



Southwest Power Pool
TRANSMISSION WORKING GROUP
December 19, 2011
Teleconference

• Summary of Action Items •

1. Approved the 2011 TPL Stability Report.
2. Approved the Comprehensive 2011 TPL Report.
3. Endorsed the 2012 ITPNT Report.
4. Endorsed the 2012 ITP10 Report and process followed to develop the recommended plan.



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• M I N U T E S •

Agenda Item 1 – Administrative Items

TWG Chair Noman Williams called the meeting to order at 10:05 a.m. The following members and stakeholders were in attendance:

TWG Members

Noman Williams, Sunflower Electric Power Corp.
Mo Awad, Westar Energy
John Chamberlain, City Utilities of Springfield, MO
Joe Fultz, Grand River Dam Authority
John Fulton, Southwestern Public Service Company
Travis Hyde, Oklahoma Gas & Electric
Dan Lenihan, Omaha Public Power District
Randy Lindstrom, Nebraska Public Power District
Jim McAvoy, Oklahoma Municipal Power Authority
Matt McGee, American Electric Power
Nathan McNeil, Midwest Energy
Nate Morris, Empire District Electric
Alan Myers, ITC Great Plains
John Payne, Kansas Electric Power Cooperative
Jason Shook, GDS Associates representing ETEC
Mitch Williams, Western Farmers Electric Cooperative
Harold Wyble, Kansas City Power & Light

Others Stakeholders and Staff

Phyllis Bernard, SPP Board of Directors
Patrick DeLassus, SPP Staff
Scott Feuerborn, Burns & McDonald
Tony Gott, Associated Electric Cooperative Inc.
Kirk Hall, SPP staff
Jody Holland, SPP staff
Rachel Hulett, SPP staff
Scott Jordan, SPP staff
Tim Miller, SPP staff
Kristen Rodriguez, Wind Coalition
Greg Sorenson, SPP RE
Jason Speer, SPP staff

Noman mentioned SPP staff is requesting an endorsement of the ITP reports, not necessary approval of the recommended plans.

Agenda Item 2 – 2011 TPL Reports

Review 2011 TPL Stability Report



Scott Jordan, SPP staff, presented the 2011 TPL Stability Report to members. He noted the addition of an executive summary. The TWG suggested several revisions to the report.

Alan Myers motioned to approve the 2011 TPL Stability Report as modified. Mo Awad seconded the motion, which passed unopposed.

Comprehensive 2011 TPL Report

Jason Speer, SPP staff, presented the Comprehensive 2011 TPL report to the members. Members provided feedback on the report (Attachment 1 – Comprehensive 2011 TPL report).

Nathan McNeil motioned to approve the Comprehensive 2011 TPL report pending revisions. Alan Myers seconded the motion, and the motion passed unopposed.

Both the stability and comprehensive reports will be revised based on the feedback and be posted on TrueShare. An email will be sent to the members once posted pointing to their location. TWG requested to be copied on the email when this report is sent to the SPP RE.

Agenda Item 3 – Finalization of 2012 ITPNT Report

Rachel Hulett, SPP staff, presented the 2012 ITPNT report to the TWG as well as a process presentation (Attachment 2 – 2012 ITP processes). She highlighted the \$187 million of withdrawal candidates and shared costs that had been spent on those candidates that would seek cost recovery— in particular Mid-Kansas had one upgrade with costs close to \$30,000 and AEP had two upgrades with non-finalized costs of \$300,000 or less. The group discussed whether these particular upgrades would be needed in the future. Mid-Kansas noted their project was almost infeasible and would most likely never be required. AEP stated they did not know if their upgrades would be needed. Rachel stated staff was seeking process approval. Rachel also highlighted there were a few SCERTs missing and asked members to submit them by December 30. Members asked staff to notify those TOs about their outstanding SCERTs. Staff sought TWG comments on the 2012 ITPNT report. There were three corrections submitted to be incorporated in the report (Attachment 3 – 2012 ITPNT Report).

Jason Shook motioned to endorse the 2012 ITPNT report contingent on SCERT costs being updated. Randy Lindstrom seconded the motion, which was approved unanimously.

