MISSOURI PUBLIC SERVICE COMMISSION

STAFF'S

RATE DESIGN

AND CLASS COST-OF-SERVICE

REPORT

VEOLIA ENERGY KANSAS CITY, INC.

CASE NO. HR-2014-0066

Jefferson City, Missouri
May 15, 2014

**** Denotes Highly Confidential Information ****

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Veolia Energy Kansas City, Inc. for Authority to File Tariffs to Increase Rates	)))	Case No. HR-2014-0066

AFFIDAVIT OF MICHAEL S. SCHEPERLE

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Michael S. Scheperle, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 1-4; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Michael S. Scheperle
Michael S. Schperle

Subscribed and sworn to before me this 14th day of May, 2014.

Susan L. Sundermeyer
Notary Public

SUSAN L. SUNDERMEYER
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: October 03, 2014
Commission Number: 10942086

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Veolia Energy Kansas City, Inc. for Authority to File Tariffs to Increase Rates	)))	Case No. HR-2014-0066

AFFIDAVIT OF ROBIN KLIETHERMES

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Robin Kliethermes, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report in pages 4 - 14; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief.

Robin Kliethermes

Subscribed and sworn to before me this 14th day of May, 2014.

SUSAN L. SUNDERMEYER
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: October 03, 2014
Commission Number: 10942086

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Veolia Energy Kansas City, Inc. for Authority to File Tariffs to Increase Rates	)))	Case No. HR-2014-0066

AFFIDAVIT OF BRAD J. FORTSON

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Brad J. Fortson, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 14 - 24; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Brad J. Fortson

Subscribed and sworn to before me this 14th day of May, 2014.

SUSAN L. SUNDERMEYER
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: October 03, 2014
Commission Number: 10942086

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Veolia Energy Kansas City, Inc. for Authority to File Tariffs to Increase Rates	)))	Case No. HR-2014-0066

AFFIDAVIT OF KAREN LYONS

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

Karen Lyons, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report in pages 24 - 34; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief.

Karen Lyons
Karen Lyons

Subscribed and sworn to before me this 12th day of May, 2014.

Tammy Morales
Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

TAMMY MORALES
My Commission Expires
January 7, 2018
Clay County
Commission #14451086

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Veolia Energy Kansas City, Inc. for Authority to File Tariffs to Increase Rates	)))	Case No. HR-2014-0066

AFFIDAVIT OF ERIN L. MALONEY

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Erin L. Maloney, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report in pages 35 - 44; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief.

Erin L. Maloney

Erin L. Maloney

Subscribed and sworn to before me this 14 day of May, 2014.

SUSAN L. SUNDERMEYER
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: October 03, 2014
Commission Number: 10942086

Susan L Sundermeyer

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Veolia Energy Kansas City, Inc. for Authority to File Tariffs to Increase Rates	)))	Case No. HR-2014-0066

AFFIDAVIT OF MICHAEL L. STAHLMAN

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Michael L. Stahlman, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 44 - 46 & 47 - 48; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Michael L. Stahlman

Subscribed and sworn to before me this 14th day of May, 2014.

SUSAN L. SUNDERMEYER
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: October 03, 2014
Commission Number: 10942086

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Veolia Energy Kansas City, Inc. for Authority to File Tariffs to Increase Rates	)))	Case No. HR-2014-0066

AFFIDAVIT OF SARAH KLIETHERMES

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Sarah Kliethermes, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report in pages 24 - 34 & 46 - 47; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief.

Sarah Kliethermes

Subscribed and sworn to before me this 14th day of May, 2014.

SUSAN L. SUNDERMEYER
Notary Public - Notary Seal
State of Missouri
Commissioned for Callaway County
My Commission Expires: October 03, 2014
Commission Number: 10942086

Notary Public

Table of Contents

STAFF'S

RATE DESIGN

AND

CLASS COST-OF-SERVICE

REPORT

I. Executive Summary

The Missouri Public Service Commission Staff ("Staff") conducted a Class Cost-of-Service ("CCOS") study in this case and allocated costs to the customer rate classes of Veolia Energy Kansas City, Inc. ("Company" or "Veolia Kansas City"). Veolia Kansas City has three active commercial and industrial service classifications. The service classifications are Standard Commercial Service ("SCS"), Large Commercial Service ("LCS") and the Interruptible Heating Service ("IHS"). Staff's Rate Design and Class Cost-of-Service ("CCOS Report") recommendations are:

1. That no change (no increase/decrease) be made to Veolia Kansas City's customer meter charges for the SCS, LCS, and IHS customer classes.
2. That Veolia Kansas City maintains the existing uniformity of usage charges (Mlbs/usage) between the SCS, LCS, and IHS classes. The current usage charge for each class is $8.45 Mlbs. The usage charge may increase but uniformity will still be maintained for each class.
3. That the LCS demand rate structure and IHS demand rate structure be the same. They are currently different with the LCS demand structure having four declining blocks and the IHS demand structure having seven declining blocks. Veolia Kansas City proposes a six declining block rate structure for both the LCS and IHS rate structure. The proposed six declining block demand rate structure would be the same. Staff finds Veolia Kansas City's recommendation reasonable and supports its demand rate structure proposal.
4. Veolia Kansas City proposes that the LCS winter peaking time frame change from December 1 through March 31 time frame, to November 1 through March 31 time frame, and the summer peaking timeframe change from April 1 through November 30, to April 1 through October 31 timeframe. Staff finds the proposal reasonable and supports the change.
5. Veolia Kansas City proposes that the IHS peaking timeframe change from December 1 through March 31, to November 1 through March 31 timeframe. Staff finds Veolia Kansas City's proposal reasonable and supports the change.
6. Based on Staff's CCOS study, that the LCS demand rate structure remains relatively revenue-neutral as proposed by Veolia Kansas City where the demand rate structure will have six declining block rates.
7. Based on Staff's CCOS study, that the first step of the IHS capacity/demand charge be increased by the system average increase. That the remaining

capacity/demand rates steps be reduced by 10% from the previous step. The main difference is that Veolia Kansas City is proposing no increase in the first block (first 3 Mlb/hour) and then each remaining block be reduced by 10%. Staff's recommendation is to increase the first block by the system average increase of 14.12% and then each remaining block be reduced by 10%.

8. That the remaining increase be spread uniformly to usage charge (Mlbs.) as outlined in Step 2 above.
9. To change the qualifications criteria for Interruptible Heating Service. The current qualification criteria are closed (grandfathered) to existing customers on IHS rate schedule. Veolia Kansas City proposed new criteria: that the customer must already be receiving steam service under this rate schedule, or be a new customer at a location currently receiving steam service, or be a new location that has not received service, or be an existing steam customer initiating service at a new location. Customers must certify to Veolia Kansas City's satisfaction that the customer is capable of providing 100% of the Customer's space heating requirement. Staff finds Veolia Kansas City's proposal reasonable and supports the proposal.

Table 1, below, shows the rate revenue shifts necessary for the current revenues from each customer class to exactly match Staff's determination of Veolia Kansas City's cost of serving that class.

Executive Table 1
Summary Results of Staff's CCOS Study - Veolia Kansas City

Customer Class	Revenue Deficiency	CCOS % Increase	System Average	Revenue Neutral % Increase
Standard Commercial Service ("SCS")	$85,412	16.96%	8.80%	8.16%
Large Commercial Service ("LCS")	$901,411	16.15%	8.80%	7.35%
Interruptible Heating Service ("IHS")	$674,425	67.52%	8.80%	58.72%
Process Steam	$0	0.00%	0.00%	0.00%
Total	$1,661,248	8.80%	8.80%	0.00%

Staff developed its analysis of the cost of serving each class using inputs taken from Staff's Revenue Requirement Cost-of-Service Report ("COS Report") including the Staff Accounting Schedules filed in this case on May 1, 2014. Staff's recommended revenue requirement for Veolia Kansas City is $1,516,039 to $1,661,246 based on a return on equity ("ROE") range of 8.50% to 9.50%. Staff's revenue requirement as presented in its Accounting Schedules is based on actual results through the December 31, 2013 update period, based on current information.

The results of a CCOS study can be presented either in terms of (1) the rate of return realized for providing service to each class or (2) in terms of the revenue shifts (expressed as negative or positive dollar amounts or percentages) that are required to equalize the utility's rate of return from each class. Staff prefers to present its results in the latter format, i.e., negative or positive dollar amounts or percentages. The results of Staff's analysis are presented in terms of the shifts in revenue that produce an equal rate of return for Veolia Kansas City from each customer class.

A negative amount or percentage indicates revenue from the customer class exceeds the cost of providing service to that class; therefore, to equalize revenues and cost-of-service, rate revenues should be reduced, i.e., the class is overpaying. A positive amount or percentage indicates revenue from the class is less than the cost of providing service to that class; therefore, to equalize revenues and cost-of-service, rate revenues should be increased, i.e., the class is underpaying.

Staff recommends adjustment to the IHS class which would bring this class closer to Veolia Kansas City's actual cost to serve the class.

Additionally, Veolia Kansas City proposed new tariff sheet recommendations. For purposes of this Report, Staff is not proposing that the Commission order Veolia Kansas City to file any new tariff provisions. However, Veolia Kansas City has included new tariff sheet recommendations with its filed rate request. While Staff is not recommending new tariff provisions, Staff is recommending preliminary recommendations so Veolia Kansas City may address these in rebuttal testimony. Veolia Kansas City's new tariff sheets address the following items:

- Establishment of a Production Adjustment Cost Clause
- Expansion of its certificated service territory
- Establishment of an Economic Development Rider
- Establishment of a Capacity Reserve and Emergency Service Schedule
- Establishment of a generic Special Contract rate
- Establishment of a Residential High-Rise Schedule

Staff's CCOS Report is organized into the following main sections:

I. Executive Summary
II. Class Cost-of-Service and Rate Design Overview
III. Class Cost-of-Service Study
IV. Rate Design
V. Expansion of its certificated service territory
VI. Establishment of a Production Adjustment Cost Clause
VII. Establishment of an Economic Development Rider
VIII. Establishment of a Capacity Reserve and Emergency Service Schedule
IX. Establishment of a generic Special Contract Rate
X. Establishment of a Residential High-Rise Schedule

Staff Expert: Michael Scheperle

II. Class Cost-of-Service and Rate Design Overview

The purpose of the Staff's Class Cost of Service ("CCOS") study is to determine whether each class of customers is providing the utility with a level of revenue reasonably necessary to cover (1) the utility's investments required to provide service to that class of

customers and (2) the utility's ongoing expenses to provide steam service to that class of customers. A CCOS study provides a basis for allocating and/or assigning to the customer classes the utility's total cost of providing steam service to all the customer classes in a manner that best reflects cost causation. Staff's CCOS study is a continuation and refinement of Staff's Cost-of-Service Revenue Requirement Study, resulting in a determination of the costs incurred in providing steam service to each of Veolia Kansas City's customer classes. Because those costs equate to the utility's revenue requirement, the results of a CCOS study determine class revenue requirements based on the cost responsibility of each customer class for its equitable share of the utility's total annual cost of providing steam service.

Schedule RK-1 provides fundamental concepts, terminology, and definitions, used in CCOS studies and rate design. It addresses functionalization, classification and allocation, as used in CCOS studies.

Staff Expert: Robin Kliethermes

III. Staff's Class Cost-of-Service ("CCOS") Study

The results of Staff's CCOS study are shown in Table 1.[1] The table shows the change in current retail[2] rate revenues for each customer class that is required to match each customer class' rate revenues with Veolia Kansas City's cost to serve that class. The results of the

[1] Staff also performed a partial intra-class study more directly comparable with Veolia Kansas City's CCOS study. Staff identified three LCS customers from the LCS class: Veolia Missouri Plant, Veolia Missouri Distribution and Truman Medical Center. The two Veolia Missouri customers were selected from the LCS class because they use the majority of their annual steam usage in the summer months, which is unique when compared to the other customers in the LCS class who use most of their annual steam usage in the winter months. Truman Medical Center was selected from the LCS class because it has nearly double the load factor of all other LCS customers combined. For example, during the test year, Truman Medical Center had a 65% load factor, whereas all other LCS customers combined had a 32% load factor. Although these customers were studied separately, they are served under the LCS rate schedule along with all other LCS customers.

[2] Retail customers include SCS, LCS and IHS customers an account for 31% of Veolia Kansas City's metered steam sales. Process steam customers are not regulated by the Commission and make up the remaining 69% of metered steam sales.

study show, on a revenue neutral basis, the revenue shifts (expressed as negative or positive dollar amounts or percentages) that are required to equalize the utility's rate of return[3] from each retail customer class.

Table 1
Summary Results of Staff's CCOS Study - Veolia Kansas City

Customer Class	Revenue Deficiency	CCOS % Increase	System Average	Revenue Neutral % Increase
Standard Commercial Service ("SCS")	$85,412	16.96%	8.80%	8.16%
Large Commercial Service ("LCS")	$901,411	16.15%	8.80%	7.35%
Interruptible Heating Service ("IHS")	$674,425	67.52%	8.80%	58.72%
Process Steam	$0	0.00%	0.00%	0.00%
Total	$1,661,248	8.80%	8.80%	0.00%

"Revenue neutral" means that the revenue shifts among classes do not change the utility's total system revenues. The revenue neutral format aids in comparing revenue deficiencies between customer classes and makes it easier to discuss revenue neutral shifts between classes, if appropriate. Staff calculated the revenue neutral percent increase of each class's rate revenue by subtracting the overall system average increase of 8.80% (high-point range) from each customer class's required percentage increase to rate revenue. The purpose of this calculation, by class, is to match the expected revenues to the Company's cost to serve as shown in Table 1.

For example, based on Table 1, on a revenue neutral basis, the Standard Commercial Service customer class is providing approximately 17% less revenue to Veolia Kansas City

[3] Staff's CCOS included the rate of return at the high-range of 7.30%.

than the Company's cost to serve that class and the Interruptible Heating Service customer class is providing roughly 67.5% less revenue. Staff's CCOS study results for all Company customer classes are presented in Table 1.

Because a CCOS study is not precise and is only one of a number of factors the Commission may consider in determining rates, it should be used only as a guide for designing rates. In addition, bill impacts, revenue stability, rate stability and rate continuity are factors that need to be considered. While eliminating over-collection from customer classes with revenues that are greater than their cost to serve (negative revenue shift percentages) is appealing, the bill impact on the customer classes that are under-collecting revenues from their cost to serve (positive revenue shift percentages) must be considered.

Staff's recommendations for shifts in the class revenue requirements are based on its study results in this case, Staff's review of Veolia Kansas City's revenue neutral adjustments in its last general rate increase case (Case No. HR-2011-0241), and Staff's judgment regarding the impact of revenue shifts on all of Veolia Kansas City's customer classes. Specific rate design recommendations are made by Staff witness Brad Fortson.

Staff analyzed the costs and revenues of the following customer classes:

- Standard Commercial Service (SCS): Available to all customers using 5,000 Mlbs, or less, of total annual steam.
- Large Commercial Service (LCS): Available to customers with an annual usage of more than 5,000 Mlbs (unless their demand cannot reasonably or accurately be measured with a demand meter).
- Interruptible Heating Service (IHS): Available to certain customers with less than 100,000 Mlbs of annual steam consumption who have the ability to curtail 100% of their steam usage if requested by the Company.
- Process Steam: Is not a tariffed customer class, but consists of two unregulated customers who use steam in the processing of certain goods.

