

**THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

In the Matter of a General Investigation for the)
Purpose of Investigating Whether Annual or)
Periodic Cost/Benefit Reporting by the SPP) Docket No. 17-SPPE-117-GIE
And Kansas Electric Utilities that Participate in)
SPP is in the Public Interest.)

**INITIAL COMMENTS OF KANSAS CITY POWER & LIGHT COMPANY,
THE EMPIRE DISTRICT ELECTRIC COMPANY, AND WESTAR ENERGY, INC.**

COMES NOW Kansas City Power & Light Company (“KCP&L”), The Empire District Electric Company (“Empire”) and Westar Energy, Inc. (“Westar”) together referenced as (“Companies”), pursuant to the January 19, 2017 *Order Opening General Investigation* by the State Corporation Commission of the State of Kansas (“Commission”) in the above-captioned docket (“Order”), submits the following responses and comments.

I. BACKGROUND

1. The Commission’s Order states that this docket was opened to examine whether annual or periodic reporting by Southwest Power Pool, Inc. (“SPP”) and Kansas utilities that participate in SPP is necessary.

2. The Commission’s Order directs the parties to answer several questions relating to both the process to be used in this docket and the scope of the issues to be addressed in this docket.

II. RESPONSES TO COMMISSION QUESTIONS

(a) **In the event that the Commission requires a study to determine the costs and benefits associated with continued membership in SPP, what specific parameters should be included in the study?**

3. To the extent a cost/benefit study is conducted, the following parameters should be included:

Analysis Period:

- (1) 20-year cost/benefit projection
- (2) Assume any transition from SPP would be complete as of January 1, 2021

Participation Options:

- (1) SPP
- (2) Midcontinent Independent System Operator (“MISO”)
- (3) An Independent Coordinator of Transmission (“ICT”)

Global Uncertainties:

- (1) Future CO₂ restrictions (no restrictions, significant restrictions)
- (2) Natural Gas Prices (low, mid, high natural gas prices)

Cost/Benefit Considerations:

- (1) Fuel, Purchased Power, Off-System Sales impacts
- (2) Ancillary service revenues and costs
- (3) Emission costs
- (4) Transmission congestion costs, Transmission Congestion Rights/Financial Transmission Rights revenues
- (5) Transmission service costs, including wheeling costs (if any)
- (6) Transmission system upgrades
- (7) Transmission revenues
- (8) Regional Transmission Organization (“RTO”)/ICT Administration Fees
- (9) Federal Energy Regulatory Commission (“FERC”) Fee impacts (if any)
- (10) Internal cost impacts (labor, systems, etc.)
- (11) SPP exit fees
- (12) Market power impacts (if any)
- (13) Transition costs (SPP to MISO, or SPP to ICT)
- (14) Planning reserve margin requirements
- (15) Reserve sharing group impacts
- (16) Losses
- (17) Market transaction costs

(b) Should the study be limited to a comparison of production cost savings associated with the Integrated Market (IM) versus the increased transmission expense and SPP Administration expense associated with membership in SPP?

4. In addition to production cost savings, transmission expense and SPP Administration fees, there are several other factors that should be considered if a study is conducted. Please see the response to Question (a) for a listing of these considerations.

(c) Should two separate cost/benefit studies be completed with one on the cost/benefits of the IM and the other on the cost/benefits of the transmission system?

5. No. The interrelated nature of transmission service and the SPP IM would make it challenging, and potentially misleading, to study the costs and benefits separately, especially when considering the resource mix of the entire SPP region as it relates to the operation of the IM. Moreover, individual Kansas utility participation in the IM is necessarily intertwined with the opportunities/benefits provided by the entire SPP transmission system. It is the investment in the transmission system that facilitates efficient regional generation dispatch. Therefore, separate studies should not be conducted.

(d) Should the study be performed by an independent third party consultant, or can this analysis be performed by internal expertise within the utilities?

