BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of a Working Case to Consider Electric Utility Regulatory Reform	)))	File No. EW-2016-0313

REPLY COMMENTS OF KANSAS CITY POWER & LIGHT COMPANY AND KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company (collectively "KCP&L") submit these reply comments to the Missouri Public Service Commission ("Commission") pursuant to the Commission's June 8, 2016 *Order Opening A Working Case To Consider Policies To Improve Electric Regulation*, and state as follows:

INTRODUCTION

1. A number of entities provided initial comments, including Ameren Missouri, Brightergy, Gridliance Heartland, Laclede Gas Company, Liberty Utilities, the Missouri Division of Energy ("MO DOE"), the Midwest Energy Consumers Group ("MECG"), the Missouri Energy Development Association ("MEDA"), the Missouri Industrial Energy Consumers ("MIEC"), the Natural Resources Defense Council ("NRDC"), the Office of the Public Counsel ("OPC"), Renew Missouri and United for Missouri ("UFM"). In addition, Chairman Hall submitted a number of policy initiatives for consideration. These entities may be loosely grouped according to broad themes set forth in their initial comments: (a) those who advocate meaningful and effective economic regulatory reform (Ameren Missouri, MO DOE, MEDA and UFM); (b) those who advocate targeted reform (Brightergy, LLC, Gridliance Heartland, Renew Missouri and NRDC); and (c) those who oppose substantive economic regulatory reform (MECG, MIEC and OPC). In these reply comments, KCP&L will address some of the initial

comments of these entities by reference to those groupings and will also address the policy initiatives offered for consideration by Chairman Hall.

A. MEANINGFUL AND EFFECTIVE ECONOMIC REGULATORY REFORM

2. Those advocating meaningful and effective economic regulatory reform recognize that the electric utility operating environment has fundamentally changed over the past decade and that continued rapid change is likely for the foreseeable future. These fundamental changes include:

- Flat to declining revenue trends associated with decreasing average per customer usage in the current environment compared to the operating environment prevailing for the first century or so of the electric utility industry which was characterized by consistent revenue growth associated with increasing average per customer usage.
- Capital expenditures required to comply with governmental mandates[1] or to meet customer needs[2] but which are not accompanied by revenue increases in the current operating environment compared to the operating environment prevailing for the first century or so of the electric utility industry in which capital expenditures were largely driven by growth in customers and growth in average use-per-customer, both of which produced additional revenues that assisted in paying for the associated capital expenditures.
- Continually increasing emphasis, by customers and governmental decision makers as well as other interests, on policy initiatives that directly reduce revenues from electricity

[1] For example, environmental retrofits of generating stations, compliance with critical infrastructure protection standards imposed by NERC under authority delegated by FERC and property taxes imposed by governmental authority.

[2] For example, replacement of facilities (poles, conduit, transformers, substations, etc.) necessary to maintain the provision of safe and reliable electric service as well as deployment of technological advances (automated metering and distribution equipment, etc.) necessary to keep pace with increasing customer expectations.

sales[3] in the current operating environment compared to the operating environment prevailing for the first century or so of the electric utility industry where little to no emphasis was placed on such initiatives.

Although these fundamental changes in the electric utility operating environment are not all-inclusive, they are representative of changes being experienced in the electric utility industry across the country.

3. That these fundamental and rapid changes to the electric utility operating environment are incompatible with Missouri's century-plus old regulatory/ratemaking process that uses historical data as its primary inputs should not be surprising. That comprehensive reform is appropriate in light of these fundamental changes is evidenced by the fact that the vast majority of states across the country make use of regulatory mechanisms that are unavailable to Missouri's electric utilities. (See the chart attached to the Initial Comments of Ameren Missouri filed herein on July 8, 2016)

4. The electric utility industry continues to be among the most capital intensive of businesses. As such, all electric utilities – including those in Missouri – must have the ability to access capital on reasonable terms in order to meet their customers' expectations which, due in large part to advances made by providers of other services and products, are continually increasing. The capital attraction market is competitive, and for Missouri electric utilities to obtain capital on reasonable terms compared to electric utilities operating in other states, the regulatory framework in Missouri needs to maintain some degree of parity with regulatory approaches and mechanisms used in other states. Failure to do so will ultimately result in customers of Missouri electric utilities bearing higher than necessary capital costs.

[3] For example, distributed solar generation, net metering and energy efficiency.

B. TARGETED REGULATORY REFORM

5. Those advocating targeted reform focus on specific aspects of the electric utility industry of particular interest to them. For example:

- Brightergy, LLC assists its customers with installation and maintenance of solar photovoltaic generation systems, energy efficiency solutions, and energy management systems and is interested in net metering issues in connection with customer-owned solar installations, among other things.
- Gridliance Heartland is a provider of competitive transmission services to public power agencies and, as such, is interested in resolving potential conflicts between regional transmission organizations pursuit of FERC policy encouraging transmission system build-out with state regulatory action which could impede transmission system build-out by companies like Gridliance Heartland.
- Renew Missouri and NRDC are non-governmental organizations interested in, among other things, issues centered on environmental sustainability including, but not limited to, encouraging energy efficiency initiatives and expanded use of renewable energy sources.

