

Exhibit No.:
Issue: Rate Design, Energy Efficiency,
La Cygne and Montrose Retrofits,
Low Income Weatherization, Rate
Case Expense, Economic
Considerations, Interim Energy
Charge and Renewable Energy
Standards
Witness: Tim M. Rush
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Kansas City Power & Light Company
Case No.: ER-2012-0174
Date Testimony Prepared: September 5, 2012

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: ER-2012-0174

REBUTTAL TESTIMONY

OF

TIM M. RUSH

ON BEHALF OF

KANSAS CITY POWER & LIGHT COMPANY

Kansas City, Missouri
September 2012

**Certain Schedules Attached To This Testimony Designated "(HC)"
Have Been Removed
Pursuant to 4 CSR 240-2.135.**

KCP&L Exhibit No. 42 NP
Date 10/17/12 Reporter MM
File No. ER-2012-0174

REBUTTAL TESTIMONY

OF

TIM M. RUSH

Case No. ER-2012-0174

1 **Q: Please state your name and business address.**

2 A: My name is Tim M. Rush. My business address is 1200 Main Street, Kansas City,
3 Missouri 64105.

4 **Q: Are you the same Tim M. Rush who pre-filed Direct and Supplemental Direct**
5 **Testimony in this matter?**

6 A: Yes, I am.

7 **Q: What is the purpose of your Rebuttal Testimony?**

8 A: I respond to the Missouri Public Service Commission ("MPSC or the "Commission")
9 Staff ("Staff") Revenue Requirement/Cost of Service report ("Staff Report") and to the
10 Direct Testimony of several witnesses that address issues related to rate design, energy
11 efficiency, LaCygne and Montrose Retrofits, Low Income Weatherization, rate case
12 expense, Economic Considerations, the Interim Energy Charge ("IEC") proposal of
13 Kansas City Power & Light Company ("KCP&L" or the "Company"), and renewable
14 energy standards ("RES").

15 **Rate Design**

16 **Q: Please explain the Company's position regarding rate design in this proceeding.**

17 A: The Company is proposing that the requested increase be spread to all customer classes
18 and all rate components on an equal percentage basis.

1 **Q: Have you reviewed the Direct Testimony provided by the parties in this case on both**
2 **class cost of service study and rate design?**

3 A: Yes. I have reviewed the Direct Testimony of Michael Scheperle on behalf of Staff,
4 Barbara Meisenheimer on behalf of OPC, Maurice Brubaker on behalf of the Industrials,
5 Dr. Dennis Goins representing DOE, and Jay Cummings representing MGE.

6 **Q: Please describe those testimonies.**

7 A: The Direct Testimony filed by Staff witness Scheperle proposes to make a revenue
8 neutral adjustment to all classes except lighting to address rate of return variances
9 identified by their class cost of service (“CCOS”) study. The residential class would
10 receive a 1% increase while the remaining non-lighting classes would receive a decrease
11 of 0.6%. Mr. Scheperle then recommends any remaining revenues be applied on an equal
12 percentage basis to all classes within overall increase constraints. Additionally, Mr.
13 Scheperle is proposing that the first energy block of the Residential General Use and
14 Space Heat – One Meter, Residential General Use and Space Heat – Two Meter, Small,
15 Medium, and Large General Service – All Electric rates be increased by an additional 5%

16 Ms. Meisenheimer, representing OPC, proposes a limited revenue neutral shift for
17 the Small General Service, Medium General Service, and Large Power classes. She
18 proposes that the Small and Medium General Service classes be reduced by 50% of the
19 revenue neutral shift as determined by the Company’s CCOS study. Further, the Large
20 Power class be increased by 50% of the revenue neutral shift as determined by the
21 Company’s CCOS study. For any approved increase, Ms. Meisenheimer is proposing it
22 be applied such that no classes should receive a net decrease. For any approved decrease,

1 Ms. Meisenheimer is proposing it be applied such that no classes should receive a net
2 increase.

3 Mr. Brubaker, representing the Industrials, supports a revenue neutral cost of
4 service adjustment moving each class 25% of the revenue differential. The Residential
5 class would experience an increase while all other classes would receive a decrease. Any
6 remaining increase would then be applied on an equal percentage basis to all classes with
7 the exception of the Large General Service and Large Power classes. For these classes
8 Mr. Brubaker proposes that the tail-blocks of the energy charge should not be changed,
9 the middle blocks be increased by 75% of the remaining increase, and the balance of the
10 remaining increase applied equally to the remaining billing components.

11 Mr. Goins, representing DOE, supports an equal percentage increase to all classes
12 consistent with the Company's proposal in its direct filed case.

13 Mr. Cummings, representing MGE, recommends adjustment to the summer and
14 winter rates of the Residential class to equalize the seasonal rates of return. Further, Mr.
15 Cummings recommends elimination of the Residential Space Heat rate schedules or
16 alternately freezing these rates. Finally, Mr. Cummings proposes a series of scenarios to
17 revise the Residential rate blocking depending on the outcome of his first two
18 recommendations.

19 **Q: What is your initial impression of the proposals offered?**

20 **A:** The proposals appear to focus on two primary issues; responding to the inter-class
21 differences indentified by the respective class cost of service studies and effecting a
22 change on the heating rates of the Company. Additionally, Mr. Brubaker addresses the
23 Large General Service and Large Power rate design.

1 **Q: What is your response to those proposing different inter-class shifts?**

2 A: I believe this is a natural out-come of various parties evaluating the same issue from the
3 perspective of their individual biases. The heart of any class cost of service study is in
4 the allocation of costs. For electric utilities where production plant represents a major
5 cost category, allocation of production plant is a key issue. Mr. Brubaker and Mr. Goins
6 advocate for allocation methods that tend to shift costs to customer classes that rely more
7 on demand consumption rather than energy consumption. The Base-Intermediate-Peak
8 (“BIP”) method proposed by the Company and Staff represents a more detailed method
9 that attempts to balance the allocation across the classes based on a layered allocation of
10 production plant. The direct testimony of Mr. Paul Normand explains the BIP method in
11 more detail.

12 **Q: Do you consider the BIP allocation method superior to the other methods proposed?**

13 A: No. I would not say that any one method is superior. Each method provides a
14 mathematically correct way to allocate costs. The analyst is challenged to find a method
15 that best represents their respective belief of how the costs occur. The Commission in
16 their judgment of the facts of this case must evaluate the methods to determine which
17 options produce a fair and reasonable result. There is ample room for reasonable minds
18 to disagree.

19 **Q: Why did the Company propose the BIP method?**

20 A: The Company has utilized the BIP method in one case prior to this one and proposed the
21 method in conjunction with the Commission’s direction to address seasonal class cost of
22 service, which required an additional amount of detail not previously provided in class
23 cost of service studies. It was our desire to use a method that examined the usage of the

1 production plant, acknowledging the dual nature of these resources in providing energy
2 AND capacity to our customers.

3 **Q: With that being said what is your recommendation concerning the interclass**
4 **differences?**

5 A: My proposal remains the same. I recommend the increase be applied equally to all
6 classes and rate components. Based on the Company's CCOS study results the
7 Residential class is near its cost to serve while the Non-Residential classes are mixed.
8 Any significant change to the Small, Medium, Large, and Large Power classes will put
9 the company at risk to rate switching.

10 **Q: Can the Non-Residential classes be adjusted?**

11 A: Yes, however if major shifts between classes occurred, it would be necessary to take rate
12 switching into account as part of the final rate design definition.

13 **Q: How would you characterize the proposals concerning the heating rates?**

14 A: I see two extremes to the proposals; first, in the case of Staff I see an effort to gradually
15 eliminate differences in the cost of service and second, in the case of MGE, I see an effort
16 to eliminate the rates completely.

17 **Q: What is your response to these proposals?**

18 A: While I do not support either of the recommendations I can see the purpose behind the
19 Staff proposal as it attempts to make some gradual movement to align rates for services.
20 However, I do not believe it follows the results of the class cost of service study. The
21 MGE proposal is an extreme recommendation that seeks to redefine the Company's
22 Residential rates to the benefit of MGE.

