BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing of Aquila, Inc. d/b/a KCP&L Greater Missouri Operations Company, to Implement a General Rate Increase for Retail Steam Heating Service Provided to Customers in its Missouri Service Area it formerly served as Aquila Networks—L&P.	))))))	**Case No. HR-2009-0092** Tariff No. YH-2009-0195

STAFF'S POSITION STATEMENTS

COMES NOW the Staff of the Missouri Public Service Commission ("Staff") and states:

1. On April 14, 2009, the Staff filed a List of Issues, List of Witnesses and Order of Cross-Examination. Following are the Staff's statement of the Staff's position on each issue appearing immediately following the statement of the issue:

LIST OF ISSUES

REVENUE REQUIREMENT

RATE BASE

1. Cash Working Capital—Imputed AR Program in Lead Lag Study: Should the cost related to the termination of GMO's accounts receivable sales program caused by the loss of investment grade status be passed on to its customers?

Staff's position: This is not an issue in this case.

2. Accumulated Depreciation:
   a. Should the reserve deficiency related to plant retired prematurely as a consequence of GPE's acquisition of Aquila be added back to the respective ECORP reserve account?

Staff's position: Yes. Reserve deficiencies, realized through the effective date of the Commission's Order in this matter, for premature retirement of plant attributable to the Company's acquisition by GPE should be added back to the respective ECORP reserve accounts. Under normal plant retirement accounting, the original cost of the plant is removed from the plant accounts and the same dollar amount (original cost of the plant retired) is removed from the associated plant reserve accounts. However, the plant retirement that is in question was not a normal retirement. It was a premature retirement that was made as a direct consequence of the Company being acquired by GPE. The loss in the case of GMO's premature retirement of computer hardware and software plant assets is a loss created by the acquisition and needs to be treated a an acquisition detriment. The appropriate ratemaking treatment at the time of retirement of this plant was for GMO to remove from the respective ECORP reserve accounts only the depreciation expense on this plant that was charged to the reserve.

b. Should the reduction of reserve overstatement currently assigned to the two divisions as UCU Common General Plant be assigned on a weighted average per reserve account to the ECORP accumulated reserve for depreciation?

Staff's position: Yes. This reserve overstatement was created by the existence of Aquila's multi-jurisdictional depreciation rates for corporate accounts that were different than the authorized depreciation rates for corporate accounts for Aquila's Missouri jurisdiction. Assignment on a weighted average per reserve account to the ECORP accumulated reserve for depreciation is the most rational approach to assignment of this reduction.

c. Should GMO maintain separate accounting of amounts accrued for recovery of its initial investment in plant and the amounts accrued for the cost of removal?

Staff's position: Yes. This requirement is consistent with recent treatment of other large Missouri utilities.

d. Is Commission authorization required for GMO to change its depreciation rate to zero (0)?

Staff's position: Yes. Commission authorization is required for GMO to change any of its currently authorized depreciation rates. When depreciation rates were ordered in the Company's last rate case, those currently authorized depreciation rates were a ratemaking component that was used to develop the Company's revenue requirement. They remain in effect until at which time the Commission orders new effective depreciation rates.

e. Should the accumulated depreciation for ECORP common plant asset accounts reflect depreciation accrual of approximately $4.2 million more than on GMO's books because the authorized depreciation rates for the ECORP common asset accounts are not zero?

Staff's position: Yes. The Company has failed to maintain the ordered depreciation rates on ECORP accounts 391.02, Computer Hardware, 391.05, Computer Systems Development, 394.00, Tools, Shop & Garage Equipment, and 398.00, Miscellaneous Equipment. The imputed amounts of depreciation accrual for these accounts are $7,142, $4,168,503, $11,497, and $34,036, respectively. These amounts should be added back to the respective ECORP reserve accounts because the authorized depreciation rates for these accounts are not zero percent (0%).

f. Has GMO properly accounted for ECORP common plant asset retirements caused by Great Plains Energy's acquisition of GMO?

