

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of Kansas City)
Power & Light Company and KCP&L Greater)
Missouri Operations Company for Approval To) Case No. EO-2012-0367
Transfer Certain Transmission Property to)
Transource Missouri, LLC and for Other Related)
Determinations)

**APPLICATION OF
KANSAS CITY POWER & LIGHT COMPANY AND
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

Kansas City Power & Light Company (“KCP&L”) and KCP&L Greater Missouri Operations Company (“GMO”) (collectively referred to as the “Applicants” or “Companies”), pursuant to Section 393.190, Mo. Rev. Stat. (2000), as amended,¹ 4 CSR 240-2.060, and 4 CSR 240-3.110, submit this Application for authority to transfer certain transmission property and for other related determinations.

I. INTRODUCTION

1. The Applicants request authorization to transfer at cost certain transmission property to Transource Missouri, LLC (“Transource Missouri”), a wholly-owned subsidiary of Transource Energy, LLC (“Transource”). Transource was established by Great Plains Energy Incorporated (“GPE”), the Applicants’ parent corporation, and American Electric Power Company, Inc. (“AEP”), one of the leading electric transmission utilities in the United States, to build wholesale regional transmission projects within the Southwest Power Pool, Inc. (“SPP”), as well as other regional transmission organizations (“RTOs”).

2. Approval of this Application, along with the other approvals described below, will enable Transource Missouri to construct, finance, own, operate, and maintain the Missouri

¹ All statutory references are to the Missouri Revised Statutes (2000), as amended, unless otherwise noted.

portion of two regional, high-voltage, wholesale transmission projects approved by SPP known as the Iatan-Nashua 345kV transmission project (“Iatan-Nashua Project”) and the Sibley-Nebraska City 345kV transmission project (“Sibley-Nebraska City Project,” collectively, the “Projects”).

3. SPP designated the Applicants to construct the Projects because they will connect to the Applicants’ facilities in their retail service territories. The Projects are, however, regional in nature and regionally-funded under the SPP Open Access Transmission Tariff (“SPP Tariff”),² because their operations benefit transmission customers across the SPP region and approximately 92% of their costs will be allocated to SPP load other than KCP&L and GMO load in Missouri.

4. The scale of the Projects is substantial. They represent approximately \$450M in total capital cost for the Applicants and generally exceed the scope and purpose of prior transmission projects undertaken by the Applicants. These Projects are the result of progressive changes in national electric transmission law and policy that is emphasizing regional and interregional planning. This shift in law and policy emphasizes the development of regional transmission infrastructure of significant scope and scale.

5. The Applicants will continue to construct, finance, own, operate, and maintain local transmission facilities to serve their retail and wholesale customers. Additionally, under the proposals described below, the Applicants can both contribute to and benefit from the Iatan-Nashua and Sibley-Nebraska City Projects through GPE’s participation in Transource. The alliance of the Applicants’ local project management and operational expertise with AEP’s national expertise in the construction of high-voltage transmission projects creates an organization that possesses the requisite financing, engineering, procurement, and construction

² Available at http://www.spp.org/publications/SPP_Tariff.pdf.

experience to construct, finance, own, operate, and maintain the Projects. This arrangement also will relieve the financial burdens and ease competing capital needs now placed upon the Companies by the Projects.

6. In this Application, KCP&L and GMO specifically request that the Commission:

(1) Authorize the transfer of certain electric transmission property from the Applicants to Transource Missouri under Section 393.190.1;

(2) Find that no approval is required under Missouri law to novate the Notifications to Construct (“NTC”) received from SPP regarding the two regional, high-voltage transmission Projects, or otherwise express no objection to or approve the Applicants’ plans in this regard; and

(3) Grant a waiver of or variance from the Commission’s Affiliate Transactions Rule, 4 CSR 240-20.015.

In support of their requests, the Applicants state:

II. THE APPLICANTS AND RELATED ENTITIES

A. Description of the Applicants: KCP&L and GMO

7. KCP&L is a Missouri corporation with its principal office and place of business at 1200 Main Street, Kansas City, Missouri 64105. KCP&L is primarily engaged in the business of generating, transmitting, distributing, and selling electric energy to the public in portions of western Missouri and eastern Kansas. KCP&L is an electrical corporation and a public utility, as defined in Section 386.020. KCP&L provided its Certificate of Good Standing in Case No. EF-2002-315, which is incorporated by reference in accord with 4 CSR 240-2.060(1)(G).

8. GMO is a Delaware corporation with its principal office and place of business at 1200 Main Street, Kansas City, Missouri 64105. GMO is primarily engaged in the business of generating, transmitting, distributing, and selling electric energy and providing steam utility

service to the public in portions of western Missouri. GMO is an electrical corporation and a public utility, as defined in Section 386.020. A Certificate of Authority for a foreign corporation to do business in the State of Missouri, evidencing GMO’s authority under the law to conduct business in Missouri, was filed with the Commission in Case No. EU-2002-1053 and is incorporated by reference in accord with 4 CSR 240-2.060(1)(G).

9. The Applicants filed a Notice of Intended Filing on May 8, 2012, advising the Commission of the intent to file this Application.

10. The testimonies of three witnesses and schedules are filed in support of this Application. The witnesses and the subject matter of their testimony are as follows:

<u>Witnesses:</u>	<u>Subject Matter:</u>
Darrin R. Ives, Senior Director, Regulatory Affairs, KCP&L	Overview, Services Agreements, Public Interest, SPP Novation Process, and Affiliate Transactions Rule
Todd E. Fridley, Director, Transmission Partnerships, KCP&L	SPP Transmission Expansion Planning Process and Federal Energy Regulatory Commission (“FERC”) Policy
Brent C. Davis, Project Director, Transmission Construction, KCP&L	Description of the Transmission Projects, Construction Status of the Projects, and Construction and Cost Management of the Projects

11. The Applicants have no final, unsatisfied judgments, or decisions against them from state or federal regulatory agencies or courts that involve customer service, which has occurred within the three years immediately preceding the filing of this Application other than the following: Ag Processing Inc. v. KCP&L Greater Missouri Operations Company, Case No. HC-2012-0259. The Applicants also have no overdue Commission annual reports or assessment fees.

