Exhibit No.:	
Issues:	*Regulatory Lag,* *Surveillance Reports,* *Transource Missouri Adjustments,* *Transmission Wholesale Revenue Credit*
Witness:	*Keith Majors*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
Case Nos.:	*ER-2018-0145* *and ER-2018-0146*
Date Testimony Prepared:	*July 27, 2018*

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

KEITH MAJORS

KANSAS CITY POWER & LIGHT COMPANY
CASE NO. ER-2018-0145

AND

KCP&L GREATER MISSOURI OPERATIONS COMPANY
CASE NO. ER-2018-0146

Jefferson City, Missouri
July 2018

** <u>Denotes Confidential Information</u> **

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3 **KEITH MAJORS**

4 **KANSAS CITY POWER & LIGHT COMPANY**
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6 **AND**

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **KEITH MAJORS**

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6 **AND**

7 **KCP&L GREATER MISSOURI OPERATIONS COMPANY**
8 **CASE NO. ER-2018-0146**

9 Q. Please state your name and business address.

10 A. Keith Majors, Fletcher Daniels Office Building, 615 East 13th Street,
11 Room 201, Kansas City, Missouri, 64106.

12 Q. By whom are you employed and in what capacity?

13 A. I am a Utility Regulatory Auditor with the Missouri Public Service
14 Commission ("Commission").

15 Q. Are you the same Keith Majors who previously provided testimony in
16 this case?

17 A. Yes. I provided testimony in Staff's Revenue Requirement Cost of Service
18 Report ("COS Report"), filed June 19, 2018, in these cases. I provided testimony concerning
19 transmission revenue and expense, Great Plains Energy ("GPE") and Westar Energy merger
20 transition costs, and other matters.

21 Q. What is the purpose of your rebuttal testimony?

22 A. I will respond to the direct testimony of Kansas City Power & Light Company
23 ("KCPL") and KCPL Greater Missouri Operations Company ("GMO") witnesses Darrin R.
24 Ives and Ronald A. Klote's direct testimony filed in these rate cases.

1 **EXECUTIVE SUMMARY**

2 Q. Please summarize your rebuttal testimony.

3 A. I will respond to KCPL and GMO witness Ives' direct testimony concerning
4 regulatory lag and KCPL's and GMO's ability to earn its authorized rate of return, and the
5 impacts, both positive and negative, of regulatory lag. My testimony will discuss how
6 regulatory lag is an important mechanism in ensuring efficiency and fair rates.

7 I discuss KCPL's and GMO's surveillance reports and current earned rate of return.

8 I will respond to KCPL and GMO witness Klote's direct testimony concerning
9 Adjustment CS-108 – "Transource CWIP/FERC Incentives." KCPL performed a calculation
10 of the differential between Federal Energy Regulatory Commission ("FERC") and Missouri
11 Commission ratemaking policies concerning the transmission projects transferred to
12 Transource Missouri ("Transource") in File No. EO-2012-0367. Staff recommends these
13 calculations be modified to conform to the *Report and Order* in File No. EA-2013-0098.
14 The Commission consolidated File No. EO-2012-0367 into EA-2013-0098.

15 I will respond to KCPL and GMO witness Klote's direct testimony concerning
16 Adjustment R-80 – "Transmission Revenue – ROE" to reduce transmission revenues for the
17 difference between the FERC ordered ROE of 11.1% and the ROE granted by the
18 Commission in this case. KCPL's and GMO's authorized FERC ROE includes a 50 basis
19 point adder for being a member of SPP. KCPL and GMO contend Missouri ratepayers are not
20 entitled to the entirety of wholesale transmission revenues that are based on a FERC ROE that
21 is higher than the Commission authorized ROE. Similar to the revenues, KCPL and GMO are
22 charged for transmission costs from other transmission owners that include the financial
23 impact of FERC incentives and adders like the ROE adder KCPL and GMO receive as

members of SPP. Although KCPL and GMO recommend adjustments to reduce wholesale transmission revenues, no corresponding adjustment was recommended to decrease KCPL and GMO transmission expense on the same basis.

Staff recommends the Commission deny KCPL's and GMO's request to reduce revenues for the difference in the FERC and Commission authorized ROEs. However, in the event that the Commission grants KCPL's and GMO's request to eliminate transmission revenues based on the difference between the FERC ROE of 11.1% and the ROE granted by the Commission in this case, Staff recommends that a corresponding adjustment should be made to reduce transmission expenses incurred by KCPL and GMO that also include FERC incentives from other transmission owners. This would make the adjustments consistent.

REGULATORY LAG

Q. Do KCPL and GMO claim difficulty in earning its authorized rate of return?

A. Yes. Witness Ives makes this claim in his direct testimony:

> While making sure customers receive the benefit of the lower taxes, we want to emphasize that the four major case drivers of the rate increase in this case are significant examples of regulatory lag, which impedes KCP&L's ability to achieve its Commission authorized returns. Consistent with my testimony in the 2014 and 2016 Rate Cases, KCP&L continues to experience regulatory lag, particularly in its Missouri jurisdiction, in the areas of transmission and property tax expenses consistent with results over the last several years. From the period 2007 to 2016, the Compound Annual Growth Rate for transmission expense and property tax expense was 19.2% and 5.3%, respectively. Significant growth in costs such as these create regulatory lag which prevents the Company from having a reasonable opportunity to earn its authorized return on equity.
>
> [Ives Direct, ER-2018-0145, page 12, footnote omitted]

> While making sure customers receive the benefit of the lower taxes, I want to emphasize that the three major case drivers of the rate

1 increase in this case are significant examples of regulatory lag,
2 which impedes GMO's ability to achieve its Commission authorized
3 returns. Consistent with my testimony in the 2016 Rate Case, GMO
4 continues to experience regulatory lag in the area of transmission
5 expenses consistent with results over the last several years. From the
6 period 2009 to 2016, the Compound Annual Growth Rate for
7 transmission expense was 10.1%. Significant growth in costs such as
8 these create regulatory lag which prevents the Company from
9 having a reasonable opportunity to earn its authorized return on
10 equity.

11 [Ives Direct, ER-2018-0146, pages 13-14, footnote omitted]

12 Q. Please describe the concept of "regulatory lag".

13 A. Regulatory lag is the period of time that elapses between when the time of an
14 event and its related consequences occur and the time the event and its related consequences
15 are reflected in the utility's rates.

16 Q. How do KCPL and GMO seek to address regulatory lag concerns in this
17 proceeding?

18 A. Unlike in previous rate cases, KCPL and GMO are not seeking any specific
19 new regulatory lag mitigation mechanisms in these cases. KCPL and GMO are requesting
20 continuation of the Fuel Adjustment Clause ("FAC") in these cases.

21 Q. Are there public policy benefits associated with the existence of regulatory lag
22 as part of cost of service rate regulation?

23 A. Yes. Utilities in Missouri have been granted exclusive rights to provide their
24 services within their designated service territories, allowing them to act as monopolies.
25 Regulatory lag creates the "quasi-competitive environment" for utilities, similar to the
26 environment in which competitive firms operate. Without trackers and other types of
27 single-issue ratemaking mechanisms to rely upon, utility managers have a strong incentive to

1 keep costs as low as possible once rates are set in a rate case to maintain their earnings as
2 close to a reasonable return as possible.

3 This is the same incentive encountered by any manager of a business who strives to
4 operate the business more efficiently and profitably. Just as competitive firms cannot raise
5 prices of their goods and services at will, regulatory lag places this same constraint on
6 utilities. Due to the existence of regulatory lag, utility managers must work under the
7 constraint of a "fixed price" or regulatory lag for a period of time.

8 The existence of this fixed price incentive, or regulatory lag incentive, causes utility
9 managers to work like managers of competitive businesses. Utility managers working with
10 regulatory lag, much like managers of competitive businesses working with fixed prices of
11 goods and services, seek to find ways to operate the business more efficiently to counteract
12 expense or rate base increases or potential revenue decreases during the period of time of
13 when prices are fixed, or regulatory lag. Conversely, utilities benefit from regulatory lag when
14 expenses or rate base decrease or when revenues increase while rates remain unchanged. This
15 is exactly why regulatory lag is a critical ingredient in cost of service rate regulation.

16 Q. In his testimony, KCPL and GMO witness Ives identifies transmission
17 expenses and property taxes as examples of costs that have increased in recent years, and that
18 generally KCPL and GMO have been prevented from having a reasonable opportunity to earn
19 their authorized return on equity. Do you agree?

20 A. No. While in Missouri, actual historical costs are used as the starting point for
21 determining a utility's future cost to serve its retail customers, those historical costs are
22 normalized and annualized when appropriate to reflect the most current information available.
23 Aside from the significant cost decreases resulting from the Tax Cuts and Jobs Act of 2017,

Mr. Ives does not specifically identify any cost decreases that can and do occur over time to offset cost increases.

Q. What are some examples of cost decreases or increases in revenue for KCPL or GMO that have occurred or will occur in the future?

A. Here are some examples:

- Tax savings from the Tax Cuts and Jobs Act of 2017
- GPE-Westar merger synergy savings
- Transmission expense reduction related to the Tax Cuts and Jobs Act of 2017
- Planned coal retirements at Montrose and Sibley
- Reduction in Missouri corporate income tax rate

The Commission is well aware of the savings from the Tax Cuts and Jobs act. Barring deferral or other alternative treatment of these savings, KCPL and GMO will retain the cash impact of the change from 35% to 21% tax rate until the reduced rate is reflected in cost of service.