1 **Q: Would you further explain the proposal presented by MGE?**

2 A: As noted previously Mr. Cummings recommends adjustment to the summer and winter
3 rates of the Residential class to equalize the seasonal rates of return. Further, Mr.
4 Cummings recommends elimination of the Residential Space Heat rate schedules or
5 alternately freezing these rates. Finally, Mr. Cummings proposes a series of scenarios to
6 revise the Residential rate blocking depending on the outcome of his first two
7 recommendations.

8 **Q: Does MGE provide any cost justification or study for its recommended change to**
9 **available Residential rates?**

10 A: No. No study was prepared or presented that would justify the proposed changes in rate
11 design. MGE made modifications to the Company billing determinates to formulate their
12 proposal. There is no examination of the impacts of the proposed changes. Further,
13 MGE characterizes the under recovery as an inequity, implying some “subsidy” within
14 the Residential class, a situation that is completely incorrect.

15 **Q: Why do you believe this characterization is incorrect?**

16 A: Company witness Paul Normand provides the CCOS study and summarizes the results of
17 the study in his Direct Testimony. The results of the CCOS study show that each class of
18 customer recovers the cost of service to that class and provides a return on investment.
19 Within each class in the study, the seasonal rates show the same thing. That is, the
20 summer and winter rates for each class provide recovery of the cost of service and a
21 return on the investment.

22 Mr. Cummings addresses this inequity because of his position that all rates should
23 be the same, meaning if a customer who has a gas furnace home should pay the same for

1 electricity as a home with an electric heat pump. This position does not take into
2 consideration the differing load characteristics of a home heated with electricity versus a
3 home heated with natural gas.

4 **Q: Please describe additional concerns with MGE's recommendation.**

5 A: Mr. Cumming's proposed rate changes are focused only on Residential rates and will
6 result in considerable increases for customers in the residential space heating -class.
7 Additionally, the proposed rate changes do not take into account the Company's
8 requested revenue requirement which would add to the impact.

9 As in our prior rate case MGE clearly has an ulterior motive - a direct economic
10 incentive to prevent KCP&L from providing cost-based rates for customers who use
11 electricity to heat their homes. Increasing the electric prices for new or existing
12 customers who utilize electricity for space heating without any cost justification will
13 likely result in less sales of electricity and more natural gas sales for MGE.

14 It is also important to note that outside of MGE, a natural gas company that
15 provides service within KCP&L's service territory, there were no builders, developers or
16 HVAC dealers that intervened in this rate case pursuing rate design changes, especially
17 eliminating rates. One would assume that if there was a large public outcry to eliminate
18 certain rates that there may have been more interest in this case other than those with
19 obvious self-interest, such as, the competing natural gas company.

20 **Q: Are heating rates common?**

21 A: Yes. I did a brief research of neighboring utilities via the Internet and found numerous
22 utilities offering heating rates. I found that Mid American Energy in Iowa, Empire
23 District Electric in Kansas and Oklahoma, MidWest Energy in Kansas and Nebraska

1 Public Power District all have defined Residential Heating rates. While other utilities did
2 not expressly identify a rate as an electric heating rate, their rate design supports electric
3 heating or other winter season usage. One way that electric utilities price service is
4 through the summer/winter price differentials. Nearly all Midwestern electric utilities
5 acknowledge seasonal differences in their Residential rate. Further some utilities elect to
6 place more emphasis on much higher summer prices than winter prices to address cost
7 causation. At KCP&L, the rate design has migrated to reflect more of an annual average
8 rate than a clearly defined summer/winter differential.

9 **Q: Mr. Cummings makes a number of claims in his testimony. First he identifies an**
10 **advantage held by the Space Heat rates and attributes this advantage to energy**
11 **price. Do you agree?**

12 A: No. Mr. Cummings avoids the primary issue with his assertion, customer choice. What
13 he does not consider is that Residential customers and builders are satisfied with the
14 performance of their electric heating choices, primarily heat pumps, and choose to install
15 them in their homes. Further, he does not consider that often heat pumps are installed
16 with gas heat back-ups. I am of the belief that the dual fuel aspect is well received.

17 **Q: Mr. Cummings then identifies the full fuel cycle in claiming gas heating is more**
18 **efficient than electric heating. What is your understanding of the full fuel cycle?**

19 A: The U.S. Department of Energy ("DOE") proposed to use full fuel cycle ("FFC") method
20 in their national impact analyses and environmental assessments. The full fuel cycle
21 includes all energy used from the point of "creation" to the point of "consumption" in the
22 measurement of efficiency. I believe that while the DOE Policy Statement is advocating
23 the use of a full-fuel cycle for environmental assessments and national impact analyses,

1 subsequent DOE Policy Statements also indicated that “utilizing the FFC measure for
2 environmental assessments and national impact analyses would not require alteration of
3 the measures used to determine the energy efficiency of covered products (referred to
4 herein as “appliances and equipment” or just “appliances”) because the Energy Policy
5 and Conservation Act (“EPCA”), as amended, requires that such measures be based
6 solely on the energy consumed at the point of use. [42 U.S.C. 6291 (4)-(6), 6311(3)-(4),
7 (18)]”.¹

8 **Q: Please continue.**

9 **A:** Concerning policy the DOE stated,

10 whether it should establish a policy to calculate and use in future
11 rulemakings such extended-site or FFC efficiency metrics for appliances
12 for which there is a fuel choice. DOE concluded, however, that the use of
13 extended site or FFC energy efficiency metrics would only provide a
14 rough indicator of the impacts of possible fuel switching on total energy
15 savings and emissions and, therefore, would not enhance current DOE
16 estimates of the direct impacts of alternative standard levels on fuel
17 choice, energy savings, emissions and other factors.²

18 **Q: Did the DOE establish a policy?**

19 **A:** The DOE issued a policy statement as follows:

20 **B. Using FFC Energy Efficiency Metrics in DOE's Assessment of**
21 **Energy Conservation Standards Impacts**

22 Policy Statement: After careful consideration, DOE has concluded that
23 calculating and comparing efficiency ratings on an FFC basis is not likely
24 to significantly enhance the considerable information already available on
25 the likely impacts of prospective energy conservation standards on total
26 energy use, emissions and other factors. Consequently, DOE does not
27 intend to create or use such metrics in the development of future appliance

¹ Energy Conservation Program for Consumer Products and Certain Commercial and Industrial Equipment: Statement of Policy for Adopting Full-Fuel-Cycle Analyses Into Energy Conservation Standards Program, Energy Conservation Program for Consumer Products and Certain Commercial and Industrial Equipment: Statement of Policy for Adopting Full-Fuel-Cycle Analyses Into Energy Conservation Standards Program. A Notice of Policy by the U.S. Energy Department published in the Federal Register Volume 76, Number 160, Aug. 18, 2010, Section I, Summary of the policy.

² *Id.*, section B, ¶ 3.

1 efficiency standards. While DOE already accounts for the potential
2 impacts of fuel switching in its energy conservation standards analyses
3 (where appropriate), it will make the methodologies and results of fuel
4 switching more explicit in all rulemakings in which fuel switching might
5 occur.³

6 **Q: What is KCP&L's position on the use of the full-fuel cycle analysis in the evaluation**
7 **of efficiency?**

8 A: It is KCP&L's position that the efficiency of end-use measures be based on the energy
9 consumed at the point of use, a method which is consistent with the EPCA.

10 **Q: Mr. Cummings provides details from a recent Kansas rate proceeding. Does Mr.**
11 **Cummings appropriately detail the facts from that case?**

12 A: No. While Mr. Cummings is quick to seize on the results of the case he does not properly
13 establish the context of the case. Multiple parties took the extreme position of
14 eliminating rates and deploying inverted block pricing for some rates. Many of these
15 proposals would result in extreme increases for significant numbers of our customers.
16 The proposal offered by the Company was made to provide some movement to the rates
17 but avoid the extreme outcomes proposed by the parties. Additionally, the existing
18 residential space heating rates in Kansas had some deficiencies that were addressed in the
19 proposal. No such deficiency exists in the current Missouri rate design.

