



what impact would this have on the economic projection of total construction payroll costs?

Witness: Coomes

Response: Since I only have an estimate of the *average* full labor cost of \$51 per hour, I can make only a crude estimate of the impact on construction labor costs, using the data in the three-page "Contracting Strategy, 4.5 Labor Assessment" attachment from Burns and McDonnell. Looking over the twelve crafts, and considering those for which there is evidence of both union and non-union labor supply, I see that non-union workers are estimated to earn between 17 and 30 percent less per hour than union workers, depending on the craft. Applying this range to the estimated construction hours projected leads to a reduction in labor costs of between \$36 million and \$88 million.

2. Dr. Coomes assumes \$8.78 per hour for benefits. (Report, p. 2) The Burns & McDonald comparison chart (attached) indicates zero dollars in fringe benefits for non-union workers. If the contractor selected by LG&E follows the Burns & McDonald recommendation to build the plant on a merit basis, and selects a contractor that does not pay fringe benefits, what impact would that have on the total projected construction payroll?

Witness: Coomes

Response: The fringe benefits reported for union workers, as a percentage of hourly wages, vary dramatically by craft, from 25 percent (carpenters) to 53 percent (boilermakers). Or put another way, these fringes make up between 20 and 35 percent of the total wage rate reported by Burns and McDonnell. Using the range indicated as a crude measure of the possible impacts of eliminating fringe benefits on construction payroll leads to a reduction in labor costs of between \$57 million and \$101 million.

3. Does Dr. Coomes consider the term "benefits" to mean primarily health insurance and pension contributions? In Dr. Coomes' opinion, is the economic benefit of the projected construction payroll reduced significantly by the selection of a contractor that utilizes construction labor which excludes payment of fringe benefits of medical insurance and pension contributions?

Witness: Coomes

Response: Again, fringe benefits vary by occupation, and I only have an average labor cost across all occupations. The U.S. Bureau of Labor Statistics provides estimates for construction and other occupations (see [www.bls.gov/news.release/ecec.t11.htm](http://www.bls.gov/news.release/ecec.t11.htm)). Employer-provided health insurance benefits and pension plan contributions are typically the two biggest components of a benefit package (after FICA). Presumably, most workers hired by a contractor that excludes these fringe benefits would purchase health insurance and make pension contributions out of their household incomes. Nevertheless, construction labor costs for the Trimble project would certainly be lower if health and pension benefits were omitted.

4. The BBC Research and Consulting Report, *Review and Evaluation of Trimble County Unit 2 Site Assessment Report of April, 2005*, states, under *Supplemental Investigations and Interviews* (p. 30, 31):

LG&E indicated that construction workers during past construction projects at the site commuted from Louisville, LaGrange, Carrollton and Madison, Indiana. The study team learned more about the historical construction workers experience at the Trimble County site during its interview with LG&E officials on March 28. The most similar construction experience occurred during the 2000 to 2002 period when the SCR was built at the same time that a number of the combustion turbines were also under construction. A total of 900 construction workers were on-site at peak during that time. Workers performed 10 hour shifts, 6 days a week; approximately 30 % of the workers were existing residents of the Louisville- Cincinnati region. An estimated 70 % moved into the region for the duration of their activity at the project.

Dr. Coomes assumes that "Workers live and shop in the region in the same proportion as the average of all workers in the region." (Report, p. 2) If LG&E selects a contractor which employs 70% of its workforce from outside the region, what impact would this have on Dr. Coomes' calculations of total economic benefit related to the 97.8 million in construction payroll? Please provide alternate calculations of economic benefit based upon 70 % of payroll going to workers outside the region.

Witness: Coomes

Response: My estimates from May implicitly assume that the residential distribution of workers for construction is the same as for the Louisville economic region as a whole. The latest personal income data from the U.S. Bureau of Economic Analysis indicates that on net only 0.5 percent of labor and proprietor earnings in the Louisville Economic Area are paid to those living outside the Area. Similarly, commuting patterns data suggest that nearly all workers needed in the 25-county Louisville Economic Area reside in the area. These patterns may not be true, however, for highly skilled construction workers who move around the Midwest on major projects as they emerge.

There is no simple way in my methodology to modify the assumption of place of residence of construction workers. The economic multipliers used to estimate the spin-off activity are built on historical relationships between industries in the region. These naturally reflect averages. So, for example, a construction project with a certain number of jobs and payroll is predicted to

create spin-off jobs and payroll in the region, partly because of purchases from regional vendors to the construction project, but partly because a percentage of construction workers pay gets spent in the local economy on retail goods and services. It is this last portion that is of interest here. If most of the workers actually resided outside of the Louisville region, then we would expect them to spend more of their pay in their home communities. This would lower the true value of the economic multipliers for the construction job. However, given that the multipliers provided by the US Bureau of Economic Analysis are based on proprietary industry data available to the federal government (but not to me), I have no empirical basis for deciding how much to lower the multipliers.

Certainly, if 70 percent of the construction workforce resides outside the region, the regional economic impacts would be lower than if the entire workforce was local. Most nonresident construction workers would effectively send a portion of their wages and benefits to their home economy, where they are used to pay for a household. But they will also spend a portion of their construction earnings in the Louisville area economy, as they purchase temporary housing, food, gasoline, recreation, and other retail items. An investigation into the spending patterns of nonresident construction workers would be necessary to quantify the amount captured locally versus that captured in their home economies.

