Exhibit No.:	
Issue:	Rate Design - FAC
Witness:	Michael L. Brosch
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Midwest Energy Consumer's Group
Case No.:	ER-2014-0370
Date Testimony Prepared:	April 16, 2015

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service	)))))	**Case No. ER-2014-0370** Tariff No. YE-2015-0195

Direct Testimony and Schedules of

Michael L. Brosch

Rate Design

On behalf of

Midwest Energy Consumers' Group

April 16, 2015

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STATE OF MISSOURI	)	
	)	**SS**
COUNTY OF JACKSON	)	

Affidavit of Michael L. Brosch

Michael L. Brosch, being first duly sworn, on his oath states:

1. My name is Michael L. Brosch. I am President of Utilitech, Inc., having its principal place of business at PO Box 481934, Kansas City, Missouri 64148. We have been retained by the Midwest Energy Consumer's Group in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my direct testimony and schedules regarding rate design issues, which were prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. ER-2014-0370.

3. I hereby swear and affirm that the testimony and schedules are true and correct and that they show the matters and things that they purport to show.

Michael L. Brosch

Subscribed and sworn to before me this 13th day of April 2015.

Notary Public

FRANCISCO PACHECO
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: April 11, 2017
13372181

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Table of Contents to the
<u>Direct Testimony of Michael L. Brosch</u>

Schedule MLB-18: KCPL Highly Confidential response to Staff 79, with HC summaries.

Schedule MLB-19: KCPL response to OPC 1211, with Attachment.

Schedule MLB-20: KCPL responses to MECG 13-2 and 13-3, with HC Attachment.

Schedule MLB-21: KCPL response to MECG 13-7, with HC Attachment.

Schedule MLB-22: KCPL response to MECG 13-9, with Attachment.

Schedule MLB-23: Sample customer bills.

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Direct Testimony of Michael L. Brosch

Q **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A My name is Michael L. Brosch. My business address is PO Box 481934, Kansas City, Missouri 64148.

Q **ARE YOU THE SAME MICHAEL L. BROSCH WHO SUBMITTED DIRECT TESTIMONY ON REVENUE REQUIREMENT ISSUES ON APRIL 2 IN THIS PROCEEDING?**

A Yes. My experience and qualifications were explained in that previously-filed testimony and the attached Appendix A.

Q **ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

A I am appearing on behalf of the Midwest Energy Consumer's Group ("MECG"). Utilitech, Inc. was engaged by MECG to review and address portions of the rate case revenue requirement and other matters raised by Kansas City Power & Light ("KCPL" or "Company"). Utilitech's work, as sponsored in this testimony, addresses the Company's proposed Fuel Adjustment Clause ("FAC") tariff.

Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A My testimony explains why KCPL's proposed FAC tariff should be rejected by the Commission. First, I understand that the Company is prohibited from seeking to implement an FAC pursuant to the KCPL Regulatory Plan Stipulation and Agreement that was approved in Case No. EO-2005-0329. However, if the Commission concludes that the prohibition under the KCPL Regulatory Plan is not applicable, the Company's proposed FAC should still be rejected because KCPL does not satisfy the regulatory criteria reasonably applied to evaluate the need for an FAC. My testimony provides relevant information about the size, volatility and degree of management control over the Company's specific fuel and other net energy costs, as well as other important considerations associated with the proposed FAC. From this, I conclude that only the Company's off-system sales ("OSS") profit margins exhibit any significant volatility and lack of management control, such that if an FAC is approved for KCPL, it should be limited to only variations in OSS profit margins. Finally, I discuss the scope of KCPL's proposed FAC tariff and explain why transmission revenues and expense should not be included in any FAC considered for KCPL.

KCPL'S FUEL ADJUSTMENT PROPOSAL

Q PLEASE DESCRIBE KCPL'S PROPOSAL WITH REGARD TO IMPLEMENTATION OF A FUEL ADJUSTMENT CLAUSE.

A. KCPL witness Mr. Rush states, "In 2006, the legislature enacted SB 179, which allows utilities to seek an FAC, a mechanism that permits utilities to adjust the price of electricity to reflect fluctuations in cost. The Company is requesting an FAC in this case." He claims that KCPL's, "[f]uel, purchased power, transmission costs, off-system sales and property taxes are costs that are largely beyond the Company's control and are areas where we are facing significant increases in cost over the next several years. Without an adequate mechanism to timely recover these cost increases, KCP&L will not have a reasonable opportunity to earn its authorized return on equity now or in the foreseeable future."[1] Mr. Rush devotes several additional pages of his testimony to a discussion of why an FAC is needed by the Company and why the scope of the FAC should be expanded to include the recovery of changes in transmission costs that are expected to grow after the test year.[2] The Company's proposed FAC tariff is captioned "Fuel Adjustment Clause – Schedule FAC" and is set forth as Schedule TMR-4 attached to Mr. Rush's testimony.

Q HOW WOULD THE COMPANY'S PROPOSED FAC BE STRUCTURED AND ADMINISTERED?

A According to Mr. Rush, "The Company proposes to recover its normalized test-year level of fuel, purchased power and transmission costs (offset by off-system sales revenues and transmission revenues) through its base rates. To that end, $0.01547 per kWh in net fuel and purchased power costs at the generation level has been included in base rates, and includes the transmission of electricity by others costs and fees as discussed above. The proposed FAC is applicable to all energy supplied to all Missouri retail customers served by the Company."

The proposed FAC would then serve to recover any deviations in actual net costs, compared to the amounts included in base rates, for the "like accounts". Mr. Rush indicates that these variances, "...will be accrued over two separate six-month Accumulation Periods — October through March and April through September. Any FAC adjustment resulting from actual net fuel cost deviations incurred during an

1 Direct Testimony of Tim Rush, pages 6-7.
2 Id. Pages 9-22.

Accumulation Period will be flowed through, with interest, over the 12-month Recovery Period commencing three months after the close of the Accumulation Period."[3]

Q DOES KCPL PROPOSE TO INCLUDE MORE THAN FUEL AND PURCHASED POWER EXPENSES WITHIN ITS PROPOSED FAC?

A Yes. First, it should be noted that electric utility fuel and purchase power expenses are contained entirely within Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USOA") Account 501 Steam-Fuel, Account 518 Nuclear Fuel and Account 547 Other-Fuel while purchased power expenses are recorded in Account 555 Purchased Power. Where the Commission has previously included off-system sales revenues that offset fuel and purchased power, these amounts are recorded within FERC Account 447 Sales for Resale.[4]

In contrast, the Company's proposed FAC would include all of the accounts just specified, as well as additional expenses within Account 509 Allowances, Account 565 Transmission of Electricity by Others, Account 561.4 Scheduling, System Control and Dispatching Services, Account 561.8 Reliability Planning and Standards Development Services, Account 575.7 Market Administration, Monitoring and Compliance Services and certain FERC fees recorded in Account 928 Regulatory Commission Expenses. After including recorded expenses within these accounts, the Company makes adjustments to exclude fuel handling and long-term capacity contract costs and offset total recoverable costs with revenues from off-system sales and transmission of electricity for others. A more complete statement of

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3 Id. Page 23.

4 18 CFR Part 101, available at: http://www.ecfr.gov/cgi-bin/text-idx?rgn=div5&node=18:1.0.1.3.34

the scope of the Company's proposed FAC can be found in KCPL's response to MECG 13-5, which I have included as Schedule MLB-12.

Q IS THE USE OF A FUEL ADJUSTMENT CLAUSE IN MISSOURI GOVERNED BY ANY RULES THAT HAVE BEEN ADOPTED BY THE COMMISSION?

A Yes. The Commission has adopted 4 CSR 240-20-090 to set forth the definition, structure, operation and procedures relevant to the filing and processing of applications to reflect prudently incurred fuel and purchased power costs through an interim energy charge or a fuel adjustment clause. Definitions within this rule at (1)(C) state:

> Fuel adjustment clause (FAC) means a mechanism established in a general rate proceeding that allows periodic rate adjustments, outside a general rate proceeding, to reflect increases and decreases in an electric utility's prudently incurred fuel and purchased power costs. The FAC may or may not include off-system sales revenues and associated costs. The commission shall determine whether or not to reflect off-system sales revenues and associated costs in a FAC in the general rate proceeding that establishes, continues or modifies the FAC.

The Commission's rule also defines certain considerations in determining the scope of a Rate Adjustment Mechanism ("RAM"), including an FAC, stating at paragraph (2)(C):

> In determining which cost components to include in a RAM, the commission will consider, but is not limited to only considering, the ***magnitude*** of the costs, the ***ability of the utility to manage the costs***, the ***volatility*** of the cost component and the incentive provided to the utility as a result of the inclusion or exclusion of the cost component. The commission may, in its discretion, determine what portion of prudently incurred fuel and purchased power costs may be recovered in a RAM and what portion shall be recovered in base rates. (emphasis added).

Thus, the Commission's rule does not specify that all elements of a utility's fuel and purchased power costs must be included in an FAC, but instead the Commission will consider the magnitude, volatility and ability of management to control costs to decide which types of costs are reasonably FAC-includable.

Q HOW HAS THE COMMISSION PREVIOUSLY CONSIDERED REQUESTS FOR A FUEL ADJUSTMENT CLAUSE?

A. In Case No. ER-2007-0002, the Commission first considered a request for a fuel adjustment clause. In that Ameren case, the Commission made the following introductory statements about fuel adjustment clauses:

> A fuel adjustment clause should be used cautiously because it runs contrary to some of the basic principles of traditional utility regulation. One such principle is the matching of expenses and revenues.
>
> Inclusion of a fuel adjustment clause also affects the operation of regulatory lag. . . . Since a rate case takes eleven months to complete, a utility will always be about eleven months behind. Of course, utilities do not particularly like regulatory lag when their costs are increasing, but regulatory lag can also favor the utility when their costs are decreasing. The good effect of regulatory lag is that it provides the utility with a strong incentive to maximize its income and minimize its costs. If, however, a fuel adjustment clause is in place, the utility has less financial incentive to minimize its fuel costs because those costs will be automatically recovered from ratepayers.
>
> Based on the previous paragraphs, it might seem that a fuel adjustment clause should never be inflicted upon ratepayers. But there might be circumstances when the use of a fuel adjustment clause may be necessary to preserve the financial health of the utility, and no one, including ratepayers, benefits when a utility becomes financially unhealthy. In an era where fuel costs are highly volatile, a fuel adjustment clause may be necessary if the company is to earn its authorized rate of return. The problem then is how to determine when a fuel adjustment clause is necessary.[5]

Following these introductory comments, the Commission adopted criteria which appear to mirror those contained in the Commission's rule. Specifically, the Commission found that a request for a fuel adjustment clause should be considered against three criteria:

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[5] Report and Order, May 22, 2007, Union Electric Company d/b/a Ameren Missouri, Case No. ER-2007-0002, pages 17-19.

1. Substantial enough to have a material impact upon revenue requirements and the financial performance of the business between rate cases;

2. Beyond the control of management, where utility management has little influence over experienced revenue or cost levels; and

3. Volatile in amount, causing significant swings in income and cash flows if not tracked.[6]

Q. DID THE COMMISSION PROVIDE ANY ADDITIONAL CLARITY IN ITS APPLICATION OF THESE CRITERIA?

A. Yes. Relevant to the volatility criteria, the Commission stated that volatility does not simply include costs that are expected to increase. Rather, "volatile prices tend to go up and down in an unpredictable manner."

> Thus AmerenUE's fuel costs, while certainly rising, cannot be said to be volatile.
>
> Markets in which prices are volatile tend to go up and down in an unpredictable manner. When a utility's fuel and purchased power costs are swinging in that way, the time consuming ratemaking process cannot possibly keep up with the swings. As a result, in those circumstances, a fuel adjustment clause may be needed to protect both the utility and its ratepayers from inappropriately low or high rates. Because AmerenUE's costs are simply rising, that sort of protection is not needed.[7]

Q IS THE SCOPE OF THE KCPL'S PROPOSED FAC LIMITED TO ONLY FUEL AND PURCHASED POWER COSTS?

A. No. KCPL is proposing an FAC that is vast in scope and complexity, including much more that only the Company's incurred fuel, purchased power and net off-system sales amounts. KCPL's proposed FAC tariff requires two densely worded, single-spaced pages just to list the formula inputs used in defining includable expenses, including dozens of discretely named costs within the "FC" term for fuel costs, many more elements of defined purchased power ("PP") costs, many more elements of

[6] Id. p 21-22.
[7] Id. p.23.

listed transmission costs ("TC"), many more discrete listed elements of Off-system Sales Revenues ("OSSR") along with includable Net Emission Costs ("E") and less revenues from Renewable Energy Credits ("R").[8]

Q DOES ANY KCPL WITNESS DISCUSS WHETHER OR NOT EACH OF THE SPECIFIC COSTS THE COMPANY SEEKS TO INCLUDE IN ITS PROPOSED FUEL ADJUSTMENT CLAUSE ARE, IN FACT, LARGE, VOLATILE AND BEYOND THE CONTROL OF MANAGEMENT?

A No. The Company's witnesses do not offer any detailed analysis of the magnitude, volatility or management control over all of the specific cost elements KCPL seeks to include in its FAC. Instead, Mr. Rush provides three tables in his testimony to show that overall Off System Sales Revenues have fluctuated historically and that Fuel, Purchased Power and Net Fuel Costs and the Company's Transmission expenses have trended upward since 2005. KCPL witness Mr. Blunk describes in more detail the Company's management of coal, nuclear and gas fuel costs. However, there is no detailed analysis offered for the multitude of discrete costs listed in the proposed FAC tariff or any systematic application of the criteria within the FAC Rule to the broad categories of coal, nuclear fuel, gas fuel and other expenses that have been incurred historically or that are projected to be incurred prospectively by KCPL.

Q HOW DOES THE COMPANY EXPLAIN THE BASIS FOR ITS FAC REQUEST?

A Mr. Rush appears focused in his testimony upon the FAC as a means to capture expected future cost increases, stating, "The current method of filing a rate case to include cost increases does not allow for the recovery of the costs going forward, but only looks at a historic level. The FAC will, prospectively, address those rising fuel,

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8 KCPL Schedule TMR-4, Original Sheet 50.1 and 50.2.

purchased power (offset by off-system sales) transmission costs and revenues." He concludes with the statement, "Therefore, one of the primary drivers for the Company's FAC request is to implement a mechanism that will allow for recovery of the increases (or return of decreases) in fuel, purchased power and transmission costs, offset by off-system sales revenues and transmission revenues that will occur beyond the effective date of any rate increase granted in this rate case. An FAC will also allow the Company the opportunity to earn a fair return in order to generally preserve its financial health."[9]

Another KCPL witness, Mr. Blunk, addresses the Company's FAC proposal in his testimony claiming that "the market impact on fuel costs" is "volatile", is "substantial" and "is beyond the control of management."[10] However, the testimony and exhibits sponsored by Mr. Blunk are focused upon broad historical measures of market fuel prices, rather than upon the specific prices paid by KCPL that contribute to the Company's incurred net fuel costs. I will respond to Mr. Blunk's analysis in later sections of this testimony.

