, function and
21 depth of the KCP&L Construction Management team. The analysis indicates that the
22 then-current cost projection would require an additional \$35.6 million for staffing so as to
23 be able to hold an adequate level of coordination, field surveillance and project controls

1 staffing, safety, processing of change management documentation, start-up staff and
2 quality control monitoring. Attached to this R&O #009 is a spreadsheet that calculates
3 and forecasts by functional group the number of projected employees that the project
4 team believed would be needed. The reason code applied to this R&O was “Operations
5 and Construction Optimization” and it was categorized as a “Construction Management”
6 expense with a 100% likelihood of occurrence. In addition, as noted in the text, there
7 was additional backup prepared that due to its sensitivity was maintained by the
8 Compliance Manager. The R&O was prepared by Company witness Mr. Davis,
9 approved by Mr. Foster and reviewed by me.

10 **Q: Were all the R&O's created at this time generally similar in nature?**

11 A: Yes. Each R&O was different and the amount of documentation and information that
12 was included in each R&O varied, but R&O #009 was typical.

13 **Q: After the R&O's were created, what was the next step in the May 2008 Cost**
14 **Reforecast?**

15 A: Members of the project team and Schiff Hardin met with the individuals who created the
16 R&O's and vetted the supporting data. The vetting team reviewed every aspect of these
17 R&Os. In some cases, more information was needed to adequately support the various
18 R&O's and in this case, the preparer was requested to provide the additional information.
19 In other cases, the vetting process resulted in the forecasted Likelihood of Occurrence as
20 increasing or decreasing, and some R&O's were withdrawn entirely. Once the initial
21 vetting was completed, the revised R&O's were reviewed and further vetted by the Iatan
22 Project's Project Leadership Team (“PLT”), which at that time consisted of the Senior
23 Vice President of Supply Mr. Steve Easley, the Project Director (Company witness Mr.

1 Davis), the Director of Procurement (Company witness Mr. Jones), the Director of
2 Project Controls (Mr. Terry Foster), the Manager of Site Security (Mr. Michael Hermsen)
3 and the Compliance Manager (Ms. Denise Schumaker). After the PLT's approval, the
4 final package was prepared for the EOC.

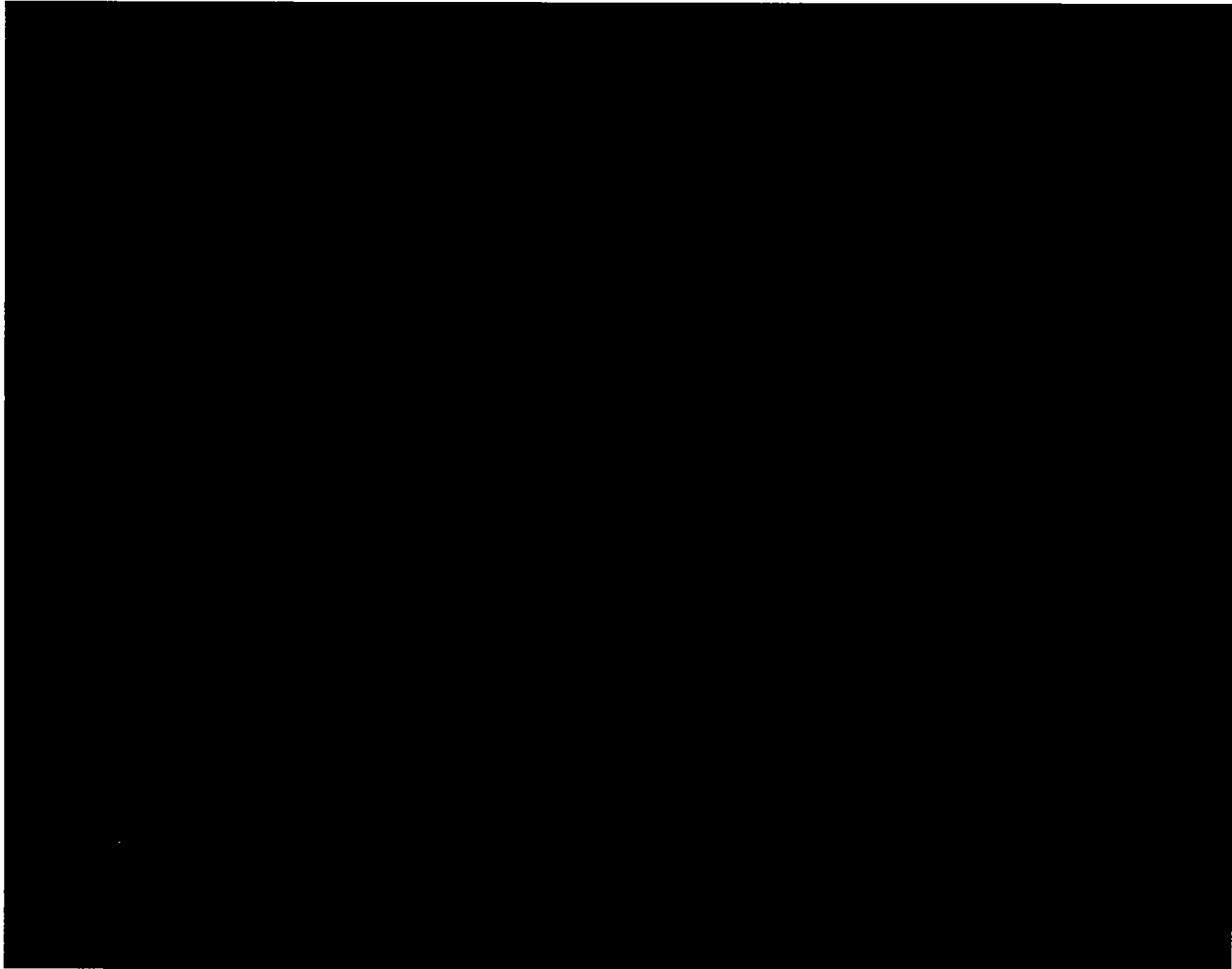
5 **Q: How did the project team report the results of the May 2008 Cost Reforecast to**
6 **KCP&L's Senior Management?**

7 A: The project team presented its materials to the EOC on April 25, 2008. (Schedule
8 FA2010-2) On page 3, the Cost Summary identified a recommended 28% increase for
9 Iatan Unit 1 and a 10% increase for Iatan Unit 2, exclusive of final contingency reviews
10 by senior management. Page 7 of the above schedule recounts the major components: (1)
11 R&O items for scope increases, design and engineering updates and remaining
12 procurements totaling \$57.4M; (2) major contracts – ** [REDACTED]
13 [REDACTED]**; (3) Indirects including: Construction Management Staff, Corporate
14 Support, Audit/Oversight, Site Support; Unit 1 Plant Personnel; start-up and testing labor;
15 and Platte County requirements totaling \$62.7M; and (4) Fuel and Test Run Energy of
16 \$0.7M.

