

**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). )

**POSITION STATEMENT  
OF  
KANSAS CITY POWER & LIGHT COMPANY AND  
KCP&L GREATER MISSOURI OPERATIONS COMPANY**

Comes now Kansas City Power & Light Company (“KCP&L”) and KCP&L Greater Missouri Operations Company (“GMO”) (collectively “Companies”), and pursuant to the *Order Adopting Procedural Schedule* issued on October 22, 2013, files their Position Statement.

**I. INTRODUCTION**

On September 20, 2013, KCP&L and GMO filed an application for an Accounting Authority Order (“AAO”) that would allow the Companies to undertake certain accounting procedures in connection with transmission costs associated with the Southwest Power Pool (“SPP”).

The Companies’ AAO application and supporting testimony describe the need to defer certain incremental transmission costs which are increasing annually into Account 182.3 of the Uniform System of Accounts (“USOA”) for the Federal Energy Regulatory Commission (“FERC”). In order for the Companies to record certain incremental transmission costs into Account 182.3, the Missouri Public Service Commission (“Commission”) must specifically authorize the Companies record as a regulatory asset (Account 182.3) the excess amount of transmission expense compared to the amount that is currently included in base rates in order to be addressed in the Companies’ next general rate proceeding. The Companies are requesting

that incremental transmission costs on an annual basis be calculated beginning with the effective date of rates in the Companies' last general rate case proceedings, which was January 26, 2013. In essence, under the Companies' proposal, the incremental transmission costs will be "tracked" from the effective date of rates until the next general rate case proceeding in which proper determination and amortization of cost levels will be determined.

For the reasons stated herein, the Commission should approve the Companies' AAO, as requested.

## **II. BACKGROUND OF PROCEEDING**

In the Companies' most recent rate cases, File Nos. ER-2012-0174 and ER-2012-0175, the 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. (*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. If transmission costs do not exceed 5% of income, then the Company can request an AAO. (*Id.* at pp. 29-32)

The Companies believe that the Commission's *Report and Order* was an incorrect application of the accounting principles contained in the USOA. 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.” 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. (Bresette Direct, pp. 2-5)

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.<sup>1</sup>

Under the circumstances, the Companies believe it is necessary for them to request an AAO if they are to defer transmission costs for review in the next rate case, or for the Commission to reconsider its previous decision and grant the Companies a transmission tracker. 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.

---

<sup>1</sup> 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 Motions For 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)

### III. STATEMENT OF POSITION REGARDING LIST OF ISSUES

**Issue 1: What standards and /or factors should be considered in granting or denying an AAO in this proceeding?**

**KCP&L and GMO Position:**

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 the AAO is appropriate.

Recently, the Commission 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*)

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 to 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.

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.<sup>2</sup> In Schedule DRI-1 of the Surrebuttal Testimony of Darrin R. Ives, the Companies have listed various AAOs approved by the Commission over the last twenty (20) years. The subjects that were deemed appropriate by the Commission for AAO approval have included the following:

Renewable Energy Standards Costs;

Tornado Costs;

---

<sup>2</sup> 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), and *Report & Order*, p. 80 (File Nos. GR-2009-0355 and GU-2010-0015) (Kansas property tax associated gas in storage facilities); *Order Granting Application for Accounting Authority Order, Re Mid-Missouri Telephone Company*, File IU-2010-0164 (December 24, 2009)(new equipment costs in excess of depreciation rates); *Order Granting Application Concerning Reclassification Of Certain Transmission And Distribution Facilities, Re Empire District Electric Company*, File No. EO-2009-0233 (June 13, 2009) (reclassification of transmission and distribution costs); *Order Granting Application Concerning Reclassification Of Certain Transmission And Distribution Facilities, Report And Order, 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 Gas Energy*, Case No. GU-2005-0095 (September 8, 2005) (Kansas property tax for gas in storage); *Report And Order, Re Missouri-American Water Company*, (November 10, 2004) (security costs); *Accounting Authority Order, Re United Cities Gas Company*, (February 26, 1999) (Manufactured gas plant clean-up costs).

Construction Accounting;  
Kansas Property Taxes on Gas Storage;  
New Equipment Costs;  
Ice Storms;  
Pensions and OPEBs;  
Cold Weather Rule Costs;  
Security Costs;  
Uncollectible Expenses;  
Safety Costs;  
Plant Explosion Costs;  
Main Replacement Costs;  
Manufactured Gas Plant Clean-up Costs;  
FAS 106 costs;  
Flood Costs;  
Purchased Power Expenses;  
Plant Rehabilitation Costs;  
Coal Contract Buy-out Costs; and  
AM/FM mapping costs.

