

Exhibit No.:
Issue: Overview, Public Interest, and Affiliate
Transactions Rule
Witness: Antonio P. Smyth
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

ANTONIO P. SMYTH

ON BEHALF OF

TRANSOURCE MISSOURI, LLC

March 2013

Exhibit NO. 15
File NO. EA-2013-0098

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

2 A: My name is Antonio P. Smyth. My business address is 1 Riverside Plaza, Columbus,
3 Ohio, 43215.

4 **Q: Are you the same Antonio P. Smyth 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: The purpose of my Surrebuttal Testimony is to address issues raised by Missouri Public
10 Service Commission (“MoPSC” or “Commission”) Staff Witnesses Alan J. Bax and
11 Charles R. Hyneman, as well as Office of the Public Counsel (“OPC”) Witness Ryan
12 Kind. All three witnesses raise issues in their Rebuttal Testimony that warrant further
13 explanation.

14 **I. Rule 4 CSR 240-3.105**

15 **Q: Staff witness Bax lists at page 7 of his Rebuttal Testimony certain information that**
16 **Transource Missouri has not yet provided in its CCN application, and concludes at**
17 **page 14 of this testimony that the application therefore “does not comply with the**
18 **requirements of 4 CSR 240-3.105.” Do you agree?**

19 A: No. As I understand it, 4 CSR 240-3.105(2) explicitly permits a CCN applicant to
20 provide any information unavailable at the time of filing at any point during the
21 application process. I agree that the rule governing certain filing requirements for electric
22 utility applications for CCNs, 4 CSR 240-3.105(1) states that applications for CCNs shall
23 include “A description of the route of construction and a list of all electric and telephone

1 lines of regulated and nonregulated utilities, railroad tracks or any underground facility,
2 as defined in Section 319.015, RSMo, which the proposed construction will cross” in 4
3 CSR 240-3.105(1)(B)1. The regulation also requires evidence of approval by affected
4 governmental bodies in 4 CSR 240-3.105(1)(D).

5 However, the fact that a final route for the Sibley-Nebraska City Project has not
6 yet been selected, and that such information is not yet available does not render
7 Transource Missouri’s application premature or deficient. The regulation which Mr. Bax
8 cites goes on in subpart (2) to state: “If any of the items required under this rule are
9 unavailable at the time the application is filed, they shall be furnished prior to the
10 granting of the authority sought.” Therefore, the CCN Application is not deficient.

11 **Q: Similarly, OPC witness Kind states at page 20 of his Rebuttal Testimony that**
12 **because the Sibley-Nebraska City Project route has not yet been finalized, “it is**
13 **premature for the MoPSC to make a determination about the merits of granting a**
14 **CCN at this time.” Do you agree?**

15 A: I do not for the same reasons I state above. The CCN Application is in no way
16 premature. 4 CSR 240-3.105(2) explicitly permits the provision of information at any
17 point during the application process.

18 **Q: OPC witness Kind questions at page 21 of his Rebuttal Testimony whether the**
19 **MoPSC can make a determination as to whether “a CCN for the Sibley-Nebraska**
20 **City Project would promote the public interest when landowners in the vicinity of**
21 **the proposed project don’t yet have information about the impact that the project**
22 **will have on their properties.” Do you agree with Mr. Kind?**

1 A: No. While I am not an attorney, counsel informs me that the standard the MoPSC uses to
2 determine whether to approve a CCN request is whether the proposed construction is
3 “necessary or convenient for the public service.” I understand that the MoPSC has
4 interpreted one facet of what is necessary or convenient for the public service to be
5 whether the service promotes the public interest. In my opinion, the final route of the
6 Project does not impact whether or not a regional transmission project approved by
7 Southwest Power Pool, Inc. (“SPP”) promotes the public interest. This Project will
8 increase transmission system reliability and efficiency, eliminate or reduce transmission
9 congestion, better integrate SPP’s east and west regions, and promote wider choice and
10 competition in wholesale generation sales, including renewable resources, consistent with
11 both federal and state policies to encourage such efforts. In other words, regardless of the
12 final route selected for the Sibley-Nebraska City Project, it clearly promotes the public
13 interest.

