

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

DIRECT TESTIMONY OF

STEVEN JONES

**ON BEHALF OF
KANSAS CITY POWER & LIGHT COMPANY**

**IN THE MATTER OF THE APPLICATION OF
KANSAS CITY POWER & LIGHT COMPANY
TO MODIFY ITS TARIFFS TO CONTINUE THE
IMPLEMENTATION OF ITS REGULATORY PLAN**

DOCKET NO. 10-KCPE-415 -RTS

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

2 A. My name is Steven Jones. My business address is 233 S. Wacker Drive, Suite 6600
3 Chicago, Illinois 60606.

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

5 A. I am an independent contractor currently working with Schiff Hardin on behalf of Kansas
6 City Power & Light Company (“KCP&L” or the “Company”).

7 **Q. What was your last position?**

8 A. From March 16, 2006 through April 2009, I was the Director of Comprehensive Energy
9 Plan (“CEP”) Procurement. This meant that I was responsible for all procurement
10 activities for the Comprehensive Energy Plan (“CEP”) for KCP&L. During that period

1 of time, my focus was primarily on the Iatan projects due to their size and complexity.
2 At Iatan, I was also responsible for the commercial management of all contracts and
3 contract administration, as well as material management and distribution.

4 **Q. Have you previously testified in a proceeding at the Kansas Corporation**
5 **Commission (“KCC”) or any other regulatory body?**

6 A. Yes. I have previously filed testimony in Docket No. 09-KCPE-246-RTS (“246
7 Docket”). My Direct and Rebuttal testimony is attached as Schedule SJ2010-1. I have
8 also testified before the Illinois Commerce Commission on two occasions. The first was
9 on behalf of ComEd with respect to the merger of PECO Energy Company and Unicom
10 (who owned ComEd) and creation of Exelon. The second occasion was regarding a
11 retrofit program and sale of its Fossil Generating Fleet.

12 **Q. In the 246 Docket, did you previously testify as to your education, experience and**
13 **employment history?**

14 A. Yes.

15 **Q. Does that testimony remain accurate today?**

16 A. Everything except that my position as the Director of CEP Procurement ended in March
17 of 2009. As I previously stated, I am currently an independent consultant to Schiff
18 Hardin.

19 **Q. What is the purpose of your testimony?**

20 A. The purpose of my testimony is to discuss the following: 1) the processes and procedures
21 that I helped to develop for KCP&L’s CEP Projects and in particular for the Iatan Unit 2
22 Project to ensure timely procurement of major equipment and contractor services and

1 resolution of contractor claims; 2) the procurement of the contract for Kiewit Power
2 Constructors Co. (“Kiewit”) for the bulk of the Balance of Plant construction work.

3 **PROCUREMENT PROCESSES AND PROCEDURES**

4 **Q. What are the CEP projects?**

5 A. Company witness Chris Giles testifies to KCP&L’s plan for increasing generation and
6 providing environmental controls on many of its existing coal-fired units. The
7 supply-related CEP projects undertaken by the Company include: the Iatan Unit 1 and
8 Unit 2 projects, the La Cygne Unit 1 Selective Catalyst Reduction (“SCR”) addition and
9 the Spearville Wind Project in Spearville, Kansas.

10 **Q. What is the Cost Control System that is applicable to CEP projects?**

11 A. The CEP Cost Control System is a guidance document that outlines the governance
12 considerations, management procedures and cost control protocols that govern the CEP
13 projects. A copy is attached as Schedule SJ2010-2. The Cost Control System was
14 developed in the second quarter of 2006 with the intention of providing guidelines for the
15 CEP projects.

16 **Q. Do you believe the guidance provided by the Cost Control System assisted KCP&L
17 in the management of the Iatan Unit 2 Project?**

18 A. Yes. The processes and procedures that were prepared on the basis of the guidelines
19 discussed in the Cost Control System meet or exceed industry standards. Based upon my
20 experience, the Cost Control System provided a starting framework for the project
21 management tools for KCP&L’s project team and corporate management for a project of
22 this size.

1 **Q. Were you involved in developing some of the procedures and protocols discussed in**
2 **the Cost Control System?**

3 A. Yes. The KCP&L procurement team under my direction used the guidelines in the Cost
4 Control System to create these procedures and protocols.

5 **Q. Which portions of the Cost Control System did you assist in developing?**

6 A. The Procurement Plan, including the vendor evaluation criteria and selection process, and
7 change management.

8 **Q. How has the Cost Control System helped KCP&L manage the Iatan Unit 2 Project?**

9 A. The Cost Control System provides guidance with respect to the management of the CEP
10 projects, including the Iatan Unit 2 project, by establishing processes for developing and
11 tracking schedule, project cost, earned value performance and cash flow. This
12 information provides a basis for KCP&L to predict future cost and schedule issues,
13 among other key trends necessary to manage a large utility construction project.

14 **Q. Did you testify as to the Cost Control System in the 246 Docket?**

15 A. I testified as to the parts of the Cost Control System that I was responsible for
16 implementing as the Director of CEP Procurement, such as the Change Management
17 system. Specifically, I testified that the Change Management system

18 “identifies the various changes that occur on the Project. Not only
19 does this help to track increased costs, but it also focuses on
20 documenting the changes and providing the context and reasons
21 for such changes during the life cycle of the Project. Over time,
22 these changes can establish trends for increased costs that may be

1 able to either predict future costs or allow the owner to institute
2 measures that can mitigate adverse trends.”

3 (Schedule SJ2010-1 at p. 4).

4 **Q. Did you develop a claims management procedure for the Iatan Unit 2 Project?**

5 A. Yes.

6 **Q. Please describe that claims management process.**

7 A. As I stated in my previous testimony in the 246 Docket, KCP&L’s

8 “claims management procedure is a two-part process. When a
9 change to a contractor’s contract has been identified by 1) KCP&L;
10 2) an authorized representative of KCP&L; or 3) the contractor, a
11 change notice is created. That change notice describes the nature of
12 the change and the reason for the change. The change notice is
13 reviewed by the contract managers to determine if the nature of the
14 change is an ‘extra.’ If it is a change ‘extra’, then the change order
15 process is initiated. Once a change order is created from the change
16 notice, it is reviewed by the contract manager. It then is routed
17 from the contract manager to estimating for an analysis on the
18 proposal to ensure that the amount is not excessive. The contractor
19 then reviews the change order for accuracy. If the contractor
20 agrees, its authorized agent signs the change order. The change
21 order is then routed through KCP&L for review and execution, first
22 to the KCP&L contract manager, then to the Project Director, and
23 finally to the Vice President of Construction.”

1 (Schedule SJ2010-1 at p. 11).

2 **Q. Does KCP&L document the reason or reasons for change orders to the Iatan Unit 2**
3 **Project?**

4 A. Yes. A narrative of the reasons for each change order is required as part of the
5 documentation for each change order. Additionally KCP&L has written a supplemental
6 justification for many of the change orders in excess of \$50,000.

7 Through training and experience, the project personnel responsible for writing the
8 change order descriptions increased the level of detail and explanation included in the
9 original description of the change and the reasons for the change order so that the
10 supplemental justifications were not necessary on all change orders.

11 **Q. Who on the KCP&L project team is responsible for reviewing and vetting claims**
12 **received from the Iatan Unit 2 Project's contractors?**

13 A. KCP&L has a commercial team that reviews and resolves contractor claims. The
14 commercial team is comprised of members of procurement, the KCP&L legal
15 department, as well as outside legal counsel from Schiff Hardin. As a group, this team
16 reviews every commercial document or "claim" that is submitted by a contractor (either
17 by change order request, commercial correspondence, email or otherwise) by any
18 contractor during the bid process and throughout the course of each contract's execution.
19 The commercial team's review includes all notices and notifications under each of the
20 contracts, requests by vendors for change orders and change management, as well as any
21 claims or disputes that may arise after the contract is awarded.

22 **Q. What do you mean by notices and notifications?**

1 A. In general, this refers to the formal written correspondence between KCP&L and its
2 contractors that provide notice, or warning of potential commercial issues under their
3 contracts. KCP&L developed a Notice and Notification Procedure that governs the
4 contractors.