(*See Ives Surrebuttal, Schedule DRI-1*)

In summary, the Commission 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.

**Issue 2: Should KC&PL and GMO be authorized an AAO to defer and record in Account 182 of the Federal Energy Regulatory Commission (“FERC”) Uniform System of Accounts (“USOA”) certain incremental transmission costs charged to them by the Southwest Power Pool (“SPP”) and other providers of transmission service above the level included in current base rates or defer and record in USOA Account 254 said transmission costs below the amount included in current base rates, with the calculation of the deferrals beginning with the effective date of rates in the Companies’ last general rate case proceedings, which was January 26, 2013, as proposed by KCP&L and GMO?**

**KCP&L and GMO Position:**

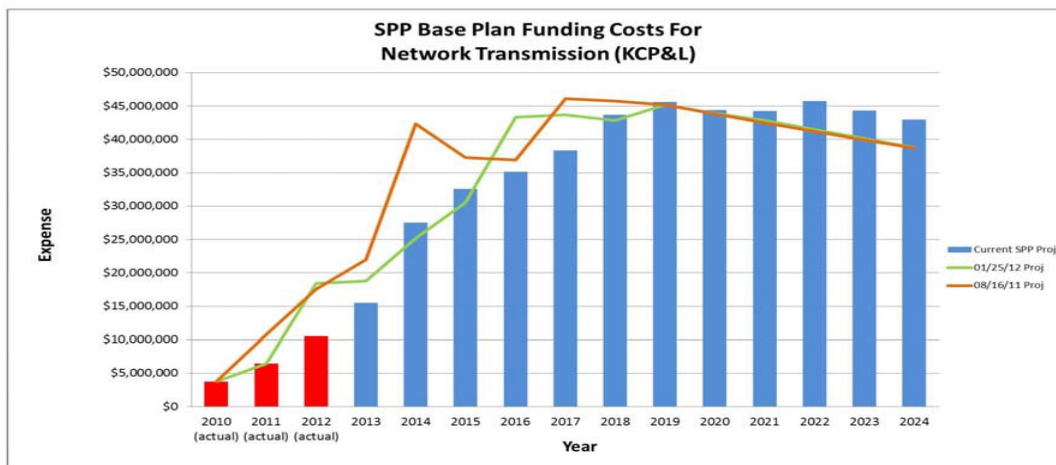
Yes. The Commission should authorize the use of a transmission AAO to ensure the consideration of appropriate recovery of transmission costs as a result of charges from the SPP and other providers of transmission service. Transmission costs are appropriate candidates for an AAO because they are material, 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 a 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. (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 \$19,727,395 of transmission costs included in its rates, but the 2013 forecasted transmission costs are \$24,600,967 for the year. Similarly, GMO has \$13,421,233 included in rates, but the 2013 forecast is \$17,705,761. (*Id.* at p. 5) As such, a regulatory asset would be recorded for the incremental difference in these costs.

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. (Carlson Direct at pp. 9-10, Schedule JRC-1 and Schedule JRC-2).



123

<sup>1</sup> 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>.

<sup>2</sup> 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>.

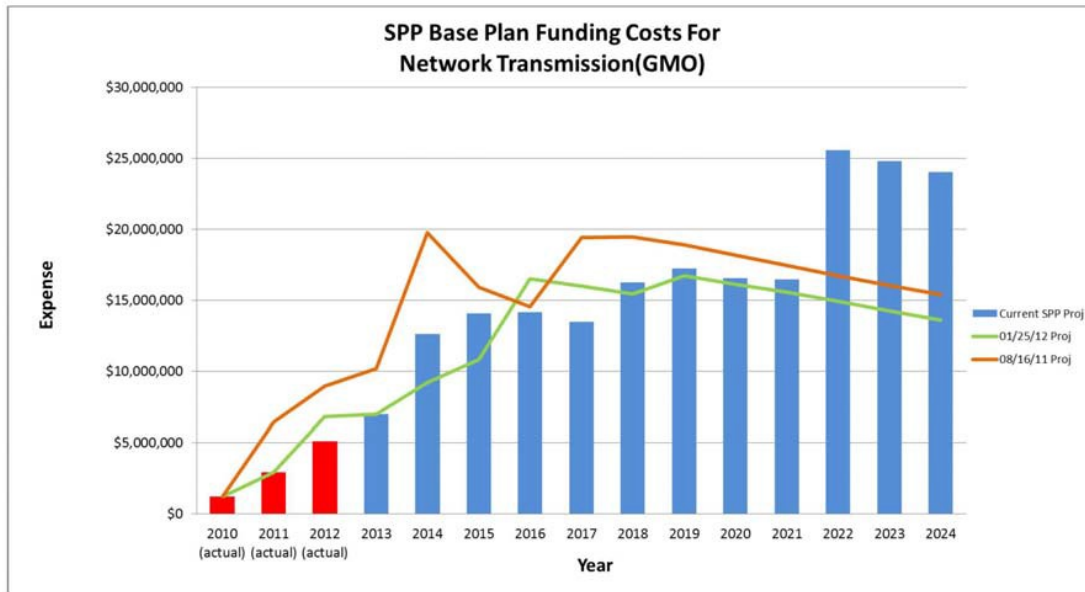
<sup>3</sup> Projections for 08/16/11 time series taken from: SPP ATRR All Totals Results August 16 2011 REV 1.xlsx, Maintained by SPP Engineering.