20 **Q: Mr. Cummings states that electric heating is inconsistent with public policy. Are**
21 **you aware of any public policy that dictates one fuel source over another?**

22 A: No, I am not aware of any policy statement that supports one fuel choice over another.

³ *Id.*, section B, ¶ 5.

1 **Q: In light of these various proposals by the Staff and MGE, what issues do you believe**
2 **are critical when contemplating a rate design proposal?**

3 A: There are a handful of considerations I believe are critical to the Company in
4 contemplating a rate design change. They are:

5 Provide Revenue Stability and Risk Mitigation – The Company must account for:

- 6 1) the price elasticity of any new design in its revenue requirement;
- 7 2) the risk of the revenue requirement coming from higher blocks; and
- 8 3) the effect of any rate switching that may occur in the revenue requirement.

9 I do not believe that MGE has taken any of these issues into account in its
10 proposal. I believe that if the residential space heating rate were to be eliminated and
11 customers were required to move to the alternative general use rate in its current form,
12 that the Company would lose a considerable amount of sales which would ultimately
13 harm all customers. If the space heating rate were to be eliminated, I believe that
14 considerable analysis would be necessary in order to make the alternative rate design
15 appropriate. The same would hold true if MGE were successful in freezing the
16 residential space heating rate.

17 Implement Cost-Based Rates – The rate design should reflect distinguishing
18 characteristics of various customer usage profiles. This is supported by the testimony of
19 Company witness Paul Normand and the results of the class cost of service (“CCOS”)
20 study, as well as giving consideration to the results of the other studies presented. Rates
21 should provide continuity across the range of customer classes (i.e., you should not have
22 one rate for each customer nor should you have one rate only for all customers)

1 Minimize Customer Dissatisfaction –

- 2 1) Changes must be made in such a way as to minimize significant impacts to
3 customers. If rates are to be no longer offered to new customers (i.e.,
4 frozen from new customer locations), the Company should allow for some
5 time period to elapse so that customers currently committed to that rate
6 can still get the rate to justify their investment.
- 7 2) If a rate is to be discontinued to all customers, the rate impact of those
8 customers should be considered and the evaluation of the alternative rates
9 the customer would move to should be considered in the determination of
10 the revenue requirement of the Company.

11 Simplify the Rate Structure – The Company should seek to combine or reduce
12 rates where possible.

13 Consider Technology Issues – The Company must be certain it has the technology
14 in place to measure the usage and produce bills for the new rates.

15 **Q: You have detailed your concerns with the respective rate design proposals. Do you**
16 **stand by your original recommendation?**

17 A: Yes. I recommend the increase be applied equally to all classes. Additionally, I
18 recommend that the rate increase be applied to all of the rate components on an equal
19 basis except for the Large General Service and Large Power rate classes. For those two
20 classes, I support the recommendation of MIEC witness Maurice Brubaker.

21 **Q: Why do you support the position of Mr. Brubaker?**

22 A: After considering the position of Mr. Brubaker, I have concluded that his analysis of the
23 Large General Service and Large Power rates makes sense. He is not proposing a radical

1 change in rate design, but is addressing the significance that the current rates places on
2 energy and recommending that more of the rate design should reflect demand costs on the
3 demand portion of the rates, than on the tail energy block.

4 **LED Lighting**

5 **Q: Did you review Staff's testimony concerning LED Lighting?**

6 A: Yes.

7 **Q: What is the status of the LED pilots at this time?**

8 A: There are four pilots that the Company is involved; the Electric Power Research Institute
9 ("EPRI") LED Street and Area Lighting Project, the KCP&L LED Pilot, the LED
10 Information Sharing with City of Kansas City, and the MARC Smart Lighting for Smart
11 Cities pilot. The KCP&L LED pilot is complete with the final report issued in August.
12 The EPRI study evaluation is complete and the final report is being prepared. The
13 Information Sharing with City of Kansas City is an ongoing effort consisting of monthly
14 exchanges of information. The MARC pilot is finalizing the installation of
15 approximately 4,000 lights and the evaluation is underway.

16 **Q: When do you expect the Company to make a decision concerning offering an LED
17 Street Lighting tariff?**

18 A: Although two of the four efforts are generally complete we believe the MARC pilot will
19 provide the best information concerning the practicality of an LED Street Lighting tariff
20 for our customers. As this effort will not be complete until late 2013, the Company will
21 not be in a position to decide the issue by the end of 2012 as proposed by Staff. The
22 Company is willing to provide the requested status report by the end of 2012 but would
23 not expect a tariff to be ready for submission to the Commission until early 2014.

1 Other Tariff Issues

2 **Q: Did you review Staff's testimony concerning Tariff Issues?**

3 A: Yes.

4 **Q: What is your response to Staff's issues?**

5 A: I am in support of the tariff changes identified in the Staff report with two clarifications.
6 First, in multiple tariff sheets Staff proposes to change codes from a proceeding "1" to a
7 following "U" or from a proceeding "3" to a following "S". We consider these codes to
8 be duplicative and recommend we remove any reference to "1", "3", "U", or "S" in the
9 codes as all of the KCP&L tariffs are applicable to our entire retail service area. Second,
10 concerning the specific recommendation, *Municipal Traffic Control Signal Service –*
11 *Rate Schedule "1-TR" KCPL should change it to "ML-U"*, we believe "ML-U" was
12 identified by mistake and the code should be "TR-U" in the Staff recommendation. I
13 support making the noted changes as part of our compliance filings in this case or sooner
14 if practical. We are supportive of the proposal to combine tariffs sheets and are willing to
15 work with Staff to establish a timeline to complete that effort.

16 KCP&L MEEIA Application

17 **Q: What is the current status of the Company's Missouri Energy Efficiency Investment**
18 **Act ("MEEIA") application?**

19 A: KCP&L withdrew its MEEIA application on February 17, 2012. However, KCP&L
20 Greater Missouri Operations Company ("GMO") is currently working with parties in an
21 effort to reach an agreement in the GMO MEEIA case (Case No. EO-2012-0009).

1 **Q: When will KCP&L pursue another MEEIA filing?**

2 A: KCP&L witness Darrin R. Ives cited in his Direct Testimony multiple reasons for the
3 withdrawal of the KCP&L MEEIA filing, including a lack of capacity need, economic
4 factors, and the negative impact to customer rates in the short term-all of which continue
5 to be valid. Since all of the reasons for withdrawing the KCP&L MEEIA filing continue
6 to exist, KCP&L does not intend to file a MEEIA filing in the immediate future.
7 However, KCP&L will continue to monitor the environment, GMO's progress in their
8 MEEIA filing, and perform ongoing analysis through the Integrated Resource Plan
9 ("IRP") process to determine when a KCP&L MEEIA filing makes the most sense.

10 **Q: When does KCP&L's IRP show that it will have a need for additional capacity?**

11 A: While the assumptions and components considered in the IRP planning process are
12 dynamic and ever-changing, the IRP plan selected reflects a plan selected at a point in
13 time. Given the continuous nature of the IRP process, as assumptions change, resulting
14 plans change, and as such, the selection of a preferred plan could change. However, the
15 2012 IRP filing reflects KCP&L implementing KCP&L specific approved MEEIA
16 demand-side management programs.

17 **Q: Doesn't KCP&L have an obligation to pursue all cost effective demand side savings
18 per the MEEIA legislation?**

19 A: Obviously, KCP&L's decision to pursue an aggressive demand-side management
20 ("DSM") plan cannot be made without weighing the costs and benefits against each other
21 to determine what makes the most sense for all stakeholders. The MEEIA legislation
22 provides a framework by which a utility could value demand-side investments equal to
23 traditional investments in supply and delivery infrastructure. This equality is crucial for a

1 utility as it evaluates its operational resources against operational needs and makes capital
2 business decisions. As the decision to build a power plant is not done in a vacuum and
3 without consideration of multiple factors including available resources, demand needs,
4 and economic factors, etc.; the blind pursuit of all cost effective demand-side savings
5 does not make sense without the same consideration of all of these factors.

