

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

In the Matter of the Application of Kansas City Power &)
Light Company and KCP&L Greater Missouri Operations)
Company for the Issuance of an Accounting Authority Order) File No. EU-2014-0077
Relating to their Electrical Operations and for a Contingent)
Waiver of the Notice Requirement of 4 CSR 240-4.020(2).)

**INITIAL BRIEF
OF
KANSAS CITY POWER & LIGHT COMPANY AND
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

Come now Kansas City Power & Light Company (“KCP&L”) and KCP&L Greater Missouri Operations Company (“GMO”) (collectively “Companies”), and hereby file their Initial Brief in this proceeding.

I. INTRODUCTION

In the Companies’ most recent rate cases, File Nos. ER-2012-0174 and ER-2012-0175, the Missouri Public Service Commission (“Commission”) denied the Companies’ transmission tracker request as part of the rate case proceeding, apparently because the Commission believed that the Companies already had the authority to track transmission costs without a specific order authorizing them to do so. The *Report and Order* on page 29 states the following in the Discussion, Conclusions of Law, and Ruling section:

The Applicants ask the Commission to order deferred recording (a “tracker”) for transmission costs. But that matter is moot because the Commission can grant no practical relief. No practical relief is possible because Applicants can already “track” transmission cost increases under the plain language of the only authority that any party cites for a tracker.¹ (*emphasis added; footnotes omitted*)

The *Report and Order* discussed General Instruction No. 7 and concluded that General Instruction No. 7 allows for the deferral of transmission costs if they exceed 5% of income and thus no Commission authority is required. According to the *Report and Order*, if transmission

¹ *Report And Order, Re Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company*, File Nos. ER-2012-0174 and ER-2012-0175, p. 29 (January 9, 2013).

costs do not exceed 5% of income, then the Company can request an Accounting Authority Order (“AAO”). (*Id.* at pp. 29-32)

In fact, the Commission considered the transmission tracker issue moot in the Companies’ last rate cases and stated that it believed that it could not grant any practical relief because it believed that the Companies could already track transmission cost increases under the plain language of the Uniform System of Accounts (“USOA”). (*Id.* at p. 29) The Companies believe that the Commission’s interpretation of the USOA was incorrect and that the Commission can grant the practical relief that it thought that it could not grant in the rate cases by authorizing an AAO in this case.

The Companies believe that the Commission’s *Report and Order* in File Nos. ER-2012-0174 and ER-2012-0175 was an incorrect application of the accounting principles contained in the USOA. (Tr. 224) The competent and substantial evidence in this proceeding clearly demonstrates that General Instruction No. 7 does not provide authoritative guidance to the Companies to defer costs as a regulatory asset. (KCP&L Ex. 1, Bresette Direct, p. 5; KCP&L Ex. 4, Ives Direct, pp. 8-9) As explained by the Companies’ witness Ryan A. Bresette, Accounting Standards Codifications (ASC) ASC 980-340-25-1 (paragraph 9 of Statement 71) states that the “rate action of a regulator can provide reasonable assurance of the existence of an asset.” (KCP&L Ex. 1, Bresette Direct, pp. 2-5) All or part of an incurred cost that would otherwise be charged to expense should be capitalized as a regulatory asset if: (1) It is probable that future revenues in an amount approximately equal to the capitalized cost will result from inclusion of that cost in allowable costs for ratemaking purposes; and (2) The regulator intends to provide for

the recovery of that specific incurred cost rather than to provide for expected levels of similar future costs. (*Id.* at 2-5)²

Based upon the competent and substantial evidence, it is clear that the Companies need specific authority from the Commission to defer transmission costs. (Tr. 228) However, if the Companies had received such specific authority to implement a transmission tracker in the last rate cases, then they would not be seeking an AAO in this case. (*Id.*)

While the Commission's *Report and Order* erred when it suggested that the Companies did not need the prior approval of the Commission to defer these transmission expenses, the *Report and Order* showed the Commission intended the Companies to be able to defer or track transmission costs above those in base rates, and that the Commission believed the Company had the power to do so through its interpretation of General Instruction No. 7.³

This proceeding provides the Commission (and the Companies) an opportunity to rectify the situation to ensure that all prudently incurred transmission costs will be eligible for review and possible recovery in the Companies' next rate cases. These transmission costs are material, expected to change significantly in the near future, and are primarily outside the control of the Companies. In addition, under the circumstances that exist today in the Southwest Power Pool ("SPP") region, with the unique, extraordinary and non-recurring build-out of the transmission system that is currently ongoing in SPP, the Commission should find and conclude that these transmission costs are extraordinary (Tr. 213-14), non-recurring, and largely outside the control of the Companies. Under either standard proposed by the parties in this case, the Commission

² Staff witness Mark Oligschlaeger testified that the Staff does not disagree with the conclusion that specific Commission authorization is needed for the Companies to be allowed to defer the transmission costs. (Staff Ex. 2NP, Oligschlaeger Rebuttal, p. 27) (Tr. 257-58)

³ The Companies requested a rehearing of the portion of the Commission's *Report And Order* relating to the transmission tracker. The Commission denied this request. See *Order Denying Rehearing of Report And Order and Rehearing Of Order Approving Compliance Tariffs*, File Nos. ER-2012-0174 and ER-2012-0175, (issued on January 30, 2013).

should exercise its regulatory discretion and grant the Companies' application in this proceeding and approve either an AAO or a transmission tracker.

Under the unique circumstances of this case, the Commission should grant the Companies an AAO or a transmission tracker that specifically authorizes them to defer transmission costs for review in the Companies' next rate cases. As shown by the competent and substantial evidence in this proceeding, there is still a need to track and defer transmission-related expenses. The Companies therefore respectfully request that the Commission give them the authorization to defer these transmission expenses until the next rate case through an AAO or a transmission tracker.

II. ARGUMENT

A. THE COMMISSION HAS BROAD DISCRETION TO GRANT AAOs AND TRANSMISSION TRACKERS.

In Missouri, there is no statute or Commission rule that specifically mentions utility applications for AAOs or that prescribes legal or regulatory principles governing such applications. Section 393.140(4) and (8), RSMo, respectively, authorize the Commission, on a case-by-case basis and at its discretion, to "prescribe, by order, forms of accounts, records and memoranda to be kept by" utilities or "after hearing, to prescribe by order the accounts in which particular outlays and receipts shall be entered, charged or credited." In addition, §393.140(4) generally vests the Commission with the authority to "prescribe uniform methods of keeping accounts, records and books" of utilities subject to its jurisdiction. But nowhere in the statutes or the Commission's rules are there standards that govern AAOs explicitly stated. Thus, the Commission has broad regulatory discretion to grant AAO applications under various sets of circumstances for various types of costs when the Commission believes the granting of an AAO is appropriate.

Recently, the Commission recognized its broad regulatory discretion regarding AAOs when it granted KCP&L and GMO AAOs to defer costs associated with the Renewable Energy Standards compliance costs. Re the Application of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company for the Issuance of an Accounting Authority Order Relating to their Electrical Operations, Order Approving and Incorporating Stipulation And Agreement (“Order”), File No. EU-2012-0131 (issued April 19, 2012). In that *Order*, the Commission stated:

Missouri courts have recognized the Commission’s regulatory authority to grant a form of relief to a utility in the form of an AAO “which allows the utility to defer and capitalize certain expenses until the time it files its next rate case.” “The AAO technique protects the utility from earnings shortfalls and softens the blow which results from extraordinary construction programs.” “However, AAOs are not a guarantee of an ultimate recovery of a certain amount by the utility.” The AAO “simply allows for certain costs to be separately accounted for possible future recovery in a future ratemaking proceeding.” “This is not retroactive ratemaking, because the past rates are not being changed so that more money can be collected from services that have already been provided; instead, the past costs are being considered to set rates to be charged in the future.” Although the courts have recognized the Commission’s authority to authorize an AAO in extraordinary and unusual circumstances, there is nothing in the Public Service Commission Law or the Commission’s regulations that would limit the grant of an AAO to any particular set of circumstances. (*emphasis added; footnotes omitted*)

While some orders have dealt with “extraordinary” and “non-recurring” costs, many orders have addressed costs that were material, expected to change significantly in the near future, and were primarily outside the control of the public utility.⁴ In Schedule DRI-1 of the Surrebuttal Testimony of Darrin R. Ives, the Companies have listed various AAOs considered by the Commission over the last twenty (20) years.