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 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. (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 for both utilities and the increases are primarily driven by the region-wide components. (*Id.* at p. 10)



123

<sup>1</sup> 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>

<sup>2</sup> 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>

<sup>3</sup> 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. (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 fact that due to the significant and "extraordinary" expansion of SPP base plan

funded projects that is occurring and will occur and be billed in the years to come. 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.

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, the Companies will be deprived of an opportunity to fully recover these expenses through rates.

- a. Are there mitigating factors affecting the current operations and earnings levels of KCP&L and GMO that are relevant to the KCP&L and GMO request for AAOs?**

**KCP&L and GMO Position:**

No. There are no mitigating factors affecting the current operations and earnings levels of KCP&L and GMO that are relevant to the Companies' request for AAOs. The Commission in the past has not considered any "mitigating factors" when it decided to grant the AAO.<sup>3</sup> Instead, it 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 to this issue.

---

<sup>3</sup> See various orders cited in footnote 2.

**Issue 3: Should KCP&L and GMO be authorized to include carrying costs based on the Companies' latest approved weighted average cost of capital on the balances in this regulatory asset or regulatory liability of transmission costs as proposed by KCPL and GMO?**

**KCP&L and GMO Position:**

Yes. While the AAO 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. (Ives Surrebuttal, p. 19)

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. (Ives Surrebuttal, p. 19)

**Issue 4: Should KCP&L and GMO be authorized to defer such amounts in a separate regulatory asset or regulatory liability with the disposition to be determined in each Company's next general rate case?**

**KCP&L and GMO Position:**

Yes. *See* KCP&L and GMO's Position regarding Issue 2 above. It is important to recognize that ultimately the disposition of the regulatory asset will be reviewed and determined by the Commission in the Companies' next general rate case. The Companies' AAO request merely preserves the opportunity for the Commission to review these costs in a future rate case, and allows the Companies' to defer those costs until the Commission review of these transmission costs has occurred.

**Issue 5: Should KCP&L and GMO be authorized trackers for their transmission costs in this proceeding rather than AAOs?**

**KCP&L and GMO Position:**

The Companies have filed a request for approval of an AAO in this proceeding which would allow the Companies' to track and defer transmission costs, as discussed above. Alternatively, the Companies would strongly support the approval of a transmission tracker which allowed the Companies to track and defer transmission costs in the same manner as an AAO, as the Companies requested in their last general rate cases.

**Issue 6: If the Commission grants KCP&L and/or GMO AAOs or trackers, should it also adopt all or any of the following conditions proposed by Staff and addressed by one or more of the other Parties?**

**KCP&L and GMO Position:**

No. The conditions as a whole as proposed by Staff are not necessary, are more onerous and restrictive than historical practice for deferrals authorized by the Commission, and therefore should be rejected. The conditions appear to be an attempt by Staff to reduce full recovery of transmission costs that are being prudently incurred by the Companies under the Commission's approval of RTO participation in SPP. In fact, the transmission costs request by the Companies for deferral are the same type of costs that Ameren Missouri is already receiving recovery of through its Fuel Adjustment Clause.<sup>4</sup> For these reasons, the Commission should not attach conditions impacting ultimate deferral and recovery of transmission costs to this AAO application. (Ives Surrebuttal, pp. 32-33)

---

<sup>4</sup> In its *Report and Order* from the Ameren Rate Case, 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.