5 **Q. What is the Notice and Notification Procedure?**

6 A. As I stated in my prior testimony,

7 “The Notice and Notification Procedure requires that any
8 commercial impact be documented and registered through a
9 notice from the contractor. A commercial impact is any
10 occurrence that may cause the contractor to claim either more
11 time to the schedule or more money. The Notice and Notification
12 Procedure requires that the contractors send all commercial
13 notices to my attention in the procurement office. A notice may
14 be an actual change request, or may simply be a notification of an
15 incident that has occurred but the commercial impacts are not yet
16 fully known. Under most of the contracts, however, the
17 contractor is required to notify KCP&L of any such event within
18 fifteen (15) days of its occurrence. The contractor then has an
19 additional thirty (30) days to provide KCP&L with the final cost
20 or schedule impacts, if any.”

21 (Schedule SJ2010-1 at p. 12).

1 We have received over 2500 such notices over the course of the
2 Iatan Project—approximately 1700 from Kiewit and 750 from ALSTOM
3 alone.

4 **Q. Is your testimony still accurate today?**

5 A. Yes, except that the contractors currently send all commercial notices to David
6 McDonald, who is the individual who took my place as the Director of CEP Procurement.

7 **Q. Based upon this Procedure, what does KCP&L do when it receives a notice from a**
8 **contractor?**

9 A. The procurement office logs every notice that is received, and the contract managers,
10 with KCP&L's legal department, determine whether a response is necessary. Responses
11 to contractor notices are then drafted, reviewed by the contract manager and legal and
12 then logged prior to sending. If a contractor sends a letter stating that it believes that it
13 has been delayed by KCP&L, we log that letter, review it, analyze it against the contract
14 requirements, and then we respond to that letter in kind with a letter transmittal back to
15 the contractor as to our position.

16 **Q. Have there been instances where the contractors have not followed the Notice and**
17 **Notification Procedure?**

18 A. Yes. For example, contractors have sent claim letters to the engineers rather than to the
19 procurement office.

20 **Q. And what happened in those instances?**

21 A. The engineer typically sends procurement a copy of the letter so it can be logged into the
22 process. Any time procurement has determined that a contractor has not followed the
23 Notice and Notification Procedure, we notify the contractor that it has not followed the

1 proper procedures. We also remind the contractor that any commercial claim is not valid
2 unless the proper submission procedures are followed.

3 **Q. And what are the benefits of having the Notice and Notification Procedure?**

4 A. As I stated in my prior testimony,

5 “The benefits are the ability to document and track open issues
6 with contractors. This leads to quicker resolutions of disputes,
7 and makes it less likely that a contractor will submit a large claim
8 at the end of the project that is a surprise to everyone. In my
9 experience, contractors will usually try to wait until their work is
10 done before making a claim because it is harder for the owner to
11 properly evaluate and respond to such claims. By forcing the
12 contractors to submit their claims during the course of the project,
13 KCP&L is rigorously enforcing its rights under the contracts.
14 This also allows commercial disputes to be resolved quickly,
15 before they can interfere with the contractor’s performance of its
16 work.”

17 (Schedule SJ2010-1 at pp. 13-14).

18 **Q. In your experience, what can happen in a project where the owner does not require**
19 **the contractors to comply with a similar notice procedure?**

20 A. Generally speaking, projects that do not have a robust notice process and/or change
21 management process will not be on time and will run over budget.

22 **Q. Why?**

1 A. Issues are not timely identified or discussed at the management level so that issues are
2 not resolved in the most cost-effective and efficient manner. Also, there is no
3 accountability on the owner's side for changes that are being made out in the field to the
4 contractor's contract.

5 **Q: What other Cost Control System recommendations did you implement as the**
6 **Director of CEP Procurement?**

7 A: Another example would be implementation of the Procurement Plan.

8 **Q. In the 246 Docket, did you testify as to the Procurement Plan for the Iatan Project?**

9 A. Yes. My testimony contained the following Questions and Answers regarding the
10 Procurement Plan for the Iatan Project:

11 **Q. What is the Procurement Plan?**

12 A. The Procurement Plan identifies what, when and how goods and
13 services are purchased from external suppliers. It is a means of
14 identifying an acceptable pool of bidders, the sequencing of all of
15 the procurements, and making sure the procurement team is
16 accountable to the schedule for each procurement. These
17 accountabilities include the development of the technical
18 specification, the evaluation of the bids and the contract
19 negotiation. The Procurement Plan is then integrated into the
20 master schedule and is intended to support critical engineering and
21 construction milestones.

1 **Q. When you were hired by KCP&L, did you develop a**
2 **Procurement Plan for the Iatan Project as discussed in the**
3 **Cost Control System?**

4 A. When I arrived in the spring of 2006, I reviewed the procurement
5 schedule that had been developed by Burns & McDonnell. . .
6 However, it was obvious to me that Burns & McDonnell had not
7 been as aggressive as it could have been with respect to the timing
8 and sequencing of the procurements. . . . [Therefore,] I modified
9 Burns & McDonnell’s schedule, and with the assistance of Jim
10 Wilson of Schiff Hardin, developed the final schedule of
11 procurements. This revised schedule reallocated the engineering
12 and procurement activity durations and deadlines to strengthen
13 KCP&L’s ability to manage the engineering and procurement for
14 the project. We published the procurement schedule in September
15 of 2006.

16 **Q. What was the scheduled duration of each procurement?**

17 A. The procurement schedule was based upon what I call a “T-45
18 Schedule.” A T-45 Schedule allows for the procurement process
19 to be planned and sequenced in a way so as to go from the issuance
20 of the Request for Proposals to a negotiated contract within
21 45 days on average. We recognize that different procurements
22 have different levels of complexity that would require the
23 procurement schedule to lengthen or shorten depending on the type

1 of equipment, amount of work to prepare and/or evaluate the bid,
2 etc., but the average procurement should be able to be completed
3 in 45-50 days.

4 **Q. What are the series of events within your 45-day schedule?**

5 A. The development of the Request for Proposals (including the
6 technical specifications, instructions to bidders and contract,
7 collectively, the “RFP”), the bid period, bid evaluation, and
8 negotiation of the contract and technical specifications.

9 . . .

10 **Q. How was the Procurement Plan managed?**

11 A. The procurement schedule was managed on a daily basis and
12 reported on a weekly basis. The buyers, the legal representatives,
13 and the engineers met weekly at Burns & McDonnell’s offices to
14 discuss the status of each procurement. If certain activities were at
15 risk of not being completed on time, the Project’s master schedule
16 was consulted to make sure that all critical dates were met. If an
17 issue arose that would require an adjustment to the T-45 Schedule
18 Procurement Plan to be made on any given procurement, the risk
19 associated with extending the schedule would be evaluated,
20 including the potential impact to construction, additional costs,
21 whether the prospective vendors required more time to bid, and a
22 number of other factors would be taken into consideration.
23 KCP&L would then make a determination whether a change to the

1 Procurement Plan would adversely impact the schedule. We also
2 had on-going conversations with the bidders to make sure that if
3 the procurement schedule was extended, especially during the bid
4 evaluation and contract negotiation phase, the milestone dates that
5 support the construction schedule could be maintained. If a bidder
6 indicated that it could not hold the dates, we discussed internally
7 what mitigation efforts we could employ. Sometimes this meant
8 issuing a limited notice to proceed to the contractor. This would
9 allow the contractor to begin its work (i.e., submit structural load
10 information to Burns & McDonnell to allow it to design
11 foundations) while the final contract documents were being
12 prepared.

13 **Q. Do you believe that the Procurement Plan was successful?**

14 A. Yes. The Procurement Plan allowed KCP&L to timely procure all
15 of the necessary equipment and materials to support construction.
16 In addition, the Procurement Plan allowed for us to properly assess
17 the marketplace for materials and services that were scarce, and
18 thus were considered long-lead items.

19 (Schedule SJ2010-1 pp. 4-8).

20 **Q. Is that testimony still accurate today?**

21 A. Yes.

22 **Q. Is that testimony applicable to Iatan Unit 2?**

23 A. Yes.

1 **Q. Do you have a document that shows the procurement process used for Iatan Unit 2?**

2 A. Yes. Attached to my testimony as Schedule SJ2010-3 is a flow chart I developed for the
3 Iatan Project soon after I arrived at KCP&L. I instituted the corresponding procedure
4 almost immediately after my arrival, and that is the process that Procurement followed
5 throughout the Project where it was prudent to do so.