During the hearings, counsel for MECG raised questions about whether all cases cited on Schedule DRI-1 were approved AAOs. Upon further investigation, the Companies have determined that Schedule DRI-1 contained several AAO cases that were denied. The majority of the cases listed on Schedule DRI-1 were taken from the Commission’s Utility Service Compendium’s website at http://psc.mo.gov/General/Utility_Services_Compendium. The Compendium is a general reference index maintained by the Commission’s Auditing Department for Commission reports and orders. A copy of the Accounting Authority Order (“AAO”) portion of the Compendium is attached as Exhibit A (attached). The Compendium lists AAO applications that were both approved and denied by the Commission. Due to a clerical error, the Approved/Denied column was inadvertently removed from the Commission’s AAO compendium when it was transferred to Schedule DRI-1. The Commission’s compendium of AAO cases ranges from 1990-2002. The Company added eleven more recent cases to the

⁴ See e.g., *Order Approving and Incorporating Stipulation and Agreement, Re the Application of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company for the Issuance of an Accounting Authority Order Relating to their Electrical Operations*, File No. EU-2012-0131 (April 17, 2012) (Renewable Energy Standards Costs); *Order Approving Accounting Authority Order, Re KCP&L Greater Missouri Operations Company for Approval of an Accounting Authority Order*, File No. EU-2011-0034, (September 28, 2010) (Construction Accounting authorized); *Partial Stipulation and Agreement*, pp. 4-5, *Re Missouri Gas Energy*, (November 5, 2009), File No. GR-2009-0355, and *Report & Order*, p. 80 File No. GU-2010-0015, (September 8, 2005) (Kansas property tax associated gas in storage facilities); *Re Laclede Gas Company*, Case No. GU-2007-0138 (April 17, 2008) (Cold Weather rule costs); *Order Approving Unanimous Stipulation And Agreement and Authorizing Tariff Filing, Re Laclede Gas Company*, Case No. GU-2007-0137 (July 19, 2008) (Emergency Cold Weather rule costs); *Report And Order, Re Laclede Gas Company*, GR-2007-0137 (July 17, 2007) (Pensions and OPEBs); *Order Granting Accounting Authority Order Relating to the Cold Weather Rule, Re Laclede Gas Company*, Case No. GU-2007-0138 (December 7, 2006) (Cold Weather Rule costs); *Report And Order, Re Missouri-American Water Company*, Case No. WO-02-273 (November 10, 2004) (security costs); *Accounting Authority Order, Re United Cities Gas Company*, Case No. GA-98-464 (February 26, 1999) (Manufactured gas plant clean-up costs).

Commission's AAO compendium to create Schedule DRI-1 filed in this case. A corrected version of Schedule DRI-1, which removes the AAO cases that were denied, is attached as Exhibit B.

The subjects that were found to be appropriate by the Commission for AAO approval have included the following: Renewable Energy Standards costs, tornado costs, construction accounting, Kansas property taxes on gas storage, ice storms, pensions and OPEBs, cold weather rule costs, security costs, safety costs, main replacement costs, manufactured gas plant clean-up costs, FAS 106 costs, flood costs, plant rehabilitation costs, coal contract buy-out costs, and AM/FM mapping costs. (*See* KCP&L Ex. 5, Ives Surrebuttal, Schedule DRI-1 (as corrected) (Tr. 259-62))

The Commission should reject the opposing parties' arguments that have suggested that the only standard that has been utilized by the Commission for AAOs is "extraordinary" and "non-recurring costs." Based upon the myriad of examples discussed herein, it is clear that the Commission has much broader discretion to grant an AAO or a deferral of costs than the Commission Staff ("Staff"), the Office of the Public Counsel ("OPC") and the Industrial Intervenors (Midwest Energy Consumers Group ("MECG") and Missouri Industrial Energy Consumers ("MIEC")) would have the Commission believe. In fact, the Commission has wisely adopted AAOs and trackers for a wide variety of costs under a varied set of circumstances, and specifically stated that they are not bound to grant them only for "extraordinary or unusual circumstances".⁵

⁵ Re the Application of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company for the Issuance of an Accounting Authority Order Relating to their Electrical Operations, Order Approving and Incorporating Stipulation And Agreement ("Order"), File No. EU-2012-0131 (issued April 19, 2012).

In summary, neither the Missouri statutes nor the Commission's rules provide any standards that govern AAOs explicitly, and the Commission has previously recognized that it has broad discretion to grant the deferral of costs under an AAO pursuant to its regulatory authority to "prescribe uniform methods of keeping accounts, records and books" of utilities subject to its jurisdiction. *See* Section 393.140(4) and (8) RSMo. As an alternative, the Commission may authorize a transmission tracker, as previously requested in the Companies' last general rate cases, which would specifically authorize the deferral of the transmission costs.

B. THE COMMISSION SHOULD SPECIFICALLY AUTHORIZE THE COMPANIES TO DEFER TRANSMISSION COSTS IN ACCOUNTS 182 OR 254 TO BE CONSIDERED FOR RECOVERY IN THE COMPANIES' NEXT GENERAL RATE CASES.

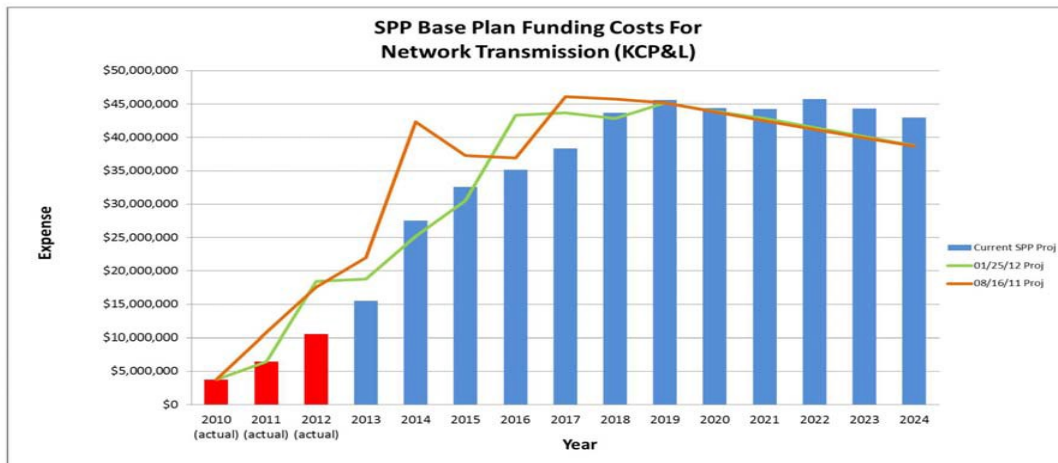
The Commission should authorize the use of a transmission AAO to ensure the consideration of appropriate recovery of transmission costs as a result of charges from the SPP and other providers of transmission service. Transmission costs are appropriate candidates for an AAO because they are material, expected to change significantly in the near future, and are primarily outside the control of the Companies. In addition, the Companies believe that, under the circumstances that exist today in the SPP region, with the unique, extraordinary and non-recurring build-out of the transmission system that is currently ongoing in SPP, the Commission should find and conclude that these transmission costs are extraordinary, non-recurring, and largely outside the control of the Companies.