Agenda Item 4 – Finalization of 2012 ITP10 Report

Rachel Hulett continued the presentation on the 2012 ITP10 process. She noted SPP had reviewed Alan Myer's request to add all reliability projects that were needed in only one future to the final plan, and staff recommended no changes to the final portfolio or staging process. Members suggested the project list be attached to the report instead of having a link. Rachel also mentioned staff is performing a small amount of analysis that could impact the final plan and report but this was the final opportunity for TWG to review the plans and report prior to MOPC. Staff sought TWG comments on the 2012 ITP10 report, and one map correction was requested (Attachment 4 – 2012 ITP10 Report).

Mo Awad motioned and Travis Hyde seconded to endorse the 2012 ITP10 report and the process followed to develop the recommended plan. The motion was approved unanimously.

Agenda Item 5 – Closing

Rachel stated there is a TWG meeting scheduled for 1/5/2012 but no business to bring to TWG. Noman asked the meeting time still be reserved and closer to the meeting cancellation be sent if no other business arises for TWG.



Being there was no further business the meeting adjourned at 11:28 a.m.

Respectfully Submitted,

Rachel Hulett
Secretary

Designee Qualification Process

The purpose of this process is to facilitate the recognition of an arrangement made by a Designated Transmission Owner (DTO) pursuant to Section 3.3(c) of the SPP Membership Agreement and Attachment O, Section VI of SPP's Open Access Transmission Tariff (SPP Tariff). The goal of the process is for SPP Staff to confirm the qualifications of an entity (Alternate DTO) to construct transmission facilities that are the subject of the arrangement and the grant of a novation to the DTO.

Prior to the start of this process, SPP must have identified a specific project to be built and sent a Notification to Construct (NTC) to the DTO pursuant to Attachment O, Section VI of the SPP Tariff. If the DTO notifies SPP that it will arrange for another entity to build, own and maintain all or part of the project in its place, SPP shall implement this process to assess the qualification of the entity to build and own such. The DTO may designate an Alternate DTO after it has accepted the NTC or during the initial ninety (90) days after the receipt of the NTC (NTC Review Period). Failure of the DTO to make a written commitment to construct the project as specified in the NTC within the NTC Review Period shall cause SPP to implement its Transmission Owner Selection Process, and the DTO shall be subject to the conditions and procedures outlined therein.

Once the DTO has notified SPP that it will arrange for and has identified to SPP an Alternate DTO, SPP shall assign an employee at the Director level or higher to facilitate the process of SPP staff reviewing the qualifications of the Alternate DTO. If the request is received during the NTC Review period, SPP staff shall make a reasonable attempt to complete its review prior to the end of the period. The SPP staff's review shall include those minimum qualifications specified in Attachment O, Section VI (6) (See below), as more specifically set forth in the SPP's Transmission Owner Selection Process, Appendix 4 – Selection Criteria (See below). SPP staff may utilize such consultants as it determines are necessary to provide specific expertise.

If, based on its judgment, SPP determines the identified entity to be qualified to build and own the project as arranged, SPP shall so notify the DTO. SPP staff shall thereafter obtain from the Alternate DTO agreements binding it as the DTO to all of the rights and responsibilities related to the arranged project pursuant to the NTC, the SPP Membership Agreement and the SPP Tariff. Upon the receipt of such binding agreements, SPP shall, at the original DTO's request, enter into a Novation Agreement with the original DTO relieving it of its obligation under the SPP Membership Agreement and the SPP Tariff to build the project which is the subject of the arrangement. **The qualification of the Alternate DTO must be reviewed by the TWG and MOPC. Results of the SPP, TWG and MOPC reviews must be presented to the SPP Board of Directors.** The Alternate DTO must be approved by the SPP Board of Directors as being qualified in order for the obligation to be relieved from the original DTO and the project reassigned to the Alternate DTO.

If approval from the SPP Board of Directors is not granted, SPP shall so notify the DTO of the rejection and that SPP shall continue to look to the DTO for fulfilling its obligations under the SPP Membership Agreement and the SPP Tariff.

If, upon information obtained after the Novation Agreement has been approved, the Alternate DTO does not fulfill its obligations under the SPP Bylaws, SPP Membership agreement or SPP Tariff, SPP shall take action to reassign the NTC to another entity or to take other such appropriate actions as deemed necessary pursuant to those documents.

Attachment O Section VI. Construction of Transmission Facilities

6) In order to maintain its right to construct the project, the Designated Transmission Owner shall respond within ninety (90) days after the receipt of the Notification to construct with a written commitment to construct the project as specified in the Notification to Construct. The Designated Transmission Owner may propose a different project schedule and/or alternative specifications in its written commitment to construct.