6 **Q. Are there times when it was necessary for KCP&L to deviate from the procurement
7 model identified in Schedule SJ2010-3?**

8 A. Yes. In many cases, it is not possible or prudent to competitively bid a scope of work.
9 That is why KCP&L's procurement procedures contemplate the possibility of sole-source
10 procurements in some circumstances. The procurement of the Balance of Plant work, a
11 contract executed with Kiewit, is a clear example.

12 **Q. Under what circumstances may work be sole-sourced to a single vendor?**

13 A. Usually sole-source procurements require unique circumstances such as: an emergency
14 situation; unique capabilities of the vendor where there is no competition; safety
15 considerations; insurance considerations; regulatory compliance issues; where the
16 benefits of using a particular bidder outweigh the potential price advantage of
17 competitive bidding; or where competitive bidding would be futile.

18 **Q. What unique circumstances applied to KCP&L's award of the remaining Balance of
19 Plant work?**

20 A. Several of the circumstances I described above were applicable to the Balance of Plant
21 contract. Prior to awarding the Balance of Plant contract to Kiewit, the KCP&L project
22 team performed a market analysis and found very limited industry interest among large
23 contractors for bidding work on large power plants. As I testified in the 246 Docket:

1 **“Q. What did the marketplace look like for balance of plant**
2 **contractors in the spring of 2006?”**

3 A. In the spring of 2006, I did some market research with respect to
4 potential balance of plant contractors. The goal was to determine
5 whether any of the major contractors in the country, specifically
6 Kiewit, Washington Group, Fluor Daniels, Bechtel and others
7 would be interested in performing the balance of plant work for the
8 Iatan Project.

9 **Q. What did you discover?**

10 A. At that time in 2006, the contractors who possessed the capability
11 of performing this work had very little interest or capacity to do the
12 remaining balance of plant work for the Iatan Project, especially on
13 a fixed-price basis. The contractors were only bidding work at that
14 time on a fixed-price basis in select circumstances (i.e. when part
15 of an engineering-procurement-construct (“EPC”) contract). I
16 surveyed the market by calling a number of large general
17 contractor firms that had the capacity to perform this work.
18 Washington Group was not interested in the Project in any respect
19 due to its concentration on other markets and backlog of work.
20 Fluor was similarly lukewarm, but was willing to consider the
21 Project, though only on a time and materials basis. Bechtel was
22 not interested in the Project due to its extensive backlog of work
23 and the Iatan Project’s schedule. Kiewit made a presentation to the

1 KCP&L procurement and construction teams in the spring of 2006,
2 emphasizing that it had a very narrow window to commit to the
3 Iatan Project, and was not interested in doing the work on a fixed-
4 price basis.”

5 (Schedule SJ2010-1 at pp. 18-19).

6 In 2007, after Kiewit expressed interest in the Iatan Unit 2 Project, we pulsed the
7 market again and found the same response. Company witness Kenneth Roberts testifies
8 regarding the utility construction market during the Iatan Unit 2 Project’s development.

9 **Q. What other unique circumstances would you say applied to the sole source**
10 **awarding of the Kiewit contract?**

11 A. The interest, availability, and experience of Kiewit, one of the country’s most successful
12 industrial contractors; and recognition of the inherent difficulties of managing multiple
13 small and medium-sized contractors while maintaining progress in the Project’s schedule,
14 safety and quality all justified the sole source of the Balance of Plant work to Kiewit.

15 **Q. When did Kiewit first approach KCP&L regarding the Balance of Plant Work?**

16 A. In September 2006, KCP&L issued a Request for Proposal (“RFP”) for the foundations
17 and substructures package. Kiewit was identified as one of the potential bidders for that
18 package. The bids were returned at the end of October, and Kiewit declined to provide a
19 compliant bid, stating that it did not want to provide unitized pricing as required by the
20 RFP. About a month after declining to bid on the Foundations and Substructures
21 package, Kiewit approached Brent Davis about the possibility of performing work on the
22 Iatan Project.

1 **Q. Did Kiewit say why it wanted to perform work on Iatan after declining to bid on the**
2 **foundations package?**

3 A. My understanding was that Kiewit had been involved with a project that had been
4 cancelled, and at the end of 2006 it had a team of people who could take on new work.
5 Kiewit knew that KCP&L did not have a general contractor for the remaining Balance of
6 Plant work for the Iatan Unit 2 Project, and approached KCP&L to see if we were
7 interested.

8 **Q. What was KCP&L's reaction to Kiewit's renewed interest?**

9 A. As Company witness Brent Davis testifies, KCP&L agreed to having Kiewit prepare an
10 estimate for this work in order to evaluate its options. As noted above, KCP&L had just
11 experienced some difficulty in competitively bidding the foundations and substructures,
12 the first Balance of Plant work package, due to lack of interest from contractors who
13 already had enough work. Additionally, under the multi-prime contracting strategy, the
14 Balance of Plant work was divided into 13 separate scopes of work, each valued between
15 approximately \$3 million to approximately \$90 million. Based on my experience as well
16 as the issues discussed above from the foundations and substructures contracts, I believed
17 that only smaller or medium-sized contractors would be interested in pursuing work in
18 these amounts. As a result, I believed that KCP&L could experience the same lack of
19 response to the other Balance of Plant packages that it received for foundations and
20 substructures. Company witness Brent Davis testifies to his concerns regarding the
21 potential for lack of competition for future Balance of Plant awards on a multi-prime
22 basis.

1 **Q. What other reasons made Kiewit’s proposal for the remaining Balance of Plant**
2 **work an attractive option to KCP&L?**

3 A. KCP&L had just completed its Control Budget Estimate (“CBE”) and presented it to the
4 Board of Directors. Company witness Brent Davis testifies that KCP&L knew at that
5 time that the Balance of Plant work was the biggest risk on the Project. Even if KCP&L
6 decided not to pursue a contractual relationship with Kiewit for the Balance of Plant
7 work, it would nonetheless be useful to have a contractor of such stature perform a
8 thorough estimate of the work that was anticipated at that time as a back-check on
9 KCP&L’s CBE for the Balance of Plant work. As Company witnesses Daniel Meyer and
10 Brent Davis testify, the Kiewit estimate was vetted over the course of five months.

11 **Q. What was the contracting methodology utilized for the Kiewit contract?**

12 A. As I testified in the 246 Docket:

13 “A. The contract with Kiewit is essentially a unit-priced construction
14 services contract. The former Executive Vice President of Supply
15 identified a goal of getting Kiewit to assume some level of risk in
16 the contract. In addition, due to the timing of the contract, it was
17 not practical for the parties to entertain a fixed-price contract
18 because engineering was approximately 15-20% complete for the
19 remaining balance of plant scope and the risk band around a fixed-
20 price proposal from Kiewit would have been very large.
21 Therefore, for a specific defined scope of work identified in the
22 contract, Kiewit accepted labor productivity risk and price
23 escalation on materials and subcontractors. For work that is

1 outside of the defined scope, or any compression of Kiewit's
2 schedule, KCP&L is at-risk for any additional costs.

3 **Q. In what circumstances could the contract price for the Kiewit**
4 **Contract increase?**

5 A. When the Kiewit Contract was originally signed, KCP&L
6 anticipated that contract price would increase under certain
7 circumstances. Two of these circumstances included (1) increases
8 in quantities from the base estimate (this was likely due to the fact
9 that engineering was only 15-20% complete at the time of the
10 estimate); and (2) changes to the schedule. With respect to
11 quantities, the vetting of Kiewit's estimate that occurred between
12 June and September of 2007 was an attempt to bound the
13 quantities and understand the underlying methodology Kiewit used
14 for establishing its price. Regarding the schedule, Kiewit's bid
15 price was based upon a schedule which it presented with its
16 proposal on April 13, 2007. KCP&L knew that Kiewit's activities
17 would have to be integrated with the rest of the Iatan Unit 1 and
18 Unit 2 baseline schedule."

19 (Schedule SJ2010-1 at pp. 19-20).

20 **Q. Is that testimony remain accurate today?**

21 A. Yes.

22 **Q. Have you documented the process of justifying the sole source award and**
23 **negotiating and vetting the Kiewit Contract?**

1 A. Yes. Under my direction, KCP&L's site procurement team, with the help of Schiff
2 Hardin, drafted a Recommendation to Award Letter for the Balance of Plant contract.
3 (Attached as Schedule SJ2010-4). This document not only discusses the contract
4 negotiations, vetting of the scope and bid price, but also evaluates risks mitigated by
5 having a single general contractor for the Balance of Plant work rather than several
6 smaller ones.