Transmission costs can change significantly from year-to-year, and such costs are material operating costs to the Companies' overall cost of service. These costs are primarily out of the Companies' control and currently escalating on an annual basis. Historically, transmission costs have fluctuated due to load variations, both native and off-system. As Mr. Ives explains, what makes the current environment of transmission costs extraordinary

in nature is that currently the SPP regional transmission upgrade projects are being planned, constructed and billed to SPP members in order to expand and enhance the ability of the SPP transmission footprint. In addition, the associated SPP administrative fees are increasing contributing to KCP&L's transmission costs extraordinarily rising over historical norms. (KCP&L Ex. 4, Ives Direct, pp. 3-4)

At the end of 2013, transmission costs are forecasted to exceed the amounts established in the Companies' prior rate cases. As explained by Mr. Ives, KCP&L has \$19,098,983 of transmission costs included in its rates, but the 2013 forecasted transmission costs were \$24,033,007 for the year. Similarly, GMO has \$12,315,646 included in rates, but the 2013 forecast for transmission costs were \$16,857,013. (Tr. 144-45) The actual transmission costs for KCP&L and GMO, respectively, have been \$25.9 million and \$16.4 million in 2013. (Tr. 29)

The Direct Testimony of John R. Carlson includes tables that show rather dramatically how SPP Base Plan Transmission Costs allocated to KCP&L and GMO have been rising and projections from SPP show that these costs will continue to increase through 2022. (KCP&L Ex. 2, Carlson Direct, pp. 9-10, Schedule JRC-1 and Schedule JRC-2)



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¹ Projections for Current SPP Proj time series taken from: July 8 2013 ATRR Forecast All Upgrades for Posting.xlsx, Maintained by SPP Engineering, Posted July 8, 2013, <http://www.spp.org/publications/july%208%202013%20ATRR%20Forecast%20All%20Upgrades.zip>

² Projections for 01/25/12 time series taken from: SPP 10 Year Cost Allocation Forecast Jan 2012 for Posting to RTWG REV 6.xlsx, Maintained by SPP Engineering, Posted January 24, 2012, <http://www.spp.org/publications/201220January20ATRR20Forecast11.zip>

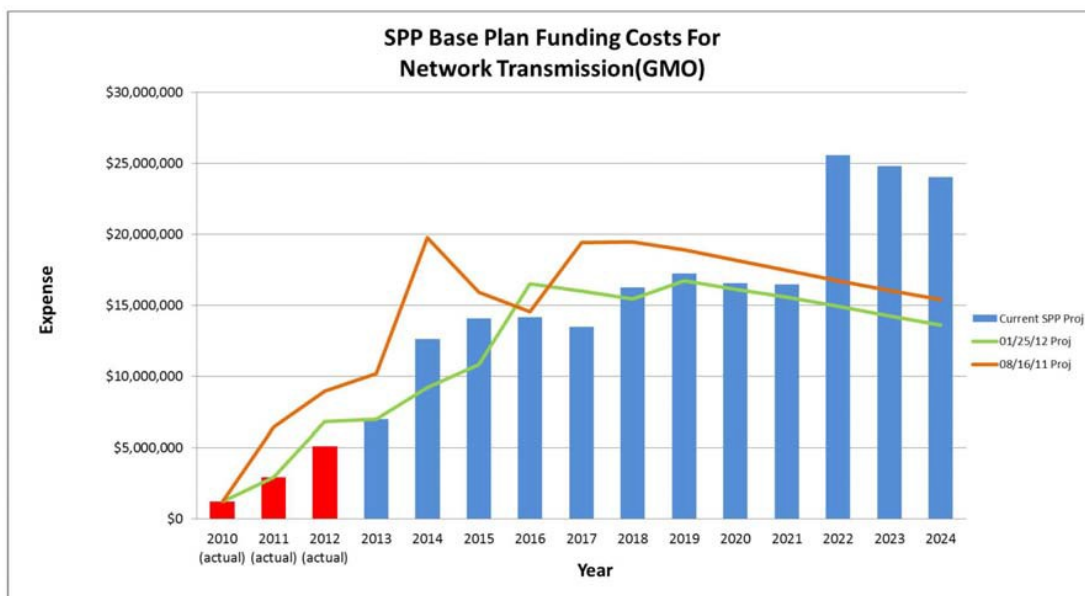
³ Projections for 08/16/11 time series taken from: SPP ATRR All Totals Results August 16 2011 REV 1.xlsx, Maintained by SPP Engineering.

Schedule JRC-1

Base Plan Transmission Costs allocated to KCP&L were approximately \$10.5 million for the calendar year 2012, and they are projected to increase at a very significant rate from 2013 through 2019, recede slightly from there through 2021, and then increase again in 2022. Base plan transmission costs allocated to KCP&L were approximately \$10.5 million for the calendar year 2012, and they are projected to increase to \$35.1 million in 2016. SPP further projects KCP&L's share of the SPP transmission costs to peak at over \$45 million in 2022. This equates to an approximate 16% increase per year from 2012 – 2022. (KCP&L Ex. 2, Carlson Direct, p. 9)

Base Plan Transmission Costs allocated to GMO were \$5.1 million for the calendar year 2012, and they are projected to increase to \$14.9 million in 2016, and peak at over \$25 million in 2022. This equates to an approximate 16% increase per year from 2012 – 2022 for GMO. These projections reflect both zonal and region-wide components of the costs of SPP-approved projects and the increases are primarily driven by the region-wide

components. (*Id.* at p. 10)



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¹ Projections for Current SPP Proj time series taken from: July 8 2013 ATRR Forecast All Upgrades for Posting.xlsx, Maintained by SPP Engineering, Posted July 8, 2013, <http://www.spp.org/publications/july%202013%20ATRR%20Forecast%20All%20Upgrades.zip>

² Projections for 01/25/12 time series taken from: SPP 10 Year Cost Allocation Forecast Jan 2012 for Posting to RTWG REV 6.xlsx, Maintained by SPP Engineering, Posted January 24, 2012, <http://www.spp.org/publications/201220January20ATRR20Forecast%2011.zip>

³ Projections for 08/16/11 time series taken from: SPP ATRR All Totals Results August 16 2011 REV 1.xlsx, Maintained by SPP Engineering.

Schedule JRC-2

Significant transmission cost increases that are outside of the Companies' control due to SPP's transmission line expansion projects are negatively impacting the Companies. These cost increases are above the amounts for transmission expense that were provided the Companies in their previous rate cases. As such, each incremental dollar spent above the amounts provided in rates contributes to regulatory lag, and the Companies have no ability to recover these costs except to file time consuming and resource consuming rate cases year after year. (KCP&L Ex. 4, Ives Direct, p. 10)

The transmission costs that are the subject of this proceeding are extraordinary, unusual to the test period established in the last rate case, and significant. The extraordinary nature of these

costs lies in the event driving the costs, not in the nature of the costs themselves. The Companies have historically incurred, and will continue to incur, transmission costs. However, the dramatic build out of the SPP transmission infrastructure, and in fact the nation's transmission infrastructure, is clearly unprecedented in scale and timing of transmission investment. This build out is akin to the national highway infrastructure development of the 1950's. The cost levels that are being charged to the Companies related to these projects are having, and will continue to have, a very significant impact on their ability to recover prudently incurred costs. Furthermore, permitting the Companies to defer all transmission expenses is consistent with the Commission's prior granting of AAOs for "extraordinary and significant items", as discussed herein, and its previous ruling that the Companies could defer these costs at their own discretion. *See Report and Order, Re Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company*, File Nos. ER-2012-0174 and ER-2012-0175, pp. 29-32 (issued January 9, 2013).

During the hearings, Mr. Carlson described the extraordinary nature of the SPP build-out of the regional transmission system as follows:

- A. Just historically speaking prior to the 2010, 2011 time frame when some of these larger projects started coming into, built on the system KCPL would manage their system, build their system on a zonal base for our customers as needed, we would provide upkeep of the system in various ways, whether it was reconductoring, whether it was switch gear maintenance, general maintenance on our particular zonal system. Once SPP started implementing a region wide cost allocation model and 2005, 2006 time frame they then implemented a process to look at the whole region of SPP and developed the balanced portfolio projects, in 2009 I believe is when they were approved and what we're just now seeing is those projects from the balanced portfolio being built, constructed, finalized and now allocated regionally to customers and that's why you're seeing this extreme increase in expense for KCPL and GMO.

Q. Is that unusual or ordinary?

A. No, it's not ordinary, it is unusual, it's not consistent with our ordinary historical way of doing business. This build-out is on levels not seen ever to my knowledge. I think we've likened it to the build-out of the interstate highway system in the '50s, it's very much an extraordinary event. (Tr. 140-41) (*emphasis added*)

Because the magnitude of the transmission cost increases are extraordinary and are comparable to other events for which deferrals have previously been authorized, the Companies seek an order from the Commission authorizing them to defer and record to the USOA account 182.3, Other Regulatory Assets, or USOA account 254, Other Regulatory Liabilities, transmission expenses over/under amounts included in rates. Absent the Commission's authorization of an AAO or a transmission tracker, the Companies will be deprived of an opportunity to fully recover these expenses through rates.