12. Pleadings, notices, orders, and other correspondence and communications related to this Application should be sent to the undersigned counsel and also to:

Darrin R. Ives
Senior Director, Regulatory Affairs
Kansas City Power & Light Company
1200 Main Street
Kansas City, Missouri 64105
Tel.: (816) 556-2522
Fax: (816) 556-2110
Email: darrin.ives@kcpl.com

Tim M. Rush
Director, Regulatory Affairs
Kansas City Power & Light Company
1200 Main Street
Kansas City, MO 64105
Tel.: (816) 556-2344
Fax: (816) 556-2110
Email: tim.rush@kcpl.com

B. Description of Transource Entities

13. Transource Missouri is a Delaware limited liability corporation qualified to conduct business in Missouri, with its principal place of business in Columbus, Ohio. A copy of Transource Missouri's certificate from the Office of the Missouri Secretary of State authorizing it to do business in Missouri is attached as Exhibit 1.

14. Transource Missouri is a wholly-owned subsidiary of Transource, a Delaware limited liability corporation with its principal place of business in Columbus, Ohio.

15. As described in the accompanying Direct Testimony of Darrin R. Ives, Transource was established as a holding company to develop, acquire, construct, finance, own, operate, and maintain regional electric transmission projects through its utility subsidiaries like Transource Missouri. Transource has two members: (a) AEP Transmission Holding Company, LLC, a wholly-owned subsidiary of AEP, which owns 86.5% of Transource, and (b) GPE Transmission Holding Company, LLC, a wholly-owned subsidiary of GPE, which owns 13.5% of Transource.

16. Contemporaneous with the filing of this Application, Transource Missouri has filed with the Commission its application for a line certificate of convenience and necessity (“CCN”), pursuant to Section 393.170.1.

C. Southwest Power Pool, Inc.

17. SPP is an RTO with more than 40 members that provides transmission services over all or parts of the states of Arkansas, Kansas, Louisiana, Mississippi, Missouri, New Mexico, Oklahoma, and Texas. SPP administers transmission services across its 370,000 square-mile region under the terms of its tariff on file with and approved by FERC. SPP’s transmission services include reliability coordination, tariff administration, regional scheduling, transmission expansion planning, market operations, compliance, and training.

18. SPP was granted RTO status by FERC in 2004,³ pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d, and in accord with FERC Order No. 2000⁴ and Section 35.34⁵ of FERC’s regulations. In granting SPP status as an RTO, FERC directed SPP to, among other things, determine which projects to include in its regional transmission plan and to prioritize such projects.⁶

³ Southwest Power Pool, Inc., 106 FERC ¶ 61,110 (2004), order on compliance Filing, 108 FERC ¶ 61,003 (2004), order on compliance Filing, 109 FERC ¶ 61,009 (2004), order on compliance Filing, 110 FERC ¶ 61,046 (2005).

⁴ Regional Transmission Organizations, Order No. 2000, 65 Fed. Reg. 809 (2000), FERC Stats. & Regs. ¶ 31,089 (1999), order on rehearing, Order No. 2000-A, 65 Fed. Reg. 12,088 (2000), FERC Stats. & Regs. ¶ 31,092 (2000), affirmed sub nom., Public Util. Dist. No. 1 v. FERC, 272 F.3d 607 (D.C. Cir. 2001) (per curiam) (codified at 18 C.F.R. § 35.34).

⁵ 18 C.F.R. § 35.34 (2012).

⁶ Southwest Power Pool, Inc., 106 FERC ¶ 61,110 at P 188 (2004).

19. This Commission granted KCP&L and GMO authority to transfer functional operational control of their transmission assets to SPP in orders issued in 2006⁷ and 2009,⁸ respectively.

III. BACKGROUND OF REGIONAL TRANSMISSION PROJECTS

20. This Application seeks determinations by this Commission regarding the two regional, high-voltage transmission Projects that have been identified and approved by SPP that are located within the retail service territories of KCP&L and GMO.

21. Pursuant to its mission to provide reliable and cost-effective transmission service, SPP has worked diligently to improve electric grid reliability, minimize transmission congestion effects, bring economic benefits to its members, and support public policy goals regarding renewable energy. A significant result of these efforts is SPP's work to develop individual transmission projects that will provide region-wide benefits for its members. SPP also developed cost allocation methodologies pursuant to which regional projects will be funded. A summary of the national policy shift towards regional transmission planning is provided in the accompanying Direct Testimony of Todd E. Fridley.

22. In 2009, SPP and its stakeholders developed and approved a set of seven transmission projects as part of a "Balanced Portfolio" of economic transmission upgrades that would benefit the entire SPP region. These economic upgrades are intended to reduce congestion on the SPP transmission system, resulting in savings in generation production costs in the SPP region. In order to allocate costs for such regionally-beneficial projects, SPP also

⁷ In re Application of Kansas City Power & Light Co. for Authority to Transfer Functional Control of Certain Transmission Assets to Southwest Power Pool, Inc., Case No. EO-2006-0142, Order Approving Stipulation and Agreement (June 13, 2006), modified, Amended Order Approving Stipulation and Agreement (July 13, 2006).