Q. The Commission approved the merger of GPE, KCPL's parent company, and Westar Energy, Inc. on June 3, 2018. How does this event create cost savings?

A. GPE and Westar project $627.0 million of synergies through the first five years of the merger. A summary of these projected synergies is below:[1]

GPE-Westar Merger Projected Synergies (In Millions)

	2018	**2019**	**2020**	**2021**	**2022**	**Total**
Support Services	$18.3	$31.1	$35.5	$39.6	$47.0	$171.4
Generation	$13.6	$33.1	$35.2	$32.0	$33.5	$147.4
Supply Chain	$4.3	$24.3	$38.2	$39.4	$39.7	$145.9
T&D/Customer Service	$1.7	$6.1	$8.7	$9.5	$9.6	$35.5
Benchmark Staffing	$11.7	$22.4	$29.1	$31.3	$32.3	$126.7
Total	**$49.7**	**$116.9**	**$146.7**	**$151.9**	**$162.0**	**$627.0**

[1] Sourced from Case No. EM-2018-0012, Busser Direct, page 10.

1 The merger formally closed on June 4, 2018. Staff's true-up case will capture only those
2 savings that have occurred through June 30, 2018. Like reductions in interest cost and payroll
3 reductions in between rate cases, almost all of these synergies will be retained by KCPL and
4 GMO until they are reflected in future rates. It is noteworthy that KCPL and GMO do not
5 seek a tracker or other deferral mechanism to track these significant cost reductions.

6 Q. How will transmission expenses and revenues be impacted in relation to the
7 Tax Cuts and Jobs Act of 2017?

8 A. KCPL and GMO as transmission owners and customers pay transmission
9 expenses and receive transmission revenues. These expenses and revenues are recovered
10 through formula rates in KCPL's and GMO's Annual Transmission Revenue Requirement
11 ("ATRR"). One component of the cost structure in the ATRR is federal income tax expense.
12 Generally, for taxable entities, a reduction in federal income tax expense would decrease the
13 expenses paid as a transmission customer, and decrease transmission revenues as a
14 transmission owner. KCPL and GMO incur substantially more transmission expenses than
15 they receive in transmission revenues. The actual impact is not known with certainty whether
16 KCPL and GMO will be able to retain the net benefit, less amounts passed through the FAC,
17 to the benefit of its shareholders until the next rate cases.

18 Q. What savings related to coal plant retirements will KCPL and GMO realize in
19 the near future?

20 A. The Montrose and Sibley plants are scheduled to retire no later than 2020.
21 Staff has included the net investment and all operations and maintenance expense related to
22 these plants in KCPL's and GMO's costs of service. KCPL and GMO will retain the amount
23 of expense and investment included in rates, net of any replacement purchased power until

rates are changed. KCPL and GMO will be able to pass through the replacement purchased power through the FAC to the extent those costs are includable in that surcharge mechanism.

Q. What savings from the reduction in Missouri corporate income taxes are likely to occur in the near future?

A. Senate Bill 884 was signed by the governor of Missouri on June 1, 2018. Among other actions, this bill reduced the corporate income tax rate from 6.25% (currently included in Staff's revenue requirement) to 4.0% for all tax years beginning on or after January 1, 2020. KCPL and GMO will likely receive financial benefits of this reduction until this reduction is included in customer rates in a future rate case.

Q. What are some examples of costs included in revenue requirement that are not dated historical costs?

A. There are four specific examples of costs that are not historical which are included in revenue requirement:

- Delivered Coal (commodity costs and freight) and Nuclear Fuel
- Property Taxes
- Base Payroll (salaries and wages)
- Southwest Power Pool ("SPP") Schedule 1A Administrative Fees

These four expenses are some of the expenses that are updated in Staff's true-up.

For these expense items, Staff either utilizes actual contracted prices, the latest available prices or expense levels, or, in the case of property taxes, annualizes the amount using a ratio based upon KCPL's and GMO's most recent paid property taxes and plant balances, and applying it to its current assessed plant. In each case, the costs are not historical in nature, but are updated going forward costs.

1 Q. Are there any single-issue ratemaking mechanisms are available to KCPL and
2 GMO to reduce regulatory lag?
3 A. There are several mechanisms that KCPL and GMO have used or are available
4 for them to use to reduce its regulatory lag:

5 - Fuel Adjustment Clause ("FAC")
6 - Missouri Energy Efficiency Investment Act ("MEEIA") surcharge
7 - Renewable Energy Standard Rate Adjustment Mechanism
8 ("RESRAM")
9 - Environmental Cost Recovery Mechanism ("ECRM")
10 - Plant in Service Accounting ("PISA") authorized by Senate Bill 564
11 ("SB 564")

12 The mechanisms authorized by SB 564 have the potential to address, in part, any regulatory
13 lag concerns related to investment in property.
14 Q. From a regulatory environment perspective, has Missouri's national
15 perspective changed recently?
16 A. Yes. I have attached SNL Financial Missouri Public Service Commission
17 Profile, accessed July 20, 2018, attached as Schedule KM-r1. This document describes
18 Regulatory Research Associates' ("RRA") upgrade of Missouri's regulatory environment
19 from "Below Average" to "Average":

20 On June 1, 2018, Gov. Eric Greitens signed Senate Bill 564, which
21 improves certain aspects of the state's regulatory framework for
22 electric utilities and reduces the impact of "regulatory lag." In light
23 of the enactment of SB 564, RRA is raising its ranking of Missouri
24 regulation to Average/3, from Below Average/1. Prior to the
25 legislative development, RRA had performed a comprehensive
26 review of the regulatory climates for energy utilities of the
27 jurisdictions within the 50 states and the District of Columbia. In
28 that review, RRA had highlighted Missouri as a state to watch
29 because of this then-pending legislation.

1 Q. What conclusions should be drawn from your testimony on regulatory lag?
2 A. KCPL and GMO have presented a very limited and one-sided analysis
3 respecting its view of regulatory lag in its direct testimony. KCPL and GMO point out all the
4 costs that have increased since their last rate case, but do not mention any cost reductions that
5 have occurred since the rates determined in KCPL's and GMO's 2016 rate cases have been in
6 effect, other than the Tax Cuts and Jobs Act of 2017, or any cost reductions or revenue
7 increases that will occur in the near future.

8 **EARNINGS FROM SURVEILLANCE REPORTS**

9 Q. What is a surveillance report, and what information does it contain?
10 A. Surveillance reports are quarterly reports on the actual earnings results of
11 electric utilities required to be filed per the FAC rules. The quarterly reports include the
12 actual financial results for the preceding 12-months for the reported three-month quarter
13 ending. Since KCPL operates in two other regulatory jurisdictions, Kansas and the Federal
14 Energy Regulatory Commission ("FERC") for wholesale customers, the quarterly and annual
15 surveillance reports provided to the Commission are for its Missouri operations.
16 Q. What was KCPL's authorized and actual earned return on equity over time
17 since the prior KCPL rate case, Case No. ER-2016-0285?
18 A. The table below lists the Commission's authorized return on equity for
19 KCPL's Missouri operations and its actual earned equity returns for the quarters ending
20 June 30, 2017, through the most recent available, March 30, 2018:

KCPL Surveillance ROE 12 Month Period Ending	Earned Return on Equity	Authorized Return on Equity
June 30, 2017	** _____ **	9.50%
September 30, 2017	** _____ **	9.50%
December 31, 2017	** _____ **	9.50%
March 31, 2018	** _____ **	9.50%

Rates from Case No. ER-2016-0285 became effective June 8, 2017. KCPL's most recent Missouri earned return on equity was ** _____. ** The March 31, 2018 surveillance report reflects three months of the financial impact of the reduction in the federal corporate tax rate resulting from the Tax Cuts and Jobs Act of 2017.

Q. What was GMO's authorized and actual earned return on equity over time since the prior GMO rate case, Case No. ER-2016-0156?

A. GMO is KCPL's affiliate and adjoining utility and is also required to file quarterly surveillance reports. Both KCPL and GMO operate under the GPE corporate organization. Both are vertically integrated electric utilities operating in Missouri. Both utilities are under the same management personnel. All employees in Great Plains organization are KCPL employees and provide operating services to GMO. GMO recently completed a rate case, Case No. ER-2016-0156.

The table below lists the Commission's authorized return on equity for GMO and its actual earned equity returns for the quarters ending March 31, 2017 through the most recent available, March 30, 2018:

1

GMO Surveillance ROE 12 Month Period Ending	Earned Return on Equity	Authorized Return on Equity
March 31, 2017	** _____ **	Range - 9.5%-9.75%
June 30, 2017	** _____ **	Range - 9.5%-9.75%
September 30, 2017	** _____ **	Range - 9.5%-9.75%
December 31, 2017	** _____ **	Range - 9.5%-9.75%
March 31, 2018	** _____ **	Range - 9.5%-9.75%

2

3 Rates from Case No. ER-2016-0156 became effective February 22, 2017. GMO's most
4 recent Missouri earned return on equity was ** _____ . ** The March 31, 2018,
5 surveillance report reflects three months of the financial impact associated with the reduction
6 in the federal corporate tax rate resulting from the Tax Cuts and Jobs Act of 2017.

7 Q. Have these rates of return been adjusted for any ratemaking normalizations or
8 annualizations?

9 A. No. These rates of return on equity are taken directly from the quarterly
10 surveillance reports as reported by KCPL and GMO. The revenues as reported are not
11 weather-normalized, nor are any of the expenses adjusted from actual results, as opposed to
12 the substantial adjustments made during the ratemaking process. For these reasons, the ROE
13 results reported in the FAC surveillance reports do not necessarily correspond with the
14 revenue requirement calculations used in general rate proceedings to determine whether a
15 utility's rates should be increased or decreased. The surveillance reports reflect actual
16 operating results for KCPL and GMO.

