

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of KCP&L Greater )  
Missouri Operations Company for )  
Authority to File Tariffs Changing The )  
Steam QCA for Service Provided To )  
Customers in its Service Territory )

**File No. HT-2014-0286**  
Tariff Tracking No. YH-2015-0011

**STAFF RECOMMENDATION TO APPROVE TARIFF SHEET**

**COMES NOW** the Staff of the Public Service Commission of Missouri and, for its Staff Recommendation to Approve Tariff Sheet, states:

1. On July 15, 2014, KCP&L Greater Missouri Operations Company (“GMO”) filed with the Commission one tariff sheet, 21st Revised Sheet No. 6.10 bearing an effective date of September 1, 2014, to add the quarterly cost adjustment (“QCA”) for steam service customers for the second quarter of calendar year 2014.

2. GMO’s filing includes the proposed tariff sheet and supporting workpapers consisting of electronic worksheets showing its calculation of the QCA. The proposed tariff sheet reflects a customer credit per million British Thermal Units (“BTU”) of \$(0.2514)<sup>1</sup> versus a previous customer credit of \$(0.3281) per million BTU as reflected on the previous 20th Revised Sheet No. 6.10. The change resulting from this filing causes less of a customer credit in the QCA Rider rate and is the result of the net effect of:

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<sup>1</sup> A “(bracketed amount)” represents a credit to the customer. In this instance the customer will receive a credit in the amount of \$.2514 per million BTU.

1) a \$574,403 increase<sup>2</sup> in the quarterly adjusted fuel costs from the previous adjustment, and

2) the decrease of the Reconciliation Rate (R Factor) component of \$(124,345)<sup>3</sup> which makes the R Factor in this QCA filing a negative adjustment when compared to the previous QCA filing.

3. In addition, the R Factor includes a separate additional amount of \$1,208,550 for collection from GMO's steam customers due to GMO having misclassified certain hedging costs as electric costs rather than steam costs. In its previous 3<sup>rd</sup>, 4<sup>th</sup>, and 1<sup>st</sup> quarter QCA filings, GMO explained that it had erroneously treated fuel hedge positions as electric positions and not as steam positions, thereby creating a cost allocation error, and included an adjustment for them.

4. As more fully explained in its Memorandum, attached hereto as Appendix A, the Staff has reviewed the data and calculations provided by GMO related to its proposed tariff sheet and has determined that it is correct and satisfies the standards set forth in GMO's Tariff Sheet Nos. 6.6 through 6.10.

5. Staff is not aware of any other matter pending before the Commission that affects or is affected by this tariff filing. Staff's recommendation for approval of the QCA change in this case is solely based on the accuracy of GMO's calculations and is not indicative of the prudence of the fuel costs included in the QCA.

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<sup>2</sup> The \$574,403 amount represents the total amount of the increase in fuel costs over the preceding 4 quarters.

<sup>3</sup> The R Factor amount represents the change in the R Factor over the preceding 4 quarters.

**WHEREFORE**, for the reasons discussed above and in Staff's Memorandum, the Staff recommends the Commission either issue an order approving the proposed tariff sheet as filed by GMO on July 15, 2014, to go into effect on September 1, 2014, or to allow it to go into effect by operation of law that same date:

P.S.C. MO. No. 1

21st Revised Sheet No. 6.10 Canceling 20<sup>th</sup> Revised Sheet No. 6.10

Respectfully submitted,

**/s/ Robert S. Berlin**

Robert S. Berlin  
Deputy Counsel  
Missouri Bar No. 51709

Attorney for the Staff of the  
Missouri Public Service Commission  
P. O. Box 360  
Jefferson City, MO 65102  
(573) 526-7779 (Telephone)  
(573) 751-9285 (Fax)  
bob.berlin@psc.mo.gov

### **CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 7th day of August 2014.

**/s/ Robert S. Berlin**

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
File No. HT-2014-0286, Tariff Tracking No. YH-2015-0011  
KCP&L Greater Missouri Operations Company

FROM: Bradley Fortson, Regulatory Economist II  
Michael Stahlman, Regulatory Economist III

/s/ Michael Scheperle 8/7/2014  
Manager Economic Analysis / Date

/s/ Robert S. Berlin 8/7/2014  
Staff Counsel Division / Date

SUBJECT: Staff Recommendation to Approve the Tariff Sheet Filed to Add the Quarterly Cost Adjustment for the Second Quarter of 2014 to the Quarterly Cost Adjustment Rider – Steam of KCP&L Greater Missouri Operations Company to go into effect on September 1, 2014, or to go into effect by operation of law that same date.

DATE: August 7, 2014

On July 15, 2014, KCP&L Greater Missouri Operations Company (“GMO”) filed with the Commission one (1) tariff sheet for steam service to add the quarterly cost adjustment (“QCA”) for the second quarter of 2014. The adjustment is required by GMO’s Quarterly Cost Adjustment Rider, which the Commission approved in Case No. HR-2005-0450, and modified in Case Nos. HR-2009-0092 and HR-2010-0028.

GMO’s filing included the proposed tariff sheet and supporting work papers consisting of electronic worksheets showing GMO’s calculation of the QCA for the second quarter of 2014.

