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File Nos.: EO-2013-0396
EO-2013-0431
Date Testimony Prepared: May 24, 2013

MISSOURI PUBLIC SERVICE COMMISSION

FILE NOS. EO-2013-0396 and EO-2013-0431

REBUTTAL TESTIMONY

OF

CHARLES J. LOCKE

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

AND

KCP&L GREATER MISSOURI OPERATIONS COMPANY

**Kansas City, Missouri
May 2013**

KCP&L KCP&L GMO
Exhibit No. 19
Date 6-18-13
File No. EO-2013-0396
EO-2013-0431

REBUTTAL TESTIMONY

OF

CHARLES J. LOCKE

File Nos. EO-2013-0396 and EO-2013-0431

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

2 A: My name is Charles J. Locke. My business address is 1200 Main Street, Kansas City,
3 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 Manager,
6 Regulatory Affairs.

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

8 A: I am testifying on behalf of KCP&L and KCP&L Greater Missouri Operations Company
9 ("GMO"), (collectively referred to as the "Company").

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

11 A: My responsibilities include regulatory matters related to the Federal Energy Regulatory
12 Commission ("FERC"), including the submission of rate schedule and tariff filings,
13 recovery of transmission costs, and regulatory issues involving Southwest Power Pool,
14 Inc. ("SPP"), which serves as the Regional Transmission Organization ("RTO") for both
15 KCP&L and GMO. In the latter role, I serve as the Company representative on the SPP
16 Regional Tariff Working Group, currently as vice chairman of the committee, and I
17 follow developments in other SPP committees including the Cost Allocation Working
18 Group.

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

2 A: I received a Bachelor of Science degree in economics from Southwest Missouri State
3 University and a Master of Arts degree in economics from the University of Missouri—
4 Kansas City. I have been employed by KCP&L since 1981 and have performed or
5 supervised numerous functions including load research, load forecasting, cost-of-service
6 analysis, rate design, billing services, risk analysis, and tariff administration. I assumed
7 my current responsibilities for FERC and SPP regulatory matters in 2004.

8 **Q: Have you previously testified in a proceeding at the Missouri Public Service**
9 **Commission (“MPSC”) or before any other utility regulatory agency?**

10 A: I have submitted testimony to the MPSC in File Nos. EO-2012-0135, EO-2012-0136,
11 EO-2012-0367, and EA-2013-0098 and have been actively involved in numerous
12 proceedings before the MPSC including technical conferences, settlement meetings, and
13 workshops. I have also presented testimony to the FERC and the Kansas Corporation
14 Commission.

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

16 A: I will address the joint application of Entergy Arkansas, Inc. (“EAI”); Mid South
17 TransCo, LLC; Transmission Company Arkansas, LLC; and ITC Midsouth LLC (“ITC
18 Midsouth”) submitted in File No. EO-2013-0396 (“Merger Application”) and the
19 application of EAI in File No. EO-2013-0431 (“RTO Application”). ITC Midsouth LLC
20 is a wholly-owned subsidiary within the corporate structure of ITC Holdings Corp.
21 (“ITC”). The purpose of this testimony is to explain that information has not been
22 provided by the applicants in either of these proceedings that is sufficient for the MPSC
23 to make a determination as to whether the applications are detrimental to the public

1 interest. Information that is needed relates to potential impacts on Missouri customers
2 due to changes in transmission rates that would result from either the merger as
3 contemplated in File No. EO-2013-0396 or the transfer of functional control to an RTO
4 as contemplated in File No. EO-2013-0431. There also are a number of unresolved
5 issues and questions related to reliability, safety, and cost that would result from new
6 power flows across Missouri transmission facilities when either the merger is completed
7 or the transfer of functional control is completed even without the proposed merger.

8 **Q: Are the merger and the transfer of functional control separate issues?**

9 A: The applicants have attempted to cast the two dockets as separate issues. In principle, the
10 issues do not have to be linked, as other state commissions have noted. The merger could
11 have been accomplished without putting the EAI transmission facilities and other Entergy
12 Operating Companies'¹ transmission facilities under the Open Access Transmission,
13 Energy and Operating Reserve Markets Tariff ("Tariff") of the Midcontinent Independent
14 System Operator ("MISO"). For example, the facilities owned by the subsidiary ITC
15 Great Plains, LLC are not under the MISO Tariff. However, the applicants have elected
16 for the merged facilities to be placed under the MISO Tariff and this is an integral
17 component of the state regulatory proceedings regarding approval of the merger. The
18 manner in which the Merger Application has been presented to the MPSC does not allow
19 the MPSC to consider the transaction without the proposed transfer of the Entergy
20 Operating Companies' transmission facilities to the MISO Tariff.