Staff's CCOS study used costs and revenues from Staff's accounting information and other sources as outlined below:

A. Data Sources

Staff's CCOS study utilized the Staff's revenue requirement position as filed on May 1, 2014, for Veolia Kansas City's cost-of-service. This data includes:

- Adjusted Missouri investment and cost data by FERC account;
- Annualized, normalized rate revenues;
- Fuel and consumable costs;
- Other operating and maintenance expenses;
- Depreciation and amortizations; and
- Taxes.

In addition, Staff reviewed Veolia Kansas City's current CCOS study and other current workpapers on the average cost of class meters and class billing information.

B. Functions

The major functional cost categories Staff used in its CCOS study are Production, Distribution and Customer. Within the Production Function, a distinction was made between "Production-Capacity", "Production-Fuel" and "Production-Steam".

Production-Capacity costs are those costs directly related to the capital cost of production. They are allocated to each customer class based on usage and demand characteristics of the customers in the class.

Usage-related costs are those costs related directly to the customer's consumption of steam (Mlbs) and include both the "Production-Fuel" function and the "Production-Steam" function. The "Production-Fuel" function consists of expenses relating to fuel purchases and fuel handling used to produce steam.

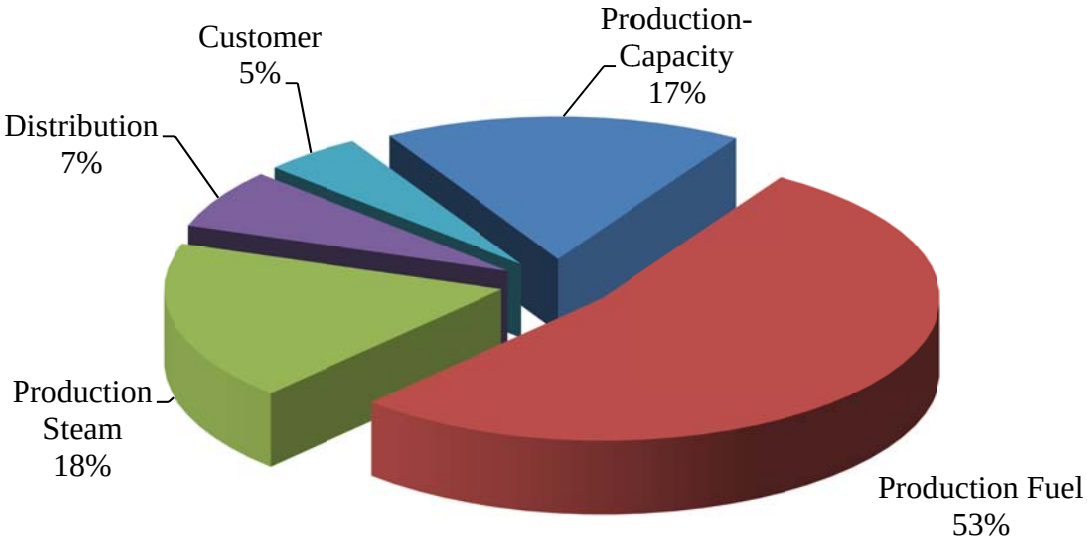
The "Production-Steam" function consists of expenses mostly relating to water and sewer usage. The other functions that Staff used to classify costs are distribution and customer costs.

The "Production Function" (combination of Production-Capacity, Production Fuel and Production-Steam) is the single largest cost component, and represents 88% of the total cost as shown in Graph 1.

The "Distribution Function," at 7% of the total cost includes underground mains and maintenance of distribution equipment.

The "Customer Function," at 5% of the total costs includes meters, maintenance of meters and customer services. Schedule RK-2 provides a detailed description of each external allocation factor Staff used to allocate each function in its CCOS study.

Graph 1: Functionalized Costs for Veolia Kansas City
HR-2014-0066



C. Allocation of Production Costs

Veolia Kansas City's production costs for plant investment and the production expenses appearing on its income statement must be appropriately allocated by a "Production-Capacity" (fixed), a "Production-Fuel" (variable) or "Production-Steam" (variable) allocator. Veolia Kansas City's generation facility, used to produce steam for customers in Missouri, is

considered a fixed asset. The cost and investment of this asset is apportioned to the rate classes on the basis of a production-capacity allocator. Both the demand and steam usage characteristics of Veolia Kansas City's load are key determinants of production investment and costs, because Veolia Kansas City must produce enough steam to meet both periods of normal-use and intermittent peak-use throughout the year.

Staff allocated production fuel and steam consumable costs on annualized and normalized Mlbs of usage at generation. Additionally, the production fuel allocator also takes plant heat rate into consideration and the production steam allocator takes the steam to water conversion rate into consideration. Fuel and consumable expenses are directly related to the amount of steam sold, and thus classified as usage-related expenses.

Staff allocated Veolia Kansas City's production capacity or demand related costs based on a modified Base-Intermediate-Peak ("BIP") method. Staff has used the modified BIP method in the past for allocating an electric utility's production capacity costs. It was appropriate to use in this case as well because the modified BIP method recognizes that demand and steam usage requirements are key determinants of production capacity investment and expenses.

The BIP method is described in the NARUC Electric Utility Cost Allocation Manual ("NARUC Manual").[4] The NARUC Manual in Part IV, C, Section 2, describes the BIP method as a time-differentiated method that assigns production plant costs to three rating periods: (1) peak hours, (2) secondary peak, or intermediate hours, and (3) base-loading hours.

For purposes of this case, Staff removed the intermediate component from the modified BIP because Veolia Kansas City has one generation facility that has to meet all of

[4] Published, January 1992.

the Company's steam demand at any given point in time and because the plant boilers are not specifically categorized as base-load, intermediate or peak boilers.

However, Veolia Kansas City has a distinct winter peak which requires recognition of a base and peak component, or in other words the "B" and the "P" components of Staff's modified BIP as described below:

1. A base component consisting of the annual steam usage attributable to a given customer class; this portion is weighted by the system load factor;
2. A peaking component consisting of the average of three (3) coincident peak ("CP") components of demand for steam less the base component previously allocated and weighted by 1-system load factor.

In the modified BIP method, the base allocator (the "B" portion in the modified BIP) is calculated using each class's annual steam usage at generation in the update period and weighted by the retail system load factor. The intermediate piece (the "I" in the modified BIP) is excluded in this case, for reasons discussed above. The peak portion (the "P" in the modified BIP) used for allocation to the various classes is based on each class' average winter system peak. Specifically, it is calculated on the average of each class' monthly CP[5] for the months of January, February and December of 2013, less the base portion already allocated to the various classes and weighted by 1-retail system load factor. Staff used the three winter months during the 12-months ending December 2013, for calculating the production–capacity cost allocator because the three winter peaks are within approximately 95% of Veolia Kansas City's retail system peak.

The modified BIP method considers the differences in the capacity/fuel cost trade-off that exists across a company's generation mix. The modified BIP methodology gives weight to both considerations. It does so by considering annual steam usage in the base component

[5] Coincident Peak (CP) demand is the customer class demand at the time of the system peak. Non-Coincident Peak (NCP) demand is the customer class demand regardless of when the system peak occurred.

through the allocation of base usage to all classes, and by considering capacity in the allocation of peak components. For these reasons, Staff recommends using the modified BIP method for fixed production plant investment and for non-usage related production plant expenses for Veolia Kansas City. The approach of using the same allocator for allocating investments and expenses to each class of customers is referred to as "expenses follow plant." Production plant expenses are associated with maintaining and operating the production plant; therefore, it is appropriate to use the same allocator for allocating both plant investment and plant expense.

D. Allocation of Distribution Costs

Distribution is the link in the chain built to deliver steam from Veolia Kansas City's generation plant to its customers' businesses. The Company's distribution plant includes underground mains and laterals and meters, as well as service and labor expenses incurred for the operation and maintenance of these distribution facilities. Only customers who are metered from the distribution system will be allocated a portion of Veolia Kansas City's distribution investment and expenses. For example, three of Veolia Kansas City's customers are metered at the plant and therefore are not allocated any distribution costs.

Staff used the annual class non-coincident peak ("NCP") of each customer class to allocate distribution investment and expenses relating to the underground mains and laterals. Staff used an NCP allocator to allocate distribution costs instead of using a CP allocator as was used in the peak component of the modified BIP because a class' maximum steam demand, regardless of when the system peak occurs, will determine the size of the main needed to serve that class of customers. To summarize, when allocating production capacity costs it is necessary to evaluate the capacity needed to serve the system as a whole. However,

when allocating distribution costs it is important to evaluate the maximum capacity required by the customer classes served on the distribution main.

Staff allocated the cost of meters and services based on the weighted average cost of a replacement meter to serve each customer class.

E. Allocation of Customer Service Costs

Customer costs include expenses incurred for billing and customer services. Customer-related costs are costs necessary to make steam service available to the customer, regardless of the steam service utilized. Examples of such costs include meter reading, billing, postage, customer accounting, and customer service expenses.

Staff reviewed how Veolia Kansas City developed its allocator for allocating meter reading costs and billing and accounting expenses. This allocator was derived using the Veolia Kansas City CCOS study in this case. The allocator used an estimated number of hours it takes to perform billing and accounting operations per month per customer class. Staff has reviewed the Company's method of allocating these costs and has concluded that it is reasonable.

F. Revenues

Operating revenues consist of (1) the revenue that the utility collects from the sale of steam to Missouri retail customers ("rate revenues"), and (2) the revenue associated with the sale of steam to two industrial process customers ("industrial revenues") and (3) the revenue the utility receives for providing other services ("other revenues"). Rate Revenues are also used in developing Staff's rate design recommendation and will be used to develop the rate schedules required to implement the Commission's ordered revenue requirement and rate design for Veolia Kansas City in this case. The normalized and annualized class rate

revenues in Staff's COS Report filed May 1, 2014, totaling $7,084,936 were used in Staff's CCOS Study.

The revenues collected from the industrial process customers totaled $11,791,801and were directly allocated to the industrial process customers. Other steam operation revenues of $275,238 were allocated to the classes using each class' annual steam usage and other cost allocators. Other operating revenue includes forfeited discounts, rent, miscellaneous service revenues and other revenues.

G. Allocation of Taxes

Taxes consist of real estate and property taxes, payroll tax expenses and income taxes. Real estate and property tax expenses are directly related to Veolia Kansas City's original cost investment in plant, so these expenses are allocated to customer classes on the basis of the sum of the previously allocated production, distribution and general plant investment.

Payroll tax expenses are directly related to Veolia Kansas City's payroll expenses, so these expenses are allocated to customer classes on the basis of previously allocated payroll expenses.

Lastly, income taxes were allocated to customer classes based on the percentage of net plant previously allocated to each customer class.

Staff Expert: Robin Kliethermes

IV. Rate Design

The process of determining how a revenue requirement will be allocated among the company's different customer classes is known as rate design. Rate design is the second step of the two-step process of ratemaking. The first step in ratemaking is the determination of the revenue required by the utility to operate over the course of an ideal year, with due regard to a

reasonable return to the shareholders on the value of their investment. The revenue requirement determined in the first step is allocated and assigned to the various customer classes based on the cost of serving each class. The second step in ratemaking is rate design. Rate design is the method used to determine the rates and rate components[6] to be charged to individual classes of customers.

Staff's rate design objectives in this case are:

- Provide the Commission with a rate design recommendation based on each customer class's relative cost-of-service responsibility.
- Provide methods to implement in rates any Commission-ordered overall change in customer revenue responsibility.
- Retain, to the extent possible, existing rate schedules, rate structures, and important features of the current rate design.
- To modify and make the LCS demand rate structure and IHS demand rate structure the same.

Staff's rate design recommendations in this case are:

1. That no change (no increase/decrease) be made to Veolia Kansas City customer meter charges for the SCS, LCS and IHS customer classes.
2. Maintain the existing uniformity of usage charges (Mlbs/usage) between the SCS, LCS, and IHS classes. The current usage charge for each class is $8.45 Mlbs. The usage charge may increase but uniformity will still be maintained for each class.
3. That the LCS[7] demand rate structure and IHS[8] demand rate structure be the same.
4. Veolia Kansas City proposes that the LCS winter peaking time frame change from December 1 – March 31 timeframe to November 1 – March 31 timeframe and the summer peaking timeframe change from April 1 – November 30 to April 1 – October 31 timeframe. Staff finds the proposal reasonable and supports the change.
5. Veolia Kansas City proposes that the IHS peaking timeframe change from December 1 – March 31 timeframe to November 1 – March 31 timeframe. Staff finds the proposal reasonable and supports the change.

[6] Rate components may consist of customer charges, usage charges, demand charges, facilities charges, voltage adjustments, seasonal variations, etc.

[7] The LCS demand structure consists of four declining blocks. Veolia Kansas City proposes that the LCS demand structure consist of six declining block demand structure. Staff supports proposal.

[8] The IHS demand structure consists of seven declining blocks. Veolia Kansas City proposes the IHS demand structure consist of six declining block demand structure. Staff supports proposal.

6. That the LCS demand structure remains relatively revenue-neutral as proposed by Veolia Kansas City. Based on Staff CCOS Study, Staff supports Veolia Kansas City's proposal.
7. That the first step of the IHS capacity/demand charge be increased by the system average increase. That the remaining capacity/demand rates steps be reduced by 10% from the previous step. Veolia Kansas City is proposing no increase in the first block (first 3 Mlb/hour) and that each additional block be reduced by 10%. Staff's recommendation is to increase the first block (first 3 Mlb/hour) by the system average increase of 14.12% and to reduce each additional block by 10%.
8. That the remaining increase be spread uniformly to usage charges (Mlbs.) as outlined in Step 2 above.

Current Rate Schedules and Overview

Veolia Kansas City's steam operation provides service to approximately 52 commercial and industrial customers located in the downtown Kansas City area. Prior to 1990, the Company's steam operation was part of Kansas City Power and Light Company ("KCPL") operations. The Commission authorized the sale of those assets from KCPL to Trigen Kansas City Energy Corporation ("Trigen") in Case No. HM-90-4 and authorized the Company to provide steam service in the designated Kansas City area. In Case No. HN-2011-0286, at the request of the Company, the Commission authorized the Company name change from Trigen to Veolia Energy Kansas City, Inc.

Staff is proposing to maintain Veolia Kansas City's current customer classes SCS, LCS, and IHS. In the current classes, customers are differentiated based on usage. The current structures divides firm customers (SCS and LCS) based on usage. The current structure divides firm customers (SCS and LCS) based on usage (greater or less than 5,000 Mlbs/year). The LCS and IHS classes provide demand metering for the large customer classes. Staff is of the opinion that these classes are acceptable because they reflect fixed and variable costs. These cost structures are an appropriate means of cost recovery with separate meter rates, steam usage rates, and demand rates. Additionally, the measured demand-determined load

provides more visibility of usage patterns to the Company and each individual customer. Veolia Kansas City's customers presently receive steam service under four rate classifications as follows:

1. Standard Commercial Service ("SCS")
2. Large Commercial Service ("LCS")
3. Interruptible Heating Service ("IHS")
4. Special Contracts[9] – not tariffed

The SCS rate schedule applies to all customers using less than 5,000 Mlbs. (in thousand pounds of steam or Mlbs.) of total annual steam usage. The current average bill is approximately $1,907/monthly excluding taxes. The SCS consists of the following rate elements:

- Meter Charges (first meter charge, additional meter charge)
- Steam Charge/Mlbs. per month (four declining block rates; includes demand and usage charge in one rate element)

The LCS rate schedule applies to customers using greater than 5,000 Mlbs. of total annual steam usage. The current average bill is approximately $25,800/monthly excluding taxes. The LCS consists of the following rate elements:

- Meter Charges (first meter charge, additional meter charge)
- Steam Charge/Mlbs. per month (flat rate per Mlbs.)
- Demand Charge – Annual charge billed in twelve equal monthly installments for highest hourly peak consumption of steam in 60-minute interval for winter months of November through March or non-winter months of April through October billing period. The Billing Demand Charge means the customer's highest hourly peak consumption of steam in the two immediately preceding, completed December 1 – March 31 (winter peaking) or preceding calendar year April 1 – November 30 (summer peaking) time frames.

