

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of an Investigation into	)	
Southwest Power Pool Cost Allocation	)	File No. EO-2011-0134
and Cost Overruns	)	

*COMMENTS 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, the “Companies”) hereby submit comments in response to the Investigation into Southwest Power Pool (“SPP”) Cost Allocations and Cost Overruns (“Investigation”) initiated by the Missouri Public Service Commission (“MPSC” or “Commission”) in the above-captioned docket.¹ The Commission has requested comments by February 4, 2011 from interested parties regarding “the issue of how SPP selects projects to be built, including the issue of cost estimates and cost-benefits analysis.”² The Companies respectfully request that the Commission consider these comments prior to completing its Investigation. In support hereof, the Companies offer the following comments regarding the SPP (i) process for project selection and (ii) cost-benefit analysis.

KCP&L and GMO emphasize that they support the Commission’s efforts to establish a closer link between cost estimates and transmission planning to improve regional transmission planning and cost allocation in the SPP Region. The Companies believe that it is necessary to enhance the existing transmission planning processes. Thus, the Companies appreciate the opportunity to provide these comments.

¹ *In the Matter of an Investigation into Southwest Power Pool Cost Allocation and Cost Overruns*, File No. EO-2011-0134, issued Nov. 23, 2010 (“November 23 Order” or “Investigation”).

² *Id.* at p. 5 (ordering paragraph 7). The Commission also had requested comments regarding potential construction cost overruns and novations to be submitted no later than December 31, 2010. *Id.* (ordering paragraph 6). KCP&L and GMO submitted comments addressing these issues as well as the topic of cost estimates on December 31, 2010.

A. SPP's Process for Project Selection

As the Transmission Provider for the SPP Region, and in compliance with Order No. 890,³ SPP develops transmission plans that meet a wide spectrum of energy and capacity needs necessary for the reliable and economic operation of the bulk electric system. New generation must be provided the necessary transmission capacity and transmission service in order to deliver electrical energy to loads, reliability criteria must be maintained for the bulk electric system to withstand contingencies, and emerging energy markets must be enabled in order to derive additional market and trade benefits.

SPP over the past two years has begun developing a broader range of transmission planning characterized by extended planning time horizons and the identification of transmission projects that provide additional benefits to the region. To achieve goals broader than system reliability, SPP worked to develop transmission project proposals to improve generation and trade efficiencies, reduce transmission congestion, reduce system losses and enable large-scale renewable generation to meet renewable targets or mandates that several member-states have established.

In 2009, SPP developed and approved a group of seven (7) separate 345kV transmission projects, termed the Balanced Portfolio, that were identified as providing a number of benefits to the region. The project set totaled approximately \$770 million in initially estimated construction costs⁴ and was projected to achieve benefits of \$1.28 billion over 10 years. Benefits derived

³ *Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, FERC Stats. & Regs. ¶ 31,241, *order on reh'g*, Order No. 890-A, FERC Stats. & Regs. ¶ 31,261 (2007), *order on reh'g and clarification*, Order No. 890-B, 123 FERC ¶ 61,299 (2008), *order on reh'g and clarification*, Order No. 890-C, 126 FERC ¶ 61,228, *order on clarification*, Order No. 890-D, 129 FERC ¶ 61,126 (2009) ("Order No. 890").

⁴ Figures for initial investments have been adjusted recently to reflect updated projected construction costs of over \$800 million.

were generation production cost reductions due to reduced transmission congestion and cost savings from deferral or displacement of projects that otherwise would be needed for reliability.

In 2010, SPP developed and approved a group of six (6) separate 345kV transmission projects, termed Priority Projects, that were identified as providing a wide range of regional benefits. The project set totaled approximately \$1.1 billion in initially estimated construction costs⁵ and was projected to achieve benefits of \$2.3 billion over 40 years. Benefits to be derived include lower adjusted production costs, favorable gas price changes, wind revenue impacts, reduced losses, and cost savings from deferral or displacement of projects that otherwise would be needed for reliability.