6 **Q: Does this mean that KCP&L will not be offering any energy efficiency programs to**
7 **its customers?**

8 A: Fortunately, KCP&L had been committed to energy efficiency long before the passing of
9 the MEEIA legislation and currently has 14 existing commission approved DSM
10 programs currently in place in which customers can continue to participate.

11 **La Cygne and Montrose Retrofits**

12 **Q: As suggested on page four of Sierra Club witness Bruce Biewald's Direct Testimony,**
13 **is there a mechanism under Missouri law which would allow a public and**
14 **transparent process with full participation by all interested parties to proactively**
15 **review and determine if resource investments are prudent?**

16 A: Missouri law does not allow for the predetermination of prudence for resource
17 investments or allow for a formal process to be established to facilitate formal meetings
18 and the filing of construction progress reporting.

1 **Q: With no mechanism available to formally communicate project progress, what has**
2 **KCP&L done to provide information to the Staff and the Office of the Public**
3 **Counsel (“OPC”) on the status of the project?**

4 A: KCP&L has informally met with the Staff and OPC on several occasions and provided an
5 update on the status of the project. The Company has made offers to the Staff for on-site
6 meetings at La Cygne.

7 **Q: Is it appropriate to address La Cygne and Montrose project documentation, review**
8 **and prudence in this docket?**

9 A: KCP&L has not requested recovery of costs related to the La Cygne project in this rate
10 request. Any discussions of project prudence and the associated documentation and
11 review would be addressed in a rate proceeding after the assets are determined by Staff to
12 be in-service and a formal request for cost recovery is filed with the Commission. The
13 same is true with Montrose. While a recently completed capital project at Montrose is
14 included in this case, it is not a major addition comparable to the La Cygne project.

15 **Q: Does KCP&L currently provide information to Staff on the progress of the La**
16 **Cygne construction project?**

17 A: Yes, KCP&L is required to file a project update to the Kansas Corporation Commission
18 in a compliance docket on a monthly basis. This docket was opened in response to
19 Commission Order in Docket No. 11-KCPE-581-PRE, the Predetermination docket for
20 the La Cygne Environmental Retrofit project. This compliance report is provided to Staff
21 as an informal project status update.

1 **Q: Do you agree that KCP&L should conduct prudent planning for generation**
2 **investments?**

3 A: KCP&L agrees with Mr. Biewald's statement on page 3 of his Direct Testimony that
4 "KCP&L has an obligation to conduct prudent planning with regard to its investments."
5 This is accomplished through the Commission's IRP rule and communicated to the
6 Commission through KCP&L's IRP. KCP&L resource planning is addressed in the
7 testimony of Company witness, Burton L. Crawford.

8 **Low Income Weatherization**

9 **Q: Do you agree with MDNR witness Adam Bickford's concerns regarding KCP&L's**
10 **Low Income Weatherization program?**

11 A: No. I disagree with two areas in particular: (1) Mr. Bickford states his concern that
12 KCP&L is not distributing all of the weatherization funds collected from ratepayers; and
13 (2) that KCP&L does not disclose to the community action agencies ("CAA") the amount
14 allocated for distribution.

15 **Q: Please elaborate.**

16 A: First, KCP&L does not collect funding from ratepayers and then distribute to the CAAs.
17 The process occurs on a historical basis. The CAAs provide low income weatherization
18 to eligible homes in their territory and then invoice KCP&L. KCP&L then expends the
19 appropriate amount of funding and accounts for the payments in the month paid. As part
20 of KCP&L's rate case, the amounts booked during the test year are included. There is no
21 collection prior to actual dollars spent.

1 **Q: Please discuss the second issue of disclosure of funding levels.**

2 A: KCP&L enters into an annual contract with each approved CAA delivering low income
3 weatherization services in its service territory. The annual contracts disclose the
4 allocated amount in the "Compensation" section. The contract with Missouri Valley
5 Community Action, a CAA in the KCP&L territory, is attached hereto as Schedule TMR-
6 6.

7 **Q: Do you have anything additional to discuss regarding Low Income Weatherization**
8 **testimony?**

9 A: Yes, I would like to discuss the annual funding level. Mr. Bickford requests that the
10 Commission consider ordering KCP&L to increase its "collections" for its weatherization
11 program and provide revenue requirement treatment for these additional weatherization
12 funds. City of Kansas City, Missouri witness Douglas Bossert also requests an increase
13 to the annual funding level due to the expiration of The American Recovery and
14 Reinvestment Act of 2009 funding.

15 **Q: Is the Company providing the amount of funding outlined in the Report and Order**
16 **in Case No. ER-2010-0355?**

17 A: While the Company stands ready to provide funding at the level addressed in our last
18 case, funding at that level has not occurred. It has been the Company's experience that
19 with the exception of a select few, the CAAs have not been able to utilize the annual
20 funding allocations. Therefore, before execution of the 2012 contracts with the CAAs,
21 the Company met with each agency and arrived at an agreed upon funding level in line
22 with the expected level of weatherization projects. If those amounts are expended, the
23 Company stands ready to address further funding levels.

1 **Q: If an agency depletes its annual allocation of weatherization funding provided by**
2 **KCP&L, is there a way for the agency to receive additional funding?**

3 A: Yes, KCP&L would discuss the request with the DSM Advisory Group and work within
4 the DSM Advisory Group to provide additional funding.

5 **Rate Case Expense**

6 **Q: What adjustments did Staff make to the post true-up in Case No. ER-2010-0355**
7 **("2010 Rate Case") expenses?**

8 A: Staff made several adjustments to the post true-up 2010 Rate Case expense amounts.
9 Staff made disallowances in the amount of \$421,500 for certain Communication Counsel
10 of America, SNR Denton and Schiff Hardin charges.

11 **Q: Is the Company opposed to the disallowance of The Communication Counsel of**
12 **America costs removed by Staff?**

13 A: The Company believes these costs are valid and prudent; however, since they were
14 disallowed by the Commission in the 2010 Rate Case the Company agrees with removing
15 them from the post true-up amounts. The amount of this adjustment is \$13,408.

16 **Q: Is the Company opposed to the disallowance of the SNR Denton costs made by**
17 **Staff?**

18 A: Those costs are related to the Advanced Coal Tax Credit issues and the Company agrees
19 with the removal of those costs. The adjustment amount is \$15,365.

20 **Q: Is the Company opposed to the disallowance of Schiff Hardin costs made by the**
21 **Staff?**

22 A: Yes. The services provided by Schiff Hardin for the 2010 Rate Case were prudent and
23 reasonable and should be recovered. Staff is removing non-witness personnel costs that

1 occurred post true up. While these Schiff Hardin personnel were not witnesses at the
2 hearing they were necessary to provide behind the scene support to those witnesses that
3 were testifying on behalf of the Company and assisting in the preparation and
4 presentation of the Company's Iatan 2 case. Though they may not have had a highly
5 visible presence before this Commission, these Schiff Hardin personnel and expenses
6 were indispensable in assisting the Company in presenting a high-quality record and
7 briefs for most of the prudence issues in this case. Several Schiff Hardin personnel were
8 witnesses for this case but there were many other services provided by other Schiff
9 Hardin attorneys and staff, including; assisting in testimony preparation, coordination of
10 prudence strategy, document analysis and review, preparation of exhibits, legal research
11 regarding prudence, analysis of prior MPSC disallowances, cross-examination
12 preparation, and issue identification. Schiff Hardin provided insight and advice on
13 almost every issue related to the prudence of the management of the Iatan 2 project and
14 its costs. Schiff Hardin's attorneys had a unique level of on-the-ground construction
15 experience and vast project documentation related to this specific project. The amount of
16 Staff's disallowance for Schiff Hardin costs is \$392,727.