1 **TRANSOURCE MISSOURI ADJUSTMENTS**

2 Q. What adjustments related to Transource Missouri are you addressing in this
3 rebuttal testimony?

4 A. I address KCPL and GMO Adjustment CS-108 "Transource CWIP/FERC
5 Incentives." This adjustment was sponsored by KCPL and GMO witness Ronald A. Klote in
6 his direct testimony. Mr. Klote describes this adjustment, in part, as follows:

> 7 Adjustment CS-108 reflects a change to Account 565 -Transmission
> 8 of Electricity by Others that represents the difference between
> 9 KCP&L's SPP load ratio share allocation of Transource Missouri's
> 10 annual transmission revenue requirement ("ATRR") for the Iatan
> 11 Nashua and Sibley-Nebraska City Projects and KCP&L's SPP load
> 12 ratio share allocation of the ATRR for the [Iatan] Nashua
> 13 and Sibley-Nebraska City Projects if it had been calculated
> 14 utilizing KCP&L's MPSC-authorized ROE and capital structure and
> 15 did not include the FERC-authorized rate treatments and incentives
> 16 listed above.

17 Q. What is Transource Missouri?

18 A. Transource Missouri is a Delaware limited liability corporation qualified to
19 conduct business in Missouri, with its principle place of business in Columbus, Ohio.
20 Transource Missouri is a wholly-owned subsidiary of Transource Energy, LLC
21 ("Transource"). Transource was established by GPE, KCPL's parent corporation, and
22 American Electric Power Company, Inc. ("AEP") to build wholesale regional transmission
23 projects within Southwest Power Pool ("SPP"), as well as other regional transmission
24 organizations.

25 Q. How is this adjustment calculated?

26 A. Both KCPL and GMO have FERC-approved formula rates that have been
27 incorporated into the SPP Tariff. These wholesale transmission rates are often referred to as

1 "formula rates" because the ATRR for the applicable transmission owner is determined
2 through the use of an agreed-upon formula that incorporates annual true-up processes to
3 update actual costs. Transource Missouri also has a filed ATRR before FERC that is
4 collected pursuant to SPP Tariff.

5 This adjustment first calculates the ATRR for the two transmission projects, the
6 Iatan-Nashua Project and the Sibley-Nebraska City Project. This ATRR is calculated using
7 all the variables that are used in the ATRR that Transource Missouri uses to bill transmission
8 owners in SPP, including KCPL and GMO. This ATRR includes FERC incentives, which
9 I explain later in this testimony. The portion that is billed to KCPL and GMO is based on
10 their SPP load ratio share, 7.27% for KCPL and 4.08% for GMO. These amounts are billed to
11 KCPL and GMO and included in revenue requirement in FERC Account 565.

12 The second step is to take the ATRR calculated as described above and make specific
13 changes to the calculation to remove the impact of FERC incentives. These changes in total
14 will produce a different ATRR, and a different amount billed to KCPL and GMO based on
15 their SPP load ratio share.

16 Lastly, the difference between the two ATRR calculations is added, or subtracted,
17 from KCPL's and GMO's revenue requirements in FERC Account 565.

18 Q. Why is this adjustment necessary?

19 A. This adjustment is made to comply with the provisions of the Commission's
20 *Report and Order* in File No. EA-2013-0098.[2] Ordered item "5" states "Ordered paragraphs
21 1, 2, 3 and 4 are subject to the provisions of Appendix 3 and Appendix 4." "Appendix 4:

[2] In the Matter of the Application of Transource Missouri, LLC for a Certificate of Convenience and Necessity Authorizing It to Construct, Finance, Own, Operate, and Maintain the Iatan-Nashua and Sibley-Nebraska City Electric Transmission Projects.

1 Consent Order" starts on page 26 of the Report and Order, and on pages 27-28 under
2 paragraph 2.A.1. the following language appears:

3 2.A.1. With respect to transmission facilities located in KCP&L
4 certificated territory that are constructed by Transource Missouri
5 that are part of the Iatan-Nashua and Sibley-Nebraska City Projects,
6 KCP&L agrees that for ratemaking purposes in Missouri the costs
7 allocated to KCP&L by SPP will be adjusted by an amount equal to
8 the difference between: (a) the SPP load ratio share of the annual
9 revenue requirement for such facilities that would have resulted if
10 KCP&L's authorized ROE and capital structure had been applied
11 and there had been no Construction Work in Progress ("CWIP") (if
12 applicable) or other FERC Transmission Rate Incentives, including
13 but not limited to Abandoned Plant Recovery, recovery on a current
14 basis instead of capitalizing pre-commercial operations expenses
15 and accelerated depreciation, applied to such facilities; and (b) the
16 SPP load ratio share of the annual FERC-authorized revenue
17 requirement for such facilities. KCP&L will make this adjustment in
18 all rate cases so long as these transmission facilities are in service.

19 This paragraph is identical to Paragraph II A. 1. on pages 4-5 of the *Non-Unanimous*
20 *Stipulation and Agreement* filed in File Nos. EA-2013-0098 and EO-2012-0367[3]
21 consolidated.

22 Similar language is included in the "Appendix 4: Consent Order" applicable to GMO:

23 2.A.2. With respect to transmission facilities located in GMO
24 certificated territory that are constructed by Transource Missouri
25 that are part of the Iatan-Nashua and Sibley-Nebraska City Projects,
26 GMO agrees that for ratemaking purposes in Missouri the costs
27 allocated to GMO by SPP will be adjusted by an amount equal to
28 the difference between: (a) the SPP load ratio share of the annual
29 revenue requirement for such facilities that would have resulted if
30 GMO's authorized ROE and capital structure had been applied and
31 there had been no CWIP (if applicable) or other FERC Transmission
32 Rate Incentives, including but not limited to Abandoned Plant
33 Recovery, recovery on a current basis instead of capitalizing
34 pre-commercial operations expenses and accelerated depreciation,

[3] In the Matter of the Application of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company for Approval To Transfer Certain Transmission Property to Transource Missouri, LLC and for Other Related Determinations.

1 applied to such facilities; and (b) the SPP load ratio share of the
2 annual FERC-authorized revenue requirement for such facilities.
3 GMO will make this adjustment in all rate cases so long as these
4 transmission facilities are in service.

5 Q. Please describe File Nos. EA-2013-0098 and EO-2012-0367.

6 A. These applications were filed simultaneously by Transource Missouri, KCPL,
7 and GMO.

8 File No. EO-2012-0367 was an application for authority to transfer certain
9 transmission property and for other related determinations regarding the construction of
10 two regional, high-voltage, wholesale transmission projects approved by SPP known as
11 the Iatan-Nashua 345kV transmission project ("Iatan-Nashua Project") and the
12 Sibley-Nebraska City 345kV transmission project ("Sibley-Nebraska City Project;"
13 collectively, the "Projects").

14 File No. EA-2013-0098 was an application for line Certificates of Convenience and
15 Necessity ("CCNs") to construct, finance, own, operate, and maintain the regional Projects
16 ("CCN Application") for Transource Missouri.

17 The *Report and Order* in File No. EA-2013-0098 approved both the transfer of assets
18 to Transource Missouri and the CCNs for Transource Missouri, with certain provisions, one
19 of which is the aforementioned paragraph describing the adjustment at issue.

20 Q. What incentives did Transource Missouri request from FERC in formulation of
21 its ATRR?

22 A. According to the direct testimony of Darrin R. Ives in File No. EO-2012-0367,
23 page 15, Transource Missouri requested the following incentives:

- 100 basis point ROE Risk Adder for the Sibley-Nebraska City Project to address the financial risks and regional benefits associated with the project;
- inclusion of 100% of CWIP in rate base during the development and construction periods for each of the Projects;
- deferral of all prudently-incurred costs that are not capitalized prior to the rates going into effect for recovery in future rates;
- use of a hypothetical capital structure consisting of 40% debt and 60% equity during construction until long-term financing is in place for both Projects; and
- recovery of prudently-incurred costs in the event either of the Projects must be abandoned for reasons outside the reasonable control of Transource Missouri.

Q. What specific differences did KCPL and GMO assume in the current cases between the FERC authorized ratemaking and the modified FERC authorized ratemaking pursuant to the Commission's Report and Order in File No. EA-2013-0098?

A. KCPL and GMO identified the following differences related to FERC incentives:

- Return on Equity– FERC authorized Transource Missouri ROE, with risk adder for the Sibley-Nebraska City Project versus Commission ordered ROE.
- Pre-commercial Costs – defer and amortize pre-commercial costs prior to projects becoming in-service versus capitalization of pre-commercial costs.
- CWIP in Rate Base – inclusion of CWIP in rate base versus capitalization of Allowance for Funds Used During Construction ("AFUDC")
- Capital Structure – use of hypothetical 60/40% equity/debt capital structure versus Commission ordered capital structure

KCPL and GMO also identified the following difference that is not related to FERC incentives, but is a difference between the Transource Missouri ATRR and Commission ratemaking:

- Cost of Debt – Transource Missouri long-term debt rate versus Commission ordered long term debt rate

1 Q. Does Staff agree with KCPL's and GMO's calculations for this adjustment?

2 A. Not in their entirety. To the extent the ATRR differences related to FERC
3 incentives are captured pursuant to the Commission's Report and Order in File No.
4 EA-2013-0098, the calculations are reasonable. The incentive differences for increased ROE,
5 deferral of pre-commercial costs, CWIP in rate base, and hypothetical capital structure are
6 FERC incentives that represent differences to be captured by this adjustment. The remainder
7 of the differences captured in KCPL's and GMO's adjustment is not related to FERC
8 incentives and is therefore not contemplated in the adjustment ordered by the Commission in
9 File No. EA-2013-0098. While there are differences between FERC and Commission
10 ratemaking treatment, the Commission's Report and Order did not address these differences,
11 and they should not be considered differences for purposes of calculating of this adjustment.

