

Exhibit No.:
Issue: Partnership Rationale and Benefits
Witness: Michael L. Deggendorf
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: TransourceMissouri, LLC
Case No.: EA-2013-0098
EO-2012-0367
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MISSOURI PUBLIC SERVICE COMMISSION

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

SURREBUTTAL TESTIMONY

OF

MICHAEL L. DEGGENDORF

ON BEHALF OF

TRANSOURCE MISSOURI, LLC

March 2013

“** [REDACTED] **” Designates “Highly Confidential” Information
Has Been Removed
Pursuant To 4 CSR 240-2.135.

Exhibit NO. 7
File NO. EA-2013-0098

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: Are you the same Michael L. Deggendorf who pre-filed Direct Testimony in this**
5 **matter?**

6 A: Yes, I am.

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

8 A: I am testifying on behalf of Kansas City Power and Light Company (“KCP&L”) and
9 KCP&L Greater Missouri Operations Company (“GMO”), collectively (“the
10 Companies”) as well as Transource Missouri, LLC (“Transource Missouri”).

11 **Q: What is the purpose of your Surrebuttal Testimony?**

12 A: I provide additional clarity and facts regarding concerns raised in the Rebuttal Testimony
13 of the Missouri Public Service Commission (“MoPSC”) Staff and the Office of the Public
14 Council (“OPC”). Specifically, I clarify the purpose of, need for, and decisions leading
15 to Great Plains Energy Incorporated (“GPE”) entering into the Transource Energy, LLC
16 (“Transource”) transmission partnership venture with American Electric Power
17 Company, Inc. (“AEP”) in response to Staff witness Charles Hyneman and OPC witness
18 Ryan Kind.

19 **Q: Do you agree with Mr. Hyneman’s conclusion at page 28 of his Rebuttal testimony**
20 **that the main reason for GPE’s forming a transmission partnership with AEP is to**
21 **compete for regulated transmission projects outside of Missouri?**

22 A: No. I do not agree that the main reason for GPE’s forming a transmission partnership
23 with AEP is to compete for regulated transmission projects outside of Missouri, though

1 that certainly is one reason. GPE intends to compete for transmission projects that may
2 arise in Missouri as well, as noted by KCP&L CEO Terry Bassham in the quotation Mr.
3 Hyneman cites at page 30 of his Rebuttal Testimony. Indeed, as Mr. Bassham states, due
4 to recent changes in the transmission market, “it was clear that we would have to
5 compete, *even locally*, against larger competitors [emphasis added]”. Regardless of the
6 location of future transmission projects for which GPE intends to compete, the primary
7 reason for GPE’s forming a transmission partnership was to better position GPE to
8 effectively compete in the changing electric market.

9 Mr. Hyneman ignores the fact that the electric industry’s energy markets have,
10 over the last few decades, become organized, regional, and competitive in order to
11 effectively capture significant efficiencies in the wholesale trade of electric energy.
12 Recent federal rule changes have created a region-wide focus within the Regional
13 Transmission Organizations’ (“RTO”) transmission planning and the requisite cost
14 allocation for regional facilities. The recent changes also enable a truly competitive
15 environment for regional transmission facilities. Lastly, in the midst of these
16 transmission market changes, the dynamic of the changing supply market (stricter
17 emission rules, unit retirements) is also bringing about the need for additional
18 transmission solutions thereby creating greater levels of transmission investment needs.

19 Because of these fundamental changes in the transmission market, GPE must
20 realign its business model to adapt to the transmission market conditions and to be able to
21 participate in transmission construction both in Missouri and elsewhere. The reasons
22 GPE entered into a transmission partnership were the following:

1 (1) The advent of non-traditional, large-scale, regionally funded transmission projects
2 by the RTO that provide benefits not only to KCP&L and GMO customers but to
3 the region as a whole.

4 (2) A separate transmission business structure that should support a different investor
5 set, resulting in lower debt costs than a traditional vertically-integrated utility
6 thereby helping reduce costs to customers.