7 **Q. What risks did KCP&L assume as part of contracting with Kiewit?**

8 A. KCP&L was at risk for changes to the contract's price as design matured. In addition,
9 Kiewit was not willing to undertake pricing risk for certain materials and labor escalation.
10 However, I agree with the testimony of Company witness Brent Davis that the result of
11 these risks would have been borne by KCP&L regardless of which contractor ultimately
12 performed the work.

13 **Q. Do you believe changing the multi-prime strategy and sole-sourcing the Balance of**
14 **Plant work to Kiewit was an appropriate commercial decision?**

15 A. Yes. During the prior year, KCP&L's management had asked for and received opinions
16 from a number of different sources including Burns & McDonnell, Schiff Hardin, Black
17 & Veatch and members of our own KCP&L project team. In addition, the process of
18 developing the initial Control Budget Estimate in December 2006 highlighted the issues
19 KCP&L faced that are inherent in the multi-prime method for Balance of Plant work.
20 KCP&L's management evaluated all of the Balance of Plant options available at the time.
21 It carefully weighed the risks of each option, and determined that the benefits of
22 contracting with Kiewit outweighed the risks of having to manage an additional 6 to 13
23 more contractors on the Iatan Project.

1 **Q. Have you had experience where late delivery of equipment or materials caused**
2 **delays and increased costs to a project?**

3 A. Yes. Based upon my experience, this is a fairly common occurrence on large complex
4 utility construction projects. In such cases, owners can become subject to large delay
5 claims by the contractors.

6 **Q. Did the circumstances you describe occur on the Iatan Unit 2 Project?**

7 A. No. All of the major equipment for the Iatan Unit 2 Project was delivered in time to
8 support the construction schedule.

9 **Q. At the time you left the position of Director of CEP Procurement, what percentage**
10 **of Iatan Unit 2 had been procured?**

11 A. Approximately 98 percent.

12 **Q. Does that conclude your testimony?**

13 A. Yes, it does.

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

2 A: My name is Steven Jones. My business address is Iatan 2 Station, 20256 Hwy 45 North
3 Weston, Missouri 64098.

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

5 A: I am an independent contractor currently working for Kansas City Power & Light
6 Company (“KCP&L” or the “Company”) as Senior Procurement Director.

7 **Q: What are your responsibilities?**

8 A: I am responsible for all procurement activities for the Comprehensive Energy Plan
9 (“CEP”) for KCP&L. My focus has been primarily on Iatan for the last two years. At

1 Iatan, I am also responsible for the commercial management of all contracts and contract
2 administration, as well as material management and distribution.

3 **Q: How long have you been in this position?**

4 A: Since March 16, 2006.

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

6 A: I have a BA in management from Aurora University. In 1998 I received certification as a
7 Supply Chain Professional from APICS, the Association for Operations Management. I
8 began my employment with Commonwealth Edison Company in Chicago, Illinois, in
9 June of 1976. I worked my way through the different ranks of the organization, including
10 operations, maintenance, technical services and engineering, construction procurement,
11 and I ultimately left Commonwealth Edison (“ComEd”) in 2001 as the Vice President of
12 Supply. From 2002 until 2005, I took a position at Ontario Power Generation (“OPG”) to
13 redesign its supply chain for its fossil operations. I spent my first 18 months at OPG
14 redesigning the fossil operations supply chain for its construction activities. I then moved
15 to the position as the Vice President of Supply for the construction activities for the
16 nuclear program, specifically focusing on the Pickering A return to service. I left OPG in
17 the fall of 2005. I took my current position at KCP&L in the spring of 2006.

18 **Q: Have you ever testified before in the Kansas Corporation Commission (“KCC”) or**
19 **before any other utility regulatory agency?**

20 A: I have not testified in a proceeding before the KCC. I testified in 1999 before the Illinois
21 Commerce Commission on behalf of ComEd with respect to the merger of PECO Energy
22 Company and Unicom (who owned ComEd) and creation of Exelon. I also testified
23 before the Illinois Commerce Commission regarding a retrofit program around 1990.

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

2 A: The first purpose of my testimony is to address assertions made by Staff witness
3 Mr. Walter P. Drabinski regarding KCP&L's management of the Iatan construction
4 project. I will discuss: 1) the processes and procedures that I helped to develop to ensure
5 timely procurement of major equipment and contractor services and resolution of
6 contractor claims; 2) the Kiewit Contract and subsequent Target Price Contract
7 Amendment; and 3) KCP&L's settlement with ALSTOM concerning the economizer
8 delay. I will also address issues raised in the testimony of Staff witness Laura Bowman
9 regarding the change in the amount of common costs included in this case; costs which
10 were previously anticipated to be included in the fourth and final CEP rate case where the
11 costs for construction of Iatan Unit 2 will be addressed. Specifically, I will provide a
12 detailed explanation of how KCP&L derived the costs of the Common Facilities of the
13 Iatan Project including: (1) the definition of Common Facilities and description of the
14 component costs and (2) an explanation of the methodology and process that KCP&L
15 used to create the estimated value of the Common Facilities. Company witness John
16 Weisensee will address the change to the amount of the Common Facility costs included
17 within the rate case.

18 **PROCUREMENT PROCESSES AND PROCEDURES**

19 **Q: What is the Cost Control System applicable to CEP projects?**

20 A: The CEP Cost Control System is a document that outlines the governance considerations,
21 management procedures and cost control protocols that govern the CEP projects. A copy
22 is attached as Schedule SJ-1.

1 **Q: Were you involved in developing some of the procedures and protocols included in**
2 **the Cost Control System?**

3 A: Yes.

4 **Q: Which ones?**

5 A: The Procurement Plan, including the vendor evaluation criteria and selection process, and
6 change order management.

7 **Q: And how has the Cost Control System helped KCP&L manage the Iatan Project?**

8 A: The Cost Control System helps KCP&L manage the CEP projects, including the Iatan
9 Unit 1 project, by establishing processes for tracking schedule, costs and cash flow and
10 the development of information that can help to predict future cost and schedule issues.
11 For example, the Change Management system is identifies the various changes that occur
12 on the Project. Not only does this help to track increased costs, but it also focuses on
13 documenting the changes and providing the context and reasons for such changes during
14 the life cycle of the Project. Over time, these changes can establish trends for increased
15 costs that may be able to either predict future costs or allow the owner to institute
16 measures that can mitigate adverse trends.

17 **Q: Do you believe the procedures discussed in the Cost Control System were adequate**
18 **for the Iatan Unit 1 Project?**

19 A: Based upon my experience, the cost control measures in the Cost Control System
20 provided all of the measures necessary to run a project of this size.

21 **Q: What is the Procurement Plan?**

22 A: The Procurement Plan identifies what, when and how goods and services are purchased
23 from external suppliers. It is a means of identifying an acceptable pool of bidders, the

1 sequencing of all of the procurements, and making sure the procurement team is
2 accountable to the schedule for each procurement. These accountabilities include the
3 development of the technical specification, the evaluation of the bids and the contract
4 negotiation. The Procurement Plan is then integrated into the master schedule and is
5 intended to support critical engineering and construction milestones.

6 **Q: When you were hired by KCP&L, did you develop a Procurement Plan for the**
7 **Iatan Project as discussed in the Cost Control System?**

8 A: When I arrived in the Spring of 2006, I reviewed the procurement schedule that had been
9 developed by Burns & McDonnell. Burns & McDonnell had developed a preliminary
10 schedule based on information it received from ALSTOM in February of 2006. This
11 information allowed Burns & McDonnell to sequence the procurements in order to
12 support the Project's execution. However, it was obvious to me that Burns & McDonnell
13 had not been as aggressive as it could have been with respect to the timing and
14 sequencing of the procurements. Furthermore, I had some concerns about the schedule's
15 ability to support the balance of plant activities. In my experience, engineers are inclined
16 to dedicate more time in the schedule to complete the technical specifications, which
17 often results in less time for procurement and construction. I modified Burns &
18 McDonnell's schedule, and with the assistance of Jim Wilson of Schiff Hardin,
19 developed the final schedule of procurements. This revised schedule reallocated the
20 engineering and procurement activity durations and deadlines to strengthen KCP&L's
21 ability to manage the engineering and procurement for the project. We published the
22 procurement schedule in September of 2006.