⁸ In re Application of KCP&L Greater Missouri Operations Co. for Authority to Transfer Functional Control of Certain Transmission Assets to Southwest Power Pool, Inc., Case No. EO-2009-0179, Order Approving Stipulation and Agreement (Feb. 4, 2009).

developed and received FERC approval for a cost allocation methodology that allocated costs for the Balanced Portfolio projects to its members according to their respective load-ratio share and certain revenue-balancing provisions.⁹

23. In April 2010, SPP developed and approved six “Priority Projects” that will reduce transmission congestion, better integrate SPP’s east and west regions, and facilitate the addition of renewable and non-renewable generation to the grid. These projects emerged from formal efforts by SPP to develop wide-ranging policy goals and long-term planning cycles, known as SPP’s Integrated Transmission Plan (“ITP”),¹⁰ which FERC approved on July 15, 2010.¹¹ As part of the long-term ITP efforts, SPP also developed and received FERC approval for its new “Highway-Byway” cost allocation method.¹² All of the Priority Projects are 345kV projects whose costs are allocated using the “Highway” formula, whereby 100% of their costs are allocated to all load-serving entities in SPP according to their load-ratio share per the SPP Tariff.¹³

24. These regional transmission improvement initiatives by SPP are consistent with federal policies to encourage such efforts, particularly FERC’s recent Order No. 1000,¹⁴ which builds on the foundation of Order No. 890,¹⁵ and will promote both reliability and more efficient

⁹ SPP Tariff Attachment J, Section IV.

¹⁰ SPP Tariff Attachment O.

¹¹ Southwest Power Pool, Inc., 132 FERC ¶ 61,042 (July 15, 2010), order on reh’g and clarification, 136 FERC ¶ 61,050 (July 21, 2011).

¹² Southwest Power Pool, Inc., 131 FERC ¶ 61,252 (June 17, 2010), order on reh’g, 137 FERC ¶ 61,075 (Oct. 20, 2011).

¹³ SPP Tariff Attachment J, Section III.

¹⁴ Transmission Planning and Cost Allocation by Transmission Owning and Operating Public Utilities, Order No. 1000, 136 FERC ¶ 61,051 (July 21, 2011), order on reh’g and clarification, Order 1000-A, 139 FERC ¶ 61,132 (May 17, 2012), reh’g pending (codified at 18 C.F.R. § 35.28).

¹⁵ Preventing Undue Discrimination and Preference in Transmission Service, Order 890, 72 Fed. Reg. 12266 (Mar. 15, 2007), FERC Stats. & Regs. ¶ 31,241, order on reh’g, Order No. 890-A, 73 Fed. Reg. 2984 (Jan. 16, 2008) FERC Stats. & Regs. ¶ 31,261, order on reh’g and clarification, Order No. 890-B, 123 FERC ¶ 61,299 (June 23,

delivery of energy from new resources to customers. They are also consistent with state policies that promote renewable energy generation.¹⁶ The transfers requested in this Application will facilitate the Applicants' ability to carry out the Projects identified in the regional transmission planning process for which SPP issued NTCs to the Applicants.

A. The Iatan-Nashua Project: One of Seven SPP-Approved Balanced Portfolio Upgrades

25. On June 19, 2009, SPP issued an NTC to KCP&L directing it to construct the Iatan-Nashua Project. A copy of the NTC is attached hereto as Exhibit 2.

26. The process governing the construction of transmission facilities within the SPP region, and the basis for SPP issuing NTCs, is set forth in Section VI of Attachment O to the SPP Tariff.¹⁷ The process by which transmission owners designated to build transmission projects are to accept or reject such designation by SPP, and how to arrange for an alternative entity to build designated transmission projects, subject to the new entity meeting certain qualifications also is addressed in Section VI of Attachment O, and is more specifically prescribed in Section 7070 of the SPP OATT Business Practices. A copy of Attachment O and relevant portions of the SPP OATT Business Practices are attached hereto as Exhibit 3 for the Commission's convenience.

27. KCP&L agreed on September 15, 2009 to construct the Iatan-Nashua Project, which generally calls for the construction of a new approximately 30-mile 345kV transmission line from KCP&L's Iatan Substation, adjacent to the Iatan Generating Station in Platte County near Weston, Missouri, to its 161kV Nashua Substation in Clay County near Smithville, Missouri. See Exhibit 4. This Iatan-Nashua Project will consist of four components: (1) an East

2008), order on reh'g and clarification, Order No. 890-C, 126 FERC ¶ 61,228 (Mar. 25, 2009), order on clarification, Order No. 890-D, 129 FERC ¶ 61,126 (2009) (codified at 18 C.F.R. pts. 35, 37).

¹⁶ See Section 393.1030-.1050.

¹⁷ Formerly SPP Tariff Attachment O, Section VIII.

Segment that will run north from the Nashua Substation approximately fifteen (15) miles along existing rights-of-way currently used by GMO's Alabama-Nashua 161kV line ("Alabama-Nashua Line"); (2) a West Segment that will run north from the Iatan Substation approximately five (5) miles along GMO's existing rights-of-way; (3) a new approximately twelve (12) mile Middle Segment that will connect the East Segment with the West Segment that will require entirely new rights-of-way and transmission facilities ("greenfield"); and (4) expansions and upgrades to the existing 161kV Nashua Substation to accommodate both the new 345kV Iatan-Nashua line and a connection to the existing 345kV St. Joseph-Hawthorn transmission line—a new 345/161kV autotransformer will be installed between the upgraded portion of the Nashua Substation and the existing 161kV portion of the Nashua Substation, and other related facilities, also will be constructed.

28. The construction plan is set forth in the accompanying Direct Testimony of Brent C. Davis. The estimated cost of the Iatan-Nashua Project is \$64.8M. The project is expected to be in-service in 2015.

29. The Iatan-Nashua Project has been designated by SPP as a Balanced Portfolio project that will be regionally-funded through the SPP Tariff.¹⁸ At the time the Balanced Portfolio was developed, this project was identified as a solution to one of the most congested areas on the SPP system.¹⁹ It will provide considerable congestion relief and will result in savings in generation production costs.²⁰

30. At KCP&L's request, SPP modified the Iatan-Nashua Project NTC to include GMO as a Designated Transmission Owner ("DTO") of this project, and on April 17, 2012 issued

¹⁸ SPP Tariff Attachment J, Section IV.

¹⁹ See SPP Balanced Portfolio Report at 35, attached to the Direct Testimony of Todd E. Fridley as Schedule TEF-1.

²⁰ Id. at 3, 6, and 43.

