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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING

REBUTTAL TESTIMONY

OF

CHARLES R. HYNEMAN

KANSAS CITY POWER & LIGHT COMPANY
KCP&L GREATER MISSOURI OPERATIONS COMPANY

FILE NO. EO-2012-0135
FILE NO. EO-2012-0136

Jefferson City, Missouri
March 2013

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

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KANSAS CITY POWER & LIGHT COMPANY
KCP&L GREATER MISSOURI OPERATIONS COMPANY

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Q. Please state your name and business address.

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

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

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

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

A. I graduated from Indiana State University in 1985 with a Bachelor of Science degree in Accounting and Business Administration. I received a Master of Business Administration degree from the University of Missouri-Columbia in 1988. I am a Certified Public Accountant licensed in Missouri. From 1985 through 1992 I was an Officer in the United States Air Force in the fields of Missile Operations, Training and Government Contracting. I joined the Missouri Commission in1993.

Summary and Background

Q. What is the purpose of your rebuttal testimony?

A. The purpose of this testimony is to provide the Staff's position as it relates to the Federal Energy Regulatory Commission's ("FERC") incentive-based rate treatments for investment in electric transmission infrastructure ("transmission incentives"). In this

1 testimony I will describe the reasons for Staff's general opposition to Missouri electric
2 utilities passing on the additional cost and risk associated with these transmission incentives
3 to its ratepayers in Missouri jurisdictional retail rates.

4 File Nos. EA-2013-0098[1] and EO-2012-0367[2] respecting Transource Missouri and
5 the Iatan-Nashua and Sibley-Nebraska City 345-kV Transmission Projects are now pending
6 before the Commission. Staff has rebuttal testimony filed in those cases opposing the
7 granting of the authority being requested by the Applicants. I have rebuttal testimony filed in
8 those proceedings which I am adopting in these proceedings and which is Schedule 1 to this
9 rebuttal testimony in these proceedings. That rebuttal testimony is relevant to my rebuttal
10 testimony in these proceedings and Staff witness Michael L. Stahlman's recommendation in
11 his rebuttal testimony in these proceedings.

12 The cost of FERC transmission incentives have been and will continue to be charged
13 to Missouri ratepayers by other regional utility companies through the associated regional
14 transmission organization ("RTO"). Because of this fact Staff takes the position that
15 Missouri electric utilities must maximize the collection of transmission revenues (including
16 FERC transmission incentives applied to regionally-allocated transmission projects
17 constructed in whole or in part by Missouri utilities) from other RTO members and include
18 those revenues in cost of service as a partial offset to the rapidly increasing transmission
19 expense being passed through to ratepayers by Missouri electric utilities. The RTOs in
20 which Missouri electric utilities are members are the Southwest Power Pool ("SPP") and the

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[1] File No. EA-2013-0098 In the Matter of the Application of Transource Missouri, L.L.C. for a Certificate of Convenience and Necessity Authorizing it to Construct, Finance, Own, Operate, and Maintain the Iatan-Nashua and Sibley-Nebraska City Electric Transmission Projects

[2] File No. EO-2012-0367 In the Matter of the Application of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company for Approval to Transfer Certain Transmission Property to Transource Missouri, L.L.C. and for other Related Determinations

Midwest Independent Transmission System Operator, Inc. ("MISO"). It is only fair that ratepayers receive the available revenue requirement benefits of regional transmission projects since they are absorbing the costs of these projects.

From the Staff's perspective, in a perfect world transmission incentives would not exist. However, the reality is that they do exist and are being charged to Missouri ratepayers through transmission expense increases from FERC tariff charges from SPP and MISO utilities. The Staff's position as it relates to how a utility should approach the recognition of transmission revenues (including the impact of FERC transmission incentives) is very similar to how Missouri utilities treat off-system sales of energy. Missouri electric utilities should maximize off-system sales revenues and match these revenues against its ever-increasing cost of service expenses.

Q. What are FERC transmission rate incentives?

A. The term "FERC transmission incentives" refer to ratemaking mechanisms adopted by the FERC with the goal of encouraging investment in the nation's transmission infrastructure. These ratemaking mechanisms are significantly more costly to utility customers than traditionally-accepted ratemaking mechanisms adopted by both the FERC and the Missouri Commission. The FERC has created and adopted its specific set of transmission incentives because it believes they are necessary to achieve the desired improvements in the nation's electric transmission network. The specific transmission incentives adopted by the FERC have, not surprisingly, been supported by electric utilities whose shareholders will gain from the incentives (through increased profits and a shift in risk to ratepayers) and generally have not been supported by state public utility commissions,

1 entities that have a responsibility to also ensure utility customers are not burdened with
2 unnecessary cost increases.

3 These FERC transmission rate incentives can be classified as a) financial return or
4 "profit" enhancing incentives that increase the total cost of the transmission projects and
5 b) utility risk-reducing incentives, which, by nature, shift the risk traditionally born by
6 utilities in regard to construction projects to ratepayers. Neither Kansas City Power & Light
7 Company ("KCPL") nor KCP&L Greater Missouri Operations Company, Inc. ("GMO") has
8 filed with the FERC for authorization to charge any FERC Order No. 679 incentives for any
9 transmission customers, though their affiliate, Transource Missouri (an entity not regulated
10 by the Missouri Commission), has been awarded a number of transmission incentives.
11 In this testimony I will address the most commonly-awarded FERC transmission incentives
12 listed below:

13 **RETURN ENHANCING INCENTIVES**

14 1. 100 basis point addition to the utility's FERC authorized return on equity
15 ("ROE") designed to compensate utility shareholders for increased risk of the
16 transmission project,
17
18 2. 50 basis point addition to the utility's FERC authorized ROE solely for the
19 utility's membership in a RTO,
20
21 3. Use of hypothetical capital structures,
22

23 **RISK REDUCING INCENTIVES**

24 4. Addition of 100 percent of Construction Work in Progress ("CWIP") in
25 FERC rate base earning a financial return at the overall cost of capital
26 including the ROE added equity cost,
27
28 5. Abandoned Plant - recovery of 100 percent of prudently incurred costs of
29 transmission facilities that are abandoned for reasons beyond the applicant's
30 control,
31

> 6. Full recovery of pre-operations costs - accelerated recovery of construction costs normally charged to CWIP and recovery of non-construction expenses not normally specifically recovered in rates.

Q. Why is the FERC awarding transmission rate incentives?

A. In the Energy Policy Act of 2005 ("EPAct 2005"), Congress directed the FERC to provide for incentive rate treatments for transmission infrastructure investment. That legislation added a new section 219 to the Federal Power Act (FPA), which required the FERC to:

> establish, by rule, incentive-based (including performance-based) rate treatments for the transmission of electric energy in interstate commerce by public utilities for the purpose of benefiting consumers by ensuring reliability and reducing the cost of delivered power by reducing transmission congestion.[116 U.S.C. § 824s. Docket Nos. ER08-386-000 and ER08-386-001]

The FERC responded to this directive by Congress on July 20, 2006 when it issued Order No. 679, *Promoting Transmission Investment through Pricing Reform*, which was further refined in Order No. 679-A, and a subsequent order on rehearing, issued in December 2006, and April 2007, respectively. In this series of orders, the FERC stated that Section 219 reflects Congress' determination that the FERC's traditional ratemaking policies may not be sufficient to encourage new transmission infrastructure. Thus, the FERC identified instances where its policies may no longer have struck the appropriate balance in encouraging new investments and set forth several broad categories of incentive rate treatments.

In Order No. 679 the FERC adopted regulations to guide how it would review requests from public utilities for various kinds of transmission rate incentives. Order No. 679 allows utilities, on a case-by-case basis, to select and justify the package of incentives the

1 utility believes is needed to support new investment. FERC Order 679 became effective on
2 September 29, 2006.

3 On May 19, 2011, FERC issued a Notice of Inquiry ("NOI") in Docket No.
4 RM11-26-000 which opened an investigation into whether or not the incentives adopted in
5 Order No. 679 were meeting the intended goals. FERC's NOI invited input concerning the
6 scope and implementation of its transmission incentives regulations and policies consistent
7 with FERC Order 679. In the NOI, FERC noted that the investigation has been initiated to
8 ensure that its incentives, regulations, and polices are encouraging the development of
9 transmission infrastructure in a manner consistent with FPA Sections 205, 206, and 219.
10 FERC received over 1,500 pages of comments reflecting a wide range of perspectives and
11 opinions concerning the merits and reasonableness of the transmission incentives.

12 Q. Does the FERC have a stated goal of balancing the interests of utility
13 shareholders and utility ratepayers?

14 A. Yes. In its NOI, the FERC stated that is has longstanding recognition of
15 the need to balance consumer and investor interests. In the NOI the FERC referenced Order
16 No. 679, where it stated:

> 17 The incentives adopted by this Final Rule are properly understood only
> 18 in the context of the traditional regulatory principles they seek to
> 19 further. The longstanding rule is that utility rate regulation must
> 20 adequately balance both consumer and investor interests. It is not
> 21 enough to ensure investors are properly compensated, and it is not
> 22 enough to ensure that consumers are protected against excessive rates.
> 23 Our policies must ensure both outcomes and, in doing so, strike the
> 24 appropriate balance between these twin objectives. [Order No. 679,
> 25 FERC Stats. & Regs. ¶ 31,222 at P 21].

26 **<u>Incentive Returns on Equity (ROE)</u>**

27 Q. How does the FERC allow for an incentive ROE?

A. As noted in the NOI paragraph 30, under Order No. 679, the FERC allows for an incentive ROE based on an assessment of a transmission project's risks and challenges. This particular incentive ROE adder is normally in the amount of 100 basis points and is intended to make transmission investment more attractive where the risks of a particular project, according to FERC, exceed the normal risks undertaken by a utility. This 100 basis point ROE incentive is probably the most controversial incentive created by the FERC for transmission projects.

In addition to the ROE adder for project risks and challenges, Section 219(c) directs that the FERC "shall to the extent within its jurisdiction, provide for incentives to each transmission utility or electric utility that joins a Transmission Organization." To fulfill this requirement the FERC typically awards a 50 basis point ROE adder to utilities that either join or already are members of an RTO.

Hypothetical Capital Structure

Q. What is a hypothetical capital structure?

A. The term capital structure refers to the way a corporation finances its assets through some combination of equity, debt, or hybrid securities. In utility ratemaking the actual capital structure of the utility, if it is found reasonable, is used to calculate the overall rate of return that is applied to rate base. A hypothetical capital structure is any capital structure used for ratemaking purposes that is not the actual capital structure of the utility. A hypothetical capital structure is often used in situations where there is a determination that the actual capital structure of the utility is not appropriate to use to set utility rates.

In Order No. 679 the FERC offers the use of a hypothetical capital structure as a means to encourage investments in transmission projects. A concern with this transmission

incentive is that it allows an applicant to determine its overall rate of return for revenue requirement and ratemaking purposes based on a capital structure that is usually more heavily weighted towards equity financing as compared to its actual capital structure. The relatively higher cost of equity compared to the lower cost of debt and the heavier weighting of this equity allows additional revenue requirement above what the cost of capital would likely be if the company was capitalized consistent with the risk of the project.

The FERC has placed limitations on this incentive by requiring that the actual capital structure match the hypothetical capital structure at some point over time, such as when a transmission project commences operations. Unfortunately, even with this requirement the tendency of utility companies to create transmission subsidiaries may still result in a manipulation of the capital structure to achieve a higher than necessary revenue requirement.

<u>Construction Work In Progress ("CWIP") in Rate Base</u>

Q. What is CWIP?

A. CWIP can be defined as the cumulative cost of constructing a utility asset prior to that asset being completed and placed in service. The FERC's policy, set forth in Order No. 679, authorizes 100 percent of CWIP to be included in rate base prior to being completed and placed in service. The CWIP incentive is designed to provide utilities with additional cash flow in the form of an immediate earned return on construction costs.

As noted by the FERC at page 30, footnote 43 in its May 19, 2011, Notice of Inquiry ("NOI") in Docket No. RM11-26-000 *Promoting Transmission Investment Through Pricing Reform*, there are two mutually-exclusive ratemaking methodologies by which public utilities may recover a specific financial return (also referred to as "carrying charges") on utility plant construction costs (CWIP).

1 The first method is to accrue carrying charges on utility plant construction costs
2 (CWIP) during the construction period in the form of an allowance for funds used during
3 construction ("AFUDC"). The second method allows for the utility to earn a current return
4 on cumulative construction costs in customer rates by including CWIP in rate base during the
5 construction period. Including CWIP in rate base has the effect of treating cumulative
6 project construction costs (which are not fully operational and used for service), in an
7 identical manner as utility "plant in service", which is fully operational and used for service
8 to utility customers.

9 Under the AFUDC method, carrying charges are capitalized as a component of
10 construction and recovered from ratepayers when the completed construction project goes
11 into service. Under the CWIP in rate base method, carrying charges are recovered through its
12 return on rate base while construction is underway.

13 **Abandoned Plant**

14 Q. Please describe the Abandoned Plant incentive.

15 A. In Order No. 679 the FERC adopted incentives that are designed to reduce the
16 risks of new investment in transmission plant. This particular incentive provides that the
17 FERC will provide assurance of recovery of 100 percent of abandoned plant costs if the
18 project is abandoned for reasons outside of the control of the public utility.

19 The genesis of the FERC's abandoned plant policy can be found in
20 New England Power Co., FERC Opinion No. 295, 42 FERC ¶ 61,016 at 61,068; order on
21 reh'g, 43 FERC ¶ 61,285 (Opinion No. 295-A) in which the FERC stated that ratepayers and
22 shareholders should equally share the costs of prudently incurred investments in abandoned
23 or cancelled generation facilities. Originally it was FERC policy that 50 percent of the

prudently incurred abandoned plant costs would be amortized over the life of the plant as an expense, with the remaining 50 percent written off as a loss. This policy was later extended and made applicable to transmission projects [Public Service Company of New Mexico, 75 FERC ¶ 61,266, at 61,859 (1996) See Southern California Edison Co., Order On Petition For Declaratory Order, 112 FERC ¶ 61,014 (July 1, 2005); order denying reh'g, 113 FERC ¶ 1 61,143 (November 10, 2005).].

In *Southern California Edison Company* (SCE), 112 FERC ¶ 61,014, at 61,145 (2005) the FERC granted the recovery of 100 percent of the prudently incurred costs related to certain proposed transmission facilities in the event those facilities were later cancelled or abandoned. The FERC's determination in SCE served as the foundation for the abandoned plant policy articulated in Order No. 679.

Q. Has the Missouri Commission in the past supported the use of abandoned plant recovery as a transmission rate incentive?

A. Yes, with certain specific conditions. As will be discussed below in FERC docket No. RM11-26-000, the Missouri Commission has previously supported the SPP Regional State Committee ("RSC") position on the appropriate use of abandoned plant recovery as an incentive to address financial barriers to the development of transmission expansion. The conditions under which the Missouri Commission has indicated that abandoned transmission plant recovery could be allowed are:

> (a) the amount to be recovered is conditioned on the appropriate review and approval of the project cancellation through the RTO stakeholder process;
>
> (b) the amount to be recovered should be amortized over a period of time giving consideration to both the magnitude of the amount to be recovered and resulting rate impact;

1 (c) the amount to be recovered only includes the interest on debt incurred
2 during construction; and
3
4 (d) the Commission will determine an appropriate interest rate to apply over
5 the amortization period.

6 Q. Is there a currently a case before the FERC that is centered on the issue of a
7 significant abandoned plant cost recovery?

8 A. Yes. Potomac-Appalachian Transmission Highline LLC ("PATH") is seeking
9 rate recovery of about $121 million in abandoned plant costs over a 5-year amortization
10 period in relation to the canceled PATH project (a proposed 275-mile, 765-kV transmission
11 line from Virginia to Maryland. (FERC Docket No. ER12-2708). PJM Interconnection's
12 Board of Directors cancelled the project in August 2012. PATH was originally a joint
13 venture between Allegheny Energy and American Electric Power ("AEP"). Allegheny
14 Energy merged with FirstEnergy in 2011.

15 Q. What is the Staff's general position on rate recovery of abandoned plant?

16 A. The recovery of abandoned plant costs in utility rates, if allowed at all, should
17 be an extremely rare event. In my review of documents addressing the merits of FERC's
18 transmission incentives, I noted a concern that, as the number of projects for which
19 incentives are sought continues to increase; multiple projects may compete for inclusion in a
20 RTO regional plan or to meet a regional need. If the right to recover abandoned plant costs is
21 granted before the final determination that the project is needed is made, abandoned plant
22 cost recoveries granted by the FERC may become more common. In my opinion this is a
23 valid concern with the FERC's to-date generous awarding of this transmission incentive.

24 It is a Staff position that rate recovery of abandoned plant is an issue that can only be
25 appropriately addressed on a case-by-case basis. An important consideration is whether or

1 not utility customers should bear any burden of the costs associated with abandoned plant
2 given that the potential loss from an abandoned project has already factored into the base
3 ROE that has been determined for the utility. If utility shareholders are compensated for the
4 cost of abandoned plant in the manner contemplated by FERC, it is quite possible that they
5 will be doubly compensated, by the base ROE and again by the amortization of the
6 abandoned plant costs.

7 Even if the concern that shareholders have already been compensated from the risk
8 component of the utility's authorized ROE for abandoned plant costs as satisfactorily
9 addressed, the Staff's position is the circumstances and costs surrounding the abandoned
10 plant must still meet the Missouri Commission's requirements typically set for Accounting
11 Authority Orders for extraordinary events to qualify for extraordinary accounting treatment
12 and potential rate recovery and there should likely be a substantial sharing of the abandoned
13 plant costs between utility ratepayers and shareholders.

14 Q. Is there a judicial history respecting recovery of costs of abandoned facilities
15 in Missouri?

16 A. Yes. In July 1973, Union Electric Company (UE) announced its decision to
17 build Callaway I and II nuclear generating units and UE subsequently obtained the Missouri
18 Commission's authorization to construct, operate and maintain these two nuclear generating
19 units, which were planned as a single project. 765 S.W.2d at 619, 624. In October 1981,
20 UE announced its decision to cancel construction of Callaway II. On December 3, 1982,
21 UE filed with the Missouri Commission proposed tariffs, among other things, to increase
22 retail electric rates to recover UE's approximately $106 million investment in the cancelled
23 Callaway II nuclear generating unit. 765 S.W.2d at 619.

1 Respecting the cancellation of Callaway II, the Missouri Commission first disallowed
2 recovery of the partial construction and cancellation costs of the abandoned Callaway II unit
3 on the basis that the terms of Proposition One, Section 393.135, precluded the Missouri
4 Commission from allowing recovery of any amount from ratepayers relating to abandoned
5 construction. In the first appellate court decision respecting UE's effort to recover in rates
6 the costs associated with the abandoned Callaway II unit, the Missouri Supreme Court held
7 that Proposition One, Section 393.135, did not have the purpose, and did not have the effect,
8 of divesting the Missouri Commission of the authority to make any allowance for the costs of
9 abandoned generating plant construction. The Court based its conclusion on "the established
10 practice of allowing such charges, absent a statutory command to the contrary, and on the
11 absence from Proposition One of explicit language dealing with abandoned construction."
12 The case was remanded to the Missouri Commission for further proceedings. 687 S.W.2d
13 at 168.

14 After further proceedings on the remanded issues, the Missouri Commission again
15 rejected recovery in rates of the construction and cancellation costs of Callaway II. The
16 Missouri Commission held that UE's shareholders had already been compensated for some
17 of their loss through the rates of return in prior UE cases. 765 S.W.2d at 621. Among other
18 things, the Missouri Commission determined that UE shareholders had received some
19 compensation for the risk of their investment in UE which included a risk of cancellation of
20 Callaway II. The Court held that the Missouri Commission's decision to treat the
21 cancellation costs as an expense outside the rate base and different from normal or
22 extraordinary operating expenses was well within its discretion to determine what items

should be included as normal or extraordinary operating expenses and was supported by competent and substantial evidence. 765 S.W.2d at 623.

The Western District Court of Appeals stated: "The increased costs of the project and the eventual cancellation of Callaway II were risks taken into account by stockholders who invested in Union Electric." 765 S.W.2d at 624. The Court further stated as follows:

> . . . we believe that the Commission properly performed its duty which is to balance the interest of the ratepayers with that of the shareholders. The Commission must insure just and reasonable rates. To determine whether the rates were just and reasonable, we must consider whether the order could reasonably be expected to maintain financial integrity, attract necessary capital, fairly compensate investors for the risk they assume, and protect relevant public interest. *See Union Electric Company v. Federal Energy Regulatory Commission*, 668 F.2d 389, 392 (8th Cir. 1981). We believe the action of the Commission meets these requirements.
>
> 765 S.W.2d at 625.

<u>Pre-Commercial Cost Recovery Costs</u>

Q. What are Pre-Commercial Cost Recovery Costs?

A. In Order No. 679, the FERC permitted, as an incentive, applicants to expense so-called "pre-commercial" costs and to recover them in current rates. Absent this incentive, pre-commercial costs would generally be capitalized as part of CWIP, and subsequently earn a return on equity as well as a recovery of costs through depreciation, once a project goes into service. The FERC explained that pre-commercial costs generally include, for example, expenditures for preliminary surveys, plans and investigations, made for the purpose of determining the feasibility of utility projects, and the costs of studies and analyses mandated by regulatory bodies related to plant in service which are included in Account 183, *Preliminary Survey and Investigation Charges*. The FERC also stated that it would entertain proposals by public utilities to expense other types of costs on a case-by-case basis.

1 Further, for new market entrants with no established rate mechanism, the FERC has
2 allowed the deferral of pre-commercial costs as a regulatory asset. Where deferred recovery
3 and regulatory asset treatment is provided, utilities defer the pre-commercial costs until they
4 have an established rate structure in place, at which time they may file to recover the costs,
5 including carrying charges, generally as an amortization over the construction period, or over
6 a period of five years.

7 The types of costs included in the pre-commercial cost regulatory asset are startup
8 and development costs, attorney and consultant fees, administrative expenses, travel
9 expenses, development surveys and costs to support planning activities. The FERC permits
10 carrying charges on pre-commercial costs at the overall cost of capital, including the
11 incentive ROE adder during the amortization period of the regulatory asset.

12 Q. Did the Missouri Commission respond to FERC's May 19, 2011 Docket No.
13 RM11-26-000 NOI on transmission ratemaking incentives?

14 A. Yes. The Missouri Commission responded to FERC's NOI in Comments
15 dated September 12, 2011. In these Comments the Missouri Commission stated that with the
16 exception of specific positions it takes in its September 12, 2011 Comments, it "echoes and
17 supports" the comments offered by the Southwest Power Pool Regional State Committee
18 ("SPP RSC") and the Organization of MISO States ("OMS") in their NOI responses.

19 In its Comments of the Southwest Power Pool Regional State Committee dated
20 September 1, 2011 ("SPP RSC Comments"), the SPP RSC responded to FERC's NOI
21 regarding transmission incentive regulations and policies. The SPP RSC Comments
22 represents what it characterizes as a "reasonable compromise" of the position of those
23 SPP RSC-states which support the SPP RSC Comments and also stated that each state

1 reserves the right to assert its own position. In the SPP RSC Comments the SPP RSC
2 proposes a detailed and comprehensive "two-step approach" to provide for transmission
3 incentives which more it believes more appropriately balances the FERC's statutory mandate
4 to encourage transmission investment with its other mandate to ensure just and reasonable
5 rates. Among the recommendations made by the SPP RSC was for FERC to eliminate the 50
6 basis point ROE adder incentive for joining an RTO.

7 Q. What comments did the Missouri Commission specifically include in its
8 September 12, 2011 Comments responding to the FERC's NOI?

9 A. The Missouri Commission opposed the use of CWIP and a hypothetical
10 capital structure as incentives to encourage transmission companies to pursue new or to
11 upgrade existing transmission projects. The Missouri Commission described its concerns
12 about CWIP and related these concerns to the Missouri statute prohibiting CWIP in rate base.
13 The Missouri Commission also expressed concerns that allowing CWIP in rate base results in
14 ratepayers being charged for costs before they are determined to be prudent and eligible for
15 rate base inclusion. The Missouri Commission stated at page 2 of its Comments:

> 16 Additionally, the MoPSC is concerned about the use of Construction
> 17 Work in Progress ("CWIP") as an incentive to build transmission
> 18 projects. In 1976, by state-wide ballot, Missouri voters enacted Section
> 19 393.135 of the Revised Statues of Missouri which prohibits CWIP
> 20 charges based on property that is not fully operational and used for
> 21 service from being applied to electric utility bills. Missouri voters
> 22 objected to CWIP charges as an interest-free loan provided by
> 23 ratepayers to Investor Owned Electric Utilities ("IOU") before an asset
> 24 is "used and useful" whereby business and financial risk is reduced for
> 25 the IOU and transferred to its ratepayers. Also, as the IOU project
> 26 would not yet be used or useful, CWIP charges applied to ratepayers'
> 27 bills would be applied before a proper determination is made of
> 28 whether the costs related to construction are prudent. Consequently,
> 29 the MoPSC expresses concern regarding the use of CWIP in Missouri
> 30 to incent transmission builders to construct new or upgrade existing
> 31 transmission lines.

Q. Does the Staff share the same concerns as the Missouri Commission as it relates to the use of CWIP as a transmission rate incentive?

A. Yes, it does.

Q. What concerns related to the use of a hypothetical capital structure as a transmission incentive did the Missouri Commission indicate in response to the FERC's NOI?

A. The Missouri Commission indicated concern about the effects of the application of a hypothetical capital structure as part of the methodology to determine the transmission incentives, especially in a case where an affiliate within a corporate structure is identified as the party constructing transmission and thus applying for incentives.

One of the Missouri Commission's concerns was that the use of a hypothetical capital structure could result in a level of equity significantly higher than the actual equity share of the company constructing the transmission project. Allowing a higher level of equity in an entity's capital structure could inflate the returns on actual equity associated with the construction of a particular transmission project, and force ratepayers to pay a higher level of profit to the utility than is actually justified or intended.

Q. Does the Staff share the same concerns as the Missouri Commission as it relates to the use of a hypothetical capital structure as a transmission rate incentive?

A. Yes, it does. In addition it is the Staff's opinion that the use of a hypothetical capital structure as a transmission incentive in the manner currently employed by the FERC allows too great a potential to significantly overcharge utility ratepayers for the utility's cost of capital. The Staff is of the opinion that the FERC does not sufficiently justify its award of hypothetical capital structures to utilities who seek this transmission incentive.

