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Witness: William Downey
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2009-0089

REBUTTAL TESTIMONY

OF

WILLIAM H. DOWNEY

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
March 11, 2009

"[redacted]**" Designates "Highly Confidential" Information Has Been Removed Pursuant To 4 CSR 240-2.135.**

REBUTTAL TESTIMONY

OF

WILLIAM H. DOWNEY

Case No. ER-2009-0089

Q: Please state your name and business address.

A: My name is William H. Downey. My business address is 1201 Walnut, Kansas City, Missouri 64106-2124.

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

A: I am President, Chief Operating Officer, and a member of the Board of Directors of Great Plains Energy Incorporated ("Great Plains Energy"), the holding company of Kansas City Power & Light Company ("KCP&L"). I am also the President and Chief Operating Officer of KCP&L.

Q: What are your responsibilities?

A: My responsibilities include overall management of all aspects of Great Plains Energy and KCP&L.

Q: Please describe your education, experience and employment history.

A: I hold a Bachelor of Science degree from Boston University, a Master of Science degree from Columbia University and a Master of Business Administration degree from the University of Chicago. I began working for KCP&L in 2000 after 28 years of electric utility experience. I was named to my current position in October of 2003. I also served as KCP&L's Chief Executive Officer from 2003 until 2008. Prior to joining KCP&L, I served as vice president of Commonwealth Edison and president of Unicom Energy

Services Company, Inc., an unregulated energy marketing and services company operating throughout the Midwest.

Q: Have you previously testified in a proceeding at the Missouri Public Service Commission ("MPSC") or before any other utility regulatory agency?

A: Yes. I testified before the Commission in KCP&L's 2006 Missouri rate case and in 2008 with respect to Great Plains Energy's acquisition of Aquila, Inc.

Q: What is the purpose of your rebuttal testimony?

A: The purpose of my rebuttal testimony is to: (1) address issues and concerns related to the Company's construction program related to the Comprehensive Energy Plan raised by Mr. Jatinder Kumar in his Direct Testimony filed on behalf of the United States Department of Energy, the National Nuclear Security Administration and the Federal Agencies; and (2) address similar issues and concerns raised by Mr. James R. Dittmer in his Direct Testimony filed on of the Hospital Intervenors. Finally, I will also address the recommendation of the Commission Staff witness Cary G. Featherstone regarding the prudency of Iatan 1 construction costs and the treatment of the Iatan 1 construction costs in this case.

Q: On page 44 of his Direct Testimony, Mr. Kumar recommends that "the Commission should investigate the details and reasonableness of the increase in [the Air Quality Control System or "AQCS"] costs." Do you agree with this recommendation?

A: Yes. I agree with Mr. Kumar that it is appropriate and reasonable for the Commission to investigate the details and reasonableness of the AQCS costs in this case since the Company is seeking to have the prudent costs associated with Iatan 1 included in rate base in this proceeding.

Q: Mr. Kumar also recommends in his Direct Testimony on page 44 that the Commission "set a cap on the AQCS cost equal to $484.2 million." Do you agree with this recommendation?

A: No, I do not. The Company believes that the Commission should include all prudently incurred costs associated with the AQCS. The Company's testimony will demonstrate that the costs incurred related to the AQCS were prudently incurred and should be included in rate base in this case.

Q: In the Direct Testimony of Mr. James R. Dittmer, he indicates that he was requested to compare and contrast the original estimates related to the Company's construction program with KCP&L's current costs estimates for Iatan and other capital projects associated with the Comprehensive Energy Plan. Do you have comments related to Mr. Dittmer's Direct Testimony related to the Company's construction program?

A: Yes. Mr. Dittmer raises concerns regarding cost increases that have occurred related to the construction projects associated with the Comprehensive Energy Plan, including Iatan 1 and Iatan 2 costs. I will address the concerns related to Iatan 1 and explain what steps that KCP&L's management has taken to ensure that the costs incurred are reasonable and prudent. In particular, my testimony will: (i) identify the actions KCP&L's senior management took to plan and oversee the Company's Comprehensive Energy Plan Projects including the Iatan Project; (ii) identify the measures KCP&L's executive management took to facilitate management of the ALSTOM contract; (iii) identify KCP&L's decision-making process regarding the contracting strategy employed for the

Iatan Project, including but not limited to the Balance of Plant work; and (iv) identify the methods KCP&L employed to manage the Owner's Engineer on the Iatan Project.

CORPORATE GOVERNANCE/OVERSIGHT OF CEP PROJECTS

Q: Please define "Executive Management" and "Senior Management" within the KCP&L organization.

A: "Executive Management" consists of the Chairman, President, Chief Operating Officer ("COO"), Chief Financial Officer ("CFO"), and the Executive Vice President. "Senior Management" consists of those same individuals plus the Company's other Vice Presidents.

Q: **Could you describe the resources used by KCP&L's Executive Management to oversee the Iatan Project?**

A: KCP&L has created the Executive Oversight Committee ("EOC") from its Senior Management ranks to provide oversight from a management perspective. The EOC also engaged external oversight from Schiff Hardin, LLP ("Schiff"). In addition, KCP&L's Internal Audit Department, as supplemented by Ernst & Young ("E&Y"), provides both Senior Management and the KCP&L Board of Directors with oversight of the Iatan Project.

Q: Why did KCP&L engage these oversight groups?

