

**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,) File No. EA-2013-0098
Own, Operate and Maintain the Iatan-Nashua and)
Sibley-Nebraska City Electric Transmission Projects)

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

JOINT MEMORANDUM IN SUPPORT OF THE STIPULATION

1. Applicants Transource Missouri, LLC (“Transource Missouri”), Kansas City Power & Light Company (“KCP&L”), and KCP&L Greater Missouri Operations Company (“GMO”) (collectively, “Applicants”), as well as the Staff of the Missouri Public Service Commission (“Staff”) and the Office of the Public Counsel (“OPC”) provide the following Joint Memorandum in Support of the Stipulation in response to the Missouri Public Service Commission’s (“Commission”) April 29, 2013 Order to File Proposed Amended Procedural Schedule and the inquiries set forth in the Appendix to such Order.

2. The Applicants, Staff, and OPC have resolved their differences at this stage in these proceedings,¹ which consist of (a) File No. EO-2012-0367 (the “Transfer Application”), where KCP&L and GMO have applied for approval to transfer certain assets (e.g., existing transmission assets, easements, and rights of way) to Transource Missouri, and (b) File No. EA-2013-0098 (the “CCN Application”), where Transource Missouri seeks a line Certificate of Convenience and Necessity (“CCN”). These two proceedings, seeking transfer of facilities and

¹ Paragraphs 6, 9, 27, and 28 of the April 12, 2013 Non-unanimous Stipulation and Agreement may require future Commission action. While the Signatories have taken positions that may require future Commission action, the Signatories agree that the Non-unanimous Stipulation and Agreement is a proper settlement that balances their differing positions.

authority to construct the Iatan-Nashua and Sibley-Nebraska City Projects (“Projects”), were consolidated on November 7, 2012.

3. The Non-unanimous Stipulation and Agreement and First Amendment thereto (“Stipulation”) filed by the Signatories on April 12 and May 6, 2013 is the result of extensive discussions and compromises by all of the Signatories. Paragraph 31 states that the “Stipulation represents a negotiated settlement.” The Stipulation can now be treated as a unanimous stipulation, given that Intervenor Missouri Industrial Energy Consumers (“MIEC”) did not oppose the Stipulation within seven days of its submission. See 4 CSR 240-2.115(2)(B)-(C).

4. Because the Signatories have agreed to cooperate in defending the validity and enforceability of the Stipulation, pursuant to its Paragraph 34, and because Paragraph 36 provides that “the Staff shall submit to the Commission a memorandum addressing any matter requested by the Commission,” the Signatories are providing the Commission with this Joint Response to address the issues raised by the April 29 Order and its Appendix.

A. Applicants’ Burden of Proof for Conditional Approval.

5. The Signatories believe that the Applicants have met their burden of proof for conditional approval in the Transfer Application and the CCN Application, based upon the provisions of the Stipulation and the testimony and schedules that have been entered into evidence.²

6. In the Transfer Case, KCP&L and GMO must show that the transfer of the assets is not detrimental to the public interest under Section 393.190.1³ and 4 CSR 240-3.110(1)(D), Filing Requirements for Electric Utility Applications for Authority to Sell, Assign, Lease or

² Order Directing Filing of Exhibit Lists and Entering Exhibits into Evidence (Apr. 22, 2013); Order Directing Entry of Exhibits into EFIS (Apr. 29, 2013).

³ All statutory references are to the Missouri Revised Statutes (2000), as amended.

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

7. In the CCN proceeding, Transource Missouri must show that the CCN “is necessary or convenient for the public service.” See § 393.170.3. The Commission has stated five (5) criteria that it will use to determine that conditionally granting the CCN to Transource Missouri is “necessary or convenient for the public service:”

- (1) There must be a need for the service;⁴
- (2) The applicant must be qualified to provide the proposed service;⁵
- (3) The applicant must have the financial ability to provide the service;⁶
- (4) The applicant’s proposal must be economically feasible;⁷ and
- (5) The service must promote the public interest.⁸

⁴ First, there is a need for the service to be rendered by the Projects based upon studies performed by SPP in 2009 and 2010. These studies demonstrated that the Projects will improve electric grid reliability, minimize transmission congestion effects, bring economic benefits to SPP members, and help support public policy goals regarding renewable energy. The studies also demonstrated that the Projects will provide estimated benefits and savings that exceed the Projects’ estimated costs. See SPP Balanced Portfolio Report (June 23, 2009), attached as Ex. 6 to the CCN Application; SPP Priority Projects Phase II Final Report (Apr. 27, 2010), attached as Ex. 11 to the CCN Application.

⁵ Second, Transource Missouri is qualified to construct, finance, own, operate, and maintain the Projects given the support by the transmission and related expertise of KCP&L and of American Electric Power Company, Inc. (“AEP”).

⁶ Third, Transource Missouri will have the financial ability to construct, own, operate and maintain the Projects given the equity funding that the subsidiaries of Great Plains Energy Incorporated (“GPE”), the parent corporation of KCP&L and GMO, and AEP will provide to Transource Missouri, and Transource Missouri’s plan to issue debt. Furthermore, Transource Missouri will fully recover the cost of the Projects once completed, as the Projects’ costs are regionally allocated under the FERC-approved SPP Tariff Schedule 11.

⁷ Fourth, Transource Missouri’s construction of the Projects is economically feasible by virtue of the cost/benefit analysis conducted by SPP, as well as its FERC-approved cost allocation methodology under its Tariff Schedule 11.