12 Q. What are the differences between KCPL's and GMO's and Staff's calculation
13 of the adjustment?

14 A. For the ATRR differences identified by KCPL and GMO that are not FERC
15 incentives, Staff made those factors equal between Transource Missouri and the hypothetical
16 Missouri ATRR. Specifically, Staff set the rate of long term debt equal between the
17 two calculations.

18 Staff also corrected the income tax rate used for years 2018 and later for the impact
19 of the Tax Cuts and Jobs Act of 2017. To Staff's knowledge, KCPL and GMO do not take
20 issue with the correction of the income tax rate.

21 Q. Why did Staff make adjustments to the long term debt rates?

22 A. For the initial calculation for the actual ATRR on the Transource Missouri
23 projects, KCPL, GMO, and Staff, used the actual cost of long term debt applicable to

1 Transource Missouri, ** _____. ** As described earlier, the second step to calculate
2 the adjustment is to remove the impact of FERC incentives from the ATRR calculation by
3 changing the variables for these incentives to rates and amounts applicable to Missouri
4 ratemaking without the incentives. In KCPL's and GMO's calculations, the cost of debt was
5 changed to the rates included in KCPL's and GMO's most recent rate cases, 5.42% and
6 6.43%, respectively. Staff's calculation sets the long term cost of debt for the second step
7 of the calculation equal to the Transource Missouri cost of debt. The cost of long term debt
8 is not a result of any FERC incentive; it is a function of the actual interest payments in
9 relation to the balance of long term debt. Therefore it should not be a difference accounted
10 for in this adjustment.

11 In contrast, ROE is a FERC incentive. KCP, GMO, and Staff used the Transource
12 Missouri ROE for the first step of the calculation, 11.3% for the Sibley Nebraska City line
13 and 10.3% for the Iatan Nashua line. For the second step to remove the impact of the
14 incentives, KCPL, GMO, and Staff used the KCPL and GMO authorized ROE, 9.5% and
15 9.7%, respectively.

16 In summary, Staff recommends the Commission find Staff's calculations are
17 appropriate and accurately reflect the Report and Order in File No. EA-2013-0098.

18 **WHOLESALE TRANSMISSION REVENUE**

19 Q. How do the Companies and Staff positions differ with respect to KCPL's and
20 GMO's adjustments to eliminate wholesale transmission revenue?

21 A. KCPL and GMO propose an adjustment to reduce wholesale transmission
22 revenue based on the difference between the FERC authorized ROE and the ROE
23 the Commission approves in this rate case. In its direct filing on June 19, 2018, Staff

1 did not reduce transmission revenues as proposed by KCPL and GMO. If the Commission
2 agrees with KCPL and GMO that transmission revenues should be reduced to reflect the
3 difference between the FERC authorized ROE and the ROE approved by the Commission,
4 then Staff recommends a corresponding adjustment be made to reduce KCPL's and GMO's
5 transmission expense.

6 Q. What type of revenues are KCPL and GMO proposing to reduce?

7 A. KCPL and GMO receive transmission revenues from SPP for both Zonal and
8 Base Plan transmission upgrades. Base Plan projects are directed by SPP, while Zonal
9 projects are initiated by KCPL and GMO.

10 According to Mr. Klote in his KCPL Direct Testimony, beginning on line 13 of
11 page 24[4]:

> 12 This adjustment provides for the Company's retail customers to bear
> 13 responsibility for the return on transmission rate base at the MPSC-
> 14 authorized level. Essentially, the adjustment reduces the amount of
> 15 transmission revenue that is credited against the gross transmission
> 16 revenue requirement so that the adjusted revenue credit is consistent
> 17 with the Company's MPSC-authorized ROE rather than the return
> 18 allowed by the Federal Energy Regulatory Commission ("FERC").

19 The transmission revenue received by SPP is calculated using KCPL's and GMO's
20 authorized FERC ROE of 11.1%, which consists of a base ROE of 10.6% and 50 basis
21 point adder. The 50 basis point adder, approved by FERC, is available to Transmission
22 Owners participating in Regional Transmission Organizations.[5] SPP utilizes KCPL's
23 and GMO's ATRR to allocate revenues to Transmission Owners and expenses to
24 Transmission Customers.

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[4] And Klote GMO Direct Testimony, lines 10-15, page 21.
[5] Response to Staff Data Request No. 0292.1 in Case No. ER-2014-0370.

1 Q. What is a "Transmission Owner?"

2 A. Based on SPP's Open Access Transmission Tariff, a Transmission Owner, as a
3 member of SPP, is an entity that is obligated to construct, own, operate, and maintain
4 transmission facilities as directed by SPP. SPP utilizes KCPL's and GMO's ATRR to
5 allocate revenues to Transmission Owners and expenses to Transmission Customers.
6 Transmission revenues are collected from SPP Transmission Customers for the amount
7 necessary to recover the revenue requirement for the Transmission Owner.

8 Q. Are KCPL and GMO charged by SPP on behalf of other Transmission Owners
9 that are members of SPP?

10 A. Yes. Other Transmission Owners of SPP receive an authorized FERC ROE
11 that may include FERC ratemaking incentives and ROE adders. As Transmission Customers
12 of SPP, KCPL and GMO are charged their allocated share of transmission expense by SPP
13 for other transmission owners of SPP that have constructed, upgraded, and maintained
14 transmission infrastructure. The allocated transmission expense charged to KCPL and GMO
15 includes approved FERC ratemaking incentives and adders for other SPP members.

16 Q. Did KCPL and GMO make corresponding adjustments to reduce transmission
17 expense to account for a higher FERC ROE included in the transmission charges billed
18 by SPP?

19 A. No. Based on prior discussions with KCPL personnel, any FERC ratemaking
20 incentives included in transmission expense billed by SPP is considered a "cost of doing
21 business," and should be recovered in retail rates.

22 Q. Please summarize Staff's position on KCPL's and GMO's proposed
23 adjustment to reduce transmission revenues.

1 A. KCPL and GMO are asking the Commission to reduce transmission revenues,
2 while, on the other hand, expecting their customers to pay transmission expense that includes
3 a higher FERC authorized ROE for Zonal and Base Plan upgrades constructed by other SPP
4 transmission owners. Staff has accepted that KCPL's and GMO's transmission expense has
5 increased, and recognizes that a significant factor in the increase is the SPP directed
6 transmission upgrades that include FERC ROE incentives. Staff did not recommend an
7 adjustment to reduce KCPL's and GMO's transmission expense that includes FERC
8 incentives. To be consistent, Staff also did not make an adjustment to reduce transmission
9 revenues as KCPL and GMO have proposed.

10 Staff recommends that KCPL and GMO transmission revenues should not be reduced
11 for the difference between the higher FERC ROE and the Commission authorized ROE in this
12 case. However, if the Commission agrees with KCPL's proposed reduction to transmission
13 revenues, then Staff recommends the Commission order a corresponding adjustment to reduce
14 transmission expense that includes a higher FERC ROE. If ratepayers are not entitled to
15 transmission revenues received from SPP that includes an ROE higher than the Missouri
16 authorized rate of return, then ratepayers should not have to pay for transmission costs from
17 SPP that includes an ROE higher than what is authorized by Commission.

18 Q. Does that conclude your rebuttal testimony?

19 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service	))))	Case No. ER-2018-0145
		and
In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service	))))	Case No. ER-2018-0146

AFFIDAVIT OF KEITH MAJORS

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

COMES NOW KEITH MAJORS and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Rebuttal Testimony* and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

[signature]
KEITH MAJORS

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Jackson, State of Missouri, at my office in Kansas City, on this 25th day of July 2018.

[signature]
Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

BEVERLY M. WEBB
My Commission Expires
April 14, 2020
Clay County
Commission #12464070

General Information

Contact Information	200 Madison Street PO Box 360 Jefferson City, MO 65102-0360 (573) 751-3234
	http://www.psc.mo.gov/
Number of Commissioners	5 of 5
Selection Method	Commissioners: Gubernatorial appointment, Senate confirmation Chairperson: Appointed by and serves at the pleasure of the Governor
Term of Office	Commissioners: 6 years Chairperson: Indefinite
Chairperson of Commission	Daniel Hall
Deputy Chairperson of Commission	NA
Governor	Michael Parson (R)
Service Regulated	Electric cooperatives, Electric utilities, Gas utilities, Securities companies, Sewer utilities, Steam utilities, Telecommunications utilities, Water utilities
Commission Ranking	Average/3 (6/1/2018)
Commission Budget	$13.40 million
Commissioner Salaries	Commissioners: $108,800 Chairperson: $108,800
Size of Commission Staff	205
Company Name, Abbreviated	Missouri Public Service Commission's Rate Case History
Research Notes	RRA Articles
RRA Contact	Russell Ernst

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Commissioners

Person's Name	*Party Abbreviation*	*Date Role Began*	*Term Ends*
Daniel Hall Chairman	D	09/2013	09/2019
Bill Kenney	R	01/2013	01/2019
Scott Rupp	R	04/2014	04/2020
Maida Coleman	D	08/2015	08/2021
Ryan Silvey		01/2018	01/2024

RRA Ranking History

Date of Ranking Change	*Commission Ranking*
6/1/2018	Average / 3
5/11/2017	Below Average / 1

Date of Ranking Change	*Commission Ranking*
1/8/2008	Average / 2
10/13/1993	Average / 3
1/1/1993	Below Average / 1
1/6/1989	Average / 2
10/5/1987	Average / 3
5/16/1986	Below Average / 1
2/1/1984	Average / 3
7/19/1983	Below Average / 1
7/2/1982	Below Average / 2

RRA maintains three principal rating categories for regulatory climates: Above Average, Average, and Below Average. Within the principal rating categories, the numbers 1, 2, and 3 indicate relative position. The designation 1 indicates a stronger rating; 2, a mid-range rating; and, 3, a weaker rating. The evaluations are assigned from an investor perspective and indicate the relative regulatory risk associated with the ownership of securities issued by the jurisdiction's utilities. The evaluation reflects our assessment of the probable level and quality of the earnings to be realized by the state's utilities as a result of regulatory, legislative, and court actions.