17 To further assist the EOC members in reviewing the presentation, the project team
18 aggregated the R&O's into groupings by the assigned "reason code": (1) Price; (2) Design
19 Maturation – Scope; (3) Design Maturation – Schedule; (4) Optimization, Operation and
20 Construction; and (5) Regulatory / External Permit. Company witness Meyer testifies in
21 his Direct Testimony regarding the definitions of these categories. For Iatan Unit 1, the
22 reforecasted amounts were identified as follows:

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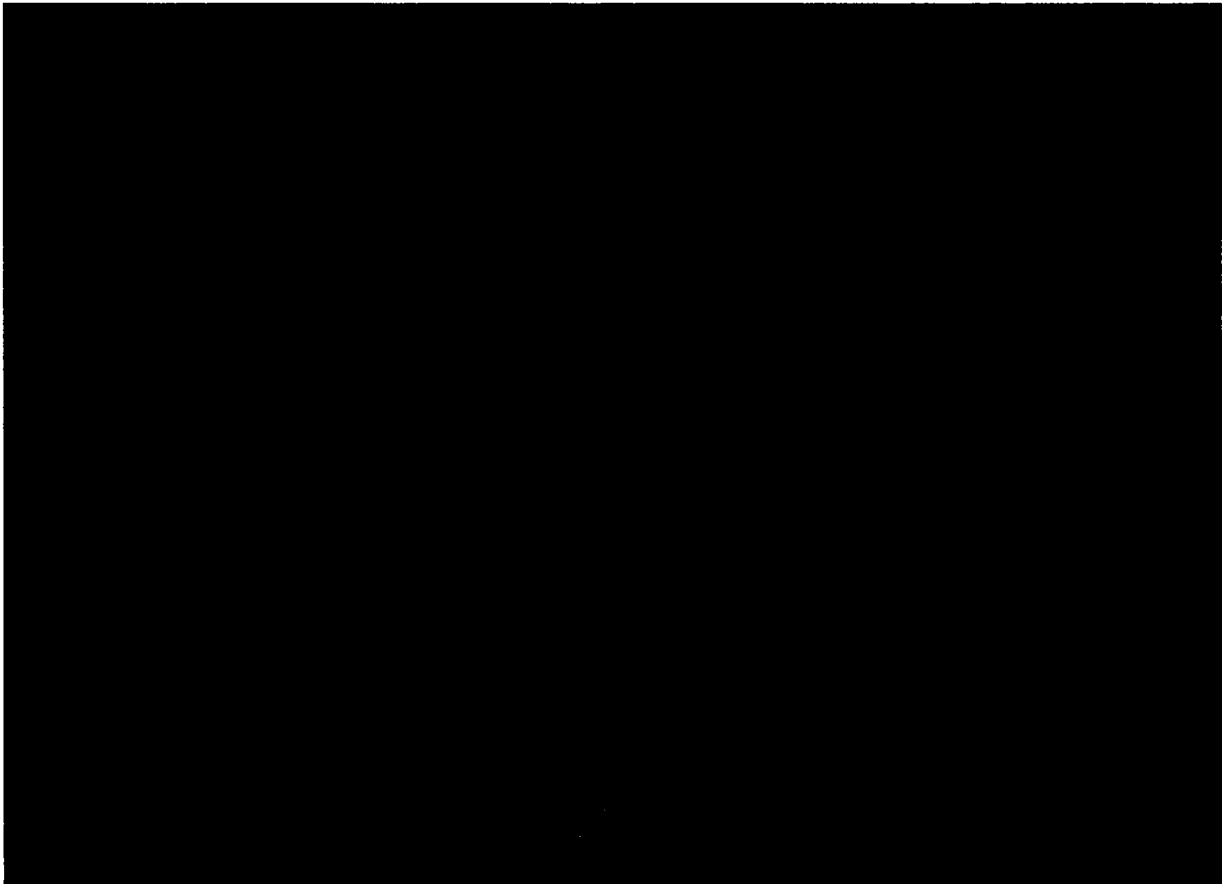
The following chart summarizes the changes to Iatan Unit 2 budget from this
4 reforecast:

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Schiff Hardin's team was also in attendance. The following week, Schiff Hardin made its own independent presentation regarding the EAC. Company witness Mr. Meyer testifies regarding the presentation that Schiff Hardin made regarding its independent view of the May 2008 Reforecast. Thereafter, the EOC sought and received approval from the Board of Directors to increase the Iatan Project's respective budgets.

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Q: When was the MPSC Staff informed of the results of the May 2008 Reforecast?

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A: The May 2008 Reforecast was discussed with Staff during the Quarterly Review meeting in Jefferson City on May 22, 2008. The reforecast documents were made available to Staff on June 13, 2008 for review at Jim Fischer's office. Electronic versions of the Unit

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1 1 R&Os were provided to Staff in response to Data Request 0633S on October 15, 2009
2 and electronic versions of Unit 2 R&Os were provided to Staff in response to Data
3 Request 0633.1 on June 24, 2010.

