Exhibit No.:	
Issue:	Capital Cost and Access to Debt
Witness:	Jerald R. Boteler, Jr.
Type of Exhibit:	Surrebuttal Testimony
Sponsoring Party:	Transource Missouri, LLC
Case No.:	EA-2013-0098
	EO-2012-0367
Date Testimony Prepared:	March 6, 2013

MISSOURI PUBLIC SERVICE COMMISSION

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

SURREBUTTAL TESTIMONY

OF

JERALD R. BOTELER, Jr.

ON BEHALF OF

TRANSOURCE MISSOURI, LLC

Kansas City, Missouri
March 2013

Q: Please state your name and business address.

A: My name is Jerald R. Boteler, Jr. My business address is 1 Riverside Plaza, Columbus, Ohio 42315.

Q: By whom and in what capacity are you employed?

A: My current position is Managing Director, Corporate Finance, at American Electric Power Service Corporation ("AEPSC"), which is a wholly owned subsidiary of American Electric Power Company, Inc. ("AEP").

Q: On whose behalf are you testifying?

A: I am testifying on behalf of Transource Missouri, LLC ("Transource Missouri").

Q: Please describe your education, experience, and employment history.

A: I graduated from Millsaps College in Jackson, Mississippi in 1979, where I received a Bachelor's of Business Administration Degree in Finance, and from the Cox School at Southern Methodist University in Dallas, Texas in 1982, where I received a Master's Degree in Business Administration with a concentration in Finance. From 1983 to 1985, I was employed by InterFirst Bank, N.A. in Fort Worth, Texas in various commercial bank credit analysis and review positions. In 1985, I was employed by Oryx Energy, Inc. as a Financial Analyst and worked in various positions on the treasury staff of that company from 1985 until 1996, rising to Assistant Manager, Corporate Finance and Credit. My responsibilities included daily cash operations, foreign exchange hedging, financial modeling, and credit management. In February 1996, I was hired by Central and South West Corporation (subsequently acquired by AEP in 2000), first as a Senior Financial Consultant, then as Manager of Project Finance and Director of Project Finance. My responsibilities included raising capital through bank and financial markets, negotiation of financing agreements for various gas-fired electric generating projects, and managing compliance under various financial agreements.

In July 2001, I joined AEPSC as Director, Wholesale Finance, supporting financing activity for the unregulated companies of the AEP System. In July 2003, I was named Director, Corporate Finance of AEPSC. In that capacity, I was responsible for capital markets activity for various regulated utilities, establishing dividend recommendations and capitalization targets, and assisting in the management of liquidity for the overall AEP System. In May 2007, I was named to the same position for AEP and became responsible for parent company financing and banking activities, as well as financing activities for AEP's transmission ventures and all leasing activity for the AEP System companies, including utility subsidiaries. In April 2011, I was named to my current position, Managing Director, Corporate Finance of AEPSC.

Q: What are your responsibilities as Managing Director, Corporate Finance of AEPSC?

A: I am responsible for planning and executing the corporate finance and capital-raising programs of AEP, its non-regulated subsidiaries, and all transmission ventures involving AEP system non-operating companies. My responsibilities also include preparing recommendations for the payment of dividends by those companies, establishing capitalization targets, interest rate hedging, and supporting the relationships of those companies with the rating agencies, partners, and public and private investors.

Q: Have you previously testified in Case Nos. EO-2012-0367 or EA-2013-0098 ("the Applications")?

A: No.

Q: Have you previously testified before any regulatory commission?

A: Yes. I have filed testimony with the Indiana Utility Regulatory Commission in Cause Nos. 43682 and 44000, the Public Service Commission of West Virginia in Case No. PUE-2010-00038 and Case No. 10-0577-E-PC, the Public Service Commission of Kentucky in Case No. 2011-00042, the Arkansas Public Service Commission in Docket No. 11-050-U and the Federal Energy Regulatory Commission in Docket Nos. ER11-4069-000 and ER11-4070-000.