⁸ Finally, the Projects as proposed to be built by Transource Missouri are in the public interest, given all the above, as well as the agreement of KCP&L, GMO, and Transource Missouri to follow the provisions of Paragraphs 27, 28, and 29 of the Stipulation regarding the final route of the Sibley-Nebraska City Project. Paragraph 27 calls for the Commission to grant conditional approval of the CCN Application (as well as the Transfer Application) prior to the final selection of the route. Transource Missouri will provide the Commission with route information as soon as it is available in the summer of 2013. KCP&L and GMO will provide the Commission with a report and quarterly updates regarding their public outreach efforts for siting, routing, easement acquisition, and right-of-way acquisition.

In re Application of Entergy Arkansas, Inc. for a Certificate of Convenience and Necessity, Case No. EA-2012-0321, Order Granting Certificate of Convenience and Necessity at 2 (July 11, 2012); In re Tartan Energy Company, L.C., Report and Order, Case No. GA-94-127, 3 Mo.P.S.C.3d (1994), 1994 WL 762882 at *14 (Sept. 16, 1994).

8. The Transfer Application, under the terms and conditions of the Stipulation, is not detrimental to the public interest in light of the rate treatment for the two affiliate-owned transmission Projects in Section II(A). That section makes clear that KCP&L and GMO will adjust the Projects' charges that KCP&L and GMO retail customers otherwise would pay as their load ratio share of the Federal Energy Regulatory Commission ("FERC") authorized revenue requirements for the Projects' facilities that are located in KCP&L's and GMO's respective certificated territories. The adjustment reflects the costs that result from recalculating the revenue requirements using the substituted treatments agreed to in Paragraphs 1 and 2 of the Stipulation, which do not charge KCP&L's and GMO's retail customers for the FERC-authorized ratemaking treatments, including transmission rate incentives for facilities in their respective service territories ("Stipulation Treatments"). These Stipulation Treatments reflect currently authorized Commission revenue requirement treatments for KCP&L and GMO. The Stipulation Treatments would not increase costs to KCP&L and GMO retail customers for facilities in their respective service territories, as they adjust those customers' rates by the difference between wholesale rates, including FERC transmission rate incentives, and the Missouri retail transmission rate. While the wholesale rate is paid in full by KCP&L and GMO, the wholesale rate is not paid in full by KCP&L's and GMO's retail customers for the Projects' facilities located in their respective certificated service territories pursuant to the Stipulation

The Signatories have additionally requested in Paragraph 27 that the Commission grant final approval of the Applications conditioned upon its making specific findings, through a means which it determines, after the final selection of the Sibley-Nebraska City route has been made.

Treatments. Except for interconnections with KCP&L facilities at the Iatan and Nashua substations, the Projects' facilities will be located within the GMO service territory. Therefore, the rate protections afforded by Paragraphs 1 and 2 of the Stipulation and discussed throughout this Joint Memorandum accrue substantially to GMO customers and not to KCP&L customers.

9. Consistent with Paragraphs 1 and 2, the FERC-authorized cost of the Projects will be assessed by Southwest Power Pool, Inc. ("SPP") as a cost of wholesale transmission service to all of its members on a regional basis under Schedule 11 of the FERC-approved Open-Access Transmission Tariff⁹ ("Tariff"). Transmission facilities built principally for local purposes are billed under SPP Tariff Schedules 7, 8, and 9. KCP&L and GMO do not pay Schedule 9 charges to SPP for their own facilities, and the costs are fully recovered by KCP&L and GMO by inclusion in Missouri jurisdictional rate base. Transmission facilities built principally for regional purposes are billed to SPP transmission customers under SPP Tariff Schedule 11.

10. Although KCP&L and GMO will pay their load-ratio share of the cost of the Projects assessed by SPP, KCP&L and GMO retail customers will only pay charges reflecting the agreement of the Signatories in Paragraphs 1 and 2 of the Stipulation. As a result, KCP&L and GMO will forego charging Missouri retail customers for the difference between wholesale rates for the Projects' facilities located in their respective service territories, including FERC transmission rate incentives, and the Missouri retail transmission rate, pursuant to the Stipulation Treatments. Such treatment is similar to recent decisions and agreements pending decision by this Commission regarding settlements in Regional Transmission Organization ("RTO") /

⁹ Otherwise abbreviated "OATT."

Independent Transmission System Operator (“ISO”) cases (e.g., File No. EO-2011-0128 and Case No. EO-2008-0134¹⁰).

11. The Transfer Application is also not detrimental to the public interest, given the agreement of Transource Missouri to pay GMO the higher of \$5.9 million or net book value for transferred transmission assets, easements, and right-of-ways that have been previously included in the rate base and reflected in the retail rates of KCP&L and GMO customers. This provision is contained in Paragraph 7 of the Stipulation. To the extent that this payment exceeds the net book cost of transferred property, that excess also will be provided to Missouri retail customers as indicated. This payment is part of a comprehensive settlement that represents a balancing and compromise of the interests and positions of the Signatories.

12. The manner in which the Stipulation applies the Affiliate Transactions Rule, 4 CSR 240-20.015 (“Rule”), to the Applications additionally supports a finding that KCP&L and GMO have met their burden of proof in the Transfer Case for conditional approval because it strikes a reasonable balance and the settlement as a whole is in the public interest:

(a) Only a limited waiver of the Rule will occur prior to the novation or transfer of the cost of the Projects, whereby the providing entity will be compensated on the basis of its costs (Stipulation Paragraph 5);