17 **Q: Staff's position is that the Company should not have used Schiff Hardin attorneys to**
18 **help present the Iatan prudence issues in the 2010 Rate Case and instead should**
19 **have staffed the case with either KCP&L employees that happen to be licensed to**
20 **practice law in Missouri or attorneys from other law firms. Does that make sense to**
21 **you?**

22 **A:** No. In the 2010 Rate Case, the Commission, on page 52 of the Report and Order, found
23 that Schiff Hardin brought value to the Iatan project. The Company used the same

1 individuals that “brought value” to the Iatan project to help present its case regarding the
2 prudence of the Iatan project to the Commission. The use of Schiff Hardin made sense
3 since these individuals were the same individuals that were involved in all of the issues
4 that Staff and others challenged in the Iatan prudence portion of the 2010 Rate Case, such
5 as the Alstom settlement and the Pullman adjustment.

6 Under Staff’s position, the Company should have hired different attorneys to
7 attend the hearing and present the case on the Iatan prudence issues. Staff’s position
8 doesn’t take into account the fact that the new attorneys would have had to spend many
9 hours getting up to speed on the Iatan issues. Indeed, Staff’s adjustment simply removes
10 the Schiff Hardin costs, but it doesn’t calculate what it would cost to hire comparable
11 personnel from another law firm. Nor does Staff’s position take into account the
12 specialized construction law and regulatory experience of the Schiff Hardin employees.
13 Hiring a different law firm to help present the Iatan prudence issues in the case instead of
14 using the experienced Schiff Hardin personnel who were intimately familiar with the
15 issues that were to be tried would not have been a prudent decision by the Company.

16 Staff also maintains that the Company should have used employees with law
17 licenses to perform the work that Schiff Hardin performed at the 2010 Rate Case. First,
18 just because an employee possesses a law license does not necessarily mean that they are
19 engaged in the active practice of law. In addition, most of these employees have limited
20 or no experience with the Iatan prudence issues, construction law or the regulatory
21 process and have a job to perform at the Company.

1 **Q: Which Schiff Hardin personnel is Staff disallowing post true up costs?**

2 A: Staff is removing the post true up costs of Kevin Kolton, Virgil Montgomery, Carrie
3 Okizaki, Amanda Schermer, Shawn Hoadley, Eric Gould, Ned Markey, Tonja Dean,
4 Heidi Hennig Rowe, and Kathy Skagerberg,

5 **Q: Did these individuals from Schiff Hardin bill excessive time to the 2010 Rate Case**
6 **after the true-up date?**

7 A: No. Several individuals billed less than 65 hours post true up. Montgomery only billed
8 2.5 hours, Skagerberg only 2 hours, Dean billed 10 hours, Kolton billed 29.2 hours, and
9 Rowe billed 29.3 hours. The majority of the work performed post true-up was by
10 Roberts, Okizaki, Schermer, Hoadley, Gould, and Markey.

11 **Q: Did the Commission rule to disallow any Schiff Hardin costs in their order for the**
12 **2010 Rate Case?**

13 A: No. The Commission ruled that Schiff Hardin costs related to the 2010 Rate Case were
14 prudent and reasonable and granted their recovery.

15 **Economic Considerations**

16 **Q: In reviewing the Staff Report, Section IV Economic Considerations, were you**
17 **surprised with any of the facts and statistics supplied?**

18 A: No. Staff's discussion regarding the challenging economic conditions since 2007 rings
19 true. The Company is keenly aware of the economic conditions of our service territory.

- 1 **Q: Staff Report cites a number of areas where the economic conditions of the service**
2 **territory have not kept up with the changes in the economy. For example**
- 3 **a. wages and earnings are not keeping up with increasing costs of living;**
 - 4 **b. Missouri falls behind the nation in Gross Domestic Product in 2010 and**
5 **2011;**
 - 6 **c. Missouri mortgage delinquency has increased greatly between the fourth**
7 **quarter of 2007 and the fourth quarter of 2011; and**
 - 8 **d. unemployment rates are higher in 2011 than in pre-recession 2007.**

9 **How do these facts affect the Company and its service to customers?**

- 10 **A:** These facts affect the Company in a number of ways. A weak economy affects the
11 overall Company in how it serves its customers. As such, the Company has:
- 12 • expanded its “Connections” program in an effort to help those who need it most;
 - 13 • increased the Company match on DollarAide from 50% to 100% (shareholder
14 dollars);
 - 15 • instituted the “Family Relief Fund” (shareholder dollars);
 - 16 • filed for approval to extend the “Economic Relief Pilot Program” until new rates
17 are set in this case;
 - 18 • implemented extended arrearage payment arrangements to get customers who
19 have been disconnected for non-pay, reconnected; and
 - 20 • continued its energy efficiency programs, ones particularly designed to help low
21 income customers and educational programs designed to help customers better
22 manage their electrical use.

1 It will take healthy companies, including utilities, to move the economy to recovery.
2 Without adequate earnings and returns to shareholders, the Company has to pay more for
3 its borrowings necessary to run the Company. Customers will ultimately pay for those
4 higher costs of capital.

5 **Q: What comments do you have regarding Barbara Meisenheimer's Direct Testimony**
6 **where she asserts that the Commission should decide this case "in a manner that**
7 **recognizes the economic challenges faced by households in KCP&L's service area"?**

8 A: While I am not an attorney, I am familiar with the Commission's responsibilities to set
9 just and reasonable rates for a utility. Ms. Meisenheimer's testimony ignores that fact
10 that under Missouri law, KCP&L and its stockholders have a constitutional right to a fair
11 and reasonable return upon their investment. State ex rel. Missouri Water Company v.
12 Public Service Commission, 308 S.W. 2d. 704 (Mo. 1958).

13 **Interim Energy Charge**

14 **Q: On page 28 of witness Greg Meyer's Direct Testimony, he states that KCP&L has**
15 **not complied with the requirement for an IEC ceiling. Do you agree with this**
16 **statement?**

17 A: No. On the contrary, as explained in my Direct Testimony on page 12 and supported
18 with the base and ceiling calculation attached to that testimony, the IEC ceiling is set at
19 zero.

1 **Q: Mr. Meyer further states on page 28 of his Direct Testimony that the setting of the**
2 **ceiling at zero means that the Company is requesting that any increase or decrease**
3 **in fuel and purchased power costs be deferred for later recovery. Is this a true**
4 **statement?**

5 A: No, it is not. As presented in my Direct Testimony, as well as the tariff contained in
6 Schedule TMR-4, the intent for this IEC mechanism is to offset increases in variable fuel
7 and purchased power costs with increases in off-system sales (“OSS”) margins. The goal
8 of the mechanism is to balance changes in fuel and purchased power costs with changes
9 in OSS margins. A band of OSS between the 40th to 60th percentiles has been proposed
10 that would allow for a complete offset of projected OSS margins with increases in fuel
11 and purchased power.

12 **Q: Please explain how this will work.**

13 A: A base IEC rate will be established in rates based upon traditional ratemaking processes.
14 This base will include OSS margins (proposed to be at the 40th percentile level of the
15 NorthBridge projections). This base is established on a kWh basis. Annually for two
16 years, the actual variable fuel and purchased power costs net of actual OSS margins on a
17 kWh basis will be compared to the base. If the net is less than the base, fuel costs will be
18 refundable to customers. If the net is higher than the base, the Company will not recover
19 those increased costs. In addition to this, if the OSS margins are below the 40th
20 percentile, the Company will share a portion of those OSS margins with customers at the
21 level of 75%. The Company would defer 25% of the OSS margins for future recovery.

1 **Q: What would happen if the off-system sales margins were above the 60th percentile?**

2 A: As explained above, the Company would net the OSS margins up to and including the
3 60th percentile level. For the portion of OSS revenues above the 60th percentile, 25% of
4 that would be retained by the Company. If that overall netting resulted in an amount
5 above the base, everything other than the 25% of the OSS margins over the 60th
6 percentile would be refunded to the customer. The 25% retained by the Company would
7 be deferred for future recovery.