Staff's position: No. Under normal plant retirement accounting, the original cost of the plant is removed from the plant accounts and the same dollar amount (original cost of the plant retired) is removed from the associated plant reserve accounts. However, the plant retirement that is in question was not a normal retirement. It was a premature retirement that was made as a direct consequence of the Company being acquired by GPE. The loss in the case of GMO's premature retirement of computer hardware and software plant assets is a loss created by the acquisition and needs to be treated a an acquisition detriment. The appropriate ratemaking treatment at the time of retirement of this plant was for GMO to remove from the respective ECORP reserve accounts only the depreciation expense on this plant that was charged to the reserve. Reserve deficiencies, realized through the effective date of the Commission's Order in this matter, for premature retirement of plant attributable to the Company's acquisition by GPE should be added back to the respective ECORP reserve accounts.

COST OF CAPITAL

1. Return on Common Equity: What return on common equity should be used for determining GMO's rate of return?

Staff's position: The appropriate return on common equity is 9.75%, which is the mid-point of Staff's estimated cost of common equity range of 9.25% to 10.25%.

2. Capital Structure: What capital structure should be used for determining GMO's rate of return?

Staff's position: The appropriate capital structure ratios are 51.03 percent common equity and 48.97 percent long-term debt. The common equity balance should be based on the September 30, 2008 balance reported to Great Plains Energy's investors.

3. Cost of Debt (MPS and L&P): What cost of debt should be used for determining GMO's rate of return?

Staff's position: The cost of debt should be based on a proxy cost of debt of 6.75%.

REVENUES

1. AGP Special Contract: For ratemaking purposes, should revenues forgone by GMO pursuant to an agreement with AGP be imputed into test-year revenues? If "yes" to the above, should such imputation include revenues forgone as a result of the billing treatment called for in the March 22, 2004 agreement between GMO and AGP?

Staff's position: Yes, revenues forgone by GMO pursuant to an agreement with AGP should be imputed into test-year revenues. Such imputation should include revenues forgone as a result of the billing treatment called for in the March 22, 2004 agreement between GMO and AGP.

EXPENSES

1. Short-term Incentive Compensation: Should the costs of short-term incentive compensation plans be included in GMO's revenue requirement for setting GMO's rates?

Staff's position: The Staff has eliminated all short-term incentive compensation costs from the cost of service because the KCPL short-term incentive compensation plans allocated to GMO did not pay awards for plan years 2007 and 2008. Additionally, if the Company's methodology averaging short-term incentive compensation costs over the three year period of 2005-2007 is used for inclusion in the cost of service then amounts removed by Staff and authorized by the Commission in KCPL Cases ER-2006-0314 and ER-2007-0291 should also be removed for the determination of this average.

2. Supplemental Executive Retirement Pension (SERP) Costs: Should the costs of the SERP payments related to former Saint Joseph Light and Power Company officers be included in GMO's revenue requirement for purposes of setting GMO's rates?

Staff's position: No. Any SERP payments made to the former executives of St. Joseph Light & Power Company were paid for by SJLP at the time of its merger with UtiliCorp United, Inc., now GMO. Not only are these payments not a cost to GMO, but they are related to the merger transaction and are the nature of transaction costs that this Commission has not allowed to be included in utility rates.

3. Payroll Overtime: What level of payroll overtime should be included in GMO's revenue requirement for purposes of setting GMO's rates?

Staff's position: Staff finds no support to include wage increases in its three-year average of overtime costs to be included in the cost of service. The Commission should not use for overtime costs the test year 2007 expense proposed by the Company

4. Fuel Expense: What level of fuel and purchased power expense should be included in GMO's revenue requirement for purpose of setting GMO's rates?

Staff's position: Fuel and purchased power expense levels that should be used in this case are GMO's actual levels of fuel and purchased power expense for the update period ended September 30, 2008.

5. Merger Transition Costs:

a. Has the Company satisfied its commitment to only seek recovery of transition costs if its synergy tracker indicates overall savings equal to or greater than the level of transition costs being sought to be included in rates?