¹⁰ In the Matter of the Application of Union Electric Company for Authority To Continue the Transfer of Functional Control of Its Transmission System to the Midwest Independent Transmission System Operator, Inc., File No. EO-2011-0128, Order Granting Ameren Missouri’s Motion To Clarify Report And Order (May 17, 2012); File No. EO-2011-0128, Report And Order (Apr. 19, 2012); In the Matter of the Application of Union Electric Company for Authority To Continue the Transfer of Functional Control of Its Transmission System to the Midwest Independent Transmission System Operator, Inc., Case No. EO-2008-0134, Order Approving Stipulation and Agreement (Sept. 9, 2008). Almost identical Stipulations and Agreements to each other were filed in File Nos. EO-2012-0135 and EO-2012-0136 on May 16, 2013, which contain provisions in Section II(D)(2) that, if approved by the Commission, would provide for certain rate adjustments for affiliate-built transmission, including the Iatan-Nashua and Sibley-Nebraska City Projects. The Stipulations and Agreements in File Nos. EO-2012-0135 and EO-2012-0136 have a term of five years that ends on September 30, 2018, unless otherwise extended. Under the Stipulation in the instant case, the term of the adjustment regarding the FERC-approved ratemaking treatments, including transmission rate incentives, respecting the Iatan-Nashua and Sibley-Nebraska City Projects continues as long as these transmission facilities are in service.

(b) For non-Project goods and services, KCP&L and GMO will charge at the higher of fair market value (or a 20% markup of fully distributed cost in lieu of using fair market value) or the fully distributed cost;¹¹ and

(c) By June 1, 2013, non-Project charges submitted by KCP&L and GMO to Transource, Transource Missouri and GPE will reflect the higher of fair market value or the fully distributed cost through the use of a 20% mark-up, under the assumption that a 20% mark-up is a reasonable proxy for fair market value (Stipulation Paragraph 6).

13. Paragraph 12 of the Stipulation states that once the Projects are in service, their operations and maintenance will be subject to the Affiliate Transactions Rule.

B. Responses to Commission Inquiries in the Appendix.¹²

1. Relief: What Relief Do the Parties Seek as to Any:

a. Application.

14. The Signatories agree that the Commission should grant conditional approval of the Transfer Application filed by KCP&L and GMO and the CCN Application of Transource Missouri, subject to the conditions in the Stipulation, as indicated by the Signatories' Joint Proposed Report and Order Approving Unanimous Stipulation and Agreement.

15. Section II(A) describes the rate adjustment, "Stipulation Treatments," that will prevent an increase in the cost of the Projects charged to KCP&L and GMO customers that would otherwise occur for the Projects' facilities that are located in KCP&L's or GMO's respective certificated territories due to FERC-authorized ratemaking treatments, which include transmission rate incentives.

¹¹ In support of the treatment for non-Project goods and services, KCP&L and GMO will contribute \$50,000 to the State Public School Fund or a mutually agreeable organization (Stipulation Paragraph 6).

¹² The Signatories slightly modified the phrasing of certain of the Commission's Appendix inquiries for ease of reference. For example, "Stipulation" is used in lieu of "Non-unanimous Stipulation and Agreement."

16. Section II(B) sets forth provisions on how the Affiliate Transactions Rule will apply to transactions between (i) KCP&L and GMO, and (ii) GPE, Transource Energy, LLC (“Transource”), and Transource’s utility subsidiaries. This section also sets forth payments to be made by the Applicants related to the transfer of transmission assets, easements, and rights of way, as well as for non-Project goods and services, provided prior to the novation or transfer of the cost of the Projects.

17. Section II(C) provides that KCP&L and GMO will pursue future transmission projects subject to a right of first refusal in their respective service territories,¹³ whereas Transource Missouri will not. Should there be any future proposed transfer of the Projects’ facilities, Transource Missouri has agreed to seek approval from the Commission for such transfer.

18. Section II(D) describes how KCP&L must account for materials and services related to the Projects under the Affiliate Transactions Rule, both before (Paragraph 11) and after (Paragraph 12) the Projects are in service. Paragraph 13 provides that KCP&L and GMO shall file for Commission approval of their Cost Allocation Manuals (“CAMs”) before providing any information, assets, goods and services to Transource or Transource Missouri after either the novation or transfer of the cost of the Projects, whichever occurs first.

19. Section II(E) sets forth additional reporting obligations by the Applicants, and Section II(F) provides access to books and records of Transource and Transource Missouri by Staff and OPC. The books and records listed in Section II(F) are not to limit, but to particularize and clarify what is a non-exclusive list of documents to be made available to the Staff and OPC for review. State ex rel. Laclede Gas Co. v. PSC, 535 S.W.2d 561, 567 (Mo. App. K.C. 1976).

¹³ KCP&L and GMO may seek a waiver from the Commission for good cause.

20. Finally, Section II(G) provides for conditional approval of the Applications (including the conditions that were contained in the Applications themselves) prior to the final selection of the route for the Sibley-Nebraska City Project. Paragraphs 27, 28, and 29 set forth those conditions. Paragraph 24 also provides that GMO will establish a regulatory liability reflecting the amount collected in retail customer rates for the transferred property from the date of the novation or transfer of the costs of the Projects until new GMO rates are established. The treatment of the regulatory liability will be determined in GMO's next retail rate case.

b. Asset Related to Any Project.

21. The relief sought by the Applicants in the Transfer Application is approval of the transfer of the transmission lines in the East Segment and the West Segment of the Iatan-Nashua Project, including associated easements and rights-of-way described in Paragraphs 36 and 38 of the Transfer Application.

22. The Middle Segment that will connect the East and West Segments will be an entirely new "greenfield" transmission line. Consequently, there are no existing KCP&L or GMO utility assets related to the Middle Segment today.

23. While the Signatories have taken different positions as to whether SPP Notifications to Construct ("NTCs") are assets, the Signatories agree that the Stipulation is a proper settlement that balances their differing positions and that the Commission need not specifically address whether NTCs are assets.

24. The CCN Application does not request any relief with regard to any existing utility assets.

2. Jurisdiction: What is the Commission’s Jurisdiction Over:

a. Transource Missouri LLC and Its Related Entities as Described in the Applications.

