

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

In the Matter of the Propriety of the Rate)
Schedules for Steam Service of KCP&L) File No. HR-2018-0231
Greater Missouri Operations Company)

**KCP&L GREATER MISSOURI OPERATIONS COMPANY’S
RESPONSE TO ORDER**

COMES NOW KCP&L Greater Missouri Operations Company (“GMO” or the “Company”) and submits the following response to the Missouri Public Service Commission’s (“Commission”) *Order Scheduling A Procedural Conference (“Order”)* issued on October 10, 2018:

1. On October 10, 2018, the Commission issued its *Order* which scheduled a procedural conference for October 25, 2018 in this proceeding which relates to the propriety of GMO’s steam service rates in light of federal tax rate reductions due to the Tax Cuts and Jobs Act of 2017 (“TCJA”). In addition, the *Order* directed GMO to report its quantification of the impacts of TCJA, as well as its quantification of its excess protected and unprotected ADIT (accumulated deferred income tax, referred to herein as “EDIT”) to the most current date available no later than October 24, 2018. This pleading is being filed in response to the *Order*.

2. GMO has not had a general rate case for its steam service since 2009. The Company’s steam operation is currently in an under-earnings position as demonstrated by Exhibit A appended hereto. Exhibit A, which is based on GMO’s surveillance report for the twelve months ended August 2018, shows that GMO’s return on equity for that period was 1.97%, which reflects the earnings-beneficial impact of TCJA. Should a rate case be filed to reflect the impact of TCJA, a rate increase would result. It would therefore be counter-productive to customers for the Commission to take action in this proceeding that would result in GMO filing a rate case for its steam business at this time.

3. As shown in Exhibit A, the revenue requirement change related to the TCJA on GMO's steam operations is estimated to be \$581,061 based on the August 2018 surveillance report. This amount is comprised of \$520,863 for the TCJA tax rate reductions and \$60,198 for amortization of EDIT. However, there is still an overall revenue requirement deficiency – estimated at \$1,991,142 on the basis of the August 2018 surveillance report – even when the reduced federal tax rates and EDIT amortization are included in the revenue requirement calculation. A Commission order requiring deferral of the cost of service impact of the lower tax rates of the TCJA and the amortization of EDIT commencing with the TCJA effective date of the January 1, 2018 would increase GMO's existing steam revenue requirement deficiency and would, in all likelihood, require GMO to file a rate case sooner than it otherwise would. This is because an order to defer TCJA impacts would require GMO to record \$581,061 on an annual basis to the balance sheet as a regulatory liability thereby reducing revenues recorded to GMO's income statement by the same amount. The resulting ROE for GMO, based on the twelve months ending August 2018, would be a negative 0.372%.

4. GMO has had preliminary discussions with its customers regarding a possible resolution of this proceeding that could avoid both the filing of a rate case and deferral of TCJA impacts. Although those discussions have been preliminary, they have been constructive and GMO believes that further discussions have a reasonable likelihood of producing an agreement. GMO would like to explore that possibility with its customers as well as with Commission Staff and the Office of the Public Counsel.

WHEREFORE, GMO offers the foregoing as its response to the Commission's *Order*.

Respectfully submitted,

/s/ James M. Fischer

James M. Fischer, MBN 27543
Fischer & Dority, P.C.
101 Madison, Suite 400
Jefferson City, MO 65101
Telephone: (573) 636-6758
Facsimile: (573) 636-0383
E-Mail: jfischerpc@aol.com

Robert J. Hack, MBN 36496
Roger W. Steiner, MBN 39586
Kansas City Power & Light Company
1200 Main Street, 16th Floor
Kansas City, MO 64105
Telephone: (816) 556-2314
Facsimile: (816) 556-2780
E-Mail: Rob.Hack@kcpl.com
Roger.Steiner@kcpl.com

**Attorneys for KCP&L Greater Missouri
Operations Company**

CERTIFICATE OF SERVICE

I do hereby certify that on the 24th day of October 2018, I electronically filed via the Electronic Filing Information System (EFIS), a true and correct copy of the above and foregoing with a copy emailed to counsel for all parties of record.

