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MISSOURI PUBLIC SERVICE COMMISSION

REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING

REBUTTAL TESTIMONY

OF

CHARLES R. HYNEMAN

KANSAS CITY POWER & LIGHT COMPANY
KCP&L GREATER MISSOURI OPERATIONS COMPANY
TRANSOURCE MISSOURI, LLC

FILE NO. EA-2013-0098
FILE NO. EO-2012-0367

Jefferson City, Missouri
January 2013

** **Denotes Highly Confidential Information** **

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TRANSOURCE MISSOURI, LLC

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Q. Please state your name and business address.

A. Charles R. Hyneman, Fletcher Daniels State Office Building, 615 East 13th Street, Kansas City, Missouri.

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor with the Missouri Public Service Commission ("Missouri Commission").

Q. Please describe your education, experience and employment history.

A. I graduated from Indiana State University in 1985 with a Bachelor of Science degree in Accounting and Business Administration. I received my Master of Business Administration degree from the University of Missouri-Columbia in 1988. I am a Certified Public Accountant licensed in Missouri. From 1985 through 1992 I was an officer in the United States Air Force in the fields of missile operations, training and contracting/procurement. I joined the Missouri Public Service Commission in April 1993.

Summary and Background

Q. Why is the Staff filing Rebuttal Testimony in this case?

A. On August 31, 2012, Kansas City Power & Light Company ("KCPL") and Greater Missouri Operations Company ("GMO") filed a request with the Missouri

Commission to authorize them to transfer certain transmission property related to GMO's Iatan-Nashua transmission project and GMO's Sibley-Nebraska City transmission project. ("Transmission Projects") to Transource Missouri, LLC ("Transource Missouri"), a wholly-owned subsidiary of Transource Energy LLC ("Transource"). This Application filed by KCPL/GMO/Transource Missouri ("Applicants") established File No. EO-2012-0367.

Transource is a joint venture of American Electric Power Company, Inc ("AEP") and Great Plains Energy Incorporated ("GPE") and will serve as the holding company for transmission subsidiaries throughout the United States. AEP owns 86.5% of Transource with GPE owning the remaining 13.5% of the company. AEP is a multi-state electric utility holding company headquartered in Ohio. GPE is a public utility holding company and is the parent company of KCPL and GMO.

Also on August 31, 2012, Transource Missouri filed a request with the Missouri Commission seeking a Certificate of Convenience and Necessity (CCN) to construct, finance, own, operate and maintain the Transmission Projects. This Application established File No. EA-2013-0098. File Nos. EA-2013-0098 and EO-2012-0367 were consolidated by Order of the Missouri Commission on November 7, 2012. The Staff is filing Rebuttal Testimony in response to Transource Missouri's and KCPL/GMO's Applications and direct testimony in this case.

Q. Please describe the Transmission Projects?

A. They consist of two projects that KCPL and GMO are constructing primarily in GMO's service territory. The larger project, the Sibley-Nebraska City line is a $400 million ($380 million GMO share) 175 mile transmission line (170 miles in Missouri and 5 miles in Nebraska) that is expected to be placed in service in 2017. This Project involves the construction of a new single circuit 345kV transmission line in southeast Nebraska and northwest Missouri extending approximately 175 miles from Omaha Public Power District's Nebraska City's power plant to a new GMO substation near Maryville, Missouri and continuing on to GMO's Sibley power plant.

The smaller of the two projects, the Iatan-Nashua line is a $65 million 31 mile 345kV transmission line (entirely in Missouri) that is expected to be completed and placed in service in June 2015. The transmission line will extend from an existing substation at the Iatan Generating Station near Weston, Missouri to a substation near Smithville Missouri. A detailed description of the projects can be found at paragraphs 20 through 38 of the August 31, 2012 Application of Transource Missouri, LLC for a Certificate of Convenience and Necessity and Request for Waiver ("Transource Missouri Application") in File No. EA-2013-0098. As of November 25, 2102, The Iatan-Nashua Project was 18.5% complete. An additional description of these projects can be found at pages 3 through 13 of KCPL and GMO witness Brent C. Davis' direct testimony in File No. EO-2012-0367 and in the rebuttal testimony of Staff witness Alan Bax.

KCPL/GMO and Transource Missouri state in response to Staff Data Request No. 0061, in part, that "the official authorization for building the Balanced Portfolio occurred during the SPP Board of Directors meeting held April 28, 2009 whereby the SPP Board approved the Balanced Portfolio for construction, with issuance of Notifications to Construct to be issued to the applicable transmission owners." The Iatan-Nashua Project is one of the seven Balanced Portfolio projects.

KCPL/GMO and Transource Missouri state in response to Staff Data Request No. 0062, in part, that "the official authorization to build the Priority Projects occurred during the SPP Board of Directors meeting held April 27, 2010. At this meeting, the SPP Board of Directors approved the Priority Projects for construction, with issuance of Notifications to Construct to be issued to the applicable transmission owners." The Sibley-Nebraska City Project is one of the six Priority Projects.

The authorization of the Transmission Projects predate the issuance of FERC Order No. 1000 in July 2011 and are not subject to FERC Order No. 1000. KCPL/GMO and Transource Missouri state in response to Staff Data Request No. 0010 in File No. EA-2013-0098, "The rights to build the Iatan-Nashua 345kV and Sibley-Nebraska City 345kV transmission projects are not subject to any changes resulting from FERC Order 1000." Thus, KCPL and GMO retain the federal right of first refusal ("ROFR") to construct the Transmission Projects.

Q. Are the two Transmission Projects at issue in these Applications needed solely by KCPL/GMO to enhance the reliability of utility service to their retail customers?

A. No. Both Balanced Portfolio Projects and Priority Projects are intended to benefit the entire SPP region. Accordingly, the costs of the two Transmission Projects will be charged to all members of SPP. These projects are also intended to provide general benefits to the SPP region in terms of reliability and the mitigation of transmission congestion.

Q. What is the interrelationship between File Nos. EO-2012-0367 and EA-2013-0098 that makes consolidating them appropriate?

A. The Projects both entail use of property belonging primarily to GMO that is necessary or useful to GMO for providing electrical service. If Transource Missouri is to complete the projects and owns that property, it needs authorization from the Missouri

Commission to build and operate them. Therefore, if that property is not transferred from GMO to Transource Missouri, there is no need for the Missouri Commission to give Transource Missouri a CCN. Similarly, if the Missouri Commission does not give Transource Missouri a CCN, then it should not authorize KCPL/GMO to transfer the property to Transource Missouri. In other words, the Missouri Commission should either grant or deny both Applications.

Analysis of Applications

Q. What is Staff's ultimate recommendation?

A. That the Missouri Commission deny both Applications.

Q. What standard did Staff use for evaluating the Applications?

A. I have been advised by Staff Counsel that the two Applications involve different legal standards. The Transource Missouri Application in File No. EA-2013-0098 addresses that "there must be a need for the service" and "the service must promote the public interest" legal standard of Section 393.170 RSMo. 2000 respecting certificates of convenience and necessity ("CCNs") at Paragraphs 39 and 40 of the Transource Missouri Application in File No. EA-2013-0098.

The KCPL and GMO Application in File No. EO-2012-0367 addresses the "not detrimental to the public interest" legal standard of Section 393.190 that KCPL and GMO set out in Paragraphs 53through 64 of their Application in File No. EO-2012-0367.

Q. Did the Staff conclude that the Applications should be granted, i.e., (1) there is a need for the service proposed by Transource Missouri, (2) the service proposed by Transource Missouri promotes the public interest, and/or (3) the transactions as proposed by KCPL and GMO are not detrimental to the public interest?

A. No. The Staff has concluded that (1) there is not a need for Transource Missouri to build the Transmission Projects (the Staff is not disputing the need for the Transmission Projects), (2) the construction of the Transmission Projects by Transource Missouri does not promote the public interest, and (3) the transactions, as proposed by KCPL and GMO are detrimental to the public interest. The Applications should be denied.

Q. Please explain.

A. As will be discussed in my testimony, there is no evidence in the record why KCPL/GMO cannot build the Transmission Projects and there is no substantive evidence in the record that Transource Missouri could build the Transmission Projects for a lower cost than KCPL/GMO. KCPL has the necessary construction experience and expertise to construct the projects and KCPL also has the financial capability to construct the Transmission Projects. These facts will be addressed in my testimony and in the rebuttal testimonies of Staff witnesses.

Although I address issues 1 and 2 described in the question above, my testimony focuses mainly on the fact that the transfer of the Transmission Projects from KCPL/GMO to Transource Missouri is detrimental to the public interest. Not placing the Transmission Projects in GMO's rate base when the Transmission Projects are "fully operational and used for service" will result in a loss of a significant amount of Transmission Revenues from the Southwest Power Pool ("SPP") to GMO.

The loss of these regulated transmission revenues is significant to GMO's ratepayers as the revenues would offset rapidly increasing GMO transmission expenses. The removal of the Transmission Projects from Missouri Commission regulation by transferring them to an affiliate will result in a significantly higher GMO cost of service and electric utility rates for the foreseeable future.

As noted by KCPL in response to Staff Data Request No. 0013, if KCPL/GMO own the Transmission Projects, SPP will allocate the revenues associated with the Projects to KCPL/GMO based on the Transmission Projects' Region-wide Annual Transmission Revenue Requirement ("ATRR") as provided under the SPP transmission tariff. The Staff's analysis shows these SPP ATRR revenues would significantly exceed the cost to GMO's customers of the Transmission Projects being included in GMO's rate base.

Q. Please describe how SPP Transmission Expenses are allocated to KCPL and GMO.

A. SPP transmission costs are charged to SPP Transmission Customers based on the zonal and regional ATRR amounts approved by the FERC and the magnitude of load associated with each customer's transmission service. GMO's load ratio share is approximately 4 percent and KCPL's is approximately 8 percent (approximately 4 percent Kansas and 4 percent Missouri). Therefore, the companies together pay approximately 12 percent (8 percent Missouri) of regionally allocated costs in addition to the zonally allocated costs of SPP-approved projects.

Q. Please explain why the SPP revenues received from these projects will significantly exceed the actual cost of the projects when included in GMO's rate base.

A. Let me first address Missouri rate making. Under the Missouri Commission's current and historical treatment of transmission construction projects for ratemaking purposes, the total construction costs of the projects would be included in the electric utility's rate base when the projects are completed and placed in service (i.e., are deemed "fully operational and used for service"). The current estimated cost of the Transmission Projects is $445 million ($380 million for the Sibley-Nebraska City line and $65 million for the Iatan-Nashua line).

Traditionally the cost of service impact of this $445 million rate base addition would be based on the Missouri Commission's allowed rate of return for GMO, as well as other Missouri Commission ratemaking principle, practices and decisions (Missouri ratemaking) while the Transmission Projects are being constructed and after they are fully operational and used for service.

Q. How is FERC ratemaking different from Missouri ratemaking?

A. Transource Missouri made a filing with the FERC requesting authority to implement certain incentive rate treatments for the Transmission Projects which established FERC Docket No. ER12-2554-000 on August 31, 2012. The FERC issued its response to Transource Missouri's request in its Order On Transmission Rate Incentives And Formula Rate Proposal And Establishing Hearing Procedures on October 31, 2012, 141 FERC 61,075. This filing was made pursuant to Section 205 of the Federal Power Act, Part 35 of FERC regulations and FERC Order 679.

The FERC conditionally granted Transource Missouri's request for inclusion of 100% of Construction Work in Progress ("CWIP") in rate base during the development and construction periods of the Transmission Projects, recovery of prudently-incurred costs in the event one or both of the Transmission Projects must be abandoned, creation and recovery of a Transmission regulatory asset to defer expenses not capitalized to the Transmission Projects and a five-year amortization of this regulatory asset, use of a 40% debt and 60% equity hypothetical capital structure, a 50 basis point ROE adder for membership in a RTO for the Transmission Projects, and a 100 basis point ROE adder for the Sibley-Nebraska City Project to recognize its risks and benefits. Most if not all of these incentives and extraordinary ratemaking mechanisms are not normally included Missouri ratemaking for construction projects.

Staff has taken positions in Missouri Commission proceedings in opposition to Missouri electrical corporations seeking to pass through to Missouri retail customers the additional cost of FERC incentives for transmission projects. Staff still supports that position, but believes that if the Missouri Commission is presented with the inalterable fact of passing through transmission expenses allocated by SPP to Missouri electrical corporations related to regional transmission projects located in other jurisdictions for which costs are increased due to with FERC authorized incentive rates and charges, then of course transmission revenues allocated by SPP to Missouri electrical corporations should be utilized to the fullest extent possible to offset the higher FERC tariff transmission costs.

Staff notes that KCPL/GMO and Transource Missouri state in response to Staff Data Request No. 0031, in part, that "[i]f the projects were retained by KCP&L and GMO, the request for incentives would be generally the same as those requested by Transource Missouri with the exception of hypothetical capital structure." KCPL/GMO and Transource Missouri further noted in their response: "The incentives are available to all transmission owners and are granted by FERC on the basis of each project's merit."

Q. Will KCPL and GMO be solely responsible for the costs of the Transmission Projects?

A. No. SPP Balanced Portfolio Projects and Priority Projects are intended to benefit the entire SPP region and the cost of the two Transmission Projects will be charged to all members of SPP. If GMO were to retain ownership of the Transmission Projects, and FERC granted GMO the same ratemaking incentives that were awarded to Transource Missouri, GMO's charges to the other SPP entities for the other entities share of the construction costs associated with the Transmission Projects would be based, in part, on the FERC incentives. Because of the incentives, the cost, or revenue requirement, of the Transmission Projects would be significantly higher under FERC ratemaking than Missouri Commission ratemaking, all other things being equal. This higher revenue requirement would be collected by the SPP from other SPP entities and flowed back to GMO as transmission revenues under the scenario of continued GMO ownership of the Transmission Projects. Receipt of these transmission revenues incorporated into GMO's Missouri Commission ratemaking process would serve to offset a portion of the transmission costs charged to GMO by other SPP entities associated with the other entities' regional projects constructed in their respective service territories.

Q. Has the level of transmission expenses GMO and KCPL have incurred and passed through to their ratepayers increased significantly over the past several years?

A. Yes. As the sponsor of Staff's recommended treatment of GMO's and KCPL's transmission expenses in those companies' recently completed 2012 rate cases, File Nos. ER-2012-0174 and ER-2012-0175, I am very familiar with the increase in these expenses over the last several years. Transmission expenses charged to GMO and KCPL by the SPP have increased significantly over the past several years.

Q. How much does GMO expect SPP allocated transmission expenses to continue to increase over the next several years?

A. GMO witness John R. Carlson provided evidence as to the extent of GMO's increasing transmission expense in File No. ER-2012-0175. Mr. Carlson stated that from 2014 through 2019 GMO's share of SPP transmission costs will increase approximately 14% each year:

> Q. How are SPP transmission costs allocated to GMO expected to change?
>
> A. SPP transmission costs allocated to the Company have been rising, and projections from SPP show that these expenses will continue to increase through 2016, recede slightly from there through 2018, and then increase again in 2019. SPP projects that transmission costs allocated to GMO will be $6.8 million for the calendar year 2012. SPP further projects the Company's share of the SPP transmission costs will increase to $9.2 million in 2014 and peak at over $16.7 million in 2019 (Schedule JRC-1). This equates to an approximate 14% increase per year over that timeframe. These projections reflect both zonal and region-wide components of the costs of SPP-approved projects and the increases are primarily driven by the region-wide components
>
> [John R. Carlson Direct Testimony ER-2012-0175 GMO, p. 9]

Q. What is the cause of this significant increase in SPP transmission charges to GMO and KCPL?

A. These cost increases are, to a significant extent, a direct result of the current high number of SPP regional transmission projects that have been and are currently being constructed by utilities and other entities in the SPP footprint. A number of these projects also include increased costs due to incentives and other extraordinary ratemaking mechanisms granted by FERC such as the 50 basis point ROE adder for being a member of a Regional Transmission Organization ("RTO Adder Incentive") and also a 100 basis point incentive ROE adder awarded by the FERC to some of these projects.

Q. Does the burden being placed on GMO's ratepayers as a result of these significant annual transmission expense increases caused by other SPP regional transmission projects make it particularly important that GMO's customers receive relief in the form of offsetting revenue credits from GMO's rate based transmission plant investments, such as the investments made by GMO in the Sibley-Nebraska City project and the Iatan-Nashua project?

A. Yes. It is just and reasonable. Reflecting SPP transmission revenues to the fullest extent possible in Missouri retail rates is particularly appropriate in light of the increasing transmission expense burden ratepayers have been incurring and will continue to incur into the foreseeable future. The transmission revenues from SPP regional transmission projects (Iatan-Nashua and Sibley-Nebraska City) that should be reflected in GMO's cost of service are simply the flip side of the coin of the transmission expenses from regional SPP transmission projects that have been, are currently, and will continue to be reflected in GMO's cost of service.

GMO's customers are paying the expenses (which are based on FERC incentive ROE adders and other extraordinary ratemaking mechanisms) of SPP's regional transmission projects (constructed by other utilities in the SPP) in rates today and will continue to pay for these significantly increasing costs into the future. Just as it is just and reasonable to include the Iatan-Nashua and Sibley-Nebraska City in GMO's rate base, it is unjust and unreasonable for KCPL/GMO to take actions that would result in these Transmission Projects not being included in GMO's rate base when they are fully operational.

Q. Are the Applicants aware that the significant cost burden being placed on GMO and KCPL customers is directly related to the allocated cost of SPP's regional transmission projects?

A. Yes. As noted by KCPL/GMO witness Darrin Ives in his Direct Testimony in GMO's recently completed rate case, File No. ER-2012-0175, "…An added factor in the coming years relates to the SPP's regional transmission upgrade projects and increasing SPP administrative fees, which will increase GMO's costs significantly in coming years." [Exhibit 123 Darrin Ives Direct ER-2012-0175 GMO page 12, lines 12-14]. Mr. Ives' testimony is further supported by the Rebuttal Testimony of GMO witness John R. Carlson in File No. ER-2012-0175:

> As SPP transmission projects are completed and placed in service, the costs are allocated to transmission customers based on the zonal and regional Annual Transmission Revenue Requirement ("ATRR") amounts approved by the Federal Energy Regulatory Commission and the magnitude of load associated with each customer's transmission service. The increase in monthly transmission costs allocated to GMO between March 2012 and August 31, 2012 is a direct reflection of more transmission resources becoming used and useful. [John R. Carlson Rebuttal Testimony ER-2012-0175 GMO p.2 lines 16-22]

Q. Did GPE anticipate that the Staff would consider the transfer of the Missouri Transmission projects to be detrimental due to the loss of FERC-incented Transmission Revenues that would be included in GMO's cost of service as a credit to Transmission Expenses?