1 An additional concern of the Staff is that fact that the use of a hypothetical capital 2 structure usually includes fictional income tax expense that will not be paid by the utility. 3 The interest component of the capital structure is deductible for income taxes while the 4 return on equity dollars is considered profit and is not deductible. If a hypothetical capital 5 structure includes excess equity the resulting income tax expense included in revenue 6 requirement is overstated.

7 Q. Did the National Association of Regulatory Utility Commissioners 8 ("NARUC") provide a response to the FERC's May 19, 2011 Docket No. RM11-26-000 9 NOI?

10 A. Yes, it did. It submitted comments on February 17, 2012.

11 Q. What is NARUC?

12 A. NARUC is the national association representing the State Public Service 13 Commissioners who regulate essential utility services. NARUC members are responsible for 14 assuring reliable utility service at fair, just, and reasonable rates.

15 Q. Please summarize the NARUC's response to the FERC's NOI?

16 A. In its Comments to the FERC NOI, NARUC noted that the "[c]osts to build 17 transmission, including incentives, are ultimately born by retail ratepayers." NARUC stated 18 that FERC's incentive rate policy under Order 679 has resulted in overly-generous incentives 19 that are not tied to any performance requirements. NARUC's recommendation to the FERC 20 is to reform its transmission incentive rate under Order 679 in a way that meets the directive 21 of the Energy Policy Act of 2005 without unjustly burdening consumers with the costs of 22 unnecessary incentives. NARUC concluded that the granting of incentive rates under the 23 FERC's transmission-incentive regulations and policies under Order No. 679 has transferred

1 hundreds of millions of dollars from consumers to transmission investors without any clear
2 showing of need or benefit and Order 679 prescribes policies that are in dire need of reform.

3 Q. Did NARUCs' response to the FERC's NOI include a *Resolution on the Need*
4 *for Review of FERC Incentive Rate Regulation Policies Under Order No. 679* ("Resolution")
5 sponsored by the Committee on Electricity and adopted by the NARUC Board of Directors?

6 A. Yes. In its Comments to the FERC's NOI, NARUC included a Resolution
7 that was adopted by the NARUC Board of Directors on February 8, 2012. This Resolution
8 can be characterized as very critical of the FERC's transmission rate incentives
9 (See Schedule 2).

10 In its Resolution NARUC describes how nationwide, transmission incentives granted
11 as of June 2009 by FERC pursuant to Order No. 679 will cost consumers hundreds of
12 millions of dollars per year or more. NARUC expressed the opinion that FERC's
13 implementation of Order 679 incentives has resulted in the approval of overly generous ROE
14 incentives requests by transmission developers. The resolutions conclude with the statement
15 that while Congress has directed the development of incentive transmission rate rules, the
16 granting of incentive rates under the Commission's current transmission-incentive
17 regulations and policies under Order No. 679 "has transferred hundreds of millions of dollars
18 from consumers to transmission investors without any clear showing of need or benefit and
19 Order 679 prescribes policies that are in dire need of reform."

20 Q. Did the FERC modify its position on transmission incentives at least to some
21 extent after its review of the responses to its NOI?

22 A. Yes. On November 15, 2012, the FERC issued a Policy Statement providing
23 guidance on how it will evaluate applications for transmission incentives ("Incentive Rate

1 Policy Statement"). The Incentive Rate Policy Statement indicates that the FERC may
2 become more cautious and conservative in awarding incentives to transmission developers.

3 In its news release announcing the Incentive Rate Policy Statement the FERC stated:

4 Since issuing Order No. 679 to establish transmission rate incentives
5 required by the Energy Policy Act of 2005, FERC has evaluated more
6 than 85 incentive applications. Based on that experience and on 1,500
7 pages of public comments received in response to a May 2011 Notice
8 of Inquiry on the scope and implementation of those policies, the
9 Commission is now providing additional guidance and clarity with
10 respect to certain aspects of its incentives policies under Order Nos.
11 679 and 679-A

12 In its November 15, 2012 Policy Statement the FERC in paragraph 4 stated that it
13 "expects applicants to take all reasonable steps to mitigate the risks of a project, including
14 requesting those incentives designed to reduce the risk of a project, before seeking an
15 incentive ROE based on a project's risks and challenges." The FERC incentives designed to
16 reduce the risk of a project which the FERC was referring to are CWIP, pre-commercial cost
17 recovery, and abandoned plant cost recovery.

18 The FERC seems to be indicating that incentive ROEs should be seen as a kind of
19 "last line of defense" for mitigating the risks of constructing transmission projects.
20 Essentially, the FERC now is indicating that it is looking for a demonstration that the
21 applicant for ROE incentives actually face risks and challenges associated with the
22 transmission project that are not either already accounted for in the applicant's base ROE or
23 addressed through risk-reducing incentives.

24 **Transmission Revenues**

25 Q. Earlier you stated that Missouri ratepayers are in fact currently paying higher
26 transmission expenses related to FERC transmission incentives in current electric utility
27 rates. Please elaborate.

1 A. Electric utilities and other transmission providers who have constructed
2 regional transmission projects in the SPP and MISO regions have requested and have
3 received transmission incentives from the FERC. The utility that constructs the transmission
4 project charges the cost of these projects (including the transmission incentives) to the RTO.
5 The RTO then allocates the cost of the project to the utility members of the RTO.

6 As an example, KCPL and GMO customers on a combined basis are allocated
7 12 percent the cost of all FERC transmission incentives from SPP regional transmission
8 projects. SPP transmission costs are charged to SPP transmission customers based on the
9 zonal and regional annual transmission revenue requirement ("ATRR") amounts approved by
10 the FERC and the magnitude of load associated with each customer's transmission service.
11 GMO's load ratio share is approximately 4 percent and KCPL's Missouri and Kansas
12 combines load ratio share is approximately 8 percent of total SPP load.

13 Q. Do you have a specific example where Missouri utility ratepayers are paying
14 the costs of incentive ROEs and other transmission incentives charged by electric utilities in
15 other states?

16 A. Yes. In December 2008, the FERC approved several transmission incentives
17 for Prairie Wind Transmission LLC ("Prairie Wind Transmission"). Prairie Wind
18 Transmission is a joint venture between Westar Energy, Inc., ("Westar"), a Kansas vertically-
19 integrated electric utility and Electric Transmission America ("ETA"). ETA is a joint venture
20 between wholly-owned subsidiaries of American Electric Power and MidAmerican Energy
21 Holdings Company. Prairie Wind Transmission is a Kansas FERC-regulated utility and a
22 member of the SPP. See the attached (Schedule 3) Westar December 4, 2008 news release

1 entitled "FERC Approves Prairie Wind Transmission Request for Key Rate Components in
2 New Ultra-High Capacity Line Project."

3 FERC approved the following transmission rate incentives for the Prairie Wind
4 Transmission Project: A return on equity of 12.8 percent which includes a base ROE of
5 11.3 percent plus incentive ROE adders of 150 basis points, the inclusion of 100 percent
6 CWIP in rate base, 100 percent recovery of abandoned plant costs and a hypothetical capital
7 structure of 50 percent debt and 50 percent equity. Finally, for this project the FERC granted
8 regulatory asset treatment of pre-commercial expenses not included in CWIP.

9 While KCPL and GMO as SPP members are paying the costs of the FERC
10 transmission incentives for the Prairie Wind Transmission project currently, this cost will
11 increase significantly as the project is completed and placed in service near the end of 2014.

12 Q. Are KCPL and GMO ratepayers currently paying for the cost of FERC
13 transmission ROE incentives for other Westar transmission projects?

14 A. Yes. On March 24, 2008, in FERC Docket Nos. EL08-31-000 and
15 ER08-396-000, Westar requested and was awarded by FERC and additional 150 basis points
16 to its base ROE of 10.8% in conjunction with its 345 kV transmission upgrade project
17 referred to as the Wichita-to-Reno-to-Summit Line. KCPL and GMO customers are currently
18 paying higher transmission expenses as a result of Westar charging these incentive ROE
19 costs to KCPL and GMO through the SPP.

20 Q. Please explain Staff's general position on FERC transmission incentives and
21 how this position is consistent with its position on how Missouri utilities should seek to
22 maximize transmission revenues.

1 A. Staff has taken positions in Missouri Commission proceedings in opposition
2 to Missouri electrical corporations seeking to pass through to Missouri retail customers the
3 additional cost associated with FERC incentives for transmission projects that Missouri
4 utilities construct and operate. Staff still supports that position, but if the Missouri
5 Commission is presented with the fact of passing through transmission expenses allocated by
6 SPP to Missouri electrical corporations related to regional transmission projects located in
7 other jurisdictions for which costs are increased due to FERC authorized incentive rates and
8 charges, then of course transmission revenues allocated by SPP to Missouri electrical
9 corporations should be utilized to the fullest extent possible to offset the higher FERC tariff
10 transmission costs.

11 Q. Has the level of transmission expenses incurred by GMO and KCPL and
12 passed through to their ratepayers increased significantly over the past several years?

13 A. Yes. Transmission expenses charged to GMO and KCPL by the SPP have
14 increased significantly over the past several years and are expected to increase in the future.
15 GMO witness John R. Carlson provided evidence as to the extent of GMO's increasing
16 transmission expense in File No. ER-2012-0175. Mr. Carlson stated that from 2014 through
17 2019 GMO's share of SPP transmission costs will increase approximately 14 percent each
18 year [John R. Carlson Direct Testimony ER-2012-0175 GMO, p. 9]. As noted by
19 KCPL/GMO witness Darrin Ives in his Direct Testimony in GMO's recently completed rate
20 case, File No. ER-2012-0175, "…An added factor in the coming years relates to the SPP's
21 regional transmission upgrade projects and increasing SPP administrative fees, which will
22 increase GMO's costs significantly in coming years." [Exhibit 123 Darrin Ives Direct
23 Testimony in ER-2012-0175 GMO page 12, lines 12-14]. The "SPP regional transmission

1 upgrade project" costs referred to by Mr. Ives included the costs of FERC transmission
2 incentives charged by Prairie Wind Transmission to the SPP transmission owners, including
3 KCPL and GMO.

4 Q. Are KCPL and GMO currently constructing transmission projects the cost of
5 which will be allocated to other SPP members?

6 A. Yes. KCPL and GMO (but primarily GMO) are currently involved in the
7 construction of two regional SPP projects referred to as the Sibley-Nebraska City project and
8 the Iatan-Nashua project.

9 Q. Does the burden being placed on GMO's ratepayers due to these significant
10 annual transmission expense increases associated with other SPP regional transmission
11 projects make it particularly important that GMO's customers receive relief in the form
12 of offsetting revenue credits from GMO's rate based transmission plant investments,
13 such as the investments made by GMO in the Sibley-Nebraska City project and the
14 Iatan-Nashua project?

15 A. Yes. Reflecting SPP transmission revenues to the fullest extent possible
16 (including FERC incentives) in Missouri retail rates is particularly appropriate in light of the
17 increasing transmission expense burden Missouri ratepayers have been incurring and will
18 continue to incur into the foreseeable future. The transmission revenues from SPP regional
19 transmission projects (Iatan-Nashua and Sibley-Nebraska City) that should be reflected in
20 GMO's cost of service are nothing more than the flip side of the coin of the significantly
21 increasing transmission expenses from regional SPP transmission projects that have been, are
22 currently, and will continue to be reflected in GMO and KCPL's cost of service.

1 Missouri ratepayers are paying the transmission expenses (which are based on FERC
2 incentive ROE adders and other extraordinary ratemaking mechanisms) associated with SPP
3 and MISO regional transmission projects in rates today and will continue to pay these
4 significantly increasing costs into the future. It is only fair and reasonable that Missouri
5 ratepayers receive some offset to these significantly increasing transmission expenses
6 through the maximization of transmission revenues by Missouri electric utilities.
7 As described above, just as in the case of revenues from off-system sales of electricity,
8 transmission revenues derived from utility transmission plant should be maximized to the
9 greatest extent possible after the needs of the utility's ratepayers have been met.

10 Q. Does this conclude your rebuttal testimony?

11 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

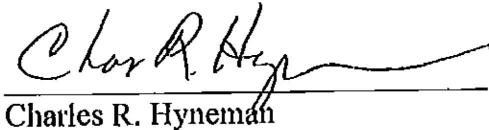
OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Authority to Extend the Transfer of Functional Control of Certain Transmission Assets to the Southwest Power Pool, Inc	)))))	File No. EO-2012-0135
In the Matter of the Application of KCP&L Greater Missouri Operations Company for Authority to Extend the Transfer of Functional Control of Certain Transmission Assets to the Southwest Power Pool, Inc.	)))))	File No. EO-2012-0136

AFFIDAVIT OF CHARLES R. HYNEMAN

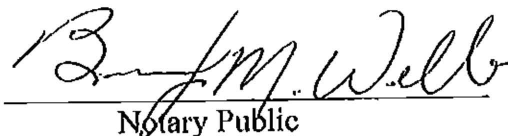
STATE OF MISSOURI)
) ss.
COUNTY OF Jackson)

Charles R. Hyneman, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 25 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



Charles R. Hyneman

Subscribed and sworn to before me this 6th day of March, 2013.



Notary Public

BEVERLY M. WEBB
My Commission Expires
April 14, 2016
Clay County
Commission #12484070

Exhibit No.:	
Issue:	*Public Interest*
Witness:	*Charles R. Hyneman*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
File Nos.:	*EA-2013-0098*
	EO-2012-0367
Date Testimony Prepared:	*January 30, 2013*

MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING

REBUTTAL TESTIMONY

OF

CHARLES R. HYNEMAN

KANSAS CITY POWER & LIGHT COMPANY
KCP&L GREATER MISSOURI OPERATIONS COMPANY
TRANSOURCE MISSOURI, LLC

FILE NO. EA-2013-0098
FILE NO. EO-2012-0367

Jefferson City, Missouri
January 2013

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

PR

Schedule 1 NP

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REBUTTAL TESTIMONY

OF

CHARLES R. HYNEMAN

KANSAS CITY POWER & LIGHT COMPANY
KCP&L GREATER MISSOURI OPERATIONS COMPANY
TRANSOURCE MISSOURI, LLC

FILE NOS. EA-2013-0098 and EO-2012-0367

Q. Please state your name and business address.

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

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

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

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

A. I graduated from Indiana State University in 1985 with a Bachelor of Science degree in Accounting and Business Administration. I received my Master of Business Administration degree from the University of Missouri-Columbia in 1988. I am a Certified Public Accountant licensed in Missouri. From 1985 through 1992 I was an officer in the United States Air Force in the fields of missile operations, training and contracting/procurement. I joined the Missouri Public Service Commission in April 1993.

Summary and Background

Q. Why is the Staff filing Rebuttal Testimony in this case?

A. On August 31, 2012, Kansas City Power & Light Company ("KCPL") and Greater Missouri Operations Company ("GMO") filed a request with the Missouri

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1 Commission to authorize them to transfer certain transmission property related to
2 GMO's Iatan-Nashua transmission project and GMO's Sibley-Nebraska City transmission
3 project. ("Transmission Projects") to Transource Missouri, LLC ("Transource Missouri"), a
4 wholly-owned subsidiary of Transource Energy LLC ("Transource"). This Application filed
5 by KCPL/GMO/Transource Missouri ("Applicants") established File No. EO-2012-0367.

6 Transource is a joint venture of American Electric Power Company, Inc ("AEP") and
7 Great Plains Energy Incorporated ("GPE") and will serve as the holding company for
8 transmission subsidiaries throughout the United States. AEP owns 86.5% of Transource with
9 GPE owning the remaining 13.5% of the company. AEP is a multi-state electric utility
10 holding company headquartered in Ohio. GPE is a public utility holding company and is the
11 parent company of KCPL and GMO.

12 Also on August 31, 2012, Transource Missouri filed a request with the Missouri
13 Commission seeking a Certificate of Convenience and Necessity (CCN) to construct,
14 finance, own, operate and maintain the Transmission Projects. This Application established
15 File No. EA-2013-0098. File Nos. EA-2013-0098 and EO-2012-0367 were consolidated by
16 Order of the Missouri Commission on November 7, 2012. The Staff is filing Rebuttal
17 Testimony in response to Transource Missouri's and KCPL/GMO's Applications and direct
18 testimony in this case.

19 Q. Please describe the Transmission Projects?

20 A. They consist of two projects that KCPL and GMO are constructing
21 primarily in GMO's service territory. The larger project, the Sibley-Nebraska City line is a
22 $400 million ($380 million GMO share) 175 mile transmission line (170 miles in Missouri
23 and 5 miles in Nebraska) that is expected to be placed in service in 2017. This Project

1 involves the construction of a new single circuit 345kV transmission line in southeast
2 Nebraska and northwest Missouri extending approximately 175 miles from Omaha Public
3 Power District's Nebraska City's power plant to a new GMO substation near Maryville,
4 Missouri and continuing on to GMO's Sibley power plant.

5 The smaller of the two projects, the Iatan-Nashua line is a $65 million 31 mile 345kV
6 transmission line (entirely in Missouri) that is expected to be completed and placed in service
7 in June 2015. The transmission line will extend from an existing substation at the
8 Iatan Generating Station near Weston, Missouri to a substation near Smithville Missouri.
9 A detailed description of the projects can be found at paragraphs 20 through 38 of the
10 August 31, 2012 Application of Transource Missouri, LLC for a Certificate of Convenience
11 and Necessity and Request for Waiver ("Transource Missouri Application") in File No.
12 EA-2013-0098. As of November 25, 2102, The Iatan-Nashua Project was 18.5% complete.
13 An additional description of these projects can be found at pages 3 through 13 of KCPL
14 and GMO witness Brent C. Davis' direct testimony in File No. EO-2012-0367 and in the
15 rebuttal testimony of Staff witness Alan Bax.

16 KCPL/GMO and Transource Missouri state in response to Staff Data Request
17 No. 0061, in part, that "the official authorization for building the Balanced Portfolio occurred
18 during the SPP Board of Directors meeting held April 28, 2009 whereby the SPP Board
19 approved the Balanced Portfolio for construction, with issuance of Notifications to Construct
20 to be issued to the applicable transmission owners." The Iatan-Nashua Project is one of the
21 seven Balanced Portfolio projects.

22 KCPL/GMO and Transource Missouri state in response to Staff Data Request
23 No. 0062, in part, that "the official authorization to build the Priority Projects occurred

1 during the SPP Board of Directors meeting held April 27, 2010. At this meeting, the
2 SPP Board of Directors approved the Priority Projects for construction, with issuance
3 of Notifications to Construct to be issued to the applicable transmission owners." The
4 Sibley-Nebraska City Project is one of the six Priority Projects.

5 The authorization of the Transmission Projects predate the issuance of FERC
6 Order No. 1000 in July 2011 and are not subject to FERC Order No. 1000. KCPL/GMO
7 and Transource Missouri state in response to Staff Data Request No. 0010 in File No.
8 EA-2013-0098, "The rights to build the Iatan-Nashua 345kV and Sibley-Nebraska City
9 345kV transmission projects are not subject to any changes resulting from FERC Order
10 1000." Thus, KCPL and GMO retain the federal right of first refusal ("ROFR") to construct
11 the Transmission Projects.

12 Q. Are the two Transmission Projects at issue in these Applications needed solely
13 by KCPL/GMO to enhance the reliability of utility service to their retail customers?

14 A. No. Both Balanced Portfolio Projects and Priority Projects are intended
15 to benefit the entire SPP region. Accordingly, the costs of the two Transmission Projects
16 will be charged to all members of SPP. These projects are also intended to provide
17 general benefits to the SPP region in terms of reliability and the mitigation of
18 transmission congestion.

19 Q. What is the interrelationship between File Nos. EO-2012-0367 and
20 EA-2013-0098 that makes consolidating them appropriate?

21 A. The Projects both entail use of property belonging primarily to GMO that is
22 necessary or useful to GMO for providing electrical service. If Transource Missouri is to
23 complete the projects and owns that property, it needs authorization from the Missouri

1 Commission to build and operate them. Therefore, if that property is not transferred from
2 GMO to Transource Missouri, there is no need for the Missouri Commission to give
3 Transource Missouri a CCN. Similarly, if the Missouri Commission does not give
4 Transource Missouri a CCN, then it should not authorize KCPL/GMO to transfer the
5 property to Transource Missouri. In other words, the Missouri Commission should either
6 grant or deny both Applications.

7 **Analysis of Applications**

8 Q. What is Staff's ultimate recommendation?

9 A. That the Missouri Commission deny both Applications.

10 Q. What standard did Staff use for evaluating the Applications?

11 A. I have been advised by Staff Counsel that the two Applications involve
12 different legal standards. The Transource Missouri Application in File No. EA-2013-0098
13 addresses that "there must be a need for the service" and "the service must promote the
14 public interest" legal standard of Section 393.170 RSMo. 2000 respecting certificates of
15 convenience and necessity ("CCNs") at Paragraphs 39 and 40 of the Transource Missouri
16 Application in File No. EA-2013-0098.

17 The KCPL and GMO Application in File No. EO-2012-0367 addresses the
18 "not detrimental to the public interest" legal standard of Section 393.190 that KCPL and
19 GMO set out in Paragraphs 53through 64 of their Application in File No. EO-2012-0367.

20 Q. Did the Staff conclude that the Applications should be granted, i.e., (1) there
21 is a need for the service proposed by Transource Missouri, (2) the service proposed by
22 Transource Missouri promotes the public interest, and/or (3) the transactions as proposed by
23 KCPL and GMO are not detrimental to the public interest?

1 A. No. The Staff has concluded that (1) there is not a need for Transource
2 Missouri to build the Transmission Projects (the Staff is not disputing the need for the
3 Transmission Projects), (2) the construction of the Transmission Projects by Transource
4 Missouri does not promote the public interest, and (3) the transactions, as proposed by KCPL
5 and GMO are detrimental to the public interest. The Applications should be denied.

6 Q. Please explain.

7 A. As will be discussed in my testimony, there is no evidence in the record why
8 KCPL/GMO cannot build the Transmission Projects and there is no substantive evidence in
9 the record that Transource Missouri could build the Transmission Projects for a lower cost
10 than KCPL/GMO. KCPL has the necessary construction experience and expertise to
11 construct the projects and KCPL also has the financial capability to construct the
12 Transmission Projects. These facts will be addressed in my testimony and in the rebuttal
13 testimonies of Staff witnesses.

14 Although I address issues 1 and 2 described in the question above, my testimony
15 focuses mainly on the fact that the transfer of the Transmission Projects from KCPL/GMO to
16 Transource Missouri is detrimental to the public interest. Not placing the Transmission
17 Projects in GMO's rate base when the Transmission Projects are "fully operational and used
18 for service" will result in a loss of a significant amount of Transmission Revenues from the
19 Southwest Power Pool ("SPP") to GMO.

20 The loss of these regulated transmission revenues is significant to GMO's ratepayers
21 as the revenues would offset rapidly increasing GMO transmission expenses. The removal of
22 the Transmission Projects from Missouri Commission regulation by transferring them to an

1 affiliate will result in a significantly higher GMO cost of service and electric utility rates for
2 the foreseeable future.

3 As noted by KCPL in response to Staff Data Request No. 0013, if KCPL/GMO own
4 the Transmission Projects, SPP will allocate the revenues associated with the Projects to
5 KCPL/GMO based on the Transmission Projects' Region-wide Annual Transmission
6 Revenue Requirement ("ATRR") as provided under the SPP transmission tariff. The Staff's
7 analysis shows these SPP ATRR revenues would significantly exceed the cost to GMO's
8 customers of the Transmission Projects being included in GMO's rate base.

9 Q. Please describe how SPP Transmission Expenses are allocated to KCPL
10 and GMO.

11 A. SPP transmission costs are charged to SPP Transmission Customers based on
12 the zonal and regional ATRR amounts approved by the FERC and the magnitude of load
13 associated with each customer's transmission service. GMO's load ratio share is
14 approximately 4 percent and KCPL's is approximately 8 percent (approximately 4 percent
15 Kansas and 4 percent Missouri). Therefore, the companies together pay approximately
16 12 percent (8 percent Missouri) of regionally allocated costs in addition to the zonally
17 allocated costs of SPP-approved projects.

18 Q. Please explain why the SPP revenues received from these projects will
19 significantly exceed the actual cost of the projects when included in GMO's rate base.

20 A. Let me first address Missouri rate making. Under the Missouri Commission's
21 current and historical treatment of transmission construction projects for ratemaking
22 purposes, the total construction costs of the projects would be included in the electric utility's
23 rate base when the projects are completed and placed in service (i.e., are deemed "fully

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operational and used for service"). The current estimated cost of the Transmission Projects is $445 million ($380 million for the Sibley-Nebraska City line and $65 million for the Iatan-Nashua line).

Traditionally the cost of service impact of this $445 million rate base addition would be based on the Missouri Commission's allowed rate of return for GMO, as well as other Missouri Commission ratemaking principle, practices and decisions (Missouri ratemaking) while the Transmission Projects are being constructed and after they are fully operational and used for service.

Q. How is FERC ratemaking different from Missouri ratemaking?

A. Transource Missouri made a filing with the FERC requesting authority to implement certain incentive rate treatments for the Transmission Projects which established FERC Docket No. ER12-2554-000 on August 31, 2012. The FERC issued its response to Transource Missouri's request in its Order On Transmission Rate Incentives And Formula Rate Proposal And Establishing Hearing Procedures on October 31, 2012, 141 FERC 61,075. This filing was made pursuant to Section 205 of the Federal Power Act, Part 35 of FERC regulations and FERC Order 679.

The FERC conditionally granted Transource Missouri's request for inclusion of 100% of Construction Work in Progress ("CWIP") in rate base during the development and construction periods of the Transmission Projects, recovery of prudently-incurred costs in the event one or both of the Transmission Projects must be abandoned, creation and recovery of a Transmission regulatory asset to defer expenses not capitalized to the Transmission Projects and a five-year amortization of this regulatory asset, use of a 40% debt and 60% equity hypothetical capital structure, a 50 basis point ROE adder for membership in a RTO

1 for the Transmission Projects, and a 100 basis point ROE adder for the Sibley-Nebraska City
2 Project to recognize its risks and benefits. Most if not all of these incentives and
3 extraordinary ratemaking mechanisms are not normally included Missouri ratemaking for
4 construction projects.

