

Exhibit No.:
Issue: American Electric Power Company, Inc.'s
Expertise and Procurement Benefits
Witness: Scott P. Moore
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Transource Missouri, LLC
Case No.: EA-2013-0098
EO-2012-0367
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EA-2013-0098 and EO-2012-0367

SURREBUTTAL TESTIMONY

OF

SCOTT P. MOORE

ON BEHALF OF

TRANSOURCE MISSOURI, LLC

March 2013

Exhibit NO. 13
File NO. EA-2013-0098

1 **Q: Please state your name and business address.**

2 A: My name is Scott P. Moore. My business address is 700 Morrison Road, Gahanna, Ohio,
3 43230.

4 **Q: Are you the same Scott P. Moore who pre-filed Direct Testimony in this matter?**

5 A: Yes, I am.

6 **Q: On whose behalf are you testifying?**

7 A: I am testifying on behalf of Transource Missouri, LLC (“Transource Missouri”).

8 **Q: What is the purpose of your Surrebuttal Testimony?**

9 A: I will respond to statements by Missouri Public Service Commission (“MPSC”) Staff
10 (“Staff”) witnesses Charles Hyneman and Alan Bax in their Rebuttal Testimony
11 concerning the benefits to the Iatan-Nashua and Sibley-Nebraska City Projects
12 (“Projects”) that result from Transource Missouri’s ownership of those Projects. I
13 provide numerous qualitative and quantitative examples of the benefits that American
14 Electric Power Company, Inc. (“AEP”) brings to the Projects in response to the assertions
15 by Staff that such examples are missing from the Applications.

16 **Q: At page 11 of his Rebuttal Testimony, Staff witness Bax states that Transource**
17 **Missouri has not “concretely identified what it can do that KCPL and GMO could**
18 **not do.” Do you agree?**

19 A: No. My Direct Testimony in this case provided several descriptions of AEP’s technical,
20 procurement, and project management abilities and how those abilities will contribute to
21 the success of Transource Energy, LLC (“Transource”) and Transource Missouri. While
22 it was not directly stated, my testimony implied that AEP’s advantages would not be

1 available to Kansas City Power & Light (“KCP&L”) and KCP&L Greater Missouri
2 Operations (“GMO”) if not for the Transource partnership.

3 **Q: Please discuss Staff witness Bax’s statement at page 11 of his Rebuttal Testimony**
4 **that Transource Missouri has neither clearly defined nor specifically quantified**
5 **synergies and potential costs savings that Transource Missouri will bring to the**
6 **Projects.**

7 A: Staff witness Bax is concerned that the Transource partnership will not bring specific
8 benefits to the Projects. I disagree. AEP’s buying power in the North American utility
9 market is expected to allow Transource to realize significant advantages in sourcing and
10 procuring the material and equipment necessary to construct the Projects. These
11 projected savings will not be realized until and unless the requests in these Applications
12 are granted.

13 **Q: Please comment on the relative size of AEP’s transmission system versus that of**
14 **KCP&L and GMO’s combined.**

15 A: AEP owns the nation’s largest electric transmission system, including a far reaching
16 network of extra-high voltage transmission lines. In terms of total transmission pole
17 miles, the system of AEP’s ten operating companies is over ten times the size of KCP&L
18 and GMO’s combined system. More specific to the Projects in this case, AEP’s system
19 has over 15 times more miles of transmission line with operating voltages of 300 kV or
20 above. Figures 1 and 2 below provide details of the size of AEP’s and KCP&L and
21 GMO’s transmission systems. Figure 1 provides details of total transmission line miles.
22 Figure 2 provides the transmission line detail by AEP and GPE operating utility.

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Figure 1 – Transmission Pole Miles

Transmission Pole Miles¹	AEP Operating Companies	GPE Operating Companies	AEP % Larger than GPE Operating Companies
Total Transmission System	35,976.53	3,427.09	1050%
Transmission Lines > 300 kV	7,155.43	448.27	1596%
¹ Source - 2011 FERC Form 1 - In the case of underground lines, circuit miles are used.			

