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Witness:	Erin L. Maloney
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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION

REBUTTAL TESTIMONY

OF

ERIN L. MALONEY

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

CASE NOs. EO-2012-0135 and EO-2012-0136

Jefferson City, Missouri
March 2013

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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

AFFIDAVIT OF ERIN L. MALONEY

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Erin L. Maloney, of lawful age, on her oath states: that she has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 21 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true to the best of her knowledge and belief.

Erin L. Maloney

Subscribed and sworn to before me this 7th day of March, 2013.

SUSAN L. SUNDERMEYER
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: October 03, 2014
Commission Number: 10942086

Notary Public

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CASE NO. EO-2012-0135 and EO-2012-0136

Q. Please state your name and business address.

A. My name is Erin Maloney. My business address is 200 Madison Street, Jefferson City, Missouri 65101.

Q. Who is your employer and in what capacity are you employed?

A. I am employed by the Missouri Public Service Commission ("the Commission") as a Utility Engineering Specialist III.

Q. Can you provide your qualifications to testify as an expert in this case?

A. Yes. During my tenure at the Commission I have prepared expert testimony or otherwise directly participated in Commission cases involving the areas of reliability, wholesale energy markets, system losses, jurisdictional demand and energy allocation, fuel prices, tariff review, asset transfers, and consumer complaints. I developed a program for cost-based allocation of production dollars between the KCP&L Greater Missouri Operations Company ("GMO") rate districts GMO-MPS and GMO L&P. I have provided purchased power prices for Staff's production cost fuel modeling in every electric utility rate case before the Commission since 2008. In addition, since 2005, I have been the Staff expert charged with maintaining a database which contains the electric utility generating reporting data required by 4 CSR-240-3.190. This is a rich source of empirical information containing

monthly actual data for all of the investor-owned electric utilities in Missouri which includes generating unit outages, net system input (native electric load), generation by unit, and purchases and sales of electricity. A complete list of my filed testimony and other credentials is attached to this testimony as ELM-1.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is twofold:

- Provide Staff's recommendation in File No. EO-2012-0135, In the Matter of the Application of Kansas City Power & Light Company for Authority to Transfer Functional Control of Certain Transmission Assets to Southwest Power Pool, Inc. and File No. EO-2012-0136, In the Matter of the Application of KCP&L Greater Missouri Operations Company for Authority to Transfer Functional Control of Certain Transmission Assets to the Southwest Power Pool, Inc.
- Provide Staff's findings and conclusions regarding the September 30, 2011, Interim Report submitted In Accordance with Stipulation and Agreements ("Report") by KCP&L and GMO in File Nos. EO-2006-0142 and EO-2009-0179 respecting the benefits and costs related to participation in Southwest Power Pool Regional Inc. Transmission Organization("SPP RTO" or "SPP").

Q. Can you provide background information that would aid the Commission in more fully understanding the events that led up to the current cases?

A. Yes. On September 30, 2011, Kansas City Power & Light Company ("KCP&L") submitted a cover pleading, Submission of Interim Report Regarding Participation in Southwest Power Pool, in File No. EO-2006-0142 with a Report comparing the benefits and costs of continued participation in the SPP. On the same date, GMO submitted an identical cover pleading and Report in File No. EO-2009-0179. Shortly thereafter, on November 1, 2011, the Commission opened the current File Nos. EO-2012-0135 and EO-2012-0136 to consider KCP&L's and GMO's (collectively referenced as the "Companies") pleadings. After applications were filed, the Commission granted intervention in File Nos. EO-2012-0135 and EO-2012-0136 to Interveners: SPP; Dogwood Energy, LLC;

and the Empire District Electric Company. On January 17, 2013, the Commission issued an order consolidating Files Nos. EO-2012-0135 and EO-2012-0136, and adopted the jointly proposed procedural schedule.

Q. Can you provide further background information regarding the earlier File Nos. EO-2006-0142 and EO-2009-0179 (collectively referred to as the "Prior Files") that would be helpful to the Commission?

A. Yes. The Companies were granted authority to transfer functional control of certain transmission assets to the SPP RTO by Commission Order in the Prior Files.[1] The approved Stipulations and Agreements reached in the Prior Files are attached to the Companies' Report as Attachment L and Attachment M.

Q. What reporting was required from the Companies in the Stipulations and Agreements regarding the costs and benefits of the Companies SPP RTO membership?

A. The Stipulations require the Companies to file a pleading accompanied by a study comparing the costs and estimated benefits of participation in the SPP RTO during a recent twelve-month test period.