4 **Q: Please describe the August 2009 Cost Reforecast.**

5 A: By the first quarter of 2009, through its project monitoring systems such as its schedule
6 and earned value systems, KCP&L had identified that the work on Iatan Unit 2 had fallen
7 behind schedule. The project team led by Mr. Carl Churchman initiated a rebaseline of
8 the Project's schedule and a reforecast of estimated cost at completion that would include
9 both cost and schedule trends and assist in determining the best course of action.
10 Company witness Mr. Davis describes the process of reviewing the Project's schedule in
11 his Direct Testimony. As with the May 2008 Reforecast, the goal of this reforecast was
12 to review the Project's remaining work and determine if to-date costs and cost trends
13 would affect end-of-day costs and project risks. The simultaneous reforecast of the
14 Project's EAC proceeded using the same process that was used in the May 2008
15 Reforecast, with one refinement.

16 **Q: What part of the process changed with the August 2009 Reforecast?**

17 A: Instead of developing R&O's, the PLT decided to use "CPs" or Cost Projection folders.
18 The CPs included all of the same data in the same basic format as the predecessor R&Os
19 although we took the added step of aggregating what would have otherwise been separate
20 R&Os into more comprehensive packages of like costs for easier comparison, trending
21 and analysis. For example, all of the identified risks and opportunities associated with
22 ALSTOM were all grouped together into a single package so they could be easily
23 evaluated. The main result of this migration to a CPs was that it reduced the amount of

1 time the project team had to spend on reviewing the elements of the cost projection
2 because now all like items were aggregated into one place for review. For the purposes
3 of the cost projections, the R&Os and CPs are equivalent in terms of information
4 provided and analyses performed.

5 **Q: You have already stated that the overall EAC for the Project as measured in August**
6 **2009 remained unchanged from the prior EAC. However, weren't there changes to**
7 **individual line items in the Cost Portfolio?**

8 A: Yes, there are always line item increases and decreases that come into existence as part of
9 cost projection efforts. In the case of the August 2009 EAC, the bottom line did not
10 change and this was due in part to the introduction of cost management targets and action
11 thereon as set forth in the prior cost projection efforts.

12 **Q: How were the August 2009 EAC changes documented?**

13 A: The individual CPs are, in essence, stand alone end-of-day cost projections of logically
14 grouped line items of work identified in the Control Budget Estimate including remaining
15 cost. The CP folders include full and complete justification documentation for each line
16 item of cost including supporting backup as to how the team arrived at its conclusions.
17 We recognized the importance of maintaining transparent linkage to the Control Budget
18 and verification of cost variances thereto. Therefore, notwithstanding the migration to
19 CPs from R&Os, the same rigorous process and supporting documentation was
20 developed and analyzed: the essence of the process remained unchanged.

21 **Q: How did you vet the CPs?**

22 A: The vetting process for the CPs was similar to the process used for the R&O's. We
23 engaged Schiff Hardin's team in the same manner to assist in the vetting. Schiff Hardin's

1 team developed its own analysis while assisting our team in fully documenting the
2 justification documents.

3 **Q: Once the CPs were completed, what did the project team do next?**

4 A: When each of the CPs were completed and vetted, my team aggregated all of the CPs into
5 the final cost projection, and modeled the Project's contingency based on both issues
6 identified and remaining Project risks. Once that task was completed, the results were
7 presented to the PLT and ultimately to the EOC.

8 **Q: Why did KCP&L reforecast the EAC for the Project if the total EAC for Iatan Unit
9 2 did not change?**

10 A: First of all, each EAC effort was blind in that the analyses were not constrained.
11 Accordingly, we didn't know that the EAC would not change when the reforecast was
12 initiated and it was not until the final review of the results that it was determined that
13 there would be no overall impact to the Project's expected costs. Second, as Company
14 witness Mr. Davis testifies, KCP&L was utilizing the investigatory and analytical work
15 from the August 2009 Reforecast to examine the effects of changing the Project's in-
16 service date on end-of-day costs. Third, KCP&L committed to performing periodic
17 reforecasts and this was one of those reforecasts. Fourth, it has been my experience that
18 periodic cost reforecasts sharpen management focus which is a good thing.

19 **Q: What major conclusions were reached in the August 2009 Reforecast?**

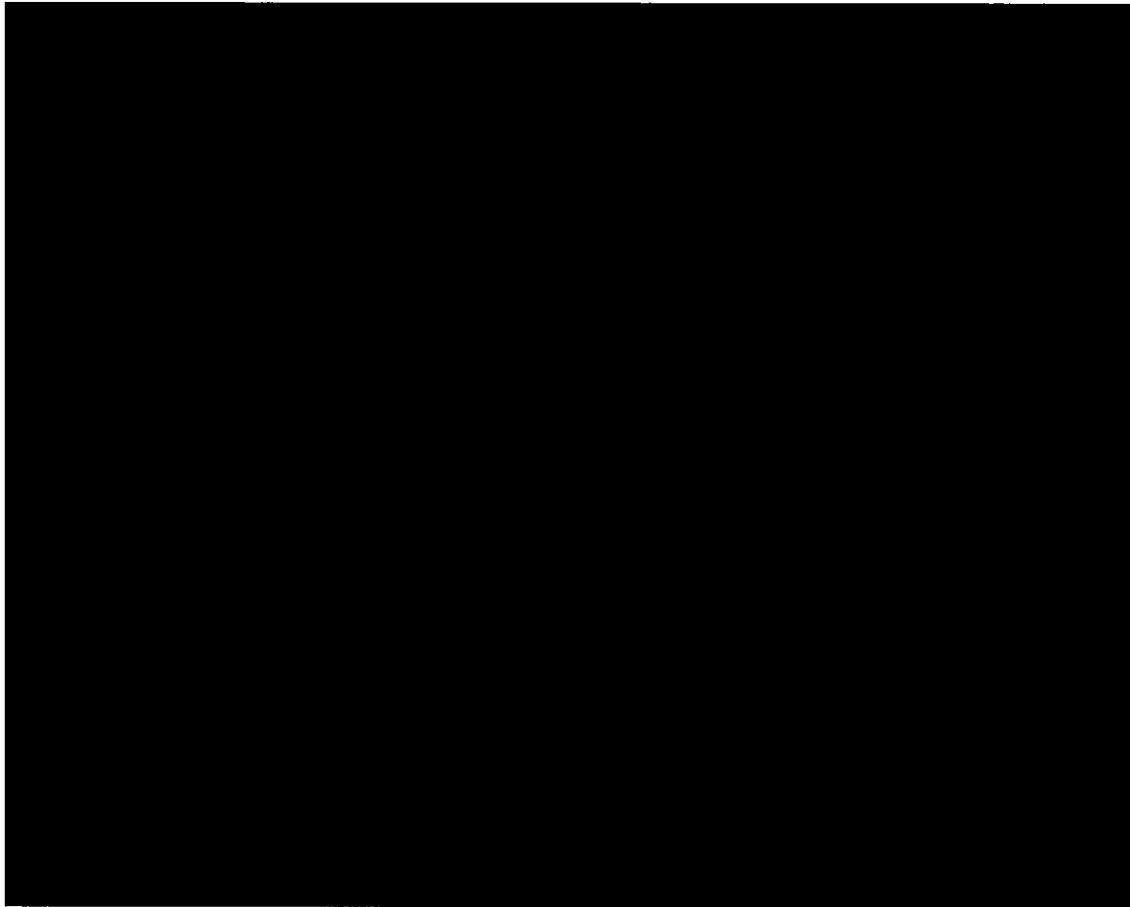
20 A: Company witness Mr. Downey testifies that KCP&L had determined that the most cost-
21 effective solution to overcoming the delays that the Iatan Unit 2 Project had experienced
22 was moving the in-service date from June 1 to August 1, 2010 and I agree with that
23 testimony. The analysis that KCP&L and Schiff Hardin performed showed that this

