BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of KCP&L Greater Missouri Operations Company for Approval to Make Certain Changes in its Charges for Electric Service.	))))	Case No. ER-2010-0356

RESPONSE OF KCP&L GREATER MISSOURI OPERATIONS COMPANY TO ORDER FURTHER SUSPENDING TARIFF SHEETS

KCP&L Greater Missouri Operations Company ("GMO" or "Company"), pursuant to 4 CSR 240-2.080, files its Response to the *Order Further Suspending Tariff Sheets* issued on June 10, 2011. In support of its response, the Company states as follows:

1. On June 10, 2011, the Commission issued its *Order Further Suspending Tariff Sheets* which stated in part:

> When the Commission originally issued its Report and Order it determined reluctantly that the just and reasonable allocation between the L&P and MPS divisions was as set out in that Report and Order. This allocation was basically a compromise between the positions of Staff and GMO. The Commission attempted to ease the rate increase that was ultimately determined by creating the phase-in of the rates. However, additional issues have arisen with that phase-in and the Commission is still reviewing the actual rates such a phase-in will cause the L&P ratepayers. The Commission is mindful of the need for GMO and the ratepayers to have all the issues of this case considered thoroughly but expeditiously. Therefore, the Commission will further suspend these tariffs to allow for additional time for their consideration. (*Suspension Order*, p. 2)

2. GMO appreciates the Commission's efforts to consider thoroughly and expeditiously all the issues related to the L&P division, including the Iatan 2 allocation issue, the fuel rate-rebasing issue, and the recent suggestion of the Industrials and Public Counsel to "phase-in" the rate increase for the L&P division. All of these issues may have a substantial impact on the customers in GMO's L&P division, and to a lesser extent, customers of the MPS division, depending upon how they are resolved by the Commission.

3. As the Commission is aware, GMO opposed both of Staff's proposals to: (1) allocate higher levels of the Iatan 2 costs to the L&P division; and (2) re-base the fuel costs in this case. The primary reason that GMO opposed both Staff proposals was due to the potential impact upon the customers in the L&P division. (GMO Initial Brief at 22-29; GMO Reply Brief at 23-31). In particular, the Staff's proposal to rebase the fuel costs in this case would have a dramatic impact upon the customers of the L&P division. In fact, GMO attempted to bring the dramatic impact of fuel re-basing to the Commission's attention in the following passages from its Initial Brief at pages 27-29:

> Company witness Tim Rush explained that GMO decided to maintain the current base amount for both the MPS Division ($0.02348/KWh net system input) and the L&P Division ($0.01642/KWh net system input) in order to keep its overall rate request to as low an amount as reasonable, yet still allow for a reasonable recovery of fuel-related costs and a fair return to investors. See Rush Rebuttal (Cost of Service) at 3; Rush Rebuttal (Rate Design) at 26. Because GMO has not rebased these fuel and purchase power expenses (and, thus, not adjusted the Fuel Adjustment Clause [FAC] to reflect such rebasing), GMO has agreed to forego 5% of the increase in its future fuel and purchased power expenses under the current FAC that allows recovery of 95% of its prudently incurred costs.
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> Staff's proposal to rebase rates would raise MPS rates above existing levels by 6.5%, and by 21.2% for the L&P Division. See Rogers Surrebuttal at 8. Staff's recommendation to rebase fuel costs and raise rates beyond GMO's proposal appears to be premised upon both an economic theory and a legal theory. The economic theory is that rebasing rates "in each general rate case assures that customers receive the correct price signal through fixed rates as soon as possible." Id. at 7. Staff witness Rogers additionally observed that customers would not be subjected to paying "unnecessarily additional interest which can occur if the FAC is not rebased" in each rate case. Id. However, he failed to calculate or otherwise analyze what the difference would be between any additional interest costs under the existing FAC and the increase in fixed rates proposed by Staff. Tr. 4484-85.
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> Given that neither Section 386.266 nor the Commission's rules relating to Fuel Adjustment Clauses require the rebasing of Base Energy Costs, there is no reason for the Commission to add to the rate increase requested by GMO and to set rates even higher -- 6.5% for the MPS Division and 21.2% for the L&P Division -- when it has not been requested by the Company. (*emphasis added*)

