

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

In the Matter of the Application of Kansas City)
Power & Light Company for Authority to)
Implement a General Rate Increase for Electric)
Service)

File No. ER-2018-0145

In the Matter of the Application of KCP&L)
Greater Missouri Operations Company for)
Authority to Implement a General Rate Increase)
for Electric Service)

File No. ER-2018-0146

**KANSAS CITY POWER & LIGHT COMPANY'S
AND KCP&L GREATER MISSOURI COMPANY'S
RESPONSE TO ORDER DIRECTING FILING**

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Kansas City Power & Light Company (“KCP&L”) and KCP&L Greater Missouri Operations Company (“GMO”) (collectively the “Company”) submit this *Brief in Response to Order Directing Filing* (“Brief”) in accord with the Missouri Public Service Commission’s (“Commission”) *Order Modifying Briefing Schedule and Order Regarding Late-Filed Exhibits* issued October 4, 2018 (“Commission Order”).

I. INTRODUCTION

1. On October 3, 2018, a hearing was held before the Commission for the parties to present the various settlement agreements filed in these dockets on September 19th, 21st, 25th, and 27th (collectively, the “Settlement Agreements”).

2. The Commission Order issued following the hearing requested that certain parties file briefs addressing, “Commission issues regarding Staff’s investigation into response time for net metering and solar rebate applications, and regarding line extension tariffs....” For its brief on these issues, the Company states as follows:

II. RESPONSE TIME FOR NET METERING APPLICATIONS

A. KCP&L and GMO have a good track record of meeting the requisite timelines for net metering applications.

3. On July 2, 2018, Commissioner Rupp issued an order directing Staff to investigate an allegation that he had received from Caleb Arthur of Sun Solar that KCP&L and GMO were taking longer than ninety (90) days to approve net metering applications for systems over 10 kilowatts. Under Section 383.89.7(1) RSMo, the Company is required to review and respond to such applications within 90 days.

4. Company witness Drew Robinson testified that there have been very few instances where statutory timelines had not been met due to the fault of the Company. He testified that of 578 total projects sized at 10 kW or larger (399 for KCP&L and 179 for GMO), KCP&L had solely caused delays in five instances. The lack of response within the statutory

timeline was caused by the Company not processing applications after it was received by email. For GMO, 1 delay out of 179 projects was identified as being caused by GMO. Overall, in 5 out of 578 projects, or 0.86% (less than 1%) of the projects above 10 kW in size, the delay was caused by the Company. (Ex. 160, Robinson Surrebuttal, pp. 3-4)

5. Staff witness Cedric E. Cunigan also investigated the allegation and confirmed that KCP&L and GMO each had zero (0) instances in excess of the 90-day statutory timeline in 2018. (Ex. 229, Cunigan Surrebuttal, p. 2-3). His investigation also showed that KCP&L and GMO had very few instances in recent years in which they had failed to meet a statutory timeline:

Year	Company	>10 kW Past 90 Days
2014	KCP&L	5
	GMO	0
2015	KCP&L	14
	GMO	4
2016	KCP&L	2
	GMO	1
2017	KCP&L	0
	GMO	3
2018	KCP&L	0
	GMO	0

The Staff found that for US Sun Solar projects the Company had exceeded the 90-day timeline in only one of 16 projects greater than 10 kW. (Id. at 2)

6. Since the competent and substantial evidence in the record demonstrates that the Company has had a good track record of meeting the statutory deadlines for the processing of net metering interconnection applications, no further action by the Commission is warranted on this matter in this case.

III. LINE EXTENSION TARIFFS

A. KCP&L's facility extension policy fairly balances the interests of new customers, developers and existing customers.

7. On August 8, 2018, the Commission issued its Order Directing Filing (“Order”) which directed the Company, Staff, and any other parties wishing to respond, to address how KCP&L’s current line extension policy (P.S.C. MO. No 2 Original Sheet 1.30D-H) is more beneficial to customers than the one used by Ameren (See Mo. P.S.C. Schedule No. 6 Original Sheets 116-122, Section K). Additionally, the Commission directed the responding parties to provide information as to how KCP&L’s and GMO’s current line extension policies are compatible with the Missouri Energy Efficiency Investment Act (“MEEIA”), specifically their heat pump rebate programs. In response to the Commission’s Order, Company and Staff, respectively, filed the Supplemental Testimony of Bradley D. Lutz (Ex. 149), and Surrebuttal Testimony of Sarah L.K. Lange (Ex. 234) which addressed the line extension policy (“Policy”) of KCP&L and GMO.

