

Exhibit No.:

Issues: Overview Iatan Unit 1  
AQCS, Iatan 2 and Iatan  
Common Plant; GAAS

Witness: Charles R. Hyneman

Sponsoring Party: MoPSC Staff

Type of Exhibit: Direct Testimony

File No.: ER-2010-0355

Date Testimony Prepared: November 10, 2010

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

CHARLES R. HYNEMAN

KANSAS CITY POWER & LIGHT COMPANY

FILE NO. ER-2010-0355

Jefferson City, Missouri  
November 2010

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

Staff Exhibit No. KCP&L-224  
Date 1/18/11 Reporter LMB  
File No. ER-2010-0355

**NP**



Direct Testimony of  
Charles R. Hyneman

1 investigations, and complaint cases as well as cases relating to construction audits and  
2 prudence reviews, mergers and acquisitions and certifications.

3 Q. Have you previously testified before this Commission?

4 A. Yes. Schedule 1 to this testimony is a list of cases in which I have submitted  
5 testimony.

6 Q. With reference to File No. ER-2010-0355, have you examined and studied  
7 the books and records of Kansas City Power & Light Company (KCPL) regarding its  
8 electric operations?

9 A. Yes, with the assistance other members of the Commission Staff (Staff).

10 Q. Please explain the purpose of your testimony.

11 A. The purpose of this testimony is to introduce and sponsor the adjustments  
12 to Iatan Unit 1 AQCS construction costs that Staff has found to be imprudently incurred in  
13 its *Construction Audit and Prudence Review – Iatan Construction Project For Costs*  
14 *Reported as of June 30, 2010* (Construction Audit Report) dated November 3, 2010 in File  
15 No. ER-2010-0355. Staff's rationale and support for these adjustments are described in the  
16 body of the Iatan Construction Project Audit Report dated on November 3, 2010. The dollar  
17 amounts reflected in the adjustments described in the Staff's Construction Audit Report  
18 related to Iatan Unit 1 disallowances and transfers of investment and costs from Iatan Unit 1  
19 to Iatan Common plant have been reflected in the Staff's Accounting Schedules filed with its  
20 direct filing.

21 In this direct testimony, I am also introducing Staff's list of adjustments associated  
22 with the construction of Iatan Unit 2 based on investment and costs incurred through  
23 June 30, 2010. This list of adjustments reflects expenditures KCPL made and charged to the

1 Iatan Unit 2 segment of the Iatan Project that Staff found to be imprudent, unreasonable, or  
2 not of benefit to Missouri ratepayers, as reported in its Iatan Project Construction Audit  
3 Report dated November 3, 2010. Staff will include its adjustments to the Iatan Unit 2  
4 segment of the Iatan Project based on costs incurred through October 31, 2010 in its true-up  
5 direct testimony to be filed on February 22, 2011, as directed by the Commission's  
6 August 18, 2010 *Order Approving Nonunanimous Stipulation and Agreement, Setting*  
7 *Procedural Schedule and Clarifying Order Regarding Construction and Prudence Audit.*

8 The Commission has ordered Staff members who perform audit activities on this case  
9 to comply with Generally Accepted Auditing Standards (GAAS). In this testimony,  
10 I describe these auditing standards.

11 Q. Did you participate in Staff's construction audit of the Iatan Project, a  
12 project which includes the air quality control systems additions to Iatan Unit 1, the  
13 construction of the new Iatan Unit 2 and the construction of plant used by both Iatan units—  
14 the Iatan Common Plant?

15 A. Yes. I am one of three Staff members who audited the costs and investments  
16 made in the Iatan Project.

17 Q. Are you sponsoring any adjustments to KCPL's books and records for  
18 purposes of determining an appropriate revenue requirement for KCPL that are based on  
19 Staff's construction audit and prudence review of the Iatan Project?