5. If 100% of the workers on the construction phase of the project were Kentucky residents, what would Dr. Coomes professional opinion be about whether the

positive economic benefits to the state would be significantly enhanced, as opposed to the assumption upon which his present calculations are founded?

Witness: Coomes

Response: My estimates from May implicitly assume that 14 percent of construction wages and salaries are paid to Indiana residents and 86 percent are paid to Kentucky residents (see the table on page 8 of my report). However, because most of the retail establishments in the Louisville Economic Area are located on the Kentucky side of the market, much of the income earned by Indiana workers ends up being captured in Kentucky. Thus, relative to my May analysis, requiring Kentucky residency for construction workers would increase the economic benefits to Kentucky by less than 14 percent. The effect would obviously be much greater if in fact the number of workers from outside the Louisville Economic Area and outside of Kentucky was large, as suggested by question #4. Currently though I have no empirical basis on which to construct an estimate of that scenario.

6. Is it the Applicants' position that it has no obligation to insure, through the contracting process, that the EPC contractor maximizes the use of workers from the local area, and minimizes the use of workers outside the local area in order to realize the economic benefits projected by Dr. Coomes?

Witness: Mayo

Response: The Applicants object to this request to the extent that it attempts to characterize what is or is not required of them by KRS Chapter 278. Without waiver of that objection, the Applicants state that they are not primarily responsible for contracting for the construction labor of Trimble County Unit 2. The Participation Agreement, executed by the Applicants and LG&E and KU gives LG&E and KU the authority to manage the construction of the project. See section 5.5, page 19 of the Participation Agreement, Exhibit A of the Application. Therefore, the Applicants cannot through the contracting process "insure" the use of labor from any particular area, local or non-local, or the realization of any potential economic benefits.

However, the Applicants understand from LG&E and KU that the RFP to the EPC contractors specifically provides that LG&E and KU want, wherever practical and appropriate, to promote the use of local services and employment of local labor during the construction process. The Applicants also understand from LG&E and KU that both of the short-listed EPC bidders for Trimble County Unit 2 have stated they would agree to contractual provisions that give priority to Trimble County residents for consideration of direct hire craft jobs for the construction of the facility. The Applicants further defer to the data responses filed in this matter by LG&E and KU regarding labor issues

7. In response to the IBEW Trades Council data request No.3, in the PSC case No. 2004- 00507, the Company stated:

Q-3 With reference to the Burns & McDonald report, Trimble County Unit 2 Project Approach, explain why the labor market analysis performed under Section 4.5 did not include review of labor and craft employee available from the Paducah, Owensboro, and Lexington, Kentucky areas?

\*\*\*

A-3 The bidders are being asked to assume the labor risk of the project through liquidated damages relative to performance, cost and schedule. The companies would not release any information of this nature to the bidders in order to protect the companies and their rate payers from assuming any of the labor risks associated with performance, cost and schedule listed in the RFP.

Based upon the position stated by LG&E in the above response, do the Applicants adopt and ratify the same position, before the Siting Board, that all issues involving construction labor utilization are to be left entirely to the contractor?

Witness: Mayo

Response: As stated above, the Applicants have contractually agreed that LG&E and KU are to administer the construction contracts. The Applicants reject the assertion (set forth in Intervenors' Question 7) that LG&E's "position" is that "all issues involving construction labor utilization are to be left entirely to the contractor." See the Response to Question No. 6 above.

8. With regard to question No.6, would the Applicants' response be the same if LG&E selects a contractor that utilizes 70% of the workforce from outside the local area?

Witness: Mayo



Response: The impact of that assumption is reflected in Response 4.

9. Will the Applicants include a requirement that the EPC for TC2 will utilize Kentucky employees exclusively unless it can certify that efforts to recruit and retain a sufficient labor force, including skilled crafts, have failed to staff the project according to the manpower needs and timetables specified? If the Applicants do oppose the imposition of such a criteria on the EPC, identify issues other than employee availability that form the basis for the Company's position.

Witness: Mayo

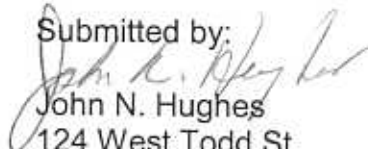
Response: The Applicants object to this request to the extent that it attempts to characterize what is or is not required by KRS Chapter 278. Without waiver of that objection, and as stated above, the Applicants cannot make a commitment on labor issues based on their Participation Agreement with LG&E and Kentucky Utilities Company. However, the Applicants will cooperate with those companies' efforts to utilize local labor and services. See the Response to Question No. 6 above.

10. Will the Applicants agree to impose a condition on the contractor of entering into a project labor agreement for the purpose of insuring that qualified Kentucky construction craft employees have first priority at construction jobs for TC2? If not, state the grounds for the Applicants' objection to entering into a PLA.

Witness: Mayo

Response: The Applicants object to this request to the extent that it attempts to characterize what is or is not required by KRS Chapter 278. Without waiver of that objection, and as stated above, the Applicants do not have the authority to make a commitment regarding labor force. However, they will cooperate with their co-participants, LG&E and KU, in their efforts to utilize local labor and services. See the Response to Question No. 6 above.

Submitted by:



John N. Hughes  
124 West Todd St.  
Frankfort, KY 40601  
502 227-7270  
[inhughes@fewpb.net](mailto:inhughes@fewpb.net)

Attorney for IMEA and IMPA

Certification:

A copy of this response has been filed electronically as required by Board regulations.

John N. Hughes