While the Companies do not believe any conditions are warranted, the Companies will more specifically address Staff's proposed conditions below:

- 1. That the deferral reflects both transmission revenues and expenses, and thereby be based upon the level of net transmission costs experienced by KCP&L and GMO.**

**KCP&L and GMO Position:**

The Companies do not agree with Staff's condition 1 and the Commission should reject the condition. Staff has ignored one side of the revenue requirement calculation. 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 which are included in this AAO filing. (Ives Surrebuttal, p. 23)

- 2. That KCP&L and GMO 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 report, per its general ledger, all expenses and revenues included in the deferral by month by FERC USOA account and KCP&L/GMO subaccount or minor account. KCP&L 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. KCP&L and GMO shall also notify the Parties of any changes to its existing reporting or additional internal reporting instituted to manage its transmission revenues and expenses.**

**KCP&L and GMO Position:**

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 its next general rate case proceeding 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 proceeding 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: First, the Commission should define exactly what reporting documentation is required to be provided to Staff. Second, 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 Company and should not significantly impair the timeliness of Staff's review of the reported data.

- 3. That 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.**

**KCP&L and GMO Position:**

The Company has serious concerns regarding condition 3. 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 Company 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. In contrast, the transmission service charges that KCP&L proposes 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. 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." 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.

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.<sup>5</sup> These proceedings are the forums in which the benefits of participation in

---

<sup>5</sup> Stipulation And Agreement, p. 12, 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. 12, 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.



SPP have been addressed in the past, and the Commission should similarly address these issues in the future. (Ives Surrebuttal, pp. 26-27)

**4. That KCP&L and GMO maintain documentation of its efforts to minimize the level of costs deferred under any AAOs or trackers authorized for it.**

**KCP&L and GMO Position:**

The Companies do not believe this condition is necessary. Transmission costs are primarily outside of the Company's control in regards to amounts that are being billed from SPP. Yet, Staff in this condition is requiring documentation on how the Companies are minimizing transmission costs. It is the Companies' position that 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 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. (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. **That all ratemaking considerations regarding transmission revenue and expense amounts deferred by the Company 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.**

**KCP&L and GMO Position:**

This condition is unnecessary since ratemaking considerations are always reserved for future rate proceedings. However, the Companies are agreeable to this condition for this AAO request if the Commission believes this condition should be specifically included in the AAO order.

6. **That an amortization to expense over a 60-month period of the amounts accumulated in any deferral commence on KCP&L's and GMO's books in the first full calendar month following Commission approval of the AAOs or trackers.**

**KCP&L and GMO Position:**

The Companies do not agree with this condition. 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 states that this will help prevent the Company from "hoarding" transmission expense recoveries over long periods of time. 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 rate 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. The Staff's condition 6 begins amortization before the conclusion of the next general rate case proceeding and could impair the Companies' ability to defer transmission costs into a regulatory asset and thus should be not be accepted in this proceeding. (Ives Surrebuttal, pp. 30-31)

- 7. That deferrals addressed by the AAOs or trackers cease when KCP&L or GMO report it is earning at or in excess of its authorized ROE on a twelve-month rolling forward average basis in quarterly earnings "surveillance" reporting on an overall basis. Deferrals addressed by the AAOs or trackers begin again when KCP&L or GMO report it is below its authorized ROE on a twelve-month rolling forward average basis in quarterly earnings "surveillance" reporting on an overall basis.**

**KCP&L and GMO Position:**

The Companies do not agree with Staff's condition 7 and the Commission should reject the 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. The Company 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.

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.

#### IV. CONCLUSION

In conclusion, the Companies respectfully request that the Commission issue an Accounting Authority Order 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, waiving the notice requirement of 4 CSR 240-4.020(2), if necessary, and granting such other relief as is appropriate.

Respectfully submitted,

/s/James M. Fischer

James M. Fischer, MBN 27543  
Fischer & Dority, P.C.  
101 Madison Street, Suite 400  
Jefferson City, MO 65101  
Telephone: (573) 636-6758  
Facsimile: (573) 636-0383  
Email: [jfischerpc@aol.com](mailto:jfischerpc@aol.com)

And

Roger W. Steiner, MBN 39586  
Corporate Counsel  
Kansas City Power & Light Company  
1200 Main, 16<sup>th</sup> Floor  
Kansas City, Missouri 64105  
Telephone: (816) 556-2314  
Facsimile: (816) 556-2787  
Email: [roger.steiner@kcpl.com](mailto:roger.steiner@kcpl.com)

**ATTORNEYS FOR  
KANSAS CITY POWER & LIGHT COMPANY  
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 14<sup>th</sup> day of January, 2014.

**/s/ Roger W. Steiner**

Roger W. Steiner