A: KCP&L's Executive Management recognized that the Company had not engaged in a large construction project such as the projects in our Comprehensive Energy Plan (the "CEP Projects") since the construction of the Wolf Creek nuclear station in 1978-83. KCP&L had engaged in a number of smaller construction projects, and had rebuilt the Hawthorn 5 station, and while those projects provided KCP&L with some project

management experience, those projects were not analogous to the kind of large strategic initiatives we were committed to under the CEP Projects. As of the approval of the Stipulation and Agreement (Report and Order in Case No. EO-2005-0329) issued on July 28, 2005 and effective August 7, 2005 (the "Missouri Stipulation"), Senior Management recognized that it needed to adopt a structured approach to the management of the contractors on the CEP Projects that included heavy owner involvement and transparent reporting to the Commissions, our Board of Directors and our partners. In 2005, KCP&L's Senior Management recognized that KCP&L did not at that time have the internal resources experienced in construction management necessary to oversee projects of the size and complexity that were contemplated in the CEP Projects. Similarly, KCP&L concluded that the procurement effort necessary for Iatan, LaCygne, and Spearville would require procurement expertise that exceeded its existing resources in its purchasing department circa mid-2005.

Q: Did KCP&L create new procedures for the CEP projects?

A: Yes. For the reasons stated, our corporate policies and procedures required updating for use on large construction projects. Therefore, from 2006 to 2007, the CEP Project team had to develop several policies and procedures that would be used exclusively on the Iatan, Spearville and LaCygne projects. In July 2006, KCP&L created the Cost Control System which governed the CEP Projects' reporting processes, including schedule and cost controls (referred to as "Project Controls") that were intended to provide information to senior management for management purposes as well as to provide transparency to the Commission and other interested parties. Additional policies and procedures specific to procurement that required development included change management, invoices, requests

for proposal ("RFP"), bid evaluation, claim notification, safety, quality assurance and quality control, and engineering management. In addition, the KCP&L law department, with Schiff's assistance, developed generic form contracts for use to procure various services and equipment that could be adapted to the specific requirements necessary for the CEP Projects.

Q: Please describe the role of KCP&L's Internal Audit in providing oversight of the CEP Projects.

A: KCP&L has always utilized financial auditing as part of its normal course of business. Senior Management believed at that time that it was both appropriate and necessary for the CEP Projects to be subjected to review of its policies and procedures by an auditing group separate from the typical financial audit. Under the direction of the Company's Chief Financial Officer, the KCP&L Internal Audit Department brought in a consulting group from E&Y that specializes in construction matters. Starting in late 2006, Internal Audit and E&Y began their compliance auditing on the procedures that were being prepared by the Iatan project team.

Q: Please describe Schiff's oversight role.

A: In August of 2005, we retained Schiff to perform a number of services on our behalf. Schiff's initial focus was to: (i) utilize their industry expertise to review and validate the essential milestones dates and critical path activity durations needed to achieve the critical in-service dates for the Iatan Project, the LaCygne 1 SCR, and the Spearville 1 wind project in accordance with the Stipulation; (ii) provide procurement advice regarding potential contracting methods for each of the CEP Projects based on Schiff's considerable experience with major procurements in the utility construction industry;

(iii) provide project oversight and reporting to the Senior Management of KCP&L; (iv) assist the CEP Projects teams with developing appropriate and industry-standard project controls standards and metrics; and (v) provide legal assistance regarding disputes with contractors.

Q: What is the overall purpose of the EOC?

A: There are two essential purposes for the EOC: (1) the KCP&L Senior Management needed to be kept informed of the ongoing work on the CEP projects to ensure that our investments were made wisely and prudently; and (2) KCP&L's Senior Management needed to contribute to the decision-making process and vet the ongoing activities of the CEP projects.

Q: What was the genesis of the EOC?

A: As stated above, Senior Management identified that the CEP Projects were a major endeavor and the size, complexity and overall cost of these projects made it essential for members of the Senior Management team to be involved in oversight. In the summer of 2005, we placed the CEP Projects under the control of the Senior Vice President of Supply, Steven Easley. I felt that it was necessary for Mr. Easley's peers to provide both oversight and assistance to the CEP Projects on a regular basis.

Though the moniker "EOC" was used later, we effectively established the EOC in the summer of 2005 after KCP&L finalized the Missouri and Kansas stipulations. In the fall of 2005, after Schiff was brought in to review the CEP Projects' schedules and procurement options, the Senior Management team that ultimately composed the EOC had a number of important meetings.

Q: Who has served on the EOC?

A: Myself, Mr. Bassham, Executive Vice President and Chief Financial Officer, Mr. Giles, Vice President – Regulatory Affairs, Mr. Riggins, General Counsel and Chief Legal Officer, Mr. Easley, formerly Senior Vice President – Supply, Ms. Lora Cheatum, Vice President – Procurement and at various times later, John Marshall, Executive Vice President Utility Operations, Barbara Curry, Senior Vice President – Human Resources, Michael Cline, Vice President – Investor Relations and Treasurer, and Lori Wright, Vice President and Controller. David Price was on the EOC during his tenure as Vice President of Construction and was succeeded in May of 2008 by Carl Churchman. We also included other non-executive individuals in the meetings for information purposes, such as Brent Davis and the other CEP Projects' project managers, Maria Jenks, who is our Director of Audit Services, and others as necessary.

Q: Why were each of those individuals chosen to be on the EOC?

A: I felt it was important for the Senior Management team to both receive information and accept accountability for the CEP Projects. For instance, Mr. Riggins in his role as General Counsel has oversight of the legal effort, and Mr. Giles in his role as Vice President of Regulatory Affairs has responsibility for the regulatory issues related to and arising from the CEP Projects. Because construction issues overlap many areas, it was critical for both effective management and corporate governance to increase the amount of information that members of Senior Management received and that they be part of all essential decisions related to the CEP Projects.

Q: How often does the EOC meet?

A: At different times, the EOC met on a weekly or bi-weekly basis. Throughout 2006, as the CEP Projects were taking shape, I thought it essential that the EOC members be kept informed as often as possible because the construction planning, procurement, and development was occurring at a rapid pace. At a later time, approximately when Mr. Price came onboard as the Vice President of Construction in May of 2007, the EOC begin conducting monthly meetings, which we have maintained since that time.