25. Because Transource Missouri has applied for a CCN under Section 393.170, it will become a Missouri public utility and electrical corporation if the CCN Application and Transfer Application are granted, consistent with the provisions of the Stipulation. As defined in Section 386.020(43), a “public utility” includes “electrical corporations.” Pursuant to Section 386.020(15), an “electrical corporation” owns, operates, controls, or manages any “electric plant.” Section 386.020(14) defines “electric plant” as including all real estate, fixtures and personal property operated, controlled, owned, used or to be used for or in connection with or to facilitate transmission of electricity. Thus, after the transfer of the transmission facilities to Transource Missouri, Transource Missouri will own “electric plant” and will be an “electrical corporation” subject to the authority of the Commission. However, because Transource Missouri will engage only in wholesale transmission operations, it will not be retail rate regulated by this Commission.

26. However, the Commission will continue to exercise its retail rate jurisdiction over KCP&L and GMO and will be able to enforce the retail rate commitments made by KCP&L and GMO in the Stipulation in retail rate proceedings before the Commission. The Commission will have jurisdiction over the books and records of Transource and Transource Missouri as provided by law and by the Stipulation.

27. The Commission will have jurisdiction over GPE to the extent provided in earlier orders issued by the Commission, such as in Case No. EM-2001-464.¹⁴ The Commission will

¹⁴ 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-2001-0464, Order Approving Stipulation and Agreement and Closing Case, 10 Mo.P.S.C.3d 394 (2001).

not exercise jurisdiction over AEP or its affiliates Transource and Transource Missouri, except as described above and otherwise provided in the Stipulation.

b. The Projects.

28. Primary jurisdiction in general over the Projects arguably rests with FERC because the Projects are wholesale high-voltage regional electric transmission projects subject to SPP's FERC-approved Tariff Schedule 11. Rate-making for the Projects is also arguably under the jurisdiction of FERC and subject to KCP&L's, GMO's, and SPP's FERC-accepted Agreements For The Provision Of Transmission Service To Missouri Bundled Retail Load in Case No. EO-2006-0142 and Case No. EO-2009-0179. However, the Signatories do not agree as to how these matters have been treated by the courts or may be treated by the courts in the future.¹⁵ Nevertheless, the Signatories have compromised their respective positions in a comprehensive settlement that is reflected in the terms and conditions of the Stipulation. The Stipulation Treatments in Paragraphs 1 and 2 of the Stipulation protect KCP&L and GMO customers from increased costs for the Projects' facilities located in their service territories due to FERC-authorized ratemaking treatments, which include transmission rate incentives. Except for interconnections with KCP&L facilities at the Iatan and Nashua substations, the Projects' facilities will be located within the GMO service territory. Therefore, the rate protections afforded by Paragraphs 1 and 2 of the Stipulation and discussed throughout this Joint Memorandum accrue substantially to GMO customers and not to KCP&L customers.

29. The Commission will have safety jurisdiction over the Projects, as provided in Sections 386.310.1, 393.130.1, and 393.140(5). As indicated by Staff Counsel at the April 16

¹⁵ See, e.g., Nantahala Power & Light Co. v. Thornburg, 476 U.S. 953 (1986); Mississippi Power & Light Co. v. Mississippi ex rel. Moore, 487 U.S. 354 (1988); Kentucky West Virginia Gas Co. v. Pennsylvania Public Utilities Comm'n, 837 F.2d 600 (3d Cir. 1988); Pike County Light & Power Co. v. Pennsylvania Public Utility Comm'n, 465 A.2d 735, 737-38 (Pa. Commw. Ct. 1983).

hearing, Section 215(i)(3) of the Energy Policy Act of 2005 states: “Nothing in this section shall be construed to preempt any authority of any State to take action to ensure the safety, adequacy, and reliability of electric service within that State, as long as such action is not inconsistent with any reliability standard”¹⁶

3. Waivers of Regulations.

a. Which Regulations Do the Parties Want the Commission to Waive?

30. In the Stipulation the Signatories have agreed to the waiver of Sections 4 CSR 240-20.015(2)(A)2, 4 CSR 240-20.015(2)(B), and 4 CSR 240-20.015(3)(C)4 of the Affiliate Transactions Rule with respect to the transfer of transmission assets, easements, and right-of-ways related to the Projects (Stipulation Paragraphs 4, 7); materials and services provided by KCP&L or GMO to Transource, Transource Missouri, or a subsidiary for the Projects prior to novation or transfer of the cost of the Projects to Transource Missouri (Stipulation Paragraph 5); and information, assets, goods, and services provided by KCP&L or GMO to Transource, Transource Missouri, or a subsidiary until the Projects are in service, defined as the commercial operation date for each of the Projects (Stipulation Paragraph 11). With respect to operations and maintenance services provided after the Projects are in service, and with respect to non-Project goods and services, the Signatories agreed that KCP&L and GMO could use a 20% markup to their fully distributed cost methodology for such goods and services in lieu of using the fair market value under the Rule (Stipulation Paragraphs 6, 12).

¹⁶ In full, Section 215(i)(3), 16 U.S.C. § 824o(i)(3), states: “Nothing in this section shall be construed to preempt any authority of any State to take any action to ensure the safety, adequacy, and reliability of electric service within that State, as long as such action is not inconsistent with any reliability standard, except that the State of New York may establish rules that result in greater reliability within that State, as long as such action does not result in lesser reliability outside the State than that provided by reliability standards.” Section 215(a)(2) states that the terms “Electric Reliability Organization” and “ERO” mean the organization certified by FERC under Section 215(c) to provide for reliable operation of the bulk power system. See 16 U.S.C. § 824o(a)(2), (c). The North American Electric Reliability Corporation (“NERC”) applied for and received the ERO designation from FERC.

