

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

File No. EO-2011-0134

*COMMENTS OF KANSAS CITY POWER & LIGHT COMPANY
AND KCP&L GREATER MISSOURI OPERATIONS COMPANY*

Kansas City Power & Light Company (“KCP&L”) and KCP&L Greater Missouri Operations Company (“GMO”) (collectively, the “Companies”) hereby submit comments in response to the Investigation into Southwest Power Pool Cost Allocations and Cost Overruns (“Investigation”) initiated by the Missouri Public Service Commission (“MPSC” or “Commission”) in the above-captioned docket.¹ The Commission has requested comments by December 31, 2010 from interested parties regarding (i) changing cost estimates and potential construction cost overruns and (ii) potential problems posed by novations.² The Companies respectfully request that the Commission consider these comments prior to completing its Investigation. In support hereof, the Companies offer the following comments:

I. INTRODUCTION

In response to recent developments involving changes to cost estimates for certain regional transmission projects selected by the Southwest Power Pool (“SPP”), the Commission has initiated an Investigation into SPP’s transmission planning and cost allocation processes. Specifically, during SPP meetings in October, revised cost estimates

¹ *In the Matter of an Investigation into Southwest Power Pool Cost Allocation and Cost Overruns*, File No. EO-2011-0134, issued Nov. 23, 2010 (“*November 23 Order*” or “*Investigation*”).

² *Id.* at p. 5 (ordering paragraph 6). The Commission also requested comments regarding how SPP selects projects to be built, including the issues of cost estimates and cost-benefit analysis to be submitted no later than February 4, 2011. *Id.* (ordering paragraph 7). KCP&L and GMO will address this issue in comments at a later date.

for six “Priority Projects” were discussed and approved by SPP’s Board of Directors.³ At that time, various state commissioners, including representatives from the MPSC, expressed concerns about the increase in the estimated cost for the Priority Projects package stemming from the SPP transmission planning process.⁴

SPP is a FERC-approved Regional Transmission Organization (“RTO”). As an RTO, SPP is the regional Transmission Provider responsible for administering open access transmission service over the facilities of its transmission-owning members and for ensuring regional electric reliability as a North American Electric Reliability Corporation (“NERC”) Reliability Coordinator for portions of nine states, including Missouri. As the regional Transmission Provider for the SPP Region, in compliance with *Order No. 890*,⁵ SPP has implemented a regional transmission planning process and has adopted cost allocation methodologies that are linked to that transmission planning process.⁶

Both KCP&L and GMO are transmission-owning members of SPP that are actively engaged in efforts to address the continued growth of SPP’s transmission system and markets, as well as the challenges and opportunities presented by changing federal and

³ Cost estimates rose for three projects, estimates for two remain the same and another fell slightly.

⁴ The SPP Regional State Committee (“RSC”) presented four motions to the Board of Directors as follows: (1) RSC recommends that SPP review what is the best manner to address significant cost increases and/or overruns of transmission projects that are regionally funded; (2) RSC recommends that SPP review the Novation Process and report to the RSC by April 2011; (3) RSC recommends that SPP consider establishing design & construction standards for transmission projects at 200 KV and above that are regionally funded; and (4) SPP evaluate how cost estimates are established for transmission projects before Cost Benefit Analysis are performed. The Board approved these motions and directed SPP Staff and various committees to address them.

⁵ *Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, FERC Stats. & Regs. ¶ 31,241, *order on reh’g*, Order No. 890-A, FERC Stats. & Regs. ¶ 31,261 (2007), *order on reh’g and clarification*, Order No. 890-B, 123 FERC ¶ 61,299 (2008), *order on reh’g and clarification*, Order No. 890-C, 126 FERC ¶ 61,228, *order on clarification*, Order No. 890-D, 129 FERC ¶ 61,126 (2009) (“*Order No. 890*”).

⁶ *See Southwest Power Pool, Inc.*, 131 FERC ¶ 61,252 (2010) (approving revisions to SPP’s Open Access Transmission Tariff (“OATT”) to adopt a new “Highway/Byway” cost allocation methodology).

state energy and environmental regulations and growing NERC compliance requirements. These RTO activities present opportunities for KCP&L and GMO to optimize generation costs, lower system losses, improve reliability, and integrate renewable and other advanced technology resources. Regional transmission planning and expansion activities play a vital role in enabling many of these benefits and thus large-scale regional transmission projects have become a primary focus.