Q. What is the SPP RTO?

A. The SPP RTO is a Federal Energy Regulatory Commission ("FERC") approved Regional Transmission Organization ("RTO"). The SPP is an Arkansas non-profit corporation that currently has 61 members in nine states who serve more than 6 million households in a 370,000 square-mile area. SPP's members include investor-owned utilities, municipal systems, generation and transmission cooperatives, four state agencies, independent power producers, power marketers and independent transmission companies. As an RTO,

[1] File No. EO-2006-0142, July 13, 2006, Order Granting Motion for Clarification, and Amended Order Approving Stipulation and Agreement, File No. EO-2009-0179, February 4, 2009, Order Approving Stipulation and Agreement.

SPP currently administers transmission service over 48,874 miles of transmission lines covering portions of Arkansas, Kansas, Louisiana, Missouri, Nebraska, New Mexico, Oklahoma, and Texas. The SPP had approximately two-hundred employees in 2006 and currently employees close to six hundred.[2] An RTO is a regional transmission provider that has been approved by the Federal Energy Regulatory Commission ("FERC") as meeting the conditions of FERC Order No. 2000.[3]

Q. What issues are involved in this consolidated proceeding?

A. This case involves a complex history of state and federal regulation affected most recently by FERC Order No. 1000. The key issue here is whether or not it is detrimental to the public interest to allow the Companies to continue to transfer control of certain transmission assets to the SPP RTO.

Q. What has been the history with this Commission regarding RTO membership?

A. This Commission has granted conditioned authority for all of the Missouri investor-owned regulated electric utilities to participate in RTOs; KCP&L and GMO are currently authorized to participate in the SPP RTO as indicated. The Empire District Electric Company was conditionally authorized to participate in the SPP[4] and currently has filed a request for this Commission's authority to continue to participate in the SPP.[5] Most recently this Commission authorized Union Electric Company d/b/a Ameren Missouri's continued participation in the Midwest Independent Transmission System Operator, Inc. ("MISO").[6]

[2] http://www.spp.org/publications/Intro_to_SPP.pdf
[3] FERC Order No. 2000 specifies among other things that an RTO must include functionality related to; tariff administration and design, congestion management, parallel path flow resolutions, ancillary services, Open Access Same-Time Information System ("OASIS"), total transmission capacity ("TTC") and available transmission capacity ("ATC"), market monitoring, transmission planning and expansion, and finally interregional coordination.
[4] Case No. EO-2006-0141.
[5] File No. EO-2012-0269.
[6] File No. EO-2011-0128. (MISO gained FERC status as an RTO on 12/1/2001)

Staff witness Michael Stahlman's Rebuttal Testimony provides a more complete history of these cases and the Service Agreements where the Commission granted conditioned authority for the Missouri investor-owned Commission regulated electric utilities to participate in an RTO.

Q. Please describe Staff's review related to the Companies' continued participation in the SPP RTO and whether that participation is detrimental to the public interest?

A. A number of provisions were included in the Stipulation and Agreements approved by Commission Orders in the Prior Files which provided guidance in tracking the benefits and costs of SPP RTO participation. These included a requirement for a cost-benefit study to be performed as well as tracking of such things as SPP administrative fees, SPP geographic function and scope, joint operating ("Seams") agreements being in place between the SPP and connecting transmission providers, cost allocation for transmission upgrades, and finally, costs for future transmission upgrades.

Q. How have you arranged your testimony in order to provide Staff's review of these issues?

A. First, I will discuss the expected benefits of RTOs and then I will focus on the specifics of this case as presented in the Companies' September 30, 2011 Report.

Q. What are the expected benefits of RTO participation?

A. From a national perspective[7], RTOs are expected to provide regional transmission pricing, improved congestion management of the grid, more accurate available transmission capacity ("ATC") calculations, more effective management of parallel path

[7] 89 FERC ¶ 61,285, 18 CFR Part 35 [Docket No. RM99-2-000; FERC Order No. 2000] Regional Transmission Organizations, footnote 99, page 71, (Issued December 20, 1999).

flows, and reduced transaction costs. All of these items have associated benefits and costs. Therefore, it is necessary to further qualify the question of RTO benefits to include the perspective of the prospective beneficiary.

Q. In what manner did the Companies address the question of reviewing and verifying the benefits and costs of RTO membership related specifically to the Companies?

