

1 STATE OF MISSOURI
2 PUBLIC SERVICE COMMISSION
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4
5 TRANSCRIPT OF PROCEEDINGS
6 On-the-Record Presentation
7 May 12, 2006
8 Jefferson City, Missouri
9 Volume 2

10 In the Matter of the Application)
of The Empire District Electric)
11 Company for Authority to Transfer)
Functional Control of Certain) Case No. EO-2006-0141
12 Transmission Assets to the)
Southwest Power Pool, Inc.)
13
In the Matter of the Application)
14 of Kansas City Power & Light)
Company for Authority to Transfer)
15 Functional Control of Certain) Case No. EO-2006-0142
Transmission Assets to the)
16 Southwest Power Pool, Inc.)

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18 KENNARD L. JONES, Presiding,
REGULATORY LAW JUDGE.
19 JEFF DAVIS, Chairman,
CONNIE MURRAY,
20 STEVE GAW,
ROBERT M. CLAYTON,
21 COMMISSIONERS.

22
23 REPORTED BY:
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1 P R O C E E D I N G S

2 JUDGE JONES: We'll go ahead and go on the
3 record with Case Nos. EO-2006-0142 and EO-2006-0141.
4 These cases both -- these cases involve Kansas City
5 Power & Light Company and The Empire District Electric
6 Company's ability to transfer functional control of
7 certain transmission assets to the Southwest Power Pool.

8 My name is Kennard Jones. I'm the
9 Regulatory Law Judge presiding over the matters. Although
10 we're hearing these cases together today, they have not
11 been consolidated. I should make that clear.

12 At this time we'll take entries of
13 appearances, beginning with KCP&L.

14 MR. FISCHER: Your Honor, on behalf of
15 Kansas City Power & Light Company, let the record reflect
16 the appearance of James M. Fischer, law firm Fischer &
17 Dority, PC. Our address is 101 Madison Street, Suite 400,
18 Jefferson City, Missouri 65101.

19 And I also have with me today and will
20 be -- as a principal witness Richard Spring, who's the
21 vice president of transmission for Kansas City Power &
22 Light Company. We also have two other very knowledgeable
23 individuals, Burton Crawford and Charles Lock, who would
24 also be available if necessary.

25 JUDGE JONES: Thank you, Mr. Fischer. And

1 from The Empire District?

2 MR. COOPER: Dean L. Cooper from the law
3 firm of Brydon, Swearingen & England, P.C., P.O. Box 456,
4 Jefferson City, Missouri 65102, appearing on behalf of the
5 Empire District Electric Company. With me today are
6 Mr. Michael E. Palmer, vice president of commercial
7 operations, and Mr. Barry Warren, director of transmission
8 policy and compliance.

9 JUDGE JONES: And from the Southwest Power
10 Pool?

11 MR. LINTON: Yes, your Honor. David C.
12 Linton here on behalf of Southwest Power Pool, 424 Summer
13 Top Lane, Fenton, Missouri 63026. I have here with me
14 today as a witness Mr. Les Dillahunty, vice president of
15 regulatory policy for SPP. I would also like to introduce
16 the Commission to Mr. Nick Brown, who is president and CEO
17 of Southwest Power Pool. Thank you.

18 JUDGE JONES: From the Staff of the
19 Commission?

20 MR. FREY: Thanks, your Honor.
21 Representing the Staff, Dennis L. Frey and Steve Dottheim,
22 representing the Staff of the Missouri Public Service
23 Commission, P.O. Box 360, Jefferson City, Missouri 65102.
24 And we have with us today Dr. Michael Proctor and Mr. Greg
25 Meyer, who will be happy to answer any questions the

1 Commission might have. Thank you.

2 JUDGE JONES: The Office of Public Counsel?

3 MR. MILLS: On behalf of the Office of
4 Public Counsel and the public, my name is Lewis Mills. My
5 address is Post Office Box 2230, Jefferson City, Missouri
6 65102. Thank you.

7 JUDGE JONES: Thank you. With that, we'll
8 take a short pause until we have someone here to ask
9 questions.

10 MR. BOUDREAU: May I enter an appearance on
11 behalf of intervenor Aquila, just so the record is
12 complete?

13 JUDGE JONES: Aquila, I'm sorry. Go right
14 ahead.

15 MR. BOUDREAU: Let the record reflect the
16 appearance of Paul Boudreau with the law firm of Brydon,
17 Swaengen & England, Post Office Box 456, Jefferson City,
18 Missouri 65102, appearing on behalf of intervenor Aquila,
19 Inc. Thank you.

20 JUDGE JONES: Thank you, Mr. Boudreau.

21 MR. ZOBRIST: One more, Judge.

22 JUDGE JONES: Go right ahead.

23 MR. ZOBRIST: Carl Zobrist for Midwest ISO,
24 Sonnenschein Law Firm, Suite 1100, 4520 Main, Kansas City,
25 Missouri 64111.

1 JUDGE JONES: And you are here for MISO?

2 MR. ZOBRIST: MISO.

3 JUDGE JONES: And you-all didn't bring
4 witnesses. You're primarily here to observe. Okay. With
5 that, then, we'll take a short break.

6 (AN OFF-THE-RECORD DISCUSSION WAS HELD.)

7 JUDGE JONES: We can go ahead and go back
8 on the record. We have Commissioner Gaw present to ask
9 questions.

10 COMMISSIONER GAW: Thank you, Judge. I
11 think it probably would be most helpful to me if we could
12 have Dr. Proctor up on the stand if he's -- there he is.

13 (Witness sworn.)

14 JUDGE JONES: Thank you. You may be
15 seated.

16 MICHAEL PROCTOR testified as follows:

17 QUESTIONS BY COMMISSIONER GAW:

18 Q. Good morning. Do you want to give us a
19 little bit of your work history, Dr. Proctor, just for the
20 record?

21 A. Gosh. Okay.

22 Q. Just briefly.

23 A. My name's Michael S. Proctor. I've been
24 working for the Public Service Commission since 1977, and
25 managed the economic analysis department here for years,

1 and recently, in the past I don't know how many years, six
2 or seven, since around 1997 have been working on
3 transmission issues related to both the Southwest Power
4 Pool and the Midwest ISO. Have been heavily involved with
5 both of those organizations in terms of transmission
6 pricing, cost allocations, various issues that relate to
7 our utilities.

8 Q. I want you to just talk a little about the
9 first big picture question here, and that relates to the
10 work that was done in the Staff's evaluation of whether or
11 not both KCP&L and Empire's joining of SPP as an RTO was
12 in the public interest or not contrary to the public
13 interest, and if you could, give us a -- I know there's
14 information in some of the testimony and other things. If
15 you could give a synopsis of what has been done and your
16 evaluation of that, that would be helpful.

17 A. Okay. Historically, both Kansas City
18 Power & Light and Empire District Electric have been
19 members of the Southwest Power Pool organization both as a
20 regional reliability council and as a transmission
21 provider.

22 Now, there's a difference between Kansas
23 City Power & Light and Empire District Electric. Empire
24 District Electric is currently taking network service from
25 Southwest Power Pool for serving its own load. Kansas

1 City Power & Light, on the other hand, is not taking
2 network service from Southwest Power Pool, but for all
3 wholesale transactions, Kansas City Power & Light takes
4 transmission service through the Southwest Power Pool.

5 So let me -- let me also differentiate, I
6 probably should have said for native load, not just -- not
7 just retail load versus wholesale load.

8 1996, the FERC went to open access. Some
9 of the wholesale transmission customers now simply take
10 transmission from companies. They don't have bundled.
11 They're not taking generation. So they would be a
12 transmission customer of these companies. So they have
13 both historically been involved with the Southwest Power
14 Pool in -- in one relationship or another.

15 This filing, then, in my view really
16 relates to the fact that Southwest Power Pool is going to
17 be starting up an energy imbalance market. Okay.
18 Frankly, I think otherwise we might not have a filing
19 before us. On the other hand, SPP was just granted status
20 as an RTO, and an energy imbalance market is -- was a
21 requirement of the FERC to qualify as an RTO. So those
22 two things are interrelated in my mind. I don't really
23 separate those.

24 SPP was a transmission provider, but not
25 necessarily an RTO. But once it applied to FERC to be

1 qualified as an RTO, one of the requirements was for it to
2 run an energy imbalance market.

3 Q. And that energy imbalance market is
4 currently not up and running, correct?

5 A. That's correct.

6 Q. But it is scheduled to be when now?

7 A. October 1st.

8 Q. Of this year?

9 A. Yes.

10 Q. Okay. Go ahead.

11 A. So given that kind of background, which
12 nothing's ever just real simple and straightforward. It's
13 complex. Southwest Power Pool through the regional state
14 committee commissioned a cost/benefit study to be
15 performed.

16 Q. Okay. All right.

17 A. And that cost/benefit study really looked
18 at two things.

19 Q. Who did that cost/benefit study?

20 A. That cost/benefit study was done by Charles
21 River & Associates.

22 Q. And you recognize that -- that entity?

23 A. Yes.

24 Q. Did you know who that entity was?

25 A. Yes.

1 Q. And was it an entity that you believe is --
2 has the ability to do the appropriate --

3 A. Oh, yes.

4 Q. -- kind of cost study --

5 A. They're a capable firm.

6 Q. -- for this purpose?

7 A. Yes.

8 Q. Go ahead.

9 A. The cost/benefit study really looked at two
10 scenarios. The first scenario was -- was going back to
11 where SPP was before it became a regional transmission
12 provider, going back to a scenario in which all the
13 companies would be -- would provide regional -- would
14 provide transmission service and there would be no
15 regional transmission service through SPP.

16 So it's kind of going from what was called
17 standalone to SPP as a regional transmission provider,
18 which is where they were at prior to being approved as an
19 RTO by the FERC. And then the next step was going from
20 being a regional transmission provider to being an RTO.

21 Q. Okay.

22 A. Which primarily involved the energy
23 imbalance market, though there are other aspects such as
24 coordinated regional transmission planning, those types of
25 things that also came into play as an RTO.

1 Q. Okay.

2 A. So the cost/benefit study was performed.

3 Q. Now, did you look at the methodologies and
4 the inputs that went into that cost/benefit study?

5 A. We had -- we had someone on staff, James
6 Watkins, who sat on a working group or a task force -- I
7 forget which it was called -- that reviewed all of the
8 inputs that went into the study.

9 Q. And did you -- did you visit with him about
10 that?

11 A. Yes.

12 Q. And was it his belief and was it your
13 belief based upon your conversations with him that those
14 inputs and the methodology that were used were valid and
15 appropriate to produce an outcome that could be relied
16 upon by the Staff and by this Commission?

17 A. I think we felt, of course, when you
18 have -- all the states were involved and you have lots of
19 different people have different opinions about how things
20 specifically should be done. We had some disagreements
21 over how things were done, but, you know, I think the
22 final, the bottom line is do we think they were done well
23 enough that they gave us a reasonable result, and the
24 answer is yes.

25 Q. Okay. All right. So you were, I think,

1 going toward giving us some indication of what some
2 outcomes were there?

3 A. Yes.

4 Q. Okay. Go ahead.

5 A. The outcome of these studies were shown on
6 the memorandum that the Staff submitted to the Commission.
7 To go from -- from standalone to a full RTO, the
8 cost/benefit study showed over \$400 million of benefits.
9 That was a ten-year net present value.

10 Q. Okay. And that was for --

11 A. That was for the entire footprint.

12 Q. For the footprint. Okay.

13 A. Out of that, Missouri -- and I'm including
14 the Missouri portion of KCPL and Missouri portion of
15 Empire -- accounted out of that 440 million, accounted for
16 about 55 million of net benefits from a standalone basis.

17 Q. Now, I don't know if at any point we'll get
18 anywhere near confidential information. So if someone
19 sees that, please let us know.

20 Would you break that down by company?

21 A. Yes. The results showed a major portion of
22 those benefits, 48 and a half million, going to Empire
23 District Electric and approximately 7 million going to
24 Kansas City Power & Light. And one of the -- there are
25 lots of things that affect those particular numbers, and I

1 tried to indicate what some of them were in the
2 memorandum.