1 change to the in-service date decelerated and decompressed the balance of remaining
2 work and lowered overall costs. In addition, it was concluded that KCP&L could provide
3 financial incentives to ALSTOM to meet critical dates necessary for reducing Kiewit's
4 overall cost without an adverse bottom line impact to the overall Project's EAC. Finally,
5 Kiewit and KCP&L were able to essentially fix the majority of Kiewit's price for the
6 Iatan Unit 2 work so that there was greater cost certainty for the remaining year of its
7 contract work.

8 **Q: Was MPSC Staff informed of the results of the August 2009 Reforecast?**

9 A: Yes. There was a meeting on August 5, 2009 that was attended by MPSC Staff at which
10 KCP&L presented Schedule FA2010-5. Mr. Churchman, Mr. Foster and I provided a
11 summary of this presentation. The following is a summary of the major cost categories
12 and their overall change within the Iatan Unit 2 budget:

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4 **Q: Did any MPSC Staff members show concern regarding the results of the August**
5 **2009 Reforecast?**

6 A: Not that I can recall. I believe Staff understood our analysis and I don't recall any
7 significant questions.

8 **Q: When was the next cost reforecast that KCP&L performed of the Iatan Unit 2**
9 **projected costs?**

10 A: The next reforecast was performed during the first quarter of 2010 and culminated with a
11 presentation to the EOC on April 6, 2010.

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1 **Q: Why did KCP&L reforecast the EAC at that time?**

2 A: As Company witnesses Mr. Downey and Mr. Davis testify, the Iatan Unit 2 Project had
3 experienced delays from adverse weather and contractor performance issues, resulting in
4 the company acknowledgment that the Unit 2 start-up schedule had been adversely
5 affected. Thus, KCP&L committed to vetting the Iatan Unit 2's schedule and current cost
6 projection based on the Project's status at that time.

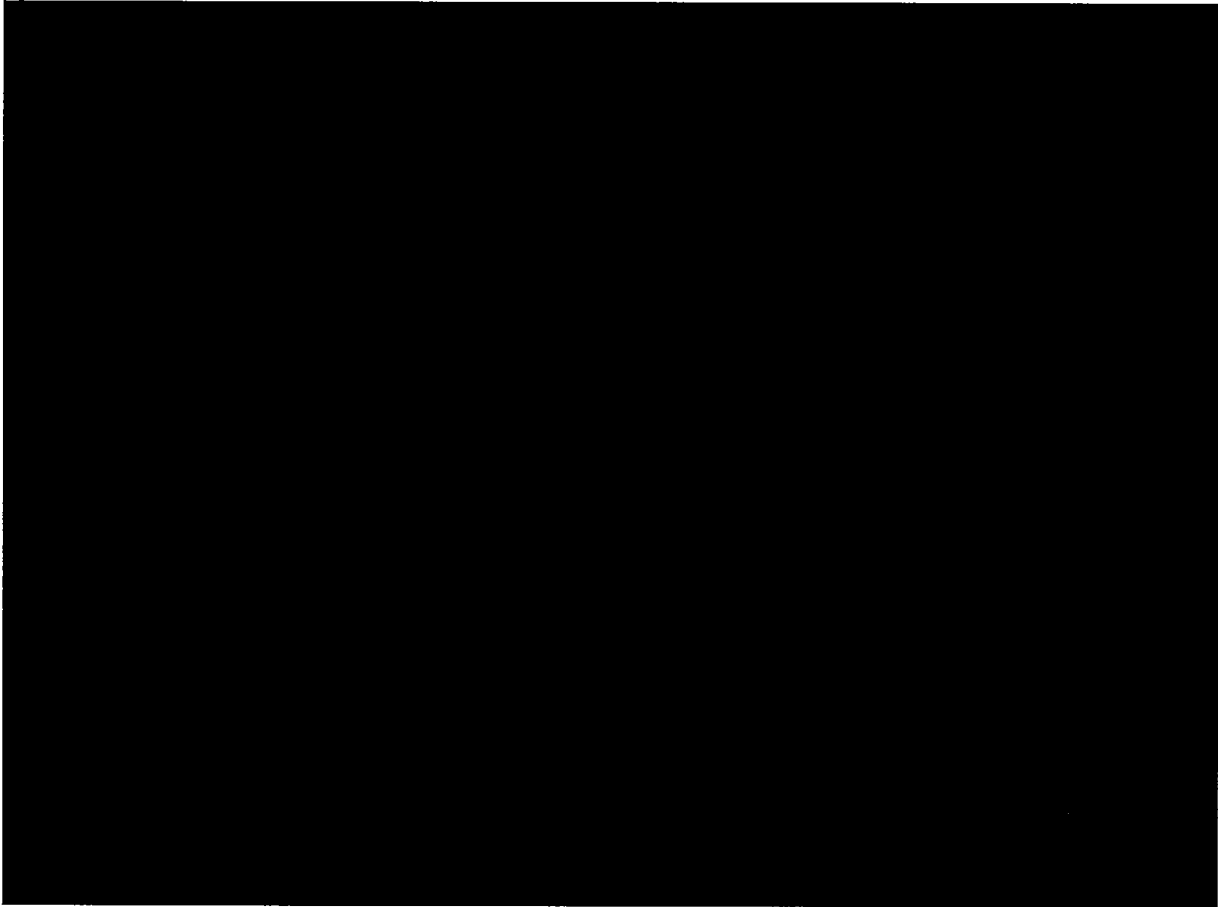
7 **Q: Did KCP&L follow the same process as in the prior reforecasts?**