8. The Policy currently in place for KCP&L is the result of Commission action in Case No. ER-2016-0285. In the *Report and Order* of that case, the Commission ordered, “KCPL shall also replace its current line extension tariff with one that is identical to or substantially similar to the line extension tariff used by GMO.” Later, on May 9, 2017, KCP&L filed a motion and received approval to delay the implementation date of the line extension tariffs to January 1, 2018. This delay provided seven months for KCP&L to make changes to computer systems, forms, work processes and employee training. Most importantly, it allowed the necessary time to educate developers and builders about the ordered changes. The Policy went into effect on January 1, 2018 as ordered. (Ex. 149, Lutz Supp. Direct, p. 2)

9. As background, the proposal to change the Policy originated in the *Working Case to Consider Mechanisms Encourage Infrastructure Efficiency*, Case No. EW-2016-0041. On December 11, 2015, the Commission Staff issued an Investigation and Report. The report was used for:

exploring whether existing electric utility infrastructure is detrimentally underutilized, whether that underutilization can be identified geographically and quantified, whether there are rate design mechanisms or other tariff provisions that may incentivize more efficient use of existing infrastructure to the benefit of both customers and companies, and whether there are public policy considerations the Commission should consider in weighing the value of any such mechanisms or provisions.

(Ex. 149, Lutz Supp. Direct, p. 3)

10. Staff completed a survey of the regulated electric utilities and conducted a workshop to receive comments. In the *Conclusion and Recommendation* section of that report, Staff stated:

Staff recommends that to the extent the Commission is interested in a model extension policy that more aligns with cost-causation without restricting new growth, that consideration of a design similar to GMO's tariff be considered in that it more fully considers the incremental costs a customer causes to a system in determining how much, if any, customer advance is required.

(Id.)

11. As requested in the Order, Mr. Lutz summarized both the Company's Policy as well as Ameren Missouri's line extension policy. However, he also testified that Ameren Missouri has proposed to implement a line extension policy largely consistent with the Company Policy (i.e., the GMO line extension policy) (Ex.149, Lutz Supp. Direct, p. 9)¹.

¹ See *Stipulation and Agreement*, File No. ET-2018-0132 (October 4, 2018) and *Second Stipulation and Agreement*, File No. ET-2018-0132 (October 12, 2018). Mr. Lutz also noted that he believed The Empire District Electric Company had changed its line extension policies in July 2015 as a part of its 2014 rate case and the Empire policy

12. The key elements of the Individual Residential policies are described in the table

below:

Individual Residential Extension	
Policy	Ameren Policy
<ul style="list-style-type: none"> • Provision for a basic, free of charge extension up to 1,320 feet in length. • If additional cost is needed, customer pays difference between cost and a Construction Allowance. • Terms provided for billing over time, through Customer Charge adjustment 	<ul style="list-style-type: none"> • Provision for a basic, free of charge extension up to 1,000 feet in length. • If additional cost is needed, customer pays all additional cost beyond the basic extension. • Optional estimation of cost to annual net revenue. Where cost greater than revenue, customer pays the difference. • If UG, customer pays difference between OH and UG cost. • Company may provide primary and secondary facilities.

(Id. at 6-7)

13. The key elements of Subdivision Extension policies are described in the table

below:

Subdivision Extension	
Policy	Ameren Policy
<ul style="list-style-type: none"> • Applies to five or more buildings. • Per lot, construction charges equal the estimated construction cost less a Construction Allowance. • Applicant responsible for costs to connect subdivision to existing energy grid. • Provision for refundable amount at the completion of the construction. • Up-front, per lot charge based on heating source with refundable provisions. 	<ul style="list-style-type: none"> • Applies to two or more buildings. • Per lot, provision for a basic, free of charge extension up to 1000 feet in length. • Customer pays difference between OH and UG cost. • Optional per lot estimation of costs compared to annual net revenue. Excess revenue may be used to offset costs. Includes provision for refundable amount. • Costs greater than allowances to be paid though refundable deposit.