14 **Q: Staff witness Bax suggests at page 14 of his Rebuttal Testimony that if the MoPSC**
15 **were to grant Transource Missouri’s CCN request, it make such approval**
16 **conditional upon provision of quarterly updates regarding the route selection**
17 **process and the Commission’s review of the selected route. Do you think that is a**
18 **reasonable proposal?**

19 A: Yes. I believe it would be reasonable for the MoPSC to grant approval of Transource
20 Missouri’s CCN application prior to the final selection of a route, but conditional upon its
21 review of the ultimate route selected.

1 **Q: When do you expect to be able to provide the 4 CSR 240-3.105(1)(B) and (D)**
2 **information to the MoPSC?**

3 A: The information required per 4 CSR 240-3.105(1)(B) and (D) is expected to be available
4 by July 2013 for the Sibley-Nebraska City Project, after the final route has been
5 determined.

6 **Q: Will a control budget estimate, as described by Staff witness Bax at pages 7-8 of his**
7 **Rebuttal Testimony and OPC witness Kind at pages 20-21 of his Rebuttal**
8 **Testimony, be available at that time?**

9 A: The control budget estimate for the Sibley-Nebraska City Project will be available early
10 in the fourth quarter of 2013 after the determination of a final route.

11 **Q: Staff witness Bax states at page 7 of his Rebuttal Testimony that Transource**
12 **Missouri also cannot yet provide the information required by 4 CSR 240-**
13 **3.105(1)(B)1 for the Iatan-Nashua Project, as no easements have been acquired on**
14 **the northern/horizontal portion, or what Transource Missouri refers to as the**
15 **Middle Segment. Is this true?**

16 A: Appraisal information is currently being gathered for the Middle Segment, and we
17 anticipate this information being available by the second quarter of 2013 pending
18 successful completion of the condemnation hearings before the Circuit Court of Platte
19 County. If this information is not available prior to the Commission's granting of the
20 authority sought, we support its approval of the Applications conditional upon provision
21 of this information.

1 **Q: Does the MoPSC have access to any other support information in order to more**
2 **fully understand the status of the Projects?**

3 A: Yes. Kansas City Power & Light Company (“KCP&L”) is providing detailed quarterly
4 updates on the Iatan-Nashua Project to the MoPSC. KCP&L is also providing quarterly
5 reports to SPP on both Projects. These ongoing reports contain updates on detailed
6 activities including routing, siting, permitting, easements, project schedule, and overall
7 progress report. Transource Missouri will continue these quarterly reports if the MoPSC
8 approves the items requested in the Applications.

9 **II. Potential Future Changes in Ownership of the Projects**

10 **Q: Please explain the concern of Staff witness Hyneman with respect to a future change**
11 **in ownership of the Projects.**

12 A: At pages 46 through 49 of his Rebuttal Testimony, Mr. Hyneman states a concern that,
13 should the Projects be novated to Transource Missouri as requested in this proceeding,
14 the MoPSC would not have any jurisdiction over any future transfers of the Projects.

15 **Q: Does Transource Missouri have any current plans to transfer the Projects?**

16 A: No. Transource Missouri does not have any current plans to transfer the Projects if the
17 items requested in this Application are approved by the MoPSC.

18 **Q: In your opinion, would the MoPSC be able to consider subsequent transfers by**
19 **Transource Missouri?**

20 A: Yes. As Transource Missouri indicated in its response to Staff Data Request No. 0113,
21 provided in Exhibit APS-1, Transource Missouri would seek approval from the MoPSC
22 for any subsequent transfer of the Projects’ facilities. If the requests in this Application

1 are granted, Transource Missouri will be the owner and operator of the Projects and
2 therefore subject to MoPSC jurisdiction if future transfers are considered.

3 **Q: Do you agree with Staff’s proposal that if Transource Missouri seeks to transfer the**
4 **Projects, the Projects should first be offered to KCP&L or KCP&L Greater**
5 **Missouri Operations (“GMO”) for purchase at their then current net book value?**

6 A: No. If Transource Missouri should seek to transfer the Projects at some time in the
7 future, all of the conditions of the proposed transfer would be reviewed by the MoPSC
8 under the applicable statute. If the conditions of the proposed transfer meet the
9 requirements of the statute such that the transfer causes no detriment to the public
10 interest, there is no reason to also require an offering of the Projects to KCP&L or GMO
11 at their then current net book value.