Q: What is the purpose of your Surrebuttal Testimony?

A: The purpose of my testimony is to respond to certain positions taken in the Rebuttal Testimony by Missouri Public Service Commission ("MoPSC") Staff ("Staff") witnesses Charles Hyneman and David Murray that Transource Missouri's ownership of these projects would not lead to lower costs than if Kansas City Power & Light Company ("KCP&L) and KCP&L Greater Missouri Operations Company ("GMO") continued to own the Iatan-Nashua City Project and the Sibley-Nebraska City Project (collectively, the "Projects"). I will also respond to Mr. Murray's concerns by providing empirical evidence to support the position that Transource Missouri's cost of borrowing would be lower due to its ability to attract new and different sources of capital. In doing so, I will compare and contrast the difference in cost of debt capital AEP has observed between transmission-only companies such as Transource Missouri and vertically integrated utilities such as KCP&L and GMO. Responding to Mr. Murray, I also summarize investor and credit rating agency statements on the Federal Energy Regulatory Commission's ("FERC") formula rate structure for transmission, transmission financings, and the implications of AEP's transmission financing experience for future potential Transource Missouri financings.

Q: Do you agree with Mr. Murray's rationale as to why transmission-only capital costs would be lower for Transource Missouri than for vertically integrated utilities such as KCP&L and GMO?

A: I agree that capital costs will be lower, but disagree as to what the reasons are for the lower cost of capital at transmission-only entities. Over the balance of my testimony, I will demonstrate that, based on my experience, it is true that investors are in fact more willing to give lower-cost debt capital to transmission-only entities than to vertically integrated utility entities such as KCP&L and GMO.

Q: In his Rebuttal Testimony beginning at page 7, Mr. Murray discusses the cost of capital comparison for a "standalone scenario versus joint venture scenario" and criticizes the Direct Testimony of Applicants' witness Ives for failing to provide a quantitative analysis for his statement that a transmission-only company should attract "new and different" sources of capital, which should ultimately lower transmission costs for Missouri customers. Please respond to Mr. Murray's testimony and provide concrete examples to support Mr. Ives's statement.

A: Transmission-only utilities have a number of advantages that should allow them to attract new sources of capital at lower rates. Both credit rating agencies and debt investors see FERC transmission regulation as more supportive of credit quality compared to traditional state ratemaking that is often applied to integrated utilities. First, FERC uses a formula-based process in its ratemaking that adjusts rates annually through a regular filing process that avoids the extra cost and delay of full rate cases. Included in the

FERC process is the use of a forward-looking test year, which provides for timely returns on capital employed and largely eliminates the typical state rate case uncertainty and regulatory lag on those returns. Second, the FERC process includes a provision for an annual true-up mechanism based on actual operating results, ensuring that transmission companies actually earn their allowed Return on Equity ("ROE"), nothing more and nothing less. As a result of these rate structure components, FERC's open and transparent ratemaking procedures give both debt investors and rating agencies great comfort as to the predictability and stability of cash flows and provide a solid framework that allows expected returns to be earned. All of these factors provide solid support to the investing transmission utilities' credit metrics, such as the funds from operations to debt ratio (or "FFO/Debt %") and the closely-related funds from operations to interest ratio (or "FFO interest coverage"), which are used by investors in their decision-making process for investments and, along with other credit factors, form the backbone of the quantitative analysis used by credit rating agencies when they establish a credit rating.

