BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing of 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

STATEMENT OF POSITION OF KCP&L GREATER MISSOURI OPERATIONS COMPANY

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BEFORE THE PUBLIC SERVICE COMMISSION
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In the Matter of the Application of Aquila, Inc., d/b/a KCP&L Greater Missouri Operations Company, for Approval to Make Certain Changes in its Charges for Steam Heating Service.	)))))	Case No. HR-2009-0092

STATEMENT OF POSITIONS OF KANSAS CITY POWER & LIGHT COMPANY

KCP&L Greater Missouri Operations Company ("GMO" or "Company") submits this Statement of Positions in accord with the Commission's *Order Setting Procedural Schedules* issued November 20, 2009.

I. STATEMENT OF THE CASE

In its first rate case since GMO (formerly Aquila, Inc.) was acquired by Great Plains Energy, GMO is requesting a rate increase to recover the cost of providing steam heating service in the territory formerly served by Aquila Networks-L&P ("L&P"). The amount of the L&P steam hearing rate increase is 7.7% or $1.3 million dollars based on test year revenue approximately $125 million. (Rush Direct at 3)

The Company is requesting a return on equity of 11.55%, based upon the testimony of Dr. Samuel Hadaway. However, the primary driver in this steam heating rate case is fuel. While the Company has the QCA to recover fuel costs, the QCA only recovers a portion of the actual fuel expense incurred by the Company. The fuel cost is adjusted to be only 80% of the incremental fuel expenses after adjusting for a coal usage target. In this proceeding, the Company is requesting to continue the QCA, but proposes to change the base amounts included in the tariff and to modify the recovery adjustment to reflect 100% recovery of the incremental costs. (Rush Direct at 3-4)

For all of the reasons discussed in the pre-filed testimony of the Company, GMO respectfully requests that the Commission adopt the Company's positions on the issues as discussed below:

II. STATEMENT OF POSITIONS ON ISSUES

RATE BASE

1. Cash Working Capital—Imputed AR Program in Lead Lag Study: Should the Commission impute a hypothetical accounts receivable program in the Cash Working Capital calculation?

No. The Company does not participate in an accounts receivable sales program. The Staff's hypothetical accounts receivable program adjustment does not reflect the current day-to-day operations of the Company.

2. Accumulated Depreciation:

   a. Should the imputation of a depreciation accrual of approximately $4.2 million be added back to accumulated depreciation for ECORP common asset accounts that had become fully depreciated?

No. These accounts had become fully depreciated. The depreciation rate was set to zero in order not to over accrue the depreciation reserve. GMO's treatment was reasonable and appropriate.

   b. Was the accounting for common plant retirements on the ECORP business appropriate?

Yes. The Company has followed the retirement of electric plant process as described in the Code of Federal Regulations by charging the book cost of the retirement unit against the accumulated reserve. The accounting is neither an acquisition detriment nor inconsistent with the Code of Federal Regulations.

COST OF CAPITAL

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

The Company's outside expert witness, Dr. Samuel C. Hadaway, recommends that the Commission set the return on equity (ROE) at 11.55%. He presented this revised ROE recommendation in his March 11, 2009 Rebuttal Testimony, having previously recommended in his September, 2008 Direct Testimony that the ROE be set at 10.75%, the same rate that the Commission set in 2007. However, the current economic crisis has clearly made last fall's recommendation not reasonable.

In the past few months corporate borrowing costs have increased dramatically. Corporate lenders now require higher, not lower, rates. Corporate interest rate "spreads" (the difference between corporate borrowing costs and rates on U.S. Treasury bonds) remain almost three times as large as they were before the credit crisis began. Similarly, there has been a dramatic increase in the spread between public utility bond yields and long-term Treasury yields, illustrating the significantly higher borrowing costs for corporations. See Hadaway Rebuttal at 3-7. Specific examples of the increases in the cost of debt for KCP&L, GMO's sister company, are set forth in the Rebuttal Testimony of Michael W. Cline, the Treasurer of KCP&L's owner Great Plains Energy Inc. (GPE) at page 3-5.

Consequently, there is no question that the economic and financial uncertainties generated by the credit crisis have significantly increased the risk premiums contained in public utilities' cost of capital. Dr. Hadaway's mid-point ROE recommendation of 11.55% (based on a Discounted Cash Flow range of 11.2% to 11.9%) is confirmed by his Risk Premium Analysis.