23 **Q: What was the scheduled duration of each procurement?**

1 A: The procurement schedule was based upon what I call a “T-45 Schedule.” A
2 T-45 Schedule allows for the procurement process to be planned and sequenced in a way
3 so as to go from the issuance of the Request for Proposals to a negotiated contract within
4 45 days on average. We recognize that different procurements have different levels of
5 complexity that would require the procurement schedule to lengthen or shorten
6 depending on the type of equipment, amount of work to prepare and/or evaluate the bid,
7 etc., but the average procurement should be able to be completed in 45-50 days.

8 **Q: What are the series of events within your 45-day schedule?**

9 A: The development of the Request for Proposals (including the technical specifications,
10 instructions to bidders and contract, collectively, the “RFP”), the bid period, bid
11 evaluation, and negotiation of the contract and technical specifications.

12 **Q: What was Burns & McDonnell’s response when you rolled out your T-45 Schedule
13 Procurement Plan?**

14 A: Burns & McDonnell’s initial response was that it was too aggressive for it to support.
15 However, KCP&L’s project leadership team recognized the need to aggressively pursue
16 the procurement of engineered equipment and materials that were being impacted by the
17 marketplace, as well as advancing the front-end engineering work. Therefore, it was
18 made very clear to Burns & McDonnell that KCP&L expected it to support the
19 procurement schedule. The project team recognized the importance of completing
20 engineering on time. Burns & McDonnell ultimately was able to support KCP&L’s
21 ability to get completed, conformed contracts with contractors with no impact to the
22 construction schedule.

23 **Q: How was the Procurement Plan managed?**

1 A: The procurement schedule was managed on a daily basis and reported on a weekly basis.
2 The buyers, the legal representatives, and the engineers met weekly at Burns &
3 McDonnell's offices to discuss the status of each procurement. If certain activities were
4 at risk of not being completed on time, the Project's master schedule was consulted to
5 make sure that all critical dates were met. If an issue arose that would require an
6 adjustment to the T-45 Schedule Procurement Plan to be made on any given procurement,
7 the risk associated with extending the schedule would be evaluated, including the
8 potential impact to construction, additional costs, whether the prospective vendors
9 required more time to bid, and a number of other factors would be taken into
10 consideration. KCP&L would then make a determination whether a change to the
11 Procurement Plan would adversely impact the schedule. We also had on-going
12 conversations with the bidders to make sure that if the procurement schedule was
13 extended, especially during the bid evaluation and contract negotiation phase, the
14 milestone dates that support the construction schedule could be maintained. If a bidder
15 indicated that it could not hold the dates, we discussed internally what mitigation efforts
16 we could employ. Sometimes this meant issuing a limited notice to proceed to the
17 contractor. This would allow the contractor to begin its work (i.e., submit structural load
18 information to Burns & McDonnell to allow it to design foundations) while the final
19 contract documents were being prepared.

20 **Q: Do you believe that the Procurement Plan was successful?**

21 A: Yes. The Procurement Plan allowed KCP&L to timely procure all of the necessary
22 equipment and materials to support construction. In addition, the Procurement Plan

1 allowed for us to properly assess the marketplace for materials and services that were
2 scarce, and thus were considered long-lead items.

3 **Q: Can you provide an example of the Procurement Plan's success?**

4 A: I knew that we needed to pull up the procurement of the chimney and everything
5 necessary to support the chimney's construction. This included the foundation and
6 underground work, site preparation, geotechnical support and testing services. Not only
7 was the market for chimneys tight, but the construction of the chimney itself could
8 potentially impact the schedule. This is because during the construction of a chimney, for
9 safety purposes, there is an "exclusion zone" of approximately 100 feet around the
10 chimney where no construction activities can take place for a period of time. Therefore,
11 it was important to have the chimney completed as early as possible so that other
12 construction that may need to occur within the exclusion zone would not be impacted.

13 **Q: What did you know about market conditions related to the chimney in 2006?**

14 A: In 2006 the market conditions for the chimney were very tight.

15 **Q: What do you think would have happened if KCP&L had not moved up the
16 procurement of the chimney in the schedule?**

17 A: The construction schedule would have been negatively impacted. Instead, we were able
18 to procure a chimney that supported the construction schedule. The Procurement Plan
19 allowed us to identify the need to procure the chimney and to easily move it up in the
20 schedule along with all of the supporting procurements.

21 **Q: As a part of your Procurement Plan, have you put into place a standardized process
22 for contractor evaluation and selection?**

1 A: Yes. Once KCP&L receives the proposals from the bidders, the buyer prepares unpriced
2 copies of the proposal that go to the technical evaluating team, whether that would be
3 engineering, construction, or the owner's engineer. That unpriced copy is then reviewed
4 to determine if the bid is compliant with the technical requirements of the RFP and
5 technical specification, including whatever drawings, prototypes, or samples that may
6 have been submitted and, if applicable, ensure compliance to the applicable codes and
7 standards. The commercial team also reviews the proposal to see what exceptions the
8 bidders have taken from KCP&L's terms and conditions, if any, and to determine the risk
9 around any of those exceptions. The commercial team then develops a negotiation
10 strategy around those exceptions. Some bidders may be commercially disqualified.
11 KCP&L considers some commercial exceptions taken by bidders to be "deal-breakers"
12 whereby the bidder wants to shift too much risk to KCP&L. Finally, of the technically
13 and commercially acceptable bidders, KCP&L will perform an evaluation of the price,
14 finally choosing the best option.

15 **Q: You have referenced the commercial team. Can you describe who is a part of the**
16 **commercial team for procurement purposes?**

17 A: The commercial team is comprised of members of procurement, the KCP&L legal
18 department, as well as outside legal consulting from Schiff Hardin. As a group, we
19 review every commercial document that is put in front of us by any contractor during the
20 bid process and throughout the course of each contract's execution. The commercial
21 team's review includes all notices and notifications under the contract, requests for
22 change orders and change management, as well as any claims or disputes that may arise
23 after the contract is awarded.

1 **Q: How is the bid evaluation process documented?**

2 A: The Procurement Plan requires that the evaluation team prepare a comprehensive
3 Recommendation To Award (“RTA”) letter. The RTA letter describes the process that
4 was used to evaluate the bidders and the justification behind the award of the contract to a
5 particular contractor. A copy of the RTA Procedure is attached to my testimony as
6 Schedule SJ-2.

7 **Q: What terms and conditions are used for the procurements for the Iatan Project?**

8 A: KCP&L has developed a set of Terms and Conditions specifically for the CEP projects.
9 Utilization of these Terms and Conditions allows KCP&L to streamline the procurement
10 process and the ability to more easily manage and administer the contracts for the Project.
11 The Terms and Conditions serve as the foundation of the contract documents for each
12 procurement and contain appropriate controls for mitigating risk to KCP&L.

13 **Q: How do the Terms and Conditions allow KCP&L to manage and administer the
14 contracts on the CEP projects?**

15 A: The language used in each contract is the same, so that the individuals who have to
16 manage the contractors to their contracts are aware of the intent and interpretation of a
17 particular provision. Also, due to the fact that all of the contracts are organized in the
18 same manner, the requirements for invoicing, payment, schedule, milestones, and change
19 orders are easily located.

20 **Q: What happens if a bidder submits its own terms and conditions as a part of its bid,
21 rather than taking exceptions to KCP&L’s Terms and Conditions provided with the
22 RFP?**

1 A: That contractor is deemed to be “commercially non-compliant.” We will contact that
2 contractor and request that it submit its exceptions to KCP&L’s Terms and Conditions.
3 In doing so, we ensure that KCP&L’s risk on the CEP projects is properly mitigated.

4 **Q: Have you developed a claims management procedure?**

5 A: Yes.

6 **Q: Please describe the claims management process.**

7 A: Our claims management procedure is a two-part process. When a change to a
8 contractor’s contract has been identified by 1) KCP&L; 2) an authorized representative of
9 KCP&L; or 3) the contractor, a change notice is created. That change notice describes
10 the nature of the change and the reason for the change. The change notice is reviewed by
11 the contract managers to determine if the nature of the change is an “extra”. If it is a
12 change “extra”, then the change order process is initiated. Once a change order is created
13 from the change notice, it is reviewed by the contract manager. It then is routed from the
14 contract manager to estimating for an analysis on the proposal to ensure that the amount
15 is not excessive. The contractor then reviews the change order for accuracy. If the
16 contractor agrees, its authorized agent signs the change order. The change order is then
17 routed through KCP&L for review and execution, first to the KCP&L contract manager,
18 then to the Project Director, and finally to the Vice President of Construction.