There is another very important factor that leads to strong demand for transmission-only debt offerings: the divergence between supply and demand. Compared to integrated utility debt offerings, there have been considerably fewer individual debt offerings and much lower amounts of debt offered to investors by transmission-only utilities. Since AEP formed its first transmission joint ventures in 2005, there have been only 10 transmission-only debt offerings in public markets, resulting in total debt raised of approximately $3 billion[1]. Over the same time period,

[1] Information provided verbally by various investment banks in 2012.

almost 850 integrated electric utility debt offerings raised a total of over $270 billion[2]. Investors in fixed income securities have a strong desire to purchase transmission company debt offerings when they are available, but for reasons beyond their control only a small supply has been available to purchase. Given that, transmission-only debt is considered a distinct asset class when compared to integrated utility debt and therefore will be seen to diversify investors' portfolios in a way that other utility debt cannot. The relative scarcity of the transmission-only debt asset class coupled with diversification will attract investor demand for transmission debt and give transmission-only issuers a pricing advantage compared to integrated utility issuances.

Q: Are there any disadvantages to transmission-only utilities that may hinder their ability to access debt capital?

A: Yes. Although most investors are very familiar with regular issuances from issuers of combined generation, distribution and transmission assets, some investors are not as familiar with the characteristics of the stand-alone transmission asset class. With the aforementioned scarcity of transmission-only debt offerings, some debt investors who have not previously purchased debt from companies whose revenue is based solely on the FERC ratemaking model may need some education on the provisions and mechanisms of its formula-based methodology and on the benefits of its easy-to-understand rate structure.

As mentioned above, due to the relatively recent emergence of the transmission-only business model, many of the transmission-only financings to date have been smaller and the amount of overall debt per issuer is modest compared to the existing multiple

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[2] *Id*.

outstanding debt securities of some of the larger vertically-integrated utilities. This is important because debt investors generally prefer to invest in larger debt issuances with a more liquid trading profile in the aftermarket. Investors generally prefer to invest in debt securities of corporations with larger numbers of outstanding debt offerings, such that they can obtain a more complete view of value and provide additional and multiple opportunities to invest after concluding their credit research.

Lastly, should a transmission-only company develop problems that impact its credit quality (from permitting or regulatory delays, difficulties during construction, operations, or other issues), investors will not have the protection provided by having the additional business lines of generation and distribution in the same issuer. In that situation, a lack of business diversification will work against the investor and business risk is, in fact, increased due to this lack of diversification.

Q: Do you agree with Mr. Hyneman's Rebuttal Testimony at page 40, line 9 where he states that there was no "evidence that the mere existence of Transource as an affiliate of GPE in Missouri will lower transmission cost for Missouri customers in financing"?

A: No, I do not agree, nor do I believe utility finance practitioners with recent actual market experience in financing transactions would agree with his statement. In fact, AEP has very recent experience with two of its transmission-only entities providing evidence to substantiate that entities such as Transource Missouri can obtain financing at rates that are lower than a vertically integrated entity such as KCP&L/GMO. If the Commission were to approve the Applications in this matter, Transource Missouri would be able to obtain this lower cost financing, and pass those savings directly on to the Missouri customer.

Q: Please elaborate on this recent experience in the placement of debt by a transmission-only utility.

A: AEP has offered debt a total of four times at its transmission-only utilities over the past three years, the most recent of which was in October 2012. Three of these offerings were at Electric Transmission Texas, LLC ("ETT"), a transmission-only joint venture between MidAmerican Energy Holdings Company and AEP. The fourth issuance was at AEP Transmission Co, Inc. ("AEP Transco"). AEP Transco is a wholly-owned subsidiary of AEP and is the parent company of seven state level transmission companies established by AEP to pursue the construction, ownership and operation of new transmission assets.

Q: Please describe the recent AEP Transco debt offering.

A: In August 2012, AEP sought to raise its inaugural note financing for AEP Transco. After evaluating several options, AEP determined to issue the debt in the form of a private placement as opposed to a public SEC registered transaction. In a private placement, the issuer has more flexibility on the deal structure, credit terms, number and size of debt series offered, and maturity dates. The issuer can also defer the drawdown of a portion of the financing which provides a lower amount of interest expense for a company that would like to time borrowings to capital expenditure funding. Finally, the issuance of a private placement does not require obtaining a credit rating, which allowed AEP to approach the market earlier. Although private placements typically have credit spreads that are higher than publicly registered transactions of similar credit quality, AEP believed the sum total of the benefits mentioned above would provide an attractive cost of debt for AEP Transco. Transource Missouri would go through a similar process to determine which market is most attractive for issuance, given market conditions at the time. Any cost savings obtained through this process would be passed directly on to the customer.