20 A. Yes. I am sponsoring Adjustments P-31.1 and P-32.1 to Iatan Unit 1  
21 Production Plant accounts 311 and 312. I am also sponsoring adjustments P-39.2 and P-40.2  
22 to Iatan Common Plant. These adjustments can be found on Staff Accounting Schedule 3,  
23 page 1. A listing and brief description of the Iatan 1 Construction Project proposed

1 disallowances and cost transfers are shown on Highly Confidential Schedule 2 attached to  
2 this testimony. The adjustments for Unit 2 are included in the Staff's Estimated True-Up  
3 case.

4 **GENERALLY ACCEPTED AUDITING STANDARDS**

5 Q. Did the Staff auditors comply with GAAS during its audit of the books and  
6 records of KCPL in its rate case audit?

7 A. Yes. The procedures and activities conducted by Staff auditors were  
8 in accordance with and are fully consistent with GAAS. In Ordered paragraph 4 of its  
9 July 7, 2010 *Order Regarding Construction and Prudence Audits* in File Nos. ER-2010-0355  
10 and ER-2010-0356, the Commission stated the following:

11 4. All auditing activity shall be conducted in  
12 accordance with generally accepted auditing standards issued  
13 by the American Institute of Certified Public Accountants  
14 Standards. All Commission staff members conducting audit  
15 activity of any type in these matters shall attest by affidavit that  
16 all of their auditing activity and reports comply with these  
17 standards.

18 Q. What are GAAS?

19 A. GAAS are broad rules and guidelines promulgated by the AICPA's *Auditing*  
20 *Standards Board*. Certified Public Accountants employ GAAS in preparing for  
21 and performing audits of a client's financial statement. In December 2001, the  
22 Auditing Standards Board issued SAS 95, *Generally Accepted Auditing Standards*. SAS 95  
23 established a GAAS hierarchy consisting of Tier 1 – Auditing Standards (which include the  
24 SAS), Tier 2 – Interpretive publications, and Tier 3 – Other auditing publications

25 GAAS Tier 1 consists of the ten general, fieldwork, and reporting standards, and the  
26 Statement on Auditing Standards. The ten general standards apply to all other services covered

1 by the Statement on Auditing Standards (SAS), unless they are clearly not relevant or the SAS  
2 specifies that they do not apply.

3 For example, while GAAS applies primarily to the audit of an entity's financial  
4 statement, the substance of the General Standards and Standards of Field Work can be applied  
5 to utility construction audits and audits of a utility's rate filings. The Standards of Reporting,  
6 while they can provide guidance in the preparation of any report, are not relevant to either  
7 Construction Audit Reports or Cost of Service Reports, the types of reports the Staff is filing in  
8 this proceeding. Therefore the four GAAS reporting standards do not apply to this audit and  
9 were not taken into consideration by the Staff in the preparation of either its Construction Audit  
10 Report or its Cost of Service Report.

11 While the Staff auditors have conducted their audit in accordance with the  
12 General Standards and Standards of Field Work listed below, they have not necessarily  
13 reviewed and applied all of the detailed specific interpretations of the individual SAS to this  
14 audit. Such an undertaking would require an extensive investment in training and personnel that  
15 has not been viewed as necessary for the specific work performed in this audit.

16 The ten GAAS are listed and briefly described below:

17 **GAAS - GENERAL STANDARDS**

- 18 1. Training and Proficiency. The audit must be performed by a person or persons  
19 having adequate technical training and proficiency as an auditor.
- 20 2. Independence. In all matters relating to the assignment, an independence in mental  
21 attitude is to be maintained by the auditor or auditors.
- 22 3. Due Care. Due professional care is to be exercised in the planning and performance  
23 of the audit and the preparation of the report.