Transmission Provider may accept or reject such proposal. A Designated Transmission Owner may elect to arrange for another entity or another existing Transmission Owner to build and own all or part of the project in its place subject to the qualifications in Subsections i, ii, iii, and iv below.

If a Designated Transmission Owner does not provide an acceptable written commitment to construct within the ninety (90) day period, the Transmission Provider shall solicit and evaluate proposals for the project from other entities and select a replacement designated provider. The Transmission Provider shall solicit proposals from entities that meet certain specified legal, regulatory, technical, financial and managerial qualifications, specifically including the following:

- i) Entities that have obtained all state regulatory authority necessary to construct, own and operate transmission facilities within the state(s) where the project is located,
- ii) Entities that meet the creditworthiness requirements of the Transmission Provider,
- iii) Entities that have signed or are capable and willing to sign the SPP Membership Agreement as a Transmission Owner upon the selection of its proposal to construct and own the project, and
- iv) Entities that meet such other technical, financial and managerial qualifications as are specified in the Transmission Provider's business practices.

The Transmission Provider shall evaluate each proposal with regard to the cost, reliability and timeliness of the proposed construction of the project and shall make a recommendation to the Board of Directors. The Board of Directors shall thereafter select an entity making a proposal and arrange for that entity to construct the project.

Nothing in this Section VI.6 shall relieve a Transmission Owner of its obligation to construct an upgrade as specified in Section VI.2 of this Attachment O and Section 3.3(a) of the SPP Membership Agreement in the event that no other qualified entity can be found to construct the project.

Appendix 4 – Selection Criteria

Purpose

To identify the process used in the rating and selection of the Selected Transmission Owner.

General

The Selection Committee will use “Reasonable Professional” standard in evaluation of proposals from the various respondents.

Minimum requirements (regulatory authority, credit worthiness, and TO membership) must be met in order to included in this process.

The Selection Committee will score respondents on the items described below. Highest score may not always be selected. Low scores in individual categories may eliminate respondents from consideration

Process

Each Selection Committee member will score respondents’ proposals by category from zero to the allowed number of points for that category. Points are totaled for all respondents and the results are used in guiding the committee to the ultimate selection. There are 100 possible points for each respondent RFP.

Categories

- **Project Expertise-20 points**
 - Engineering
 - Permitting
 - Environmental
 - ROW Acquisition
 - Procurement
 - Project Management (including scope, schedule management)
 - Construction
 - Commissioning
 - Technology content
- **Safety program/Current/Past statistics-15 points**

- Internal safety program
 - Contractor safety program
 - Safety performance record (program execution)
 - RFP conformance
- **Cost to customer- What will the (long term) final impact be on the customer's bill?-20 points**
 - Estimated total cost of Project
 - Financing costs
 - FERC Incentives
 - Revenue Requirements
 - Lifetime cost of the project to customers
- **Reliability/Quality/General Design-15 points**
 - Type of Construction (wood, steel, design loading, etc.)
 - Estimated total owning costs
 - Losses (design efficiency)
 - Estimated life of construction
- **Operations-15 points**
 - Control Center operations (staffing etc.)
 - NERC compliance –process/history
 - Storm/Outage response plan
 - Past reliability performance
- **Maintenance-15 points**
 - Staffing
 - Maintenance plans
 - Equipment
 - Crew training
 - Maintenance performance/expertise
 - NERC compliance-process/history



January 3, 2011

Ms. Heather Starnes, J. D.
Manager Regulatory Policy
Southwest Power Pool
415 North McKinley
#140 Plaza West
Little Rock, AR 72205

Dear Ms. Starnes,

Subject: Prairie Wind Transmission, LLC Due Diligence Review

This letter presents the results of the due diligence review (Review) of Prairie Wind Transmission, LLC (PWT) conducted by Quanta Technology, LLC. This Review was to provide insights to Southwest Power Pool ("SPP") in evaluating the ability of PWT to assume the responsibility for the development, operation and maintenance of the 345 kV double circuit lines from the Medicine Lodge to State Line and from Medicine Lodge to Wichita substations (Project).

SPP had originally issued a Notification to Construct (NTC) to Westar and Mid-Kansas Electric Company (MKEC) (together, "Original Parties"). The NTC for the Medicine Lodge to State Line portion for the Project was issued to MKEC. The NTC for the Medicine Lodge to Wichita portion of the Project was split between MKEC and Westar. Both Westar and MKEC now propose to transfer the responsibility to own, develop, operate and maintain the Project to PWT. Before granting such a Novation, SPP requires that a due diligence review of the candidate organization be performed by a subject matter expert in the area of transmission development, operations and maintenance.