A. Yes. ** ____

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Q. Is there an indication that the financial community believes that transmission projects such as the Iatan-Nashua and Sibley-Nebraska City Projects will be beneficial to the regulated utilities which construct these projects given the FERC ratemaking ROE incentives and other ratemaking mechanisms?

A. Yes. In its April 12, 2012 Standard and Poors (S&P) Report, S&P described its view of the 2012 utility merger of Northeast Utilities ("NU") and NSTAR, wherein NSTAR became part of the NU system S&P indicated that the "attractive" ROEs and other ratemaking incentives will enhance NU's cash flow and provide earnings stability. This document is attached as Schedule CRH-2 to this testimony:

> The merger has combined two relatively low-risk companies in contiguous service areas with similar corporate strategies. NU, which will be the largest utility in New England, will continue to concentrate on its core utility rate base, with increasing investments primarily in transmission projects. The transmission investments provide for attractive allowed returns on equity (ROEs) and recovery of financing costs for some of the major projects during the construction period, which helps to enhance cash flow and provide earnings stability . . .[page 3]

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Q. Earlier you mentioned that the Staff performed an analysis to quantify a reasonable estimate of the detriment that will be absorbed by GMO's customers if the Missouri Commission approves the KCPL/GMO and Transource Missouri Applications. Please describe this analysis.

A. The Staff performed a primary analysis using GMO's current federal and state actual tariffed capital costs. The Staff also performed a secondary analysis using more current GMO long-term debt costs and capital structure than is included in GMO's FERC ATRR. These analyses are provided as Schedule CRH-1 to this testimony.

The Staff's primary analysis calculated (a) the incremental cost of the Missouri Transmission Projects on GMO's ratepayers over the next 20 years using GMO's current capital structure, capital costs and other costs ordered earlier this month by the Missouri Commission in File No, ER-2012-0175, GMO's 2012 rate case. The Staff then compared the cost of these projects with (b) the incremental revenues that GMO would receive from other SPP entities (collected by the SPP and provided back to GMO) as transmission revenues. The calculation of these transmission revenues is based on the capital structure, capital costs and other costs in GMO's current FERC tariff, which, as described above, produce a much higher revenue requirement. By transferring the Transmission Projects to Transource Missouri, GMO will lose the future transmission revenues of from the Project, as it will not own the Projects, and this is the basis of the quantification of the GMO customer detriment.

In the Staff's secondary analysis, the Staff updated GMO's capital structure and long-term debt rate. The Staff reduced GMO's long-term debt rate in its FERC tariff to the rate approved by the Missouri Commission in File No. ER-2012-0175. The Staff also updated GMO's capital structure from its FERC tariff to make it consistent with the capital structure proposed by GMO and ordered by the Missouri Commission in the 2012 rate case.

Q. What were the results of the Staff's analysis?

A. The Staff's analysis shows a detriment to GMO's customers in nominal dollars of $27 million after 5 years, $48 million after 10 years and $76 million after twenty years as reflected in the chart below. It should be noted that the detriment amount calculated by Staff is conservative as it only included the FERC ROE incentives in the revenue requirement comparisons between Missouri and FERC ratemaking. The Staff's analysis would likely result in a higher detriment if it included all of the other FERC extraordinary ratemaking mechanisms that GMO has asserted that it would seek and be granted by the FERC.

The impact of the updated GMO's long-term debt cost was offset by the updated equity percentage in GMO's capital structure, thus having no impact on the level of the detriment as quantified in the analysis. The calculation of the detriment, by year, is reflected on the attached schedules labeled Schedule CRH-1.

	Current FERC and MO Tariff	Updated LTD rate and Capital Structure
	GMO Ratepayer Detriment (Millions)	GMO Ratepayer Detriment (Millions)
5 Years	$27	$27
10 Years	$48	$48
20 Years	$76	$76

Q. Did the Staff ask KCPL/GMO and Transource Missouri if it had performed any analysis on the impact on KCPL/GMO's ratepayers of the proposed transaction?

A. Yes. On November 30, 2012 Staff issued Data Request No. 0081 which asked for a copy of each and every formal or informal, final or draft study and/or analysis of the cost of service impact on the retail rates of KCPL and/or GMO if the Iatan-Nashua and/or Sibley-Nebraska City project transmission facilities are transferred to Transource Missouri from KCPL/GMO. Staff also asked for a description of the results of such study and/or analysis the associated workpapers.

On December 20, 2012 KCPL/GMO and Transource Missouri responded to this data request (as they had to several of Staff data requests) with an objection. In this particular objection KCPL, GMO, and Transource Missouri objected to this request to the extent that it sought matters subject to the attorney-client privilege or protected as work product and/or other materials prepared in anticipation of litigation or for trial or hearing, as in-house and outside counsel were involved in these matters. KCPL, GMO, and Transource Missouri did provide a response on December 20, 2012 stating:

> The companies agree to produce any such non-privileged studies and/or analyses. Currently the only information responsive to the request is protected by the asserted privileges and work product doctrine.

On January 16, 2013, KCPL, GMO and Transource Missouri provided a non-privileged supplemental response to Staff Data Request No. 0081 (Data Request 0081S) in the form of a one-year analysis.

Q. Did this analysis address the significant detriment to GMO's ratepayers that will result as a direct result of transferring the two transmission projects to Transource Missouri?

A. No. This one-year analysis calculated an estimated revenue requirement impact of the Sibley-Nebraska City Project using FERC tariff costs. This analysis shows that the revenue requirement impact would be higher if Transource Missouri owned the Sibley-Nebraska City Project as opposed to GMO owning the project solely due to the differences in the depreciation rates Transource Missouri has proposed to use for the project and the fact that Transource Missouri would have to incur additional audit fees.

Q. What are the causes of the difference in revenue requirement under Transource ownership?

A. As noted above, because of the FERC ROE incentives, GMO will be collecting revenues (from other SPP members) based on a higher cost of capital than its actual capital cost of constructing and financing the Transmission Projects. The higher capital cost is a result of the 100 basis point ROE incentive adder awarded to the Sibley-Nebraska City project and the 50 basis point adder included in GMO’s FERC tariff for both Transmission Projects as a reward to GMO being a member of a RTO.

For the Sibley-Nebraska City project, GMO’s base FERC ROE is 10.6%. With the added 150 basis points GMO’s FERC ROE is 12.1%. This FERC ROE of 12.1% is compared to a currently authorized Missouri retail ROE of 9.7%. If the Projects are included in GMO’s rate base, the revenue requirement impact of these higher equity cost rates will cause the transmission revenues to be received by GMO to be significantly higher than the transmission expenses to be charged GMO customers if the two Projects were included in GMO’s rate base.

For the Iatan-Nashua line, Transource Missouri determined not to seek the 100 basis point ROE incentive so the equity return difference for this project would be GMO’s base FERC ROE of 10.6% plus the 50 basis point RTO adder for a total of 11.1%, which is then compared to the Missouri jurisdiction ROE of 9.7% just ordered for GMO by the Missouri Commission.

Q. Did KCPL/GMO seek the FERC ROE incentives for these projects?

A. No. It is Staff's understanding that KCPL/GMO did not seek the FERC incentives as well as other FERC ratemaking mechanisms because GPE had entered into the joint venture with AEP and it was decided by GPE that the FERC incentives and other ratemaking mechanisms for these Transmission Projects would be sought by Transource Missouri.

Q. If the Missouri Commission does not approve this transaction and the authority sought in the Applications, would KCPL/GMO receive the exact same FERC incentives and other ratemaking mechanisms as Transource Missouri has received from the FERC?

A. I posed this question to KCPL/GMO witnesses Darrin Ives and Todd Fridley in a meeting with Staff on January 17, 2013, at KCPL Headquarters in Kansas City, Missouri. Both Messrs. Ives and Fridley stated they were "very confident" that KCPL and GMO would get the same FERC incentive ROEs and other ratemaking mechanisms that were awarded to Transource Missouri for the Transmission Projects, with the exception of the hypothetical capital structure.

Also, as noted by KCPL/GMO in response to Staff Data Request No. 0031 signed by Mr. Ives:

> KCP&L and GMO would make application at FERC to request incentive treatments for the projects. If the projects were retained by KCP&L and GMO, the request for incentives would be generally the same as those requested by Transource Missouri with the exception of hypothetical capital structure. The incentives are available to all transmission owners and are granted by FERC on the basis of each project's merit.

KCPL/GMO in response in part to Staff Data Request No. 0069 provided their explanation why KCPL, GMO and Transource Missouri believe they are entitled to FERC incentives:

> 3)…The incentives that are sought by Transource Missouri (as well as those that would be sought by KCP&L/GMO if it were proposing to own and construct the Projects) are incentives to which the Applicants believe they are entitled and that are allowed by FERC to be recovered.
>
> The incentives serve as compensation for accepting risk and ensuring the Projects are completed to the betterment of the transmission system and all customers who rely upon it. The incentives and other costs included in rates will be those that FERC has determined to be appropriate for the customers of wholesale transmission service to pay.
>
> The payment of incentives that benefit the provision of wholesale transmission service also benefit the end use retail customers who rely upon the wholesale transmission service for delivery of power from resources to their end use loads. This is no different for Missouri end use retail customers served by KCP&L/GMO than it would be for any other end use retail customer who benefits from the wholesale transmission service provided by the Projects.

Staff asked in Data Request No. 0079 what FERC incentives KCPL/GMO would have requested if they had proceeded as the sole owners of the Projects. KCPL/GMO responded, in part, as follows:

Objection:
KCP&L, GMO, and Transource Missouri object to this request in that it calls for speculation and is not proper discovery, as data requests are designed to obtain the basic facts of the case and not the opinions of the parties. Without waiving such objections, KCP&L, GMO, and Transource Missouri will endeavor to provide a response to this data request.

Response:
1. As stated on page 15 of Mr. Darrin Ives' Direct Testimony in Case No. EO-2012-0367, if KCP&L/GMO had not decided to partner with AEP through Transource Missouri, KCP&L/GMO would have requested similar incentives to those requested by Transource Missouri, with the exception of the use of a hypothetical capital structure during construction. KCP&L/GMO would have requested a 50 basis point adder for RTO participation for both Projects, a 100 basis point risk adder for the Sibley-Nebraska City Project only, inclusion of 100% of construction work in process in rate base during the development and construction periods for each of the Projects, deferral of all prudently-incurred costs that are not capitalized prior to the rates going into effect for recovery in future rates, and recovery of prudently-incurred costs in the event either of the Projects must be abandoned for reasons outside the reasonable control of Transource Missouri.

Q. Did KCPL and GPE officers create and discuss the "Pros/Opportunities" and "Cons/Risks" of a joint venture with GPE's Board of Directors?

A. Yes. The topic of the Pros and Cons of a joint venture transaction was discussed at a February 7, 2012 GPE Board of Directors meeting. As noted in the minutes of this meeting, the following Pros/Opportunities and Cons/Risks of the Transource Joint Venture were identified:

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Q. What is significant about the list of Pro's/Opportunities and the Con's/Risks of the Transource transaction as identified by KCPL and GPE officers?

A. What is most significant about this Pro's/Con's analysis is that the impact on KCPL/GMO's regulated customers was not a major focus of this analysis. While an improvement in credit metrics and lower construction risk can benefit customers, the overriding focus of this analysis is on GPE's shareholders.

The first two Pro's/Opportunities are only beneficial to GPE's shareholders and are detrimental utility ratepayers. The referenced NPV or "net present value" is the expected present value of the future non-Missouri regulated earnings of Transource Missouri that will accrue to GPE's shareholders. The four Con's/Risks of the transaction are all existing detriments or potential future detriments to GMO's and KCPL's customers.

Q. Please explain.

A. **

**

FERC Incentives and Extraordinary Ratemaking

Q. Please list and describe each FERC incentive that has been awarded by the FERC to Transource Missouri and that KCPL/GMO would very likely receive if the Transource Missouri joint venture does not materialize.

A. The following incentives were requested by Transource Missouri and granted by FERC in its October 31, 2012 Transource Missouri Order. As described above, KCPL/GMO is very confident that the FERC would grant these exact ROE and other extraordinary ratemaking mechanisms (with the exception of a hypothetical capital structure) to KCPL/GMO:

i. Inclusion of 100% of CWIP in rate base during the development and construction phase of the Projects ("CWIP Incentive"). This incentive is designed to alleviate cash flow difficulties associated with the capital requirements and lead times for building each of the Projects.

ii. Recovery of all prudently-incurred costs not capitalized and authorization to establish regulatory assets that will include all such expenses that are incurred in connection with the Projects prior to the rate year in which costs are first flowed through to customers pursuant to the Transource Missouri Formula Rate under the SPP OATT, including authorization to amortize the regulatory assets with interest over five years for cost recovery purposes ("Regulatory Asset Incentive"). This incentive is designed to alleviate cash flow difficulties associated with the capital requirements and lead times for building each of the Projects.

iii. Use of a hypothetical capital structure until long-term financing is in place for the Projects ("Hypothetical Capital Structure Incentive"). This incentive will address the fluctuating capital structure that is present for any start-up developer during the construction phase of its initial projects. This would not be requested by KCP&L/GMO because their existing capital structure would not be subject to the fluctuations of a start-up developer.

iv. Recovery of prudently incurred costs in the event either or both of the Projects must be abandoned for reasons outside Transource Missouri's reasonable control ("Abandonment Incentive"). This incentive is targeted at mitigating the risk that one or both of the Projects may be cancelled for reasons outside the control of Transource Missouri, which, in the absence of such incentive, can impede financing for the Projects.

Two additional ROE related incentives were requested and granted by FERC in its October 31, 2012 order.

i. A 100 basis point ROE adder for its investment in the Sibley-Nebraska City Project to compensate for the risks and benefits of the Project ("ROE Risk Adder Incentive"). The ROE Risk Adder Incentive is designed to facilitate Transource Missouri's ability to raise capital on reasonable terms. If Transource Missouri is not provided an opportunity to earn a return that is sufficient to compensate for the risks of the

> Project, investors and lenders will be unwilling to supply capital.
>
> ii. A 50 basis point ROE adder for its participation in a Regional Transmission Organization ("RTO Adder Incentive"). This incentive is designed to encourage public utilities to participate in RTOs and thus provide the financial and operational benefits associated with RTO membership to its customers. Because Transource Missouri, KCP&L/GMO, or any other entity that would construct these Projects would be a member of SPP, this incentive would apply to any developer, so there is no retail cost differential associated with this incentive. This incentive is not project specific and has already been granted to KCP&L/GMO by FERC.
>
> 2. If the ROE incentives are allowed for the Projects, they will increase the return on equity and the AFUDC incurred on construction costs compared to a return on equity that does not include the incentives. In turn, these increases will affect the rates charged for wholesale transmission services to all customers of that service, including customers in Missouri [KCPL/GMO Transource Missouri response to Staff Data Request No. 0080].

Q. What types of costs would be included in the Regulatory Asset Incentive?

A. As listed at pages 25 and 26 of Transource Missouri's FERC Application for Incentive Ratemaking, the types of costs included in the Regulatory Asset are startup and development costs, attorney and consultant fees, administrative expenses, travel expenses, development surveys and costs to support planning activities. Transource Missouri sought and FERC approved a rapid recovery period of five years for these Transmission Project costs as well as allowing the accruing of a monthly financial return on the asset balances until the assets are included in rate base.

Notifications to Construct are Regulated Utility Assets to KCPL and GMO

Q. What are Notifications to Construct or NTCs?

A. A SPP Notification to Construct letter is a formal SPP document directing the commencement of construction of transmission projects intended to meet SPP needs.

Q. Are the NTCs issued by the SPP to GMO and KCPL for these two Transmission Projects considered to be assets of the regulated utilities?

A. Yes, they are assets with considerable value. The most commonly accepted definition of an asset in the accounting profession can be found in the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Concepts No. 6, Elements of Financial Statements ("CON 6"). In CON 6, assets are defined as "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events."

In an October 20, 2008 Joint meeting of the FASB and the International Accounting Standards Board ("IASB"), the Boards tentatively adopted the following working definition of an asset as a part of their joint project on the Accounting conceptual framework:

> Definition of an Asset
>
> "An asset of an entity is a present economic resource to which the entity has a right or other access that others do not have."
>
> 1. Present means that on the date of the financial statements both the economic resource exists and the entity has the right or other access that others do not have.
>
> 2. An economic resource is something that is scarce and capable of producing cash inflows or reducing cash outflows, directly or indirectly, alone or together with other economic resources. Economic resources that arise from contracts and other binding arrangements are unconditional promises and other abilities to require provision of economic resources, including through risk protection.
>
> 3. A right or other access that others do not have enables the entity to use the economic resource and its use by others can be

> precluded or limited. A right or other access that others do not have needs to be enforceable by legal or equivalent means.

The NTCs the SPP issued to KCPL and GMO for the two Missouri Transmission projects meet both FASB definitions of an asset. Each NTC is an economic resource (the right to construct utility plant that will generate utility revenues) that only KCPL and GMO own, control and have the right to access, and that others do not have the right to access.

The fact that the FERC has awarded ratemaking incentives that will increase GMO's future revenues from these Transmission Projects does not change the fact that these Projects are assets; however, the FERC incentives and other extraordinary ratemaking mechanisms do serve to increase the value of these assets to KCPL and GMO and their Missouri regulated utility customers.

Q. Does GPE recognize that the NTCs awarded to KCPL and GMO are very valuable utility assets?

A. Yes. GPE recognizes the NTCs for the Transmission Projects are valuable assets in its actions forming the Transource joint venture with AEP. GPE's Officers and GPE's Board of Directors made the decision to contribute to the joint venture the rights to construct (NTC assets owned by GPE's Missouri regulated utilities GMO and KCPL) to the two Transmission Projects. This decision was not made by the regulated utilities, GMO and KCPL.

As owners of the NTCs for the Transmission Projects GPE was able to forego the investment of cash in the Transource joint venture by contributing the NTCs for the Transmission Projects. The two NTCs were the consideration GPE gave to AEP to secure GPE's 13.5% interest in Transource Missouri.