C. THE COMMISSION SHOULD AUTHORIZE CARRYING COSTS TO BE INCLUDED IN THE AAO OR TRANSMISSION TRACKER TO ACCOUNT FOR THE TIME VALUE OF MONEY.

While the AAO or transmission tracker would provide for deferral of the Companies' rising transmission costs, recovery in rates will not be addressed until the Companies' next general rate cases. There clearly will be a delay in recovering the costs in rates, and it is appropriate to recognize that delay in recovery by providing carrying costs. (KCP&L Ex. 5, Ives Surrebuttal, p. 19)

During the hearings, Darrin Ives explained the need for carrying costs as follows:

A. Well, we've requested carrying costs at the weighted average cost of capital. You know, my view is if you have a cost that you incur and were deferring in the case of Commission approval of this AAO there's a time value of money for the periods from when you incur that cost until you recover it in rates and it's legitimate to provide a recovery of that time value of money impact. The Commission has approved historically on cases carrying value over a number of topics or carrying costs over a number of topics in a number of areas. Not all AAOs, and I think Staff witness Oligschlaeger said it, not all AAOs have

carrying costs but also there are a fair amount that do. We think it's appropriate and that's why we asked for it. (Tr. 233)

While Staff recommends that the Companies not receive the carrying costs, this Staff recommendation appears to be designed to subject the Companies' to some level of regulatory lag associated with transmission costs. In reality, there is a time value of money for the delay in recovery of these costs that can and should be recognized through the provision of carrying costs. (KCP&L Ex. 5, Ives Surrebuttal, p. 19)

In the past, the Commission has recognized that carrying costs are appropriate for inclusion in AAOs and trackers. (Tr. 233) The Commission should again include an appropriate level of carrying costs to recognize the time value of money and reduce regulatory lag related to the deferral of transmission costs.

D. THE COMMISSION SHOULD DECLINE TO ACCEPT THE CONDITIONS SUGGESTED BY STAFF AND OTHER PARTIES TO THIS PROCEEDING.

In this proceeding, the Staff has proposed the following conditions for the AAO if the Commission authorizes an AAO or transmission tracker:

1. That the deferral reflects both transmission revenues and expenses, and thereby be based upon the level of net transmission costs experienced by KCPL and GMO. ("Condition 1")
2. That KCPL and GMO will provide to all parties in this case on a monthly basis copies of billings from SPP for all SPP rate schedules that contain charges and revenues that will be included in the deferral and will report, per its general ledger, all expenses and revenues included in the deferral by month by FERC USOA account and KCPL/GMO subaccount or minor account. KCPL and GMO shall also provide, on no less than a quarterly basis, the internally generated reports it relies upon for management of its ongoing levels of transmission expenses and revenues. KCPL and GMO should also commit to notify the parties to this case of any changes to its existing reporting or additional internal reporting instituted to manage its transmission revenue and expenses. ("Condition 2")

3. That KCPL and GMO maintain an ongoing analysis and quantification of all benefits and savings associated with participation in SPP not otherwise passed on to retail customers between general rate proceedings. (“Condition 3”)
4. That KCPL and GMO be required to maintain documentation of its efforts to minimize the level of costs deferred under any AAOs or trackers authorized for it. (“Condition 4”)
5. That all ratemaking considerations regarding transmission revenue and expense amounts deferred by the Company pursuant to Commission authorization be reserved to the next KCPL and GMO rate proceedings, including examination of the prudence of the revenues and expenses. (“Condition 5”)
6. That an amortization to expense over a 60-month period of the amounts accumulated in any deferral commence on KCPL’s and GMO’s books in the first full calendar month following Commission approval of the AAOs or trackers. (“Condition 6”)
7. That deferrals resulting from the AAOs or trackers cease under certain circumstances, described below, depending upon KCP&L’s and GMO’s reported return on equity (ROE) levels. (“Condition 7”)

(Staff Ex. 3NP, Oligschlaeger Rebuttal, pp. 28-29)

Staff Conditions 1-4 and 6-7, inclusive, are unnecessary, more onerous and restrictive than the historical practice for deferrals authorized by the Commission, and should be rejected. These conditions appear to be an attempt by Staff and other parties to reduce full recovery of transmission costs that are being prudently incurred by the Companies under the Commission’s approval of Regional Transmission Organization (“RTO”) participation in SPP. In fact, the transmission costs requested by the Companies for deferral are the same type of transmission costs that Union Electric Company d/b/a Ameren Missouri (“Ameren Missouri”) is already

receiving recovery of through its Fuel Adjustment Clause.⁶ For these reasons, the Commission should not attach conditions impacting ultimate deferral and recovery of transmission costs to this AAO application, with the exception of Condition 5 which is a standard condition for AAOs and is otherwise reasonable. (KCP&L Ex. 5, Ives Surrebuttal, pp. 32-33)

The Companies will more specifically address Staff's proposed conditions below:

1. Condition 1 (Revenues and Expenses) Should Be Rejected Since It Ignores the Ownership Costs of Transmission Service.

Under Condition 1, Staff is asserting that the deferral should reflect both transmission revenues and expenses, and thereby be based upon the level of net transmission costs experienced by KCP&L and GMO.

With regard to Condition 1, Staff has ignored one side of the revenue requirement calculation. Staff would include transmission revenues associated with local transmission projects, but chooses to exclude the costs associated with the same projects. The transmission revenues are closely linked with the costs to own and operate transmission facilities. Transmission revenues result from, and are used to offset, the cost to own, operate, and maintain transmission facilities. In the calculation of revenue requirement, both of these components need to be either included or excluded *together* because of that matching offset. Therefore, the Companies proposed to exclude both the revenue and ownership components in its initial AAO proposal and track only changes in transmission service charges associated with Regional

⁶ In its *Report and Order, Re Ameren Missouri*, File No. ER-2012-0166, Section B, MISO Costs in the FAC, Findings of Fact (Item 19), the Commission stated: "Those costs meet the Commission's past standards for inclusion in the fuel adjustment clause in that they are *significant in amount, volatile in that they are not only rapidly rising, but are also uncertain in amount, and they are largely beyond the control of Ameren Missouri*. The Commission finds that MISO transmission costs should continue to be flowed through Ameren Missouri's fuel adjustment clause." (*emphasis added*) KCP&L and GMO's request to defer incremental transmission customer charges requested in their AAO application is reasonable or warranted given the fuel adjustment clause ("FAC") treatment provided to Ameren Missouri by the Commission in its Order in Case No. ER-2012-0166, and the underlying factors considered by the Commission in that Order.

Transmission Projects which are included in this AAO filing. (KCP&L Ex. 5, Ives Surrebuttal, p. 23)

Staff, on the other hand, suggests that the Commission include in the AAO the revenues associated with local transmission ownership, but exclude the transmission costs associated with the local transmission system. (Tr. 280) (KCP&L Ex. 5, Ives Surrebuttal, p. 23) The Staff's suggested approach is unbalanced and violates matching principles, and it would be more appropriate and reasonable to exclude the costs and the revenues associated with the local or zonal transmission system, as suggested by the Companies.

2. The Commission Should Reject Condition 2 (Monthly Reporting) Because It is Unnecessary And the Companies Will Provide the Information As A Part of the Rate Case Audits in the Next General Rate Cases, if requested by Staff or Other Parties.

Under Condition 2, Staff is asserting that KCP&L and GMO should provide to all parties in this case on a monthly basis copies of billings from SPP for all SPP rate schedules that contain charges and revenues that will be included in the deferral and will report, per its general ledger, all expenses and revenues included in the deferral by month by the Federal Energy Regulatory Commission ("FERC") USOA account and KCP&L/GMO subaccount or minor account. KCP&L and GMO would also provide, on no less than a quarterly basis, the internally generated reports they rely upon for management of their ongoing levels of transmission expenses and revenues. KCP&L and GMO would also commit to notify the parties in this case of any changes to its existing reporting or additional internal reporting instituted to manage its transmission revenue and expenses. (Staff Ex. 3NP, Oligschlaeger Rebuttal, p. 28)

The Companies believe that Condition 2 should not be adopted by the Commission. The Companies believe that Staff has and will have the ability and time to review any and all transmission costs that are deferred as part of this AAO request in their next general rate case

proceedings without the reporting requirements requested in this condition. The Companies will maintain the support for the accounting transactions supporting the deferral in this case. The next general rate case proceedings would be the appropriate time to review the transactions supporting the deferral of transmission cost under this AAO filing.