Due Diligence Process

To perform the Review, Quanta Technology followed the process specified on page 6 of the "SPP Qualification Process for Novation Agreements".

The process starts with reviewing information about PWT. For the Review, Quanta Technology collected and reviewed the following documents:

- PWT Certificate of Formation in the State of Delaware
- PWT Certificate of Good Standing in the State of Kansas
- PWT Registration as a Foreign Limited Liability Company in the State of Kansas.
- KCC Order Approving Phase 1 Settlement dated 5/22/2009
- KCC Order Approving Settlement dated 10/5/2009
- KCC Order Approving Second SA dated 07/29/2010
- FERC PWT Settlement Approval in Docket Nos. ER09-35-000 and ER09-36-000 dated 8/9/2010
- Memo from Tom Stuchlik describing contract services dated 11/25/2010
- Memo from PWT showing Evidence of Ability to Obtain Investment Grade Rating provided 12/1/2010



- Memo from Tom Stuchlik comparing Gross Plant Carrying Charge (GPCC) between PWT and Westar dated 12/2/2010
- Westar Spreadsheet showing PWT Annualized Revenue Forecast dated 11/19/2010
- PWT Westar Model CWIP spreadsheet dated 12/8/10
- PWT Westar Model AFUDC vs CWIP spreadsheet dated 12/8/10
- AEPSC Prairie Wind Services Agreement – Execution Version dated 7/18/2008
- Amendment No 1 to AEPSC Prairie Wind Services Agreement dated 8/26/2009
- Westar Prairie Wind Services Agreement – Execution Version dated 7/18/2008
- Amendment No 1 to Westar Prairie Wind Services Agreement dated 8/27/2009
- Amendment no 2 to Westar Prairie Wind Services Agreement dated 11/30/2010
- PW Draft Wichita Woodward 11x17 Schedule dated 12/7/10 (Project Gantt chart)
- FERC Order Denying, in Part, and Granting, in Part, Petition for Declaratory Order, and Accepting, in Part, and Denying, in Part, Proposed Formula Rates for Westar dated 3/24/2008.

The process also calls for an interview with an officer of PWT. The interview of PWT was conducted via conference call on December 3, 2010. This interview included participants from both SPP and PWT. The following table shows the participants in the call.

Participant	Organization	Title
Don Morrow	Quanta Technology	Partner & VP Transmission
Mike Lennen	Westar	VP Regulatory Affairs
Kelly Harrison	Prairie Wind Transmission/Westar	VP Transmission & Officer of PWT
Marty Bregman	Westar	Counsel
Tom Stuchlik	Westar	Executive Director Transmission Operations & Construction
Tony Somma	Westar	VP Treasurer & Finance
Antonio Smith	ETA	VP
Paul Leighton	Mid-American	Counsel
Tessie Kentner	SPP	Counsel
Pat Bourne	SPP	Director of Transmission Policy
Erin Cullum	SPP	Counsel

Document Review

General Review

The documents reviewed by Quanta Technology show that PWT exists, is a corporation in good standing, has a FERC approved tariff, and has an agreement in place with Westar to develop, operate and maintain the Project.

NPCC Review

Quanta Technology used the information provided by PWT to assess the PWT NPCC. For this aspect of the Review, Quanta Technology's expertise is in engineering, operations, maintenance and management of transmission and distribution organizations. Therefore, our focus was on the methodology used to assess NPCC, the data inputs utilized in the analysis, the factors leading into the FERC authorized return on equity (ROE) and to the estimated expenses related to the operations and maintenance of the Project. Please note that, because of our organization's area of expertise, Quanta Technology did not render an opinion on the appropriateness of tax benefits claimed by PWT, consistency of PWT's financial



accounting practices with GAAP or the value of market rates of short-term and long-term debt used by PWT in their analysis.

The primary spreadsheet reviewed by Quanta Technology for this discussion was titled “PWT Westar Model 12-08-10 AFUDC vs CWIP”.