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Figure2 – Operating Company Pole Miles

Utility Name	Pole Miles¹	Rank
Ohio Power Company	7,842.12	1
Appalachian Power Company	6,494.64	2
AEP Texas Central Company	4,243.55	3
AEP Texas North Company	4,155.13	4
Indiana Michigan Power Company	4,060.18	5
Southwestern Electric Power Company	4,020.58	6
Public Service Company of Oklahoma	3,599.58	7
Kansas City Power & Light Company	1,826.95	8
KCP&L Greater Missouri Operations Company	1,600.14	9
Kentucky Power Company	1,281.53	10
Wheeling Power Company	207.59	11
Kingsport Power Company	71.63	12
¹ Source - 2011 FERC Form 1 - In the case of underground lines, circuit miles are used.		

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As shown in Figure 2, AEP has seven individual operating companies with systems larger than GPE's operating companies' combined system. In addition to the operating companies described in Figures 1 and 2, AEP also has several transmission-only subsidiaries and joint ventures, such as AEP Ohio Transmission Company and Electric Transmission Texas, which are actively investing in transmission projects and whose assets are not included in the above totals.

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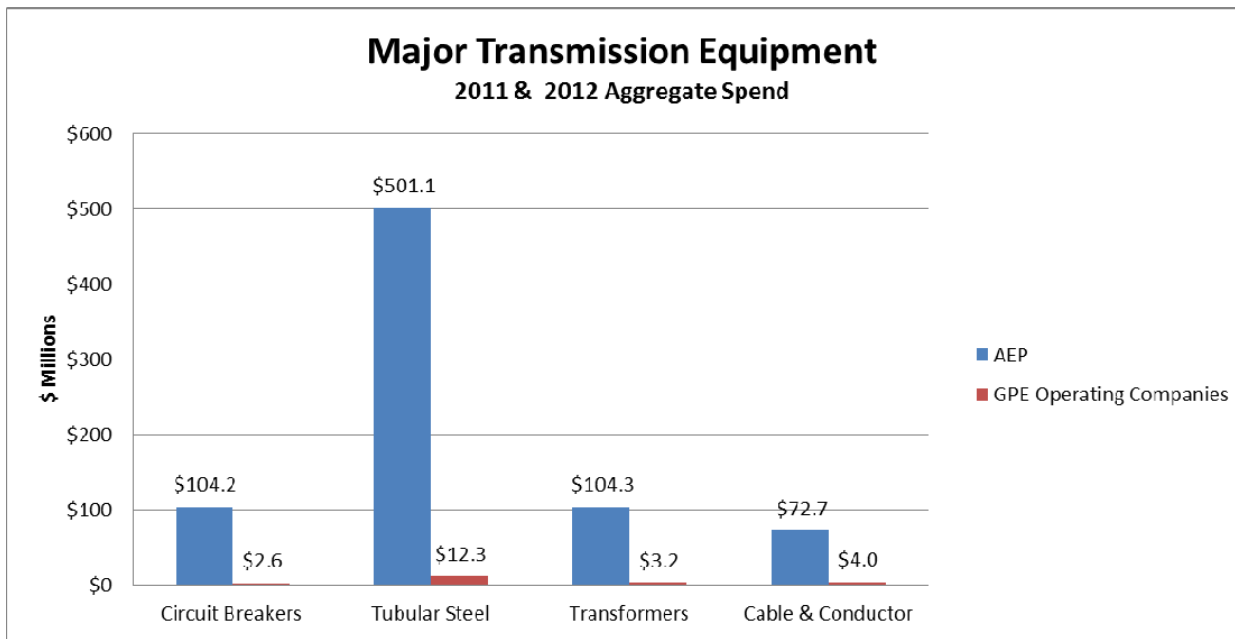
This significant difference in transmission system size translates into an equally disparate amount of transmission investment by each company. Excluding its Transource

1 investment, GPE's operating companies are currently forecasting to invest \$100 million
2 or less in transmission over the next five years. Compare that with AEP, which is
3 planning to invest approximately \$1.2 billion *each year* in its operating companies,
4 transmission companies, and other joint ventures over the same time period.

5 **Q: Do you have any specific examples of AEP's purchase volumes?**

6 A: Yes. Figure 3 below compares the aggregate spend data for 2011 and 2012 for certain
7 transmission material and equipment purchased by AEP and GPE's operating companies.