1 **GAAS - STANDARDS OF FIELD WORK**

- 2 1. Planning and Supervising. The auditor must adequately plan the work and must  
3 supervise any assistants.
- 4 2. The entity and its environment, including its internal control. The auditor must obtain  
5 a sufficient understanding of the entity and its environment, including its internal  
6 control, to assess the risk of material misstatement of the financial statements whether  
7 due to error or fraud, and to design the nature, timing, and extent of further audit  
8 procedures.
- 9 3. Evidential Matter. The auditor must obtain sufficient appropriate audit evidence by  
10 performing audit procedures to afford a reasonable basis for an opinion regarding the  
11 financial statements under audit.

12 **GAAS - STANDARDS OF REPORTING**

- 13 1. GAAP. The report shall state whether the financial statements are presented in  
14 accordance with generally accepted accounting principles.
- 15 2. Consistency. The report shall identify those circumstances in which such principles  
16 have not been consistently observed in the current period in relation to the preceding  
17 period.
- 18 3. Disclosure. When the auditor determines that informative disclosures are not  
19 reasonably adequate, the auditor must so state in the auditor's report.
- 20 4. Reporting Obligation. The report shall contain either an expression of opinion  
21 regarding the financial statements, taken as a whole, or an assertion to the effect that  
22 an opinion cannot be expressed. When the auditor cannot express an overall opinion,  
23 the auditor should state the reasons therefore in the auditor's report. In all cases where  
24 an auditor's name is associated with financial statements, the auditor should clearly  
25 indicate the character of the auditor's work, if any, and the degree of responsibility the  
26 auditor is taking, in the auditor's report.

27 Q. Did the Staff auditors rely at least in part on the work of other Commission  
28 employees, such as engineers, attorneys and customer service specialists in developing its  
29 revenue requirement recommendations in this case?

30 A. Yes.

31 Q. Is the reliance on the work of others covered under GAAS?

1           A.     Yes. Statement of Auditing Standards No. 73, (SAS 73 or AU 336) *Using the*  
2 *Work of a Specialist* provides guidance to an auditor who uses the work of a specialist in  
3 performing an audit in accordance with generally accepted auditing standards. GAAS,  
4 specifically SAS 73 defines a specialist as “a person (or firm) possessing special skill  
5 or knowledge in a particular field other than accounting or auditing.” SAS 73  
6 paragraph 06 states:

7                     .06 The auditor's education and experience enable him or her to be  
8 knowledgeable about business matters in general, but the auditor is not  
9 expected to have the expertise of a person trained for or qualified to  
10 engage in the practice of another profession or occupation. During the  
11 audit, however, an auditor may encounter complex or subjective  
12 matters potentially material to the financial statements. Such matters  
13 may require special skill or knowledge and in the auditor's judgment  
14 require using the work of a specialist to obtain appropriate audit  
15 evidence. [Revised, March 2006, to reflect conforming changes  
16 necessary due to the issuance of Statement on Auditing Standards  
17 No. 105.]

18           Q.     Does this conclude your direct testimony?

19           A.     Yes, it does.



**Charles R. Hyneman**

**Educational and Employment Background and Credentials**

I am employed as a Utility Regulatory Auditor V for the Missouri Public Service Commission (Commission). Prior to serving with the Commission I served 12 years on active duty in the United States Air Force in the missile operations and contracting career fields. My experience in defense contracting included the contract administration of construction and services contracts in accordance with the Federal Acquisition Regulation (FAR). I was promoted to the rank of Captain in 1989. I was honorably discharged from the Air Force in December 1992 and joined the Commission Staff in April 1993.

I have approximately 17 year experience in the field of utility rate regulation. During my tenure at the Commission I have been involved in and testified before the Commission in numerous utility rate cases and several utility merger and acquisition cases.

I was awarded a Masters of Business Administration from the University of Missouri at Columbia in 1988. I also earned a Bachelor of Science degree (cum laude) with a double major in Accounting and Business Administration from Indiana State University in 1985. For the past 15 years I have been a licensed Certified Public Accountant (CPA) licensed in Missouri.