Based on projected Triple-B utility interest rates for 2009, the Risk Premium Analysis indicates an ROE of 11.14%. An analysis of the most recent three month's average Triple-B rates leads to a risk premium ROE of 11.56%. See Hadaway Rebuttal at 13-14. Consequently, Dr. Hadaway's ROE opinion of 11.55% is the only reasonable recommendation before the Commission.

The other recommendations provided to the Commission are those of Staff's David Murray (9.75%, based on a range of 9.25% to 10.25%) and OPC's Michael Gorman (10.3%). They fail to reflect the current economic crisis and the effect that it has had on the financial and credit markets. Acceptance of either of their recommendations would severely and negatively affect the ability of GMO to finance its operations.

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

The Company recommends the following capital structure, based upon the actual GPE capital structure as of September 30, 2008, to be trued-up as of April 30, 2009, and accepting Staff's exclusion of preferred stock:

KCP&L Proposed Capital Structure:

Debt	48.76%
Common Equity	51.24%
Total	100.00%

See S. Hadaway Rebuttal at 15; M. Cline Rebuttal at 6.

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

This capital structure should include a cost of debt of 7.76%. See M. Cline Rebuttal at 7. This would be consistent with the approach taken by GMO's predecessor Aquila, Inc. in its last rate case, which was accepted by Staff.

Staff's new recommendation of a hypothetical debt structure based on the embedded cost of long-term debt of another utility (Empire District Electric Co.) is unnecessary and not reasonable. Given the data available on GMO's actual debt structure, Staff's proposal should be rejected. See M. Cline Rebuttal at 7-11.

REVENUES

1. Conjunctive Billing: Should revenue be imputed as a result of the pooling of meters for billing purposes?

No. Such an adjustment unjustifiably inflates test year revenues above what the Company will actually realize, thus resulting in an under recovery of the Company's costs. The issue is that the Company bills AGP as though it were served from one meter, when in actuality it is billed from several meters. To impute revenue based upon this practice treats it as though it is a special contract. It is not. This practice is consistent with the Company's rules and regulations. There are a variety of reasons for metering AGP's use in this manner, such as the physical location of AGP's service needs, proximity of AGP's facilities to the Company's facilities, as well as managing the load requirements and the distribution needs of the steam system. Because the decision to conjunctively bill a customer is an operational issue left to the Company's discretion in its tariffs and not done for the economic benefit of the customer, the practice does not constitute a special contract, which would justify imputed revenues.

EXPENSES

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

Yes. The use of short-term incentive compensation benefits both shareholders and customers. The use of Earning per Share (EPS) in the incentive plans is appropriate as this is a principal indicator of performance for investor owned companies. Because KCP&L is a regulated public utility, it needs to be financially strong in order to provide efficient, clean, safe and affordable electricity. Therefore, EPS is an important first-order measuring tool that enables performance and productivity in areas related to product and service delivery. Furthermore, the Company's incentive plans are also based upon individual performance factors relating to each company's specific responsibilities and contributions to achieving divisional and overall performance objectives.

Customers benefit when the Company is strong financially as the Company is able to raise the capital it needs. A solid financial foundation means the Company receives more favorable rates on capital, reducing the overall costs that ultimately get charged to customers. KCP&L believes that incentive compensation that is triggered based on financial goals is appropriate because a financially strong company provides a direct benefit to all stakeholders including employees, customers, shareholders and the community in which it operates. All employees are now KCP&L employees. The GMO operations, including steam, will receive an allocated share of the short-term incentive cost and this cost should be recoverable in rates.

2. Supplemental Executive Retirement Pension (SERP) Costs: Should the costs of the SERP be included in cost of service for purposes of setting rates?

Yes. The SERP payments for L&P should be included in the cost of service for the purpose of setting rates. The Company has included an amount in cost of service equal to the amount paid out during the test year. This is consistent with the approach used in the MPS jurisdiction and accepted by Staff.

3. Payroll Overtime: What level of payroll overtime should be included in cost of service for purposes of setting rates?

Staff's method for computing overtime costs used a three year average of overtime dollars but did not express the 2005 and 2006 years in 2007 equivalent dollars. The Company believes the overtime costs should be calculated using equivalent 2007 dollars by applying adders to the 2005 and 2006 years.

