BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service.	)))	Case No. ER-2012-0174
In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service.	))))	Case No. ER-2012-0175

PROPOSED FINDINGS OF FACT AND CONCLUSIONS OF LAW OF KANSAS CITY POWER & LIGHT COMPANY AND KCP&L GREATER MISSOURI OPERATIONS COMPANY

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Table of Contents

21506183

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Kansas City Power & Light Company ("KCP&L") and KCP&L Greater Missouri Operations Company ("GMO") ("Company" or, collectively, "Companies") submit these Proposed Findings of Fact and Conclusions of Law, pursuant to the April 26, 2012 Order Consolidating Cases for Hearing and Setting Procedural Schedule, and Amended Notice of Hearing issued by the Missouri Public Service Commission ("Commission" or "PSC").

I. FINDINGS OF FACT AND CONCLUSIONS OF LAW

A. Legal Principles.

1. Matters concerning public utilities are highly complex and the Commission is recognized to have vast experience and broad discretion in carrying out its ratemaking function.

2. All decisions of the Commission must be lawful, with statutory authority to support its actions, as well as reasonable. See Section 386.510.[1] See also State ex rel. Ag Processing, Inc. v. PSC, 120 S.W.3d 732, 734-35 (Mo. en banc 2003).

[1] Unless otherwise indicated, all statutory references are to the Missouri Revised Statutes (2000), as amended.

21506183

3. Lawfulness is determined by whether or not the Commission had the statutory authority to act as it did. State ex rel. Missouri Gas Energy v. PSC, 186 S.W.3d 376, 382 (Mo. App. W.D. 2005). Because the PSC "is purely a creature of statute, [its] powers are limited to those conferred by [statute] either expressly, or by clear implication as necessary to carry out the powers specifically granted." State ex rel. Utility Consumers' Council of Mo., Inc. v. PSC, 585 S.W.2d 41, 49 (Mo. en banc 1979). While the Commission's statutory authority should be liberally construed in order to effectuate its purpose, "neither convenience, expediency or necessity are proper matters for consideration in the determination of whether or not an act of the [PSC] is authorized by the statute." Id. (quoting State ex rel. Kansas City v. PSC, 257 S.W. 462, 462 (Mo. en banc 1923)).

4. The reasonableness of the order setting new rates is dependent upon whether or not "(i) the order is supported by substantial and competent evidence on the whole record, (ii) the decision is arbitrary, capricious or unreasonable, or (iii) the [PSC] abused its discretion." Missouri Gas Energy, 186 S.W.3d at 382.

5. The Missouri Supreme Court has previously enunciated a "substantial competent evidence" standard that the Commission must meet for its decisions to be lawful and valid. "Substantial evidence" has been defined by the Missouri Supreme Court as competent evidence which, if true, has a probative force on the issues. State ex rel. Rice v. PSC, 220 S.W.2d 61, 64 (Mo. en banc 1949).

6. In issuing its order, the Commission must make complete findings of fact and conclusions of law. See Sections 386.420 and 536.090. See also State ex rel. Fischer v. PSC, 645 S.W.2d 39, 42 (Mo. App. W.D. 1982) cert. denied 464 U.S. 819 (1983).

7. These findings of fact and conclusions of law must be sufficient to permit a reviewing court to determine if the Commission's order is based upon competent and substantial

evidence. State ex rel. Noranda Aluminum, Inc. v. PSC, 24 S.W.3d 243, 246 (Mo. App. W.D. 2000); State ex rel. Monsanto Co. v. PSC, 716 S.W.2d 791, 795 (Mo. en banc 1986). The findings must articulate the basic facts from which the Commission reached its ultimate conclusion. State ex rel. GS Technologies Operating Co. v. PSC, 116 S.W.3d 680, 691-92 (Mo. App. W.D. 2003). "Findings of fact that are completely conclusory, providing no insights into how controlling issues were resolved are inadequate." Monsanto, 716 S.W.2d at 795.

8. When addressing the issue of "substantial competent evidence" from an "expert," the qualification of a witness as an expert rests within the fact finder's discretion. See State ex rel. Missouri Gas Energy v. PSC, 186 S.W.3d 376, 382 (Mo. App. W.D. 2005); Emerson Elec. Co. v. Crawford & Co., 963 S.W.2d 268, 271 (Mo. App. E.D. 1997). Pursuant to Section 490.065, a witness qualifies as an expert if he or she is able to assist the finder of fact with any scientific, technical, or other specialized knowledge. Specific fact or opinion testimony offered by any expert is evaluated for its weight and credibility. In re Interest of C.L.M., 625 S.E.2d 613, 615 (Mo. en banc 1981). An expert's competence hinges on his or her knowledge being superior to that of the fact finder, and his or her opinion must aid the fact finder in deciding an issue in the case. Duerbusch v. Karas, 267 S.W.3d 700, 710 (Mo. App. E.D. 2008). Witness credibility is a matter for the fact finder, "which is free to believe none, part, or all of the testimony." In re C.W., 211 S.W.3d 93, 99 (Mo. en banc 2007).

