

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. HT-2014-0286, Tariff Tracking No. YH-2015-0158
KCP&L Greater Missouri Operations Company

FROM: Bradley Fortson, Regulatory Economist II

/s/ Michael Scheperle 11/7/2014
Manager Economic Analysis / Date

/s/ Robert S. Berlin 11/7/2014
Staff Counsel Division / Date

SUBJECT: Staff Recommendation to Approve the substitute Tariff Sheet Filed to Add the Quarterly Cost Adjustment for the third Quarter of 2014 to the Quarterly Cost Adjustment Rider – Steam of KCP&L Greater Missouri Operations Company to go into effect on December 1, 2014, or to go into effect by operation of law that same date.

DATE: November 7, 2014

On October 15, 2014, KCP&L Greater Missouri Operations Company (“GMO”) filed with the Commission one (1) tariff sheet for steam service to add the quarterly cost adjustment (“QCA”) for the third quarter of 2014. The adjustment is required by GMO’s Quarterly Cost Adjustment Rider, which the Commission approved in Case No. HR-2005-0450, and modified in Case Nos. HR-2009-0092 and HR-2010-0028.

GMO’s filing included the proposed tariff sheet and supporting work papers consisting of electronic worksheets showing GMO’s calculation of the QCA for the third quarter of 2014. On October 30, 2014, GMO substituted its proposed tariff sheet and supporting work papers.

On October 16, 2014, the Commission directed Staff to file a recommendation on the pending tariff no later than November 7, 2014.

The procedure for the calculation of the QCA for steam service sales is set out in GMO’s Tariff Sheet Nos. 6.6 through 6.10, which are titled “Quarterly Cost Adjustment Rider – Steam.” The QCA calculation components as described in Tariff Sheet Nos. 6.6 and 6.7 include the Current Quarterly Cost Adjustment (CQCA), the Reconciliation Rate or “R factor” plus any applicable reconciling adjustments. Additionally, Tariff Sheet 6.8 includes Coal Performance Standards.

The QCA Rider for this revision 22 of Tariff Sheet No. 6.10 reflects a negative charge per million British Thermal Units (“BTU”) of (\$0.6426) as compared to a negative charge per million BTU of (\$0.2514) that was reflected on the previous revision 21 of Tariff Sheet No. 6.10.

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Appendix A

The QCA Rider negative charge is a reduction to customer bills' to reflect the customer share of the variation in fuel cost for the most recent quarter. The QCA Rider rate reflects a decrease of (\$31,272) in the quarterly adjusted fuel costs when compared to the same quarter last year with the overall decrease principally due to the impact of coal costs for generation. The Reconciliation Rate or R factor component reflects a decrease of (\$1,247,774) which makes the R factor in this QCA a negative amount when compared to the same quarter last year. Additionally, the Coal Performance Standard additional adjustment provision 2.c. reflects an adjustment of \$24,801 for a major scheduled outage. As a result, the QCA reflects a negative charge of (\$0.6426) compared to the negative charge of (\$0.2514) from the previous quarter.

The R factor still includes an additional amount of \$1,208,550 for collection from GMO's steam customers due to a misclassification of hedging costs. These "R factor" adjustments are recovered over a twelve-month period and are currently reflected in the overall QCA rate. The \$1,208,550 adjustment was made in the previous QCA adjustment for the fourth quarter of 2013 and continues to be reflected in the overall QCA rate until fully recovered. GMO discovered that starting in or around February 2009, it had erroneously treated fuel hedge positions as electric positions and not as steam positions. After the Commission opened the Ag Processing, Inc. Steam Complaint file (File No. HC-2012-0259) on January 30, 2012, GMO discovered, and verbally advised Staff, it had erroneously treated fuel hedge positions as electric positions and not as steam positions. In its *Steam/Electric Hedging Misclassification Explanation*,¹ GMO explained that it stopped hedging fuel for its steam operations in November 2010, and to correct for this cost allocation error, GMO has included an additional amount of \$1,208,550 in the R factor calculation in the QCA filing to correct this misclassification.²

Attachment A is a Highly Confidential summary of the Coal Performance Standard adjustments that occurred over the last twelve months. As a result, the Company made an adjustment to reflect the coal performance standard to a level that reflects additional adjustments for provisions as set out in the Quarterly Cost Adjustment Rider, section 2. Coal Performance Standard (c) for this quarter.