4. With regard to the Staff's proposal to allocate 100 MW of Iatan 2 costs to the L&P division and 53 MW to the MPS division, the Company attempted again to explain its concern related to the adverse impact upon the L&P customers, especially if the Commission also adopted Staff's proposal to re-base the fuel costs in this case:

> The amount of the MPS service area rate increase proposed by GMO is $75.8 million dollars or 14.43%. The amount of the L&P rate increase proposed by the Company is $22.1 million dollars or 13.87%. (Blanc Direct at 2). However, Staff is proposing to substantially increase the rates to the L&P district in this proceeding above the Company's requested rate increase.
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> Staff's Brief candidly admits that "Staff's proposal [related to the Iatan 2 Allocation] shifts about $18 million of revenue responsibility from MPS to L&P" and that its proposal results in the "cost of service for MPS is about $18 million less that's GMO's."[4] (Staff Br. at 20).
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> If the Commission adopts Staff's proposal on the Iatan 2 Allocation, according to Staff's own analysis, [adoption of Staff's proposal to allocate 100 MW of Iatan 2 for L&P][1] then the L&P customers "will potentially cause the rate increase to L&P customers to be almost four times the rate increase to MPS customers." (Hearing Exhibit GMO210 (NP), p. 102, COS Report) But, this statement by Staff <u>understates</u> the magnitude of the Staff's proposed rate increase if the Commission would also adopt Staff's proposal to re-base the fuel costs in this case. If the Commission also adopted Staff's proposal to re-base the fuel costs, then the rate impact on GMO's L&P customers would be further exacerbated. Based on information known as of December 31, 2010, matching the base energy costs in GMO 's fuel adjustment clause to match the base energy costs in the test year total revenue requirements Staff recommends be used for setting rates has the impact of increasing GMO's fuel adjustment clause base energy cost for MPS and L&P by 2.3% and 30.1%, respectively. (Staff's Initial Brief page 11.)[2]

5. In addition, GMO advised the Commission against adopting a "phase-in" plan without evidentiary hearings to consider competent substantial evidence regarding the details of the phase-in plan, the impact upon the Company and the impact upon the L&P customers. (Tr. 4977-4979) GMO was concerned that the adoption of a poorly devised phase-in plan could adversely impact both the Company's shareholders and the L&P customers. Phasing-in rate

[1] This quotation from the Reply Brief was corrected to conform to the original statement in the Staff's COS Report, p. 102.

[2] See GMO Reply Brief at page 24.

increases can mitigate "rate shocks", but phase-in plans also add to the total amount of the rate increases borne by the customers since carrying costs must be added, as required by Section 393.155.

6. As the Commission continues to consider the Iatan 2 Allocation issue and a possible phase-in plan for the L&P division, it should also consider the fact that the continued adoption of the Staff's proposal to rebase the fuel costs will have the dominant impact upon the L&P customers. This is true even if the Commission decides to adopt GMO's original Iatan 2 Allocation proposal, and does not adopt a phase-in plan which must include additional the carrying costs.

7. The attached Schedule 1 denotes the expected impacts of the different possible outcomes if the Commission were to decide not to rebase fuel or if the Commission decided to move to the Company's allocation of Iatan 2 between L&P and MPS divisions, or a combination of the Company's allocation proposal and not rebasing. The table shows that if it is the desire of the Commission to reduce the initial impact on customer rates for the L&P division, then the most direct method of accomplishing this goal would be to not rebase fuel. For example, if the Commission decided not to rebase the fuel in this case (leaving other issues unchanged), then the rate increase in MPS would increase slightly by approximately $500,000 to $36.23 million, but the L&P division rate increase would decrease by approximately $6.7 million, resulting in a total increase for L&P division of $23.07 million.