5 Staff has taken positions in Missouri Commission proceedings in opposition to
6 Missouri electrical corporations seeking to pass through to Missouri retail customers the
7 additional cost of FERC incentives for transmission projects. Staff still supports that
8 position, but believes that if the Missouri Commission is presented with the inalterable fact
9 of passing through transmission expenses allocated by SPP to Missouri electrical
10 corporations related to regional transmission projects located in other jurisdictions for which
11 costs are increased due to with FERC authorized incentive rates and charges, then of course
12 transmission revenues allocated by SPP to Missouri electrical corporations should be utilized
13 to the fullest extent possible to offset the higher FERC tariff transmission costs.

14 Staff notes that KCPL/GMO and Transource Missouri state in response to Staff Data
15 Request No. 0031, in part, that "[i]f the projects were retained by KCP&L and GMO, the
16 request for incentives would be generally the same as those requested by Transource
17 Missouri with the exception of hypothetical capital structure." KCPL/GMO and Transource
18 Missouri further noted in their response: "The incentives are available to all transmission
19 owners and are granted by FERC on the basis of each project's merit."

20 Q. Will KCPL and GMO be solely responsible for the costs of the
21 Transmission Projects?

22 A. No. SPP Balanced Portfolio Projects and Priority Projects are intended to
23 benefit the entire SPP region and the cost of the two Transmission Projects will be charged to

1 all members of SPP. If GMO were to retain ownership of the Transmission Projects, and
2 FERC granted GMO the same ratemaking incentives that were awarded to Transource
3 Missouri, GMO's charges to the other SPP entities for the other entities share of the
4 construction costs associated with the Transmission Projects would be based, in part, on the
5 FERC incentives. Because of the incentives, the cost, or revenue requirement, of the
6 Transmission Projects would be significantly higher under FERC ratemaking than Missouri
7 Commission ratemaking, all other things being equal. This higher revenue requirement
8 would be collected by the SPP from other SPP entities and flowed back to GMO as
9 transmission revenues under the scenario of continued GMO ownership of the Transmission
10 Projects. Receipt of these transmission revenues incorporated into GMO's Missouri
11 Commission ratemaking process would serve to offset a portion of the transmission
12 costs charged to GMO by other SPP entities associated with the other entities' regional
13 projects constructed in their respective service territories.

14 Q. Has the level of transmission expenses GMO and KCPL have incurred and
15 passed through to their ratepayers increased significantly over the past several years?

16 A. Yes. As the sponsor of Staff's recommended treatment of GMO's and
17 KCPL's transmission expenses in those companies' recently completed 2012 rate cases, File
18 Nos. ER-2012-0174 and ER-2012-0175, I am very familiar with the increase in these
19 expenses over the last several years. Transmission expenses charged to GMO and KCPL by
20 the SPP have increased significantly over the past several years.

21 Q. How much does GMO expect SPP allocated transmission expenses to
22 continue to increase over the next several years?

1 A. GMO witness John R. Carlson provided evidence as to the extent of GMO's
2 increasing transmission expense in File No. ER-2012-0175. Mr. Carlson stated that from
3 2014 through 2019 GMO's share of SPP transmission costs will increase approximately
4 14% each year:

> 5 Q. How are SPP transmission costs allocated to GMO
> 6 expected to change?
>
> 7 A. SPP transmission costs allocated to the Company have
> 8 been rising, and projections from SPP show that these expenses
> 9 will continue to increase through 2016, recede slightly from
> 10 there through 2018, and then increase again in 2019. SPP
> 11 projects that transmission costs allocated to GMO will be $6.8
> 12 million for the calendar year 2012. SPP further projects the
> 13 Company's share of the SPP transmission costs will increase to
> 14 $9.2 million in 2014 and peak at over $16.7 million in 2019
> 15 (Schedule JRC-1). This equates to an approximate 14%
> 16 increase per year over that timeframe. These projections reflect
> 17 both zonal and region-wide components of the costs of SPP-
> 18 approved projects and the increases are primarily driven by the
> 19 region-wide components
>
> 20 [John R. Carlson Direct Testimony ER-2012-0175 GMO, p. 9]

21 Q. What is the cause of this significant increase in SPP transmission charges to
22 GMO and KCPL?

23 A. These cost increases are, to a significant extent, a direct result of the current
24 high number of SPP regional transmission projects that have been and are currently being
25 constructed by utilities and other entities in the SPP footprint. A number of these projects
26 also include increased costs due to incentives and other extraordinary ratemaking
27 mechanisms granted by FERC such as the 50 basis point ROE adder for being a member of a
28 Regional Transmission Organization ("RTO Adder Incentive") and also a 100 basis point
29 incentive ROE adder awarded by the FERC to some of these projects.

1 Q. Does the burden being placed on GMO's ratepayers as a result of these
2 significant annual transmission expense increases caused by other SPP regional
3 transmission projects make it particularly important that GMO's customers receive relief in
4 the form of offsetting revenue credits from GMO's rate based transmission plant
5 investments, such as the investments made by GMO in the Sibley-Nebraska City project and
6 the Iatan-Nashua project?

7 A. Yes. It is just and reasonable. Reflecting SPP transmission revenues to the
8 fullest extent possible in Missouri retail rates is particularly appropriate in light of the
9 increasing transmission expense burden ratepayers have been incurring and will continue to
10 incur into the foreseeable future. The transmission revenues from SPP regional transmission
11 projects (Iatan-Nashua and Sibley-Nebraska City) that should be reflected in GMO's cost of
12 service are simply the flip side of the coin of the transmission expenses from regional SPP
13 transmission projects that have been, are currently, and will continue to be reflected in
14 GMO's cost of service.

15 GMO's customers are paying the expenses (which are based on FERC incentive ROE
16 adders and other extraordinary ratemaking mechanisms) of SPP's regional transmission
17 projects (constructed by other utilities in the SPP) in rates today and will continue to pay for
18 these significantly increasing costs into the future. Just as it is just and reasonable to include
19 the Iatan-Nashua and Sibley-Nebraska City in GMO's rate base, it is unjust and unreasonable
20 for KCPL/GMO to take actions that would result in these Transmission Projects not being
21 included in GMO's rate base when they are fully operational.

1 Q. Are the Applicants aware that the significant cost burden being placed on
2 GMO and KCPL customers is directly related to the allocated cost of SPP's regional
3 transmission projects?
4 A. Yes. As noted by KCPL/GMO witness Darrin Ives in his Direct Testimony in
5 GMO's recently completed rate case, File No. ER-2012-0175, "…An added factor in the
6 coming years relates to the SPP's regional transmission upgrade projects and increasing
7 SPP administrative fees, which will increase GMO's costs significantly in coming years."
8 [Exhibit 123 Darrin Ives Direct ER-2012-0175 GMO page 12, lines 12-14]. Mr. Ives'
9 testimony is further supported by the Rebuttal Testimony of GMO witness John R. Carlson
10 in File No. ER-2012-0175:

> 11 As SPP transmission projects are completed and placed in
> 12 service, the costs are allocated to transmission customers based
> 13 on the zonal and regional Annual Transmission Revenue
> 14 Requirement ("ATRR") amounts approved by the Federal
> 15 Energy Regulatory Commission and the magnitude of load
> 16 associated with each customer's transmission service. The
> 17 increase in monthly transmission costs allocated to GMO
> 18 between March 2012 and August 31, 2012 is a direct reflection
> 19 of more transmission resources becoming used and useful.
> 20 [John R. Carlson Rebuttal Testimony ER-2012-0175 GMO p.2
> 21 lines 16-22]

22 Q. Did GPE anticipate that the Staff would consider the transfer of the Missouri
23 Transmission projects to be detrimental due to the loss of FERC-incented Transmission
24 Revenues that would be included in GMO's cost of service as a credit to Transmission
25 Expenses?
26 A. Yes. ** ____
27 ____
28 ____

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12 ______ **

13 Q. Is there an indication that the financial community believes that transmission
14 projects such as the Iatan-Nashua and Sibley-Nebraska City Projects will be beneficial to the
15 regulated utilities which construct these projects given the FERC ratemaking ROE incentives
16 and other ratemaking mechanisms?

17 A. Yes. In its April 12, 2012 Standard and Poors (S&P) Report, S&P described
18 its view of the 2012 utility merger of Northeast Utilities ("NU") and NSTAR, wherein
19 NSTAR became part of the NU system S&P indicated that the "attractive" ROEs and other
20 ratemaking incentives will enhance NU's cash flow and provide earnings stability. This
21 document is attached as Schedule CRH-2 to this testimony:

> 22 The merger has combined two relatively low-risk companies in
> 23 contiguous service areas with similar corporate strategies. NU,
> 24 which will be the largest utility in New England, will continue
> 25 to concentrate on its core utility rate base, with increasing
> 26 investments primarily in transmission projects. The
> 27 transmission investments provide for attractive allowed returns
> 28 on equity (ROEs) and recovery of financing costs for some of
> 29 the major projects during the construction period, which helps
> 30 to enhance cash flow and provide earnings stability . . .[page 3]

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Q. Earlier you mentioned that the Staff performed an analysis to quantify a reasonable estimate of the detriment that will be absorbed by GMO's customers if the Missouri Commission approves the KCPL/GMO and Transource Missouri Applications. Please describe this analysis.

A. The Staff performed a primary analysis using GMO's current federal and state actual tariffed capital costs. The Staff also performed a secondary analysis using more current GMO long-term debt costs and capital structure than is included in GMO's FERC ATRR. These analyses are provided as Schedule CRH-1 to this testimony.

The Staff's primary analysis calculated (a) the incremental cost of the Missouri Transmission Projects on GMO's ratepayers over the next 20 years using GMO's current capital structure, capital costs and other costs ordered earlier this month by the Missouri Commission in File No, ER-2012-0175, GMO's 2012 rate case. The Staff then compared the cost of these projects with (b) the incremental revenues that GMO would receive from other SPP entities (collected by the SPP and provided back to GMO) as transmission revenues. The calculation of these transmission revenues is based on the capital structure, capital costs and other costs in GMO's current FERC tariff, which, as described above, produce a much higher revenue requirement. By transferring the Transmission Projects to Transource Missouri, GMO will lose the future transmission revenues of from the Project, as it will not own the Projects, and this is the basis of the quantification of the GMO customer detriment.

In the Staff's secondary analysis, the Staff updated GMO's capital structure and long-term debt rate. The Staff reduced GMO's long-term debt rate in its FERC tariff to the rate approved by the Missouri Commission in File No. ER-2012-0175. The Staff also

1 updated GMO's capital structure from its FERC tariff to make it consistent with the capital
2 structure proposed by GMO and ordered by the Missouri Commission in the 2012 rate case.

3 Q. What were the results of the Staff's analysis?

4 A. The Staff's analysis shows a detriment to GMO's customers in nominal
5 dollars of $27 million after 5 years, $48 million after 10 years and $76 million after
6 twenty years as reflected in the chart below. It should be noted that the detriment amount
7 calculated by Staff is conservative as it only included the FERC ROE incentives in the
8 revenue requirement comparisons between Missouri and FERC ratemaking. The Staff's
9 analysis would likely result in a higher detriment if it included all of the other FERC
10 extraordinary ratemaking mechanisms that GMO has asserted that it would seek and be
11 granted by the FERC.

12 The impact of the updated GMO's long-term debt cost was offset by the updated
13 equity percentage in GMO's capital structure, thus having no impact on the level of the
14 detriment as quantified in the analysis. The calculation of the detriment, by year, is reflected
15 on the attached schedules labeled Schedule CRH-1.

16

	Current FERC and MO Tariff	Updated LTD rate and Capital Structure
	GMO Ratepayer Detriment (Millions)	GMO Ratepayer Detriment (Millions)
5 Years	$27	$27
10 Years	$48	$48
20 Years	$76	$76

17 Q. Did the Staff ask KCPL/GMO and Transource Missouri if it had performed
18 any analysis on the impact on KCPL/GMO's ratepayers of the proposed transaction?

1 A. Yes. On November 30, 2012 Staff issued Data Request No. 0081 which asked
2 for a copy of each and every formal or informal, final or draft study and/or analysis of the
3 cost of service impact on the retail rates of KCPL and/or GMO if the Iatan-Nashua and/or
4 Sibley-Nebraska City project transmission facilities are transferred to Transource Missouri
5 from KCPL/GMO. Staff also asked for a description of the results of such study and/or
6 analysis the associated workpapers.

7 On December 20, 2012 KCPL/GMO and Transource Missouri responded to this data
8 request (as they had to several of Staff data requests) with an objection. In this particular
9 objection KCPL, GMO, and Transource Missouri objected to this request to the extent that it
10 sought matters subject to the attorney-client privilege or protected as work product and/or
11 other materials prepared in anticipation of litigation or for trial or hearing, as in-house and
12 outside counsel were involved in these matters. KCPL, GMO, and Transource Missouri did
13 provide a response on December 20, 2012 stating:

> 14 The companies agree to produce any such non-privileged
> 15 studies and/or analyses. Currently the only information
> 16 responsive to the request is protected by the asserted privileges
> 17 and work product doctrine.

18 On January 16, 2013, KCPL, GMO and Transource Missouri provided a
19 non-privileged supplemental response to Staff Data Request No. 0081 (Data Request 0081S)
20 in the form of a one-year analysis.

21 Q. Did this analysis address the significant detriment to GMO's ratepayers
22 that will result as a direct result of transferring the two transmission projects to
23 Transource Missouri?

24 A. No. This one-year analysis calculated an estimated revenue requirement
25 impact of the Sibley-Nebraska City Project using FERC tariff costs. This analysis shows that

1 the revenue requirement impact would be higher if Transource Missouri owned the
2 Sibley-Nebraska City Project as opposed to GMO owning the project solely due to the
3 differences in the depreciation rates Transource Missouri has proposed to use for the project
4 and the fact that Transource Missouri would have to incur additional audit fees.

5 Q. What are the causes of the difference in revenue requirement under
6 Transource ownership?

7 A. As noted above, because of the FERC ROE incentives, GMO will be
8 collecting revenues (from other SPP members) based on a higher cost of capital than its
9 actual capital cost of constructing and financing the Transmission Projects. The higher
10 capital cost is a result of the 100 basis point ROE incentive adder awarded to the
11 Sibley-Nebraska City project and the 50 basis point adder included in GMO's FERC tariff
12 for both Transmission Projects as a reward to GMO being a member of a RTO.

13 For the Sibley-Nebraska City project, GMO's base FERC ROE is 10.6%. With the
14 added 150 basis points GMO's FERC ROE is 12.1%. This FERC ROE of 12.1% is
15 compared to a currently authorized Missouri retail ROE of 9.7%. If the Projects are included
16 in GMO's rate base, the revenue requirement impact of these higher equity cost rates will
17 cause the transmission revenues to be received by GMO to be significantly higher than the
18 transmission expenses to be charged GMO customers if the two Projects were included in
19 GMO's rate base.

20 For the Iatan-Nashua line, Transource Missouri determined not to seek the 100
21 basis point ROE incentive so the equity return difference for this project would be GMO's
22 base FERC ROE of 10.6% plus the 50 basis point RTO adder for a total of 11.1%, which

1 is then compared to the Missouri jurisdiction ROE of 9.7% just ordered for GMO by
2 the Missouri Commission.

3 Q. Did KCPL/GMO seek the FERC ROE incentives for these projects?

4 A. No. It is Staff's understanding that KCPL/GMO did not seek the
5 FERC incentives as well as other FERC ratemaking mechanisms because GPE had entered
6 into the joint venture with AEP and it was decided by GPE that the FERC incentives and
7 other ratemaking mechanisms for these Transmission Projects would be sought by
8 Transource Missouri.

9 Q. If the Missouri Commission does not approve this transaction and the
10 authority sought in the Applications, would KCPL/GMO receive the exact same FERC
11 incentives and other ratemaking mechanisms as Transource Missouri has received from
12 the FERC?

13 A. I posed this question to KCPL/GMO witnesses Darrin Ives and Todd Fridley
14 in a meeting with Staff on January 17, 2013, at KCPL Headquarters in Kansas City,
15 Missouri. Both Messrs. Ives and Fridley stated they were "very confident" that KCPL and
16 GMO would get the same FERC incentive ROEs and other ratemaking mechanisms that
17 were awarded to Transource Missouri for the Transmission Projects, with the exception of
18 the hypothetical capital structure.

19 Also, as noted by KCPL/GMO in response to Staff Data Request No. 0031 signed by
20 Mr. Ives:

> KCP&L and GMO would make application at FERC to request incentive treatments for the projects. If the projects were retained by KCP&L and GMO, the request for incentives would be generally the same as those requested by Transource Missouri with the exception of hypothetical capital structure. The incentives are available to all transmission owners and are granted by FERC on the basis of each project's merit.

KCPL/GMO in response in part to Staff Data Request No. 0069 provided their explanation why KCPL, GMO and Transource Missouri believe they are entitled to FERC incentives:

> 3)…The incentives that are sought by Transource Missouri (as well as those that would be sought by KCP&L/GMO if it were proposing to own and construct the Projects) are incentives to which the Applicants believe they are entitled and that are allowed by FERC to be recovered.
>
> The incentives serve as compensation for accepting risk and ensuring the Projects are completed to the betterment of the transmission system and all customers who rely upon it. The incentives and other costs included in rates will be those that FERC has determined to be appropriate for the customers of wholesale transmission service to pay.
>
> The payment of incentives that benefit the provision of wholesale transmission service also benefit the end use retail customers who rely upon the wholesale transmission service for delivery of power from resources to their end use loads. This is no different for Missouri end use retail customers served by KCP&L/GMO than it would be for any other end use retail customer who benefits from the wholesale transmission service provided by the Projects.

Staff asked in Data Request No. 0079 what FERC incentives KCPL/GMO would have requested if they had proceeded as the sole owners of the Projects. KCPL/GMO responded, in part, as follows:

1 Objection:
2 KCP&L, GMO, and Transource Missouri object to this request
3 in that it calls for speculation and is not proper discovery, as
4 data requests are designed to obtain the basic facts of the case
5 and not the opinions of the parties. Without waiving such
6 objections, KCP&L, GMO, and Transource Missouri will
7 endeavor to provide a response to this data request.

8 Response:
9 1. As stated on page 15 of Mr. Darrin Ives' Direct Testimony
10 in Case No. EO-2012-0367, if KCP&L/GMO had not decided
11 to partner with AEP through Transource Missouri,
12 KCP&L/GMO would have requested similar incentives to
13 those requested by Transource Missouri, with the exception of
14 the use of a hypothetical capital structure during construction.
15 KCP&L/GMO would have requested a 50 basis point adder for
16 RTO participation for both Projects, a 100 basis point risk
17 adder for the Sibley-Nebraska City Project only, inclusion of
18 100% of construction work in process in rate base during the
19 development and construction periods for each of the Projects,
20 deferral of all prudently-incurred costs that are not capitalized
21 prior to the rates going into effect for recovery in future rates,
22 and recovery of prudently-incurred costs in the event either of
23 the Projects must be abandoned for reasons outside the
24 reasonable control of Transource Missouri.

25 Q. Did KCPL and GPE officers create and discuss the "Pros/Opportunities" and
26 "Cons/Risks" of a joint venture with GPE's Board of Directors?

27 A. Yes. The topic of the Pros and Cons of a joint venture transaction was
28 discussed at a February 7, 2012 GPE Board of Directors meeting. As noted in the minutes of
29 this meeting, the following Pros/Opportunities and Cons/Risks of the Transource Joint
30 Venture were identified:

31 ** ________________
32 ____________________________
33 ____
34 ____________________________
35 ______________________________

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2 ______________________________
3 ______________________________________
4 ___________________________________
5 ____________________ **

6 Q. What is significant about the list of Pro's/Opportunities and the Con's/Risks
7 of the Transource transaction as identified by KCPL and GPE officers?

8 A. What is most significant about this Pro's/Con's analysis is that the impact on
9 KCPL/GMO's regulated customers was not a major focus of this analysis. While an
10 improvement in credit metrics and lower construction risk can benefit customers, the
11 overriding focus of this analysis is on GPE's shareholders.

12 The first two Pro's/Opportunities are only beneficial to GPE's shareholders and are
13 detrimental utility ratepayers. The referenced NPV or "net present value" is the expected
14 present value of the future non-Missouri regulated earnings of Transource Missouri that will
15 accrue to GPE's shareholders. The four Con's/Risks of the transaction are all existing
16 detriments or potential future detriments to GMO's and KCPL's customers.

17 Q. Please explain.

18 A. ** ____
19 ____
20 ____
21 ____
22 __________________________
23 ____
24 ____

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FERC Incentives and Extraordinary Ratemaking

Q. Please list and describe each FERC incentive that has been awarded by the FERC to Transource Missouri and that KCPL/GMO would very likely receive if the Transource Missouri joint venture does not materialize.

A. The following incentives were requested by Transource Missouri and granted by FERC in its October 31, 2012 Transource Missouri Order. As described above, KCPL/GMO is very confident that the FERC would grant these exact ROE and other extraordinary ratemaking mechanisms (with the exception of a hypothetical capital structure) to KCPL/GMO:

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i. Inclusion of 100% of CWIP in rate base during the development and construction phase of the Projects ("CWIP Incentive"). This incentive is designed to alleviate cash flow difficulties associated with the capital requirements and lead times for building each of the Projects.

ii. Recovery of all prudently-incurred costs not capitalized and authorization to establish regulatory assets that will include all such expenses that are incurred in connection with the Projects prior to the rate year in which costs are first flowed through to customers pursuant to the Transource Missouri Formula Rate under the SPP OATT, including authorization to amortize the regulatory assets with interest over five years for cost recovery purposes ("Regulatory Asset Incentive"). This incentive is designed to alleviate cash flow difficulties associated with the capital requirements and lead times for building each of the Projects.

iii. Use of a hypothetical capital structure until long-term financing is in place for the Projects ("Hypothetical Capital Structure Incentive"). This incentive will address the fluctuating capital structure that is present for any start-up developer during the construction phase of its initial projects. This would not be requested by KCP&L/GMO because their existing capital structure would not be subject to the fluctuations of a start-up developer.

iv. Recovery of prudently incurred costs in the event either or both of the Projects must be abandoned for reasons outside Transource Missouri's reasonable control ("Abandonment Incentive"). This incentive is targeted at mitigating the risk that one or both of the Projects may be cancelled for reasons outside the control of Transource Missouri, which, in the absence of such incentive, can impede financing for the Projects.

Two additional ROE related incentives were requested and granted by FERC in its October 31, 2012 order.

i. A 100 basis point ROE adder for its investment in the Sibley-Nebraska City Project to compensate for the risks and benefits of the Project ("ROE Risk Adder Incentive"). The ROE Risk Adder Incentive is designed to facilitate Transource Missouri's ability to raise capital on reasonable terms. If Transource Missouri is not provided an opportunity to earn a return that is sufficient to compensate for the risks of the

Project, investors and lenders will be unwilling to supply capital.

ii. A 50 basis point ROE adder for its participation in a Regional Transmission Organization ("RTO Adder Incentive"). This incentive is designed to encourage public utilities to participate in RTOs and thus provide the financial and operational benefits associated with RTO membership to its customers. Because Transource Missouri, KCP&L/GMO, or any other entity that would construct these Projects would be a member of SPP, this incentive would apply to any developer, so there is no retail cost differential associated with this incentive. This incentive is not project specific and has already been granted to KCP&L/GMO by FERC.

2. If the ROE incentives are allowed for the Projects, they will increase the return on equity and the AFUDC incurred on construction costs compared to a return on equity that does not include the incentives. In turn, these increases will affect the rates charged for wholesale transmission services to all customers of that service, including customers in Missouri [KCPL/GMO Transource Missouri response to Staff Data Request No. 0080].

Q. What types of costs would be included in the Regulatory Asset Incentive?

A. As listed at pages 25 and 26 of Transource Missouri's FERC Application for Incentive Ratemaking, the types of costs included in the Regulatory Asset are startup and development costs, attorney and consultant fees, administrative expenses, travel expenses, development surveys and costs to support planning activities. Transource Missouri sought and FERC approved a rapid recovery period of five years for these Transmission Project costs as well as allowing the accruing of a monthly financial return on the asset balances until the assets are included in rate base.

Notifications to Construct are Regulated Utility Assets to KCPL and GMO

Q. What are Notifications to Construct or NTCs?

A. A SPP Notification to Construct letter is a formal SPP document directing the commencement of construction of transmission projects intended to meet SPP needs.

Q. Are the NTCs issued by the SPP to GMO and KCPL for these two Transmission Projects considered to be assets of the regulated utilities?

A. Yes, they are assets with considerable value. The most commonly accepted definition of an asset in the accounting profession can be found in the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Concepts No. 6, Elements of Financial Statements ("CON 6"). In CON 6, assets are defined as "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events."

In an October 20, 2008 Joint meeting of the FASB and the International Accounting Standards Board ("IASB"), the Boards tentatively adopted the following working definition of an asset as a part of their joint project on the Accounting conceptual framework:

> Definition of an Asset
>
> "An asset of an entity is a present economic resource to which the entity has a right or other access that others do not have."
>
> 1. Present means that on the date of the financial statements both the economic resource exists and the entity has the right or other access that others do not have.
>
> 2. An economic resource is something that is scarce and capable of producing cash inflows or reducing cash outflows, directly or indirectly, alone or together with other economic resources. Economic resources that arise from contracts and other binding arrangements are unconditional promises and other abilities to require provision of economic resources, including through risk protection.
>
> 3. A right or other access that others do not have enables the entity to use the economic resource and its use by others can be

1 precluded or limited. A right or other access that others do not
2 have needs to be enforceable by legal or equivalent means.

3 The NTCs the SPP issued to KCPL and GMO for the two Missouri Transmission
4 projects meet both FASB definitions of an asset. Each NTC is an economic resource (the
5 right to construct utility plant that will generate utility revenues) that only KCPL and GMO
6 own, control and have the right to access, and that others do not have the right to access.

7 The fact that the FERC has awarded ratemaking incentives that will increase GMO's
8 future revenues from these Transmission Projects does not change the fact that these Projects
9 are assets; however, the FERC incentives and other extraordinary ratemaking mechanisms do
10 serve to increase the value of these assets to KCPL and GMO and their Missouri regulated
11 utility customers.

12 Q. Does GPE recognize that the NTCs awarded to KCPL and GMO are very
13 valuable utility assets?

14 A. Yes. GPE recognizes the NTCs for the Transmission Projects are valuable
15 assets in its actions forming the Transource joint venture with AEP. GPE's Officers and
16 GPE's Board of Directors made the decision to contribute to the joint venture the rights to
17 construct (NTC assets owned by GPE's Missouri regulated utilities GMO and KCPL) to
18 the two Transmission Projects. This decision was not made by the regulated utilities, GMO
19 and KCPL.