Q: What topics are typically discussed during the EOC meetings?

A: In the initial EOC meetings, there were numerous and detailed discussions regarding the contracting strategy and procurement of the CEP Projects' major vendors. Because of the size and complexity of these procurements, I felt it necessary for Senior Management to provide another level of oversight, understand the risks that the Company was taking, and to directly contribute to the discussions relative to those risks. As the CEP Projects have progressed, the discussion topics have evolved to include the method and pace of the engineering and construction itself, as well as the tracking of the CEP Projects' schedule and budget.

Q: What information is presented to the EOC for its consideration?

A: The meetings, whether weekly or monthly, typically consisted of presentations from the CEP Projects' project teams. When the EOC meetings began, sections of those meetings were devoted individually to the La Cygne SCR and the Spearville project, as well as Iatan. As La Cygne and Spearville completed, those projects were removed from the agenda. The project teams typically presented information regarding: (i) project schedule progress and schedule compliance/adherence; (ii) budget status; (iii) safety

statistics; (iv) quality statistics; and (v) any other information that project teams believe could impact the CEP Projects. Additionally, we would receive an update on the projects from Schiff, who at different times presented both written and verbal reports, as well as project tracking metrics. The meetings included a wide ranging discussion among the EOC, the project team members, and Schiff regarding those materials as they were presented. In addition, on select occasions, the EOC meetings would include presentations from KCP&L's Internal Audit Department, as well as its consultants, E&Y. Typically, those presentations occurred in executive-only sessions with members of the EOC and KCP&L's Internal Audit Department. Also, the members of the EOC reviewed and approved the reports that we have sent to the Commission Staff and Signatory Parties to the Stipulation and Agreement in Case No. EO-2005-0329 ("Signatory Parties") on a quarterly basis (the "Quarterly Reports") since spring of 2006 in which we have informed Staff and the Signatory Parties of the events, status and risks of the CEP Projects.

Q: In your opinion, has the EOC been effective?

A: Yes. In my experience, the EOC has been very effective in meeting its goals of informing Senior Management and involving the Senior Management in the decision-making process. The results from the EOC have been very useful for our presentations to our Board of Directors.

EARLY PROCUREMENTS

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

A: KCP&L was open to any method for procurement that would result in a high probability of meeting schedule and budget goals while also providing the necessary level of

transparency to the Missouri and Kansas Commissions. After the approval of the Missouri Stipulation, in the fall of 2005, we considered: (i) an Engineering-Procurement-Construction ("EPC") contract with a single source; (ii) a hybrid EPC contract in which the majority of the performance requirements would be covered under a single supplier; and (iii) a larger multi-prime method in which multiple contracts would be procured and managed by KCP&L as the overall construction manager. There were multiple presentations made to the EOC by the project team, Burns & McDonnell, Black & Veatch Corporation and Schiff regarding each of these contracting strategies, including the risks and potential benefits of each.

Q: In late 2005 and into 2006, what risks did KCP&L's Senior Management identify relative to the Iatan Project?

A: We were advised by the project team, Burns and McDonnell, and Schiff that the construction market was overheated, that there was enormous competition for materials, services, and talent. We were also advised as to the risks of labor availability and productivity issues once construction started. Senior Management monitored the project team's progress on the key early procurements that were identified by Burns & McDonnell and Schiff as essential to keeping the Iatan 1 and 2 project on target. **[redacted]

[redacted]

[redacted]**. Senior management also was advised at that time contracting in this manner with an original equipment manufacturer ("OEM") such as ALSTOM would allow KCP&L to offset the risk of engineering because a large OEM was also willing to accept KCP&L's specific performance requirements. We were advised by the project team, Burns & McDonnell and Schiff that the in-service dates for the Iatan Project could be met, though we needed to hit the ground running and make some quick and effective decisions.

Q: How did Senior Management chose to respond to and mitigate these risks?

A: On November 23, 2005, at a meeting of Senior Management that included myself, the Chairman Mike Chesser, the General Counsel Bill Riggins, the Executive VP and Chief Financial Officer Terry Bassham, the Senior Vice President of Supply Steve Easley, and the Vice President of Regulatory Affairs Chris Giles, we chose to award the Owner's Engineer assignment to Burns & McDonnell on the basis of a superior presentation and plan for the work. In addition, we requested that Burns & McDonnell, the project team and Schiff develop a plan for proceeding ("Strategic Schedule") with major procurements that accounted for the time available to perform the engineering, procurement and construction work to meet the Iatan Project's in-service dates. As shown in the Strategic Schedule, the project team, Burns & McDonnell and Schiff identified the lead times for the air quality controls systems ("AQCS") equipment, Unit 2 boiler and Unit 2 turbine generator as the primary long lead procurements on which KCP&L needed to immediately focus. Burns & McDonnell, the project team and Schiff worked together to develop requests for proposals ("RFP"s) for the major procurements that would shape the

schedule for the Iatan Project, and we were very successful in procuring the major equipment early and on advantageous terms.

Q: What early procurements related to The Iatan Project did KCP&L identify as critical to the schedule?

A: As stated, during 2005-06, there was considerable competition in the utility construction industry for a number of specialty items. The most critical procurement for the Iatan 1 work was the air quality control system ("AQCS") equipment. This work was part of the ALSTOM contract, which was executed on August 10, 2006. ALSTOM, however, was provided with Limited Notice to Proceed ("LNTP") on April 27, 2006, which allowed ALSTOM was able to provide information for the AQCS for Iatan 1 & 2, and foundations four months before the contract was executed. The procurement strategy for contracting with a single Engineer-Procure-Construct ("EPC") vendor for the Iatan 2 boiler as well as the Iatan 1 and 2 AQCS was heavily discussed at the Senior Management level.

Q: What else did KCP&L do to advance the schedule during calendar year 2006?