Q. ARE PREDICTIONS OF HIGHER FUTURE EXPENSE LEVELS A REASONABLE BASIS FOR EMPLOYING A FUEL ADJUSTMENT CLAUSE BETWEEN RATE CASE TEST YEARS?

A No. As noted in my previously filed revenue requirement testimony, the Missouri regulatory paradigm envisions that recurring costs, even those that are expected to increase, will be addressed in a rate case. An exception to this policy exists for prudently incurred fuel and purchased power costs, as explicitly authorized within the

9 Direct Testimony of Tim Rush, pages 10-11.
10 Direct Testimony of Wm. Edward Blunk, pages

context of Section 386.266 and subject to satisfaction of the Commission's FAC rule criteria mentioned above.

Q. ARE THERE OTHER REASONS WHY COSTS THAT ARE EXPECTED TO INCREASE IN THE FUTURE SHOULD <u>NOT</u> BE SUBJECTED TO REGULATORY TRACKING THROUGH AN FAC OR OTHER COST TRACKING MECHANISM?

A Yes. I provided extensive testimony on this regulatory policy issue in my previously submitted direct testimony that will not be repeated here. In that testimony, I observed that the many diverse elements of electric utility revenue requirements are constantly changing between test years. Some utility costs increase while others decline. The isolation of only cost increases for regulatory tracking through an FAC or other mechanism creates a problem of "piecemeal ratemaking" that destroys the essential balance and "matching" of costs and revenues that is performed by measuring all of the elements of the test year revenue requirement at the same point in time and in a balanced manner in formal rate cases. Another problem with tracking of selected costs through an FAC or other mechanism is the destruction of any incentive for management efficiency and aggressive cost reduction that otherwise results from regulatory lag.

Q HAS THE COMPANY DEMONSTRATED ANY COMPELLING NEED FOR ITS PROPOSED FUEL ADJUSTMENT CLAUSE, BY ANALYZING HISTORICAL OR PROJECTED ENERGY COSTS THAT WOULD BE TRACKED THROUGH ITS PROPOSED FAC, USING ANY OF THE CRITERIA IDENTIFIED IN THE COMMISSION'S RULE OR ANY OTHER REASONABLY APPLIED REGULATORY STANDARDS?

A No. The Company's witnesses have not shown that KCPL's specific costs proposed for tracking through an FAC are of sufficient magnitude and volatility to merit FAC treatment; or that such costs are beyond the control of management. As will be explained in my testimony, detailed analysis of the Company's actual and projected net energy costs supports a conclusion that KCPL does <u>not</u> need an FAC. The Company's primary fuel sources are coal and nuclear fuel, for which the Company's actual delivered costs have been and are expected to remain stable and non-volatile. Only these two fuel sources are large enough elements of the Company's fuel mix to be seriously considered in evaluation of an FAC. Moreover, because of the stability of KCPL's coal and nuclear fuel prices and the Company's ability to control changes in such costs, no FAC is needed. In contrast, natural gas and oil represent less than **___** percent of the Company's fuel mix and need not be considered at all, because these fuels are not of sufficient magnitude to merit FAC tracking. Purchased power is similarly insignificant in relation to the Company's overall energy supply portfolio. Unlike other Missouri electric utilities, KCPL is well situated to reasonably recover its net energy costs through base rates, without adding the complexity and administrative burden associated with a Fuel Adjustment Clause to the Company's tariff.

Q HOW HAVE YOU ORGANIZED YOUR TESTIMONY RESPONDING TO THE COMPANY'S PROPOSED FUEL ADJUSTMENT CLAUSE?

A My testimony will first explain that the Company's FAC proposal is premature and not consistent with KCPL's agreement to not seek an FAC prior to June 1, 2015. Then I will describe the policy criteria that should be applied by the Commission whenever an FAC is under consideration, including those that are specifically identified within the Commission's FAC Rule. Next, after discussing the evaluative criteria for FAC consideration, I will apply these criteria, in separate sections of this testimony, to each major element of expense that the Company proposes to include within its FAC. Finally, I will summarize my findings, explaining why the Company's FAC proposal should be rejected or, in the alternative, narrowed to include reconciliation and future rate adjustments for only a shared portion of the variances in Off System Sales profit margins above or below amounts included in establishing the Company's revenue requirement.

REGULATORY PLAN RESTRICTIONS

Q HAS KCPL AGREED, IN ANY PRIOR REGULATORY PROCEEDING, TO NOT SEEK A FUEL ADJUSTMENT CLAUSE IN MISSOURI UNTIL A SPECIFIC DATE LATER THIS YEAR?

A Yes. KCPL entered into a Stipulation and Agreement in Case No. EO-2005-0329 that defined a series of rate cases and ratemaking procedures for the benefit of KCPL, along with a series of capital investments, customer programs and other commitments by the utility that was generally referred to as the "Regulatory Plan" ultimately approved by the Commission in that Docket.[11] One important commitment made by the Company can be found at page 7 of the Regulatory Plan in a section that is captioned "Single-Issue Rate Mechanisms" that states, "KCPL agrees that, prior to June 1, 2015, it will not seek to utilize any mechanism authorized in current legislation known as 'SB 179' or other change in state law that would allow riders or surcharges or changes in rates outside of a general rate case based upon a consideration of less than all relevant factors." This section of the Regulatory Plan specified parameters to permit the limited use of an "Interim Energy Charge (IEC) in a

[11] See Stipulation and Agreement filed March 28, 2005. Report and Order, issued July 28, 2005.

general rate case filed before June 1, 2015." However, such a rate case filing with an IEC was to not include any FAC of the type envisioned by SB 179.

Q. HAS KCPL PROPOSED AN INTERIM ENERGY CHARGE OF THE TYPE PROVIDED FOR IN THE REGULATORY PLAN?

A. No. The Company has proposed a broadly scoped FAC, rather than an IEC that is provided for in the Regulatory Plan. I understand that KCPL could have proposed use of an IEC at any time during the term of the Regulatory Plan, but has not been granted such a mechanism to address any concerns regarding recovery of fuel cost.

Q DOES THE COMPANY'S FAC PROPOSAL IN THIS RATE CASE SEEK TO UTILIZE AN FAC MECHANISM PRIOR TO JUNE 1, 2015?

A The Company's rate case filing was submitted on October 30, 2014 and is clearly seeking an FAC. I expect that the parties' briefs on this matter will address any legal analysis that is required, but in my view the provision for an Interim Energy Charge in the Stipulation and Agreement provides a viable alternative to use of an FAC in each of the general rate cases that were envisioned to be filed before June 1, 2015 within the Regulatory Plan.

Q WHAT IS THE DIFFERENCE BETWEEN AN IEC AND A FAC?

A. The primary difference appears to be that an IEC, as utilized in previous GMO and Empire rate cases, places a cap on the amount of fuel and purchased power costs. This cap was designed to account for the volatility that was inherent in natural gas at that point in time. The utility would then refund any difference between the cap amount and the actual amount of fuel costs that the utility incurred. Under no circumstances, however, would the utility be allowed to recover any fuel costs that exceeded this cap. In addition, the IEC differs from a fuel adjustment clause in that the variations are accounted for and refunded in the next rate case. In contrast, a fuel adjustment clause allows for rate adjustments between cases. Given these differences, it is clear that KCPL's request is not an IEC.

FUEL ADJUSTMENT CLAUSE EVALUATIVE CRITERIA

Q WHAT POLICY CRITERIA SHOULD BE EMPLOYED TO EVALUATE THE NEED FOR TRACKING MECHANISM TREATMENT OF SPECIFIC ELECTRIC UTILITY COSTS, SUCH AS THE FUEL AND PURCHASE POWER COSTS THAT ARE ELIGIBLE FOR FAC TREATMENT IN MISSOURI?

A. Cost tracking mechanisms should be approved only in instances where compelling circumstances justify departure from traditional test period review of all test year costs and revenues within rate case proceedings in which the overall revenue requirement can be audited and considered in a balanced and synchronized manner. Consistent with the Commission's rule and prior orders, I recommend that costs or revenue changes to be deferred or tracked through a rate adjustment rider should have all of the following attributes to merit such exceptional and preferential rate recovery treatment:

1. Substantial enough to have a material impact upon revenue requirements and the financial performance of the business between rate cases.
2. Beyond the control of management, where utility management has little influence over experienced revenue or cost levels.
3. Volatile in amount, causing significant swings upward and downward in income and cash flows if not tracked.

4. Straightforward to administer and readily audited and verified through periodic regulatory reviews.

5. Balanced, such that any known factors that mitigate cost impacts are accounted for in a manner that preserves test year matching principles.

In the testimony that follows, I will discuss the facts associated with each major element of KCPL's fuel and other net energy costs, to support my recommendation regarding whether the proposals should be approved by the Commission.

Q ARE ANY OF THESE POLICY CRITERIA INCLUDED WITHIN THE FAC RULE ADOPTED BY THE COMMISSION?

A Yes. The first three criteria I have listed are referenced at 4 CSR 240-20.080 (2)(C). I would note that the Rule also specifies that the Commission is "not limited to considering" only these three criteria in determining, "...what portion of prudently incurred fuel and purchased power may be recovered" in an FAC rather than through base rates. The additional criteria I have proposed should also be considered by the Commission, particularly because KCPL's proposed FAC seeks to include transmission and other costs beyond fuel and purchased power expenses, which would tremendously complicate the regulatory oversight and mandated prudence audits of all costs included in the FAC.

Q DOES THE COMMISSION'S FAC RULE REFERENCE AN ABILITY TO INCLUDE ONLY A "PORTION" OF THE PRUDENTLY INCURRED FUEL AND PURCHASED POWER COSTS INCURRED BY A MISSOURI ELECTRIC UTILITY?

A Yes. In application to other electric utilities within the State, I understand that the Commission has generally scoped the FAC to include all fuel sources and purchased power, less off system sales, allowing a 95 percent recovery of variations in actual costs from the base rate included levels, in an effort to replace some of the efficiency incentive losses that result from direct tracking of actual expenses into revised prices. Later in this testimony, after explaining the reasons why KCPL does not need an FAC, I will present an alternative for consideration by the Commission if it concludes that variations in KCPL's off-systems sales margins from base rate levels merit such a tracking mechanism.

COAL COSTS

Q IS COAL THE PRIMARY SOURCE OF FUEL USED BY THE KCPL GENERATION FLEET?

A Yes. Coal is burned as the primary fuel at KCPL's Iatan, Hawthorne, LaCygne and Montrose generating stations. All of the Company's base load firm generation is coal fired, except for the Wolf Creek nuclear generating station. Confidential projected fuel mix information provided in response to MECG data request 2-1 indicates that the Company's expects that coal will fuel the generation of **________** percent of KCPL's total MWH of generation in each year through 2019. Another **________** percent of generation is expected to be nuclear, leaving **______________________ _________** for oil and natural gas combined. I have included a copy of this highly confidential response within Schedule MLB-13.

Q FOR KCPL, ARE THE COSTS OF COAL AND COAL FREIGHT OF SUFFICIENT MAGNITUDE TO MERIT CONSIDERATION FOR INCLUSION IN A FUEL ADJUSTMENT CLAUSE?

A Yes. Coal is a large element of the Company's overall cost of service. In the Company's test year revenue requirement, the adjusted cost for coal fuel included in the proposed FAC Base Calculation is approximately $318.8 million.[12] In relation to Total Operating Expenses, as reported by KCPL in its 2014 SEC Form 10K of $1,380.7 million, a $318.8 million component of fuel expense represents about 23 percent of overall expenses. In relation to total Electric Revenues, as reported by KCPL in its 2014 SEC Form 10K of $1,730.8 million, coal fuel expense would represent about 18 percent of overall electric revenues.[13] These comparisons illustrate the importance of coal fuel costs to KCPL, relative to the size of its overall costs and revenues.

Q HOW HAS KCPL DESCRIBED ITS EXPOSURE TO COAL PRICE FLUCTUATIONS IN ITS FINANCIAL REPORTING TO INVESTORS?

A The Company's 2014 SEC Form 10K states, "In 2015, approximately 78% of KCP&L's net MWhs generated are expected to be coal-fired. KCP&L currently has approximately 95% of its coal requirements for 2015 under contract. A hypothetical 10% increase in the market price of coal could result in an approximate $2.1 million increase in fuel expense for 2015."[14]

Q USING THE HYPOTHETICAL 10 PERCENT INCREASE IN THE MARKET PRICE OF COAL THAT IS MENTIONED IN THE COMPANY'S SEC 10K REPORT, HOW SIGNIFICANT IS A $2.1 MILLION INCREASE IN FUEL EXPENSE TO THE COMPANY'S OVERALL FINANCIAL PERFORMANCE?

A The Company's exposure to coal price fluctuations, as mentioned in its SEC reporting, is not very significant. In relation to Total Operating Expenses, as reported

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12 FAC Base Calculation. See Schedule MLB-12 at 501 "Fuel Expense-Coal & Freight"

13 Great Plains Energy Incorporated, Kansas City Power & Light Company SEC Form 10K for year ended December 31, 2014, page 54. Some of the Company's incurred property tax costs are recorded to accounts other than Operating Expenses.

14 Great Plains Energy, SEC Form 10K for year ended December 31, 2014, page 46.

by KCPL in its 2014 SEC Form 10K of $1,380.7 million, a $2.1 million increase in fuel expense represents only about 0.15 percent of overall expenses. In relation to total Electric Revenues, as reported by KCPL in its 2014 SEC Form 10K of $1,730.8 million, such an increase in coal prices would represent only about 0.1 percent of overall electric revenues.[15] These relationships illustrate the Company's limited near term exposure to potential fluctuations in coal costs relative to the size of its overall costs and revenues.

Q ACCORDING TO MR. RUSH, "KCP&L's LAST RATE INCREASE WENT INTO EFFECT ON JANUARY 26, 2013 AND WHILE THAT RATE INCREASE ADDRESSED THE HISTORICAL INCREASES IN FUEL, PURCHASE POWER AND TRANSMISSION COSTS, KCP&L'S MISSOURI OPERATIONS EXPERIENCED FUEL AND PURCHASED POWER COSTS INCREASES OF NEARLY $4 MILLION..."[16] IS AN INCREASE IN FUEL AND PURCHASED POWER COSTS OF $4 MILLION SINCE THE LAST RATE CASE INDICATIVE OF EXPENSES OF SUFFICIENT MAGNITUDE AND VOLATILITY THAT THEY REQUIRE FAC TREATMENT?

A No. This recent observed change in fuel and purchased power costs occurring since the last rate case further illustrates the Company's modest exposure to fuel cost volatility. The amount of Missouri cost increase cited by Mr. Rush, even if doubled to include the Kansas share of these costs, is less than one percent of KCPL's overall O&M and less than one percent of the Company's total electric revenues.

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15 Great Plains Energy Incorporated, Kansas City Power & Light Company SEC Form 10K for year ended December 31, 2014, page 54. Some of the Company's incurred property tax costs are recorded to accounts other than Operating Expenses.

16 Direct Testimony of Tim Rush, page 12. Mr. Rush also cites larger increases in transmission expenses and declines in wholesale revenues on page 12. These changes will be discussed later in this testimony.