12 **Q: Do you agree with Staff’s proposal that, in addition to Transource Missouri,**
13 **American Electric Power, Inc. (“AEP”) or Transource Energy, LLC (“Transource**
14 **Energy”) should seek MoPSC approval before any future transfer of ownership**
15 **rights?**

16 A: No. Neither AEP nor Transource Energy are Missouri utilities that would own or
17 operate the Projects, so based on my understanding of Section 393.190.1, they would not
18 be required to seek approval from the MoPSC for any subsequent transfer of the Projects’
19 facilities. Expecting AEP or Transource Energy to seek approval before any transfer of
20 ownership rights would be analogous to requiring Great Plains Energy Incorporated
21 (“GPE”) to seek MoPSC approval before any transfer of properties by KCP&L or GMO,
22 a practice that the Commission has not required.

1 **III. Impact of Failure to Waive Affiliate Transactions Rule (“Rule”)**

2 **Q: Does Staff support KCP&L and GMO’s request to grant a waiver of or variance**
3 **from the Rule if the Applications in this proceeding are approved?**

4 A: No, the Staff recommends that the request for waiver of or variance be denied.

5 **Q: What are the practical implications for Transource Missouri if the MoPSC does not**
6 **grant a waiver of or variance from the Rule?**

7 A: Services provided by KCP&L will be more expensive if profit or a markup is added to
8 the fully allocated cost. This means that Transource Missouri may have to pay more for
9 services from KCP&L than it would for the same services from elsewhere. And, if
10 Transource Missouri were to rely on KCP&L when those conditions occur, its cost to
11 provide utility service to all of its customers would be higher than necessary. This could
12 adversely affect Transource Missouri’s ability to compete and justify its rates.

13 As a project owner, Transource Missouri will be tasked with making decisions to
14 develop projects in the most cost-effective manner possible. If Transource Missouri can
15 obtain services from another service provider, like AEP, at cost without markup, there is
16 an increased possibility that it would not be cost-effective to utilize a service provider
17 that includes a markup in its costs. Transource Missouri is not obligated to utilize the
18 services of KCP&L for future Missouri projects per the terms of the Transource Missouri
19 service agreements, but the current intention is to utilize services provided by KCP&L for
20 a number of the functions, provided those services can be obtained in a cost-effective
21 manner.

22 Moreover, Transource Missouri takes seriously its obligation as a regulated utility
23 to use reasonable means to provide low cost for all customers. The entities that regulate

1 Transource Missouri's rates also expect it to do so. Accordingly, paying more than cost
2 for services that can be obtained elsewhere at cost is not a decision to be made lightly. If
3 KCP&L is not permitted to provide services to Transource Missouri at cost, Transource
4 Missouri will have to reconsider its strategy for obtaining future Missouri project
5 services.

6 Finally, I would note that a practice encouraging regulated utilities to provide
7 non-tariffed services to regulated affiliates at greater than cost is a redistribution policy
8 that raises the costs for some regulated customers in order to provide an offsetting
9 discount to others. In this case, by recovering higher charges from KCP&L, Transource
10 Missouri would increase the cost to all regional wholesale transmission customers to
11 benefit KCP&L and GMO retail customers. If other retail jurisdictions were to engage in
12 similar practices, the result would be higher costs for all customers of wholesale regional
13 transmission service, including Missouri customers. For all of these reasons, if a waiver
14 of or variance from the Rule is not approved, Transource Missouri would have to
15 reconsider the extent of its reliance on services from KCP&L.

16 **Q: What is your recommendation with respect to the Rule?**

17 A: My recommendation is that the Commission waive or grant a variance from the Rule for
18 the Applicants, as described by Mr. Darrin Ives in his Direct Testimony. This, along with
19 the provision of services by AEPSC at cost, will ensure regional transmission projects
20 undertaken by Transource are prudently developed using the most cost-effective
21 resources available that will result in the lowest rates possible.

1 **IV. AEP's Reasons for Partnering with GPE in Transource and Transource Missouri**

2 **Q: Is Staff witness Hyneman's description at page 31 of his Rebuttal Testimony**
3 **regarding AEP's reasons for partnering with GPE consistent with the logic AEP**
4 **used to partner with GPE to form Transource and Transource Missouri?**

5 A: Generally, yes. AEP decided to partner with GPE to form Transource and Transource
6 Missouri for a number of reasons. First, AEP and GPE have similar perspectives on
7 transmission infrastructure development and the role of regional transmission in the
8 future of national energy policy. Based on interactions at FERC and SPP, it was apparent
9 to AEP that GPE had a similar long-term vision for competitive transmission's role in the
10 national energy markets and would be a company AEP would be interested in partnering
11 with for future opportunities.