A: Starting in the second quarter of 2006 the Iatan Project's procurement department developed and executed a plan to procure all of the necessary equipment and materials for the Balance of Plant construction. This plan triggered decisions by Senior Management to procure the chimney and foundations work as early as practicable.

Q: Was that procurement plan developed in the second quarter of 2006 effective?

A: Yes. By the fourth quarter of 2006, procurement had contracted for nearly $1 billion worth of work. All of the early procurements targeted in our plan were either under contract or substantially in-progress by the end of 2006. Procurement also developed a

detailed schedule for each of the remaining contracts and purchase orders and met on a weekly basis with Burns & McDonnell, KCP&L legal, and Schiff to advance that schedule. As a result of this procurement effort, the major equipment packages, including the ALSTOM contract, were procured on favorable terms and on a timely basis.

COST CONTROLS

Q: Are you familiar with the process used to develop the Iatan Project's Control Budget Estimate?

A: Yes. Company witness Brent Davis testified in his Direct Testimony regarding the Iatan Project's Control Budget Estimate. My understanding of its development is consistent with Mr. Davis' prior testimony.

Q: What was the process for approving the Control Budget Estimate for the Iatan Project?

A: The project team presented the Control Budget Estimate to the EOC in November 2006, and the EOC subsequently sought and received approval from the Board of Directors for the Control Budget Estimate in December 2006.

Q: What was the basis for the Control Budget Estimate?

A: The Control Budget Estimate was based on the information that project team had available to it at the time. When it was prepared, the Control Budget Estimate was based on 15-20% of engineering being completed.

Q: Did the Control Budget Estimate include contingency?

A: Yes. The project team, Burns & McDonnell and Schiff each contributed to the contingency analysis, and contingency in the Control Budget Estimate was established at

** [redacted] ** for Iatan 2 and ** [redacted] ** for Iatan 1. In addition, the Control Budget Estimate included an additional ** [redacted] ** of contingency that was held as management reserve that was assigned to Iatan 2.

Q: What was your understanding of the level of contingency that was approved as part of the Control Budget Estimate?

A: As we expressed in our Annual Report for 2007, the cost estimates for the CEP Projects including the Iatan Project, included a range for contingencies on those projects that reflected, among other factors, the then-current level of contracting. In addition, the EOC and the Board of Directors were aware that specific project management and other risk mitigation practices could result in varying uncertainty and therefore a range of contingency allowance was approved. Senior Management believed that the range of contingency was consistent with industry practice and market conditions for projects of these types, sizes and degree of completion. Moreover, because of the magnitude of the CEP Projects and the length of the implementation period, we clearly recognized and publically reported that the actual expenditures, scope and timing of any or all of these projects (including the Iatan Project) that had not been completed could differ materially from these estimates.

Q: Was the Control Budget Estimate for Iatan 1 incorrect?

A: No. As stated, it was based on the best information available at that time. However, as Company witnesses Mr. Davis and Mr. Roberts testified, the Control Budget Estimate did not include all of the scope that KCP&L ultimately determined to be necessary for the safe, reliable and continued operation of Iatan 1.

Q: When did the Control Budget for Iatan 1 reflect the costs for the scope that KCP&L deemed necessary?

A: The reforecast of Iatan 1 costs that was completed by the project team in May 2008 (the "Cost Reforecast") proved to be a more accurate representation of the scope of the Iatan 1 and common work necessary to safely and reliably operate the plant. That Cost Reforecast was based on engineering that had matured to over 90% complete and the Iatan 1 work was over 95% procured.

Q: How did KCP&L advise the Staff and the Signatory Parties of these changes?

A: The Quarterly Reports that KCP&L issued from the 4th Quarter of 2006 to the present identify the basis for and the tracking of the Iatan Project's costs. Notably, on March 12, 2008, myself, Company witnesses Mr. Davis, Mr. Roberts, Mr. Meyer and project team member Terry Foster, among others, made a presentation to the Staff and the Signatory Parties regarding the progress of the Cost Reforecast at that time. In addition, KCP&L has provided the Staff with statements regarding every expenditure over $50,000 that was drawn from contingency. The Quarterly Report from the 2nd Quarter of 2008 identifies the work performed in the Cost Reforecast and this information was presented to the Commission Staff on May 22, 2008.

PERFORMANCE OF MAJOR CONTRACTORS – ALSTOM

Q: What have you done at the executive level to facilitate management of the ALSTOM contract?

A: KCP&L's management perceived some risk in bundling Iatan 2 boiler and the Iatan 1 and 2 AQCS scope of work under one large EPC contract, though it was determined through careful vetting of the multiple options available at the time that in the end, the ALSTOM

contract was the best possible method for KCP&L to procure the work. Structuring the contract in this manner allowed KCP&L to expedite engineering of major components by contracting with an OEM in ALSTOM who had designed and constructed each of these major equipment items. The contract with ALSTOM was negotiated over a period of six months, and required ALSTOM to provide significant transparency that was necessary for KCP&L to meet our reporting requirements and commitments to the Kansas and Missouri Commissions. In addition to the requirements under the ALSTOM contract, we recognized it would be necessary to maintain discourse with ALSTOM's management at the executive level. Senior Management and I have engaged in a number of efforts in this regard over the last two and a half years, including numerous meetings at the executive level with ALSTOM that have facilitated a more cooperative relationship at the project level. The Quarterly Reports have identified for the Staff and the Signatory Parties the relationship with ALSTOM as a risk that has been apparent to Senior Management since the award of the contract and how these risks have evolved over time.

Q: What is your opinion of ALSTOM's management of the project?

A: It is apparent to me that ALSTOM has had some challenges managing its work on the Iatan project. ALSTOM's entity performing the work at Iatan is actually a consortium of three separate ALSTOM subsidiaries. At times there have been difficulties caused between KCP&L and ALSTOM as a result of ALSTOM's structure for this project.