Q: Please describe the marketing effort and pricing terms for the AEP Transco offering.

A: In September 2012, we launched the marketing process for the AEP Transco debt offering, seeking to raise a minimum of $250 million. The debt issuance was marketed to investors over a 2-week period, which allowed AEP Transco and its advisors to fully explore the depth and variety of investor interest (in contrast, a fully public debt offering is usually conducted in only a few days, including pricing). In late September we concluded the marketing with an order book of $425 million, a 1.7x oversubscription by investors of the original offered amount, several of whom had not previously owned AEP debt. Based on the increased level of demand, we decided to increase the size of the offering to $350 million in 10, 20, and 30 year maturities, with the $100 million of 30-year maturities to be drawn at future dates. Investors bought notes in five separate tranches, each with different pricing, drawing dates or maturities. The 10-year notes tranche priced at the low point of the initial recommendation from our advisors, which was given to investors as T+165 to +175 basis points ("bps"), with "T" representing the relevant 10-year treasury security used to price the tranche. The notes offering closed on October 18, 2012 with an average financing cost of 4.15% and an average maturity of 21.7 years. The table below provides the relevant pricing parameters for each tranche in the offering:

Tranche Size:	$104,000,000	$85,000,000	$61,000,000	$75,000,000	$25,000,000
Issuance Date:	September 28, 2012	September 28, 2012	September 28, 2012	September 28, 2012	September 28, 2012
First Coupon Date:	April 18, 2013	April 18, 2013	April 18, 2013	June 14, 2013	September 18, 2013
Maturity:	October 18, 2022	October 18, 2032	October 18, 2042	December 14, 2042	March 18, 2043
Pricing Details					
Benchmark:	**1.625% due 08/15/22**	**ICURV 20**	**2.750% due 08/15/42**	**2.750% due 08/15/42**	**2.750% due 08/15/42**
Benchmark Yield:	**1.65%**	**2.25%**	**2.83%**	**2.83%**	**2.83%**
Credit Spread:	**+165 bps**	**+175 bps**	**+190 bps**	**+195 bps**	**+200 bps**
Coupon Rate:	**3.30%**	**4.00%**	**4.73%**	**4.78%**	**4.83%**

Q: Does AEP have any other experience in the placement of debt by a transmission-only utility that you can provide in response to Mr. Hyneman's Rebuttal Testimony at page 40 that there is no evidence as to lower financing costs of a transmission-only utility?

A: Yes. In 2010, 2011, and 2012, ETT accessed the debt capital markets for three debt capital raisings. In total, ETT has issued $855 million of debt to date through the private placement market, with the most recent offering closing in July 2012. In each case, much like the AEP Transco offering described above, the ETT offerings were significantly oversubscribed by investors with more demand than initially offered by the company.

Q: Do the issuances of debt at AEP's transmission-only utilities support the transmission-only business model that Mr. Hyneman and Mr. Murray question?

A: Yes. We believe our ability to issue and price $1.1 billion of long-term debt for ETT and AEP Transco with an oversubscribed order book across offerings from a broad range of sophisticated institutional investors is a strong endorsement of the transmission-only business model and its ability to raise debt capital. AEP Transco was able to bring in new investors at attractive terms despite the opportunity to invest in more liquid, larger debt issuances elsewhere in the secondary market. While the state-regulated debt issuances by ETT may not be directly comparable to a future debt issuance by Transource Missouri, it does confirm that investor appetite for transmission-only debt is robust. If the MoPSC were to approve the Applications in this matter, any interest savings obtained through increased investor demand will reduce the overall revenue requirement for the Projects and result in a lower overall impact on the customer.