Mr. Michael L. Deggendorf, KCPL Senior Vice President-Corporate Services and a member of the Board of Managers of Transource explained the use of the NTC as consideration in lieu of cash:

> ** ____
> ____
> ____
> ____
> ____
> ____
> ____________ ** [Minutes of the August 1, 2011 GPE Board of Directors Meeting]

GPE's reason for partnering with AEP

Q. Did you attempt to determine why GPE entered into the joint venture transaction with AEP to form Transource and Transource Missouri?

A. Yes, I did.

Q. What are your conclusions?

A. The most objective evidence I could find relating to the actual reasons why GPE entered into this joint venture with AEP I found in GPE's May 4, 2012 Earnings Conference Call discussion between senior GPE officers and members of the financial community.

In the Questions and Answer portion of this Earnings Conference Call, KCPL and GPE President and Chief Executive Officer,("CEO") Mr. Terry Bassham stated that the main reason GPE partnered with AEP was to give GPE the ability to compete for non-Missouri regulated transmission projects outside of Missouri and throughout the United States. At the date of this Earnings Conference Call, Mr. Bassham was GPE's President and Chief Operating Officer. Also in this Earnings Conference Call Mr. Michael Chesser, GPE's then

Chairman and CEO, stated that the reason for the joint venture was so that GPE "will be well positioned to compete in the emerging competitive transmission market, while, very importantly, further diversifying our earnings and footprint."

As noted in the below transcript of GPE's May 4, 2012 Earnings Conference Call, Messrs. Chesser and Bassham describe GPE's primary reasons for partnering with AEP:

> TRANSCRIPT
> Great Plains Energy Earnings Conference Call May 4, 2012
>
> **Mike Chesser** - *Great Plains Energy Inc - Chairman, CEO –*
> Last month was an active month for us, as we also announced the formation of Transource Energy, a joint venture with American Electric Power. Transource will pursue competitive transmission projects that fall within the scope of FERC order 1000. The order facilitates competition, and will foster a national perspective of the market. The initial focus of Transource, of which were own 13.5% share, will be on new projects in the Southwest Power Tool, Midwest Independent Transmission System Operator, and PJM Interconnection, with expansion to other regional transmission organizations, or RTOs, as markets mature. In addition to exclusively agreeing to pursue new FERC order 1000 projects, we will also seek revelatory approval to novate two of our Southwest Power Tool regional projects to Transource. <u>We believe that by partnering with AEP, a recognized leader in the transmission business, Great Plains Energy will be well positioned to compete in the emerging competitive transmission market, while, very importantly, further diversifying our earnings and footprint.</u> [emphasis added]
>
> **Jim Shay** - *Great Plains Energy Inc - SVP, CFO –*
> Further, as Mike mentioned, with our partnership in Transource, we believe we will be well positioned to compete in the emerging competitive transmission market space. Transource also provides the benefit of diversifying earnings, and the partnership has the added benefit of potentially reducing medium term capital expenditure requirements and external financing needs.
>
> **Andy Levi** - *Avon Capital – Analyst -*
> Okay. Then just on Transource. I guess so the main reason that you got into the partnership is to preserve capital, or –

> **Terry Bassham** - *Great Plains Energy Inc - President and COO –*
> This is Terry again. That wasn't the main reason. That was one of the factors, obviously, that we were looking at. The main reason was that we had two solid projects that were locked down, but with the order 1000, it was clear that we would have to compete, even locally, against larger competitors, likely and our ability, practically, to compete outside our territory would have been eliminated. For us to go to another jurisdiction, given our size, is not likely. <u>So the main reason was that it gave us an opportunity to partner with AEP, who is a long time transmission entity with lots of experience, and a larger entity who could help us participate in other markets.</u> Certainly, over the next several years we've got mandatory EPA spend at La Cygne, and that certainly gave us the ability to have some more flexibility around capital in the next three to four years. So it was certainly something we thought was a nice fit. <u>But the main reason was to give us the ability to compete outside of just the SPP, given the order 1000 removal of right of first refusal.</u> [emphasis added]

Q. Did you review the portions of GPE's Board of Director minutes related to this transaction?

A. Yes, I reviewed most if not all of the minutes of the meetings of GPE's Board of Directors related to the GPE-AEP joint venture creating Transource as well as the presentations made by GPE officers related to Transource.

Q. In any of the documents you reviewed, was there any expression of concerns relating the existence of benefits or detriments associated with this transaction to KCPL's or GMO's regulated utility customers?

A. No. I reviewed a significant number of minutes of GPE Board of Director meetings and the presentations concerning this transaction by GPE management to GPE Board of Directors. I do not recall in any of the documents any discussion of benefits or detriments on GPE's regulated utility customers associated with this transaction.

AEP's reason for partnering with GPE

Q. What is your understanding of the reasons why AEP chose to enter into a joint venture with GPE?

A. In a November 16, 2012 article in TransmissionHub Transource President: Reliable, flexible, robust grid "is of paramount importance" it was described that AEP and GPE formed Transource specifically to take advantage of the impending competition created by FERC Order No. 1000. In this article Transource President Antonio Smyth (also a witness for Transource Missouri in File No. EA-2013-0098) stated " 'Transource has set itself up to be flexible; ready to work with partners where possible or necessary, and prepared to be a standalone developer.' " The article went on to describe how Transource plans to focus on competitive projects in the PJM Interconnection, Midwest Independent Transmission System Operator ("MISO") and Southwest Power Pool (SPP) regions, and it initially targeted two SPP projects for development – Iatan-to-Nashua and Sibley-to-Nebraska City.

Q. Is the creation and development of Transource part of a greater AEP strategy?

A. Yes. In a March 20, 2012 article in TransmissionHub entitled *CEO: AEP looking for 'critical mass' around transmission*, AEP President and CEO Nick Akins stated that AEP is looking to enter into partnerships in the MISO, PJM, SPP and ERCOT regions in order for AEP to obtain "critical mass" around transmission:

> American Electric Power (NYSE:AEP) is currently looking to strike multiple joint ventures in the territories in which it operates and in adjacent territories, President and CEO Nick Akins told *TransmissionHub* on the sidelines of the 4th Annual EnergyBiz Leadership Forum on March 20. The Columbus, Ohio-based utility specifically is looking for partnerships in the PJM Interconnection, the Midwest ISO, the Southwest Power

> Pool and ERCOT, Akins said. “We're trying to get critical mass around transmission, so we are dealing with those adjacent systems to us so we can fully understand and can get the projects through quickly,” he said. “We'll do multiple joint ventures with parties so we can move forward with specific projects,” both incumbent and competitive, he added.

Q. Please describe the Transource Business Plan.

A. Transource’s Business Plan ** ** [Staff Data Request No. 0001, Transource Business Plan, page 2, Executive Summary]

Q. Are there any reasons why the Missouri Commission should be concerned with supporting GPE’s ability to construct, operate and own transmission projects outside of Missouri, which is GPE’s motivation behind this joint venture?

A. No. To the extent KCPL and GMO utility personnel are engaged in transmission projects outside the state of Missouri, they will not be focused on the primary mission of the utility – to provide safe and adequate service at reasonable rates to its Missouri customers. That is where the focus of utility employees should be at all times. When the focus of regulated utility personnel is on non-regulated operations, the impact on jurisdictional utility customers will very likely be detrimental.

It is apparent that the motivation behind this transaction is that KCPL/GMO’s nonregulated parent company, GPE, is interested in very attractive long-term shareholder returns from investments in future transmission projects throughout the United States. To secure these returns GPE is willing to trade valuable regulated transmission projects (assets) that currently belong to its regulated utilities.

KCPL and GMO's Ability to Construct the Transmission Projects

Q. Have KCPL and GMO stated that they could construct the Transmission Projects as stand-alone regulated electric utilities?

A. Yes. Both KCPL and GMO have historically planned and constructed transmission lines of voltages up to and including 345kV (KCPL/GMO response to Staff Data Request No. 0005). In GPE's Third Quarter 2011 Securities and Exchange Commission ("SEC") Form 10-Q, Quarterly Report, GPE stated that GMO and KCPL had the obligation to build the Transmission Projects, which may be done solely or with other entities, unless the obligation is transferred to another qualified transmission owner. As of the date of this 10-Q, KCPL and GMO had not determined which of these alternative courses of action to pursue, but KCPL and GMO clearly indicated that one of their options was to construct the Transmission Projects themselves.

In response to Staff Data Request No. 0055, KCPL explained how KCPL and GMO take the primary role in engineering, construction, procurement and operations and maintenance of the Transmission Projects even if GPE's joint venture with AEP forming Transource is approved. KCPL and GMO have the capability to physically construct the Transmission Projects as stand alone entities. As will be described below, they have the financial capability as well:

> 1) **Engineering -** KCP&L and GMO will lead the engineering services and management of such services for the Projects. These services by KCP&L and GMO will be provided to Transource Missouri through the service agreements in place for the Transource venture with AEP and GPE. Due to the large scale of these transmission projects, KCP&L and GMO

engineering services will be supplemented either by additional contractor support or additional resources from AEP through Transource services and support agreements, or both.

2) **Construction –** KCP&L and GMO will lead the construction services and management of such services for the Projects. These services by KCP&L and GMO will be provided to Transource Missouri through the service agreements attached as schedules to the direct testimony of Darrin Ives in Case No. EO-2012-0367. Historically, KCP&L and GMO have not retained full time personnel to perform transmission line construction services due to the specialization of transmission construction craft and the cyclical nature of transmission projects. Therefore construction services for the Projects will be managed by KCP&L and GMO personnel and construction activities will be performed through contract with a transmission constructor. KCP&L and GMO may, through the Transource venture, be able to capture additional synergies for construction with AEP's key vendor relationships such as transmission construction.

Procurement - KCP&L and GMO will lead the procurement of materials and related procurement services for the Projects. These services by KCP&L and GMO will be provided to Transource Missouri through the service agreements attached as schedules to the direct testimony of Darrin Ives in Case No. EO-2012-0367. Because of the large scale of the projects, KCP&L and GMO may, through Transource, capture additional synergies with AEP's procurement capabilities that would help reduce costs for key material contracts.

Operation & Maintenance – KCP&L and GMO will provide ongoing operation and maintenance activities for the Projects once they are completed and in service. These services by KCP&L and GMO will be provided to Transource Missouri attached as schedules to the direct testimony of Darrin Ives in Case No. EO-2012-0367. It is not anticipated that AEP would provide any local operation and maintenance services through the Transource for the Projects.

Q. When KCPL/GMO were considering constructing the two Transmission Projects, what were the estimated capital expenditures associated with these Projects by year?

A. This information was obtained from the document titled ** **

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Q. Did Goldman Sachs reach any conclusions in its report about KCPL's and GMO's abilities to fund the Transmission projects on a stand-alone basis?

A. Yes. Goldman Sachs **

**

Q. Does KCPL/GMO have the experience and expertise to construct the Transmission Projects?

A. Yes, the Staff believes that KCPL personnel have the experience and expertise necessary to construct the Transmission Projects on a stand-alone basis. The Staff's belief is consistent with KCPL's belief that it has the required experience and expertise.

KCPL/GMO witness Deggendorf described KCPL's abilities to construct, operate and maintain utility plant at page 6, line 12 of his direct testimony:

> For the Projects, GPE, through its operating companies, provides ongoing project management through a multi-function, multi-discipline project management team, consisting of employees and contractors with wide-ranging expertise in areas including transmission planning, engineering, construction, procurement, real estate, environmental, legal, regulatory, communications, and public affairs.

> GPE, through its operating companies, will continue to provide these services after the Projects are novated to Transource Missouri, as well as providing operations and maintenance services after the Projects become operational.
>
> Through Transource, KCP&L will provide operations and maintenance labor through services and support agreements.
>
> Beyond the Projects, GPE provides regulatory, policy, and transmission planning expertise to Transource within the states and regional transmission organizations in which KCP&L and GMO operate.
>
> KCP&L and GMO also possess local experience for transmission projects in rights-of-way, land acquisition, construction, operations, and maintenance activities.

Mr. Deggendorf also describes at page 7 of his direct testimony KCPL's and GMO's project management skills and their commitment to the communities in which they operate. He states that "GPE's operating utilities have a long history of strong infrastructure investment and reliable utility operations in Kansas and Missouri. The successful completion of the Iatan Unit 2 supercritical coal-fired power plant is a recent example of the long-term commitment that GPE and its subsidiaries make to complex regional projects in a collaborative manner across a broad spectrum of stakeholders."

In support of his position that KCPL has the experience and expertise to construct very large utility construction projects, Mr. Deggendorf notes that the Missouri Commission found in its April 12, 2011 Report and Order in KCPL's 2010 rate case that Iatan Unit 2 "was constructed during a challenging economic climate and finished within three months of the original target date," noting that the "evidence establish[ed] that KCP&L actively managed the Iatan Project and put the proper controls in place." Mr. Deggendorf notes that the Iatan Unit 2 project is an "excellent example of the long-term commitment and dedication that GPE brings to successfully complete its projects."

Q. Do other Applicant witnesses testify to KCPL/GMO's experience and expertise in utility construction projects?

A. Yes. Applicant witness Brent C. Davis, at page 15, lines 4-7 of his direct testimony in File No. EA-2013-0098 and at page 14, lines 6-9 of his direct testimony in File No. EO-2012-0367, states that "KCP&L has a multi-function, multi-discipline project management team, consisting of employees and contractors with wide-ranging expertise in areas including transmission planning, engineering, construction, procurement, real estate, environmental, legal, regulatory, communications, and public affairs."

Q. If KCPL and GMO do not construct and own the Transmission Projects, will the Transmission Projects be more difficult to construct and potentially more costly to construct under Transource ownership?

A. Yes. At pages 17 and 22 of its August 31, 2012 filing with the FERC in Docket No. ER12-2554-000 for incentive rate treatment and request for formula rates, Transource Missouri admitted that negotiations with landowners for new rights-of-way (as well as re-negotiations for existing rights-of-way) can prove costly and time consuming. Transource Missouri recognizes that one of the reasons landowner resistance to both of the Transmission Projects may be elevated is because the Transmission Projects will be developed by Transource Missouri, which does not have the same familiarity to landowners as KCPL and GMO.

Rebuttal of KCPL/GMO witness Ives

Q. At pages 4 through 7 of his direct testimony Applicant witness Ives provides five reasons why GPE and AEP formed Transource. Please respond.

A. His first reason (page 4, lines 12-14 and page 5, lines 1-8) is that the Transmission Projects are regional projects which tend to be larger in scope and scale and require a much greater level of investment than what KCPL and GMO traditionally encounter as utility companies. However, the scope of these projects hardly seem overwhelming to a company who in the last three years has completed a $600 million coal plant environmental upgrade, constructed a brand new $2 billion 850 MW coal plant and is currently constructing a $1.23 billion ($615 million KCPL share) coal plant environmental upgrade at its LaCygne Generating Station.

In an August 2011 article in Power magazine, Applicant witness Brent Davis, who was Project Manager of both the Iatan 1 environmental upgrade and the new Iatan 2 coal plant, was quoted as follows: “There are few undertakings in this industry more difficult and complex than constructing a coal plant.” He added, “Having been involved in the project from day one, I can proudly say that our execution in the construction and startup of Iatan 2 was world class.”

Mr. Ives’ second reason (page 5, lines 9-19) is that these regional Transmission Projects typically require significant capital investments. As noted above, in its Report on the Transource Business Plan, Goldman Sachs found that ** ** In GPE’s May 4, 2012 Earnings Conference Call, Mr. Bassham downplayed the importance of the capital pressures of the Transmission Projects where he described the added flexibility that the Transource joint venture provides, “…over the next several years we've got mandatory EPA spend at La Cygne, and that certainly gave us the ability to have some more flexibility around capital in the next three to four years. So it was certainly something we thought was a nice fit. But the main reason was to give us the ability to compete outside of just the SPP, given the order 1000 removal of right of first refusal."

Mr. Ives' third reason why GPE formed a partnership with AEP, (page 5, lines 20-23 and page 6, lines 1-4) is that Transource should attract new and different source of capital to its business. He then concludes that Transource's ability to attract new and different sources of capital into the region at competitive rates is expected to lower transmission costs for Missouri customers. Nothing in Transource Missouri or KCPL/GMO's Application or testimony provides any analysis or support or evidence that the mere existence of Transouce as an affiliate of GPE in Missouri will lower transmission cost for Missouri customers in financing or other areas.

Ironically, Transource Missouri has done almost everything it possibly can to increase transmission costs for Missouri customers (and all transmission customers in the SPP) by aggressively seeking virtually every possible FERC ratemaking incentive and extraordinary ratemaking mechanism that it could reasonably seek from the FERC. Transource Missouri even sought the ability to be able to engage in single-issue ratemaking with its FERC tariff. This Transource Missouri request was denied by FERC.

Mr. Ives' fourth reason (page 6, lines 5-17) is that because of FERC Order No. 1000's removal of the federal right of first refusal it is only through KCPL's parent company's partnership with AEP that KCPL/GMO will be able to compete for future transmission construction projects in its service area. It is not clear why KCPL/GMO, if it had a desire to bid for new transmission construction projects in its collective service territory, could not compete without AEP as a partner. As noted throughout the direct testimonies in these cases, KCPL is very experienced in the utility construction business and is able to finance and construct major projects simultaneously.

Mr. Ives' fifth and final reason why GPE is forming a partnership (page 6, line 18 through page 7, line 8) is that Transource provides additional expertise in the construction of transmission projects. He states that AEP brings to the partnership intangible benefits, such as established supplier relationships, that will be cost effective to the construction of the Missouri Transmission Projects. I could not find anywhere in the Applications or in the direct testimonies of the KCPL/GMO and Transource Missouri witnesses any evidence or analysis to show that Transource Missouri's access to AEP's supplier relationships or AEP's transmission expertise will lower the construction cost of the Transmission Projects by any amount. In fact, Transource Missouri has admitted that it may have to incur higher costs to obtain new rights of way and renegotiate existing rights of way than would KCPL or GMO if KCPL or GMO construct the projects.