3 One of the things is for Kansas City
4 Power & Light, the way they had to estimate transmission
5 revenues that they would receive from just bilateral
6 transmission, it's a rough approximation. They actually
7 had to look at flows, because you don't -- you don't know
8 exactly what the bilateral contracts are going to be. So
9 they were just looking at flows and trying to account for
10 those revenues from the flows that were flowing into --
11 into the Kansas City area.

12 It's a rough approximation, but it's about
13 the best that you can do in that type of study because you
14 don't know exactly what transactions they -- bilateral
15 transactions they might get into.

16 Q. Okay. And was that the final outcome in
17 regard to the study?

18 A. That was the initial outcome, and that was
19 the original study when gas prices -- and I don't recall,
20 but I think were relatively low. What's going through my
21 mind, I would have to look in the study, but might be more
22 something in the 6 or \$7 range for natural gas.

23 Q. All right.

24 A. Prices shot up after that. They ran a
25 subsequent study at higher gas prices, and as you might

1 expect, as we expected, the benefits increased with higher
2 gas prices. You actually get more trades and an increase
3 in the benefits.

4 Q. All right. And can you tell me, was there
5 anything significant in that subsequent study that you'd
6 like to point out in regard to increasing benefits?

7 A. Well, first of all, I don't want to put
8 myself in a position of -- and I don't think anybody does
9 right now -- of trying to forecast what natural gas prices
10 are going to be. I mean, that's -- looks almost like a
11 random draw to us. I think most people would think that
12 natural gas prices are going to go up. But what we're
13 seeing right now is a lot of volatility.

14 Both of these studies did put in escalation
15 rates for natural gas prices, and that turned out to be --
16 has a lot to do with the sensitivity. What I would say is
17 that the basic study used pretty much a baseline level for
18 natural gas prices, maybe one we would consider to be low
19 now, and with that relatively low scenario, we're showing
20 benefits from this.

21 Q. Okay. Now, if I look at what you just have
22 testified to, it seems there's obviously a significant
23 difference in regard to the relative benefits to Empire
24 and to -- as compared to KCP&L?

25 A. Correct.

1 Q. First of all, can you give me a general
2 reason why that is?

3 A. I think it's in part what these types of
4 studies are going to show is that utilities that
5 historically have been sellers are going to show lower
6 increases in benefits than those utilities that are buyers
7 in the market. In my mind, it has something to do with
8 the way that you almost have to model these things.

9 Now, I think this model is very valid on an
10 SPP-wide basis. When you try to get it down to each
11 individual utility, I think there are going to be some
12 biases in the modeling. And I suspect in part that
13 explains why KCP&L -- because historically they've been a
14 seller, and why they may not show as great of benefits as
15 Empire District Electric, which has historically been a
16 buyer.

17 For example, one of the assumptions that
18 goes into the model is that the bids that will go into the
19 market are at marginal cost or incremental cost, and
20 frankly, nobody is going to run their generation if all
21 they get paid is the incremental variable cost of running
22 that generation. In fact, I think we were talking the
23 other day as a Staff, we would have a major problem if our
24 utilities were running generators that our ratepayers were
25 paying for and all they were doing was covering the

1 out-of-pocket cost, they weren't getting any return, no
2 profit from it.

3 Okay. But essentially that's kind of the
4 way you have to model these things, and I think it tends
5 to bias a little bit against the people that are the
6 sellers, because the buyers clearly if I can get a cost
7 lower than it cost me, my out-of-pocket cost, I'm going to
8 buy. So it's a good assumption on that side for the
9 buyers, but I'm not sure it's a good assumption for the
10 sellers.

11 So I think it may somewhat misrepresent the
12 distribution of those benefits between the two entities,
13 but, you know, that's part of the -- it's just part of the
14 modeling thing that you have to take into account, because
15 it's really difficult to try to model strategies, pricing
16 strategies, how do I set a price above my variable cost
17 and -- to do sales in the off-system market or the energy
18 imbalance market.

19 That's one of my explanations that wasn't
20 in here. I think some other things, like I said before, I
21 think they accounted -- the accounting for Kansas City
22 Power & Light's loss of transmission revenues may be way
23 overstated. We just don't know. Again, they just looked
24 at flows to get an approximate level for that.

25 Q. If I used the \$7 million, that is a net

1 benefit, correct?

2 A. Yes.

3 Q. If I use that figure -- and that's over a
4 ten-year period?

5 A. Yes.

6 Q. I would wonder whether or not that is a
7 significant enough figure to really warrant saying that
8 there is a net benefit to KCP&L if I'm just using that
9 figure over a ten -- over a ten-year period of time in
10 comparison to all of the other revenue streams and costs
11 that KCP&L would have over that period of time.

12 A. Uh-huh.

13 Q. Are you convinced that, in regard to KCP&L,
14 that it is clear enough that there is a benefit that will
15 accrue to KCP&L to warrant supporting, and obviously you
16 are, to warrant their supporting SPP as an RTO?

17 A. Yes.

18 Q. And tell me, give me a little bit of your
19 analysis for why that is.

20 A. Well, from our perspective, the standard is
21 not detrimental, and I think the \$7 million is sufficient
22 to -- in my mind to say that the cost that Kansas City
23 Power & Light is going to have to pay to put -- to pay for
24 the functioning of this market is not going to end up
25 being a detriment to Missouri ratepayers, that they're

1 going to get enough benefit from it, and I really think
2 more than what's been shown by the 7 -- shown by the
3 7 million, but -- so in my view, to me, there's no
4 evidence of detriment here.

5 In addition, there are additional benefits
6 besides the market and the quantification that has
7 occurred through the cost/benefit study. In my mind,
8 there are very strong benefits from regional transmission
9 planning. There are benefits -- there are reliability
10 benefits that are impossible -- well, very difficult to
11 quantify in the -- by the way, the Charles River
12 Associates study did go through and talk about what those
13 were, and in the memorandum I tried to describe what I
14 thought some of those benefits were as well.

15 Q. If we were looking at this agreement --
16 Dr. Proctor, if you want to defer these questions to
17 someone else, that would be fine.

18 A. Okay.

19 Q. There are some provisions in here in regard
20 to reexamination of this relationship at certain points in
21 time subsequent to this Commission's prospective approval
22 of the joinder. Are you the right individual to talk to
23 about that?

24 A. Sure. Yes.

25 Q. First of all, I think in -- there is a

1 provision dealing with, I think on page 7, a sunset
2 provision and effective date, sub G. Can you --

3 A. Excuse me.

4 Q. And I didn't examine to see whether or not
5 these letters match up in each stipulation.

6 A. Okay.

7 Q. I am on, I think, the KCP&L stip, if they
8 happen to have different numbers on them. I'm assuming,
9 and you can tell me first of all if this is correct, that
10 these stips are mirror images of one another?

11 A. Yes, they are. They're identical in the
12 two documents.

13 Q. Okay. Tell me when you're ready.

14 A. I'm ready.

15 Q. Give me a little bit of an idea about what
16 that provision is intended to accomplish.

17 A. The approval that has been set out in the
18 Stipulation & Agreement is for -- is an interim approval
19 for a seven-year period, and the sunset provision is there
20 to indicate formally that that interim approval ends at a
21 specific date. Okay.

22 Q. Is that this provision or is that a
23 different provision that you're referring to?

24 A. I'm sorry. This provision -- this
25 provision has to do with -- Empire and KCP&L all have to

1 get approvals from other state commissions and the FERC,
2 and this provision has to do with putting a time frame on
3 that.

4 Q. So they had -- the approval process for the
5 other jurisdictions has to be accomplished by, is it
6 March 31st of '07?

7 A. That's correct.

8 Q. And that's what that sunset provision is
9 referring to is getting that approval, correct?

10 A. Right. Well, what it's saying is that if
11 you go -- if you think you're going to go past that date,
12 come back to the Commission and ask for an extension.

13 Q. Okay. And that's simply to make sure that
14 this continues to move forward?

15 A. To move forward, yes.

16 Q. Let me ask you before we get to the other
17 provision that you started to talk about, does Staff have
18 a position here in regard to what potential jurisdictional
19 losses may occur by the state commission to the FERC as a
20 result of approval of the joinder of these companies with
21 SPP as an RTO?

22 A. As a -- I think I understand the question.
23 Just to make sure, the Staff as a part of the process
24 requested a similar type of contract be entered into
25 between the companies and the Southwest Power Pool that

1 would in essence allow the Missouri Commission to continue
2 to set rates for retail customers. In other words, what
3 will not occur because of this is that Empire and KCPL
4 would strictly be taking transmission at a wholesale
5 level, and whatever rate FERC set, that rate would get
6 imposed on Missouri customers. That will not occur
7 because of -- because of this agreement that has been
8 entered -- well, once FERC approves it. And they approved
9 it in the case of Ameren, and I'm assuming they'll approve
10 it in these two cases.

11 Q. Okay. So in other words, the Staff has and
12 the parties have agreed in this that retail rates for
13 transmission will continue to be set by this Commission?

14 A. That's correct.

15 Q. Okay. And that might have been an issue
16 without some language here in this agreement or not?

17 A. Yes, it could have been an issue. The
18 utility could have filed a rate case saying this is the
19 FERC rate, we're under FERC jurisdiction, this is what we
20 want collected, irrespective of what our transmission
21 costs are, this is the rate we want put into retail. That
22 will not occur.

23 Q. Okay. The other -- is there anything else
24 on the jurisdictional question that you want to address?

25 A. Not really, no.

1 Q. All right. Now, in regard to the other
2 question about this Commission's ability to review and
3 perhaps at some point order these utilities to no longer
4 be a part of SPP or some provision that says that it has
5 to be renewed, can you give me some background on that
6 portion of this agreement?

7 A. Yes. I think let me -- let me say, it's
8 one thing to estimate costs and benefits prior to
9 something going into place. It's another thing to measure
10 costs and benefits after, after something has actually
11 occurred and is in place and is operating.

12 And so the way the Staff looked at it going
13 into this agreement was, let's put these -- let's put this
14 approval in for an interim period that is a reasonable
15 period of time in order for this new market that Southwest
16 Power Pool wants to operate would be in place, and we
17 think in place over a longer period than just the first
18 year of operations.

19 I think our experience with the Midwest ISO
20 has told us there are going to be things that happen in
21 the first year that you didn't expect to happen, and there
22 are things that you're going to have to change, and
23 there's kind of a shakeout period that's going to occur.

24 So based upon that, we came up with what
25 essentially is, in the fourth year, we want the company

1 for that particular year to put together a study that
2 shows the benefits of this new market that would be in
3 place. Now, in addition, if SPP institutes any additional
4 markets, we would want to include benefits from those
5 markets as well.

6 By the way, SPP will not institute any new
7 markets, like markets for ancillary services or operating
8 reserves or regulation or any of those types of things
9 until it's performed a cost/benefit study to determine
10 that they are cost beneficial to do. But those studies
11 would again be very much like the Charles River Associates
12 study, a study that's done before the markets go into
13 place and before you have any experience with it.

14 And I guess from the Staff perspective, we
15 felt that having some accountability was important, that
16 we're -- the Commission is approving this, but how are we
17 going to know. We need to know, I felt, we need too have
18 information back from the utility specifically of what
19 were the benefits, what -- what did you actually see
20 happen because of this market?

21 Frankly, I wish we had negotiated the same
22 thing in the Ameren MISO case. We didn't, but we learned.
23 And so we put that provision in, and if they come back in
24 that fourth year, it's showing we're losing millions of
25 dollars, okay, we wanted recourse for the Commission to

1 say, you know, this isn't working. We think you need to
2 get out of this. So that was kind of the concept behind
3 the interim approval and the study, cost/benefit study
4 that's done ex post or after the fact, after being in the
5 market.

6 Q. Is it anticipated, then, that what is
7 occurring here is that there is a point in time at which
8 this Commission will evaluate whether or not the
9 permission to continue to be a part of SPP will continue
10 beyond that day, so that --

11 A. Yes.

12 Q. -- on essence there is a sunset in this in
13 in that regard as well. Even though we talked about a
14 sunset provision earlier, there is a sunset on the
15 approval of this particular relationship in this
16 agreement?

