

Exhibit No.:

Issue: Minimum Filing Requirements,  
Revenues, Depreciation Study,  
Electric Class Cost of Service Study,  
Rate Design, Rules and Regulations,  
Interim Energy Charge, Integrated  
Resource Plans

Witness: Tim M. Rush

Type of Exhibit: Direct Testimony

Sponsoring Party: Kansas City Power & Light Company

Case No.: ER-2012-0174

Date Testimony Prepared: February 27, 2012

Filed  
November 30, 2012  
Data Center  
Missouri Public  
Service Commission

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO.: ER-2012-0174**

**DIRECT TESTIMONY**

**OF**

**TIM M. RUSH**

**ON BEHALF OF**

**KANSAS CITY POWER & LIGHT COMPANY**

**Kansas City, Missouri  
February 2012**

**Certain Schedules Attached To This Testimony Designated "Highly Confidential"  
Have Been Removed  
Pursuant To 4 CSR 240-2.135.**

**KCP&L Exhibit No. 40-NP  
Date 10/17/12 Reporter MM  
File No. ER-2012-0174**

**DIRECT 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: By whom and in what capacity are you employed?**

5 A: I am employed by Kansas City Power & Light Company ("KCP&L" or "Company") as  
6 Director, Regulatory Affairs.

7 **Q: What are your responsibilities?**

8 A: My general responsibilities include overseeing the preparation of the rate case, class cost  
9 of service ("CCOS") and rate design of both KCP&L and KCP&L Greater Missouri  
10 Operations Company. I am also responsible for overseeing the regulatory reporting and  
11 general activities as they relate to the Missouri Public Service Commission ("MPSC" or  
12 "Commission").

13 **Q: Please describe your education, experience and employment history.**

14 A: I received a Master of Business Administration degree from Northwest Missouri State  
15 University in Maryville, Missouri. I did my undergraduate study at both the University  
16 of Kansas in Lawrence and the University of Missouri in Columbia. I received a  
17 Bachelor of Science degree in Business Administration with a concentration in  
18 Accounting from the University of Missouri in Columbia.

1 **Q: Please provide your work experience.**

2 A: I was hired by KCP&L in 2001 as the Director, Regulatory Affairs. Prior to my  
3 employment with KCP&L, I was employed by St. Joseph Light & Power Company  
4 ("Light & Power") for over 24 years. At Light & Power, I was Manager of Customer  
5 Operations from 1996 to 2001, where I had responsibility for the regulatory area, as well  
6 as marketing, energy consultant and customer services area. Customer services included  
7 the call center and collections areas. Prior to that, I held various positions in the Rates  
8 and Market Research Department from 1977 until 1996. I was the manager of that  
9 department for fifteen years.

10 **Q: Have you previously testified in a proceeding before the MPSC or before any other**  
11 **utility regulatory agency?**

12 A: I have testified on several occasions before the MPSC on a variety of issues affecting  
13 regulated public utilities. I have additionally testified at the Federal Energy Regulatory  
14 Commission and the Kansas Corporation Commission.

15 **Q: What is the purpose of your testimony?**

16 A: The purposes of my testimony are to:

- 17 I. Explain how the Company satisfied the MPSC's minimum filing requirements  
18 ("MFR") under 4 CSR 240-3.030;
- 19 II. Explain how the Company satisfied the depreciation study requirements under 4  
20 CSR 240-3.160;
- 21 III. Provide the retail revenue adjustment to reflect the annualized and normalized  
22 revenue level for KCP&L's Missouri jurisdiction;

1 IV Address the Company's position on the inclusion of Off-System Sales ("OSS")  
2 Margins in the Company's cost of service.

3 V. Discuss the results of KCP&L's CCOS study and proposed tariff changes;

4 VI. Recommend the rate design and other tariff changes in this case;

5 VII. Recommend the implementation of an Interim Energy Charge ("IEC"), and

6 VIII. Propose the combining of the two utilities' Integrated Resource Plans.

7 **I. MINIMUM FILING REQUIREMENTS**

8 **Q: What is the purpose of this part of your testimony?**

9 A: The purpose of this part of my testimony is to confirm that KCP&L has satisfied the  
10 MPSC's MFR, as set forth in 4 CSR 240-3.030.

11 **Q: How did KCP&L satisfy the MFR?**

12 A: The following information was prepared to address the specific requirements of the MFR  
13 as outlined in 4 CSR 240-3.030(3):

14 A. Letter of transmittal

15 B. General information, including:

16 1. The amount of dollars of the aggregate annual increase and percentage  
17 over current revenues;

18 2. Names of counties and communities affected;

19 3. The number of customers to be affected;

20 4. The average change requested in dollars and percentage change from  
21 current rates;

22 5. The proposed annual aggregate change by general categories of service  
23 and by rate classification;

- 1                   6.     Press releases relative to the filing; and  
2                   7.     A summary of reasons for the proposed changes.

3   **Q:    Are you sponsoring this information?**

4   A:    Yes, I am.

5   **Q:    Was this information prepared under your direct supervision?**

6   A:    Yes, it was.

7                                   **II. DEPRECIATION STUDY REQUIREMENTS**

8   **Q:    Has the Company performed a depreciation study in this proceeding?**

9   A:    No, the Company filed a depreciation study in its last rate case (Case No. ER-2010-0355)  
10       in compliance with the requirements of 4 CSR 240-3.160. The rule requires a study to be  
11       filed at least every five years or three years if a rate case occurs between the five years.  
12       The last rate case falls within this time frame and thus a depreciation study is not required  
13       in this rate case.