¹ The Entergy Operating Companies include EAI; Energy Gulf States Louisiana, L.L.C.; Entergy Louisiana, LLC; Entergy Mississippi, Inc.; Entergy New Orleans, Inc.; and Entergy Texas, Inc.

1 **Q: What rate information have the applicants failed to provide in connection with their**
2 **applications?**

3 A: The applicants have not documented the increase in transmission rates that is likely to
4 occur as a result of either the merger transaction or the transfer of functional control even
5 without the merger. In his direct testimony, ITC witness Joseph Welch stated that “any
6 rate impacts of the Transaction are modest.” [Welch Direct, p. 52] However, this
7 characterization is not helpful without actual quantitative information. KCP&L and
8 GMO are affected by point-to-point rates for service that sinks within the Entergy
9 Operating Companies’ transmission system as well as service that is through and out of
10 the system. Under the MISO Tariff, these rates could change substantially and also may
11 include new components related to recovery of the cost of transmission facilities
12 constructed under the authorization of MISO as an RTO.

13 **Q: Why are these rate changes of significance to Missouri utilities?**

14 A: Based upon sources of information other than the applicants, KCP&L and GMO believe
15 that the placement of the Entergy Operating Companies’ transmission facilities (including
16 those of EAI) under the MISO Tariff will result in substantial increases in transmission
17 rates for service across the Entergy Operating Companies’ facilities to be transferred to
18 ITC Midsouth. This has ramifications for the costs to be borne by retail customers in
19 Missouri, including those of the Company as well as other Missouri utilities. As
20 described by Company witness John Carlson, the impacts on Missouri utilities and retail
21 customers stem from both the direct cost of the anticipated transmission rate increases
22 and the negative effect on off-system sales that are used to defray power costs for retail
23 load. The applicants bear the burden to provide the MPSC with information regarding

1 expected transmission rate impacts in order to allow assessment of the potential public
2 detriment associated with the Merger Application and the RTO Application.

3 **Q: Have the applicants provided any information in the Merger Application, the RTO**
4 **Application, or their supporting testimony in these two Missouri cases that indicate**
5 **that transmission rates will increase when the proposed transactions are completed?**

6 A: Although the information provided by the applicants is very limited, two noteworthy
7 items are the return on equity ("ROE") and the debt/equity capital structure. In his direct
8 testimony, ITC witness Cameron M. Bready states, "ITC is seeking the standard MISO
9 regional ROE of 12.38% that is available to all TOs belonging to MISO and comparable
10 to that of the ITC operating subsidiaries that are members of MISO. ITC also is seeking
11 approval for ITC Arkansas to use an actual capital structure targeting 60 percent equity
12 and 40 percent debt..." [Bready Direct, at p. 34] Mr. Bready also states that "the FERC-
13 approved capital structures for all of ITC's subsidiaries are sixty percent equity and forty
14 percent debt." [Bready Direct, at p. 33] The 12.38 percent ROE cited by Mr. Bready
15 contrasts with the 11.0 percent ROE presently utilized in the transmission formula rates
16 of the Entergy Operating Companies. The following information is found on page 4 of
17 Exhibit No. 5 attached to Mr. Bready's testimony: "More conservatively-capitalized
18 OpCos (status quo Entergy OpCos have ~50% debt-to-cap. vs. 40% for ITC's OpCos)." [Bready Direct, Exhibit 5, at p. 4] The implication of this information is that the equity
19 capitalization is expected to increase by approximately 10 percentage points under ITC
20 Midsouth as compared to the Entergy Operating Companies absent the merger. If all
21 other factors are held constant, both the requested ROE increase and the expected change
22 in capital structure will result in significant increases in FERC-approved transmission
23

1 rates for EAI's present transmission facilities if the transactions proposed in the two
2 applications are completed. Based on the information submitted to the MPSC by the
3 applicants in these dockets, however, it is not clear if all other factors should be held
4 constant or if there are other changes that would either add to or offset the effect of these
5 ROE and capital structure shifts. Further, there is not a complete picture of other rate
6 changes or other transmission charges that would become effective as a result of placing
7 EAI's facilities under the MISO Tariff even without any modification of the transmission
8 formula rates specific to EAI's facilities.