/s/ Roger W. Steiner

**COUNSEL FOR KCP&L GREATER MISSOURI
OPERATIONS COMPANY**

KCP&L Greater Missouri Operations Company - Steam
Management Report

As of August 2018

CONFIDENTIAL	After Tax Reform	Before Tax Reform	Tax Reform Impact
Description	12 Months Ended August 2018	12 Months Ended August 2018	
Utility Plant on Balance Sheet			
Plant Allocation from Electric AAO's	46,842,129	46,842,129	-
Utility Plant	46,842,129	46,842,129	-
Accumulated Depreciation on Balance Sheet			
Reserve Allocation from Electric	11,844,561	11,844,561	-
Accumulated Depreciation	11,844,561	11,844,561	-
Net Plant in Service	34,997,568	34,997,568	-
<i>Add:</i>			
Cash Working Capital	82,169	82,169	-
Fuels Stock	1,024,568	1,024,568	-
Fuel Stock-Undistributed			
Plant Materials & Op Supplies			
Stores Expense Undistributed (AC 163)			
Prepayments - Pensions	0	0	-
Prepayments	-	-	-
GMO Minimum Tracker	135,570	135,570	-
	1,242,306	1,242,306	-
<i>Less:</i>			
Accum Dfrd Inc Taxes-Other Property	5,372,634	5,372,634	-
GMO Minimum Tracker			
	5,372,634	5,372,634	-
Rate Base	30,867,240	30,867,240	-
Rate of Return	7.90%	7.90%	0.00%
Net Operating Income Required	2,438,155	2,438,155	-
Net Operating Income Available	953,758	890,506	63,253
Net Operating Income Needed	1,484,397	1,547,649	(63,253)
Revenue Requirement Effect	1,991,142	2,512,005	(520,863)
Expected Disallowances	-	-	-
Final Revenue Requirement	1,991,142	2,512,005	(520,863)
Operating Revenues			
Steam Revenues	15,264,083	15,264,083	-
Provision for Rate Refund	-	-	-
Other Revenues	-	-	-
Total Revenues	15,264,083	15,264,083	-
Operating/Maintenance Expenses:			
Steam Power Generation - Fuel	7,692,310	7,692,310	-
Other Power Generation - Fuel	-	-	-
Total Fuel Used for Generation	7,692,310	7,692,310	-
Purchased Power (Energy)	-	-	-
Total Fuel and Purchased Power	7,692,310	7,692,310	-
Net Margin	7,571,773	7,571,773	-
Steam Power Generation	1,532,756	1,532,756	-
Distribution Expenses	483,026	483,026	-
Total Operating Expenses	2,015,782	2,015,782	-
Steam Power Generation	1,937,629	1,937,629	-
Distribution Expenses	328,143	328,143	-
A&G General Plant Maintenance	26,077	26,077	-
Total Maintenance Expenses	2,291,849	2,291,849	-
A&G Operating	578,277	578,277	-
Depreciation & Amortization	1,076,591	1,076,591	-
Taxes:			
General Taxes	531,116	531,116	-
Current Income Taxes	124,400	187,652	(63,253)
Deferred Income Taxes	-	-	-
Amortization of Excess Deferrals (EDIT)			
Investment Tax Credit	-	-	-
Total Income Taxes	124,400	187,652	(63,253)
Total O&M, A&G and Taxes Expense	14,310,324	14,373,577	(63,253)
Earnings Before Interest & Taxes (EBIT)	1,078,158	1,078,158	-
Net Operating Income	953,758	890,506	63,253
Carrying Costs - AAO	-	-	-
Adjusted NOI	953,758	890,506	63,253
Return on Rate Base	3.090%		
Return on Equity-Actual	1.971%		

**Revenue Requirements - TAX REFORM Impact
Summary GMO Steam**

Based on AUG 2018 Surveillance

	Before Tax Reform	After Tax Reform	Tax Reform Impact	
Net Taxable Income	488,801	488,801		
Deduct State Income Tax @ 100.0%	25,483	27,523		
Federal Taxable Income	463,318	461,278		
Federal Tax Rate	35%	21%		
Federal Tax Before Tax Credits	162,161	96,868		
Less Tax Credits:	0	0		
Total Federal Tax	162,161	96,868	(65,293)	(1)
Net Taxable Income	488,801	488,801		
Deduct Federal Income Tax @ 50.0%	81,081	48,434		
State Jurisdictional Taxable Income	407,720	440,367		
State Tax Rate	6.25%	6.25%		
Total State Tax	25,483	27,523	2,040	(2)
Deferred Income Tax Exp - EDIT Amortization	0	0	0	Calc Below by Mth
Net Income Available Change	890,507	953,758	(63,253)	
Total Rate Base (chg in ADIT)	30,867,240	30,867,240		
Rate of Return	7.90%	7.90%		
Return On	2,438,155	2,438,155	0	
Additional NOIBT Needed	1,547,647	1,484,397	(63,253)	
Tax Gross-Up	964,354	506,743	(457,611)	(3)
Annual Gross Revenue Requirement Change - TAX Reform - Rate Change			(520,863)	
Add: EDIT Amortization including Gross-Up			(60,198)	(4)
Annual Gross Revenue Requirement Change - TAX Reform - Rate Change & EDIT			(581,061)	
Total Stub Period Jan 1, 2018 - August 31, 2018			(395,274)	

