

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

In the Matter of the Application of The)
Empire District Electric Company for)
Authority to Sell Approximately 35 Miles)
Of a 161 kV Transmission Line to)
Westar Energy Inc.)

File No. EO-2015-0172

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (“Staff”), by and through counsel, in response to the Missouri Public Service Commission’s January 23, 2015 Order Directing Staff Recommendation And Intervention Deadline and files Staff’s Memorandum Recommendation. In support thereof, the Staff states as follows:

1. On January 23, 2015, The Empire District Electric Company (“Empire”) filed an Application And, If Necessary, Motion For Waiver with the Commission for authority to sell approximately 35 miles of a 161 kV transmission line to Westar Energy Inc. (“Westar”), pursuant to Section 393.190.1 RSMo. 2000 and 4 CSR 240-2.060, 4 CSR 240-3.110, and 4 CSR 240-4.020(2)(B).

2. Westar and Empire on January 9, 2015 entered into a Letter of Intent setting forth the process for Westar to purchase the 161 kV Litchfield Transmission Line constructed by Empire in Kansas. An Agreement Respecting Certain Eastern Kansas Transmission Installations was entered into August 30, 1978 by Westar and Empire and System Operating Instructions for the line is dated April 3, 1980.

3. Among the Staff’s findings in its review of Empire’s Application is that the Commission’s authorization of the sale of the 35 miles of the 161kV Litchfield Transmission Line to Westar, as requested by Empire, will not be detrimental to

Empire's Missouri customers nor will it be detrimental to the public interest in Missouri (4 CSR 240-3.110(1)(D)).

4. The Staff in its Memorandum Recommendation filed herewith as Appendix A recommends that the Commission issue an order that:

- a. Authorizes the Sale for Empire's Litchfield Transmission Line to Westar at a net book value of \$1,611,734.61, under conditions as described within the Memorandum Recommendation;
- b. Requires Empire to notify the Commission of the sale of the assets within five (5) days after closing;
- c. Requires Empire that if the closing does not take place within thirty (30) days following the effective date of the Commission's order, Empire shall submit a status report within five (5) days after this 30-day period regarding the status of closing, and additional status reports within five (5) days after each additional 30-day period, until closing takes place, or until Empire determines that closing will not occur;
- d. Requires Empire that if it determines that closing will not occur, it shall timely make a filing with the Commission notifying the Commission of what it has determined and how Empire proposes to proceed in light of the failure to close the transaction;
- e. Requires Empire to record the sale of these assets in accordance with the FERC Uniform System of Accounts;
- f. Makes no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters pertaining to the granting of the subject sale, including expenditures related to the sale, in any later proceeding; and,
- g. Grants a waiver from the provisions of Commission Rule 4 CSR 240-4.020(2).

WHEREFORE, the Staff files its Memorandum Recommendation that the Commission authorize the sale of Empire's Litchfield Transmission Line to Westar as conditioned indicated above and in the Staff Memorandum Recommendation filed herewith as Appendix A.

Respectfully submitted,

/s/ Steven Dottheim

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing *Staff Recommendation* was served, either electronically or by hand delivery or by First Class United States Mail, postage prepaid, on this 19th day of February, 2015, on the parties of record as set out on the official Service List maintained by the Data Center of the Missouri Public Service Commission for this case.

/s/ Steven Dottheim

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EO-2015-0172
The Empire District Electric Company

FROM: Paul R. Harrison – Auditing Unit
Daniel I. Beck – Utility Engineering Analysis Manager

/s/ Paul R. Harrison

February 19, 2015

Date

/s/ Steven Dottheim

February 19, 2015

Deputy Chief Staff Counsel

Date

SUBJECT: Staff Recommends Approval of the Application of The Empire District Electric Company Sale of Approximately 35 miles of its 161 kV Transmission Line to Westar Energy Inc.

DATE: February 19, 2015

CASE BACKGROUND

On January 23, 2015, The Empire District Electric Company (“Empire”) filed an *Application and, if Necessary, Motion for Waiver* (“Application”) with the Missouri Public Service Commission (“Commission”) seeking authority to sell approximately 35 miles of a 161 kV transmission line to Westar Energy Inc. (“Westar”). This transmission line is known as the “Litchfield Transmission Line.” In the Application, Empire states prior to Southwest Power Pool’s (SPP) provision of network transmission service, it was necessary for Empire to have a “contract path” for transmission in order to import Empire’s share of the energy produced by the Iatan 1 power plant. Iatan 1 and the transmission path are located outside of Empire’s certificated area. Part of the path crossed the Kansas Gas & Electric (KG&E, and now, Westar) service territory in Kansas. KG&E had a similar need for a transmission line to be built within Empire’s certificated area in order to serve KG&E’s Southeast Kansas retail customers.

As part of Empire’s filing, it made a contingent request for waiver of 4 CSR 240-4.020(2) the sixty (60) day notice for good cause shown as permitted by 4 CSR 240-4.020(2)(B). Empire stated that its Application was not likely to be a contested case noting that previous applications addressing the same issues have generally not become contested proceedings.