(Id. at 7)

contains many of the elements found in the Company's Policy as well as the Ameren Missouri line extension policy. (Ex. 149, Lutz Supp. Direct, p. 9)

The key elements of the Non-Residential Extension policies are:

Non-Residential Extension	
Policy	Ameren Policy
<ul style="list-style-type: none"> • Construction charges equal the estimated construction cost less a construction allowance 	<ul style="list-style-type: none"> • Provision for a basic, free of charge extension up to 1000 feet in length (with positive net annual revenue). • Customer pays difference between OH and UG cost.

(Id. at 7)

14. Mr. Lutz also testified that there are a few terms or special factors of significance in comparing the Company’s Policy with the line extension policy of Ameren Missouri which are summarized in the following table:

Notable Terms or Special Factors	
Policy	Ameren Policy
<ul style="list-style-type: none"> • Includes provisions for refundable construction charges within an open extension period. • Will consider area growth in determining construction charges. • Includes provisions for additional charges related to extreme extension requests. • Includes provisions for temporary service, upgrade, and relocation. • Defines 120-day limit for validity of estimates. • Relies on a Construction Allowance formula which considers estimated margin and fixed carrying costs. Construction Allowance used to consider end-use. A feasibility model is used to make calculations. • Includes provisions for indeterminant service or questionable estimates. 	<ul style="list-style-type: none"> • Includes provisions for advance refundable construction deposits. • Includes provisions for large lot subdivisions. • Establishes semi-annual revenue reviews. • Includes provisions for Lighting Service extensions. • Includes provisions for Supplementary Extensions. • Expresses expectations for Joint Utility Construction. • Defines Guarantee Agreement terms.

15. Staff witness Sarah Lange also compared the Company’s Policy with the Ameren Missouri line extension policy, and concluded that the Company’s Policy was generally more beneficial to customers. (Ex. 234, Lange Surrebuttal, p. 5). As explained by Ms. Lange, the Company Policy compares the estimate of on-going revenues net of the cost of energy to the

estimated on-going revenue requirement of the new distribution system to be installed. By contrast, the Ameren Missouri line extension policy compares an estimate of single-year gross revenues including the cost of energy to the total cost of the distribution extension net of any applicable free allowance. (Id. at 5). Ms. Lange explained her analysis as follows: “The KCPL/GMO approach compares the elements that are most relevant to gauging the impact on future rates of adding infrastructure to support a new customer, while the Ameren Missouri approach compares the elements that are more relevant to the utility’s profit.” (Id.)

16. Mr. Lutz also explained the reasons that the Company Policy was more beneficial from the customers’ perspective:

1. The use of Construction Allowance provides a better reflection of value gained from the line extension investment than the simple cost versus annual net revenue approach used in the Ameren Policy.
2. The Construction Allowance, through its use of margin, over a five-year period, provides a larger allowance to customers expected to have “better” load, such as higher load factor load.
3. The Construction Allowance provides for recognition of the end-use. For example, in the residential applications, heating can have a big impact on the revenue to be expected from a home. This is reflected in the size of the Construction Allowance.
4. A secondary but important benefit is provided with the use of an up-front charge with refundable and non-refundable components to help ensure Applicants remain committed to completing the projects as designed. If the up-front charge were not used, Applicants may feel less compelled to complete the work and recover the refundable amounts.

(Ex. 149, Lutz Supp. Direct, p.p. 10-11)

17. During the hearings, Commissioner Kenney raised a question related to the length of extensions for multiple lots or facilities. (Tr. 21-22) As a clarification, under the Company’s Policy, the length of an individual residential extension (for an applicant seeking new service for

up to four premises) is limited to ¼ mile whether it is intended to reach one house or up to four buildings. The individual residential extension seeks to strike a balance between providing new customers with reasonable access to the electric system, and protecting existing customers from bearing excessive costs of new facility extensions.

18. With regard to subdivision extensions (for an applicant seeking new service for 5 or more buildings), the subdivision developers can obtain full refunds of construction deposits depending upon the revenue potential of the housing stock constructed in the subdivision (determined based on the heating source committed for the home) and executing the construction within the five-year Open Extension Period. In this way, the subdivision extension strives to achieve the same goal as the basic extension (i.e., providing reasonable access to the system for new facilities while protecting existing customers from bearing excessive costs to serve those new facilities).