Q. Please explain.

A. At pages 17 and 22 of Transource Missouri's August 31, 2012 request for FERC incentive rate treatments and FERC's acceptance of a Transource Missouri formula rate, Transource Missouri admitted that because of the very fact that Transource Missouri would be constructing the Iatan-Nashua Project and the Sibley-Nebraska City Project, the cost of the obtaining new rights-of-way and renegotiating existing rights of way for both of these Projects could very well be higher than if they were constructed by KCPL/GMO. At page 17 relating to the Iatan-Nashua line Transource Missouri stated:

> The Iatan-Nashua Project will utilize both existing rights-of-way and a new right of- way. About 12 miles, encompassing the middle segment of the proposed route, will not utilize existing rights-of-way, requiring negotiations with every

> affected landowner with interests along the project's route.63 <u>These individual negotiations can prove costly and time consuming with possible changes to the preferred route to accommodate any difficulties in obtaining the necessary rights-of-way.</u> For those portions of the project that will utilize existing rights-of-way, further negotiations with affected landowners may be necessary to expand and/or modify the rights-of-way to obtain access rights for construction and obtain clearance approvals because of the increased voltage of the transmission line and because new transmission structures will be higher than existing structures. <u>As explained by Mr. Fridley, landowner resistance to this project may be elevated because (1) the project is being developed to provide region-wide benefits, not strictly local needs, (2) the project will be developed by Transource Missouri, which does not have the same familiarity to landowners as KCP&L and GMO,</u> and (3) in the absence of a state siting statute, there has not been a state regulatory order prescribing the route. [emphasis added]

Q. Even in the unlikely event the construction cost of the Transmission Projects could be lowered by Transource Missouri owning the Projects as opposed to KCPL/GMO constructing the Projects as a stand-alone entity, would any benefits passed on to Missouri customers be significant in value?

A. No. The reduction in construction costs as a result of and directly attributable to these intangible benefits brought to Transource Missouri by AEP would have to exceed the cost to Missouri ratepayers of losing the revenue flows associated with the Transmission Projects from other SPP entities.

Staff's position is that the Transmission Projects should continue to be owned and constructed by KCPL/GMO and included in GMO's rate base when completed and placed in service. Under Staff's proposal GMO's customers will receive the benefit of approximately $76 million in transmission revenue credits over 20 years. Under KCPL/GMO's and Transource Missouri's proposal GMO's cost of service will increase by approximately $76 million over 20 years as a result of the loss of the transmission revenues from the

Transmission Projects. All of the profits generated by the Transmission Projects will accrue to AEP and GPE shareholders based on their respective Transource Missouri ownership percentages of 86.5% for AEP and 13.5% for GPE. This is the impact of allowing GPE to transfer Missouri regulated utility assets to a non-Missouri Commission regulated entity.

Rebuttal of KCPL/GMO witness Deggendorf

Q. At pages 3, lines 9 through 14, of his direct testimony, Applicant witness Mr. Michael Deggendorf states there are two reasons why GPE partnered with AEP to form Transource. The first reason was to develop the Iatan-Nashua and Sibley-Nebraska City transmission projects and the second reason was to create a vehicle for GPE to pursue "regional" competitive transmission projects. Is Mr. Deggendorf portrayal of the reasons for the joint venture with AEP consistent with the reasons stated by KCPL and GPE President and CEO, Mr. Terry Bassham?

A. No they are not. In GPE's May 4, 2012 Earnings Conference Call Mr. Bassham stated very clearly the main reason why GPE partnered with AEP. The main reason for the joint venture, as communicated by Mr. Bassham, was "to give us the ability to compete outside of just the SPP, given the order 1000 removal of right of first refusal." The main reason was not, as testified to here by Mr. Deggendorf to 1) build the two Missouri Transmission Projects or 2) to pursue only SPP regional competitive projects. GPE desires to be a partner with AEP to build construction projects in the SPP, MISO and PJM, an area that includes a significant portion of the Unites States.

Q. Mr. Deggendorf discusses at page 3 of his direct testimony capital pressures to fund the Transmission Projects in light of KCPL/GMO's competing capital demands. Are these issues significant to the decision by GPE to find a partner to help it develop a platform to compete in transmission projects across the nation?

A. No. As noted above, in its Report on the Transource transaction Goldman Sachs found that ** ______________________________ ** Mr. Bassham also downplayed the importance of the capital pressures of the Transmission Projects in the May 4, 2012 Earnings Conference Call.

Q. Did AEP first approach GPE about participating in a joint venture?

A. No, it was GPE's idea to contribute the two SPP projects to a nonregulated joint venture. From a response to Staff Data Request No. 0085, the Staff learned that on July 20, 2011, GPE issued a request for proposal for a possible joint venture that has developed into the File No. EA-2013-0098 and EO-2012-0367 transaction. The RFP was titled, ** ______________________________ **

In this RFP, GPE explained that it was seeking ** ______________________________

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Q. Do you believe that the transfer of the Iatan-Nashua and Sibley-Nebraska City transmission projects from KCPL/GMO to Transource Missouri would be detrimental to the public interest?

A. Yes. The revenue requirement detriment to GMO's customers will occur if the NTCs are transferred from KCPL/GMO to Transource Missouri. GMO's customers will be significantly harmed due to the loss of transmission revenues that would otherwise be credited to them in the Missouri jurisdictional cost of service if GMO retains ownership of the Transmission Projects.

Because of this detriment the Staff is not recommending the approval of the proposed transfers sought in the Application in File No. EO-2012-0367. And because Transource Missouri's application for a CCN is predicated on the transfers, the Staff is recommending the Missouri Commission <u>not</u> grant Transource Missouri the CCN it seeks in its Application in File No. EA-2013-0098.

Q. Does the Staff have any recommendations to the Missouri Commission as to how it could mitigate the detriments Staff has identified should the Missouri Commission grant both Applications?

A. No. The revenue requirement detriment to GMO's customers will occur if the transactions as proposed in the Applications are consummated GMO's customers will be significantly harmed due to the loss of regulated transmission revenues. At this point the Staff does not see any possibility for significant ratepayer detriment to be eliminated or truly mitigated by one or more conditions.

However, in the event the Missouri Commission rejects the Staff's recommendation and approves the Applications as proposed, there are matters the Missouri Commission needs to address.

Other Issues

Q. In addition to the Staff's concerns that are described above in your rebuttal testimony, does the Staff have additional concerns related to the Application of KCPL/GMO in File No. EO-2012-0367?

A. Yes. The following Staff concerns are only relevant if the Missouri Commission approves the transfer of the Transmission Projects from KCPL/GMO to Transource Missouri.

The first concern is the potential for the ownership of the two Missouri Transmission Projects to be sold or otherwise disposed of by Transource or AEP without the Missouri Commission's approval. The second concern is the Applicants' request for a waiver or variance from the Missouri Commission's Affiliate Transactions Rule, 4 CSR 240-20.015 ("Affiliate Transactions Rule" or "Rule"). The final Staff concern, which is related to the Affiliate Transactions Rule, is the Missouri Commission's access to the books and records of Transource Missouri and Transource, as affiliates of KCPL and GMO.

Potential future sale of Missouri Transmission Projects

Q. Earlier you briefly discussed factors other than the revenue requirement detriment of this transaction which need to be addressed by the Missouri Commission, the first of which is the potential for a future change in ownership of the Missouri Transmission Projects. Please explain this concern.

A. If the Missouri Commission approves certain of the requested transactions, in particular, the transfers to Transource Missouri of the NTCs for the Transmission Projects, it is approving a transfer of Missouri regulated utility assets to an entity, Transource Missouri, which is not retail rate regulated by the Missouri Commission. The Staff believes that the Transmission Projects are assets, first as NTCs for which KCPL/GMO had the federal right of first refusal, and then as 345 kV transmission lines.

Even though the Staff is not recommending that the Missouri Commission authorize either of the two pending Applications, should the Missouri Commission authorize the two pending Applications, it should condition its authorization on the condition that should Transource Missouri or Transource seek to ever transfer the Iatan-Nashua and/or the Sibley-Nebraska City 345 kV transmission lines, or Transource or Transource Missouri terminates operation, then the Iatan-Nashua and/or the Sibley-Nebraska City 345 kV transmission lines are first offered to KCPL/GMO for purchase at its/their then current net book value.

Q. Was this potential loss of the Sibley-Nebraska City line a concern to KCPL and GMO senior management?

A. ** ______________________________

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Q. Has the Staff addressed this issue with KCPL/GMO/Transource Missouri in Staff data requests?

A. Yes. In Staff Data Request No. 0113 Staff asked the following question:

> Is Great Plains Energy/GPE Transmission Holding Company, LLC/American Electric Power Company/AEP Transmission Holding Company, LLC willing to agree to obtain MoPSC approval before selling, assigning, leasing, transferring, mortgaging or otherwise disposing or encumbering the whole or part of the Iatan-Nashua or Sibley-Nebraska City Projects or 345kV transmission lines necessary or useful in the performance of its/their duties to the public, or by any means, direct or indirect, merging or consolidating such works or system, or any part thereof, with any other corporation, person or public utility? If not, why not?

The KCPL/GMO/Transource Missouri response was:

> Objection:
> KCP&L, GMO, and Transource Missouri object to this request in that it calls for a legal conclusion. Without waiving such objection, KCP&L, GMO, and Transource Missouri will endeavor to provide a response to this data request.
>
> Response:
> Staff's understanding of Transource Missouri's position appears to be incorrect. If the Projects are novated and facilities are transferred to Transource Missouri pursuant to the requested MoPSC approvals, Transource Missouri will be the owner and operator of the Projects. As a result, Transource Missouri would seek approval from the MoPSC for any subsequent transfer of the Projects' facilities, and is willing to agree to obtain the prior approval of the MoPSC. However, Great Plains Energy Incorporated, GPE Transmission Holding Company, LLC, American Electric Power Company, and AEP Transmission Holding Company, LLC will be neither the

owner nor the operator of the Projects, and would not agree to seek and obtain such approval.

Q. What are Staff's comments on the response in Data Request No. 0113?

A. In the response KCPL/GMO and Transource Missouri commit that Transource Missouri would seek approval from the Missouri Commission for any subsequent transfer of the Iatan-Nashua line and the Sibley-Nebraska City line. The Staff believes that in addition to this requirement the Missouri Commission also condition any acceptance of these Applications on the agreement from the Applicants and AEP that it will come to the Missouri Commission before it sells or otherwise transfers ownership of the Iatan-Nashua line and the Sibley-Nebraska City line, and that AEP and Transource will commit to offer to transfer this asset back to KCPL/GMO at the then current net book value of the asset. The decision of whether or not KCPL/GMO would reacquire the Iatan-Nashua line and the Sibley-Nebraska City line would be addressed in a case that is filed with the Missouri Commission.

Affiliate Transactions Rule Waiver

Q. Are the Applicants seeking a waiver or variance from the Missouri Commission's Affiliate Transactions Rule ("Rule")?

A. Yes. Mr. Ives describes this proposal at pages 23 through 27 of his direct testimony.

Q. What is the purpose and objective of the Missouri Commission's Rule on affiliate transactions as related to regulated electric corporations?

A. The purpose and objective of the Rule is to prevent a regulated utility from subsidizing its non-regulated operations. The Rule, coupled with effective enforcement also provides public the assurance that utility rates are not adversely impacted by the utilities' non-regulated activities.

The Rule seeks to prevent cross subsidization because affiliate transactions, by their very nature, create incentives for utility management to increase costs to the regulated utility so profits can be recognized by the non-regulated entity. Without ratepayer protections, such as the affiliate transactions rule, ratepayers would clearly be subsidizing non-regulated operations. While the Affiliate Transactions Rule by itself does not eliminate the risk of this occurring, the Rule, coupled with effective utility oversight and effective enforcement of the Rule, does somewhat lessen the risk of inappropriate costs being charged to utility ratepayers. However, even with close oversight and the affiliate transactions rule, the incentive for utility management to subsidize nonregulated operations exists and will continue to exist as long as utilities are allowed to transact business with affiliates. If a regulator allows utilities to engage in affiliated transactions, substantive ratepayer protections must be put in place to protect ratepayers from improper utility-affiliate behavior.

Q. How does the Rule attempt to accomplish this objective?

A. Whenever a regulated utility participates in a transaction with any of its affiliated entities, the Missouri Commission put in place 1) financial standards, 2) evidentiary standards and 3) record keeping requirements in which the utility and its affiliates must comply with to attempt to assure appropriate affiliate conduct.

Q. What are the financial standards the Missouri Commission created to prevent regulated utilities from subsidizing their nonregulated operations and provide ratepayers the assurance that their rates are not adversely impacted by the utilities' nonregulated activities?

A. Listed below are some of the Missouri Commission's financial standards as reflected in 4 CSR 240-40.015(2):

> 1. Regulated electrical corporation shall not provide a financial advantage to an affiliated entity.
>
> 2. Regulated electrical corporation shall conduct its business in such a way as not to provide any preferential service, information or treatment to an affiliated entity over another party at any time.
>
> 3. Regulated electrical corporation shall not participate in any affiliated transactions which are not in compliance with this rule, except as otherwise provided in section (10) of this rule.

Q. What are the standards in addition to the financial standards that the Missouri Commission created to prevent regulated utilities from subsidizing their nonregulated operations and provide ratepayers the assurance that their rates are not adversely impacted by the utilities' nonregulated activities?

A. In addition to the financial standards, the Rule also provides for evidentiary standards (which support the financial standards) and require the utility create and maintain sufficient records to support its decision to enter into an affiliate transaction (e.g., competitive bids, documentation, cost allocation manual) (4 CSR 240-40.015(3). Finally, the Rule includes record-keeping requirements that, among other things, mandate that the utility keep records identifying the basis (e.g., fair market price, fully distributed cost, etc.) to record the affiliate transaction (4 CSR 240-40.015(5)

Q. For purposes of this case, are there particular sections of the Rule with which Staff is concerned?

A. Yes. In 4 CSR 240-40.015 (2) (A) the Rule states that a utility provides a prohibited financial advantage to an affiliate in purchases from an affiliate or sales to an affiliate if the utility does not apply the Rule's asymmetrical pricing standard.

In setting the price at which a utility can purchase from a non-regulated affiliate (compensate), the Missouri Commission uses the "lower of cost or market" accounting or cost principle to determine the maximum allowable compensation. In its Rule the Commission required the dollar amount ceiling when a regulated utility pays a non-affiliate for goods or services to be the lower of *either* the fair market price of the good or service, or the cost to the utility to provide the good or services to itself.

In setting the price at which a utility can sell to (transfer information, assets or goods and services) a non-regulated affiliate, the Missouri Commission uses the "higher of cost or market" cost principle to determine the minimum allowable sales price for all affiliate transactions, including shared corporate support services and energy-related sales with affiliates. The difference in the method that the Missouri Commission allows a regulated entity to pay for a good or service from an affiliate (the lower of cost or market) and the lowest amount the Missouri Commission allows a regulated utility to sell to an affiliate for a good or service (the higher of cost or market) is referred to as asymmetric pricing.

Q. Please provide a brief history of KCPL and its commitment to the Missouri Commission's Affiliate Transactions Rule.

A. In Case No. EM-2001-464 KCPL committed that all KCPL affiliates, after its reorganization as a holding company under Great Plains Energy, will comply with the Missouri Commission's Affiliate Transactions Rule. At paragraph 2 in the First Amended Stipulation and Agreement to Case No. EM-2001-464 KCPL committed to the following:

> 2. State Jurisdictional Issues
>
> In Re Western Resources, Inc./Kansas City Power & Light Company, Case No. EM-97-515, and Re Union Electric Company/Central Illinois Public Service Company, Case No. EM-96-149, the Commission approved settlement agreements designed to ensure the protection of customers of Missouri utilities that were to possibly become or became a subsidiary of a Registered Holding Company. KCPL and GPE hereby agree to those same conditions as set forth below. <u>KCPL further commits that it and its affiliates will continue to comply with the provisions of 4 CSR 240-20.015 and 20.017 after the reorganization is completed.</u> [Emphasis Added]

Q. If the Missouri Commission approves this transaction, should it also grant KCPL and GMO a variance from the Affiliate Transactions Rule?

A. No. KCPL and GMO have provided no substantive reason why the Com Missouri Commission should allow them to not comply with a Rule designed to protect the interests of Missouri ratepayers.

Q. What is the basis for the KCPL's and GMO's request?

A. Mr. Ives states at page 23 of his direct testimony that the preamble to the Rule states it is "intended to prevent regulated utilities from subsidizing their non-regulated operations" and that the Applicants, Transource, and its regulated utility subsidiaries such as Transource Missouri will be engaged in regulated operations. At page 24, lines 3-4 of his direct testimony, Mr. Ives notes that Transource Missouri will be rate regulated by the FERC but not the Missouri Commission.

Q. Does Mr. Ives misinterpret the Rule?

A. I believe he does. Mr. Ives mistakenly lumps regulated operations under one umbrella when there is a clear and distinct separation between regulated state utility operations rules and regulations and federal regulated operations rules and regulations.

The Missouri Commission's Affiliate Transactions Rule is state-based regulatory rules applicable to state regulated utilities and their affiliates. The Rule is not intended to exclude transactions entered into between entities regulated by the Missouri Commission and their affiliated entities regulated by another body.

Q. Did KCPL agree with this interpretation regarding the applicability of the Rules in 2001?

A. Yes.

Q. Please explain.

A. KCPL noted under Section III page 7 of its EM-2001-4464 Application that Missouri law permits electric utilities operating non-jurisdictional businesses (like Transource Missouri) to keep those businesses "separate and apart" from their jurisdictional utility businesses. As KCPL/GMO make clear in their Application here and in responses to Staff Data Requests in this case (File Nos. EA-2013-0098 and EO-2012-0367), Transource and Transource Missouri are not and will not be Missouri jurisdictional utility businesses.

In its Case No. EM-2001-464 Application (Schedule CRH-3) KCPL went on to note that the provisions of the Missouri Commission's Affiliate Transactions Rules (4 CSR 240-20.015 and 20.017) detail the requirements the Missouri Commission had deemed necessary to ensure such separation:

> Sec. 393.140(12) permits electric utilities operating non-jurisdictional businesses to keep those businesses "separate and apart" from their jurisdictional utility businesses. The provisions of 4 CSR 240-20.015 and 20.017 detail the requirements the Commission has deemed necessary to ensure such separation. The proposed reorganization will further separate KCPL's retail electric customers from the Company's other business interests.

Q. Why under the Affiliate Transactions Rules is Transource a "non-regulated affiliate" of the Missouri regulated utilities KCPL and GMO?

A. First, the Rule (4 CSR 240-20.015) clearly establishes that Transource and Transource Missouri will be affiliated entities by the definition of affiliated entity in it, which follows:

> Affiliated entity means any person, including an individual, corporation, service company, corporate subsidiary, firm, partnership, incorporated or unincorporated association, political subdivision including a public utility district, city, town, county, or a combination of political subdivisions, which directly or indirectly, through one (1) or more intermediaries, controls, is controlled by, or is under common control with the regulated electrical corporation.