Q BEFORE DISCUSSING COAL COSTS IN GREATER DETAIL, HOW DOES KCPL'S <u>OVERALL</u> FINANCIAL EXPOSURE TO COAL, NUCLEAR AND OTHER NET ENERGY COSTS COMPARE TO OTHER MISSOURI ELECTRIC UTILITIES?

A KCPL has a significantly lower overall exposure to fluctuations in net energy costs than Ameren Missouri, Empire District Electric Company and KCP&L Greater Missouri Operations ("GMO"). KCPL's test year revenue requirement of $898 million in its Direct Testimony, contains only $142 million of net energy costs, including coal, nuclear, purchased power and off-system sales, which represents only about 16 percent of the Company's total Missouri jurisdictional revenue requirement.[17] In contrast, the same comparison from Ameren Missouri's pending Missouri rate case reveals that Ameren Missouri's net base energy costs represent a larger 23 percent of that utility's asserted revenue requirement.[18] For Empire, test year net energy costs are an even higher 28 percent of the overall revenue requirement.[19] Finally, in the most recent GMO Missouri rate case, Case No. ER-2012-0175, test year net energy costs represented about 24 percent of the asserted revenue requirements for both the Missouri Public Service and Saint Joseph Light & Power rate areas.[20]

Q HAVE KCPL'S COAL COSTS REMAINED STABLE IN RECENT HISTORY?

A Yes. The following graph illustrates the Company's monthly actual delivered per-ton cost of coal, including freight costs, at each of its coal-fired generating stations, from January 2013 through January 2015:

17 Derived from KCPL Direct Testimony revenue requirement model. Revenue at present rates of $777 million plus proposed revenue increase of $121 million = $898 million. Net Base Energy Costs of $248 million times 57.5% E1 allocation factor = $142 million.

18 Ameren Missouri Case No. ER-2014-0258, Direct Testimony and Schedules of Laura Moore.

19 Empire District Electric, Case No. ER-2014-0351, Direct Testimony and Schedules of Scott Keith.

20 Derived from KCPL response to MECG 13-5 and Direct Testimony and Schedules of John Weisensee in Case No. ER-2012-0175.

Figure 1: KCPL Monthly Delivered Coal Cost per Ton[21]

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This data clearly shows the relative stability of historical coal and coal freight prices experienced by KCPL in the past two years.

Q WHAT STEPS HAS KCPL TAKEN TO MITIGATE EXPOSURE TO COAL MARKET PRICE FLUCTUATIONS?

A The Company employs a coal price hedging program, using a "strategy of laddering into a portfolio of forward contracts with staggered terms so that a portion of the portfolio will roll over each year". This is discussed in more detail in KCPL witness Blunk's testimony.[22] That strategy, applied to the Powder River Basin ("PRB") coal

[21] Derived from KCPL highly confidential response to Staff data request 79R. See Brosch Workpapers.
[22] Direct Testimony of Wm Edward Blunk, pages 24-25.

that is the Company's primary fuel source, has resulted in stability in the delivered price of coal, as indicated by the tightly grouped lines in the middle of this graph.

Q IS THERE ANOTHER STABILIZING INFLUENCE UPON THE DELIVERED COST OF COAL INCURRED BY KCPL?

A Yes. More than **____** of the per ton delivered cost of PRB coal is rail freight, incurred to move the coal from mines in Wyoming to the Company's generating stations. KCPL's primary rail freight contracts with **____________________** are for terms of **___________________** and at per-ton prices that are **__________ ____ ___**[23] The financial importance and relatively stable pricing of rail freight dampens the delivered cost per-ton impact upon KCPL arising from any remaining exposure the Company may have to fluctuations in the market price of PRB coal, after mitigation from the Company's contract laddering strategy.

Q HAS THE COMPANY PREPARED ANY PROJECTIONS OF THE AVERAGE PER TON COAL PRICE IT EXPECTS TO PAY IN 2015 AND 2016, BASED UPON THE LADDERED PORTFOLIO OF CONTRACTS ASSEMBLED BY KCPL AS OF SEPTEMBER 30, 2014?

A Yes. For 2015 and 2016, most of the Company's laddered coal contracts contain fixed price terms, such that future prices are known with certainty. In its highly confidential projections provided in response to MECG data request 2-2, the Company calculated its average cost in dollars per ton for PRB coal at the mine (excluding freight) would be **_______________** in 2015 and 2016, respectively. These average prices are both **____________________** per ton being paid for

[23] KCPL Highly Confidential responses to Staff data requests 68R and 69R.

contract PRB coal in late 2014. The fixed price contract for bituminous locally mined coal used at LaCygne was scheduled to **______________________________** per ton in 2015 compared to 2014. These projections illustrate the Company's expectations for a relatively stable pricing environment for its coal fuels in the near future, while prices have also been locked in through laddered contracts to mitigate any volatility. I have included a copy of KCPL's response to data request MECG 2-2 with its highly confidential attachment in Schedule MLB-14.

Q AT PAGE 22 OF HIS TESTIMONY, MR. BLUNK REFERENCES A FOUR YEAR PERIOD OF 2015 THROUGH 2018, INDICATING HIS ESTIMATE OF HOW MUCH "EXPOSURE" KCPL MAY FACE FOR ANTICIPATED COAL PURCHASES NOT YET UNDER CONTRACT. DO YOU AGREE WITH MR. BLUNK'S ESTIMATE OF KCPL'S EXPOSURE?

A No. The exposure value stated by Mr. Blunk is greatly exaggerated. His calculations underlying this statement assume the entire spread between KCPL's lowest and highest range of projected prices, rather than measuring only deviations around the base forecast, which would reduce his estimated exposure by about half. An example of this problem would be if I promised to fix the roof on your house at my cost, which I estimate to be $1,000, but could actually range from $700 to $1,300. Under Mr. Blunk's approach to risk estimation, the "exposure" under my price estimate is $600, when in reality, if you are expecting to pay the estimated $1,000, your "exposure" to pricing uncertainty is actually plus or minus $300 rather than the full $600.

Another serious flaw in Mr. Blunk's analysis is his assumed four year term, which reaches into more distant future years when relative lower portions of expected coal burn have been committed at fixed prices, at the same time the assumed price deviations around the base forecasted price are the largest. A more reasonable estimate would assume that KCPL will continue each year to have firm pricing for **__** percent of its expected coal requirements for the next year within laddered contracts, then using the same plus/minus **_________** percent pricing variation assumed by Mr. Blunk for the first year in his analysis.[24] Under this revised and more realistic approach, the Company's annual exposure to coal price fluctuations would not exceed **____** million.

Q ACCORDING TO MR. BLUNK, THE COMPANY'S COAL HEDGING PROGRAMS "DAMPEN THE VOLATILITY OF FUEL PRICES IN THE SHORT-TERM" BUT "THEY DO NOT PROTECT AGAINST LONG-TERM MARKET SHIFTS OR TRENDS" AND HE NOTES THAT "AS OF JUNE 30, ABOUT 70% OF KCP&L'S EXPECTED COAL BURN FROM 2015 THROUGH 2018 WAS NOT UNDER CONTRACT."[25] HOW DO YOU RESPOND?

A Long term shifts or trends in fuel prices are best handled in rate cases, when changes in the overall cost to provide electric service to customers can also be evaluated, matching current fuel prices, wage rates, interest rates, rate base investment, sales volumes and the other revenue requirement elements at a common point in time to avoid piecemeal ratemaking. An FAC is needed only when the specific costs being examined are large and volatile in the short term, between rate cases, and such costs meet the other criteria described above.

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24 Per HC-2014 WEB testimony calculations_20140919.xls. MECG amount is one-half of Blunk calculated exposure in year one.

25 Direct Testimony of Wm Edward Blunk, page 22.

Q WHAT INFORMATION HAS KCPL PROVIDED IN ITS TESTIMONY REGARDING ITS DELIVERED COST OF COAL?

A No meaningful information regarding the magnitude or volatility of KCPL's actual coal costs or prices between rate cases has been provided in the Company's testimony. Instead, Mr. Blunk presents his Schedule WEB-3 that contains gas and heating oil market process, plus a single line representing historical short term market prices for "PRB 8800 Coal." At page 21 of his testimony, Mr. Blunk states, "Schedule WEB-3 shows how fuel prices have changed dramatically over the past several years." However, the only marginally relevant line of Schedule WEB-3 with respect to KCPL's primary source of fuel is the "PRB 8800 Coal" line. This is the case because the Company burns very little natural gas or oil for generation and is, heavily dependent upon PRB coal for its primary fuel supply.

Q HAVE MARKET PRICES FOR COAL BEEN GENERALLY LESS VOLATILE THAN HISTORICAL PRICES FOR NATURAL GAS AND OIL?

A Yes. The PRB 8800 line in Mr. Blunk's Schedule WEB-3 illustrates relative stability in the market pricing of PRB coal over the past ten years, after a short term fly-up in prices that occurred in late 2005 and early 2006. It should also be noted that these historical PRB market prices represent only a fraction of the total delivered cost of coal, when the necessary railroad freight costs are also considered. Additionally, the coal prices shown in Schedule WEB-2 are daily historical PRB prompt month futures market prices.[26] The fluctuations shown are indicative of short term purchases made every day at market prices, which are not reflective of KCPL's utilization of term coal contracts to physically hedge the prices actually being paid, using its laddered contract portfolio strategy.

[26] Mr. Blunk's workpapers for Schedule WEB-3 caption the input data for this line "PRB 880 P+1"

Q DOES KCPL PURCHASE MUCH OF ITS COAL SUPPLY AT SPOT MARKET PRICES?

A No. Mr. Blunk makes clear that, "[i]n the PRB coal market, the primary means of managing price risk is through a portfolio of forward contracts...with staggered terms so that a portion of the portfolio will roll over each year." Then, with regard to spot purchases, he states, "[w]hen burn projections increase, or actual burns prove to be higher than anticipated, supplemental purchases of coal are made on the spot market."[27] In most recent years, KCPL has purchased **____________** percent of its PRB coal requirements on the spot market.[28]

Q DOES KCPL DEDICATE SIGNIFICANT RESOURCES TO THE MANAGEMENT OF ITS INCURRED COST OF DELIVERED COAL?

A Yes. The Company has staffed a **____

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____________________________** These efforts and the Company's resource

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27 Direct Testimony of Wm Edward Blunk, page 24.

28 Derived from KCPL's response to MECG 2-3, HC attachment, based upon monthly data for 2009 through October of 2014.

commitment to the management of fuel and system energy costs is documented in additional details provided in KCPL's highly confidential response to MECG data request 2-5, which is set forth within my Schedule MLB-15.

Q KCPL HAS NOT HAD A FUEL ADJUSTMENT CLAUSE IN MISSOURI FOR OVER 35 YEARS. DOES THE ABSENCE OF AN FAC ENCOURAGE UTILITY MANAGEMENT TO AGGRESSIVELY PURSUE OPPORTUNITIES TO REDUCE THE COST OF DELIVERED FUEL?

A Yes. In the absence of an FAC, every dollar of incremental fuel expense avoided between test years makes a contribution to earnings of the utility. Base rate recovery of fuel costs creates regulatory lag incentive for the Company to pursue all cost-effective opportunities to improve efficiency and reduce net energy costs, even when doing so involves additional costs and risks to the utility.

On the other hand, if an FAC is initiated that provides for full recovery of fuel costs, the economic incentive to reduce recoverable fuel costs is blunted because no earnings benefit is achieved when recoverable fuel costs are reduced. In fact, earnings would be harmed if the utility undertook costly new non-fuel expenses or generating unit efficiency investments that would otherwise (in the absence of an FAC) be cost effective in reducing recoverable fuel costs.

Q HAS KCPL, IN THE PAST, INCURRED SIGNIFICANT COSTS AND RISKS TO FAVORABLY IMPACT THE COST OF FUELS USED IN ITS GENERATING STATIONS?

A Yes. Beyond the continuous investment of resources outlined in Schedule MLB-14, the Company has challenged the rail freight rates being offered by Union Pacific in a formal complaint action taken before the U. S. Department of Transportation Surface

Transportation Board ("STB"). The Company incurred approximately $2.3 million in non-labor costs for filing and processing this rate complaint and received reparations of approximately $3.4 million as well as stipulated rate relief in new rail rates effective July 18, 2008. These efforts, risks and favorable results are described in greater detail in KCPL's response to MECG data request 14-9, which is included in my Schedule MLB-16.

Q CONSIDERING THE FACTS YOU HAVE PRESENTED THUS FAR REGARDING THE MAGNITUDE, VOLATILITY AND MANAGEMENT'S ABILITY TO MANAGE THE COST OF DELIVERED COAL FUEL SUPPLIES, SHOULD AN FAC BE GRANTED TO KCPL TO ALLOW RECOVERY OF CHANGES IN COAL COSTS?

A No. Coal and coal freight represent the primary fuel sources and expense for KCPL's base load generation because coal is used to produce the majority of energy that is generated each year. While coal and coal freight costs are large overall, the prices of this fuel supply remain stable and the Company has established effective hedging strategies using term contracts with railroads and coal suppliers to mitigate fluctuations in delivered coal costs. KCPL invests significant staffing and other resources in its efforts to manage fuel costs and approval of an FAC would diminish the incentive the Company now has to aggressively manage the minimization of coal fuel costs.

NUCLEAR FUEL COSTS

Q AFTER COAL, IS NUCLEAR FUEL THE NEXT MOST IMPORTANT ELEMENT OF FUEL EXPENSE INCURRED BY KCPL?

A Yes. Using the projected fuel mix information contained in Schedule MLB-12, nuclear fuel represents about **__** percent of the Company's projected fuel consumption through 2016, and slightly more than **__** percent thereafter. The Company expects to generate between **____________** million MWH of nuclear energy at Wolf Creek in each of the next five years.[29]

Q HAS THE COMPANY'S NUCLEAR FUEL EXPENSE VARIED MUCH IN THE PAST FEW YEARS?

A No. KCPL's nuclear fuel expense has remained stable in recent years. Reported nuclear fuel expenses, compared to test year adjusted amounts, can be summarized as follows:

Figure 2: Comparative Nuclear Fuel Expense:

Nuclear Fuel Expense	Source:	Amount $000
2011	FERC Form 1, page 320	$ 24,810
2012	FERC Form 1, page 320	$ 28,681
2013	FERC Form 1, page 320	$ 26,557
Test Year	KCPL FAC Base Calculation	$ 27,834[30]

After normalization for inclusion in the test year, the Company's proposed nuclear fuel expenses are only four percent higher than the average annual nuclear fuel expense levels recorded throughout 2011, 2012 and 2013.[31]

Q HOW SIGNIFICANT IS $27.8 MILLION OF TOTAL NUCLEAR FUEL EXPENSE TO THE COMPANY'S OVERALL FINANCIAL PERFORMANCE?

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29 KCPL response to MECG 2-1, Fuel Mix Attachment. See Schedule MLB-12.