A. The Companies utilized existing studies where available and developed estimates internally for additional components of the analysis. The Companies agreed to collaborate with the Staff and the Office of Public Counsel ("OPC") regarding issues that either party may consider to be critical to a proper cost-benefit analysis of SPP membership. This collaboration led to the development of the outline attached to the Companies' Report as attachment A[8] . The issues included in the outline are reliability services, energy markets, transmission upgrades, SPP exit fees and administrative costs.

Q. Beginning with reliability services, can you discuss the Companies' reported results and Staff's observations and conclusions?

A. Yes. The Companies analysis breaks reliability services into two categories: reliability coordination and reserve sharing. Reliability coordination refers to the actions that are needed to maintain real time supply and demand of electricity as well as ensuring that correct voltage and frequency levels are maintained on the electric grid. To estimate the value of reliability coordination, the Companies rely on a cost benefit analysis performed by CRA International.[9] The underlying assumption is that "it would take additional personnel and

[8] Case No. E0-2006-0142, September 30, 1011, Report, Attachment A.
[9] September 30, 2011, Report, Attachment D, RTO Cost-Benefit Analysis, Aquila Missouri Electric Utility Operations, Prepared by CRA International, March 28, 2007, pages 40-42.

computer systems in order to effectively plan and operate the bulk electric system with sufficient reliability on a stand-alone basis."[10]

Q. What is reserve sharing and how do the Companies quantify this benefit in their analysis?

A. Generation reserves refers to generation capacity that is either "spinning", a turbine that is already turning at the grid frequency and ready to dispatch at a moment's notice, or available generation capacity that has a "quick start" capability . In a stand-alone mode, each utility would be required to have sufficient generation capacity held in reserve to meet certain National Electric Reliability Corporation standards.[11] The reserve sharing support is quantified by the Companies as the average cost of transmission services for reserve sharing efforts over a certain time period plus an annual fee assessed by the SPP to external participants in the reserve sharing group.[12] The Companies' analysis quantifies an annual benefit to the Companies from RTO membership resulting from reliability coordination of approximately one million dollars.

Q. Does Staff agree that reliability coordination services are an approximate one million dollar a year benefit to the Companies as a result of SPP participation?

A. It is Staff's opinion that the Companies enjoy improved reliability from SPP participation; however, Staff does not agree with the dollar amount that the Companies have estimated for this benefit. The SPP is constantly monitoring the SPP footprint, independently anticipating grid problems and economically re-dispatching generation in response to

[10] September 30, 2011, Report, Attachment D, RTO Cost-Benefit Analysis Aquila Missouri Electric Utility Operations, page 40-42.
[11] http://www.nerc.com/ The North American Electric Reliability Corporation's ("NERC") mission is to ensure the reliability of the North American bulk power system. NERC is the electric reliability organization (ERO) certified by the Federal Energy Regulatory Commission to establish and enforce reliability standards for the bulk power system.
[12] September 30, 2011, Report, page 5

congestion loss of agenerators or other grid issues. Nonetheless, Staff is not persuaded that the Companies enjoy lower personnel costs and lower software costs as a result of SPP membership.[13] On page Q-1 of Attachment Q in the Report, it states "…*SPP RTO Balancing Zones will continue to operate their Energy Management systems and participate in Emergency Operation and restoration processes*." The fact remains that KCP&L and GMO are a Balancing Zone and as such will still have need for operators and software to participate in emergency operations and restorations processes. Because the level of staffing at the SPP has increased [14] as well as the associated SPP administrative fees, it seems to indicate that the Companies will not benefit from any monetary savings with regard to reliability coordination tasks being performed by the SPP.

Q. Please discuss the power market operations section of the Companies' Report?

A. Utility company participation in RTOs is expected to provide what is called "trade- benefits." The theory behind this assumption is that lower cost generation will be more widely available because of improved market efficiencies and better congestion management. This is expected to result in increased sales volumes for utilities that are net sellers of wholesale electricity and lower prices for utilities that are net purchasers of wholesale electricity. A good example of this is provided in a footnote on page J-44 of the Report: "*Consider a simple two-company example. Assume there is a $16 marginal cost to generate in Company A's control area and a $20 marginal cost to generate in Company B's control area and there is no trade. Now assume through a reduction in trade impediments that 1MW can be traded from A to B over the inter-tie between A and B. Company A will generate 1 MW more at a production cost of $16, while Company B will generate 1 MW less*

[13] September 30, 2011, Report, page 4.
[14] http://www.spp.org/publications/Intro_to_SPP.pdf, page 17

at a production cost savings of $20. Thus, the total saving in production cost is $4 ($20-$16). If the trade price is set at a 50/50 split savings price, Company A will receive $18, for a trade-benefit of $2, and Company B will pay $18 for a trade benefit of $2. The total trade benefits of $4 will match the total production cost savings of $4." By making assumptions regarding congestion and transmission pricing, production cost modeling can be used to estimate the trade benefits of RTO participation.