14                                   **III. ANNUALIZED/NORMALIZED REVENUES**

15   **Q:    Were the retail revenues included in this filing prepared by you or under your**  
16       **supervision?**

17   A:    Yes, they were.

18   **Q:    Will you describe the method used in developing the revenues for this case?**

19   A:    Both the weather-normalized kWh sales and customer levels by rate class were developed  
20       by Company witness George M. McCollister. Mr. McCollister explains those figures in  
21       his Direct Testimony. The test year used by the Company in this case was twelve months  
22       ending September 30, 2011, which will be updated for known and measurable changes  
23       through August 31, 2012. The monthly bill frequencies for the twelve months ending

1 September 30, 2011, that contain the billing units for each of the billing blocks for the  
2 various rate components were developed under my supervision. For example, the  
3 residential general use rate has three billing blocks in the winter period, while only one  
4 billing block in the summer period. The bill frequency collects the actual usage that is  
5 billed in each of the billing blocks for each month of the test period. It also collects the  
6 actual number of customers in each of the months.

7 By applying the actual rates to the usage in each of the billing blocks, the actual  
8 revenues can be reproduced. This method provided the basis for determining the overall  
9 revenues to be used in this case. The Company determined monthly revenues by  
10 applying the normalized sales and customer levels for each month represented in the test  
11 period to the corresponding billing frequency. This was done for each month. The  
12 normalized sales and customer levels from this were then multiplied by the rates that took  
13 effect on May 4, 2011. The sum of these revenues was compared to the actual revenues  
14 for the test year ending September 30, 2011 to determine the revenue adjustment  
15 contained in the Summary of Adjustments attached to the Direct Testimony of Company  
16 witness John P. Weisensee as Schedule JPW-4 (adjustment R-20).

#### 17 IV. OFF-SYSTEM SALES MARGIN

18 **Q: What is the Company recommending for inclusion in the cost of service in this case**  
19 **with regard to OSS Margins?**

20 **A:** The Company proposes to initially establish the contribution of Off-System Sales Margin  
21 ("Margin") at the 40<sup>th</sup> percentile of the probabilistic analysis for the period January 1,  
22 2013 to December 31, 2013 ("2013 Period"). This would be treated as a reduction to  
23 KCP&L's test year revenue requirements. The probabilistic analysis that supports setting

1 such Margin at the 40<sup>th</sup> percentile is provided in the Direct Testimony of Company  
2 witness Michael M. Schnitzer.

3 **Q: Why is the Company recommending that the Commission set Margin at the 40<sup>th</sup>**  
4 **percentile in this case, while the Company has supported setting it at the 25<sup>th</sup>**  
5 **percentile in prior cases?**

6 A: Because of a number of factors, the Company is recommending the 40<sup>th</sup> percentile in  
7 combination with a proposed IEC. Even though the 40<sup>th</sup> percentile is significantly higher  
8 than the 25<sup>th</sup>, the 40<sup>th</sup> percentile is still a margin driver for the Company's revenue  
9 increase request. Had the Company requested the 25<sup>th</sup> percentile, the rate increase  
10 request would have been greater. The Company disagreed in the last case with including  
11 the 40<sup>th</sup> percentile because of the risks it placed on the Company; however, the Company  
12 supports the 40<sup>th</sup> percentile in this proceeding along with the Company's  
13 recommendation for the IEC.

14 **Q: Please provide some history behind the OSS Margin issues and how they have been**  
15 **treated for purposes of setting rates.**

16 A: Company witness Michael Schnitzer traces the history of OSS Margins and how it has  
17 been treated in KCP&L's rate cases since 2006. The Commission has relied on Mr.  
18 Schnitzer's probabilistic analysis of OSS Margins since the beginning of the  
19 Comprehensive Energy Plan. The reason for using this type of analysis is based on the  
20 need to balance the interests of shareholders and ratepayers. In each of the Company's  
21 last four rate cases, the Commission ordered that any over-recovery of the margins be  
22 returned to customers. Any under-recovery would be absorbed by the Company.

1 **Q: In your opinion, has this arrangement been fair to the Company, given the risks it**  
2 **faced?**

3 A: No. I believe that it would have been more appropriate to provide for a symmetrical  
4 method which provided for recovery of any under-recovery, as well as returning to  
5 customers any over-recovery of OSS Margin. Because OSS Margin is such a critical  
6 component of the Company's overall revenue requirement, it would not be reasonable  
7 either to customers or to the Company to set the OSS Margin at a level and require the  
8 Company to absorb margins below the level that is set and the Company to keep anything  
9 above. Because of the risk to the Company, it is clear that a more appropriate vehicle for  
10 dealing with OSS Margin is in a fuel adjustment clause or an IEC. OSS Margins are by  
11 their very nature contra to fuel prices. By that, I mean when fuel prices go up, OSS  
12 Margins go up, and OSS Margins is an offset to fuel and purchased power costs.

13 Since most state utility regulators in the United States consider OSS Margin to be  
14 an element of their utilities' authorized fuel adjustment clauses, it serves as an off-set to  
15 fuel and purchased power costs. I am recommending the Commission approve an IEC in  
16 this proceeding to help address this imbalance between customers and the Company.

#### 17 **V. ELECTRIC CLASS COST OF SERVICE**

18 **Q: Has the Company performed an electric CCOS study for this case?**

19 A: Yes, the Company performed a CCOS study for this case. Company witness Paul  
20 Normand provides the CCOS study and summarizes the results of the study in his Direct  
21 Testimony.

1 Q: **Has the Company filed a CCOS in previous rate cases?**

2 A: Yes. In the Company's last rate case, Case No. ER-2010-0355, the Company filed a  
3 CCOS study which was used for purposes of rate making. In the Company's case  
4 previous to that, Case No. ER-2009-0089, the Company also filed a CCOS.

