

**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)	<u>File No. HT-2013-0456</u>
Steam QCA for Service Provided To)	Tariff Tracking No. YH-2014-0229
Customers in its Service Territory)	

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 as follows:

1. On January 15, 2014, KCP&L Greater Missouri Operations Company (“GMO”) filed with the Commission one tariff sheet, 19th Revised Sheet No. 6.10 bearing an effective date of March 1, 2014, to add the quarterly cost adjustment (“QCA”) for steam service customers for the fourth quarter of calendar year 2013.

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 an additional charge per million British Thermal Units (“BTU”) of \$0.4909 versus a charge of \$0.4243 per million BTU reflected on the previous 18th Revised Sheet No. 6.10. This change in the QCA Rider rate mostly reflects a \$802,102 increase in the quarterly adjusted natural gas fuel costs from the previous quarter.

3. This QCA also includes an additional amount to reflect the \$2,885,456 the Commission ordered to be returned to GMO in steam complaint File No. HC-2012-0259, and 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.

4. In its previous 3rd quarter QCA filing, 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. At the same time GMO informed Staff that it intended to include a refund amount based on fuel hedge position costs of \$1,454,190¹ in its January 2014 fuel adjustment clause (“FAC”) semi-annual rate adjustment filing for its MPS electric rate district. GMO did so in its recent FAC filing in File No. ER-2014-0204.²

5. As 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.

6. Staff is not aware of any other matter, other than File No. ER-2014-0204 discussed above and in Staff's Memorandum, 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.

¹ The difference between the \$1,208,550 that is to be collected from GMO's steam customers and the \$1,454,190 that GMO is to refund to its MPS electric rate district customers is due to GMO's steam sharing mechanism.

² The Staff addressed this correction in File No. ER-2014-0204 when it filed its *Staff Recommendation To Approve Tariff Sheet To Change Rates Related To KCP&L Greater Missouri Operations Company's Fuel Adjustment Clause* on January 30, 2014, which is pending before the Commission.

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 January 15, 2014, to go into effect on March 1, 2014, or to allow it to go into effect by operation of law that same date:

P.S.C. MO. No. 1

19th Revised Sheet No. 6.10 Canceling 18th Revised Sheet No. 6.10

Respectfully submitted,

/s/ Robert S. Berlin

Robert S. Berlin
Senior Counsel
Missouri Bar No. 51709

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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 14th day of February 2014.

/s/ Robert S. Berlin

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. HT-2013-0456, Tariff Tracking No. YH-2014-0299
KCP&L Greater Missouri Operations Company

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

/s/ Michael Scheperle 2/11/2014
Manager Economic Analysis / Date

/s/ Robert S. Berlin 2/11/2014
Staff Counsel Division / Date

SUBJECT: Staff Recommendation to Approve the Tariff Sheet Filed to Add the Quarterly Cost Adjustment for the Fourth Quarter of 2013 to the Quarterly Cost Adjustment Rider – Steam of KCP&L Greater Missouri Operations Company to go into effect on March 1, 2014, or to go into effect by operation of law that same date.

DATE: February 14, 2014

On January 15, 2014, KCP&L Greater Missouri Operations Company (“GMO”) filed with the Commission one (1) tariff sheet for steam service bearing an effective date of March 1, 2014, to add the quarterly cost adjustment (“QCA”) for the fourth quarter of 2013. 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 work papers consisting of electronic worksheets showing GMO’s calculation of the QCA for the fourth quarter of 2013.

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 19 of Tariff Sheet No. 6.10 reflects an additional charge per million British Thermal Units (“BTU”) of \$0.4909 versus a charge per million BTU of \$0.4243 reflected on the previous revision 18 of Tariff Sheet No. 6.10. The QCA Rider rate reflects an increase of \$802,102 in the quarterly adjusted fuel costs from the previous quarter with the overall increase principally due to the impact of natural gas costs for generation.

The Reconciliation Rate or R factor includes an additional amount to reflect the \$2,885,456 the Commission ordered to be returned to GMO in Steam Complaint file (HC-2012-0259).

In addition, the R factor 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 third quarter of 2013 and continues to be reflected in the overall QCA rate until fully recovered. GMO discovered that starting in and 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*,¹ 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.²

Staff reviewed the data and mathematical calculations GMO provided in its worksheets and found 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, as filed on January 15, 2014, to go into effect for service on and after March 1, 2014, the requested effective date:

P.S.C. MO. No. 1

19th Revised Sheet No. 6.10 Canceling 18th 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, other than Case No. ER-2014-0204 discussed above and in footnote 2, 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.

¹ 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.

² 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 timeframe) 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 and is pending before the Commission.

**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)
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Case No. HT-2013-0456

AFFIDAVIT OF MICHAEL STAHLMAN

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

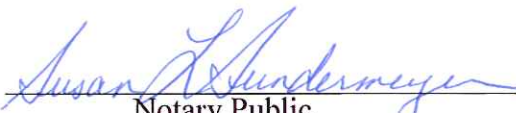
Michael Stahlman, of lawful age, on oath states: that he participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was provided to him; that he has knowledge of the matters set forth in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



Michael Stahlman

Subscribed and sworn to before me this 14th day of February, 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

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Missouri Operations Company for)
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Customers in its Service Territory)

Case No. HT-2013-0456

AFFIDAVIT OF BRADLEY FORTSON

STATE OF MISSOURI)
) ss
COUNTY OF COLE)


Bradley 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.



Bradley Fortson

Subscribed and sworn to before me this 14th day of February, 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