19 **Q: Is the reason for the change documented?**

20 A: Yes. A narrative of the reasons for each change order is required as part of the
21 documentation for each change order. Additionally, supplemental justification has been
22 written for all change orders in excess of \$50,000.

1 **Q: What other processes and/or procedures have you put in place for the CEP**
2 **projects?**

3 A: Additional procedures include the RTA and claims management procedures discussed
4 above, procurement procedures, and the Notice and Notification Procedure.

5 **Q: What is the Notice and Notification Procedure?**

6 A: The Notice and Notification Procedure requires that any commercial impact be
7 documented and registered through a notice from the contractor. A commercial impact is
8 any occurrence that may cause the contractor to claim either more time to the schedule or
9 more money. The Notice and Notification Procedure requires that the contractors send
10 all commercial notices to my attention in the procurement office. A notice may be an
11 actual change request, or may simply be a notification of an incident that has occurred but
12 the commercial impacts are not yet fully known. Under most of the contracts, however,
13 the contractor is required to notify KCP&L of any such event within fifteen (15) days of
14 its occurrence. The contractor then has an additional thirty (30) days to provide KCP&L
15 with the final cost or schedule impacts, if any. We have received approximately 1400
16 such notices over the course of the Iatan Project—approximately 850 from Kiewit and
17 500 from ALSTOM alone.

18 **Q: What does KCP&L do once it receives a notice from a contractor?**

19 A: The procurement office logs every notice that is received, and the contract managers,
20 with KCP&L's legal department, determine whether a response is necessary. Responses
21 to contractor notices are then drafted, reviewed by the contract manager and legal and
22 then logged prior to sending. If a contractor sends a letter stating that it believes that it
23 has been delayed by KCP&L, we log that letter, review it, analyze it against the contract

1 requirements, and then we respond to that letter in kind with a letter transmittal back to
2 the contractor as to our position. For claims related to delays or compression, we
3 perform our own schedule analysis. If we agree with the contractor's position, we may
4 write a letter noting that we agree and that we are creating a change order, or we may
5 simply issue the change order. If we disagree, we issue a letter stating the reasons why
6 the claim is being rejected.

7 **Q: Have there been instances where the contractors have not followed the Notice and**
8 **Notification Procedure?**

9 A: Yes. For example, contractors have sent claim letters to the engineers rather than to the
10 procurement office.

11 **Q: And what happened in those instances?**

12 A: The engineer typically sends procurement a copy of the letter so it can be logged into the
13 process. Any time procurement has determined that a contractor has not followed the
14 Notice and Notification Procedure, we notify the contractor that it has not followed the
15 proper procedures. We also remind the contractor that any commercial claim is not valid
16 unless the proper submission procedures are followed.

17 **Q: And what are the benefits of having the Notice and Notification Procedure?**

18 A: The benefits are the ability to document and track open issues with contractors. This
19 leads to quicker resolutions of disputes, and makes it less likely that a contractor will
20 submit a large claim at the end of the project that is a surprise to everyone. In my
21 experience, contractors will usually try to wait until their work is done before making a
22 claim because it is harder for the owner to properly evaluate and respond to such claims.
23 By forcing the contractors to submit their claims during the course of the project,

1 KCP&L is rigorously enforcing its rights under the contracts. This also allows
2 commercial disputes to be resolved quickly, before they can interfere with the
3 contractor's performance of its work.

4 **Q: Have you ever been involved in a project where the owner did not require the**
5 **contractors to comply with a similar notice procedure?**

6 A: I have, yes.

7 **Q: And what typically happened?**

8 A: Generally speaking, projects that do not have a robust notice process and/or change
9 management process will not be on time and will run over budget.

10 **Q: Why?**

11 A: Issues are not timely identified or discussed at the management level so that issues are
12 not resolved in the most cost effective and efficient manner. Also, there is no
13 accountability on the owner's side for changes that are being made out in the field to the
14 contractor's contract.

15 **Q: Have you had turn-over at the manager level in your department?**

16 A: I have had some turn-over, but the contract managers for both ALSTOM and Kiewit have
17 remained the same. I would like to point out, however, that the procedures I have put
18 into place make it possible to have consistent contract management and administration
19 regardless of the individual in that position. As long as the procedures are followed, it is
20 possible for individuals to leave the Project without any disruption to the Project itself.

21 **Q: What is Skire?**

22 A: Skire as a company that provides a software tool that allows you to perform integrated
23 project management. The software that Skire produces links portfolio management,

1 project controls, and other processes so that the costs associated with a project are tracked
2 back to the cost portfolio, whether the costs are from change orders, purchase orders, or
3 any other vehicle for developing costs. KCP&L refers to the software itself as "Skire."

4 **Q: How is Skire being used on the Iatan Project?**

5 A: The decision to install Skire was made in the summer of 2007. We began deployment in
6 the fall of 2007, and for Iatan we started with the change management process. We have
7 also begun the deployment of the cost portfolio, which went online in January of 2009.
8 Now that the cost portfolio is in Skire, change management and purchase orders now tie
9 back to the cost portfolio.

10 **Q: Is a program like Skire required to have a successful project?**

11 A: It is not required to have a successful project, but it does make some of the project
12 management functions for the project less labor intensive because they no longer have to
13 be developed or tracked manually.

14 **CONTRACT ADMINISTRATION**

15 **Q: How does KCP&L administer all of the contracts in place for the Iatan Project?**

16 A: There are two sides of contract administration. There is what I call the back office
17 contract administration, which is managing the contractor of any good or service to their
18 contract obligations. This includes making sure that the contractor meets required
19 payment milestones or submits lien waivers and other appropriate paperwork prior to
20 payment of an invoice, that all required insurance is in place, and that all change orders
21 are processed and executed. The other side is the field contract administration to verify
22 that the contractor is providing the contracted scope of work and performing according to
23 the terms of the contract out in the field. These two functions occur simultaneously, but

1 should be coordinated to ensure full compliance by the contractor to the terms of its
2 contract.

3 **Q: Do you manage all of contract administration?**

4 A: I do.

5 **BURNS & MCDONNELL ENGINEERING**

6 **Q: Are you familiar with the Burns & McDonnell contract in your capacity as the**
7 **Senior Procurement Director for the CEP Projects?**

8 A: Yes.

9 **Q: When was it executed?**

10 A: The contract between KCP&L and Burns & McDonnell that is specific for the Iatan
11 Project (the "Iatan Contract") became effective as of January 1, 2007.

12 **Q: Had Burns & McDonnell started to work on the Iatan Project before the Iatan**
13 **Contract was executed?**

14 A: Yes, they had, under a general services contract that had been put in place prior to my
15 arrival at KCP&L.

16 **Q: When did Burns & McDonnell begin work on the Project?**

17 A: It is my understanding that Burns & McDonnell began work on the Project in 2004, when
18 KCP&L asked it to develop a Project Definition Report for the Iatan Project. Sometime
19 in November of 2005, Burns & McDonnell was engaged to be the Owner's Engineer on
20 the Project.

21 **Q: What services did Burns & McDonnell provide from November 2005 until the end**
22 **of 2006?**

1 A: By the end of 2006, Burns & McDonnell had provided technical specifications and bid
2 evaluations to support the completion of twenty-four (24) contracts with a combined
3 value of \$956.8 million. Approximately 30 additional procurements were close to RFP
4 (meaning the technical specifications were either complete or almost complete) or within
5 the bid, bid evaluation or negotiation phases with probably a dozen or so other technical
6 specifications in house at Burns & McDonnell that were still in the early stages of
7 development. The portion of Burns & McDonnell's December 2006 status report that
8 pertains to engineering and procurement activities is attached as Schedule SJ-3.