Q: Is there a specific example of when ALSTOM's and KCP&L's executives had to intercede to facilitate the relationship and resolve issues?

A: Yes. The most notable discussions with ALSTOM's management occurred over the 2008 Iatan 1 fall outage (the "Unit 1 Outage"). In February of 2008, it was apparent to

all parties that the planned Unit 1 Outage of fifty-six (56) days in duration and beginning on September 19, 2008 would not be possible. **[redacted]** These issues could not be resolved at the project level in part because ALSTOM's project management did not have the authority to commit to a resolution on behalf of the other consortium members. The Quarterly Reports from the 1st and 2nd quarter of 2008 reflect these discussions with ALSTOM's management and our approach to these issues.

Q: What occurred between KCP&L and ALSTOM executives to resolve these issues?

A: ALSTOM's then-consortium leader, Jim Scholze expressed his concern to me about the Unit 1 Outage duration and start date. Mr. Scholze proposed that a focused team drawn from key representatives at the project level from ALSTOM, KCP&L, Kiewit and Burns & McDonnell meet to review all the work required to bring Unit 1 back into service, not just the new AQCS work but also all of the plant outage upgrade work that was required during the outage. This suggestion became the genesis of the so-called "Tiger Team," which met onsite beginning in mid-February and issued its report on March 19, 2008. Among the recommendations of the Tiger Team was to move the outage start date from September 19, 2008 to October 18, 2008 and extend the outage duration from fifty-six (56) days to seventy-three (73) days to accommodate all of the necessary outage work. **[redacted]**. ALSTOM agreed to facilitate the commercial

discussions with KCP&L in mid-April 2008. We insisted and ALSTOM's management agreed that those commercial discussions be facilitated by Jonathan Marks, who is one of the eminent mediator/arbitrators of construction disputes in the United States. It was my feeling that Mr. Marks would assist the parties in a fruitful discussion and quick resolution of the commercial issues that were unresolved at the time. We met with ALSTOM, Kiewit, and Burns & McDonnell on April 16-17, 2008 in a session that was facilitated by Mr. Marks.

The open commercial issues were not resolved at the facilitation, though they were clearly framed for both KCP&L and ALSTOM. In addition, we reached an understanding with Kiewit's senior management regarding Kiewit's cooperation with the Iatan 1 Project's schedule and its level of cooperation on-site with ALSTOM and Burns & McDonnell. That understanding allowed Kiewit to assist KCP&L in finalizing the revised schedule and Control Budget for Iatan 1. We engaged in multiple additional sessions with Mr. Marks as the facilitator and ultimately arrived at the resolution on July 18, 2008 (referred to as the "ALSTOM Settlement Agreement").

Q: What was resolved by the ALSTOM Settlement Agreement?

A: The ALSTOM Settlement Agreement resolved **[redacted]**. The outstanding issues that were resolved by the settlement agreement included: **[redacted]

[redacted]

[redacted]** This schedule was further revised and the fourth and final version of the revised Unit 1 schedule was issued to all contractors on the project and dated July 27, 2008. The revised Unit 1 schedule was a direct result of the Tiger Team findings and took into account the certain changes in dates due to the unavailability of a large erection crane after the May 23, 2008 collapse of ALSTOM's 18000 crane. Company witness Carl Churchman described in his direct testimony with more specificity all of the issues resolved by the ALSTOM Settlement Agreement. I agree with Mr. Churchman's testimony.

Q: What type of analysis did KCP&L do to determine the value it received in the ALSTOM Settlement Agreement?

A: As reflected in KCP&L's 3rd Quarter Report for 2008, KCP&L's project team and Schiff analyzed the value associated with all of the claims that were settled as a part of the negotiations with ALSTOM as described above and determined that KCP&L had reserved approximately **[redacted]** in the project's Control Budget for all of the claims that were resolved under the ALSTOM Settlement Agreement.

Q: Were there any non-monetary considerations that KCP&L received as a part of the ALSTOM Settlement Agreement?

A: Yes. As a part of the settlement, ALSTOM agreed **[redacted]**

Q: What does "Balance of Plant Work" refer to?

A: My understanding of Balance of Plant work as it was used for the Iatan Project was the work outside of the Iatan 2 boiler and Iatan 1 and 2 AQCS that was in ALSTOM's EPC contract. The Balance of Plant scope would include, but not be limited to: (i) the erection of the turbine generator building; (ii) the erection of equipment within that building including the turbine generator itself and the condensers; (iii) electrical wiring of all devices; (iv) foundations and substructures under all major equipment; (v) the erection of the cooling tower for Iatan 2; (vi) the erection of the multiple tanks and water treatment facility that would be common to both Iatan 1 and Iatan 2; and (vii)the Zero Liquid Discharge or ZLD building.

Q: What did KCP&L's Senior Management discuss regarding the balance of plant work during the meeting on November 23, 2005?

A: There was a discussion at that meeting regarding alternatives available to KCP&L for contracting with either a single Balance of Plant contractor or multi-prime contractors. Based on the schedule scenarios that were presented by both Schiff and Burns & McDonnell at that meeting, it was evident that portions of the Balance of Plant work needed to be performed more quickly than others. The project team advocated splitting out those scopes of work for performance by smaller specialty contractors who could have had the same level of capability as any of the larger general contractor firms available.

In any event, it was presented to management that a decision regarding the Balance of Plant contractor was secondary to the procurement of the major equipment,

i.e., the turbine generator, boiler and AQCS, which needed to proceed to the Request for Proposal ("RFP") stage very quickly so that the Iatan Project could proceed on a fast track basis with the lowest possible risk.

Q: How did KCP&L choose to proceed with Balance of Plant work through the year 2006?