17 A. That's correct. The agreement can
18 automatically go forward if the Commission just allows it
19 to. Parties could -- after KCPL and Empire have done
20 their after-the-fact cost/benefit studies, parties could
21 submit to the Commission, we would like withdrawal or
22 whatever.

23 If nobody does that, then, I mean, the
24 Commission could -- they could also look at it and say,
25 call the companies in to have a review of it. But if

1 nothing was done, it would just -- it would keep going
2 forward.

3 Q. Okay. And would it be possible that the
4 Commission could instead of -- instead of that or instead
5 of saying we're not going to allow it to go forward, allow
6 it to go forward on an additional interim basis beyond
7 that point?

8 A. They could do that. This particular
9 stipulation doesn't try to set out what alternatives might
10 be there for the Commission at a future date or the
11 parties might want -- want to ask for at a future date.
12 So that's certainly a possibility.

13 Q. Now, in regard to what might happen under a
14 scenario where the Commission said, we find that the
15 continued relationship here is actually detrimental to the
16 public interest at that point in time, and we think that
17 and we find that you should withdraw from SPP, if that
18 scenario developed, can you tell me what costs and
19 obligations would be incurred by the utility companies
20 that would be required on -- for them to pay to exit --

21 A. Yes.

22 Q. -- and what obligations they might have
23 going forward from that point in time?

24 A. Yeah. Each -- each month Southwest Power
25 Pool makes a calculation of what the exit fees are, and I

1 had a copy of that here someplace. Give me just a second.

2 I'll --

3 MR. ZOBRIST: Mike, I've got a copy here.

4 THE WITNESS: Thank you. It got eaten up.

5 But I can tell you that the exit fees for Kansas City

6 Power & Light are approximately \$3.2 million.

7 BY COMMISSIONER GAW:

8 Q. Is that a one-time amount?

9 A. That's one time.

10 Q. Okay.

11 A. That's a one-time fee, \$3.2 million, and

12 for Empire District Electric they're \$1.2 million.

13 They're fairly nominal exit fees. You might recall that

14 Kentucky Utilities withdrew from MISO and I think paid

15 approximately \$40 million in exit fees. Even before the

16 market started up, UE exited from MISO, and -- or Ameren

17 did, and the UE portion of that was around 12 million. I

18 don't remember what the total was, the UE total. So these

19 are fairly nominal exit fees.

20 Q. Now, one of the things that's not -- that

21 I'd like to know about, in addition to those fees, just

22 for a moment, help me to understand how the -- or if there

23 would be any obligations that would continue forward in

24 regard to new transmission expansion or other things that

25 might have been built during the time frame they were or

1 the RTO that might continue into the future and whether or
2 not those obligations would exist --

3 A. Yes.

4 Q. -- and how they would relate to the
5 utilities.

6 A. Yeah. Any commitments that Empire and KCPL
7 have to pay for transmission facilities within the
8 Southwest Power Pool would continue to go -- to go
9 forward.

10 Q. So those would be additional obligations..
11 Would there be commensurate benefits that would continue
12 forward even though they had exited SPP?

13 A. Right now, the commitments relate to the
14 reliability, not so much the market. If they exited the
15 market, I mean, there's lots of ways you could exit. If
16 they exited the market function, any -- any of the market
17 benefits that are produced by the additional transmission
18 might be -- would probably be diminished, not -- well,
19 they would still be able to get some benefit through
20 bilateral transactions of those additional market things.

21 The reliability benefits would still be
22 there. SPP operates as a regional reliability council and
23 as a security coordinator, and even if you exited SPP as a
24 market participant, you would still be a part of Southwest
25 Power Pool as a regional reliability council and subject

1 to the security coordination that Southwest Power Pool
2 provides.

3 Q. Let me give you two scenarios, and give me
4 some idea about how these would play out. One is a
5 scenario -- and I'll pick on Empire. One is a scenario
6 where there's new transmission constructed that was
7 approved and contemplated as a reliability upgrade in
8 Empire's territory --

9 A. Sure.

10 Q. -- and approved by SPP. And another is a
11 transmission upgrade that occurred somewhere outside of
12 Empire's territory. And then Empire exits from SPP. How
13 would those -- the exit impact the costs or obligations of
14 Empire on both of those upgrades?

15 A. Well, assuming those obligations stay in
16 place, and I'm assuming that they would now --

17 Q. Is there someone who would know the answer
18 to that?

19 A. Maybe Southwest Power Pool.

20 Q. We might want to ask about that, because
21 that's -- we can do that in a moment.

22 A. Okay. But assuming that those obligations
23 stay in place, other utilities would -- other transmission
24 zones, I'll put it that way, in Southwest Power Pool would
25 have an obligation to contribute to a portion of the costs

1 for Empire District Electric, and that would just show up
2 as a revenue offset against the transmission costs, the
3 revenue requirements for the transmission costs that
4 Empire actually owns. So those dollars would still be
5 coming in, and we would -- and the Staff in a rate case
6 would view them as revenue offsets against the revenue
7 requirement for those transmission facilities.

8 On the other side of it, Empire would
9 continue to incur costs that they are having to pay for
10 facilities that other people have been built. Those
11 payments are made to the Southwest Power Pool, who then
12 distributes them to those transmission owners, and that
13 would show up as a wholesale -- under the wholesale as a
14 cost.

15 So you've got -- here are the transmission
16 assets and revenue requirements. Here are the wholesale
17 related transmission revenues that Empire's receiving
18 because other people are contributing to that, whether in
19 terms of the cost allocation you're talking about or in
20 terms of transmission revenues from other sources. Those
21 get subtracted off. And then the final bucket that we're
22 talking about are transmission costs that Empire owes to
23 other folks, and those would be added on to determine
24 transmission costs of service for Missouri retail
25 ratepayers.

1 Q. And you think -- well, perhaps it would be
2 most helpful to answer the question how those obligations
3 continue after an exit before I ask you another question.

4 COMMISSIONER GAW: Would it be, possible,
5 Judge, in order to save time here, to have somebody from
6 SPP give me an answer to that? And I don't know who wants
7 to do that, but I'm sure they'd have to be sworn in,
8 especially if Les is going to do it, because he's not an
9 attorney.

10 JUDGE JONES: Please raise your hand and
11 state your name, please.

12 MR. DILLAHUNTY: Les Dillahunty.

13 (Witness sworn.)

14 JUDGE JONES: Thank you.

15 BY COMMISSIONER GAW:

16 Q. Mr. Dillahunty, give me your position with
17 SPP first.

18 ANSWERS BY LESLIE DILLAHUNTY:

19 A. Vice president, regulatory policy.

20 Q. And do you know the answer to that question
21 about if there's an exit by a utility from SPP on
22 obligations for transmission improvement that has -- that
23 has been done, how is that impacted by the exit, do you
24 know?

25 A. I'll propose a syn-- how this might work in

1 my mind. First, when we talk about exit fees, earlier
2 today we were talking about exit fees associated with the
3 ongoing operations of SPP, not specifically the
4 transmission expansion piece that we're now talking about.

5 Q. That's what I assumed, but I think that
6 needs to be clarified, so thank you.

7 A. So definitely we are now talking with how
8 upgrades provided under the SPP agreements for Empire
9 would be handled in that scenario. And those transmission
10 expansion projects, whether they be for the retail
11 customers of Empire in their local area or whether they be
12 for their region of the state or whether they be the
13 multi-regional across the SPP footprint, only take place
14 after review and approval of the SPP board of directors,
15 and then they must come back to you as their regulator for
16 approval of those expenditures.

17 So it would be my expectation that your
18 obligations to fund the local transmission that Empire
19 plans to build as well as their continuation of their
20 regional component of these reliability upgrades would
21 continue, but they would continue not because of SPP's
22 agreement per se, but because you as the Missouri
23 Commission has looked at not only the local projects but
24 those that are done on a region-wide basis and said that
25 you have approved them for recovery in their rates.

1 Q. But in regard to the question of the exit
2 of a company, if that were to occur --

3 A. Yes.

4 Q. -- does that obligation as far as SPP is
5 concerned continue beyond that exit?

6 A. I think the answer is yes.

7 Q. Okay. That's what I assumed, but I needed
8 to hear it.

9 BY COMMISSIONER GAW:

10 Q. Now, let me go back to you, Dr. Proctor.
11 Based upon that, I think that was sort of your assumption
12 in the way you were answering.

13 ANSWERS BY MICHAEL PROCTOR:

14 A. That was my assumption.

15 Q. But is there anything that you want to add
16 in regard to that -- that question about those continuing
17 obligations?

18 A. I think the only thing that I would add is
19 that at least in my view, at a 50,000 foot level, those
20 obligations, the regional obligations that we're talking
21 about, whether they be revenue streams that Empire/KCPL
22 receive or costs that they have to pay out, in my mind are
23 related to the wholesale aspect of their business. They
24 don't -- and I want to be a little bit careful here
25 because they don't exist as an island. You know, every

1 generator that puts a kilowatt hour into the transmission
2 system spreads it throughout the whole eastern
3 interconnection, you know. But clearly the biggest
4 impacts are to Empire's neighbors or Kansas City Power &
5 Light's neighbors.

6 Okay. So -- but, you know, in my view,
7 they are wanting to support the reliability of the region.
8 They are wanting to support the even -- even other types
9 of upgrades that might occur, because they get benefits
10 from the wholesale market. They have benefits for being
11 intertied to one another, and part of those benefits have
12 to do with, they don't -- they're not an island. If they
13 were an island the amount of reserves they would have to
14 hold would just be horrendous in order to be as reliable
15 as they are.

16 So I -- and I put that into the wholesale
17 category as well. So I view that as the wholesale aspects
18 of their business. The revenues may exceed the costs in
19 some years. The costs may exceed the revenues in other
20 years. You know, the revenues are the benefits they're
21 getting from other people, and costs I think are the
22 benefits they're getting from use of the region-wide grid.

23 So I'll shut up. I think I've -- but
24 that's been my view all along as to how this works and how
25 it fits together.

1 Q. Okay. Well, I don't want to -- I don't
2 want to get into the question too far here about how the
3 Staff would view those continuing costs on the retail
4 level and how they would be or not be passed through.

5 A. Right.

6 Q. But just for sake of some clarification
7 here in regard to the question on reliability and cost
8 allocation of upgrades there, we have not said what
9 that -- what that formula is and what exists currently.
10 We've talked about it generally. Perhaps that would be
11 something that ought to be clarified in a brief way if you
12 could.

13 A. Yeah. Actually, it's a fairly simple
14 concept. One-third of the cost of the economic -- excuse
15 me -- of an upgrade needed for reliability, reliability
16 upgrade, is spread throughout the region on a, we say a
17 load ratio share basis. You can think of that as on a
18 per -- a per megawatt charge, because it's really spread
19 on the basis of coincident peak demands rather than
20 energy. So it's -- but it is a region-wide rate. It's
21 called a postage stamp type of rate.

22 The other two-thirds of it are allocated on
23 a subregional basis, and to give you -- out of that
24 two-thirds, in most instances where I've seen the numbers
25 run, the utility that builds the facilities ends up

1 getting 50 to 60 percent of total cost, and there are some
2 other portions of that that will go to the neighbors
3 around them on a subregional basis. They actually use a
4 load flow study, how do the load flows change, to
5 determine who gets the benefits from it.

6 The major benefits typically go to the
7 utility building it. Now, there are exceptions to that,
8 but that's generally what occurs, and then some of the
9 other benefits show up to their neighbors.

10 Q. Now, that means, does it not, that if there
11 is a taeniasis upgrade outside of KCP&L and Empire's
12 territory that's done for reliability purposes, that
13 despite the fact that that transmission doesn't exist
14 within their system, there will be payment made by KCP&L
15 and Empire for that upgrade?

16 A. Yes.

17 Q. Now, is Staff comfortable with that fact?

18 A. Yes.

19 Q. And can you tell me why?

20 A. I think that's what I was trying to say
21 before, that I -- I view the region as an integrated power
22 grid, and the reliability of that power grid is important
23 to the operation of our utilities. And we had studies
24 done as a part of negotiating through what this cost
25 allocation would be, we had studies performed by Southwest

1 Power Pool. Basically, those studies showed that about a
2 third of all of your -- all of the megawatts that you
3 generate to serve your load flow onto other people's
4 transmission systems.