5 Q: **Do the contents of the CCOS in this case reflect the financial data associated with  
6 this case filing?**

7 A: Yes. The data in Mr. Normand's testimony is based on the financial data filed in this  
8 case.

9 Q: **What methodology did Mr. Normand use in preparing his CCOS study?**

10 A: As with the prior case, Mr. Normand used a methodology often referred to as the Base,  
11 Intermediate, Peak ("BIP") method. This methodology allocates costs to classes based on  
12 the utilization of production facilities. This is described in detail in Mr. Normand's  
13 Direct Testimony. This is the same methodology that the Commission Staff used in the  
14 last rate case.

15 Q: **What are the general results and conclusions from the CCOS study?**

16 A: The results of the CCOS study show that each class of customers recovers the cost of  
17 service to that class and provides a return on investment. Further, the seasonal rates show  
18 the same thing. That is, the summer and winter rates for each class provide recovery of  
19 the cost of service and a return on the investment.

20 The CCOS study demonstrates that rates charged during the winter generally  
21 provide a lower contribution to the average return on investment than the summer rates,  
22 with two exceptions. Those exceptions are Small General Service other and Medium  
23 General Service secondary as shown in Table 3 of company witness Paul Normand. The

1 customers who receive service under the all-electric tariff provide a lower return to the  
2 Company than a comparable general service rate.

3 **Q: What other observations have you drawn from the CCOS study?**

4 A: The results of the CCOS study show that rates in the Large Power class are providing less  
5 revenue than the average rate of return, while the Small General Service and Medium  
6 General Service classes are earning well above the average rate of return. One of the  
7 Company's primary concerns with shifting revenues between classes is that it will result  
8 in customer shifts between classes. This further complicates the rate design necessary to  
9 recover the total revenues.

#### 10 VI. ELECTRIC RATE DESIGN

11 **Q: Are you sponsoring the electric tariffs filed in this case?**

12 A: Yes, I am.

13 **Q: Are you recommending changes to the rate design based on the results of the CCOS  
14 study filed in this case?**

15 A: Not at this time.

16 **Q: Please describe the proposed rate design recommendation for the electric tariffs and  
17 any additional proposed changes to the tariffs?**

18 A: The Company is requesting an increase in rates of \$105.7 million (15.1%). The  
19 Company is proposing that the requested increase be spread to all customer classes and  
20 all rate components on an equal percentage basis.

21 **Q: Are you proposing any additional tariff changes?**

22 A: Yes, as described in the testimony of Company witness Jimmy D. Alberts, the Company  
23 is proposing changes to the Economic Relief Pilot Program (ERPP) tariff. The Company

1 is recommending increasing the number of participants and changing it from a pilot  
2 program to Economic Relief Program (ERP).

### 3 VII. INTERIM ENERGY CHARGE

4 **Q: Does the Company have a Fuel Adjustment Clause ("FAC")?**

5 A: No, it does not. Per the Stipulation and Agreement ("Stipulation") approved in 2005 by  
6 the Commission in KCP&L's Experimental Regulatory Plan ("Regulatory Plan") docket,  
7 Case No. EO-2005-0329, the Company agreed that it will not seek a FAC prior to June 1,  
8 2015. However, the Company is not prohibited from requesting an IEC.

9 **Q: Please explain.**

10 A: As permitted by Section III(B)(1)(c) at pages 7-8 of the Stipulation in Case No. EO-  
11 2005-0329, KCP&L can propose an IEC in a general rate case filed before June 1, 2015  
12 within the following parameters:

- 13 1. The rates and terms for such an IEC shall be established in a rate case along with  
14 a determination of the amount of fuel and purchased power costs to be included in  
15 the calculation of base rates.
- 16 2. The rate or terms for such an IEC shall not be subjected to change outside of a  
17 general rate case where all relevant factors are considered.
- 18 3. The IEC rate "ceiling" may be based on both historical data and forecast data for  
19 fuel and purchased power costs, forecasted retail sales, mix of generating units,  
20 purchased power, and other factors including plant availability, anticipated  
21 outages, both planned and unplanned, and other factors affecting the costs of  
22 providing energy to retail customers.

1 4. The duration of any such IEC shall be established for a specified period of time,  
2 not to exceed two years.

3 5. A refund mechanism shall be established which will allow any other over-  
4 collections of fuel and purchased power amounts to be returned to ratepayers with  
5 interest following a review and true-up of variable fuel and purchased power costs  
6 at the conclusion of each IEC. Any uncontested amount of over-collection shall  
7 be refunded to ratepayers no later than 60 days following the filing of the IEC  
8 true-up recommendation of the Staff.

9 6. During an IEC period, KCP&L shall provide to the Staff, Public Counsel and  
10 other interested Signatory Parties monthly reports that include any requested  
11 energy and fuel and purchase power cost data.

12 **Q: Is the Company requesting an IEC in this case?**

13 A: Yes, the Company is requesting that the Commission approve an IEC rate as part of this  
14 general rate case.

15 **Q: What are the rules for establishing an IEC?**

16 A: While the IEC is specifically addressed in the Regulatory Plan Stipulation with the  
17 components expressed above, the Commission has established specific rules pertaining to  
18 both FACs and IECs. The rules are contained in the statute and regulations pertaining to  
19 the establishment of a Rate Adjustment Mechanism ("RAM"), which are found in  
20 Section 386.266, RSMo and in Commission Rules 4 CSR 240-20.090 and 4 CSR 240-  
21 3.161(2)(A) through (S). The RAM rules apply to both FACs and IECs. Section  
22 20.090(12)(B) specifically states that the provisions of the rules shall not affect any

1 experimental regulatory plan that was approved by the Commission and was in effect  
2 prior to the effective date of the rule.

3 **Q: Has the Company met all of the filing requirements to establish the IEC?**

4 A: Yes. The information required to be presented when an electric utility files to establish  
5 an IEC is contained in my testimony schedules TMR-1 through TMR-5. The IEC tariff  
6 sheet is identified in Schedule TMR-4.