[9] Customers are Ingredion, Inc. and Cargill, Inc. Steam is supplied under the terms of contracts separately negotiated between Veolia Kansas City and each process steam customer. Steam is metered and sold to customers before it leaves Veolia Kansas City's plant and is delivered through separate, dedicated pipelines serving only those customers.

The IHS rate schedule applies to customers using less than 100,000 Mlbs. of total annual steam usage. The Availability and Applicability criteria are restrictive[10] as qualifying customers can only receive service under this rate schedule pursuant to an executed Steam Service Agreement. At the Company's discretion, it may temporarily interrupt up to 100% of steam service to these customers under this rate schedule. For a customer to be eligible for this rate schedule, the customer must be receiving service under this rate schedule. In other words, this rate schedule is frozen or grandfathered to existing customers on this rate schedule. The IHS rate schedule consists of the following elements:

- Meter Charges (first meter charge, additional meter charge)
- Usage Charge/Mlbs. per month (flat rate per Mlbs.)
- Annual Capacity/Demand Charge – Annual charge billed monthly[11] for highest hourly peak consumption of steam service from December 1 through March 31in any sixty minute interval during the immediately preceding completed heating period. Capacity charges will be recalculated each year in April and apply to all billings for services rendered after March 31.

Staff has evaluated these schedules and normalized and annualized the billing units to more accurately depict Veolia Kansas City's steam costs and revenue on a going-forward basis. Consistent with the revenue requirement determination, Staff developed billing units for the proposed rates on a weather-normalized and annualized basis for customers through the update period[12].

Veolia Kansas City's Proposed Rate Design

Veolia Kansas City proposes a $1,000,073 increase and an overall increase of 14.42%.

Proposed class percentage increases are:

- SCS increase 10.63%

[10] Availability and Applicability criteria are defined in PSC MO. No. 1, Sheets 13, 14 and 15 pursuant to an executed Steam Service Agreement and limited to existing IHS customers.

[11] Billed one-twelfth of the Annual Capacity Charge (PSC MO No. 1, Sheet No. 16, and Section IV). Annual Capacity Charge rates are declining block rate structure with seven declining blocks (PSC Mo. No. 1, Sheet No. 17).

[12] The update period is based on known and measurable data from Veolia Kansas City through December, 2013.

- LCS increase 14.38%
- IHS increase 16.60%
- Overall 14.42%

Proposed rate component percentage increases are:

- Customer charge increase 0.00%
- Usage charge increase 22.34%
- Demand charge increase 0.36%

SCS proposal by Veolia Kansas City:

- Customer charge increase 0.00%
- Usage charge increase[13] 11.06%
- Overall increase 10.63%
- Proposed Production Adjustment Cost Clause ("PACC") – Proposed rate sheets 29-33

LCS proposal by Veolia Kansas City:

- Customer charge increase 0.00%
- Usage charge increase 23.79%
- Demand charge increase (0.20%)
- Overall increase 14.38%
- Proposed PACC – Proposed rate sheets 29-33
- New rate structure for Annual Demand Charge Schedule:
  - Winter period defined as November 1 – March 31[14]
  - Summer period defined as April 1 – October 31[15]
  - Shifting from four declining blocks to six declining blocks (See Tables 1 and 2 below)
- New billing demand winter and summer peaking time frames
  - Winter peaking time frame defined as November 1 – March 31[16]
  - Summer peaking time frame defined as April 1 – October 31[17]

IHS proposal by Veolia Kansas City:

- Customer charge increase 0.00%
- Usage charge increase 23.79%
- Demand charge increase 3.74%
- Overall increase 16.60%
- Proposed PACC – Proposed rate sheets 29-33

[13] Includes demand component and metered usage component.
[14] Currently defined as November – March
[15] Currently defined as April – October
[16] Currently defined as December 1 – March 31
[17] Currently defined as April 1 – November 30

- Interruption will normally be imposed only after a minimum six hour advance notice to Customer[18]
- New rate structure for Annual Demand Charge Schedule:
  - Heating period defined as November 1 – March 31[19]
  - Shifting from seven blocks to six declining blocks (See Tables 1 and 2 below)

Rate Design Table 1

Present Rate Structure							
LCS Demand Charge					IHS Capacity Charge		
	Mlb/hour	$/Mlb/hr	%change			Mlb/hour	$/Mlb/hr	%change
1st block	first 3	$13,693.22			1st block	first 3	$7,506.27	
2nd block	next 2	$11,654.13	-14.89%		2nd block	next 2	$8,062.29	7.41%
3rd block	next 3	$11,362.97	-2.50%		3rd block	next 3	$6,741.75	-16.38%
4th block	over 8	$10,955.54	-3.59%		4th block	next 2	$5,212.69	-22.68%
					5th block	next 2	$3,961.65	-24.00%
					6th block	next 3	$3,753.14	-5.26%
					7th block	over 15	$3,614.14	-3.70%

Rate Design Table 2

Proposed Rate Structure							
LCS Demand Charge					IHS Demand Charge		
	Mlb/hour	$/Mlb/hr	%change			Mlb/hour	$/Mlb/hr	%change
1st block	first 3	$13,693.22			1st block	first 3	$7,506.27	
2nd block	next 3	$11,639.24	-15.00%		2nd block	next 3	$6,755.64	-10.00%
3rd block	next 3	$11,348.26	-2.50%		3rd block	next 3	$6,080.08	-10.00%
4th block	next 3	$11,064.55	-2.50%		4th block	next 3	$5,472.07	-10.00%
5th block	next 3	$10,787.94	-2.50%		5th block	next 3	$4,924.86	-10.00%
6th block	over 15	$10,518.24	-2.50%		6th block	over 15	$4,432.38	-10.00%

Staff's Proposed Rate Design

Staff's revenue requirement accounting schedules show that Veolia Kansas City be permitted to increase its steam rates by $1,516,039 to $1,661,246. In this case, Veolia Kansas City calculated an overall requirement of $2.8 million but only requested an increase of $1.0

[18] Currently normally imposed only after minimum twelve hour advance notice to Customer
[19] Currently defined as December 1 – March 31

million. Staff's rate design recommendation is based on the $1,000,073 increase proposed by Veolia Kansas City and an overall increase of 14.12%.

Proposed class percentage increases are:

- SCS increase 9.67%
- LCS increase 13.41%
- IHS increase 20.28%
- Overall 14.12%

Proposed rate component percentage increases are:

- Customer charge increase 0.00%
- Usage charge increase 20.51%
- Demand charge increase 2.44%

SCS proposal by Staff:

- Customer charge increase 0.00%
- Usage charge increase[20] 10.08%
- Overall increase 9.67%

LCS proposal by Staff:

- Customer charge increase 0.00%
- Usage charge increase 21.74%
- Demand charge increase -0.20%
- Overall increase 13.41%
- New rate structure for Annual Demand Charge Schedule:
  - Winter period defined as November 1 – March 31[21]
  - Summer period defined as April 1 – October 31[22]
  - Shifting from four declining blocks to six declining blocks (See Tables 3 and 4 below)
- New billing demand winter and summer peaking time frames
  - Winter peaking time frame defined as November 1 – March 31[23]
  - Summer peaking time frame defined as April 1 – October 31[24]

[20] Includes demand component and metered usage component.
[21] Currently defined as November – March
[22] Currently defined as April – October
[23] Currently defined as December 1 – March 31
[24] Currently defined as April 1 – November 30

IHS proposal by Staff:

- Customer charge increase 0.00%
- Usage charge increase 21.74%
- Demand charge increase[25] 18.39%
- Overall increase 20.28%
- Interruption will normally be imposed only after a minimum six hour advance notice to Customer[26]
- New rate structure for Annual Demand Charge Schedule:
  - Heating period defined as November 1 – March 31[27]
  - Shifting from seven blocks to six declining blocks (See Tables 3 and 4 below)

Rate Design Table 3

Present Rate Structure							
LCS Demand Charge					IHS Capacity Charge		
	Mlb/hour	$/Mlb/hr	% change		Mlb/hour	$/Mlb/hr	% change
1st block	first 3	$13,693.22		1st block	first 3	$7,506.27	
2ndblock	next 2	$11,654.13	-14.89%	2ndblock	next 2	$8,062.29	7.41%
3rd block	next 3	$11,362.97	-2.50%	3rd block	next 3	$6,741.75	-16.38%
4th block	over 8	$10,955.54	-3.59%	4th block	next 2	$5,212.69	-22.68%
				5th block	next 2	$3,961.65	-24.00%
				6th block	next 3	$3,753.14	-5.26%
				7th block	over 15	$3,614.14	-3.70%

Rate Design Table 4

Proposed Rate Structure							
LCS Demand Charge					IHS Demand Charge		
	Mlb/hour	$/Mlb/hr	% change		Mlb/hour	$/Mlb/hr	% change
1st block	first 3	$13,693.22		1st block	first 3	$8,566.16[28]	
2ndblock	next 3	$11,639.24	-15.00%	2ndblock	next 3	$7,709.54	-10.00%
3rd block	next 3	$11,348.26	-2.50%	3rd block	next 3	$6,938.59	-10.00%
4th block	next 3	$11,064.55	-2.50%	4th block	next 3	$6,244.73	-10.00%
5th block	next 3	$10,787.94	-2.50%	5th block	next 3	$5,620.25	-10.00%
6th block	over 15	$10,518.24	-2.50%	6th block	over 15	$5,058.23	-10.00%

[25] Veolia Kansas City is proposing no increase in the first block and that each additional block be reduced by 10%. Staff's recommendation is to increase the first block by the system average increase of 14.12% and to reduce each additional block by 10%.

[26] Currently normally imposed only after minimum twelve hour advance notice to Customer

[27] Currently defined as December 1 – March 31

[28] Staff recommendation of increase to first block in the amount of the system average (14.12%)

Staff's Analysis of Veolia Kansas City's Proposed Rate Design

According to Company witness Charles Melcher, Vice President Central United States, "Although Veolia's rate case filing supports a calculated revenue deficiency of about $2.8 million, the new tariffs filed by the Company would result in a more modest rate increase of about $1.0 million.[29]" Mr. Melcher explains that the approximate $1.0 million will mostly be collected by increasing the usage charge for each class from $8.45 to $10.46 per thousand pounds of steam (i.e., Mlb). Mr. Melcher also explains that there will be restructuring of the rate steps of the demand charges within the LCS and IHS classes, but that this restructuring will be on a revenue neutral basis.

Generally, Staff agrees an increase in the usage charge for each class is necessary, and also the best way to collect most of the revenue deficiency while still maintaining uniformity of the usage charge between the three customer rate schedules. Company witness Joseph Herz, Vice President of Sawvel and Associates, Inc., performed a Class Cost of Service ("CCOS") for Veolia Kansas City. Mr. Herz found "that the relative disparity between costs and rates are the greatest in the IHS class, followed by LCS then SCS." The statement by Mr. Herz, "disparity between costs and rates are the greatest in the IHS class[30]", directly coincides with the CCOS results of Staff witness Robin Kliethermes. Staff's CCOS results basically agreed with Veolia Kansas City's study that the relative disparity between cost and rates are the greatest in the IHS class. Staff's rate design proposal for the IHS class is greater than Veolia Kansas City's proposal to bring the disparity between cost and rates closer to the cost to serve. In order to more closely align rates with the cost to serve each class, Staff believes it necessary to increase the demand charge within the IHS class by more than the Company is

[29] Direct Testimony of Charles P. Melcher, pg. 11, lines 2-4
[30] Direct Testimony of Joseph A. Herz, pg. 11, line 16

recommending. Veolia Kansas City recommends that the IHS demand charge be increased by an overall percent increase of 3.74%. In Veolia Kansas City's last rate case, there was a 75% across the board increase in the demand charge. Based on Staff's CCOS study, Staff is recommending an 18.39% increase in the demand charge to bring rates closer to their cost of service.

In summary, the main difference between the recommendations of Veolia Kansas City and the Staff is that the Company is proposing no increase in the first block (first 3 Mlb/hour) and that each additional block be reduced by 10%. Staff recommends an increase to the first block (first 3 Mlb/hour) by the system average increase of 14.12% and that each additional block be reduced by 10%.

Staff supports Veolia Kansas City's proposal that the LCS demand rate structure and the IHS demand rate structure be the same. Both classes of customers are commercial customers and the same demand rate structure is appropriate. The LCS demand structure consists of four declining blocks. Veolia Kansas City proposes that the LCS demand structure consist of six declining blocks. Staff supports this proposal. The IHS demand structure consists of seven blocks. Veolia Kansas City proposes the IHS demand structure consist of six declining blocks. Staff supports this proposal.

Staff Expert: Bradley Fortson

V. Expansion of its Certificated Service Territory

Veolia Kansas City's Proposed Steam Service Territory Expansion

In its application for a rate increase filed on November 27, 2013, Veolia Kansas City requested a service territory expansion. Veolia Kansas City currently serves the downtown central district of the City of Kansas City, Missouri, generally referred to as the downtown

loop. In addition, in 2006 the Commission approved an expansion to Veolia Kansas City's original service area for a customer that existed south of the downtown loop—Truman Medical Center.[31] Veolia Kansas City's requested expansion areas in this case are generally identified as the southern expansion, generally south of 1-70, and the northern expansion, along the Missouri River. A detailed map of the Company's proposed expansion is attached to Veolia Kansas City witness Thomas J. Hardwick's direct testimony. Where it is necessary to discuss these areas separately, Staff will identify the considerations applicable to each.

Staff recommends that the Commission approve a certificate of convenience and necessity for Veolia Kansas City to provide service in the requested expansion areas, subject to the conditions described below.

The Commission may grant a certificate of convenience and necessity to a steam heat corporation upon determining that such grant of authority is "necessary or convenient for the public service."[32] The Commission has relied on the following criteria in making this determination:

1. There must be a need for the service;
2. The applicant must be qualified to provide the proposed service;
3. The applicant must have the financial ability to provide the service;
4. The applicant's proposal must be economically feasible; and
5. The service must promote the public interest.[33]

There must be a need for the service.

Veolia Kansas City has asserted that there is general interest in their steam service, and has identified potential future customers in its testimony. Veolia Kansas City states that it is premature to move forward with negotiations with these potential future customers prior to receiving authority to serve the customers. Although natural gas service and electric heat

[31] Case No. HA-2006-0294
[32] Section 393.170, RSMo 2000.
[33] *In re Tartan Energy Company,* 2 Mo. P.S.C. 173, 177 (1994).

service can generally be utilized by customers to provide the same end-uses as Veolia Kansas City's steam service, there is no other certificated steam service in either requested territory. Staff has no reason to doubt Veolia Kansas City's representation that there may be a need for the service in the requested territory expansion areas, and recommends the Commission accept Veolia Kansas City's representation that there is a desired need for the steam service in the requested expansion areas.

The applicant must be qualified to provide the proposed service.