Regarding ROE, Quanta Technology noted that FERC had authorized a 12.8% ROE for PWT. This 12.8% authorized ROE used a 10.8% base rate, a 150 point basis adder for size, scope, benefits and risks of the Project, and a 50 point basis adder for RTO membership. We also reviewed testimony filed by Kelly Harrison with the Kansas Corporation Commission indicating that Westar would have qualified for the same 12.8% ROE.

Regarding O&M costs, Quanta Technology reviewed the information provided by PWT and noted that the O&M costs were an estimated lump sum cost. Subsequent discussions with PWT indicated that the O&M estimate was made up of the following components:

O&M Cost Components	Estimated Annual Amount (Approximate/2010 Dollars)
Westar A&G	\$230,000
AEP A&G	\$150,000
Mid A&G	\$30,000
Field & ROW O&M	\$70,000
Control Center Support	\$30,000
Total In-Service O&M	\$510,000

PWT noted that the O&M costs before the Project went in-service would not include the field, ROW and control center O&M.

PWT indicated that the only difference in O&M costs between PWT owning, developing and operating the asset and Westar owning, developing and operating the asset would be that the AEP and Mid American A&G would not be included in the annual revenue requirement in case of Westar.

With respect to the field & ROW O&M estimate, Quanta Technology notes that the Project will be a new set of lines that utilize steel structures. Therefore, initial and on-going maintenance will be minimal during the initial in-service years of the Project.

With respect to the control center support costs, Quanta Technology notes that the Project will likely represent significantly less than 1% of all points monitored and controlled at the Westar Control Center.

Quanta Technology notes that losses were not included in the O&M cost estimate. Quanta Technology verified that losses associated with the facility will be recovered through Attachment M of the SPP Tariff.

CWIP in Rate Base Review

Quanta Technology used the information provided by PWT to assess the CWIP in rate base versus AFUDC approaches for funding construction activities. For this aspect of the Review, Quanta Technology focused on the appropriateness and accuracy of the spreadsheet formulas used in calculating CWIP and



AFUDC, the consistency of the data inputs used in the calculations and the interest rates used in calculating AFUDC.

The primary spreadsheet reviewed for this was titled “PWT Westar Model 12-08-10 AFUDC vs CWIP”.

Quanta Technology verified that the underlying Capex for the Project was the same for both the CWIP in Rate Base and the AFUDC analyses.

Quanta Technology verified that the development period for the Project was the same for both CWIP and AFUDC. Quanta Technology also verified that the total life of the Project was the same.

Quanta Technology verified that the value of the Weighted Average Cost of Capital (WACC) used for the AFUDC calculation utilized a short term interest instead of a longer term interest rate. Under normal conditions a short term interest rate is lower than the long term interest rate and, therefore, using a short term interest rate will result in a lower cost estimate of AFUDC.

Quanta Technology verified that the rate of return and the assumed debt to equity ratio was the same for both calculations.

Quanta Technology extensively spot checked formulas used in the spreadsheet and found no errors in our sampling.

Interview with PWT Officer

Following is a summary of the discussions during the interview. A copy of Quanta Technology’s notes during the discussion is included as Attachment 1 to this Review.

Financing Items

During the interview, we discussed the information provided on or before December 3, 2010 regarding the financial aspects of the review. Quanta Technology indicated that we would like additional information on the O&M inputs into the annual revenue requirement calculation. PWT provided the requested information on December 8, 2010.

General Item, Staffing Levels

During the interview, PWT indicated that PWT will have no employees. Instead, PWT will contract all services from Westar.

Item 2, Engineering

During the interview, PWT indicated that will it contract all engineering services from Westar. They expect that Westar will provide the engineering services related to the Project design through the provision of engineering services using a qualified engineering firm. It was noted that the Westar procurement process for acquisition of professional services will be utilized.

Item 2, Permitting

During the interview, PWT indicated that it will contract all permitting services from Westar.



Item 2, ROW Acquisition

During the interview, PWT indicated that it will contract all ROW acquisition services from Westar. Westar indicated it may use some common existing easements, but that those easements would need to be expanded. Westar will use an outside firm in the acquisition of all additional easements. The Westar procurement process for acquisition of professional services will be utilized.

Item 2, Procurement

During the interview, PWT indicated that it will contract all procurement services from Westar. Westar may utilize the existing alliances to acquire portions of the material required. The remaining portions of the material in the Project are expected to go out for competitive bid.

Item 2, Project Management

During the interview, PWT indicated that it will contract all project management services from Westar. Project management for the Project will be provided the by Westar Major Construction Projects group.