SPP's process for selection of transmission projects within the Balanced Portfolio and the Priority Projects list contained fundamental objectives that helped define the scope of project sets:

- a. Realize favorable benefit-to-cost ratios for the region;
- b. Spread benefits broadly among the transmission zones to create a high degree of balance;
- c. Identify and reduce significant congestion in constraint areas;
- d. Improve interconnections between East to West for enabling large-scale wind resources;
- e. Identify cost-effective solutions to meet governmental requirements in the areas of system reliability and renewable generation targets; and
- f. Consider both the short-term and long-term needs of the bulk electric system in light of anticipated future generation resources, demand, energy efficiency, fuel prices, environmental requirements, and other governmental regulations.

⁵ Figures for initial investments have been adjusted recently to reflect updated projected construction costs of approximately \$1.4 billion.

SPP solicited the individual stakeholders within SPP in order to provide a “starting ground” set of projects to consider. Because Transmission Owners have traditionally developed individual transmission plans for each zone meeting their own set of planning requirements, projects within those zonal plans—particularly the potential long-term projects—were submitted to SPP for economic analysis. Additionally, other projects—particularly those that may provide additional value for enabling the advanced energy market or large-scale wind resources—were submitted as projects that may provide strong economic benefits to the region. These transmission plans were collected, screened and analyzed by SPP utilizing the previously noted criteria in order to identify a subset of regionally beneficial projects that could be proposed as a portfolio of projects. This process was executed over an extended period of months in which stakeholders were involved within the SPP working groups and committees in order to help support SPP’s efforts to develop these project portfolios. SPP also held several public workshops where stakeholders and others could discuss the proposed project sets, modeling assumptions, analytical results, project costs and benefits.

KCP&L and GMO along with other SPP members supported these efforts with participation in the stakeholder process and public workshops in order to provide input and critical feedback to SPP. For instance, there were significant discussions with stakeholders within the Cost Allocation Working Group during the Balanced Portfolio development in order to strengthen the cost-benefit analysis. The Markets and Operations Policy Committee, a full membership representation committee, met and discussed the projects within both the Balanced Portfolio and Priority Projects at the scheduled quarterly meetings. These discussions included evaluation of specific projects, modeling input and analysis assumptions, alternative project proposals, project costs, individual project benefits, overall portfolio benefits, and benefit to cost

ratios. Throughout these stakeholder meetings and SPP's efforts to develop project sets, there were numerous avenues for members and stakeholders to provide input and raise concerns. The development of these economic-based project sets required more input opportunities and additional attention to detail by members than may have been used in past reliability-based planning. SPP increased its transparency for these efforts with additional forums such as the workshops, and many of the working groups and committees took on the additional responsibility for reviewing and providing input for these project sets as they were developed.

During these planning efforts, the process of selecting a project applied the dual tests of whether each project brought value to the region on its own and whether it brought value to the region as a component of a portfolio. Projects were excluded due to insufficient benefit-to-cost ratios or lack of cost-effectiveness either at the individual screening stage or as a component of a larger portfolio. Still others were rejected for having too narrow a range of benefiting members. In the case of Priority Projects, over 100 individual projects were considered.

A key problem that hampered development of both the Balanced Portfolio and the Priority Project lists is that the project selection analyses were being conducted even as the methodologies and analytical tests for selecting those projects were being developed. Parties who wanted rapid development of the project list to spur needed transmission solutions felt that the process was slowed inordinately as the analytical process was developed, while others were concerned that the process moved too fast in absence of a previously established analytical framework. The studies that did result in both sets of projects were the product of a tremendous effort on the part of SPP Staff and key committees such as the Economic Studies Working Group ("ESWG") and the Cost Allocation Working Group ("CAWG"). The latter committee

performed a critical role, especially early in the process, in identifying important problems and formulating methods to address those problems.