8 **Q: Mr. Meyer has stated that given no ceiling there will be no incentive for the**
9 **Company to minimize fuel costs. Please explain why this is not true.**

10 A: As one can see from the descriptions above as well as the illustrative scenarios attached
11 to this testimony as Schedule TMR-7 (HC), the Company has a very strong incentive to
12 both control fuel and purchased power costs while at the same time maximizing OSS
13 margins. This proposal would allow for the Company to manage the largest set of costs it
14 faces without adding an incremental charge to the customer. This proposal provides
15 flexibility to the Company to manage expected cost increases in a very unpredictable and
16 sluggish market without burdening the customer additionally with a ceiling that is higher
17 than typically set base rates.

18 **Q: Mr. Meyer states on pages 29-30 of his Direct Testimony that KCP&L does not face**
19 **the fuel cost volatility that other companies which have received IEC's in the past**
20 **did and thus does not need an IEC. Do you agree?**

21 A: No, I do not. As history has shown, KCP&L faces ever rising fuel and purchased power
22 costs. At the same time, revenue growth has declined from prior periods. Allowing a
23 mechanism where the Company can manage its increasing costs by sharing in the benefit

1 of OSS margins is a way for the Company to deal with an ever tightening and
2 unpredictable market.

3 **Q: On page 30 of Mr. Meyer's Direct Testimony he states that KCP&L's request for an**
4 **IEC as presented is really just a fuel adjustment clause ("FAC") in disguise. Is this**
5 **correct?**

6 A: No. An FAC allows for rate changes between rate cases. This proposal does not. It
7 establishes a base rate as all IECs have done in the past. Instead of setting a ceiling that
8 is higher than the base rate, KCP&L has attempted to soften any rate increase to the
9 customer by proposing a mechanism under which it will manage those expected increases
10 by offsetting with OSS margins. In addition, the Company is proposing to share those
11 margins that fall above or below an established level. This symmetrical proposal offers
12 an incentive for the Company to control costs and increase OSS margins. Based upon the
13 proposed tariff, refunds will be made at the end of the two years and deferrals will be
14 recovered in a future rate case. At no time will the rate charged to the customer change
15 between rate cases in my proposal.

16 **Q: On page 31 of Mr. Meyer's Direct Testimony he claims that KCP&L set the IEC**
17 **rate at zero to protect itself 100% of any loss of OSS margins in the rate case. How**
18 **do you respond to this accusation?**

19 A: This is completely untrue. The proposed IEC mechanism affords some protection against
20 the volatility of the market that we've seen over the past several years by allowing the
21 Company a symmetrical offset of OSS margins against fuel and purchased power costs.
22 By that, possible increases in OSS margins would be offset to increases in fuel and
23 purchased power costs, and vice versa. However, it does not protect the Company

1 completely. It allows the Company to manage its costs by sharing in a positive way OSS
2 margins while protecting it from a volatile market.

3 **Q: Mr. Meyer has also indicated that he believes the introduction of the Southwest**
4 **Power Pool Integrated Marketplace in April 2014 will provide greater opportunities**
5 **for KCP&L to make larger off-system sales margins. Do you agree with this**
6 **determination?**

7 A: It is very difficult to say at this point how the change will impact costs to provide service
8 to our customers as well as the ability to make and profit from off system sales. The
9 general consensus is that the market will tighten and OSS margins will decrease.

10 **Q: What do you conclude from Mr. Meyer's testimony?**

11 A: He has chosen to take a negative view of the Company's proposal that I believe will
12 benefit both the customer and the Company. The IEC as proposed here is a fair and
13 equitable proposal to establish rates at a level that is reasonable while affording the
14 Company an opportunity to use a portion of its OSS margins to offset expanding costs
15 during a time of low revenue growth opportunities. It also eliminates the current
16 asymmetrical system of OSS margins that fails to provide proper incentives to the
17 Company, as discussed at the hearings in KCP&L's 2010 Rate Case.

18 **Renewable Energy Standards ("RES")**

19 **Q: Does the Company have any concerns with Staff's proposal on RES costs?**

20 A: Yes. Staff has not included deferred RES costs in rate base, as KCP&L did in its filed
21 case.

22 **Q: Did Ms. Lyons state why Staff did not include deferred RES costs in rate base?**

23 A: No.

1 **Q: Why does KCP&L believe deferred RES costs should be included in rate base?**

2 A: The primary objective of the RES is to increase the use of renewable energy and thereby
3 reduce future coal generation. Therefore, and particularly as relates to solar renewable
4 energy, the deferred RES costs are similar in nature to deferred DSM costs. Since both
5 the Staff and the Company have consistently included deferred, unamortized DSM costs
6 in rate base, KCP&L has included deferred RES costs in rate base in this rate case.
7 Amortization will not begin until the effective date of new rates in this case; therefore,
8 the entire deferral RES balance should be included in rate base.

9 **Q: What is that balance?**

10 A: The balance at March 31, 2012 was \$3.8 million. This balance should of course be
11 updated through August 31, 2012 as part of the True-up process.

12 **Q: Should the deferred cost balance include carrying costs?**

13 A: Yes, consistent with the Commission's Order in Case No. EU-2012-0131 the deferred
14 balance should include carrying costs.

15 **Q: Does KCP&L have any other concerns with Staff's proposed treatment of RES
16 costs?**

17 A: No. Ms. Lyons states in the Staff Report that an ongoing level of RES costs and a three-
18 year amortization of deferred RES costs should be included in cost of service. KCP&L
19 had proposed an ongoing level and a five-year amortization, but is not opposed to the
20 three-year amortization.

1 **Q: Does the Company have any concerns regarding any other party's treatment of RES**
2 **costs in this proceeding?**

3 A: Yes. KCP&L has two concerns. First, and most important, MIEC witness Greg Meyer
4 recommends that an ongoing level of RES costs not be included in cost of service,
5 whereas, as I stated earlier, both KCP&L and Staff include an ongoing level.

6 **Q: What reasoning does Mr. Meyer present?**

7 A: He states that the "RES Rule" does not contemplate an ongoing or normalized level of
8 expense, other than the amortization of prior deferrals.

9 **Q: Do you agree that with Mr. Meyer?**

10 A: No. The "RES Rule" that Mr. Meyer refers to is the cost recovery mechanism for utilities
11 not pursuing a Renewable Energy Standard Rate Adjustment Mechanism, addressed in 4
12 CSR 240-20.100(6)(d). That section states:

13 In the interim between general rate proceedings the electric utility may
14 defer the costs in a regulatory asset account, and monthly calculate a
15 carrying charge on the balance in that regulatory asset account equal to its
16 short-term cost of borrowing. All questions pertaining to rate recovery of
17 the RES compliance costs in a subsequent general rate proceeding will be
18 reserved to that proceeding, including the prudence of the costs for which
19 rate recovery is sought and the period of time over which any costs
20 allowed rate recovery will be amortized.

21 This section is clear that all questions pertaining to rate recovery, such as whether or not
22 to include an ongoing level of expense, will be addressed in a rate proceeding; i.e., the
23 current rate case. It is unreasonable to state that just because the question of ongoing
24 costs was not specifically addressed in this regulation that such costs should not be
25 considered in this rate case.

1 **Q: Assuming it is appropriate to address the issue of an ongoing level of expense in this**
2 **proceeding, why does KCP&L believe an ongoing level should be included in cost of**
3 **service?**

4 A: An ongoing level of RES expense should be included for the same reason that any other
5 ongoing, reasonable and necessary cost should be included in cost of service, such as
6 payroll, fuel, etc. KCP&L expects to continue to incur these costs, unless the rules are
7 changed, and therefore such costs should be included in rates unless found to be
8 imprudent.

9 **Q: You mentioned that you have two concerns with Mr. Meyer's RES**
10 **recommendation. What is the other concern?**

11 A: Mr. Meyer recommends a six-year amortization of deferred costs, whereas, as I discussed
12 earlier, KCP&L recommends five years and Staff three years.