NTCs both to KCP&L and GMO, which are attached hereto as Exhibit 5. In letters dated June 22, 2012, KCP&L and GMO accepted the revised NTCs stating that GMO accepted responsibility for the new 345kV transmission line between the substations and KCP&L accepted responsibility for the substation upgrades identified in the NTCs, copies of which are attached to the Direct Testimony of Mr. Davis as Schedule BCD-4.

31. KCP&L and GMO requested and received authorization from the Commission to transfer at cost from KCP&L to GMO certain transmission property owned and operated by KCP&L between GMO's Alabama Substation and KCP&L's Nashua Substation ("Alabama-Nashua Line").²¹ The southern portion of the Alabama-Nashua Line will be retired and removed, and the corridor will be used to construct the East Segment of the Iatan-Nashua Project.

B. Sibley-Nebraska City Project: One of six SPP-approved Priority Projects

32. On July 23, 2010, SPP issued an NTC to GMO directing it to construct the Sibley-Nebraska City Project, as more fully described below. A copy of the NTC is attached hereto as Exhibit 6.

33. GMO agreed on September 28, 2010 to construct the Missouri portion of the Sibley-Nebraska City Project, which generally calls for the construction of a new single circuit 345kV transmission line in northwest Missouri and southeast Nebraska extending approximately 175 miles from Omaha Public Power District's ("OPPD") Nebraska City Substation located at the Nebraska City generating station to a new intermediate 345kV substation near Maryville, Missouri and continuing on to GMO's existing 345kV substation located near Sibley, Missouri

²¹ See In re Application of Kansas City Power & Light Co. to Transfer Certain Assets to KCP&L Greater Missouri Operations Co., Case No. EO-2012-0479, Order Granting Application for Transfer of Assets at 3 (Aug. 15, 2012).

(“Sibley Substation”). At Maryville, the new 345kV substation will include reactive resources to provide voltage control and provide a potential interconnection point for new renewable generation resources. A copy of GMO’s letter to SPP is attached to the Direct Testimony of Mr. Davis as Schedule BCD-11. GMO agreed to construct and own approximately 170 miles of the project from the Sibley Substation in Jackson County, Missouri to the interception point at the state line (bordering Atchison County, Missouri), with OPPD to construct and own the remaining five (5) miles of the project in Nebraska.

34. The estimated cost of GMO’s portion of the Sibley-Nebraska City Project is approximately \$380M. The project, which is in the early stages of development, is expected to be in-service in 2017.

35. This project has been designated by SPP as a Priority Project that will be regionally-funded under the “Highway-Byway” cost allocation methodology through the SPP Tariff. The project is not intended to address a local reliability concern, but rather to provide a wide variety of regional benefits to the SPP system including reduced congestion, integration of renewable energy resources, and bulk electric system reliability.²²

IV. PROPERTY SUBJECT TO TRANSFER AUTHORITY

A. Description of the Property

36. Pursuant to Section 393.190.1, the Commission has jurisdiction over the transfer of certain transmission lines and associated easements and rights-of-way. In connection with the Iatan-Nashua Project, the Applicants request that the Commission authorize the transfer, at cost, of a certain portion of the 161kV line running from the Nashua Substation to a point approximately fifteen (15) miles to the northwest near the midpoint of the east line of section 9

²² See SPP Priority Projects Phase II Final Report at 6, 8, 22-24, and 44, attached to the Direct Testimony of Todd E. Fridley as Schedule TEF-3.

township 54N range 34W, including all related easements and rights-of-way. This portion of the line is known as the East Segment of the Iatan-Nashua Project. This portion of the existing 161kV line will be retired and removed, and ultimately replaced by a new 345kV transmission line constituting the East Segment.

37. The remaining portion of this existing 161kV line, which runs to GMO's Alabama Substation near St. Joseph, Missouri, will remain the property of GMO and is not to be transferred. This line will continue to be intact and energized at 161kV as a radial line and will not be a part of the new 345kV facilities.

38. The West Segment of the Iatan-Nashua Project will be a new 345kV line that will be constructed in a double circuit configuration with GMO's existing 345kV line running from the Iatan Substation to a point approximately five (5) miles to the northeast near the midpoint of the north line of section 10 township 54N range 36W. The existing 345kV line will remain in service while the new line is constructed. Completion of this segment will require replacing existing structures with new structures capable of accommodating both circuits. GMO will retain ownership of the existing line facilities (primarily existing 345kV conductor) and rights-of-way, both of which will continue to be used after the double circuit configuration is completed. GMO's retained ownership is appropriate because these assets will support GMO's continued use of its existing 345kV line. If this Application is approved, Transource Missouri will take responsibility for the structures to be replaced and for the construction of additional facilities and the acquisition of the additional rights-of-way necessary to complete the West Segment. As a result, this Application also requests authority for GMO to transfer ownership of the existing West Segment structures to Transource Missouri.

39. The Middle Segment will connect the East Segment to the West Segment, and will run generally east-to-west for approximately twelve (12) miles, completing the 345kV

transmission line portion of the Iatan-Nashua Project. This section will be an entirely new greenfield transmission line as there are no line existing utility assets there today. Whatever property and/or land rights GMO acquires on the Middle Segment related to the Iatan-Nashua Project prior to the authorization requested herein will be transferred to Transource Missouri.

40. A map of the Iatan-Nashua Project is attached hereto as Exhibit 7. A copy of the purchase agreement will be provided to the Commission, in accord with 4 CSR 240-3.110(1)(B) and 4 CSR 240-3.110(3).

41. There is no existing real property associated with the Sibley-Nebraska City Project at this time.

42. Concurrently with this Application, Transource Missouri is applying for a line CCN, pursuant to Section 393.170.1. Therefore, its balance sheet and income statement with adjustments showing the results of the acquisition of the property as of July 31, 2012 is provided, pursuant to 4 CSR 240-3.110(2), as Exhibit 8. Additional information regarding Transource Missouri's financial statements is provided in the accompanying Direct Testimony of Mr. Ives.