5 So you're trying to get that -- those
6 megawatts from your generator to your load. They don't
7 just flow on -- they're not like pipelines that flow
8 directly from those generators to your load. They go out
9 into a network, and on the average a third of all of the
10 power coming out of those generators flows onto other
11 people's transmission system. Now, that just indicated to
12 me how integrated that was. Now --

13 Q. Now, that is in regard to the SPP system
14 specifically, correct?

15 A. SPP system specifically.

16 Q. Okay. Go ahead.

17 A. And the cost allocation process was a
18 negotiated process. Like many of the processes in the
19 Southwest Power Pool, you have stakeholders come and they
20 are trying to come to some agreement about what everybody
21 can live with and everybody thinks is fair. And we felt
22 like a one-third share of anything that was built for
23 reliability purposes in the Southwest Power Pool was -- it
24 was getting towards the upper end of what we thought was
25 fair, but we felt that was -- that was a fairly

1 allocation.

2 In addition, our utilities could get some
3 additional benefits from their neighbors building
4 transmission, and those would show up in those -- in the
5 flow studies, and they would be paying for those as well.

6 Q. Okay. And contrary to that or the opposite
7 of that in regards to the situation if the transmission's
8 built within the territory of Empire, within the territory
9 of KCP&L, others would under that reliability cost
10 allocation share in that -- in that construction payment?

11 A. That's correct. They would share
12 one-third, and then the neighbors would share on any flows
13 that showed benefits to their neighbors.

14 Q. And again, Staff is comfortable with that?

15 A. Yes.

16 BY COMMISSIONER GAW:

17 Q. Mr. Dillahunty, one more question. You can
18 answer from there if you've got a mic available. I don't
19 know if there's one available at that table.

20 When we were talking a while ago in regard
21 to the additional obligations that may be there after exit
22 on transmission, are there any benefits that would
23 continue to exist related to transmission subsequent to
24 exit or just obligations that would continue?

25 ANSWERS BY LESLIE DILLAHUNTY:

1 A. Well, as Mike has pointed out, the benefits
2 on the capital side would be that if it was built within
3 Empire or KCPL's territory and our scenario that we have
4 outlined for the continuation of those obligations would
5 be in place, then they would continue to receive the
6 revenue.

7 But the transmission is built for
8 reliability, and there is always associated with that some
9 economic value for the transmission. So these upgrades
10 are being built to connect a new resource to the system of
11 one of the member companies, including KCPL and Empire,
12 providing them the ability to not only move that within
13 their own network, but to others, and their ability to
14 sell power and their ability to purchase power from others
15 as it is today would provide benefit.

16 And these large transmission lines that
17 we're talking about in terms of SPP at this high-voltage
18 level are the conduits by which large amounts of commerce
19 are taking place that benefit the ratepayers of both KCP&L
20 and Empire. So yes, the benefits would continue.

21 Q. Are there benefits that would not continue
22 on exit?

23 A. Assuming that the outline that we've put
24 forth continues, that is the obligations and the benefits
25 both continue, I don't see that there would be an obstacle

1 to withdrawal, unless there is the creation of a seam due
2 to withdrawal, which would therefore impose not only an
3 SPP charge but something that was now associated with
4 whatever role that KCPL and Empire had done to accomplish
5 their withdrawal and continue to provide the services that
6 are there.

7 In other words, there is a cost of
8 transaction between SPP and the MISO or between MISO and
9 TDA, for instance, and those are associated with where
10 your provision of services are provided, and were one of
11 these entities to withdraw from SPP, there is the
12 potential for the existence of a seam and another charge
13 that would be associated with the transaction of
14 transmission business into the future, and that would be
15 perceived by some to be a negative.

16 BY COMMISSIONER GAW:

17 Q. All right. Dr. Proctor, anything to add?

18 ANSWERS BY MICHAEL PROCTOR:

19 A. Yeah. If you look at the cost/benefit
20 charts, let's assume SPP or KCPL simply withdrew from the
21 RTO function, the energy imbalance function. Let me be --
22 even narrow it down, withdrew from the energy imbalance
23 market. You can look at the estimates, and the estimates
24 show, for example, out of the 7 million for KCP&L
25 2 million of that is the benefits that you get going from

1 a bilateral market to the energy imbalance market.

2 Okay. So if you withdrew from that market,
3 the concept would be to reverse this and say, there would
4 be a loss of \$2 million in benefits. You would still be
5 able to do bilateral transactions. You still may even be
6 in Southwest Power Pool as a regional transmission
7 provider. They simply are not providing you any services
8 through the energy imbalance market.

9 That number is fairly greater, a large
10 number for Empire. Out of the 48.5 million, 39.6 million
11 of that show up as benefits to them from the energy
12 imbalance market. And as I said, I think the benefits
13 showed for Empire may be a little bit high and for KCP&L
14 may be a little bit low given the methodology that was
15 used.

16 But I do believe for a smaller utility
17 who's primarily a purchaser, because they don't have a lot
18 of -- they don't have the excess base load capacity that
19 KCPL has, they are going to be in the market as a buyer
20 most of the time. They would tend to, I think, lose more
21 benefits than a seller would.

22 Q. Okay. In -- and I'm getting close to being
23 finished here. I want to ask, in regard to the issue of
24 whether or not there are any additional benefits that
25 might not be in the cost/benefit study on a monetary --

1 from a monetary standpoint, in looking at public interest
2 generally in Missouri, are there benefits to other
3 consumers within the state as a result of these utilities
4 joining an RTO?

5 And what I'm focusing on right now is the
6 question of whether or not there's additional independence
7 in the planning of transmission for overall benefit.

8 A. Yeah, I think in -- in the Staff memorandum
9 we indicated, I think it was in Section 4 of our memo,
10 starting on page 13, that the reliability of the
11 interconnected power system is a huge benefit. Now, would
12 that go away if they withdrew? Probably not. But I think
13 it would be affected.

14 The regional transmission planning was one
15 that we also listed, and regional transmission planning
16 can be viewed -- as you indicated, independence is one
17 very important factor.

18 Now, it's very important, I think, to the
19 Missouri Commission that they understand that the
20 Southwest Power Pool will be doing an independence review
21 of the transmission expansion plans that these two
22 utilities would submit, and that review is important in
23 the following way: That each of these utilities maybe can
24 expand the transmission system in a way that they see is
25 optimal, but they don't see how that necessarily interacts

1 with the utilities around them.

2 And Southwest Power Pool is able to pull
3 all those plans together and put them together and see if
4 there is any synergies that can be gained, if there are
5 any projects that don't need to get built because another
6 project is built, that's part of -- that's a part of the
7 integration of that -- of that transmission planning
8 function.

9 Also, it gives us an independent review of
10 what's really needed to provide reliability within the
11 system. So those things are, I think, a very, very
12 important benefit of SPP as an RTO. We also indicated
13 that price transparency --

14 Q. Let me stop you before you go to that.

15 A. Sure.

16 Q. In regard to that independence of
17 transmission planning question, are those benefits
18 benefits that the Staff believes will flow through first
19 of all to the utility customers that are customers of
20 KCP&L and Empire?

21 A. Yes.

22 Q. Are they also benefits that might flow
23 through to consumers of other nonregulated utilities in
24 Missouri?

25 A. To the extent that SPP has seams agreements

1 with those other utilities, like with AECl, and in those
2 seams agreements they agree to include them as in a joint
3 type of planning study, yes, they will see benefits as
4 well.

5 Q. What about, for instance, City Utilities in
6 Springfield, as an example, would consumers of City
7 Utilities perhaps see benefits as a result of S-- as a
8 result of Empire or Kansas City Power & Light being a part
9 of SPP as an RTO?

10 A. Well, I'm struggling a little bit here
11 because Springfield is a member of the Southwest Power
12 Pool.

13 Q. I understand. But from the standpoint of
14 transmission that might be built in Empire's territory, in
15 KCP&L's territory potentially impacting those City
16 Utilities consumers?

17 A. Yes. As we -- or as I thought I'd
18 indicated earlier, that really has to do with some of
19 these load flow studies that SPP will perform as a part of
20 any new transmission project that's put into place, and
21 what those load flow studies will show is that when you
22 increase transmission capability in a neighbor's
23 territory, that tends to decrease the loading on your
24 transmission system. So that now you may either be able
25 to do more transactions and get benefits from those. You

1 may be able to delay an upgrade that you might otherwise
2 have to do. You may be able to put in a new resource and
3 not have to do an upgrade because somebody has built
4 transmission next to you.

5 So, yes, you get -- you get that kind of
6 benefit, and the SPP planning process will take all of
7 those types of things into account.

8 Q. Okay. Now, since this case was originally
9 filed, I believe -- and I could be mistaken on the time on
10 this -- there has been some discussion at -- well, not
11 just discussion. There have been cases at FERC dealing
12 with this concept of an independent coordinator of
13 transmission, and that's not what's being contemplated
14 here.

15 Can you tell me if Staff evaluated whether
16 or not that might be -- or might be a more appropriate
17 relationship between these two utilities and SPP and, if
18 so, what Staff's evaluation of that was?

19 A. I don't think that -- I did not consider
20 that as an alternative because it wasn't a viable -- to my
21 view, it wasn't a viable alternative.

22 Q. And tell me why you believe that it is not
23 a viable alternative in these cases.

24 A. For it to be a viable alternative, the
25 companies would have to go out and pursue it and pursue an

1 ICT and pay an ICT to coordinate -- to coordinate their
2 transmission. Now, possibly if the RTO thing doesn't show
3 up, didn't show up as cost beneficial, it -- I assume it
4 would be a possibility for Southwest Power Pool -- Kansas
5 City Power & Light to go to SPP and say, we really don't
6 want to join you as an RTO, but we would like you to be an
7 independent coordinator of our transmission service, and
8 so that would certainly be a possibility.

9 In essence, what we looked at here in my
10 view was kind of a step by side, what about going from the
11 standalone to SPP being a regional transmission provider.
12 Now, there may be some marginal differences between that
13 and an ICT that deal with certain aspects of it, and then
14 moving from there to an RTO.

15 So I guess in the sense that it showed
16 positive benefits of moving from just being a regional
17 transmission provider to being an RTO, we -- we reviewed
18 in that context, but only in that context.

19 Q. Well, in regards to the general benefits
20 that an RTO would bring in SPP's case as opposed to it
21 functioning as an ICT for a utility, can you tell me
22 generally what you don't get and do get in comparison of
23 those two entity functions? First of all, independent
24 transmission planning, if you could address that briefly,
25 and any relationship in the markets.

1 A. I'm trying to recall whether ICTs actually
2 provide transmission, independent transmission planning
3 for the companies that are under them. My -- and I'm
4 sorry, I don't know for sure. Maybe someone --

5 COMMISSIONER GAW: I think that Nick Brown
6 is raising his hand and volunteering to provide a little
7 information on that.

8 JUDGE JONES: Would you please state your
9 name for the record.

10 MR. BROWN: Nick Brown.

11 (Witness sworn.)

12 BY COMMISSIONER GAW:

13 Q. Would you give your name and spell it
14 again, Mr. Brown, and say what your position is.

15 ANSWERS BY NICK BROWN:

16 A. Nick Brown, N-i-c-k, B-r-o-w-n. I'm
17 president and chief executive officer of Southwest Power
18 Pool. Good morning.

19 Q. Good morning. Can you answer that
20 question?

21 A. I can.

22 Q. Go ahead.

23 A. And I will be very specific with the
24 Intergy ICT because there are a number of contracts that
25 we have entered into for the provision of similar

1 services, and there are many three-letter acronyms
2 covering these types of arrangements. You mentioned the
3 ICT, and today that is an independent coordinator of
4 transmission concept filed by Intergy Corporation with the
5 FERC. It has recently been accepted, and we do expect to
6 put that in operation September 1.

7 With respect to a compare and contrast of
8 an ICT as proposed by Intergy and will be implemented by
9 Southwest Power Pool and participation in an RTO, there is
10 one distinct, very distinct difference. As Intergy's
11 independent coordinator of transmission, SPP will be
12 administering Intergy's transmission service tariff.
13 Intergy's facilities will not be part of SPP's regional
14 tariff.