7 **Q: Did the Company also complete a line loss study required in 4 CSR 240-20.090?**

8 A: Yes, it did. A line loss study was completed in October 2009.

9 **Q: What is contained in the IEC that you are proposing in this case?**

10 A: The Company is requesting an IEC rate of \$0.00/kWh (zero). This rate would be in place  
11 over a two-year period beginning with the first effective date of rates. The IEC would  
12 contain all the variable fuel and purchased power costs consistent with other fuel  
13 adjustment clauses approved by this Commission. The proposed IEC would be  
14 consistent with the fuel adjustment clause at KCP&L's sister company, KCP&L Greater  
15 Missouri Operations Company, as it pertains to retail sales. The proposed IEC will also  
16 contain the off-system sales margin variances above or below the amount included in the  
17 rates established in this case with some specific sharing properties.

18 **Q: What are the sharing properties you are proposing?**

19 A: The Company proposes to include in base rates the 40<sup>th</sup> percentile of Off-System Sales  
20 Margin. The Company is proposing to include 100% of the OSS Margin as an offset to  
21 the fuel and purchased power costs attributable to Net System Input (NSI) when OSS  
22 Margin is between the 40<sup>th</sup> and 60<sup>th</sup> percentile. If OSS Margin falls below the 40<sup>th</sup>  
23 percentile, the Company proposes to place 25% of the amount of OSS Margin in a

1 deferred account to be recovered in the next rate case. The remaining 75% of the OSS  
2 Margin would be included as an offset to the fuel and purchased power costs to meet  
3 NSI. If the OSS Margin is greater than the 60<sup>th</sup> percentile, the Company would retain  
4 25% of the amount of Margin and include the remaining 75% as an offset to fuel and  
5 purchased power costs.

6 **Q: How would the IEC proposal work during the two-year period proposed in this**  
7 **filing?**

8 A: The proposed IEC would be established at zero price and remain at zero for two years.  
9 During that time, costs for variable fuel and purchased power costs to meet NSI would be  
10 accumulated in a deferred account. The base fuel for NSI established in this case would  
11 be an offset to this amount. Each amount would be set on an annual \$ per kWh basis.  
12 For example, the base amount for fuel and purchased power costs is set in this case at  
13 \$0.01596 per kWh. If during the first twelve-month period of the IEC the fuel and  
14 purchased power costs to meet NSI were \$0.01696, then the deferred account would  
15 include an amount equal to that difference, i.e., \$0.0010 times the NSI for the period.  
16 This amount would be offset by the Off-System Sales Margin during the same twelve-  
17 month period, adjusted to reflect the sharing proposal described above.

18 This process would happen each year of the IEC's two-year period. At the end of  
19 the two years, if the amount in the deferred account were negative, then the Company  
20 would refund that amount to customers. If the amount were positive, then no refund  
21 would occur.

1 **Q: How does this proposed IEC mechanism balance the interests of customers and the**  
2 **Company?**

3 A: It replaces the current system where the Company bears all of the risks up to the 40<sup>th</sup>  
4 percentile and the customers receive all the benefit of Margin over the 40<sup>th</sup> percentile,  
5 with the Company receiving none. The current system is not a fair or proper balancing of  
6 interests. An asymmetric regulatory model of “heads – shareholders lose” and “tails –  
7 shareholders break even” is not sustainable. Mr. Schnitzer discusses the Company’s  
8 proposal at the end of Sections I and VI of his Direct Testimony. He finds that the  
9 alignment of incentives to maximize the realized Margin is good public policy.

10 Company Witness Michael Schnitzer’s testimony provides a picture of how the  
11 proposed sharing mechanism of OSS margins would be applied. As Mr. Schnitzer points  
12 out in his testimony, the proposed sharing mechanism represents a fair balance to  
13 customer and Company interests.

14 **Q: Are there some uncertainties that the Commission needs to be aware of in order for**  
15 **the IEC proposal to be effective and acceptable for both the Company and**  
16 **customer?**

17 A: Several areas include items that have not been fully captured in Company witness  
18 Michael Schnitzer’s probabilistic analysis of off-system sales margins. For instance,  
19 Company witness Schnitzer notes that his analysis does not account for certain force  
20 majeure events. Force majeure events, should they occur, will likely need to be  
21 accounted for in a different recovery mechanism. Another potentially significant issue  
22 that needs to be addressed is the new SPP Integrated Marketplace, which is scheduled to  
23 go live in April 2014.

1 **Q: Please discuss the SPP Integrated Marketplace.**

2 A: The new market will incorporate a single consolidated balancing authority and  
3 centralized unit commitment. Market Participants will bid resources into a day-ahead  
4 market with settlement pricing based on a locational marginal price that contains pricing  
5 components for energy, losses, and grid congestion. The new market will also include  
6 financial settlements for operating reserve products (i.e., Spinning and Supplemental  
7 Reserves and Regulation Up and Down) and will provide for Make Whole Payments for  
8 the units that are committed by SPP for reliability purposes. In addition, the SPP  
9 Integrated Marketplace will include a Transmission Congestion Rights ("TCR") Auction  
10 process, which will result in revenues or costs for the buyers and sellers of Auction  
11 Revenue Rights ("ARRs") and TCRs as well as revenues or charges for the holders of  
12 TCRs during the settlement of the day-ahead market. The new market will also allow for  
13 Virtual Transactions and Revenue Neutrality Uplift, which helps SPP keep revenue  
14 neutral as it operates the markets.