If the Commission finds merit in this condition, the Companies would propose the following changes to Condition 2: 1) the Commission should define exactly what reporting documentation is required to be provided to Staff, and 2) the Company requests that all reporting requirements be completed on a quarterly basis and not a monthly basis. This change would reduce the monthly reporting requirements for the Companies and should not significantly impair the timeliness of Staff's review of the reported data. (KCP&L Ex. 5, Ives Surrebuttal, pp. 24-25)

3. The Commission Should Reject Condition 3 (SPP Cost/Benefit Analysis) Since It is Unnecessary and Unworkable.

Under Condition 3, the Staff would have KCP&L and GMO maintain an ongoing analysis and quantification of all benefits and savings associated with participation in SPP not otherwise passed on to retail customers between general rate proceedings.

Implementation of this condition would be difficult, if not impossible, to comply with in an accurate, cost effective, and timely basis. Studies developed to assess the varied benefits of RTO participation typically require several months to produce a single set of estimates, regardless of whether they are produced by the RTO or by an outside consultant. In the 2011 submittal of their interim report on RTO participation, KCP&L and GMO relied heavily on studies that had been previously produced by other entities. Even with that assistance, the entire report required several months for compilation and documentation. Had the Companies commissioned an outside consultant to produce a similar set of estimates, the study not only would have required several months, but the cost would have been several hundred thousand

dollars. Furthermore, it is widely recognized that such estimates contain a substantial margin of error due to multiple uncertainties in inputs, modeling assumptions, and parameter estimates. Therefore, the results of such analyses generally do not contain sufficient accuracy to serve as a basis for accounting entries. (KCP&L Ex. 5, Ives Surrebuttal, pp. 25-26) In contrast, the transmission service charges that the Companies propose for inclusion in the AAO are easily measurable with accuracy. Finally, the benefits of RTO participation include factors that are not readily quantifiable in dollars, such as the value of enhanced transmission reliability and the value of easier access to renewable resources. Clearly, it would not be appropriate to include such non-monetary benefits in an AAO mechanism so as to potentially offset transmission charges. (*Id.*) In fact, even reading the testimony of Staff's witness Oligschlaeger seems very revealing when he states on page 31 line 5 that the Company should maintain documentation "to the best of their ability." (Staff Ex. 3NP, Oligschlaeger Rebuttal, p. 31) It appears the Staff realizes that quantifying such benefits is difficult, let alone having to then discern the amount that is already embedded in base rates versus amounts that are occurring after a test year with any degree of certainty. (KCP&L Ex. 5, Ives Surrebuttal, p. 26)

For these reasons, the Companies cannot agree to Condition 3. KCP&L and GMO have already committed to file new cost/benefit analyses with the Commission in 2017 regarding their participation in SPP.⁷ These proceedings are the appropriate forums in which the benefits of participation in SPP have been addressed in the past, and the Commission should similarly address these issues in the future. (KCP&L Ex. 5, Ives Surrebuttal, pp. 26-27)

⁷ *Stipulation And Agreement*, p. 14, Re Kansas City Power & Light Company for Authority To Extend The Transfer of Functional Control of Certain Transmission Assets to the Southwest Power Pool, File No. EO-2012-0135; *Stipulation And Agreement*, p. 14, Re KCP&L Greater Missouri Operations Company for Authority To Extend The Transfer of Functional Control of Certain Transmission Assets to the Southwest Power Pool, File No. EO-2012-0136.

4. The Commission Should Reject Condition 4 (Cost Minimization) Since It Is Unnecessary.

Under Condition 4, the Staff asserts that KCP&L and GMO should be required to maintain documentation of their efforts to minimize the level of costs deferred under any AAOs or trackers authorized. For the reasons stated below, Condition 4 should also be rejected.

Transmission costs are primarily outside of the Companies' control in regards to amounts that are being billed from SPP. Yet, Staff in Condition 4 is requiring documentation on how the Companies are minimizing transmission costs. Regardless of the cost category involved, whether it is transmission or some other type of cost, the Companies have a fiduciary responsibility to operate in as efficient a manner as possible and ensure that costs are prudently incurred. It is simply unnecessary for the Commission to instruct them to operate in as an efficient manner as possible.

It is also not the appropriate goal to minimize costs. Minimizing transmission costs could result in underdevelopment of the regional transmission system and could result in overall increased cost of service to the Companies' customers. Instead, the goal should be to optimize expenditures to provide the best value to the customer. This is the goal that the Companies are working to ensure through the active involvement with SPP which is discussed in the Companies' testimony in this proceeding. (KCP&L Ex. 5, Ives Surrebuttal, pp. 27-29)

Any condition requiring documentation of the efforts of the Companies to "minimize" their transmission costs should be rejected. The Staff and other parties have the ability to review extensive public documentation and meeting minutes produced by SPP that provide explanation of the efforts by SPP to operate in an efficient manner and optimize the benefits relative to the costs billed to its participating members.

5. The Commission Should Adopt Condition 5 (Ratemaking) Since It is a Standard Condition For AAOs and Trackers and Is Reasonable.

Under Condition 5, Staff has suggested that all ratemaking considerations regarding transmission revenue and expense amounts deferred by the Companies pursuant to Commission authorization be reserved to the next KCP&L and GMO rate proceedings, including examination of the prudence of the revenues and expenses.

The Companies are agreeable to Condition 5 for the AAO or transmission tracker since it has been a standard or routine condition on previous AAOs and trackers. The Companies believe that all ratemaking considerations regarding transmission costs should be reserved for the next KCP&L and GMO rate proceedings. This would include an examination of the prudence of the deferred transmission costs. (KCP&L Ex. 5, Ives Surrebuttal, pp. 29-30)

6. The Commission Should Reject Condition 6 (Amortization) Since It Would Defeat The Purpose of the AAO or Transmission Tracker To Allow For A Consideration of All Transmission Costs in The Next Rate Cases.

Under Condition 6, Staff argues that there should be an amortization to expense over a 60-month period of the amounts accumulated in any deferral to commence on KCP&L's and GMO's books in the first full calendar month following Commission approval of the AAOs or trackers.

The Companies strongly oppose Condition 6. Staff's Condition 6 is requesting that any deferral on KCP&L's or GMO's books of transmission costs should begin to be amortized over a 60-month period in the first full month following the approval of any AAOs or trackers. The Staff apparently wants to allow the Company to spread the recognition of deferred costs over a five-year period for financial reporting purposes, but not to allow the recognition of the full costs in rates in a future rate case.

This condition is contrary to the overall purpose of this AAO request, which is to provide deferral of incremental transmission costs above those in base rates to be considered for recovery in the next general rate case proceeding. In addition, the mere application of this condition is problematic for the Companies. Under this provision, in any given month that transmission costs are deferred, Staff is requesting the amortization of that month's deferrals begin in the next month. This would limit the ability of the Companies to fully recover its incremental transmission costs. ASC 980-10 (Statement 71) requires a rate regulated utility to capitalize as a regulatory asset an incurred cost that would otherwise be charged to expense if future recovery in rates is probable. As such, it would be problematic for the Companies to establish the regulatory asset in this case and begin to immediately amortize the regulatory asset since the future full recovery would not be probable. Staff's Condition 6 begins amortization before the conclusion of the next general rate case proceedings and could impair the Companies' ability to defer transmission costs into a regulatory asset and thus should be not be accepted in this proceeding. (KCP&L Ex. 5, Ives Surrebuttal, pp. 30-31)

As Company witness Ryan Bresette explains in his Direct Testimony, whether a regulatory asset is probable of recovery is a matter of professional judgment. The following may support deferrals of such costs:

- Rate orders from the regulator specifically authorizing recovery of such costs in rates.
- Previous rate orders from the regulator allowing recovery for substantially similar costs.
- Written approval from the regulator approving future recovery in rates.