19. Both Mr. Lutz and Ms. Lange addressed at some length the compatibility of the Company Policy with the Missouri Energy Efficiency Investment Act (“MEEIA”). Both witnesses concluded that there is no conflict between the current Company Policy and the current MEEIA programs. (Ex. 149, Lutz Supp. Direct, pp. 12-14); Ex. 234, Lange Surrebuttal, pp. 9-10). As explained by Mr. Lutz, the Heating and Cooling Rebate Program offered by the Company under MEEIA is designed to “encourage residential Customers to implement whole-house improvements by promoting home energy assessments, comprehensive retrofit service and high efficiency mechanical equipment.” (Ex. 149, Lutz Supp. Direct, p. 12) This rebate program and the Company Policy are independent. Since, the residential line extension portions of the Policy consider heating sources in establishing the Construction Allowance, one potential connection was identified. A customer building a new home could utilize the Rebate Program to

receive a rebate on the installation of a new Ground Source Heat Pump. Otherwise, the Rebate Program is primarily designed to replace operating or failed heating and cooling equipment in an existing home. To utilize the Company Policy for this situation, it is limited to upgrade, conversion, or relocation requests where an existing home might be present.

20. In conclusion, there is no conflict, as explained by both witnesses that addressed the topic, between the Company's Policy and the MEEIA programs offered by the Company. Having fully responded to the Commission's Order of August 8, 2018, the Commission should conclude that the Company's Policy fairly balances the interests of new customers, developers, and existing customers. No further action is necessary or appropriate with regard to the Company's Policy in this proceeding.

B. KCP&L's and GMO's residential space heating rates are cost-based and do not result in undue discrimination.

21. In the October 4, 2018 *Order Modifying Briefing Schedule And Order Regarding Late-Filed Exhibits*, the Commission directed that:

Any party that files a brief shall address what source documents support KCP&L witness Lutz's testimony that applicants and customers with heat pumps pay less per kW than those without such pumps. The briefs shall also address whether such treatment is discriminatory treatment of customers. Finally, the briefs shall state what action, if any, the Commission should order on these issues, and shall state what legal authority, if any, the Commission has to make such an order.

22. On October 4, 2018, the Company filed late-filed Exhibit 181 which attached Exhibits C and D which clearly show that heat pump customers which are under the residential space heat rate tariff pay a lower rate in the winter season than the residential general use customers for both the KCP&L and GMO rate jurisdictions. The KCP&L and GMO tariffs in Exhibits C and D are the source documents that support Mr. Lutz's statements related to the rate differential between residential space heating and general use tariffs. (Tr. 42)

23. KCP&L believes residential space heating represents an important part of KCP&L retail load and that Company's rate designs for space heating rates are cost-based, recognizing the benefits and cost differentials associated with that load. The space heating rates are lower than the general use rates, based upon their cost characteristics.

24. The Company has two space heating, end use rates: both KCP&L and GMO have a one-meter rate, open to customers with electric heating which includes resistance heat and heat pump heat sources; and KCP&L has a two-meter space heating rate that is used but is frozen and thus not available to new customers. The two-meter rate was established to isolate the heating load to the second meter, allowing a rate designed for heating load to be directly applied. Both of these rates are currently designed to be a cost-based differentiated rate where the rate difference between the General Use rate and the Space Heating rate is supported by differences in the cost to provide service.

25. End-use rates have a long history and have served a useful purpose in the past for the Company. The value of an end-use rate is to better predict how the customer will utilize energy. For example, the utility can presume that heating load will occur during the non-summer periods and can therefore provide a rate that better matches costs during that period.

26. The Company firmly believes all customers are better off when electric space heating is accommodated within its rate structures and is part of the overall load served. The greater sales generated by electric space heating customers help spread the Company's fixed costs over more electric sales, thus lowering the average rates for all customers. This broader distribution of costs is most beneficial to the residential class, as residential customers tend to be responsible for a greater amount of cost and they contribute fewer kWh sales on a per customer basis.

27. Additionally, it is worth noting that the Company's space heating customers pay rates that are above the average marginal rate (approximated using the current parallel generation rate of 1.6¢ per kWh for KCP&L and 2.5¢ per kWh for GMO). As such, these customers are contributing to fixed cost recovery in proportion to their usage of the system. This average cost pricing helps ensure equity between the various rates and classes.