Q: Has AEP recently issued debt at one of its vertically integrated utilities that would serve as a reasonable comparison to the recent AEP Transco offering, and counter Mr. Murray's analysis in his "standalone scenario versus joint venture scenario at pages 7-11 of his Rebuttal Testimony?"

A: Yes. In January 2012, Southwestern Electric Power Co., Inc. ("SWEPCO"), a subsidiary of AEP, issued $275 million of 10-year senior notes as a fully registered public offering.

Q: What is SWEPCO?

A: SWEPCO is one of eight vertically integrated utilities in the AEP family of companies. SWEPCO is engaged in the generation, transmission, and distribution of electric power to approximately 521,000 retail customers in the northeastern and panhandle regions of Texas, northwestern Louisiana, and western Arkansas, and in supplying and marketing electric power at wholesale to other electric utility companies, municipalities, rural electric cooperatives and other market participants. SWEPCO is rated BBB/Baa3/BBB by S&P, Moody's, and Fitch, respectively.

Q: Why is the SWEPCO offering a relevant comparison to the AEP Transco offering?

A: The SWEPCO offering is an appropriate comparison to the AEP Transco offering for several reasons. First and foremost, both SWEPCO and AEP Transco have assets in Southwest Power Pool, Inc. ("SPP") as Transource Missouri would through constructing the Projects. SWEPCO and AEP Transco are also both wholly owned subsidiaries of AEP, and thus their issuances are part of the same broader debt portfolio. Next, the timing of the issuances was similar, being within the same calendar year. SWEPCO's offering was in January of 2012, and AEP Transco's offering closed in October of 2012. Fourth, the SWEPCO offering and one tranche of the AEP Transco offering had the same tenor, 10 years. Finally, SWEPCO is rated BBB/Baa3/BBB by S&P, Moody's, and Fitch, respectively, which is consistent with the mid-BBB investment grade credit quality that AEP Transco is targeting.

Q: How are the SWEPCO offering and the AEP Transco offering different?

A: The offerings of SWEPCO and AEP Transco are different in a couple of key areas. First, as mentioned previously, the AEP Transco offering was a private offering, whereas the SWEPCO offering was a full public registered offering. While providing certain key benefits, a private offering would have the tendency to have a higher credit spread than a typical public offering. Second, the size of the $275 million SWEPCO 10-year offering was much larger than the $104 million 10-year tranche issued by AEP Transco. As discussed previously, investors typically prefer larger issues, as they are more liquid. Additionally, SWEPCO has issued debt to the market many times in the past, whereas AEP Transco's debt offering was its debut offering to the debt capital markets. Many times a new issuer has to pay some premium due to newness or the lack of existing debt to which investors can compare the offering. And lastly, unlike the AEP Transco offering which was not rated, the SWEPCO offering was rated by several ratings agencies. Based on the final pricing however, it is clear that investors considered the AEP Transco offering to be investment grade, despite not having a credit rating.

Q: How does the AEP Transco cost of debt compare to the recent issuance for SWEPCO?

A: Pricing terms for the two offerings were as follows:

	SWEPCO	AEP Transco
Tranche Size:	$275,000,000	$104,000,000
Issuance Date:	January 31, 2012	September 28, 2012
First Coupon Date:	August 15, 2012	April 18, 2013
Maturity:	February 15, 2022	October 18, 2022
Pricing Details		
Benchmark:	**1.75% due 05/15/22**	**1.625% due 08/15/22**
Benchmark Yield:	**1.75%**	**1.65%**
Credit Spread:	**+180 bps**	**+165 bps**
Coupon Rate:	**3.55%**	**3.30%**

The AEP Transco 10-year debt tranche of $104 million priced at a credit spread of 165 bps (1.65%) versus SWEPCO's debt offering of the same maturity at 180 bps (1.80%). Thus, the AEP Transco offering was priced by investors at a spread over the US Treasury that was 15 bps lower than the spread of the similar SWEPCO offering. According to AEP Transco's advisors, this differential between the AEP Transco and SWEPCO offerings could have been an additional 15 bps or more had the AEP Transco offering been a public issuance; however, it was determined that the private market provided the best overall approach for the company at the time of issuance. The favorable pricing differential for AEP Transco is particularly encouraging for future issuances given AEP Transco's lack of a credit rating and the pricing premium usually experienced by inaugural offerings.