15 So it's -- so it's important to understand
16 that distinction. There is no regional combination or
17 optimization from a selling of transmission service
18 between the SPP tariff and the Intergy tariff, nor is
19 there a sharing of revenues between those two
20 organizations.

21 In terms of regional planning, in terms of
22 the independence of the administration of the planning
23 process and the independence of administration of the
24 selling of transmission service, there's virtually no
25 distinction between the ICT and the RTO model.

1 What is missing, however, is the
2 optimization across regional boundaries. And as Les had
3 indicated, with the seams from a transmission service
4 perspective there will continue to be two rates rather
5 than one rate and two independent processes to analyze the
6 ability of the transmission network to accommodate
7 requests for transmission service.

8 Q. So if -- in the Intergy situation, can
9 entities within the Intergy footprint propose new
10 transmission to SPP within the Intergy territory?

11 A. Yes, they can.

12 Q. And that would be evaluated by SPP in the
13 same way as it would in any of the other areas where
14 they're operating as an RTO?

15 A. That is correct.

16 Q. And it would be -- if Intergy did not
17 support that transmission upgrade, would it occur?

18 A. Well, the process that we will use for
19 planning Intergy's system will be very, very similar to
20 SPP's. In fact, it's almost one and the same process from
21 a planning perspective. All the interested parties can
22 participate in that dialog. It is open, very transparent
23 process.

24 So, yes, Intergy could oppose it, but we
25 would still go through the overall process that includes

1 regulatory commission participation. So, yes, I can see
2 where an entity could oppose it and it would still be
3 built.

4 Q. And what's the cost allocation methodology
5 on reliability?

6 A. Therein lies another huge distinction
7 between the RTO and a standalone ICT, is SPP's cost
8 allocation process is a component of the SPP regional
9 tariff. Intergy's tariff has no provisions for a cost
10 sharing between itself and any other utilities.

11 Q. So if -- and I'm asking these questions to
12 understand whether there's -- how much difference there is
13 for purposes of this case. But in regard to that
14 question, if there is -- if there was a -- if there was a
15 load in SPP territory, but a generation unit being built
16 in Intergy territory and necessary upgrades to be made in
17 order for that generation to serve that load, who would
18 pay for that?

19 A. The requester of transmission service.
20 That could be the load or it could be the generator or it
21 could be an independent third party. But in this
22 particular case, unless it was included, the need for that
23 was included in SPP's regional planning process, the cost
24 would be borne by either the load or the generator or an
25 independent party, whoever the requester of transmission

1 service was.

2 Q. All right. But if Intergy was neither of
3 those, Intergy would not pay for that transmission
4 upgrade?

5 A. That is correct. And one of the things
6 Intergy requested in their ICT proposal was a cost
7 assignment process such that the cost causer would pay for
8 those upgrades.

9 Q. Okay. So that transmission then would --
10 that concept would be different if I moved the generation
11 unit to somewhere else in SPP besides the -- well, just
12 somewhere else in SPP?

13 A. That is correct.

14 Q. So then we'd be, if it were a reliability
15 upgrade under those circumstances, you'd be back to the
16 third/two-thirds allocation?

17 A. Correct. Now, it is possible within the
18 SPP tariff for a load to designate a resource outside of
19 SPP's footprint, and any transmission that would be
20 required in SPP's footprint could be a part of SPP's cost
21 allocation process, but not facilities in Intergy's
22 territory.

23 COMMISSIONER GAW: Okay. Thank you,
24 Mr. Brown.

25 MR. BROWN: You're welcome.

1 BY COMMISSIONER GAW:

2 Q. Dr. Proctor, does that have any impact on
3 your opinions?

4 ANSWERS BY MICHAEL PROCTOR:

5 A. Well, I think the one thing that Nick,
6 well, didn't necessarily point out was, while there may be
7 security constraining the economic dispatch occurring
8 within the Intergy footprint, it's not a region-wide
9 dispatch. I think most of what he's telling you is this
10 looks like a little mini RTO.

11 So most of the benefits that you get from
12 being in a bigger region are somewhat diminished by the
13 fact that you're -- that you're going to have this little
14 ICT just doing the operations for a single utility. So I
15 think that's the only thing I would add.

16 Q. Let me ask --

17 A. There are problems with price transparency.
18 There are problems with -- there are all kinds of issues
19 related to that, things that -- information that you
20 cannot get from and know whether or not that utility's
21 actually minimizing its costs when it's doing its -- when
22 it's doing its economic dispatch, has it really looked at
23 all of the other alternatives that are available.

24 In an RTO context, those alternatives
25 become apparent. I mean, people are bidding those things

1 in, and you know what they are and you know what the price
2 is for them. And you will not see that in an ICT
3 situation.

4 Q. Mr. Brown, do you agree with that?

5 ANSWERS BY MR. BROWN:

6 A. I do.

7 Q. Because I'm going to ask you this question
8 in regard to this issue on your position since you're
9 in -- you're uniquely qualified since you're operating in
10 both scenarios here.

11 If I'm looking at this from the standpoint
12 of transmission construction within Kansas City Power &
13 Light's territory or within Empire's territory and that
14 transmission is not for a generation unit owned by either
15 of those utilities and it's not for load that they serve
16 as native load, they're going to have to pay for some of
17 that cost of the upgrade if they're -- if they join as an
18 RTO. If they join -- if you were operating as an ICT,
19 they probably wouldn't have to pay for that upgrade.

20 Why -- if I'm looking at this as a
21 Commissioner, just looking at the utility companies alone
22 and not measuring anything else, why isn't it better for
23 them to be involved with you as an ICT?

24 A. Well, it's been alluded to in testimony all
25 morning, we're all in this together. There's huge benefit

1 to being interconnected. That high degree of
2 inter-connectivity brings with it a high degree of
3 inter-dependence. Utilities today simply cannot operate
4 on a standalone basis. And so, yes, there may be times
5 when a utility is faced with certain costs that it
6 otherwise might not be faced with were it on a standalone
7 basis, but there are just huge, huge benefits to be part
8 of an interconnected electric network.

9 Q. And do you think Intergy just doesn't see
10 all of those benefits and that's the reason they don't
11 want to use you as an RTO, as a full partner?

12 A. I don't want to speak on behalf of Intergy.

13 Q. I know you don't.

14 A. I certainly don't have the authority to do
15 that.

16 Q. I realize I'm putting you in somewhat of a
17 position here.

18 A. No. That's quite all right.

19 Q. But I really -- in this case, I need to
20 understand. The bottom line here is that they're better
21 off being with you as an RTO than they are the way Intergy
22 is, and I'm trying to understand why we --

23 A. I have testified --

24 Q. -- we should see that benefit and maybe
25 some other areas and some other places might see it

1 differently.

2 A. I have testified on a number of occasions,
3 both before the FERC and before the Louisiana Commission,
4 and others on our staff have in both Mississippi and
5 Arkansas. The ICT proposal is a step in the right
6 direction from a utility that has heretofore managed its
7 own transmission network on its own, almost as an island.
8 There are huge benefits. It is a step in the right
9 direction.

10 We have also testified that it is not as
11 superior as participation in an RTO for the regional
12 optimization increases. Intergy has its own business
13 model. In their minds, the ICT is in their best
14 interests, and they have pursued that and they have
15 convinced the FERC that it is superior to a standalone
16 situation, and they've also been able to justify not
17 participating in the SPP RTO at this time.

18 My personal hope is that one day they will,
19 and I've also testified to that fact in many proceedings.

20 Q. All right.

21 A. I do want to clarify something. David
22 Linton, our counsel, reminded me of a position that
23 Intergy has taken in the Arkansas docket related to the
24 ICT.

25 Q. Yes.

1 A. That for transmission in their footprint to
2 be built by Intergy and rolled into their rates, that they
3 would have the final say on that. There's still folks
4 with differing opinions on that, but that is a position
5 that they have taken in the Arkansas proceeding.

6 Q. That's Intergy's position?

7 A. That's correct.

8 MR. BROWN: And, David, is that fairly
9 stated?

10 MR. LINTON: That is correct.

11 COMMISSIONER GAW: Thank you, Mr. Linton.
12 Okay. Thank you. This could be counsel, whoever wants to
13 do this, for KCP&L and Empire. Give me your rationale for
14 why it's better to be part of SPP as an RTO as opposed to
15 using them as an ICT your Honor, with all due respect, I'm
16 going to punt that to the expert here.

17 COMMISSIONER GAW: Well, I believe you're
18 an expert, Mr. Fischer, but if you'd like to pass it on,
19 I'm fine.

20 MR. FISCHER: Richard Spring, our vice
21 president of transmission.

22 COMMISSIONER GAW: Thank you.

23 JUDGE JONES: Mr. Spring, would you please
24 raise your right hand.

25 (Witness sworn.)

1 RICHARD SPRING testified as follows:

2 A. One of the main differences between KCPL
3 and the Intergy model is that KCPL is a fairly small
4 footprinted transmission owner in the Southwest Power
5 Pool, versus the magnitude of the Intergy system. We have
6 over the years received a number of services from the SPP
7 that we have benefited from, not having those provisions
8 internal to us, so that you could say we have had some
9 ICT-type services from the SPP. But just the sheer
10 magnitude of our size benefits us to be here on a regional
11 basis rather than standalone basis.

12 BY COMMISSIONER GAW:

13 Q. So you believe that it's in your best
14 interests, obviously, if I just give you those two
15 choices, utilizing them as an ICT as opposed to joining as
16 an RTO, you believe it's in KCPL's and KCPL's customers'
17 best interests to be a full RTO member?

18 A. Yes, I do.

19 Q. And I don't -- we can break down specifics
20 all day long, but I just wanted to make that clear today,
21 and if Empire could answer the same question. And if
22 we're dealing with -- are we dealing with a witness?

23 MR. COOPER: We are. Yes, Commissioner.
24 This would be Mr. Michael Palmer, and he will need to be
25 sworn.

1 JUDGE JONES: Mr. Michael Palmer, will you
2 first spell your last name for the court reporter.

3 MR. PALMER: P-a-l-m-e-r.

4 (Witness sworn.)

5 JUDGE JONES: Thank you.

6 MICHAEL PALMER testified as follows:

7 BY COMMISSIONER GAW:

8 Q. I'm sorry I didn't ask officially, but I
9 think counsel said the position for KCP&L's witness. If
10 you could for Empire, that be helpful.

11 A. Yes, Commissioner. I'm the vice president
12 of commercial operations for Empire.

13 Q. All right. And can you give me your
14 response to the question I posed over to KCP&L?

15 A. Yes. I agree with Mr. Spring's comments.
16 Empire feels that the current model that we're looking at
17 on the RTO as proposed by SPP is in our customers' best
18 interests at this time.

19 We do understand the ICT is something new.
20 It has been approved by FERC on an interim basis, I
21 believe for a four-year period. We think there will be
22 much knowledge gained about that process through that time
23 period. What we have before us is a cost/benefit study
24 certainly in Empire's case showing tremendous benefits for
25 our customers to continue on the path that we are today.

1 We would be concerned, and I would like to
2 state, about the cost/benefits if other companies are not
3 allowed to join under the energy imbalance plan through
4 the RTO that they may change the entire numbers for the
5 other companies in the system, and we'd certainly have to
6 relook at that at that time. But we are very convinced at
7 this point to move forward with the current plan.

8 Q. And just real quick, Mr. Brown, the
9 scheduled opening of the imbalance market. You can speak
10 from your desk if you've got a microphone somewhere handy.
11 Is it your belief that the markets will open this fall?

12 ANSWERS BY NICK BROWN:

13 A. Absolutely.

14 Q. Because there have been some delays up to
15 this point in time, correct?

16 A. That's correct.

17 Q. But there's no indication that you have
18 that the imbalance market will not open this fall at this
19 point?

20 A. No, there are no indications that I have.

21 MR. LINTON: Commissioner Gaw, this is
22 David Linton.

23 COMMISSIONER GAW: Yes.

24 MR. LINTON: Not to be presumptuous, but
25 Les Dillahunty would like an opportunity to respond to

1 your prior question to the two companies.