Q. How do production cost models work?

A. Production cost models take a variety of inputs and simulate operation of a utility's system. The models simulate, usually on an hourly basis, the least cost method of meeting electric demand with available resources. Some of the necessary inputs include knowledge of the generation fleet, electric demand, fuel costs, generation operating constraints, generating unit maintenance schedules, generating unit forced outage rates, capacity contract obligations, transmission constraints and wholesale purchased power prices.

Q. How did the Companies determine if they receive trade benefits as a result of SPP participation?

A. The Companies used a variety of existing studies which relied on production cost modeling to estimate trade benefits resulting from participation in the SPP Energy Imbalance Service market ("EIS").[15] In addition, the Companies performed an in-house benefit-cost analysis using their MIDAS© production cost model to estimate the trade benefits of participating in the EIS market for both KCP&L and GMO for the historical test

[15] September 30, 2011, Report, Attachment D, RTO Cost-Benefit Analysis Aquila Missouri Electric Utility Operations, CRA International March 28, 2007, ("CRA 2007 Study"); Attachment J, Southwest Power Pool Cost Benefit Analysis Performed for the SPP RTO Regional State Committee, Charles River Associates, Final Report April 23, 2005, Revised July 27, 2005, ("CRA 2005 Study").

year of 2010.[16] The Companies also relied on a study that analyzed the prospective benefits and costs of participating in the SPP Integrated Marketplace, which is scheduled to be operational in March of 2014.[17] Finally, the Companies provided a study that was done by SPP and Boston Pacific that relied solely on actual EIS market results using empirical information and calculations performed by SPP employees.[18]

Q. What does the Companies' Report list as the estimated trade benefits for KCP&L as a result of participating in the SPP EIS market?

A. Attached to the Companies' Report is a summary of the Companies' analysis entitled "Average Annual Benefits (Costs) to Kansas City Power & Light and KCP&L Greater Missouri Operations from Participation in Southwest Power Pool in Comparison to Stand-Alone Status, 2014-2017" (hereafter referred to as "Report Summary").[19] The Report Summary indicates on line item "Energy Imbalance Service" that the estimated annual benefits from KCP&L participating in the SPP EIS market range from a low of $2.157 million (CRA 2005 Study) to a high of $8.55 million (SPP/Boston Pacific).

Q. What does the Report Summary list as the estimated trade benefits for GMO as a result of participating in the SPP EIS market?

A. The Report Summary indicates on line item "Energy Imbalance Service" that the estimated annual benefits from GMO participating in the SPP EIS market range from a low of $300 thousand (CRA 2007 Study) to a high of $6.211 million (Companies' In-house Study).

[16] *Id*., Attachment N and Attachment O, Results of the Companies' in-house production cost MIDAS© model runs for KCP&L and GMO, ("Companies' In-house Study").
[17] *Id*., Attachment P, Ventyx Southwest Power Pool Cost Benefit Study for Future Market Design, Final Report, April 7, 2009 ("Ventyx 2009 Study").
[18] *Id*., Attachment K, SPP RTO, Market Monitoring Unit and External Market Advisor, Report to SPP RTO BOD, April 22,2008, "Estimate of Net Trade Benefits from EIS Market".("SPP RTO/Boston Pacific Study").
[19] File No. EO-2006-0142, Interim Report, Attachment B

Q. What are the estimated trade benefits presented in the Report for KCP&L that may result from KCP&L's participation in the future SPP Integrated Marketplace?

A. The Report Summary indicates on line item "Future Markets" that the forecasted estimated annual benefits from KCP&L participating in the future SPP Integrated Marketplace range from a low of $16.368 million (Ventyx 2009 Study) to a high of $24.667 million (Ventyx 2009 Study).

Q. What are the estimated trade benefits presented in the Report for GMO that may result from GMO's participation in the future Integrated Marketplace?

A. The Report Summary indicates on line item "Future Markets" that the forecasted estimated annual benefits from GMO participating in the future SPP Integrated Marketplace range from a low of $2.43 million (Ventyx 2009 Study) to a high of $5.64 million (Ventyx 2009 Study).