6. Given the significant analytical requirements and associated study costs, and that much of the analysis would be common for the State of Kansas, requiring each utility to perform such a study would not be cost-effective. For example, a large portion of the benefits from SPP participation is derived from a more efficient regional generation dispatch. The effort to model this would be the same for each utility in the state and, therefore, would most cost effectively be performed in a single study. Based on that, we recommend an independent third party consultant perform the study for all Kansas utilities if the Commission deems it is necessary. SPP should be required to participate in the study as well due to the large amount of input data that is only available to SPP.

(e) How often should such a study be updated once performed?

7. If as part of this investigation the Commission finds it prudent to pursue such a study, updates should be performed only when circumstances dictate that an update is necessary. Given that the commitments to participate in an RTO are significant and long-term in nature,

utilities are unlikely to reverse this commitment, once made, unless customers are being harmed relative to a realistic alternative. In the future, should a utility or this Commission determine that the utility's participation is no longer beneficial to the point of considering a withdrawal, the Commission will already be aware of the challenges faced as a result of the Commission's participation in the SPP process. At that point, another study could be conducted. Additionally, the various studies currently conducted by SPP can aid the Commission in identifying when customers are being potentially harmed. Such studies are discussed in the response to Question (g) below.

8. Note that the SPP Regional Cost Allocation Review ("RCAR") process is conducted at least once every three years. SPP is in the process of changing the frequency of the study to at least once every six years. This process evaluates the costs and benefits of SPP's transmission expansion. The costs and benefits are evaluated per transmission pricing zone ("zone"). All Kansas zones had a benefit-to-cost ratio greater than the 0.80 threshold in the recent RCAR II study.

(f) How quantifiable and objective would such an analysis be?

9. Certainly, such a study can be objective; however, given the complexity of the electric transmission and energy markets these studies are indeed challenging to conduct. Because many of the benefits are derived from more efficient system dispatch, and the ability to efficiently dispatch is dependent on available transmission, even small changes in transmission availability can have a significant impact on the study results. When evaluating historical benefits, assumptions must be made concerning what the transmission system and available generation would have looked like had the RTO not existed. While such assumptions can be made, there is

no way to know for sure what would have occurred. For example, without SPP would the significant amounts of Kansas wind generation now in service have been built?

(g) Without a study, is it possible to say with certainty whether Kansas ratepayers are better off today with Kansas electric utilities being members of SPP? Would it be possible after the study?

10. Based on studies and analyses completed to date by SPP, it appears that Kansas retail electric customers, as a whole, are better off today being members of SPP. Given the complexity of these studies, completing an additional study may not provide greater “certainty” than what is known today. SPP has previously conducted several studies and reports that document the benefits of participating in the SPP RTO. The studies documenting the benefits include:

- (1) Value of Transmission
- (2) RCAR I (October 2013) and II (July 2016)
- (3) Annual State of the Market Report
- (4) Reduced Reserve Margin Studies

(h) What evidence exists today regarding the costs/benefits of SPP membership that Kansas ratepayers are benefitting from Kansas utility participation in SPP?

11. The study that SPP conducts as part of the RCAR process is looks at the benefit/cost ratio by zones within SPP (although it does not determine the ratepayer impact and only analyzes the costs and benefits of Base Plan projects subject to the “Highway/Byway” cost allocation methodology instituted in June 2010). A little information on that process:

- The FERC requires SPP to do a review (the RCAR) at least once every three years to determine the impacts to each zone within the SPP region of the Highway/Byway cost allocation methodology that went in place in June 2010. SPP is in the process of changing the frequency of the study to at least once every six years.
 - This analysis looks at Base Plan Upgrades approved for construction since June 19, 2010.

- The assumptions are vetted by SPP stakeholders.
- Benefits/Costs are analyzed over a 40-year period.
- Any zones falling below a minimum benefit-to-cost threshold (0.80 B/C) are evaluated for potential remedies.

The most recently completed RCAR in July 2016 showed just one zone within SPP to be below the threshold, and no Kansas utilities fell into that category.

(i) Over what time period should the study cover? Should the study cover the last five years, ten years, or only since the implementation of the IM?

12. Given that transmission investments are long-lived, the study should be forward-looking and cover a period of at least 20 years. If a historical view is desired, it should start with the Energy Imbalance Services (“EIS”) Market.

