

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

In the Matter of an Investigation into	)	
Southwest Power Pool Cost Allocations and	)	Case No. EO-2011-0134
Cost Overruns.	)	

**EMPIRE’S INITIAL COMMENTS  
CONCERNING SPP PROJECT SELECTION**

COMES NOW The Empire District Electric Company (Empire), and, as its Initial Comments Concerning SPP Project Selection, states as follows to the Missouri Public Service Commission (Commission):

**BACKGROUND**

1. On November 23, 2010, the Commission issued its Order Opening an Investigation into Southwest Power Pool Cost Allocations and Cost Overruns (Order). Therein, the Commission stated that this case was “established to investigate the Southwest Power Pool’s process for selecting projects including cost estimates and cost-benefit analysis, the issue of novations and what to do about construction cost overruns for new transmission projects.”

2. The Order, among other things, further invited “All parties interested in the issue of how SPP selects projects to be built, including the issue of cost estimates and cost-benefit analysis are directed to file comments in this docket no later than February 4, 2011, with reply comments due on February 18, 2011.” On February 4, 2001, the Commission issued its Order Extending Time to File Comments on SPP’s Selection of Projects to be Built. Therein, the Commission granted Empire’s request that the date for the filing of initial and reply comments in regard to project selection be extended to February 11, 2011, and February 25, 2011, respectively.

3. Empire has previously filed comments concerning the issue of construction cost overruns and novations. These comments concerning SPP project selection should be considered as an extension of those previously filed comments.

## **EMPIRE COMMENTS**

### **Project Selection**

#### ***Introduction***

4. The selection process of high voltage transmission lines has dramatically changed over the last five years from an individual or a small group of transmission operators meeting specific generation delivery or transmission reliability requirements to a Regional Transmission Organization (RTO) environment that focuses on economic, reliability and policy considerations for multiple members and stakeholders.

5. The SPP RTO has taken an aggressive approach in the development of a more robust high voltage transmission system that enables greater flexibility to incorporate on and off system generation resources to meet current and future customer requirements. Empire has been able to utilize the SPP regional transmission network to complement its on-system generation resources with fossil fuel and renewable generation resources and reliably deliver capacity and energy to meet the needs of its customers.

6. A cost effective expansion of the SPP transmission network is important and desirable so long as the long-term benefits exceed the costs to those entities that pay for it through the operation of the SPP's regional transmission tariff. SPP's regional transmission expansion must provide sufficient and reasonably equitable benefits to all of SPP's regional transmission customers over time in order for the expansion plans to be fair and effective. SPP's

regional projects need to be selected based on their individual benefit contribution to the region, *i.e. through project by project value contribution selection.*

### ***SPP Integrated Transmission Planning Process***

7. SPP's Integrated Transmission Planning (ITP) process was initiated in 2010. SPP completed its first ITP 20 plan for the year 2030 in January 2011, with a set of 345kV projects with an estimated cost of over \$1.8 billion, excluding financing costs. No notices to construct directives were issued by the SPP Board of Directors for the ITP20 initial set of projects. However, such projects will be used to evaluate potential solutions that arise from the ITP10 planning process for 2022. Empire encourages the Commission and the Office of the Public Counsel (Public Counsel) to actively monitor and participate in the SPP ITP10 planning process as it is likely to result in transmission projects of 100kV and above being selected for construction, or at least to be planned, for the next 10 years. The SPP's allocation of the costs related to the ITP10 projects will affect the electric rates for Missouri consumers for many years into the future.

8. SPP's ITP10 planning process is currently underway. The selection of "futures" outcomes, as well as sensitivity analyses, over the next several weeks will be critical. SPP staff and stakeholders will focus on the modeling parameters. Empire suggests that it is imperative that the ITP10 take into account the following considerations:

- a. Probability evaluation of "future" case outcomes is essential. A simple averaging/equal weighting of various futures to determine a common and "cost effective" set of projects is not appropriate. Since the ITP process is iterative with the next ITP 20 scope to be finalized in January 2012, it is important that the futures analysis be based on "highly likely" outcomes given the current status of events in the SPP region and the

national policy focus on environmental and renewable resource impacts and requirements. The selection of projects should not be driven by special interest objectives, local politics, and/or local economic development benefits. Projects should be selected for construction and/or formal planning only if there are sufficient and equitable benefits to all SPP regional members and their electric customers. Now that SPP has over \$5 billion in transmission infrastructure installed or in the planning/construction stages, it is critical that each project stand on its own merits as a regionally beneficial project and not subsidize another project or group of projects that benefit just a few SPP members or stakeholders.

b. Robustness to meet future reliability, deliverability, and inter-regional needs. To date, SPP's new planning process has focused on transmission projects used to serve the wind generation industry and specific SPP members' needs in Kansas, Oklahoma, Nebraska and Texas. In order for the SPP and SPP members located on the seams, such as the Missouri utilities, to benefit, sufficient off-system generation resource deliverability, transmission reliability, and an equitable allocation of costs between SPP and its seams neighbors must be key components of the ITP10 and the inter-regional transmission planning process. SPP's project selection process should also focus on "delivering" the benefits represented in the SPP's transmission studies and the selection of projects that affect third party transmission providers (non-SPP members) should be evaluated and given greater weight for consideration, subject to a fair and equitable cost allocation method being agreed upon between SPP and its neighbors.

c. Adequate Reliability Assessment. Due to insufficient time to complete informative reliability assessments on the futures studied for ITP20, a limited reliability

assessment was performed. It is important that the SPP ITP10 project selection process include reliability related studies for each future scenario and evaluate a project's contribution/impact on reliability. Such studies could include, but not be limited to, stability, voltage/var, fault current and switching analysis.