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Miscellaneous Issues

Commissioner Selection — Minority party representation is practiced, but not required.

Services Regulated — In addition to regulating electric, gas, steam, water, and sewer utilities, the PSC has authority over rural electric cooperatives — only with regard to safety — and manufactured housing — with regard to building code compliance — a has limited authority over retail telecommunications.

Staff Contact: Kevin Kelly, Public Information Administrator (573) 751 9300 (Section updated 12/19/17)

RRA Evaluation

Missouri regulation is slightly restrictive from an investor perspective. ROEs adopted by the PSC over the past year or so were slightly below prevailing industry averages at the time established. All of the large electric utilities have fuel adjustment clauses, or FACs, in place that allocate a portion of fuel and purchased power-related cost variations to shareholders. However, in several recent electric rate proceedings, the PSC prohibited the companies from recovering a portion of their transmission costs through their FACs. On the gas side of the business, the state's utilities are permitted to adjust rates to reflect changes in gas commodity costs on a timely basis, and the commission has approved the use of surcharges for recovery of infrastructure improvement costs between base rate cases. The PSC recently adopted a settlement, thereby approving Great Plains Energy's proposed "merger of equals" with Westar Energy, and the transaction is expected to close in the near future. On June 1, 2018, Gov. Eric Greitens signed Senate Bill 564, which improves certain aspects of the state's regulatory framework for electric utilities and reduces the impact of "regulatory lag." In light of the enactment of SB 564, RRA is raising its ranking of Missouri regulation to Average/3, from Below Average/1. Prior to the legislative development, RRA had performed a comprehensive review of the regulatory climates for energy utilities of the jurisdictions within the 50 states and the District of Columbia. In that review, RRA had highlighted Missouri as a state to watch because of this then-pending legislation. (Section updated 6/1/18)

Consumer Interest

Represented by the Office of the Public Counsel, a division of the Department of Economic Development, or DED. The public counsel is appointed by the director of the DED for an unspecified term. The acting public counsel is Hampton Williams. (Section updated 12/19/17)

Rate Case Timing/Interim Procedures

Utilities seeking to increase rates must file tariffs 30 days prior to the proposed effective date. The proposed tariffs may then be suspended by the PSC for 10 months. If the commission has not issued a final decision within 11 months of the initial filing, the proposed rates would become effective as filed and would not be subject to refund. The PSC may authorize an interim increase, subject to refund, if a company can demonstrate an emergency, or a near emergency situation. Interim increases have rarely been sought or authorized. (Section updated 12/19/17)

Rate Base and Test Period

The PSC generally relies on a year-end original-cost rate base, but, by law, must consider fair value. Rate requests are typically filed based on historical or partly forecasted test period data, which are updated during the course of the proceeding to reflect actual results. The adopted test periods are historical at the time of PSC decisions; however, limited "known-and-measurable" changes beyond the end of the test period may be recognized. By law, the PSC is prohibited from including electric construction-work-in-progress in rate base. (Section updated 12/19/17)

Return on Equity

The most recent electric rate decision that specified an ROE was issued on May 3, 2017, when the PSC authorized Great Plains Energy subsidiary Kansas City Power & Light, or KCP&L, a 9.5% ROE. Ameren subsidiary Union Electric, or UE, d/b/a Ameren Missouri, is authorized a 9.53% ROE, as established in a 2015 rate case decision. In a March 8, 2017, rate case decision for UE, the PSC adopted a settlement that was largely silent with respect to traditional rate case parameters; however, the parties indicated, "to the Commission's satisfaction," that the implied ROE incorporated in the settlement is in a range of 9.2% to 9.7%. The most recent ROE determination for Great Plains Energy subsidiary KCP&L Greater Missouri Operations, or GMO, occurred in 2013, when the PSC established a 9.7% ROE for the company. A case for GMO that was decided in September 2016, was resolved by a settlement that indicated that the stipulated rate change reflected an ROE in a range of 9.5% to 9.75%. The most recent electric decision for Empire District Electric that specified an ROE was issued in 2008, when the PSC established a 10.8% ROE. A case for Empire that was decided in August 2016, was resolved by a settlement that indicated that the stipulated rate change reflected an ROE in a range of 9.5% to 9.9%.

The most recent gas rate decision that specified an ROE was issued in 2014, when the PSC authorized Liberty Utilities (Midstates Natural Gas), d/b/a Liberty Utilities, a 10% ROE. Liberty Utilities was formerly known as Atmos Energy. In 2014, the PSC authorized Summit Natural Gas of Missouri a 10.8% ROE.

For the other gas utilities, rate decisions in recent years have followed settlements that were silent regarding authorized ROEs for their overall operations. However, in certain circumstances, those utilities have riders in place that reflect PSC approved equity returns (see the Adjustment Clauses section). The most recent gas rate decision that specified an ROE for Spire Inc. subsidiary Missouri Gas Energy, or MGE, was issued in 2010, when the PSC authorized a 10% ROE; however, MGE uses a 9.75% pre-tax weighted average cost of capital to calculate rate adjustments under its infrastructure system replacement surcharge, or ISRS, rider. A 2013 PSC-approved rate case settlement specifies that Spire Inc. subsidiary Spire Missouri, formerly known as Laclede Gas, is to use a 9.7% ROE to calculate prospective rate adjustments under the company's ISRS rider. UE is permitted to utilize a 10% ROE in the context of its ISRS rider. (Section updated 12/19/17)

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Accounting

Union Electric, or UE, and Kansas City Power & Light, or KCP&L, are permitted to collect from ratepayers amounts to fund the eventual decommissioning of the Callaway and Wolf Creek nuclear facilities, respectively; these funds are placed in qualified external decommissioning trusts. UE owns 100% of Callaway and KCP&L owns 47% of Wolf Creek.

UE, KCP&L, KCP&L Greater Missouri Operations, or GMO, Empire District Electric, Spire Missouri, Missouri Gas Energy, or MGE, and Liberty Utilities (Midstates Natural Gas) are permitted to track, as regulatory assets/liabilities, incremental variations in pension-related costs and other post-employment benefits. UE, KCP&L, GMO, Empire, MGE and Liberty Utilities are permitted to record, as regulatory assets, costs related to energy efficiency programs that were not previously approved by the PSC under the Missouri Energy Efficiency Act. Empire is permitted to track non-labor O&M costs associated with the Riverton 12 plant. (Section updated 12/19/17)

Alternative Regulation

In recent years, the PSC has been considering potential changes that could be made to the state's ratemaking framework for electric utilities. In a report issued in December 2016, the PSC noted that if the General Assembly ultimately seeks to encourage utility grid modernization investments, the commission recommends that certain key principles be considered: any new cost

recovery mechanism codified by state law "must not impede the Commission's authority or ability to meet its statutory obligations to set just and reasonable rates while balancing the interests of utilities and their customers; the use of a formulaic ratemaking process or "guaranteed revenue requirement" could limit or eliminate the utilities' incentive to spend ratepayer funds prudently; any modification to the current regulatory structure should be "narrowly tailored," as doing otherwise could "easily result in unintended consequences"; the utilities' use of any new mechanisms should be contingent upon PSC review and approval.

Empire District Electric, Kansas City Power & Light, or KCP&L, KCP&L Greater Missouri Operations, and Union Electric have fuel adjustment clauses in place that allocate, on a 95%/5% basis to ratepayers and shareholders, incremental fuel-cost variations (see the Adjustment Clauses section).

Missouri Gas Energy has in place a framework that provides for sharing of a portion of off-system sales, or OSS, margins and capacity release, or CR, revenues, specifically: for the first $1.2 million of OSS margins and CR revenues, 15% is to be allocated to the company and 85% to customers; for the next $1.2 million, 20% is to be allocated to the company and 80% to customers; for the next $1.2 million, 25% is to be allocated to the company and 75% to customers; and, above $3.6 million, 30% is to be allocated to the company and 70% to customers.

