

Exhibit No.:
Issue: Great Plains Energy Incorporated's Commitment
to Transource Energy, LLC and Transource
Missouri, LLC and Benefits to Great Plains
Energy Incorporated
Witness: Michael L. Degendorf
Type of Exhibit: Direct Testimony
Sponsoring Party: Transource Missouri, LLC
Case No.: EA-2012-
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EA-2012-

DIRECT TESTIMONY

OF

MICHAEL L. DEGGENDORF

ON BEHALF OF

TRANSOURCE MISSOURI, LLC

August 2012

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

2 A: My name is Michael L. Deggendorf. My business address is 1200 Main Street, Kansas
3 City, Missouri, 64105.

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

5 A: I am employed by Kansas City Power & Light Company (“KCP&L”) as Senior Vice
6 President – Corporate Services. I also sit on the Board of Managers (“the Board”) for
7 Transource Energy, LLC (“Transource”).

8 **Q: On whose behalf are you testifying?**

9 A: I am testifying on behalf of KCP&L, KCP&L Greater Missouri Operations Company
10 (“GMO”), and Great Plains Energy Incorporated (“GPE”),¹ as well as Transource and
11 Transource Missouri, LLC (“Transource Missouri”).

12 **Q: What are your responsibilities?**

13 A: As Senior Vice President – Corporate Services, I oversee the construction program of
14 both KCP&L and GMO, and the Corporate Safety and Facilities departments of KCP&L.

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

16 A: I have a Bachelor of Science degree in business administration from Iowa State
17 University in Ames, Iowa, and have completed graduate work in business administration
18 at the University of Colorado in Colorado Springs, Colorado and at the University of
19 Iowa in Iowa City, Iowa. I am a graduate of the Advanced Management Program at
20 Harvard University.

¹ GPE is a public utility holding company and does not own or operate any significant assets other than the stock of its operating subsidiaries KCP&L and GMO. KCP&L, through its employees and resources, is currently taking steps to move forward on the projects described herein on behalf of itself, as well as on behalf of GMO, pursuant to the October 10, 2008 Joint Operating Agreement between KCP&L and GMO. Subsequent references in this testimony to GMO’s responsibilities with respect to the projects are made in this context.

1 Before taking my current position in 2011, I was Senior Vice President –
2 Delivery, where I led transmission and distribution operations for KCP&L and GMO,
3 with specific responsibility for compliance under rules and regulations of the Federal
4 Energy Regulatory Commission (“FERC”) and the North American Electric Reliability
5 Corporation (“NERC”). Prior to joining KCP&L in 2002, I served as Vice President of
6 Market Services at UtiliCorp United Inc., later known as Aquila Networks. I have more
7 than 28 years of experience in the energy and telecommunications industries.

8 **Q: Please describe your participation in industry organizations.**

9 A: Among other organizations, I have served on the board of directors at the Midwest
10 Energy Association and on an advisory committee at the Electric Power Research
11 Institute. I currently serve on the Members Committee of the Southwest Power Pool, Inc.
12 (“SPP”).

13 **Q: Have you previously testified in a proceeding before the Missouri Public Service
14 Commission (“Commission” or “MPSC”)?**

15 A: No.

16 **Q: What is the purpose of your testimony?**

17 A: The purpose of my testimony is to demonstrate the benefits of Transource and
18 Transource Missouri to GPE’s regulated electric utility subsidiaries, as well as GPE’s
19 commitment to the long-term success of Transource and Transource Missouri.

20 **Q: Please describe GPE.**

21 A: GPE is the holding company of KCP&L and GMO, operating utilities that deliver
22 electricity to more than 823,000 customers in Kansas and Missouri. GPE is
23 headquartered in Kansas City, Missouri. GPE’s operating companies own over 2,600

1 miles of transmission lines in SPP operating at voltages up to 345kV. KCP&L's and
2 GMO's transmission systems include approximately 448 miles of 345kV lines, 1,452
3 miles of 161kV lines, 691 miles of 69kV lines, and 778 miles of 34kV lines. Both
4 KCP&L and GMO are members of, and have transferred functional control over their
5 transmission facilities to, SPP. With the exception of certain grandfathered agreements,
6 service over KCP&L's and GMO's transmission facilities is provided pursuant to the SPP
7 Open Access Transmission Tariff ("SPP Tariff").