Management qualification

Veolia Kansas City's parent company Veolia Energy North America, LLC is the largest owner of district energy companies in North America, and owns districts in 14 other United States cities. The Kansas City steam system has been run in a generally safe and efficient manner under Veolia Kansas City's management.

Operational qualification

Veolia Kansas City operates and produces steam at its Grand Avenue Plant. Veolia Kansas City represents that this production facility has the necessary capacity to serve additional customers. – (See Veolia Feasibility Study, Schedule SLK-2) Grand Avenue has the capacity to produce 1.2 million pounds of steam per hour[34]. With respect to the Company's existing steam load requirements, Grand Avenue has capacity to serve additional steam requirements. However, additional demands on the system associated with adding new customers should not result in detriments to existing customers. While Veolia Kansas City has produced a study indicating that Veolia Kansas City has the necessary steam production and pipeline capacity to serve additional steam customers, the Company must ensure that its existing steam production facilities and distribution pipeline system will be able to handle any

[34] source: 2011 FERC Form 1, page 402, line 5

additions for new customers' steam load requirements without significant increases to average production costs.

Based on the representations of Veolia Kansas City, and as conditioned below, Staff recommends the Commission find the applicant is qualified to provide the described service.

The applicant must have the financial ability to provide the service.

If a territory expansion is granted, the Company anticipates adding one to two customers each year over the next three year period. Although Veolia Kansas City does not have the cash flow to finance the expansion, it has access to internal capital from its parent Company, Veolia Environnement, and wholly owned subsidiaries of Veolia Energy North America Holdings, Inc., which owns and operates Thermal North America Inc. who also have the necessary access to capital markets. Staff recommends the Commission find the applicant to have the financial ability to provide the described service.

The applicant's proposal must be economically feasible.

Staff reviewed Veolia Kansas City's testimony and responses to data requests that included a feasibility study, provided by Veolia Kansas City on April 30, 2014, to determine whether the expansion would result in a financial detriment to the Company or to its existing customers. The Feasibility Study included but was not limited to a list of potential customers in the proposed territory expansion (North and South), the impact of additional customers added to the existing distribution system, estimated capital costs, expected steam volumes in Mlb's anticipated to be sold, revenues, depreciation and variable costs.

The Company has represented that any potential customers requesting steam service will be evaluated to determine if converting to steam service is economically feasible for the customer as well as Veolia Kansas City. Several of the potential customers identified by

Veolia Kansas City would be small commercial customers. Expansion of Veolia Kansas City's service territory for acquiring small commercial customers alone would not generate enough revenue to justify the additional capital costs necessary for such an expansion. Potential customer additions would need to be large enough (taking service on the Large Commercial Service ("LCS") rate schedule) to generate sufficient revenue to offset the additional capital costs. It is Staff's understanding that Veolia Kansas City will perform extensive analysis to determine if it will be economically viable to serve a potential customer or cluster of customers in the proposed territory expansion. When a potential customer contacts the Company, Veolia Kansa City will identify the projected revenues and costs in order to see if it is beneficial to Veolia Kansas City's operations and if it is in the customers' interest to connect to the steam system. Once the steam distribution line is extended, other customers will be able to connect to the steam system.

Staff performed analyses based on the estimates in the Feasibility Study provided by the Company. Using the assumptions made by the Company in its Feasibility Study, Staff was able to determine that the addition of new customers in either the northeast or south expansion areas would not create a revenue requirement increase. This assumes the Company's estimates used in its feasibility study are close to what the actual costs would be for adding new customers, and that increases in load would not significantly increase variable production costs. If the actual costs are higher than expected and if the steam sales are lower than expected resulting in less revenues, then the contributions made by new customers will be lower than anticipated. If the new customers produce insufficient revenues, then existing customers would have to absorb any losses incurred from those new customers.

Particularly in the Southern Expansion area, Staff is concerned that the cost of constructing new distribution lines through already-developed areas will outweigh the contribution to revenue requirement associated with new customers. Staff is concerned that capital investment associated with serving new customers will raise rates for existing customers, possibly to the point that existing customers might leave the system, exacerbating rate impact on remaining customers[35] Consequently, while Staff supports the expansion of both the proposed north and south service areas, the Staff recommends the Commission include in any order approving the requested expansion a number of "hold harmless" conditions. Staff's proposed conditions provide that if new customers do not generate sufficient additional revenues that exceed the costs necessary to serve those customers associated with the expansion, the existing customers will not be forced to pay higher rates to cover the costs to serve the new customers. Said another way, existing customers should not be harmed by Veolia Kansas City's proposed expansion of its service territory.

The Company identified several potential customers that expressed interest in Veolia Kansas City's steam service. Staff understands that Veolia Kansas City has held informal discussions with several potential customers regarding the benefits of steam service. However, there is uncertainty whether any potential customers would pursue service with Veolia Kansas City should the expansion be granted by the Commission. If the Company is granted the expansion, Veolia Kansas City must commit to hold its existing customers harmless.

Public utilities in Missouri are charged with providing safe and adequate service at just and reasonable rates. If the requested expansion does not benefit existing customers, then the

[35] This concern is compounded by the increases in net plant that will occur over the next several years related to the refunding of Truman Medical Center's contributions in aid of construction ("CIAC").

Commission should impose conditions sufficient to overcome any detriments of the proposed expansion, or not approve the request.

Commission Use of Hold Harmless Provisions in CCN Applications

The Commission has addressed the need to protect existing customers from harm of expansion activities of utilities in the past. The 1995 consolidated cases, Case Nos. GA-95-231 and GA-95-216, which involved Missouri Gas Company ("MGE")[36], concerned CCNs to provide natural gas pipeline service to city of Salem, Missouri. In its August 8, 1995, Report and Order, the Commission stated:

> The Commission shares the Staff's concern insofar as there is the potential that the costs of uneconomic decisions by utilities may be spread to the general body of ratepayers. It appears to the Commission that if a utility makes what would be, in an unregulated marketplace, poor business decisions and takes uneconomic actions based on those decisions, the general body of ratepayers should not have to bear the financial burden associated with such uneconomic actions. The Commission concludes that a regulatory regime whereby MoGas [Missouri Gas Company] and MoPub [Missouri Public Service – the Missouri electric utility of UtiliCorp] are allowed to engage in destructive price competition to drive out propane in given markets and then force the general body of ratepayers to bear the expense of the destructive competition through cross-subsidization from the firm's more lucrative geographic areas, is not in the public interest. **It appears that if expenditures incurred by MoGas or UtiliCorp to provide natural gas to Salem, Missouri, or any other area prove to be unreasonable or imprudent, then shareholders rather than ratepayers should bear the cost associated with the uneconomic action.** This could be accomplished through adjustments to rate base in the context of a rate proceeding.
>
> [source: Commission Order in Case No. GA-95-231, page 14; emphasis added]

Further, the Commission required Missouri Gas to maintain separate accounting records:

> That UtiliCorp United Inc. and Missouri Gas Company shall keep a separate and complete accounting of costs associated with the Salem

[36] Missouri Gas Company was then owned by UtiliCorp United Inc. ("UtiliCorp" and later known as Aquila, Inc),

> delivery spur and will provide that separate accounting to the Staff upon proper request in any future rate of [or] complaint proceeding.
>
> [source: Commission Order in Case No. GA-95-231, page 16, Ordered Paragraph 5]

In Case No. GA-95-216, the Order issued to UtiliCorp for a CCN to provide natural gas service to Salem, Missouri, the Commission stated:

> In this case, the Commission finds the expansion into the Salem area will be allowed, **but solely at the risk of the shareholders of UtiliCorp**. Should the proposed project fail or, for any reason, prove to be economically inefficient or unsound, the Commission will likely assess project costs and operational losses against UtiliCorp and its shareholders.
>
> [source: Commission Order in Case No. GA-95-216, page 6; emphasis added]

Also in this case, the Commission ordered UtiliCorp to keep separate records:

> In addition, the Commission will order MPS [Missouri Public Service] to keep separate accounting records for the Salem service area, to be examined at the time of the next general rate case. The Commission also points out to UtiliCorp that it makes no finding or determination as to the prudence or ratemaking treatment to be given to this project and its associated costs.
>
> [source: Commission Order in Case No. GA-95-216, pages 7-8]

In the Salem certificate case, the Commission stated:

> That the Commission makes no finding as to the prudence or ratemaking treatment to be given any costs or expenses incurred as the result of the granting of this certificate, except those costs and expenses dealt with specifically in this Report and Order, and reserves the right to make any disposition of the remainder of those costs and expenses it deems reasonable, including charging those costs and expenses to the stockholders of UtiliCorp United, Inc., in any future ratemaking proceeding.
>
> That UtiliCorp United, Inc., by its operating division, Missouri Public Service, will keep a separate and complete accounting of the Salem service area and will provide that separate accounting to the Staff upon proper request in any future rate or complaint proceeding.
>
> [source: Commission Order in Case No. GA-95-216, page 10, Ordered Paragraphs 5 and 6]

In another UtiliCorp certificate case regarding the provision of natural gas service to the city of Rolla, Missouri, (Case No. GA-94-325) the Commission stated:

> In addition, should the Staff's position prove to be more accurate and MPS be mistaken in its analysis of the economic viability of this project, the financial stability of UtiliCorp's operation in Missouri will not be jeopardized by the mistake. Both Staff and Company's positions on the feasibility of the project are based upon estimates. The Commission finds that Company's estimates are as reasonable as Staff's and, since MPS bears most of the risk if it has underestimated the economic feasibility of the project, the public benefit outweighs the potential for underestimating these costs.
>
> [source: Commission Order in Case No. GA-94-325, page 6]

Ultimately, UtiliCorp's assumptions were not accurate, causing financial losses for the expanded natural gas service. UtiliCorp underestimated the cost to construct the natural gas system and overestimated the number of customers served, resulting in substantially reduced revenues from those identified in the feasibility studies used to support each of the certificate cases. Because of financial hardship, UtiliCorp sold all the natural gas properties at a substantial loss to Ameren Missouri in 2004[37]. Because the Commission indicated that the expansion of the natural gas service to each of these communities would be at the risk of the shareholders, UtiliCorp's customers were held harmless to any detriments regarding financial losses.

In the Veolia Kansas City's service area expansion case for the Truman Medical Center ("Truman"), filed as Case No. HA-2006-0294, Staff took the position that the Company's existing customers should not be harmed by this expansion consistent with the position taken in the UtiliCorp expansion cases cited above. Although the Commission nominally denied this recommendation, because among other things, Truman had agreed to

[37] Case No. GM-2004-0244, Sale of Aquila Eastern natural gas system to Ameren Missouri.

pay the costs of the service area expansion, Veolia Kansas City's other ratepayers were insulated from financial risks of the Company's expansion. The risks related to the Truman expansion in 2006, which included the costs of constructing the pipeline to Truman, were borne by Truman and not the Company's existing customers.

Staff's Recommendations for Economic Feasibility criterion

To ensure the Company's CCN expansion remain economically feasible, Staff recommends the Commission condition its approval of the CCN subject to the following conditions:

1. Imposition of Hold Harmless Provisions

Customers currently receiving service from Veolia Kansas City should be protected from any detriments that may result from the requested expansion of the steam service territory. As such, should the Commission approve the expansion of either the north or south service areas, Staff recommends any order authorizing this expansion of steam service contain language similar to the Commission's UtiliCorp orders wherein any risks related to the expansion falls on Veolia Kansas City and its shareholders and not its current customers. Therefore, the Commission should apply the "hold harmless" standard so that existing customers are protected from any adverse effects or detriments as a result of the addition of new customers. In addition, Staff recommends the Commission condition any order granting the CCN subject to the the conditions discussed below.

2. Addition to the Proposed Service Area

General Mills was specified in the Company's direct filing as a potential customer in the expanded service area[38]. Staff notes that the proposed service expansion does not incorporate this customer's existing business. If the Northern Expansion is approved, Staff recommends the service area be expanded further east beyond the area requested by Veolia Kansas City in this case to include this previously-identified potential customer.

The service must promote the public interest.

In other CCN cases reviewed by Staff, the Commission has concluded that satisfaction of the four criteria discussed above constitutes satisfaction of the criteria that the service

[38] Direct Testimony Thomas J. Hardwick, Case No. HR-2014-0066, page 5.

promotes the public interest. In summary, Staff recommends that the Commission determine that Veolia Kansas City has satisfied the prior four considerations discussed above, thereby satisfying the fifth condition of promoting the public interest, subject to the below listed conditions. Therefore, Staff recommends that the Commission approve a certificate of convenience and necessity for Veolia Kansas City to provide service in the requested expansion areas, including General Mills, subject to the following conditions:

Recommended Commission Ordered Conditions for Approval of New CCN

a. Require an analysis and documentation of that analysis that any customer or cluster of customers more than .05 miles from the then-existing distribution system will provide revenues in excess of variable cost to pay for the expansion in 5 or fewer years;
b. Require Contributions in Aid of Construction ("CIAC") for any customer or cluster of customers more than .05 miles from the then-existing distribution system, and any necessary upgrades to the existing distribution system;
c. Sixty days before filing the next general rate request, require Veolia Kansas City to provide a study of the cost of serving customers in the expansion areas distinct from the cost of serving customers in the existing territory, and provide with the rate case filing any proposed separate tariff to be applicable to customers in the expanded territories;
d. Hold customers in the existing service areas harmless of any increase in production or distribution costs attributable to expansion of the service territory net of revenues associated with customers in the expansion areas;
e. If the Company makes a decision to alter its existing fuel mix such that 80% or higher of the fuel mix is natural gas, Staff recommends that the Company be required to make a filing to notify the Commission of this decision;
f. Require Veolia Kansas City to file a notice in this docket 90 days prior to construction of any steam generation plant outside of the existing Grand Avenue site; and,
g. Require Veolia Kansas City to submit a revised map of the expansion service area to include General Mills.

Staff Experts: Karen Lyons and Sarah Kliethermes

VI. Establishment of a Production Adjustment Cost Clause

Executive Summary

Veolia Kansas City is asking for a rate adjustment mechanism which would allow it to make periodic rate adjustments outside of a general rate case proceeding to reflect the differences between the actual variable costs of producing steam relative to those costs included in base rates.[39] The Company has titled this rate adjustment mechanism a Production Adjustment Cost Clause ("PACC"). Tariff sheets to implement the Company's requested PACC were filed with the Company's direct rate case filing on November 27, 2013.

Staff has reviewed the Company's request and proposed PACC tariff sheet, analyzed the Company's gross steam production as well as total and variable fuel and consumable costs, and consulted with counsel on the state statute and Commission rules regarding rate adjustment mechanisms. In addition, Staff reviewed existing rate adjustment mechanisms granted to other investor owned Missouri utilities and consulted with those members of Staff[40] who administer the rate adjustment mechanisms currently held by other Missouri utilities.[41] Finally, Staff made three tours of Veolia Kansas City's Grand Avenue steam production facility in Kansas City, Missouri. Staff had numerous discussions with Veolia Kansas City personnel regarding the steam operations including the plant operations at Grand Avenue and to gain an understanding specifically of the Company's proposed fuel clause mechanism.

Staff's analysis revealed that Veolia Kansas City is in a rising cost environment due to fuel, purchased power, and consumable costs over which the Company has limited control. If

[39] File No. HR-2014-0066, 11/27/2013, Charles Melcher, Direct Testimony, pages 37-38

[40] Regulatory Review Division, Tariff, Safety, Economic and Engineering Analysis Department, Energy Resource Analysis Section.