Spire Missouri is permitted to retain 10% of any gas-cost savings relative to an established benchmark, up to a maximum of $3 million. In addition, the company shares with ratepayers, to varying degrees, OSS margins and CR revenues. Specifically: the first $2 million of OSS margins and CR revenues were entirely allocated to ratepayers from Oct. 1, 2013 through Sept. 30, 2016; effective Oct. 1, 2016, the first $2 million of OSS margins and CR revenues are being allocated 85%/15% to ratepayers and shareholders; incremental margins between $2 million and $4 million are to be shared 80%/20%; incremental margins between $4 million and $6 million are to be shared 75%/25%; and, incremental margins above $6 million are to be shared 70%/30%. (Section updated 12/19/17)

Court Actions

PSC rate orders may be appealed directly to the Missouri Court of Appeals, or MCA, and ultimately to the Supreme Court of Missouri, or SCM. Rates essentially cannot be stayed by the MCA; however, the court has the authority to require the PSC to amend a company's rates based on the court's ruling. The governor initially appoints judges to the SCM and the MCA from nominations submitted by judicial selection commissions. Supreme and appeals court judges must run for retention of office at the end of a 12 year term.

No major utility related issues have been before the courts in the past couple of years. (Section updated 12/19/17)

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Legislation

The Missouri General Assembly is a bicameral body that meets annually beginning in January and continuing into May. Annual veto sessions are held in September, whereby bills vetoed by the governor during the prior regular session are considered by the legislature for possible override. Currently there are 112 Republicans, 45 Democrats and six vacancies in the House of Representatives; there are 25 Republicans and 9 Democrats in the Senate.

On June 1, 2018, former Gov. Eric Greitens signed Senate Bill 564, which, among other things, provides for the PSC to be permitted to approve decoupling mechanisms for the electric utilities that address the impact on revenues of variations in usage due to the effects of weather and conservation initiatives. S.B. 564 also provides for the PSC to have "one time authority" to adjust the electric utilities' rates to reflect the impact of federal tax reform "without considering any other factor." The commission is allowed to order the utilities to defer the financial impact of the tax law on the utilities' revenue requirements for the period Jan. 1 through the date the company's rates are adjusted for the tax effect. Alternatively, the PSC may allow deferral of the tax law's impact, starting Jan. 1 through the effective date of new rates in the utilities' next base rate cases.

A key provision of the bill allows the electric utilities, upon receiving PSC approval, to defer for future recovery 85% of all depreciation expense and return associated with "qualifying electric plant" investments made after the bill is enacted. The resulting regulatory asset balances, which are to accrue carrying charges at the utility's weighted average cost of capital and which would be amortized over a 20-year period once included in rates, are to be adjusted to reflect any prudence disallowances ordered by the PSC. Participating utilities will be subject to a three-year base rate freeze that would commence on the date new rates were established in the company's most recent rate case. The deferral provisions of S.B. 564 are to remain effective until Jan. 1, 2029.

S.B. 564 also includes the following provisions that apply to Kansas City Power & Light, or KCP&L, and KCP&L Greater Missouri Operations: if the difference between the utility's average overall rate at any point in time while this provision applies and the utility's average overall rate as of the date new base rates are set in the company's rate case that concluded prior to the date the

utility became subject to the aforementioned deferral provisions, reflects a compound annual growth rate of more than 3%, the utility is to be prohibited from recovering any amount in excess of the 3% as a "performance penalty."

For the other utilities, if the difference between the utility's average overall rate at any point in time while this provision applies and the average of the utility's average overall rate as of the date new base rates are set in the company's rate case that concluded prior to the date the utility became subject to the aforementioned deferral provisions and the utility's average overall rate set after consideration of the above-noted tax adjustments reflects a compound annual growth rate of more than 2.85%, the utility is to be prohibited from recovering any amount in excess of the 2.85% as a performance penalty.

The aforementioned deferral and rate cap provisions are to be effective through Dec. 31, 2023, but could be extended for an additional five years if such a request is made by the utility and approved by the PSC. In addition, the decoupling mechanism and the deferral/rate cap provisions may not be used in conjunction with each other and the utility may choose which of these ratemaking techniques to pursue.

The bill also obligates the utilities to invest certain amounts in utility-owned solar projects and allows the PSC to approve investments in small-scale innovative technology projects. (Section updated 6/4/18)

Corporate Governance

By law, the PSC has authority over mergers and reorganizations involving the utilities it regulates, certain financing arrangements, and affiliate issues. The PSC has, in some instances, adopted ring-fencing provisions in the context of approving proposed mergers (see the Merger Activity section).

Reorganizations — In 2001, the PSC conditionally authorized Kansas City Power & Light, or KCP&L, to restructure its operations into a holding company, Great Plains Energy, with subsidiaries that included KCP&L and its regulated operations. The PSC imposed the following conditions: KCP&L's common stock cannot be pledged as collateral for Great Plains Energy's debt without PSC approval; KCP&L cannot guarantee the notes, debentures, debt obligations, or other securities of Great Plains Energy or its subsidiaries without PSC authorization; Great Plains Energy is to maintain a common equity ratio of at least 30%, and KCP&L's common equity ratio must be at least 35%; KCP&L's total long-term debt is not to exceed rate base, and must remain separate from the holding company; and, KCP&L is to maintain an investment-grade credit rating.

Also in 2001, the PSC conditionally authorized Laclede Gas to restructure its operations into a holding company, the Laclede Group, with subsidiaries that included Laclede Gas and its regulated operations. Laclede Gas is now known as Spire Missouri and the Laclede Group is now known as Spire Inc. (Section updated 12/19/17)

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Merger Activity

In approving a proposed merger, the PSC must determine that the transaction is "not detrimental to the public interest." The Missouri Public Service Commission has generally considered the following factors in determining whether a merger meets this review standard: the acquirer's experience in the utility sector; whether the acquirer has a successful track record of providing utility service; the acquirer's general financial health and ability to "absorb" the proposed transaction; and the acquirer's ability to operate the target entity safely and efficiently. There is no clear definition in state law of what would constitute a change of control of a utility business. There is no statutory timeframe within which the commission must render decisions on proposed mergers.

Since the late 1990s, the PSC has ruled on a number of mergers and asset transfers. In 1997, the PSC approved the merger of Union Electric, or UE, and Central Illinois Public Service, or CIPS, to form Ameren. The merger closed in 1997. In 2005, the PSC affirmed a previous decision in which it conditionally approved Ameren's proposal to transfer UE's Illinois electric and gas distribution assets to CIPS at book value ($138 million). The PSC's conditions pertained to the treatment of certain pre-transfer liabilities and off-system sales issues. A related service territory transfer was completed later in 2005, and UE now operates solely in Missouri. The PSC did not have jurisdiction over Ameren's 2003 and 2004 acquisitions of Illinois utilities Central Illinois Light and Illinois Power, respectively, as there was no change in control of a utility subject to its oversight.

In 1999, the PSC approved the merger of American Electric Power and Central and South West following a settlement that resolved the commission's concerns regarding the effect of the merger on retail competition in Missouri related to the companies' capacity reservation on Ameren's transmission system. The merger closed in 2000.

In 2000, UtiliCorp United, subsequently known as Aquila, and St. Joseph Light & Power merged following PSC approval. However, the commission rejected a related five-year alternative regulation plan. In 2004, the PSC determined that UtiliCorp should not be allowed to recover the associated acquisition premium from customers; the commission stated that it has consistently applied the

net original-cost standard when placing a value on assets for purposes of establishing a utility's rates.

In 2008, KCP&L parent Great Plains Energy acquired Aquila, following conditional approval by the PSC. The former Aquila utilities in Missouri are now known as KCP&L Greater Missouri Operations. The conditions include the following: Great Plains will not be permitted to recover from ratepayers any transaction costs associated with the merger; the companies are to track merger-related synergies to demonstrate whether actual synergies exceed the transition costs associated with the merger — the company utilized regulatory lag to retain its share of synergies, and ratepayers share of the synergies have been reflected in rates through rate cases filed subsequent to the completion of the transaction; any post-merger "financial effect" of a credit downgrade of Great Plains, KCP&L, and/or Aquila, that occurs as a result of the merger is to be "borne by the shareholders"; and, the PSC "reserves the right to consider any ratemaking treatment" to be accorded the transactions in a future proceeding. In the company's 2011 rate case decision, the PSC determined that actual synergies exceeded the merger's transition costs and allowed the company to amortize these costs over a five-year period.

In a 2016 order, the PSC required that a proceeding be closed in which it had been addressing certain issues pertaining to Great Plains' proposed acquisition of Westar Energy. The staff had contended that a 2001 PSC order that permitted KCP&L to restructure its operations into the Great Plains holding company effectively gives the commission jurisdiction over the deal. The company countered the staff's claim, and the PSC determined in its order that the proceeding was only an "investigatory docket, not a case, contested or otherwise."

In April 2017, the Kansas Corporation Commission rejected Great Plains' proposed acquisition of Westar, and in light of this development, the PSC subsequently closed the proceeding in which it was conducting a review of the deal following the companies' formal request for approval. On Aug. 31, 2017, the companies filed for PSC approval of their proposed "merger of equals," and they contend that the deal is "not detrimental to the public interest." Great Plains/Westar quantified at least $50 million of total ratepayer bill credits that would be issued within 120 days of closing of the deal. The companies request that the commission issue a decision with an effective date of no later than June 21, 2018.

In 1997, Atmos Energy acquired United Cities Gas following PSC approval. In 2004, Atmos acquired former TXU Inc. subsidiary TXU Gas, following PSC approval of a settlement specifying that: the acquisition premium may not be recovered from ratepayers; company books and records continue to be available for review by the PSC Staff and the Office of Public Counsel; and, Atmos would issue at least $300 million of new equity to partially fund the acquisition. Atmos' equity issuance later in 2004 generated $235 million in net proceeds. The transaction closed in 2004.