20 As owners of the NTCs for the Transmission Projects GPE was able to forego the
21 investment of cash in the Transource joint venture by contributing the NTCs for the
22 Transmission Projects. The two NTCs were the consideration GPE gave to AEP to secure
23 GPE's 13.5% interest in Transource Missouri.

Mr. Michael L. Deggendorf, KCPL Senior Vice President-Corporate Services and a member of the Board of Managers of Transource explained the use of the NTC as consideration in lieu of cash:

> ** ____
> ____
> ____
> ____
> ____
> ____
> ____________ ** [Minutes of the August 1, 2011 GPE Board of Directors Meeting]

GPE's reason for partnering with AEP

Q. Did you attempt to determine why GPE entered into the joint venture transaction with AEP to form Transource and Transource Missouri?

A. Yes, I did.

Q. What are your conclusions?

A. The most objective evidence I could find relating to the actual reasons why GPE entered into this joint venture with AEP I found in GPE's May 4, 2012 Earnings Conference Call discussion between senior GPE officers and members of the financial community.

In the Questions and Answer portion of this Earnings Conference Call, KCPL and GPE President and Chief Executive Officer,("CEO") Mr. Terry Bassham stated that the main reason GPE partnered with AEP was to give GPE the ability to compete for non-Missouri regulated transmission projects outside of Missouri and throughout the United States. At the date of this Earnings Conference Call, Mr. Bassham was GPE's President and Chief Operating Officer. Also in this Earnings Conference Call Mr. Michael Chesser, GPE's then

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Chairman and CEO, stated that the reason for the joint venture was so that GPE "will be well positioned to compete in the emerging competitive transmission market, while, very importantly, further diversifying our earnings and footprint."

As noted in the below transcript of GPE's May 4, 2012 Earnings Conference Call, Messrs. Chesser and Bassham describe GPE's primary reasons for partnering with AEP:

> TRANSCRIPT
> Great Plains Energy Earnings Conference Call May 4, 2012
>
> **Mike Chesser** - *Great Plains Energy Inc - Chairman, CEO –*
> Last month was an active month for us, as we also announced the formation of Transource Energy, a joint venture with American Electric Power. Transource will pursue competitive transmission projects that fall within the scope of FERC order 1000. The order facilitates competition, and will foster a national perspective of the market. The initial focus of Transource, of which were own 13.5% share, will be on new projects in the Southwest Power Tool, Midwest Independent Transmission System Operator, and PJM Interconnection, with expansion to other regional transmission organizations, or RTOs, as markets mature. In addition to exclusively agreeing to pursue new FERC order 1000 projects, we will also seek revelatory approval to novate two of our Southwest Power Tool regional projects to Transource. <u>We believe that by partnering with AEP, a recognized leader in the transmission business, Great Plains Energy will be well positioned to compete in the emerging competitive transmission market, while, very importantly, further diversifying our earnings and footprint.</u> [emphasis added]
>
> **Jim Shay** - *Great Plains Energy Inc - SVP, CFO –*
> Further, as Mike mentioned, with our partnership in Transource, we believe we will be well positioned to compete in the emerging competitive transmission market space. Transource also provides the benefit of diversifying earnings, and the partnership has the added benefit of potentially reducing medium term capital expenditure requirements and external financing needs.
>
> **Andy Levi** - *Avon Capital – Analyst -*
> Okay. Then just on Transource. I guess so the main reason that you got into the partnership is to preserve capital, or –

1 **Terry Bassham** - *Great Plains Energy Inc - President and COO –*
2 This is Terry again. That wasn't the main reason. That was one
3 of the factors, obviously, that we were looking at. The main
4 reason was that we had two solid projects that were locked
5 down, but with the order 1000, it was clear that we would have
6 to compete, even locally, against larger competitors, likely and
7 our ability, practically, to compete outside our territory would
8 have been eliminated. For us to go to another jurisdiction,
9 given our size, is not likely. So the main reason was that it gave
10 us an opportunity to partner with AEP, who is a long time
11 transmission entity with lots of experience, and a larger entity
12 who could help us participate in other markets. Certainly, over
13 the next several years we've got mandatory EPA spend at La
14 Cygne, and that certainly gave us the ability to have some more
15 flexibility around capital in the next three to four years. So it
16 was certainly something we thought was a nice fit. But the
17 main reason was to give us the ability to compete outside of
18 just the SPP, given the order 1000 removal of right of first
19 refusal. [emphasis added]

20 Q. Did you review the portions of GPE's Board of Director minutes related to
21 this transaction?

22 A. Yes, I reviewed most if not all of the minutes of the meetings of GPE's Board
23 of Directors related to the GPE-AEP joint venture creating Transource as well as the
24 presentations made by GPE officers related to Transource.

25 Q. In any of the documents you reviewed, was there any expression of concerns
26 relating the existence of benefits or detriments associated with this transaction to KCPL's or
27 GMO's regulated utility customers?

28 A. No. I reviewed a significant number of minutes of GPE Board of Director
29 meetings and the presentations concerning this transaction by GPE management to GPE
30 Board of Directors. I do not recall in any of the documents any discussion of benefits or
31 detriments on GPE's regulated utility customers associated with this transaction.

1 **AEP's reason for partnering with GPE**

2 Q. What is your understanding of the reasons why AEP chose to enter into a joint
3 venture with GPE?

4 A. In a November 16, 2012 article in TransmissionHub Transource President:
5 Reliable, flexible, robust grid "is of paramount importance" it was described that AEP and
6 GPE formed Transource specifically to take advantage of the impending competition
7 created by FERC Order No. 1000. In this article Transource President Antonio Smyth (also a
8 witness for Transource Missouri in File No. EA-2013-0098) stated " 'Transource has set
9 itself up to be flexible; ready to work with partners where possible or necessary, and prepared
10 to be a standalone developer.' " The article went on to describe how Transource plans to
11 focus on competitive projects in the PJM Interconnection, Midwest Independent
12 Transmission System Operator ("MISO") and Southwest Power Pool (SPP) regions, and it
13 initially targeted two SPP projects for development – Iatan-to-Nashua and Sibley-to-
14 Nebraska City.

15 Q. Is the creation and development of Transource part of a greater AEP strategy?

16 A. Yes. In a March 20, 2012 article in TransmissionHub entitled *CEO: AEP*
17 *looking for 'critical mass' around transmission*, AEP President and CEO Nick Akins stated
18 that AEP is looking to enter into partnerships in the MISO, PJM, SPP and ERCOT regions in
19 order for AEP to obtain "critical mass" around transmission:

> 20 American Electric Power (NYSE:AEP) is currently looking to
> 21 strike multiple joint ventures in the territories in which it
> 22 operates and in adjacent territories, President and CEO Nick
> 23 Akins told *TransmissionHub* on the sidelines of the 4th Annual
> 24 EnergyBiz Leadership Forum on March 20. The Columbus,
> 25 Ohio-based utility specifically is looking for partnerships in the
> 26 PJM Interconnection, the Midwest ISO, the Southwest Power

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1 Pool and ERCOT, Akins said. "We're trying to get critical
2 mass around transmission, so we are dealing with those
3 adjacent systems to us so we can fully understand and can get
4 the projects through quickly," he said. "We'll do multiple joint
5 ventures with parties so we can move forward with specific
6 projects," both incumbent and competitive, he added.

7 Q. Please describe the Transource Business Plan.

8 A. Transource's Business Plan ** ________________________________

9 ____

10 ____

11 ____

12 ____ ** [Staff Data

13 Request No. 0001, Transource Business Plan, page 2, Executive Summary]

14 Q. Are there any reasons why the Missouri Commission should be concerned

15 with supporting GPE's ability to construct, operate and own transmission projects outside of

16 Missouri, which is GPE's motivation behind this joint venture?

17 A. No. To the extent KCPL and GMO utility personnel are engaged in

18 transmission projects outside the state of Missouri, they will not be focused on the primary

19 mission of the utility – to provide safe and adequate service at reasonable rates to its Missouri

20 customers. That is where the focus of utility employees should be at all times. When the

21 focus of regulated utility personnel is on non-regulated operations, the impact on

22 jurisdictional utility customers will very likely be detrimental.

23 It is apparent that the motivation behind this transaction is that KCPL/GMO's

24 nonregulated parent company, GPE, is interested in very attractive long-term shareholder

25 returns from investments in future transmission projects throughout the United States. To

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1 secure these returns GPE is willing to trade valuable regulated transmission projects (assets)
2 that currently belong to its regulated utilities.

3 **KCPL and GMO's Ability to Construct the Transmission Projects**

4 Q. Have KCPL and GMO stated that they could construct the Transmission
5 Projects as stand-alone regulated electric utilities?

6 A. Yes. Both KCPL and GMO have historically planned and constructed
7 transmission lines of voltages up to and including 345kV (KCPL/GMO response to Staff
8 Data Request No. 0005). In GPE's Third Quarter 2011 Securities and Exchange
9 Commission ("SEC") Form 10-Q, Quarterly Report, GPE stated that GMO and KCPL had
10 the obligation to build the Transmission Projects, which may be done solely or with other
11 entities, unless the obligation is transferred to another qualified transmission owner. As of
12 the date of this 10-Q, KCPL and GMO had not determined which of these alternative courses
13 of action to pursue, but KCPL and GMO clearly indicated that one of their options was to
14 construct the Transmission Projects themselves.

15 In response to Staff Data Request No. 0055, KCPL explained how KCPL and GMO
16 take the primary role in engineering, construction, procurement and operations and
17 maintenance of the Transmission Projects even if GPE's joint venture with AEP forming
18 Transource is approved. KCPL and GMO have the capability to physically construct the
19 Transmission Projects as stand alone entities. As will be described below, they have the
20 financial capability as well:

21 1) **Engineering -** KCP&L and GMO will lead the engineering
22 services and management of such services for the Projects.
23 These services by KCP&L and GMO will be provided to
24 Transource Missouri through the service agreements in place
25 for the Transource venture with AEP and GPE. Due to the
26 large scale of these transmission projects, KCP&L and GMO

1 engineering services will be supplemented either by additional
2 contractor support or additional resources from AEP through
3 Transource services and support agreements, or both.

4 2) **Construction –** KCP&L and GMO will lead the
5 construction services and management of such services for the
6 Projects. These services by KCP&L and GMO will be
7 provided to Transource Missouri through the service
8 agreements attached as schedules to the direct testimony of
9 Darrin Ives in Case No. EO-2012-0367. Historically, KCP&L
10 and GMO have not retained full time personnel to perform
11 transmission line construction services due to the specialization
12 of transmission construction craft and the cyclical nature of
13 transmission projects. Therefore construction services for the
14 Projects will be managed by KCP&L and GMO personnel and
15 construction activities will be performed through contract with
16 a transmission constructor. KCP&L and GMO may, through
17 the Transource venture, be able to capture additional synergies
18 for construction with AEP's key vendor relationships such as
19 transmission construction.

20 **Procurement -** KCP&L and GMO will lead the procurement
21 of materials and related procurement services for the Projects.
22 These services by KCP&L and GMO will be provided to
23 Transource Missouri through the service agreements attached
24 as schedules to the direct testimony of Darrin Ives in Case No.
25 EO-2012-0367. Because of the large scale of the projects,
26 KCP&L and GMO may, through Transource, capture
27 additional synergies with AEP's procurement capabilities that
28 would help reduce costs for key material contracts.

29 **Operation & Maintenance –** KCP&L and GMO will provide
30 ongoing operation and maintenance activities for the Projects
31 once they are completed and in service. These services by
32 KCP&L and GMO will be provided to Transource Missouri
33 attached as schedules to the direct testimony of Darrin Ives in
34 Case No. EO-2012-0367. It is not anticipated that AEP would
35 provide any local operation and maintenance services through
36 the Transource for the Projects.

37 Q. When KCPL/GMO were considering constructing the two Transmission
38 Projects, what were the estimated capital expenditures associated with these Projects
39 by year?

A. This information was obtained from the document titled **

**

**

**

Q. Did Goldman Sachs reach any conclusions in its report about KCPL's and GMO's abilities to fund the Transmission projects on a stand-alone basis?

A. Yes. Goldman Sachs **

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**

Q. Does KCPL/GMO have the experience and expertise to construct the Transmission Projects?

A. Yes, the Staff believes that KCPL personnel have the experience and expertise necessary to construct the Transmission Projects on a stand-alone basis. The Staff's belief is consistent with KCPL's belief that it has the required experience and expertise.

KCPL/GMO witness Deggendorf described KCPL's abilities to construct, operate and maintain utility plant at page 6, line 12 of his direct testimony:

> For the Projects, GPE, through its operating companies, provides ongoing project management through a multi-function, multi-discipline project management team, consisting of employees and contractors with wide-ranging expertise in areas including transmission planning, engineering, construction, procurement, real estate, environmental, legal, regulatory, communications, and public affairs.

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1 GPE, through its operating companies, will continue to provide
2 these services after the Projects are novated to Transource
3 Missouri, as well as providing operations and maintenance
4 services after the Projects become operational.

5 Through Transource, KCP&L will provide operations and
6 maintenance labor through services and support agreements.

7 Beyond the Projects, GPE provides regulatory, policy, and
8 transmission planning expertise to Transource within the states
9 and regional transmission organizations in which KCP&L and
10 GMO operate.

11 KCP&L and GMO also possess local experience for
12 transmission projects in rights-of-way, land acquisition,
13 construction, operations, and maintenance activities.

14 Mr. Deggendorf also describes at page 7 of his direct testimony KCPL's and GMO's
15 project management skills and their commitment to the communities in which they operate.
16 He states that "GPE's operating utilities have a long history of strong infrastructure
17 investment and reliable utility operations in Kansas and Missouri. The successful completion
18 of the Iatan Unit 2 supercritical coal-fired power plant is a recent example of the long-term
19 commitment that GPE and its subsidiaries make to complex regional projects in a
20 collaborative manner across a broad spectrum of stakeholders."

21 In support of his position that KCPL has the experience and expertise to construct
22 very large utility construction projects, Mr. Deggendorf notes that the Missouri Commission
23 found in its April 12, 2011 Report and Order in KCPL's 2010 rate case that Iatan Unit 2
24 "was constructed during a challenging economic climate and finished within three months of
25 the original target date," noting that the "evidence establish[ed] that KCP&L actively
26 managed the Iatan Project and put the proper controls in place." Mr. Deggendorf notes that
27 the Iatan Unit 2 project is an "excellent example of the long-term commitment and dedication
28 that GPE brings to successfully complete its projects."

1 Q. Do other Applicant witnesses testify to KCPL/GMO's experience and
2 expertise in utility construction projects?
3 A. Yes. Applicant witness Brent C. Davis, at page 15, lines 4-7 of his direct
4 testimony in File No. EA-2013-0098 and at page 14, lines 6-9 of his direct testimony in File
5 No. EO-2012-0367, states that "KCP&L has a multi-function, multi-discipline project
6 management team, consisting of employees and contractors with wide-ranging expertise in
7 areas including transmission planning, engineering, construction, procurement, real estate,
8 environmental, legal, regulatory, communications, and public affairs."
9 Q. If KCPL and GMO do not construct and own the Transmission Projects, will
10 the Transmission Projects be more difficult to construct and potentially more costly to
11 construct under Transource ownership?
12 A. Yes. At pages 17 and 22 of its August 31, 2012 filing with the FERC in
13 Docket No. ER12-2554-000 for incentive rate treatment and request for formula rates,
14 Transource Missouri admitted that negotiations with landowners for new rights-of-way
15 (as well as re-negotiations for existing rights-of-way) can prove costly and time consuming.
16 Transource Missouri recognizes that one of the reasons landowner resistance to both of the
17 Transmission Projects may be elevated is because the Transmission Projects will be
18 developed by Transource Missouri, which does not have the same familiarity to landowners
19 as KCPL and GMO.

20 **Rebuttal of KCPL/GMO witness Ives**

21 Q. At pages 4 through 7 of his direct testimony Applicant witness Ives provides
22 five reasons why GPE and AEP formed Transource. Please respond.

1 A. His first reason (page 4, lines 12-14 and page 5, lines 1-8) is that the
2 Transmission Projects are regional projects which tend to be larger in scope and scale and
3 require a much greater level of investment than what KCPL and GMO traditionally
4 encounter as utility companies. However, the scope of these projects hardly seem
5 overwhelming to a company who in the last three years has completed a $600 million coal
6 plant environmental upgrade, constructed a brand new $2 billion 850 MW coal plant and is
7 currently constructing a $1.23 billion ($615 million KCPL share) coal plant environmental
8 upgrade at its LaCygne Generating Station.

9 In an August 2011 article in Power magazine, Applicant witness Brent Davis,
10 who was Project Manager of both the Iatan 1 environmental upgrade and the new Iatan 2
11 coal plant, was quoted as follows: "There are few undertakings in this industry more difficult
12 and complex than constructing a coal plant." He added, "Having been involved in the project
13 from day one, I can proudly say that our execution in the construction and startup of
14 Iatan 2 was world class."

15 Mr. Ives' second reason (page 5, lines 9-19) is that these regional Transmission
16 Projects typically require significant capital investments. As noted above, in its Report on
17 the Transource Business Plan, Goldman Sachs found that ** ____________________
18 ____
19 ____
20 ________ ** In GPE's May 4, 2012 Earnings Conference Call, Mr. Bassham downplayed
21 the importance of the capital pressures of the Transmission Projects where he described the
22 added flexibility that the Transource joint venture provides, "…over the next several years
23 we've got mandatory EPA spend at La Cygne, and that certainly gave us the ability to have

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1 some more flexibility around capital in the next three to four years. So it was certainly
2 something we thought was a nice fit. But the main reason was to give us the ability to
3 compete outside of just the SPP, given the order 1000 removal of right of first refusal."

4 Mr. Ives' third reason why GPE formed a partnership with AEP, (page 5, lines 20-23
5 and page 6, lines 1-4) is that Transource should attract new and different source of capital to
6 its business. He then concludes that Transource's ability to attract new and different sources
7 of capital into the region at competitive rates is expected to lower transmission costs for
8 Missouri customers. Nothing in Transource Missouri or KCPL/GMO's Application or
9 testimony provides any analysis or support or evidence that the mere existence of Transouce
10 as an affiliate of GPE in Missouri will lower transmission cost for Missouri customers in
11 financing or other areas.

12 Ironically, Transource Missouri has done almost everything it possibly can to increase
13 transmission costs for Missouri customers (and all transmission customers in the SPP) by
14 aggressively seeking virtually every possible FERC ratemaking incentive and extraordinary
15 ratemaking mechanism that it could reasonably seek from the FERC. Transource Missouri
16 even sought the ability to be able to engage in single-issue ratemaking with its FERC tariff.
17 This Transource Missouri request was denied by FERC.

18 Mr. Ives' fourth reason (page 6, lines 5-17) is that because of FERC Order No. 1000's
19 removal of the federal right of first refusal it is only through KCPL's parent company's
20 partnership with AEP that KCPL/GMO will be able to compete for future transmission
21 construction projects in its service area. It is not clear why KCPL/GMO, if it had a desire to
22 bid for new transmission construction projects in its collective service territory, could not
23 compete without AEP as a partner. As noted throughout the direct testimonies in these cases,

1 KCPL is very experienced in the utility construction business and is able to finance and
2 construct major projects simultaneously.

3 Mr. Ives' fifth and final reason why GPE is forming a partnership (page 6, line 18
4 through page 7, line 8) is that Transource provides additional expertise in the construction of
5 transmission projects. He states that AEP brings to the partnership intangible benefits, such
6 as established supplier relationships, that will be cost effective to the construction of the
7 Missouri Transmission Projects. I could not find anywhere in the Applications or in the
8 direct testimonies of the KCPL/GMO and Transource Missouri witnesses any evidence or
9 analysis to show that Transource Missouri's access to AEP's supplier relationships or AEP's
10 transmission expertise will lower the construction cost of the Transmission Projects by any
11 amount. In fact, Transource Missouri has admitted that it may have to incur higher costs to
12 obtain new rights of way and renegotiate existing rights of way than would KCPL or GMO if
13 KCPL or GMO construct the projects.

14 Q. Please explain.

15 A. At pages 17 and 22 of Transource Missouri's August 31, 2012 request for
16 FERC incentive rate treatments and FERC's acceptance of a Transource Missouri formula
17 rate, Transource Missouri admitted that because of the very fact that Transource Missouri
18 would be constructing the Iatan-Nashua Project and the Sibley-Nebraska City Project, the
19 cost of the obtaining new rights-of-way and renegotiating existing rights of way for both of
20 these Projects could very well be higher than if they were constructed by KCPL/GMO.
21 At page 17 relating to the Iatan-Nashua line Transource Missouri stated:

> 22 The Iatan-Nashua Project will utilize both existing rights-of-
> 23 way and a new right of- way. About 12 miles, encompassing
> 24 the middle segment of the proposed route, will not utilize
> 25 existing rights-of-way, requiring negotiations with every

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> affected landowner with interests along the project's route.63 These individual negotiations can prove costly and time consuming with possible changes to the preferred route to accommodate any difficulties in obtaining the necessary rights-of-way. For those portions of the project that will utilize existing rights-of-way, further negotiations with affected landowners may be necessary to expand and/or modify the rights-of-way to obtain access rights for construction and obtain clearance approvals because of the increased voltage of the transmission line and because new transmission structures will be higher than existing structures. As explained by Mr. Fridley, landowner resistance to this project may be elevated because (1) the project is being developed to provide region-wide benefits, not strictly local needs, (2) the project will be developed by Transource Missouri, which does not have the same familiarity to landowners as KCP&L and GMO, and (3) in the absence of a state siting statute, there has not been a state regulatory order prescribing the route. [emphasis added]

Q. Even in the unlikely event the construction cost of the Transmission Projects could be lowered by Transource Missouri owning the Projects as opposed to KCPL/GMO constructing the Projects as a stand-alone entity, would any benefits passed on to Missouri customers be significant in value?

A. No. The reduction in construction costs as a result of and directly attributable to these intangible benefits brought to Transource Missouri by AEP would have to exceed the cost to Missouri ratepayers of losing the revenue flows associated with the Transmission Projects from other SPP entities.

Staff's position is that the Transmission Projects should continue to be owned and constructed by KCPL/GMO and included in GMO's rate base when completed and placed in service. Under Staff's proposal GMO's customers will receive the benefit of approximately $76 million in transmission revenue credits over 20 years. Under KCPL/GMO's and Transource Missouri's proposal GMO's cost of service will increase by approximately $76 million over 20 years as a result of the loss of the transmission revenues from the

1 Transmission Projects. All of the profits generated by the Transmission Projects will accrue
2 to AEP and GPE shareholders based on their respective Transource Missouri ownership
3 percentages of 86.5% for AEP and 13.5% for GPE. This is the impact of allowing GPE to
4 transfer Missouri regulated utility assets to a non-Missouri Commission regulated entity.

5 **Rebuttal of KCPL/GMO witness Deggendorf**

6 Q. At pages 3, lines 9 through 14, of his direct testimony, Applicant witness
7 Mr. Michael Deggendorf states there are two reasons why GPE partnered with AEP to form
8 Transource. The first reason was to develop the Iatan-Nashua and Sibley-Nebraska City
9 transmission projects and the second reason was to create a vehicle for GPE to pursue
10 "regional" competitive transmission projects. Is Mr. Deggendorf portrayal of the reasons for
11 the joint venture with AEP consistent with the reasons stated by KCPL and GPE President
12 and CEO, Mr. Terry Bassham?

13 A. No they are not. In GPE's May 4, 2012 Earnings Conference Call
14 Mr. Bassham stated very clearly the main reason why GPE partnered with AEP. The main
15 reason for the joint venture, as communicated by Mr. Bassham, was "to give us the ability to
16 compete outside of just the SPP, given the order 1000 removal of right of first refusal." The
17 main reason was not, as testified to here by Mr. Deggendorf to 1) build the two Missouri
18 Transmission Projects or 2) to pursue only SPP regional competitive projects. GPE desires to
19 be a partner with AEP to build construction projects in the SPP, MISO and PJM, an area that
20 includes a significant portion of the Unites States.

21 Q. Mr. Deggendorf discusses at page 3 of his direct testimony capital pressures to
22 fund the Transmission Projects in light of KCPL/GMO's competing capital demands. Are

1 these issues significant to the decision by GPE to find a partner to help it develop a platform
2 to compete in transmission projects across the nation?

3 A. No. As noted above, in its Report on the Transource transaction Goldman
4 Sachs found that ** ____
5 ____
6 ____ ** Mr. Bassham
7 also downplayed the importance of the capital pressures of the Transmission Projects in the
8 May 4, 2012 Earnings Conference Call.

9 Q. Did AEP first approach GPE about participating in a joint venture?

10 A. No, it was GPE's idea to contribute the two SPP projects to a nonregulated
11 joint venture. From a response to Staff Data Request No. 0085, the Staff learned that on
12 July 20, 2011, GPE issued a request for proposal for a possible joint venture that has
13 developed into the File No. EA-2013-0098 and EO-2012-0367 transaction. The RFP was
14 titled, ** ____
15 ______________________ **

16 In this RFP, GPE explained that it was seeking ** __________________
17 ____
18 __________________________
19 ____
20 ____
21 ____
22 ____
23 ____

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1 ____

2 ____

3 ____

4 ____

5 __________ **

6 Q. Do you believe that the transfer of the Iatan-Nashua and Sibley-Nebraska City
7 transmission projects from KCPL/GMO to Transource Missouri would be detrimental to the
8 public interest?

9 A. Yes. The revenue requirement detriment to GMO's customers will occur if
10 the NTCs are transferred from KCPL/GMO to Transource Missouri. GMO's customers will
11 be significantly harmed due to the loss of transmission revenues that would otherwise be
12 credited to them in the Missouri jurisdictional cost of service if GMO retains ownership of
13 the Transmission Projects.

14 Because of this detriment the Staff is not recommending the approval of the
15 proposed transfers sought in the Application in File No. EO-2012-0367. And because
16 Transource Missouri's application for a CCN is predicated on the transfers, the Staff is
17 recommending the Missouri Commission not grant Transource Missouri the CCN it seeks in
18 its Application in File No. EA-2013-0098.