31. The Signatories further have agreed in the First Amendment to Non-unanimous Stipulation and Agreement (filed on May 6, 2013) to modify Paragraph 25 of the Stipulation regarding the waivers 4 CSR 240-3.175 and 4 CSR 240-3.190 requested in the CCN Application.

32. The Signatories have agreed to exclude Sections (3)(E) and (4)-(10) from the waiver request of 4 CSR 240-3.190. Therefore, the Signatories request that the Commission waive Sections (1), (2), and (3)(A)-(D).

33. The Signatories have further agreed that a waiver of the provisions of 4 CSR 240-3.175 should be granted by the Commission in exchange for Transource Missouri providing Staff and OPC with depreciation studies that it files at FERC and any underlying data that supports the studies. They have also agreed that 4 CSR 240-3.175 does not apply to Transource Missouri because it will not have any tariffs filed with the Commission. This agreement is contained in a new Paragraph 21(s) to the Stipulation which describes the depreciation documents that Transource Missouri has agreed to provide to Staff and OPC.

b. How Does Each Waiver Contribute to Safe and Adequate Service at Just and Reasonable Rates?

34. Good cause exists to waive the requested portions of the Affiliate Transactions Rule because the manner in which the Stipulation applies the Rule is not detrimental to the public interest as described above. The waivers set forth in the Stipulation strike a reasonable balance and the settlement as a whole is in the public interest. Furthermore, the waivers will not affect safe and adequate service at just and reasonable rates because even though Transource Missouri is not a vertically integrated electric utility and will have no Missouri retail customers, KCP&L, GMO, and Transource Missouri are subject to Sections 386.310.1, 393.130.1, 393.140(5), and 4 CSR 240-3.190(3)(E) and (4)-(10).

35. The requirements in 4 CSR 240-3.190 that the Signatories have agreed to waive relate to fuel and the operation of generation units over which the Commission exercises retail jurisdiction. Since Transource Missouri will not have retail customers, or own or operate any generating units and associated facilities, the waiver has no effect on its Missouri operations or rates.

36. The filing of depreciation studies by public utilities under 4 CSR 240-3.175 is governed by Section (1)(B)(1) which references “the tariffs on file with the commission.” Transource Missouri will not have any tariffs on file with the Commission. Depreciation studies do not directly relate to safe and adequate service. However, to the extent they may relate to rates, Transource Missouri has agreed to provide Staff and OPC with depreciation studies that it files at FERC and any underlying data that supports the studies.

4. Transactions.

a. Generally.

i. Who Funds the Projects?

37. If the Commission approves the Stipulation, the Projects would be financed through a combination of debt issued by Transource Missouri and equity contributed by its parent Transource. Transource, in turn, will receive equity contributions by its two members, AEP Transmission Holding Company, LLC and GPE Transmission Holding Company LLC, who are wholly owned subsidiaries of AEP and GPE, respectively. Transource Missouri will recover the Projects’ full annual transmission revenue requirement from amounts paid by SPP transmission customers pursuant to the SPP Tariff Schedule 11.

ii. Whose Employees Build the Projects?

38. If the Commission approves the Stipulation, the Projects would be built by the employees of firms hired by Transource Missouri, which will include KCP&L, AEP, and third-party contracting firms.

iii. How Will Missouri Ratepayers be Made Whole?

39. Assuming that the Commission's reference to "Missouri Ratepayers" means the ratepayers of KCP&L and GMO, any work on the Projects provided by KCP&L employees will be paid for by Transource Missouri under the terms of the Stipulation and its provisions relating to the application of the Affiliate Transactions Rule.

40. Those provisions are discussed in detail below, but provide in part that Transource Missouri will pay GMO the higher of \$5.9 million or net book value for transferred transmission assets, easements, and rights-of-way previously reflected in the retail rates of KCP&L and GMO customers (Stipulation Paragraph 7). GMO will establish a regulatory liability reflecting the amount collected in retail customer rates for the transferred property from the date of the novation or transfer of the costs of the Projects until new GMO rates are established (Stipulation Paragraph 24). Additionally, KCP&L and GMO have agreed to book a regulatory liability reflecting the value of the \$5.9 million payment to the extent it exceeds net book value, and to amortize such regulatory liability over three years beginning with the effective dates of new rates in KCP&L's and GMO's next retail rate cases (Stipulation Paragraph 7). Again, this payment is part of a comprehensive settlement that represents a balancing and compromise of the interests and positions of the Signatories.

41. Paragraphs 1 and 2 of the Stipulation also provide that charges to KCP&L and GMO ratepayers for the Projects will reflect the Stipulation Treatments. In other words, KCP&L and GMO will forego charging Missouri retail customers for FERC-authorized ratemaking

treatments for the Projects' facilities located in their respective service territories that Transource Missouri has been granted for the Projects.

- b. Non-Project Costs. Paragraph 6 of the Stipulation provides that Transource Missouri, LLC and related entities will pay KCP&L and GMO for non-Project goods and services at fully distributed costs plus a 20% markup. As between ratepayers and shareholders, who receives the payment for the:**

- i. Actual Costs.**

42. Non-Project costs are the costs for goods and services that have already been provided and are to be provided to Transource, Transource Missouri, and GPE. The costs include the costs of certain KCP&L and GMO employees that have already provided, and continue to provide services to Transource, Transource Missouri, and GPE. The fully distributed costs that KCP&L or GMO incur will be reflected on their books along with a credit for the payment received from Transource, Transource Missouri, and GPE. Therefore, after accounting for those costs and credits, neither shareholders nor ratepayers will incur a cost.