8 **Figure 3 – Major Transmission Spend Data¹**



9
10 As shown in Figure 3, AEP has spent over \$780 million in just four major categories of
11 assets over the past two years. For a frame of reference, \$780 million represents
12 approximately 192% of KCP&L's and 253% of GMO's total transmission plant in
13 service as of December 2011. These purchase volumes are expected to continue, if not
14 increase, due to AEP's continuing transmission needs as described above. Transource

¹ Values for AEP are approximate.

1 Missouri will be able to leverage AEP's purchasing volumes and lead times to secure low
2 cost contracts for the material and equipment in a timely, cost-effective manner to
3 construct the Projects.

4 **Q: Do you have any qualitative examples of the benefits that AEP will bring to**
5 **Transource Missouri in response to Mr. Bax and Mr. Hyneman?**

6 A: Yes. Due to the large volumes of materials that AEP procures on an annual basis,
7 suppliers provide very high quality service. For example, production time slots in
8 manufacturing factories for transformers and steel towers are typically reserved far into
9 the future, which results in long lead times for orders. Due to AEP's ongoing
10 relationships with many of these suppliers, when a production facility receives a
11 cancellation from another customer, AEP is one of the first customers that the supplier
12 contacts to see if we need or want the vacated production slot, which would result in an
13 accelerated delivery. AEP is not obligated to accept the offer, but if we have an
14 accelerated need in our system for the material, AEP is able to utilize this relationship to
15 receive the material much earlier than would be expected based on standard lead times
16 for materials. This can be a significant advantage that translates to construction cost
17 savings when working through compressed transmission outage schedules in a congested
18 Regional Transmission Organization marketplace.

19 **Q: Can you identify how this benefit that AEP will bring to Transource Missouri has**
20 **played out concretely for AEP in response to Mr. Bax?**

21 A: AEP recently worked with a new transmission customer that was constructing a facility
22 to interconnect with AEP's transmission system. This customer had an aggressive
23 schedule and was struggling to obtain labor resources to meet its construction schedule.

1 AEP utilized its relationship with a key labor contractor in the transmission sector to
2 identify additional labor resources that could be deployed to this project, which
3 eliminated the labor constraint affecting the project schedule.

4 Later during the same project, the customer found that it had ordered an incorrect
5 steel tower for its facility. As described above, this would typically result in a significant
6 delay as a production slot would have to be reserved in a production facility before the
7 correct tower could be manufactured and delivered. AEP used its relationship with a
8 supplier to identify an opportunity in its existing production schedule to procure a
9 replacement tower. As a result, the correct steel tower was delivered to the site within
10 two weeks of the problem being identified, again averting a significant project delay.
11 Neither of these solutions would have been possible without the relationships AEP is able
12 to maintain with key labor and material suppliers, and although neither can be precisely
13 quantified, the value they provided was undeniable.

14 **Q: Do you have any quantitative examples of the benefits that AEP will bring to**
15 **Transource Missouri in response to Mr. Bax and Mr. Hyneman?**

16 **A:** Yes. Based on my experience with numerous suppliers, AEP is generally able to
17 negotiate discounts of approximately 5% to 7% from standard pricing due to the volumes
18 of materials we procure, and its volumes can result in savings up to 10% in some cases.
19 This translates into direct savings to customers through lower upfront capital costs, as
20 well as reduced O&M costs on an ongoing basis.

21 Additionally, AEP is able to obtain volume discounts in many of its service
22 contracts. For example, one of AEP's engineering services contracts provides for a
23 discount of 2% on contractor labor over \$10 million during the year and a discount of 4%

1 on contractor labor revenue over \$15 million during the year. KCP&L, as a standalone
2 utility, is most likely not going to approach those types of volumes with a transmission
3 engineering contractor. AEP's size and scale allows for these types of volume discounts
4 that would be available to Transource Missouri upon approval of the Application. Again,
5 these will result in direct savings to customers through lower upfront capital costs.

6 **Q: Is AEP able to provide safe and reliable transmission service throughout its**
7 **transmission system?**

8 A: Yes. AEP, regardless of its size, adheres to the applicable safety and reliability industry
9 standards for transmission operations and service. AEP's safety standards and
10 transmission reliability results in a high performance system that brings significant
11 benefits to its transmission customers.