13 **Q: The Commission now has before it three recommended amortization periods? Is**
14 **there room for middle ground on this issue?**

15 A: Yes. KCP&L considers its five-year amortization period to be that middle ground,
16 between Staff's three years and Mr. Meyer's recommended six years. None of the parties
17 presented specific reasons for their recommendations, which confirms that there is no
18 precise answer.

1 Q: Mr. Meyer stated he has concerns about KCP&L's application of its Allowance for
2 Funds Used During Construction ("AFUDC") rate rather than the required short-
3 term debt rate as the carrying cost related to these investments. Why did the
4 Company choose to use the AFUDC rate?

5 A: The Company incorrectly utilized the AFUDC rate in its filing and agrees with Mr.
6 Meyer that the appropriate carrying cost rate should be a short-term debt rate. Consistent
7 with its approved accounting authority order request for RES costs recovery, the
8 Company will include in its true-up case carrying costs at the required short-term debt
9 rate.

10 Q: Did Mr. Meyer recommend rate base treatment of deferred RES costs?

11 A: Yes, he did.

12 Q: Does that conclude your testimony?

13 A: Yes, it does.

Cooperative Agreement
Effective January 1, 2012 entered into between
Kansas City Power and Light Company
and
City of Kansas City, Missouri
a Missouri Municipal Corporation
for a
Residential Conservation Program

THIS COOPERATIVE AGREEMENT, made and entered into January 1, 2012, between Kansas City Power and Light Company, hereinafter referred to as "KCP&L" and the City of Kansas City, Missouri, a constitutionally chartered municipal corporation of the state of Missouri hereinafter referred to as "AGENCY", consists of two parts: Part I, General Terms and Conditions and Part II, Statement of Work..

WITNESSETH THAT:

WHEREAS, KCP&L desires to engage AGENCY to administer and conduct certain services (as set forth in Part I, Section 3 below) in connection with a residential conservation program; hereinafter referred to as "Program", and

WHEREAS, KCP&L desires to engage AGENCY to conduct certain administrative services (as set forth in Part II, below) in connection with the Program, and

WHEREAS, the AGENCY desires to perform such services on behalf of KCP&L subject to the terms and conditions of this Cooperative Agreement.

NOW, THEREFORE, IT IS AGREED BY THE PARTIES AS FOLLOWS:

PART I - GENERAL TERMS AND CONDITIONS

Section 1 - **Time of Performance** - The services, set out in Section 3, to be performed by the AGENCY shall begin on January 1, 2012. This Cooperative Agreement shall terminate at midnight on December 31, 2012, unless otherwise terminated by KCP&L or the AGENCY, or amended by all parties pursuant to the terms, conditions, and provisions of this Cooperative Agreement hereinafter set forth.

Section 2 - **Compensation**

AGENCY

1. **Administrative Charges.** The maximum compensation for administrative services payable by KCP&L to AGENCY under this Cooperative Agreement shall not exceed 13% of the Program Total Compensation that is detailed in Part I, Section 2 (3) for the current year and that is utilized by AGENCY. If AGENCY's services under this Cooperative Agreement are terminated prior to completion of all administrative services on any household, AGENCY shall be compensated for administrative services it has completed prior to termination that it can reasonably justify as costs it incurred prior to termination.
2. **Charges for Conservation Measures.** The average amount payable to AGENCY by KCP&L for conservation measures on any one household shall not exceed the Adjusted Average Expenditure Limit for weatherization determined by the U.S. Department of Energy that is applicable for the month that the weatherization is completed on the total households serviced by AGENCY in the Time of Performance detailed in Part I, Section 1 above, excluding AGENCY's administrative costs.

3. **Program Total Compensation.** The total Program compensation payable by KCP&L to AGENCY for administrative services and conservation measures on all households shall not exceed \$300,000.00. The average expenditure per customer in each program year will not exceed the adjusted average expenditure limit for weatherization determined by the U. S. Department of Energy that is applicable for the month that the weatherization is completed. For Fiscal Year 2012, that amount is not to exceed \$6500.00
4. **Program Funding.** AGENCY agrees to spend approximately 50% of the total funding within six (6) months of the program start. The 50% can include work either completed or in progress. If this amount of expenditure has not been met, KCP&L can reallocate the differences to another social agency of KCP&L's choice.

Section 3 - **Services To Be Performed**

AGENCY. AGENCY shall provide home energy conservation measures, as defined in this Cooperative Agreement to customers of KCP&L from the verified applications supplied by KCP&L, on a first come, first served basis (within the income and home ownership parameters set forth in this Cooperative Agreement), in the KCP&L service area. In addition, AGENCY shall:

1. Perform initial audits of the premises of potential recipients of conservation measures;
2. Determine which premises are suitable for implementation of conservation measures;
3. To the maximum extent possible, blend KCP&L funding with Missouri Department of Natural Resources Division of Energy funds or other eligible funding sources;
4. Prepare and let bids for the work to be performed;
5. Award agreements to contractors for the work;
6. Complete post-audit inspections;
7. Pay the contractors for work performed; and
8. Submit bills to KCP&L.

Section 4 - **Method of Payment**

Bills will be submitted on a monthly basis in a form agreed upon between KCP&L and AGENCY. KCP&L will ensure that AGENCY is paid in accordance with this Cooperative Agreement. The billing will be summarized with one billing reflecting line by line the homes receiving conservation measures that month, the dollar amount of weatherization services performed, and a detailed listing of conservation measures implemented at the premises. For each location, AGENCY will maintain a copy of the original bid sheets reflecting the bid on each conservation measure and a copy of the final contractor billing sheets, which would reflect any changes from the original bid. KCP&L shall have the right to inspect AGENCY records regarding the Program at any reasonable time during regular business hours with seven (7) calendar day's written notice to AGENCY.

Section 5 - **Representations and Warranties** - KCP&L and AGENCY represent and warrant that each has the power and authority to execute and deliver this Cooperative Agreement, to use the funds as contemplated hereby, and to perform this Cooperative Agreement in accordance with its terms.

Section 6 - **Binding Effect** - This Cooperative Agreement shall be binding upon the parties hereto and upon their successors in interest.

Section 7 - **Amendment** - This Cooperative Agreement may be amended only in writing signed by all the parties hereto.

Section 8 - **Termination for Cause** - Any party may terminate this Cooperative Agreement by giving five (5) days written notice, if one of the other parties substantially fails to fulfill its obligations under this Cooperative Agreement through no fault of the terminating party. Prior to such termination, the terminating party shall provide written notice to the other party of its failure to perform and shall give that party a reasonable period of time to correct its failure to perform.

Section 9- **Termination for Convenience** - Any party may terminate this Cooperative Agreement at any time by giving five (5) days notice in writing to the other parties. If any party under this Section terminates the Cooperative Agreement, AGENCY shall be paid in accordance with this Cooperative Agreement for work completed up to the time of termination.

Section 10 - **No Discrimination** - No party hereto shall discriminate against any individual because of race, color, religion, sex, national origin, age or disability.

Section 11 - **Entire Agreement** - This Cooperative Agreement, together with any aforementioned exhibits, constitutes the entire agreement of the parties with respect to the subject matter hereof.

Section 12 - **Governing Law** - This Cooperative Agreement was executed and made in Missouri and shall be construed in accordance with the laws of the state of Missouri.

Section 13 - **No Obligation to Other Parties** - Neither KCP&L nor AGENCY will be obligated or liable hereunder to any other party.

Section 14 - **Notices** - Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be deemed given three (3) days after deposit in the United States mail, regular mail, postage prepaid, or upon receipt by personal or facsimile delivery addressed as follows:

- A. If to KCP&L: Roland Maliwat
Manager of Sustainability, Weatherization Program
Kansas City Power and Light Company
P. O. Box 418679
Kansas City, Missouri 64141-9679
Facsimile number (816) 654-1970

- B. If to AGENCY: John A. Wood
City of Kansas City, Missouri
11th Floor City Hall
414 E 12th Street
Kansas City, MO 64106
Facsimile number (816) 513-3049

or to such other place as the parties may designate by notice in accordance with this section.