A: Based on the information from project team, Burns & McDonnell and Schiff identified in the Strategic Schedule, it was evident that the most critical portion of the Balance of Plant work that had to proceed immediately and in close coordination with the major equipment was the design and procurement of the major equipment foundations. The Strategic Schedule identified in early 2006 that in order to meet certain critical dates, Burns & McDonnell needed information from vendors who had not yet been selected, in particular, for the boiler and AQCS. On February 26, 2006 the project team suggested, and Senior Management approved a limited notice to proceed ("LNTP"). In that LNTP, KCP&L agreed to pay both boiler vendors (ALSTOM and Babcock & Wilcox, Inc.) a not-to-exceed price in order for those vendors to accelerate their provision of structural loads for the Unit 2 boiler. Obtaining this data allowed Burns & McDonnell to begin designing the foundation for the Unit 2 boiler prior to even the actual award of the boiler. For the Iatan 1 and 2 AQCS work, KCP&L made as a condition of its award to ALSTOM receipt of key structural loads needed to meet the early foundation design and construction schedule. By doing so, KCP&L was able to mitigate several months of potential delay and was able to proceed on a fast track basis. Based on the Strategic Schedule, had that information not been received until the award of the boiler and AQCS

work on August 10, 2006, the in-service dates for both Iatan 1 and 2 would have been significantly challenged.

Q: When were you were first apprised of Kiewit's interest in performing work on the Iatan Project?

A: I recall that Kiewit had expressed interest in bidding work for the Iatan project in the spring of 2006. I believe that members of the Iatan project team investigated the possibility of Kiewit performing work and I was told that due to Kiewit's schedule and the types of projects it was willing to take on, it was not a good fit at that time.

Q: When were you advised of Kiewit's interest in being the Balance of Plant contractor for the unlet portions of the work?

A: In late 2006 representatives from Kiewit contacted Company witness Brent Davis to inform him that a project for which Kiewit had been selected as Balance of Plant contractor had been postponed and these Kiewit representatives asked Mr. Davis if KCP&L had any interest in contracting with Kiewit for the Balance of Plant work for the Iatan Project. It is my understanding that the project for which Kiewit's team had been destined was a planned 660-megawatt coal plant near Norborne, Missouri for Associated Electric Cooperative, Inc. ("AECI") which AECI chose to suspend due to increasing costs and other uncertainties. Mr. Davis informed me of this and I was favorable to entertaining at least a proposal from Kiewit for how it would handle the Balance of Plant work.

Q: After initially proceeding with the Balance of Plant work on a multi-prime basis, why did KCP&L consider listening to Kiewit's proposal for the remaining Balance of Plant work?

A: First of all, we were aware of Kiewit's reputation in the industry for its safety and quality and its ability to manage work as a general contractor on major projects. We were becoming increasingly aware of the risks of procuring in such an overheated marketplace and then having to coordinate multiple small specialty contractors to perform the majority of the Balance of Plant work. **[redacted]**

Q: What were some of the risks that were being discussed at that time?

A: The construction market in Kansas City at the time was very competitive and labor availability was a significant concern. In addition, there were some early safety issues on site with some of the smaller contractors that highlighted the need for us to improve overall contractor safety on site. The challenge of growing the KCP&L project team to the size necessary to effectively manage all of the Balance of Plant work by many multiples of contractors was also considered a risk. In addition, we discussed the risk from the increased complexity of the Unit 1 Outage including the multiple interfaces with performing contractors and the potential effect the Iatan 1 work could have on Iatan 2. Another consideration was multiple contractors are performing in limited space, that coordination between those contractors would be essential to maintain schedule and budget and KCP&L would ultimately be responsible for that coordination of those

multiple contractors. All of these risks were identified and tracked in the Quarterly Reports.

Q: When did Kiewit provide its proposal to KCP&L?

A: In January 2007, management authorized Burns & McDonnell to share with Kiewit information regarding design of the BOP work, quantities of work and scope of supply. Kiewit and Burns & McDonnell met for most of January 2007 and Kiewit's team received the necessary information to formulate an estimate. At the time, design was approximately thirty percent (30%) complete, so Kiewit also supplemented the information from Burns & McDonnell with comparative data from other projects. Kiewit supplied its initial proposal to Mr. Davis on February 12, 2007. The EOC saw tremendous value in obtaining an estimate from Kiewit as a basis for making a decision on the direction for the remaining Balance of Plant work. At a minimum, Kiewit's estimate could be used to validate KCP&L's budget for the Balance of Plant work. Kiewit's initial proposal offered several advantages that the EOC wanted to further explore. The EOC requested Kiewit to make a formal presentation to the EOC. That presentation occurred on April 16, 2007.

Q: Did you attend the presentation to the EOC on April 16, 2007?

A: Yes, and I believe the majority of the members of the EOC were there as well. We also had Mr. Davis and other key members of the Iatan Project team and members of the Schiff team at the meeting as well.

Q: What do you remember about that presentation?

A: Kiewit's team included its division president, Howard Barton, and Jack Cotton, its proposal manager, as well as its proposed project manager, Andre Aube, who were

present to make the presentation. The presentation lasted the morning of April 16th. Kiewit gave a presentation summarizing a written package of materials on April 13, 2007. Kiewit walked through its methodology for approaching such large projects and how it typically planned and scheduled the work. Kiewit explained that a key management tool for them is to maintain a ratio of management personnel to field craft that allowed for organized, planned and coordinated field work. For Iatan, due to the size and complexity of the work, Kiewit recommended a so called "craft-to-staff ratio" of 4:1. Kiewit provided industry and experience-based context for this proposed staff to craft ratio. Kiewit also discussed its processes and procedures for safety and project organization and discussed the particular challenges of being a Balance of Plant contractor on site with a large EPC contractor such as ALSTOM.

Q: Did Kiewit provide an estimate for the cost of the Balance of Plant work?