6. KCP&L takes no position at this time regarding whether concerns expressed by Brightergy, LLC, Gridliance Heartland, Renew Missouri and NRDC should be considered as part of a broader regulatory reform initiative. The participation of these entities in this docket should not be overlooked, however, as it is strong evidence of the changes that have already been experienced in Missouri's electric utility industry as well as changes that Missouri's electric utility industry may experience in the future.

C. OPPOSITION TO REGULATORY REFORM

7. Those generally opposing substantive economic regulatory reform point to information they argue supports the conclusion that Missouri's century-plus old regulatory/ratemaking process is sufficient for Missouri's electric utilities and the customers they serve. In response, KCP&L asserts that these opposition arguments are largely based on theory or fear rather than a fact-based assessment of the Missouri regulatory/ratemaking process. These opponents have made it abundantly clear that they believe they profit from the status quo. Their opposition amounts to little more than a rearguard action meant to stall regulatory reform for another year. The perpetuation of the status quo advocated by those opposing substantive economic regulatory reform just puts Missouri electric utilities ever further behind their peers in other states, resulting in higher capital costs for Missouri electric utilities – relative to their non-Missouri peers – that are borne by other Missourians. They have chosen to raise red herrings meant to distract from needed reform and therefore warrant little credence.

D. POLICY INITIATIVES OFFERED BY CHAIRMAN HALL FOR CONSIDERATION

8. KCP&L appreciates the obvious thought Chairman Hall has devoted to the development of the policy initiatives he has offered for consideration. Unfortunately, those policy initiatives would not materially ease the problems Missouri electric utilities are currently experiencing as a result of the disconnect presented by the century-plus old regulatory/ratemaking process which uses historical data as the primary inputs to set prospective rates in a rapidly changing electric utility operating environment.

9. Specifically, the policy initiatives offered for consideration by Chairman Hall are inadequate because they do not address fundamental issues being experienced by Missouri electric utilities, namely: stagnant demand for electricity; the need for electric utilities to expend

capital on non-revenue producing infrastructure; the proliferation of government mandates increasing the cost of providing electric service; and the incompatibility of using historical data to set electric rates for a prospective period when rapid change is occurring.

10. It is indisputable that average use-per-customer which, prior to the economic downturn beginning in 2008 routinely averaged 2-3% annually for Missouri electric utilities, has flattened considerably since then, in some cases declining year-over-year. It is also indisputable that the vagaries of weather have a significant impact on Missouri electric utilities' annual revenue levels. No meaningful solution to the rapidly changing electric utility operating environment can be implemented without addressing revenues, whether through decoupling or some other means.

11. It is also indisputable that a substantial portion of the capital expenditures currently being made by Missouri electric utilities do not, in and of themselves, generate additional revenues through the extension of the distribution system to new customers or the construction of generating facilities to meet increasing demand for electricity. Instead, capital budgets of Missouri electric utilities today are dominated by facilities replacements and technological upgrades necessary to continue providing and enhancing service to customers, and environmental retrofits necessary to continue generating power while complying with federal and state regulations. To be effective, electric utility regulatory reform must address these non-revenue producing capital expenditures.

12. In addition to limited demand growth and capital budgets dominated by non-revenue generating infrastructure requirements, Missouri electric utilities have also been subjected to numerous government mandates in recent years which have served to increase the cost of providing electric service. In addition to environmental retrofits discussed above, these

governmental mandates include items such as increased property taxes, renewable energy source requirements, solar rebates and transmission fees imposed by regional transmission organizations (such as Southwest Power Pool and Midwest Independent System Operator) in furtherance of policies of the Federal Energy Regulatory Commission designed to foster the effectiveness of wholesale power markets and facilitate delivery of renewable energy. These and other emerging governmental mandates have driven, and will continue to drive, rapid changes in the electric utility industry and they must be addressed for electric utility regulatory reform legislation to be effective.

13. The policy initiatives offered by Chairman Hall for consideration would continue to make use of historical data as the primary inputs for setting prospective rates. Ameren Missouri clearly articulated why the approach offered for consideration in this policy initiative is inadequate because it mitigates regulatory lag to an even lesser degree than the current process. (See Initial Comments of Ameren Missouri, filed on July 8, 2016, p. 5)

CONCLUSION

14. The dynamic nature of the changes affecting the electric utility industry requires meaningful and effective economic regulatory reform. Given the magnitude of the capital outlays necessary to provide electric service and the long-lived nature of electric utility assets, certainty of treatment for a reasonably extended length of time is also essential. Such certainty cannot be achieved through regulatory action alone and requires legislation. Piecemeal approaches or half-measures will not suffice and will only necessitate re-visitation of these issues in the near-term. Legislating these issues is difficult. If meaningful electric utility regulatory reform legislation is passed, the General Assembly would not likely be willing to re-visit these issues again for a number of years. Electric utility regulatory reform legislation must therefore

be done right the first time. KCP&L looks forward to continued active and constructive participation in that effort which is critical to the well-being of the State of Missouri and its citizens.

WHEREFORE, KCP&L respectfully submits these reply comments.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been hand delivered, emailed or mailed, postage prepaid this 8th day of August, 2016, to all parties of record.

/s/ Robert J. Hack
Robert J. Hack