15 **Q: How will the new market impact the IEC proposals?**

16 A: The new SPP Integrated Marketplace is still in development so it is too soon to know  
17 exactly the magnitude and direction of the impact, but the new market will touch both  
18 fuel and off-system sales and, as such, will impact the components of the IEC. Because  
19 the new market is still in development, the Margin percentiles developed by Company  
20 witness Michael Schnitzer may not have fully incorporated the impacts of the new market  
21 from either a price or a volume perspective. Because the new market is scheduled to go  
22 live April 2014 and the IEC proposal is through January 2015, any significant deviations

1 in fuel costs and Margins resulting from the new market could create a situation similar  
2 to that caused by a force majeure event.

3 **Q: How will the costs and revenues related to the new market be booked/accounted for,  
4 and will they affect the IEC calculation?**

5 A: The potential accounting for the new market is still being evaluated and has not been  
6 finalized. The accounts to which the revenues and costs associated with the new market  
7 are recorded, however, are likely to be the same as or similar to the purchased power  
8 expense accounts and the sales for resale revenue accounts that will be included in the  
9 IEC. As such, it will be imperative as the IEC is implemented, and again as the new  
10 market goes live, to make certain that the costs and revenues that will flow to the IEC are  
11 consistent with those that are used to establish the various threshold and sharing levels in  
12 the establishment of the IEC.

13 **Q: How do you propose to address these concerns?**

14 A: I suggest that throughout the IEC implementation period, the Company, on a regular  
15 basis, keep the Staff and other interested parties apprised of the new market changes and  
16 how it will impact the IEC. If changes are necessitated by these new market conditions,  
17 the Company may need to adjust the IEC to account for these changes.

#### 18 **VIII. ELECTRIC UTILITY RESOURCE PLANNING**

19 **Q: Is the Company preparing its Electric Utility Resource Plan (“IRP”) for filing on  
20 April 1, 2012?**

21 A: Yes, it is. The Company is preparing to file its plan in compliance with the  
22 Commission’s current Chapter 22 rules adopted on May 31, 2011, as is KCP&L Greater  
23 Missouri Operations Company (“GMO”).

- 1 **Q: Are you preparing two plans separate and distinct from each other?**
- 2 A: Yes we are.
- 3 **Q: Are you also analyzing how the plans might change if the two companies were to**  
4 **legally merge?**
- 5 A: Yes, we are. While the companies are separate legal entities, in many ways they operate  
6 as one. We have not completed the analysis, but anticipate that joint planning could  
7 provide benefits to both companies' Missouri customers by delaying the need to build  
8 new generation beyond the time frame when the companies will need additional  
9 generation on a stand-alone basis.
- 10 **Q: Do the current Chapter 22 rules specifically provide consideration for a combined**  
11 **plan for two companies owned by the same parent corporation?**
- 12 A: No. The rules speak only in terms of "the utility".
- 13 **Q: How do you intend to proceed?**
- 14 A: We plan to submit a request for acknowledgment of a plan on behalf of both KCP&L and  
15 GMO. The current Chapter 22 rules allow utilities to request acknowledgement of the  
16 officially adopted resource acquisition strategy or any element of the resource acquisition  
17 strategy including the preferred resource plan. Per 4 CSR 240-22.020 Definitions (1):
- 18 Acknowledgement means that the commission finds the preferred resource  
19 plan, resource acquisition strategy, or the specified element of the resource  
20 acquisition strategy to be reasonable at a specific date.
- 21 **Q: Should the Commission acknowledge a combined resource plan for KCP&L and**  
22 **GMO as reasonable under 4 CSR 240-22.080(17), is that an indication of prudence**  
23 **on the part of the Commission?**
- 24 A: No, the rules clearly state acknowledgement does not indicate a finding of prudence, pre-  
25 approval, or authorization of any specific project or group of projects.

1 **Q: Then what is the value of an acknowledgement?**

2 **A:** In the companies' view an acknowledgement by the Commission of a combined resource  
3 plan for KCP&L and GMO gives us some level of assurance that even absent a merger of  
4 the two utilities, it makes sense to plan as one entity.

5 **Q: Does that conclude your testimony?**

6 **A:** Yes, it does.



**4 CSR 240-3.161 Electric Utility Fuel and Purchased Power Cost Recovery Mechanisms Filing and Submission Requirements**

**4 CSR 240-3.161(2) When an electric utility files to establish a RAM as described in 4 CSR 240- 20.090(2), the electric utility shall file the following supporting information as part of, or in addition to, its direct testimony:**

(A) An example of the notice to be provided to customers as required by 4 CSR 240-20.090(2)(D);

Please see Schedule TMR-2.

(B) An example customer bill showing how the proposed RAM shall be separately identified on affected customers' bills in accordance with 4 CSR 240-20.090(8);

Please see Schedule TMR-3.

(C) Proposed RAM rate schedules;

Please see Schedule TMR-4.

(D) A general description of the design and intended operation of the proposed RAM;

The Company is requesting an IEC rate of \$0.00/kWh (zero). This rate would be in place over a two-year period beginning with the first effective date of rates. The IEC would contain all the variable fuel and purchased power costs consistent with other fuel adjustment clauses approved by this Commission. The proposed IEC would be consistent with the fuel adjustment clause at KCP&L's sister company, KCP&L Greater Missouri Operations Company, as it pertains to retail sales. The proposed IEC will also contain the off-system sales margin variances above or below the amount included in the rates established in this case with some specific sharing properties.

The Company proposes to include in base rates the 40<sup>th</sup> percentile of Off-System Sales Margin. The Company is proposing to include 100% of the OSS Margin as an offset to the fuel and purchased power costs attributable to Net System Input (NSI) when OSS Margin is between the 40<sup>th</sup> and 60<sup>th</sup> percentile. If OSS Margin falls below the 40<sup>th</sup> percentile, the Company proposes to place 25% of the amount of OSS Margin in a deferred account to be recovered in the next rate case. The remaining 75% of the OSS Margin would be included as an offset to the fuel and purchased power costs to meet NSI. If the OSS Margin is greater than the 60<sup>th</sup> percentile, the Company would retain 25% of the amount of Margin and include the remaining 75% as an offset to fuel and purchased power costs.