Second, the Rule defines an affiliate transaction as any transaction between a regulated electric corporation and an affiliated entity. KCPL and GMO are regulated electric corporations under the jurisdiction of the Missouri Commission and Transource Missouri is not. In fact, Transource is not regulated by the Missouri Commission in any manner other than potentially being an affiliate of KCPL and subject to the Missouri Commission's Affiliate Transactions Rule and the commitments made by KCPL in the First Amended Stipulation and Agreement in Case No. EM-2001-464.

The Rule defines "affiliate transactions" as follows:

> Affiliate transaction means any transaction for the provision, purchase or sale of any information, asset, product or service, or portion of any product or service, between a regulated electrical corporation and an affiliated entity, and shall include all transactions carried out between any unregulated business operation of a regulated electrical corporation and the regulated business operations of a electrical corporation.

Q. Did KCPL make further commitments related to the Affiliate Transactions Rule in its Application in Case No. EM-2001-464?

A. Yes. In its EM-2001-464 Application at page 7 KCPL stated that:

> In the future, those competitive businesses will be conducted in subsidiaries of HoldCo- not in subsidiaries of KCPL. Depending upon the nature of the transaction, and considering the commitments made in the next section of this Application, any significant business dealings between KCPL and its affiliated companies will be subject to review and documentation, and to the approval and/or ratemaking authority of this Commission, the SEC and/or the Federal Energy Regulatory Commission ("FERC").

Q. If the Missouri Commission grants the Applicants' request for a variance from the Affiliate Transactions Rule will this action allow Transource to have a competitive advantage over other competitive transmission providers?

A. Yes, and this would be inappropriate. Transource Missouri would be able to leverage KCPL's reputation, experience, and skills by obtaining goods and services at cost. These goods and services at cost will not be available to other competitive transmission providers. Once it becomes established that Transource Missouri has the ability to obtain construction and other services from KCPL at cost and this becomes a distinctive cost advantage, it would be likely that other potential competitive transmission construction companies would not consider bidding on the same projects where Transource Missouri can leverage off of KCPL's regulated utility status.

Q. Does Transource Missouri recognize that in FERC Order No. 1000 FERC was seeking to "enable and encourage market entry and increased competition in the development of transmission infrastructure"?

A. Yes. Transource Missouri clearly recognized this FERC motivation at page 39 of its August 31, 2012 FERC Application for Incentive Ratemaking. However, its attempt to obtain subsidized construction goods and services from state-regulated electric utility companies such as KCPL and GMO through variances from Affiliate Transactions Rule does not appear to be consistent with this goal of FERC Order No. 1000.

Q. What were the specific "commitments" KCPL referred to in the above quote from page 7 of the EM-2001-464 Application?

A. In the Case No. EM-2001-464 GPE Reorganization Application KCPL proposed the application of certain consumer protection agreements that were previously approved by the Missouri Commission and included in settlement agreements in Western Resources, Inc./Kansas City Power & Light Company, Case No. EM-97-515, and Union Electric Company/Central Illinois Public Service Company, Case No. EM-96-149. KCPL further committed in paragraph II.2.a Access to Books, Records and Personnel that it and its affiliates would continue to comply with the provisions of 4 CSR 240-2.015 and 2.017 after the reorganization was completed. I have listed below certain other provisions that are in the First Amended Stipulation and Agreement in Case No. EM-2001-464, which was approved by the Missouri Commission in a July 31, 2001 Order Approving Stipulation and Agreement and Closing Case:

> II2.c. Electric Contracts Required to be Filed with FERC
> All wholesale electric energy or transmission service contracts, tariffs, agreements or arrangements of any kind, including any amendments thereto, between KCPL and any HoldCo subsidiary or affiliate, that are required to be filed with and/or approved by the FERC, pursuant to the Federal Power Act, as subsequently amended, shall be conditioned upon the following without modification or alteration: Neither KCPL nor any of its affiliates will seek to overturn, reverse, set aside, change or enjoin, whether through appeal or the initiation or maintenance of any action in any forum, a decision or order of the Commission which pertains to recovery, disallowance, deferral or ratemaking treatment of any expense, charge, cost or allocation incurred or accrued by KCPL in, or as a result of, a wholesale electric energy or transmission service contract, agreement, arrangement or transaction on the basis that such

> expense, charge, cost or allocation has itself been filed with or approved by FERC, or was incurred pursuant to a contract, arrangement, agreement or allocation method that was filed with or approved by FERC.
>
> II.2.d. No Pre-Approval of Affiliated Transactions
> KCPL agrees to provide the Commission and Public Counsel with copies of all documents that must be filed with the SEC or FERC relating to affiliate transactions. KCPL and HoldCo further agree that the Commission may make its determination regarding the ratemaking treatment to be accorded these transactions in a subsequent ratemaking proceeding.
>
> II.2.e. Contingent Jurisdictional Stipulation Regarding Affiliate Contracts Required to be Filed With FERC
>
> KCPL agrees that in the exclusive event that any court with jurisdiction over KCPL, HoldCo or any of their affiliates or subsidiaries issues an opinion or order that invalidates a decision or order of the Commission pertaining to recovery, disallowance, deferral or raternaking treatment of any expense, charge, cost or allocation incurred or accrued by KCPL on the basis that such expense, charge, cost or allocation has itself been filed with or approved by FERC, then the Contingent Jurisdictional Stipulation, attached hereto as Exhibit 5, shall apply to FERC filings according to its terms, at the option of the Commission.

Q. In your opinion does KCPL have a very good track record in complying with the Missouri Commission's Affiliate Transactions Rule?

A. No. At page 15, line 24 of his February 28, 2011 True-Up Rebuttal Testimony in File No. ER-2010-0356, KCPL/GMO witness Darrin Ives admitted that KCPL failed to report a $1.5 million dollar affiliate transaction with its affiliate Great Plains Power ("GPP") to the Missouri Commission. In this very significant affiliate transaction, KCPL failed to do an analysis to determine the market value of these assets. KCPL, the regulated utility, merely reimbursed GPP, the non-regulated affiliate, for the full cost of the assets to GPP as GPP was in the process of dissolution and was dissolved in 2005. At paragraph 163 of its Report and Order in File No. ER-2010-0356, the Missouri Commission noted that "the Companies agree that they were in error for not reporting the transaction in the annual affiliate transaction report."

In another multi-million dollar affiliate transaction, KCPL significantly inflated the fair market value of the Crossroads Energy Center combustion turbines that it purchased from an affiliate of Aquila (now GMO), Aquila Merchant Services. In its Report and Order in File No. ER-2010-0356 Report and Order at paragraph 271, the Missouri Commission noted:

> It is incomprehensible that GPE would pay book value for generating facilities in Mississippi to serve retail customers in and about Kansas City, Missouri. And, it is a virtual certainty that GPE management was able to negotiate a price for Aquila that considered the distressed nature of Crossroads as a merchant plant which Aquila Merchant was unable to sell despite trying for several years.

Q. Because KCPL failed to appropriately apply the Missouri Commission's Affiliate Transactions Rules to the Crossroads acquisition, did the Missouri Commission have to make an adjustment to reduce the value of the Crossroads plant to an appropriate market value in accordance with the Rule?

A. Yes. In its Report and Order in File No. ER-2010-0356 the Missouri Commission enforced the lower of cost of market asymmetrical pricing requirement of the Rule and applied a fair market value to Crossroads that was in accordance with the Rule. The Missouri Commission had to make this evaluation because KCPL/GMO did not do so. At paragraph 275 of its Report and Order the Missouri Commission stated:

> Considering the depressed market as exhibited by the sale of similar turbines to Ameren, and the valuation of these assets reported to the SEC by GPE, the Commission finds that $61.8 million is an accurate reflection of the fair market value of Crossroads as required by the affiliate transaction rule as of July 14, 2008.

Access to Affiliate Books and Records

Q. Does the Staff have any concerns related to the Missouri Commission and the Staff being able to access the books and records of Transource and Transource Missouri, regardless of whether the Missouri Commission approves or rejects the Staff's recommendation concerning the Applications as proposed?

A. Yes. These concerns are mitigated to the extent that KCPL complies with the commitments it made in Case No. EM-2001-464, First Amended Stipulation and Agreement as it relates to Staff access to affiliate books, records, and personnel and Transource Missouri complies with the commitments it made in response to Staff Data Request No. 0064 in File No. EA-2013-0098. The specific commitments found in the First Amended Stipulation and Agreement EM-2001-464 are found in paragraph II.2a, page 5:

> a. Access to Books, Records and Personnel
> KCPL agrees to make available to the Commission Staff, and Public Counsel, at reasonable times and places, all books, records, employees and officers of KCPL and any affiliate of KCPL as provided under applicable law and Commission rules; provided that KCPL and any affiliate or subsidiary of HoldCo shall have the right to object to such production of records or personnel on any basis under applicable law and Commission rules, excluding any objection that such records and personnel of affiliates or subsidiaries are not subject to the Commission's jurisdiction and statutory authority, including objections based on the operation of PUHCA
>
> At the Commission's request, officers and employees of GPE or its affiliates will be made available for depositions or cross-examination concerning affiliate transactions affecting KCPL and diversification plans.

The specific commitments in the Transource Missouri response to Staff Data Request No. 0064 are in what Staff takes as a good faith answer by Transource Missouri that it will provide access to the documents listed by Staff in the Data Request.

If the Missouri Commission decides to approve this transaction the Staff recommends the Missouri Commission secure a commitment from KCPL, GMO, GPE, Transource Missouri and Transource that it will comply the exact KCPL Case No. EM-2001-464 commitment to provide Staff access to documents and personnel after the transaction is completed.

Q. Does this conclude your rebuttal testimony?

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 Maintain the Iatan-Nashua and Sibley-Nebraska City Electric Transmission Projects	)	File No. EA-2013-0098
		and
In the Matter of the Application of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company for Approval to Transfer Certain Transmission Property to Transource Missouri, L.L.C. and for other Related Determinations	)	File No. EO-2012-0367

AFFIDAVIT OF CHARLES R. HYNEMAN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Charles R. Hyneman, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 61 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Chs R. Hyneman

Charles R. Hyneman

Subscribed and sworn to before me this 30th day of January, 2013.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

D Suzie Mankin

Notary Public

Kansas City Power & Light Company
KCP&L Greater Missouri Operations Company
Transource Missouri, LLC — File Nos EO-2012-0367 and EA-2013-0098

Iatan-Nashua Project Detriment Analysis - GMO Ownership vs. TranSource Ownership, Case 1: Current FERC Capital Structure

INPUTS:

Rate Base:	64,800,000
Book Depreciation Rate:	2.033%
GMO TranSource Debt Cost:	7.820%
GMO TranSource Preferred Stock Cost:	4.220%
GMO TranSource Equity Cost:	11.100%
GMO TranSource Debt %:	52.840%
GMO TranSource Preferred Stock %:	0.610%
GMO TranSource Equity %:	46.550%

	Year 1		Year 2		Year 3		Year 4		Year 5	
	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project
Iatan-Nashua Project	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000
Accumulated Depreciation	(658,692)	(658,692)	(1,976,076)	(1,976,076)	(3,293,460)	(3,293,460)	(4,610,844)	(4,610,844)	(5,928,228)	(5,928,228)
Accumulated Deferred Income Tax	(990,964)	(990,964)	(2,848,509)	(2,848,509)	(4,469,725)	(4,469,725)	(5,879,488)	(5,879,488)	(7,097,701)	(7,097,701)
Net Investment (Rate Base)	$ 63,150,344	$ 63,150,344	$ 59,975,415	$ 59,975,415	$ 57,036,815	$ 57,036,815	$ 54,309,668	$ 54,309,668	$ 51,774,071	$ 51,774,071
Return on Equity	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%
Preferred Stock Rate	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%
Long Term Debt Rate	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%
Equity % of Capital Structure	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%
Preferred Stock % of Capital Structure	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%
Long Term Debt % of Capital Structure	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%
Cost of Capital (%)	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%
Cost of Capital ($)	$ 5,134,983	$ (5,888,694)	$ 4,876,818	$ (5,592,635)	$ 4,637,870	$ (5,318,615)	$ 4,416,116	$ (5,064,311)	$ 4,209,937	$ (4,827,870)
Depreciation Rate	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%
Federal Income Tax	$ 1,732,441	$ (1,765,759)	$ 1,645,341	$ (1,676,984)	$ 1,564,725	$ (1,594,817)	$ 1,489,909	$ (1,518,563)	$ 1,420,349	$ (1,447,665)
State Income Tax	$ 214,493	$ (218,618)	$ 203,709	$ (207,627)	$ 193,728	$ (197,454)	$ 184,465	$ (188,013)	$ 175,853	$ (179,235)
Net Incremental Revenue Requirement	$ 7,081,916	$ (7,873,070)	$ 6,725,868	$ (7,477,246)	$ 6,396,322	$ (7,110,885)	$ 6,090,490	$ (6,770,887)	$ 5,806,138	$ (6,454,769)
Missouri rate base 100% GMO, FERC Revenue 96% GMO	100%	-4%	100%	-4%	100%	-4%	100%	-4%	100%	-4%
MO Rate Base cost vs. FERC Revenues	$ 7,081,916	$ (7,558,147)	$ 6,725,868	$ (7,178,156)	$ 6,396,322	$ (6,826,450)	$ 6,090,490	$ (6,500,051)	$ 5,806,138	$ (6,196,578)
Annual Calcluated Detriment (Difference)		$ (476,231)		$ (452,288)		$ (430,128)		$ (409,562)		$ (390,440)

	Year 6		Year 7		Year 8		Year 9		Year 10	
	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project
Iatan-Nashua Project	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000
Accumulated Depreciation	(7,245,612)	(7,245,612)	(8,562,996)	(8,562,996)	(9,880,380)	(9,880,380)	(11,197,764)	(11,197,764)	(12,515,148)	(12,515,148)
Accumulated Deferred Income Tax	(8,141,777)	(8,141,777)	(9,103,760)	(9,103,760)	(10,065,743)	(10,065,743)	(11,030,213)	(11,030,213)	(11,992,196)	(11,992,196)
Net Investment (Rate Base)	$ 49,412,611	$ 49,412,611	$ 47,133,244	$ 47,133,244	$ 44,853,877	$ 44,853,877	$ 42,572,023	$ 42,572,023	$ 40,292,656	$ 40,292,656
Return on Equity	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%
Preferred Stock Rate	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%
Long Term Debt Rate	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%
Equity % of Capital Structure	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%
Preferred Stock % of Capital Structure	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%
Long Term Debt % of Capital Structure	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%
Cost of Capital (%)	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%
Cost of Capital ($)	$ 4,017,918	$ (4,607,667)	$ 3,832,575	$ (4,395,118)	$ 3,647,231	$ (4,182,570)	$ 3,461,685	$ (3,969,790)	$ 3,276,342	$ (3,757,242)
Depreciation Rate	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%
Federal Income Tax	$ 1,355,565	$ (1,381,635)	$ 1,293,034	$ (1,317,901)	$ 1,230,503	$ (1,254,168)	$ 1,167,903	$ (1,190,364)	$ 1,105,372	$ (1,126,631)
State Income Tax	$ 167,832	$ (171,060)	$ 160,090	$ (163,169)	$ 152,348	$ (155,278)	$ 144,598	$ (147,378)	$ 136,856	$ (139,488)
Net Incremental Revenue Requirement	$ 5,541,315	$ (6,160,362)	$ 5,285,699	$ (5,876,189)	$ 5,030,082	$ (5,592,016)	$ 4,774,186	$ (5,307,533)	$ 4,518,569	$ (5,023,360)
Missouri rate base 100% GMO, FERC Revenue 96% GMO	100%	-4%	100%	-4%	100%	-4%	100%	-4%	100%	-4%
MO Rate Base cost vs. FERC Revenues	$ 5,541,315	$ (5,913,947)	$ 5,285,699	$ (5,641,141)	$ 5,030,082	$ (5,368,335)	$ 4,774,186	$ (5,095,231)	$ 4,518,569	$ (4,822,426)
Annual Calcluated Detriment (Difference)		$ (372,632)		$ (355,443)		$ (338,253)		$ (321,045)		$ (303,856)

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Kansas City Power & Light Company
KCP&L Greater Missouri Operations Company
Transource Missouri, LLC

File Nos EO-2012-0367 and EA-2013-0098

Iatan-Nashua Project Detriment Analysis - GMO Ownership vs. TranSource Ownership, Case 1: Current FERC Capital Structure

INPUTS:

Rate Base:	64,800,000
Book Depreciation Rate:	2.033%
GMO TranSource Debt Cost:	7.820%
GMO TranSource Preferred Stock Cost:	4.220%
GMO TranSource Equity Cost:	11.100%
GMO TranSource Debt %:	52.840%
GMO TranSource Preferred Stock %:	0.610%
GMO TranSource Equity %:	46.550%

	Year 11		Year 12		Year 13		Year 14		Year 15	
	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project
Iatan-Nashua Project	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000
Accumulated Depreciation	(13,832,532)	(13,832,532)	(15,149,916)	(15,149,916)	(16,467,300)	(16,467,300)	(17,784,684)	(17,784,684)	(19,102,068)	(19,102,068)
Accumulated Deferred Income Tax	(12,956,666)	(12,956,666)	(13,918,649)	(13,918,649)	(14,883,120)	(14,883,120)	(15,845,102)	(15,845,102)	(16,809,573)	(16,809,573)
Net Investment (Rate Base)	$ 38,010,802	$ 38,010,802	$ 35,731,435	$ 35,731,435	$ 33,449,580	$ 33,449,580	$ 31,170,214	$ 31,170,214	$ 28,888,359	$ 28,888,359
Return on Equity	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%
Preferred Stock Rate	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%
Long Term Debt Rate	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%
Equity % of Capital Structure	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%
Preferred Stock % of Capital Structure	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%
Long Term Debt % of Capital Structure	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%
Cost of Capital (%)	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%
Cost of Capital ($)	$ 3,090,796	$ (3,544,462)	$ 2,905,452	$ (3,331,913)	$ 2,719,906	$ (3,119,133)	$ 2,534,563	$ (2,906,585)	$ 2,349,017	$ (2,693,805)
Depreciation Rate	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%
Federal Income Tax	$ 1,042,773	$ (1,062,827)	$ 980,241	$ (999,093)	$ 917,642	$ (935,290)	$ 855,111	$ (871,556)	$ 792,511	$ (807,753)
State Income Tax	$ 129,105	$ (131,588)	$ 121,363	$ (123,697)	$ 113,613	$ (115,798)	$ 105,871	$ (107,907)	$ 98,120	$ (100,007)
Net Incremental Revenue Requirement	$ 4,262,674	$ (4,738,877)	$ 4,007,057	$ (4,454,704)	$ 3,751,161	$ (4,170,221)	$ 3,495,545	$ (3,886,048)	$ 3,239,649	$ (3,601,565)
Missouri rate base 100% GMO, FERC Revenue 96% GMO	100%	-4%	100%	-4%	100%	-4%	100%	-4%	100%	-4%
MO Rate Base cost vs. FERC Revenues	$ 4,262,674	$ (4,549,322)	$ 4,007,057	$ (4,276,516)	$ 3,751,161	$ (4,003,412)	$ 3,495,545	$ (3,730,606)	$ 3,239,649	$ (3,457,503)
Annual Calcluated Detriment (Difference)		$ (286,648)		$ (269,459)		$ (252,251)		$ (235,062)		$ (217,854)