2 COMMISSIONER GAW: Sure.

3 MR. DILLAHUNTY: As I've been able to
4 listen to the discussion, just a couple other things I'd
5 like to point out.

6 COMMISSIONER GAW: Go ahead.

7 MR. DILLAHUNTY: Independence, the ICT SPP.
8 SPP and all these rules that we're talking about are
9 overseen by an independent board of directors who have no
10 financial ties to these organizations themselves, as well
11 as a regional state committee. So that is the SPP
12 regional state committee, not the SPP ICT state committee.
13 So this independence I think is something else that brings
14 significant value that we've not discussed specifically
15 today.

16 Then for SPP, and not for the ICT that we
17 now envision is the independent market monitor that is not
18 affiliated in any way with SPP, other than they are
19 retained as an outside firm that looks over the shoulders
20 of all of us, that is SPP and the participants in the
21 conduct of the markets and reports to the regional state
22 committee, to board of directors and to the FERC. And if
23 there are issues that arise as a result of market
24 operations, those go to the independent market monitor.

25 And the final thing I would mention is that

1 with regard to the Intergy ICT, the costs that they are
2 paying are subsidizing the costs for the members of SPP.
3 In other words, it is not -- one has to take into account
4 the cost of the services that SPP provides and the Intergy
5 revenue is actually lowering the cost that the members of
6 SPP are providing.

7 So there would have to be an independent
8 analysis made by each entity, but there are costs that are
9 necessary to be incurred by an ICT and an RTO, and we
10 believe that the combined basis of an RTO has the
11 potential of providing those at a lower cost than an
12 individual standalone ICT all right. Let me just ask if
13 anyone has any contrary comments to make to anything
14 that's been stated on testimony today, especially from
15 Dr. Proctor, or any clarification that they'd like to
16 make. I realize that's very difficult, but if there was
17 any notes that anyone made in regard to that?

18 Mr. Dottheim. I really wasn't anticipating
19 you coming up, but...

20 MR. DOTTHEIM: A point of clarification
21 that may need not be made, but I just wanted to make sure
22 that it was clear, and I expect the Commissioners have
23 noticed this from the two Stipulations & Agreements, and
24 that is there are before us, in both instances the
25 signatory parties are the Staff, Public Counsel, the

1 utility and SPP.

2 When you go to the Stipulations &
3 Agreements on those sections or paragraphs dealing with
4 jurisdiction and the Missouri Public Service Commission's
5 jurisdiction to direct the utility to terminate or modify
6 its participation in SPP, there's reference to Empire,
7 Staff and Public Counsel, or Kansas City Power & Light,
8 Staff and Public Counsel acknowledging that the Commission
9 has the continuing jurisdiction.

10 SPP is not listed along with the utility,
11 Office of Public Counsel and the Staff. There usually is
12 additional languages -- additional language that SPP
13 acknowledges that there is a possibility that the Missouri
14 Public Service Commission may direct the utility to
15 terminate or withdraw from the SPP. So I just wanted to
16 make that clear.

17 COMMISSIONER GAW: I didn't quite
18 understand. You say there usually is additional language?

19 MR. DOTTHEIM: Yes. In fact, if I could
20 direct you to page 6 of the Stipulation & Agreement, and
21 it's -- it's in both documents. It's the second paragraph
22 on that page, and if I could direct you to the second
23 sentence, which says, Empire, Staff and Public Counsel
24 acknowledge that, one, prior to the end of the interim
25 period the MoPSC has the jurisdiction to order that its

1 approval of Empire's participation in SPP be terminated,
2 modified or further conditioned, and two, if the MoPSC
3 rescinds its approval of Empire participation in SPP, it
4 has the jurisdiction to require Empire to timely initiate
5 any notices, filings, and actions necessary to seek
6 withdrawal. SPP acknowledges that there is a possibility
7 that the MoPSC could issue such an order to Empire.

8 There's similar language in the
9 Stipulation & Agreement respecting Kansas City Power &
10 Light, and language of that nature appears elsewhere
11 throughout the document. And I just wanted, again, to
12 point out that there is that distinction. I thought there
13 might -- there might have been some indication that the
14 Staff, Office of Public Counsel, the utility and SPP were
15 taking literally the same position on Missouri Public
16 Service Commission jurisdiction. SPP wanted that
17 distinction to appear in the document.

18 COMMISSIONER GAW: But it is clear, is it
19 not, that this stipulation conditions the joinder of the
20 utilities with SPP as an RTO on this interim joinder, so
21 it's not --

22 MR. DOTTHEIM: Yes.

23 COMMISSIONER GAW: -- it is not a condition
24 where later on we may ask them to withdraw, although that
25 may be another portion of the agreement, there is this

1 interim -- interim time when there is automatically has to
2 be a renewal for this continued relationship?

3 MR. DOTTHEIM: Yes.

4 COMMISSIONER GAW: Thank you, Mr. Dottheim.

5 Again, is there anything else from anyone
6 in regard to anything that's been testified to that
7 you-all want to say now while you have the chance?
8 Mr. Fischer?

9 MR. FISCHER: Just very briefly.

10 QUESTIONS BY MR. FISCHER:

11 Q. Dr. Proctor, you spoke with Commissioner
12 Gaw about supplemental upgrades to the transmission and
13 the cost of those supplemental upgrades.

14 I just wanted to highlight a provision on
15 page 11 of the KCPL agreement where if KCPL does
16 participate in a supplemental upgrade of more than \$25
17 million, prior to making that commitment, is it your
18 understanding in the stip that KCPL and Southwest Power
19 Pool will be agreeing to provide Staff and Public Counsel
20 information regarding the need for that and the costs and
21 benefits of those upgrades?

22 ANSWERS BY MICHAEL PROCTOR:

23 A. Are you asking me?

24 Q. Yeah.

25 A. I recall that. I think you said it's

1 showing up on page 11.

2 Q. Page 11, I believe, paragraph C, cost for
3 supplemental upgrades and transmission.

4 A. Okay. That's on my page 10. That's all
5 right. Yes, that's -- that was a part of that provision.
6 I also recall as a part of the provision that because of
7 the cost allocation, that both Kansas City Power & Light
8 and KCPL have committed to to put forth efforts on a
9 regional basis.

10 That is, since now you're having costs
11 allocated from other companies' upgrades to put forth
12 those efforts to review on a regional basis, there's a
13 stakeholder process in SPP to do that and to participate
14 this an process and put forth every effort to review those
15 upgrades to ensure we don't get, I use the word gold
16 plating, we don't get transmission facilities built that
17 aren't needed. So that commitment also occurs within this
18 document.

19 Q. And then the last question I had,
20 Dr. Proctor, as a part of the stipulation, at least on
21 page 3 of my document, we indicate that the signatories
22 agree that KCPL's decision to participate on an interim d
23 and conditional basis in SPP under the terms provided in
24 this stipulation is prudent and reasonable.

25 You still continue to agree with that

1 statement from the Staff's perspective; is that right?

2 A. That's true.

3 MR. FISCHER: That's all I have. Thank
4 you.

5 COMMISSIONER GAW: If no one has anything
6 else, Judge, I just want to make sure that everybody's on
7 one page with what's been presented to the Commission up
8 to this point. I don't see anyone saying that they want
9 recognition. So I'm done. Thank you for the time.

10 JUDGE JONES: Now we'll have questions from
11 Commissioner Murray.

12 QUESTIONS BY COMMISSIONER MURRAY:

13 Q. Just for a slight first clarification,
14 Dr. Proctor.

15 ANSWERS BY MICHAEL PROCTOR:

16 A. Yes.

17 Q. In terms of the retail rates for
18 transmission being continued to be set by the Missouri
19 Commission, is that structured in such a way that the
20 bundled retail load is charged -- if FERC accepts this,
21 that FERC will charge for the bundled retail load
22 differently than it is charging for other transmission?

23 A. Basically, if FERC goes with this
24 provision, the bundled retail load would be excluded from
25 a -- making a FERC charge for their transmission service.

1 That would be left up to the Missouri Commission.

2 Q. Okay. So it's just -- it's just treated
3 separately?

4 A. It's treated separately. In essence, right
5 now if -- and this is kind of getting into the kinds of
6 arguments that you might see before the Missouri
7 Commission on this if we didn't do this agreement.
8 Anything that SPP pays for its bundled retail load,
9 anything that KCPL or Empire pays to SPP for its bundled
10 retail load would have been through the revenue
11 distribution actually paid back to those companies.

12 Okay. So if they had been on the FERC
13 rate, they would have paid it, but they would have got the
14 money back. But this -- what this provision, in my view,
15 does is it says that KCPL and Empire have agreed not to
16 come in and claim that the transmission -- all of their
17 transmission costs are wholesale and the Commission
18 doesn't have any jurisdiction over those and they have to
19 charge FERC rates for that. That's basically what this
20 does.

21 Q. And then my last question. I'm a little
22 bit unclear as to why -- let's see. If natural -- I can't
23 find your statement where you said it, but if natural gas
24 prices are higher, the benefits are expected to be
25 increased?

1 A. Yes.

2 Q. And you probably explained that, but I
3 missed it, and I'm having trouble understanding that.

4 A. Okay. Let me try to explain it. It isn't
5 necessarily a transparent concept, but in this particular
6 case, there are kind of two things that happen. Let's
7 look at Kansas City Power & Light first. If natural
8 prices go up, then wholesale electricity prices will go
9 up, and the base load generation that they have to sell
10 will sell at a higher price. They will receive a higher
11 margin on their sales, and KCPL's customers would benefit
12 because that profit margin then flows back to reduce the
13 generation costs that it charged to KCPL customers. That
14 one's fairly clear.

15 The one that's maybe a little bit more
16 difficult to understand is Empire's situation where they
17 have a lot of gas-fired generation. Now, we're not
18 comparing a case where Empire's under lower gas prices
19 versus higher gas prices. Clearly their customers benefit
20 more from lower gas prices. I just want to be absolutely
21 clear on that. What you're comparing is a case with and
22 without a market if everybody's paying higher gas prices.
23 So I just want to make sure that that's absolutely clear.

24 So now Empire has higher gas prices. If
25 they have to run their generators more, okay, to serve

1 their customers, let's say in the bilateral context,
2 they're going to have to pay that -- they're going to have
3 to pay or it's going to cost them this higher gas cost to
4 serve their customers. So if they're able to substitute
5 that for buying from the market, even though the market
6 price has gone up, if they're substituting that for buying
7 from the market, they get an increased benefit from doing
8 that when compared with lower prices.

9 But again, I think it's a little more
10 difficult to explain for a utility that's a purchaser than
11 it is for one that's a seller. And I don't know if
12 somebody from Empire wants to help me out on that one.
13 I wasn't trying to put them on the spot, but --

14 MR. PALMER: I think I agree with that.
15 Basically, my understanding of how it works is as the
16 market -- we enter the market operation, Empire has the
17 capability then to back down some of our gas units and
18 purchase power on the market. And if that market price is
19 lower than our incremental cost of running the gas
20 generator, then our customers save money.

21 So when gas prices go up, I think, and what
22 Dr. Proctor's stating, is that certainly the market price
23 of gas will go up, but probably not as much as our
24 incremental cost would go up of running our gas units. So
25 that margin difference there becomes greater and saves

1 Empire more money.

2 COMMISSIONER MURRAY: Thank you. That's
3 all I had.

4 JUDGE JONES: And questions from
5 Commissioner Clayton?

6 COMMISSIONER CLAYTON: Thank you, Judge.

7 QUESTIONS BY COMMISSIONER CLAYTON:

8 ANSWERS BY DR. PROCTOR:

9 Q. Good morning, Doctor.

10 A. Good morning.

11 Q. I wanted to ask you a few questions along
12 principally one line of issues. First of all, I want to
13 ask, you are familiar with some strained relations or at
14 least some difficulties that have occurred among municipal
15 companies --

16 A. Yes.

17 Q. -- MISO and AmerenUE, is that -- are you
18 aware of those issues?

19 A. I'm aware of those issues, yes.

20 Q. And you're aware that those issues involve
21 a modification or a change in how charges are made to the
22 municipalities and perhaps a restructuring of some costs
23 that are different with Ameren's being a member of MISO
24 now; is that correct?