Q. What conclusions has Staff reached regarding the Companies' findings related to the benefits of the Companies' participation in the current EIS market and the future Integrated Marketplace?

A. After review of all of the analyses submitted by the Companies, Staff is most persuaded by the findings in the SPP/Boston Pacific study. This study was based on empirical data and calculated a $103 million annual trade benefit from participating in the EIS market for the entire region. The SPP /Boston Pacific study gives empirical evidence that trade benefits exists as a result of RTO participation. Moreover, SPP personnel performed a validation by using an alternate calculation with empirical data that yielded estimated annual regional trade benefits of $107 million. The production cost models used to estimate trade benefits produced similar results.

Q. How did the Companies assign the overall regional trade benefits calculated in the SPP/Boston Pacific study to KCP&L and GMO?

A. On page 7 of the Companies' Report, it is indicated that each Company's allocations of benefits were estimated by applying a peak demand weighting factor on the total SPP/Boston Pacific study estimated annual benefit of $103 million, which resulted in an $8.55 million annual benefit being allocated to KCP&L and a $4.51 million annual benefit being allocated to GMO. This allocation is based on the Companies' assumption that trade benefits are equally distributed among all SPP market participants according to a peak demand weighting factor. The allocation of costs and benefits among SPP market participants is a topic that must be included in all current and future discussions. All of the third-party analyses that the Companies relied on in their study expressed higher confidence in the trade benefits derived from the analyses at the overall SPP regional level. This is because it is not exactly known how trade benefits are split between market participants. Recall the simple example given earlier regarding trade-benefits between Company A and Company B. In this example, it is assumed that the trade benefits are split 50/50 between Company A and Company B.

Q. Does Staff have any other comments or concerns regarding the benefit-cost analyses presented by the Companies?

A. Yes. Several of the studies indicate that higher natural gas prices would increase the benefits of SPP membership. All else being equal, this would indicate that lower

natural gas prices would decrease the benefits of SPP membership.[20] In the executive summary of the SPP/Boston Pacific study, it is stated that the trade benefits estimated, $103 million SPP regional annual benefit, were approximately 20% higher than the trade benefits estimated in the CRA 2005 study, $86 million SPP regional annual benefit. The study concludes that this is primarily a result of lower natural gas prices.[21] The current natural gas prices are significantly lower than the natural gas prices utilized in the analyses relied on by the Companies. Thus, the analyses on which the Companies rely indicate that the trade benefits of SPP participation estimated in the Companies' Report will be lower because natural gas prices are currently significantly lower than the prices used in the analyses.

Q. Does Staff have concerns that the results of the production cost modeling relied on in the Companies' analyses do not reflect current economic and market conditions?

A. Yes. The models relied on data that although valid at the time of the studies, does not reflect current market conditions. In addition to the impacts of lower gas prices discussed above, market energy prices are considerable lower today than in the 2005-2010 time-frame of the studies. Lower market energy prices have the same effect on trade benefits as lower natural gas prices. This is because with a lower market energy price the margin between generation dispatch price and market energy price is smaller.

Q. What does the Report list as the projected impact of Transmission Facility Upgrades for KCP&L and GMO on the benefits of the Companies' participation in the future SPP Integrated Marketplace?

[20] September 30, 2011, Report, Attachment D, footnote 9, "A high natural gas price sensitivity analysis was performed for the year 2012, and indicated that with higher gas prices, the net benefits to Aquila from joining an RTO would increase…."; Attachment D, page D-23; Attachment P, Ventyx Study, page P-62, "In particular, estimated annual gross benefits for each Change Case would likely be reduced by an assumption of lower natural gas prices, higher coal prices, or higher carbon allowance prices."
[21] September 30, 2011, Report, Attachment K, Executive Summary

A. The Report Summary indicates a total projected annual cost to the Companies of approximately $30 million resulting from the Companies' participation in the SPP for the 2014-2017 time-frame. This estimate includes three items; the benefits of SPP transmission projects, in which the Companies expect to receive transfer payments resulting from SPP Balanced Portfolio and Priority Projects, the annual transmission revenue requirement, and the avoided costs resulting from the SPP providing transmission service for wind resources.

Q. What does the Report list as the projected impact of the SPP administrative fees if KCP&L and GMO are not a part of the SPP RTO when the Integrated Marketplace begins operation in March of 2014?

