

MEMORANDUM

To: Missouri Public Service Commission Official Case File
Case No. ER-2019-0413
KCP&L Greater Missouri Operations Company

From: Lena M. Mantle, P.E., Senior Analyst
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Date: August 5, 2019

Subject: Recommendations to the Commission regarding KCP&L Greater Missouri Operations Company's request to adjust its Fuel and Purchased Power Costs for the 24th Accumulation Period

Recommendation

KCP&L Greater Missouri Operations Company ("GMO") included costs in its Actual Net Energy Cost¹ that are not permitted under the terms of its Fuel Adjustment Clause ("FAC") tariff sheets. Therefore, the substitute tariff sheet filed by GMO on July 25, 2019, inaccurately represents the rates GMO may charge to its customers. The Office of the Public Counsel ("OPC") consequently recommends that the Commission reject this substitute tariff sheet, and order GMO to file a substitute tariff sheet with an adjustment to GMO's Actual Net Energy Cost to account for the following:

- 1) The cost of auxiliary power GMO used for its steam operations at its Lake Road station of \$311,381; and
- 2) The cost of the removal of coal and propane at the retired Sibley generation facility of \$518,248.

The interest amount charged the customers for this accumulation period, shown on line 9 of the substitute tariff sheet, should also be adjusted accordingly for these amounts.

¹ Identified on line 1 of GMO's substitute tariff sheet.

In addition to the forgoing, OPC continues to take the position that it was imprudent for GMO to enter into the Rock Creek and Osborn Wind Projects purchased power agreements (“PPAs”). However, OPC is not asking the Commission to order GMO to make an adjustment to the Actual Net Energy Cost calculated in this accumulation period for losses from these PPAs at this time because, while the decision to enter into the contract may have been imprudent, it is not in violation of the FAC tariff sheets. These losses are better dealt with in the ongoing and future GMO FAC prudence cases.

Lake Road Auxiliary Power Adjustment

Discussion

GMO’s Lake Road station is the source of steam with which GMO serves its steam customers. Lake Road is also considered capacity for its electric system and it does generate a small amount of electricity when the market price is above the cost of generating electricity. The cost of the electricity used at GMO’s Lake Road station (“auxiliary power”) is included in the Actual Net Energy Cost used to calculate the fuel adjustment rate. Without an adjustment to the Actual Net Energy Cost for the energy that should be allocated to the steam operations, the electric customers will pay for the auxiliary power necessary for steam generation through the FAC.

In its calculation of the fuel adjustment rate for Accumulation Period 22,² GMO made an adjustment for the auxiliary power for steam operations for five of the six months in the accumulation period. In the calculation of the fuel adjustment rate for Accumulation Period 23,³ GMO chose to reverse its opinion regarding the allocation of auxiliary power to its steam operations and, in its initial tariff sheet filing, did not remove any costs for the steam operation’s auxiliary power. However, in this case GMO chose to submit a revised tariff sheet based on its understanding of discussions by the Commission during its agenda meeting on February 20, 2019, which removed an estimated amount for steam auxiliary power with the understanding that the disputed amount would be presented to the Commission for decision in the pending GMO FAC prudence case EO-2019-0067.

² Case no. ER-2018-0400.

³ Case no. ER-2019-0198.

GMO has chosen once again to include the cost of steam operations auxiliary power in the Actual Net Energy Cost in the calculation of the FAC rate in this case.

The adjustment amount of \$311,381 was calculated using the auxiliary power that was allocated to the steam operations for each month provided by GMO in its response to OPC data request 8005 and the fuel and purchased power costs included in the work papers provided by GMO in this filing and GMO's monthly FAC reports submitted to the Commission. Attachment A provides this calculation.

Conclusion

GMO's electric tariff is designed to recover cost and set out the rules and regulation for provision of electricity. The FAC is described in GMO's tariff. The FAC is not intended to be used for GMO to recover, from its electric customers, any costs GMO incurs to generate steam for its steam customers. Just as a jurisdictional allocation factor is used in GMO's FAC to adjust GMO's fuel and purchased power costs so that GMO's retail customers do not have to pay the costs of providing service to GMO's wholesale customers, GMO's fuel and purchased power costs should be adjusted so that GMO's electric customers do not pay through GMO's FAC the energy costs GMO incurs to provide service to GMO's steam customers.

Therefore, OPC is recommending that the Commission order GMO to adjust the Actual Net Energy Cost of Accumulation Period 24 to remove the cost of the auxiliary power used by its steam operations.

Removal of Coal and Propane from Sibley

Discussion

GMO has included in its FAC coal and propane charges as fuel expense in this accumulation period of December 2018 through May 2019 for the retired Sibley Generating station that entered its retirement/decommissioning stage in November, 2018. The largest of these charges are the result of transfer of Sibley coal to the Iatan Generating station or the outright sale to third party vendors. The difference between the transfer price and sale proceeds is netted against the book value of the coal either transferred or sold. The other charge is for the credit from the emptying

of the site propane received from a vendor netted against the remaining value of propane inventory at the Sibley Generating station.

The adjustment amount of \$518,248 is the sum of the amounts included as Sibley's cost of coal and propane in GMO's fuel reports included in the monthly FAC reports submitted to the Commission by GMO.

Conclusion

The purpose of GMO's FAC is for GMO to recover its prudently incurred fuel and purchased power costs. It is not intended for GMO to recover, from its electric customers, any costs GMO incurs to retire or decommission its generating units. The Sibley coal pile and propane inventory were stranded as a result of GMO's retirement decision regarding the Sibley Generation station. GMO and Kansas City Power & Light Company have a waiver from the Commission's affiliate transaction rules to sell assets, goods, information, and services but only at the cost of the providing utility. Thus GMO would have no authority to sell its coal to an affiliate for less than its costs without seeking an additional waiver from the Commission's affiliate transaction rules. Since the coal and propane activity was caused by Sibley's retirement and not its operation, these costs should most likely be charged against the Sibley depreciation reserve not fuel expense. Thus these costs of removal for Sibley coal and propane are not eligible for FAC recovery and should instead be recorded in GMO's depreciation reserve where their prudence can be determined in the next GMO rate case.

Therefore, OPC is recommending that the Commission order GMO to adjust the Actual Net Energy Cost of Accumulation Period 24 to remove these Sibley retirement/decommissioning costs.