9 **Q: What concerns does the Company have with regard to reliability, safety, and cost**
10 **that would result from power flows across Missouri transmission facilities when**
11 **either the merger is completed or the transfer of functional control occurs even**
12 **without the merger?**

13 **A:** Placement of the Entergy Operating Companies' transmission facilities under the MISO
14 Tariff ultimately would result in new and altered power flows between the existing MISO
15 system and the present Entergy Operating Companies' system. Not only would MISO
16 network transmission service be provided to the loads and generation resources
17 connected to the Entergy Operating Companies' transmission facilities, but the intent is
18 for those loads and resources to be fully integrated into the MISO power markets. The
19 new power flows resulting from this integration will utilize transmission facilities located
20 between the present MISO system and the Entergy Operating Companies' system. The
21 impacted facilities in Missouri include not only those presently owned by the Entergy
22 Operating Companies, but also those owned by KCP&L, GMO, The Empire District
23 Electric Company, Ameren Missouri, and members of Associated Electric Cooperative

1 Inc. ("AECT"). With the exception of Ameren Missouri, all of these utilities are outside
2 the MISO footprint, and thus on another side of the transmission operations and power
3 market seam from EAI after its integration into MISO. These Missouri transmission
4 facilities were not designed and built for the new power flows that will result from the
5 integration of the Entergy Operating Companies into MISO. That integration will cause
6 new transmission congestion patterns, which in turn, could result in safety or reliability
7 problems. As noted by ITC witness Thomas W. Vitez, "transmission constraints...can
8 cause reliability concerns and increased economic costs..." [Vitez Direct, at p. 21] In
9 the same paragraph of his testimony, Mr. Vitez goes on to list several potential solutions
10 to transmission constraints. However, it is not clear which entities would bear the cost
11 for such solutions in the case of the seams affected by the integration of the Entergy
12 Operating Companies into MISO. This is because there are a number of unresolved
13 issues still pending before the FERC related to compensation by the Entergy Operating
14 Companies and MISO for the use of facilities that are owned by non-MISO utilities and
15 for the transmission congestion that will result from the Entergy Operating Companies'
16 integration into the MISO market.

17 **Q: What dockets are open before FERC with unresolved issues related to the merger**
18 **transaction described in the application in File No. EO-2012-0396 as well as the**
19 **related integration of the Entergy Operating Companies into MISO?**

20 **A:** The following list of open FERC proceedings, while not necessarily exhaustive, includes
21 pertinent FERC dockets that the Company is aware of in which there are unresolved
22 issues related to the merger and RTO transactions that are being contemplated in File
23 Nos. EO-2013-0396 and EO-2013-0431.

- 1 • FERC Docket No. EC12-145 (Joint application for authorization of acquisition
2 and disposition of jurisdictional transmission facilities (“Merger Application”))
- 3 • FERC Docket No. ER12-2681 (Joint application for approval of transmission
4 service formula rate and certain jurisdictional agreements)
- 5 • FERC Docket No. EL12-107 (Petition for Declaratory Order on the application of
6 Section 305(a) of the Federal Power Act)
- 7 • FERC Docket No. ER12-2682 (Pro forma tariff sheets revising Module B-1 to the
8 MISO Tariff, as amended on December 31, 2012)
- 9 • FERC Docket No. ER12-2693 (Pro forma notice of cancellation of Service
10 Schedule MSS-2 of the Entergy System Agreement)
- 11 • FERC Docket No. ER12-2683 (Pro forma Ancillary Services Tariff and notice of
12 cancellation of Entergy’s Open Access Transmission Tariff)
- 13 • FERC Docket No. ER13-432 (Pro Forma amendments to the System Agreement
14 for MISO Integration)
- 15 • FERC Docket No ER13-782 (Application under FPA Section 205 for approval for
16 the accounting and ratemaking treatment for certain pension and post-retirement
17 welfare plan costs)
- 18 • FERC Docket No ER13-948 (Attachment O Templates to MISO Open Access
19 Transmission, Energy and Operating Reserve Markets Tariff)

20 KCP&L, GMO, other SPP members, and numerous other parties have filed protests or
21 comments in these, and possibly other, FERC dockets to address unresolved issues
22 including potential SPP-MISO seams and congestion management issues, potential

1 required transmission upgrades, and compensation for loop flows and other foreseeable
2 flows across the SPP system.