12 Second, AEP's experience and involvement with large transmission projects
13 provides it with the skill sets and resources to tackle projects such as these. For utilities
14 such as KCP&L that are not as accustomed to large-scale transmission projects, AEP can
15 assist with many of the technical, procurement, and resource constraints that a developer
16 who does not engage in these kinds of projects on a frequent basis may face. AEP also
17 sees an opportunity to leverage its strengths with those of another utility to establish a
18 strong foundation for future growth in the competitive transmission marketplace as
19 discussed below. Additionally, AEP's operating companies Public Service Company of
20 Oklahoma and Southwestern Electric Power Company serve approximately 24% of the
21 load in SPP. Therefore, AEP has a vested interest in completing these Projects in as cost-
22 effective manner as possible because its customers will end up paying 24% of the
23 regionally allocated costs of the Projects.

1 Finally, AEP saw near-term value in developing the Projects that could serve as a
2 strong foundation for future development opportunities. Starting a new company can be
3 challenging in the first few years, but having two solid projects that provide a strong
4 financial foundation for future work can make those first few years a little easier.
5 Negotiations with lenders, financial institutions, material suppliers, and others should be
6 much easier if Transource Missouri has existing assets to serve as evidence that
7 Transource Missouri is a going concern with real projects and firm expectations about its
8 future. This will be a much stronger position from which to negotiate with these external
9 parties. Additionally, once Transource Missouri establishes a successful operational
10 record with its own assets, any potential challenges to its ability to own and operate
11 transmission assets will be much more difficult to make in the competitive arena.

12 **V. Requirements to Grant a CCN**

13 **Q: What criteria have the MoPSC recently used in determining whether to grant a**
14 **CCN?**

15 **A:** As outlined at page 9 of the Rebuttal Testimony of Staff witness Bax, the MoPSC has
16 listed five criteria that it used in determining whether the specific request for a CCN is
17 “necessary and convenient for the public service.” These five criteria are as follows.

- 18 • Is the service needed?
- 19 • Is the applicant qualified to provide the service?
- 20 • Does the applicant have the financial ability to provide the service?
- 21 • Is the applicant’s proposal economically feasible?
- 22 • Does the service promote the public interest?

1 **Q: Does Transource Missouri meet the first criterion?**

2 A: Yes. The Projects were approved by SPP through its planning process, thus
3 demonstrating the need for the Projects. Staff agrees that the Projects fulfill a needed
4 service, although Staff witness Bax at page 10 of his Rebuttal Testimony and Staff
5 witness Hyneman at page 6 of Rebuttal Testimony question whether Transource Missouri
6 should provide the service. This is outside the scope of the question as defined by the
7 MoPSC. The first question focuses on whether the service is needed, which is
8 emphatically answered in the affirmative. This additional concern raised by Staff
9 witnesses Bax and Hyneman is not germane to the relevant question to be answered.

10 **Q: Does Transource Missouri meet the second criterion?**

11 A: Yes. Transource Missouri is qualified to construct the Projects, and Staff agrees that
12 Transource Missouri is qualified to construct the Projects.

13 **Q: Does Transource Missouri meet the third criterion?**

14 A: Yes. Transource Missouri has the financial ability to provide the service, and Staff
15 agrees that Transource Missouri has the financial ability to provide the service.

16 **Q: Does Transource Missouri meet the fourth criterion?**

17 A: Yes. The Applicant's proposal is economically feasible, and Staff agrees that the
18 Applicant's proposal is economically feasible.

19 **Q: Does Transource Missouri meet the fifth criterion?**

20 A: Yes. Transource Missouri's proposal promotes the public interest. With respect to this
21 criterion, Staff disagrees that the Applicant's proposal promotes the public interest.
22 However, Staff provides flawed evidence to refute the evidence provided in Transource
23 Missouri's Direct Testimony.

1 **Q: Why does Staff believe that Transource Missouri’s proposal does not promote the**
2 **public interest?**

3 A: Staff witness Bax states that Transource Missouri touts the benefits of Transource
4 Missouri but offers no quantitative analyses depicting how the benefits would be of value
5 to ratepayers. The conclusion is then drawn that since quantitative analyses are not
6 provided, there are no benefits to the Applicant’s proposal.