Traditionally, the cost of new transmission facilities and how the costs were recovered were essentially left to state regulators and the Federal Energy Regulatory Commission (“FERC”)—*i.e.*, SPP was not involved. This is no longer the case. Rather, there has been a gradual progression to streamline, modernize, and improve transmission planning procedures on a regional basis. Indeed, after an extensive stakeholder process and subsequent FERC approval, SPP is now implementing a Highway/Byway cost allocation methodology and an Integrated Transmission Plan (“ITP”)⁷ that fundamentally changes the manner in which new transmission projects are identified, developed and priced within the SPP footprint. The practice of improving regional transmission planning continues to evolve as both SPP Staff and member companies in SPP, including a group of the region’s transmission owners, present proposals on how SPP can improve the way it handles transmission project estimates. The goal is to come up with a standard process that protects the region against going too far in either direction—*i.e.*, establishing oversight for cost estimates without being overly restrictive so the costs recovered will reflect economic realities when the project is built.

⁷ See *Southwest Power Pool, Inc.*, 132 FERC ¶ 61,042 (2010) (accepting revisions to SPP’s OATT to incorporate a modified transmission planning process—*i.e.*, the ITP process).

In an effort to improve the transmission project implementation process, the RSC has recommended that SPP review how to address significant cost increases and/or overruns of transmission projects that are regionally funded. To that end, SPP's Strategic Planning Committee heard presentations from both SPP Staff and stakeholders on December 3, 2010 addressing, *inter alia*, proposed process improvements for submitting and monitoring cost estimates for regional transmission projects. Additionally, SPP Staff and stakeholders plan to flesh out these proposals at the January 13, 2011 meeting in order to incorporate relevant comments into a report to present to the RSC and the SPP Board at meetings January 24-25. The goal is to present recommended changes to the SPP Board in April 2011.

To assist the Commission in its role as part of the RSC, pursuant to ordering paragraph 6 of the Commission's *November 23 Order*, KCP&L and GMO hereby offer the following comments regarding the SPP (i) revised transmission priority project estimates, and (ii) novation process.

II. COMMENTS

KCP&L and GMO emphasize that they support the Commission's efforts to establish a closer link between cost estimates and transmission planning to improve regional transmission planning and cost allocation in the SPP Region. The Companies believe that it is necessary to enhance the existing transmission planning processes. Thus, the Companies appreciate the opportunity to provide these comments.

A. Revised Transmission Project Estimates

The Commission, in its *November 23 Order*, expresses concern that the cost estimates for a package of six Priority Projects have increased since the SPP initially

selected these projects for construction.⁸ On April 27, 2010, the SPP Board of Directors approved for construction a group of six “priority” high voltage electric transmission projects to be funded by the region as a whole. SPP determined that these projects would improve the regional grid by reducing transmission congestion, better integrate SPP’s east and west regions, improve SPP members’ ability to deliver power to customers, and facilitate the addition of new renewable and non-renewable generation to the electric grid. The Priority Projects package was originally estimated to cost approximately \$1.14 billion, but in commitments to build the projects submitted by the Transmission Owners, the cost estimates for the Priority Project package increased to approximately \$1.4 billion.⁹ Consequently, the RSC has recommended that SPP re-evaluate how cost estimates are established for transmission projects before cost-benefit analysis are performed. KCP&L and GMO agree that the development and application of cost estimates in SPP’s transmission planning process needs improvement.

To that end, SPP Staff has prepared a draft white paper to analyze, *inter alia*, the cost estimate process. KCP&L and GMO generally support the recommendations in the white paper. Specifically, the Companies support SPP’s efforts to strengthen the transmission project planning and implementation processes by (a) creating transparency for regional project implementation costs; (b) increasing the frequency for status reports; (c) establishing project cost working groups to review projects that incur certain threshold variances from their NTC-issued cost estimate; and (d) providing a restudy evaluation

⁸ *November 23 Order* at pp. 1-2. The Commission also seeks comments on the issue of “construction cost overruns.” *Id.* at p. 5 (ordering paragraph 6). Notably, to date there have been no construction cost overruns. Rather, the issue is the increase in cost estimates for regional projects after selection, but prior to construction.

⁹ Notably, as mentioned in footnote 3 *supra*, cost estimates rose for three projects, remained the same for two projects and fell slightly for one project.

process for projects that, due to projected cost variances, may require additional cost-benefit analysis. The Companies also agree with the suggestion that increased communication between state commissions and their regulated utilities may result in a better understanding of the Transmission Owners' processes for development of cost estimates and causes for variances in cost estimates.