28. The current KCP&L space heating rate designs were established in 1996, with other forms of end-use rates for heating existing since 1959. In each rate case since 2005, rate updates to the space heating rates were proposed by the Company, considered in the case, and adjusted to reflect the changes ordered in those cases. To provide a scale to the adoption and use of the space heating rates, KCP&L reports the following utilization of the space heating rates (from the Minimum Filing Requirements):

Residential General Use and Space Heat - One Meter

- 50,734 customers (19.9% of residential class)
- 596,399,002 kWh (23.0% of residential class)
- \$70,121,003 revenue (20.7% of residential class)

Residential General Use and Space Heat - Two Meters (frozen)

- 10,466 customers (4.1% of residential class)
- 136,231,743 kWh (5.3% of residential class)
- \$15,452,205 revenue (4.6% of residential class)

29. For GMO, the corresponding statistics are as follows (also from the Minimum Filing Requirements):

Space Heating – One Meter

- 104,687 Customers (37% of class)

- 1,600,258,012 kWh (46.3% of class)
- \$158,778,375 revenue (41.8% of class)

30. It should be noted that the cost to serve residential space heating customers, particularly those deploying heat pump equipment, is no different than a residential general use customer, however the space heating customer consumes and pays for more energy. Based on data in this case, KCP&L residential general use customers consume an annual monthly average of 801 kWh while residential space heating customers consume an annual monthly average of 980 kWh. This relationship is similar for GMO. Under the current ratemaking structures, where utility costs are recovered through volumetric sales, this increased use serves to reduce the average cost paid by all customers.

31. The space heating rates, which have been long offered by the Company, provide a cost-based rate to customers that provide benefits to the customer served under the rate as well as provides benefits to other customers. The space heating rates do not result in discriminatory treatment of customers that is undue or unreasonable, but instead serve an important role of providing customer options through just and reasonable rate designs.

32. Section 393.130(3) RSMo prohibits “undue” preferences and “unreasonable” discrimination in rates. The courts have held that “undue preference” and “unreasonable discrimination” are closely linked to the relationship between cost-causer and cost-payers of utility services. *See e.g., State ex rel. Laundry v. Public Service Commission*, 34 S.W.2d 37 (Mo. 1931); *State ex rel. City of Cape Girardeau v. Public Service Commission*, 567S.W.2d 450 (Mo. App. 1978); *State ex rel. City of West Plains v. Missouri Public Service Commission*, 310 S.W.2d 925 (Mo. banc 1958). In the case of the Company’s space heating rates, the cost

characteristics of the space heating class justify and support a lower rate than for the general use class of residential customers. As a result, there is no unlawful or undue discrimination.

33. The Commission has reviewed and approved the space heating rates in numerous rate cases.² In addition, the Signatory Parties to the *Non-Unanimous Partial Stipulation and Agreement Concerning Rate Design Issues* filed on September 25, 2018 at pages 8-10, have agreed to a residential rate design which will maintain a lower rate for KCP&L and GMO's residential space heating customers. In addition, the Signatory Parties have agreed that KCP&L and GMO will file rate design cases by June 30, 2020. If the Commission has any concern related to the appropriateness of separate space heating rates, it would be more appropriate to review the Company's residential rate design, including separate space heating rates, in those proceedings where the record on these issues can be better developed than it is in this case.

34. In summary, the competent and substantial evidence in the record supports a finding that the Company's space heating rates are just and reasonable and do not result in undue preferences or unreasonable discrimination. The Commission should therefore approve the *Non-Unanimous Partial Stipulation and Agreement Concerning Rate Design Issues* filed on September 25, 2018, as well as the other related stipulations and agreements filed herein.

IV. CONCLUSION

35. Having fully addressed the Commissioner Raised Issues in this proceeding, the Company respectfully requests that, pursuant to its ratemaking authority in Chapters 386 and 393, the Commission approve the various stipulations and agreements that were filed by the parties on September 19, 21, 25, and 27, 2018 to resolve all of the issues in this proceeding.

² Re Kansas City Power & Light Company, File Nos. ER-2016-0285, ER-2014-0370; ER-2012-0174; ER-2010-0355; ER-2009-0089; ER-2007-0291; ER-2006-0314; Re KCP&L Greater Missouri Operations Company, File Nos. ER-2016-0156; ER-2012-0175; ER-2010-0356; and ER-2009-0090.

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 17th day of October 2018, to all counsel of record.

/s/ Robert J. Hack

Robert J. Hack

**Attorney for Kansas City Power & Light
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