12 **Q: Is size AEP's only advantage regarding procurement?**

13 A: No. AEP has considerable history in transmission procurement and has continually
14 refined its strategic sourcing strategies for large transmission projects. AEP uses this
15 approach to not only procure material and equipment at the best possible price, but to also
16 ensure its suppliers are financially stable, qualified, experienced, and capable of
17 delivering quality materials and equipment to meet delivery need dates and other project
18 milestones. This strategic sourcing approach is another concrete example of a benefit
19 Transource Missouri brings to the Projects that Mr. Bax found lacking in the
20 Applications.

21 **Q: Please describe AEP's strategic sourcing approach.**

22 A: AEP's strategic sourcing approach is based on a seven step process, described briefly as:

- 1 1. **Profile Sourcing Group:** This step involves categorizing materials or services
2 into groups with similar characteristics, such as supplier sources, production
3 processes, internal use, material content, or technology. A profile is routinely
4 created for major categories of spend so that an optimal sourcing strategy can be
5 developed.
- 6 2. **Develop Sourcing Strategy:** In this step, a sourcing strategy for each category is
7 selected through an analysis of its specific business impacts and supply market
8 complexities. For example, one profile could demand a leverage strategy where
9 AEP can use its competitive advantages specifically to reduce costs while another
10 profile could demand a strategy aimed towards reducing the risks of supply
11 disruptions.
- 12 3. **Generate Supplier Portfolio:** After the sourcing strategy has been determined, a
13 group of potential suppliers is selected. AEP narrows a broad list consisting of
14 three types of suppliers - current, new traditional, and new non-traditional - to a
15 prequalified supplier list from which to move forward. This screening process
16 can involve requests for information (“RFIs”), benchmarking, supplier visits, and
17 analysis of other internal and external data that may impact the current
18 marketplace, global or domestic.
- 19 4. **Select Implementation Path:** In this phase AEP determines whether to select its
20 suppliers through a competitive process, or to develop specific suppliers to create
21 strategic objectives. In the majority of cases, a competitive bidding process is
22 used to solicit requests for proposals (“RFPs”) to select the best supplier.

- 1 5. **Negotiate and Select Suppliers:** Once RFPs have been issued and received,
2 AEP evaluates the proposals on a number of price and non-price factors. If the
3 proposal is competitive with other suppliers, AEP will provide feedback or
4 request modified proposals. Once AEP accepts a proposal, contracts are written
5 and issued.
- 6 6. **Operationally Integrate Supplier(s):** This stage includes ratification of supplier
7 agreements, business unit coordination, communication, executive involvement,
8 transition and process changes, savings tracking and components monitoring, and
9 ongoing activities plans. In short, it is the implementation and administration of
10 the contract.
- 11 7. **Benchmark the Supply Market & Track Savings:** Once the supplier is
12 selected, AEP continues to evaluate a supplier's performance. This may be
13 accomplished through several methods, including, but not limited to: (1) supplier
14 scorecards; (2) market benchmarking; (3) periodic supplier reviews; and (4)
15 customer satisfaction measurements. If required, AEP can also track the savings
16 through multiple stages: baseline spend, projected savings, approved savings,
17 budget savings, and realized savings.

18 **Q: Please elaborate on the RFP process for selecting suppliers that lends itself to AEP's**
19 **procurement advantages that would be brought to the Projects.**

20 **A:** While all seven steps of the Strategic Sourcing process are critical to AEP's procurement
21 advantages, the RFP and bidding process for selecting suppliers is paramount to securing
22 contracts at the lowest and best price with qualified suppliers meeting AEP's stringent
23 delivery expectations. The first step in the RFP process is to send the RFP to selected

1 suppliers. While the suppliers are completing the RFPs, AEP's procurement department
2 establishes evaluation criteria which will be used to score the proposals. Each of the
3 criteria are given a weight and then scored to determine an overall score for each
4 supplier. Once the final score is determined, a supplier is selected.

5 **Q: What types of criteria are used to score suppliers?**

6 A: Criteria can differ from one sourcing event to another. Generally, suppliers that respond
7 to RFPs may be scored against any of the following six categories, each having multiple
8 criteria.

