

**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-2014-0286</u>
Steam QCA for Service Provided To)	Tariff Tracking No. JH-2014-0412
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:

1. On April 15, 2014, KCP&L Greater Missouri Operations Company (“GMO”) filed with the Commission one tariff sheet, 20th Revised Sheet No. 6.10 bearing an effective date of June 1, 2014, to add the quarterly cost adjustment (“QCA”) for steam service customers for the first 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 negative charge per million British Thermal Units (“BTU”) of \$(0.3281) versus a charge of \$0.4909 per million BTU reflected on the previous 19th Revised Sheet No. 6.10. The change causing a negative charge of \$(0.3281) in the QCA Rider rate is the result of the net effect of:

- 1) a \$694,699 increase in the quarterly adjusted fuel costs from the previous quarter, and
- 2) the decrease of the Reconciliation Rate (R Factor) component of \$(2,945,954) which makes the R Factor in this QCA a negative adjustment when compared to the previous QCA.

3. Also, unlike the previous QCA, this QCA does not include any additional amount to reflect the \$2,885,456 that the Commission ordered to be returned to GMO in steam complaint File No. HC-2012-0259. The total of the \$2,885,456 amount was recovered in the previous QCA. As a result of the \$2,885,456 dropping out of the R Factor calculation, this QCA reflects a negative charge of \$(0.3281).

4. 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 3rd and 4th 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.

5. 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.

6. 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.

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

P.S.C. MO. No. 1

20th Revised Sheet No. 6.10 Canceling 19th Revised Sheet No. 6.10

Respectfully submitted,

/s/ Robert S. Berlin

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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 6th day of May, 2014.

/s/ Robert S. Berlin

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. HT-2014-0286, Tariff Tracking No. JH-2014-0412
KCP&L Greater Missouri Operations Company

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

/s/Michael S. Scheperle 5/06/2014 /s/Robert S. Berlin 5/06/2014
Manager Economic Analysis / Date Staff Counsel Division / Date

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

DATE: May 06, 2014

On April 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 first quarter of 2014. GMO then filed a substitute tariff sheet on April 24, 2014 bearing an effective date of June 1, 2014 to correct a typo. 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 first 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 20 of Tariff Sheet No. 6.10 reflects a negative charge per million British Thermal Units (“BTU”) of (\$0.3281) as compared to a charge per million BTU of \$0.4909 that was reflected on the previous revision 19 of Tariff Sheet No. 6.10. The QCA Rider rate reflects an increase of \$694,699 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 component reflects a decrease of (\$2,945,954) which makes the R factor in this QCA a negative amount when compared to the previous QCA. The previous QCA had an R factor which included an additional amount of \$2,885,456 which the Commission had ordered to be returned to GMO in Steam Complaint file (HC-2012-0259). Because the \$2,885,456 has already been collected by GMO in previous QCAs, this QCA does not include an amount for the collection of any part of the \$2,885,456. As a result, the R factor in this QCA reflects a negative charge of (\$0.3281).

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 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*,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 substituted on April 24, 2014, to go into effect for service on and after June 1, 2014, the requested effective date:

P.S.C. MO. No. 1

20th Revised Sheet No. 6.10 Canceling 19th Revised Sheet No. 6.10

Staff has verified that GMO is not delinquent on any assessment and has requested an extension until May 15, 2014 to file 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.

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 which was approved by the Commission on February 19, 2014.