PART II

STATEMENT OF WORK

Section 1. Selection Process

- A. First, AGENCY will screen KCP&L customers for participation in this Program. The initial screening will be performed based on information in AGENCY's database.

The total amount of grants offered by KCP&L to the agency for each qualifying home shall not exceed the Adjusted Average Expenditure Limit for weatherization determined by the U.S. Department of Energy that is applicable for the month that the weatherization is completed refer to: <http://apps1.eere.energy.gov/weatherization/>.

- B. Second, KCP&L will further screen customers to verify that the household energy consumption is greater than 3,000 kWh per year and that the customer has received electric service from KCP&L for a minimum of one year immediately preceding the date of the application. Eligible customers with electric heat shall be served before others without electric heat within a category.

Section 2 - Audit Request

- A. KCP&L - Upon receipt of a printout from AGENCY of potential candidates, KCP&L will determine that energy consumption and length of service requirements have been met and that the customer has made attempts to maintain a payment history, no matter how small. KCP&L will also disqualify any customer with a history of diversion. KCP&L will notify AGENCY of those clients that qualify and AGENCY will work with the client to complete the application. AGENCY will request that an audit be made of the Customer's premises.

- B. AGENCY shall:

1. Perform the audit following the guidelines of the NEAT (National Energy Audit).
2. Perform a computerized analysis using NEAT or REM/Rate software to determine the economics and pay back of the various improvements.
3. If the computer analysis proves that the pay back period is reasonable; develop site-specific work specifications for the work to be done.
4. Work specifications shall be based on the items listed in Exhibit I, Allowable Energy Conservation Measures, which is attached hereto and incorporated herein by reference.
5. Ensure that all work performed must be in compliance with all building and other applicable codes.
6. Within ten (10) business days of conducting the audit and, subject to availability of the Customer, shall discuss with the Customer the relative cost-effectiveness of each component of the proposed conservation measures determined to be effective and necessary by the energy audit. The customer must approve (or disapprove) the project in total; he or she will not be allowed to select certain specific conservation measures and reject other conservation measures.
7. Issue requests for bids as needed from program approved contractors.
8. Obtain agreement from landlords to perform work on rental properties where the renter is responsible for the electric bills, to share at least 25% of the cost of weatherization, and to refrain from rent increases for a minimum of 2 (two) years.

Section 3. Contractor Requirements and Bid Process - AGENCY shall be responsible for the following:

- A. Contractor Requirements. All Contractors participating in the conservation program must:

1. Have the required liability insurance as required by AGENCY's Weatherization Program and have attended mandatory pre-bid conferences before being awarded any work.
2. Abide by the requirements contained in the contractor pre-bid package developed by AGENCY.

B. Bids Process.

1. All bids shall be competitively bid to the greatest extent possible.

Section 4. **Post-Project Inspection and Approval** - Within ten (10) business days after completion of the conservation measures at any single premise; AGENCY shall inspect the premise using diagnostic equipment to analyze the acceptability and effectiveness of the Contractor's work. The inspection shall determine compliance with specifications for the conservation measures; materials utilized therein, quality of services rendered, and compliance with all building and other applicable codes.

AGENCY or its approved subcontractor will require that Contractors complete the work within the contracted time frame take corrective action within the ten (10) calendar days.

Section 5. **Applicant Exclusion** - AGENCY shall advise KCP&L of exclusion of any applicant from the program due to AGENCY's or its approved subcontractor's determination that the premises are structurally unsound or hazardous. If an applicant is excluded for the foregoing reason, AGENCY or its approved subcontractor shall advise applicant that he or she may choose to resubmit the application with such additional information as may substantiate eligibility, including information regarding completion of remedial steps to make the premises structurally sound or free from hazards. To the extent funds are available; AGENCY or its approved subcontractor shall resume the weatherization process.

Section 6. **Payments** -KCP&L will receive a monthly report from AGENCY detailing each project completed, including inspection and acceptance, and the total expenditure for that household. KCP&L shall pay AGENCY an amount, which includes:

1. Cost of the cost-effective conservation measures on each household completed that month. The cost of conservation measures on the total households service by AGENCY shall not exceed the Adjusted Average Expenditure Limit for weatherization determined by the U.S. Department of Energy that is applicable for the month; and
2. Administrative costs for each household receiving conservation measures that month. Total maximum compensation for administrative services shall not exceed 13% of the Program Total Compensation for the current year and that is utilized by AGENCY.
3. The total amount to be paid to AGENCY by KCP&L for conservation measures and administrative fees shall not exceed \$300,000.00 for the Program.

Section 7. **Administrative Arrangements**

B. AGENCY shall:

1. Monitor and maintain records of customer complaints concerning conservation measures, and make every effort to resolve the complaints.
2. Document and submit to KCP&L (if requested), in conformance with provisions of this Cooperative Agreement organized for each of the premises, bid requests and subsequently submitted bids by Contractors and the executed contracts. AGENCY shall retain all relevant documents for two years from the date of submittal to KCP&L.
3. Allow observation of conservation measures work by KCP&L to be conducted at any reasonable time during regular business hours with written or facsimile notice to the

AGENCY by KCP&L.

4. Submit monthly reports to KCP&L detailing the progress for each home. AGENCY agrees to submit the following reports, and such other reports as may be reasonably required, to KCP&L:
 - a. Monthly Program Status Report in the form provided by KCP&L to AGENCY; and
 - b. Monthly Report in the form of conservation measure specifications and change orders for each conservation project completed for the month of the reported period.
5. Agency shall replace the light bulb in the central light fixture of any room in the household with a CFL light bulb during the post-inspection period.

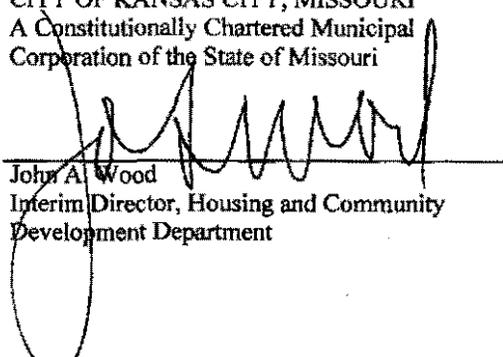
IN WITNESS WHEREOF, the parties have caused this agreement to be executed by their duly authorized representatives the day and year first above written:

ATTEST:

Kansas City Power and Light Company

Allen Dennis
Director of Products & Services

CITY OF KANSAS CITY, MISSOURI
A Constitutionally Chartered Municipal
Corporation of the State of Missouri

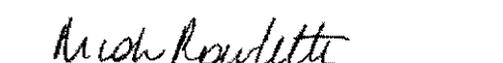


John A. Wood
Interim Director, Housing and Community
Development Department

APPROVED AS TO FORM:



City Clerk



Assistant City Attorney

EXHIBIT I
RESIDENTIAL CONSERVATION PROGRAM
ALLOWABLE ENERGY CONSERVATION MEASURES

The AGENCY shall select energy conservation measures for installation in KCP&L's Residential Weatherization Program based on the positive cost effectiveness results of the energy audit and NEAT or REM/Rate computer analysis. The following numerical priorities are a guideline for AGENCY to use if needed:

- Priority #1) Install smoke detector
- Priority #2) Air infiltration
 - a) Caulking/weather stripping
 - b) Door & window repair
 - c) Ceiling & wall repair
- Priority #3) Ceiling insulation and ventilation
 - a) Roof repair
- Priority #4) Wall insulation
- Priority #5) Basement/floor/crawl space insulation
- Priority #6) Repair air conditioner
- Priority #7) Replace air conditioner
- Priority #8) Replace furnace and gas or electric hot water tank
- Priority #8) Replace energy inefficient refrigerator per allowable measures under the DNR WAP
- Priority #8) Replace incandescent bulbs with CFL

SCHEDULE TMR-7
THIS DOCUMENT CONTAINS
HIGHLY CONFIDENTIAL
INFORMATION NOT AVAILABLE
TO THE PUBLIC