CHARLES R. HYNEMAN

CASE PARTICIPATION

Date Filed	Case Name	Case Number	Issue	Exhibit
08/06/2010 11/03/2010	Kansas City Power and Light Company-Greater Missouri Operations	ER-2010-0356	Iatan 1 AQCS Construction Audit and Prudence Review	Staff's Construction Audit And Prudence Review Of Iatan 1 Environmental Upgrades (Air Quality Control System - AQCS) For Costs Reported As Of April 30, 2010
08/06/2010 11/03/2010	Kansas City Power and Light Company	ER-2010-0355	Iatan 1 AQCS Construction Audit and Prudence Review	Staff's Construction Audit And Prudence Review Of Iatan 1 Environmental Upgrades (Air Quality Control System - AQCS) For Costs Reported As Of April 30, 2010
01/01/2010	Kansas City Power and Light Company-Greater Missouri Operations	ER-2009-0090	Iatan 1 AQCS Construction Audit and Prudence Review	Staff's Report Regarding Construction Audit and Prudence Review of Environmental Upgrades to Iatan 1 and Iatan Common Plant
12/31/2009	Kansas City Power and Light Company	ER-2009-0089	Iatan 1 AQCS Construction Audit and Prudence Review	Staff's Report Regarding Construction Audit and Prudence Review of Environmental Upgrades to Iatan 1 and Iatan Common Plant
04/09/2009	Kansas City Power and Light Company-Greater Missouri Operations	ER-2009-0090	Transition costs, SJLP SERP, Acquisition Detriments, Capacity Costs, Crossroads Deferred Taxes	Surrebuttal

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CASE PARTICIPATION

Date Filed	Case Name	Case Number	Issue	Exhibit
03/13/2009	Kansas City Power and Light Company-Greater Missouri Operations	ER-2009-0090	Crossroads Energy Center, Acquisition Saving and Transition Cost Recovery	Rebuttal
02/27/2009	Kansas City Power and Light Company-Greater Missouri Operations	ER-2009-0090	Various Ratemaking issues	Direct COS Report
04/07/2009	Kansas City Power and Light Company	ER-2009-0089	Transition Costs, Talent Assessment Program, SERP, STB Recovery, Settlements, Refueling Outage, Expense Disallowance	Surrebuttal
03/11/2009	Kansas City Power and Light Company	ER-2009-0089	KCPL Acquisition Savings and Transition Costs	Rebuttal
02/11/2009	Kansas City Power and Light Company	ER-2009-0089	Corporate Costs, Merger Costs, Warranty Payments	Direct COS Report
09/24/2007	Kansas City Power and Light Company	ER-2007-0291	Miscellaneous A&G Expense	Surrebuttal
07/24/2007	Kansas City Power and Light Company	ER-2007-0291	Miscellaneous	Staff COS Report
07/24/2007	Kansas City Power and Light Company	ER-2007-0291	Talent Assessment, Severance, Hawthorn V Subrogation Proceeds	Direct
03/20/2007	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	ER-2007-0004	Hedging Policy Plant Capacity	Surrebuttal
02/20/2007	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	ER-2007-0004	Natural Gas Prices	Rebuttal
01/18/2007	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	ER-2007-0004	Fuel Prices Corporate Allocation	Direct
11/07/2006	Kansas City Power and Light Company	ER-2006-0314	Fuel Prices	True-Up
10/06/2006	Kansas City Power and Light Company	ER-2006-0314	Severance, SO <sub>2</sub> Liability, Corporate Projects	Surrebuttal
08/08/2006	Kansas City Power and Light Company	ER-2006-0314	Fuel Prices Miscellaneous Adjustments	Direct
12/13/2005	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	ER-2005-0436	Natural Gas Prices; Supplemental Executive Retirement Plan Costs; Merger Transition Costs	Surrebuttal