Any uncontested amount of over-collection shall be refunded to ratepayers no later than 60 days following the filing of the IEC true-up recommendation of the Staff.

(E) A complete explanation of how the proposed RAM is reasonably designed to provide the electric utility a sufficient opportunity to earn a fair return on equity;

Please see the direct testimony of Samuel C. Hadaway.

(F) A complete explanation of how the proposed FAC shall be trued-up to reflect over- or under-collections, or the refundable portion of the proposed IEC shall be trued-up, on at least an annual basis;

The proposed IEC would be established at zero price and remain at zero for two years. During that time, costs for variable fuel and purchased power costs to meet NSI would be accumulated in a deferred account. The base fuel for NSI established in this case would be an offset to this amount. Each amount would be set on an annual \$ per kWh basis. For example, the base amount for fuel and purchased power costs is set in this case at \$0.01596 per kWh. If during the first twelve-month period of the IEC the fuel and purchased power costs to meet NSI were \$0.01696, then the deferred account would include an amount equal to that difference, i.e., \$0.0010 times the NSI for the period. This amount would be offset by the Off-System Sales Margin during the same twelve-month period, adjusted to reflect the sharing proposal described above.

This process would happen each year of the IEC's two-year period. At the end of the two years, if the amount in the deferred account were negative, then the Company would refund that amount to customers. If the amount were positive, then no refund would occur.

(G) A complete description of how the proposed RAM is compatible with the requirement for prudence reviews;

4 CSR 240-20.090 sets forth the definitions, structure, operation, and procedures relevant to a Fuel Adjustment Clause. Section (7) is specific to prudence reviews, requiring a review no less frequently than at eighteen (18)-month intervals. KCP&L agrees that prudence reviews should occur no less frequently than at 18 month intervals.

It is anticipated that parties to any prudence review proceeding would apply the standard of determining whether decisions were prudent given the facts know at the time those decisions were made, as opposed to a "hindsight" review. If Staff or other parties believe that the evidence supports a prudence adjustment, they have the opportunity to bring that proposal to the Commission for an evidentiary hearing and decision.

(H) A complete explanation of all the costs that shall be considered for recovery under the proposed RAM and the specific account used for each cost item on the electric utility's books and records;

Variable fuel and purchased power costs net of off system sales margins are eligible for recovery.

The Federal Energy Regulatory Commission (FERC) Code of Federal Regulations is the basis for the KCP&L's accounting codes. Fuel used in the production of steam for the generation of electricity (Coal Plants) is included in FERC account 501. Emission Cost is in FERC account 509. Nuclear Fuel is in

FERC account 518. Fuel used in other power generation (Combustion Turbines) is included in FERC account 547. Purchased Power is in FERC account 555. Off system sales revenue is in FERC account 447. The following six digit KCP&L accounts expanded from the FERC accounts will be included as allowable IEC costs/revenues:

<u>General Ledger Account</u>	<u>Expense</u>
501000	Coal and Freight Costs (Variable)
501001	Coal and Freight Costs (Variable)
501003, 501004	Coal SO2 Premiums
501009, 501010	Coal and Freight Costs (Variable)
501020	Contra Coal and Freight Costs to SFR
501030	Fuel Off System Steam
501100, 501101	Oil Costs
501200, 501201	Natural Gas Costs
501300	Additives - Limestone Costs
501301	Additives - Ammonia Costs
501302	Additives - PAC
501400	Residuals Costs
509000, 509002, 509003	Emission Allowances
509XXX	Renewable Energy Credits
518000	Nuclear Fuel Expense
518100	Nuclear Pwr-Fuel Expense-Oil
518200	Nuclear Fuel-Decontam&Decommis
518201	Nuclear Fuel-Disposal Cost
547001, 547010	Oil Costs
547002, 547004	Gas Costs & Transportation (Variable)
547020	Contra Gas Costs & Transportation to SFR
547301	Additives - Ammonia Costs
555000, 555020, 555021	Purchased Power-Energy
555005	Purchased Power-Capacity (Short-term ONLY)
555030	Purchased Power Off System Sales
447002	Bulk Power Sales
447030	SFR Off System Sales (Bk 20)

Accounts provided were used as of the filing date of this testimony; however, additional accounts may be added in the future as business needs arise.

(I) A complete explanation of all the revenues that shall be considered in the determination of the amount eligible for recovery under the proposed RAM and the specific account where each such revenue item is recorded on the electric utility's books and records;

Since the proposed IEC charge is set at \$0.00 (zero) in the case, the revenues which will impact the over or under recovery of costs will be off system sales revenues in FERC accounts 447002 and 447030. See (F) and (H) above.

(J) A complete explanation of any incentive features designed in the proposed RAM and the expected benefit and cost each feature is intended to produce for the electric utility's shareholders and customers;

In an attempt to mitigate variable cost increases, a proposed graded sharing of off-system sales margins netted against variable fuel and purchased power cost increases has been proposed in the IEC tariff. The benefit to the ratepayer is that off-system sales margins are set at such a level in the current case as to offset the anticipated cost growth over the IEC period, thus leaving the IEC charge at zero. The incentive to the company is that increased costs during the IEC period may be offset by off-system sales margins. The grading allows a sharing of risk with the customer relating to changes in the market.

(K) A complete explanation of any rate volatility mitigation features designed in the proposed RAM;

Please see the direct testimony of Wm. Edward Blunk.

(L) A complete explanation of any feature designed into the proposed RAM or any existing electric utility policy, procedure, or practice that can be relied upon to ensure that only prudent costs shall be eligible for recovery under the proposed RAM;

KCP&L's RAM expenses are subject to periodic Prudence Reviews to ensure that only prudently-incurred fuel and purchased power costs are collected from customers through the RAM.