7 (3) Ability to address and manage competing capital needs at a time when significant
8 capital investments are required for generation facilities, renewable resources, and
9 the existing delivery system.

10 (4) New federal rules in FERC Order No. 1000, whereby incumbent utility rights to
11 build are no longer in place effectively implementing a fully competitive
12 landscape for regional transmission.

13 AEP was the leading candidate in our pursuit of a transmission partner with
14 whom to establish the new regional transmission business. AEP is one of the premier
15 transmission owners and operators in the United States and has key advantages in this
16 new competitive environment. Their strength in size, scale, technical knowledge, and
17 research and development will bring synergies in procurement, engineering, design, and
18 construction of transmission projects. These translate to enhanced project development
19 and reduced costs to the customer, as discussed in detail in the Surrebuttal Testimony of
20 Mr. Scott Moore. Also, GPE and AEP share a firm commitment to reliable and cost-
21 effective service to our customers.

1 **Q: Mr. Hyneman indicates at page 43 of his Rebuttal Testimony that your Direct**
2 **Testimony on the reasons why GPE created a joint venture with AEP is inconsistent**
3 **with Mr. Bassham’s discussions with investors. Do you agree?**

4 A: No. Mr. Bassham’s May 4, 2012 discussion occurred after the partnership was
5 established and highlighted the need for the partnership from an investment perspective
6 due to the new competitive rules under FERC Order No. 1000 for regional transmission.

7 **Q: At page 32 of his Rebuttal Testimony, Mr. Hyneman indicated that KCP&L**
8 **employees engaged in transmission projects outside of Missouri will not be focused**
9 **on providing safe and adequate service to Missouri customers. Do you agree?**

10 A: No. The primary responsibility of KCP&L and GMO is to serve our retail customers.
11 KCP&L and GMO will always focus on providing safe and reliable service at reasonable
12 rates. The service agreements with Transource Missouri will not interfere with our
13 ability to serve our Missouri retail customers. However, our employees’ responsibilities
14 are not exclusive to Missouri retail customers. Since we serve both Missouri and Kansas
15 customers our employees have responsibilities for both sets of retail customers. We also
16 have responsibilities to wholesale customers who require interconnection service and
17 transmission service through the FERC-approved transmission tariff for our transmission
18 system. Also, it is a false notion that any employees engaged in the Transource venture
19 are engaged in “non-regulated operations.” Transource Missouri, like any other
20 transmission owning company in Missouri, will be a regulated entity if these
21 Applications are granted.

22 We have service agreements in place to allow either existing personnel or new
23 KCP&L personnel to support ongoing projects in Transource where it makes reasonable

1 business sense to do so. KCP&L is under no obligation to provide services should they
2 be requested by Transource other than for the Projects that are addressed in these
3 Applications. However, if Transource secured a new regional project in Kansas, for
4 example, we may make a reasonable business decision to support requested services with
5 KCP&L's employees as such a project represents a regional project in the Southwest
6 Power Pool ("SPP") for which the customers within SPP benefit, including our Missouri
7 and Kansas customers.

8 If any additional resources are to be considered in support of the Transource
9 business for projects both within and outside our region, existing workloads and priorities
10 will be considered in order to ensure that the customers GPE serves through its operating
11 companies will not be detrimentally affected.

12 **Q: Mr. Hyneman indicates at page 21 and 22 of his Rebuttal Testimony that during the**
13 **February 7, 2012 GPE Board of Directors meeting the list of Pros/Opportunities**
14 **and Cons/Risks lacked a major focus of impact on KCP&L's and GMO's regulated**
15 **customers. Do you agree?**

16 **A:** No. The language Mr. Hyneman quotes was a snapshot of the culmination of numerous
17 discussions held with the GPE Board of Directors concerning the transmission venture.
18 The notes from the meeting that Mr. Hyneman quotes represents a discussion at a
19 particular stage in the decision process that was focused on communicating to the GPE
20 Board of Directors the fiduciary responsibilities to the investors concerning the
21 transmission venture and its effects on the financial health and long-term investment
22 opportunities for GPE. In the months leading to this particular meeting there were
23 numerous meetings and discussions among the management team assembled to provide

1 the necessary due diligence considerations for financial, legal, regulatory, operational,
2 project costs, and impacts to customers.