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In 2012, Atmos sold its Missouri-jurisdictional utility assets to Liberty Energy (Midstates) Corp., an affiliate of Algonquin Power & Utilities Corp., following PSC approval of a related settlement. The transaction also involved the sale of Atmos' Illinois and Iowa utility assets to Liberty Energy. The approved settlement provides for Liberty to maintain Atmos' existing tariffs. The transaction closed later in 2012, and the new entity is known as Liberty Utilities (Midstates Natural Gas), d/b/a Liberty Utilities.

In 2006, the PSC authorized Empire District Gas, or EDG, to acquire Aquila's Missouri-jurisdictional gas utility operations following a settlement that imposed a three-year base rate freeze.

In September 2016, the PSC adopted several settlements, thereby approving Algonquin Power and Utilities' proposed acquisition of EDG parent Empire District Electric. The transaction was completed in January 2017.

In 2012, Energy Transfer Equity, or ETE, acquired Southern Union following PSC approval of a related settlement. The approved settlement specified, among other things, that: Southern Union was to be prohibited from guaranteeing certain debts incurred by ETE affiliate Energy Transfer Partners in conjunction with the transaction; the debt of any affiliate was to be non-recourse to Southern Union; Southern Union's equity was not to be pledged as collateral for the debt of any affiliate or non-affiliate; Southern Union was to maintain records separate from its affiliates; Southern Union was to be prohibited from commingling its utility system with any other entity or maintain its system such that it would be "costly or difficult" to separate its assets from those of an affiliate; Southern Union was to continue to be subject to certain customer service performance measures and maintain certain operating procedures; Southern Union agreed to ensure that the company's retail gas distribution rates would not increase as a result of the merger; any adverse impact of the merger on Southern Union's credit ratings would deserve "consideration" by the PSC in future proceedings; the acquisition premium and the transaction and transition costs associated with the merger were not to be recoverable in retail distribution rates; and, Southern Union was to continue its service-line and main replacement programs.

In 2013, Southern Union division Missouri Gas Energy, or MGE, was acquired by a subsidiary of the Laclede Group. The PSC had approved a related settlement specifying, among other things, that: MGE is to record a $125 million "rate base offset" and will be permitted to amortize this amount over a ten-year period; the company is prohibited from recovering, from its retail distribution customers, any acquisition premium and transaction-related costs; affiliate Laclede Gas and MGE will not seek an increased cost

of capital as a result of the transaction; Laclede Gas is prohibited from pledging its equity as collateral for the debt of any affiliate without first receiving PSC approval for such action; and, if the parent company's non-regulated operations were to be the cause of a downgrade in Laclede Gas' credit ratings to below investment-grade, Laclede Gas would be required to pursue additional "legal and structural separation" from the parent to ensure that Laclede Gas has "access to capital at a reasonable cost." Laclede Gas is now known as Spire Missouri and the Laclede Group is now known as Spire Inc.

In 2013, the PSC terminated its review of a proposed transaction that had called for Entergy Corp.'s utility operating companies to spin off their electric transmission assets, with those assets subsequently to be acquired by ITC Holdings. The companies had previously requested that their proposal be withdrawn in light of their inability to obtain regulatory approval for the deal in another jurisdiction.

In September 2016, the PSC adopted a settlement, thereby approving Fortis Inc.'s proposed acquisition of ITC Holdings and its subsidiary ITC Midwest, which is subject to PSC oversight with respect to the safety of a transmission line in Missouri. The deal was completed in October 2016. (Section updated 12/19/17)

Electric Regulatory Reform/Industry Restructuring

Comprehensive retail competition has not been implemented. However, a large industrial customer, Noranda Aluminum, is permitted to contract for the purchase of electric supply and delivery services outside of the PSC's jurisdiction. Noranda currently receives service from Union Electric. (Section updated 12/19/17)

Gas Regulatory Reform/Industry Restructuring

Local gas distribution companies, or LDCs, have offered transportation-only service since the late-1980s. Missouri Gas Energy offers transportation-only service to customers with gas usage of at least 2,000 MCF in any one month or annual usage of at least 30,000 CCF. Spire Missouri offers a transportation rate to customers that have annual gas usage of at least 30,000 MCF. Union Electric offers two transportation rates: a "standard rate" for certain customers with annual usage of less than 60,000 MCF; and, a "large-volume rate" for all other customers. Empire District Gas offers transportation-only service to customers with annual gas usage of at least 15,000 MCF. Liberty Utilities (Midstates Natural Gas) offers transportation-only service to customers with gas usage of at least 1,550 MCF in a single month. All of the state's LDCs offer transportation-only service to schools on an aggregated basis. No action has been taken with regard to retail choice for small-volume customers. (Section updated 12/19/17)

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Adjustment Clauses

State statutes permit electric utilities to request PSC approval of mechanisms that allow for the expedited recovery of costs related to fuel and purchased power, environmental compliance, renewable energy, gas commodity costs, energy efficiency costs and certain other items.

Fuel Adjustment Clauses, or FACs

According to the PSC's rules: an application for approval of an FAC must be submitted within the context of a general rate case or complaint proceeding; an FAC should provide the utility an opportunity to earn a "fair return on equity"; the commission may adjust a utility's allowed ROE in future rate proceedings if it determines that implementation of an FAC would alter the utility's business risk; incentive features may be incorporated into an FAC to improve the efficiency and cost-effectiveness of a utility's fuel and purchased power procurement activities; an FAC is to be subject to true-ups for under- and over-collections, including interest; an FAC may reflect incremental variations in off-system sales, or OSS, revenues; an FAC may remain in place for a maximum four-year term, unless the PSC authorizes an extension or modification of the FAC in the context of a general rate case, i.e., the utility must file a rate case within four years after implementation, extension, or modification of an FAC; and, such mechanisms are to be subject to a prudence review no less frequently than every 18 months.

KCP&L Greater Missouri Operations', or GMO's, FAC has 12-month recovery periods and provides for the company to recover from/flow to ratepayers 95% of incremental variations in "prudently incurred" fuel and purchased power costs, net emissions allowance costs, and OSS revenues from the levels included in base rates. In addition, certain transmission-related costs are included in GMO's FAC. In a September 2016 rate case decision, the PSC determined that the transmission costs GMO can include in its FAC are: costs incurred to transmit power, to serve its native load, that is sourced from generation plants not owned by the company (true purchased power); and, costs incurred to transmit excess power the company sells to third parties in locations outside of SPP (off-system sales). The PSC prohibited the company from recovering, through the FAC, costs related to the power that the company produces, sells into the SPP market, and subsequently repurchases for its native load.

Empire District Electric utilizes an FAC that provides for the company to recover from/flow to ratepayers, on a semi-annual basis

over six-month recovery periods, 95% of incremental variations in fuel and purchased power costs, net emissions allowance costs, and OSS revenues from the levels included in base rates. In a 2015 rate case decision, the PSC required that a portion of the transmission costs Empire incurs related to its participation in the Southwest Power Pool, or SPP, market be excluded from its FAC. The commission determined that the transmission costs Empire can include in its FAC are: costs incurred to transmit power, to serve its native load, that is sourced from generation plants not owned by the company ("true purchased power"); and, costs incurred to transmit excess power the company sells to third parties in locations outside of SPP (off-system sales). The PSC prohibited the company from recovering through the FAC costs related to the power that the company produces, sells into the SPP market, and subsequently repurchases for its native load.

Union Electric, or UE, utilizes an FAC that provides for the company to recover from/flow to ratepayers 95% of incremental variations in fuel and purchased power costs, net emissions allowances, and OSS revenues from the levels included in base rates. UE's FAC incorporates three adjustments per year and eight-month-long recovery periods. In a 2015 rate case decision, the PSC determined that the transmission costs UE can include in its FAC are: costs incurred to transmit power, to serve its native load, that is sourced from generation plants not owned by the company (true purchased power); and, costs incurred to transmit excess power the company sells to third parties in locations outside of SPP (off-system sales). The PSC prohibited the company from recovering, through the FAC, costs related to the power that the company produces, sells into the SPP market, and subsequently repurchases for its native load.

In a 2015 rate case decision, the PSC authorized Kansas City Power & Light, or KCP&L, to implement an FAC that provides for the company to recover from/flow to ratepayers 95% of incremental variations in fuel and purchased power costs, net emissions allowances, and OSS revenues from the levels included in base rates. The commission determined that the transmission costs KCP&L can include in its FAC are: costs incurred to transmit power, to serve its native load, that is sourced from generation plants not owned by the company, i.e., true purchased power; and, costs incurred to transmit excess power the company sells to third parties in locations outside of SPP, i.e., off-system sales. The PSC prohibited the company from recovering through the FAC costs related to the power that the company produces, sells into the SPP market, and subsequently repurchases for its native load.

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Environmental Cost Recovery Mechanisms, or ECRMs

The PSC's rules pertaining to ECRMs are similar to those in place for FACs, and specify that: the commission may consider the magnitude of costs eligible for inclusion in an ECRM and the ability of the utility to manage these costs, when determining which cost components to include in an ECRM; a portion of the utility's environmental costs may be recovered through an ECRM and a portion may be recovered through base rates; the annual recovery of environmental compliance costs is to be capped at 2.5% of the utility's Missouri gross jurisdictional revenues, less certain taxes; a utility that uses an ECRM must file for at least one, and no more than two, annual adjustments to its ECRM rate; adjustments must be made to a utility's ECRM rates within 60 days from the time of filing, if such adjustments adhere to state statutes; an ECRM may remain in place for a maximum four-year term, unless the PSC authorizes an extension in the context of a general rate case — the utility must file a general rate case within four years after implementation of an ECRM; and, such mechanisms are to be subject to a prudence review every 18 months and an annual true-up for under- and over-collections, including interest. None of the utilities currently have an ECRM in place; however, Empire, KCP&L, GMO and UE recover emissions allowance costs through their FACs.