A: Yes, they did. And they provided it in multiple phases. The original Kiewit estimate was **[redacted]**, which included Kiewit purchasing a number of engineered materials, which KCP&L had previously contracted with other vendors through its own separate procurement effort. With these later adjustments for the materials already purchased by KCP&L, Kiewit's price was ultimately reduced to **[redacted]**, which is the base contract amount. The base contract included terms and conditions that contemplated changes to the contract's price as a result of integrating the project schedule and potential quantity changes as the design matured.

Q: What risks was Kiewit proposing it could mitigate if it performed the remaining Balance of Plant work?

A: Kiewit identified a number of risks on the Iatan Project including ALSTOM's performance and ALSTOM's ability to influence labor on the site. Also, Kiewit was concerned with labor availability and productivity on a project of this size at this time, when the construction market was highly competitive. Kiewit also presented some representative materials from another nearby project in Council Bluffs, Iowa, for MidAmerican Energy as an example of how projects with productivity issues can significantly exceed their budget and put schedule at risk. Kiewit intimated that without the type of management that it could provide, Iatan could be subjected to the same type of productivity problems as the Council Bluffs project.

Q: What happened after the April 16th meeting with Kiewit?

A: It was decided by the EOC after that meeting that it would be prudent for us to pursue more detailed negotiations with Kiewit. At the same time these discussions were happening at the executive level, we had hired a new Vice President of Construction, David Price, who started work with KCP&L on May 1, 2007. I asked Mr. Price, Mr. Easley and Mr. Bassham to engage in discussions with Kiewit regarding refinement of its proposal for the project.

The first such meeting occurred on May 3, 2007, after which Mr. Easley and Mr. Price reported to the EOC that Kiewit was amenable to alternate contracting models in which Kiewit would assume some of the risk of its performance on the project. In Senior Management's view, it was important that Kiewit assume some risk and financial incentive to cooperate or otherwise have skin in the game.

Q: Were there any concerns regarding this being a single-source procurement?

A: As Company witness Steven Jones testified, in the prior year when we were pursuing contracting options, KCP&L procurement team had looked for potential large Balance of Plant general contractor companies to bid on the Iatan work. The result of that market investigation was the majority of the larger contractors who typically performed such work were at or beyond capacity and did not have interest in either Iatan or the Kansas City market.

In April 2007, at the time that Kiewit made its proposal, the EOC asked procurement, again, to contact the same suppliers, including Fluor, Bechtel and Washington Group, and found that there was no interest. In addition, it was evident at that time that a bid process for the Balance of Plant work on a fixed price basis would not allow for timely procurement of that contract to meet schedule dates.

In order to assure ourselves that we were receiving a good deal from Kiewit, we requested Kiewit provide us with a significant amount of information regarding its estimate and allow for the project team, Burns & McDonnell and Schiff to engage in detailed vetting of that estimate. That estimate vetting occurred through the spring and summer of 2007. Prior to Kiewit's proposal, the Control Budget Estimate for the Balance of Plant work included estimates for this work that served as a baseline for comparison with the Kiewit estimate. In the Control Budget Estimate we had included substantial contingency due to the acknowledged risks of KCP&L acting as a construction manager in a multi-prime contracting situation.

Q: Based upon the review and analysis by the project team and Schiff, what was the recommendation with respect to engaging Kiewit in the Balance of Plant work?

A: In the final analysis, which was discussed and vetted by the EOC over a period of several months, we saw the following as the primary advantages of having Kiewit as the Balance of Plant contractor. First, Kiewit appeared to provide a substantive plan for optimizing schedule performance of the remaining Balance of Plant work. Kiewit stressed the importance to management of its co-locating at Burns & McDonnell's office to develop constructability reviews of Balance of Plant work as the engineering was being completed. This gave us comfort that Kiewit would be able to lend its expertise at the front end as the engineering was being completed. Second, Kiewit's construction management capability was well known in the industry and was well represented by the team that it proposed for Iatan. Third, we recognized that Kiewit's estimate provided a level of cost certainty that KCP&L would not have for up to 12 additional months if we continued to contract for Balance of Plant work with smaller specialty contractors. There was risk that these future unlet contractors would be procured with little or no competition to vendors much less capable than Kiewit.

Kiewit's proposal included an assumption of productivity risks and confirmed with only few exceptions the design quantities that Burns & McDonnell had identified in its design work.

Next, Kiewit presented data to management showing the effectiveness of its safety program and made it clear to management how important safety was as a component of its daily work. Safety is our company's first concern, and safety is often a significant cost variable on a large project.

Kiewit also presented statistics showing its quality of performance and the plan for co-locating with Burns & McDonnell appeared to provide a good solution to vetting

engineering before it was released for construction. Also, Kiewit's capability and project controls was also notable and Kiewit agreed to be transparent in providing project controls information to the KCP&L team in keeping with KCP&L's regulatory commitments.

Q: When did management decide that it would proceed in contracting with Kiewit?

A: Kiewit provided a proposal on May 13, 2007 in which it identified multiple scenarios under which it would be willing to contract for the work, including whether Kiewit would be responsible for procuring engineered materials. Kiewit's proposal was vetted by the project team and by Schiff, and on June 11, 2007, Kiewit was issued limited notice to proceed under which it began its co-location at Burns & McDonnell as well as provided ongoing oversight and advice to Kissick on the forming and pouring of the turbine generator pedestal, among other services.

Q: KCP&L contracted with Kiewit in November of 2007?

A: Yes.

Q: And what was the total cost of the Kiewit contract at that time?

A: It was **[redacted]**

Q: The cost of Kiewit's contract price exceeded the remaining control budget for balance of the plant work?

A: At that time, yes.

Q: On what basis did you decide then to proceed with Kiewit?