25 A. That's correct.

1 Q. Or you're aware --

2 A. Actually, Ameren restructured those things
3 with their customers, yes.

4 Q. All right. Thank you for clarifying that.
5 What I wanted to ask is, first of all, are there any
6 circumstances within the territories of Empire or KCP&L
7 where similar disputes or issues could arise?

8 Are you aware of whether either of those
9 utilities have such wholesale contracts with either
10 municipalities or other electricity providers where
11 problems of this nature that have affected Kirkwood,
12 Hannibal, Kahoka, Marceline and other communities, is
13 there the potential for communities in those territories
14 to be affected?

15 A. I have -- I have contacted both of the
16 companies about this issue and am concerned about it. Let
17 me give you an overview, but you may want to take some
18 testimony from the folks that know their systems in more
19 detail than I do, but let me give you my general
20 understanding of it.

21 There are basically two types of wholesale
22 customers that these utilities will serve in Missouri.
23 One is what's called a full requirements customer. Those
24 customers are equivalent to the ones that you were talking
25 about that Union Electric serves. Union Electric only

1 serves full requirements customers. That means they
2 provide both generation and transmission for that
3 wholesale customer's total load. Okay. That wholesale
4 customer is not buying a chunk of generation from them
5 that they get to dispatch when they want it or need it.
6 They are just like a Missouri retail customer. Those
7 cities are just like we are, in essence, in the full
8 requirements customers.

9 My understanding in talking to the two
10 utilities is the full requirements customers right now on
11 their existing contracts will see no difference from --
12 from this.

13 Q. So there are some customers of either
14 Empire or KCP&L that would meet the same characteristics
15 as the municipalities of Hannibal, Kahoka, Kirkwood,
16 Marceline, some other communities?

17 A. Right.

18 Q. There are some customers of Empire and
19 KCP&L?

20 A. Yes. But my understanding of the
21 difference is these are transmission customers of Kansas
22 City Power & Light. They are -- they are not transmission
23 customers of Southwest Power Pool in Kansas City's case.
24 They are under those contracts. In my view, the full
25 requirements customers and UE should have been viewed in

1 the same way as native load for UE, Union Electric is
2 their provider, and not the Midwest ISO. I mean, that is
3 my view of full requirements customers. Now, partial
4 requirements customers --

5 Q. Okay. So full requirement customers is the
6 first type. Second type would be the one you're getting
7 ready to talk about now?

8 A. Yes.

9 Q. Okay.

10 A. Both companies -- well, I'm going to have
11 to recall. I know at least one of the companies has
12 partial requirements customers. Give you an example, I'm
13 not going to get into the specifics of their customers.
14 They can testify on those.

15 But, for example, MJMEUC as a power pool is
16 a partial requirements customer. They go to various
17 providers and they negotiate for a block of power. Now,
18 they can negotiate that block of power on whatever terms
19 they want to negotiate it on, and they may be able to
20 dispatch it or do whatever they want to with it, depending
21 upon the contract, but they are -- they are a transmission
22 customer.

23 They would be a transmission customer of
24 either MISO or Southwest Power Pool, depending upon which.
25 In some cases MJMEUC is a transmission customer of AECI.

1 Depends on where the cities are and those types of things.

2 But those partial requirements customers
3 are -- I guess way to view it is they're not part of the
4 native load of the utility. They are -- they are an
5 independent load-serving entity within the footprint
6 that's going out and arranging for both transmission
7 service and for generation to meet their loads.

8 That was essentially what occurred in 1996
9 with the open access tariff as FERC says, we're no longer
10 going to have everybody be a full requirements customer of
11 somebody. You have now the freedom to go out and buy your
12 power wherever you want to. You're no longer going to be
13 a captive customer.

14 So those customers are different. They
15 would be Southwest Power Pool customers, and they would
16 also be viewed when you get into the energy imbalance
17 market as market participants.

18 Q. So they would have their own separate
19 contract relations with either SPP or MISO?

20 A. That's correct.

21 Q. Okay. And while under the full requirement
22 customers, they're part of the native load and they buy
23 the whole package, the transmission and the generation
24 together?

25 A. That's correct.

1 Q. So with the second example, we would not
2 have a circumstance where -- where the customer, the
3 municipality would necessarily have additional charges
4 from the utility because they're dealing with all their
5 transmission somewhere else?

6 A. That's correct.

7 Q. Okay.

8 A. They would not -- I don't think they would
9 see any charges from the utility except whatever contracts
10 they might have with the utility.

11 Q. Okay. Now, on full requirement customers,
12 the native load, generation and transmission, what do you
13 anticipate happening in terms of changes in charges or
14 changes in the contractual relationship, if any?

15 A. My understanding is there would be no
16 changes, until their contract is up. Now, once their
17 contract terminates, of course, you -- they might
18 renegotiate a new contract, but there could be some
19 differences at that point.

20 Q. So the full requirement customers should
21 see no change in costs or change in relations with the
22 utility, they will just continue operating under the
23 contract that they have right now?

24 A. That's my understanding, yes.

25 Q. Now, should that have happened in the

1 MISO/Ameren circumstance?

2 A. In my opinion, it should have happened.

3 Q. Are there -- in the case where we have
4 where Ameren joined MISO, could the Commission have added
5 provisions within its Order approving the agreement to
6 prevent such circumstances?

7 A. Sure, if we'd been aware of them at the
8 time, and the other thing I would say is that those
9 wholesale customers could have participated in that as
10 well. I don't think anybody was aware of what might
11 happen at the time we were in negotiation.

12 Q. The wholesale customers should have
13 participated in the case you mean?

14 A. Yes. I mean, they could have participated
15 in the case. I don't think they were aware of what was
16 happening and what might happen to them. They thought
17 they had contracts and those contracts were valid, and
18 then after Union -- or Ameren joined MISO, Ameren went to
19 those customers and basically said, here's how it's going
20 to come down, and you are going to be a market
21 participant.

22 Q. Did they have the leverage to do that? Did
23 they have the power to do that under their contract?

24 A. That's a legal question. I don't -- I
25 don't know the answer.

1 Q. Okay. Do you believe that we should
2 include any language in the Order associated with this
3 case dealing with such issues? I guess I can ask it two
4 ways. Is it necessary or is it advisable, either way?

5 A. I don't think it's necessary, but what
6 might be advisable is to have each of the -- each of the
7 companies on the record stating, verifying what I've said
8 and how they're going to deal with their wholesale
9 customers.

10 Q. Okay. Well, then perhaps maybe I can ask
11 those questions. I guess start with Empire, first of all,
12 do you understand what we're talking about here?

13 ANSWERS BY MR. PALMER:

14 A. Yes, Commissioner. And I have one thing I
15 might clarify on what Dr. Proctor has stated about the
16 costs that our full requirements wholesale customers will
17 see. With the W1 FERC tariff that our three Missouri
18 customers, wholesale customers are under, there is a
19 monthly fuel adjustment calculation that directly affects
20 their monthly charges.

21 As we enter the EIS market and we have the
22 \$40 million of savings projected to Empire, that will go
23 right into the calculation, and those wholesale customers
24 should benefit by those savings on a per megawatt basis as
25 compared with all of Empire's native retail customers.

1 Q. So one change -- one change in the
2 relationship is that the variables used to calculate that
3 adjustment will be modified and you'll use a different
4 variable as part of the SPP?

5 A. The variables will be the same, but the
6 cost of one of the variables should go down.

7 Q. Okay. And then there was a second, I think
8 you said, a second --

9 A. Mainly wanted to state our full
10 requirements wholesale customers are the City of
11 Mount Vernon, the City of Monett and the City of Lockwood
12 in Missouri. We do have other customers outside of the
13 state, but those are the ones that pertain to Missouri.

14 Q. And they're full requirement?

15 A. Full requirements.

16 Q. Okay.

17 A. Yes, we have contract, tariff in place.
18 They will not see any changes in transmission allocated
19 charges unless we go back to FERC at some point. If
20 Empire's transmission costs are changing, that may modify
21 in the future, they could go up and down depending on many
22 factors.

23 Q. And I assume you have a -- I assume there's
24 a clause in the contract that you have that would permit
25 that currently?

1 A. I think the way we have certainly the City
2 of Lockwood contract had an initial term of 20 years. We
3 are currently in a mode with that contract that with a
4 60-day notice either the City of Lockwood or Empire can
5 ask to make modifications to that contract.

6 And it's my understanding that the City of
7 Monett and City of Mount Vernon are set to expire in 2009
8 and 2008 respectively, and we would have an opportunity to
9 make some modifications to that at that time.

10 Q. Okay. But Empire would not -- Empire would
11 suggest that until those contracts run out, there would be
12 no change in the charges that are being applied to those
13 municipalities from what they are being done today, other
14 than the modification of that fuel adjustment mechanism?

15 A. The fuel adjustment certainly, and I would
16 have to check the contract. I don't know, Dean, if you're
17 familiar with those or not, what it would take to make a
18 modification prior to termination of that. I don't -- I
19 don't understand, have that knowledge.

20 MR. COOPER: We do not have those contracts
21 available to answer that question at this time.

22 COMMISSIONER CLAYTON: Don't submit them as
23 an exhibit. Don't do it.

24 MR. COOPER: We promise.

25 COMMISSIONER CLAYTON: Mr. Cooper, are you

3 MR. COOPER: Only -- I guess only second,
4 maybe third hand, in that I have heard some of the
5 rumblings that have been mentioned at your Commission
6 meetings, and really that's the only source of my
7 knowledge.

10 MR. PALMER: Yes, Commissioner, and
11 somewhat as Mr. Cooper has stated through --

14 MR. PALMER: Fourth hand from Mr. Cooper
15 and thirdhand from others as well. But I think
16 Dr. Proctor stated it very well, that I think a lot of
17 that issue is about that these were not full requirements
18 customers, and they're kind of out on the open market
19 looking for transmission and generation opportunities to
20 serve their customers. They're just a different type of
21 customer than we have on Empire's system.

24 MR. PALMER: No.

1 second category that Dr. Proctor suggested during his
2 testimony?

3 MR. PALMER: I do not believe we currently
4 do. We have had a request on occasion from the City of
5 Carthage, Missouri, to -- they've been out for a request
6 for proposal on power purchases, and I think we have
7 submitted bids in to that request, as other companies have
8 also. We do not currently have a relationship with
9 Carthage.

10 COMMISSIONER CLAYTON: So there would be no
11 relationship to change or to be changed with Carthage, it
12 would be a brand-new agreement?

13 MR. PALMER: Correct.

14 COMMISSIONER CLAYTON: KCP&L?

15 MR. SPRING: Yes.

16 COMMISSIONER CLAYTON: I guess I'll ask you
17 first, are you familiar with the circumstances with MISO,
18 municipalities and Ameren?

19 MR. SPRING: I'm even worse off than
20 Mr. Palmer. I think mine's fifth-hand information.

21 COMMISSIONER CLAYTON: Yeah. Mr. Fischer
22 doesn't come to every agenda like these guys. I don't
23 want to get him into any trouble.

24 Mr. Fischer, are you aware? Are you aware
25 of the difficulties?

1 MR. FISCHER: Yes, your Honor, and we
2 apprised KCP&L. I think we can answer your questions.

3 COMMISSIONER CLAYTON: Okay. I guess let's
4 start with how many full requirement customers you would
5 have that -- whoever wants to answer, and whether they
6 would be affected at all by this agreement.

7 MR. FISCHER: Mr. Spring can certainly get
8 into details if you like. It's my understanding that our
9 full requirements customers are quite narrow. It's only
10 the City of Slater and a small portion of the Missouri
11 Public Service Company's area that would be considered
12 full requirements.

13 On the partial requirements area, we have
14 City of Marshall, Carrollton --

15 COMMISSIONER CLAYTON: Hang on. Before you
16 go into that, so Slater and Missouri Public Service area
17 are the full requirement customers?