30 The FAC base calculation in KCPL direct is summarized in the response to MECG 13-5 in Schedule MLB-12.

31 Average reported nuclear fuel costs for 2011 through 2013 is $26.7 million.

A In relation to Total Operating Expenses, as reported by KCPL in its 2014 SEC Form 10K of $1,380.7 million, a $27.8 million component of fuel expense represents only about 2.0 percent of overall expenses. In relation to total Electric Revenues, as reported by KCPL in its 2014 SEC Form 10K of $1,730.8 million, nuclear fuel expense would represent only about 1.6 percent of overall electric revenues.[32] These comparisons illustrate the Company's limited exposure to adverse impacts from fluctuations in nuclear fuel costs relative to the size of its overall costs and revenues.

Q AT THESE LEVELS, ARE NUCLEAR FUEL EXPENSES OF SUFFICIENT MAGNITUDE TO HAVE A MATERIAL IMPACT UPON REVENUE REQUIREMENTS AND THE FINANCIAL PERFORMANCE OF KCPL BETWEEN RATE CASES?

A No. Given the modest overall amount of expense involved, as a percentage of overall costs and revenues, nuclear fuel expense in isolation would not be reasonably expected to adversely impact the Company's future financial stability or access to capital on reasonable terms. Nuclear fuel expenses can be reasonably addressed in traditional rate cases, where these costs have been handled in previous Missouri rate case proceedings.

Q WITH RESPECT TO THE EXPENSE VOLATILITY CRITERIA, DO THE COMPANY'S WITNESSES CHARACTERIZE KCPL'S NUCLEAR FUEL SUPPLY AS BEING VOLATILE?

A No. In fact, Mr. Blunk's testimony regarding nuclear fuel indicates a high degree of certainty regarding future nuclear fuel expenses and says nothing to suggest any volatility concern. He states, "The owners of Wolf Creek have on hand or under

32 Great Plains Energy Incorporated, Kansas City Power & Light Company SEC Form 10K for year ended December 31, 2014, page 54. Some of the Company's incurred property tax costs are recorded to accounts other than Operating Expenses.

contract all of the uranium and conversion services needed to operate Wolf Creek through September 2016 and approximately 70% after that date through March 2021. The owners also have under contract all of the uranium enrichment and fabrication required to support reactor operation through March 2027 and September 2025, respectively."[33]

Q HAS KCPL PREPARED ANY FORECASTS OF ITS EXPECTED FUTURE NUCLEAR FUEL EXPENSE?

A Yes. In its response to MECG 2-10, the Company provided a listing of its uranium, conversion, enrichment and fabrication service contracts, indicating highly confidential contract terms, describing either fixed or inflation-indexed pricing within the existing supply contracts. In a confidential attachment to this response, the Company provides its forecast of nuclear fuel costs in Cents per MMBTU it expects to incur from 2015 through 2022. These estimates reveal **______________________

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_______________** I have included a copy of KCPL's response to MECG 2-10 within Schedule MLB-17.

Q ARE THE PRICES FOR NUCLEAR FUEL CONTROLLABLE BY MANAGEMENT?

A To a large extent, yes. Through the use of long term supply contracts, as more fully described in Schedule MLB-17, utility management is clearly able to control and limit the utility's financial exposure to the impact of market forces upon nuclear fuel expenses.

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33 Direct testimony of Wm. Edward Blunk, page 32.

GAS AND OIL COSTS

Q ARE THE NATURAL GAS OR FUEL OIL COSTS THAT ARE INCURRED BY KCPL LARGE ENOUGH TO MERIT FUEL ADJUSTMENT CLAUSE TREATMENT?

A No. The Company uses much smaller amounts of gas and oil fuel in its generation mix than coal and nuclear. The Projected Fuel Mix provided by the Company in its highly confidential response to MECG 2-1, included in Schedule MLB-13, reveals an expectation of **______** reliance upon gas and oil fuels as primary generating fuels prospectively.

Q HAS KCPL PROVIDED ANY ANALYSIS OF THE MAGNITUDE OR VOLATILITY ASSOCIATED WITH ITS NATURAL GAS OR OIL PURCHASES FOR ELECTRIC GENERATION?

A No. Mr. Blunk's testimony describes generally how the Company uses natural gas and observes that "[n]atural gas-fired generation is among the most expensive generation on KCP&L's system. Consequently it is typically the last to be used and the first to be released" which he says, "results in significant day-to-day uncertainty in requirements." However, no quantitative information is provided in testimony showing how much gas is actually purchased and burned by the Company as generation fuel. Instead, Mr. Blunk devotes more than five pages of his testimony to describing the Company's natural gas hedging program, which seems to imply that significant market price risks and volatility require careful attention and hedging efforts to achieve the needed stabilization of gas pricing.[34]

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[34] Id. Pages 26-32.

Q HOW MUCH NATURAL GAS HAS KCPL PURCHASED FOR GENERATION FUEL IN THE PAST FIVE YEARS?

A According to the highly confidential attachment provided with the Company's response to Staff data request 71.1R, natural gas expenses and volumes in the recent past can be summarized as follows:

Figure 3: Natural Gas Fuel Costs and Quantities:

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During this historical data, KCPL's total annual spending on natural gas fuel and transportation steadily declined from a high of **_____** million in 2010 to a low of **_____** million in 2014. In comparison, the Company's test year base fuel cost calculation includes total natural gas fuel expense of about $10.2 million.[35]

Q HOW SIGNIFICANT IS $10.2 MILLION OF NATURAL GAS FUEL EXPENSE TO THE COMPANY'S OVERALL FINANCIAL PERFORMANCE?

A In relation to Total Operating Expenses, as reported by KCPL in its 2014 SEC Form 10K of $1,380.7 million, a $10.2 million component of fuel expense represents only

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35 FAC Base calculation in Schedule MLB-13, Account 501 Fuel of $0.4 million plus Account 547 fuel of $9.8 million = $10.2 million.

about 0.7 percent of overall expenses. In relation to total Electric Revenues, as reported by KCPL in its 2014 SEC Form 10K of $1,730.8 million, natural gas fuel expense would represent only about 0.6 percent of overall electric revenues.[36] These comparisons illustrate the Company's very limited exposure to adverse impacts from fluctuations in natural gas fuel costs relative to the size of its overall costs and revenues.

Q HAVE THE NATURAL GAS FUEL COSTS EXPERIENCED BY THE COMPANY PROVEN TO BE VOLATILE IN THE PAST?

A Only in the more distant past. Mr. Blunk discusses how market prices of natural gas "changed dramatically" in the 2004 through 2006 time frame, about a decade ago.[37] More recently, as shown in Figure 3, KCPL's natural gas commodity annual average unit prices have fluctuated from a low unit price of **_____** to a high of **_____**, with an average of **_____** across all years.[38] However, the Company's relatively small reliance upon natural gas as a generation fuel causes even fluctuations like this to be less important to KCPL than for other Missouri utilities who are more dependent upon natural gas.

Q ARE THE OIL FUEL EXPENSES INCLUDED IN THE COMPANY'S PROPOSED TEST YEAR EXPENSES EVEN LESS THAN PROJECTED GAS FUEL EXPENSES?

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36 Great Plains Energy Incorporated, Kansas City Power & Light Company SEC Form 10K for year ended December 31, 2014, page 54. Some of the Company's incurred property tax costs are recorded to accounts other than Operating Expenses.

37 Direct Testimony of Wm. Edward Blunk, page 37.

38 Annual average prices are compared here, even though monthly commodity prices vary more widely, because KCPL tends to purchase and burn most of its natural gas during summer months as peaking fuel, when gas prices are often seasonably lower and more stable than winter prices.

A Yes. The Company's estimated FAC Base Calculation included in my Schedule MLB-13 shows total test year oil fuel expenses of $7.5 million.[39] Oil is used for flame stabilization and start up, rather than as a primary fuel source, at the Company's latan, Montrose and LaCygne generating units.[40] The Company's total oil fuel expenses are far less than one percent of total operating expenses or revenues.

Q IN HIS SCHEDULE WEB-3 AND SCHEDULE WEB-4, MR. BLUNK PRESENTS "MARKET PRICE OF FOSSIL FUELS" AND A "NYMEX NATURAL GAS" PRICING INFORMATION SHOWING LARGE HISTORICAL SWINGS IN NATURAL GAS HEATING OIL PRICES. IS THE VOLATILITY IN THIS CHART INDICATIVE OF THE VOLATILITY KCPL ACTUALLY EXPERIENCES IN ITS OVERALL FUEL COSTS?

A No. These prices are not invoice prices that KCPL actually paid for any fuel. Instead, Mr. Blunk's Schedule WEB-3 presents daily settlement prices for Henry Hub New York Mercantile Exchange ("NYMEX") Natural Gas Future Prompt Month; New York Harbor NYMEX Heating Oil Futures Prompt Month; and Power River Basin Wyoming Rail NYMEX Coal Swap Futures 8800 btu/lb Prompt Month prices.[41] As noted above, the vast majority of KCPL's fuel costs are coal and nuclear and the Company has used laddered and term contracts to mitigate volatility for these fuels. The Commission should not assume that the historical fluctuations in daily market prices for natural gas or oil fuels are indicative of fuel price volatility that is actually relevant to KCPL's overall cost of generation fuel.

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39 Id, at Account 501 Fuel Expense - Oil.
40 FERC Form 1, pages 402-403.2
41 KCPL response to MECG 14-13.

Q ARE THE PRICES FOR NATURAL GAS AND OIL FUELS SOMEWHAT CONTROLLABLE BY MANAGEMENT?

A Yes, but only to a limited extent. As noted in Mr. Blunk's testimony, "KCP&L's natural gas hedging program is oriented toward finding a balance between the need to protect against high prices and the opportunity to purchase gas at low prices" and is more fully described in his extensive testimony on that subject. He concludes this discussion indicating the gas hedging program has been cost effective in providing "protection from large unexpected upward price fluctuations" at reasonable cost.[42] However, because of the Company's limited use of natural gas and oil fuels to serve native loads resulting from its substantial coal and nuclear base load generating fleet, price fluctuations for natural gas and oil are not significant risks to the Company's financial stability and performance.

Q ARE THE GAS HEDGING ACTIVITES DESCRIBED IN MR. BLUNK'S TESTIMONY PRIMARILY FOCUSED UPON GREAT PLAINS' GMO OPERATING UNITS, RATHER THAN KCPL?

A Yes. The GMO utility operations are significantly more exposed to natural gas price fluctuations and are the primary focus of the gas hedging efforts described by Mr. Blunk. A review of highly confidential summaries for the Company's hedge programs reveals **____ ____** I have included a copy of KCPL's response to Staff data request 79 and the highly confidential summary hedge reports for KCPL and GMO within Schedule MLB-18.

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42 Direct Testimony of Wm Edward Blunk, pages 28-32.

PURCHASED POWER / OFF SYSTEM SALES

Q HOW DOES KCPL PURCHASE AND SELL POWER ON THE WHOLESALE MARKET?

A The Southwest Power Pool ("SPP") provides the market for the Company's generating resources, as well as for its native retail load, through what is called the Integrated Marketplace ("IM"). This is a relatively new market structure commenced operation in March of 2014. KCPL witness Rush describes this change, stating:

> Essentially, this market is a fundamental change in the overall structure of buying and selling energy. In March, the Company turned over the function of dispatching its generation resources to SPP and now bids its generation resources into SPP. SPP, in turn, makes the decision on which generation units to dispatch over the entire SPP footprint to serve the overall load of the SPP market. No longer does KCP&L use its generation resources to directly serve its retail customers; instead, it buys its retail load needs from the SPP market. As a result, KCP&L bids all of its generation resources into the SPP market and buys its entire retail load from that same market. If, at any time, it is generating more than it is buying, there will be a net positive contribution to the Company.[43]

Company witness Burton Crawford discusses the new market structure in additional detail in his testimony, indicating that the IM is "...comprised of the day-ahead market, real-time balancing market, and congesting [sic] hedging markets, and [it] allows SPP to decide which generators should operate one day ahead of time. By allowing SPP to monitor energy costs from multiple sources, the SPP IM is intended to improve grid reliability, regional balancing of supply and demand, and cost-effectiveness."[44] Mr. Crawford describes a series of ratemaking adjustments that are proposed by the Company for a series of discrete services that are coordinated, reconciled and settled by SPP, including:

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[43] Direct Testimony of Tim Rush, page 25.
[44] Direct Testimony of Burton Crawford, page 9.

- Spinning, supplemental and regulating reserves ancillary service charges and credits
- Revenue uplift charges and credits
- SPP to MISO market energy sales margins
- Transmission Congestion Rights ("TCR") hedge margins.

The Company has included test year adjusted levels of off-system sales ("OSS") revenues and purchased power costs, along with the various SPP-related charges and credits, within its proposed FAC Base Calculation of energy costs supportive of its overall Base factor per kWh of $0.01547 energy cost, from which KCPL's actual costs would be tracked and reconciled through the proposed FAC.[45]

Q IS KCPL A NET PURCHASER OR SELLER OF ENERGY ON THE WHOLESALE MARKET?

A The Company has significant base load coal and nuclear-fueled resources, producing energy at cost levels that enable KCPL to regularly and profitably sell generation into the IM at levels that exceed what must be purchased from SPP to serve native loads. KCPL's net seller position can be observed in the Company's test year FAC Base Calculation where gross estimated Off System Energy and Ancillary revenues of $673.8 million exceed gross estimated Purchased Power Energy of $527.3 million. These amounts are inclusive of the sale of all KCPL generation into the SPP IM and the purchase of all energy for load from the SPP IM, with the net of revenues from

[45] See Schedule MLB-12, KCPL response to MECG 13-5, Attachment "FAC Base Calculation" at "Off System Energy & Ancillary" and "Purchased Power-Energy"

OSS sales in excess of purchases serving to reduce the net energy costs otherwise recoverable from ratepayers.[46]

Q WHAT AMOUNT OF PROFIT MARGIN FROM OFF-SYSTEMS SALES IS INCLUDED FOR THE TEST YEAR, AS A REDUCTION TO THE NET FUEL AND ENERGY COST RECOVERABLE FROM RATEPAYERS?

A. In the test year, the Company's estimated off-system sales profit margins ("OSS Margins") are estimated at **_____________**[47]

Q HOW SIGNIFICANT IS **____________ OF OFF-SYSTEM SALES MARGINS TO THE COMPANY'S OVERALL FINANCIAL PERFORMANCE?**

A In relation to Total Operating Expenses, as reported by KCPL in its 2014 SEC Form 10K of $1,380.7 million, a **_____________** offset to fuel expense represents about **___** percent of overall expenses. In relation to total Electric Revenues, as reported by KCPL in its 2014 SEC Form 10K of $1,730.8 million, off-systems sales margins would represent about **___** percent of overall electric revenues.[48] These comparisons illustrate the Company's limited exposure to adverse impacts from fluctuations in off-system sales margins relative to the size of its overall costs and revenues.

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46 Some Purchased Power Energy is used to serve KCPL's native load while some is used to produce off-system sales. A post-transaction stacking analysis is performed by KCPL to determine the marginal generating and purchased power resources actually incurred to make off-system sales.

47 KCPL highly confidential response to Staff request #437. This amount relates to the Company's direct testimony filing, is subject to true-up revision, and does not include energy profit margins from certain firm sales to Kansas municipal wholesale customers.

48 Great Plains Energy Incorporated, Kansas City Power & Light Company SEC Form 10K for year ended December 31, 2014, page 54. Some of the Company's incurred property tax costs are recorded to accounts other than Operating Expenses.