3 As part of the discussions on customer impacts, we understood that, through the
4 application of proper ratemaking treatment, the customer impact would be not be
5 materially affected by who builds and owns the Projects. This is because GMO's
6 customers will pay their SPP allocated 4% load share of the costs of the Projects
7 regardless of who owns the Projects. We did discuss, however, our expectation that
8 partnering with such large utility as AEP would result in cost savings that would actually
9 reduce the overall cost of the Projects to customers.

10 Furthermore, Mr. Hyneman is incorrect in his statement that the impact on
11 regulated customers was not a major focus of GPE's transmission venture analysis as
12 reflected in the list of Pros and Cons from the GPE Board of Directors February 7, 2012
13 meeting minutes.

14 Mr. Hyneman first incorrectly states at page 22 that the first two
15 ** [REDACTED]
16 [REDACTED] ** — only benefit GPE's shareholders and are detrimental to utility
17 ratepayers. This is incorrect, as the venture will benefit three strategic objectives that I
18 address later in my testimony: (a) reliable electric service to our customers, (b) high value
19 and low cost to customers, and (c) financial health, profitability, and future growth for
20 employees and shareholders. The venture provides GPE the ability to invest in future
21 regional transmission projects and helps ensure GPE can continue to build, own, and
22 operate transmission located in and around its service territory.

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Mr. Hyneman next states that the ** [REDACTED]

[REDACTED]

[REDACTED] ** — listed for the transaction are all existing detriments or potential future detriments to GMO’s and KCP&L’s customers. What his discussion fails to appreciate is that these issues were presented to the GPE Board of Directors in order to address potential risks of a partnership with another utility as part of GPE’s due diligence analysis before entering into such partnership.

The ** [REDACTED] ** simply indicates the difference between short-term earnings potential versus long-term earnings potential, realizing that this venture creates a more strategic, long-term approach to the issue of transmission competition.

The ** [REDACTED] ** issue recognizes the parameters and limits of long-term transmission expansion market, which is precisely the reason GPE spent the time and effort to retain third-party expertise with the Brattle Group and Thorndike Landing in evaluation of such risk of the future transmission market.

The ** [REDACTED] ** issue recognizes the very issues being dealt with in these cases. Transmission competition and independent transmission companies contending to build transmission, in addition to current regional transmission ratemaking, require new regulatory treatment to properly allocate revenue and costs. This is described in more detail by Surrebuttal Witnesses Locke and Ives. In addition, this issue was a consideration of the fact that the Companies’ had a full regulatory agenda including rate cases and a potential merger filing for KCP&L and GMO – all on top of a multi-year set of rate cases as a result of infrastructure investments under its Comprehensive Energy Plan.

1 The **** [REDACTED] **** are the risks that must be evaluated for any such
2 venture in which a long-term contractual agreement will exist between two entities.

3 Having these Cons/Risks understood and developed, the GPE management team
4 and Board of Directors determined that moving ahead with the Transource venture
5 remained in the long-term interest of customers, employees, and investors.

6 **Q: Mr. Hyneman indicates at pages 28-30 of his Rebuttal Testimony that GPE**
7 **considered only its shareholders in determining to move forward with a**
8 **transmission partnership with AEP. Do you agree with that assessment?**

9 **A:** No. Mr. Hyneman indicates in his Rebuttal Testimony at pages 28-30 that the reasons for
10 GPE partnering with AEP were primarily shareholder driven and without consideration
11 for impacts to GPE's regulated utility customers. The references Mr. Hyneman cited for
12 the basis of this conclusion were limited to the following: (1) a GPE earnings call on May
13 4, 2012 citing statements made from GPE's senior executives with the investment
14 community, and (2) review of the GPE Board of Director minutes related to the
15 transaction.