Staff's position: KCPL/GMO has not provided a synergy savings tracking mechanism using a 2006 base year compared to current actual post-acquisition costs. This was required by the Commission in its EM-2007-0374 Acquisition Order approving the acquisition. Therefore, GMO should not only not be allowed to recover any transition costs directly in rates, but it should not even be seeking direct rate recovery of these costs.

b. What are the appropriate levels of merger transition costs that should be included in the revenue requirements of MPS and L&P for setting the rates of MPS and L&P?

Staff's position: Zero.

DEPRECIATION:

1. Depreciation Rates (MPS and L&P)**:** What are the appropriate levels of depreciation rates to be established in this case?

Staff's position: The depreciation rates should be set as described by Staff witness Rosella Schad in Schedule 1-3 to her Surrebuttal Testimony. These results are very similar to those achieved by the Company's remaining life depreciation study, which recognizes and addresses the large over-accrual in the accumulated reserve for depreciation. The Company's depreciation study should not be used as it makes use of the life-span method of determining depreciation rates for production plant accounts, which the Commission has previously rejected in recent electric utility cases for similar production plant accounts.

2. Should life-span method be rejected for developing depreciation rates for the Company's production plant accounts?

Staff's position: Yes. GMO has not produced reliable retirement dates of the generating facilities reflected in these accounts. Further, as the Commission has noted in prior cases, generation sites tend to be utilized indefinitely, as the coincidence of the infrastructure situated adjacent to them increases their value. Additionally, GMO's current rates were not developed using the life-span method.

3. Should establishment of GMO's depreciation rates be postponed until completion of a consolidated KCPL and GMO depreciation study?

Staff's position: No. A comprehensive study including KCPL assets has no bearing on the current issues regarding depreciation rates for the assets of GMO in the current rate case.

Staff's depreciation study indicates that the over-accrual of the depreciation reserve has grown since its last study in the Company's Case No. HR-2005-0450 and the Company's study in that same case. The Company's 2008 depreciation study submitted to Staff indicates reduced depreciation rates and illustrates that the over-accrual of the depreciation reserve has grown since the Company's last depreciation study in Case No. HR-2005-0450. Further delay of conducting a depreciation study or failure to change depreciation rates at this time increases the likelihood that accounts become even more over-accrued.

4. If establishment of GMO's depreciation rates is postponed until completion of a consolidated KCPL and GMO depreciation study, does that delay constitute an acquisition detriment?

Staff's position: Yes. The reduction in customer rates not effectuated by a correction of the depreciation rates should be treated as an acquisition detriment, because customer rates would be lower if more appropriate depreciation rates were Ordered in this case, with the difference in annual depreciation accrual netted against merger synergies realized. Because the only reason the Company has presented for postponing the modification of the currently authorized depreciation rates is a delay until the completion of a depreciation study of both GMO's assets and KCPL's assets, that delay is plainly a result of the acquisition of GMO by Great Plains Energy.

5. Should the Company review its unit property catalog for proper and consistent placement of Combustion Turbine units?

Staff's position: Yes, but no Combustion Turbine units are used to generate steam, so this is not an issue in this case.

<u>RATE DESIGN</u>

1. How should the rate increase be applied to the rate components?

Should the Company's proposal to increase each rate component on an equal percentage basis for the non-fuel portion of the increase, and rebase the fuel costs on an equal cents per MMBTU basis, or should the Staff's proposal to increase each rate component on an equal percentage basis be used?

Staff's position: Each rate component should be increased on an equal percentage basis so as to impact each customer equally.

QUARTERLY COST ADJUSTMENT CLAUSE

1. <u>QCA Revisions</u>**:**

a. Should the QCA be continued?

Staff's position: Because no standards exist for determining the appropriateness of fuel adjustment riders for steam heating utilities, Staff did not propose a fuel adjustment mechanism.

b. If so, should or may modifications be made?

Staff's position: The Staff takes no position on this issue.

WHEREFORE, the Staff submits the foregoing position statements in response to the Commission's November 20, 2008 *Order Setting Procedural Schedule*.

Respectfully submitted,

/s/ Nathan Williams_
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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 15th day of April, 2009.

/s/ Nathan Williams