9 1. **Supplier Capability:** This category includes a supplier's experience with large
10 transmission projects, experience in relevant geographic regions, ability to fulfill
11 scope of services, and quality and caliber of the proposed execution team.

12 2. **Supplier Capacity:** This category includes the supplier's availability of resources
13 with relevant skills, its willingness to commit resources even at times of project
14 uncertainty, and its commitment to grow its resource pool as necessary to support
15 the work. Recently, capacity in the marketplace has been constrained due to the
16 high-demand of transmission material and equipment.

17 3. **Risk Management:** This category includes the completion of a risk register, the
18 quality assessment of risk probabilities and impacts, the caliber of risk mitigation
19 plans, and the strength of project risk management programs.

20 4. **Financial Strength:** This category includes the supplier's credit ratings, strength
21 of its balance sheet, and its profitability.

1 5. **Pricing:** This category may include first costs or the total cost of ownership
2 relative to other bids, escalation rates, cost containment mechanisms, commitment
3 to continuous improvement, and other pricing features.

4 6. **Program Execution:** This category includes an assessment of customer service
5 quality, a supplier's performance tracking mechanisms, its track record with AEP-
6 sponsored work, its approach to partnering, and reference checks.

7 **Q: How does the strategic sourcing approach and the RFP process benefit customers?**

8 A: Customers will benefit from AEP's approach to sourcing because it allows AEP to
9 procure materials and services at low prices from high quality vendors. AEP performs a
10 level of due diligence that many utilities of smaller size do not have the resources to
11 perform. AEP's large purchase volumes dictate that AEP thoroughly evaluate its
12 suppliers. In addition to scoring its suppliers as described above, AEP also performs
13 several supplier visits each year to verify the vendors can meet AEP's requirements. For
14 example, in 2013 representatives from AEP are scheduled to visit at least three insulator
15 manufacturers, four breaker manufacturers, three transformer manufacturers, and three
16 structural steel manufacturers. Customers benefit from the intelligence realized through
17 AEP's market strategies and processes. Once determined, the RFP process brings in real
18 information, price points, and market data that assists in making cost-effective business
19 decisions.

20 **Q: How do the specific synergies and cost savings in procurement that you identified
21 above in response to Mr. Bax benefit the public interest?**

22 A: AEP has the largest transmission system in the nation and is planning to invest billions of
23 dollars in its transmission system in the near future. Its size, experience, and strategic

1 approach to procurement give it a considerable advantage in the marketplace by
2 leveraging its processes and buying power. All of this will benefit Transource Missouri
3 in areas of cost, quality, and timely delivery of the material and equipment required to
4 construct the Projects.

5 **Q: Does this conclude your testimony?**

6 **A:** Yes, it does.

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

In the Matter of the Application of)
Transource Missouri, LLC for a Certificate)
of Convenience and Necessity Authorizing it)
to Construct, Finance, Own, Operate, and) Case No. EA-2013-0098
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) Case No. EO-2012-0367
Certain Transmission Property to Transource)
Missouri, LLC and for Other Related Determinations.)

AFFIDAVIT OF SCOTT P. MOORE

STATE OF OHIO)
) ss
COUNTY OF FRANKLIN)

Scott P. Moore, being first duly sworn on his oath, states:

1. My name is Scott P. Moore. I work in Columbus, Ohio, and I am employed by American Electric Power Service Company ("AEPSC"), a wholly-owned subsidiary of American Electric Power, Inc ("AEP"). I am the Vice President of Transmission Engineering and Project Services for AEP.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Transource Energy, LLC ("Transource") and Transource Missouri, LLC ("Transource Missouri") consisting of (12) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

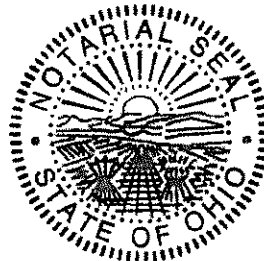
3. I have knowledge of the matters set forth herein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Scott P. Moore
Scott P. Moore

Subscribed and sworn before me this 27th day of February, 2013.

Ellen A. McAninch
Notary Public

My commission expires: May 11, 2016



ELLEN A. MCANINCH
NOTARY PUBLIC
STATE OF OHIO
Recorded in
Franklin County
My Comm. Exp. 5/11/16