

Exhibit No.:

Issues: *Iatan Construction Project*

Witness: *Charles R. Hyneman*

Sponsoring Party: *MoPSC Staff*

Type of Exhibit: *Rebuttal Testimony*

File No.: *ER-2010-0355*

Date Testimony Prepared: *December 8, 2010*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

CHARLES R. HYNEMAN

KANSAS CITY POWER & LIGHT COMPANY

FILE NO. ER-2010-0355

Jefferson City, Missouri

December 2010

**** Denotes Highly Confidential Information ****

Staff Exhibit No. KCP&L-225
Date 1/18/11 Reporter LMB
File No. ER-2010-0355

NP

1
2
3
4
5
6
7
8

**TABLE OF CONTENTS OF
REBUTTAL TESTIMONY OF
CHARLES R. HYNEMAN
KANSAS CITY POWER & LIGHT COMPANY
FILE NO. ER-2010-0355**

KCPL Witness Roberts 1
KCPL Witness Bell 13
KCPL Witness Blanc 13

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

REBUTTAL TESTIMONY
OF
CHARLES R. HYNEMAN
KANSAS CITY POWER & LIGHT COMPANY
FILE NO. ER-2010-0355

Q. Please state your name and business address.

A. Charles R. Hyneman, Fletcher Daniels State Office Building, 615 East 13th Street, Kansas City, Missouri.

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

A. I am a Regulatory Auditor with the Missouri Public Service Commission (“Commission”).

Q. Are you the same Charles R. Hyneman who filed direct testimony in File No. ER-2010-0355?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose is to address statements made by Kansas City Power and Light Company (“KCPL”) witnesses Kenneth M. Roberts, Robert Bell and Curtis Blanc in their respective direct testimonies in this case related to the Iatan Construction Project, Iatan 1, Iatan 2, and Iatan Common Plant.

KCPL WITNESS ROBERTS

Q. At page four of his direct testimony, lines 1-10, KCPL witness Kenneth M. Roberts indicates that he and his firm, Schiff Hardin, LLP (“Schiff”) are independent of KCPL. Do you agree?

Direct Testimony of
Charles R. Hyneman

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

A. No. Mr. Roberts states the following:

Under my direction, Schiff has reported to KCP&L's Executive Oversight Committee and to senior management from time to time during the course of the planning and construction of KCP&L's CEP Projects. Such reports have been in both oral and written format.

These reports generally include a summary of Schiff's independent view of the CEP projects' schedule, budget, and procurement status and identification of key issues that have the potential to affect or have affected progress.

These reports also generally include metrics that Schiff has developed to independently verify the CEP Projects' then-current status.

**

**

Typically the work of an independent auditor does not include evaluating or making recommendations to management based on processes and procedures that the auditor helped create or implement on a project. Schiff does not have such independence. Such a difference

Direct Testimony of
Charles R. Hyneman

1 was noted in the direct testimony of KCPL witness William H. Downey, where at the bottom
2 of page 9 and the top of page 10 of his direct testimony, he states:

3 KCP&L's Internal Audit Department and Schiff serve very different
4 roles, but do complement each other. As an example, Schiff helped
5 develop policies and procedures in use while Internal Audit reviews the
6 project teams' compliance to those policies and procedures. Schiff has
7 also aided KCP&L in the development and negotiation of the contracts
8 for the CEP Projects which are then subject to audit to ensure that the
9 contracts are being administered as intended.

10 Q. ** _____

11 _____
12 _____ **

13 A. ** _____

14 _____
15 _____
16 _____
17 _____
18 _____
19 _____
20 _____
21 _____
22 _____
23 _____
24 _____
25 _____
26 _____ **

27 Q. ** _____

28 _____
29 _____
30 _____ **

Direct Testimony of
Charles R. Hyneman

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

A. ** _____

_____ **

Q. What methods were available for KCPL to control contractor performance on the Iatan construction project?

A. There are several options available to KCPL to control contractor performance. These options included writing strong and enforceable contract terms and conditions, effectively assess backcharges, effectively assess liquidated damages, and effectively enforcing these contract terms and conditions during the pendency of the project. It is the Staff's position, based on its audit, there is substantial evidence that KCPL has been ineffective at managing its Iatan construction contracts and enforcing the terms and conditions of its contracts with major Iatan construction contractors and consultants.

This ineffectiveness at managing Iatan construction contractors and consultants has led to significantly higher Iatan Construction Project costs, which the Staff has characterized as being imprudent / unreasonable / inappropriate. In its previously filed Iatan Construction

Direct Testimony of
Charles R. Hyneman

1 Project Audit and Prudence Review Reports filed with the Commission, the Staff has
2 identified and removed the costs related to imprudent / unreasonable / inappropriate KCPL
3 management decisions from its Iatan Construction Project cost recommendation.

4 Q. What are "back charges" and "liquidated damages"?

5 A. According to *Wideman's Comparative Glossary of Project Management*
6 *Terms*, version 3.1, a "backcharge" is the "cost of corrective action taken by the purchaser,
7 chargeable to the supplier under the terms of the contract." An example would be when one
8 contractor performs project work incorrectly and the owner has to pay different contractor to
9 correct this work. The cost of paying the second contractor to fix the work should be
10 backcharged to the contractor that performed the work incorrectly.