16 As I discussed above, these two references cited by Mr. Hyneman certainly were
17 not the entirety of discussions that were held within GPE's management team to
18 determine plans related to forming a venture with AEP. Indeed, GPE engaged in
19 numerous discussions over the course of 2011 and 2012 to address the critical areas of
20 impact of the proposed venture. The three areas of strategic objectives that are always
21 considered when making any major capital and business structure decisions, and that
22 were an inherent piece of the determination to partner with AEP are:

23 (a) safe and reliable electric service to our customers,

1 (b) high value and low cost to customers for electric service, and
2 (c) financial health, profitability, and future growth for our employees and
3 shareholders.

4 As I describe below, in making its decision to enter into the transmission venture,
5 GPE considered the customer-centric objectives of (a) and (b).

6 **Q: In what context did GPE consider the objective of safe and reliable electric service**
7 **to its customers in its decisions for the Transource venture as described in (a)**
8 **above?**

9 A: In my Direct Testimony, I referenced that the venture would help reduce capital pressures
10 for GPE based on the near-term view. This approach helps support other strategic asset
11 investments that directly serve our customers, such as environmental retrofits for
12 generating plants, renewable resources, and other system betterments that address aging
13 infrastructure. Safe and reliable electric service was a critical element in evaluating a
14 potential transmission partnership. GPE wanted to pair with a like-minded company that
15 had a strong commitment to serving electric customers and excellence in operating
16 transmission. AEP was a top candidate, as it proved to have a strong track record in
17 transmission ownership and operations, is a recognized industry leader in the
18 transmission research and development area, and has a demonstrated history of strategic
19 investments in transmission that provide reliable bulk electric grid operations for its
20 customers.

21 Furthermore, to balance the new Transource Missouri responsibilities with the
22 regional reliability needs of our customers, GPE utilized its local presence to ensure that
23 KCP&L personnel retained the responsibilities for ongoing operational and maintenance

1 functions for the Projects once constructed. GPE negotiated terms with AEP such that
2 KCP&L personnel would be functionally responsible for the ongoing operational and
3 maintenance needs for these Projects. The Transource Energy Operating Agreement,
4 Section 14.2 concerning the Services and Support for the SPP Projects, includes the
5 following provision:

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11 Finally, as I discussed in my Direct Testimony, the partnership with AEP helps
12 position GPE to continue building, owning, and operating the Companies' future
13 transmission system. As I explain above, one of the chief reasons for the venture is the
14 introduction of federal rule changes that emphasize regional planning and now make
15 regionally-funded transmission competitive. This change from what had been
16 historically a fundamental right to build transmission has created significant risks for the
17 Companies to retain their ability to continue building, owning, and operating the
18 transmission system within their service territory. To effectively compete to retain future
19 regional transmission projects in the Companies' service territory, GPE determined that a
20 separate transmission business unit in partnership with a major transmission entity such
21 as AEP is necessary. As Transource Missouri witness Antonio Smyth described in his
22 Direct Testimony, and as described in detail in the Surrebuttal Testimony of Scott Moore
23 and Jerald Boteler, the venture brings a much larger scale in transmission procurement
24 capability, improved access to lower debt funding, cutting-edge technology applications
25 to transmission components and design, all of which will enable the Companies to

1 continue to own, operate, and maintain their transmission system at competitive costs
2 relative to others in the market.

3 **Q: In what context did GPE consider the high value and low cost to customers for**
4 **electric service as described in (b) above in its decision to enter into the Transource**
5 **venture?**

6 A: GPE analyzed the overall impacts of the proposed venture to customers and shareholders
7 given each potential partner's characteristics. These analyses were high-level valuations
8 to determine impacts to customers and shareholders of the proposed venture, and
9 contained certain base assumptions for regulatory rate treatments, capital costs, and other
10 financial components. Surrebuttal Witness Bryant will address these financial analyses
11 and considerations.