8 **Q: Why is GPE participating in Transource?**

9 A: GPE formed Transource with American Electric Power Company, Inc. ("AEP") to: (i)
10 develop the Missouri portion of two regionally-funded, high-voltage, wholesale
11 transmission projects approved by SPP - the 345kV Iatan-Nashua Project and the 345kV
12 Sibley-Nebraska City Project (collectively the "Projects"); and (ii) pursue regional
13 competitive transmission projects. Transource provides a number of benefits to the
14 Projects and to GPE.

15 First, Transource provides immediate benefits to the Projects by reducing capital
16 pressures on GPE to fund the regional Projects and providing extensive project execution
17 and procurement expertise. The opportunity to construct new regional transmission
18 projects comes at a time when vertically-integrated utilities such as KCP&L and GMO
19 are faced with the competing capital demands for addressing environmental compliance,
20 renewable portfolio standards, aging infrastructure, NERC reliability, and cyber-security
21 issues. Consequently, constructing the Projects through Transource eases GPE's current
22 capital requirements for the Projects, while allowing KCP&L to continue to be the utility
23 responsible for the operation and maintenance of these transmission facilities located in

1 Missouri. Additionally, AEP is considered one of the premier transmission owners and
2 operators in the United States. AEP brings national project execution experience and
3 established relationships with critical suppliers of materials needed for constructing and
4 operating high-voltage transmission facilities.

5 Second, Transource is an excellent vehicle for GPE to expand its participation in
6 the evolving market for constructing and operating regional transmission projects with a
7 trusted and experienced partner. Today's regulatory landscape requires a new business
8 model for enabling vertically integrated utilities, such as KCP&L and GMO, to continue
9 their participation in providing regional transmission services. Specifically, FERC Order
10 No. 1000 will result in the removal of an incumbent utility's federal right of first refusal
11 to construct, own, and operate certain regional transmission facilities. Instead, utilities
12 soon will be required to compete for the opportunity to build regional, high-voltage
13 transmission projects, even those within their service areas. GPE understands the
14 implications that FERC Order No. 1000 has on the electric transmission industry, and
15 Transource provides an opportunity for GPE, a company with local operations in
16 Missouri, to actively participate in opportunities created with this recent federal directive.

17 Additionally, the greater scale and scope of these regional projects can
18 substantially magnify the related technological, financial, and operational challenges
19 associated with regional transmission projects. This also supports a new model for
20 addressing these challenges. It calls for an entity focused exclusively on the construction
21 and operation of regional transmission projects, one that can obtain resources and funding
22 based exclusively on that business and respond to the unique challenges of this evolving
23 segment of the industry. Transource is an entity that will provide GPE an expanded

1 capability to meet the challenges of participating in the market for regional transmission
2 projects within and outside of its traditional operating utility footprint.

3 More detail and development of the transmission industry concerning regional
4 transmission projects and the associated regional cost allocation is in the Direct
5 Testimony of Todd E. Fridley in Case No. EO-2012-0367.

6 **Q: What is GPE's capital investment in transmission assets?**

7 A: Through KCP&L and GMO, GPE has added approximately \$260M (or approximately
8 \$380M including pre-acquisition Aquila additions) in new transmission plant over the
9 past ten years. GPE is committed to continuing to make investments for local
10 transmission system upgrades through KCP&L and GMO. These investments are
11 regarded by GPE as a primary focus to ensure that our reliability and service
12 commitments to our customers continue to be met. GPE will make additional
13 investments in regional transmission infrastructure, both Missouri and non-Missouri
14 regional projects, through Transource. To highlight the levels of investment required for
15 regional projects, it is notable that the estimated capital expenditures for the Projects,
16 approximately \$450M, will exceed GPE's operating companies' transmission plant
17 additions (including pre-acquisition Aquila) combined over the past ten years.