A. On the administrative cost line item, the Report Summary indicates that in order for the Companies to perform the administrative tasks as stand-alone utilities rather than those administrative tasks being performed by the SPP RTO, the Companies would experience a range of additional costs of approximately $10 million a year at the high range [22] and approximately $5.6 million a year at the low range.[23]

Q. Does Staff agree with the Companies' findings regarding the financial impact of SPP administrative fees which would occur if the Companies were stand-alone utilities in the future Integrated Marketplace?

A. Staff is persuaded that the Companies would incur additional costs as a stand-alone utility to perform the administrative functions now being performed by the SPP. Staff relies more heavily on the low range of this finding because it is based on the CRA International RTO Cost-Benefit Analysis Aquila Missouri Electric Utility Operations,

[22] September 30, 2011, Report, Attachment J, Appendix 4-3, "Costs Incurred for Provision of SPP RTO's Current Functions."
[23] September 30, 2011, Report, Attachment D, Appendix 9.2.1 "Savings from RTO Provision of Transmission Functions."

March 28, 2007, which was specifically conducted as an analysis for the Aquila Missouri utility operations.

Q. Does Staff have any concerns regarding the SPP administrative fees?

A. Yes, the SPP RTO administrative fees have risen from $0.18 per megawatt-hour of market transmission[24] in 2006 to the current $0.315 per megawatt-hour of market transmission.[25] This increase has occurred *before* the Integrated Marketplace has become operational. Staff recommends the Companies file with this Commission detailed annual explanations regarding any changes to SPP administrative fees. This recommendation is discussed in the list of conditions provided in Staff witness Michael Stahlman.

Q. What does the Report list as the projected impact on the benefits of the Companies' participation in the SPP as a result of the cost allocation review process associated with future cost responsibility being shifted in order to balance project costs and benefits under the SPP tariff?

A. On page 26 of the Report, it states, "*In order to mitigate the risk that SPP RTO members could obtain future benefits insufficient to offset the costs of installed transmission projects, SPP RTO has established specific tariff provisions in order to address such potential effects.*"[26] This is listed as a possible benefit of participation in the future SPP Integrated Marketplace in the Report Summary as a projected $2.230 million annual benefit to GMO and as a projected $5.090 million annual benefit to KCP&L.

[24] Mega-watt-hour of market transmission is energy that is being transmitted via SPP network service for SPP market participants.
[25] SPP RTO Tariff, Schedule 1A.
[26] SPP RTO Tariff, Attachment J, Section III.D, entitled "Review of Base Plan Allocation Methodology."

Q. Does Staff agree with the Companies' findings regarding the financial impact of SPP RTO cost allocation review which would occur if the Companies were stand-alone utilities in the future Integrated Marketplace?

A. The Report states on page 26, "*Obviously, the impact of such future policy changes and resulting* adjustments *cannot be determined at this time. However, a potential effect could be the implementation of adjustments to make whole those parties that have a negative net benefit resulting from the Priority Projects. Based upon the 2009 Priority Projects analysis, KCP&L has a negative net benefit present value of $65.6 million and GMO has negative net benefit present value of $28.8 million, both calculated for a 40-year projection and excluding the gas price impacts identified in the study. The negative benefits could be offset on a present value basis if KCP&L were to receive an annual transfer or annual incremental benefits of $5.1 million and GMO were to receive an annual transfer or annual incremental benefits of $2.2 million over the 40 year period. Such transfers or benefits could be affected through future cost allocation provisions or decisions regarding future project selection."* Since the Companies state the impact cannot be determined at this time, Staff concludes that the Companies' results and conclusions regarding the impact of cost allocation review on the future Integrated Marketplace cannot be relied on with any degree of certainty.

Q. Has this Commission expressed concern regarding the SPP transmission expansion projects and how the benefits and costs of those projects are being allocated?

A. Yes. In File No. EO-2011-0134, the Commission opened a case to investigate SPP Cost Allocations and Cost Overruns. In the Commission's Order opening an investigation, the Commission stated "A thorough and independent analysis of the cost versus

benefits to SPP's Missouri customers of the Priority Projects is also relevant to ensure that Missouri customers are not inappropriately subsidizing economic benefits to other SPP customers."[27]

Q. Does Staff have a recommendation regarding a cost allocation review of transmission projects?

A. Yes. Staff suggests that the Staff members of the Commission's Federal Group charged with assisting the Commissioners on transmission matters and investigating and tracking RTO issues are and will remain well aware of the timing of the allocation review process, especially in the 2015 time-frame when decisions will be made regarding regional allocation transfer payments that will go into effect in January 2016.