18 MR. FISCHER: Yes. A very small portion of
19 the MoPub area.

20 COMMISSIONER CLAYTON: What do you mean?
21 So KCPL is providing power to Aquila to serve certain
22 areas?

23 MR. FISCHER: Yes, in an isolated area.

24 COMMISSIONER CLAYTON: Where is that, what
25 area, do you know? Unincorporated Cass County?

1 MR. FISCHER: You may be correct.

2 COMMISSIONER CLAYTON: The plot thickens.
3 There are surprises everywhere we turn on that.

4 MR. FISCHER: Somewhere in south county,
5 south Kansas City there.

6 COMMISSIONER CLAYTON: South Jackson
7 County?

8 MR. FISCHER: Yeah. I'm not sure what
9 county. It's in the southern part of the Kansas City
10 area.

11 COMMISSIONER CLAYTON: Wouldn't that be
12 ironic? We'll get to him.

13 Okay. So your partial requirement
14 customers, I think you're starting off with that list, or
15 going to that list?

16 MR. FISCHER: Yes. Marshall, Carrollton
17 and Salsbury, and then we're also serving transmission and
18 power service to Higginsville.

19 COMMISSIONER CLAYTON: And in partial
20 requirement, you -- KCP&L's not providing the transmission
21 service in those instances; is that correct? Is that what
22 that means?

23 MR. SPRING: Yes, it is. Currently they
24 are taking transmission service underneath the KCPL open
25 access transmission tariff, but effective June 1 of this

1 year, 2006, those transmission paths are going to be
2 transferred to the Southwest Power Pool open access
3 transmission tariff at the request of MJMEUC, who is their
4 coordinator for services.

5 COMMISSIONER CLAYTON: And MJMEUC is
6 representing each of those customers?

7 MR. SPRING: Yes, sir.

8 COMMISSIONER CLAYTON: And they're aware of
9 that change that's coming?

10 MR. SPRING: Yes, sir.

11 COMMISSIONER CLAYTON: And they're in a
12 position to be aware of any modifications of the
13 contractual relations of the difference between KCPL open
14 access and SPP?

15 MR. SPRING: Yes.

16 COMMISSIONER CLAYTON: To the best of your
17 knowledge?

18 MR. SPRING: To the best of my knowledge.

19 COMMISSIONER CLAYTON: Do you anticipate
20 any changes in pricing or costs associate with the full
21 requirement customer, Slater and unincorporated Cass
22 County?

23 MR. SPRING: Currently for our full
24 requirement customers, we have rate schedules, current
25 schedules for both energy and transmission service that go

1 through to June 1 of 2007, and at that point in time it is
2 my understanding those contracts will be renegotiated with
3 new rates, terms and conditions. And those customers are
4 aware of that. They've been notified of that.

5 COMMISSIONER CLAYTON: Okay. So KCP&L
6 doesn't anticipate any modifications in pricing or costs
7 going to its customers of this nature aside from an end in
8 a contract or something that's already a provision within
9 its existing contract?

10 MR. SPRING: That's correct.

11 COMMISSIONER CLAYTON: Neither party
12 anticipates any renegotiation of any charges associated
13 with SPP with the customers, unless the contract is
14 expiring? Is that a correct statement?

15 MR. PALMER: Correct on Empire's part,
16 Commissioner.

17 MR. SPRING: That is correct on our part as
18 well.

19 COMMISSIONER CLAYTON: Thank you.

20 BY COMMISSIONER CLAYTON:

21 Q. Dr. Proctor?

22 ANSWERS BY MICHAEL PROCTOR:

23 A. Yes.

24 Q. Missouri is in a unique position with
25 footprints that carve up the state and potentially -- I

1 guess not even potentially. We will now have utilities
2 and customers being served by two different RTOs, is that
3 correct, if we approve this?

4 A. That's correct.

5 Q. And right now MISO has, of the Missouri
6 utilities, has Ameren as a member or participant right
7 now?

8 A. That's correct.

9 Q. And with SPP, we'll have Empire and KCP&L?

10 A. That's correct.

11 Q. Are there problems or issues in Missouri
12 that we need to be prepared to deal with in the future
13 because of that split? Are there any concerns that you
14 have because of half the state going in one direction and
15 another part of the state going in a different direction?

16 A. I think it puts Missouri in a position
17 where it needs to be very cognizant of any seams
18 agreements between the Southwest Power Pool and the
19 midwest ISO. I'm also going to include in that group
20 AECI, Associated, that it's important for these
21 organizations to come up with seams agreements that will
22 tend to at least at minimum handle any detriments that
23 could be there because of the seams, things particularly
24 in the reliability area that could go wrong. You just
25 don't want that to happen.

1 The other -- the other aspect of it is, as
2 I indicated to you before, power flows where power flows.
3 I mean, it -- we are going to flow on -- SPP's going to
4 flow on the MISO system. SPP's going to flow onto AECI's
5 system. They are going to flow onto the SPP system. It's
6 critical that those kinds of flows be taken into account,
7 and particularly when you start up a market where you're
8 doing the dispatch within the entire footprint. It's
9 extremely critical that you account for those.

10 And they have worked -- Southwest Power
11 Pool has worked with the Midwest ISO in coming to
12 agreements on seams issues.

13 Q. Would a seams agreement come before the
14 Missouri Commission for approval?

15 A. No, it would not.

16 Q. Would it come before the Commission for
17 review? Would the Staff ever be privy to that
18 information?

19 A. Absolutely. We would be privy to -- any
20 seams agreement would be filed at FERC. We would be aware
21 of that seams agreement through our connections at the
22 Southwest Power Pool, and we would be reviewing that to
23 understand it as well as to make sure that it's doing what
24 it ought to be doing.

25 Q. Does the -- does the Staff have -- let me

1 ask the question this way: What type of working
2 relationship does the Staff have with AECI, which is an
3 entity that we don't see before us, although they're a
4 major player in discussing seams issues, reliability
5 issues? What level of interaction is there between you
6 and your Staff and AECI?

7 A. My sense is most of -- most of the time we
8 haven't dealt with them, but there are times when we need
9 to and we have, and they have been very open with us in
10 providing us whatever information we need. Now, that
11 doesn't mean -- maybe we haven't asked for the things that
12 are really sensitive, and then you may get into some
13 battles over that, but, I mean, general types of
14 information, we've had no problem with them. I don't know
15 how else to describe our relationship.

16 Q. It's easy to get along with somebody when
17 no one can do anything to the other party, right?

18 A. Yeah. When you don't have conflicts, it's
19 easy to get along.

20 Q. Okay. What do you see the Missouri
21 Commission's role as being in monitoring these seams
22 agreements and ensuring the reliability and that customers
23 throughout the system are being treated in a proper
24 manner?

25 A. I think we need to be vigilant. We need to

1 understand the seams agreements. We need to make sure
2 that they're doing things -- let me even go a little bit
3 further and say, I think we need to be pushy, because we
4 are in that position of being a state that's -- that has
5 seams.

6 Q. So do we -- what would be the timing of the
7 filing of a seams agreement? Does this -- does this
8 Stipulation & Agreement contemplate the filing of some
9 seams agreement? Is this something that we ought to have
10 a timetable or there is a timetable where we need to deal
11 with these? I'm going to ask the other parties this, but
12 from your perspective first.

13 A. Well, the Southwest Power Pool has a seams
14 agreement with the Midwest ISO. Okay. They have entered
15 into such a seams agreement. We have looked at that in
16 the past. For example, right now the Midwest ISO and PJM
17 are looking at a seams agreement that has been
18 characterized as a joint and common market. Now, that
19 doesn't mean there wouldn't be two separate markets, but
20 it really has to do with how the markets will communicate
21 with one another and how to improve those communications.

22 SPP's not at that point right now. Their
23 market hasn't started up yet. But I think as their market
24 starts up, that that same question is going to be raised,
25 how does -- how will the markets in Southwest Power Pool

1 communicate with the markets in the Midwest ISO to the
2 extent that we can reduce costs even further through those
3 communications.

4 Q. So the SPP market would need to mature --

5 A. Yes.

6 Q. -- to a certain point, then the seams
7 agreement would be necessary?

8 A. Additional, a change to the existing seams
9 agreement.

10 Q. A change to the existing seams agreement?

11 A. Right.

12 Q. How does AECI play into -- play into the
13 whole seams issue today and does it -- is there a seams
14 agreement between AECI and MISO now?

15 A. I am not sure whether there is or there
16 isn't.

17 Q. Is there one between AECI and SPP?

18 A. I believe there is, but again, I'm not
19 exactly sure. I think.

20 Q. Okay.

21 JUDGE JONES: Before we move on, let's take
22 a short two-minute break for the court reporter. We can
23 come back.

24 COMMISSIONER CLAYTON: Actually, this is
25 the last line of questioning I have. So I don't know if

1 you have any more. If he had more questions, then you
2 ought to just break for lunch because we'll be here all
3 afternoon, but I'm not going to be here much longer.

4 JUDGE JONES: Okay. Go ahead.

5 MR. LINTON: The simple answer to your
6 question about AECI and SPP is there is a seams agreement
7 between those two parties.

8 COMMISSIONER CLAYTON: Between SPP and AECI
9 there is?

10 MR. LINTON: Yes.

11 COMMISSIONER CLAYTON: How about with MISO?

12 MR. LINTON: Yes. SPP and MISO, yes,
13 there's a seams agreement between SPP and MISO.

14 MR. FISCHER: There's also SPP as part of
15 the stipulation agrees to use its best efforts to maintain
16 joint operating agreements with the transmission providers
17 at SPP's Missouri seams. That's on page 7 under the half
18 paragraph.

19 BY COMMISSIONER CLAYTON:

20 Q. Okay. If there are existing agreements --
21 I guess back to Dr. Proctor. There are provisions within
22 the agreement that relate to seams and best efforts.
23 Hearing that there are seams agreements among AECI and
24 MISO and AECI and SPP, are there any other issues
25 associated with seams that this Commission should be

1 paying attention to as we move forward?

2 ANSWERS BY MICHAEL PROCTOR:

3 Q. Well, you mean seams types issues?

4 Q. Yes.

5 A. I'm sure SPP has a seams agreement with
6 Intergy as well. I didn't want to exclude them. They are
7 part of it. Let me tell you, the interconnections with
8 ERCOT are very important, but they go through
9 those -- all those interconnections are DC ties. So they
10 are kind of guided by a whole different types and sets of
11 relationships that are very market based.

12 Q. Do you see a time in either today or in the
13 future where -- where it is unworkable for the state to be
14 served by two RTOs? Should we ever be looking to a time
15 when maybe one RTO would be better rather than two?

16 A. Yes, that would be my view. I don't think
17 now is the right time.

18 Q. How far off in the future would we be
19 looking at such a decision, recognizing that my term ends
20 in three years?

21 A. Probably beyond your term ending.

22 Q. Are we talking five years, ten years? Does
23 it depend on the maturity of each market?

24 A. I think -- I think right now it's really
25 hard to predict that because the SPP market has not

1 started up yet. We haven't seen its performance. We're
2 seeing a lot of maturity that is having to occur in the
3 MISO market, and I suspect the same thing will happen in
4 the SPP market. We're going to be looking down the road
5 at ancillary service markets. We're going to be looking
6 down the road at day ahead markets and SPP, those types of
7 things.

8 I will give you -- the short answer is, I
9 think on both of these markets they're going to be focused
10 on improvements over the next five years at least, major
11 improvements.

12 Q. It just dawned on me that I asked the
13 question the wrong way earlier. I was asking whether such
14 a decision would be made within the confines of my term,
15 which would end in three years. Frankly, I should have
16 asked the question whether you anticipate that you will be
17 here at the time that the decision is made?

18 A. No comment.

19 Q. No comment. No comment.

20 COMMISSIONER CLAYTON: Okay. I don't have
21 any other questions. Thank you, everyone.

22 JUDGE JONES: Does anyone here have
23 anything else they'd like to add?

24 (No response.)

25 JUDGE JONES: Seeing nothing, then we'll go

1 off the record, and everyone should remain when we're off
2 the record. We'll just enter the testimony into -- as
3 exhibits into the record.

4 (EXHIBIT NOS. 1 THROUGH 9 WERE MARKED FOR
5 IDENTIFICATION AND RECEIVED INTO EVIDENCE.)

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