	Year 16		Year 17		Year 18		Year 19		Year 20	
	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Iatan-Nashua Project
Iatan-Nashua Project	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000	$ 64,800,000
Accumulated Depreciation	(20,419,452)	(20,419,452)	(21,736,836)	(21,736,836)	(23,054,220)	(23,054,220)	(24,371,604)	(24,371,604)	(25,688,988)	(25,688,988)
Accumulated Deferred Income Tax	(17,037,692)	(17,037,692)	(16,531,949)	(16,531,949)	(16,026,205)	(16,026,205)	(15,520,461)	(15,520,461)	(15,014,718)	(15,014,718)
Net Investment (Rate Base)	$ 27,342,856	$ 27,342,856	$ 26,531,215	$ 26,531,215	$ 25,719,575	$ 25,719,575	$ 24,907,935	$ 24,907,935	$ 24,096,294	$ 24,096,294
Return on Equity	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%	9.70%	11.10%
Preferred Stock Rate	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%
Long Term Debt Rate	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%
Equity % of Capital Structure	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%
Preferred Stock % of Capital Structure	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%
Long Term Debt % of Capital Structure	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%
Cost of Capital (%)	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%	8.13%	9.32%
Cost of Capital ($)	$ 2,223,347	$ (2,549,688)	$ 2,157,349	$ (2,474,004)	$ 2,091,352	$ (2,398,320)	$ 2,025,354	$ (2,322,635)	$ 1,959,357	$ (2,246,951)
Depreciation Rate	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%
Federal Income Tax	$ 750,113	$ (764,539)	$ 727,846	$ (741,844)	$ 705,580	$ (719,150)	$ 683,314	$ (696,455)	$ 661,048	$ (673,761)
State Income Tax	$ 92,871	$ (94,657)	$ 90,114	$ (91,847)	$ 87,358	$ (89,038)	$ 84,601	$ (86,228)	$ 81,844	$ (83,418)
Net Incremental Revenue Requirement	$ 3,066,330	$ (3,408,884)	$ 2,975,310	$ (3,307,696)	$ 2,884,290	$ (3,206,507)	$ 2,793,269	$ (3,105,318)	$ 2,702,249	$ (3,004,130)
Missouri rate base 100% GMO, FERC Revenue 96% GMO	100%	-4%	100%	-4%	100%	-4%	100%	-4%	100%	-4%
MO Rate Base cost vs. FERC Revenues	$ 3,066,330	$ (3,272,529)	$ 2,975,310	$ (3,175,388)	$ 2,884,290	$ (3,078,247)	$ 2,793,269	$ (2,981,106)	$ 2,702,249	$ (2,883,964)
Annual Calcluated Detriment (Difference)		$ (206,199)		$ (200,078)		$ (193,957)		$ (187,836)		$ (181,716)

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Kansas City Power & Light Company
KCP&L Greater Missouri Operations Company
Transource Missouri, LLC   File Nos EO-2012-0367 and EA-2013-0098

Sibley-Nebraska City Project Detriment Analysis - GMO Ownership vs. TranSource Ownership, Case 1: Current FERC Capital Structure

INPUTS:

Rate Base:	380,000,000
Book Depreciation Rate:	2.033%
GMO TranSource Debt Cost:	7.820%
GMO TranSource Preferred Stock Cost:	4.220%
GMO TranSource Equity Cost:	12.100%
GMO TranSource Debt %:	52.840%
GMO TranSource Preferred Stock %:	0.610%
GMO TranSource Equity %:	46.550%

	Year 1		Year 2		Year 3		Year 4		Year 5	
	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project
Sibley-Nebraska City Project	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000
Accumulated Depreciation	(3,862,700)	(3,862,700)	(11,588,100)	(11,588,100)	(19,313,500)	(19,313,500)	(27,038,900)	(27,038,900)	(34,764,300)	(34,764,300)
Accumulated Deferred Income Tax	(5,811,209)	(5,811,209)	(16,704,218)	(16,704,218)	(26,211,348)	(26,211,348)	(34,478,481)	(34,478,481)	(41,622,323)	(41,622,323)
Net Investment (Rate Base)	$ 370,326,091	$ 370,326,091	$ 351,707,682	$ 351,707,682	$ 334,475,152	$ 334,475,152	$ 318,482,619	$ 318,482,619	$ 303,613,377	$ 303,613,377
Return on Equity	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%
Preferred Stock Rate	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%
Long Term Debt Rate	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%
Equity % of Capital Structure	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%
Preferred Stock % of Capital Structure	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%
Long Term Debt % of Capital Structure	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%
Cost of Capital (%)	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%
Cost of Capital ($)	$ 30,112,555	$ (36,256,332)	$ 28,598,624	$ (34,433,519)	$ 27,197,385	$ (32,746,388)	$ 25,896,974	$ (31,180,659)	$ 24,687,902	$ (29,724,903)
Depreciation Rate	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%
Federal Income Tax	$ 10,159,374	$ (11,282,994)	$ 9,648,604	$ (10,715,733)	$ 9,175,854	$ (10,190,697)	$ 8,737,121	$ (9,703,441)	$ 8,329,205	$ (9,250,409)
State Income Tax	$ 1,257,827	$ (1,396,942)	$ 1,194,589	$ (1,326,710)	$ 1,136,058	$ (1,261,705)	$ 1,081,739	$ (1,201,378)	$ 1,031,235	$ (1,145,289)
Net Incremental Revenue Requirement	$ 41,529,756	$ (48,936,268)	$ 39,441,817	$ (46,475,962)	$ 37,509,297	$ (44,198,791)	$ 35,715,834	$ (42,085,478)	$ 34,048,342	$ (40,120,601)
Missouri rate base 100% GMO, FERC Revenue 96% GMO	100%	-4%	100%	-4%	100%	-4%	100%	-4%	100%	-4%
MO Rate Base cost vs. FERC Revenues	$ 41,529,756	$ (46,978,817)	$ 39,441,817	$ (44,616,923)	$ 37,509,297	$ (42,430,839)	$ 35,715,834	$ (40,402,059)	$ 34,048,342	$ (38,515,777)
Annual Calcluated Detriment (Difference)		$ (5,449,061)		$ (5,175,106)		$ (4,921,543)		$ (4,686,225)		$ (4,467,435)

	Year 6		Year 7		Year 8		Year 9		Year 10	
	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project
Sibley-Nebraska City Project	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000
Accumulated Depreciation	(42,489,700)	(42,489,700)	(50,215,100)	(50,215,100)	(57,940,500)	(57,940,500)	(65,665,900)	(65,665,900)	(73,391,300)	(73,391,300)
Accumulated Deferred Income Tax	(47,744,990)	(47,744,990)	(53,386,247)	(53,386,247)	(59,027,504)	(59,027,504)	(64,683,349)	(64,683,349)	(70,324,606)	(70,324,606)
Net Investment (Rate Base)	$ 289,765,310	$ 289,765,310	$ 276,398,653	$ 276,398,653	$ 263,031,996	$ 263,031,996	$ 249,650,751	$ 249,650,751	$ 236,284,094	$ 236,284,094
Return on Equity	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%
Preferred Stock Rate	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%
Long Term Debt Rate	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%
Equity % of Capital Structure	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%
Preferred Stock % of Capital Structure	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%
Long Term Debt % of Capital Structure	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%
Cost of Capital (%)	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%
Cost of Capital ($)	$ 23,561,866	$ (28,369,125)	$ 22,474,975	$ (27,060,478)	$ 21,388,084	$ (25,751,832)	$ 20,300,006	$ (24,441,757)	$ 19,213,115	$ (23,133,111)
Depreciation Rate	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%
Federal Income Tax	$ 7,949,302	$ (8,828,490)	$ 7,582,607	$ (8,421,238)	$ 7,215,912	$ (8,013,987)	$ 6,848,816	$ (7,606,291)	$ 6,482,121	$ (7,199,039)
State Income Tax	$ 984,199	$ (1,093,051)	$ 938,799	$ (1,042,630)	$ 893,399	$ (992,208)	$ 847,949	$ (941,731)	$ 802,548	$ (891,310)
Net Incremental Revenue Requirement	$ 32,495,368	$ (38,290,666)	$ 30,996,381	$ (36,524,346)	$ 29,497,394	$ (34,758,027)	$ 27,996,771	$ (32,989,779)	$ 26,497,784	$ (31,223,459)
Missouri rate base 100% GMO, FERC Revenue 96% GMO	100%	-4%	100%	-4%	100%	-4%	100%	-4%	100%	-4%
MO Rate Base cost vs. FERC Revenues	$ 32,495,368	$ (36,759,040)	$ 30,996,381	$ (35,063,373)	$ 29,497,394	$ (33,367,706)	$ 27,996,771	$ (31,670,188)	$ 26,497,784	$ (29,974,521)
Annual Calcluated Detriment (Difference)		$ (4,263,672)		$ (4,066,992)		$ (3,870,312)		$ (3,673,417)		$ (3,476,737)

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Kansas City Power & Light Company
KCP&L Greater Missouri Operations Company
Transource Missouri, LLC — File Nos EO-2012-0367 and EA-2013-0098

Sibley-Nebraska City Project Detriment Analysis - GMO Ownership vs. TranSource Ownership, Case 1: Current FERC Capital Structure

INPUTS:

Rate Base:	380,000,000
Book Depreciation Rate:	2.033%
GMO TranSource Debt Cost:	7.820%
GMO TranSource Preferred Stock Cost:	4.220%
GMO TranSource Equity Cost:	12.100%
GMO TranSource Debt %:	52.840%
GMO TranSource Preferred Stock %:	0.610%
GMO TranSource Equity %:	46.550%

	Year 11		Year 12		Year 13		Year 14		Year 15	
	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project
Sibley-Nebraska City Project	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000
Accumulated Depreciation	(81,116,700)	(81,116,700)	(88,842,100)	(88,842,100)	(96,567,500)	(96,567,500)	(104,292,900)	(104,292,900)	(112,018,300)	(112,018,300)
Accumulated Deferred Income Tax	(75,980,451)	(75,980,451)	(81,621,708)	(81,621,708)	(87,277,554)	(87,277,554)	(92,918,810)	(92,918,810)	(98,574,656)	(98,574,656)
Net Investment (Rate Base)	$ 222,902,849	$ 222,902,849	$ 209,536,192	$ 209,536,192	$ 196,154,946	$ 196,154,946	$ 182,788,290	$ 182,788,290	$ 169,407,044	$ 169,407,044
Return on Equity	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%
Preferred Stock Rate	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%
Long Term Debt Rate	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%
Equity % of Capital Structure	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%
Preferred Stock % of Capital Structure	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%
Long Term Debt % of Capital Structure	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%
Cost of Capital (%)	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%
Cost of Capital ($)	$ 18,125,037	$ (21,823,036)	$ 17,038,146	$ (20,514,389)	$ 15,950,069	$ (19,204,315)	$ 14,863,177	$ (17,895,668)	$ 13,775,100	$ (16,585,593)
Depreciation Rate	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%
Federal Income Tax	$ 6,115,025	$ (6,791,343)	$ 5,748,330	$ (6,384,091)	$ 5,381,234	$ (5,976,395)	$ 5,014,539	$ (5,569,144)	$ 4,647,443	$ (5,161,447)
State Income Tax	$ 757,098	$ (840,833)	$ 711,698	$ (790,411)	$ 666,248	$ (739,935)	$ 620,848	$ (689,513)	$ 575,398	$ (639,036)
Net Incremental Revenue Requirement	$ 24,997,161	$ (29,455,212)	$ 23,498,174	$ (27,688,892)	$ 21,997,551	$ (25,920,644)	$ 20,498,564	$ (24,154,325)	$ 18,997,941	$ (22,386,077)
Missouri rate base 100% GMO, FERC Revenue 96% GMO	100%	-4%	100%	-4%	100%	-4%	100%	-4%	100%	-4%
MO Rate Base cost vs. FERC Revenues	$ 24,997,161	$ (28,277,003)	$ 23,498,174	$ (26,581,336)	$ 21,997,551	$ (24,883,819)	$ 20,498,564	$ (23,188,152)	$ 18,997,941	$ (21,490,634)
Annual Calcluated Detriment (Difference)		$ (3,279,843)		$ (3,083,163)		$ (2,886,268)		$ (2,689,588)		$ (2,492,693)

	Year 16		Year 17		Year 18		Year 19		Year 20	
	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project	GMO-MO Cost Retail Rate Base	GMO-SPP Revenues from Sibley-NC Project
Sibley-Nebraska City Project	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000	$ 380,000,000
Accumulated Depreciation	(119,743,700)	(119,743,700)	(127,469,100)	(127,469,100)	(135,194,500)	(135,194,500)	(142,919,900)	(142,919,900)	(150,645,300)	(150,645,300)
Accumulated Deferred Income Tax	(99,912,394)	(99,912,394)	(96,946,613)	(96,946,613)	(93,980,831)	(93,980,831)	(91,015,050)	(91,015,050)	(88,049,269)	(88,049,269)
Net Investment (Rate Base)	$ 160,343,906	$ 160,343,906	$ 155,584,287	$ 155,584,287	$ 150,824,669	$ 150,824,669	$ 146,065,050	$ 146,065,050	$ 141,305,431	$ 141,305,431
Return on Equity	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%	9.70%	12.10%
Preferred Stock Rate	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%	4.29%	4.22%
Long Term Debt Rate	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%	6.442%	7.820%
Equity % of Capital Structure	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%	52.25%	46.55%
Preferred Stock % of Capital Structure	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%
Long Term Debt % of Capital Structure	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%	47.14%	52.84%
Cost of Capital (%)	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%	8.13%	9.79%
Cost of Capital ($)	$ 13,038,143	$ (15,698,278)	$ 12,651,121	$ (15,232,293)	$ 12,264,100	$ (14,766,308)	$ 11,877,078	$ (14,300,323)	$ 11,490,056	$ (13,834,339)
Depreciation Rate	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%	2.033%
Federal Income Tax	$ 4,398,809	$ (4,885,314)	$ 4,268,235	$ (4,740,299)	$ 4,137,662	$ (4,595,285)	$ 4,007,088	$ (4,450,270)	$ 3,876,515	$ (4,305,255)
State Income Tax	$ 544,614	$ (604,848)	$ 528,448	$ (586,894)	$ 512,282	$ (568,940)	$ 496,116	$ (550,986)	$ 479,949	$ (533,032)
Net Incremental Revenue Requirement	$ 17,981,567	$ (21,188,440)	$ 17,447,805	$ (20,559,487)	$ 16,914,044	$ (19,930,533)	$ 16,380,282	$ (19,301,579)	$ 15,846,521	$ (18,672,625)
Missouri rate base 100% GMO, FERC Revenue 96% GMO	100%	-4%	100%	-4%	100%	-4%	100%	-4%	100%	-4%
MO Rate Base cost vs. FERC Revenues	$ 17,981,567	$ (20,340,903)	$ 17,447,805	$ (19,737,107)	$ 16,914,044	$ (19,133,312)	$ 16,380,282	$ (18,529,516)	$ 15,846,521	$ (17,925,720)
Annual Calcluated Detriment (Difference)		$ (2,359,336)		$ (2,289,302)		$ (2,219,268)		$ (2,149,234)		$ (2,079,200)

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April 12, 2012

Northeast Utilities

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Northeast Utilities

Major Rating Factors

Corporate Credit Rating
Foreign Currency
A-/Stable/--
Local Currency
A-/Stable/NR

Strengths

- A focus on low-risk electric transmission and distribution operations;
- Operating, geographic, and regulatory diversity;
- Federal Energy Regulatory Commission regulation is favorable and Massachusetts and New Hampshire regulation is credit supportive, in our view;
- Predominantly commercial and residential customer base;
- Strong competitive position; and
- Reliable and efficient operations.

Weaknesses

- Historically challenging regulatory climate in Connecticut;
- Distribution rate freezes in Connecticut and in Massachusetts;
- Northern Pass Transmission Project involves construction risk given the size and magnitude of the project; and
- New Hampshire customers can select alternative electric suppliers.

Rationale

Standard & Poor's Ratings Services' ratings on Hartford, Conn.-based holding company Northeast Utilities (NU) reflect an "excellent" business risk profile and a "significant" financial risk profile under our criteria.

On April 10, 2012, NU and energy holding company NSTAR completed their merger in an all-stock transaction. NSTAR was renamed NSTAR LLC, and ceases to exist. As the surviving entity, NSTAR LLC has assumed all obligations under the senior unsecured notes that were previously issued by NSTAR, and is now a subsidiary and an intraholding company of NU. The main subsidiaries of NU include NSTAR LLC, NSTAR Electric Co., NSTAR Gas Co., Connecticut Light & Power Co. (CL&P), Public Service Co. of New Hampshire (PSNH), Western Massachusetts Electric Co. (WMECO), and Yankee Gas Services Co.

The consolidated business risk profile is supported by a focus on the regulated electric and gas transmission and distribution operations, which are relatively low operating risk; reliable and efficient operations; solid competitive standing; and geographic, economic, and regulatory diversity. The customer base is largely residential and commercial, which provides for a reasonably stable and predictable revenue stream and some insulation from cyclical volatility. The combined entity will generate about 70% of operating cash flow from Massachusetts, Connecticut, and New Hampshire, while the balance will be Federal Energy Regulatory Commission (FERC) regulated. We view FERC regulation favorably and regulation in Massachusetts and New Hampshire as credit supportive. The aforementioned attributes are tempered by a historically challenging regulatory environment in Connecticut, which we view as less credit supportive, and a distribution rate freeze that will prohibit the utilities from seeking rate relief despite new investment in distribution facilities.