[41] Quarterly Cost Adjustment ("QCA") granted to KCP&L GMO – Steam File No. HR-2005-0450, Fuel Adjustment Clause ("FAC") granted to KCP&L GMO – Electric File No ER-2007-2004, FAC granted to Union Electric Company dba Ameren Missouri in File No. ER-2008-0318, FAC granted to Empire District Electric Company File No. ER-2008-0093.

the Commission grants a rate adjustment mechanism to Veolia Kansas City, Staff recommends that a sharing mechanism be implemented as a part of the proposed PACC and that the Company be required to make the filings outlined in this testimony. Further, Staff recommends that an annual rate adjustment mechanism, with an option to make a semi-annual filing, would appropriately reflect the increases to fuel, purchased power and production costs the Company faces.

Veolia Kansas City's Production Facility

Veolia Kansas City is a steam production and distribution company serving district steam heating customers under Commission approved tariffs. The Company also serves two industrial steam users under contract. The main components of the Company's steam operation consists of four industrial boilers which run on coal or natural gas, a five (5) megawatt (MW) steam turbine, and various boiler plant equipment (feed-water heaters, pumps, compressors, coal mills, pipe spools, etc.) supporting the production of steam. To produce steam, one or more of the boilers are fired (with coal or natural gas) and supplied with properly treated boiler feed-water[42] whereby the thermal energy contained in the fuel is used to convert water to steam at very high temperatures and pressures. This high pressure steam is expanded through the turbine to a lower pressure for delivery to steam customers while the thermal energy extracted from the high pressure and temperature steam during this process is converted to electrical energy. This electricity in turn is used to power the plant. There is also steam extracted during this process that is sold at retail to Veolia Missouri to power water chillers at the plant[43]. Finally, some steam is extracted and routed back to the

[42] Veolia Kansas City is a water and sewer customer of Kansas City Missouri Water District ("KCMo Water District")
[43] File No. HR-2014-0066, 11/27/2013, Charles Melcher, Direct Testimony, page 16

boiler feed-water heaters. The Company appears to be making every effort to improve the thermal efficiency of its process.[44]

The Company's variable fuel and production costs are unique as it is not typical for a thermal power plant to be a customer of a city water district or a retail customer of a regulated electric company. Veolia Kansas City has to purchase large quantities of water treated by the city that has to be further treated before it is sent to the steam boilers. Moreover, the Company incurs sewer charges for each gallon of water purchased from the city water district. Veolia Kansas City has had a study performed to determine the availability of alternate water sources. The study concluded that ** _____ ___ ** Although sales to the Company's contracted process customers allows for changes in variable fuel and consumable costs[45], the rate currently charged to district steam customers has been fixed since the last rate increase granted to Veolia Kansas City in File No. HR-2011-0241. As traditionally applied, a rate adjustment mechanism (fuel and purchased power adjustment clause) captures the variability of actual fuel and purchased power costs from those costs set in a rate case proceeding. Generally, the mechanism would not capture increases in water and sewer rates to the Company similar to those charged by KCMo Water District or increases in electric rates similar to those charged by Kansas City Power & Light Company ("KCPL").

[44] Staff discussions with Veolia Kansas City Plant Manager also please see File No. HR-2014-0066, 5/1/2014, Appendices to Staff Report - Revenue Requirement - Cost of Service (HC and NP), Appendix 3, Veolia Kansas City Study

[45] File No. HR-2014-0066, Company response to Staff DR #21

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History of Rate Adjustment Mechanisms in Missouri

Staff is unaware of any rule or statute that provides specific guidance to the structure of a rate adjustment mechanism for a steam company, such as the PACC Veolia Kansas City has requested. Staff analyzed this request by reviewing existing Missouri statutes and commission rules related to the structure and reporting requirements of rate adjustment mechanisms for Missouri regulated electric, water, and gas companies. Staff also reviewed the rate adjustment mechanism granted to the steam operations of KCP&L Greater Operations Company ("GMO"). This analysis included a review of the following:

- Senate Bill 179 (SB 179) - This bill was signed into law on July 14, 2005 and took effect on January 1, 2006. The law provides the Commission with the authority to implement rules for periodic rate adjustments, between rate cases in the following areas:
  - Electric Companies: Fuel & Purchased Power Cost Recovery and Environmental Compliance Cost Recovery
  - Natural Gas Companies: Environmental Compliance Cost Recovery and Usage Variations for Weather/Conservation
  - Water Companies: Environmental Compliance Cost Recovery
- Section 386.266 RSMo (Suppl. 2007) - Rate Schedules for Interim Energy Charges or Periodic Rate Adjustment**.** Section 386.266.1 of this statute states any electrical corporation may make an application to the commission to approve rate schedules authorizing an interim energy charge, or periodic rate adjustments outside of general rate proceedings to reflect increases and decreases in its prudently incurred fuel and purchased-power costs, including transportation. Section 386.266.9 of this statute states "Any electrical, gas, or water corporation may apply for any adjustment mechanism under this section whether or not the commission has promulgated any such rules."
- The Quarterly Cost Adjustment Rider ("QCA") rate adjustment mechanism granted to GMO's steam operations in File No. HR-2005-0450 as modified in subsequent steam rate cases. The QCA was granted to GMO before SB 179 was passed or any related Commission rule had been promulgated.
- Commission rule 4 CSR 240-20.090 – Electric Utility Fuel and Purchased Power Cost Recovery Mechanisms. This rule sets out the definitions, structure, operation, and procedures relevant to the filing and processing of applications to reflect prudently incurred fuel and purchased power costs through an interim energy charge or a fuel

adjustment clause which allows periodic rate adjustments outside general rate proceedings.

- Commission rule 4 CSR 240.3.161 – Electric Utility Fuel and Purchased Power Cost Recovery Mechanisms Filing and Submission Requirements. This rule sets out the information that an electric utility must provide when it seeks to establish, continue, modify, or discontinue and/or true-up its rate adjustment mechanism. It also sets forth the requirements for the submission of Surveillance Monitoring Reports as required for electric utilities that have a rate adjustment mechanism.
- The Purchase Gas Adjustment ("PGA") mechanism was granted by the PSC to various Missouri natural gas utilities rather than pursuant to a specific statutory directive. See *4 CSR 240-13.015(1)(Y)* (defining "purchased gas adjustment clause") and *4 CSR 240-40.018(1)(B)* (explaining use of purchased gas adjustment clauses to control financial gains or losses associated with gas price volatility).[46]

Staff Concerns and Recommendations

After reviewing the above, Staff is persuaded Veolia Kansas City's request should be considered. However, Staff has a variety of concerns regarding the Company's request. These concerns include the following:

- The Company seeks to use this rate adjustment mechanism to pass through to its district steam customers one hundred percent (100%) of the differences between actual production costs and the established base rate production costs. This passes all of the risk from variations in productions costs to the Company's customers and provides no incentive for the Company to control its costs. Staff is guided by the state statute on rate adjustment mechanisms which allows the Commission to include provisions "designed to provide the electrical corporation with incentives to improve the efficiency and cost-effectiveness of its fuel and purchased-power procurement activities."[47] Staff recommends that if a PACC is granted to Veolia Kansas City, an eighty-five/fifteen percent (85/15%) risk sharing mechanism be established. The sharing mechanism allows the Company the opportunity to recover eighty-five percent (85%) of the difference between actual costs and the base fuel and consumable rates set in this case. The Company has the opportunity to recover the other fifteen percent (15%) of costs through traditional ratemaking concepts such as reductions of other costs or increases in revenues.

[46] Missouri' s court of appeals addressed the authority of the PSC to utilize the PGA mechanism as part of its regulation of gas utilities. *State ex rel. Midwest Gas User's Ass'n v. Pub. Serv. Comm'n or State, 976 S.W.2d 470*.

[47] Section 386.266.1, RSMo (Supp. 2007)

- By January 1, 2016, the Company must be in compliance with the National Emission standards for Hazardous Air Pollutants ("NESHAP") for Industrial, Commercial, and Institutional Boilers and Process Heaters.[48] ** _____ _____ _____ _____ _____ _____ ** This is all the more reason to establish a sharing mechanism which incents the Company to prudently manage its fuel purchases and does not pass all of the risk of fuel price variability as well as fuel mix variability to the customers. If the Company makes a decision to alter its existing fuel mix such that 80% or higher of the fuel mix is natural gas, Staff recommends that the Company be required to make a filing to notify the Commission of this decision.
- Staff recommends that a Commission order approving a PACC explicitly require that any capital expenses incurred to comply with the MACT will not be allowed to flow through any PACC established in this case.
- The Company proposed a usage charge per thousand pounds ("Mlb") of steam sold which includes a contribution to the fixed cost of labor, maintenance, other overhead costs or a return on plant investment.[50] Staff is opposed to any labor or fixed costs being part of the $/Mlb base rate calculation set in this case. Therefore, if a PACC is granted to the Company, Staff recommends the Commission's order establishing the PACC explicitly require that the only allowable charges in the PACC are the charges in FERC accounts 5010, 5011, 5012, 5013, 5017, 5018, 5021, and 5022 that relate to non-labor fuel, purchased power and very specific water and sewer consumables.
- ** _____ _____ _____ _____ _____ ** Staff recommends that a Commission order granting PACC state that any capital costs that may be incurred ** _____ _____ ** will not be allowed to flow through any PACC established in this case.

There are considerable regulatory filing obligations when a utility is granted a rate adjustment mechanism. The Commission Small Rate Case process may be more cost effective for a company such as Veolia Kansas City rather than use of a rate adjustment

[48] This rule is also known as the Industrial Boiler Maximum Achievable Control technology "MACT" standard.

[49] ** _____ _____ _____ **

[5] File No. HR-2014-0066, 11/27/2014, Charles Melcher Direct Testimony, pages 24 lines 14-22, page 25 lines 1-2

[51] ** _____ ** Staff reviewed this document at the plant and requested the study in Data Request No. 132.

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mechanism. However, if the Commission grants Veolia Kansas City a PACC, Staff recommends that an annual adjustment, with an option to make semi-annual filings, would be more appropriate for this Company rather than the quarterly adjustments it has requested.

Staff recommends approval of the PACC be conditioned on the Company providing the following information in filings made through the commission's electronic filing and information system ("EFIS") in the time frames indicated:

One Time Filing in This Rate Case Proceeding

- An example of the notice to be provided to customers explaining the PACC.
- An example customer bill showing how the proposed PACC shall be separately identified on affected customers' bills.
- A complete explanation of all the costs that shall be considered for recovery under the proposed PACC and the specific account used for each cost item on the Company's books be set out and defined in the tariff, along with the exact definition of what costs may be placed in each specific account.
- A complete explanation of all the revenues that shall be considered in the determination of the amount eligible for recovery under the proposed PACC and the specific account where each such revenue item is recorded on the Company's books and records.
- A complete explanation of any feature designed into the proposed PACC that can be relied upon to ensure that only prudent costs shall be eligible for recovery under the proposed PACC.
- A complete explanation of the specific customer class rate design used to design the proposed PACC base amount in permanent rates and any subsequent rate adjustments during the term of the proposed PACC.
- A complete explanation of any change in business risk to the Company resulting from the implementation of the proposed PACC in setting the Company's allowed return in this rate proceeding.

Monthly Required Filings

- Monthly reports in addition to the Monthly Operational and Performance Data Report now submitted by Veolia Kansas City pursuant to the Stipulation and Agreement resulting from File No. HM-2004-0618 which would include:
    - Revenues billed pursuant to the PACC by rate class;
    - Revenues billed through the Company's base rate allowance by rate class;

- The Company's actual PACC eligible production costs allocated by rate class using allocation methods approved by the commission during this rate case ;
- The difference, by rate class, between the revenues collected via base rates and PACC adjustments and the actual production costs incurred;
- Total Mlbs of steam produced, fuel consumption and expense broken out by fuel type (coal, natural gas or oil), and heat rates by boiler;
- Monthly outage information by boiler and the steam turbine identified by forced (unplanned) and scheduled (planned) outages;
- Total amount (ccf) of water purchased for the purpose of steam generation from the KCMO Water District as well as total dollar amounts charged for water and sewer usage;
- Prices of fuel purchased by fuel type breaking out freight and transportation prices;
- The Company's Statistic Report and the Company's Daily Production Report as provided to Staff Data Request 10 in the current rate case proceeding; and
- Any other monthly data required to calculate the variance in costs from base production costs.

Annually Required Filings

- In addition to the above monthly reporting requirements, Staff recommends the Company be required to file a Surveillance Monitoring Report as fully described in Commission rule 4 CSR 240-3.161 (6). The format of the Surveillance report is attached hereto as Schedule EM-1. The Surveillance Monitoring Report has five (5) parts. Each part, except Part one, Rate Base Quantifications, should contain information for the last twelve (12)-month period and the last quarter data for total company steam operations and district steam service operations. Page one, Rate Base Quantifications should contain only information for the ending date of the period being reported.
  - Rate Base Quantifications
    - Plant in service;
    - Reserve for depreciation;
    - Materials and supplies;
    - Cash working capital;
    - Fuel inventory;
    - Prepayments;
    - Other regulatory assets;
    - Customer advances;
    - Customer deposits;
    - Accumulated deferred income taxes;

        - Any other item included in the Company's rate base in the most recent rate proceeding; and
        - Net Operating Income from page three (of the Surveillance Report).
- When Veolia Kansas City files tariff schedules to adjust a PACC rate, the tariff schedule filing shall be accompanied by supporting testimony and contain at least the following information:
    - For the period from which historical costs are used to adjust the PACC Rate:
        - Energy sales in Mlb by rate class;
        - Fuel costs and fuel consumed by each fuel type and boiler included in fuel and purchased power costs in the PACC rate and the base rates;
        - Purchases of electricity included in production costs with demand and energy costs separately stated;
        - Revenues from and expenses associated with sales to process customers and non-regulated affiliates;
        - Extraordinary costs not to be passed through, if any;
        - Base rate component of production costs and revenues from sales to process customers and non-regulated affiliates;
        - Calculation of the proposed PACC collection rates;
        - Calculations supporting the PACC collection rates as differentiated by rate class;
        - Calculations underlying any seasonal variation in the PACC collection rates; and
        - Work papers supporting the Company's tariff adjustment filing.
- An annual true-up filing by the Company be required containing supporting testimony and include the following information:
    - Amount of costs that the Company has over-collected or under-collected through the PACC by rate class;
    - Proposed adjustments or refunds by rate class;
    - Work papers detailing how the determination of the over-collection or under-collection of costs though the PACC was made including any model inputs and outputs and the derivation of any model inputs; and
    - Work papers detailing the proposed adjustments or refunds.
- The Company is required to make an annual budget filing as outlined in 4 CSR-3.161 (6) (C).
- Veolia Kansas City PACC will be subject to an annual prudency review as specifically defined in the approved tariff sheet.

Required Rate Case Filing

- The Company is required to file a general rate case with the effective date of new rates to be no later than four years after the effective date of a Commission order implementing or continuing this PACC.

Staff is still reviewing this proposal and may raise other issues in rebuttal testimony.

Staff Expert: Erin Maloney

VII. Establishment of an Economic Development Rider

Economic Development Rider ("EDR")

Staff is unaware of any rule or statute that provides guidance to the structure of an Economic Development Rider. However, 4 CSR 240-14, the rules governing promotional practices, states: "Nothing contained in the rules of this chapter shall be construed to prohibit or restrict any industrial development or Missouri Community Betterment Program activities by any utility.[52]" Therefore, Staff uses that and the other Commission-approved Economic Development Riders of other utilities as guidance for the appropriate structure of an Economic Development Rider.

