

**STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION**

At a session of the Public Service  
Commission held at its office in  
Jefferson City on the 23<sup>rd</sup> day of  
November, 2010.

In the Matter of an Investigation into  
Southwest Power Pool Cost Allocations and  
Cost Overruns

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**File No. EO-2011-0134**

**ORDER OPENING AN INVESTIGATION INTO SOUTHWEST POWER  
POOL COST ALLOCATIONS AND COST OVERRUNS**

Issue Date: November 23, 2010

Effective Date: November 23, 2010

The Commission is concerned about recent developments involving the Southwest Power Pool (SPP) and the selection and funding of large dollar amount interstate electric transmission projects. Kansas City Power & Light Company, KCP&L Greater Missouri Operations Company, and The Empire District Electric Company are member electric utilities within the SPP and the costs to develop electric transmission projects within the entire SPP footprint will ultimately be borne by the Missouri ratepayers for those utilities.

The SPP has recently developed a list of priority transmission projects - termed "Priority Projects" - for which it initially intended to spend \$1.145 billion. The anticipated cost of the priority projects has already substantially increased, even before construction on the projects has begun. The total cost of the Priority Projects was estimated at \$1.145 billion in the "Priority projects Phase II Final Report" approved by the SPP Board on April 27, 2010. By October 12, 2010, the date of the SPP Markets Operation and Planning Committee (MOPC) meeting, the SPP staff presented a Power Point presentation showing

the projected cost of those projects has already climbed to \$1.416 billion, an increase of 24 percent before the first transmission pole was put in the ground. At the October 26, 2010 SPP board Meeting, the SPP Board “[a]pproved SPP staff’s recommendation to approve Priority Project cost estimate variances and rerouting for the Woodward to Comanche transmission line to Woodward to Medicine Lodge”.

Further, in the selection of each priority project SPP performed a cost benefit analysis to determine whether a project’s benefits justified its estimated cost. However, in its analysis, SPP included some unquantifiable benefits, such as economic development and job creation. Without a close examination of the assumptions made in assigning a value to such qualitative benefits, it is impossible to determine if a given project’s projected costs are justified. 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. This is not to say that some qualitative benefits should not be included, but rather that those assumptions be reviewed and determined to be appropriate.

This Commission needs to make some important decisions about SPP’s transmission projects before the January 2011 meeting cycle of the Regional State Committee (RSC) and the SPP Board, January 24<sup>th</sup> (RSC) and 25<sup>th</sup> (SPP Board). In this cycle of meetings, it is expected the Integrated Transmission Planning year 20 Assessment (ITP20) will be presented, including a recommended set of transmission projects. The current proposals for ITP20 projects are estimated to cost between \$1.7 billion and \$7.3 billion, with the SPP staff recommending a \$2.4 billion proposal at the October 25, 2010

RSC meeting. The method of plan development depends on the estimated cost of a transmission project.

An additional factor complicating analysis utilizing the estimated cost of a transmission project is the issue of novation. Under the current SPP process, a transmission owner may transfer its right to construct a transmission project assigned by the SPP Board to another company, possibly for a monetary consideration. This process is called a novation. It is entirely possible, and has occurred recently in SPP, that the company newly assigned to construct an assigned transmission project has an entirely different cost estimate for the new transmission project.

When the estimated cost of a transmission project changes, due to further investigation into a project and/or a novation, SPP currently does not have a process in place to automatically rerun analysis or change project selection based on any of those changes in transmission project estimated cost.

To assist it in the decision making regarding ITP20, the Commission will direct its Staff to investigate these matters and report to the Commission.

This file shall serve as a repository for documents and comments. Using this file, any person with an interest in this matter may view documents pertaining to the investigation and may submit any pertinent responsive comments or documents. As this is not a contested case, any person may file a comment without counsel and without *ex parte* constraints (arising from this matter). Intervention requests are not necessary to submit comments or view documents. Because this is not a contested case, Staff shall take no action in this case, aside from reporting its findings to the Commission.

The public is welcome to submit comments by forwarding electronic communications through the electronic filing and information system (EFIS) or by mailing written comments. You may submit electronic comments at the Commission's website at <http://www.psc.mo.gov>. (Click on the EFIS/Case filings link on the left side of the page. Scroll down and click on the public comment link. Please reference File No. EO-2011-0134.) Written comments in hard copy should be addressed to the Commission at P.O. Box 360, Jefferson City, Missouri 65102 and should reference File No. EO-2011-0134. The public can view the contents of the file by following the link at <http://www.psc.mo.gov>.

**THE COMMISSION ORDERS THAT:**

1. This case is established to investigate the Southwest Power Pool's process for selecting projects including cost estimates and cost-benefit analysis, the issue of novations and what to do about construction cost overruns for new transmission projects.
2. It shall be the goal of this Commission to finish this investigation no later than June 1, 2011, and to make any recommendations for improving the process to the Regional State Committee (RSC) for SPP and SPP on or before that date.
3. The Commission's data center shall mail a copy of this notice to the Southwest Power Pool, Kansas City Power & Light Company, Kansas City Power & Light Greater Missouri Operations Company. The Empire District Electric Company, International Transmission Company, and all interveners in File No. ER-2010-0355, Kansas City Power & Light Company's current rate case, File No. ER-2010-0356, KCP&L Greater Missouri Operations Company's current rate case, and File No. ER-2011-0004, The Empire District Electric Company's current rate case.

4. The Commission's Public Information Office shall make this notice available to the news media of this state and to the members of the General Assembly.

5. The Utility Services Division is directed to work with Adam McKinnie of the Utility Operations Group, PSC Consultant Mike Proctor, The Empire District Electric Company, Office of Public Counsel, SPP, and other persons necessary to prepare a report detailing the costs and benefits of SPP membership for The Empire District Electric Company by December 31, 2010. This report shall include an estimate of the costs of new transmission payments and benefits to EDE as a result of the SPP's proposed ITP20 as of December 15, 2010.

6. All parties interested in the issue of the construction cost overruns as well as the problems posed by novations and making recommendations as to how the problem should be addressed are directed to file comments in this docket by December 31, 2010, and to file reply comments no later than January 14, 2011.

7. All parties interested in the issue of how SPP selects projects to be built, including the issue of cost estimates and cost-benefit analysis are directed to file comments in this docket no later than February 4, 2011, with reply comments due on February 18, 2011.

8. The Commission reserves the right to schedule more filings and proceedings as necessary.

9. This order shall become effective immediately upon issuance.

**BY THE COMMISSION**

( S E A L )

A handwritten signature in black ink, appearing to read 'S. Reed', is positioned above the printed name of the Secretary.

**Steven C. Reed**  
**Secretary**

Clayton, Chm., Jarrett, Gunn, and Kenney, CC., concur;  
Davis, C., concurs with separate concurring opinion to follow.

Woodruff, Chief Regulatory Law Judge