- ii. 20% Markup.**

43. The 20% markup for which no offsetting cost will be incurred will be reflected as a credit on the books of KCP&L or GMO with the fully distributed costs to reflect payments received from Transource, Transource Missouri, and GPE. To the extent that KCP&L or GMO provides such goods and services, the payment of the 20% markup by Transource Missouri to KCP&L and GMO will be reflected in the retail cost of service when rates are determined in future rate cases of KCP&L and GMO.

- c. **Project Costs.** Paragraph 5 of the Stipulation provides that Transource Missouri, LLC and related entities will pay KCP&L and GMO for Project goods and services at fully distributed cost with no mention of a 20% markup. Does this mean that the regulated utilities provide materials and services (paid for by ratepayers) to Transource at cost?

44. Yes.¹⁷ KCP&L and GMO will provide materials and services to Transource Missouri at cost, prior to novation or transfer of the cost of the Projects to Transource Missouri. Upon approval of the Applications by the Commission and the novation of the NTCs, Transource Missouri would reimburse KCP&L and GMO for these materials and services. Because these costs will be paid by Transource Missouri, there is no expected impact on rates paid by KCP&L and GMO ratepayers. Paragraph 5 of the Stipulation provides that the entity providing the goods and services (including AFUDC and capitalized property taxes) will be compensated “at its fully distributed cost at the time of transfer of the cost of the Projects.” As noted above, Transource Missouri has agreed to pay GMO the higher of \$5.9 million or net book value of transferred property to Transource Missouri. This \$5.9 million payment is part of a comprehensive settlement that represents a balancing and compromise of the interests.

i. **If not, please explain.**

45. Not applicable.

ii. **If so, how is it in the public interest to have regulated utilities provide materials and services (paid for by ratepayers) to Transource at cost?**

46. The Stipulation strikes a reasonable balance and contains numerous settlement provisions that make the Stipulation, when viewed in totality including the at-cost arrangement

¹⁷ The parenthetical phrase “(paid for by ratepayers)” adds an aspect to this question that requires additional explanation. Ratepayers will not pay for the materials and services that KCP&L and GMO provide at cost to Transource Missouri because Transource Missouri will reimburse KCP&L and GMO for these materials and services before any costs are borne by ratepayers. Because these costs will be paid by Transource Missouri, there is no impact on costs paid by ratepayers.

in Paragraph 5 for goods and services provided prior to novation or transfer of the cost of the Projects to Transource Missouri, in the public interest.

- d. **Timing of Payments.** As to both Paragraphs 5 and 6 of the Stipulation, when will these costs be paid?
 - i. **Before they are incurred?**
 - ii. **When they are incurred?**
 - iii. **After they are incurred? If after, how is it in the public interest to have the regulated utilities pay the bills up front and get reimbursed later?**

47. The costs described in Paragraph 5 and 6 will be paid for by Transource Missouri after they have been incurred.

48. Paragraph 5 of the Stipulation provides that KCP&L or GMO will be compensated “at its fully distributed cost at the time of transfer of the cost of the Projects” for materials and services (including capitalized property taxes) that either utility provides for the Projects. These costs will also include AFUDC accumulated monthly at an appropriate AFUDC rate, which will compensate KCP&L and GMO for carrying costs for the period until costs are reimbursed. However, Paragraph 5 only applies to materials and services provided by KCP&L and GMO “prior to novation or transfer of the cost of the Projects to Transource Missouri [emphasis added].” Accordingly, there will be no expected impact on future rates paid by ratepayers. Costs as defined in Paragraph 5 will be reimbursed to the utilities, which presently are constructing the Projects, at a fully distributed cost and will include carrying costs. By fully compensating the utilities for costs as defined in Paragraph 5, the public interest is not harmed. The public interest is also in part addressed by the Stipulation requiring Transource Missouri to reimburse KCP&L and GMO for direct costs (i.e., bills paid) plus carrying costs for the time period between payment and receiving reimbursement from Transource Missouri. Carrying

costs will be addressed by including the appropriate AFUDC rate in the price of assets transferred to Transource Missouri.

49. Paragraph 6 of the Stipulation provides that Transource, Transource Missouri, and GPE will pay KCP&L and GMO for non-Project goods and services at fully distributed costs plus a 20% markup. The non-Project costs that KCP&L and GMO incur in any given month will be accumulated using a fully distributed cost methodology, which will include a 20% markup and be billed to Transource, Transource Missouri, and GPE by the 15th of the following month. By including a 20% markup for KCP&L and GMO's costs as defined in Paragraph 6, the public interest is not harmed.

5. Resources.

a. Generally.

i. How would the FERC-approved rate affect Missouri rates?

50. The Signatories assume that this question refers to the FERC-approved rate, i.e., the SPP Tariff Schedule 11 for the Projects and to the Missouri retail rates approved for KCP&L and GMO. The rate adjustment described in Paragraphs 1 and 2 of the Stipulation provide that KCP&L and GMO ratepayers will pay rates that incorporate Missouri Commission revenue requirements treatments for KCP&L and GMO for the Projects' facilities located in their service territories. For a more detailed discussion see the discussion above under "A. Applicants' Burden of Proof" and "B.2. Jurisdiction: What is the Commission's Jurisdiction Over."

ii. **What Missouri rate treatment do Applicants contemplate for FERC incentives related to:**

1. **FERC-approved return on equity.**
2. **Abandoned plant, and**
3. **Other incentives?**

51. The rate adjustment described in Paragraphs 1 and 2 of the Stipulation provides that, with respect to Project facilities located in their respective certificated service territories, KCP&L and GMO ratepayers will not pay for FERC-authorized ratemaking treatments, including transmission rate incentives, that are granted to Transource Missouri for the Projects.