7 **Q: Do you agree with Staff’s views on the public interest?**

8 A: No. The benefits of the Transource Missouri proposal are real, persuasive, and will
9 manifest themselves over time. It should be noted that the Projects represent the initial
10 investments by Transource Missouri. This makes it much more difficult to provide
11 specific quantitative evidence of the benefits that Transource Missouri will produce.
12 Nonetheless, the Surrebuttal Testimony of Jerald (“Randy”) Boteler is being offered to
13 further quantify the benefits associated with debt financing of Transource Missouri. The
14 Surrebuttal Testimony of Scott Moore further quantifies the benefits associated with
15 increased procurement volumes that can be leveraged by Transource Missouri through
16 AEP’s existing supplier and contractual relationships versus those available through the
17 smaller volumes procured by GPE and its affiliates. The Surrebuttal Testimonies of
18 Charles Locke and Darrin Ives then take these quantitative benefits and demonstrate the
19 rate-related benefits to the public interest created by the Applicants’ proposal.

20 There remain significant benefits associated with the Applicants’ proposal that are
21 more difficult to precisely quantify. However, that difficulty in quantification should not
22 diminish or downplay the very real benefit the proposal provides to the public. These
23 include items previously mentioned such as the operational benefits of access to the

1 material and spare equipment of AEP's entire transmission system. A precise number for
2 that value is difficult to measure, but when a transmission line is out of service because of
3 a failed piece of equipment or the impacts of a storm, ready access to the large existing
4 inventory of AEP and working capital compared to working through a significant lead
5 time quoted from a supplier provides significant value. Other procurement benefits
6 described in the Surrebuttal Testimony of Scott Moore include potential delivery and
7 schedule improvements that may not be available to less frequent customers of various
8 suppliers. Most suppliers have a finite capacity to serve, so purchasing volumes can
9 drive a supplier's priorities to deliver orders in a more timely manner. There are also
10 significant qualitative benefits associated with reduced financial pressure on GPE's
11 balance sheet, as discussed in greater detail in the Surrebuttal Testimony of Kevin
12 Bryant, as well as the obvious operational synergies associated with using the most
13 appropriate resources from a more diverse resource base provided by the combined
14 resources of AEP and KCP&L. These benefits are difficult to precisely quantify with any
15 specificity, but simply because a benefit cannot be precisely quantified should not lessen
16 its value to the public.

17 This combination of the quantitative benefits, as described in the Surrebuttal
18 Testimonies of Randy Boteler and Scott Moore, and their ensuing rate impact
19 demonstrated in the examples provided in the Surrebuttal Testimony of Charles Locke
20 and Darrin Ives, as well as the qualitative benefits described in the Surrebuttal Testimony
21 of Kevin Bryant and others, demonstrates that significant public benefits will be created
22 by the Applicants' proposal.

1 **Q: Given your detailed explanation of the public benefits created by the Applicant's**
2 **proposal, does the Applicant's proposal satisfy the five criteria the MoPSC uses in**
3 **determining whether a CCN is necessary and convenient for the public service?**

4 A: Yes. All five criteria are satisfied by the Applicant's proposal. Therefore, the MoPSC
5 should grant the CCN as requested.

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

7 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 ANTONIO P. SMYTH

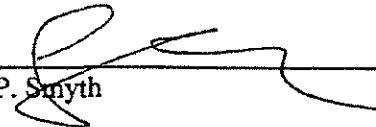
STATE OF OHIO)
) ss
COUNTY OF FRANKLIN)

Antonio P. Smyth, being first duly sworn on his oath, states:

1. My name is Antonio P. Smyth. 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 President of Transource Energy, LLC ("Transource").

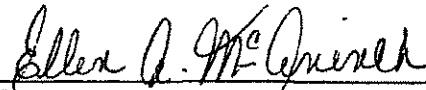
2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Transource and Transource Missouri, LLC ("Transource Missouri") consisting of (14) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

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.



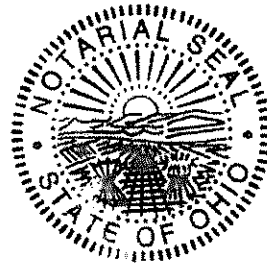
Antonio P. Smyth

Subscribed and sworn before me this 25 day of FEBRUARY, 2013.



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