Q: At page 8 of Mr. Murray's Rebuttal Testimony, he states that there is no evidence suggesting that transmission-only companies such as Transource Missouri would have lower capital costs due to its ability to attract new and difference sources of capital. Do you agree?

A: No, I disagree with Mr. Murray's opinion. As discussed above, I am highly encouraged by our transmission-only entity's ability to attract capital from new investors who had not previously owned AEP debt. The added depth of the investor demand base will provide liquidity for future issuances and create pricing demand that will hopefully drive down future debt rates even further. If the MoPSC were to approve the Applications in this matter, Transource Missouri would be able to access these new investors, and pass the savings from increased investor competition directly to the Missouri customer.

Q: Based on your experiences at AEP, do you believe that the evidence supporting lower cost of borrowing at the AEP Transco will translate into similar cost savings at Transource Missouri?

A: Yes. Transource Missouri is very similar to AEP Transco in many respects. I expect that it will have a similar advantage over existing integrated utilities as AEP Transco has over SWEPCO. First, both AEP Transco and Transource Missouri are transmission-only businesses that recover investments through predictable FERC formula rates. Second, the businesses are expected to be capitalized with debt and equity in similar proportions. These two facts, along with other benefits discussed above, should provide Transource Missouri with a similar ability to appeal to a broad investor base, and thus bode well as it seeks to generate capital in the future.

Q: Mr. Murray suggests at page 8 of his Rebuttal Testimony that there is no quantitative analysis to support lower capital costs at Transource Missouri. Based on your experience described above, can you quantify the potential savings for issuance at Transource Missouri versus an equally rated vertically integrated utility such as GMO?

A: While it is impossible to predict future debt issuance costs for any entity, I believe that the recent Transco and SWEPCO offerings present a reasonable proxy for debt cost comparison of Transource Missouri versus a vertically integrated utility such as GMO. In the 2012 offerings, the credit spread on the Transco 10-year tranche was 15 bps lower than that for SWEPCO, and it is plausible that the spread might have been as much as 30 bps or more lower had Transco issued a larger offering in the public market. Based on an approximate $450 million project financed at the approved capital structure with a public offering, this 15 to 30 bps gap results in interest expense savings of approximately $300,000 to $600,000 per year. Any interest savings obtained by Transource Missouri will reduce the overall revenue requirement for the project and result in a lower overall impact on the customer.

Q: Does this conclude your Surrebuttal Testimony?

A: Yes.

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 Maintain the Iatan-Nashua and Sibley-Nebraska City Electric Transmission Projects.	)	Case No. EA-2013-0098
In the Matter of the Application of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company for Approval To Transfer Certain Transmission Property to Transource Missouri, LLC and for Other Related Determinations.	)	Case No. EO-2012-0367

AFFIDAVIT OF JERALD R. BOTELER, Jr.

STATE OF OHIO)
) ss
COUNTY OF FRANKLIN)

Jerald R. Boteler, Jr., being first duly sworn on his oath, states:

1. My name is Jerald R. Boteler, Jr. 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 Managing Director, Corporate Finance, for AEP.

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 (15) 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.

Jerald R. Boteler, Jr.

Jerald R. Boteler, Jr.

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

Ellen A. McAninch

Notary Public

My commission expires: May 11, 2016

NOTARIAL SEAL STATE OF OHIO

ELLEN A. MCANINCH
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