8 A: Yes. We utilized the same process and CPs in the same manner as they were used in the
9 August 2009 Cost Reforecast. In addition, the start-up, project controls, construction and
10 engineering teams developed a Project Risk Assessment (Schedule RNB2010-1) that
11 identified the remaining schedule risks for the Iatan Unit 2 Project. Company witness
12 Mr. Davis and Mr. Bell testify regarding that process and the content of the Risk
13 Assessment, which provided further justification for a revised EAC.

14 **Q: What were the major conclusions reached in the March 2010 Reforecast?**

15 A: Through the Risk Assessment, the project team determined at that time that the "Likely"
16 in-service date had slipped to December 14, 2010. The EAC had to take into account this
17 extension of time and its effects on the indirect cost categories and all other time-function
18 expenses. In addition, there were projected changes to the expected revenue from test
19 power sales because the new projected period for generating power had shifted from the
20 heart of the summer into the fall season. Finally, the contingency had to be re-examined
21 to account for the "Worst" case risks that the project team had identified in the Risk
22 Assessment effort. The following chart summarizes the budgetary changes from the
23 March 2010 Reforecast:

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4 **Q: What was the result of the March 2010 Reforecast?**

5 A: As noted on page 17 of Schedule FA2010-6, the project team recommended an increase
6 of \$86.4 million to the Project's budget for all of the reasons identified in the Risk
7 Assessment and summarized therein. This increase was approved by the Board of
8 Directors on April 6, 2010.

9 **Q: Was Staff informed of the results of the March 2010 Reforecast?**

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1 A: Yes. Schedule FA21010-6 was presented to Staff on April 15, 2010. Mr. Dottheim, Mr.
2 Schallenberg, Mr. Hyneman, Mr. Majors, Mr. Williams, Mr. Featherstone and others
3 from Staff all attended this meeting.

4 **Q: When was the next reforecast of the Iatan Unit 2 Project's EAC performed?**

5 A: The most recent reforecast concluded on November 19, 2010.

6 **Q: What was the purpose of that reforecast?**

7 A: The Project was placed in-service on August 26, 2010, 111 days earlier than the "Likely"
8 date that drove the EAC in the March 2010 reforecast. This most recent reforecast was
9 initiated to provide management with an understanding of the likely cost savings to the
10 Project as a result of the start-up achievement. Schedule FA2010-7 summarizes the
11 reasons that drove this EAC projection. Overall, the indirects decreased by
12 approximately \$39.4 million largely because the time-value expenses decreased as a
13 result of the much shorter start-up duration as compared to planned. The direct costs
14 associated with the contractor support and performance decreased by approximately
15 \$10.2 million because of favorable commercial resolutions with respect to Kiewit and
16 ALSTOM issues, in particular. The EAC was negatively impacted by approximately \$19
17 million due to lower-than-projected test power sales because the duration from
18 synchronization to in-service was less than 25% the prior planned length. Each of the
19 cost changes were justified in the same manner as done in the CPs as related to prior cost
20 reforecasts and the vetting process followed the same steps as in prior EAC projections.
21 As a result of this most recent reforecast, the current EAC for Iatan 2 is \$1.948 billion,
22 approximately \$40 million less than the March 2010 Reforecast. The \$40 million
23 decrease is based on the analysis of CPs and assigned contingency to date.

1 **Q: Can you summarize the various cost reforecasts resulting from the Iatan Projects’**
2 **EAC efforts?**

3 A: Yes. As noted, KCP&L developed a process for identifying all of the project risks which
4 included documentation and justification for any cost changes when compared to the
5 Control Budget Estimate. The project team utilized this process to examine the Project’s
6 cost variances – both overruns and underruns – from the time the Control Budget
7 Estimate was completed until the current date. The results of these cost reforecasts have
8 been vetted by the project team, Schiff Hardin and by our senior management and EOC
9 and the results were ultimately provided to the Board of Directors. The EAC process is a
10 robust and transparent way to identify, track and explain cost variances on an interim
11 basis until such time as the Project has been completed and final actual costs can be
12 tallied. I further note that the information that the KCP&L project team generated was
13 sufficient to allow both Mr. Meyer and Dr. Kris Nielsen to prepare their own separate and
14 independent views of the Iatan Projects’ costs that are the subject of their testimony.

15 **CHANGE ORDER/PURCHASE ORDER JUSTIFICATION**

16 **Q: In addition to the Recommendation to Award Letter and the EAC reforecasts**
17 **described above, is there another way that KCP&L is required to explain and**
18 **justify variances to the Control Budget Estimate?**

19 A: Yes. Although the EAC efforts in themselves track and explain all cost variances as the
20 Projects were progressing through a combination of actual and estimated costs, as I
21 testified earlier, ultimately, variances to the Control Budget Estimate with respect to
22 contractors that supplied materials and provided in-place construction must ultimately be
23 justified by an executed change order or purchase order that follows KCP&L’s Change

1 Management process. Company witness Mr. Jones testifies to the elements of that
2 process.

3 **Q: Please provide a typical change order form that KCP&L executed pursuant to the**
4 **Change Management Process.**

5 A: I have attached as Schedule FA2010-8 which consists of three executed change orders for
6 the same work that followed that process. These particular change orders are to
7 ALSTOM's contract and each specifies the date, change order number, reference to the
8 change notice and the "Contract #" which corresponds to the matching line code in the
9 Control Budget Estimate. These particular change orders compensated ALSTOM for the
10 premium labor portion of its subcontract with WSI (a specialty welder) of which I note is
11 one of Staff's recommended disallowances.