(KCP&L Ex. 1, Bresette Direct, pp. 3-4)

If Staff's Condition 6 was accepted, it would be problematic for the Companies to establish the regulatory asset in this case under the guidelines discussed by Mr. Bresette. Staff's

Condition 6 begins amortization before the conclusion of the next general rate case proceedings. It would ensure that the Companies would not be able to fully recover prudently incurred transmission costs after the next general rate cases since there would be amortizations or write-offs before the rate cases even occurred. This would impair the Companies' ability to even defer transmission costs into a regulatory asset—thereby defeating the purpose of the AAO. This condition should not be accepted in this proceeding. (KCP&L Ex. 5, Ives Surrebuttal, pp. 30-31)

7. The Commission Should Reject Condition 7 (Earnings Test) Since It Is Unnecessary, Unworkable, and Unprecedented.

Under Condition 7, Staff is arguing that deferrals resulting from the AAOs or trackers should cease depending upon KCP&L's and GMO's reported return on equity ("ROE") levels. The Companies strongly object to this condition.

Surveillance reporting on a quarterly basis using the processes and formats filed currently would not provide all the assurances that this Commission needs to adequately assess the earnings of the Companies. Currently, KCP&L only completes a surveillance report that is filed with the Commission on an annual basis in Missouri. KCP&L's annual surveillance report takes a considerable amount of effort to put together and would be very problematic for KCP&L to complete on a quarterly basis. Staff and other parties have often referred to it as the model report and the report provides a solid "surveillance" of a company's earnings on an annual basis, but this report is not available on a quarterly basis.

Secondly, GMO files on a more frequent basis by filing monthly surveillance reports which are significantly less involved than the annual surveillance report filed for KCP&L since it strictly provides only accounting data that is not adjusted for regulatory normalizations and accounting anomalies that typically occur when reviewing a regulated utility's earnings. Staff has suggested in testimony that this report be used as a benchmark to cease the deferral of

incremental transmission costs. GMO believes that this report, if used on a quarterly basis, would not provide the necessary assurances that this Commission would need to restrict the deferral of costs in this proceeding.

Such surveillance reports are not adjusted for weather, nuclear refueling cycles or a myriad of routine adjustments that are made in rate cases. (Tr. 230-32; 271-72) If the Commission adopted Condition 7, it is likely that the quantification of the earned ROE would be quite controversial among the parties in future proceedings. (Tr. 235, 275) Mr. Ives testified that he would expect hearings and a number of differences and opinions on whether or not the Companies had truly earned in excess of the authorized returns. (Tr. 235)

Surveillance reports are not considered adequate alone for Staff to determine when to file a rate complaint case. Such surveillance reports are only considered as a “starting point” for the Staff’s analysis of a public utility’s earnings level. (Tr. 272) Staff witness Oligschlaeger testified: “I would say in general terms we are unlikely to initiate some kind of complaint process without a fairly sustained and material, sustained period of material earnings.” (Tr. 272) He also testified that “Surveillance reports are not detailed enough to justify changes in rates in and of themselves.” (Tr. 273) Just as surveillance reports are not adequate alone to determine if a rate complaint should be filed, the Companies believe that such surveillance reports are not adequate for determining if and when an AAO or other deferral of transmission costs should be “turned off” under Staff Condition 7. The Companies would be willing to work with Staff to create surveillance reporting for both KCP&L and GMO that contains the appropriate amount of analysis on a quarterly basis and be consistent and reflective of the requirements for the FAC in advance of the Companies’ next rate case proceedings. However, such surveillance reports

should not be used to “turn on” or “turn off” the AAO’s deferral of costs. Such a condition is unnecessary, unworkable, and unprecedented.

E. THE COMMISSION SHOULD REJECT THE OTHER CRITICISMS OF AAOs AND TRACKERS RAISED BY MECG AND MIEC.

During the opening statements and throughout the hearing, counsel for MECG challenged the lawfulness of the AAOs and transmission trackers as “retroactive ratemaking”. (Tr. 94, 115) For the reasons stated herein, MECG’s legal challenges should be rejected.

The courts have uniformly rejected such claims that AAOs are illegal. This is because AAOs and trackers do not involve ratemaking at all. *See, e.g., State ex rel. Noranda Aluminum, Inc. et al. v. PSC*, 356 S.W.3d 293 (Mo. App. S.D. 2011). Under the proposed AAO or transmission tracker, ratemaking will occur in a future rate case. Before any deferred costs can later be taken into account in setting rates *in the future*, the Commission will again consider all relevant factors.

Under AAOs or trackers, the Commission authorizes the public utility to defer costs for review and possible recovery in the next general rate case. The Commission’s use of AAOs has also been determined to be lawful and reasonable. *State ex rel. Office of the Public Counsel v. PSC*, 858 S.W.2d 806, 812-13 (Mo. App. W.D. 1993).

Contrary to the arguments of MECG, the AAOs or transmission tracker do not constitute “retroactive ratemaking”. The courts have rejected similar arguments challenging the lawfulness of the FAC on the grounds that the FAC constituted retroactive ratemaking. However, the Court in *State ex rel. AG Processing v. PSC*, 340 S.W.3d 146, 151 (Mo. App. W.D. 2011) has rejected this argument, stating:

By specifically stating that the legislature could authorize fuel adjustment clauses like the one adopted by KCP&L here, the Supreme Court in *UCCM* presumably contemplated that such clauses would not themselves violate the retroactive ratemaking doctrine. The Court's description of the retroactive ratemaking doctrine in *UCCM* also suggests that a properly authorized fuel adjustment clause would not be unlawful. *UCCM* state that, under the retroactive ratemaking doctrine, the PSC "may not . . . redetermine rates already established and paid without depriving the utility (or the consumer if the rates were originally too low) of his property without due process."

See 585 S.W.2d at 58 (*footnote omitted*).

Similarly, the courts have rejected arguments that AAOs and the Purchased Gas Adjustment ("PGA") Clause constitute retroactive ratemaking. *See State ex rel. Office of the Public Counsel v. Public Service Commission*, 301 S.W.3d 556 (Mo. App. 2010) (holding that the Commission's AAO allowing a gas utility to defer the costs of complying with the Commission's cold weather rule did not violate the prohibition against retroactive ratemaking); *State ex rel. Midwest Gas Users' Association v. Public Service Commission*, 976 S.W.2d 470 (Mo. App. 1998) (holding that the PGA clause did not constitute improper retroactive ratemaking).

In *State ex rel. Office of the Public Counsel v. PSC*, 858 S.W.2d 806, 812-13 (Mo. App. W.D. 1993), the argument was made that it constitutes impermissible single-issue ratemaking to authorize a utility to defer depreciation expenses between rate cases associated with construction projects at the utility's power plants. Specifically, OPC argued that "by granting [the utility] authority to defer certain costs . . . the Commission is permitting '[the utility] to isolate individual costs [sic] of service components for future ratemaking recovery by preserving these costs by means of deferral, without proper consideration of concurrent relevant factors.'" (*Id.* at 812) This argument is similar to the arguments of MECG in its opening statements on this issue. In rejecting OPC's contention, the Missouri Court of Appeals indicated that the "Commission did not grant rate relief to [the utility]." (*Id.*) Rather, the

Court recognized that the Commission “stated in its Report and Order that the amount of the deferred cost to be recovered as well as other ratemaking issues would be determined in a later rate case.” (*Id.*)

The Commission’s order did not presume to determine a new rate [using the deferred costs] but effectively permitted [the utility] . . . to file a rate case . . . and then to present evidence and argue that the deferred costs . . . should be considered by the Commission in approving a [future] rate change. The Commission’s order does not preclude consideration of other relevant factors when the Commission considers the appropriate rate to be charged the utility’s customers. The Commission’s order . . . does not constitute single-issue ratemaking.

(*Id.* at 813)

Under the requested AAO or a transmission tracker, the difference between the base level of charges and the actual level of transmission charges would be tracked and deferred. The Companies may ask that the difference be considered for later recovery in future rates, but that will only occur in the context of a general rate proceeding where all relevant factors are considered. Any rate would be applied to the future sales only. The bottom line is that the Commission has full authority to authorize the Companies to defer changes in these net charges via an AAO or a transmission tracker.

With either the requested AAO or a transmission tracker, there will be no retroactive changes in rates. Rates will be changed in a future rate case, based upon the consideration of all relevant factors. Rates will apply to future service, and there will be no attempt to charge or readjust consumers’ past bills to account for past losses. As a result, there is no retroactive ratemaking under the Companies’ proposal, and MECG’s argument should therefore be rejected.