12 **Q: Mr. Hyneman at page 28 of his Rebuttal Testimony cited your comments from the**
13 **August 1, 2011 GPE Board of Directors meeting to demonstrate his claim that GPE**
14 **contributed the Notices to Construct ("NTCs") of the Projects in lieu of cash to the**
15 **Transource partnership. Do you agree with Mr. Hyneman's claim?**

16 A: No. First, these discussions communicated to the Board the fact that the venture presents
17 a unique opportunity for GPE to receive near-term relief for competing capital issues
18 while allowing AEP the needed near-term capital spend for which it had capability. In
19 other words, the partnership prospects allowed the fitting together of two companies'
20 capital plans in a way that optimized the capital outlays from a timing perspective.
21 Second, the Projects allowed the two companies to immediately begin to build critical
22 mass for the new Transource business. Third, while the Projects might have opened the
23 door to discuss the partnership opportunity with AEP, GPE is obligated to provide capital

1 for the Projects and will remain obligated to provide ongoing capital towards any future
2 projects according to GPE's 13.5% ownership share in the venture. In other words, GPE
3 receives no free-ride from the novation of the Projects to the joint venture. GPE is
4 responsible under the Transource Operating Agreement to fully fund its 13.5% ownership
5 share in the venture.

6 **Q: Mr. Hyneman also stated at page 32 and 33 of his Rebuttal Testimony, stating that**
7 **“To secure these [shareholder] returns GPE is willing to trade valuable regulated**
8 **transmission projects (assets) that currently belong to its regulated utilities.” Do**
9 **you agree with these claims?**

10 **A:** No. As I understand it, NTC's are not considered assets. Mr. Ives will provide additional
11 detail on this issue in his Surrebuttal Testimony. In addition, GPE needed to establish a
12 new business framework for regional projects given the large-scale nature of such
13 projects, competing capital pressures, new federal rules initiating full competition, and a
14 desire to continue to build, own, and operate the future transmission system within our
15 certificated service territory. The Projects helped to attract the right partnership to
16 accomplish that framework. Finally, because the Projects are governed by wholesale
17 rates from the FERC, and are 100% regionally funded by all SPP members, they are not
18 state rate based as a local or zonal asset. This is the basis for the regulatory treatments
19 these Projects should receive that Mr. Locke and Mr. Ives address in further detail in their
20 Surrebuttal Testimony.

1 **Q: Mr. Hyneman at page 44 of his Rebuttal Testimony determined that capital**
2 **pressures were not significant to the decision by GPE to find a partner for**
3 **competing for new transmission projects across the nation. Do you agree?**

4 A: No. In my Direct Testimony, I noted that the partnership would help reduce capital
5 pressures for GPE based on the near-term view. Mr. Bryant addresses GPE's competing
6 capital and the references made by Mr. Hyneman to Goldman Sachs evaluations of those
7 competing capital issues in more detail in his Surrebuttal Testimony.

8 **Q: Mr. Kind at pages 18 to 19 of his Rebuttal Testimony indicates that if approval of**
9 **the Applications is not granted, another entity, most likely GPE's subsidiaries**
10 **KCP&L and GMO, would build the Projects. Do you agree with this position?**

11 A: Mr. Kind's assessment is correct that the most likely entities to build the Projects, should
12 the MoPSC deny the Applications, are KCP&L and GMO. However, KCP&L and GMO
13 might not proceed if the companies do not receive proper rate treatment for these regional
14 Projects, or if unforeseen events (e.g., material changes in load growth, further EPA
15 regulatory compliance costs relating to generating plant emissions or greenhouse gas
16 regulation, operational challenges, future regional transmission projects, etc.) have
17 significant impacts on the Companies' financial position. As with any decision faced by
18 KCP&L and GMO, the decision to maintain responsibility for and construct the Projects
19 would be premised on having the financial flexibility to deal with GPE's existing
20 financial commitments to reliably serve KCP&L and GMO's retail customers. If
21 unforeseen events occur that significantly constrain our future financial flexibility, the
22 option of novating the Projects to another developer would need to be revisited.