Q ARE THE COMPANY'S MARGINS FROM OFF-SYSTEM SALES OF A MAGNITUDE THAT THEY SHOULD BE INCLUDED WITHIN AN FAC MECHANISM?

A Given the test year normalized level of off-system sales margins, the magnitude of these amounts alone does not justify the creation of an FAC. However, the Company has experienced significant fluctuations in off-system sales margins historically. Therefore, a reasonable alternative to an FAC for this utility could be the installation of a limited FAC tracking mechanism for only variations in off-system sales margins that occur between rate cases. I am not recommending such a mechanism, but in the even the Commission believes KCPL has established that off-system sales margins are, in fact, compliant with the Commission's criteria for FAC consideration, approving a mechanism limited to tracking variations in off-system sales margins would be more reasonable than approval of a full blown FAC for this utility, for the reasons explained herein.

Q HAS KCPL BEEN SUBJECT TO TRACKING AND RECONCILIATION OF VARIATIONS IN ITS ACTUAL OFF-SYSTEMS SALES MARGINS, COMPARED TO THE LEVELS ESTABLISHED IN PREVIOUS RATE CASES?

A Yes. The Commission has approved a mechanism for the return to ratepayers of only "excess" off-system sales profit margins, above the amounts reflected in the Company's revenue requirements, within several prior KCPL rate cases. This could be considered an asymmetrical tracking mechanism. A summary of the Company's previous off-system sales margin tracking results is set forth in the Company's response to Office of Public Counsel question 1211, which I have included within my Schedule MLB-19. The off-system sales tracking mechanism was terminated in KCPL's 2012 rate case, based on settlement negotiations among the parties to the case and the Second Non-Unanimous Stipulation and Agreement in Case No. ER-2012-0174, as approved in the Commission's Report and Order dated January 9, 2013.[49]

Q DO THE COMPANY'S OFF-SYSTEM SALES MARGINS CONTINUE TO EXHIBIT ANY VOLATILITY, SUCH THAT MAINTAINING THE COMPANY'S FINANCIAL STABILITY REQUIRES FAC TREATMENT OF SUCH MARGINS?

A There has historically been some volatility in the Company's actual off-system sales profit margins. Based upon highly confidential annual off-system sales profit margin amounts provided by the Company in its response to MECG 13-3, the variations in actual off-system sales profit margins since 2001 can be summarized as follows:

Figure 4: Off-system Sales Profit Margins:

**

**

49 KCPL response to MECG 14-5(b).

The actual level and variability of such margins is dependent upon a number of considerations. In its response to MECG data request 13-2, the Company stated:

> Key factors contributing to volatility in off-system sales margin (OSSM) prior to SPP's implementation of the Integrated Marketplace (IM) continue to contribute to volatility in OSSM under the IM.
>
> Although there is some potential for variability in the cost of making non-firm sales, the primary source of variability is from revenue variability. OSSM variability results primarily from variability in quantity and price, as total off-system revenue in any hour is equal to the product of the quantity available for sale in that hour and the market price.
>
> The volume of off-system sales is driven by KCP&L's dispatch cost versus the SPP market price, and KCP&L's quantity of MWs available for sale. The two biggest factors in the quantity of MWs available for sale are unit availability and KCP&L's Native Load obligations. A unit outage and/or an increase in Native Load can reduce the size of the OSSM.
>
> Power prices in SPP have been highly correlated with the price of natural gas. The variability of KCP&L's OSSM is magnified by the 'leveraging effect' of making coal based sales into a gas-dominated market.

I have included a complete copy of the Company's responses to MECG data requests 13-2 and 13-3 within Schedule MLB-20. As noted previously, the size and volatility of these margin amounts do not justify approval of a broader FAC for KCPL, but some form of FAC tracking mechanism may be viewed as reasonable by the Commission, as an alternative to an FAC, given the approval of such a mechanism for KCPL in prior Missouri rate cases and the continuing variability of off-system sales margins at this time.

Q DOES KCPL MANAGEMENT EXERT ANY INFLUENCE OVER THE LEVEL OF OFF-SYSTEM SALES MARGINS THAT ARE EARNED BY THE COMPANY?

A Yes. The Company efforts described above to manage fuel costs can have a favorable impact by reducing the cost-based bids that are submitted to SPP as well as maximizing the dispatch of its generating units to make off-system sales. Additionally, the efforts of management to maintain the availability and efficiency of its generating units aids in the ability of KCPL generators to be dispatched by SPP to make profitable off-system sales. KCPL management also pursues term structured bilateral transactions for capacity and/or energy when such a transaction is expected to add value.[50]

TRANSMISSION EXPENSES

Q HAS KCPL PROPOSED THE INCLUSION OF COSTS OTHER THAN FUEL AND PURCHASED POWER WITHIN ITS PROPOSED FUEL ADJUSTMENT CLAUSE?

A Yes. The Company has proposed that the entire amount of charges and credits for transmission related services provided through SPP be included in its proposed FAC. According to KCPL witness Mr. Rush, "[t]he Company requests that transmission costs associated with the charges and revenues from Southwest Power Pool ("SPP") billings, and transmission costs to buy and sell energy, be recovered in rates through the FAC mechanism. This will provide for a direct link between transmission associated with the sale and purchase of energy and ensure appropriate recovery of transmission costs billed by SPP. Transmission costs incurred for the operation of KCP&L will not be included in the FAC, but will be recovered through base rates." To support this position, Mr. Rush argues that:

- Transmission costs are directly linked to the Company's fuel and purchased power requirements, particularly because of the new SPP Integrated Marketplace ("SPP IM"), also called the Day Ahead market established at the SPP,

50 See KCPL response to MECG 13-2(g), contained within Schedule MLB-20.

- Transmission costs can vary significantly from year-to-year,
- Transmission costs are a material cost of service component.
- Historically, transmission costs have fluctuated due to load variations, both in serving native customers to the service territory and in off-system sales,
- SPP's regional transmission upgrade projects that are part of its transmission expansion plans, and increasing SPP administrative fees, both of which have increased KCP&L's costs significantly and will continue to increase costs in coming years.

In this section of my testimony, I will respond to these arguments and explain why KCPL's transmission transactions with SPP should remain within base rates and <u>not</u> be included in any FAC that may be approved for KCPL.

Q WHAT AMOUNT OF TRANSMISSION-RELATED EXPENSE IS INCLUDED WITHIN THE COMPANY'S TEST YEAR ESTIMATE OF FAC BASE COSTS?

A According to KCPL's response to MECG 13-5, the Company seeks FAC inclusion of Transmission expenses in the test year that total about $61.5 million, less a credit for Transmission for Others revenues of about $7.7 million, for a net expense of $53.8 million.[51]

Q IS A NET EXPENSE OF $53.8 MILLION OF SUFFICIENT MAGNITUDE TO MERIT FAC INCLUSION?

A In relation to Total Operating Expenses, as reported by KCPL in its 2014 SEC Form 10K of $1,380.7 million, $53.8 million of transmission charges from SPP represent about 3.9 percent of overall expenses. In relation to total Electric Revenues, as

[51] See Schedule MLB-12, Attachment, at Accounts 456 and 561.4 through 928.

reported by KCPL in its 2014 SEC Form 10K of $1,730.8 million, SPP transmission charges represent about 3.1 percent of overall electric revenues.[52] These comparisons illustrate the Company's limited exposure to the expected gradual increases in SPP charges, relative to the size of its overall costs and revenues.

Q DOES THE COMMISSION'S FAC RULE CONTEMPLATE THE INCLUSION OF TRANSMISSION EXPENSES?

A No. Transmission expenses relate to the depreciation, return on investment and O&M expenses for bulk power facilities that are used to move power, rather than the energy costs associated with producing or purchasing that power. The Commission's FAC Rule provides "definitions" that state at (1)(C) that "Fuel Adjustment Clause (FAC) means a mechanism established in a general rate proceeding that allows periodic rate adjustments, outside a general rate proceeding, to reflect increase and decreases in an electric utility's prudently incurred fuel and purchased power costs." In turn at (1)(B) the Rule states that, "Fuel and purchased power costs means prudently incurred and used fuel and purchased power costs, including transportation costs". Transmission costs are not identified anywhere in the Rule as part of "fuel and purchased power costs" and clearly are not "transportation" costs paid to have fuel delivered to KCPL.

Q DOES THE COMMISSION'S FAC RULE CONTEMPLATE THE INCLUSION OF TRANSMISSION REVENUES?

A I can find no provision for the inclusion of transmission revenues within the Commission's FAC Rule.

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52 Great Plains Energy Incorporated, Kansas City Power & Light Company SEC Form 10K for year ended December 31, 2014, page 54. Some of the Company's incurred property tax costs are recorded to accounts other than Operating Expenses.

Q ARE TRANSMISSION COSTS THAT ARE PAID BY KCPL TO SPP "DIRECTLY LINKED TO THE COMPANY'S FUEL AND PURCHASED POWER REQUIREMENTS" AS ALLEGED BY MR. RUSH?

A No. Transmission costs billed to KCPL by SPP are caused by the need to coordinate the planning, construction and operation of the network of transmission facilities across the SPP region. These costs are associated with the Plant in Service of the SPP members; the grid of physical transmission structures, lines and substations making up the interconnected facilities of KCPL and other SPP member utilities. The transmission network under SPP control is used to transmit energy after it is produced through the conversion of fuel to energy. None of the SPP billed transmission service costs have any direct linkage to the fuel and purchased power expenses that are incurred by KCPL.

Q WHAT ARE THE PRIMARY FORMS OF TRANSMISSION SERVICES THAT ARE CHARGED TO KCPL BY SPP AND THAT ARE PROPOSED FOR FAC INCLUSION BY THE COMPANY?

A SPP provides Point-to-Point ("PTP") and Network Integration Transmission ("NITS") services to KCPL and the other members, pursuant to its Open Access Transmission Services ("OATS") tariff approved by the Federal Energy Regulatory Commission ("FERC"). The rates charged by SPP for these transmission services, as well as for ancillary services, administrative charges and various facilities upgrade charges are provided for in the Schedules appended to SPP's OATS tariff.[53] The tariff includes the following tariff schedules:

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[53] The SPP OATS tariff is available at: http://spp.org/eTariff/etfdocs//MasterTariffs//5FullTariff.pdf Rate Schedules are described starting at page 316 of the SPP tariff.

- Schedule 1: Scheduling, System Control and Dispatch Service
- Schedule 1-A: Tariff Administration Service
- Schedule 2: Reactive Supply and Voltage Control
- Schedule 3: Regulation and Frequency Response Service
- Schedule 4: Energy Imbalance Service
- Schedule 5: Operating Reserve – Spinning Reserve Service
- Schedule 6: Operating Reserve – Supplemental Reserve Service
- Schedule 7: Long-Term/Short-Term Firm Point-to-Point Transmission Service
- Schedule 8: Non-firm Point-to-Point Transmission Service
- Schedule 9: Network Integration Service
- Schedule 10: Wholesale Distribution Service
- Schedule 11: Base Plan Zonal Charge and Region-wide Charge
- Schedule 12: FERC Assessment Charge

The

**____

___** as indicated in the Company's response to MECG data request 13-7, which I have included within Schedule MLB-21.

Q DOES KCPL PAY FOR SERVICES FROM SPP ON A PER KWH BASIS, AS ONE MIGHT EXPECT IF THESE CHARGES WERE DIRECTLY LINKED TO FUEL AND PURCHASED ENERGY?

A No. The charges to KCPL under SPP Schedule 1-A are assessed on a demand rather than an energy basis. Schedule 1-A states, "An administration charge shall be applied to all transmission service under this Tariff to cover the Transmission Provider's expenses related to administration of this Tariff. For Point-To-Point

Transmission Service this charge shall be up to $0.39 per MW per hour for all capacity reserved. For Network Integration Transmission Service this charge shall be up to $0.39 per MW per hour for the 12 month average of the Transmission Customer's coincident Zonal Demands used to determine the Demand Charges under Schedule 9 multiplied by the number of all hours of the applicable month. The charge per MW per hour shall be the same for Point-To-Point Transmission Service as for Network Integration Transmission Service."[54]

Point-to-point transmission service under Schedule 7 is also charged on a demand basis using a "zonal rate (per KW of reserved capacity)" with the zonal charge dependent upon the location of the load and generation source.[55] These are not energy-based charges that are linked to the production or purchase of energy.

Similarly, the **____________** category of SPP charges KCPL proposes to include in its FAC are for Base Plan Zonal Charge and Region-Wide Charge amounts under SPP Schedule 11. These charges are distributed among SPP members based upon load ratios determined from the relative demand levels of customers and transmission owners in each zonal and regional area, as more fully described in the SPP tariff.[56]

Q WHAT IS THE SIGNIFICANCE OF THE SPP CHARGES TO KCPL BEING BASED UPON KW DEMAND LEVELS, RATHER THAN BEING KWH ENERGY-BASED CHARGES?

A The demand-based pricing of SPP's transmission services to KCPL indicates that these charges are to recover the fixed costs associated with providing transmission facilities that are used by KCPL and other SPP members, rather than to recover any

54 Id, Schedule 1-A, pdf page 318. Emphasis Added.
55 Id, Schedule 7, pdf page 333-335.
56 Id. Schedule 11, pdf pages 343-350.

costs that vary directly with the amounts of energy being produced or transmitted over such facilities, as suggested by Mr. Rush.

Q ACCORDING TO MR. RUSH, "TRANSMISSION COSTS INCURRED FOR THE OPERATION OF KCP&L WILL NOT BE INCLUDED IN THE FAC, BUT WILL BE RECOVERED THROUGH BASE RATES." DOES IT MAKE ANY SENSE TO VIEW TRANSMISSION SERVICE CHARGES BILLED FROM SPP AS FAC INCLUDABLE BECAUSE THE CHARGES ARE "LINKED TO THE SALE AND PURCHASE OF ENERGY" WHILE NOT ALSO TREATING KCPL'S DIRECTLY INCURRED TRANSMISSION EXPENSES AND RETURN ON INVESTMENT AS FAC INCLUDABLE?

A Of course not. If transmission O&M, depreciation and return on investment costs are reasonably deemed to be energy-related costs, like fuel and purchased power, then the Company's own directly-incurred transmission costs would require the same treatment. In actuality, the fixed costs of providing transmission network facilities have the same character whether incurred directly by KCPL or by other SPP members and these costs have no place within an FAC. One might argue that the fixed costs of providing generating capacity are similar to transmission capacity and are even more closely "linked to" the sale of energy, but generation fixed costs have never been treated as FAC includable costs in Missouri..

Q HOW DO YOU RESPOND TO MR. RUSH'S ARGUMENTS THAT TRANSMISSION COSTS CAN VARY SIGNIFICANTLY FROM YEAR-TO-YEAR AND WILL CONTINUE TO INCREASE IN FUTURE YEARS?