The availability sections of EDR in the KCPL and Empire District Electric Company ("Empire") tariffs are consistent:

- Only available in conjunction with local, regional and state governmental economic development activities where incentives have been offered and accepted by the Customer after the rider effective date to locate new facilities, expand existing facilities, or retain existing facilities in the Company's service area.
- Only available to industrial and commercial facilities not involved in selling or providing goods and services directly to the general public.

[52] 4 CSR 240-14.010(3)

For example, MGE's tariff does not state those restrictions, but is limited to the Large Volume customers only.

Although 4 CSR 240-14 does not explicitly apply to steam heat, Staff believes that the rules are a best practice. Therefore, although Staff does not propose an EDR for Veolia Kansas City, if the Commission were to approve an EDR for Veolia Kansas City, Staff recommends that Veolia Kansas City's tariffs should conform to either the electric or natural gas EDRs in a similar fashion. Schedule MLS -1 contains specimen tariff sheets that meet the requirements discussed above.

Staff Expert: Michael L. Stahlman

VIII. Establishment of a Capacity Reserve and Emergency Service Schedule

Capacity Reserve and Emergency Service Schedule ("CR/ES")

4 CSR 240-10.040 establishes the service and billing practices and payment standards for commercial and industrial customers of steam heat utilities. Veolia Kansas City's proposed tariff schedule is similar to Veolia Kansas City's proposed Interruptible Heating Service ("IHS") Schedule with some differences in the availability and term requirements. Staff's understanding of this tariff is that it will allow Veolia Kansas City to connect customers adjacent to the Company's steam system when that customer is unable to self-generate sufficient steam on a temporary basis. A significant difference between the CR/ES schedule and the IHS schedule is that the CR/ES schedule does not require a customer to commit to be a Veolia Kansas City customer for at least one-year. Staff does not propose a CR/ES schedule, but would recommend some clarifications to the current tariff language, such as including the demand charge rates in the schedule rather than referring to the IHS schedule, if the Commission were to approve a new CR/ES schedule. Staff recommends the rate changes

in this schedule conform with the Staff recommended rate changes for the IHS schedule as discussed by Staff expert Mike Scheperle. Staff is still reviewing this proposal and may raise other issues in rebuttal testimony.

Staff Expert: Michael L. Stahlman

IX. Establishment of a Generic Special Contract Rate

Rules and Regulations Tariff Changes

On sheet P.S.C. MO. No. 2 3rd Revised Sheet No. 15, Veolia Kansas City has changed language in section 4.2 "Other Sources" to read "the Customers' premises shall have no connection to or from any other source of **steam supply**," to reference any other source of "**heat supply**." [emphasis added]. Staff understands the intention of this change is to restrict the availability of steam service to customers that maintain back-up or alternative sources of heat. As reworded, Staff is concerned that the language literally states that customers may not be connected to electric or gas distribution systems. Staff suggests that either the term "steam" remain unchanged, or that additional language be added, such as "nothing in this provision is intended to limit the availability of this service to customers taking electric or gas service for non-heating purposes."

Changes requested for promulgation on sheet P.S.C. MO. No. 2 2nd Revised Sheet No. 26 involve proration of charges and general clean-up of language. Another change on this sheet and elsewhere involves a lengthening of the delinquent payment period to 21 days from 10 days after receipt, which is consistent with the guidance of Chapter 13 of the Commission's rules, applicable to residential service.

Other changes in the revised tariff are minor and are reasonable. Staff recommends promulgation of the revised tariff, with the addition of the language noted above concerning electric and gas service.

Generic Special Contract Rate

Veolia Kansas City has requested promulgation of a Special Contract Steam Service ("SCSS") tariff "to address unique customer circumstances not met by other tariff schedules." These sheets are requested for promulgation as P.S.C. MO. No. 1 Original Sheet No. 34 – 36.

The requested SCSS tariff is dissimilar from the tariff used by KCPL for special contract service. Approved in Case No. EO-2006-0192, KCPL's Sheet 39 provides for customer-specific special contracts, which are reviewed by the Commission. Ford and Praxair were initial customers, each of whom were reviewed in a case filing. For reference, a specimen of this tariff and subsequent sheets is attached as Schedule SLK-1. Staff recommends that any special contract tariff Veolia Kansas City may promulgate be substantially similar to this specimen.

Staff Expert: Sarah Kliethermes

X. Establishment of a Residential High-Rise Schedule

Residential High-Rise Schedule ("RHR") 4 CSR 240-13 provides guidance on the service and billing practices for residential customers. Although these rules do not specifically apply to steam heat, Staff considers these rules to be best practices and recommends that Veolia Kansas City adopt tariff sheets that specify rules governing its relations with residential customers and service applicants which are consistent with 4 CSR 240-13.

Additionally, Veolia Kansas City is seeking to establish a Production Adjustment Cost Clause ("PACC") in this case. Upon advice from counsel, Staff is of the opinion that the

proposed PACC shouldn't apply to residential customers based on *State ex rel. Utility Consumers Council of Missouri, Inc. v. Public Service Commission ("UCCM"), 585 S.W.2d 41*. In that case, the Supreme Court of Missouri observed that representatives of large industrial or commercial customers might understand the particular rate change mechanism of a fuel adjustment clause; the average consumer could not be expected to ascertain what rates are in effect and to be able to determine an appropriate response to those rates. Senate Bill 179, which authorized the Commission to approve fuel adjustment clauses, applies only to electric companies.

Staff is not proposing an RHR schedule, but instead recommends adding rules to the Company's tariff sheets reflecting protections under the current Chapter 13 rules, removing PACC applicability to residential customers, and correcting some other errors in the language in the proposed tariff sheets. Staff is still reviewing this proposal and may raise other issues in rebuttal testimony.

Staff Expert: Michael L. Stahlman

Brad Fortson

Education and Employment Background

I am a Regulatory Economist in the Economic Analysis Section, Regulatory Review Division of the Missouri Public Service Commission. I have been employed at the Missouri Public Service Commission since December 2012.

I received my Associate of Applied Science degree in Computer Science in May 2003, Bachelor of Science degree in Business Administration in May 2009, and Master of Business Administration degree with an emphasis in Management in May 2012 from Lincoln University, Jefferson City, Missouri.

Prior to joining the Commission, I worked in various accounting positions within four state agencies of the State of Missouri. I was employed as an Account Clerk II for the Inmate Finance Section of the Missouri Department of Corrections; as an Account Clerk II for the Accounts Payable Section of the Missouri Department of Health and Senior Services; as a Contributions Specialist for the Employer Accounts Section of the Missouri Department of Labor and Industrial Relations; and as an Accountant I for the Payroll Section of the Missouri Office of Administration.

Brad Fortson

Case Participation History

Case Number	Company	Issue	Exhibit
HT-2014-0286	KCP&L Greater Missouri Operations Company	Quarterly Cost Adjustment verification	Staff Memorandum
HR-2014-0066	Veolia Energy Kansas City	Commercial Customer Adjustments	Cost of Service Report
HT-2013-0456	KCP&L Greater Missouri Operations Company	Quarterly Cost Adjustment verification	Staff Memorandum

Robin Kliethermes

Present Position:

I am a Regulatory Economist in the Economic Analysis Section, of the Regulatory Review Division of the Missouri Public Service Commission. I have been employed by the Missouri Public Service Commission since March of 2012. In May of 2013, I presented on Class Cost of Service and Cost Allocation to the National Agency for Energy Regulation of Moldova (ANRE) as part of the National Association of Regulatory Utility Commissioners (NARUC) Energy Regulatory Partnership Program.

Educational Background and Work Experience:

I have a Bachelor of Science degree in Parks, Recreation and Tourism with a minor in Agricultural Economics from the University of Missouri – Columbia in 2008, and a Master of Science degree in Agricultural Economics from the same institution in 2010. Prior to joining the Commission, I was employed by the University of Missouri Extension as a 4-H Youth Development Specialist and County Program Director in Gasconade County.

Previous Testimony of Robin Kliethermes

Case No.	Company	Type of Filing	Issue
ER-2012-0166	Ameren Missouri	Staff Report	Economic Considerations
ER-2012-0174	Kansas City Power& Light	Staff Report	Economic Considerations
ER-2012-0175	KCP&L Greater Missouri Operations Company ("GMO")	Staff Report	Economic Considerations & Large Power Annualizations
ER-2012-0345	Empire District Electric Co.	Staff Report	Economic Considerations & Non-Weather Sensitive Classes & Energy Efficiency

Sarah L. Kliethermes

MoPSC Employment Experience

Regulatory Economist III (July 2013 – Present)
Economic Analysis Section, Energy Unit, Tariff, Safety, Economic and Engineering Analysis Department of the Missouri Public Service Commission. In this position my duties include providing analysis and recommendations in the areas of RTO and ISO transmission, rate design, class cost of service, tariff compliance and design, and energy efficiency mechanism and tariff design. I also continue to provide legal advice and assistance regarding generating station and environmental control construction audits and electric utility regulatory depreciation.

My prior positions in the Commission's General Counsel's Office, which was reorganized as the Staff Counsel's Office, consisted of leading major rate case litigation and settlement and presenting Staff's position to the Commission, and providing legal advice and assistance primarily in the areas of depreciation, cost of service, class cost of service, rate design, tariff issues, resource planning, accounting authority orders, construction audits, rulemakings and workshops, fuel adjustment clauses, document management and retention, and customer complaints. Those positions were:
Senior Counsel (September 2011 – July 2013)
Associate Counsel (September 2009 – September 2011)
Legal Counsel (September 2007 – September 2009)
Legal Intern (May 2006 – September 2007)

Written Testimony

Rebuttal, regarding DSIM tariff design, margin rate calculation, and customer-related issues, in Case No. ER-2014-0095, Kansas City Power & Light application under the Missouri Energy Efficiency Investment Act.

Rebuttal, regarding average wholesale energy prices, in Case No. EC-2014-0224, Noranda Aluminum, Inc., et al., Complainants, v. Union Electric Company d/b/a Ameren Missouri, Respondent.

RELATED TRAINING

Presented *Ratemaking Basics* (Sept. 14, 2012)

Attended:
MISO Markets & Settlements Training for OMS and ERSC Commissioners & Staff (Jan. 27 – 28, 2014)
Validating Settlement Charges in New SPP Integrated Marketplace (July 22, 2013)
PSC Transmission Training (May 14 – 16, 2013)
Grid School (March 4 – 7, 2013)
Specialized Technical Training - Electric Transmission (April 18 – 19, 2012)
Legal Practice Before the Missouri Public Service Commission (Sept. 1, 2011)
Renewable Energy Finance Forum (Sept. 29 – Oct 3, 2010)
The New Energy Markets: Technologies, Differentials and Dependencies (June 16, 2011)
Mid-American Regulatory Conference Annual Meeting (June 5 – 8, 2011)
Utility Basics (Oct. 14 – 19, 2007)

EDUCATION

Studying Economics at Columbia College, Jefferson City campus and online (2013 – Present)
Studying Energy Transmission at Bismarck State University, online (2014 – Present)

Licensed to Practice Law in Missouri, MoBar # 60024 (Summer 2007).

Juris Doctorate, University of Missouri, Columbia, Missouri (2004 – 2007).

Bachelor of Science in Historic Preservation, Cum Laude, minor in Architectural Design, Southeast Missouri State University, Cape Girardeau, Missouri (2002 – 2004).

2000 – 2002: Studied Architecture and English Literature at Drury University, Springfield, Missouri.

OTHER EMPLOYMENT EXPERIENCE

Law Clerk, Contracting and Organization Research Institute. Performed legal research; analyzed, described, and categorized contracts.

Paid Intern, Southeast Missouri State University. Accessioned and organized artifact collections for the Missouri Department of Natural Resources, Division of State Parks and Historic Sites.

Intermediate Clerk, Missouri Department of Elementary and Secondary Education. Responsibilities included organizing and managing various forms of data.

Educational and Employment Background and Credentials of Karen Lyons

I am currently employed as a Utility Regulatory Auditor IV for the Missouri Public Service Commission (Commission). I was employed by the Commission in April 2007. Previously, I was employed by AT&T as a Regulatory Complaint Manager from December 1999 to February 2007. In that capacity I was responsible for addressing consumer and business complaints filed with various state and federal regulatory agencies. I earned a Bachelor of Science degree in Management Accounting and a Masters in Business Administration from Park University.

As a Utility Regulatory Auditor, IV I perform rate audits and prepare miscellaneous filings as ordered by the Commission. In addition, I review all exhibits and testimony on assigned issues, develop accounting adjustments and issue positions which are supported by workpapers and written testimony. For cases that do not require prepared testimony, I prepare Staff Recommendation Memorandums.

Cases I have been assigned are shown in the following table:

Date Filed	Case/Tracking Number	Company Name - Issue
5/1/2014-Direct	HR-2014-0066	Veolia Energy Kansas City, Inc (Steam Rate Case)
1/29/2014-Direct 4/3/2014-Surrebuttal	GR-2014-0007	Missouri Gas Energy Company (Gas Rate Case)
4/9/2013-Staff Memorandum	GO-2013-0391	Missouri Gas Energy - Infrastructure Service Replacement Surcharge (ISRS)
2/1/13 Memorandum	WM-2013-0329	Bilyeu Ridge Water Company, LLC (Water Sale Case)

8/9/2012-Direct 9/12/12-Rebuttal 10/10/12-Surrebuttal	ER-2012-0175	KCP&L Greater Missouri Operations (Electric Rate Case)
8/2/2012-Direct 9/5/2012-Rebuttal 10/8/2012-Surrebuttal	ER-2012-0174	Kansas City Power & Light (Electric Rate Case)
4/20/2012-Staff Memorandum	WM-2012-0288	Valley Woods Water Company, Inc. (Water Sale Case)
1/6/2012-Staff Memorandum	GO-2012-0144	Missouri Gas Energy - Infrastructure Service Replacement Surcharge (ISRS)
8/8/2011-Direct	HR-2011-0241	Veolia Energy Kansas City, Inc. (Steam Rate Case)
11/17/2010-Direct 12/15/2010-Rebuttal 1/5/2011-Surrebuttal	ER-2010-0356	KCP&L Greater Missouri Operations (Electric Rate Case)
11/10/2010-Direct 12/8/2010-Rebuttal 1/5/2011-Surrebuttal	ER-2010-0355	Kansas City Power & Light (Electric Rate Case)
12/22/2011-Staff Memorandum	SA-2010-0219	Canyon Treatment Facility, LLC (Certificate Case)
6/7/2010-Staff Memorandum	WR-2010-0202	Stockton Water Company (Water Rate Case)
4/2/2010-Staff Memorandum	SR-2010-0140	Valley Woods Water Company (Water Rate Case)
4/2/2010-Staff Memorandum	WR-2010-0139	Valley Woods Water Company (Sewer Rate Case)
1/14/2010-Direct	SR-2010-0110	Lake Region Water and Sewer (Sewer Rate Case)

1/14/2010-Direct	WR-2010-0111	Lake Region Water and Sewer (Water Rate Case)
8/12/2009-Direct	GR-2009-0355	Missouri Gas Energy (Gas Rate Case)
2/13/2009-Direct 3/13/2009-Rebuttal 4/9/2009-Surrebuttal	ER-2009-0090	KCP&L Greater Missouri Operations (Electric Rate Case)
2/13/2009-Direct 3/13/2009-Rebuttal 4/9/2009-Surrebuttal	HR-2009-0092	KCP&L Greater Missouri Operations (Steam Rate Case)
2/11/2009-Direct 3/11/2009-Rebuttal 4/7/2009-Surrebuttal	ER-2009-0089	Kansas City Power & Light (Electric Rate Case)
8/1/2008	HR-2008-0300	Trigen Kansas City Energy Corporation (Steam Rate Case)
4/28/2008	QW-2008-0003	Spokane Highlands Water Company (Water Rate Case)
12/17/2007	GO-2008-0113	Missouri Gas Energy - Infrastructure Service Replacement Surcharge (ISRS).