9 **Q: Do you believe that there was any impact to Burns & McDonnell's work due to the**
10 **fact that they did not have an executed contract?**

11 A: I do not.

12 **Q; Was any engineering slowed because of the lack of an executed Iatan Contract?**

13 A: No. In fact, by the time Kiewit entered the picture in 2007, it was possible for Kiewit to
14 commit to the Project's schedule due to the fact that all long lead-time equipment for the
15 balance of plant had already been purchased.

16 **THE BALANCE OF PLANT CONTRACT**

17 **Q: What work does the balance of plant contractor perform on the Iatan Project?**

18 A: In essence, it encompasses work outside of ALSTOM's contract for the Iatan Unit 2
19 boiler and Iatan Unit 1 and 2 Air Quality Control System ("AQCS"). The balance of
20 plant scope would include, but not be limited to: the erection of the turbine generator
21 building, the erection of equipment within that building including the turbine generator
22 itself and the condensers, electrical wiring of all devices, foundations and substructures
23 under all major equipment, the erection of the cooling tower for Iatan Unit 2, the erection

1 of the multiple tanks and water treatment facility that would be common to both Iatan
2 Unit 1 and Iatan Unit 2, and the Zero Liquid Discharge or ZLD building. Balance of
3 plant contractors in the power utility industry are often also referred to as “general
4 contractors.”

5 **Q: What did the marketplace look like for balance of plant contractors in the spring of**
6 **2006?**

7 A: In the spring of 2006, I did some market research with respect to potential balance of
8 plant contractors. The goal was to determine whether any of the major contractors in the
9 country, specifically Kiewit, Washington Group, Fluor Daniels, Bechtel and others would
10 be interested in performing the balance of plant work for the Iatan Project.

11 **Q: What did you discover?**

12 A: At that time in 2006, the contractors who possessed the capability of performing this
13 work had very little interest or capacity to do the remaining balance of plant work for the
14 Iatan Project, especially on a fixed-price basis. The contractors were only bidding work
15 at that time on a fixed-price basis in select circumstances (i.e. when part of an
16 engineering-procurement-construct (“EPC”) contract). I surveyed the market by calling a
17 number of large general contractor firms that had the capacity to perform this work.
18 Washington Group was not interested in the Project in any respect due to its
19 concentration on other markets and backlog of work. Fluor was similarly lukewarm, but
20 was willing to consider the Project, though only on a time and materials basis. Bechtel
21 was not interested in the Project due to its extensive backlog of work and the Iatan
22 Project’s schedule. Kiewit made a presentation to the KCP&L procurement and
23 construction teams in the Spring of 2006, emphasizing that it had a very narrow window

1 to commit to the Iatan Project, and was not interested in doing the work on a fixed-price
2 basis.

3 **Q: What was the contracting methodology utilized for the Kiewit contract?**

4 A: The contract with Kiewit is essentially a unit-priced construction services contract. The
5 former Executive Vice President of Supply identified a goal of getting Kiewit to assume
6 some level of risk in the contract. In addition, due to the timing of the contract, it was not
7 practical for the parties to entertain a fixed-price contract because engineering was
8 approximately 15-20% complete for the remaining balance of plant scope and the risk
9 band around a fixed-price proposal from Kiewit would have been very large. Therefore,
10 for a specific defined scope of work identified in the contract, Kiewit accepted labor
11 productivity risk and price escalation on materials and subcontractors. For work that is
12 outside of the defined scope, or any compression of Kiewit's schedule, KCP&L is at-risk
13 for any additional costs.

14 **Q: In what circumstances could the contract price for the Kiewit Contract increase?**

15 A: When the Kiewit Contract was originally signed, KCP&L anticipated that contract price
16 would increase under certain circumstances. Two of these circumstances included
17 (1) increases in quantities from the base estimate (this was likely due to the fact that
18 engineering was only 15-20% complete at the time of the estimate); and (2) changes to
19 the schedule. With respect to quantities, the vetting of Kiewit's estimate that occurred
20 between June and September of 2007 was an attempt to bound the quantities and
21 understand the underlying methodology Kiewit used for establishing its price. Regarding
22 the schedule, Kiewit's bid price was based upon a schedule which it presented with its

1 proposal on April 13, 2007. KCP&L knew that Kiewit's activities would have to be
2 integrated with the rest of the Iatan Unit 1 and Unit 2 baseline schedule.

3 **Q: Was the Kiewit Contract ever modified?**

4 A: Throughout the course of Kiewit's performance, KCP&L and Kiewit have agreed upon
5 various change orders to the contract. These change orders have, for the most part,
6 modified Kiewit's scope of work under the contract, but did not change the methodology
7 of the contract itself. On December 6, 2008, KCP&L and Kiewit entered into a Contract
8 Amendment for the remainder of the Iatan Unit 1 electrical work. The main purpose of
9 the Contract Amendment was to integrate the Revised Iatan Unit 1 Schedule into
10 Kiewit's Contract, and for KCP&L and Kiewit to agree on the labor costs to install
11 quantities of electrical material that have been added to the Iatan Unit 1 Project scope.
12 Kiewit agreed that it would perform all electrical work for Unit 1 on a target price basis
13 of \$38 million. In addition to the target price, Kiewit and KCP&L agreed to share
14 savings (up to \$2.5 million) or share excess costs (up to \$2.5 million), as the case may be,
15 and to a procedure for validating Kiewit's hours. This opportunity to share savings
16 provides Kiewit an incentive to perform its electrical work as efficiently as possible for
17 which KCP&L can take partial advantage.

18 **ALSTOM SETTLEMENT FOR THE ECONOMIZER DELAY**

19 **Q: Are you familiar with the economizer cracking issue that is discussed by Company
20 Witness Brent Davis in his testimony?**

21 A: I am.

22 **Q: Do you agree with his assessment of the impacts to ALSTOM's completion of its
23 work on Unit 1 due to the latent condition found in the existing economizer?**

1 A: Yes. ALSTOM had work in the air heater inlet and outlet ducts and duct banks that were
2 tied to the economizer and just below the economizer. ** [REDACTED]

3 [REDACTED]
4 [REDACTED]**.

5 **Q: In addition to an extension of time, did ALSTOM submit a claim based upon the
6 delay?**

7 A: Yes.

8 **Q: What was the amount of ALSTOM's claim?**

9 A: ** [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]**.

15 **Q: Did you review ALSTOM's claim?**

16 A: Yes. ** [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]**.

20 **Q: What information did ALSTOM provide to you to justify the amount of its claim?**

21 A: ** [REDACTED]
22 [REDACTED]
23 [REDACTED]

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]**

5 **Q: Based upon your review of ALSTOM's backup documentation do you agree with**
6 **the amount of its claim?**

7 A: **** [REDACTED]**.**

8 **Q: Based upon your review of ALSTOM's documentation, how much do you believe**
9 **ALSTOM was entitled to receive?**

10 A: **** [REDACTED]**
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]**.

VALUATION OF COMMON FACILITIES

16 **Q: What were some of the concerns raised by Staff witness Laura Bowman regarding**
17 **the costs related to common facilities included in the current rate case?**

18 A: Ms. Bowman notes that Staff received a revised valuation of common costs but was
19 unable to determine the cause for the increase in the amount of common facilities to be
20 included in this case. She also noted that the timing of the receipt of such information
21 compared to Staff deadlines for filing testimony did not allow Staff sufficient time for
22 review to be able to audit and verify how the costs were derived and how they tie to the
23 Unit 1 and Unit 2 Control Budgets.

1 **Q: What is the purpose of this portion of your testimony?**

2 A: To explain the facilities, equipment, and other construction costs that KCP&L included in
3 its estimated value of the Common Work. Later in my testimony I will explain the
4 process used to value the Common Facility assets and the relationship between the Unit 1
5 and Unit 2 Control Budgets and the Common Facility valuation.

6 **Q: How does KCP&L define “Common Work” as it relates to the Iatan Projects?**

7 A: The term “Common Work” is used to describe facilities, equipment, structures, and other
8 associated construction costs that are shared in some manner by both Iatan Unit 1 and
9 Iatan Unit 2. There are three categories of Common Work. The first category of
10 Common Work are those facilities or structures that will be shared by both Units. The
11 Iatan Project’s chimney is an example of this category. The chimney shell houses two
12 separate liners – one liner dedicated for Unit 1’s emissions and a separate liner for
13 Unit 2’s emissions. Even though the Iatan Unit 2 chimney liner will not be utilized until
14 2010, the entire chimney stack must be put into service in order to facilitate start-up and
15 operations of Iatan Unit 1 AQCS.