A I agree with Mr. Rush that the transmission costs billed to KCPL by SPP have been increasing historically and are expected to continue to increase over the next few years as SPP Base Plan Funding of transmission network upgrades is completed. Information about historical and projected SPP charges under Schedule 11 is provided in the Company's response to MECG data request 13-9, which I have included within my Schedule MLB-22. However, steady and predictable growth in a specific expense associated with expansion of transmission facilities is not justification for FAC inclusion. In fact, steady upward growth is exactly the opposite of the type of unpredictable upward and downward volatility in market expenses that an FAC is designed to address.

Q **MR. RUSH ALSO ARGUES THAT HISTORICALLY, TRANSMISSION COSTS HAVE FLUCTUATED DUE TO LOAD VARIATIONS, BOTH IN SERVING NATIVE CUSTOMERS TO THE SERVICE TERRITORY AND IN OFF-SYSTEM SALES. HOW DO YOU RESPONSE?**

A It is not clear why "historical" transmission costs have anything to do with the dramatic expansion of facilities now under way within SPP that is producing the increasing Schedule 11 charges of concern to KCPL. If Mr. Rush is attempting to characterize SPP transmission charges as being variable with fluctuations in energy costs or somehow linked to fuel costs, I would simply note that SPP is allocating and collecting the majority of transmission on a demand, rather than an energy basis, through its FERC-approved OATS tariff.

Q **IS KCPL PROVIDED A REASONABLE OPPORTUNITY TO RECOVER THE GROWTH IN SPP TRANSMISSION CHARGES IF SUCH COSTS ARE NOT INCLUDED WITHIN AN FAC?**

A Yes. The Company is free to submit base rate case applications whenever its overall cost of service in Missouri is expected to exceed Missouri jurisdictional revenues. It is unreasonable to select only isolated elements of cost that are expected to grow and claim that regulatory lag will cause inadequate future earnings, without systematically studying all of the changing costs that are included in the revenue requirement. I explained in my revenue requirement direct testimony how cost reductions in one part of the business can be used to offset inflation in other parts of the business and will not repeat that discussion here.

OTHER FAC CONSIDERATIONS

Q **IN DISCUSSING THE INDIVIDUAL TYPES OF FUEL COST INCURRED BY KCPL AND THE OTHER ELEMENTS OF COST WHERE THE COMPANY IS SEEKING FAC YOU REFERENCED THE COMMISSION'S MAGNITUDE, VOLATILITY AND MANAGEMENT CONTROL CONSIDERATIONS. ARE THERE OTHER CRITERIA THAT YOU SHOULD ALSO BE CONSIDERED BY THE COMMISSION?**

A Yes. I also recommend that the scope of any approved FAC be straightforward to administer and readily audited and verified through periodic regulatory reviews. Additionally, I recommend that any approved FAC should be balanced, such that any known factors that mitigate cost impacts are accounted for in a manner that preserves test year matching principles

Q **WOULD THE COMPANY'S PROPOSED FUEL ADJUSTMENT CLAUSE BE STRAIGHTFORWARD TO ADMINISTER AND READILY AUDITED AND VERIFIED THROUGH PERIODIC REGULATORY REVIEWS?**

A No. As noted herein, KCPL's proposed FAC would cover much more than the Company's Fuel and Purchased Power expenses. The proposed inclusion of highly complex transaction details including all SPP billings for daily transmission and

Integrated Market energy transactions, along with many other non-fuel additives, hedging costs and emission allowances, would vastly complicate the time and expense required for effective regulatory oversight and periodic audit activities. The notable stability of KCPL's historical and projected coal and nuclear fuel costs, which are its primary fuel sources, indicate that the Company does not need an FAC for such costs, such that all of the administrative burden arising from creation of an FAC for KCPL is entirely avoidable.

Q WOULD THE FUEL ADJUSTMENT CLAUSE THAT IS PROPOSED BY THE COMPANY, BE APPROPRIATELY BALANCED, SUCH THAT KNOWN FACTORS THAT MITIGATE COST INCREASES ARE ACCOUNTED FOR IN A MANNER THAT PRESERVES TEST YEAR MATCHING PRINCIPLES?

A Not completely. An unavoidable problem with any FAC is the bias created when preferential regulatory treatment is provided for one type of cost, relative to other costs. An FAC represents preferential treatment of fuel costs, relative to other types of costs that are only granted rate recovery consideration in rate cases. Consider a hypothetical opportunity for the utility to incur incremental maintenance costs on a boiler between test years, at a cost of $1 million, expecting to improve heat rate efficiency and save $1.5 million in fuel costs, again between test years. In the absence of an FAC, utility management can justify incurring the maintenance cost because it is more than "paid for" with fuel savings that are retained by the utility. However, if an FAC existed to flow to ratepayers all of the fuel cost savings, it would not be reasonable to expect management to incur and absorb the maintenance costs out of utility earnings when the offsetting savings cannot be retained. This is an unavoidable problem when preferential regulatory treatment is granted for only selected elements of utility costs. With an FAC in place, the utility is incented to make decisions that favor the incurrence of the tracked fuel and energy costs, relative to non-tracked costs, even when a more optimal decision may be available that would produce lower overall costs.

Q HAS KCPL PROPOSED ANY SHARING OF FUTURE NET FUEL COST VARIANCES, IF AN FAC IS APPROVED, SO AS TO REPLACE THE LOSS OF INCENTIVES THAT IS OTHERWISE UNAVOIDABLE WHEN REVENUES ARE ADJUSTED TO TRACK CHANGING COSTS?

A No. Mr. Rush argues that, "The vast majority of FACs in place for electric utilities in this part of the country reconcile recovery at the 100% level. KCP&L competes for capital with these companies and would be disadvantaged if its FAC limits recovery through the FAC to 95%. So too would its customers not see the benefit of a 100% reconciliation should recovery be limited. It is also important to remember that fuel costs are volatile. Because fuel costs are not controlled by the Company it is only fair that customers should enjoy 100% of the benefits of fuel cost reductions and that the Company should recover 100% of fuel cost increases."[57]

Q DO YOU AGREE WITH THESE ARGUMENTS?

A No. I understand that KCPL has experienced no difficulty or "disadvantage" in attracting needed capital, even though it has historically operated in Missouri with no FAC. A new FAC with a sharing provision of 95% or anything higher than zero would be a net benefit to the Company, if it believes its own forecasts of gradually increasing costs that would be subject to recovery through its proposed FAC. KCPL's primary coal and nuclear fuel costs are not volatile and have been significantly stabilized by management's efforts, as described above. Under these facts, fairness

[57] Direct Testimony of Tim Rush, page 26.

dictates that no FAC be implemented or, alternatively, that regulatory tracking be limited to only KCPL's off-system sales margins where Mr. Rush's volatility and lack of control arguments have somewhat more merit. In any event, a sharing provision would be helpful in replacing some of the incentive loss that will be suffered when any utility costs are subject to preferential, cost-tracking regulation.

Q IS THERE ANOTHER ADMINSTRATIVE CONCERN RAISED BY THE COMPANY'S PROPOSED FUEL ADJUSTMENT CLAUSE TARIFF?

A Yes. At the present time, all customers served by any Great Plains utility receive a bill with "KCP&L" identification at the top. If a customer of KCPL, GMO-Missouri Public Service or GMO-Saint Joseph Light & Power want to access the rate schedule that is applicable, it is not obvious from information on the bill which set of "KCPL" tariffs should be consulted. At the present time, because there is no Fuel Adjustment Clause in place for KCPL, one distinguishing characteristic of GMO bills is the line item captioned "FAC." I have included in Schedule MLB-23, specimen copies of a customer's bill for service from KCPL, compared to GMO, where the absence of utility identity can be observed and where the "FAC" line item provides the only clue whether a KCPL or GMO utility tariff applies. Notably, in the event KCPL is ultimately allowed some form of FAC, even this distinctive bill line item may be lost. If a customer searches the KCPL web site, a map can be consulted and rates codes identified from the bill to determine applicable rates,[58] but this is a cumbersome process at best. I recommend that some specific information be provided on customers' bills to identify which set of KCPL rate schedules are applicable to the rendered billing.

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58 https://www.kcpl.com/my-bill/for-home/understanding-my-bill/mo/service-area-map-and-codes

Q **PLEASE SUMMARIZE YOUR RECOMMENDATIONS WITH RESPECT TO KCPL'S FUEL ADJUSTMENT CLAUSE TARIFF?**

A I recommend, for all the reasons stated herein and in my previously filed revenue requirement testimony, that the Company does not need and should not be granted a fuel adjustment clause. If the Commission concludes that some form of FAC is required, it should consider limiting the scope of the FAC to include only variances in the Company's off-system sales profit margins, using deferred accounting and a sharing of both favorable and unfavorable variances in such margins, relative to test year established levels.

Q **HAVE YOU REVIEWED THE SPECIFIC TECHNICAL TERMS, DEFINITIONS AND OTHER LANGUAGE WITHIN THE COMPANY'S PROPOSED FAC TARIFF?**

A No. Such a review was not required, given the recommendations stated herein. However, MECG wishes to reserve the right to present additional information regarding these details in later testimony.

Q **DOES THIS CONCLUDE YOUR DIRECT TESTIMONY ON RATE DESIGN MATTERS?**

A Yes.

SCHEDULE MLB-12

KCP&L
Case Name: 2014 KCPL Rate Case
Case Number: ER-2014-0370

Response to Woodsmall David Interrogatories - MECG_20150217
Date of Response: 03/09/2015

Question:13-5

[Base Energy Costs] Ref: KCPL MO FAC Base Rate Calc.xls; KCPL response to MECG 2-16. The Company has calculated its proposed Base factor per kWh for the proposed FAC indicating specific FERC Accounts and cost elements proposed for inclusion in base energy costs for FAC purposes. Please provide the following additional information:

a. Explain the general criteria employed by KCPL to determine whether to include or exclude specific elements of fuel, transmission, purchased power, off-system sales, allowances and other expense elements.

b. Provide a complete and detailed copy of the most recently approved base energy cost calculations for the GMO operations (MPS/SJLP), showing a side-by-side comparison of included/excluded costs for GMO versus the KCPL proposal.

c. For each individually significant difference in FAC inclusion/exclusion treatment within the KCPL FAC proposal, compared to GMO's approved FAC, explain each reason why KCPL should be treated differently than GMO and provide complete copies of supporting reports, analyses, projections and other information relied upon for your response.

d. State and explain each reason why KCPL has proposed no sharing of variations between base energy and actual energy costs, even though GMO and other Missouri utilities with FACs have a sharing provision.

e. Provide complete copies of supporting reports, analyses, projections and other information relied upon for your response to part (d).

Response:

a. *Explain the general criteria employed by KCPL to determine whether to include or exclude specific elements of fuel, transmission, purchased power, off-system sales, allowances and other expense elements.*
   Response:

The Company believes, based upon the Code of State regulations regarding fuel adjustment mechanisms, the Code of Federal Regulations FERC chart of accounts, prior Commission orders as well as its understanding of current FAC tariffs active in the state, that all 501, 509, 518, 547, 555, 565, 561.4, 561.8, 575.7, and FERC fees charged to 928 excluding any fuel handling and long-term capacity contract costs offset by off-system sales and transmission of electricity for others revenues should be included in the fuel adjustment clause mechanism.
Answered by: Linda Nunn, Regulatory Affairs

b. *Provide a complete and detailed copy of the most recently approved base energy cost calculations for the GMO operations (MPS/SJLP), showing a side-by-side comparison of included/excluded costs for GMO versus the KCPL proposal.*
Response:
Please see the attached Excel spreadsheets which provide the information requested.
Attachments:
QMECG 13-5_GMO FAC Base Rate Calc.xlsx
QMECG 13-5_KCPL MO FAC Base Rate Calc.xlsx
Answered by: Linda Nunn, Regulatory Affairs

c. *For each individually significant difference in FAC inclusion/exclusion treatment within the KCPL FAC proposal, compared to GMO's approved FAC, explain each reason why KCPL should be treated differently than GMO and provide complete copies of supporting reports, analyses, projections and other information relied upon for your response.*
Response:
The most significant difference between the current GMO approved FAC and the proposed KCP&L FAC is the inclusion of transmission expenses offset by transmission revenues in the FAC mechanism. Mr. Rush goes into an extensive discussion in his Direct Testimony in this case as to why this is an appropriate treatment for these costs/revenues. Please see that testimony. The same arguments and treatment will likely be proposed in GMO's next general rate increase request.
Answered by: Linda Nunn, Regulatory Affairs

d. *State and explain each reason why KCPL has proposed no sharing of variations between base energy and actual energy costs, even though GMO and other Missouri utilities with FACs have a sharing provision.*
Response: Southwest Power Pool's Integrated Marketplace with the centralized dispatch of all units within its Consolidated Balancing Authority (CBA) was implemented March 1, 2014. Prior to the implementation of SPP's IM, the Commission determined that sharing prudently incurred fuel and purchased power costs that would have otherwise have been fully recovered through the fuel clause would incent a utility to take the steps necessary to keep its fuel and purchased power costs down. The market paradigm under which the Commission reached that conclusion no longer exists.

With the implementation of SPP's IM, SPP dispatches all of the units within its CBA. SPP is optimizing the dispatch of all resources in its CBA to minimize the total production costs in the Day-Ahead Market and the Real Time Balancing Market (RTBM). Under the IM the Company is required to offer all resources that are not on a planned, forced, or otherwise approved outage. The SPP determines the Locational Marginal Price (LMP) at which energy is sold or purchased.

In exchange for giving up the dispatch and marketing decisions that enabled the Company to be incented by a sharing mechanism, the IM construct provides assurance that total net production costs will be minimized subject to security and operational constraints. In other words, the objective of the sharing mechanism has been met through the design of the IM. Such a sharing mechanism under the IM construct would no longer offer the Company a balanced incentive. Because there is no longer a clear link between actions the Company can take and the shared percentage it has little to no value as an incentive.

Answered by: Ed Blunk, Generation Planning

e. *Provide complete copies of supporting reports, analyses, projections and other information relied upon for your response to part (d).*

Response: Numerous documents and filings discuss SPP's market protocols and how it optimizes dispatch of all units in its CBA. Many of those documents are publically available at www.spp.org.