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Date Filed	Case Name	Case Number	Issue	Exhibit
12/13/2005	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	HR-2005-0450	Natural Gas Prices; Supplemental Executive Retirement Plan Costs; Merger Transition Costs	Surrebuttal
11/18/2005	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	ER-2005-0436	Natural Gas Prices	Rebuttal
10/14/2005	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	ER-2005-0436	Corporate Allocations, Natural Gas Prices Merger Transition Costs	Direct
10/14/2005	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	HR-2005-0450	Corporate Allocations, Natural Gas Prices Merger Transition Costs	Direct
02/15/2005	Missouri Gas Energy	GU20050095	Accounting Authority Order	Direct
01/14/2005	Missouri Gas Energy	GU20050095	Accounting Authority Order	Direct
06/14/2004	Missouri Gas Energy	GR20040209	Alternative Minimum Tax; Stipulation Compliance; NYC Office; Executive Compensation; Corporate Incentive Compensation; True-up Audit; Pension Expense; Cost of Removal; Lobbying.	Surrebuttal
04/15/2004	Missouri Gas Energy	GR20040209	Pensions and OPEBs; True-Up Audit; Cost of Removal; Prepaid Pensions; Lobbying Activities; Corporate Costs; Miscellaneous Adjustments	Direct
02/13/2004	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	HR20040024	Severance Adjustment; Supplemental Executive Retirement Plan; Corporate Cost Allocations	Surrebuttal
02/13/2004	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	ER20040034	Severance Adjustment; Corporate Cost Allocations; Supplemental Executive Retirement Plan	Surrebuttal
01/06/2004	Aquila, Inc.	GR20040072	Corporate Allocation Adjustments; Reserve Allocations; Corporate Plant	Direct

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CASE PARTICIPATION

Date Filed	Case Name	Case Number	Issue	Exhibit
12/09/2003	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	HR20040024	Current Corporate Structure; Aquila's Financial Problems; Aquila's Organizational Structure in 2001; Corporate History; Corporate Plant and Reserve Allocations; Corporate Allocation Adjustments	Direct
12/09/2003	Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P	ER20040034	Corporate Plant and Reserve Allocations; Corporate Allocation Adjustments; Aquila's Financial Problems; Aquila's Organizational Structure in 2001; Corporate History; Current Corporate Structure	Direct
03/17/2003	Southern Union Co. d/b/a Missouri Gas Energy	GM20030238	Acquisition Detriment	Rebuttal
08/16/2002	The Empire District Electric Company	ER2002424	Prepaid Pension Asset; FAS 87 Volatility; Historical Ratemaking Treatments-Pensions & OPEB Costs; Pension Expense-FAS 87 & OPEB Expense-FAS 106; Bad Debt Expense; Sale of Emission Credits; Revenues	Direct
04/17/2002	UtiliCorp United, Inc. d/b/a Missouri Public Service & St. Joseph Light & Power	GO2002175	Accounting Authority Order	Rebuttal
01/22/2002	UtiliCorp United, Inc. d/b/a Missouri Public Service	ER2001265	Acquisition Adjustment	Surrebuttal
01/22/2002	UtiliCorp United, Inc. d/b/a Missouri Public Service	EC2001265	Acquisition Adjustment; Corporate Allocations;	Surrebuttal
01/08/2002	UtiliCorp United, Inc. d/b/a Missouri Public Service	EC2002265	Acquisition Adjustment	Rebuttal
01/08/2002	UtiliCorp United, Inc. d/b/a Missouri Public Service	ER2001672	Acquisition Adjustment	Rebuttal