With the approval during 2010 of new planning provisions in SPP's Open Access Transmission Tariff, the continuing development of the capabilities of both the ESWG and the SPP Staff, and the creation of written policies and procedures such as the Transmission Network Economic Modeling and Methods Manual, SPP is better positioned for conducting these studies in the future than it was when the Balanced Portfolio process began several years ago. KCP&L and GMO will advocate for continued improvement and advancement in SPP's planning capabilities. Through membership on the RSC and CAWG and through informal participation on the ESWG, the Commission and Commission Staff can also continue to provide constructive feedback to the SPP Staff and stakeholder efforts, as it has in recent years.

B. Cost-Benefit Analysis

SPP performed considerable analysis in evaluating project costs and benefits in order to identify top performing projects. These efforts were instrumental in determining whether high-cost projects such as a lengthy, high voltage transmission line could provide sufficient long-term benefits to the region or, on the opposite side of the spectrum, a low-cost project such as a high voltage impedance reactor could provide significant regional benefits.

(1) Benefits

SPP utilized readily available modeling techniques to analyze production and trade benefits for specific transmission projects. These models utilize production cost analytics for generating units, fuel costs, heat rates and load forecasts. Modeling runs provide total overall production cost estimates while adhering to transmission system limits, given a base case and change case in which the change case considers additional resources and infrastructure.

While these models require a substantial amount of forecast data including generator characteristics, fuel prices, and system loads, they are nonetheless a common component of long-range planning for utilities and RTOs. During the Balanced Portfolio and Priority Projects studies, SPP member utilities were requested to review many of these fundamental modeling inputs so that the models could be developed with the most accurate and consistent level of detail necessary to perform regional studies. KCP&L and GMO provided this review as did the other members, and these inputs were reviewed by the respective working groups such as the ESWG and the CAWG in order to help SPP Staff produce valid results.

Additional benefits were projected stemming from large-scale wind integration, gas price market responses, reduced losses and reliability impacts that defer additional transmission elements. SPP Staff, SPP members and additional consulting expertise worked together to develop these benefit definitions and values in order to better represent and capture the value of the transmission system. KCP&L and GMO and many other members supported these efforts to help identify additional value and benefits beyond only improved production and trade benefits. SPP is continuing to pursue identifying and quantifying a more comprehensive set of benefits that the transmission system provides for future transmission planning efforts—evidenced as recently as the Integrated Transmission Planning (“ITP”) efforts.

In the case of Priority Projects, SPP also worked with consulting experts to help identify what were considered qualitative benefits from the additional transmission projects. These included economic development resulting in jobs, goods/services, and taxes as well as benefits from operation of additional wind resources which would be enabled. While these represent non-traditional benefits as compared to typical cost justification studies, they do provide a broader measure of the collective impacts to the region as a whole for these projects.

As described above, substantial progress has been made by SPP in developing metrics for assessing project benefits. The ESWG and other stakeholder groups should continue to work with the SPP Staff in this effort to develop metrics for application in SPP's new ITP process.

(2) Costs

Project costs were developed by the Transmission Owners for those projects which were evaluated for possible inclusion in the plan. The Transmission Owner that would be assigned each project under the SPP Tariff developed preliminary, high-level project cost estimates. These cost estimates were used by SPP in conjunction with total project and portfolio benefits to calculate benefit-cost ratios. These helped directly shape the final project set based on each project's benefit-cost level.

During the process of finalizing transmission project costs for the Priority Projects, it has become clear that additional improvements are needed concerning SPP's process for the establishment and use of project cost estimates and the their use for cost-benefit studies. Currently, SPP Staff and the various working groups and committees are addressing these cost estimate concerns in order to strengthen these processes to ensure that cost estimates are robust enough to support project selection decisions. KCP&L and GMO are actively supporting these efforts and participating in the SPP stakeholder process.

On the topic of cost estimation for SPP planning and system development, KCP&L and GMO submitted comments in this docket on December 31, 2010 that address this issue.

WHEREFORE, KCP&L and GMO respectfully request that the Commission consider the comments stated in this filing.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been hand-delivered, emailed or mailed, postage prepaid, this 8th day of February, 2010, to all counsel of record.

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