Item 2, Construction

During the interview, PWT indicated that it will contract all construction services from Westar. They expect that Westar will sub contract all construction work. The Westar procurement process for acquisition of construction services will be utilized.

Item 2, Commissioning

PWT indicated that commissioning is considered part of engineering and that the engineering services procured from Westar would cover this item.

Item 3, Operations

During the interview, PWT indicated that it will contract with Westar for field operations and control center services. It was noted that the contract calls for the provision of these services consistent with Good Utility Practice (GUP). PWT pointed out that the SPP Tariff definition for GUP references Federal Power Act section 215(a)(4) which focuses on the “reliable operation” of Bulk Electric System assets¹.

The operations interview included a discussion of the process PWT will use to be in compliance with applicable NERC Reliability Standards. PWT indicated that the reference to the Federal Power Act section 215(a)(4) resulted in treatment of the assets as Bulk Electric System assets. Since the Project is a double circuit 345 kV transmission line the Project is, therefore, a Bulk Electric System asset. Such designation will require that PWT register with SPP as a Transmission Owner upon placing the Project in service. Registration as a Transmission Owner will result in a set of NERC and RE reliability standards requirements becoming applicable to PWT as a Transmission Owning NERC entity.

The interview also included a discussion of system losses. PWT indicated that losses are recovered in Attachment M of the SPP OATT and a process is in place to determine the disposition of those losses among the impacted SPP Balancing Authorities. It is anticipated that the Project would be part of the metered boundary of the Westar Balancing Area and that Westar would update its FERC filed loss factor.

¹ Federal Power Act section 215(a)(4) states “The term ‘reliable operation’ means operating the elements of the bulk-power system within equipment and electric system thermal, voltage, and stability limits so that instability, uncontrolled separation, or cascading failures of such system will not occur as a result of a sudden disturbance, including a cybersecurity incident, or unanticipated failure of system elements.”



PWT indicated that reference to GUP would incorporate appropriate safety practices in the provision of services. It was noted that Westar has a comprehensive safety program and has issued a safety manual.

Item 3, Maintenance

During the interview, PWT indicated that it will contract with Westar for maintenance services. It was noted that the contract calls for the provision of these services consistent with GUP. Please see Item 3, Operations for a discussion of GUP, NERC reliability standards compliance requirements and safety practices.

Documentation Spot Check

Based upon the discussions with PTW, Quanta Technology requested that PWT provide a copy of the project schedule. A copy of comprehensive Gantt chart created from Primavera (project management software) showing WBS down to Level 4 was provided by PTW on Tuesday, December 7, 2010. This Gantt chart covered the full development phase of the Project through energization of the Project.

Findings

Due Diligence Findings with Respect to NPCC

Note: This Finding is based upon a comparison of the ROE and O&M components of the PWT NPCC calculation versus the Westar NPCC calculation. Quanta Technology did not have information on those items for MKEC.

It is the opinion of Quanta Technology that the ROE of 12.8% granted to PWT would also have been granted to Westar.

- In forming this opinion, Quanta Technology notes that the basis FERC applied for approving the PWT incentive adders for scope of the Project and RTO participation would also apply to Westar.
- In forming this opinion, Quanta Technology notes on March 24, 2008 FERC had granted a 12.3% ROE for the Wichita-to-Reno-to-Summit 345 kV line which used a 10.8% base return on equity as the starting point for the overall ROE on the Wichita-to-Reno-to-Summit project.

It is the opinion of Quanta Technology that the capital cost of the Project would be essentially the same for Westar as that estimated by PWT.

- In forming this opinion, Quanta Technology notes that PWT will be contracting all necessary development services from Westar. Therefore, while there may be differences in difficult-to-quantify administrative costs, there should be no material difference in the final capital cost of the Project.

It is the opinion of Quanta Technology that the difference in O&M between PWT operating and maintaining the facility and Westar operating and maintaining the facility will not result in a material difference in NPCC.

- In forming this opinion, Quanta Technology notes that the 2015 annual revenue requirement estimated by PWT (assuming CWIP in Rate Base) was \$36,895,000. According to information provided by PWT, this would be reduced by \$180,000 to \$36,725,000 – a change of .54%.
- In forming this opinion, Quanta Technology notes that losses have not been included in the O&M cost estimate. However, Quanta Technology does not expect a material difference would

exist between PWT and Westar owning and operating the Project with respect to the cost of losses since that the actual amount of energy lost would be the same.