19 Q. Does the Staff have any recommendations to the Missouri Commission as to
20 how it could mitigate the detriments Staff has identified should the Missouri Commission
21 grant both Applications?

22 A. No. The revenue requirement detriment to GMO's customers will occur if the
23 transactions as proposed in the Applications are consummated GMO's customers will be

significantly harmed due to the loss of regulated transmission revenues. At this point the Staff does not see any possibility for significant ratepayer detriment to be eliminated or truly mitigated by one or more conditions.

However, in the event the Missouri Commission rejects the Staff's recommendation and approves the Applications as proposed, there are matters the Missouri Commission needs to address.

Other Issues

Q. In addition to the Staff's concerns that are described above in your rebuttal testimony, does the Staff have additional concerns related to the Application of KCPL/GMO in File No. EO-2012-0367?

A. Yes. The following Staff concerns are only relevant if the Missouri Commission approves the transfer of the Transmission Projects from KCPL/GMO to Transource Missouri.

The first concern is the potential for the ownership of the two Missouri Transmission Projects to be sold or otherwise disposed of by Transource or AEP without the Missouri Commission's approval. The second concern is the Applicants' request for a waiver or variance from the Missouri Commission's Affiliate Transactions Rule, 4 CSR 240-20.015 ("Affiliate Transactions Rule" or "Rule"). The final Staff concern, which is related to the Affiliate Transactions Rule, is the Missouri Commission's access to the books and records of Transource Missouri and Transource, as affiliates of KCPL and GMO.

Potential future sale of Missouri Transmission Projects

Q. Earlier you briefly discussed factors other than the revenue requirement detriment of this transaction which need to be addressed by the Missouri Commission, the

1 first of which is the potential for a future change in ownership of the Missouri Transmission
2 Projects. Please explain this concern.

3 A. If the Missouri Commission approves certain of the requested transactions, in
4 particular, the transfers to Transource Missouri of the NTCs for the Transmission Projects, it
5 is approving a transfer of Missouri regulated utility assets to an entity, Transource Missouri,
6 which is not retail rate regulated by the Missouri Commission. The Staff believes that the
7 Transmission Projects are assets, first as NTCs for which KCPL/GMO had the federal right
8 of first refusal, and then as 345 kV transmission lines.

9 Even though the Staff is not recommending that the Missouri Commission
10 authorize either of the two pending Applications, should the Missouri Commission authorize
11 the two pending Applications, it should condition its authorization on the condition that
12 should Transource Missouri or Transource seek to ever transfer the Iatan-Nashua and/or the
13 Sibley-Nebraska City 345 kV transmission lines, or Transource or Transource Missouri
14 terminates operation, then the Iatan-Nashua and/or the Sibley-Nebraska City 345 kV
15 transmission lines are first offered to KCPL/GMO for purchase at its/their then current net
16 book value.

17 Q. Was this potential loss of the Sibley-Nebraska City line a concern to KCPL
18 and GMO senior management?

19 A. ** ____
20 ____
21 ____
22 ____
23 ________________________

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1 ____
2 ____
3 ____
4 ____
5 ________ **

6 Q. Has the Staff addressed this issue with KCPL/GMO/Transource Missouri in
7 Staff data requests?

8 A. Yes. In Staff Data Request No. 0113 Staff asked the following question:

9 Is Great Plains Energy/GPE Transmission Holding Company,
10 LLC/American Electric Power Company/AEP Transmission
11 Holding Company, LLC willing to agree to obtain MoPSC
12 approval before selling, assigning, leasing, transferring,
13 mortgaging or otherwise disposing or encumbering the whole
14 or part of the Iatan-Nashua or Sibley-Nebraska City Projects or
15 345kV transmission lines necessary or useful in the
16 performance of its/their duties to the public, or by any means,
17 direct or indirect, merging or consolidating such works or
18 system, or any part thereof, with any other corporation, person
19 or public utility? If not, why not?

20 The KCPL/GMO/Transource Missouri response was:

21 Objection:
22 KCP&L, GMO, and Transource Missouri object to this request
23 in that it calls for a legal conclusion. Without waiving such
24 objection, KCP&L, GMO, and Transource Missouri will
25 endeavor to provide a response to this data request.

26 Response:
27 Staff's understanding of Transource Missouri's position appears
28 to be incorrect. If the Projects are novated and facilities are
29 transferred to Transource Missouri pursuant to the requested
30 MoPSC approvals, Transource Missouri will be the owner and
31 operator of the Projects. As a result, Transource Missouri
32 would seek approval from the MoPSC for any subsequent
33 transfer of the Projects' facilities, and is willing to agree to
34 obtain the prior approval of the MoPSC. However, Great
35 Plains Energy Incorporated, GPE Transmission Holding
36 Company, LLC, American Electric Power Company, and AEP
37 Transmission Holding Company, LLC will be neither the

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owner nor the operator of the Projects, and would not agree to seek and obtain such approval.

Q. What are Staff's comments on the response in Data Request No. 0113?

A. In the response KCPL/GMO and Transource Missouri commit that Transource Missouri would seek approval from the Missouri Commission for any subsequent transfer of the Iatan-Nashua line and the Sibley-Nebraska City line. The Staff believes that in addition to this requirement the Missouri Commission also condition any acceptance of these Applications on the agreement from the Applicants and AEP that it will come to the Missouri Commission before it sells or otherwise transfers ownership of the Iatan-Nashua line and the Sibley-Nebraska City line, and that AEP and Transource will commit to offer to transfer this asset back to KCPL/GMO at the then current net book value of the asset. The decision of whether or not KCPL/GMO would reacquire the Iatan-Nashua line and the Sibley-Nebraska City line would be addressed in a case that is filed with the Missouri Commission.

Affiliate Transactions Rule Waiver

Q. Are the Applicants seeking a waiver or variance from the Missouri Commission's Affiliate Transactions Rule ("Rule")?

A. Yes. Mr. Ives describes this proposal at pages 23 through 27 of his direct testimony.

Q. What is the purpose and objective of the Missouri Commission's Rule on affiliate transactions as related to regulated electric corporations?

A. The purpose and objective of the Rule is to prevent a regulated utility from subsidizing its non-regulated operations. The Rule, coupled with effective enforcement also

provides public the assurance that utility rates are not adversely impacted by the utilities' non-regulated activities.

The Rule seeks to prevent cross subsidization because affiliate transactions, by their very nature, create incentives for utility management to increase costs to the regulated utility so profits can be recognized by the non-regulated entity. Without ratepayer protections, such as the affiliate transactions rule, ratepayers would clearly be subsidizing non-regulated operations. While the Affiliate Transactions Rule by itself does not eliminate the risk of this occurring, the Rule, coupled with effective utility oversight and effective enforcement of the Rule, does somewhat lessen the risk of inappropriate costs being charged to utility ratepayers. However, even with close oversight and the affiliate transactions rule, the incentive for utility management to subsidize nonregulated operations exists and will continue to exist as long as utilities are allowed to transact business with affiliates. If a regulator allows utilities to engage in affiliated transactions, substantive ratepayer protections must be put in place to protect ratepayers from improper utility-affiliate behavior.

Q. How does the Rule attempt to accomplish this objective?

A. Whenever a regulated utility participates in a transaction with any of its affiliated entities, the Missouri Commission put in place 1) financial standards, 2) evidentiary standards and 3) record keeping requirements in which the utility and its affiliates must comply with to attempt to assure appropriate affiliate conduct.

Q. What are the financial standards the Missouri Commission created to prevent regulated utilities from subsidizing their nonregulated operations and provide ratepayers the assurance that their rates are not adversely impacted by the utilities' nonregulated activities?

1 A. Listed below are some of the Missouri Commission's financial standards as
2 reflected in 4 CSR 240-40.015(2):

3 1. Regulated electrical corporation shall not provide a financial
4 advantage to an affiliated entity.

5 2. Regulated electrical corporation shall conduct its business in
6 such a way as not to provide any preferential service,
7 information or treatment to an affiliated entity over another
8 party at any time.

9 3. Regulated electrical corporation shall not participate in any
10 affiliated transactions which are not in compliance with this
11 rule, except as otherwise provided in section (10) of this rule.

12 Q. What are the standards in addition to the financial standards that the Missouri
13 Commission created to prevent regulated utilities from subsidizing their nonregulated
14 operations and provide ratepayers the assurance that their rates are not adversely impacted by
15 the utilities' nonregulated activities?

16 A. In addition to the financial standards, the Rule also provides for
17 evidentiary standards (which support the financial standards) and require the utility create
18 and maintain sufficient records to support its decision to enter into an affiliate transaction
19 (e.g., competitive bids, documentation, cost allocation manual) (4 CSR 240-40.015(3).
20 Finally, the Rule includes record-keeping requirements that, among other things, mandate
21 that the utility keep records identifying the basis (e.g., fair market price, fully distributed
22 cost, etc.) to record the affiliate transaction (4 CSR 240-40.015(5)

23 Q. For purposes of this case, are there particular sections of the Rule with which
24 Staff is concerned?

1 A. Yes. In 4 CSR 240-40.015 (2) (A) the Rule states that a utility provides a
2 prohibited financial advantage to an affiliate in purchases from an affiliate or sales to an
3 affiliate if the utility does not apply the Rule's asymmetrical pricing standard.

4 In setting the price at which a utility can purchase from a non-regulated affiliate
5 (compensate), the Missouri Commission uses the "lower of cost or market" accounting or
6 cost principle to determine the maximum allowable compensation. In its Rule the
7 Commission required the dollar amount ceiling when a regulated utility pays a non-affiliate
8 for goods or services to be the lower of *either* the fair market price of the good or service, or
9 the cost to the utility to provide the good or services to itself.

10 In setting the price at which a utility can sell to (transfer information, assets or goods
11 and services) a non-regulated affiliate, the Missouri Commission uses the "higher of cost or
12 market" cost principle to determine the minimum allowable sales price for all affiliate
13 transactions, including shared corporate support services and energy-related sales with
14 affiliates. The difference in the method that the Missouri Commission allows a regulated
15 entity to pay for a good or service from an affiliate (the lower of cost or market) and the
16 lowest amount the Missouri Commission allows a regulated utility to sell to an affiliate for a
17 good or service (the higher of cost or market) is referred to as asymmetric pricing.

18 Q. Please provide a brief history of KCPL and its commitment to the Missouri
19 Commission's Affiliate Transactions Rule.

20 A. In Case No. EM-2001-464 KCPL committed that all KCPL affiliates, after its
21 reorganization as a holding company under Great Plains Energy, will comply with the
22 Missouri Commission's Affiliate Transactions Rule. At paragraph 2 in the First Amended
23 Stipulation and Agreement to Case No. EM-2001-464 KCPL committed to the following:

1 2. State Jurisdictional Issues

2 In Re Western Resources, Inc./Kansas City Power & Light
3 Company, Case No. EM-97-515, and Re Union Electric
4 Company/Central Illinois Public Service Company, Case No.
5 EM-96-149, the Commission approved settlement agreements
6 designed to ensure the protection of customers of Missouri
7 utilities that were to possibly become or became a subsidiary of
8 a Registered Holding Company. KCPL and GPE hereby agree
9 to those same conditions as set forth below. KCPL further
10 commits that it and its affiliates will continue to comply with
11 the provisions of 4 CSR 240-20.015 and 20.017 after the
12 reorganization is completed. [Emphasis Added]

13 Q. If the Missouri Commission approves this transaction, should it also grant
14 KCPL and GMO a variance from the Affiliate Transactions Rule?

15 A. No. KCPL and GMO have provided no substantive reason why the Com
16 Missouri Commission should allow them to not comply with a Rule designed to protect the
17 interests of Missouri ratepayers.

18 Q. What is the basis for the KCPL's and GMO's request?

19 A. Mr. Ives states at page 23 of his direct testimony that the preamble to the Rule
20 states it is "intended to prevent regulated utilities from subsidizing their non-regulated
21 operations" and that the Applicants, Transource, and its regulated utility subsidiaries such as
22 Transource Missouri will be engaged in regulated operations. At page 24, lines 3-4 of his
23 direct testimony, Mr. Ives notes that Transource Missouri will be rate regulated by the FERC
24 but not the Missouri Commission.

25 Q. Does Mr. Ives misinterpret the Rule?

26 A. I believe he does. Mr. Ives mistakenly lumps regulated operations under one
27 umbrella when there is a clear and distinct separation between regulated state utility
28 operations rules and regulations and federal regulated operations rules and regulations.

1 The Missouri Commission's Affiliate Transactions Rule is state-based regulatory rules
2 applicable to state regulated utilities and their affiliates. The Rule is not intended to exclude
3 transactions entered into between entities regulated by the Missouri Commission and their
4 affiliated entities regulated by another body.

5 Q. Did KCPL agree with this interpretation regarding the applicability of the
6 Rules in 2001?

7 A. Yes.

8 Q. Please explain.

9 A. KCPL noted under Section III page 7 of its EM-2001-4464 Application
10 that Missouri law permits electric utilities operating non-jurisdictional businesses
11 (like Transource Missouri) to keep those businesses "separate and apart" from their
12 jurisdictional utility businesses. As KCPL/GMO make clear in their Application here and in
13 responses to Staff Data Requests in this case (File Nos. EA-2013-0098 and EO-2012-0367),
14 Transource and Transource Missouri are not and will not be Missouri jurisdictional
15 utility businesses.

16 In its Case No. EM-2001-464 Application (Schedule CRH-3) KCPL went on to
17 note that the provisions of the Missouri Commission's Affiliate Transactions Rules (4 CSR
18 240-20.015 and 20.017) detail the requirements the Missouri Commission had deemed
19 necessary to ensure such separation:

20 Sec. 393.140(12) permits electric utilities operating non-
21 jurisdictional businesses to keep those businesses "separate and
22 apart" from their jurisdictional utility businesses. The
23 provisions of 4 CSR 240-20.015 and 20.017 detail the
24 requirements the Commission has deemed necessary to ensure
25 such separation. The proposed reorganization will further
26 separate KCPL's retail electric customers from the Company's
27 other business interests.

1 Q. Why under the Affiliate Transactions Rules is Transource a "non-regulated
2 affiliate" of the Missouri regulated utilities KCPL and GMO?
3 A. First, the Rule (4 CSR 240-20.015) clearly establishes that Transource and
4 Transource Missouri will be affiliated entities by the definition of affiliated entity in it,
5 which follows:

> 6 Affiliated entity means any person, including an individual,
> 7 corporation, service company, corporate subsidiary, firm,
> 8 partnership, incorporated or unincorporated association,
> 9 political subdivision including a public utility district, city,
> 10 town, county, or a combination of political subdivisions, which
> 11 directly or indirectly, through one (1) or more intermediaries,
> 12 controls, is controlled by, or is under common control with the
> 13 regulated electrical corporation.

14 Second, the Rule defines an affiliate transaction as any transaction between a
15 regulated electric corporation and an affiliated entity. KCPL and GMO are regulated electric
16 corporations under the jurisdiction of the Missouri Commission and Transource Missouri is
17 not. In fact, Transource is not regulated by the Missouri Commission in any manner other
18 than potentially being an affiliate of KCPL and subject to the Missouri Commission's
19 Affiliate Transactions Rule and the commitments made by KCPL in the First Amended
20 Stipulation and Agreement in Case No. EM-2001-464.
21 The Rule defines "affiliate transactions" as follows:

> 22 Affiliate transaction means any transaction for the provision,
> 23 purchase or sale of any information, asset, product or service,
> 24 or portion of any product or service, between a regulated
> 25 electrical corporation and an affiliated entity, and shall include
> 26 all transactions carried out between any unregulated business
> 27 operation of a regulated electrical corporation and the regulated
> 28 business operations of a electrical corporation.

29 Q. Did KCPL make further commitments related to the Affiliate Transactions
30 Rule in its Application in Case No. EM-2001-464?

1 A. Yes. In its EM-2001-464 Application at page 7 KCPL stated that:

> 2 In the future, those competitive businesses will be conducted in
> 3 subsidiaries of HoldCo- not in subsidiaries of KCPL.
> 4 Depending upon the nature of the transaction, and considering
> 5 the commitments made in the next section of this Application,
> 6 any significant business dealings between KCPL and its
> 7 affiliated companies will be subject to review and
> 8 documentation, and to the approval and/or ratemaking
> 9 authority of this Commission, the SEC and/or the Federal
> 10 Energy Regulatory Commission ("FERC").

11 Q. If the Missouri Commission grants the Applicants' request for a variance from
12 the Affiliate Transactions Rule will this action allow Transource to have a competitive
13 advantage over other competitive transmission providers?

14 A. Yes, and this would be inappropriate. Transource Missouri would be able to
15 leverage KCPL's reputation, experience, and skills by obtaining goods and services at cost.
16 These goods and services at cost will not be available to other competitive transmission
17 providers. Once it becomes established that Transource Missouri has the ability to obtain
18 construction and other services from KCPL at cost and this becomes a distinctive cost
19 advantage, it would be likely that other potential competitive transmission construction
20 companies would not consider bidding on the same projects where Transource Missouri can
21 leverage off of KCPL's regulated utility status.

22 Q. Does Transource Missouri recognize that in FERC Order No. 1000 FERC was
23 seeking to "enable and encourage market entry and increased competition in the development
24 of transmission infrastructure"?

25 A. Yes. Transource Missouri clearly recognized this FERC motivation at
26 page 39 of its August 31, 2012 FERC Application for Incentive Ratemaking. However, its
27 attempt to obtain subsidized construction goods and services from state-regulated electric

utility companies such as KCPL and GMO through variances from Affiliate Transactions Rule does not appear to be consistent with this goal of FERC Order No. 1000.

Q. What were the specific "commitments" KCPL referred to in the above quote from page 7 of the EM-2001-464 Application?

A. In the Case No. EM-2001-464 GPE Reorganization Application KCPL proposed the application of certain consumer protection agreements that were previously approved by the Missouri Commission and included in settlement agreements in Western Resources, Inc./Kansas City Power & Light Company, Case No. EM-97-515, and Union Electric Company/Central Illinois Public Service Company, Case No. EM-96-149. KCPL further committed in paragraph II.2.a Access to Books, Records and Personnel that it and its affiliates would continue to comply with the provisions of 4 CSR 240-2.015 and 2.017 after the reorganization was completed. I have listed below certain other provisions that are in the First Amended Stipulation and Agreement in Case No. EM-2001-464, which was approved by the Missouri Commission in a July 31, 2001 Order Approving Stipulation and Agreement and Closing Case:

> II2.c. Electric Contracts Required to be Filed with FERC
> All wholesale electric energy or transmission service contracts, tariffs, agreements or arrangements of any kind, including any amendments thereto, between KCPL and any HoldCo subsidiary or affiliate, that are required to be filed with and/or approved by the FERC, pursuant to the Federal Power Act, as subsequently amended, shall be conditioned upon the following without modification or alteration: Neither KCPL nor any of its affiliates will seek to overturn, reverse, set aside, change or enjoin, whether through appeal or the initiation or maintenance of any action in any forum, a decision or order of the Commission which pertains to recovery, disallowance, deferral or ratemaking treatment of any expense, charge, cost or allocation incurred or accrued by KCPL in, or as a result of, a wholesale electric energy or transmission service contract, agreement, arrangement or transaction on the basis that such

> expense, charge, cost or allocation has itself been filed with or approved by FERC, or was incurred pursuant to a contract, arrangement, agreement or allocation method that was filed with or approved by FERC.
>
> II.2.d. No Pre-Approval of Affiliated Transactions
> KCPL agrees to provide the Commission and Public Counsel with copies of all documents that must be filed with the SEC or FERC relating to affiliate transactions. KCPL and HoldCo further agree that the Commission may make its determination regarding the ratemaking treatment to be accorded these transactions in a subsequent ratemaking proceeding.
>
> II.2.e. Contingent Jurisdictional Stipulation Regarding Affiliate Contracts Required to be Filed With FERC
>
> KCPL agrees that in the exclusive event that any court with jurisdiction over KCPL, HoldCo or any of their affiliates or subsidiaries issues an opinion or order that invalidates a decision or order of the Commission pertaining to recovery, disallowance, deferral or raternaking treatment of any expense, charge, cost or allocation incurred or accrued by KCPL on the basis that such expense, charge, cost or allocation has itself been filed with or approved by FERC, then the Contingent Jurisdictional Stipulation, attached hereto as Exhibit 5, shall apply to FERC filings according to its terms, at the option of the Commission.

Q. In your opinion does KCPL have a very good track record in complying with the Missouri Commission's Affiliate Transactions Rule?

A. No. At page 15, line 24 of his February 28, 2011 True-Up Rebuttal Testimony in File No. ER-2010-0356, KCPL/GMO witness Darrin Ives admitted that KCPL failed to report a $1.5 million dollar affiliate transaction with its affiliate Great Plains Power ("GPP") to the Missouri Commission. In this very significant affiliate transaction, KCPL failed to do an analysis to determine the market value of these assets. KCPL, the regulated utility, merely reimbursed GPP, the non-regulated affiliate, for the full cost of the assets to GPP as GPP was in the process of dissolution and was dissolved in 2005. At paragraph 163 of its Report and Order in File No. ER-2010-0356, the Missouri Commission noted that

1 "the Companies agree that they were in error for not reporting the transaction in the annual
2 affiliate transaction report."

3 In another multi-million dollar affiliate transaction, KCPL significantly inflated
4 the fair market value of the Crossroads Energy Center combustion turbines that it
5 purchased from an affiliate of Aquila (now GMO), Aquila Merchant Services. In its Report
6 and Order in File No. ER-2010-0356 Report and Order at paragraph 271, the Missouri
7 Commission noted:

> 8 It is incomprehensible that GPE would pay book value for
> 9 generating facilities in Mississippi to serve retail customers in
> 10 and about Kansas City, Missouri. And, it is a virtual certainty
> 11 that GPE management was able to negotiate a price for Aquila
> 12 that considered the distressed nature of Crossroads as a
> 13 merchant plant which Aquila Merchant was unable to sell
> 14 despite trying for several years.

15 Q. Because KCPL failed to appropriately apply the Missouri Commission's
16 Affiliate Transactions Rules to the Crossroads acquisition, did the Missouri Commission
17 have to make an adjustment to reduce the value of the Crossroads plant to an appropriate
18 market value in accordance with the Rule?

19 A. Yes. In its Report and Order in File No. ER-2010-0356 the Missouri
20 Commission enforced the lower of cost of market asymmetrical pricing requirement of the
21 Rule and applied a fair market value to Crossroads that was in accordance with the Rule.
22 The Missouri Commission had to make this evaluation because KCPL/GMO did not do so.
23 At paragraph 275 of its Report and Order the Missouri Commission stated:

> 24 Considering the depressed market as exhibited by the sale of
> 25 similar turbines to Ameren, and the valuation of these assets
> 26 reported to the SEC by GPE, the Commission finds that $61.8
> 27 million is an accurate reflection of the fair market value of
> 28 Crossroads as required by the affiliate transaction rule as of
> 29 July 14, 2008.

1 **Access to Affiliate Books and Records**

2 Q. Does the Staff have any concerns related to the Missouri Commission and the
3 Staff being able to access the books and records of Transource and Transource Missouri,
4 regardless of whether the Missouri Commission approves or rejects the Staff's
5 recommendation concerning the Applications as proposed?

6 A. Yes. These concerns are mitigated to the extent that KCPL complies with the
7 commitments it made in Case No. EM-2001-464, First Amended Stipulation and Agreement
8 as it relates to Staff access to affiliate books, records, and personnel and Transource Missouri
9 complies with the commitments it made in response to Staff Data Request No. 0064 in File
10 No. EA-2013-0098. The specific commitments found in the First Amended Stipulation and
11 Agreement EM-2001-464 are found in paragraph II.2a, page 5:

> 12 a. Access to Books, Records and Personnel
> 13 KCPL agrees to make available to the Commission Staff, and
> 14 Public Counsel, at reasonable times and places, all books,
> 15 records, employees and officers of KCPL and any affiliate of
> 16 KCPL as provided under applicable law and Commission rules;
> 17 provided that KCPL and any affiliate or subsidiary of HoldCo
> 18 shall have the right to object to such production of records or
> 19 personnel on any basis under applicable law and Commission
> 20 rules, excluding any objection that such records and personnel
> 21 of affiliates or subsidiaries are not subject to the Commission's
> 22 jurisdiction and statutory authority, including objections based
> 23 on the operation of PUHCA
>
> 24 At the Commission's request, officers and employees of GPE
> 25 or its affiliates will be made available for depositions or cross-
> 26 examination concerning affiliate transactions affecting KCPL
> 27 and diversification plans.

28 The specific commitments in the Transource Missouri response to Staff Data Request
29 No. 0064 are in what Staff takes as a good faith answer by Transource Missouri that it will
30 provide access to the documents listed by Staff in the Data Request.

1 If the Missouri Commission decides to approve this transaction the Staff recommends
2 the Missouri Commission secure a commitment from KCPL, GMO, GPE, Transource
3 Missouri and Transource that it will comply the exact KCPL Case No. EM-2001-464
4 commitment to provide Staff access to documents and personnel after the transaction is
5 completed.

6 Q. Does this conclude your rebuttal testimony?

7 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

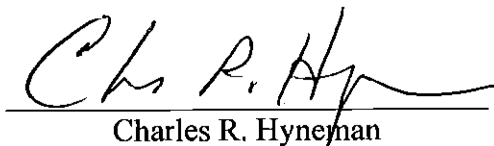
OF THE STATE OF MISSOURI

In the Matter of the Application of Transource Missouri, LLC for a Certificate of Convenience and Necessity Authorizing it to Construct, Finance, Own, Operate, and Maintain the Iatan-Nashua and Sibley-Nebraska City Electric Transmission Projects	))))))	File No. EA-2013-0098
		and
In the Matter of the Application of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company for Approval to Transfer Certain Transmission Property to Transource Missouri, L.L.C. and for other Related Determinations	))))))	File No. EO-2012-0367

AFFIDAVIT OF CHARLES R. HYNEMAN

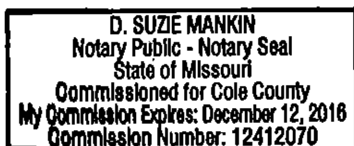
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

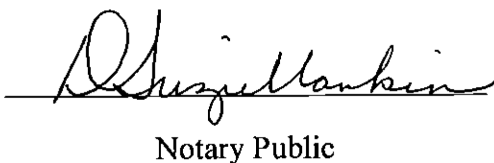
Charles R. Hyneman, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 61 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



Charles R. Hyneman

Subscribed and sworn to before me this 30th day of January, 2013.