The procedure for the calculation of the QCA for steam service sales is set out in GMO’s Tariff Sheet Nos. 6.6 through 6.10, which are titled “Quarterly Cost Adjustment Rider – Steam.” The QCA calculation components as described in Tariff Sheet Nos. 6.6 and 6.7 include the Current Quarterly Cost Adjustment (“CQCA”), the Reconciliation Rate or “R factor” plus any applicable reconciling adjustments.

The QCA Rider for this revision 21 of Tariff Sheet No. 6.10 reflects a customer credit per million British Thermal Units (“BTU”) of (\$0.2514) as compared to a customer credit per million BTU of (\$0.3281) that was reflected on the previous revision 20 of Tariff Sheet No. 6.10. The QCA Rider rate reflects an increase of \$574,403 in the quarterly adjusted fuel costs when compared to the same adjustment last quarter with the overall increase principally due to the impact of natural gas costs for generation. The Reconciliation Rate or R factor component reflects a decrease of (\$124,345) which makes the R factor in this QCA a negative amount when compared to the same adjustment last quarter. As a result, the QCA reflects a customer credit of (\$0.2514) compared to the customer credit of (\$0.3281) from the previous quarter.

The R factor still includes an additional amount of \$1,208,550 for collection from GMO's steam customers due to a misclassification of hedging costs. These "R factor" adjustments are recovered over a twelve-month period and are currently reflected in the overall QCA rate. The \$1,208,550 adjustment was made in the previous QCA adjustment for the fourth quarter of 2013 and continues to be reflected in the overall QCA rate until fully recovered. GMO discovered that starting in or around February 2009, it had erroneously treated fuel hedge positions as electric positions and not as steam positions. After the Commission opened the Ag Processing, Inc. Steam Complaint file (File No. HC-2012-0259) on January 30, 2012, GMO discovered, and verbally advised Staff, it had erroneously treated fuel hedge positions as electric positions and not as steam positions. In its *Steam/Electric Hedging Misclassification Explanation*,<sup>1</sup> GMO explained that it stopped hedging fuel for its steam operations in November 2010, and to correct for this cost allocation error, GMO has included an additional amount of \$1,208,550 in the R factor calculation in the QCA filing to correct this misclassification.<sup>2</sup>

Staff reviewed the data and mathematical calculations GMO provided in its worksheets and determined that GMO's calculations related to the filed tariff sheet to be correct, and that the calculations satisfy the standards set forth in GMO's Tariff Sheet Nos. 6.6 through 6.10. The calculations are also consistent with previous GMO QCA filings.

### **Staff Recommendation**

Staff has reviewed the filed tariff sheet and recommends approval of the following tariff sheet to go into effect for service on and after September 1, 2014, the requested effective date:

P.S.C. MO. No. 1

21<sup>st</sup> Revised Sheet No. 6.10 Canceling 20<sup>th</sup> Revised Sheet No. 6.10

Staff has verified that GMO is not delinquent on any assessment and has filed its Annual Report. GMO is current on its submission of its Surveillance Monitoring reports as required in 4 CSR 240-20.090(10) and its monthly reports as required by 4 CSR 240-3.161(5). Staff is not aware of any other matter pending before the Commission that affects or is affected by this tariff filing. Staff's recommendation for approval of the QCA change in this case is solely based on the accuracy of GMO's calculations and R factor adjustments outlined above and is not indicative of the prudence of the fuel costs included in the QCA.

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<sup>1</sup> Filed in Case No. HT-2013-0456 on October 29, 2013, Item No. 18 in the file for that case in the Commission's EFIS.

<sup>2</sup> The Steam/Electric Hedging Misclassification Explanation provides the following explanation of the \$1,208,550 amount: The QCA filing includes an adjustment made in the r-factor calculation to correct for a prior misclassification made within the accounting records. Since these misclassified costs were subsequently accounted for as MPS electric positions, they were included in the MPS electric customers' Fuel Adjustment Clause ("FAC") at 95% of the total costs overstating the costs recovered under the FAC. Thus they were not included in the industrial steam customers' Quarterly Cost Adjustment ("QCA") (at either 80% or 85% recovery depending on the applicable percentage during the time period) understating the costs recovered under the QCA. To correct for the misclassification, a refund of \$1.4 million (95% of \$1.4 million for 2009 plus \$62,000 for 2010) plus interest was included in GMO's FAC filing in ER-2014-0204 which was approved by the Commission on February 19, 2014.

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Case No. HT-2014-0286

**AFFIDAVIT OF BRAD FORTSON**

STATE OF MISSOURI     )  
  ) ss  
COUNTY OF COLE        )

Brad Fortson, of lawful age, on oath states: that he participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was provided to him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true to the best of his knowledge and belief.

  
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Brad Fortson

Subscribed and sworn to before me this 7<sup>th</sup> day of August, 2014.

**LAURA BLOCH**  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: June 21, 2015  
Commission Number: 11203914

  
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Notary Public

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Case No. HT-2014-0286

**AFFIDAVIT OF MICHAEL STAHLMAN**

STATE OF MISSOURI    )  
  ) ss  
COUNTY OF COLE     )

Michael Stahlman, of lawful age, on oath states: that he participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was provided to him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true to the best of his knowledge and belief.

  
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Michael Stahlman

Subscribed and sworn to before me this 7<sup>th</sup> day of August, 2014.

LAURA BLOCH  
Notary Public - Notary Seal  
State of Missouri  
Commissioned for Cole County  
My Commission Expires: June 21, 2015  
Commission Number: 11203914

  
\_\_\_\_\_  
Notary Public