11 As defined by Wideman, "liquidated damages" are:

12 . . . the amount of money set forth in the contract as being the liability
13 of the contractor for failure to complete the work by the contract
14 completion date or adjusted contract completion date. It is an estimate
15 of the damages the owner is likely to incur in the event of late
16 completion by the contractor. Liquidated damages are typically
17 expressed as a daily rate.

18 Q. Are there significant cost risks to KCPL by not having a strong and effective
19 backcharge process on the Iatan Construction Projects?

20 A. ** _____
21 _____
22 _____
23 _____
24 _____
25 _____

Direct Testimony of
Charles R. Hyneman

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37

**

Q. **

**

A. **

Direct Testimony of
Charles R. Hyneman

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29

_____ **

Q. ** _____ **

A. ** _____

Direct Testimony of
Charles R. Hyneman

1 _____
2 _____
3 _____
4 _____
5 _____
6 _____
7 _____
8 _____
9 _____
10 _____
11 _____
12 _____
13 _____
14 _____
15 _____
16 _____
17 _____
18 _____
19 _____
20 _____
21 _____
22 _____
23 _____
24 _____
25 _____
26 _____
27 _____
28 _____
29 _____
30 _____
31 _____
32 _____

Direct Testimony of
Charles R. Hyneman

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27

_____ **

Q. ** _____ **

A. ** _____

_____ **

Q. ** _____ **

A. ** _____

Direct Testimony of
Charles R. Hyneman

1 _____
2 _____
3 _____
4 _____
5 _____
6 _____
7 _____
8 _____
9 _____
10 _____
11 _____
12 _____
13 _____
14 _____
15 _____
16 _____ **
17 Q. ** _____ **
18 A. ** _____
19 _____
20 _____
21 _____
22 _____
23 _____
24 _____
25 _____
26 _____
27 _____
28 _____

Direct Testimony of
Charles R. Hyneman

1 _____
2 _____
3 _____
4 _____
5 _____
6 _____
7 _____
8 _____
9 _____
10 _____
11 _____
12 _____
13 _____
14 _____
15 _____
16 _____
17 _____
18 _____
19 _____
20 _____
21 _____
22 _____
23 _____
24 _____
25 _____
26 _____
27 _____
28 _____
29 _____
30 _____
31 _____ **
32 Q. ** _____
33 _____

Direct Testimony of
Charles R. Hyneman

1 _____
2 _____ **
3 A. ** _____
4 _____
5 _____
6 _____
7 _____
8 _____
9 _____
10 _____
11 _____
12 _____
13 _____
14 _____
15 _____
16 _____
17 _____
18 _____
19 _____
20 _____
21 _____
22 _____
23 _____
24 _____
25 _____
26 _____
27 _____
28 _____
29 _____
30 _____
31 _____
32 _____
33 _____
34 _____
35 _____
36 _____

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

**

KCPL WITNESS BELL

Q. ** _____

**

A. ** _____

**

KCPL WITNESS BLANC

Q. At page 7 of his direct testimony in this case, KCPL witness Curtis Blanc, KCPL's Senior Director – Regulatory Affairs states that KCPL has removed all officer expenses charged to Iatan 2. He then states that "it is the Company's hope that the removal of these charges from the case will make it easier for the parties and the Commission to focus on

Direct Testimony of
Charles R. Hyneman

1 | the important issues to be decided in this case.” Does the Staff agree that inappropriate and
2 | excessive costs charged to the Iatan 2 Construction Project by KCPL officers, senior
3 | management and executives is not an important issue in this case?

4 | A. No. The Staff does not agree with Mr. Blanc’s and KCPL’s position that
5 | inappropriate and excessive management costs charged to the Iatan 2 Construction Project are
6 | not important. It is not only important, but critical to a project or an organization that the
7 | “tone at the top” be a strong tone of strict cost control and prudence, reasonableness and
8 | appropriateness in project expenditures and the practice required of all be faithful to the tone.
9 | This “tone at the top” sets an example for the rest of KCPL Iatan Construction Project
10 | employees and contractors to follow. The Staff has noted previously and has documented
11 | examples of inappropriate costs charged to the Iatan Construction project by KCPL
12 | management and executives.

13 | Q. Does this conclude your rebuttal testimony?

14 | A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of)
Kansas City Power & Light Company for)
Approval to Make Certain Changes in its) File No. ER-2010-0355
Charges for Electric Service to Continue the)
Implementation of Its Regulatory Plan)

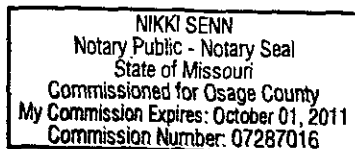
AFFIDAVIT OF CHARLES R. HYNEMAN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Charles R. Hyneman, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 14 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


Charles R. Hyneman

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




Notary Public

SCHEDULES 1 - 6

HAVE BEEN DEEMED

HIGHLY CONFIDENTIAL

IN THEIR ENTIRETY

NP