In addition, MECG/MIEC witness Greg Meyer has attempted to interject a couple of isolated facts--such as decreasing capital costs, depreciation of existing plant and the unadjusted data from GMO’s surveillance report in to this case. He refers to these isolated items as

“mitigating circumstances.” (MECG Ex. 4, Meyer Rebuttal, pp. 12-13) However, he admits that he was not familiar with any Commission order that denied an AAO request based upon declining capital costs, depreciation expense, or surveillance reports. (Tr. 311)

In fact, the Commission in the past has not considered any “mitigating circumstances” when it has considered AAOs requests. Instead, the Commission has left any consideration of current operations and earning levels for a future rate case when the Commission reviews “all relevant factors” when establishing new rate levels. The Commission should continue this longstanding approach in this case.

F. THE COMMISSION SHOULD NOT REVERSE THE REGULATORY LAW JUDGE’S RULING TO EXCLUDE A LEGAL BRIEF FILED BY AMEREN IN ANOTHER PROCEEDING.

During the evidentiary hearings, Regulatory Law Judge Kim Burton ruled that a legal brief submitted by Ameren Missouri in File No. EU-2012-0027 should be excluded from evidence in this proceeding. (Tr. 317-18)

On January 31, 2014, the MECG, MIEC and Staff filed a Motion For Reconsideration And Motion For Expedited Treatment (“Motion”) of the presiding officer’s ruling that denied MECG’s offer of an Ameren Missouri brief in File No. EU-2012-0027 into evidence in this case.

For the reasons stated in pleadings previously filed by KCP&L/GMO on February 3, 2014,⁸ and Ameren Missouri on February 4 and 5, 2014,⁹ the Motion should be denied, and the ruling of Regulatory Law Judge Kim Burton should be upheld.

⁸ *Kansas City Power & Light Company’s And KCP&L Greater Missouri Operations Company’s Response In Opposition To the Motion For Reconsideration And Motion For Expedited Treatment* (filed February 3, 2014).

⁹ *Ameren Missouri Response In Opposition To Motion For Reconsideration and For Expedited Treatment* (filed February 4, 2014); *Ameren Missouri’s Sur-Reply To MECG and MIEC Reply To Responses of Ameren Missouri and KCPL/GMO Motion For Reconsideration* (filed February 5, 2014).

To re-iterate, Ameren Missouri's AAO case, File No. EU-2012-0027, dealt with different facts and circumstances than the present proceeding, and a brief discussing those facts and circumstances as well as legal issues involved in that case should not be admitted as evidence into the record in this proceeding. The Ameren Missouri brief represents legal argument on issues that are not at issue in this case. It is not a judicial admission of facts, as suggested by the Motion. Nor is the legal brief the same as a Commission decision which includes findings of fact or conclusions of law. (Tr. 317-18)

The Motion erroneously argues that Ameren Missouri made "statements which are contradictory to its statements in the immediate case." (Motion, p. 6) KCP&L and GMO do not believe that this assertion is correct. In this proceeding, Ameren Missouri has correctly argued that the Commission has broad discretion to grant Accounting Authority Orders ("AAOs"). (*See* KCP&L and GMO's Position Statement, pp. 4-6) There is nothing in Ameren Missouri's Brief in File No. EU-2012-0027 that suggests a contrary position. Nor are the facts in the record of File No. EU-2012-0027 relevant to this proceeding.

While the Ameren Missouri Brief may have expressed views related to General Instruction No. 7 in File No. EU-2012-0027, these statements do not suggest that the USOA or General Instruction 7 limits the Commission's statutory authority or discretion to grant AAOs, pursuant to Missouri law. There is nothing inconsistent with Ameren Missouri's discussion of General Instruction 7 that is contrary to their position that the Commission has broad discretion to grant an AAO in this proceeding.

The competent and substantial evidence in this proceeding clearly demonstrates that General Instruction No. 7 does not provide authoritative guidance to the Companies to defer costs as a regulatory asset. (KCP&L Ex. 1, Bresette Direct, p. 5; KCP&L Ex. 4, Ives Direct, pp.

8-9) As explained by Mr. Bresette, a utility must have written approval from its regulators prior to deferral of such costs. The criteria that must be met to defer costs to a regulatory asset are defined in the account definition for FERC Account 182.3 in the FERC USOA. (*Id.*) However, General Instruction No. 7 does not mandate the Commission to grant or deny an AAO under any set of circumstances. General Instruction No. 7 is only addressing the appropriate FERC account on income statement items, but not the discretion of the Commission under any set of circumstances. Ameren Missouri's Brief in File No. EU-2012-0027 is not in any way inconsistent with this position.

In summary, KCP&L and GMO respectfully request that the Commission deny the Motion For Reconsideration And The Motion For Expedited Treatment filed by MIECG, MIEC, and Staff on January 31, 2014.

III. CONCLUSION

In conclusion, the Companies respectfully request that the Commission issue an Accounting Authority Order or transmission tracker authorizing them to account for and record on its books a regulatory asset or regulatory liability related to the rapidly increasing transmission costs associated with SPP projects for the following reasons:

1. There is no statute or Commission rule that limits the Commission's discretion in granting an AAO, deferral or tracker. The Commission has broad discretion to determine each AAO request based upon the specific circumstances of that request. While some orders have dealt with "extraordinary" and "non-recurring" costs, many orders have addressed costs that were material, expected to change significantly in the near future, and were primarily outside the control of the utility. A number of these cases were listed in KCP&L Ex. 5, Ives Surrebuttal, Schedule DRI-1 (as corrected).

2. Increasing transmission costs are a real concern for the Companies and are appropriate candidates for an AAO because they are material to the Companies' earnings, expected to change significantly in the near future, and are primarily outside the control of the Companies.

3. The Commission must specifically give authorization to defer incremental transmission costs if the Companies are to defer these costs. General Instruction No. 7 as referenced in the Commission's orders in the Companies' most recent rate cases does not provide for automatic deferral of transmission costs. The Companies believe the Commission intended for the Companies to be able to defer transmission costs because they are in excess of 5% of net income. The Companies believe the Commission relied upon an inaccurate application of General Instruction No. 7 in its ruling. It should now rectify the situation by specifically authorizing the deferral of transmission costs in this proceeding.

4. Historically, transmission costs have fluctuated due to load variations. What makes the current environment of transmission costs extraordinary in nature is the current unprecedented and extraordinary escalation in transmission infrastructure costs. These costs are expected to be increasing through the year 2022.

5. KCP&L and GMO do not have a mechanism in place to recover these substantial increases (unlike Ameren which includes these types of transmission costs in its FAC, and in contrast to other states that have rider mechanisms in place to recover transmission costs). Thus the Companies should be allowed to defer the changes in these charges as compared to the level assumed in base rates for potential future recovery.

6. Every incremental dollar spent above the amounts that are included in base rates contribute to regulatory lag and the Companies have no ability to recover these costs except to file time consuming and resource consuming rate cases year after year. An AAO would be a mechanism to limit the amount of year to year rate increases that could be needed to fully recover transmission costs impacting the Companies.

7. The disposition of any approved deferral would be determined in the Companies' next general rate cases. The Companies' request preserves the opportunity for the Commission to review these costs in a future rate case and allows the Companies to defer those costs until that Commission review.

8. The conditions proposed by Staff are not necessary, are more onerous and restrictive than historical practice, and should be rejected. These conditions are an attempt to reduce full recovery of transmission costs. An AAO should be granted with no conditions attached, except for the standard condition that ratemaking treatment of the costs will be determined in the Companies' next general rate cases.

9. The Commission found that transmission costs should be recovered by Ameren Missouri through its FAC mechanism in Ameren's most recent rate case (File No. ER-2012-0166). The Commission held that transmission costs qualify as transportation costs, and are necessary for the transport of electricity. Similarly, the Companies should not be subjected to significant regulatory lag and under-recovery of the costs to transport electricity to the load they serve. The Commission also found at pages 88-89 of the ER-2012-0166 *Report and Order* that Ameren Missouri's transmission costs in the FAC meet the Commission's standards for inclusion in an FAC in that they are significant in amount, rapidly rising, uncertain in amount and they are largely beyond the control of Ameren Missouri. The Companies request for an

AAO in this case is reasonable given the FAC treatment of Ameren Missouri's transmission costs.