43. Commencing on the date of the transfer and through the construction period of the Projects, the proposed transfer of the transmission property related to the Projects will have no impact upon the tax revenues of the political subdivisions in which the new transmission facilities or equipment are located because the transfers will occur at cost.

B. Public Interest and the Legal Standard

44. The transfers requested in this Application are designed to carry out the regional transmission planning process ordered by FERC in Order No. 890, as recently expanded by Order No. 1000 and as being implemented by SPP. As explained below, the transfers also will ensure that the SPP-approved Iatan-Nashua Project, as well as the Sibley-Nebraska City Project,

is constructed in the most cost-effective manner that will cause no detriment to the customers of KCP&L and GMO.

45. To achieve these objectives, GPE and AEP formed Transource as a joint venture to build regional transmission projects. Transource provides immediate benefits to the Iatan-Nashua Project, as well as the Sibley-Nebraska City Project, by reducing capital pressures on GPE to fund the construction of these regional Projects and brings the extensive project execution and procurement expertise of AEP to the Projects. The opportunity to construct new regional transmission projects comes at a time when vertically-integrated utilities such as KCP&L and GMO are faced with many competing capital demands for addressing environmental compliance, renewable portfolio standards, aging infrastructure, North American Electric Reliability Corporation (“NERC”) reliability standards, and cyber-security issues. Consequently, constructing the Projects through Transource Missouri reduces the Applicants’ anticipated capital expenditures for the Projects, while allowing KCP&L to continue to be the entity responsible for the operation and maintenance of these transmission facilities located in Missouri. Furthermore, Transource Missouri will be able to utilize AEP’s expertise and experience in building and operating high-voltage transmission systems throughout the United States. AEP brings national project execution experience and established relationships with critical suppliers of materials needed for constructing and operating high-voltage transmission facilities.

46. Having Transource Missouri build the Iatan-Nashua Project, as well as the Sibley-Nebraska City Project, will result in the following benefits, as described in the accompanying Direct Testimony of Mr. Ives:

- a. Financial. The capital expenditures and associated financial obligations—approximately \$450M—for the constructing the Projects will shift from KCP&L or GMO

to Transource Missouri. This will allow KCP&L and GMO to reduce their anticipated capital expenditures from the approximately \$2.1B in projected capital expenditures during 2012-14, including approximately \$500M for environmental projects.

b. Procurement. Transource Missouri will have access to AEP's ability to procure the materials and services necessary to build high-voltage transmission projects at a cost that likely will be lower than if KCP&L or GMO were to purchase such materials and services. AEP has established strong and enduring relationships with critical suppliers to the electric transmission industry on a variety of projects spanning many years, and is able to purchase physical resources in large quantities.

c. At-Cost Services. Both KCP&L and American Electric Power Service Corporation have entered into services agreements with Transource, which stipulate that any services provided by them to Transource or its subsidiaries like Transource Missouri will be at cost without any mark-up for profit.

d. National Experience. Through AEP's participation in Transource Missouri, the Projects will benefit from the experience and expertise of the operator of the largest transmission system in the United States. AEP has built transmission facilities at high voltages ranging up to 765kV and is generally recognized as one of the most sophisticated transmission operators in the country.

e. Local Experience. Through GPE's participation in Transource Missouri, the Projects will benefit from KCP&L's local experience and knowledge in operating transmission systems in this region. Based upon its recent capital projects and its general operations, KCP&L also will assist Transource Missouri in communicating with local landowners in the Applicants' service territories, with local governmental authorities, and with other members of the public. Through Transource, KCP&L will also provide the

majority of the engineering and construction services for the Projects and, once energized, will provide the operation and maintenance services.

47. Because the cost of these Projects ultimately will be borne *regionally* by utility ratepayers across SPP, the Applicants' customers will pay only KCP&L's or GMO's respective load ratio share of their cost, regardless of who builds them. Therefore, the issue of primary importance to customers is that the entity designated to construct the Projects by SPP has sufficient technical and managerial expertise to design, build, and operate the Projects at the lowest reasonable cost, and that it has sufficient financial resources to complete the Projects in a timely manner. Because of the significant benefits resulting from having Transource Missouri construct and own the Iatan-Nashua Project (and the Sibley-Nebraska City Project), the authorizations requested herein are in the public interest.

48. The Commission must approve the requested transfers if they are not detrimental to the public interest, pursuant to 4 CSR 240-3.110(1)(D). "The Commission may not withhold its approval of the disposition of assets unless it can be shown that such disposition is detrimental to the public interest."²³ Missouri courts have recognized that "the obvious purpose of Section 393.190 is to ensure the continuation of adequate service to the public served by the utility."²⁴

49. In a decision approving the transfer of property from one utility to an affiliated utility, the Commission defined its role under Section 393.190:

In considering whether or not the proposed transaction is likely to be detrimental to the public interest, the Commission notes that its duty is to ensure that [the utility] provides safe and adequate service to its customers at just and reasonable rates. A detriment, then, is any direct or indirect effect of the transaction that tends to make the power supply less safe or less adequate, or which tends to make rates less just or less reasonable.

²³ State ex rel. Fee Fee Trunk Sewer, Inc. v. Litz, 596 S.W.2d 466, 468 (Mo. App. E.D. 1980). See State ex rel. City of St. Louis v. PSC, 73 S.W.2d 393, 400 (Mo. 1934).

²⁴ Fee Fee Trunk Sewer, 596 S.W.2d at 468.

The presence of detriments, thus defined, is not conclusive to the Commission's ultimate decision because detriments can be offset by attendant benefits. The mere fact that a proposed transaction is not the least cost alternative or will cause rates to increase is not detrimental to the public interest where the transaction will confer a benefit of equal or greater value or remedy a deficiency that threatens the safety or adequacy of the service.²⁵

50. Applying this analysis, the Commission must look at the potential benefits and detriments, and then determine if the transfer results in a net detriment to the public.²⁶

51. As described above and as discussed in the accompanying Direct Testimony of Mr. Ives, the proposed transfer of property associated with the Iatan-Nashua Project from the Applicants to Transource Missouri provides both financial and technical benefits. Customers of KCP&L and GMO will experience no decline in service and will benefit from the construction of the Iatan-Nashua Project (and the Sibley-Nebraska City Project) utilizing the strengths that Transource Missouri brings to the Projects, based upon the resources and expertise being committed to the projects by both AEP and GPE.