Q. What does the Report list as the projected impact on wholesale transactions, should KCP&L and GMO not be a part of the SPP when the Integrated Marketplace begins operation in March of 2014?

A. The Report indicates that KCP&L's and GMO's market operations would be negatively impacted if the Companies operate as stand-alone entities rather than participating in the SPP. This is indicated as an over $17.0 million avoided cost annual benefit of SPP participation under the "Additional Factors, Impact on Wholesale Transactions" line element in the Report Summary. Although there would be other associated factors, the analysis focuses on four factors in particular that impact wholesale transactions: service priority, transaction cost, price risk, and point-to-point ("PTP") transmission rates.

According to the Report, counterparties will be more likely to enter into contracts with members of an RTO as compared to stand-alone market participants. A contract made with a

[27] File No. EO-2011-0134, November 23, 2010, Order Opening An Investigation Into Southwest Power Pool Cost Allocations And Cost Overrun, page 2.

member of an RTO is more secure and thus less susceptible to curtailment should the need arise (RTO participants are given a higher priority rating at a reduced cost). Such contracts made with a member of an RTO would be more easily hedged, meaning that the market participant's price risk could be more easily managed via purchasing associated congestion rights in the Day Ahead Market, a method unavailable to non-RTO participants. Lastly, participation in an RTO should reduce the "pancaking effect" that would otherwise be experienced in utilizing various facilities of differing companies.[28]

Q. How did the Companies proceed with the analysis of this matter?

A. The Companies used their In-house production cost modeling tool MIDAS© to capture the effect of increased PTP transaction rates (wheeling charges) which may result from stand-alone operations in the future Integrated Marketplace. The wheeling rates used in the earlier In-house analysis performed by the Companies to estimate the trade benefits of the EIS market were replaced with estimated wheeling charges that would occur to non-RTO members. The Companies then proceeded to run additional production cost model simulations to isolate the effect of the new wheeling charges.

Q. Does Staff agree with the Companies' findings regarding financial impact of wholesale transactions which would occur if the Companies were stand-alone utilities in the future Integrated Marketplace?

A. No, Staff does not agree with the Companies' findings. The Report indicates on page 29 that there was "*…tremendous variation in simulation results due to uncertainty in factors such as fuel prices and unit availability, with each company's adjusted production costs varying more than $100 million between the lowest and highest cases*." Because of the large variation in the Companies' simulation results, Staff concludes that the Companies'

[28] September 30, 2011, Report, page 27-30.

results and conclusions regarding the impact of wholesale transactions in the future Integrated Marketplace cannot be relied on with any degree of certainty.

Q. Does the omission in your testimony of a topic included in the Companies' Report indicate agreement with the Companies' viewpoint on a particular topic?

A. No.

Q. There are several areas of the Companies' analyses where you indicate Staff has concerns or the analysis cannot be relied upon with any degree of certainty. Can you provide a summary of your concerns?

A. Yes. The Companies determined a range (high, low, and average) of benefits, as determined by summing the costs and benefits estimated from a number of different studies. The Companies conclude that the annual benefits to KCP&L and GMO resulting in SPP participation, compared to stand-alone status for the time period 2014-2017, range from approximately negative four million dollars (-$4,118,000) to a positive fifty million dollars (+$49,689,000) with an average annual benefit of approximately twenty-three million (+$22,766,000).

Staff did not find the evidence presented in the "Additional Factors" section of the Companies' analysis (estimated $24.591 million annual benefit) compelling. Discounting this amount from the high-range of the Companies' estimate would reduce the high range of the Companies' estimate to approximately +$25.098 million (the average annual benefit would then be approximately +$10.490 million). Interesting to note that a large percentage of the remainder of the benefits in the Companies' analysis would be the avoided costs associated with additional transmission charges that would be levied on the Companies if they were not members of the SPP and operated as stand-alone utilities (an estimated +$15.000 million

annual avoided cost).[29] The Companies have produced no evidence to show that the benefits they estimate will indeed fall at the mid-point of the estimated range of benefits presented in the study, and in fact, as is pointed out in Staff witness Michael Stahlman's Rebuttal Testimony, the results of the Companies' study are not statistically different than zero because the low range of the estimate falls below zero. Therefore the evidence presented does not support the conclusion reached in the Direct Testimony of Company Witness Charles J Locke which states that the Companies' "*analysis indicates that continued participation in SPP is likely to result in substantial benefit to the Company and its customers over the entire four-year analysis period of the study with relatively small downside risk*".