Rules and procedures for contracts are outlined in the Sarbanes Oxley documentation.

Rules and procedures for the hedging program are in the Risk Management Policy.

(M) A complete explanation of the specific customer class rate design used to design the proposed RAM base amount in permanent rates and any subsequent rate adjustments during the term of the proposed RAM;

A class cost of service study and rate design change are a part of this current rate filing. The existing rate design is maintained by allocating the rate increase as a percentage increase to all classes.

The proposed IEC will be billed to customers based on usage and is not a part of base rates.

(N) A complete explanation of any change in business risk to the electric utility resulting from implementation of the proposed RAM in setting the electric utility's allowed return in any rate proceeding, in addition to any other changes in business risk experienced by the electric utility;

Please see the direct testimony of Samuel C. Hadaway.

(O) The supply-side and demand-side resources that the electric utility expects to use to meet its loads in the next four (4) true-up years, the expected dispatch of those

resources, the reasons why these resources are appropriate for dispatch and the heat rates and fuel types for each supply-side resource; in submitting this information, it is recognized that supply- and demand-side resources and dispatch may change during the next four (4) true-up years based upon changing circumstances and parties will have the opportunity to comment on this information after it is filed by the electric utility;

Please see the direct testimony of Burton L. Crawford.

(P) A proposed schedule and testing plan with written procedures for heat rate tests and/or efficiency tests for all of the electric utility's nuclear and non-nuclear generators, steam, gas, and oil turbines and heat recovery steam generators (HRSG) to determine the base level of efficiency for each of the units;

Please see the direct testimony of Burton L. Crawford.

(Q) Information that shows that the electric utility has in place a long-term resource planning process, important objectives of which are to minimize overall delivered energy costs and provide reliable service;

Please see the direct testimony of Burton L. Crawford.

(R) If emissions allowance costs or sales margins are included in the RAM request and not in the electric utility's environmental cost recovery surcharge, a complete explanation of forecasted environmental investments and allowances purchases and sales; and

Please see the direct testimony of Wm. Edward Blunk and Burton L. Crawford.

(S) Authorization for the commission staff to release the previous five (5) years of historical surveillance reports submitted to the commission staff by the electric utility to all parties to the case.

The commission staff is authorized to release the previous five (5) years of historical surveillance reports to all parties to the case based on the Confidentiality designations of the parties.

**Important Notice**

Kansas City Power & Light Company ("KCP&L" or "Company") has filed a rate increase request with the Missouri Public Service Commission ("PSC"). The increase would total approximately \_\_\_\_\_ percent. For the average KCP&L residential customer the proposed increase would be approximately \_\_\_\_\_ per month.

The Company has also asked the PSC to establish an Interim Energy Charge ("IEC"). The IEC would allow the Company to recover \_\_\_\_\_ per kWh in addition to base rates for variable fuel and purchased power costs from \_\_\_\_\_ to \_\_\_\_\_ (the IEC period). Any over-collection of fuel and purchased power amounts would be returned to ratepayers with interest following a review and true-up of variable fuel and purchased power costs at the conclusion of the IEC period.

A local public hearing (or evidentiary hearing) has been set before the PSC at \_\_\_\_\_ o'clock, on (date) at \_\_\_\_\_, (address), City, Missouri. The local public hearing will be held in a facility that meets the accessibility requirements of the Americans with Disabilities Act. Any person who needs additional accommodations to participate in this hearing should call the Public Service Commission's hotline at 1-800-392-4211 (voice) or Relay Missouri at 711 before the hearing.

Consumers wishing to comment on the rate proposal may also: Mail a written comment to the Public Service Commission, P.O. Box 360, Jefferson City, Missouri 65102; Electronically submit a comment to the PSC through the Internet by accessing the PSC's Electronic Filing and Information System at <https://www.efis.psc.mo.gov/mpsc> (please reference case number \_\_\_\_\_); or Contact the Office of the Public Counsel, P.O. Box 2230, Jefferson City, Missouri 65102, telephone 573-751-4857 or toll-free 866-922-2959, [opcservice@ded.mo.gov](mailto:opcservice@ded.mo.gov). Comments are viewable by the public. Do not include any information in a public comment that you do not wish to be made public.

For billing and service information : 816-701-0450  
or toll-free : 1-866-601-9405  
For emergencies or lights out : 1-888-544-4652 (1-888-LIGHT-KC)

Customer Name [REDACTED]  
Service Address [REDACTED]  
Account Number [REDACTED]

Due upon receipt : \$ 1,540.79

Page 1 of 2  
Billing Date: 04/08/2010

### Message Board

Summer rates begin May 16. A reminder, the price for electricity is slightly higher during the four months ahead. The annual difference corresponds with KCP&L's tariffs on file with the Commission. To even out seasonal highs and lows and balance payments, enroll in KCP&L's Budget Billing plan. Learn more at [www.kcpl.com](http://www.kcpl.com).

It pays to be energy efficient. KCP&L's Custom Rebate Program rewards commercial and industrial customers who implement pre-approved energy-saving measures. For more details, call 1-800-541-2475 or visit [www.kcpl.com/business/rebates](http://www.kcpl.com/business/rebates).

### Account Summary

for service from 03/05/2010 to 04/05/2010

Previously Billed .....	\$ 992.46
Late Payment Charge - 03/26/2010 .....	7.72
Current Charges (details on back) [REDACTED] .....	547.17
<b>Due upon receipt .....</b>	<b>\$ 1,547.35</b>
Late charge if received after April 22, 2010 .....	8.23
Amount due with late charge .....	\$1,555.58

#### \*\*\* DISCONNECT NOTICE \*\*\*

Your account is \$992.46 past due. A new or additional deposit may be required and your service could be disconnected if this amount is not received on or before 04/19/2010.