16 **Q: What is the second category of Common Work?**

17 A: The second category of Common Work is those facilities or structures that provide
18 operational redundancy. For example, portions of the reagent preparation building
19 utilized for preparation of limestone slurry are required for Iatan Unit 1 operations and
20 start-up, though ultimately will be utilized to process the slurry produced by both Units.
21 Equipment in this building that ultimately will service both Units is being put into service
22 with Unit 1 to provide redundancy in the event that the primary Unit 1 equipment is
23 unavailable.

1 **Q: What is the third category of Common Work?**

2 A: The third category of Common Work includes those facilities or structures consisting of a
3 structure that will ultimately house equipment used by both Units. The costs associated
4 with the recycle pump building construction are an example of this category. The
5 equipment contained within this building will be accounted for separately and within the
6 context of the costs of each Unit, though the Common Work in this category is the
7 building itself. The costs of the equipment within the building will be included in the
8 costs for the individual Unit for which the equipment functions.

9 **Q: What are the Common facilities for Iatan Unit 1 and Unit 2?**

10 A: KCP&L identified the following facilities as Common and included them in the estimate
11 of the Common Work:

- 12 1. Zero Liquid Discharge System (“ZLD”) including equipment, piping, foundations
13 and electrical construction contained within the building perimeter;
- 14 2. Water Treatment Facility including equipment, piping, foundations and electrical
15 construction contained within the building perimeter;
- 16 3. Ammonia Storage Facility including equipment, piping, foundations and electrical
17 construction contained within the building perimeter;
- 18 4. Limestone Handling Facility including equipment, piping, foundations and electrical
19 construction contained within the building perimeter;
- 20 5. Limestone Dewatering Facility including equipment, piping, foundations and
21 electrical construction contained within the building perimeter;
- 22 6. Vacuum Compressor Facility including equipment, piping, foundations and electrical
23 construction contained within the building perimeter;

- 1 7. Coal Handling Facility upgrades;
- 2 8. Transformers including equipment, foundations and electrical construction;
- 3 9. Chimney including equipment, foundations, continuous monitoring, elevator, and
- 4 electrical construction;
- 5 10. Landfill including earth moving, material, borrow and labor;
- 6 11. Site preparation;
- 7 12. Digital Control System;
- 8 13. Warehouse Building including equipment, foundations and electrical construction
- 9 contained within the building perimeter;
- 10 14. Fabrication Shop including equipment, foundations and electrical construction
- 11 contained within the building perimeter;
- 12 15. Oil Storage Facility including equipment, foundations and electrical construction
- 13 contained within the building perimeter;
- 14 16. Tank Farm including equipment, foundations and electrical construction contained
- 15 within the farm footprint; and
- 16 17. Fly Ash Silo;
- 17 18. Batch Plant;
- 18 19. Fire Protection;
- 19 20. Flue Gas De-sulfurization;
- 20 21. Railroad upgrades and bridges;
- 21 22. Security Building; and
- 22 23. Prorated portions of the Project's indirect costs including, but not limited to campus,
- 23 staffing, utility bills, site support services, etc.

1 **Q: Can you explain the methodology and process that KCP&L used to create the**
2 **estimated value of the Common Facilities?**

3 A: Yes. I will walk you through that process.

4 **Q: Are you familiar with the total estimated value of the common assets associated with**
5 **the Iatan Project?**

6 A: Yes. I was tasked with determining the value of the common assets.

7 **Q: Please describe the process that KCP&L used to create its estimate value of**
8 **Common Facilities.**

9 A: I compiled a team of people from various departments of the project team to identify the
10 common assets and to estimate their value, as described in the Iatan Construction Project
11 Common Systems Asset Valuation Purpose and Methodology document attached as
12 Schedule SJ-04.

13 The team first identified a definition for common assets as detailed above. To
14 explain the process that the team followed to estimate the value of the identified list of
15 assets, I first need to explain how the Common Work is included within the overall
16 budgets for the Project. The costs for the entire Iatan Project were broken into two
17 Control Budgets, one for the Iatan Unit 1 work and one for Iatan Unit 2. The costs of the
18 Common Work were included within these two budgets; the Common Work was not
19 segregated out into a separate budget. Currently available cost and accounting
20 information for the Project does not possess a mechanism to easily discern the costs of
21 the Common Work. The cost portfolio for the Iatan construction project has hundreds of
22 lines of data that correspond to the various contracts on the Project. The contracts
23 address scopes of work by system (i.e. mechanical or electrical) but do not contain a

1 breakdown of the costs by Unit 1, Unit 2, and Common Work. Accordingly, determining
2 the value of the Common Work is more complicated than the sum of various contracts.
3 Additionally, the majority of contracts were procured on a fixed-price basis and do not
4 contain detailed line-item cost breakdowns of the component pieces of the work.

5 The team built a cost estimate for each Common Asset outlined above and used
6 reasonable means and methods to determine the estimate of each Common Asset. The
7 team used all information available from a number of systems to build up the estimates in
8 order to provide the best available estimate for each given asset.

9 The team then developed a form that provides a description of the asset, its
10 proximity to the plant, its intended use and other factors from the project design manual,
11 cost portfolio and/or engineering drawings to value each asset. The team populated the
12 estimate section with the built up costs for each asset yielding the final value. Most
13 estimates include some or all of the following categories of estimated cost:

- 14 1. Engineering and design services;
- 15 2. Foundations required;
- 16 3. Pilings required;
- 17 4. Mechanical construction (installation) estimate;
- 18 5. Electrical construction (installation) estimate;
- 19 6. Primary mechanical equipment estimates;
- 20 7. Primary electrical equipment estimates;
- 21 8. Secondary equipment estimates (consumables);
- 22 9. Controls including systems and transmitters, etc.;
- 23 10. System finishing including painting, grouting, cleaning, etc.;

1 11. Maintenance equipment including in-service hoists, guardrails, coupling guards,
2 etc.; and

3 12. Heating, ventilation and air conditioning equipment.

4 **Q: Given the complexity of process for valuing the assets, are you confident in the**
5 **results of the process?**

6 A: Yes. Using the data listed above as a foundation for the estimate, and data assembled
7 from other systems, the team can reasonably assure the correct value of each common
8 asset was determined within an acceptable range. Additionally, once the team completed
9 its evaluation of the common assets, management reviewed each estimate with the team
10 and rationalized the cost build up for adherence to the methodology.

11 **Q: What is the total value of the estimated common assets?**

12 A: Approximately \$383 million. Attached as Schedule SJ-5 to my testimony is a summary
13 of the estimated value of each common asset.

14 **Q: Is your valuation process complete?**

15 A: As far as the determination of the value of the Common Facilities it is essentially
16 complete. However, my team is still performing the review to determine how much of
17 the Common Facilities cost resides within the Unit 1 AQC Control Budget and how much
18 resides within the Unit 2 Control Budget. With those results in hand, KCP&L will adjust
19 the estimate to ensure that there is no double counting of Common Assets within the
20 revenue request.

21 **Q: Are there other reasons why the figure will need to be updated before issuance of**
22 **the final order in this case?**

1 A: Yes. The Unit 1 AQC project Control Budget includes an amount for contingency as is
2 typical for any construction project. As the project draws to a close and costs become
3 known, remaining contingency will be removed from the estimate.

4 **Q: Does KCP&L expect that there will be contingency remaining at the end of the**
5 **Unit 1 project?**

6 A: Yes. Although we are not sure at this point in time what that remaining contingency
7 amount will be, we currently expect that there will be several million contingency dollars
8 removed from the estimate before the final order in this case.

9 **Q: This is an increase to the value of common assets originally included in KCP&L's**
10 **rate case. Is this an increase to the cost of the Iatan Project?**

11 A: No. As previously stated, the cost of the Iatan Project has not increased as a result of this
12 valuation of common assets. The value of the common assets was previously included as
13 part of the Control Budgets for Iatan Unit 1 AQC and for Iatan Unit 2. This valuation
14 process merely segregated the common asset value from the two Unit Control Budgets.
15 The total estimated cost of the Iatan Project remains the same as before, the costs are
16 merely separated into three categories now (Unit 1, Unit 2 and Common) rather than only
17 two.

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

19 A: Yes, it does.

20

SCHEDULES SJ-1 THROUGH SJ-5

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