Notary Public

Schedule 1 NP

Kansas City Power & Light Company
KCP&L Greater Missouri Operations Company
Transource Missouri, LLC — File Nos EO-2012-0367 and EA-2013-0098

Iatan-Nashua Project Detriment Analysis - GMO Ownership vs. TranSource Ownership, Case 1: Current FERC Capital Structure

INPUTS:

Input	Value
Rate Base:	64,800,000
Book Depreciation Rate:	2.033%
GMO TranSource Debt Cost:	7.820%
GMO TranSource Preferred Stock Cost:	4.220%
GMO TranSource Equity Cost:	11.100%
GMO TranSource Debt %:	52.840%
GMO TranSource Preferred Stock %:	0.610%
GMO TranSource Equity %:	46.550%

	Year 1		Year 2		Year 3		Year 4		Year 5	
	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project
Iatan-Nashua Project	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000
Accumulated Depreciation	(658,692)	(658,692)	(1,976,076)	(1,976,076)	(3,293,460)	(3,293,460)	(4,610,844)	(4,610,844)	(5,928,228)	(5,928,228)
Accumulated Deferred Income Tax	(990,964)	(990,964)	(2,848,509)	(2,848,509)	(4,469,725)	(4,469,725)	(5,879,488)	(5,879,488)	(7,097,701)	(7,097,701)
Net Investment (Rate Base)	$ 63,150,344	$ 63,150,344	$ 59,975,415	$ 59,975,415	$ 57,036,815	$ 57,036,815	$ 54,309,668	$ 54,309,668	$ 51,774,071	$ 51,774,071
Return on Equity	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%
Preferred Stock Rate	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%
Long Term Debt Rate	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%
Equity % of Capital Structure	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%
Preferred Stock % of Capital Structure	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%
Long Term Debt % of Capital Structure	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%
Cost of Capital (%)	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%
Cost of Capital ($)	$ 5,134,983	$ (5,888,694)	$ 4,876,818	$ (5,592,635)	$ 4,637,870	$ (5,318,615)	$ 4,416,116	$ (5,064,311)	$ 4,209,937	$ (4,827,870)
Depreciation Rate	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%
Federal Income Tax	$ 1,732,441	$ (1,765,759)	$ 1,645,341	$ (1,676,984)	$ 1,564,725	$ (1,594,817)	$ 1,489,909	$ (1,518,563)	$ 1,420,349	$ (1,447,665)
State Income Tax	$ 214,493	$ (218,618)	$ 203,709	$ (207,627)	$ 193,728	$ (197,454)	$ 184,465	$ (188,013)	$ 175,853	$ (179,235)
Net Incremental Revenue Requirement	$ 7,081,916	$ (7,873,070)	$ 6,725,868	$ (7,477,246)	$ 6,396,322	$ (7,110,885)	$ 6,090,490	$ (6,770,887)	$ 5,806,138	$ (6,454,769)
Missouri rate base 100% GMO, FERC Revenue 96% GMO	100%	-4%	100%	-4%	100%	-4%	100%	-4%	100%	-4%
MO Rate Base cost vs. FERC Revenues	$ 7,081,916	$ (7,558,147)	$ 6,725,868	$ (7,178,156)	$ 6,396,322	$ (6,826,450)	$ 6,090,490	$ (6,500,051)	$ 5,806,138	$ (6,196,578)
Annual Calcluated Detriment (Difference)		$ (476,231)		$ (452,288)		$ (430,128)		$ (409,562)		$ (390,440)

	Year 6		Year 7		Year 8		Year 9		Year 10	
	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project
Iatan-Nashua Project	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000
Accumulated Depreciation	(7,245,612)	(7,245,612)	(8,562,996)	(8,562,996)	(9,880,380)	(9,880,380)	(11,197,764)	(11,197,764)	(12,515,148)	(12,515,148)
Accumulated Deferred Income Tax	(8,141,777)	(8,141,777)	(9,103,760)	(9,103,760)	(10,065,743)	(10,065,743)	(11,030,213)	(11,030,213)	(11,992,196)	(11,992,196)
Net Investment (Rate Base)	$ 49,412,611	$ 49,412,611	$ 47,133,244	$ 47,133,244	$ 44,853,877	$ 44,853,877	$ 42,572,023	$ 42,572,023	$ 40,292,656	$ 40,292,656
Return on Equity	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%
Preferred Stock Rate	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%
Long Term Debt Rate	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%
Equity % of Capital Structure	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%
Preferred Stock % of Capital Structure	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%
Long Term Debt % of Capital Structure	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%
Cost of Capital (%)	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%
Cost of Capital ($)	$ 4,017,918	$ (4,607,667)	$ 3,832,575	$ (4,395,118)	$ 3,647,231	$ (4,182,570)	$ 3,461,685	$ (3,969,790)	$ 3,276,342	$ (3,757,242)
Depreciation Rate	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%
Federal Income Tax	$ 1,355,565	$ (1,381,635)	$ 1,293,034	$ (1,317,901)	$ 1,230,503	$ (1,254,168)	$ 1,167,903	$ (1,190,364)	$ 1,105,372	$ (1,126,631)
State Income Tax	$ 167,832	$ (171,060)	$ 160,090	$ (163,169)	$ 152,348	$ (155,278)	$ 144,598	$ (147,378)	$ 136,856	$ (139,488)
Net Incremental Revenue Requirement	$ 5,541,315	$ (6,160,362)	$ 5,285,699	$ (5,876,189)	$ 5,030,082	$ (5,592,016)	$ 4,774,186	$ (5,307,533)	$ 4,518,569	$ (5,023,360)
Missouri rate base 100% GMO, FERC Revenue 96% GMO	100%	-4%	100%	-4%	100%	-4%	100%	-4%	100%	-4%
MO Rate Base cost vs. FERC Revenues	$ 5,541,315	$ (5,913,947)	$ 5,285,699	$ (5,641,141)	$ 5,030,082	$ (5,368,335)	$ 4,774,186	$ (5,095,231)	$ 4,518,569	$ (4,822,426)
Annual Calcluated Detriment (Difference)		$ (372,632)		$ (355,443)		$ (338,253)		$ (321,045)		$ (303,856)

Schedule 1 NP

Schedule CRH-1
1 of 4

Kansas City Power & Light Company
KCP&L Greater Missouri Operations Company
Transource Missouri, LLC — File Nos EO-2012-0367 and EA-2013-0098

Iatan-Nashua Project Detriment Analysis - GMO Ownership vs. TranSource Ownership, Case 1: Current FERC Capital Structure

INPUTS:

Input	Value
Rate Base:	64,800,000
Book Depreciation Rate:	2.033%
GMO TranSource Debt Cost:	7.820%
GMO TranSource Preferred Stock Cost:	4.220%
GMO TranSource Equity Cost:	11.100%
GMO TranSource Debt %:	52.840%
GMO TranSource Preferred Stock %:	0.610%
GMO TranSource Equity %:	46.550%

	Year 11		Year 12		Year 13		Year 14		Year 15	
	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project
Iatan-Nashua Project	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000
Accumulated Depreciation	(13,832,532)	(13,832,532)	(15,149,916)	(15,149,916)	(16,467,300)	(16,467,300)	(17,784,684)	(17,784,684)	(19,102,068)	(19,102,068)
Accumulated Deferred Income Tax	(12,956,666)	(12,956,666)	(13,918,649)	(13,918,649)	(14,883,120)	(14,883,120)	(15,845,102)	(15,845,102)	(16,809,573)	(16,809,573)
Net Investment (Rate Base)	$ 38,010,802	$ 38,010,802	$ 35,731,435	$ 35,731,435	$ 33,449,580	$ 33,449,580	$ 31,170,214	$ 31,170,214	$ 28,888,359	$ 28,888,359
Return on Equity	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%
Preferred Stock Rate	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%
Long Term Debt Rate	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%
Equity % of Capital Structure	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%
Preferred Stock % of Capital Structure	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%
Long Term Debt % of Capital Structure	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%
Cost of Capital (%)	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%
Cost of Capital ($)	$ 3,090,796	$ (3,544,462)	$ 2,905,452	$ (3,331,913)	$ 2,719,906	$ (3,119,133)	$ 2,534,563	$ (2,906,585)	$ 2,349,017	$ (2,693,805)
Depreciation Rate	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%
Federal Income Tax	$ 1,042,773	$ (1,062,827)	$ 980,241	$ (999,093)	$ 917,642	$ (935,290)	$ 855,111	$ (871,556)	$ 792,511	$ (807,753)
State Income Tax	$ 129,105	$ (131,588)	$ 121,363	$ (123,697)	$ 113,613	$ (115,798)	$ 105,871	$ (107,907)	$ 98,120	$ (100,007)
Net Incremental Revenue Requirement	$ 4,262,674	$ (4,738,877)	$ 4,007,057	$ (4,454,704)	$ 3,751,161	$ (4,170,221)	$ 3,495,545	$ (3,886,048)	$ 3,239,649	$ (3,601,565)
Missouri rate base 100% GMO, FERC Revenue 96% GMO	100%	-4%	100%	-4%	100%	-4%	100%	-4%	100%	-4%
MO Rate Base cost vs. FERC Revenues	$ 4,262,674	$ (4,549,322)	$ 4,007,057	$ (4,276,516)	$ 3,751,161	$ (4,003,412)	$ 3,495,545	$ (3,730,606)	$ 3,239,649	$ (3,457,503)
Annual Calcluated Detriment (Difference)		$ (286,648)		$ (269,459)		$ (252,251)		$ (235,062)		$ (217,854)

	Year 16		Year 17		Year 18		Year 19		Year 20	
	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project
Iatan-Nashua Project	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000
Accumulated Depreciation	(20,419,452)	(20,419,452)	(21,736,836)	(21,736,836)	(23,054,220)	(23,054,220)	(24,371,604)	(24,371,604)	(25,688,988)	(25,688,988)
Accumulated Deferred Income Tax	(17,037,692)	(17,037,692)	(16,531,949)	(16,531,949)	(16,026,205)	(16,026,205)	(15,520,461)	(15,520,461)	(15,014,718)	(15,014,718)
Net Investment (Rate Base)	$ 27,342,856	$ 27,342,856	$ 26,531,215	$ 26,531,215	$ 25,719,575	$ 25,719,575	$ 24,907,935	$ 24,907,935	$ 24,096,294	$ 24,096,294
Return on Equity	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%
Preferred Stock Rate	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%
Long Term Debt Rate	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%
Equity % of Capital Structure	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%
Preferred Stock % of Capital Structure	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%
Long Term Debt % of Capital Structure	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%
Cost of Capital (%)	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%
Cost of Capital ($)	$ 2,223,347	$ (2,549,688)	$ 2,157,349	$ (2,474,004)	$ 2,091,352	$ (2,398,320)	$ 2,025,354	$ (2,322,635)	$ 1,959,357	$ (2,246,951)
Depreciation Rate	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%
Federal Income Tax	$ 750,113	$ (764,539)	$ 727,846	$ (741,844)	$ 705,580	$ (719,150)	$ 683,314	$ (696,455)	$ 661,048	$ (673,761)
State Income Tax	$ 92,871	$ (94,657)	$ 90,114	$ (91,847)	$ 87,358	$ (89,038)	$ 84,601	$ (86,228)	$ 81,844	$ (83,418)
Net Incremental Revenue Requirement	$ 3,066,330	$ (3,408,884)	$ 2,975,310	$ (3,307,696)	$ 2,884,290	$ (3,206,507)	$ 2,793,269	$ (3,105,318)	$ 2,702,249	$ (3,004,130)
Missouri rate base 100% GMO, FERC Revenue 96% GMO	100%	-4%	100%	-4%	100%	-4%	100%	-4%	100%	-4%
MO Rate Base cost vs. FERC Revenues	$ 3,066,330	$ (3,272,529)	$ 2,975,310	$ (3,175,388)	$ 2,884,290	$ (3,078,247)	$ 2,793,269	$ (2,981,106)	$ 2,702,249	$ (2,883,964)
Annual Calcluated Detriment (Difference)		$ (206,199)		$ (200,078)		$ (193,957)		$ (187,836)		$ (181,716)

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Schedule 1 NP

Kansas City Power & Light Company
KCP&L Greater Missouri Operations Company
Transource Missouri, LLC

File Nos EO-2012-0367 and EA-2013-0098

Sibley-Nebraska City Project Detriment Analysis - GMO Ownership vs. TranSource Ownership, Case 1: Current FERC Capital Structure

INPUTS:

Input	Value
Rate Base:	380,000,000
Book Depreciation Rate:	2.033%
GMO TranSource Debt Cost:	7.820%
GMO TranSource Preferred Stock Cost:	4.220%
GMO TranSource Equity Cost:	12.100%
GMO TranSource Debt %:	52.840%
GMO TranSource Preferred Stock %:	0.610%
GMO TranSource Equity %:	46.550%

	Year 1		Year 2		Year 3		Year 4		Year 5	
	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project
Sibley-Nebraska City Project	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000
Accumulated Depreciation	(3,862,700)	(3,862,700)	(11,588,100)	(11,588,100)	(19,313,500)	(19,313,500)	(27,038,900)	(27,038,900)	(34,764,300)	(34,764,300)
Accumulated Deferred Income Tax	(5,811,209)	(5,811,209)	(16,704,218)	(16,704,218)	(26,211,348)	(26,211,348)	(34,478,481)	(34,478,481)	(41,622,323)	(41,622,323)
Net Investment (Rate Base)	$ 370,326,091	$ 370,326,091	$ 351,707,682	$ 351,707,682	$ 334,475,152	$ 334,475,152	$ 318,482,619	$ 318,482,619	$ 303,613,377	$ 303,613,377
Return on Equity	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%
Preferred Stock Rate	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%
Long Term Debt Rate	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%
Equity % of Capital Structure	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%
Preferred Stock % of Capital Structure	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%
Long Term Debt % of Capital Structure	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%
Cost of Capital (%)	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%
Cost of Capital ($)	$ 30,112,555	$ (36,256,332)	$ 28,598,624	$ (34,433,519)	$ 27,197,385	$ (32,746,388)	$ 25,896,974	$ (31,180,659)	$ 24,687,902	$ (29,724,903)
Depreciation Rate	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%
Federal Income Tax	$ 10,159,374	$ (11,282,994)	$ 9,648,604	$ (10,715,733)	$ 9,175,854	$ (10,190,697)	$ 8,737,121	$ (9,703,441)	$ 8,329,205	$ (9,250,409)
State Income Tax	$ 1,257,827	$ (1,396,942)	$ 1,194,589	$ (1,326,710)	$ 1,136,058	$ (1,261,705)	$ 1,081,739	$ (1,201,378)	$ 1,031,235	$ (1,145,289)
Net Incremental Revenue Requirement	$ 41,529,756	$ (48,936,268)	$ 39,441,817	$ (46,475,962)	$ 37,509,297	$ (44,198,791)	$ 35,715,834	$ (42,085,478)	$ 34,048,342	$ (40,120,601)
Missouri rate base 100% GMO, FERC Revenue 96% GMO	100%	-4%	100%	-4%	100%	-4%	100%	-4%	100%	-4%
MO Rate Base cost vs. FERC Revenues	$ 41,529,756	$ (46,978,817)	$ 39,441,817	$ (44,616,923)	$ 37,509,297	$ (42,430,839)	$ 35,715,834	$ (40,402,059)	$ 34,048,342	$ (38,515,777)
Annual Calcluated Detriment (Difference)		$ (5,449,061)		$ (5,175,106)		$ (4,921,543)		$ (4,686,225)		$ (4,467,435)

	Year 6		Year 7		Year 8		Year 9		Year 10	
	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project
Sibley-Nebraska City Project	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000
Accumulated Depreciation	(42,489,700)	(42,489,700)	(50,215,100)	(50,215,100)	(57,940,500)	(57,940,500)	(65,665,900)	(65,665,900)	(73,391,300)	(73,391,300)
Accumulated Deferred Income Tax	(47,744,990)	(47,744,990)	(53,386,247)	(53,386,247)	(59,027,504)	(59,027,504)	(64,683,349)	(64,683,349)	(70,324,606)	(70,324,606)
Net Investment (Rate Base)	$ 289,765,310	$ 289,765,310	$ 276,398,653	$ 276,398,653	$ 263,031,996	$ 263,031,996	$ 249,650,751	$ 249,650,751	$ 236,284,094	$ 236,284,094
Return on Equity	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%
Preferred Stock Rate	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%
Long Term Debt Rate	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%
Equity % of Capital Structure	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%
Preferred Stock % of Capital Structure	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%
Long Term Debt % of Capital Structure	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%
Cost of Capital (%)	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%
Cost of Capital ($)	$ 23,561,866	$ (28,369,125)	$ 22,474,975	$ (27,060,478)	$ 21,388,084	$ (25,751,832)	$ 20,300,006	$ (24,441,757)	$ 19,213,115	$ (23,133,111)
Depreciation Rate	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%
Federal Income Tax	$ 7,949,302	$ (8,828,490)	$ 7,582,607	$ (8,421,238)	$ 7,215,912	$ (8,013,987)	$ 6,848,816	$ (7,606,291)	$ 6,482,121	$ (7,199,039)
State Income Tax	$ 984,199	$ (1,093,051)	$ 938,799	$ (1,042,630)	$ 893,399	$ (992,208)	$ 847,949	$ (941,731)	$ 802,548	$ (891,310)
Net Incremental Revenue Requirement	$ 32,495,368	$ (38,290,666)	$ 30,996,381	$ (36,524,346)	$ 29,497,394	$ (34,758,027)	$ 27,996,771	$ (32,989,779)	$ 26,497,784	$ (31,223,459)
Missouri rate base 100% GMO, FERC Revenue 96% GMO	100%	-4%	100%	-4%	100%	-4%	100%	-4%	100%	-4%
MO Rate Base cost vs. FERC Revenues	$ 32,495,368	$ (36,759,040)	$ 30,996,381	$ (35,063,373)	$ 29,497,394	$ (33,367,706)	$ 27,996,771	$ (31,670,188)	$ 26,497,784	$ (29,974,521)
Annual Calcluated Detriment (Difference)		$ (4,263,672)		$ (4,066,992)		$ (3,870,312)		$ (3,673,417)		$ (3,476,737)

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Kansas City Power & Light Company
KCP&L Greater Missouri Operations Company
Transource Missouri, LLC
File Nos EO-2012-0367 and EA-2013-0098

Sibley-Nebraska City Project Detriment Analysis - GMO Ownership vs. TranSource Ownership, Case 1: Current FERC Capital Structure

INPUTS:

Rate Base:	380,000,000
Book Depreciation Rate:	2.033%
GMO TranSource Debt Cost:	7.820%
GMO TranSource Preferred Stock Cost:	4.220%
GMO TranSource Equity Cost:	12.100%
GMO TranSource Debt %:	52.840%
GMO TranSource Preferred Stock %:	0.610%
GMO TranSource Equity %:	46.550%

	Year 11		Year 12		Year 13		Year 14		Year 15	
	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project
Sibley-Nebraska City Project	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000
Accumulated Depreciation	(81,116,700)	(81,116,700)	(88,842,100)	(88,842,100)	(96,567,500)	(96,567,500)	(104,292,900)	(104,292,900)	(112,018,300)	(112,018,300)
Accumulated Deferred Income Tax	(75,980,451)	(75,980,451)	(81,621,708)	(81,621,708)	(87,277,554)	(87,277,554)	(92,918,810)	(92,918,810)	(98,574,656)	(98,574,656)
Net Investment (Rate Base)	$ 222,902,849	$ 222,902,849	$ 209,536,192	$ 209,536,192	$ 196,154,946	$ 196,154,946	$ 182,788,290	$ 182,788,290	$ 169,407,044	$ 169,407,044
Return on Equity	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%
Preferred Stock Rate	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%
Long Term Debt Rate	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%
Equity % of Capital Structure	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%
Preferred Stock % of Capital Structure	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%
Long Term Debt % of Capital Structure	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%
Cost of Capital (%)	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%
Cost of Capital ($)	$ 18,125,037	$ (21,823,036)	$ 17,038,146	$ (20,514,389)	$ 15,950,069	$ (19,204,315)	$ 14,863,177	$ (17,895,668)	$ 13,775,100	$ (16,585,593)
Depreciation Rate	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%
Federal Income Tax	$ 6,115,025	$ (6,791,343)	$ 5,748,330	$ (6,384,091)	$ 5,381,234	$ (5,976,395)	$ 5,014,539	$ (5,569,144)	$ 4,647,443	$ (5,161,447)
State Income Tax	$ 757,098	$ (840,833)	$ 711,698	$ (790,411)	$ 666,248	$ (739,935)	$ 620,848	$ (689,513)	$ 575,398	$ (639,036)
Net Incremental Revenue Requirement	$ 24,997,161	$ (29,455,212)	$ 23,498,174	$ (27,688,892)	$ 21,997,551	$ (25,920,644)	$ 20,498,564	$ (24,154,325)	$ 18,997,941	$ (22,386,077)
Missouri rate base 100% GMO, FERC Revenue 96% GMO	100%	-4%	100%	-4%	100%	-4%	100%	-4%	100%	-4%
MO Rate Base cost vs. FERC Revenues	$ 24,997,161	$ (28,277,003)	$ 23,498,174	$ (26,581,336)	$ 21,997,551	$ (24,883,819)	$ 20,498,564	$ (23,188,152)	$ 18,997,941	$ (21,490,634)
Annual Calcluated Detriment (Difference)		$ (3,279,843)		$ (3,083,163)		$ (2,886,268)		$ (2,689,588)		$ (2,492,693)

	Year 16		Year 17		Year 18		Year 19		Year 20	
	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project
Sibley-Nebraska City Project	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000
Accumulated Depreciation	(119,743,700)	(119,743,700)	(127,469,100)	(127,469,100)	(135,194,500)	(135,194,500)	(142,919,900)	(142,919,900)	(150,645,300)	(150,645,300)
Accumulated Deferred Income Tax	(99,912,394)	(99,912,394)	(96,946,613)	(96,946,613)	(93,980,831)	(93,980,831)	(91,015,050)	(91,015,050)	(88,049,269)	(88,049,269)
Net Investment (Rate Base)	$ 160,343,906	$ 160,343,906	$ 155,584,287	$ 155,584,287	$ 150,824,669	$ 150,824,669	$ 146,065,050	$ 146,065,050	$ 141,305,431	$ 141,305,431
Return on Equity	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%
Preferred Stock Rate	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%
Long Term Debt Rate	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%
Equity % of Capital Structure	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%
Preferred Stock % of Capital Structure	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%
Long Term Debt % of Capital Structure	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%
Cost of Capital (%)	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%
Cost of Capital ($)	$ 13,038,143	$ (15,698,278)	$ 12,651,121	$ (15,232,293)	$ 12,264,100	$ (14,766,308)	$ 11,877,078	$ (14,300,323)	$ 11,490,056	$ (13,834,339)
Depreciation Rate	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%
Federal Income Tax	$ 4,398,809	$ (4,885,314)	$ 4,268,235	$ (4,740,299)	$ 4,137,662	$ (4,595,285)	$ 4,007,088	$ (4,450,270)	$ 3,876,515	$ (4,305,255)
State Income Tax	$ 544,614	$ (604,848)	$ 528,448	$ (586,894)	$ 512,282	$ (568,940)	$ 496,116	$ (550,986)	$ 479,949	$ (533,032)
Net Incremental Revenue Requirement	$ 17,981,567	$ (21,188,440)	$ 17,447,805	$ (20,559,487)	$ 16,914,044	$ (19,930,533)	$ 16,380,282	$ (19,301,579)	$ 15,846,521	$ (18,672,625)
Missouri rate base 100% GMO, FERC Revenue 96% GMO	100%	-4%	100%	-4%	100%	-4%	100%	-4%	100%	-4%
MO Rate Base cost vs. FERC Revenues	$ 17,981,567	$ (20,340,903)	$ 17,447,805	$ (19,737,107)	$ 16,914,044	$ (19,133,312)	$ 16,380,282	$ (18,529,516)	$ 15,846,521	$ (17,925,720)
Annual Calcluated Detriment (Difference)		$ (2,359,336)		$ (2,289,302)		$ (2,219,268)		$ (2,149,234)		$ (2,079,200)

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April 12, 2012

Northeast Utilities

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Northeast Utilities

Major Rating Factors

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Strengths

- A focus on low-risk electric transmission and distribution operations;
- Operating, geographic, and regulatory diversity;
- Federal Energy Regulatory Commission regulation is favorable and Massachusetts and New Hampshire regulation is credit supportive, in our view;
- Predominantly commercial and residential customer base;
- Strong competitive position; and
- Reliable and efficient operations.

Weaknesses

- Historically challenging regulatory climate in Connecticut;
- Distribution rate freezes in Connecticut and in Massachusetts;
- Northern Pass Transmission Project involves construction risk given the size and magnitude of the project; and
- New Hampshire customers can select alternative electric suppliers.

Rationale

Standard & Poor's Ratings Services' ratings on Hartford, Conn.-based holding company Northeast Utilities (NU) reflect an "excellent" business risk profile and a "significant" financial risk profile under our criteria.

On April 10, 2012, NU and energy holding company NSTAR completed their merger in an all-stock transaction. NSTAR was renamed NSTAR LLC, and ceases to exist. As the surviving entity, NSTAR LLC has assumed all obligations under the senior unsecured notes that were previously issued by NSTAR, and is now a subsidiary and an intraholding company of NU. The main subsidiaries of NU include NSTAR LLC, NSTAR Electric Co., NSTAR Gas Co., Connecticut Light & Power Co. (CL&P), Public Service Co. of New Hampshire (PSNH), Western Massachusetts Electric Co. (WMECO), and Yankee Gas Services Co.

The consolidated business risk profile is supported by a focus on the regulated electric and gas transmission and distribution operations, which are relatively low operating risk; reliable and efficient operations; solid competitive standing; and geographic, economic, and regulatory diversity. The customer base is largely residential and commercial, which provides for a reasonably stable and predictable revenue stream and some insulation from cyclical volatility. The combined entity will generate about 70% of operating cash flow from Massachusetts, Connecticut, and New Hampshire, while the balance will be Federal Energy Regulatory Commission (FERC) regulated. We view FERC regulation favorably and regulation in Massachusetts and New Hampshire as credit supportive. The aforementioned attributes are tempered by a historically challenging regulatory environment in Connecticut, which we view as less credit supportive, and a distribution rate freeze that will prohibit the utilities from seeking rate relief despite new investment in distribution facilities.