Energy Efficiency

KCP&L, GMO and UE have in place demand-side program investment mechanisms that provide for recovery of program-related costs and a related "throughput disincentive" and may provide for a performance incentive based upon measurable and verified energy efficiency savings.

Renewable Energy

The PSC's rules specify that electric utilities may file, in the context of a rate case or in a generic proceeding, for a Renewable Energy Standards rate adjustment mechanism, or RESRAM, that would allow for rate adjustments to provide for recovery of prudently incurred costs or a pass-through of benefits received, as a result of compliance with the state's renewable energy standards. Rate increases under the RESRAM are to be capped at 1% annually; there is no limit to the credit that can be included in the RESRAM. Any costs incurred by the utility that are in excess of the cap are to be deferred for future recovery and a carrying charge is to apply to the balance. GMO has a RESRAM in place.

Other Electric

KCP&L, GMO and UE use a rider to recover costs associated with certain government-mandated investments. Empire, KCP&L, GMO and UE have a mechanism in place to recover variations in certain taxes and franchise fees.

Purchased Gas Adjustment, or PGA, Clauses

Local gas distribution companies, or LDCs, are authorized to reflect changes in gas costs through a PGA clause, with up to four adjustments permitted each year. Differences between actual costs incurred and costs reflected in rates are deferred and recovered from, or credited to, customers over a subsequent 12-month period. The companies are permitted to use financial hedging instruments to mitigate the effects of gas-price volatility, and the PSC has implemented a rule that identifies the types of hedging mechanisms that should be considered. The LDCs may request PSC approval of a mechanism to reflect the impact of changes in customer usage due to variations in weather and/or conservation; however, none of the utilities currently have such a mechanism in place. Spire Missouri and Missouri Gas Energy, or MGE, share OSS margins and capacity release revenues with ratepayers, with the related impacts reflected in the PGA clause (see the Alternative Regulation section).

Decoupling

The LDCs are permitted to request PSC approval of a mechanism to reflect the impact on revenues of changes in customer usage due to variations in weather and/or conservation. None of the LDCs currently has such a mechanism in place.

Other Gas

Spire Missouri, UE, MGE and Liberty Utilities (Midstates Natural Gas) utilize an infrastructure system replacement surcharge to recover costs associated with certain distribution system replacement projects. Liberty Utilities, Empire, Spire Missouri, MGE and UE have a mechanism in place to recover variations in certain taxes and franchise fees. (Section updated 12/19/17)

Integrated Resource Planning

The state's four investor-owned electric utilities that serve retail customers, namely Union Electric, or UE, Kansas City Power & Light, or KCP&L, KCP&L Greater Missouri Operations, or GMO, and Empire District Electric are required by the commission's rules to file 20-year resource plans every three years with annual updates. In these filings, the utility must consider demand-side measures on an equivalent basis with supply side alternatives, and analyze and quantify the risks associated with such factors as: future environmental regulations; load growth; fuel prices and availability; construction costs and schedules; and, demand-side program load impacts.

The Missouri Energy Efficiency Investment Act, which requires the PSC to allow electric utilities to implement demand-side programs and recover the related costs, became law in 2009 and the PSC's related rules became effective in 2011. The law does not establish specific thresholds for demand-side-program-related savings. In 2012, the commission approved a unanimous stipulation and agreement approving the following for UE: a demand-side-management plan for residential and commercial customers, beginning in 2013, a related tracker to provide for $80 million in revenue — ultimately reflected in UE's 2012 general rate proceeding — for recovery of program costs and recovery of lost fixed costs and to allow the company to earn a performance incentive based on after-the-fact verified energy savings from the programs; and, annual evaluation, measurement and verification of such programs' processes and energy and demand savings performed by an independent contractor with reported results audited by the commission's independent auditor. The tracker was replaced by a rider in 2014.

In 2012, the PSC approved a settlement for GMO that provides for: a demand-side-management plan for residential and commercial customers, that became effective in 2013, a related tracker to provide for $18 million in revenue — ultimately reflected in GMO's 2012 general rate proceeding — and recovery of lost fixed costs, and which allow the company to earn a performance incentive award based on after-the-fact verified energy and demand savings from the programs; and, annual evaluation, measurement and verification of such programs' processes and energy and demand savings performed by an independent contractor with reported results audited by the commission's independent auditor.

In 2014, the PSC approved a settlement for KCP&L that provides for: a demand-side-management plan, for residential and commercial customers, that became effective later in 2014, a related investment recovery mechanism to allow recovery of actual program costs and lost fixed costs, and which allow the company to earn a performance incentive award based on after-the-fact verification of energy and demand savings from the programs; and, annual evaluation, measurement and verification of such programs' processes and energy and demand-savings performed by an independent auditor. (Section updated 12/19/17)

Renewable Energy

State statutes include a renewable energy standard, or RES, that required Missouri-jurisdictional investor-owned electric utilities to obtain at least 2% of their generation from renewable resources in calendar-years 2011 through 2013, with the threshold rising to 5% in calendar-years 2014 through 2017, to 10% in calendar-years 2018 through 2020, and to 15% in 2021 and thereafter.

Eligible renewable resources include solar, wind, biomass and certain hydropower facilities, and at least 2% of each year's renewable-energy-related portfolio requirement is to be from solar resources. RES-related rules subsequently adopted by the PSC: include a restriction that adherence to the standard would result in a rate increase of no more than 1%; provide for penalties for non-compliance; and, include a provision for recovery outside the context of a general rate case for the "prudently incurred costs and the pass-through of benefits to customers of any savings achieved" in complying with the measure (see the Adjustment Clauses section). The utilities are permitted to purchase renewable energy credits to satisfy their obligations under the law.

The statute was subsequently modified to include a tiered approach to reducing applicable solar rebate amounts from $2 per watt for systems that became operational by June 30, 2014, to zero cents per watt after June 30, 2020, and provisions to allow the electric utility to cease paying rebates in any calendar year in which the maximum average retail rate impact will be reached. As a condition of receiving a rebate, customers are required to transfer to the electric utility all rights, title and interest in the renewable energy credits for a period of 10 years. Subsequent settlements approved by the PSC designated a total of $178.4 million for solar rebates in Missouri for the three electric utilities that offered rebates at that time. In 2015, the Missouri Supreme Court determined that the statutory exemption from payment of solar rebates upon which Empire District Electric had relied had previously been repealed. In accordance with the court's directive, Empire began offering solar rebates later in 2015. (Section updated 12/19/17)

Emissions Requirements

Legislation enacted in 2014 allows the Missouri Air Conservation Commission to develop less-stringent carbon-reduction standards than those included in the U.S. Environmental Protection Agency's, or EPA's, proposed carbon emissions rule for existing power plants. A "unit-by-unit analysis" is to be conducted to determine the appropriate means of compliance that, among other things, considers the cost of installing emissions-reduction equipment and the economic impact that a closure of a plant could have on the region.

In 2015, the EPA released the final version of its Clean Power Plan, or CPP. The CPP calls for a 32% reduction nationwide in the domestic power sector's carbon dioxide emissions by 2030, versus 2005 levels. For Missouri, the plan requires a 37% reduction. Many states, including Missouri, have challenged the legality of the rule, which has been stayed by the U.S. Supreme Court, pending the outcome of a review by U.S. Court of Appeals for the District of Columbia Circuit.

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Although the CPP is currently before the D.C. Circuit, the EPA requested that the cases be held in abeyance, and the request was subsequently approved. The agency is required to submit status reports at 30-day intervals with the court. On Oct. 10, 2017, EPA Administrator Scott Pruitt began the formal process of reversing the efforts made to date to implement the CPP. (Section updated 12/19/17)

Rate Structure

The major electric utilities have seasonally differentiated rates in place, and all of the electric utilities have some form of time-of-day rates in effect. The PSC has authorized discounted economic development electric rates for new or expanding industrial and commercial customers.

In a 2015 rate case decision that addressed certain economic development issues related to Union Electric's, or UE's, largest customer, Noranda Aluminum, the PSC established a $36/MWH base rate for Noranda and declined to eliminate the fuel adjustment clause, or FAC, charges for the company; however, prospective FAC rate adjustments applicable to Noranda are to be capped at $2/MWH. In addition, the commission noted its "intent" that base rate increases for Noranda over the next three years will be limited to 50% of the system average increase authorized, and its base rates would remain unchanged if the PSC were to order a base rate reduction for UE. Any revenue deficiency resulting from these provisions are to be proportionally allocated to UE's other ratepayers. At the time, the PSC found that it was "in the interest of all ratepayers for the commission to allow Noranda a lower rate to keep it as a customer" of UE. In March 2017, the PSC adopted a rate case settlement for UE that specifies that UE should not amortize in rates the lost fixed costs associated with reduced sales to the smelter, which is now owned by a company based in Switzerland.

In 2014, the PSC adopted a settlement that required Missouri Gas Energy, or MGE, to terminate its straight-fixed variable, or SFV, rate design for the residential and small commercial customer classes, whereby all of the company's fixed costs allocable to those customer classes were recovered through a fixed, monthly customer charge. MGE now recovers a portion of its fixed costs through the volumetric rate.

Spire Missouri has a seasonally-differentiated rate in place. In 2010, the PSC adopted a settlement that required Liberty Utilities (Midstates Natural Gas) to terminate its SFV rate design and utilize a traditional rate design under which a portion of fixed costs

are recovered through volumetric charges. (Section updated 12/19/17)

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