Answered by: Ed Blunk, Generation Planning

Attachment: Q13-5_Verification.pdf

KANSAS CITY POWER & LIGHT
2015 Rate Case - KCP&L-MO Direct Filing
TY 3/31/14; Update 10/31/14; True-up 4/30/15

FAC Base Calculation

Account No.	Description	Per Books Test Year	Rate Case Adj	Adjusted Balance	Juris Factor #	Included in FAC Base	Recovered in Base Rates	Total	Excluded	FAC Base Total Co	E1 Juris
456	Transmission for Others	8,387,499	(664,727)	$ 7,722,772	E1	$ (7,722,772)	$ -	$ (7,722,772)	$ -	$ (7,722,772)	57.4935% (A)
447	Firm Bulk Sales (Capacity & Fixed) Short Term			2,310,000	E1	(2,310,000)	-	(2,310,000)		(2,310,000)	
447	Firm Bulk Sales (Capacity & Fixed) Long Term			4,180,271	E1	(4,180,271)	0	(4,180,271)		(4,180,271)	
	Firm Bulk Sales (Energy)	12,381,993	4,232,007	16,614,000	E1	(16,614,000)		(16,614,000)		(16,614,000)	
	Off System Energy & Ancillary	177,411,880	496,384,241	673,796,121	E1	(673,796,121)		(673,796,121)		(673,796,121)	
	Misc. Charges and Revenues	0	5,748,139	5,748,139	E1	(5,748,139)		(5,748,139)		(5,748,139)	
501.000	Fuel Expense										
	Labor	8,212,385	159,147	8,371,532	E1	0	8,371,532	8,371,532		0	
	Fuel Handling (non-labor)	4,668,213	0	4,668,213	E1	0	4,668,213	4,668,213		0	
	Fuel Expense-Coal & Freight	315,708,677	3,117,470	318,826,147	E1	318,826,147		318,826,147		318,826,147	
	100% MO STB- (Surface Trsp Bound)	(101,759)	0	(101,759)	100% MO	(101,759)		(101,759)		(176,992)	
	Fuel Expense-Oil	9,596,914	(2,127,213)	7,469,701	E1	7,469,701		7,469,701		7,469,701	
	Fuel Expense- Gas	869,159	(479,614)	389,545	E1	389,545		389,545		389,545	
	Fuel Expense-Residual	1,188,383	0	1,188,383	E1	1,188,383		1,188,383		1,188,383	
	Additives, incl NH4, Limestone & Oth	5,519,149	1,841,168	7,360,317	E1	7,360,317		7,360,317		7,360,317	
	Fuel Expense - Unit Train Depreciation	638,290	(59,235)	579,055	E1	0	579,055	579,055		0	
509.000	Allowances										
	NOX/Other Allowances-Allocated	56,608	(8,067)	48,541	E1	48,541		48,541		48,541	
	Amort of SO2 Allowances-MO	(2,302,524)	51	(2,302,473)	100% MO	(2,302,473)		(2,302,473)		(4,004,754)	
	Amort of SO2 Allowances-KS	(1,681,238)	0	(1,681,238)	100% KS			0	(1,681,238)	0	
	Emission Allowance -REC Exp.	0	0	0	E1			0		0	
518.000	Nuclear Fuel Expense										
	Nuclear Fuel - Net Amortizarion	25,843,271	1,990,729	27,834,000	E1	27,834,000		27,834,000		27,834,000	
	Prod Nuclear-Disposal Costs	3,415,598	(3,415,598)	0	E1		0	0		0	
	KS DOE Refund	0	0	0	E1		0	0		0	
	Cost of Oil	652,782	(157,871)	494,911	E1	494,911		494,911		494,911	
	Labor	0	0	0	E1		0	0		0	
547.000	Other PowerOperation- Fuel Expense										
	Labor	44,979	872	45,851	E1		45,851	45,851		0	
	Fuel Handling (non-labor)	85,860	0	85,860	E1		85,860	85,860		0	
	Other Fuel Expense - Oil	725,855	(725,855)	0	E1	0		0		0	
	Other Fuel Expense - Gas	10,558,383	(727,815)	9,830,568	E1	9,830,568		9,830,568		9,830,568	
	Other Fuel Expense - Hedging/Transportation - MO	(1,752,257)	1,752,257	0	100% MO	0		0		0	Grossed Up
	Additives	57,830	(5,471)	52,359	E1	52,359		52,359		52,359	
555.000	Purchased Power										
	Purchased Power-Energy	58,674,684	468,597,362	527,272,046	E1	527,272,046		527,272,046		527,272,046	
	Purchased Power-Capacity (Demand)	3,514,334	(549,134)	2,965,200	D1	0	2,965,200	2,965,200		0	
	Purch Pwr Energy Solar Contrct (100% MO)	0	0	0	100% MO	0		0		0	
	Solar Renew Energy Credits (100% MO)	418	(418)	0	100% MO	0		0		0	
561.400	Trans Op Schd Contr and Dis Serv	4,503,057	2,298,505	6,801,562	E1	6,801,562		6,801,562		6,801,562	
561.800	Trans Op Reli PlanandStd Dv RTO	1,435,536	(472,979)	962,557	E1	962,557		962,557		962,557	
565.000	Transmission of Electricity by Others	39,998,163	7,689,099	47,687,262	E1	47,687,262		47,687,262		47,687,262	
575.000	Regional Transmission Operation	4,919,244	254,500	5,173,744	E1	5,173,744		5,173,744		5,173,744	
928.000	Regulatory Comm Exp-FERC Assment	1,160,876	(196,293)	964,583	E1	964,583		964,583		964,583	
				$ 264,615,164		##########	$ 16,715,711	$ 266,296,402	$ (1,681,238)	$ 247,803,177	
									NSI In Case	16,014,679,000	
									Base factor per kWh $	0.01547	

(A) 100% MO Items grossed up for inclusion in base.

Verification of Response

Kansas City Power & Light Company
AND
KCP&L Greater Missouri Operations

Docket No. ER-2014-0370

The response to Data Request #__13-5__ is true and accurate to the best of my knowledge and belief.

Signed: Tim Rush

Date: March 6, 2015

SCHEDULE MLB-13

****HIGHLY CONFIDENTIAL****

SCHEDULE MLB-14

****HIGHLY CONFIDENTIAL****

Verification of Response

Kansas City Power & Light Company
AND
KCP&L Greater Missouri Operations

Docket No. ER-2014-0370

The response to Data Request #___2-2___ is true and accurate to the best of my knowledge and belief.

Signed: Tim Rush

Date: December 21, 2014

SCHEDULE MLB-15

****HIGHLY CONFIDENTIAL****

Verification of Response

Kansas City Power & Light Company
AND
KCP&L Greater Missouri Operations

Docket No. ER-2014-0370

The response to Data Request #____2-5__________ is true and accurate to the best of my knowledge and belief.

Signed: Tim Rush

Date: December 21, 2014

SCHEDULE MLB-16

KCP&L
Case Name: 2014 KCPL Rate Case
Case Number: ER-2014-0370

Response to Woodsmall David Interrogatories - MECG_20150306
Date of Response: 03/25/2015

Question:14-9

[Fuel Costs] Has the Company challenged any of the rail freight rates that were offered by railroads in the past 10 years, in actions taken before the Surface Transportation Board or any other regulatory agency? If affirmative, please describe each such challenge, the costs incurred by the Company to pursue the challenge and the outcome achieved as a result of such efforts.

Response:

1. *Has the Company challenged any of the rail freight rates that were offered by railroads in the past 10 years, in actions taken before the Surface Transportation Board or any other regulatory agency?*

   Response: Yes.

   Answered by: Ed Blunk, Generation Sales and Services

2. *If affirmative, please describe each such challenge, the costs incurred by the Company to pursue the challenge and the outcome achieved as a result of such efforts.*

   Response:
   October 12, 2005, KCPL filed a rate complaint case with the Surface Transportation Board (STB) charging that Union Pacific's (UP) rates for the movement of coal from origins in the Powder River Basin of Wyoming to KCPL's Montrose Generating Station (Montrose), located near Ladue, MO, were unreasonably high.

   On May 16, 2008, the STB found that the rates for the challenged movements all exceeded 180% of the variable cost of providing service. It prescribed a maximum reasonable rate limit of the 180% of variable cost until the end of 2015. It also ordered the UP to pay reparations (with interest) for all shipments moving after the expiration of the contract between the parties preceding implementation of the challenged rates and prior to the establishment of the prescribed rate.

Ordinarily, this type of rail rate case involving regular unit-train movements of coal to a utility would be adjudicated under the Board's stand-alone cost methodology. In this case, however, UP stipulated that the maximum lawful rate should be set at the statutory floor for regulatory relief the level at which the revenue-to-variable-cost ratio (R/VC ratio) equals 180%. The stipulation greatly reduced the cost of litigating the rate complaint case for both KCPL and UP while not affecting the likely outcome.

New rates were effective July 18, 2008.

Total non-labor costs for filing and processing the rate complaint case were approximately $2.3 million. Total reparations from the expiration of the contract preceding implementation of the challenged rates and prior to establishment of the prescribed rate were approximately $3.4 million.

Answered by: Ed Blunk, Generation Sales and Services

Attachment: Q14-9_Verification.pdf

SCHEDULE MLB-17

****HIGHLY CONFIDENTIAL****

SCHEDULE MLB-18

****HIGHLY CONFIDENTIAL****

SCHEDULE MLB-19

KCP&L
Case Name: 2014 KCPL Rate Case
Case Number: ER-2014-0370

Response to Addo William Interrogatories - OPC_20150302
Date of Response: 03/23/2015

Question:1211

Please separately identify by Case Nos. ER-2006-0314, ER-2007-0291, and ER-2009-0089 the monthly excess off-system sales margins amortization amounts established in Case No. ER-2012-0174.

Response:
Please see attached schedule that supports the settlement of this issue in Case No. ER-2012-0174 and details the monthly amortization of each of the cases requested above.

Information provided by: Lisa Starkebaum, Regulatory Affairs

Attachments:
Q1211 – R-78 Excess OSS Margins – KCPL-MO True-up Settlement 8-31-12.xls
Q1211_Verification.pdf

KANSAS CITY POWER & LIGHT

Case No. ER-2012-0174

Amortization of Excess Off-System Sales Margins

Rate Case	Established Margin	Effective dates of new rates	Actual Margin (1st 12-mos.)	Excess Margin	Allocation Factor	MO Juris Excess	Amortize Period (mos.)	Month Amort. Effective	Month Amort. Ending	Unamort. Balance @ 3/31/12	Months of Amort. Remaining	$ per month*	Annual Amort. $	$ booked for TY	Adjust. Amount
ER-2006-0314	$69,478,000	*Approved ER-2009-0089 Stipulation and Agreement*				$1,082,974	120	Sep-09	Aug-19	$846,724	89	$9,514	$114,165	$112,748	$1,417
ER-2007-0291	$51,000,000	*Approved ER-2009-0089 Stipulation and Agreement*				$2,947,332	120	Sep-09	Aug-19	$1,940,978	89	$21,809	$261,705	$275,799	($14,094)
ER-2009-0089	$30,000,000	9/2009-8/2010	$36,505,895	$6,505,895	56.64%	$3,684,939	120	May-11	Apr-21	$3,348,071	109	$30,716	$368,595	$155,810	$212,785
ER-2010-0355	$80,562,672	5/2011-4/2012	$25,624,005	$0	56.94%	$0	120	n/a	n/a						
ER-2012-0174												$62,038.73	$744,464.80	$544,357.00	**$200,108**
															REV-4.1

ER-2009-0089	Margin	ER-2010-0355	Margin
Sep-09	$5,025,214	May-11	$2,309,599
Oct-09	$3,739,134	Jun-11	$1,555,683
Nov-09	$3,393,865	Jul-11	$2,178,631
Dec-09	$4,334,580	Aug-11	$1,682,434
Jan-10	$4,377,133	Sep-11	$2,004,167
Feb-10	$219,587	Oct-11	$3,009,903
Mar-10	$1,211,217	Nov-11	$3,516,392
Apr-10	$5,143,452	Dec-11	$3,810,528
May-10	$3,480,425	Jan-12	$2,048,992
Jun-10	$1,634,244	Feb-12	$2,100,959
Jul-10	$883,704	Mar-12	$1,421,272
Aug-10	$3,063,340	Apr-12	($14,555)
12-mo total	$36,505,895	12-mo total	$25,624,005

SCHEDULE MLB-20

****HIGHLY CONFIDENTIAL****

Verification of Response

Kansas City Power & Light Company
AND
KCP&L Greater Missouri Operations

Docket No. ER-2014-0370

The response to Data Request # 13-2 is true and accurate to the best of my knowledge and belief.

Signed: Tim Rush

Date: March 6, 2015

Verification of Response

Kansas City Power & Light Company
AND
KCP&L Greater Missouri Operations

Docket No. ER-2014-0370

The response to Data Request # 13-3 is true and accurate to the best of my knowledge and belief.

Signed: Tim Rush

Date: March 11, 2015

SCHEDULE MLB-21

****HIGHLY CONFIDENTIAL****

SCHEDULE MLB-22

KCP&L
Case Name: 2014 KCPL Rate Case
Case Number: ER-2014-0370

Response to Woodsmall David Interrogatories - MECG_20150217
Date of Response: 03/09/2015

Question: 13-9

[Transmission Costs] Ref: Tim Rush testimony, page 20. According to Mr. Rush's testimony, SPP transmission costs allocated to KCP&L have been rising, and projections show that these expenses will continue to increase at a significant rate from 2014 through 2019." Please provide the following additional information:

a. Does KCPL contend that any specific Scheduled charges or credits from SPP have been volatile in nature, such that FAC recovery is essential to stabilize the Company's earnings and financial condition?

b. If your response to part (a) is affirmative, please identify each type of charge or credit that has been volatile and provide supporting analyses quantifying the degree of volatility that has been experienced historically.

c. Does KCPL contend that any specific Scheduled charges or credits from SPP are beyond the control of management either directly or through participation in SPP committees and working groups, such that FAC recovery is appropriate?

d. If your response to part (c) is affirmative, please identify each type of SPP charge or credit that cannot be controlled and describe what third party entities or forces are imposing such uncontrollable costs upon the Company.

e. At page 20, Mr. Rush provides estimates of future anticipated increases in KCPL's share of SPP costs. Please state all assumptions made and provide supporting workpapers for the Company's most current available estimate of overall and by Schedule SPP charges and credits to KCPL, by year for 2015 through 2022, in as much detail as available.

Response:

a. Yes, according to Merriam-Webster.com, "volatile" is defined as: "characterized by or subject to rapid or unexpected change." The rapid change in transmission costs is such that recovery through a rider mechanism, such as the FAC, is necessary to enable the Company an opportunity to earn its authorized return. The regulatory lag associated with normal cases, even if filed back-to-back, creates a situation in which the Company does not have an opportunity to earn its authorized return.

b. As noted in Mr. Rush's testimony on Page 20, the charges that have been rapidly increasing include the transmission costs allocated to KCP&L for the Base Plan transmission projects. As noted in Mr. Rush's testimony, and as can be seen in Schedule TMR-5 in Mr. Rush's testimony, the Base Plan project costs charged to KCP&L through Schedule 11 zonal and region-wide charges related to both Network Integration Transmission Service ("NITS") and Point-to-Point ("PtP") transmission service are projected to increase approximately 16% per year from 2013-2022. The projected 16% per year increase in these costs is well in excess of historical increases in transmission costs, as well as, historical load growth or any reasonable projection of future load growth.