NU's significant financial risk profile reflects our expectation tbat debt leverage will remain somewhat liberal and

that its heavy capital spending program will necessitate some reliance on external financing. In that regard, our baseline forecast reflects adjusted debt to total capital and adjusted funds from operations (FFO) to total debt that hovers around 53% to 54% and 17% to 18%, respectively, in nearby years. In addition, we expect that the management team will continue to do a good job of managing regulatory risk, implementing risk management strategies, controlling expenses, providing high quality service, and avoiding risky unregulated activities. We believe that management depth, specificity, and transparency in its financial goals are consistent with the significant financial profile.

NU and NSTAR agreed to provide rate credits and rate freezes, and to invest in renewable energy, adopt new energy efficiency targets, and meet other concessions. In Massachusetts, the companies agreed to freeze distribution rates at NSTAR Electric, NSTAR Gas, and WMECO until 2016 and give rate payers a one-time credit totaling $21 million. The companies also agreed to purchase power from the planned Cape Wind offshore facility. In Connecticut, NU agreed to freeze distribution rates at CL&P until Dec. 1, 2014, with a one-time $25 million rate credit, to forego recovery of $40 million of $260 million of storm costs it incurred in 2011, and to defer the remaining costs until December 2014. While not onerous conditions, 2011 storm costs are subject to commission review, rendering full cost recovery uncertain.

The merger has combined two relatively low-risk companies in contiguous service areas with similar corporate strategies. NU, which will be the largest utility in New England, will continue to concentrate on its core utility rate base, with increasing investments primarily in transmission projects. The transmission investments provide for attractive allowed returns on equity (ROEs) and recovery of financing costs for some of the major projects during the construction period, which helps to enhance cash flow and provide earnings stability. The merged company serves 3 million electric and 500,000 gas customers in three states. CL&P, WMECO, and NSTAR Electric are electric transmission and distribution companies. In contrast, PSNH remains a fully integrated electric utility even though its customers can select alternative electric supply providers, an arrangement that can lead to upward pressure as fixed costs may need to be recovered over a smaller customer base. Yankee Gas and NSTAR Gas are natural gas distribution companies.

NU faces a heavy capital spending program, at about $7.9 billion from 2012 to 2016 (as disclosed in NU's and NSTAR's 2011 10-Ks), a significant portion of which is targeted for new transmission projects, including the $1.1 billion Northern Pass Transmission (NPT) project, a high-voltage direct-current line extending from the Canadian border to Franklin, N.H., with completion slated for late 2016. We view the NPT project as having somewhat higher risk than FERC-regulated transmission projects because NPT will have a single off-taker, Hydro-Quebec, for the entire capacity. Nevertheless, the overall cost structure of the project mirrors the cost structure of FERC-approved projects, and the transmission services agreement between NPT and Hydro-Quebec provides NPT with a number of protections, including compensation should Hydro-Quebec abandon the project. The balance of NU's planned construction expenditures are for company-specific projects, necessitating timely recovery of the investment through rates to provide ongoing support to the financial profile. Overall, the proposed capital spending program will meaningfully increase the consolidated rate base.

Given the large construction program, which will require some outside financing, we expect that credit protection measures will be in the lower end of the significant financial risk category. Prospectively, based on our baseline forecast, we expect consolidated adjusted FFO to total debt to hover in the high teens and total debt to EBIDTA to be about 4.5x. We also expect total debt to total capitalization to approximate 53% to 54%, including goodwill. We believe NU's consolidated financial measures will remain at levels suitable for current ratings because of the

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prospects for higher transmission rates, recovery of fuel costs and various tracking mechanisms that allow for the timely adjustment of rates, projected net merger savings of $784 million over 10 years, efficient operations, and credit supportive actions by management.

Liquidity

The short-term corporate credit and commercial paper ratings on NSTAR LLC and NSTAR Electric are 'A-2'. Liquidity is adequate under Standard & Poor's corporate liquidity methodology, which categorizes liquidity in five standard descriptors. Consolidated projected sources of liquidity, mainly operating cash flow and available hank lines, exceed its projected uses, consisting mainly of necessary capital expenditures, debt maturities, and common dividends, by more than 1.2x. Further supporting our assessment of its liquidity as adequate is the company's ability to absorh high-impact, low-probability events with limited need for refinancing, its flexibility to lower capital spending, its sound bank relationships, its solid standing in the credit markets, and its generally prudent risk management.

At the end of 2011, NU had revolving credit facilities totaling $900 million with about $586 million available, NSTAR had $700 million credit facilities with no amounts outstanding, and NSTAR Electric had $141.5 million commercial paper outstanding. NU maintains a $500 million credit facility and its operating subsidiaries combined have a $400 credit facility, both of which expire on Sept. 24, 2013. NSTAR LLC (formerly NSTAR) has a $175 million revolving credit facility that expires Dec. 31, 2012. NSTAR Electric maintains a $450 million revolver that also expires on Dec. 31, 2012. In addition, on Dec. 8, 2011, NSTAR Gas entered into a six-month $75 million credit agreement to replace its $100 million agreement that expired Dec. 9, 2011. The revolvers serve as backup to NSTAR LLC's and NSTAR Electric's commercial paper programs. We expect the company to enter into new credit agreements within six months of maturity.

NU, CL&P, PSNH, WMECO, Yankee Gas, NSTAR (now known as NSTAR LLC), NSTAR Electric, and NSTAR Gas are required to maintain a consolidated ratio of total debt to total capital of no more than 65%, with which they comfortably complied as of Dec. 31, 2011, with ratios of 57%, 49%, 49%, 49%, 40%, 55.5%, 45.4%, and 51.6%, respectively.

On March 26, 2012, CL&P entered into a new $300 million five-year unsecured revolving credit agreement that expires on March 26, 2017, bringing the total combined credit agreements to $1.9 billion.

The consolidated entity has about $827 million remaining debt maturing in 2012 and $689 million in 2013. We expect that the company will refinance debt as it matures.

Given the company's concentration on relatively low-risk regulated transmission and distribution operations, merger savings, and better-than-average service areas with very little industrial concentration, prospective cash flows should be reasonably stable.

Recovery analysis

We assign recovery ratings on first-mortgage bonds (FMBs) issued by investment-grade U.S. utilities, which can result in issue ratings being notched above a corporate credit rating (CCR) on a utility, depending on the CCR category and the extent of the collateral coverage. We base the investment-grade FMB recovery methodology on the ample historical record of nearly 100% recovery for secured bondholders in utility bankruptcies and on our view that the factors that supported those recoveries (limited size of the creditor class, and the durable value of utility rate-based assets during and after a reorganization, given the essential service provided and the high replacement

cost) will persist. Under our notching criteria, when assigning issue ratings on utility FMBs, we consider the limitations of FMB issuance under the utility's indenture relative to the value of the collateral pledged to bondholders, management's stated intentions on future FMB issuance, and the regulatory limitations on bond issuance. FMB ratings can exceed a CCR on a utility by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories.

NSTAR Gas' FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating one notch above the CCR. At CL&P and PSNH collateral coverage of 1x supports a recovery rating of '1' and an issue rating of 'A-', which is on par with the CCR.

Outlook

The stable rating outlook on NU and its subsidiaries reflects the company's consistent, regulated electric and natural gas businesses that have low operating risk and which we expect will generate sufficient cash flow. Given the large capital spending program and prospects for modest load growth, we expect that NU will generate consolidated adjusted FFO to total debt of about 17%-18% over the next few years and adjusted total debt to total capitalization of below 54%. We will lower the ratings on NU if adjusted FFO to total debt declines to below 15% on a consistent basis and debt leverage exceeds 55%. In light of the company's heavy construction program, we don't anticipate a ratings upgrade during our current forecast period. However, if adjusted FFO to total debt consistently exceeds 20%, we could raise the ratings by one notch.

Related Criteria And Research

- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Analytical Methodology, April 15, 2008
- Ratios And Adjustments, April 15, 2008
- Assessing U.S. Utility Regulatory Environments, Nov. 7, 2007

Table 1

Northeast Utilities -- Peer Comparison

Industry Sector: Energy

	Northeast Utilities	**NSTAR LLC**	**Consolidated Edison Inc.**	**Oncor Electric Delivery Co. LLC**	**Piedmont Natural Gas Co. Inc.**
Rating as of April 12, 2012	A-/Stable/--	A-/Stable/A-2	A-/Stable/A-2	BBB+/Stable/--	A/Stable/A-1
			--Average of past three fiscal years--		
(Mil. $)					
Revenues	4,721.1	2,845.8	13,098.3	2,762.3	1,541.4
EBITDA	1,200.9	835.2	3,064.3	1,448.8	284.8
Net income from cont. oper.	376.7	250.5	981.3	346.3	126.1
Funds from operations (FFO)	909.0	572.1	2,792.5	1,064.8	265.2
Capital expenditures	971.3	406.6	2,076.6	1,130.8	199.0

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Table 1

Northeast Utilities -- Peer Comparison (cont.)					
Free operating cash flow	(101.1)	240.9	917.6	(88.4)	150.9
Dividends paid	181.8	169.2	646.5	209.3	80.5
Discretionary cash flow	(282.9)	71.7	271.1	(297.7)	70.4
Cash and short-term investments	90.8	56.1	415.3	24.3	6.7
Debt	5,945.8	3,182.0	13,768.1	6,151.6	1,028.1
Preferred stock	58.1	21.5	106.5	0.0	0.0
Equity	3,860.2	1,970.0	11,021.8	3,252.7	963.3
Debt and equity	9,806.0	5,151.9	24,789.9	9,404.3	1,991.3
Adjusted ratios					
EBITDA margin (%)	25.4	29.4	23.4	52.4	18.5
EBIT interest coverage (x)	3.4	4.4	3.5	2.7	4.2
Return on capital (%)	7.9	9.9	7.3	8.9	9.6
FFO int. cov. (X)	4.4	4.7	5.3	3.8	6.0
FFO/debt (%)	15.3	18.0	20.3	17.3	25.8
Free operating cash flow/debt (%)	(1.7)	7.6	6.7	(1.4)	14.7
Discretionary cash flow/debt (%)	(4.8)	2.3	2.0	(4.8)	6.8
Net cash flow/capex (%)	74.9	99.1	103.3	75.6	92.8
Debt/EBITDA (x)	5.0	3.8	4.5	4.2	3.6
Total debt/debt plus equity (%)	60.6	61.8	55.5	65.4	51.6
Return on capital (%)	7.9	9.9	7.3	8.9	9.6
Return on common equity (%)	9.5	13.0	8.9	5.0	12.6
Common dividend payout ratio (un-adj.) (%)	48.5	66.3	69.7	60.4	63.8

Table 2

Northeast Utilities -- Financial Summary					
Industry Sector: Energy					
	--Fiscal year ended Dec. 31--				
	2011	**2010**	**2009**	**2008**	**2007**
Rating history	BBB+/Watch Pos/--	BBB/Watch Pos/--	BBB/Stable/--	BBB/Stable/--	BBB/Stable/--
(Mil. $)					
Revenues	4,387.7	4,616.7	5,158.8	5,518.9	5,500.9
EBITDA	1,314.0	1,232.2	1,056.6	995.8	742.8
Net income from continuing operations	400.5	394.1	335.6	260.8	251.5
Funds from operations (FFO)	894.1	988.0	845.0	560.4	506.0
Capital expenditures	1,067.5	944.3	902.2	1,237.6	1,101.0
Dividends paid	197.3	183.1	165.2	126.3	118.2
Debt	6,327.6	5,897.9	5,612.0	5,738.4	4,033.5
Preferred stock	58.1	58.1	58.1	58.1	58.1
Equity	4,073.7	3,870.7	3,636.0	3,078.4	2,971.9

Table 2

Northeast Utilities -- Financial Summary (cont.)					
Debt and equity	10,401.3	9,768.6	9,248.0	8,816.8	7,005.4
Adjusted ratios					
EBITDA margin (%)	29.9	26.7	20.5	18.0	13.5
EBIT interest coverage (x)	3.6	3.4	3.1	2.3	2.6
FFO int. cov. (x)	4.4	4.7	4.2	3.1	3.3
FFO/debt (%)	14.1	16.8	15.1	9.8	12.5
Discretionary cash flow/debt (%)	(4.5)	(4.4)	(5.4)	(16.1)	(30.3)
Net Cash Flow / Capex (%)	65.3	85.2	75.3	35.1	35.2
Debt/debt and equity (%)	60.8	60.4	60.7	65.1	57.6
Return on capital (%)	7.8	8.1	7.6	6.5	7.2
Return on common equity (%)	9.2	9.8	9.5	7.0	7.6
Common dividend payout ratio (un-adj.) (%)	49.5	46.8	49.3	50.5	47.9

Table 3

Reconciliation Of Northeast Utilities Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)

	--Fiscal year ended Dec. 31, 2011--									
Northeast Utilities reported amounts										
	Debt	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Dividends paid**	**Capital expenditures**
Reported	5,375.8	4,131.8	4,465.7	1,263.4	794.2	250.4	970.4	970.4	200.1	1,076.7
Standard & Poor's adjustments										
Operating leases	36.7	--	--	1.9	1.9	1.9	5.9	5.9	--	2.6
Intermediate hybrids reported as equity	58.1	(58.1)	--	--	--	2.8	(2.8)	(2.8)	(2.8)	--
Postretirement benefit obligations	863.5	--	--	110.8	110.8	--	92.5	92.5	--	--
Capitalized interest	--	--	--	--	--	11.8	(11.8)	(11.8)	--	(11.8)
Share-based compensation expense	--	--	--	12.3	--	--	--	--	--	--
Securitized utility cost recovery	(112.3)	--	(77.9)	(77.9)	(8.6)	(8.6)	(69.3)	(69.3)	--	--
Asset retirement obligations	36.5	--	--	3.5	3.5	3.5	(3.1)	(3.1)	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	27.7	--	--	--	--	--

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Table 3

Reconciliation Of Northeast Utilities Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $) (cont.)										
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	(87.7)	--	--
Debt - Accrued interest not included in reported debt	69.2	--	--	--	--	--	--	--	--	--
Total adjustments	951.8	(58.1)	(77.9)	50.6	135.3	11.4	11.4	(76.3)	(2.8)	(9.2)
Standard & Poor's adjusted amounts										
	Debt	**Equity**	**Revenues**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**	**Dividends paid**	**Capital expenditures**
Adjusted	6,327.6	4,073.7	4,387.7	1,314.0	929.5	261.8	981.8	894.1	197.3	1,067.5

Ratings Detail (As Of April 12, 2012)		
Northeast Utilities		
Corporate Credit Rating		
Foreign Currency		A-/Stable/--
Local Currency		A-/Stable/NR
Senior Unsecured (2 Issues)		BBB+
Corporate Credit Ratings History		
05-Apr-2012	*Foreign Currency*	A-/Stable/--
16-May-2011		BBB+/Watch Pos/--
18-Oct-2010		BBB/Watch Pos/--
05-Apr-2012	*Local Currency*	A-/Stable/NR
16-May-2011		BBB+/Watch Pos/NR
18-Oct-2010		BBB/Watch Pos/NR
Business Risk Profile		Excellent
Financial Risk Profile		Significant
Related Entities		
Connecticut Light & Power Co.		
Issuer Credit Rating		A-/Stable/NR
Senior Secured (19 Issues)		A-
Public Service Co. of New Hampshire		
Issuer Credit Rating		A-/Stable/--
Senior Unsecured (2 Issues)		A-
Western Massachusetts Electric Co.		
Issuer Credit Rating		A-/Stable/NR
Yankee Gas Services Co.		
Issuer Credit Rating		A-/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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FILED[3]
FEB 26 2001
Missouri Public
Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for an Order Authorizing Its Plan to Reorganize Itself Into a Holding Company Structure.	))))	Case No. EM-2001-464

APPLICATION

COMES NOW Kansas City Power & Light Company ("KCPL") and, pursuant to Sections 393.190, 393.200, 393.210, and 393.250 RSMo 2000[1], and 4 CSR 240-2.060(1), (8) and (12), respectfully requests an order from the Missouri Public Service Commission ("Commission") that grants KCPL the authority to, *inter alia,* restructure and reorganize itself as more particularly described herein.

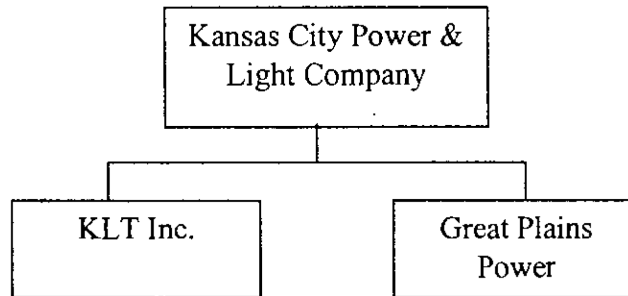
I. Summary of Restructuring Plan

KCPL is a vertically integrated electric utility company. In accordance with Missouri law and the Public Utility Holding Company Act of 1935 (15 U.S.C. § 79 et seq.) ("PUHCA"), KCPL proposes to reorganize into a registered holding company structure. Additional regulatory approvals will be obtained from the Kansas Corporation Commission, the Federal Energy Regulatory Commission, the Nuclear Regulatory Commission and the Federal Communications Commission. A registration statement will be filed with the Securities and Exchange Commission. This reorganization will not require a vote of KCPL's shareholders. After the reorganization, a new holding company ("HoldCo") will be the sole owner of three subsidiary companies, all of which already exist – *i.e.* KCPL, KLT, Inc. ("KLT") and Great Plains Power ("GPP").[2] KCPL will remain

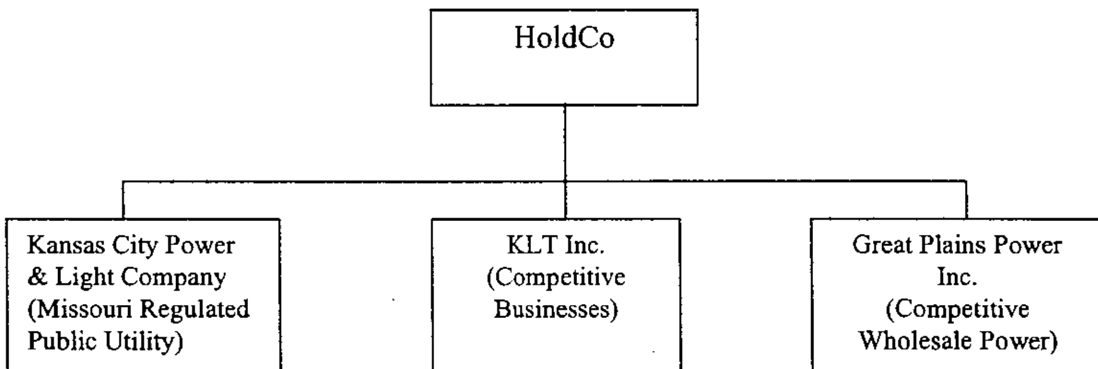
[1] All statutory references are to Revised Statutes of Missouri 2000, unless otherwise noted.
[2] The actual name of HoldCo has not been determined at this time. The Articles of Incorporation for HoldCo will be filed with the Missouri Secretary of State before the reorganization is completed.

a vertically integrated electric utility subject to this Commission's jurisdiction and will not transfer any of its generating assets as a part of this proposed restructuring plan. KLT will continue to invest in competitive, high growth businesses. GPP will pursue opportunities in the competitive wholesale generation market. KCPL's existing corporate structure, and the corporate structure that will exist immediately following the completion of the restructuring plan proposed herein, are illustrated below.

CURRENT CORPORATE STRUCTURE[3]



RESTRUCTURED COMPANY



[3] The only other existing subsidiary of KCPL that is relatively significant in terms of its size is Home Services Solutions ("HSS"). It is anticipated that HSS will be sold or otherwise disposed of in the near future. None of KCPL's subsidiaries are involved in the provision of regulated utility services.

The two corporate structures illustrated above are snapshots of KCPL at the beginning and end of the proposed restructuring process. KCPL's restructuring process contains several intermediary steps. KCPL will form a wholly owned subsidiary, HoldCo. In turn, HoldCo will form a wholly owned subsidiary, NewCo. Pursuant to a merger agreement ("Merger Agreement") between KCPL, HoldCo and NewCo, KCPL then will merge with NewCo. A copy of the Merger Agreement is attached hereto as Exhibit 1. Under the terms of the Merger Agreement, the separate existence of NewCo will cease and KCPL will continue as the surviving corporation of the merger. At this point, KCPL will be a wholly owned subsidiary of HoldCo. As a part of the merger, each outstanding share of KCPL stock automatically converts into the right to receive one share of HoldCo stock. At the time of the merger, each share of KCPL's various series of preferred stock will be converted into one share of an identical series of HoldCo preferred stock. The pro forma balance sheets and income statements of KCPL before and after the proposed restructuring plan are attached hereto as Exhibit 2. Once the merger is consummated, KCPL will dividend its stock of KLT and GPP to HoldCo. At this point, HoldCo will be a publicly held corporation that owns 100% of KCPL, KLT and GPP.

KCPL anticipates that within a certain period of time following the completion of the reorganization it will form a service company ("ServCo"). ServCo will provide certain shared services to the affiliated companies. A form of the General Services Agreement that will be used for the provision of support services is attached hereto as Exhibit 3. A copy of KCPL's cost allocation manual ("CAM"), which describes the bases currently used by KCPL for allocating certain costs related to shared services, is attached hereto as Exhibit 4. The new holding company

system will continue to use service agreements, work orders and a CAM to assure that costs are properly tracked and assigned.

II. Regulation Under PUHCA

Upon completion of the reorganization, HoldCo will register with the Securities and Exchange Commission ("SEC") and become subject to additional regulation under PUHCA. A central purpose of PUHCA is "to provide a mechanism to create conditions under which effective Federal and State regulation will be possible." (See, S. 2796, 74th Cong., 1st Sess. (1935)). Accordingly, PUHCA contains a number of provisions designed to promote effective state regulation. Importantly, PUHCA does not give the SEC jurisdiction over the rates, terms and conditions of utility service. KCPL will continue to be subject to the authority of the Missouri Public Service Commission with respect to rates, terms and conditions of utility service in Missouri.

State regulation is enhanced under PUHCA by, for example, Section 6(b) which exempts issuance of certain securities, and Section 9 which exempts security and utility asset acquisitions if approved by a state commission. Likewise, the SEC may not authorize the issuance of securities or the acquisition of assets unless the applicant has complied with state law. State regulation of certain affiliate relationships is strengthened since Sections 32 and 34 of PUHCA condition the ability of an Exempt Wholesale Generator or an Exempt Telecommunications Company to enter into transactions with public utility affiliates on obtaining state commission approval. Under Section 33 of PUHCA, similar state consents are required in order to invest in foreign utilities. Consistent with the purpose of assuring that effective state regulation will continue, KCPL has agreed to a number of additional conditions set forth more fully in Section IV of this Application.

In addition to helping assure effective state regulation, PUHCA regulates other aspects of holding company operations. Section 11 limits registered holding company systems to ownership of a single integrated public utility system, which is defined as a group of related operating properties within a confined geographic region susceptible to local management. Non-utility businesses may be acquired and retained only if they are "reasonably incidental, or economically necessary or appropriate" to the operations of the integrated public-utility system.

Section 7 of PUHCA prescribes standards for the type and amount of securities for the registered holding company and subsidiaries. Registered companies and subsidiaries must obtain SEC approval before acquiring any securities, utility assets, or any other interest in any business. As noted above, an important exception to the requirement for prior SEC approval for authority to issue securities exists under Section 6 where a state commission has approved financing plans for a public utility.

The SEC and the regulatory scheme under PUHCA encourage the use of service companies, which are subject to extensive regulation. A service company is a subsidiary of a registered holding company that is formed in order to provide centralized management and administrative services to system companies. Service companies permit registered systems, including public utilities, to capture economies of scale and other efficiencies by reducing duplication of corporate support functions by each of the affiliate companies in the system. There are now approximately 30 registered holding company systems (a doubling in number since 1995) and virtually all of these systems use a service company for corporate support activities.

Service, sales and construction contracts between a system service company and associate companies in the same holding company system must be performed "economically and efficiently"

for the benefit of such associate companies generally at cost and all costs must be fairly and equitably allocated. Service companies use a work order system, make extensive use of accounting controls, and have significant reporting requirements including the obligation to file annual reports which describe affiliate transactions.

PUHCA regulates other affiliate transactions as well. A registered holding company may not borrow or receive any extensions of credit from any system public utility. In addition, there are regulations concerning the ability of system companies to make intra-system loans, pay dividends, acquire or dispose of property, or solicit proxies.

As shown in the next section, forming a holding company promises benefits. And, though KCPL believes—and the SEC itself agrees—that the many provisions of PUHCA are anachronistic and unnecessary, registration under PUHCA will result in greater, not lesser, regulation of system operations.

III. Benefits of the Restructuring

Increased competition in capital and energy markets has required traditional utilities to diversify their business operations and, in particular, to invest in businesses offering higher growth opportunities. The ability to grow earnings at a rate higher than can be expected from the traditional utility business is a key to KCPL's success, if not its survival as a stand-alone family of companies. During the past several years, KCPL, through its subsidiary, KLT, has developed business interests in, for example, telecommunications, gas production and development, and energy services. With the recent establishment of a new subsidiary, GPP, KCPL has signaled its intention to participate in the dramatic growth of the competitive wholesale generation market. The reorganization will

facilitate the efforts of KCPL's affiliated competitive businesses to access more markets and will allow them to pursue business opportunities with greater flexibility and speed.

Sec. 393.140(12) permits electric utilities operating non-jurisdictional businesses to keep those businesses "separate and apart" from their jurisdictional utility businesses. The provisions of 4 CSR 240-20.015 and 20.017 detail the requirements the Commission has deemed necessary to ensure such separation. The proposed reorganization will further separate KCPL's retail electric customers from the Company's other business interests. In the future, those competitive businesses will be conducted in subsidiaries of HoldCo – not in subsidiaries of KCPL. Depending upon the nature of the transaction, and considering the commitments made in the next section of this Application, any significant business dealings between KCPL and its affiliated companies will be subject to review and documentation, and to the approval and/or ratemaking authority of this Commission, the SEC and/or the Federal Energy Regulatory Commission ("FERC"). In addition, KCPL's GSA and CAM, Exhibits 3 and 4, contain accounting procedures that ensure a proper allocation of costs between KCPL and its affiliates.