The Companies' analyses indicate that the benefits of the Companies' participation in the SPP will be reduced as a result of lower natural gas prices as referenced above. Staff concludes that the Companies' estimated trade benefits that exist as a result of participation in the SPP are lower than what has been estimated by the Companies' analyses because of current very low natural gas prices.

Another concern is the important issue of increased transmission expense that was not mentioned in the Companies' analyses. These increases in transmission expenses have and/or will occur as a result of the application of FERC Order No. 679, and 890. Any increase in transmission costs without a similar increase in transmission revenues will reduce the benefits of the Companies' participation in the SPP.

Q. Can you summarize your conclusions?

A. Staff concludes the following:

[29] September 30, 2011, Report, page 16, "Incremental Transmission Charges for Existing Resources Due to Stand-Alone Operation", derived from network transmission charges being replaced with PTP rates.

- The Companies' analyses indicate that regional trade benefits exist in the SPP RTO footprint, however the current low natural gas prices and market energy prices very likely reduce the magnitude of those estimated benefits.
- Current benefits to the Companies resulting from SPP RTO participation in the SPP EIS market largely depend on the Companies receiving SPP network transmission service for renewable resources.
- It is critical that the Companies receive a fair allocation during the SPP regional benefit and cost allocation process.
- No conclusions can be drawn regarding the benefits of participating in the future SPP Integrated Marketplace due to considerable uncertainty in future transmission pricing and uncertainty in the SPP cost-benefit allocation review process.

Q. What is Staff's recommendation regarding whether or not participation in the SPP is detrimental to the public interest?

A. Staff concludes that the Companies fulfilled the requirements of the Stipulations and Agreements as ordered in File Nos. EO-2006-0142 and EO-2009-0179 by producing a Cost/Benefit analysis of an historic test year of the Companies participation in the SPP EIS market. Although Staff has concerns with the Companies analyses as listed above, the Companies' analysis does show trade benefits exists within the SPP RTO footprint. Therefore, Staff concludes that continued participation in the SPP RTO is not detrimental to the public interest with conditions as itemized in the Rebuttal Testimony of Staff witness Michael Stahlman. Staff recommends that the Commission approve the Companies' application to continue to participate in the SPP RTO with conditions as itemized in the Rebuttal Testimony of Staff witness Michael Stahlman.

Q. Does this conclude your Rebuttal Testimony?

A. Yes.

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EUCI – Fundamentals of Electric Transmission, December 12-13, Minneapolis, Mn
2012 Illinois Seminars – Transmission Business School, June 18-21, Chicago, Il
EUCI-Electric Utility Transmission Ratemaking, December 13-14, Atlanta, Ga

Previous Testimony Filed Before the Commission

Case Number	Type of Testimony	Issue
ER-2012-0175	Staff Report	GMO Fuel Allocation
ER-2012-0174	Staff Report, Rebuttal	Purchased Power Prices, Missouri Flood AAO
ER-2012-0166	Staff Report	Fuel and Purchased Power Prices
ER-2011-0028	Rebuttal	Fuel and Purchased Power Prices
ER-2011-0028	Staff Report	Fuel and Purchased Power Prices
ER-2010-0356	Staff Report	Purchased Power Prices
ER-2010-0355	Staff Report, Surrebuttal	Purchased Power Prices

Case Number	Type of Testimony	Issue
ER-2010-0036	Staff Report, Rebuttal	Fuel and Purchased Power Prices
ER-2009-0089	Staff Report	Allocation Factor for Fuel & Purchased Power
ER-2009-0090	Staff Report	Purchased Power Prices
ER-2008-0318	Staff Report, Rebuttal, Surrebuttal	Fuel and Purchased Power Prices
ER-2008-0093	Staff Report	System Losses and Jurisdictional Demand and Energy Allocation
ER-2007-0291	Staff Report	System Losses and Jurisdictional Demand and Energy Allocation
ER-2007-0004	Direct	System Losses and Jurisdictional Demand and Energy Allocation
ER-2007-0002	Direct	System Losses and Jurisdictional Demand and Energy Allocation
ER-2006-0314	Direct, Rebuttal, Surrebuttal, True-up Direct	System Losses and Jurisdictional Demand and Energy Allocation
ER-2006-0315	Direct	System Losses and Jurisdictional Demand and Energy Allocation
ER-2005-0436	Direct	Reliability