Finally, the Companies have requested an AAO in this proceeding, but they would also be in favor of either an AAO or a transmission tracker. Either mechanism is accounted for under the same sections of the USOA (Accounts 182 and 254), is supported by the Companies' application and testimony and would allow the Companies to defer the costs, pending a review in the Companies' next general rate cases. The Commission should take the steps in this proceeding to specifically authorize the deferral of transmission costs, even though it previously concluded that the Companies had the discretion under the USOA to defer these costs if they were above 5% of net income.

Respectfully submitted,

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**ATTORNEYS FOR KANSAS CITY POWER &
LIGHT COMPANY AND KCP&L GREATER
MISSOURI OPERATIONS COMPANY**

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, to the certified service list in this proceeding this 25th day of February, 2014.

/s/ Roger W. Steiner

Roger W. Steiner

Accounting Authority Orders

Case Number	Company	Subject	Approved/ Denied
WO-02-273	MO. American Water	Security Costs	Approved
GO-02-175	MO Public Service	Uncollectibles Expense	Denied
GO-02-175	St. Joseph Light & Power	Uncollectibles Expense	Denied
GR-01-292	Missouri Gas Energy	Safety Costs	Approved
EO-00-845	St. Joseph Light & Power	Plant explosion	Denied
WR-00-844	St. Louis County Water	Main replacement	Approved
GR-99-315	Laclede Gas	Safety costs	Approved
GO-99-258	Missouri Gas Energy	Year 2000 costs	Approved
GA-98-464	United Cities Gas	Mfg gas plant cleanup	Approved
WO-98-223	St. Louis County Water	Main replacement	Denied
WA-98-187	United Water Missouri	FAS 106	Denied
GR-98-140	Missouri Gas Energy	Safety costs	Approved
WO-97-319	St. Louis County Water	Refunds	Denied
GO-97-301	Missouri Gas Energy	Safety costs	Approved
WO-97-249	Missouri-American Water	AFDC & Deferred Depreciation	Withdrawn
EO-97-224	Kansas City Power & Light	Storm costs	Approved
WR-96-263	St. Louis County Water	Main repairs	Denied
WO-96-234	St. Louis County Water	Main repairs	Approved
GR-96-193	Laclede Gas	Safety costs	Approved
GR-96-193	Laclede Gas	Mfg gas plant cleanup	Approved
GR-96-193	Laclede Gas	Pensions	Approved
EO-95-193	St. Joseph Light & Power	Storm costs	Approved
TO-95-175	Orchard Farm Telephone	FAS 106	Approved
WR-95-145	St. Louis County Water	Main replacement	Approved
WR-95-145	St. Louis County Water	Refunds	Denied
GO-94-255	Missouri Gas Energy	FAS 106	Approved
GO-94-234	Missouri Gas Energy	Safety costs	Approved
GR-94-220	Laclede Gas	Safety costs	Approved
GR-94-220	Laclede Gas	Mfg gas plant cleanup	Approved
WO-94-195	St. Louis County Water	Flood costs	Approved
EO-94-149	Empire Distric Electric	Flood costs	Approved
GO-94-133	Western Resources	Safety costs	Approved
EO-94-35	St. Joseph Light & Power	Flood costs	Approved
GO-93-201	Western Resources	FAS 106	Approved
WO-93-155	Missouri-American Water	FAS 106	Approved
WO-93-154	Missouri-American Water	Pensions	Approved
ER-93-37(remand)	Missouri Public Service	Safety costs	Approved
ER-93-37(rehear)	Missouri Public Service	Safety costs	Approved
ER-93-37	Missouri Public Service	Safety costs	Approved
EO-93-35	Empire Distric Electric	FAS 106	Approved
GO-92-185	Kansas Power & Light	Safety costs	Approved
EO-92-179	Union Electric	FAS 106	Approved
GO-92-67	United Cities Gas	Safety costs	Approved
EO-91-360	Missouri Public Service	Purchased power	Denied
GO-91-359	Missouri Public Service	Safety costs	Approved
EO-91-358	Missouri Public Service	Sibley rehab	Approved
EO-91-305	Kansas City Power & Light	Coal contract buyout	Approved
GR-91-291	Kansas Power & Light	Safety costs	Approved
EO-91-247	St. Joseph Light & Power	AM/FM Mapping costs	Approved
EA-90-252	St. Joseph Light & Power	Transmission Lease	Denied
EA-90-252	Kansas City Power & Light	Transmission Lease	Denied
GO-90-215	United Cities Gas	Safety costs	Approved
EO-90-132	Sho-Me Power	Pensions	Approved
EO-90-126	Kansas City Power & Light	Coal contract buyout	Approved
GO-90-115	Missouri Public Service	Safety costs	Approved
EO-90-114	Missouri Public Service	Sibley rehab	Approved
GO-90-51	Kansas Power & Light	Safety costs	Approved

Accounting Authority Orders

Case Number	Company	Subject
EU-2012-0131	KCP&L & KCP&L GMO	Renewable Energy Standard Costs
GU-2011-0392	Missouri Gas Energy	Tornado
EU-2011-0387	Empire District Electric	Tornado
EU-2011-0034	KCP&L GMO	Construction Accounting
GU-2010-0015	Missouri Gas Energy	KS Prop Tax/Gas in Storage
IU-2010-0164	Mid-Missouri Telephone Co.	New Equipment Costs
EU-2008-0138	Union Electric	Ice Storm
GR-2007-0137	Laclede Gas	Pensions& OPEBs
GU-2007-0138	Laclede Gas	Cold Weather Rule Costs
GU-2005-0095	Missouri Gas Energy	KS Prop Tax/Gas in Storage
EU-2002-1048	KCP&L	Ice Storm
WO-02-273	MO. American Water	Security Costs
GR-01-292	Missouri Gas Energy	Safety Costs
WR-00-844	St. Louis County Water	Main replacement
GR-99-315	Laclede Gas	Safety costs
GO-99-258	Missouri Gas Energy	Year 2000 costs
GA-98-464	United Cities Gas	Mfg gas plant cleanup
GR-98-140	Missouri Gas Energy	Safety costs
GO-97-301	Missouri Gas Energy	Safety costs
EO-97-224	Kansas City Power & Light	Storm costs
WO-96-234	St. Louis County Water	Main repairs
GR-96-193	Laclede Gas	Safety costs
GR-96-193	Laclede Gas	Mfg gas plant cleanup
GR-96-193	Laclede Gas	Pensions
EO-95-193	St. Joseph Light & Power	Storm costs
TO-95-175	Orchard Farm Telephone	FAS 106
WR-95-145	St. Louis County Water	Main replacement
GO-94-255	Missouri Gas Energy	FAS 106
GO-94-234	Missouri Gas Energy	Safety costs
GR-94-220	Laclede Gas	Safety costs
GR-94-220	Laclede Gas	Mfg gas plant cleanup
WO-94-195	St. Louis County Water	Flood costs
EO-94-149	Empire District Electric	Flood costs
GO-94-133	Western Resources	Safety costs
EO-94-35	St. Joseph Light & Power	Flood costs
GO-93-201	Western Resources	FAS 106
WO-93-155	Missouri-American Water	FAS 106
WO-93-154	Missouri-American Water	Pensions
ER-93-37(remand)	Missouri Public Service	Safety costs
ER-93-37(rehear)	Missouri Public Service	Safety costs
ER-93-37	Missouri Public Service	Safety costs
EO-93-35	Empire District Electric	FAS 106
GO-92-185	Kansas Power & Light	Safety costs
EO-92-179	Union Electric	FAS 106
GO-92-67	United Cities Gas	Safety costs
GO-91-359	Missouri Public Service	Safety costs
EO-91-358	Missouri Public Service	Sibley rehab
EO-91-305	Kansas City Power & Light	Coal contract buyout
GR-91-291	Kansas Power & Light	Safety costs
EO-91-247	St. Joseph Light & Power	AM/FM Mapping costs
GO-90-215	United Cities Gas	Safety costs
EO-90-132	Sho-Me Power	Pensions
EO-90-126	Kansas City Power & Light	Coal contract buyout
GO-90-115	Missouri Public Service	Safety costs
EO-90-114	Missouri Public Service	Sibley rehab
GO-90-51	Kansas Power & Light	Safety costs