Notably, on June 30, 2010 (as revised July 23, 2010), SPP sent a "Notification to Construct" or "NTC" for a portion of one of the six priority projects to GMO. Pursuant to the SPP OATT, a designated Transmission Owner must respond in writing to an NTC within 90-days to accept responsibility for the proposed project. GMO notified SPP on September 28, 2010 that it would accept the NTC and submitted a current cost estimate for the project.

GMO's September 2010 estimate was higher than the 2009 estimate relied on by SPP to perform its initial study, prior to the issuance of the NTC. The purpose of the initial estimate is to sketch out the project's potential scope, general distance, and a high-level cost estimate of the potential project. This type of estimate is typical of estimates used in resource planning analysis. After the SPP Board approved the Priority Project package, and after the NTC was issued, GMO sought additional resources to refine its estimate. The September 2010 estimate was based on forecasted costs for materials, labor and equipment expected in a construction environment with significant activity. Given the current policy trend supporting transmission expansion, high levels of transmission investment and construction are anticipated during the proposed construction period.

GMO's September 2010 estimate is relatively conservative in its inclusion of contingency elements to reflect the anticipated risk of cost increases many years into the

future. Indeed, GMO's revised estimate provided the SPP Board and all stakeholders with an opportunity to re-evaluate the project before any dollars were actually expended. As noted above, the SPP Board approved the revised cost estimates for the Priority Projects; however, it also recognized the need to address the issues raised by the RSC in its motions during the October RSC meeting. Importantly, the Commission should keep in mind that actual costs ultimately could fall below the relatively conservative estimates, and only the actual costs will be recovered.

Additionally, as with most large transmission projects, the routing, siting and environmental constraints are largely unknown at the time of the initial commitment. Consequently, KCP&L and GMO support the recommended improvements to the post-NTC issuance proposed by SPP Staff that will enhance SPP's ability to track and evaluate changes in estimated costs. The Companies also recommend that consideration be given to the recovery of costs incurred for providing more detailed estimates prior to project acceptance.

B. SPP Novation Process

Under the current SPP transmission planning process, an incumbent utility is assigned to build a transmission project if that project is within its service territory through a "notice to construct" or "NTC." A designated Transmission Owner that has accepted an NTC may transfer or assign its right to construct a transmission project to another qualified company. The process of transferring the legal obligations associated with the project to another entity is called a novation. In the *November 23 Order*, the Commission expresses its concern that a designated Transmission Owner transferring its right to construct a transmission project to a new company, may have an entirely different cost estimate for the project than the new company. The Commission is concerned that the process, as it exists

today, does not have meaningful evaluation or oversight of the cost structure that the third party may employ. At base the concern is that the novation may cause higher project costs that will ultimately be borne by ratepayers without any meaningful oversight.

This issue currently is being discussed by SPP staff and stakeholders in the SPP Strategic Planning Committee (“SPC”). The SPC has been tasked with reviewing the novation process and reporting to the RSC by April 2011. In an effort to address the concerns raised by the Motions from the RSC, SPP Staff has suggested the following: (1) SPP will provide proposed Novations and supporting analysis to the RSC for review and discussion prior to submission to the Market and Operations Policy Committee and Board of Directors/Members Committee for approval for filing with FERC; and (2) Staff will increase efforts to communicate with state commissions and state commission staff members about how the regional planning and cost allocation processes work, and more specifically how and when estimates for transmission projects are requested by SPP and provided by Transmission Owners to SPP, including opportunities for adjustments. KCP&L and GMO support these recommended improvements to the novation process.

The Companies wish to emphasize to the Commission, however, that novations are an important tool for the development of large-scale regional transmission projects and thus should remain a viable option. Novation provides a designated Transmission Owner with a much needed mechanism for addressing funding or financing limitations, increased costs of financing, or an inability to timely construct a project, and may provide broader expertise for planning and constructing the project. It is also consistent with FERC’s goal of opening up transmission ownership to a wider group of companies.

III. CONCLUSION

WHEREFORE, KCP&L and GMO respectfully request that the Commission consider the comments stated in this filing.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been hand-delivered, emailed or mailed, postage prepaid, this 31st day of December, 2010, to all counsel of record.

/s/ Roger W. Steiner _____

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