A: For all the reasons stated. The project's risk profile, as expressed in the contingency held in the control budget, showed that the project's biggest risk at that time was KCP&L procuring and managing multiple small specialty contractors. Kiewit has a long and

demonstrated track record in the power industry. It had the resources necessary and available to manage, coordinate and perform the work under a single point responsibility. Because of the canceled project, it had a team ready to go, and that saved KCP&L from having to substantially increase the size of its own project team. We could also utilize Kiewit's already developed processes and procedures for safety and quality.

Burns & McDonnell worked with Kiewit in the past on previous joint ventures, including a project that was ongoing simultaneously to Iatan. The co-location with Burns & McDonnell allowed for the acceleration of engineering without additional costs because constructability would be built into the engineering. Kiewit's safety record is among the best in the industry, and Kiewit's focus on avoiding late engineering, labor management and material delivery appeared to be the best option available at that time very important for the project's success.

In evaluating Kiewit's price, the project team and Schiff looked at the available contingency that was part of the control budget as well as the low probability, high impact contingency that was held at the management level and determined that substantial offsets of perceived and known risks on the project could be realized with Kiewit as the Balance of Plant contractor.

At the EOC's request, Schiff and the project team each evaluated the potential contingency offset. They concluded that approximately ** [redacted] ** of held contingency at that time could be offset by Kiewit's presence on the project.

In addition, there were other potential cost savings that were factored into the decision such as an opportunity to avoid additional project team and project management expense under KCP&L's control.

Finally, we recognized the ability of Kiewit to mitigate the loss of schedule float. Kiewit's quality program was perceived as a critical check to still ongoing engineering work that Burns & McDonnell was performing.

Q: If one of the advantages to contracting with Kiewit was its project management capability, why did KCP&L increase the size of its project team at about the time that you hired Kiewit?

A: In the fall of 2006, the project team developed the Control Budget Estimate for the Iatan Project, in which it identified assumptions regarding the size of the project team. In the course of the first two quarters of 2007, in addition to entertaining the proposal from Kiewit, Senior Management recognized that this original assumption regarding the project team's size had been underestimated, and that in order to provide the necessary active management of the work, to meet our the project controls requirements and commitments for transparently reporting the Iatan Project's status, we needed additional project personnel. In addition, we created the position of Vice President of Construction and hired David Price in May 2007. One of Mr. Price's first duties was to evaluate the project team. Mr. Price identified the need to increase in both the size and the capabilities of the project team. Senior Management approved of Mr. Price's plan in the summer of 2007.

Q: Was there any negative impact to KCP&L from its recognition in mid-2007 that it needed to increase the project team's size and capabilities?

A: No. The decision to increase the size of the project team was made timely and these changes occurred at an early stage of the Iatan Project's construction effort.

PERFORMANCE OF MAJOR CONTRACTORS/BURNS & MCDONNELL

Q: What methods did KCP&L use to manage the Burns & McDonnell contract?

A: We recognized that the selection of the owner's engineer for the Iatan Project was very significant. We had had a long relationship with Burns & McDonnell who assisted us on the rebuilding of the Hawthorn 5 station. A number of the key individuals on the Burns & McDonnell team were also part of the Iatan team, so there was some familiarity with both the individuals and how Burns & McDonnell worked. In the summer of 2006, Mike Chesser and I instituted a regular meeting with the chief executive officer, Greg Graves of Burns & McDonnell, as well as the project executives assigned to the KCP&L work. Those meetings were held on a regular basis and included our project team leads and Schiff. In those meetings, we discussed at an executive level Burns & McDonnell's commitments to the project and its performance. These meetings were very effective in highlighting the challenges that Burns & McDonnell faced, as well as its accomplishments. In these meetings, we also discussed such topics as: (1) Burns & McDonnell's resource availability and the lack of available engineers in the industry at large; (2) Burns & McDonnell's cooperation with ALSTOM; (3) progress on the Balance of Plant work; (4) project controls; (5) quality; and (6) jobsite safety.

Q: Based upon your observations of the KCP&L management effort related to the construction projects of the Comprehensive Energy Plan, do you believe the concerns of Mr. Kumar and Mr. Dittmer related to cost increases on these projects are legitimate concerns?

A: No. I believe that the KCP&L Senior Management has prudently managed the various construction projects discussed by Mr. Kumar and Mr. Dittmer. As explained in this

testimony, KCP&L's Senior Management has actively managed the CEP Projects to ensure that costs were prudently incurred in the completion of these projects.

Q: In the Direct Testimony of Carey G. Featherstone at page 36, he asserts that "it is premature to address the prudency of Iatan 1 construction costs." Do you agree?

A: Absolutely not. Company witness Chris Giles will address the Company's response to this assertion in detail. However, as I have explained in this testimony, KCP&L has actively managed these projects, provided the Commission Staff and Signatory Parties with periodic status reports throughout the process, and it is appropriate to address any issues regarding Iatan 1 AQCS costs in this case.

Q: Specifically with regard to the Iatan 1 AQCS costs, do you believe these costs were prudently incurred and should be included in rates in this proceeding?

A: Yes. As I have discussed above, the KCP&L Senior Management has very actively managed this process, and has taken whatever steps which were prudent to manage the construction to ensure the costs of construction were reasonable and prudent.

Q: Does that conclude your testimony?

A: Yes.

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 Tariff to Continue the Implementation of Its Regulatory Plan	)))	Case No. ER-2009-0089

AFFIDAVIT OF WILLIAM H. DOWNEY

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

William H. Downey, being first duly sworn on his oath, states:

1. My name is William H. Downey. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as President and Chief Operating Officer.

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 Thirty-four (34) pages and ~~Schedule(s) _____ through _____~~, all of which 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.

William H Downey
William H. Downey

Subscribed and sworn before me this 16th day of March 2009.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4 2011

"NOTARY SEAL"
Nicole A. Wehry, Notary Public
Jackson County, State of Missouri
My Commission Expires 2/4/2011
Commission Number 07391200