Due Diligence Finding with Respect to CWIP in Rate Base

It is the opinion of Quanta Technology that the spreadsheet used by PWT to compare revenue requirements for CWIP in Rate Base incorporated an appropriate method for the analysis.

- In forming this opinion, Quanta Technology noted that the spreadsheet used the same Capex, construction period, Project life, authorized ROE and capital structure for the comparison.
- In forming this opinion, Quanta Technology noted PWT assumed a short term interest rate in the AFUDC calculation which would result in a lower total AFUDC amount than assuming a long term interest rate.
- In forming this opinion, Quanta Technology found no errors in the calculations when spot checking formulas utilized in the analysis.

During the performance of the Review, SPP asked that Quanta Technology research the impact of CWIP in Rate Base on utility financing. Quanta Technology reviewed a report conducted by Charles River and Associated (CRA) for Ontario Power Generation entitled “Benefits of Incorporated CWIP into Rate Base in Ontario” dated March 19, 2010. The impact on financing was addressed extensively in that report. Following is an extract from that report which indicates there is evidence that CWIP in Rate Base would be positively viewed by rating agencies:

“The provision of CWIP financing costs in current rates is an important consideration for the ratings agencies, particularly for those utilities with large assets under construction. Fitch Ratings notes in a discussion of nuclear plant construction financing: “Like any other large capital program, Fitch assesses the capital requirements of a nuclear construction program relative to the available financial resources to determine the effect on credit quality. Fitch also considers whether regulatory support, non-resource financing, federal load guarantees or fixed-price construction contracts are available to reduce construction risk. *For regulated U.S. utilities, the availability of a cash return on construction work in progress (CWIP) would reduce the construction risk.*” {Fitch Ratings, U.S. Nuclear Power: Credit Implications, November 2, 2006. Emphasis added.}

Generally, the rating agencies are concerned with the amount of cash generated from continuing operations and the associated funds available to pay the interest on the debt. Key financial ratios include funds from operations (“FFO”) interest coverage ratio and funds from operations as a percent of total debt. AFUDC is a non-cash item which is not reflected in funds from operations. These key financial ratios will decrease when utility AFUDC becomes significant, as would take place during the construction of large utility assets in the absence of the inclusion of CWIP in rates. All else equal, this decrease will lead to a decrease in the utility’s credit rating. The resulting increase in interest charges will lead to higher costs for customers.”²

² CRA, “Benefits of Integrating CWIP into Rate Base in Ontario”, March 19, 2010, Section 3.2, page 10.



Due Diligence Finding with Respect to Project Development, Operations and Maintenance

It is the opinion of Quanta Technology that the approach chosen by PWT to develop, operate and maintain the Project is equivalent to the Original Parties developing, operating and maintaining the Project.

- In forming this opinion, Quanta Technology notes that PWT has chosen to outsource all development, operations and maintenance to a qualified firm which is one of the Original Parties – Westar.
- In forming this opinion, Quanta Technology has reviewed the contract between PWT and Westar to engage Westar’s services. The contract terms are sufficiently broad to cover all aspects of the development, operation and maintenance of the Project.
- In rendering this opinion, Quanta Technology notes that Westar is an established utility in the SPP region, is a member of SPP in good standing, and has a history of successful transmission project development, operation and maintenance. In addition, Quanta Technology notes that Westar was one of the Original Parties.
- In forming this opinion Quanta Technology expects that PWT will be required to register with SPP as a Transmission Owning entity and will, therefore, be compelled to abide by applicable NERC and SPP Reliability Standards.

Because of the various complications and external factors that enter into the ultimate, successful development of transmission projects (e.g., environmental issues, legal challenges to regulatory approval, etc.), this opinion does not constitute a warrantee or guarantee on the part of Quanta Technology that PWT will ultimately develop, successfully operate and/or adequately maintain the Project. Rather, this opinion is rendered based upon demonstration at the time of this Review by PWT that it has engaged a qualified partner for the Project for provision of services during all timeframes of the life of the Project.

SME Qualifications

The resume for Donald J. Morrow is provided as Attachment 2 to this Review.

If there are any questions or comments on this Review, please contact me at 919 334 3032.

Best Regards,

A handwritten signature in black ink that reads 'Donald J. Morrow'.

Donald J. Morrow, P. E.
Partner & VP Transmission
Quanta Technology, LLC.

Attachments