12 The specific documents include:

- 13 • Change Order # AP0175X000016072101757, dated February 10, 2009 in the
14 executed amount of \$10,618,330.00. For ease of reference, I will call this
15 "ALSTOM CO#1".
- 16 • Change Order # AP03389X000016072103389 dated September 9, 2009 in the
17 executed amount of \$2,219,762. I will similarly refer to this as "ALSTOM
18 CO#2".
- 19 • Change Order # AP04205X000016072104205 date April 12, 2010 in the executed
20 amount of (\$121,495.60). I will refer to this as "ALSTOM CO#3".

21 The justification for each change order is clearly stated in sections of the change
22 order form entitled "Nature of Change" and "Reason for Change." The form specifies
23 that these adjustments are to the contract price and the amounts are clearly identified. In

1 addition, the form allows for a “Contract Time Adjustment” if there is additional time
2 granted to the contractor. In the case of these change orders, there were no time
3 extensions. Finally, each change order is executed by the contractor, the KCP&L
4 “Field/Engineer” and other appropriate KCP&L personnel.

5 **Q: Why are these change orders signed by different individuals from KCP&L?**

6 A: KCP&L’s policy is robust regarding the amount of money any employee or officer can
7 approve. ALSTOM CO#1 is executed by Mr. Downey because the amount exceeds the
8 VP of Construction’s signature authority. ALSTOM CO#2 required Mr. Churchman’s
9 approval, and Mr. Bell was authorized by Mr. Churchman to sign on his behalf.
10 ALSTOM CO#3 is actually a credit and only required the signature of the Project
11 Director, Mr. Bell.

12 **Q: What is the justification for these change orders to ALSTOM?**

13 A: KCP&L determined that both ALSTOM’s welding rate and quality were both below
14 standards and agreed to pay ALSTOM the premium portion of hiring WSI to improve
15 both. As noted in the “Reason for Change” section of ALSTOM CO#2:

16 [A]fter contracting with WSI, KCP&L and ALSTOM have
17 realized significant schedule benefits as a result of WSI’s work.
18 For example, WSI is more efficient in the performance of
19 specialized welding as demonstrated by the man-hour/weld rate
20 (1.76 man-hour per equivalent weld for WSI compared to 3.45
21 man-hours per equivalent weld using ALSTOM personnel). This
22 metric indicates that WSI’s personnel completes 2.7 times as many
23 welds per day than ALSTOM. Additionally, WSI’s quality of
24 welding is superior to ALSTOM’s. The quality of welding is
25 demonstrated by the rejection rate based on x-ray examination.
26 WSI’s welding reject rate is 0.56% compared to ALSTOM’s weld
27 reject rate of 7.53%. (Schedule FA2010-8)

28 **Q: Why are there three change orders for the same work?**

1 A: Prior to KCP&L's authorization, for ALSTOM to proceed with the work through
2 ALSTOM CO#1, ALSTOM prepared an estimate of the premium costs which totaled
3 \$10,616,300. Attached to ALSTOM CO#1 is the transmittal letter and estimate totaling
4 the above amount. However, KCP&L agreed to pay ALSTOM for all of WSI's premium
5 differential based upon WSI's actual costs, and ALSTOM added areas, which added cost.
6 When WSI exceeded the original estimated amount, the parties executed ALSTOM
7 CO#2 in the amount of \$2,219,762.00 to fund the estimated remainder of the premium
8 costs. ALSTOM CO#3 was executed after the parties performed a cost true-up and
9 determined that the actual costs of ALSTOM CO#1 and #2 were actually \$121,495.60
10 less than the total estimated and approved amount. ALSTOM CO#3 is a credit to
11 KCP&L for the difference between the actual costs and the estimated costs included
12 within the prior two change orders.

13 **Q: Once change orders such as you describe are executed, how do they relate to the**
14 **Cost Portfolio?**

15 A: We track each and every change order through progressive stages from initiation to
16 execution to the contractor's actual billing so as to ensure that the change orders that have
17 been executed have been faithfully performed for the stated change order amount. All
18 executed change orders populate the "Approved Change Order" (Column G) in the K
19 report so that the amounts of the change orders and the contract value they adjust can be
20 readily viewed for comparison sake.

21 **Q: Does the change order process that you just described apply to KCP&L's indirects**
22 **as well?**

1 A: Not uniformly. KCP&L tracks the change orders to Burns & McDonnell's contract and a
2 few other contracts using the same method I just described. However, tracking
3 contractors who only provide contract employees for staff augmentation or project
4 management purposes on a level-of-effort basis or KCP&L's own employees who supply
5 a similar level of effort could not practically be done via the change order process. In
6 those cases, the variances for such line items of cost would be apparent by making a
7 comparison of the Control Budget Estimate amounts to the amounts for those line items
8 included within the EAC projections. However, KCP&L is tracking the actual costs for
9 those vendors based on the authorization limits of their respective purchase orders. There
10 are deductive change orders issued to these vendors from the authorized limit of the
11 purchase orders that identify expenditures on a weekly or monthly basis.

12 **Q: In summary, do you believe that there are any cost variances to the Control Budget**
13 **Estimate for either Iatan Unit 1 or Iatan Unit 2 that are not identified, explained**
14 **and justified by KCP&L in its Cost Portfolio?**

15 A: No. I believe KCP&L has identified the amount of each variance from the Control
16 Budget Estimate and has explained and justified each of these changes, either through the
17 original contract award's Recommendation to Award Letter, the multiple and rigorous
18 cost projections including analyses of various R&Os and CPs, and/or through a change
19 order or purchase order or contingency draw, as I have described today.