4. Fuel Expense: What level of fuel expense should be included in cost of service for purpose of setting rates?

Staff's total net generation for Lake Road Units 1, 2 and 3 is too low compared to the test year. This results in an under allocation of coal mmBtu to the electric division and overstates the coal mmBtu available to the steam division. (Nelson Rebuttal at 1-4)

5. Merger Transition Costs: What is the appropriate amount of merger transition costs to include in rates in this case?

The appropriate amount of merger transition costs is $106,020. This adjustment is set forth in Schedule DRI-1, attached to the Direct Testimony of KCP&L's Darrin R. Ives. This amount is subject to true-up to reflect the amortization of the amount of the actual transition costs incurred through the true-up date.

The reasons supporting this figure are stated in Mr. Ives' Direct and Rebuttal Testimony, which explain in detail the process used to track transition costs and their recovery, as permitted by the Commission's decision in the Report and Order approving the acquisition of Aquila, Inc. by GPE ("Merger Order"). The Merger Order authorized KCP&L and Aquila to recover transition costs through a method of deferral and recovery over five years, as long as synergy savings exceeded the amount of amortized transition costs. See Merger Order at 241 & n. 930. The synergy savings tracking process that the Company has employed, based upon a 2006 baseline, has measured synergies for 2008, the year of Aquila's acquisition (known as Phase 1), and for 2009 going forward (known as Phase 2).

The recommendation of the Staff Report at 107-115 (as later repeated in the C.R. Hyneman Rebuttal and Surrebuttal) that regulatory lag be utilized to recover synergy savings should be rejected as it is clearly contrary to the Merger Order.

DEPRECIATION:

1. Depreciation Rates: Should the Staff's proposed reduction in depreciation rates be adopted?

No. The depreciation rates recommended by Staff should not be used in this rate case filing. The Company recommends using the depreciation rates that were approved in GMO-Steam's prior rate case, Case No. HR-2005-0450. It is anticipated that associated with the completion of the significant capital project of the building of Iatan 2 Coal fired generation facility, there will be a system wide depreciation study conducted on all KCP&L and GMO assets. Depreciation rates from this comprehensive system wide study should be used as the basis for computing depreciation expense on a going forward basis. (Klote Rebuttal at 2-3)

RATE DESIGN

1. Allocations Among Customers: What is the proper rate design?

KCPL is proposing an equal percentage increase be applied to all the rate components of each tariff for the non-fuel portion of the rate increase. KCPL is also proposing to rebase the fuel costs to equal the expected costs for fuel expenses filed in this case. The rebasing of the fuel component will be reflected as a per unit increase to the rates. (Rush Direct at 6)

The industrial steam tariffs contain a tariff for "Standby or Supplementary Service." Since no customers take this service, KCPL believes this tariff should be deleted and no longer made available. In addition, a change is needed to clarify that fuel inputs are used in the current calculation for the QCA Rider. (Rush Direct at 6-7)

QUARTERLY COST ADJUSTMENT CLAUSE

1. QCA Revisions:

a. Should the QCA be continued? If so, what modifications should be made?

The Company believes it is critical to the ongoing operations of the steam business to continue the QCA. Fuel costs represent 80% of the ongoing Operations and Maintenance costs of the steam business. However, the QCA in its present form continually results in a significant under recovery of the Company's fuel costs. In its present form, the QCA does not function as it was intended to. Modifications must be made to the QCA. First, the 80/20 sharing mechanism, whereby the Company is only permitted to recover 80% of its prudently incurred fuel costs through the QCA, should be eliminated. Instead, the Company should be permitted to recover 100% of its prudently incurred fuel costs incurred in the delivery of steam service to its customers. Second, the performance metric included in the QCA should be eliminated. By continuing the QCA without the performance metric, the Company will be allowed the opportunity to recover its prudently incurred fuel costs necessary to support customer needs. The customer will be protected through the QCA reviews that the fuel costs the Company incurred were prudent.

The Commission should reject the Industrial Intervenors' proposal to include in the QCA an adjustment for the volatility of customer loads. The Company believes it would be unworkable to develop a mechanism that will look back on an annual basis and determine if customer loads changed such that the performance metric should be changed. The Commission should reject the Industrial Intervenors' proposal to include an adjustment to reflect major maintenance cycles for similar reasons.

The Company also requests that the current Reconciliation Factor be eliminated from the QCA calculation and that any over- or under- collection be added to the next current QCA recovery period, which would eliminate the need for a separate reconciliation factor.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been hand delivered, emailed or mailed, postage prepaid, this 15th day of April, 2009, to all counsel of record.

/s/ James M. Fischer
James M. Fischer