To reiterate, this reorganization will not, however, involve the transfer of any assets, including generating assets, from KCPL to affiliates. KCPL will remain a vertically integrated electric utility. This Commission will continue to have the statutory authority to ensure that KCPL's retail electric customers receive electric service that is safe, reliable and reasonably priced.

IV. State Jurisdictional Issues

In *Re Western Resources, Inc./Kansas City Power & Light Company*, Case No. EM-97-515, and *Re Union Electric Company/Central Illinois Public Service Company*, Case No. EM-96-149, this Commission approved settlement agreements designed to ensure the protection of customers of

Missouri utilities that may have become subsidiaries of a Registered Holding Company. KCPL hereby agrees to those same conditions as set forth below. KCPL further commits that it and its affiliates will continue to comply with the provisions of 4 CSR 240-2.015 and 2.017 after the reorganization is completed.

a. Access to Books, Records and Personnel

KCPL agrees to make available to the Commission Staff, and Public Counsel, at reasonable times and places, all books, records, employees and officers of KCPL and any affiliate of KCPL as provided under applicable law and Commission rules; provided that KCPL and any affiliate or subsidiary of HoldCo shall have the right to object to such production of records or personnel on any basis under applicable law and Commission rules, excluding any objection that such records and personnel of affiliates or subsidiaries are not subject to the Commission's jurisdiction and statutory authority, including objections based on the operation of PUHCA.

b. Contracts Required to be Filed with the SEC

All contracts, agreements or arrangements of any kind, including any amendments thereto, between KCPL and any affiliate, associate, holding, mutual service, or subsidiary company within the same holding company system, as these terms are defined in 15 U.S.C. § 79b, as subsequently amended, that are required to be filed with and/or approved by the SEC pursuant to PUHCA, as subsequently amended, shall be conditioned upon the following without modification or alteration: Neither KCPL nor any of its affiliates, will seek to overturn, reverse, set aside, change or enjoin, whether through appeal or the initiation or maintenance of any action in any forum, a decision or order of the Commission which pertains to recovery, disallowance, deferral or ratemaking treatment of any expense, charge, cost or allocation incurred or accrued by KCPL in, or as a result of, a

contract, agreement, arrangement, or transaction with any affiliate, associate, holding, mutual service or subsidiary company on the basis that such expense, charge, cost or allocation has itself been filed with or approved by the SEC or was incurred pursuant to a contract, arrangement, agreement or allocation method that was filed with or approved by the SEC.

c. Electric Contracts Required to be Filed with FERC

All wholesale electric energy or transmission service contracts, tariffs, agreements or arrangements of any kind, including any amendments thereto, between KCPL and any HoldCo subsidiary or affiliate, that are required to be filed with and/or approved by the FERC, pursuant to the Federal Power Act, as subsequently amended, shall be conditioned upon the following without modification or alteration: Neither KCPL nor any of its affiliates will seek to overturn, reverse, set aside, change or enjoin, whether through appeal or the initiation or maintenance of any action in any forum, a decision or order of the Commission which pertains to recovery, disallowance, deferral or ratemaking treatment of any expense, charge, cost or allocation incurred or accrued by KCPL in, or as a result of, a wholesale electric energy or transmission service contract, agreement, arrangement or transaction on the basis that such expense, charge, cost or allocation has itself been filed with or approved by FERC, or was incurred pursuant to a contract, arrangement, agreement or allocation method that was filed with or approved by FERC.

d. No Pre-Approval of Affiliated Transactions

KCPL agrees to provide the Commission and Public Counsel with copies of all documents that must be filed with the SEC or FERC relating to affiliate transactions. KCPL and HoldCo further agree that the Commission may make its determination regarding the ratemaking treatment to be accorded these transactions in a subsequent ratemaking proceeding.

e. Contingent Jurisdictional Stipulation Regarding Affiliate Contracts Required to be Filed With FERC

KCPL agrees that in the exclusive event that any court with jurisdiction over KCPL, HoldCo or any of their affiliates or subsidiaries issues an opinion or order that invalidates a decision or order of the Commission pertaining to recovery, disallowance, deferral or ratemaking treatment of any expense, charge, cost or allocation incurred or accrued by KCPL on the basis that such expense, charge, cost or allocation has itself been filed with or approved by FERC, then the Contingent Jurisdictional Stipulation, attached hereto as Exhibit 5, shall apply to FERC filings according to its terms, at the option of the Commission.

f. Contingent Jurisdictional Stipulation Regarding Affiliate Contracts Required to be Filed with SEC

KCPL agrees that in the exclusive event that any court with jurisdiction over KCPL, HoldCo or any of their affiliates or subsidiaries issues an opinion or order that invalidates a decision or order of the Commission pertaining to recovery, disallowance, deferral or ratemaking treatment of any expense, charge, cost or allocation incurred or accrued by KCPL on the basis that such expense, charge, cost or allocation has itself been filed with or approved by SEC, then the Contingent Jurisdictional Stipulation, attached hereto as Exhibit 5, shall apply to SEC filings according to its terms, at the option of the Commission.

V. Request for Authorization

In support of this Application, KCPL states the following:

1. KCPL is a Missouri corporation in good standing in all respects, with its principal office and place of business located at 1201 Walnut, Kansas City, Missouri 64106. KCPL is engaged in the generation, transmission, distribution, and sale of electric energy and power in those

areas in Missouri certificated to it by the Commission, including the City of Kansas City, Missouri, as well as areas of eastern Kansas. KCPL is an "electrical corporation" and "public utility" as those terms are defined in Section 386.020 (15) and (42), and, as such, is subject to the jurisdiction of the Commission as provided by law. KCPL provides electric service to approximately 230,000 residential customers and approximately 30,100 commercial and industrial customers in Missouri. KCPL's Certificate of Good Standing is attached hereto as Exhibit 6.

2. All correspondence, pleadings, orders, decisions, and communications regarding this proceeding should be sent to:

William G. Riggins
General Counsel
Kansas City Power & Light Company
1201 Walnut
Kansas City, MO 64106
Telephone: (816) 556-2785
Facsimile: (816) 556-2787
E-mail: bill.riggins@kcpl.com

Chris B. Giles
Senior Director, Revenue and Resource Management
Kansas City Power & Light Company
1201 Walnut
Kansas City, MO 64106
Telephone: (816) 556-2912
Facsimile: (816) 556-2924
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James M. Fischer
Fischer & Dority, P.C.
101 Madison Street, Suite 400
Jefferson City, MO 65101
Telephone: (573) 636-6758
Facsimile: (573) 636-0383
E-mail: jfischerpc@aol.com

3. A copy of the Merger Agreement, in substantially final form, between KCPL, HoldCo and NewCo is attached hereto as Exhibit 1. In accordance with the Merger Agreement, KCPL and NewCo will merge. NewCo will cease to exist, while KCPL will continue as the surviving corporation. After the merger, KCPL will continue to be a regulated "electrical corporation" and "public utility" as defined by Missouri law, and will continue to provide electric service in KCPL's current service area under tariffs.

4. GPP is not an "electrical corporation" as that term is defined in Section 386.020(15), RSMo 2000, inasmuch as it will sell electric power exclusively at wholesale, and thus, will not be engaged in the sale of electric power at retail to the general public. See, e.g., State ex rel. Danciger v. Public Serv. Comm'n, 205 S.W. 36 (Mo. 1918). Subject to approval by the FERC, GPP will, in the future, sell wholesale power at market-based rates.

5. As described above, the proposed transactions are not detrimental to the public interest and will in fact benefit consumers and the public interest. The proposed transaction will strengthen the financial and operational separation between KCPL's retail electric business and the competitive business activities of KCPL's affiliated companies.

6. The proposed merger will not have any impact on KCPL's Missouri jurisdictional operations.

7. A certified copy of the resolutions of the Board of Directors of KCPL authorizing the Company to proceed with implementation of the restructuring is attached hereto as Exhibit 7 and incorporated herein by reference.

8. Pro forma balance sheets and income statements for KCPL with adjustments showing the effects of the proposed restructuring and capitalization are attached hereto as Exhibit 2.

9. The requirements of 4 CSR 240-2.060(4) do not apply to the proposed transaction. KCPL already possesses a certificate of convenience and necessity. The proposed restructuring plan will not alter KCPL's current service area or affect rights and obligations under its certificate of convenience and necessity.

10. The requirements of 4 CSR 240-2.060(15) do not apply to the proposed transaction. As demonstrated in the Merger Agreement, KCPL will continue as the surviving corporation, while NewCo will cease to exist. The restructuring plan does not result in a "change of electrical suppliers."

11. The proposed restructuring does not involve the transfer of any of KCPL-owned assets. Accordingly, there will be no impact on the tax revenues of any political subdivision where KCPL's structures, facilities or equipment are located.

12. KCPL has no pending action or final unsatisfied judgments or decisions against it from any state or federal agency or court which involve customer service or rates which has occurred within three (3) years of the date of the Application, except as identified on Exhibit 8, attached hereto and incorporated herein.

13. No annual report or assessment fees are overdue.

14. The Commission has explicit statutory authority to grant KCPL's requests pursuant to the above-cited statutes.

WHEREFORE, Kansas City Power & Light Company respectfully requests the Commission to issue its Order:

1. Granting KCPL the authority to restructure and reorganize itself as discussed herein.

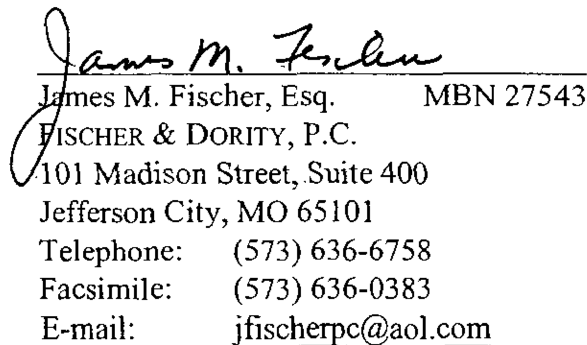
2. Granting KCPL the authority to merge with NewCo with KCPL being the surviving corporation.

3. Granting HoldCo the authority to own more than ten percent (10%) of the common stock of KCPL.

4. Granting all other approvals necessary to implement the restructuring plan described herein, including authority of KCPL to issue the stock dividends to HoldCo as described herein.

5. Granting such other relief as may be deemed necessary and appropriate to accomplish the purposes of the Application and to consummate the restructuring transaction, as described herein.

Respectfully submitted,



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E-mail: bill.riggins@kcpl.com
E-mail gerald.reynolds@kcpl.com

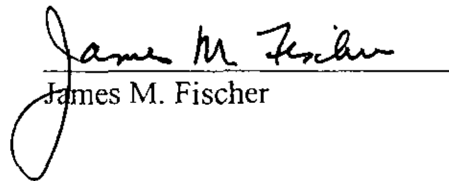
ATTORNEYS FOR
KANSAS CITY POWER & LIGHT COMPANY

CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing Application has been hand-delivered or mailed, First Class, U.S. Mail, postage prepaid this 26th day of February 2001, to:

Dana Joyce, General Counsel
Missouri Public Service Commission
P.O. Box 360
Jefferson City, Missouri 65102

Martha Hogerty, Public Counsel
Office of the Public Counsel
P.O. Box 7800
Jefferson City, Missouri 65102



James M. Fischer

VERIFICATION

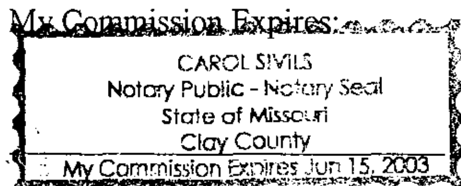
STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

B. J. Beaudoin, having been duly sworn upon his oath, states that he is Chief Executive Officer and President of Kansas City Power & Light Company, Applicant herein, and the Application and Exhibits are true and correct to the best of his information, knowledge and belief.

B. J. Beaudoin

Subscribed and sworn to before me this 21st day of February, 2001.

Notary Public


My Commission Expires:
CAROL SIVILS
Notary Public - Notary Seal
State of Missouri
Clay County
My Commission Expires Jun 15, 2003

Schedule CRH-3

Schedule 1 NP

Copy of
Exhibits will be
provided to USD-Staff
Members assigned.

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Promoting Transmission	)	
Investment	)	**Docket No. RM11-26-000**
Through Pricing Reform.	)	

COMMENTS OF THE NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS

The National Association of Regulatory Utility Commissioners (NARUC) appreciates the opportunity to provide comments to the Federal Energy Regulatory Commission (FERC or Commission) in response to its Notice of Inquiry on Promoting Transmission Investment Through Pricing Reform. (Docket No. RM11-26-000). NARUC recognizes that these comments are coming in after the comment deadline. At the NARUC Winter Committee Meeting, on February 8, 2012, the NARUC Board of Directors passed a *Resolution on the Need for Review of FERC Incentive Rate Regulation Policies Under Order No. 679*. This recently passed resolution, which is attached to these comments, necessitates our commenting out of time.

INTRODUCTION

NARUC is the national organization of State commissions responsible for economic and safety regulation of utilities. Our members in the fifty States, the District of Columbia, Puerto Rico, and the Virgin Islands have the obligation under State law to ensure the establishment and maintenance of such energy utility services as may be required by the public convenience and necessity, as well as ensuring such services are provided at just and reasonable rates. NARUC is

consistently recognized by Congress,[1] the Courts,[2] and a host of federal agencies[3] (including FERC), as the proper entity to represent the collective interests of State utility commissions.

COMMENTS

Costs to build transmission, including incentives, are ultimately born by retail ratepayers. NARUC commends the Commission for opening an inquiry into its incentive rate policy. The current incentive rate policy under Order 679 has resulted in overly generous incentives that are not tied to any performance requirements. The transmission incentive rate under Order 679 should be reformed in a way that enables the Commission to meet the directive of the Energy Policy Act of 2005 without unjustly burdening consumers with the costs of unnecessary incentives.

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[1] *See* 47 U.S.C. § 410(c) (1971) (Congress designated NARUC to nominate members of Federal-State Joint Board to consider issues of common concern); *See also* 47 U.S.C. § 254 (1996); *See also NARUC, et al. v. ICC*, 41 F.3d 721 (D.C. Cir 1994) (where this Court explains "Carriers, to get the cards, applied to…(NARUC), an interstate umbrella organization that, as envisioned by Congress, played a role in drafting the regulations that the ICC issued to create the "bingo card" system.)

[2] *See, e.g., United States v. Southern Motor Carrier Rate Conference, Inc*., 467 F. Supp. 471 (N.D. Ga. 1979), *aff'd* 672 F.2d 469 (5th Cir. 1982), *aff'd en banc on reh'g*, 702 F.2d 532 (5th Cir. 1983), *rev'd on other grounds*, 471 U.S. 48 (1985) (where the Supreme Court notes: "The District Court permitted (NARUC) to intervene as a defendant. Throughout this litigation, the NARUC has represented the interests of the Public Service Commissions of those States in which the defendant rate bureaus operate." 471 U.S. 52, n. 10. *See also*, *Indianapolis Power and Light Co. v. ICC*, 587 F.2d 1098 (7th Cir. 1982); *Washington Utilities and Transportation Commission v. FCC*, 513 F.2d 1142 (9th Cir. 1976); *Compare*, *NARUC v. FERC*, 475 F.3d 1277 (D.C. Cir. 2007); *NARUC v. DOE*, 851 F.2d 1424, 1425 (D.C. Cir. 1988); *NARUC v. FCC*, 737 F.2d 1095 (D.C. Cir. 1984), *cert. denied*, 469 U.S. 1227 (1985).

[3] *See e.g.* NRC Atomic Safety and Licensing Board *Memorandum and Order* (Granting Intervention to Petitioners and Denying Withdrawal Motion), LBP-10-11, *In the Matter of U.S. Department of Energy (High Level Waste Repository)* Docket No. 63-001-HLW; ASLBP No. 09-892-HLW-CABO4, *mimeo* at 31 (June 29, 2010) (Granting NARUC associational standing, stating that "We agree with NARUC that, because state utility commissioners are responsible for protecting ratepayers' interests and overseeing the operations of regulated electric utilities, these economic harms constitute its members' injury-in-fact.")

NARUC encourages FERC to commit to a rigorous analysis of available data to determine if there is a significant and cost effective link between transmission incentives and transmission investment decisions. We also urge FERC to tie incentive rate treatment to enforceable performance metrics and mandate that developers file regular metrics reports that demonstrate progress toward those metrics.

We appreciate the opportunity to comment and hope that the Commission will open a rulemaking proceeding to address these concerns and the concerns of others who have commented in the Notice of Inquiry.

Resolution on the Need for Review of FERC Incentive Rate Regulation Policies Under Order No. 679

WHEREAS, The National Association of Regulatory Utility Commissioners (NARUC) is the national organization of the State commissions responsible for economic and safety regulation of the retail operations of utilities as well as responsible for ensuring that such services are provided at just and reasonable rates; *and*

WHEREAS, NARUC represents the collective interests of State regulatory commissions; *and*

WHEREAS, Retail customers are impacted by the decisions and orders issued by the Federal Energy Regulatory Commission (FERC or Commission); *and*

WHEREAS, In May 2011, FERC issued its Notice of Inquiry (NOI)[4] requesting comment on the Commission's transmission-incentive regulations and policies under Order No. 679;[5] *and*

WHEREAS, Nationwide, incentives already granted as of June 2009 by FERC pursuant to Order No. 679 will cost consumers hundreds of millions of dollars per year or more;[6] *and*

WHEREAS, FERC's implementation of Order 679 incentives has resulted in the approval of overly generous ROE incentives requests by transmission developers; *and*

WHEREAS, It appears the Commission has not attempted to gather the necessary data or analyses establishing a link between improved performance and specific incentives as result of decisions applying Order No. 679; *and*

WHEREAS, Available industry data as early as 2005 and prior to decisions applying Order No. 679 appears to demonstrate that transmission developers, prior to enactment of FPA 219, planned and were prepared to construct appropriate improvement to the interstate grid without incentives;[7] *and*

WHEREAS, The significant development and enforcement of mandatory reliability standards by the Commission and the North American Electric Reliability Corporation (NERC) also affected the level of investment in transmission facilities outside of the Commission's decisions applying Order No. 679; *and*

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[4] Promoting Transmission Investment Through Pricing Reform, 135 FERC ¶ 61,146, 76 Fed. Reg. 30,869 (May 27, 2011).

[5] Promoting Transmission Investment Through Pricing Reform, Order No. 679, 71 Fed. Reg. 43294 (Jul. 31, 2006), FERC Stats. & Regs. ¶ 31,222 (2006), order on reh'g, Order No. 679-A, 72 Fed. Reg. 1152 (Jan. 10, 2007), FERC Stats. & Regs. ¶ 31,236, order on reh'g, 119 FERC ¶ 61,062 (2007).

[6] *See* Letter from Hon. Jon Wellinghoff, Chairman, Federal Energy Regulatory Commission, to Hon. Edward J. Markey, Chair, Subcommittee on Energy and Environment, U.S. House of Representatives, Attachment A (June 11, 2009) (eLibrary No. 20090618-0125), with adjustment for taxes.

[7] EEI, EEI Survey of Transmission Investment Historical and Planned Capital Expenditures (1999-2008) (May 2005) (available at http://www.eei.org/ourissues/ElectricityTransmission/Documents/Trans_Survey_Web.pdf).

WHEREAS, Under current Federal Energy Regulatory Commission (FERC) Order 679 rate incentive implementation policy there is a near certainty a transmission developer's petition for rate incentives will be granted through overly generous incentive awards such as formula rate recovery of all (prudent) project costs, inclusion of CWIP in rate base, and recovery of abandonment costs which greatly reduces investors' risk of financial loss; *and*

WHEREAS, Even though Federal Power Act (FPA) Section 219 requires the Commission to adopt, by rule, "incentive-based (*including performance-based*) rate treatments" for new transmission investment,[8] to date, the Commission's incentive-rate policy has included no performance-based element; *and*

WHEREAS, The Commission's award of overly generous incentive rates to transmission developers subsequent to the issuance of Order 679 has received considerable critical attention in Congress, among the States, users of the interstate transmission system and retail customers, raising important issues that FERC has recognized as requiring exploration by issuance of the Commission's May 19, 2011 Notice of Inquiry; *now, therefore be it*

RESOLVED, The Board of Directors of the National Association of Regulatory Utility Commissioners, convened at its 2012 Winter Committee Meetings in Washington, D.C., supports the goals of FPA Section 219,[9] but has concerns about the manner in which that provision has been implemented; *and be it further*

RESOLVED, That NARUC supports the Commission's decision to undertake an inquiry into the design and implementation of transmission-incentive rate policies; *and be it further*

RESOLVED, That NARUC encourages the Commission to commit to a rigorous analysis of available data to determine whether there exists a significant and cost effective link between FERC's award of transmission incentives and real-world transmission development investment decisions; *and be it further*

RESOLVED, That NARUC encourages the Commission to specify enforceable performance metrics goals and require regular metrics filings to demonstrate achievement of required goals; *and be it further*

RESOLVED, That while Congress has directed the development of incentive transmission rate rules, the National Association of Regulatory Utility Commissioners concludes that the granting of incentive rates under the Commission's current transmission-incentive regulations and policies under Order No. 679 has transferred hundreds of millions of dollars from consumers to transmission investors without any clear showing of need or benefit and Order 679 prescribes policies that are in dire need of reform; *and be it further*

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8 16 U.S.C. § 824s (a) (emphasis added).

9 Section 219 directed the Commission to "establish … incentive-based (including performance-based) rate treatments for the transmission of electric energy in interstate commerce by public utilities for the purpose of benefitting consumers by ensuring reliability and reducing the cost of delivered power by reducing transmission congestion." 16 U.S.C. § 824s (a). Section 219 required the rule to "promote reliable and economically efficient" transmission and generation of electric energy. *Id.* § 824s (b) (1).

RESOLVED, That NARUC encourages the Commission to respond to the comments filed in response to its Notice of Inquiry and amend its rules and modify its policies in order to reduce unnecessary costs imposed on consumers.

Sponsored by the Committee on Electricity
Adopted by the NARUC Board of Directors February 8, 2012

COMMUNICATIONS

All pleadings, correspondence, and other communications related to this proceeding should be addressed to the following person:

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February 17, 2012

PROOF OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.2010.

Dated at Washington, D.C. this 17 day of February, 2012.

__________/s/___________
Robin J. Lunt

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FERC APPROVES PRAIRIE WIND TRANSMISSION REQUEST FOR KEY RATE COMPONENTS IN NEW ULTRA-HIGH CAPACITY LINE PROJECT

TOPEKA, Kan., Dec. 4, 2008 — Prairie Wind Transmission LLC today announced that the Federal Energy Regulatory Commission (FERC) has unanimously approved its request for key rate components in its proposal to build a 230-mile, 765-kilovolt (kV) transmission line extending from the Wichita area west to the Dodge City area and south-southwest to the Kansas-Oklahoma border from Medicine Lodge. Prairie Wind Transmission is a joint venture between Westar Energy, Inc. (NYSE: WR) and Electric Transmission America (ETA). ETA is a joint venture between wholly-owned subsidiaries of American Electric Power (NYSE: AEP) and MidAmerican Energy Holdings Company.

FERC approved the following rate components:

- A return on equity of 12.8 percent which includes incentive adders for participation in the Southwest Power Pool (SPP) and investing in new transmission facilities that will reduce the cost of electricity and promote the

public interest by providing for the interconnection and delivery of renewable generation in the SPP;

- The inclusion of 100 percent of construction work in progress (CWIP) in rate base during the development and construction period of the project after the formula rate becomes effective;
- The recovery of prudently-incurred investment costs in the project in the event that the project must be abandoned for reasons outside the company's control;
- And, regulatory asset treatment of pre-commercial expenses not included in CWIP that have been incurred to date, as well as expenses incurred going forward until the formula rate becomes effective.

FERC set aside for hearing the establishment of the formula rate and associated protocols.

"This is a significant milestone in our plan to build the first 765-kV line west of the Mississippi River," said Kelly Harrison, president, Prairie Wind Transmission, and vice president, transmission operations and environmental services, Westar Energy. "The new line will provide reasonably priced and reliable electricity to customers, better access to renewable generation, significant environmental benefits and value to shareholders."

"FERC's unanimous approval makes it clear that it shares our vision for constructing an interstate transmission system in the SPP," said Lisa Barton, president, ETA.

Following the receipt of all necessary regulatory and cost allocation approvals, the new line is expected to be in service by the end of 2013.

For more information about Prairie Wind Transmission, please visit the Web site at

http://www.prairiewindtransmission.com/.

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Westar Energy, Inc. (NYSE: WR) is the largest electric utility in Kansas, providing electric service to about 675,000 customers in the state. Westar Energy has about 6,500 megawatts of electric generation capacity and operates and coordinates approximately 33,000 miles of electric distribution and transmission lines. For more information about Westar Energy, visit http://www.WestarEnergy.com.

American Electric Power is one of the largest electric utilities in the United States, delivering electricity to more than 5 million customers in 11 states. AEP ranks among the nation's largest generators of electricity, owning nearly 38,000 megawatts of generating capacity in the U.S. AEP also owns the nation's largest electricity transmission system, a nearly 39,000-mile network that includes more 765-kilovolt extra-high voltage transmission lines than all other U.S. transmission systems combined. AEP's transmission system directly or indirectly serves about 10 percent of the electricity demand in the Eastern Interconnection, the interconnected transmission system that covers 38 eastern and central U.S. states and eastern Canada, and approximately 11 percent of the electricity demand in ERCOT, the transmission system that covers much of Texas. AEP's utility units operate as AEP Ohio, AEP Texas, Appalachian Power (in Virginia and West Virginia), AEP Appalachian Power (in Tennessee), Indiana Michigan Power, Kentucky Power, Public Service Company of Oklahoma, and Southwestern Electric Power Company (in Arkansas, Louisiana and east Texas). AEP's headquarters are in Columbus, Ohio.

MidAmerican Energy Holdings Company, based in Des Moines, Iowa, is a global provider of energy services. Through its energy-related business platforms, MidAmerican provides electric and natural gas service to more than 6.9 million customers worldwide. These business platforms are Pacific Power, Rocky Mountain Power and PacifiCorp Energy, which comprise PacifiCorp; MidAmerican Energy Company; CE Electric UK; Northern Natural Gas Company; Kern River Gas Transmission Company; and CalEnergy. Information about MidAmerican is available at www.midamerican.com.