NU's significant financial risk profile reflects our expectation that debt leverage will remain somewhat liberal and

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that its heavy capital spending program will necessitate some reliance on external financing. In that regard, our baseline forecast reflects adjusted debt to total capital and adjusted funds from operations (FFO) to total debt that hovers around 53% to 54% and 17% to 18%, respectively, in nearby years. In addition, we expect that the management team will continue to do a good job of managing regulatory risk, implementing risk management strategies, controlling expenses, providing high quality service, and avoiding risky unregulated activities. We believe that management depth, specificity, and transparency in its financial goals are consistent with the significant financial profile.

NU and NSTAR agreed to provide rate credits and rate freezes, and to invest in renewable energy, adopt new energy efficiency targets, and meet other concessions. In Massachusetts, the companies agreed to freeze distribution rates at NSTAR Electric, NSTAR Gas, and WMECO until 2016 and give rate payers a one-time credit totaling $21 million. The companies also agreed to purchase power from the planned Cape Wind offshore facility. In Connecticut, NU agreed to freeze distribution rates at CL&P until Dec. 1, 2014, with a one-time $25 million rate credit, to forego recovery of $40 million of $260 million of storm costs it incurred in 2011, and to defer the remaining costs until December 2014. While not onerous conditions, 2011 storm costs are subject to commission review, rendering full cost recovery uncertain.

The merger has combined two relatively low-risk companies in contiguous service areas with similar corporate strategies. NU, which will be the largest utility in New England, will continue to concentrate on its core utility rate base, with increasing investments primarily in transmission projects. The transmission investments provide for attractive allowed returns on equity (ROEs) and recovery of financing costs for some of the major projects during the construction period, which helps to enhance cash flow and provide earnings stability. The merged company serves 3 million electric and 500,000 gas customers in three states. CL&P, WMECO, and NSTAR Electric are electric transmission and distribution companies. In contrast, PSNH remains a fully integrated electric utility even though its customers can select alternative electric supply providers, an arrangement that can lead to upward pressure as fixed costs may need to be recovered over a smaller customer base. Yankee Gas and NSTAR Gas are natural gas distribution companies.

NU faces a heavy capital spending program, at about $7.9 billion from 2012 to 2016 (as disclosed in NU's and NSTAR's 2011 10-Ks), a significant portion of which is targeted for new transmission projects, including the $1.1 billion Northern Pass Transmission (NPT) project, a high-voltage direct-current line extending from the Canadian border to Franklin, N.H., with completion slated for late 2016. We view the NPT project as having somewhat higher risk than FERC-regulated transmission projects because NPT will have a single off-taker, Hydro-Quebec, for the entire capacity. Nevertheless, the overall cost structure of the project mirrors the cost structure of FERC-approved projects, and the transmission services agreement between NPT and Hydro-Quebec provides NPT with a number of protections, including compensation should Hydro-Quebec abandon the project. The balance of NU's planned construction expenditures are for company-specific projects, necessitating timely recovery of the investment through rates to provide ongoing support to the financial profile. Overall, the proposed capital spending program will meaningfully increase the consolidated rate base.

Given the large construction program, which will require some outside financing, we expect that credit protection measures will be in the lower end of the significant financial risk category. Prospectively, based on our baseline forecast, we expect consolidated adjusted FFO to total debt to hover in the high teens and total debt to EBIDTA to be about 4.5x. We also expect total debt to total capitalization to approximate 53% to 54%, including goodwill. We believe NU's consolidated financial measures will remain at levels suitable for current ratings because of the

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prospects for higher transmission rates, recovery of fuel costs and various tracking mechanisms that allow for the timely adjustment of rates, projected net merger savings of $784 million over 10 years, efficient operations, and credit supportive actions by management.

Liquidity

The short-term corporate credit and commercial paper ratings on NSTAR LLC and NSTAR Electric are 'A-2'. Liquidity is adequate under Standard & Poor's corporate liquidity methodology, which categorizes liquidity in five standard descriptors. Consolidated projected sources of liquidity, mainly operating cash flow and available bank lines, exceed its projected uses, consisting mainly of necessary capital expenditures, debt maturities, and common dividends, by more than 1.2x. Further supporting our assessment of its liquidity as adequate is the company's ability to absorb high-impact, low-probability events with limited need for refinancing, its flexibility to lower capital spending, its sound bank relationships, its solid standing in the credit markets, and its generally prudent risk management.

At the end of 2011, NU had revolving credit facilities totaling $900 million with about $586 million available, NSTAR had $700 million credit facilities with no amounts outstanding, and NSTAR Electric had $141.5 million commercial paper outstanding. NU maintains a $500 million credit facility and its operating subsidiaries combined have a $400 credit facility, both of which expire on Sept. 24, 2013. NSTAR LLC (formerly NSTAR) has a $175 million revolving credit facility that expires Dec. 31, 2012. NSTAR Electric maintains a $450 million revolver that also expires on Dec. 31, 2012. In addition, on Dec. 8, 2011, NSTAR Gas entered into a six-month $75 million credit agreement to replace its $100 million agreement that expired Dec. 9, 2011. The revolvers serve as backup to NSTAR LLC's and NSTAR Electric's commercial paper programs. We expect the company to enter into new credit agreements within six months of maturity.

NU, CL&P, PSNH, WMECO, Yankee Gas, NSTAR (now known as NSTAR LLC), NSTAR Electric, and NSTAR Gas are required to maintain a consolidated ratio of total debt to total capital of no more than 65%, with which they comfortably complied as of Dec. 31, 2011, with ratios of 57%, 49%, 49%, 49%, 40%, 55.5%, 45.4%, and 51.6%, respectively.

On March 26, 2012, CL&P entered into a new $300 million five-year unsecured revolving credit agreement that expires on March 26, 2017, bringing the total combined credit agreements to $1.9 billion.

The consolidated entity has about $827 million remaining debt maturing in 2012 and $689 million in 2013. We expect that the company will refinance debt as it matures.

Given the company's concentration on relatively low-risk regulated transmission and distribution operations, merger savings, and better-than-average service areas with very little industrial concentration, prospective cash flows should be reasonably stable.

Recovery analysis

We assign recovery ratings on first-mortgage bonds (FMBs) issued by investment-grade U.S. utilities, which can result in issue ratings being notched above a corporate credit rating (CCR) on a utility, depending on the CCR category and the extent of the collateral coverage. We base the investment-grade FMB recovery methodology on the ample historical record of nearly 100% recovery for secured bondholders in utility bankruptcies and on our view that the factors that supported those recoveries (limited size of the creditor class, and the durable value of utility rate-based assets during and after a reorganization, given the essential service provided and the high replacement cost) will persist. Under our notching criteria, when assigning issue ratings on utility FMBs, we consider the limitations of FMB issuance under the utility's indenture relative to the value of the collateral pledged to bondholders, management's stated intentions on future FMB issuance, and the regulatory limitations on bond issuance. FMB ratings can exceed a CCR on a utility by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories.

NSTAR Gas' FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating one notch above the CCR. At CL&P and PSNH collateral coverage of 1x supports a recovery rating of '1' and an issue rating of 'A-', which is on par with the CCR.

Outlook

The stable rating outlook on NU and its subsidiaries reflects the company's consistent, regulated electric and natural gas businesses that have low operating risk and which we expect will generate sufficient cash flow. Given the large capital spending program and prospects for modest load growth, we expect that NU will generate consolidated adjusted FFO to total debt of about 17%-18% over the next few years and adjusted total debt to total capitalization of below 54%. We will lower the ratings on NU if adjusted FFO to total debt declines to below 15% on a consistent basis and debt leverage exceeds 55%. In light of the company's heavy construction program, we don't anticipate a ratings upgrade during our current forecast period. However, if adjusted FFO to total debt consistently exceeds 20%, we could raise the ratings by one notch.

Related Criteria And Research

- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Analytical Methodology, April 15, 2008
- Ratios And Adjustments, April 15, 2008
- Assessing U.S. Utility Regulatory Environments, Nov. 7, 2007

Table 1

Northeast Utilities -- Peer Comparison

Industry Sector: Energy

	Northeast Utilities	NSTAR LLC	Consolidated Edison Inc.	Oncor Electric Delivery Co. LLC	Piedmont Natural Gas Co. Inc.
Rating as of April 12, 2012	A-/Stable/--	A-/Stable/A-2	A-/Stable/A-2	BBB+/Stable/--	A/Stable/A-1
			--Average of past three fiscal years--		
(Mil. $)					
Revenues	4,721.1	2,845.8	13,098.3	2,762.3	1,541.4
EBITDA	1,200.9	835.2	3,064.3	1,448.8	284.8
Net income from cont. oper.	376.7	250.5	981.3	346.3	126.1
Funds from operations (FFO)	909.0	572.1	2,792.5	1,064.8	265.2
Capital expenditures	971.3	406.6	2,076.6	1,130.8	199.0

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Table 1

Northeast Utilities -- Peer Comparison (cont.)					
Free operating cash flow	(101.1)	240.9	917.6	(88.4)	150.9
Dividends paid	181.8	169.2	646.5	209.3	80.5
Discretionary cash flow	(282.9)	71.7	271.1	(297.7)	70.4
Cash and short-term investments	90.8	56.1	415.3	24.3	6.7
Debt	5,945.8	3,182.0	13,768.1	6,151.6	1,028.1
Preferred stock	58.1	21.5	106.5	0.0	0.0
Equity	3,860.2	1,970.0	11,021.8	3,252.7	963.3
Debt and equity	9,806.0	5,151.9	24,789.9	9,404.3	1,991.3
Adjusted ratios					
EBITDA margin (%)	25.4	29.4	23.4	52.4	18.5
EBIT interest coverage (x)	3.4	4.4	3.5	2.7	4.2
Return on capital (%)	7.9	9.9	7.3	8.9	9.6
FFO int. cov. (X)	4.4	4.7	5.3	3.8	6.0
FFO/debt (%)	15.3	18.0	20.3	17.3	25.8
Free operating cash flow/debt (%)	(1.7)	7.6	6.7	(1.4)	14.7
Discretionary cash flow/debt (%)	(4.8)	2.3	2.0	(4.8)	6.8
Net cash flow/capex (%)	74.9	99.1	103.3	75.6	92.8
Debt/EBITDA (x)	5.0	3.8	4.5	4.2	3.6
Total debt/debt plus equity (%)	60.6	61.8	55.5	65.4	51.6
Return on capital (%)	7.9	9.9	7.3	8.9	9.6
Return on common equity (%)	9.5	13.0	8.9	5.0	12.6
Common dividend payout ratio (un-adj.) (%)	48.5	66.3	69.7	60.4	63.8

Table 2

Northeast Utilities -- Financial Summary					
Industry Sector: Energy					
	--Fiscal year ended Dec. 31--				
	2011	**2010**	**2009**	**2008**	**2007**
Rating history	BBB+/Watch Pos/--	BBB/Watch Pos/--	BBB/Stable/--	BBB/Stable/--	BBB/Stable/--
(Mil. $)					
Revenues	4,387.7	4,616.7	5,158.8	5,518.9	5,500.9
EBITDA	1,314.0	1,232.2	1,056.6	995.8	742.8
Net income from continuing operations	400.5	394.1	335.6	260.8	251.5
Funds from operations (FFO)	894.1	988.0	845.0	560.4	506.0
Capital expenditures	1,067.5	944.3	902.2	1,237.6	1,101.0
Dividends paid	197.3	183.1	165.2	126.3	118.2
Debt	6,327.6	5,897.9	5,612.0	5,738.4	4,033.5
Preferred stock	58.1	58.1	58.1	58.1	58.1
Equity	4,073.7	3,870.7	3,636.0	3,078.4	2,971.9

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Table 2

Northeast Utilities -- Financial Summary (cont.)					
Debt and equity	10,401.3	9,768.6	9,248.0	8,816.8	7,005.4
Adjusted ratios					
EBITDA margin (%)	29.9	26.7	20.5	18.0	13.5
EBIT interest coverage (x)	3.6	3.4	3.1	2.3	2.6
FFO int. cov. (x)	4.4	4.7	4.2	3.1	3.3
FFO/debt (%)	14.1	16.8	15.1	9.8	12.5
Discretionary cash flow/debt (%)	(4.5)	(4.4)	(5.4)	(16.1)	(30.3)
Net Cash Flow / Capex (%)	65.3	85.2	75.3	35.1	35.2
Debt/debt and equity (%)	60.8	60.4	60.7	65.1	57.6
Return on capital (%)	7.8	8.1	7.6	6.5	7.2
Return on common equity (%)	9.2	9.8	9.5	7.0	7.6
Common dividend payout ratio (un-adj.) (%)	49.5	46.8	49.3	50.5	47.9

Table 3

Reconciliation Of Northeast Utilities Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)

--Fiscal year ended Dec. 31, 2011--

Northeast Utilities reported amounts

	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	Cash flow from operations	Cash flow from operations	Dividends paid	Capital expenditures
Reported	5,375.8	4,131.8	4,465.7	1,263.4	794.2	250.4	970.4	970.4	200.1	1,076.7
Standard & Poor's adjustments										
Operating leases	36.7	--	--	1.9	1.9	1.9	5.9	5.9	--	2.6
Intermediate hybrids reported as equity	58.1	(58.1)	--	--	--	2.8	(2.8)	(2.8)	(2.8)	--
Postretirement benefit obligations	863.5	--	--	110.8	110.8	--	92.5	92.5	--	--
Capitalized interest	--	--	--	--	--	11.8	(11.8)	(11.8)	--	(11.8)
Share-based compensation expense	--	--	--	12.3	--	--	--	--	--	--
Securitized utility cost recovery	(112.3)	--	(77.9)	(77.9)	(8.6)	(8.6)	(69.3)	(69.3)	--	--
Asset retirement obligations	36.5	--	--	3.5	3.5	3.5	(3.1)	(3.1)	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	27.7	--	--	--	--	--

Table 3

Reconciliation Of Northeast Utilities Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $) (cont.)										
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	(87.7)	--	--
Debt - Accrued interest not included in reported debt	69.2	--	--	--	--	--	--	--	--	--
Total adjustments	951.8	(58.1)	(77.9)	50.6	135.3	11.4	11.4	(76.3)	(2.8)	(9.2)

Standard & Poor's adjusted amounts

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Dividends paid	Capital expenditures
Adjusted	6,327.6	4,073.7	4,387.7	1,314.0	929.5	261.8	981.8	894.1	197.3	1,067.5

Ratings Detail (As Of April 12, 2012)		
Northeast Utilities		
Corporate Credit Rating		
Foreign Currency		A-/Stable/--
Local Currency		A-/Stable/NR
Senior Unsecured (2 Issues)		BBB+
Corporate Credit Ratings History		
05-Apr-2012	*Foreign Currency*	A-/Stable/--
16-May-2011		BBB+/Watch Pos/--
18-Oct-2010		BBB/Watch Pos/--
05-Apr-2012	*Local Currency*	A-/Stable/NR
16-May-2011		BBB+/Watch Pos/NR
18-Oct-2010		BBB/Watch Pos/NR
Business Risk Profile		Excellent
Financial Risk Profile		Significant
Related Entities		
Connecticut Light & Power Co.		
Issuer Credit Rating		A-/Stable/NR
Senior Secured (19 Issues)		A-
Public Service Co. of New Hampshire		
Issuer Credit Rating		A-/Stable/--
Senior Unsecured (2 Issues)		A-
Western Massachusetts Electric Co.		
Issuer Credit Rating		A-/Stable/NR
Yankee Gas Services Co.		
Issuer Credit Rating		A-/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Schedule CRH-2

FILED[3]

FEB 2 6 2001

Missouri Public Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for an Order Authorizing Its Plan to Reorganize Itself Into a Holding Company Structure.	))))	Case No. EM-2001-464

APPLICATION

COMES NOW Kansas City Power & Light Company ("KCPL") and, pursuant to Sections 393.190, 393.200, 393.210, and 393.250 RSMo 2000[1], and 4 CSR 240-2.060(1), (8) and (12), respectfully requests an order from the Missouri Public Service Commission ("Commission") that grants KCPL the authority to, *inter alia,* restructure and reorganize itself as more particularly described herein.

I. Summary of Restructuring Plan

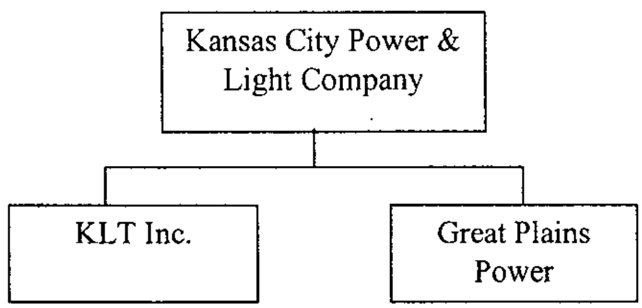
KCPL is a vertically integrated electric utility company. In accordance with Missouri law and the Public Utility Holding Company Act of 1935 (15 U.S.C. § 79 et seq.) ("PUHCA"), KCPL proposes to reorganize into a registered holding company structure. Additional regulatory approvals will be obtained from the Kansas Corporation Commission, the Federal Energy Regulatory Commission, the Nuclear Regulatory Commission and the Federal Communications Commission. A registration statement will be filed with the Securities and Exchange Commission. This reorganization will not require a vote of KCPL's shareholders. After the reorganization, a new holding company ("HoldCo") will be the sole owner of three subsidiary companies, all of which already exist – *i.e.* KCPL, KLT, Inc. ("KLT") and Great Plains Power ("GPP").[2] KCPL will remain

[1] All statutory references are to Revised Statutes of Missouri 2000, unless otherwise noted.
[2] The actual name of HoldCo has not been determined at this time. The Articles of Incorporation for HoldCo will be filed with the Missouri Secretary of State before the reorganization is completed.