iii. **In Paragraph 24 of the Stipulation GMO agrees to establish a regulatory liability reflecting the amount collected in retail customer rates for the transferred property [i.e., existing transmission assets, easements and rights of way]. Why just GMO and not KCP&L?**

52. Under the Transfer Application, the only property that the Applicants requested be transferred to Transource Missouri is property of GMO.¹⁸ 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"). See In re Application of Kansas City Power & Light Co. to Transfer Certain Assets to KCP&L Greater Missouri Operations Co., File No. EO-2012-0479, Order Granting Application for Transfer of Assets at 3 (Aug. 15, 2012). 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. The remaining portion of this existing 161kV line, which connects to GMO's Alabama Substation near St. Joseph, Missouri,

¹⁸ The Applicants took the position that NTCs are not assets and thus are not subject to PSC transfer authority. Staff and OPC took the position that the NTCs are assets.

will remain the property of GMO and will not be transferred. This line will remain intact and energized at 161kV as a radial line. It will not be a part of the Iatan-Nashua Project.

53. Thus, the Applications affirm that there is no KCP&L property that will be transferred to Transource Missouri.¹⁹ The Sibley-Nebraska City Project, also located entirely within the GMO service territory, is still in the planning stage.

iv. Is Paragraph 7 of the Stipulation limited to physical transmission assets or are there other transmission assets?

54. Paragraph 7 is limited to transmission assets, but includes associated easements and rights-of-way.²⁰

b. Comparatively. The Parties shall address the inquiries in this subsection under each of the following scenarios: (A) the Commission grants the applications, and the transactions proceed as described in the Applications, as modified by the Stipulation and Agreement, and (B) the Commission denies the Applications, the transactions described in Applications do not occur, and Applicants KCP&L and GMO operate the projects themselves.

i. Does Paragraph 2 of the Stipulation keep the rates the same for Missouri ratepayers?

55. If the Stipulation is approved and the Applications are granted consistent with the terms of the Stipulation, the adjustment called for by Paragraphs 1 and 2 will prevent an increase in the rates of KCP&L and GMO ratepayers from what the FERC-authorized rates would otherwise be related to the Projects' facilities located in KCP&L's and GMO's certificated service territories due to the Stipulation Treatments.

56. The attached Chart 1 shows the scenario of the Applications being granted by the Commission and the Sibley-Nebraska City Project being built by Transource Missouri pursuant

¹⁹ Again, as noted above, the Staff and OPC took the position that the NTCs are assets.

²⁰ While the Signatories have taken different positions as to whether SPP NTCs are assets, the Signatories agree that the Stipulation is a proper settlement that balances their differing positions and that the Commission need not specifically address whether NTCs are assets..

to the Stipulation. The total amount of costs for the year is \$48.9 million. GMO's load ratio share as a transmission customer in the SPP footprint is 4%, so it pays to SPP \$1.9 million for the year in question. But \$1.9 million is not the amount that GMO's retail ratepayers remit to GMO because the \$1.9 million includes the FERC-authorized ratemaking treatments, including incentive rates. Pursuant to the Stipulation Treatments in Paragraph 2 of the Stipulation, GMO's retail ratepayers forego this increase. GPE shareholders pay the amount that constitutes the FERC-authorized ratemaking treatments, including incentive rates. The other transmission customers pay to SPP the other 96% or \$47.0 million for the year in question. SPP pays to Transource Missouri \$48.9 million to recover its costs for the year in question.

57. If the Commission denies the Applications, there is not necessarily enough information to address the Commission's question because if the Applications and thus the Stipulation are not approved, there is no agreement currently in place that would provide the same adjustments, payments, and arrangements for the costs of the Projects provided for in the Stipulation.

58. First, the Commission's question assumes that KCP&L and GMO will proceed with or operate the Projects themselves. KCP&L and GMO indicated in their case that the Commission should not make such an assumption. Even without the changes contemplated in FERC Order No. 1000, KCP&L and GMO have the option of not pursuing the Projects, for example on financial grounds, and SPP may open the Projects to others under that circumstance. The Staff in its case took issue with the position that KCP&L and GMO's pursuing the Projects on their own could have a deleterious financial effect on those companies, as compared to there being financial benefits arising from GPE partnering with AEP to build the projects.

59. Second, it cannot be said with certainty that Paragraphs 1 and 2 would keep the rates "the same" as they would be if KCP&L and GMO were to own and operate the Projects

because the Signatories do not know exactly how the rates will be set if ownership is retained by KCP&L and GMO. KCP&L and GMO maintain that if they retain ownership of the Projects and operate them, ratemaking should occur the same as under Transource Missouri ownership because under either scenario the Projects are 345-kV regional projects, not local reliability projects, and cost allocation and revenue assignment will occur according to each utility's load ratio share under SPP Tariff Schedule 11. KCP&L's Missouri load ratio share of the Projects is approximately 4% and GMO's load ratio share of the Projects is approximately 4%.

60. The attached Chart 2 shows the scenario of the Applications not being granted by the Commission and the Sibley-Nebraska City Project being built by GMO. The total amount of costs for the year remains \$48.9 million. GMO's load ratio share as a transmission customer in the SPP footprint remains 4%, so it pays to SPP \$1.9 million for the year in question. In this scenario \$1.9 million is the amount that GMO's retail ratepayers remit to GMO because there is no Stipulation whereby GMO's retail ratepayers forego the FERC-authorized ratemaking treatments, including incentive rates. The other transmission customers pay to SPP the other 96% or \$47.0 million for the year in question. SPP pays to GMO \$48.9 million to recover its costs for the year in question.²¹

61. The Staff filed a ratemaking methodology premised on rate-basing the entire investment in the Projects to GMO and full revenue crediting to GMO, which the Applicants contend is only appropriate for facilities built to serve native load under SPP Tariff Schedule 9. OPC filed testimony with a similar position regarding the rate-basing of future transmission investments made by Transource Missouri. The Projects will be served under SPP Tariff Schedule 11. Section 3.1 in the Agreement For The Provision Of Transmission Service To

²¹ OPC does not agree with all of the ratemaking and FERC/state jurisdictional assumptions that underlie the analysis contained in Chart 2, but does acknowledge this chart represents one possible scenario for future ratemaking treatment.