52. The Applicants, therefore, request that the Commission grant approval to transfer the electric transmission property described above from the Applicants to Transource Missouri, pursuant to Section 393.190.1. The Companies request that approval of such transfers be conditioned upon: (i) Transource Missouri obtaining the necessary approvals to construct the Projects; (ii) Transource Missouri executing the SPP Membership Agreement as a Transmission Owner; (iii) SPP's approval of the novation of the NTCs to Transource Missouri; and (iv) FERC's acceptance of the novation agreements under which the Companies will terminate and release responsibility for the Projects to Transource Missouri.

²⁵ In re Union Elec. Co., Case No. EO-2004-0108, Report and Order on Rehearing at 49 (Feb. 10, 2005).

²⁶ In re Missouri-American Water Co., Case No. WM-2004-0122, Report and Order (Nov. 20, 2003) (citing In re Joint Application of Missouri Gas Energy, Report and Order, 3 Mo. P.S.C.3d 216, 220 (1994)).

V. **THE SPP NOTIFICATIONS TO CONSTRUCT AND THE APPLICANTS' PLAN TO ARRANGE FOR TRANSOURCE MISSOURI TO BUILD THE IATAN-NASHUA AND SIBLEY-NEBRASKA CITY PROJECTS**

53. KCP&L and GMO plan to terminate and release their respective obligations as a DTO under these NTCs, and to designate Transource Missouri as the alternate DTO responsible for building and owning the Projects pursuant to Section VI of Attachment O of the SPP Tariff and the Section 7070 of the SPP OATT Business Practices. See Exhibit 3.

54. Transource Missouri has applied contemporaneously with this filing for a line CCN from the Commission, pursuant to Section 393.170.1, and Transource has signed the SPP Membership Agreement. Once Transource Missouri has received the necessary regulatory approvals to construct the Projects, the Companies will seek SPP approval to novate the Projects to Transource Missouri and will enter into a Designee Qualification and Novation Agreement with SPP and Transource Missouri, whereby Transource Missouri will become the alternate DTO responsible for constructing the Iatan-Nashua and Sibley-Nebraska City Projects. After the conditions of the novation are met, Transource Missouri will become a Transmission Owner under the SPP Tariff.

55. The Applicants request that the Commission find it is not required under Missouri law to approve their plans to terminate and release their obligations with regard to these regional SPP transmission projects. The Applicants' intention to relinquish their responsibilities under the NTCs and to designate Transource Missouri to build the regional Projects is not contemplated by Section 393.190 or any other provision of Chapters 386 and 393 of the Public Service Commission Law. An NTC is not a "part of" the Applicants' "franchise, works or system, necessary or useful in the performance of [their] duties to the public ..." under Section 393.190.1.

56. Furthermore, the review and approval of regional, high-voltage transmission projects like the Iatan-Nashua and Sibley-Nebraska City Projects are within the intent and scope of the Federal Power Act, given the federal government’s exclusive jurisdiction over “the transmission of electric energy in interstate commerce and the sale of such energy at wholesale in interstate commerce.”²⁷ More recently, Congress directed FERC to “exercise its authority” under the Energy Policy Act of 2005 “in a manner that facilitates the planning and expansion of transmission facilities to meet the reasonable needs of load-serving entities”²⁸ Pursuant to those Congressional directives, FERC issued Orders No. 890 and 1000 to enhance transmission planning and improve cost allocation practices. The procedures that SPP has specified for implementing those projects under the Federal Power Act should be permitted to proceed.²⁹

57. It is clear that Section 201(b)(1) of the Federal Power Act, 16 U.S.C. § 824(b)(1), delegates to FERC “exclusive authority to regulate the transmission and sale at wholesale of electric energy in interstate commerce.”³⁰ In this regard, FERC’s jurisdiction is plenary and extends to all transmission and wholesale sales of power in interstate commerce except those explicitly reserved by Congress.³¹ Where FERC has jurisdiction, that jurisdiction is exclusive.³²

58. FERC’s jurisdiction extends not only to rates per se, but under Section 206(e), 16 U.S.C. § 824e(a), to “any rule, regulation, practice or contract” affecting rates. Such rules include FERC Order No. 890 and its recent Order No. 1000, which established minimum criteria that a transmission planning process must satisfy, including general principles for cost allocation

²⁷ See Federal Power Act § 201, 16 U.S.C. § 824(a).

²⁸ *Id.* at § 824q(b)(4).

²⁹ See, e.g., Southwest Power Pool, Inc., 128 FERC ¶ 61,018 (2009) (accepting a Designee Qualification and Novation Agreement).

³⁰ Transmission Agency of Northern Cal. v. Sierra Pacific Power Co., 259 F.3d 918, 928 (9th Cir. 2002).

³¹ Federal Power Comm’n v. Southern Cal. Edison Co., 376 U.S. 205, 215-16 (1964).

³² California ex rel. Lockyer v. Dynegy, Inc., 375 F.3d 831, 843 (9th Cir. 2004).

methods.³³ Order No. 1000 also eliminated from FERC-jurisdictional tariffs and agreements any provisions that established a federal right of first refusal for an incumbent transmission provider regarding transmission facilities selected in a regional transmission plan for purposes of cost allocation.³⁴

59. Each of the seven projects included by SPP in the Balanced Portfolio (including the Iatan-Nashua Project) and each of the six projects designated by SPP as Priority Projects (including the Sibley-Nebraska City Project) are regional, high-voltage transmission infrastructure proposals that result from a FERC-approved regional transmission planning process. They are, therefore, subject to the exclusive jurisdiction and orders of FERC under the Federal Power Act.