Erin L. Maloney

Missouri Public Service Commission, Jefferson City, MO
January 2005 – Present
Utility Engineering Specialist III
Utility Operations/Tariff, Safety, Economic, and Engineering Analysis

Previous Position

Electronic Data Systems, Kansas City, Missouri
August 1995 – November 2002
System Engineer

Education

Bachelor of Science Mechanical Engineering
University of Las Vegas, Nevada, May 1992

Previous Testimony Filed Before the Commission

File Number	Type of Testimony	Issue
EO-2012-0135	Rebuttal	Kansas City Power & Light Company Application for Continued Participation in Southwest Power Pool Inc. Regional Transmission Organization
EO-2012-0136	Rebuttal	KCP&L Greater Missouri Operations Inc. Application for Continued Participation in Southwest Power Pool Inc. Regional Transmission Organization
ER-2012-0175	Staff Report	GMO Rate District Fuel Allocation
ER-2012-0174	Staff Report, Rebuttal	Purchased Power Prices, Missouri Flood AAO
ER-2012-0166	Staff Report	Fuel and Purchased Power Prices
ER-2011-0028	Rebuttal	Fuel and Purchased Power Prices
ER-2011-0028	Staff Report	Fuel and Purchased Power Prices
ER-2010-0356	Staff Report	Purchased Power Prices
ER-2010-0355	Staff Report, Surrebuttal	Purchased Power Prices
ER-2010-0036	Staff Report, Rebuttal	Fuel and Purchased Power Prices
ER-2009-0089	Staff Report	Allocation Factor for Fuel & Purchased Power

File Number	Type of Testimony	Issue
ER-2009-0090	Staff Report	Purchased Power Prices
ER-2008-0318	Staff Report, Rebuttal, Surrebuttal	Fuel and Purchased Power Prices
ER-2008-0093	Staff Report	System Losses and Jurisdictional Demand and Energy Allocation
ER-2007-0291	Staff Report	System Losses and Jurisdictional Demand and Energy Allocation
ER-2007-0004	Direct	System Losses and Jurisdictional Demand and Energy Allocation
ER-2007-0002	Direct	System Losses and Jurisdictional Demand and Energy Allocation
ER-2006-0314	Direct, Rebuttal, Surrebuttal, True-up Direct	System Losses and Jurisdictional Demand and Energy Allocation
ER-2006-0315	Direct	System Losses and Jurisdictional Demand and Energy Allocation
ER-2005-0436	Direct	Reliability

Michael Stahlman

Education

2009	M. S., Agricultural Economics, University of Missouri, Columbia.
2007	B.A., Economics, Summa Cum Laude, Westminster College, Fulton, MO.

Professional Experience

2010 -	Regulatory Economist, Missouri Public Service Commission
2007 – 2009	Graduate Research Assistant, University of Missouri
2008	Graduate Teaching Assistant, University of Missouri
2007	American Institute for Economic Research (AIER) Summer Fellowship Program
2006	Price Analysis Intern, Food and Agricultural Policy Research Institute (FAPRI), Columbia, MO
2006	Legislative Intern for State Representative Munzlinger
2005 – 2006	Certified Tutor in Macroeconomics, Westminster College, Fulton, MO
1998 – 2004	Engineering Watch Supervisor, United States Navy

Expert Witness Testimony

Union Electric Company d/b/a AmerenUE — GR-2010-0363
In the Matter of Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Natural Gas Service Provided to Customers in the Company's Missouri Service Area

Union Electric Company d/b/a Ameren Missouri — GT-2011-0410
In the Matter of the Union Electric Company's (d/b/a Ameren Missouri) Gas Service Tariffs Removing Certain Provisions for Rebates from Its Missouri Energy Efficient Natural Gas Equipment and Building Shell Measure Rebate Program

KCP&L Great Missouri Operations Company — EO-2012-0009
In the Matter of KCP&L Greater Missouri Operations Company's Notice of Intent to File an Application for Authority to Establish a Demand-Side Programs Investment Mechanism

Union Electric Company d/b/a Ameren Missouri — EO-2012-0142
In the Matter of Union Electric Company d/b/a Ameren Missouri's Filing to Implement Regulatory Changes Furtherance of Energy Efficiency as Allowed by MEEIA

Kansas City Power & Light Company — EO-2012-0323
In the Matter of the Resource Plan of Kansas City Power & Light Company

KCP&L Great Missouri Operations Company — EO-2012-0324
In the Matter of the Resource Plan of KCP&L Greater Missouri Operations Company

Kansas City Power & Light Company, KCP&L Great Missouri Operations Company, and Transource Missouri — EA-2013-0098 EO-2012-0367

In the Matter of the Application of Transource Missouri, LLC for a Certificate of Convenience and Necessity Authorizing it to Construct, Finance, Own, Operate, and Maintain the Iatan-Nashua and Sibley-Nebraska City Electric Transmission Projects

Kansas City Power & Light Company EO-2012-0135
KCP&L Great Missouri Operations Company EO-2012-0136
In the Matter of the Application of Kansas City Power & Light Company [KCP&L Great Missouri Operations Company] for Authority to Extend the Transfer of Functional Control of Certain Transmission Assets to the Southwest Power Pool, Inc.

Kansas City Power & Light Company EU-2014-0077
KCP&L Great Missouri Operations Company
In the Matter of the Application of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company for the Issuance of an Accounting Authority Order relating to their Electrical Operations and for a Contingent Waiver of the Notice Requirement of 4 CSR 240-4.020(2)

Kansas City Power & Light Company EO-2014-0095
In the Matter of Kansas City Power & Light Company's Notice of Intent to File an Application for Authority To Establish a Demand-Side Programs Investment Mechanism

Selected Manuscripts

Stahlman, Michael and Laura M.J. McCann. "Technology Characteristics, Choice Architecture and Farmer Knowledge: The Case of Phytase." Agriculture and Human Values (2012) 29:371-379.

Stahlman, Michael. "The Amorality of Signals." Awarded in top 50 authors for SEVEN Fund essay competition, "The Morality of Profit."

Selected Posters

Stahlman, Michael, Laura M.J. McCann, and Haluk Gedikoglou. "Adoption of Phytase by Livestock Farmers." Selected poster at the American Agricultural Economics Association Annual Meeting, Orlando, FL, July 27-29, 2008. Also presented at the USDA/CSREES Annual Meeting in St. Louis, MO in February 2009.

McCann, Laura, Haluk Gedikoglu, Bob Broz, John Lory, Ray Massey, and Michael Stahlman. "Farm Size and Adoption of BMPs by AFOs." Selected poster at the 5th National Small Farm Conference in Springfield, IL in September 2009.

Definitions and Fundamental concepts of steam Class Cost-of-Service

Cost of Service: All costs prudently incurred by a utility in providing services to its customers in a particular jurisdiction.

Cost-of-Service Study: a study that analyzes total company costs, adjusts them in accordance with regulatory principles (annualizations and normalizations), allocates these costs to the relevant jurisdiction, and then compares the allocated costs to the revenues the utility is generating from its retail rates and other revenues. The results of a cost-of-service study are expressed in terms of additional revenue required for the utility to recover its cost of service.

Class Cost of Service (CCOS): A Class Cost-of-Service study is where a utility's revenue requirement is allocated among the various rate classes of that utility. It is a quantitative analysis of the costs the utility incurs to serve each of its various customer classes. When Staff performs a CCOS study it performs each of the following steps: a) categorize or functionalize costs based upon the specific role the cost plays in the operations of the utility's integrated electrical, natural gas distribution or steam heat operation system; b) classify costs by whether they are demand-related, energy-related, or customer-related; and c) allocate the functionalized/classified costs to the utility's customer classes. The sum of all the costs allocated to a customer class is the cost to serve that class. Relationship between Cost of Service and Class Cost of Service: A cost-of-service study determines what portion of total company costs is attributable to the retail jurisdiction; a CCOS Study determines what portion of retail costs is attributable to each customer class in that jurisdiction.

Cost Allocation: a procedure by which common or joint costs are apportioned among customers or classes of customers.

Cost Functionalization: the grouping of rate base and expense accounts according to the specific function they play in the operation. The most aggregated functional categories are production, distribution and customer-related costs, but numerous sub-categories within each functional category are commonly used.

Customer Class: a group of customers with similar characteristics (usage patterns, conditions of service, usage levels, etc.) that are identified for the purpose of setting rates.

Rate Design: (1) a process used to determine the rates for a utility once total cost of service and class cost of service are known; (2) characteristics such as rate structure, rate values and availability that define a rate schedule and provide the instructions necessary to calculate a customer's bill.

Rate Schedule: one or more tariff sheets that describe the availability requirements and prices applicable to a particular type of retail steam service. A customer class used in a class cost of service study may consist of one or more rate schedules.

Rate Structure: Rate structure is the composition of the various charges for the utility's products. These charges may include:

1) Customer charge: a fixed dollar amount per month irrespective of the amount of usage;

2) usage (energy) charges: a price per unit charged on the total units of the usage during the month; and

3) peak (demand) charge: a price per unit charge on the maximum units of the product taken over a short period of time (for electricity, usually 15 minutes or 30 minutes), which may or may not have occurred within the particular billing month.

Class Cost-of-Service Overview on Functionalization, Classification and Allocation

The cost allocation process consists of three major parts: functionalization, classification and allocation.

1. Functionalization

The first step of a CCOS study is functionalization. Functionalization of costs involves categorizing plant investment and operation cost accounts by the type of function with which an account is associated. A utility's equipment investment and operations can be organized along the lines of the function (purpose) that each piece of equipment or task provides in delivering electricity to customers. The result of functionalization is the assignment of plant investment and expenses to the principal utility functions, which include:

1. Production (Demand, Steam and Fuel)

2. Distribution

3. Customer Accounts & Sales

In practice, each major Federal Energy Regulatory Commission (FERC) account is assigned to the functional area that causes the cost. This assignment process is called functionalization. Some costs cannot be directly attributed to a single functional area, and are shared between functions -- these costs are refunctionalized to more than one functional area, with the distribution of costs between functions based upon some relating factor. As an example, it is reasonable to assume that social security taxes are directly related to payroll costs so that these taxes can be assigned to functions in the same manner as payroll costs. Yet other costs can be clearly attributed to providing service to a particular class of customers, and these costs can be directly assigned to that customer class. An example of a direct assignment is the assignment of

the cost of distribution equipment used only by a large customer on a particular rate schedule to the rate class associated with that rate schedule.

Functionalized costs are then subdivided into measurable, cost-defining service components. Measurable means that data is available to appropriately divide costs between service components. Cost-defining means that a cost-causing relationship exists between the service component and the cost to be allocated. Functionalized costs are often divided into customer-related costs, demand-related costs and energy-related costs.

2. Classification

The second step of a CCOS study is to separate the functionalized costs into classifications based on the components of utility service being provided. Classification is a means to divide the functionalized, cost-defining components into a: 1) customer component, 2) demand component, 3) and a usage component for rate design considerations.

Customer-related costs are the costs to connect the customer to the steam system and to maintain that connection. Examples of such costs include meter reading expense, billing expense, postage expense, customer accounting expense, customer service expense and various distribution costs (plant, reserve, and operating and maintenance expenses). The customer components of the distribution system are those costs necessary to make service available to a customer.

Demand-related costs are rate base investment and related operating and maintenance expenses associated with the facilities necessary to supply a customer's service requirements during periods of maximum, or peak, levels of steam consumption each month. The major portion of demand-related costs consists of generation plant and the noncustomer-related portion

of distribution plant. Demand-related costs are based on the maximum rate of use (maximum demand) of steam by the system.

Steam-related costs are those costs related directly to the customer's consumption steam heat (thousand pounds - mlbs) and consist primarily of water, sewer, fuel, fuel handling and a portion of production plant maintenance expenses.

The purpose of classification is to make the third step, allocation, more accurate. For example, production plant costs are divided into demand-related costs and steam-related costs. The demand-related portion of production plant can be allocated on the basis of system maximum demands and customer average demands and the steam-related costs can be allocated using total annual usage.

3. Allocation

The third step of performing a CCOS study is called allocation. After the costs have been functionalized and classified, the next step in a CCOS study is to allocate costs to the customer classes. This process involves applying the allocation factors developed for each class to each component of rate base investment and each of the elements of expense specified in the jurisdictional cost of service study. The allocation factors or allocators determine the results of this process. The aggregation of such cost allocations indicates the total annual revenue requirement associated with serving a particular customer class. Allocation factors are chosen that will reasonably distribute a portion of the functionalized costs to each customer class on the basis of cost causation. Allocation factors are typically ratios that represent the fraction of total units (e.g., total number of customers; total annual steam consumption) that are attributable to a certain customer class. These ratios are then used to calculate the fraction of various cost categories for which a class is responsible.

Missouri Public Service Commission
Summary of Functions and Allocation Methods
Steam Heat Utility Class Cost of Service
HR-2014-0066

Function	Allocation to Rate Schedules
Production Plant and Reserve	
Base	Average Demand (mlbs at Generation / 365)
Peak	3CP Average peak demand less base

Distribution Plant and Reserve	
Mains/laterals	Peak NCP at Distribution
Meters & Services	Weighted average cost of meter
General and Intangible Plant and Reserve	Functional separation of Production and Distribution Plant
Other Rate Base	Plant, Direct Assignment, O&M

Expenses	
Production	
Demand	Same as Production Plant (expenses follow plant)
Fuel	Mlbs @ Generation * Heat Rate
Steam	Mlbs @ Generation * Steam to Water conversion rate
Distribution	Same methods as Distribution Plant and Reserve
Customer Billing, Services and Sales	Number of hours/month spent billing per class
Depreciation and Amortization Expenses	
Production	Same as Production Plant
Distribution	Same methods as Distribution Plant
General and Intangible	Functional separation of Production and Distribution Plant
A&G expenses	Total O&M less A&G expenses
Taxes	Plant, O&M

SPECIAL CONTRACTS - CUSTOMER SPECIFIC
Schedule SCCS

PURPOSE:

This Rate Schedule allows KCP&L and large customers to enter into Special Contracts subject to the Availability and Conditions Sections below.

AVAILABILITY:

This Rate Schedule is available to Customers who entered into a Special Contract with KCP&L associated with the development of the "Experimental Regulatory Plan", which was approved by the Missouri Public Service Commission (MPSC) in Case No. EO-2005-0329.

TERM OF SPECIAL CONTRACT:

The Term of the Special Contract shall begin upon the approval of the MPSC Commission and continue until the termination date, as specified in the Customer's Special Contract.

CONDITIONS:

KCP&L agrees that for ratemaking determinations, that Customers using Special Contracts, under this Rate Schedule, will be treated as if they were paying the full generally applicable tariff rate for service from KCP&L, and other provisions in the Special Contracts will not affect rate base for regulatory purposes.

APPROVAL:

Special Contracts executed between the Customer and KCP&L must be approved by the MPSC Commission.

CONTRACTS:

The Company has entered into special contracts with industrial customers as listed below. These contracts were filed with the MPSC as Highly Confidential documents.