Should disconnection become necessary, the following charges will apply:  
\$25 for reconnection at the meter, or  
\$50 for reconnection at the pole

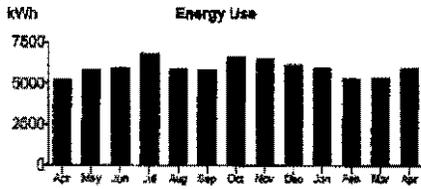
Disregard this notice if you have either paid the past due amount or made payment arrangements.

Customer Name [REDACTED]  
 Service Address [REDACTED]  
 Account Number [REDACTED]

Deposit paid : \$ 1,000.00

Small General Service - 1SGSE

Billing Details - service from 03/05/2010 to 04/05/2010



Energy Charge .....	\$ 439.67
Customer Charge .....	15.25
IEC for 5965 kWh@60.0011 .....	6.56

subtotal :	\$ 461.48
Kansas City franchise fee :	50.55
Missouri state sales tax :	19.22
Jackson county sales tax :	5.12
Kansas City sales tax :	10.80
<b>Current Charges :</b>	<b>\$ 547.17</b>

Period	kWh	Days	kWh / day	Total \$ / day
Current	5,965	31	192.4	\$ 17.43
Previous	5,391	29	185.8	\$ 17.07
Last year	5,209	28	186.0	\$ 14.93

Meter	Start Read Date	End Read Date	Days	End Read	(-)	Start Read	(=)	Difference	(x)	Meter Multiplier	(=)	Actual kWh Used	Actual kW Demand
[REDACTED]	3/5	4/5	31	22997		17032		5965		1		5965	13.9

# KANSAS CITY POWER & LIGHT COMPANY

P.S.C. MO. No. 7  Original Sheet No. 24  
 Revised  
Cancelling P.S.C. MO. 7  Original Sheet No. \_\_\_\_\_  
 Revised  
For Missouri Retail Service Area

## INTERIM ENERGY CHARGE Schedule IEC

### APPLICATION:

The Interim Energy Charge (Schedule IEC) is applicable to all electric service billed under any of the Company's electric rate schedules, metered or unmetered, subject to the jurisdiction of the Commission as reflected separately on each rate schedule. The revenue from this tariff will be collected on an interim and subject to true-up and refund basis under the terms ordered in Case No. ER-2012-0174.

### RATE:

In addition to the charges that the Company makes for electric service set forth in its approved and effective rate schedules, the following applicable amount will be added:

Secondary voltage customers per kWh	\$0.00000
Primary voltage customers per kWh	\$0.00000

### CONDITIONS OF SERVICE:

This interim energy charge shall be in effect from March 28, 2012 through March 27, 2014. Subsequent to the expiration a true-up audit will determine if any portion of the revenues collected exceed KCP&L's actual and prudently incurred cost for fuel and purchased power during the IEC period, net of off system sales margins, and to what extent. Based upon the following sharing scale:

0 through 40th Percentile	- Company absorbs 75% of OSS Margin Variance
40th through 60th Percentile	- Company absorbs 100% of OSS Margin Variance
60th and above	- Company returns 75% of OSS Margin Variance

KCP&L shall refund the excess, if any, above the greater of the actual or the base, plus interest. Any margin amount to be retained by the company will be posted to a regulatory asset for inclusion in the company's next general rate case. Interest will be equal to KCP&L's short-term borrowing rate and will be applied to any amount to be refunded starting with the end of the IEC period. No refund will be made if the Company's actual and prudently incurred costs for fuel and purchased power net of off system sales revenues during the IEC period equal or exceed the IEC base amount.

Any over collection will then be refunded with interest to customers following a review and true-up of variable fuel and purchased power costs at the conclusion of each IEC. Any uncontested amount of over-collection shall be refunded to ratepayers no later than 60 days following the filing of the IEC true-up recommendation of the Staff.

DATE OF ISSUE: February 27, 2012  
ISSUED BY: Darrin R. Ives, Senior Director

DATE EFFECTIVE: March 28, 2012  
Kansas City, Mo.

# KANSAS CITY POWER & LIGHT COMPANY

P.S.C. MO. No. 7  Original Sheet No. 24A  
 Revised  
 Cancelling P.S.C. MO. 7  Original Sheet No. \_\_\_\_\_  
 Revised  
 For Missouri Retail Service Area

## INTERIM ENERGY CHARGE Schedule IEC

### FORMULAS AND DEFINITIONS OF COMPONENTS

Refund Amount - If SA is positive = No Refund  
 - If SA is negative = Refund Settlement Amount to Customer on kWh Sales Basis

$$SA = (FPPON-B) - ((OSS-BOSS) * R)$$

Where:

- SA = Settlement Amount
- FPPON = Variable Fuel & Purchased Power Costs – On System
- B = Base Variable Fuel & Purchased Power Costs – On System  
**\$0.01596 per kWh Total Sources of Energy**
- OSS = Actual Off System Sales Margins
- BOSS = Off System Sales Margins at the 40<sup>th</sup> Percentile
- R = Sharing Rate Per Table

Sharing Table		
0 – 40 <sup>th</sup> Percentile	-	75%
40 – 60 <sup>th</sup> Percentile	-	100%
> 60 <sup>th</sup> Percentile	-	75%

DATE OF ISSUE: February 27, 2012      DATE EFFECTIVE: March 28, 2012  
 ISSUED BY: Darrin R. Ives, Senior Director      Kansas City, Mo.

**SCHEDULE TMR-5**

**THIS DOCUMENT CONTAINS  
HIGHLY CONFIDENTIAL  
INFORMATION NOT AVAILABLE  
TO THE PUBLIC**