60. This Commission has recognized it cannot establish or enforce conditions that are inconsistent with the Federal Power Act and FERC orders, including Order No. 1000. In rejecting conditions proposed by the Office of the Public Counsel (“OPC”) to a Stipulation and Agreement regarding Ameren Missouri’s membership in the Midwest Independent Transmission System Operator, Inc. (“MISO”), the Commission recently observed that one proposed condition “that would require Ameren Missouri to construct and own all transmission projects in its service territory unless otherwise ordered by the Commission *would be inconsistent with federal law as established by the FERC.*”³⁵ This Commission specifically recognized the proposed condition was inconsistent with FERC Order No. 1000 finding that “[u]nder FERC Order No. 1000, a utility with a certificated service territory, such as Ameren Missouri, no longer has a right of first

³³ See FERC Order 1000, 136 FERC ¶ 61,051 at PP 495-503, 530-37, 578-88 (2011).

³⁴ Id. at PP 313-40.

³⁵ In re Application of Union Elec. Co. to Continue the Transfer of Functional Control of its Transmission System to the Midwest Indep. Trans. System Operator, Inc., Report and Order at 15, No. EO-2011-0128 (Apr. 19, 2012) (emphasis added).

refusal to construct transmission projects within its service territory if the reliability projects are subject to regional cost allocation. That means other transmission companies not affiliated with Ameren Missouri may be allowed to develop such projects within Ameren's service territory."³⁶ Likewise, the Commission should find that Applicants' novation of the NTCs are governed by FERC-approved processes and thus this Commission may not establish or enforce conditions that are inconsistent with such FERC-approved processes.

61. Given the well defined areas of exclusive federal jurisdiction relating to interstate transmission and the regulations promulgated by FERC concerning transmission infrastructure, regional planning, and related cost allocation, this Commission need not and should not address issues concerning the NTCs issued by SPP and the process related to selecting another entity to build a project, pursuant to Attachment O of SPP's FERC-approved Tariff and the SPP OATT Business Practices.

62. In the event that the Commission finds that the Applicants' proposed course of action regarding the NTCs is subject to its jurisdiction, the Applicants ask that the Commission either express no objection to their plans to relinquish their responsibilities under the SPP-issued NTCs or, in the alternative, approve such plans.

63. Pursuant to 4 CSR 240-3.110, descriptions of the Iatan-Nashua and Sibley-Nebraska City Projects are provided in the SPP NTCs regarding the Iatan-Nashua Project, Exhibits 2 and 5, and the SPP NTC regarding the Sibley-Nebraska City Project, Exhibit 6, previously noted above.

64. The termination and release of the Applicants' NTCs, and the proposed designation and novation to Transource Missouri of these Projects, is not detrimental to the public interest.

³⁶ Id.

As described above and in the accompanying Direct Testimony of Mr. Ives, Transource Missouri and Transource were created, in part, to levelize the financial obligations facing the Applicants as a result of the need to upgrade *regional* electric transmission infrastructure in Missouri and across mid-America. Therefore, if the Commission finds that it has jurisdiction regarding such termination and release of the Applicants' NTCs, it should either express no objection to or approve such plans as not detrimental to the public interest.

VI. REQUEST FOR WAIVER OR VARIANCE OF THE AFFILIATE TRANSACTIONS RULE

65. Transactions between the Applicants, on the one hand, and Transource and its regulated utility subsidiaries, on the other, will be between entities engaged in regulated operations at cost without mark-up for profit. For this reason, the Applicants request waiver, pursuant to 4 CSR 240-2.015, or a variance, pursuant to 4 CSR 240-20.015(10), of the Affiliate Transactions Rule ("Rule") set forth in 4 CSR 240-20.015. Because application of the Rule would prevent the advantages that result from at cost transactions between the Applicants, Transource, and Transource's regulated utility subsidiaries from accruing to customers, good cause exists for waiver or variance of the Rule.

66. The preamble of the Rule states it is "intended to prevent regulated utilities from subsidizing their non-regulated operations." The Applicants, Transource, and its regulated utility subsidiaries like Transource Missouri will be engaged in *regulated operations*. KCP&L and GMO will continue to be regulated by this Commission. Transource was established as a holding company to develop, acquire, construct, finance, own, operate, and maintain regulated regional electric transmission projects through its regulated utility subsidiaries. Transource Missouri will be rate regulated by FERC. Because transactions between these entities, carried out pursuant to certain services agreements and intercompany support agreements described in

the Direct Testimony of Mr. Ives, will concern their regulated operations, the Rule's purpose would not be fulfilled by applying its principles to such transactions and the Commission should grant a waiver or a variance of the Rule.

67. The granting of a waiver or variance for transactions concerning regulated operations would be consistent with the Commission's decision approving the acquisition of Aquila, Inc. by GPE, where it stated that "the purpose of the Commission's Affiliate Transactions Rule is to prevent cross-subsidization of [a] regulated utility's non-regulated operations, not to prevent transactions at cost between two regulated affiliates."³⁷ There the Commission granted a variance from the Rule to the extent that it applied to any transactions between KCP&L and GMO, both regulated public utilities.

68. Furthermore, waiver or variance of the Rule is warranted because application of the Rule would prevent the advantages resulting from the provision of services at cost from accruing to customers. As discussed in the accompanying Direct Testimony of Mr. Ives, the Applicants and their corporate affiliates have agreed with Transource and its affiliates that the aggregate costs and expenses incurred by them shall be at cost without mark-up for profit. Such costs and expenses will be consistent with FERC rules and their accounting and cost recording requirements. This arrangement also will be consistent with this Commission's adoption of FERC's Uniform System of Accounts in 4 CSR 240-20.030.