1 **Q: What are the effects if the MoPSC denies the Applicants request in these cases, as**
2 **recommended by Staff and OPC?**

3 A: If the Applicants' requests are denied by the MoPSC, by terms of the Transource
4 Operating Agreement, the partnership between GPE and AEP will effectively unwind and
5 Transource Energy will dissolve.

6 Consequently, GPE will not have an effective vehicle by which to engage in
7 future competitive regional transmission projects in order to pursue the opportunities in
8 building, owning, and operating regional transmission both within and connected to
9 KCP&L and GMO certificated retail service territories. ITC, Duke-American
10 Transmission Company, and Exelon Transmission are examples of very large
11 transmission-only firms that are positioning themselves across the country to directly
12 compete with incumbent utilities in order to pursue competitive transmission projects.

13 Without Transource, the Companies will have very limited abilities to compete in
14 future regional transmission projects in Missouri and elsewhere. As stand-alone entities,
15 the Companies will find it difficult to compete with transmission-only entities for
16 regional projects. Mr. Ives addresses this further in his Surrebuttal Testimony. The
17 Transource venture is tailored to take a long-term view of transmission development with
18 benefit to Missouri ratepayers. As a combined effort, we expect to construct transmission
19 in Missouri and the region better and more cost effectively than other companies.
20 Launching Transource with the Iatan-Nashua and Sibley-Nebraska City Projects is
21 critical for Transource's financial strength and positions it for future projects which inure
22 to the benefit of Missouri and regional customers.

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

2 A: Yes, it does.

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

In the Matter of the Application of)
Transource Missouri, LLC for a Certificate)
of Convenience and Necessity Authorizing it)
to Construct, Finance, Own, Operate, and) Case No. EA-2013-0098
Maintain the Iatan-Nashua and Sibley-)
Nebraska City Electric Transmission)
Projects.)

In the Matter of the Application of Kansas City Power)
& Light Company and KCP&L Greater Missouri)
Operations Company for Approval To Transfer) Case No. EO-2012-0367
Certain Transmission Property to Transource)
Missouri, LLC and for Other Related Determinations.)

AFFIDAVIT OF MICHAEL L. DEGGENDORF

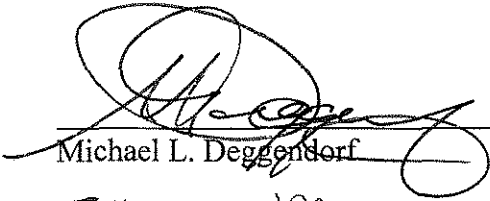
STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Michael L. Deggendorf, being first duly sworn on his oath, states:

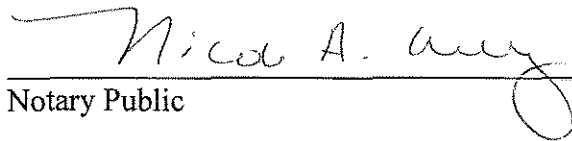
1. My name is Michael L. Deggendorf. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company (“KCP&L”) as Senior Vice President – Corporate Services. I also sit on the Board of Manager for Transource Energy, LLC (“Transource”).

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of KCP&L and KCP&L Greater Missouri Operations Company, as well as Transource and Transource Missouri, LLC (“Transource Missouri”) consisting of (15) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth herein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.


Michael L. Deggendorf

Subscribed and sworn before me this 5th day of March, 2013.


Notary Public

My commission expires: Feb. 4 2015

NICOLE A. WEHRY
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: February 04, 2015
Commission Number: 11391200