8. If the Commission decided not to rebase fuel, then 95% of any increase above the current base would be recovered in a future period under the fuel adjustment mechanism and would be spread over a period of time, similar to a phase in, with the Company absorbing the remaining 5%.

9. As noted in the *Suspension Order*, the Commission's allocation of Iatan 2 was "basically a compromise between the position of Staff and GMO." (*Suspension Order*, p. 2) This is certainly true—there is middle ground on the Iatan 2 Allocation issue between GMO's proposal and the Staff's proposal. However, the Iatan 2 Allocation compromise is not the principle driver of the rate increase for the L&P division. As explained in the on-the-record session, the adoption of the Company's Iatan 2 Allocation proposal (rather than the Commission's compromise decision) would lower the non-fuel revenue increase to the L&P division's rate increase by only about $2.66 million from the $29 million authorized in the Commission's *Report And Order*. (Tr. 4978) The Commission's fuel re-basing decision is the principal driver of the increase for the L&P division to levels above the $22.1 million originally requested by GMO.

10. Of paramount concern to the Company is the fact that continued delays are causing the Company to forego substantial sums of money while the phase in issues are being debated and resolved. These delays are particularly unfair since the entire phase-in concept was not raised until the 11th hour by OPC and the Industrials. As the Company pointed out in its recent *Application For Rehearing And Motion For Clarification* filed on June 3, 2011, any delay in the effective date of GMO's non-fuel adjustment clause tariffs will cost the Company approximately $200,000 per day, after the Commission has already found, based upon competent and substantial evidence, that a general rate increase is required. Based upon the agreements of the parties to extend the effective date of the tariffs in this case to June 4, 2011, the Company had an expectation that the rate increase would be implemented by that date. A one month delay in implementing the Commission's decision to grant GMO a $65 million rate increase will cost GMO approximately $6 million in additional revenues. The Company must therefore

respectfully request that the Commission act most expeditiously and also consider the impact that additional delays in this process will have upon its revenues and cash flow.

WHEREFORE, KCP&L Greater Missouri Operations Company respectfully requests that the Commission accept this filing as its Response to the *Order Further Suspending Tariff Sheets* issued on June 10, 2011.

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 13th day of June, 2011, to all counsel of record.

/s/ James M. Fischer
James M. Fischer

KCP&L Greater Missouri Operations Company
Case No. ER-2010-0356
Alternatives

	MPS	L&P	Total
Company's Iatan 2 Allocation with Rebasing			
Revenue Requirement	$ 35.72	$ 29.77	$ 65.49
Adjustments:			
Non-fuel change due to Iatan 2 allocation	2.66	(2.66)	-
Fuel change due to Iatan 2 allocation	(2.17)	2.24	0.07
Non FAC Fuel change due to Iatan 2 allocation	0.02	(0.02)	-
Adjusted Revenue Requirement	**$ 36.23**	**$ 29.33**	**$ 65.56**
Commission Iatan 2 Allocation without Rebasing			
Revenue Requirement	$ 35.72	$ 29.77	$ 65.49
Adjustment:			
No-rebasing (Commission Iatan 2 allocation)	0.51	(6.70)	(6.19)
Adjusted Revenue Requirement	**$ 36.23**	**$ 23.07**	**$ 59.30**
Company's Iatan 2 Allocation without Rebasing			
Revenue Requirement	$ 35.72	$ 29.77	$ 65.49
Adjustments:			
Non-fuel change due to Iatan 2 allocation	2.66	(2.66)	-
No-rebasing (Company Iatan 2 allocation)	2.68	(8.94)	(6.26)
Non FAC Fuel change due to Iatan 2 allocation	0.02	(0.02)	-
Adjusted Revenue Requirement	**$ 41.08**	**$ 18.15**	**$ 59.23**

Note: Non FAC fuel shift - the allocation for Iatan 2 unit trains as well as non-labor fuel handling charges change with the change in the Iatan 2 allocation.

Attachment No. 1