A. Case No. EO-2006-0192
Approximate expiration date: 2011

B. Case No. EO-2006-0193
Approximate expiration date: 2011

Schedule
SLK – 2
Is Highly Confidential in its Entirety.

Electric Company
12 Months Ended_____
Per Books
(IN THOUSANDS OF DOLLARS)
FINANCIAL SURVEILLANCE MONITORING REPORT
RATE BASE AND RATE OF RETURN

			12 Months Ended
Total Company Rate Base	**Measurement Basis**		
Plant in Service			
Intangible	End of Period	XXX,XXX	
Production - Steam	End of Period	XXX,XXX	
Production - Nuclear	End of Period	XXX,XXX	
Production - Hydraulic	End of Period	XXX,XXX	
Production - Other	End of Period	XXX,XXX	
Transmission	End of Period	XXX,XXX	
Distribution	End of Period	XXX,XXX	
General	End of Period	XXX,XXX	
Total Plant in Service			$ X,XXX,XXX
Reserve for Depreciation			
Intangible	End of Period	XXX,XXX	
Production - Steam	End of Period	XXX,XXX	
Production - Nuclear	End of Period	XXX,XXX	
Production - Hydraulic	End of Period	XXX,XXX	
Production - Other	End of Period	XXX,XXX	
Transmission	End of Period	XXX,XXX	
Distribution	End of Period	XXX,XXX	
General	End of Period	XXX,XXX	
Total Reserve for Depreciation			X,XXX,XXX
Net Plant			X,XXX,XXX
Add:			
Materials & Supplies	13 Mo. Avg.		X,XXX,XXX
Cash	(from prior rate case including offsets)		X,XXX,XXX
Fuel Inventory	13 Mo. Avg.		X,XXX,XXX
Prepayments	13 Mo. Avg.		X,XXX,XXX
Other Regulatory Assets	End of Period		X,XXX,XXX
Less:			
Customer Advances	13 Mo. Avg.		X,XXX,XXX
Customer Deposits	13 Mo. Avg.		X,XXX,XXX
Accumulated Deferred Income Taxes	End of Period		X,XXX,XXX
Other Regulatory Liabilities	End of Period		X,XXX,XXX
Other Items from Prior Rate Case	Per rate case method		X,XXX,XXX
(A) Total Rate Base			$ X,XXX,XXX
(B) Net Operating Income			$ X,XXX,XXX
(C) Return on Rate Base [(B) / (A)]			X.XX%

Schedule EM - 1 Page 1 of 5

Electric Company
12 Months Ended_____
Per Books
(IN THOUSANDS OF DOLLARS)
FINANCIAL SURVEILLANCE MONITORING REPORT
CAPITAL STRUCTURE AND RATE OF RETURN

Overall Cost of Capital

		Amount	Percent	Cost		Weighted Cost
Long-Term Debt	$	x,xxx,xxx e	x.xx%	x.xx%	f	x.xx%
Short-Term Debt		x,xxx,xxx e	x.xx%	x.xx%	f	x.xx%
Preferred Stock		x,xxx,xxx e	x.xx%	x.xx%	f	x.xx%
Other	d	x,xxx,xxx e	x.xx%	x.xx%	f	x.xx%
Common Equity		x,xxx,xxx e	x.xx%	x.xx%	a	x.xx%
Total Overall Cost of Capital based on Rate Case Rate of Return on Equity		$ x,xxx,xxx	100.00%			x.xx%

Actual Earned Return on Equity

		Amount	Percent	Cost		Weighted Cost
Long-Term Debt	$	x,xxx,xxx e	x.xx%	x.xx%	f	x.xx%
Short-Term Debt		x,xxx,xxx e	x.xx%	x.xx%	f	x.xx%
Preferred Stock		x,xxx,xxx e	x.xx%	x.xx%	f	x.xx%
Other	d	x,xxx,xxx e	x.xx%	x.xx%	f	x.xx%
Common Equity		x,xxx,xxx e	x.xx%	x.xx%	c	x.xx%
Total Overall Cost of Capital with Actual Return on Equity		$ x,xxx,xxx	100.00%			x.xx% b

a From last general rate case, Report & Order.
b From actual Return on Rate Base, page 1 "Rate Base"
c Calculated after actual Return on Rate Base, per footnote B, is determined
d Other capital structure components from last general rate case, Report & Order
e Actual balance at end of period
f Actual average cost at end of period

Note Additional breakdown may be added per Report & Order authorizing a recovery clause under 4 CSR 240-20

Electric Company
Quarter Ended and 12 Months Ended_____
Per Books
(IN THOUSANDS OF DOLLARS)
FINANCIAL SURVEILLANCE MONITORING REPORT
OPERATING INCOME STATEMENT

	Quarter Ended Actual		12 Months Ended Actual	
Operating Revenues				
Sales to Residential, Commercial, & Industrial Customers				
Residential	$ x,xxx,xxx		$ x,xxx,xxx	
Commercial	x,xxx,xxx		x,xxx,xxx	
Industrial	x,xxx,xxx		x,xxx,xxx	
Total of Sales to Residential, Commercial, & Industrial Customers		$ x,xxx,xxx		$ x,xxx,xxx
Other Sales to Ultimate customers		x,xxx,xxx		x,xxx,xxx
Sales for Resale				
Off-System Sales		x,xxx,xxx		x,xxx,xxx
Other Sales for Resale		x,xxx,xxx		x,xxx,xxx
Provision for Refunds		x,xxx,xxx		x,xxx,xxx
Other Operating Revenues		x,xxx,xxx		x,xxx,xxx
Operating Revenues		$ x,xxx,xxx		$ x,xxx,xxx
Operating & Maintenance Expenses:				
Production Expenses:				
Fuel Expense				
Native Load	x,xxx,xxx		x,xxx,xxx	
Off-System Sales	x,xxx,xxx		x,xxx,xxx	
Other Production-Operations	x,xxx,xxx		x,xxx,xxx	
Other Production-Maintenance	x,xxx,xxx		x,xxx,xxx	
Purchased Power-Energy				
Native Load	x,xxx,xxx		x,xxx,xxx	
Off-System Sales	x,xxx,xxx		x,xxx,xxx	
Purchased Power-Capacity	x,xxx,xxx		x,xxx,xxx	
Total Production Expenses		x,xxx,xxx		x,xxx,xxx
Transmission Expenses		x,xxx,xxx		x,xxx,xxx
Distribution Expenses		x,xxx,xxx		x,xxx,xxx
Customer Accounts Expense		x,xxx,xxx		x,xxx,xxx
Customer Serve. & Info. Expenses		x,xxx,xxx		x,xxx,xxx
Sales Expenses		x,xxx,xxx		x,xxx,xxx
Administrative & General Expenses		x,xxx,xxx		x,xxx,xxx
Total Operating & Maintenance Expenses		$ x,xxx,xxx		$ x,xxx,xxx
Depreciation & Amortization Expense				
Depreciation Expense	x,xxx,xxx		x,xxx,xxx	
Amortization Expense	x,xxx,xxx		x,xxx,xxx	
Decommissioning Expense	x,xxx,xxx		x,xxx,xxx	
Other	x,xxx,xxx		x,xxx,xxx	
Total Depreciation & Amortization Expense		x,xxx,xxx		x,xxx,xxx
Taxes Other than Income Taxes:		xxx,xxx		xxx,xxx
Operating Income Before Income Tax		x,xxx,xxx		x,xxx,xxx
Income Taxes		xxx,xxx		xxx,xxx
Net Operating Income		$ x,xxx,xxx		$ x,xxx,xxx
Actual Cooling Degree Days		x,xxx		x,xxx
Normal Cooling Degree Days		x,xxx		x,xxx
Actual Heating Degree Days		x,xxx		x,xxx
Normal Heating Degree Days		x,xxx		x,xxx

Schedule EM - 1 Page 3 of 5

Electric Company
12 Months Ended_____
FINANCIAL SURVEILLANCE MONITORING REPORT
Missouri Jurisdictional Allocation Factors

Description	Allocation Factor
Plant in Service	
Intangible	
Production - Steam	
Production - Nuclear	
Production - Hydraulic	
Production - Other	
Transmission	
Distribution	
General	
Depreciation Reserve	
Intangible	
Production - Steam	
Production - Nuclear	
Production - Hydraulic	
Production - Other	
Transmission	
Distribution	
General	
Net Plant	
Materials & Supplies	
Cash Working Capital	per rate case
Fuel Inventory	
Prepayments	
Other Regulatory Assets	Jurisdictional Specific
Customer Advances	
Customer Deposits	
Accumulated Deferred Income Taxes	
Other Regulatory Liabilities	Jurisdictional Specific
Other Items from Prior Rate Case	
Operating Revenues	
Interchange Revenues	
Production Expenses:	
Fuel Expense	
Native Load	
Off-System Sales	
Other Production-Operations	
Other Production-Maintenance	
Purchased Power-Energy	
Native Load	
Off-System Sales	
Purchased Power-Capacity	
Total Production Expenses	
Transmission Expenses	
Distribution Expenses	
Customer Accounts Expense	
Customer Serve. & Info. Expenses	
Sales Expenses	
Administrative & General Expenses	
Depreciation Expense	
Depreciation Expense	
Amortization Expense	
Decommissioning Expense	
Taxes, Other than Income	
Income Taxes	
Other Items	
XXXX	
XXXX	
XXXX	

Note Additional breakdown may be added per Report & Order authorizing a recovery clause under 4 CSR 240-20

Schedule EM - 1 Page 4 of 5

Electric Company
Quarter Ended and 12 Months Ended_____
Per Books
FINANCIAL SURVEILLANCE MONITORING REPORT

NOTES TO FINANCIAL SURVEILLANCE REPORT

VEOLIA ENERGY KANSAS CITY, INC.
RATES FOR STEAM SERVICE
ECONOMIC DEVELOPMENT RATE ("EDR") SCHEDULE

Veolia Energy Kansas City, Inc. (the "Company") shall provide steam service at the rates set forth below under the provisions of Customer service agreements which shall include the provisions of the Company's General Rules and Regulations in effect and on file and the Commission's applicable general orders.

I. PURPOSE

The purpose of this Economic Development Rider is to encourage the development of commercial business in the Company's Missouri service territory.

II. AVAILABILITY

A. Upon request by the Customer and acceptance by the Company, steam service under the EDR is available to new commercial Customers qualified to receive service under the Company's SCS or LCS rate schedules and to the added consumption of existing Customers who have received steam service under the SCS or LCS rate schedules for at least twelve (12) months prior to the Customer's election to participate in the EDR.

B. Steam service under this rider is only available in conjunction with local, regional, and state governmental economic development activities where incentives have been offered and accepted by the Customer after the effective date of this rider to locate new facilities or expand existing facilities in the Company's service area.

C. The availability of this rider shall be limited to commercial facilities not involved in selling or providing goods and services directly to the general public.

D. For purposes of the EDR, a new commercial Customer shall be defined as the provision of service to a Customer that has not received district steam service at that location in the Company's service territory within the immediately preceding twelve (12) months. Steam service to a new commercial Customer under the EDR is not available in conjunction with service provided pursuant to any other tariff or special contract agreements.

E. In the case of retention of an existing Customer, as a condition for service under this Rider, Customer must furnish to Company such documentation (e.g. Influencing factors and a comparison of the rates and other economic development incentives) as deemed necessary by Company to verify the availability of an alternative energy supply option outside of the Company's service territory and Customer's intent to select this viable alternative energy option. Customer must also furnish an affidavit stating Customer's intent to select this alternative energy supply option unless it is able to receive service under this Rider.

F. All Customer requests for service under the EDR shall be considered by the Company; however, in no event shall any provision of this rider apply to a customer's consumption for a period prior to the date the Company accepts Customer's application hereunder. The Customer is responsible for providing sufficiently detailed information for the Company to determine whether new or expanded steam service qualifies for the EDR. Service under the EDR shall be evidenced by a contract between the Customer and the Company disclosing the qualifying locations, Customer accounts or meter numbers, and steam volumes, as necessary.

VEOLIA ENERGY KANSAS CITY, INC.
RATES FOR STEAM SERVICE
ECONOMIC DEVELOPMENT RATE ("EDR") SCHEDULE (continued)

G. All accepted Customer requests for service under the EDR shall apply solely to prospective steam purchases. If an EDR Customer subsequently reduces steam purchases and no longer qualifies for their existing tariff, the EDR discount provisions shall terminate immediately and all further Customer use will be billed under the applicable rate schedule**.**

III. INCENTIVE PROVISIONS

The contract for service under the EDR shall begin on the date the Company accepts the Customer's request and shall continue for a period of five (5) consecutive years. Customers receiving service under the EDR shall be billed at the standard rates and charges pursuant to the applicable commercial tariff, as adjusted by the following provisions:

A. Rate Discount: The Customer bill shall show the amount otherwise due pursuant to the full tariff rates and the amount of the EDR rate discount to the usage charge on qualified EDR volumes during each of the five contract years, as follows:
1st Year: 30%
2nd Year: 25%
3rd Year: 20%
4th Year: 15%
5th Year: 10%

B. Termination: The discount to the usage charge on qualified EDR volumes shall cease following the fifth contract year. Failure to comply with all provisions of the EDR tariff may result in immediate termination of the EDR Rate Discount.

C. Other Customer Locations: District steam service provided to a Customer at one or more locations in the Company's service territory shall not be eligible to the discount under the EDR, unless the service at those other locations were previously determined by the Company to constitute qualifying usage.

IV. TERM

Agreements under this schedule shall be for a minimum initial term of five (5) years.

V. OTHER MATTERS

A. The Company may require the qualifying steam usage to be separately metered.

B. Service under this Rider shall be evidenced by a contract between the Customer and the Company, which shall be submitted along with supporting documentation to the Commission and Commission Staff in the Energy Unit. In the case of a Customer locating a new facility in the Company's service territory or expanding an existing facility in the Company's service territory, the contract will contain a statement that the Customer would not locate new facilities in the Company's service territory or expand its existing facilities in the Company's service territory but for receiving service under this Rider along with other incentives.

C. During the term of this rider the Company will prepare and submit a semi-annual report to the Commission listing the names and locations of customers receiving service hereunder and a statement of incentives provided to each customer during the reporting period. The report will also describe the basis used to qualify each Customer added to the Company's EDR tariff during the reporting period.

VEOLIA ENERGY KANSAS CITY, INC. For KANSAS CITY, MISSOURI
Name of Issuing Corporation Community, Town or City

VEOLIA ENERGY KANSAS CITY, INC.
RATES FOR STEAM SERVICE
ECONOMIC DEVELOPMENT RATE ("EDR") SCHEDULE (continued)

D. In determining the Company's revenue requirement for ratemaking purposes, test year revenues shall be restated to reflect the revenues that would have resulted from application of the LCS tariff without the rate discount for the EDR qualified volumes.

VI. ADJUSTMENTS, SURCHARGES AND CREDITS

A. The rates and charges hereunder are subject to adjustments, surcharges or credits pursuant to the Production Adjustment Cost Clause ("PACC").

B. There shall be added to the monthly bill of the Customer, as separate items, a surcharge equal to the proportionate part of any license, occupation or other similar fee or tax applicable to steam service by the Company to the Customer, which fee or tax is imposed upon the Company by taxing authorities on the basis of the gross receipts, net receipts or revenues from the steam sales by the Company.

VII. GENERAL RULES AND REGULATIONS

Except as modified by this schedule, all Customers shall be subject to the General Rules And Regulation which are filed Separately.