(j) Should the study attempt to reflect the anticipated costs and benefits of continued SPP membership for the foreseeable future using data that is known or that can be determined with certainty today?

13. If the study is conducted, at a minimum it should be forward-looking.

(k) What alternatives to SPP membership exist for Kansas electric utilities today?

14. Theoretically, Kansas electric utilities could join MISO, revert back to pre-RTO days or form an ICT. From a practical and financial standpoint, these options are not feasible.

(l) Should the study, if required, compare the costs and benefits of SPP to membership in the Midwest Independent System Operator (MISO)?

15. If the Commission determines that a study should be conducted, it should include an evaluation of MISO participation including the exit fees for Kansas utilities to withdraw from SPP. The study should also consider the cost allocation methodology for existing and planned MISO transmission system upgrades that will be allocated to Kansas utilities.

(m) What other Regional Transmission Organizations or regional transmission planning entities, if any, should be considered in the analysis of alternatives?

16. MISO (see response to Question (l)).

(n) Is it feasible for Kansas to form its own regional transmission planning entity similar to what New York and California have done? If so, should the costs and benefits of that possibility be evaluated in this study?

17. While it would be theoretically possible for Kansas to form its own regional transmission planning entity, the costs of such entity would likely outweigh the benefits. It would be very expensive for all Kansas entities to leave SPP. Furthermore, there would be costs associated with setting up the new entity, which would only duplicate efforts already performed by the SPP. Additional coordination would be needed to plan the seam between the new Kansas entity and SPP due to the Companies' service territory location in both Kansas and Missouri, which is already complicated due to the seam between the SPP and the MISO.

(o) If Kansas utilities were not members of SPP, would there still be opportunities to pursue economy energy sales/purchases from the IM? Would other entities or SPP still use transmission facilities owned by Kansas utilities? To what extent should this be included in the effects of a possible cost/benefit study?

18. Non-SPP members can do bilateral transactions with other utilities, whether they are SPP members or not, but they do not have access to the SPP market unless they are members of SPP. Such bilateral transactions would likely incur a transmission wheeling charge. Scheduled use of transmission assets that are not under the functional control of SPP would simply require payment of the applicable FERC-approved tariff rate for that entity. In addition, there would likely be unscheduled flows across a Kansas-only system that would not be compensated. Such impacts would need to be considered in a cost/benefit study.

(p) If Kansas utilities were not members of SPP, would there still be opportunities for Kansas utilities to sell transmission capacity on the facilities located in Kansas and owned by Kansas utilities? To what extent should this be included in the effects of a possible cost/benefit study?

19. Yes, Kansas utilities would be able to sell their available transmission capacity directly to interested parties at their FERC-approved tariff rates. From a transmission perspective, SPP provides planning, scheduling, tariff administration, optimization of flows and investment to those entities that have placed their transmission assets under functional control of SPP. Kansas utilities would need to assume these responsibilities or retain another entity to do so if they were no longer in SPP. The cost of assuming or transferring these responsibilities should be part of any Kansas-only transmission organization evaluation.

III. ADDITIONAL COMMENTS FOR THE COMMISSION

20. Given the significant cost of SPP participation for Kansas utilities, this investigation and list of questions is certainly appropriate. However, the Companies do not currently believe that the Commission should require its jurisdictional utilities to perform a cost/benefit evaluation of their continued participation in SPP. Given the study challenges, uncertainty, study costs, existing evaluations, and potential SPP exit fees, additional study at this time is unnecessary.

- a. Estimated Exit fees for Westar Energy: \$810 million
- b. Estimated Exit fees for KCP&L: \$755 million (including KCP&L GMO)
- c. Estimated Exit fees for Empire District: \$150 million

21. Per SPP's Bylaws and Membership Agreement, withdrawing SPP Transmission Owners ("TO") with load receiving transmission service under the Tariff have a financial obligation to pay for transmission facilities that were approved by SPP during the TO's membership in SPP.¹ This financial obligation may be offset to some extent if facilities the withdrawing TO built, or shared in the funding of, are used by remaining members after the TO's

¹ See Membership Agreement, Section 4.

withdrawal from SPP. Any revenue owed to a withdrawing TO is very speculative as it is unknown to what extent these facilities will be used by remaining members and, thus, require compensation. As a result, any estimates of compensation to a withdrawing member for the facilities it constructs is uncertain. Per the Membership Agreement, this amount can be addressed in the negotiated agreement between SPP and the withdrawing member at the time of the withdrawal.