3 **Q: Are there outstanding issues in any other state commission proceedings that are**
4 **related to the merger and RTO transactions being contemplated in File Nos. EO-**
5 **2013-0396 and EO-2013-0431?**

6 A: While the Company is not intimately familiar with the details of related proceedings in
7 other states, we are aware that in proceedings in Texas and Arkansas staff members of the
8 Texas Public Utility Commission and the Arkansas Public Service Commission
9 recommended against the merger transaction and that in Louisiana the Louisiana Public
10 Service Commission chairman directed staff to investigate alternatives to the transaction.
11 We are also aware that the Arkansas Public Service Commission approved EAI's MISO
12 RTO application subject to EAI maintaining compliance with a set of conditions.

13 **Q: How have the applicants addressed the issues of safety, reliability, and cost**
14 **compensation in their Missouri filings?**

15 A: In the direct testimony of its witnesses, and particularly the testimony provided by Mr.
16 Jon E. Jipping, ITC provided a substantial amount of information regarding reliability
17 programs for its current operating companies. The witnesses also address transmission
18 facility maintenance programs and the value of new transmission investment. While this
19 information is helpful from a transmission system operation and valuation perspective, it
20 does not provide sufficient insight regarding management of the new power flows that
21 will be created across the Missouri seams of the transmission systems controlled by
22 MISO, AECI, and SPP when the Entergy Operating Companies' generation and loads are
23 integrated into the MISO market. The Entergy Operating Companies' transmission

1 facilities transferred to ITC Midsouth will be under the functional control of MISO, and
2 MISO will have to coordinate with SPP and AECI regarding seams issues. This requires
3 information concerning reliability operations, safety, facility congestion, and cost
4 responsibility as the three transmission organizations work together to manage the power
5 flows, and particularly with regard to any congested transmission system flowgates.
6 Because these issues will arise as a result of the proposed transactions that are the subject
7 of File Nos. EO-2012-0396 and EO-2012-0431, the applicants must demonstrate that
8 these matters will be adequately addressed to ensure no detriment to the public interest in
9 Missouri.

10 **Q: Does the Company oppose either the Merger Application or the RTO Application?**

11 A: The Company does not have an interest in impeding the requested transfer of functional
12 control or the proposed merger transaction as long as the MPSC fully evaluates the
13 potential detriment of the transactions and establishes necessary conditions to protect the
14 Missouri public interest. However, the Company and retail customers of utilities in
15 Missouri do have an interest in being held harmless from the impacts of these
16 transactions that are being pursued by the applicants for the benefit of the applicants'
17 stakeholders. Missouri stakeholders should not bear costs or suffer reliability or safety
18 problems as a result of transactions which bring them no benefit. Therefore, measures to
19 hold harmless Missouri stakeholders would be both appropriate and reasonable.

20 **Q: What relief is the Company seeking through its intervention in these two**
21 **proceedings?**

22 A: The Company is asking that the applicants be required to provide information to the
23 MPSC to ensure that the issues raised through the Company's intervention and testimony

1 in these proceedings will be adequately addressed prior to final approval. It is true that
2 matters of wholesale transmission rates and the interstate power market, including RTO
3 seams management, fall under the jurisdiction of the FERC. However, it also is
4 incumbent upon the MPSC to review whether the solutions to these issues protect the
5 public interest in the state, and particularly retail ratepayers. For that reason, the MPSC
6 should not approve the Merger Application and the RTO Application before the
7 additional information described in this testimony has been supplied by the applicants.
8 Further, approval should not be granted until solutions to the previously noted issues have
9 been developed in a manner that protects the interests of Missouri retail ratepayers. In
10 addition, because long-term oversight of these matters may require time under actual
11 operations after the Entergy Operating Companies' integration in MISO, the MPSC could
12 require the applicants to submit periodic reports on an ongoing basis to address safety,
13 reliability, and any other issues the MPSC may deem pertinent. In the case of ITC, such
14 reporting appears consistent with the relationships ITC maintains with the commissions
15 in the states where it currently operates. [Collins Direct, at pp. 32-33]

16 **Q: Does that conclude your testimony?**

17 **A:** Yes, it does.

In the Matter of the Joint Application of Entergy Arkansas, Inc.,)
Mid South TransCo LLC, Transmission Company Arkansas,)
LLC and ITC Midsouth LLC for Approval of Transfer of Assets) Case No. EO-2013-0396
and Certificate of Convenience and Necessity, and Merger and,)
in connection therewith, Certain Other Related Transactions.)

AFFIDAVIT OF CHARLES J. LOCKE

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

Charles J. Locke, being first duly sworn on his oath, states:

1. My name is Charles J. Locke. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Manager, Regulatory Affairs.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company consisting of eleven (11) 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 therein. 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.

Charles J. Locke
Charles J. Locke

Subscribed and sworn before me this 24th day of May, 2013.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2015