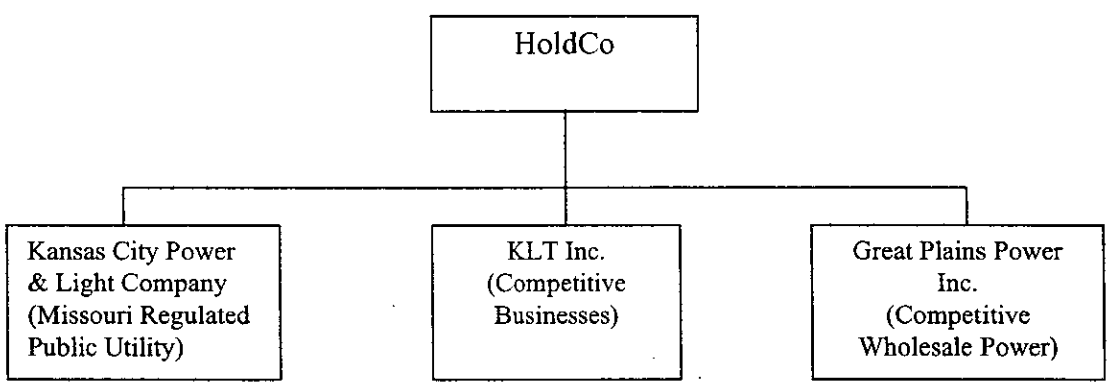
Schedule CRH-3

a vertically integrated electric utility subject to this Commission's jurisdiction and will not transfer any of its generating assets as a part of this proposed restructuring plan. KLT will continue to invest in competitive, high growth businesses. GPP will pursue opportunities in the competitive wholesale generation market. KCPL's existing corporate structure, and the corporate structure that will exist immediately following the completion of the restructuring plan proposed herein, are illustrated below.

CURRENT CORPORATE STRUCTURE[3]



RESTRUCTURED COMPANY



[3] The only other existing subsidiary of KCPL that is relatively significant in terms of its size is Home Services Solutions ("HSS"). It is anticipated that HSS will be sold or otherwise disposed of in the near future. None of KCPL's subsidiaries are involved in the provision of regulated utility services.

The two corporate structures illustrated above are snapshots of KCPL at the beginning and end of the proposed restructuring process. KCPL's restructuring process contains several intermediary steps. KCPL will form a wholly owned subsidiary, HoldCo. In turn, HoldCo will form a wholly owned subsidiary, NewCo. Pursuant to a merger agreement ("Merger Agreement") between KCPL, HoldCo and NewCo, KCPL then will merge with NewCo. A copy of the Merger Agreement is attached hereto as Exhibit 1. Under the terms of the Merger Agreement, the separate existence of NewCo will cease and KCPL will continue as the surviving corporation of the merger. At this point, KCPL will be a wholly owned subsidiary of HoldCo. As a part of the merger, each outstanding share of KCPL stock automatically converts into the right to receive one share of HoldCo stock. At the time of the merger, each share of KCPL's various series of preferred stock will be converted into one share of an identical series of HoldCo preferred stock. The pro forma balance sheets and income statements of KCPL before and after the proposed restructuring plan are attached hereto as Exhibit 2. Once the merger is consummated, KCPL will dividend its stock of KLT and GPP to HoldCo. At this point, HoldCo will be a publicly held corporation that owns 100% of KCPL, KLT and GPP.

KCPL anticipates that within a certain period of time following the completion of the reorganization it will form a service company ("ServCo"). ServCo will provide certain shared services to the affiliated companies. A form of the General Services Agreement that will be used for the provision of support services is attached hereto as Exhibit 3. A copy of KCPL's cost allocation manual ("CAM"), which describes the bases currently used by KCPL for allocating certain costs related to shared services, is attached hereto as Exhibit 4. The new holding company system will continue to use service agreements, work orders and a CAM to assure that costs are properly tracked and assigned.

II. Regulation Under PUHCA

Upon completion of the reorganization, HoldCo will register with the Securities and Exchange Commission ("SEC") and become subject to additional regulation under PUHCA. A central purpose of PUHCA is "to provide a mechanism to create conditions under which effective Federal and State regulation will be possible." (See, S. 2796, 74th Cong., 1st Sess. (1935)). Accordingly, PUHCA contains a number of provisions designed to promote effective state regulation. Importantly, PUHCA does not give the SEC jurisdiction over the rates, terms and conditions of utility service. KCPL will continue to be subject to the authority of the Missouri Public Service Commission with respect to rates, terms and conditions of utility service in Missouri.

State regulation is enhanced under PUHCA by, for example, Section 6(b) which exempts issuance of certain securities, and Section 9 which exempts security and utility asset acquisitions if approved by a state commission. Likewise, the SEC may not authorize the issuance of securities or the acquisition of assets unless the applicant has complied with state law. State regulation of certain affiliate relationships is strengthened since Sections 32 and 34 of PUHCA condition the ability of an Exempt Wholesale Generator or an Exempt Telecommunications Company to enter into transactions with public utility affiliates on obtaining state commission approval. Under Section 33 of PUHCA, similar state consents are required in order to invest in foreign utilities. Consistent with the purpose of assuring that effective state regulation will continue, KCPL has agreed to a number of additional conditions set forth more fully in Section IV of this Application.

In addition to helping assure effective state regulation, PUHCA regulates other aspects of holding company operations. Section 11 limits registered holding company systems to ownership of a single integrated public utility system, which is defined as a group of related operating properties within a confined geographic region susceptible to local management. Non-utility businesses may be acquired and retained only if they are "reasonably incidental, or economically necessary or appropriate" to the operations of the integrated public-utility system.

Section 7 of PUHCA prescribes standards for the type and amount of securities for the registered holding company and subsidiaries. Registered companies and subsidiaries must obtain SEC approval before acquiring any securities, utility assets, or any other interest in any business. As noted above, an important exception to the requirement for prior SEC approval for authority to issue securities exists under Section 6 where a state commission has approved financing plans for a public utility.

The SEC and the regulatory scheme under PUHCA encourage the use of service companies, which are subject to extensive regulation. A service company is a subsidiary of a registered holding company that is formed in order to provide centralized management and administrative services to system companies. Service companies permit registered systems, including public utilities, to capture economies of scale and other efficiencies by reducing duplication of corporate support functions by each of the affiliate companies in the system. There are now approximately 30 registered holding company systems (a doubling in number since 1995) and virtually all of these systems use a service company for corporate support activities.

Service, sales and construction contracts between a system service company and associate companies in the same holding company system must be performed "economically and efficiently" for the benefit of such associate companies generally at cost and all costs must be fairly and equitably allocated. Service companies use a work order system, make extensive use of accounting controls, and have significant reporting requirements including the obligation to file annual reports which describe affiliate transactions.

PUHCA regulates other affiliate transactions as well. A registered holding company may not borrow or receive any extensions of credit from any system public utility. In addition, there are regulations concerning the ability of system companies to make intra-system loans, pay dividends, acquire or dispose of property, or solicit proxies.

As shown in the next section, forming a holding company promises benefits. And, though KCPL believes—and the SEC itself agrees—that the many provisions of PUHCA are anachronistic and unnecessary, registration under PUHCA will result in greater, not lesser, regulation of system operations.

III. Benefits of the Restructuring

Increased competition in capital and energy markets has required traditional utilities to diversify their business operations and, in particular, to invest in businesses offering higher growth opportunities. The ability to grow earnings at a rate higher than can be expected from the traditional utility business is a key to KCPL's success, if not its survival as a stand-alone family of companies. During the past several years, KCPL, through its subsidiary, KLT, has developed business interests in, for example, telecommunications, gas production and development, and energy services. With the recent establishment of a new subsidiary, GPP, KCPL has signaled its intention to participate in the dramatic growth of the competitive wholesale generation market. The reorganization will facilitate the efforts of KCPL's affiliated competitive businesses to access more markets and will allow them to pursue business opportunities with greater flexibility and speed.

Sec. 393.140(12) permits electric utilities operating non-jurisdictional businesses to keep those businesses "separate and apart" from their jurisdictional utility businesses. The provisions of 4 CSR 240-20.015 and 20.017 detail the requirements the Commission has deemed necessary to ensure such separation. The proposed reorganization will further separate KCPL's retail electric customers from the Company's other business interests. In the future, those competitive businesses will be conducted in subsidiaries of HoldCo – not in subsidiaries of KCPL. Depending upon the nature of the transaction, and considering the commitments made in the next section of this Application, any significant business dealings between KCPL and its affiliated companies will be subject to review and documentation, and to the approval and/or ratemaking authority of this Commission, the SEC and/or the Federal Energy Regulatory Commission ("FERC"). In addition, KCPL's GSA and CAM, Exhibits 3 and 4, contain accounting procedures that ensure a proper allocation of costs between KCPL and its affiliates.

To reiterate, this reorganization will not, however, involve the transfer of any assets, including generating assets, from KCPL to affiliates. KCPL will remain a vertically integrated electric utility. This Commission will continue to have the statutory authority to ensure that KCPL's retail electric customers receive electric service that is safe, reliable and reasonably priced.

IV. State Jurisdictional Issues

In *Re Western Resources, Inc./Kansas City Power & Light Company*, Case No. EM-97-515, and *Re Union Electric Company/Central Illinois Public Service Company*, Case No. EM-96-149, this Commission approved settlement agreements designed to ensure the protection of customers of

Missouri utilities that may have become subsidiaries of a Registered Holding Company. KCPL hereby agrees to those same conditions as set forth below. KCPL further commits that it and its affiliates will continue to comply with the provisions of 4 CSR 240-2.015 and 2.017 after the reorganization is completed.

a. Access to Books, Records and Personnel

KCPL agrees to make available to the Commission Staff, and Public Counsel, at reasonable times and places, all books, records, employees and officers of KCPL and any affiliate of KCPL as provided under applicable law and Commission rules; provided that KCPL and any affiliate or subsidiary of HoldCo shall have the right to object to such production of records or personnel on any basis under applicable law and Commission rules, excluding any objection that such records and personnel of affiliates or subsidiaries are not subject to the Commission's jurisdiction and statutory authority, including objections based on the operation of PUHCA.

b. Contracts Required to be Filed with the SEC

All contracts, agreements or arrangements of any kind, including any amendments thereto, between KCPL and any affiliate, associate, holding, mutual service, or subsidiary company within the same holding company system, as these terms are defined in 15 U.S.C. § 79b, as subsequently amended, that are required to be filed with and/or approved by the SEC pursuant to PUHCA, as subsequently amended, shall be conditioned upon the following without modification or alteration: Neither KCPL nor any of its affiliates, will seek to overturn, reverse, set aside, change or enjoin, whether through appeal or the initiation or maintenance of any action in any forum, a decision or order of the Commission which pertains to recovery, disallowance, deferral or ratemaking treatment of any expense, charge, cost or allocation incurred or accrued by KCPL in, or as a result of, a contract, agreement, arrangement, or transaction with any affiliate, associate, holding, mutual service or subsidiary company on the basis that such expense, charge, cost or allocation has itself been filed with or approved by the SEC or was incurred pursuant to a contract, arrangement, agreement or allocation method that was filed with or approved by the SEC.

c. Electric Contracts Required to be Filed with FERC

All wholesale electric energy or transmission service contracts, tariffs, agreements or arrangements of any kind, including any amendments thereto, between KCPL and any HoldCo subsidiary or affiliate, that are required to be filed with and/or approved by the FERC, pursuant to the Federal Power Act, as subsequently amended, shall be conditioned upon the following without modification or alteration: Neither KCPL nor any of its affiliates will seek to overturn, reverse, set aside, change or enjoin, whether through appeal or the initiation or maintenance of any action in any forum, a decision or order of the Commission which pertains to recovery, disallowance, deferral or ratemaking treatment of any expense, charge, cost or allocation incurred or accrued by KCPL in, or as a result of, a wholesale electric energy or transmission service contract, agreement, arrangement or transaction on the basis that such expense, charge, cost or allocation has itself been filed with or approved by FERC, or was incurred pursuant to a contract, arrangement, agreement or allocation method that was filed with or approved by FERC.

d. No Pre-Approval of Affiliated Transactions

KCPL agrees to provide the Commission and Public Counsel with copies of all documents that must be filed with the SEC or FERC relating to affiliate transactions. KCPL and HoldCo further agree that the Commission may make its determination regarding the ratemaking treatment to be accorded these transactions in a subsequent ratemaking proceeding.

e. **Contingent Jurisdictional Stipulation Regarding Affiliate Contracts Required to be Filed With FERC**

KCPL agrees that in the exclusive event that any court with jurisdiction over KCPL, HoldCo or any of their affiliates or subsidiaries issues an opinion or order that invalidates a decision or order of the Commission pertaining to recovery, disallowance, deferral or ratemaking treatment of any expense, charge, cost or allocation incurred or accrued by KCPL on the basis that such expense, charge, cost or allocation has itself been filed with or approved by FERC, then the Contingent Jurisdictional Stipulation, attached hereto as Exhibit 5, shall apply to FERC filings according to its terms, at the option of the Commission.

f. **Contingent Jurisdictional Stipulation Regarding Affiliate Contracts Required to be Filed with SEC**

KCPL agrees that in the exclusive event that any court with jurisdiction over KCPL, HoldCo or any of their affiliates or subsidiaries issues an opinion or order that invalidates a decision or order of the Commission pertaining to recovery, disallowance, deferral or ratemaking treatment of any expense, charge, cost or allocation incurred or accrued by KCPL on the basis that such expense, charge, cost or allocation has itself been filed with or approved by SEC, then the Contingent Jurisdictional Stipulation, attached hereto as Exhibit 5, shall apply to SEC filings according to its terms, at the option of the Commission.

V. Request for Authorization

In support of this Application, KCPL states the following:

1. KCPL is a Missouri corporation in good standing in all respects, with its principal office and place of business located at 1201 Walnut, Kansas City, Missouri 64106. KCPL is engaged in the generation, transmission, distribution, and sale of electric energy and power in those

areas in Missouri certificated to it by the Commission, including the City of Kansas City, Missouri, as well as areas of eastern Kansas. KCPL is an "electrical corporation" and "public utility" as those terms are defined in Section 386.020 (15) and (42), and, as such, is subject to the jurisdiction of the Commission as provided by law. KCPL provides electric service to approximately 230,000 residential customers and approximately 30,100 commercial and industrial customers in Missouri. KCPL's Certificate of Good Standing is attached hereto as Exhibit 6.

2. All correspondence, pleadings, orders, decisions, and communications regarding this proceeding should be sent to:

William G. Riggins
General Counsel
Kansas City Power & Light Company
1201 Walnut
Kansas City, MO 64106
Telephone: (816) 556-2785
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Chris B. Giles
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James M. Fischer
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101 Madison Street, Suite 400
Jefferson City, MO 65101
Telephone: (573) 636-6758
Facsimile: (573) 636-0383
E-mail: jfischerpc@aol.com

3. A copy of the Merger Agreement, in substantially final form, between KCPL, HoldCo and NewCo is attached hereto as Exhibit 1. In accordance with the Merger Agreement, KCPL and NewCo will merge. NewCo will cease to exist, while KCPL will continue as the surviving corporation. After the merger, KCPL will continue to be a regulated "electrical corporation" and "public utility" as defined by Missouri law, and will continue to provide electric service in KCPL's current service area under tariffs.

4. GPP is not an "electrical corporation" as that term is defined in Section 386.020(15), RSMo 2000, inasmuch as it will sell electric power exclusively at wholesale, and thus, will not be engaged in the sale of electric power at retail to the general public. See, e.g., State ex rel. Danciger v. Public Serv. Comm'n, 205 S.W. 36 (Mo. 1918). Subject to approval by the FERC, GPP will, in the future, sell wholesale power at market-based rates.

5. As described above, the proposed transactions are not detrimental to the public interest and will in fact benefit consumers and the public interest. The proposed transaction will strengthen the financial and operational separation between KCPL's retail electric business and the competitive business activities of KCPL's affiliated companies.

6. The proposed merger will not have any impact on KCPL's Missouri jurisdictional operations.

7. A certified copy of the resolutions of the Board of Directors of KCPL authorizing the Company to proceed with implementation of the restructuring is attached hereto as Exhibit 7 and incorporated herein by reference.

8. Pro forma balance sheets and income statements for KCPL with adjustments showing the effects of the proposed restructuring and capitalization are attached hereto as Exhibit 2.

9. The requirements of 4 CSR 240-2.060(4) do not apply to the proposed transaction. KCPL already possesses a certificate of convenience and necessity. The proposed restructuring plan will not alter KCPL's current service area or affect rights and obligations under its certificate of convenience and necessity.

10. The requirements of 4 CSR 240-2.060(15) do not apply to the proposed transaction. As demonstrated in the Merger Agreement, KCPL will continue as the surviving corporation, while NewCo will cease to exist. The restructuring plan does not result in a "change of electrical suppliers."

11. The proposed restructuring does not involve the transfer of any of KCPL-owned assets. Accordingly, there will be no impact on the tax revenues of any political subdivision where KCPL's structures, facilities or equipment are located.

12. KCPL has no pending action or final unsatisfied judgments or decisions against it from any state or federal agency or court which involve customer service or rates which has occurred within three (3) years of the date of the Application, except as identified on Exhibit 8, attached hereto and incorporated herein.

13. No annual report or assessment fees are overdue.

14. The Commission has explicit statutory authority to grant KCPL's requests pursuant to the above-cited statutes.

WHEREFORE, Kansas City Power & Light Company respectfully requests the Commission to issue its Order:

1. Granting KCPL the authority to restructure and reorganize itself as discussed herein.

2. Granting KCPL the authority to merge with NewCo with KCPL being the surviving corporation.

3. Granting HoldCo the authority to own more than ten percent (10%) of the common stock of KCPL.

4. Granting all other approvals necessary to implement the restructuring plan described herein, including authority of KCPL to issue the stock dividends to HoldCo as described herein.

5. Granting such other relief as may be deemed necessary and appropriate to accomplish the purposes of the Application and to consummate the restructuring transaction, as described herein.

Respectfully submitted,

James M. Fischer

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and

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E-mail: bill.riggins@kcpl.com
E-mail gerald.reynolds@kcpl.com

ATTORNEYS FOR
KANSAS CITY POWER & LIGHT COMPANY

CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing Application has been hand-delivered or mailed, First Class, U.S. Mail, postage prepaid this 26th day of February 2001, to:

Dana Joyce, General Counsel
Missouri Public Service Commission
P.O. Box 360
Jefferson City, Missouri 65102

Martha Hogerty, Public Counsel
Office of the Public Counsel
P.O. Box 7800
Jefferson City, Missouri 65102

James M. Fischer

James M. Fischer

VERIFICATION

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

B. J. Beaudoin, having been duly sworn upon his oath, states that he is Chief Executive Officer and President of Kansas City Power & Light Company, Applicant herein, and the Application and Exhibits are true and correct to the best of his information, knowledge and belief.

B J Beaudoin

B. J. Beaudoin

Subscribed and sworn to before me this 21st day of February, 2001.

Carol Sivils

Notary Public

My Commission Expires:

CAROL SIVILS
Notary Public - Notary Seal
State of Missouri
Clay County
My Commission Expires Jun 15, 2003

Copy of
Exhibits will be
provided to USD-Staff
Membus assigned.