22. Performing these types of studies is challenging in that many assumptions must be made concerning what the regional transmission and generation would have looked like had the SPP RTO and market not been in place. As time goes on, this becomes increasingly uncertain. These assumptions drive the study results. For example, the more restrictive the transmission system addition assumptions are assuming no RTO was in place, the greater the production cost savings estimates will be under the RTO. There is no way to know for certain what transmission would have been built had Kansas utilities not been part of SPP. Likewise, there is no way to know what wind generation would have been built without SPP. Thus, the study results are uncertain.

23. While the cost to conduct such a study should not drive the final decision whether or not to conduct the study, it should be a consideration. KCP&L worked with a consultant to estimate the cost to conduct the study described above in response to Question (a). As discussed below, the study is estimated to cost approximately \$600,000. Given that many of the assumptions and modeling for such a study should be consistent for all Kansas utilities, it would be more cost-effective to conduct one joint study for the state instead of each utility conducting their own study. If the Commission were to decide a study is appropriate, the Companies suggest that only one study be done for the state, conducted by an outside consultant and facilitated through the Commission Staff. Such study will require SPP participation as well.

24. As mentioned above, SPP has conducted studies to evaluate the cost and benefits of the transmission system build out. These studies have been conducted with input from interested stakeholders across the region. While improvements to the study process can and will be made, the Companies believe that these studies can reasonably form the basis for gauging the value of SPP participation. SPP continues to collect input from members after the studies have been completed to determine where the study processes may be improved. There is no need for the Commission to duplicate this complex study process that indicates that the transmission expansion has been cost effective. If the Commission desires, SPP can file the “Annual State of the Market Report” with the Commission upon completion.

25. Lastly, as part of the approval process in Missouri for KCP&L’s participation in SPP, KCP&L and interested parties including the Missouri Public Service Commission (“MPSC”) Staff and the Office of the Public Counsel (“OPC”) agreed to a periodic re-evaluation of KCP&L’s participation. This re-evaluation included a requirement for an outside consultant to conduct a cost/benefit study related to KCP&L’s SPP participation. By agreement, this study was to be conducted and filed with the MPSC by June 2017. In 2016, KCP&L, Staff and OPC held discussions related to this study. Based on the fact that the study would cost approximately \$600,000 and the estimated current SPP exit fee for KCP&L and GMO was \$720 million, it was determined that the study should not be conducted at this time. In September 2016, the MPSC approved removing this cost/benefit study requirement for the scheduled June 2017 filing in MPSC Case No. EO-2012-0135. A similar request was made of Empire in Missouri in case EO-2012-0269, which resulted in the MPSC permitting Empire to continue participating in SPP, with some conditions regarding geographic scope and cost-effectiveness.

26. Given these facts, at this time the Companies respectfully recommend that the Commission not require the state utilities to conduct an SPP participation cost/benefit study. As a reasonable proxy, the existing (and future) SPP cost/benefit studies can be used to show that continued participation in SPP by Kansas utilities is reasonable. Should future SPP studies indicate that continued participation for Kansas entities is questionable, or at the request of a Kansas utility that questions its continued participation, the Commission could, at that time, direct that such a study be undertaken.

IV. CONCLUSION

27. Given that cost/benefit studies previously performed indicate significant benefits to SPP participation and that additional analysis is unlikely to reach a different conclusion, the Companies recommend that the Commission not require utilities under their jurisdiction to perform additional analysis at this time. However, if the Commission were to require additional study, it would be most cost-effective to have a single study completed by an experienced, independent third party consultant for all Kansas utilities.

WHEREFORE, the Companies respectfully request that the Commission accept its responses to the Commission questions.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I do hereby certify that on the 21st day of April, 2017, I electronically filed via the Kansas Corporation Commission's Electronic Filing System, a true and correct copy of the above and foregoing with a copy emailed to all parties of record.

Roger W. Steiner

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