On January 23, 2015 the Commission issued its *Order Directing Filing of Staff Recommendation and Intervention Deadline* in which it established an intervention deadline of no later than February 4, 2015 and ordered Staff to file a recommendation no later than February 19, 2015. No party filed an Application to intervene in this case.

TRANSMISSION LINE BACKGROUND

On August 30, 1978, Empire and KG&E signed a 30-year contract, renewable in five-year increments, titled “Agreement Respecting Certain Eastern Kansas Transmission Installations” (“Agreement”), which allowed both companies to benefit from transmission lines to be built in the others’ Kansas service territory. The fundamental terms of the Agreement required each company to build a transmission line in their own certificated area in the State of Kansas and lease the use of that line to the other party. The terms of the Agreement provided that after the initial 30-year term, either party could exercise a unilateral option to purchase the line that it had been leasing at net book value.

Late in the first quarter of 2013, Westar (the successor to KG&E) notified Empire of its interest in evaluating the purchase options for the Litchfield Transmission Line under the Agreement. As mentioned above, the terms of such a purchase were included in the 1980 agreement. The purchase price would be the initial cost of the line, less depreciation plus applicable (depreciated) expenses at the time of sale (i.e., net book value). Westar and Empire have entered into a Letter of Intent (LOI) setting forth the process for Westar to purchase the Litchfield Transmission Line. The LOI states that it shall be effective until April 1, 2015 unless terminated earlier or extended by the mutual written agreement of Westar and Empire.

STAFF’S INVESTIGATION

Overview of Empire

Empire is a Kansas corporation with its principal office and place of business at 602 South Joplin Avenue, Joplin, Missouri 64801. Empire is qualified to conduct business and is conducting business in Missouri as well as in the states of Kansas, Arkansas and Oklahoma. Empire is engaged, generally, in the business of generating, purchasing, transmitting, distributing and selling electric energy in portions of said states. Empire’s Missouri operations are subject to the jurisdiction of the Commission as provided by law.

Reason for Sale

At the time of construction of the high voltage line (161 kV), KG&E also built (and has owned) a 12kV line located beneath Litchfield Transmission Line (on the same poles). This under built line has created a large number of North American Electric Reliability Corporation (“NERC”) clearance violations (approximately 200) between the 161 kV line and the 12kV line. Fixing these clearance concerns is complicated by the fact that, unlike the 161 kV line above it, Empire does not own the 12kV under built line. Empire can avoid any direct cost (estimated at approximately \$10 million) associated with the remediation of these violations with the sale of the Litchfield Transmission Line to Westar.

On July 14, 2014, Empire submitted a letter to the SPP Regional Entity (SPP RE) requesting a 36-month extension to address the clearance issues and/or sell the line to Westar,

with the provision that Westar would remediate the problems within that same extension period. The extension (until July 17, 2017) was granted by the SPP RE on July 16, 2014.

STAFF'S FINDINGS & CONCLUSIONS

Staff submitted several data requests to Empire regarding this Application; performed analyses of the plant in service and depreciation reserve; plant additions and retirements; and cost of removal and net salvage of the Litchfield Transmission Line in order to determine the net book value of these assets. In addition, Staff conducted a meeting with Empire on February 4, 2015 in order to obtain a better understanding of this Application and to determine a recommendation for this case. As a result of its investigation, Staff takes the position that approval of the sale of the 35 miles of the 161 kV transmission line to Westar would not be detrimental to Empire's customers and is not detrimental to the public interest (4 CSR 240-3.110(1)(D)).

STAFF'S RECOMMENDATIONS

Based upon the above, the Staff recommends that the Commission issue an order that:

- a. Authorizes the Sale for Empire's Litchfield Transmission Line to Westar at a net book value of \$1,611,734.61, under conditions as described within this memorandum;
- b. Requires Empire to notify the Commission of the sale of the assets within five (5) days after closing;
- c. Requires Empire that if the closing does not take place within thirty (30) days following the effective date of the Commission's order, Empire shall submit a status report within five (5) days after this 30-day period regarding the status of closing, and additional status reports within five (5) days after each additional 30-day period, until closing takes place, or until Empire determines that closing will not occur;
- d. Requires Empire that if it determines that closing will not occur, it shall timely make a filing with the Commission notifying the Commission of what it has determined and how Empire proposes to proceed in light of the failure to close the transaction;
- e. Requires Empire to record the sale of these assets in accordance with the FERC Uniform System of Accounts;
- f. Makes no finding that would preclude the Commission from considering the ratemaking treatment to be afforded any matters pertaining to the granting of the subject sale, including expenditures related to the sale, in any later proceeding; and,
- g. Grants a waiver from the provisions of Commission Rule 4 CSR 240-4.020(2).

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Westar Energy Inc.)

[illegible]

Daniel I Beck
DANIEL I. BECK


Notary Public