2. Coal Performance Standard

- c. In the event of a major scheduled outage for system maintenance and improvement, such as occurred in the last quarter of 2008, the Coal Performance Standard shall be

¹ Filed in Case No. HT-2013-0456 on October 29, 2013, Item No. 18 in the file for that case in the Commission's EFIS.

² The Steam/Electric Hedging Misclassification Explanation provides the following explanation of the \$1,208,550 amount: The QCA filing includes an adjustment made in the r-factor calculation to correct for a prior misclassification made within the accounting records. Since these misclassified costs were subsequently accounted for as MPS electric positions, they were included in the MPS electric customers' Fuel Adjustment Clause (FAC) at 95% of the total costs overstating the costs recovered under the FAC. Thus they were not included in the industrial steam customers' Quarterly Cost Adjustment (QCA) (at either 80% or 85% recovery depending on the timeframe) understating the costs recovered under the QCA. To correct for the misclassification, a refund of \$1.4 million (95% of \$1.4 million for 2009 plus \$62,000 for 2010) plus interest was included in GMO's FAC filing in ER-2014-0204 which was approved by the Commission on February 19, 2014.

subject to further adjustments as agreed upon by signatories herein, to reflect the reduced availability of the coal-fired boiler resulting from the scheduled outage. In such case, the three-month and twelve-month coal performance standard will be further adjusted proportionately as agreed to reflect any reduced availability of the Lake Road Boiler 5. As an example, should the coal-fired boiler be scheduled to be off line for 55 days in one quarter due to a major outage, the three-(3) month standard would be reduced to a level of 38.89% $((90-55)/90)$ of the three-(3) month standard. A corresponding adjustment of 84.93% $((365-55)/365)$ would be made to the twelve-(12) month standard.

Under section 2.(b.), the coal performance standard is set at 1,920,000 million BTU on a twelve-month basis and 460,000 million BTU on a three-month standard. Both are based on sales exceeding 2,594,975 million BTUs. This Coal Performance Standard shall be further adjusted to reflect major scheduled outages as set out in section 2.(c). as stated above. This adjustment will continue until the completion of Boiler 5, currently planned for mid 2015. As a result, the three-month standard and twelve-month standards were adjusted until major maintenance is finished.

Attachment B is a Highly Confidential business plan for Boiler 5 major maintenance. These repairs and replacements are currently underway and have been planned since early 2013.

Staff reviewed the data and mathematical calculations GMO provided in its substituted worksheets and found GMO's calculations related to the substituted filed tariff sheet to be correct, and that the calculations satisfy the standards set forth in GMO's Tariff Sheet Nos. 6.6 through 6.10. The calculations are also consistent with previous GMO QCA filings.

Staff Recommendation

Staff has reviewed the filed tariff sheet and recommends approval of the following tariff sheet to go into effect for service on and after December 1, 2014, the requested effective date:

P.S.C. MO. No. 1

22nd Revised Sheet No. 6.10 Canceling 21st Revised Sheet No. 6.10

Staff has verified that GMO is not delinquent on any assessment and has filed its Annual Report. GMO is current on its submission of its Surveillance Monitoring reports as required in 4 CSR 240-20.090(10) and its monthly reports as required by 4 CSR 240-3.161(5). Staff is not aware of any other matter pending before the Commission that affects or is affected by this tariff filing. Staff's recommendation for approval of the QCA change in this case is solely based on the accuracy of GMO's calculations, R factor adjustments, and an adjustment for Coal Performance Standards outlined above and is not indicative of the prudence of the fuel costs included in the QCA.

Attachment A
Is Deemed
Highly Confidential
In Its Entirety

Attachment B

Is Deemed

Highly Confidential

In Its Entirety

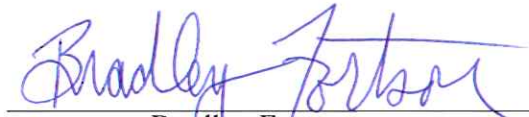
**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of KCP&L Greater)	
Missouri Operations Company for)	
Authority to File Tariffs Changing the)	Case No. HT-2014-0286
Steam QCA for Service Provided to)	
Customers in its Service Territory)	

AFFIDAVIT OF BRADLEY FORTSON

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Bradley Fortson, of lawful age, on oath states: that he participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was provided to him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true to the best of his knowledge and belief.



Bradley Fortson

Subscribed and sworn to before me this 7th day of November, 2014.

LAURA BLOCH Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: June 21, 2015 Commission Number: 11203914
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Notary Public