

NARUC

SPP Highway-Byway Cost Allocation

November 17, 2010



SERVICES YOU COUNT ON

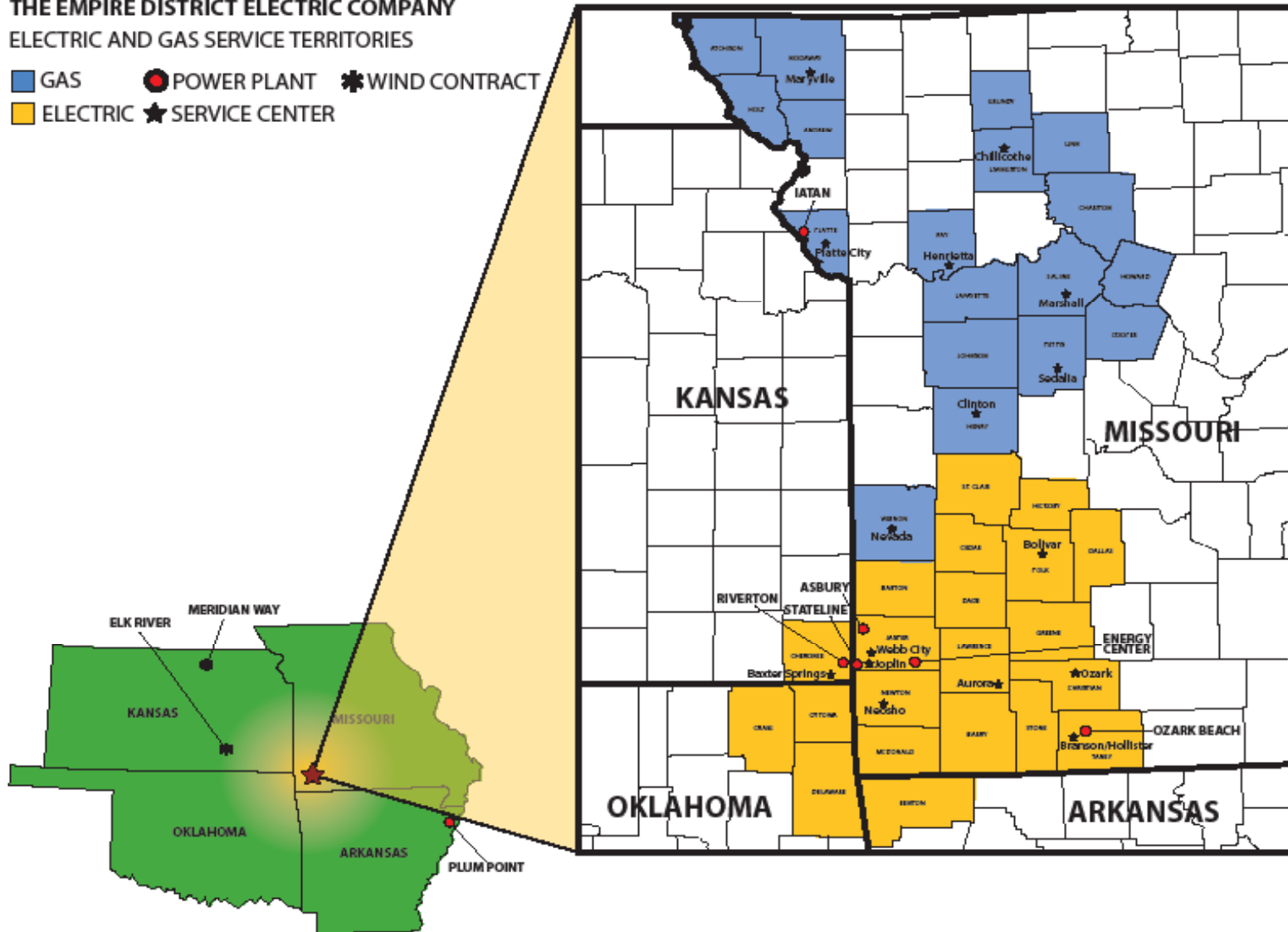
Mike Palmer

The Empire District Electric Company

Empire's Service Territory

THE EMPIRE DISTRICT ELECTRIC COMPANY
ELECTRIC AND GAS SERVICE TERRITORIES

- GAS
- ELECTRIC
- POWER PLANT
- SERVICE CENTER
- WIND CONTRACT



SPP Cost Allocation

- Empire District Electric was a founding member of SPP in 1941
- Positive benefits of SPP membership today
- We believe in regional funding for cost effective transmission expansion with proper safeguards and protections
- We plan to continue as a member of SPP; however, cost allocation impacts for overbuilding the system is a growing concern

SPP Cost Allocation

- Why did it pass? (In our view)
 - Wind rush
 - National RPS and Cap & Trade expectations
 - Minimal risk and cost recovery certainty for builders
 - FERC incentives
 - Higher ROE, in the 1%-2% range
 - CWIP
 - Stranded cost protection
 - Start-up cost of a new Transco recovery

SPP Cost Allocation

- Why did it pass? (In our view continued)
 - Politics – state renewable rules and ‘goals’
 - Transmission expansion viewed as jobs and economic development in this economy
 - Transmission needed to move the wind, relieve congestion, and support SPP’s planned next day market (2014)
 - Qualitative/speculative benefits included

SPP Cost Allocation

- Problems
 - Six projects approved as first under new cost allocation plan
 - Economic projects grouped together without independent verification of viability
 - Benefit/Cost projection inaccuracy
 - Approvals based on original cost estimate for six projects \$1.12B
 - Within six months of approval and no dirt turned, projected cost increased by \$271M (24%)
 - No process to ensure cost estimates and initial_line routes are reasonable

SPP Cost Allocation

- Problems (continued)
 - Updated quantifiable benefit/cost projections for the six projects less than one
 - Credibility of SPP processes in question
 - Right-of-way is being acquired for projects that may not be cost effective, potentially hindering future ROW acquisition and approvals for needed projects
 - Lack of concern about customer affordability
 - Perception that transmission component of customer's bill is immaterial and such increases are 'no big deal'

SPP Cost Allocation

- Issues to Work on
 - More accuracy and accountability for cost estimates
 - Transparency and governance
 - More certainty of fairness that one state or one company is not continually impacted negatively over time
 - Cost-effective project selection
 - Affordability and deliverability - how much more and should the customer pay based on 'real' future benefits

SPP Cost Allocation

Can the Highway-Byway Cost Allocation
Methodology Work?

YES, with needed improvements!!

Thank You



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