18 **Q: What is GPE's total capital investment?**

19 A: Through KCP&L and GMO, GPE has made approximately \$4.7B in utility capital
20 expenditures over the past ten years. GPE and its subsidiaries have been able to maintain
21 investment grade credit ratings throughout the recent period of capital investment, but the
22 continued investment in all aspects of a vertically integrated utility will continue to put
23 pressure on credit ratings. GPE is forecasted to make an additional \$2.1B in total capital

1 expenditures from 2012 through 2014, with approximately \$500M of the capital
2 expenditures being mandatory environmental retrofits to existing generation assets.

3 **Q: How will GPE provide financial support to Transource?**

4 A: GPE will provide equity funding for Transource. Equity funding for Transource will be
5 proportional to the ownership percentage of each parent company, so GPE will contribute
6 13.5% of the equity needs of Transource. In terms of debt financing, Transource and its
7 subsidiaries will arrange for and secure its own debt financing through a combination of
8 bank facilities and long-term debt capital markets. The Direct Testimony of Antonio P.
9 Smyth describes in additional detail how Transource and Transource Missouri will
10 finance their investments.

11 **Q: What strengths does GPE provide to Transource?**

12 A: For the Projects, GPE, through its operating companies, provides ongoing project
13 management through a multi-function, multi-discipline project management team,
14 consisting of employees and contractors with wide-ranging expertise in areas including
15 transmission planning, engineering, construction, procurement, real estate,
16 environmental, legal, regulatory, communications, and public affairs. The management
17 of the Projects is described in the Direct Testimony of Brent C. Davis. GPE, through its
18 operating companies, will continue to provide these services after the Projects are
19 novated to Transource Missouri, as well as providing operations and maintenance
20 services after the Projects become operational. Through Transource, KCP&L will
21 provide operations and maintenance labor through services and support agreements.

22 Beyond the Projects, GPE provides regulatory, policy, and transmission planning
23 expertise to Transource within the states and regional transmission organizations in

1 which KCP&L and GMO operate. KCP&L and GMO also possess local experience for
2 transmission projects in rights-of-way, land acquisition, construction, operations, and
3 maintenance activities. These strengths will be extremely valuable as Transource pursues
4 regional transmission projects in Missouri and surrounding areas.

5 **Q: Please provide a specific example of the GPE operating companies' project**
6 **management skills and their commitment to the communities in which they operate.**

7 A: GPE's operating utilities have a long history of strong infrastructure investment and
8 reliable utility operations in Kansas and Missouri. The successful completion of the Iatan
9 Unit 2 supercritical coal-fired power plant is a recent example of the long-term
10 commitment that GPE and its subsidiaries make to complex regional projects in a
11 collaborative manner across a broad spectrum of stakeholders. The Commission found in
12 its April 12, 2011 Report and Order in KCP&L's last rate case, Case No. ER-2010-0356,
13 that Iatan Unit 2 "was constructed during a challenging economic climate and finished
14 within three months of the original target date," noting that the "evidence establish[ed]
15 that KCP&L actively managed the Iatan Project and put the proper controls in place."
16 The Iatan Unit 2 project is an excellent example of the long-term commitment and
17 dedication that GPE brings to successfully complete its projects.

18 **Q: Is GPE committed to the long-term success of Transource and Transource**
19 **Missouri?**

20 A: Yes. GPE, through its operating companies, will actively participate in the development
21 and construction of the Projects and the ongoing business of Transource in pursuing
22 competitive regional transmission projects. KCP&L, like AEP, has dedicated resources
23 to this new venture. Importantly, the national reputation of Transource will depend

1 heavily on the success of Transource Missouri, as Transource Missouri will be
2 developing the first regional transmission projects for Transource and will serve as an
3 example to regulators in other jurisdictions. Moreover, Transource is also one of the first
4 entities to be formed to respond to FERC Order No. 1000. Consequently, many industry
5 observers will be attentive to its performance. If GPE's long-term vision for Transource
6 is to become a reality, Transource Missouri must deliver on the Projects and must deliver
7 in a well-executed and competent manner. It is my firm belief that Transource will be
8 successful and meet its objectives.

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

10 A: Yes, it does.