### ***Benefit/Cost Analysis***

9. Consensus on Quantifiable Benefit/Cost Criteria. Project selection must focus on quantifiable benefits that can be expected to be realized by consumers. It is important that the Commission, SPP Regional State Committee (RSC), and SPP Board of Directors (BOD) reach a consensus on specifically which quantifiable benefits (such as adjusted production cost, reliability, and loss savings) will be used in the analysis of project selection. At this time, SPP continues to consider and use very speculative quantitative (gas market impacts) and “qualitative” benefits, such as economic development and robustness, to promote and recommend project selection. The SPP RSC and BOD need to reach an agreement as to the cost and benefits that will be used for the analysis of various transmission projects and their ultimate selection. In its ITP20 study, SPP used a 40 year projection from 2030 to 2070 to determine benefit cost ratios for evaluation of the various plans. Many SPP stakeholders have expressed concerns about this method of evaluation since it did not include the financing costs of the transmission facilities (which add approximately 10% to the overall projects cost) and ignored re-investment costs related to generation resources through 2070, which directly affects the cost to consumers. We believe reaching a consensus as to how benefit/costs ratios should be determined and represented to stakeholders in reports for evaluation and approvals is important for the ITP10 process.

### ***Affordability***

10. Empire encourages the Commission and its staff, through the SPP stakeholder and RSC processes, to work toward an understanding and determination goal of “how much” regional expansion of the SPP transmission system is sufficient based on the projected benefit/cost analysis and the projected economic conditions over the planning horizon. Empire believes the work of the SPP RSC’s Rate Impact Task Force has provided a good start on analyzing the impacts of transmission expansion costs to consumers and needs to be continued and expanded as additional transmission projects are considered for construction. Empire encourages the SPP RSC and the Commission to work toward answering the question – how much is enough “for now” given the current and future economic environment?

### ***Equity***

11. The Commission and some of the Missouri utilities are working with an SPP regional cost allocation policy that, to-date, is not projected to benefit the Missouri customers served by SPP member utilities. Empire believes that the results of SPP’s Balanced Portfolio, Priority Projects, and ITP20 transmission selection process clearly indicates that SPP’s Missouri utilities do not adequately benefit from those projects selected to-date. SPP’s project selection criteria must include an unintended consequences (UC) or inter-zonal cumulative equity (ICE) provision that improves the distribution of benefits to costs. Empire is pleased that the SPP staff and SPP RSC has taken on the Unintended Consequences/regional equity challenge in 2011. The support of the Commission, Public Counsel, and Missouri utilities is essential in working with SPP, the other state commissions and stakeholders in developing and adopting a fair and equitable unintended consequence provision in the SPP OATT that better balances the costs and benefits within the SPP region.

### ***Unintended Consequences/ICE Action Plan***

12. SPP staff has initiated work to evaluate UC/ICE provisions within the SPP.

Since the greatest inequities in the SPP's regional cost allocation and project selection process exist for Missouri SPP utilities, Empire suggests, for further consideration and discussion, that a Missouri Unintended Consequences (MOUC) task force be assembled and work expeditiously to develop a draft proposal to be presented to the Commission, SPP Cost Allocation Working Group and Regional State Committee in July with the goal of finalizing an SPP UC/ICE provision for Commission endorsement and SPP RSC and BOD approvals in January 2012. Empire believes that now is the time to expeditiously move forward with this important provision to protect SPP members and the customers they serve from a long-term allocation of regional transmission project costs that are not equitable.

### ***Transparency of the ITP10 and Project Selection Process***

13. SPP's transmission project screening, evaluation, vetting, and selection process must be transparent, explicitly outlined in the SPP ITP Manual and sufficiently vetted through the stakeholder process. In the past, Empire believes that SPP has "hurried" the analysis and recommended projects without allowing sufficient time for stakeholder review of reasonableness and accuracy. In addition, the SPP process to-date has not provided sufficient time for the re-study of project results. Therefore, Empire suggests that the Commission, through the SPP RSC and CAWG, request that the ITP10 project recommendations be presented "no later" than the SPP October 2011 cycle of meetings, so that stakeholders and SPP staff can have additional time to re-study certain projects and assumptions so that the project selection and approval process in January 2012 can be done with a greater level of confidence in the study results. It is important that SPP avoid another situation in which projects are selected, not based on regional and zonal

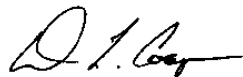
benefits/costs, but due to other factors that are presented directly to the SPP Board of Directors and not made pursuant to the SPP stakeholder process.

***Commission Position on ITP10 Study Process and Project Selections***

14. Finally, Empire encourages the Commission to be prepared to express its opinion concerning the ITP Study Process in April 2011, as well as to any regional projects that are recommended to the SPP Board of Directors for approval and the issuance of Notices To Construct (NTC) or Authorization To Plan (ATP) directives in October 2011 and January 2012.

WHEREFORE, Empire prays that the Commission consider its comments and issue such orders as it deems appropriate.

Respectfully submitted,



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ATTORNEYS FOR THE EMPIRE DISTRICT  
ELECTRIC COMPANY



## CERTIFICATE OF SERVICE

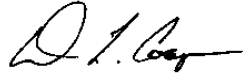
The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail, on February 11, 2011, to the following:

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