20 **MEETINGS WITH MPSC STAFF**

21 **Q: During the course of the Iatan Project, have you had occasion to meet members of**
22 **the Staff?**

1 A: Yes. Attached as Schedule FA2010-9 is a list that describes 24 separate meetings that I
2 have attended with Staff between July 23, 2008 and September 27, 2010. This list does
3 not include the Quarterly Meetings that I also attended in Jefferson City, Missouri with
4 Staff, KCP&L and representatives from the parties.

5 **Q: We will discuss the Quarterly Meetings separately. Can you generally describe the**
6 **meetings listed in the Schedule FA2010-9?**

7 A: Yes. As the column entitled "Meeting Description" suggests, the topics of these
8 meetings varied from monthly site visits conducted by Mr. Elliott, Mr. Taylor and Mr.
9 Lange to discussions of specific change orders for Iatan Unit 1 and Iatan Unit 2 to
10 requests by Staff to discuss specific data requests. Some meetings were more specific
11 than others.

12 **Q: What in general was your role in the meetings depicted in Schedule FA2010-9?**

13 A: I discussed all aspects of the cost tracking system we had employed, cost trends and
14 answered specific questions from Staff members. Depending on the subject matter, I
15 would show Staff elements of the Cost Portfolio including the K Report. In one meeting
16 on December 3, 2009, I showed Staff how to track cost data associated with the
17 ALSTOM settlement agreements. In another meeting on September 25, 2009, Ms.
18 Schumaker and I met with Mr. Hyneman and Mr. Majors to discuss the process we use
19 for tracking the invoice by vendor database.

20 **Q: There is an entry in Schedule FA2010-9 that describes a meeting on December 2,**
21 **2009 as a "Meeting to discuss Iatan Cost Control System (as filed with the**
22 **Regulatory Plan). You attended this meeting?**

23 A: Yes.

1 **Q: It says in the next column that the meeting was “moved from 12-14 to earlier date at**
2 **Staff Request. Per Denise Schumaker, Forrest is not the appropriate person.” Do**
3 **you know what this statement means?**

4 A: Yes. Staff’s questions were mostly about the origin of the Cost Control System, which
5 pre-dated my time on the Project. However, once the meeting started, there were certain
6 questions that I was able to answer, such as whether the Cost Control System has been
7 updated.

8 **Q: Can you describe what occurred during the meeting?**

9 A: Yes. Mr. Schallenberg and Mr. Hyneman asked a series of questions regarding the origin
10 of the Cost Control System (Schedule SJ2010-1). Mr. Schallenberg pointed to a series of
11 pages within the Cost Control System document that referred to processes that were
12 developed per the Cost Control System’s guidance. Mr. Schallenberg asked a number of
13 times whether the Cost Control System was ever amended. It was explained to him that
14 because the Cost Control System is a guidance document, there was no purpose or
15 requirement for KCP&L to “update” it. The meeting lasted approximately 30 minutes.

16 **Q: Did Mr. Schallenberg or Mr. Hyneman ask you to explain any specific cost tracking**
17 **methods or how to find evidence of cost variances?**

18 A: No.

19 **Q: Were there any time limits placed on this meeting?**

20 A: No. In fact, Schedule FA2010-9 reflects that the meeting was scheduled for 90 minutes.
21 I recall having a discussion with Mr. Churchman, Mr. Reynolds, Mr. Gould and Ms.
22 Okizaki after the meeting at which each of us was surprised at how short the meeting
23 was, given that Staff was presumably in the process of completing its original Iatan Unit

1 1 audit. There was another meeting that same afternoon with the same participants
2 regarding the backcharge process that was considerably longer.

3 **Q: It appears from Schedule FA2010-9 that you met with Mr. Elliott more often than**
4 **with Mssrs. Schallenberg, Hyneman and Majors. Is that true?**

5 A: Yes. Mr. Elliott frequently visited the site. The meetings we conducted with Mr. Elliott
6 and Mr. Lange regarding the change orders they reviewed included a significant amount
7 of substantive discussion regarding the reasons KCP&L issued change orders or purchase
8 orders for additional work on the Project.

9 **Q: What knowledge did Mr. Elliott and Mr. Lange portray regarding the change**
10 **orders on the Project?**

11 A: Company witness Mr. Giles testifies that KCP&L provided Mr. Elliott with copies of all
12 change orders for amounts in excess of \$50,000 as a matter of course. Mr. Elliott and
13 Mr. Lange developed lengthy lists of questions regarding specific change orders that they
14 posed to our team. In some cases, they asked technical questions that could not be
15 answered with the individuals in the meeting, so we would have to call on engineering or
16 construction staff to help us respond. By the end of the meetings, I believe we satisfied
17 all of their issues.

18 **Q: Did members of Staff ever meet with you regarding the R&Os or CPs generated for**
19 **the various cost reforecasts?**

20 A: Yes. In addition to the Quarterly Meetings and the special meetings regarding the
21 reforecasts, there were a number of meetings with Staff. There was a meeting on April 2,
22 2009 attended by Mr. Elliott, Mr. Taylor and Mr. Lange at which there was a discussion
23 of the R&O binders. In addition, during the May 27, 2009 site visit by these gentlemen,

1 we discussed the R&O process among other cost issues. On July 17, 2009, there was a
2 meeting attended by Mr. Schallenberg, Mr. Nathan Williams, Mr. Hyneman, Mr. Steve
3 Dotheim, Mr. Majors, Ms. Sarah Kliethermes, Ms. Jamie Ott, Mr. Dave Elliott and Mr.
4 Shawn Lange of Staff to discuss, among other things, the change order process; project
5 budgets (definitive, control budget, and cost reforecast) and R&O documentation. We
6 met again with Staff twice during the summer of 2010 to discuss the ongoing EAC
7 review (Schedule FA2010-9).