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Date Filed	Case Name	Case Number	Issue	Exhibit
12/06/2001	UtiliCorp United, Inc. d/b/a Missouri Public Service	ER2001672	Corporate Allocations	Direct
12/06/2001	UtiliCorp United, Inc. d/b/a Missouri Public Service	EC2002265	Corporate Allocations	Direct
04/19/2001	Missouri Gas Energy, a Division of Southern Union Company	GR2001292	Revenue Requirement; Corporate Allocations; Income Taxes; Miscellaneous Rate Base Components; Miscellaneous Income Statement Adjustments	Direct
11/30/2000	Holway Telephone Company	TT2001119	Revenue Requirements	Rebuttal
06/21/2000	UtiliCorp United, Inc. / Empire District Electric Company	EM2000369	Merger Accounting Acquisition	Rebuttal
05/02/2000	UtiliCorp United, Inc. / St. Joseph Light and Power	EM2000292	Deferred Taxes; Acquisition Adjustment; Merger Benefits; Merger Premium; Merger Accounting; Pooling of Interests	Rebuttal
03/01/2000	Atmos Energy Company and Associated Natural Gas Company	GM2000312	Acquisition Detriments	Rebuttal
09/02/1999	Missouri Gas Energy	GO99258	Accounting Authority Order	Rebuttal
04/26/1999	Western Resources Inc. and Kansas City Power and Light Company	EM97515	Merger Premium; Merger Accounting	Rebuttal
07/10/1998	Missouri Gas Energy, a Division of Southern Union Company	GR98140	SLRP AAOs; Reserve; Deferred Taxes; Plant	True-Up
05/15/1998	Missouri Gas Energy, a Division of Southern Union Company	GR98140	SLRP AAOs; Automated Meter Reading (AMR)	Surrebuttal
04/23/1998	Missouri Gas Energy, a Division of Southern Union Company	GR98140	Service Line Replacement Program; Accounting Authority Order	Rebuttal
03/13/1998	Missouri Gas Energy, a Division of Southern Union Company	GR98140	Miscellaneous Adjustments; Plant; Reserve; SLRP; AMR; Income and Property Taxes;	Direct

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CASE PARTICIPATION

Date Filed	Case Name	Case Number	Issue	Exhibit
11/21/1997	UtiliCorp United, Inc. d/b/a Missouri Public Service	ER97394	OPEB's; Pensions	Surrebuttal
08/07/1997	Associated Natural Gas Company, Division of Arkansas Western Gas Company	GR97272	FAS 106 and FAS 109 Regulatory Assets	Rebuttal
06/26/1997	Associated Natural Gas Company, Division of Arkansas Western Gas Company	GR97272	Property Taxes; Store Expense; Material & Supplies; Deferred Tax Reserve; Cash Working Capital; Postretirement Benefits; Pensions; Income Tax Expense	Direct
10/11/1996	Missouri Gas Energy	GR96285	Income Tax Expense; AAO Deferrals; Acquisition Savings	Surrebuttal
09/27/1996	Missouri Gas Energy	GR96285	Income Tax Expense; AAO Deferrals; Acquisition Savings	Rebuttal
08/09/1996	Missouri Gas Energy	GR96285	Income Tax Expense; AAO Deferrals; Acquisition Savings	Direct
05/07/1996	Union Electric Company	EM96149	Merger Premium	Rebuttal
04/20/1995	United Cities Gas Company	GR95160	Pension Expense; OPEB Expense; Deferred Taxes; Income Taxes; Property Taxes	Direct
05/16/1994	St. Joseph Light & Power Company	HR94177	Pension Expense; Other Postretirement Benefits	Direct
04/11/1994	St. Joseph Light & Power Company	ER94163	Pension Expense; Other Postretirement Benefits	Direct
08/25/1993	United Telephone Company of Missouri	TR93181	Cash Working Capital	Surrebuttal
08/13/1993	United Telephone Company of Missouri	TR93181	Cash Working Capital	Rebuttal
07/16/1993	United Telephone Company of Missouri	TR93181	Cash Working Capital; Other Rate Base Components	Direct

**SCHEDULE 2**

**HAS BEEN DEEMED**

**HIGHLY CONFIDENTIAL**

**IN ITS ENTIRETY**