- (1) Federal Tax Chg due to Federal Rate Chg from 35% to 21%
- (2) State Tax Chg due to change in the amount of Federal Tax Deducted from the Federal Rate Chg
- (3) Tax Gross-Up needed decreased due to changes 1 and 2
- (4) EDIT Amortization in Jan 2018 through August 2018 totals \$40,131 including Gross-Up

Month	12 ME Sept 2018 Steam mmBtu Sales	Kwh Ratio	Rate Change Mthly Accrual	EDIT Amort	Total
Jan-18	253,851	9.39%	(48,933)	(5,016)	(53,949)
Feb-18	228,382	8.45%	(44,023)	(5,016)	(49,039)
Mar-18	255,636	9.46%	(49,277)	(5,016)	(54,293)
Apr-18	237,083	8.77%	(45,701)	(5,016)	(50,717)
May-18	219,071	8.11%	(42,229)	(5,016)	(47,245)
Jun-18	212,897	7.88%	(41,038)	(5,016)	(46,054)
Jul-18	214,979	7.96%	(41,440)	(5,017)	(46,457)
Aug-18	220,497	8.16%	(42,503)	(5,017)	(47,520)
Sep-18	190,263	7.04%	(36,675)	(5,017)	(41,692)
Oct-17	215,896	7.99%	(41,617)	(5,017)	(46,634)
Nov-17	213,520	7.90%	(41,159)	(5,017)	(46,176)
Dec-17	240,032	8.88%	(46,268)	(5,017)	(51,285)
	2,702,107	100.00%	(520,863)	(60,198)	(581,061)
	Per QCA Filing				

**KCP&L Greater Missouri Operations Company - Steam
Management Report**

As of August 2018

Includes impact of Deferral of TCJA impact

CONFIDENTIAL

After Tax Reform

Description	12 Months Ended August 2018
Utility Plant on Balance Sheet	
Plant Allocation from Electric AAO's	46,842,129
Utility Plant	46,842,129
Accumulated Depreciation on Balance Sheet	
Reserve Allocation from Electric	11,844,561
Accumulated Depreciation	11,844,561
Net Plant in Service	34,997,568
<u>Add:</u>	
Cash Working Capital	82,169
Fuels Stock	1,024,568
Fuel Stock-Undistributed	
Plant Materials & Op Supplies	
Stores Expense Undistributed (AC 163)	
Prepayments - Pensions	0
Prepayments	-
GMO Minimum Tracker	135,570
	1,242,306
<u>Less:</u>	
Accum Dfrd Inc Taxes-Other Property	5,372,634
GMO Minimum Tracker	-
	5,372,634
Rate Base	30,867,240
Rate of Return	7.90%
Net Operating Income Required	2,438,155
Net Operating Income Available	520,577
Net Operating Income Needed	1,917,578
Revenue Requirement Effect	2,572,203
Expected Disallowances	-
Final Revenue Requirement	2,572,203
Operating Revenues	
Steam Revenues	15,264,083
Provision for Rate Refund	-
Other Revenues	-
Total Revenues	15,264,083
Operating/Maintenance Expenses:	
Steam Power Generation - Fuel	7,692,310
Other Power Generation - Fuel	-
Total Fuel Used for Generation	7,692,310
Purchased Power (Energy)	-
Total Fuel and Purchased Power	7,692,310
Net Margin	7,571,773
Steam Power Generation	1,532,756
Deferral of TCJA	581,061
Distribution Expenses	483,026
Total Operating Expenses	2,596,843
Steam Power Generation	1,937,629
Distribution Expenses	328,143
A&G General Plant Maintenance	26,077
Total Maintenance Expenses	2,291,849
A&G Operating	578,277
Depreciation & Amortization	1,076,591
Taxes:	
General Taxes	531,116
Current Income Taxes	(23,480)
Deferred Income Taxes	-
Amortization of Excess Deferreds (EDIT)	
Investment Tax Credit	-
Total Income Taxes	(23,480)
Total O&M, A&G and Taxes Expense	14,743,505
Earnings Before Interest & Taxes (EBIT)	497,097
Net Operating Income	520,577
Carrying Costs - AAO	-
Adjusted NOI	520,577
Return on Rate Base	1.687%
Return on Equity-Actual	-0.372%