8 **Q: In any of the meetings listed in Schedule FA2010-9 and in particular any meeting**
9 **regarding the information prepared in support of the reforecast of the Iatan**
10 **Project's EACs, did a member of Staff state objections to the method KCP&L used**
11 **to track costs on the Iatan Projects?**

12 A: No. I don't recall any objections to our methodology for tracking costs.

13 **Q: Are there other meetings not listed in Schedule FA2010-9 that you attended with**
14 **members of Staff?**

15 A: Yes. As stated, I attended 24 Quarterly Meetings. In addition, after each reforecast of
16 the Iatan Projects' EACs, we met with Staff to explain the results of those efforts, except
17 for the most recent reforecast, which as of the date of my testimony has been provided to
18 Staff though a special meeting to discuss it has not yet occurred.

19 **Q: Can you describe your role in the Quarterly Meetings?**

20 A: Yes. In each of the Quarterly Reports, KCP&L attached a copy of the summary page of
21 the K Report. In the Quarterly Meetings, I would walk the attendees through the K
22 Report summary in a manner similar to my testimony today, from the left hand columns
23 (original budget) to the right hand column (actual costs). I would discuss the current cost

1 trends and provide updates regarding reforecasts of costs if such were ongoing at the
2 time.

3 **Q: Did Staff members ask questions in the Quarterly Meetings regarding cost status?**

4 A: Yes. Most of the time, the questions from Staff, if there were any at all, were not very
5 specific and were only related to the form of the K Report. I recall in one meeting in
6 May 2010, Mr. Hyneman asked about the column that was added to the K Report
7 identifying the March 2010 Corporate Budget Change from the prior reforecast and
8 whether this column meant that the Control Budget Estimate amounts had changed. I
9 started responding though it was Mr. Schallenberg who explained to Mr. Hyneman how
10 the columns under the budget section were additive.

11 **Q: In any of the Quarterly Meetings you attended, did a member of Staff state
12 objections to the method KCP&L used to track costs on the Iatan Projects?**

13 A: No. I don't recall any objections to our methodology for tracking costs.

14 **Q: Describe the meetings you attended with Staff regarding the reforecasts.**

15 A: I participated in each of the meetings regarding the reforecasts. In each such meeting,
16 either Mr. Churchman, Mr. Davis, Mr. Foster and/or Mr. Scott Heidtbrink would provide
17 an overview of the circumstances surrounding the Project at that time. We provided Staff
18 and the parties with identical versions of the PowerPoint presentations that were
19 presented to the KCP&L Board of Directors. Our team would explain the reasons for the
20 reforecast, the methodology used, the trends that were identified from a cost standpoint,
21 and the major categories of increases that had been identified. I recall describing the
22 charts that were part of the presentation packages that bucketed cost increases in detail,
23 and provided examples of costs that would be found in those buckets.

1 **Q: Do you recall members of Staff raising any concerns at these meetings?**

2 A: No. The members of Staff, including Mr. Schallenberg, Mr. Hyneman, Mr. Majors and
3 Mr. Dottheim each appeared to understand the materials, though I do not recall any of
4 them voicing any concerns per se.

5 **Q: Are you aware of Staff's complaints regarding KCP&L's Cost Control System and**
6 **cost tracking during the Iatan Project?**

7 A: Yes. I have read Staff's criticisms in Staff's Reports on Iatan Unit 1 and Iatan Unit 2. As
8 I have explained in my testimony, I thoroughly disagree with Staff's positions.

9 **Q: In any of the meetings you attended with Staff, did Staff ever describe to you what**
10 **additional data, documents, or explanations regarding KCP&L's Cost Control**
11 **System Staff needed to understand KCP&L's cost control systems?**

12 A: Not that I recall, no.

13 **Q: In any of those meetings with Staff, did any member of Staff state that any**
14 **expenditures by KCP&L that exceeded the Control Budget Estimate for either**
15 **Iatan Project would be disallowed?**

16 A: No, nor did anyone from Staff, at anytime during the course of the Iatan Project ever state
17 to me that Staff believed KCP&L was not providing adequate justification or information
18 regarding variances to the Control Budget Estimate.

19 **Q: Other than the system you describe in your testimony, do you know of any other**
20 **means KCP&L could have used to identify and explain cost variances on the Iatan**
21 **Project?**

22 A: There are within the industry any number of systems that could be employed that identify
23 and explain cost variances. The fundamental aspects of cost control systems are all

1 essentially the same. The important factor is whether the system utilized for the Iatan
2 Project meets the needs of KCP&L's management and Staff, as the main purpose of the
3 Cost Control System is as a management tool to help KCP&L prudently manage the Iatan
4 Project's costs. I believe that Staff has been provided all of the information it needs to
5 make its own determination regarding the prudence of the cost variances and whether the
6 variances on the Iatan Project were identified and explained. Company witnesses Mr.
7 Meyer and Dr. Nielsen each testify that the system KCP&L has employed for the Iatan
8 Project is in the upper tier of what they have seen in the power industry.

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

10 **A: Yes.**

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

In the Matter of the Application of KCP&L Greater)
Missouri Operations Company to Modify Its) Docket No. ER-2010-0356
Electric Tariffs to Effectuate a Rate Increase)

AFFIDAVIT OF FORREST B. ARCHIBALD

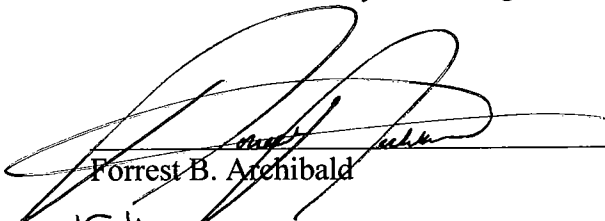
STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Forrest B. Archibald, being first duly sworn on his oath, states:

1. My name is Forrest B. Archibald. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Senior Manager of Costs.

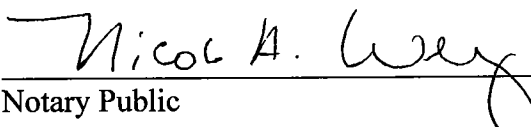
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of KCP&L Greater Missouri Operations Company consisting of forty - seven (47) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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.



Forrest B. Archibald

Subscribed and sworn before me this 15th day of December, 2010.



Notary Public

My commission expires: Feb. 4, 2011