69. The exchange of services at cost without mark-up for profit will result in certain administrative and operational efficiencies, such as eliminating the need to compare or analyze market prices and allowing the Applicants and Transource to better manage their costs, as further

³⁷ In re Joint Application of Great Plains Energy Inc., Kansas City Power & Light Co. and Aquila, Inc. for Approval of the Merger of Aquila, Inc. with a Subsidiary of Great Plains Energy Inc., Case No. EM-2007-0374, Report and Order at 264 (July 1, 2008), aff'd, State ex rel. Praxair, Inc. v. Missouri PSC, 344 S.W.3d 178 (Mo. en banc 2011).

described in the Direct Testimony of Mr. Ives. At cost transactions between a regulated utility and a holding company affiliate are prudent.³⁸ Even though neither Transource Missouri nor Transource will have retail customers or retail service territory, the retail customers of KCP&L, GMO, and other Missouri utilities should benefit from lower cost-based wholesale transmission rates. The public interest would suffer no detriment from a waiver of or variance from the Rule.³⁹

70. However, if the Rule is applied to transactions between the Applicants and Transource or its regulated utility subsidiaries, the asymmetrical pricing requirements of the Rule, which are designed to prevent cross-subsidization of a regulated utility's non-regulated operations, would prevent the entities from exchanging goods and services at cost. Because the objective of Transource and its subsidiaries is to develop, acquire, construct, finance, own, operate, and maintain regulated regional electric transmission projects on a cost basis, the Rule would actually prevent the efficiencies of this arrangement from benefiting transmission customers, and, ultimately, end-use customers in Missouri. Therefore, the Rule's purpose would not be fulfilled by applying its principles to transactions between the Applicants, on the one hand, and Transource and its regulated utility subsidiaries, on the other, and the Commission should grant a waiver or a variance of the Rule.

³⁸ See Nebraska Pub. Advocate v. Nebraska Pub. Serv. Comm'n, 815 N.W.2d 192, 200-201 (Neb. Ct. App. 2012) (holding that the at-cost service agreements that Black Hills Energy had with Black Hills Service Company and Black Hills Utility Holdings resulted in prudently incurred costs).

³⁹ See In re Joint Application of Great Plains Energy Inc., Case No. EM-2007-0374, Report and Order at ¶ 595.

VII. PROPOSED CASE MANAGEMENT TIMELINE

71. The Applicants respectfully request that the Regulatory Law Judge, the Staff of the Commission, the Office of the Public Counsel, and any intervening parties consider the following timeline as a procedural schedule is developed for this case:

October 16, 2012	Prehearing Conference
November 16, 2012	Staff and Intervenor Rebuttal Testimony
December 17, 2012	Surrebuttal Testimony
January 18, 2013	Prehearing Filings
January 28-30, 2013	Evidentiary Hearing
March 1, 2013	Initial Post-Hearing Briefs
March 29, 2013	Reply Briefs / Proposed Findings of Fact and Conclusions of Law

WHEREFORE, the Applicants respectfully request that the Commission:

1. Approve the transfer of the transmission property described above to Transource Missouri, conditioned upon: (i) Transource Missouri obtaining the necessary approvals to construct the Projects; (ii) Transource Missouri executing the SPP Membership Agreement as a Transmission Owner; (iii) SPP’s approval of the novation of the NTCs to Transource Missouri; and (iv) FERC’s acceptance of the novation agreements under which the Companies will terminate and release responsibility for the Projects to Transource Missouri.

2. Find that no approval under state law is required to terminate, release, and novate the Notifications to Construct regarding the Iatan-Nashua and Sibley-Nebraska City regional transmission Projects, or otherwise express no objection to or approve the Applicants’ plans in this regard.

3. Grant a waiver or variance of the Commission's Affiliate Transactions Rule for transactions between KCP&L and GMO, on the one hand, and Transource and its regulated utility subsidiaries, on the other.

Respectfully submitted,

/s/ Karl Zobrist

Karl Zobrist MBN 28325
Lisa A. Gilbreath MBN 62271
SNR Denton US LLP
4520 Main Street, Suite 1100
Kansas City, MO 64111
(816) 460-2400
(816) 531-7545 (fax)
karl.zobrist@snrdenton.com
lisa.gilbreath@snrdenton.com

Denise M. Buffington
Corporate Counsel
Kansas City Power & Light Company
1200 Main Street
Kansas City, MO 64105
(816) 556-2785
(816) 556-2787 (fax)
Denise.Buffington@kcpl.com

Attorneys for Kansas City Power & Light Company
and KCP&L Greater Missouri Operations Company

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Application was served upon the parties listed below by email or U.S. Mail, postage paid, below this 31st day of August 2012.

General Counsel
Missouri Public Service Commission
P.O. Box 360
Jefferson City MO 65102
gencounsel@psc.mo.gov

Office of the Public Counsel
P.O. Box 2230
Jefferson City MO 65102
opcservice@ded.mo.gov

/s/ Karl Zobrist
Attorneys for Kansas City Power & Light Company
and KCP&L Greater Missouri Operations Company

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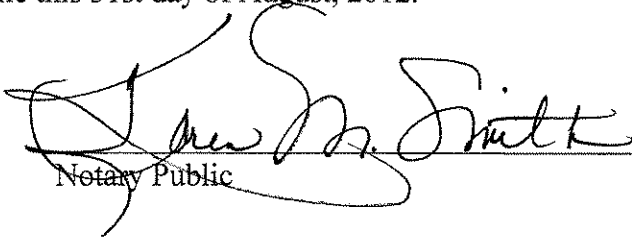
STATE OF MISSOURI)
) SS.
COUNTY OF JACKSON)

I, Darrin R. Ives, being duly sworn or affirmed according to the law, state that I am employed as Senior Director, Regulatory Affairs by Kansas City Power & Light Company, that I am authorized to make this affidavit on behalf of Kansas City Power & Light Company and KCP&L Great Missouri Operations Company, and that I verify that the facts set forth in the foregoing Application are true and correct to the best of my knowledge, information and belief.




Darrin R. Ives
Senior Director, Regulatory Affairs
Kansas City Power & Light Company

Subscribed and sworn to before me this 31st day of August, 2012.



Notary Public

My Commission Expires: **KAREN M. SMITH:**
 My Commission Expires: April 16, 2016
Jackson County
Commission #12446957