Missouri Bundled Retail Load in Case No. EO-2006-0142 and Case No. EO-2009-0179 Section

3.1 states in part:

. . . KCPL [and GMO] shall not pay the rate set forth in Schedule 9 of the SPP OATT for using its own facilities to serve its Missouri Bundled Retail Load, but will include Missouri Bundled Retail Load in the total retail load used to calculate the zonal rate for the KCPL [and GMO] zone. . . .

Section 3.3 states in part:

Except as otherwise provided in Sections 3.1 and 3.2, KCPL [and GMO] shall be subject to and shall pay to SPP all applicable SPP OATT charges associated with the Network Integration Transmission Service taken by KCPL [and GMO] to serve Missouri Bundled Retail Load. Such charges include, but are not limited to . . . Schedules 1A, 4 (to the extent Schedule 4 reflects the energy costs associated with SPP's Energy Imbalance Services market), 11, and 12 of the SPP OATT.

62. As indicated in Staff Counsel's opening statement at the hearing on April 16, 2013, the Staff Counsel's Office obtained a clearer understanding of the Applicants' ratemaking rationale with the filing of the Applicants' surrebuttal testimony on March 6, 2013 and thereafter as a consequence further considered the legal basis of the Staff's ratemaking position.

63. The Signatories explicitly considered this ratemaking issue, and the Stipulation is a compromise of their views on rate impact issues. As previously noted in the discussions of "Burden of Proof" and "Jurisdiction," Paragraphs 1 and 2 of the Stipulation provide that the Missouri ratepayers of KCP&L and GMO will pay rates that substitute Commission rate treatments for FERC rate treatments for the costs of the Projects' facilities located in their respective service territories. This is achieved by KCP&L and GMO agreeing to the adjustment in future rate proceedings, and is similar to adjustments approved in recent Commission decisions relating to membership in RTOs / ISOs as noted above. Accordingly, while not knowing in advance with legal certainty what rates would be paid by Missouri customers if KCP&L and GMO were to retain ownership, the Signatories have each considered this issue in arriving at the terms of the Stipulation.

ii. **Does the Stipulation provide that profits from operating the Projects benefit ratepayers of KCP&L and GMO by offsetting rates or otherwise? Would the answer be different if Transource built and operated the Projects without KCP&L and GMO?**

64. See the immediately preceding answer. While the Stipulation does not address “profits,” if Transource Missouri built and operated the Projects without KCP&L and GMO, there would be no agreement in place like the Stipulation that addresses rate adjustments, the payment of sums, or other requirements that are contained in the Stipulation. Therefore, the answer would be different.

iii. **How do dollars, personnel and other resources flow among:**

1. **Applicants.**
2. **Applicants’ (a) related entities listed in the Applications, (b) investors, (c) transmission customers, and (d) retail customers.**
3. **Southwest Power Pool.**
4. **SPP’s (a) members and (b) customers.**

65. Transource Missouri would obtain financing through debt and equity to build the Projects. As explained above, it will issue debt and will obtain equity contributions from its parent Transource, which will obtain equity contributions from its two members, AEP Transmission Holding Company, LLC and GPE Transmission Holding Company LLC, who are wholly-owned subsidiaries of AEP and GPE.

66. Transource Missouri would use personnel from KCP&L, AEP, and third-parties to build the Projects. Payment for the use of KCP&L personnel will be subject to the Stipulation’s provisions concerning the Affiliate Transactions Rule.

67. Through its Tariff, SPP will collect from its transmission customers (which include KCP&L and GMO) the full annual transmission revenue requirement of the Projects on a

load-ratio share basis across the SPP region. Transmission customers will take service under the terms of the SPP Tariff Schedule 11. KCP&L's Missouri operations and GMO are each responsible for a load-ratio share of approximately 4% of the costs of the Projects, which KCP&L and GMO, as transmission customers, pay to SPP. SPP pays Transource Missouri its FERC determined annual revenue requirement.

68. While KCP&L's Missouri operations and GMO will each be charged a load-ratio share of approximately 4% of such costs under the SPP Tariff, if the Stipulation is approved, there would be an adjustment to the rates that KCP&L and GMO collect from their retail customers under Paragraphs 1 and 2 for the Projects. Under those paragraphs, KCP&L's and GMO's retail customers would not pay for any FERC-authorized ratemaking treatment, including transmission rate incentives, granted to Transource Missouri for the Projects' facilities located in KCP&L's and GMO's respective service territories. GPE shareholders will bear any difference between what is collected from KCP&L's and GMO's retail customers and what is to be paid to SPP by KCP&L and GMO. The wholesale rate is never affected because the wholesale rate is paid in full by KCP&L and GMO, although the wholesale rate is not paid in full by KCP&L's and GMO's retail customers for the Projects' facilities located in their respective certificated service territories.

69. If the Stipulation is not approved, and KCP&L or GMO builds the Projects, there is no agreement currently in place that would require the same adjustment for the FERC-authorized ratemaking treatments, including transmission rate incentives, granted by FERC to Transource Missouri for the Projects or that would require the other financial payments in the Stipulation.

Respectfully submitted,

/s/ Karl Zobrist

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing Joint Memorandum in Support of the Stipulation have been transmitted electronically to all counsel of record this 6th day of June, 2013.

/s/ Lisa A. Gilbreath_____