   Also as noted in the Mr. Rush's testimony on Page 21, the SPP administration charge, which is charged for both NITS and PtP service under Schedule 1-A, has also been rapidly increasing.

c. Yes, while KCP&L has voting members on many SPP committees, working groups, and tasks forces, and actively monitors and participates on those on which it does not have a voting member, KCP&L is still subject to the votes of the SPP membership as a whole, which is made up of many stakeholders representing both transmission owners and transmission customers. KCP&L must pay applicable charges under the various schedules of the SPP Open Access Transmission Tariff ("OATT"), which have been approved by the SPP Board of Directors and by FERC.

d. The SPP charges that are largely beyond the control of the Company include the Base Plan charges under Schedule 11 and the SPP administration charges under Schedule 1-A discussed in the response to Question (b) above. The rapid increases in the Base Plan charges are largely being driven by the region-wide projects – most of which are being developed by other transmission owners in SPP. The Schedule 1-A charges are driven by the increasing costs for SPP and is staff to provide regional scheduling, planning, and market-monitoring services. In addition, to the Schedule 11 and Schedule 1-A charges that have been discussed in these responses, FERC assessments are also charged to the Company through SPP Schedule 12 charges. These assessments are determined by FERC.

e. The projected increases provided on Page 20 of Mr. Rush's testimony are based on the information in Schedule TMR-5 of his testimony. The information in TMR-5 is only related to the projected Base Plan charges to KCP&L under Schedule 11 - both NITS (retail) and PtP (wholesale). As noted in the footnotes on Schedule TMR-5, the projections for current the SPP Retail Projected time series is taken from the July 24 2014 Cost Allocation Forecast incl HPILS for the Regional Tariff Working Group ("RTWG") posting on August 4 2014.xlsx, which was prepared by SPP Engineering. It was posted on August 4, 2014 on the SPP website at:

http://www.spp.org/publications/July%202014%2010%20Year%20Forecast%20of%20Allocated%20Costs%20for%20Posting%20to%20RTWG.zip

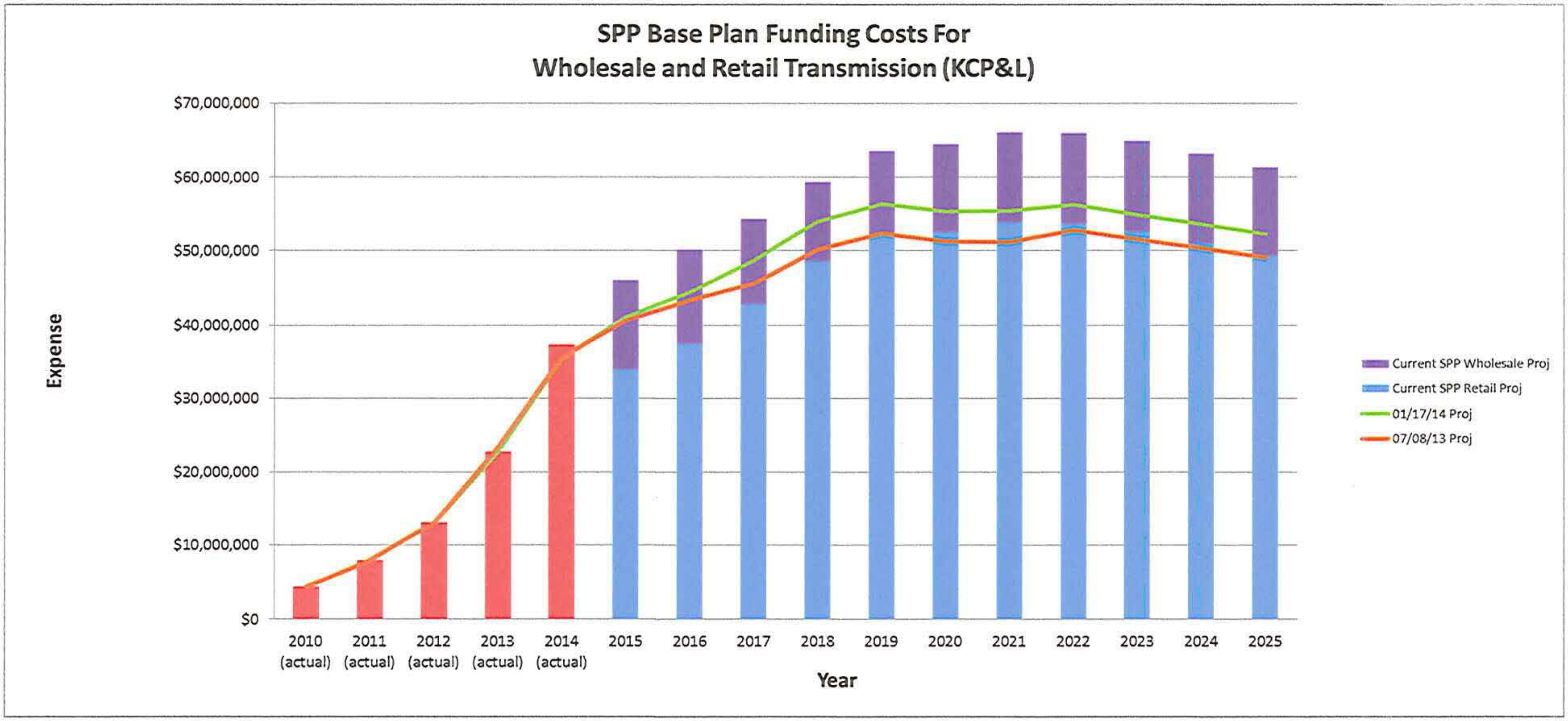
The wholesale projections were based on the Schedule 11 PtP rates applicable at that time and applied to the MWs of PtP transmission service for KCP&L. The PtP rates, which were applied, were increased from year to mimic the SPP-projected increases in retail (NITS) Schedule 11 charges for KCP&L.

SPP typically updates its projections for Schedule 11 NITS charges about twice per year for the RTWG. SPP has not, however, updated the Schedule 11 NITS projections since those that were used to produce Schedule TMR-5 in Mr. Rush's testimony. The attached file, "MECG-20150217-DR 13-9 - KCPL Proj Sch 11 Charges DRAFT 20150226", however, contains a rough attempt to update the projected Schedule 11 PtP charges. These projected Schedule 11 PtP charges reflect the same methodology as was used for the PtP projections in Schedule TMR-5, except that 2014 has been updated for actuals (combined NITS and PtP) and that the initial Schedule 11 PtP rate used in the projections is based on the current rates effective January 1, 2015, which are posted in the Revenue Requirements and Rates ("RRR") file available on the SPP website at: http://www.spp.org/section.asp?group=3091&pageID=27

The long-term projections discussed above only reflect Schedule 11 charges.

Attachment:

Q13-9 - KCPL Proj Sch 11 Charges DRAFT 20150226
Q13-9_Verification.pdf



123

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[1] Projections for Current SPP Retail Proj time series taken from: July 24 2014 Cost Allocation Forecast incl HPILS for RTWG posting on August 4 2014.xlsx, Maintained by SPP Engineering, Posted August 4, 2014, http://www.spp.org/publications/July%202014%2010%20Year%20Forecast%20of%20Allocated%20Costs%20for%20Posting%20to%20RTWG.zip.

[2] Projections for 01/17/14 Proj time series taken from: Jan 17 2014 ATRR Forecast All Upgrades w 2014 ITPNT w Forecast BP True Up for Posting on Jan 31 2014.xlsx, Maintained by SPP Engineering, Posted January 31, 2014. http://www.spp.org/publications/2014%20January%2010%20Year%20Cost%20Allocation%20Forecast.zip.

[3] Projections for 07/08/13 Proj time series taken from: July 8 2013 ATRR Forecast All upgrades for Posting, Maintained by SPP Engineering, Posted July 8, 2013. http://www.spp.org/publications/July%208,%202013%20ATRR%20Forecast%20All%20Upgrades.zip.

Verification of Response

Kansas City Power & Light Company
AND
KCP&L Greater Missouri Operations

Docket No. ER-2014-0370

The response to Data Request # 13-9 is true and accurate to the best of my knowledge and belief.

Signed: Tim Rush

Date: March 6, 2015

SCHEDULE MLB-23

KCP&L
energizing *life*

For billing and service information: 816-221-2323
or toll-free: 1-800-585-4248
For emergencies or lights out: 1-888-544-4852 (1-888-LIGHT-KC)

0014117

Message Board

It's tree planting season. A tree is an asset you'll enjoy for years to come. But some are better than others for planting near power lines. Learn what to consider before selecting your tree at **www.kcpl.com/trees.**

[redacted]

Account Number:	6604 8466 26
Amount Now Due:	$20,744.06
Billing Date:	04/13/15
Please Pay By:	05/04/15

Previous Account Balance		$21,277.14
Payments Received		21,277.14 CR
Previous Balance Due		0.00
Fees/Adjustments		0.00
Current Charges		
Electric	$20,744.06	
Total This Bill		20,744.06
New Account Balance		$20,744.06
Please Pay By May 4		**$20,744.06**
Pay $20,847.78 after May 4		

Make checks payable to :
KCP&L

See back for billing details.

Detach and mail this portion with your payment. Bring entire bill if paying in person.

Account Number **6604 8466 26**

Please write this account number on your check
Make checks payable to KCP&L. Allow 5 to 7 days for delivery and processing when sending payment by mail.

☐ CHECK HERE to indicate address change on back of stub

Please Pay By May 4	**$20,744.06**
Amount due after May 4	**$20,847.78**

Please enter amount enclosed

[redacted]

KCP&L
PO BOX 219703
KANSAS CITY MO 64121-9703

660484662600002084778000020744069300

[redacted]		Account Number:	6604 8466 26
Details of your utility service at:		Billing Date:	04/13/15
[redacted] NEVADA MO		Amount Billed:	$20,744.06

Large Power Secondary (MO730)
Meter Number: AB04297810
Kilowatt Hours
Reading 04/08/15 64515
Reading 03/09/15 63580
30 days 935 Kilowatt Hours (kWh)
x300 Constant
280500 Kilowatt Hours (kWh)
Your average daily usage was 9350.00 kWh
Last year this period it was 9475.86 kWh

Kilowatt
Reading 04/08/15 1.75 Kilowatt (KW)
x300 Constant
525.00 Kilowatt (KW)
Adjusted Demand 61.50 Kilowatt (KW)

Kilovolt Ampere React
Reading 04/08/15 1.08 Kilovolt Ampere React (KVAR)
x300 Constant
324.00 Kilovolt Ampere React (KVAR)

Customer Charge	$179.01
Base Demand Charge 483.6 KW @ $7.17	3,467.41
Base Energy Charge 87,048 kWh @ $0.052	4,526.50
Base Energy Charge 87,048 kWh @ $0.0465	4,047.73
Base Energy Charge 84,285 kWh @ $0.0411	3,464.11
Seasonal Energy Chrge 22,119 kWh @ $0.0403	891.40
Reactive Demand ADJ 61.5 KVR @ $0.40	24.60
FAC 258,381 kWh @ $0.00614	1,586.46
FAC 22,119 kWh @ $0.00614	135.81
RESRAM Chg 258,381 kWh @ $0.00094	242.88
RESRAM Chg 22,119 kWh @ $0.00094	20.79
DSIM Charge 258,381 @ -$0.00081	209.29 CR
DSIM Charge 22,119 @ -$0.00081	17.92 CR
City License Fee	966.30
City Sales Tax $18,359.49 @ 2.5%	458.99
County Sales Tax $18,359.49 @ 1%	183.59
State Sales Tax $18,359.49 @ 4.225%	775.69
Total charge this service	**$20,744.06**

Contact Information Change Form

Account Number: 6604 8466 26

Mailing Address changes only. ***For service address changes call 816-471-5275 or toll-free 1-888-471-5275.***

Address Line 1: ____________________

Address Line 2: ____________________

Address Line 3: ____________________

City: ____________ **State:** ____ **ZIP:** ______ **e-mail address (optional):** ____________

Please print changes in blue or black ink and don't forget to mark the box on the front.

KCP&L energizing *life*

For billing and service information : **816-221-2323**
or toll-free : **1-800-585-4248**
For emergencies or lights out : **1-888-544-4852** (1-888-LIGHT-KC)

Customer Name : [redacted]
Account Number : **3377-65-5149**
Service Address : [redacted]

Due upon receipt : **$ 32,173.42**

Billing Date: 04/15/2015

0021277

Message Board

Summer rates begin May 16. The price for electricity is slightly higher during the four months ahead. It is more expensive to produce energy during the summer months, when demand is at its highest.

It's tree planting season. A tree is an asset you'll enjoy for years to come. But some are better than others for planting near power lines. Learn what to consider before selecting your tree at **www.kcpl.com/trees.**

Account Summary

for service from 03/12/2015 to 04/10/2015

Previously Billed	$ 30,400.40
Payment Received 03/30/2015 - Thank you	- 30,400.40
Current Charges *(details on back)*	
[redacted]	32,173.42
Due upon receipt	**$ 32,173.42**
Late charge if received after April 29, 2015	359.70
Amount due with late charge	$ 32,533.12

Please return this portion with your payment. Thank you.

Customer Name : [redacted]
Account Number : **3377-65-5149**
Service Address : [redacted]
Billing Date : **04/15/2015**

Due upon receipt : **$ 32,173.42**
Payment must be received by : **April 29, 2015**

Amount Enclosed : **$** ________

☐ *CHECK HERE to indicate address or phone changes on back of stub*

[redacted]

Please return payment to:

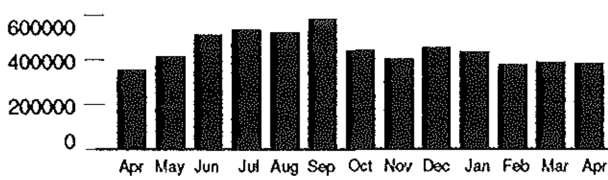
KCP&L
PO BOX 219330
KANSAS CITY MO 64121-9330

000337765514900321734200359700429150З

Customer Name : [redacted]
Account Number : **3377-65-5149**
Service Address : [redacted]

[redacted] **KANSAS CITY, MO**

Large General Service - 1LGSE



Comparative Usage Information

Period	kWh	Days	kWh / day	Total $ / day
Current	381,600	29	13158.6	**$ 1,109.42**
Previous	387,000	30	12900.0	**$ 1,013.34**
Last year	354,600	28	12664.2	**$ 1,066.82**

Billing Details - service from 03/12/2015 to 04/10/2015

Energy Charge	$ 20,941.73
Demand Charge @ 762 kW	2,369.06
Customer Charge..	863.59
Facilities Charge @ 1050 kW..................................	3,038.70
DSIM CHARGE 03/13-04/10 381600kWh@$0.00247 .	942.55
DSIM OPT OUT 03/13-04/10 381600kWh................	- 942.55
NON-MEEIA CREDIT 03/13-04/10 381600kWh	- 309.10
subtotal :	$ 26,903.98
Kansas City franchise fee :	2,989.33
Missouri state sales tax :	1,136.69
Platte county sales tax :	369.93
Kansas City sales tax :	773.49
Current Charges :	**$ 32,173.42**

Meter	Start Read Date	End Read Date	Days	End Read	(-)	Start Read	(=)	Read Difference	(x)	Meter Multiplier	(=)	Actual kWh Used	Actual kW Demand
15849718	03/12	04/10	29	987		351		636		600		381600	762.0

Contact Information Change Form

Account Number: 3377-65-5149

A current telephone listing on file simplifies outage and emergency reporting.
Your service address is identified by the following telephone number:
(816) 813-3803 Change to: ( ) ______ - ________

Mailing Address changes only. *For service address changes call 816-221-2323 or toll-free 1-800-585-4248*

Address Line 1: ____________________

Address Line 2: ____________________

Address Line 3: ____________________

City: ____________ State: ____ ZIP: ________ e-mail address (optional): ____________

Please print changes in blue or black ink and don't forget to mark the box on the front.