B. Issues Requiring Determination in the Current Case.

1. Rate Design/Class Cost of Service Study (KCP&L Issue Only).

(a) Rate Design/Class Cost of Service Study Findings of Fact:

9. The Commission finds that the existing rate design should be maintained, as the Company recommends. See KCPL-40, Rush Direct at 7-10; KCPL-42, Rush Rebuttal at 1-13; GMO-134, Rush Direct at 10-13; GMO-135, Rush Rebuttal at 2-14. Any increase in rates

should be spread equally to all classes and rate components. See KCPL-40, Rush Direct at 7-10; KCPL-42, Rush Rebuttal at 1-13; GMO-134, Rush Direct at 10-13; GMO-135, Rush Rebuttal at 2-14; Rush KCP&L Surrebuttal at 4-10. In making this finding, the Commission relied on the following:

10. The Company and Staff utilized the Base-Intermediate-Peak ("BIP") method to allocate demand-related (fixed) production costs in KCP&L's class cost-of-service study ("CCOS"), which attempts to balance the allocation across the classes based on a layered allocation of production plant. See KCPL-40, Rush Direct at 7-10; KCPL-42, Rush Rebuttal at 1-13; GMO-134, Rush Direct at 10-13; GMO-135, Rush Rebuttal at 2-14.

11. To allocate OSS margins in the CCOS, the Company recommended the 12 CP Remaining allocator to synchronize the plant cost assignment to classes with the margins recovered from any sales from these resources. See KCPL-38, Normand Direct at 15.

12. With regard to LGS/LP rate design, the Company supported Mr. Brubaker's design addressing the significance that the current rates place on energy and recommending that more of the rate design should reflect demand costs on the demand part of the rates, than on the tail energy block. See KCPL-43, Rush Surrebuttal at 13.

13. With regard to KCP&L's Residential Space Heat services, the Commission finds that MGE's argument for eliminating residential space heating rates is an anti-competitive attempt to prevent KCP&L from providing cost-based rates for customers who choose to use electricity to heat their homes. No study was presented that would justify the proposed changes in rate design suggested by MGE. See KCPL-40, Rush Direct at 7-10; KCPL-42, Rush Rebuttal at 1-13; GMO-134, Rush Direct at 10-13; GMO-135, Rush Rebuttal at 2-14.

14. In this proceeding, several parties, including the Company, Staff, USDOE, and Industrial Intervenors, sponsored class cost of service studies. See KCPL-38, Normand Direct,

Sch. PMN-2; Staff Rate Design and Class Cost of Service Report at 3; USDOE-141, Goin Direct, Sch. DWG-1. The cost of service studies largely supported the conclusion that residential all-electric rates are providing a higher return than the general residential rates, as Staff witness Michael Scheperle testified during cross-examination. See Tr. 1064-67.

15. The Commission finds that Staff's cost of service study shows that for KCP&L, the index of return for all-electric rates was 0.57% compared to the overall residential rates, which had an index of return of only 0.53%. See Tr. 1066. Similarly, the USDOE cost of service study had a similar result showing that the residential all-electric rate had an index of return of 0.55% compared to the overall residential rates which had an index of return of only 0.49%. Id.

16. While KCP&L's cost of service study had a slightly lower index of return for residential all-electric rates than the overall residential rates, the Commission finds such a small differential does not justify the radical step of eliminating residential all-electric and space heating rates, as suggested by KCP&L's primary competitor for residential space heating service.

17. Based upon the totality of the cost of service study evidence, the Commission finds it would be inappropriate to eliminate or freeze the residential all-electric and space heating rates, or raise the residential all-electric rates and space heating rates by a greater percentage than the residential general class.

18. The Commission finds that the competent and substantial evidence demonstrates that KCP&L's residential all-electric and space-heating rates recover more than the incremental or variable costs and make a contribution to the fixed costs of the Company. See Tr. 1027-28.

19. The Commission finds that if the space-heating rates were priced so high that space-heating customers dropped their all-electric space heating service, then KCP&L's remaining customers would be adversely affected, as described by Mr. Rush during the hearing. See Tr. 1028-29.

20. Based upon the competent and substantial evidence in the record, the Commission finds and concludes that the cost of service studies in the record support the continuation of the Company's residential all-electric and space heating rates. If the Commission priced the space-heating service rates so high that the service was not competitive with natural gas or other fuels, then it would have an adverse effect on the Company's remaining residential and other customers. See Tr. 1029.

21. The Commission finds that there would be a severe adverse rate impact upon KCP&L's space heating customers if MGE's recommendations were adopted. See KCPL-40, Rush Direct at 7-10; KCPL-42, Rush Rebuttal at 1-13; GMO-134, Rush Direct at 10-13; GMO-135, Rush Rebuttal at 2-14.

22. The Commission finds that it was the rate impact upon customers that caused Staff witness Scheperle to oppose MGE's proposals in this case: "The main reason I disagreed with MGE is the amount of increases that KCPL has experienced . . . since the beginning of January 2007." See Tr. 1074. "Since 2007, KCP&L has had about a 43.8 percent increase in rates, and to eliminate an all-electric rate is—it's too much for the customers to bear . . . ." See Tr. 1074-75.

23. The Commission finds that Company witness Tim Rush also presented competent and substantial evidence of the severe impact upon customers from the elimination of space-heating and all-electric rates. For a typical KCP&L customer, the impact of the elimination of all-electric and space heating rates could be 24.83%, before any increase in this proceeding is granted. See Ex. KCPL-43, Rush Surrebuttal, Sch. TMR-8 at 4. Assuming a 10% overall rate increase in this case, then the total impact upon KCP&L's typical space heating customers could be approximately 34%. See Tr. 1024-25. Schedule TMR-8 also included analysis for space heating customers at other usage levels. See KCPL-43, Rush Surrebuttal, Sch. TMR-8 at 4.

Based upon this analysis, some space heating customers would have increases of 6.06% to 39.59% increases if the space heating rate was eliminated—before any overall increase was granted in this case. The Commission finds that such increases would be too severe for some customers to pay without significant adverse impacts.

(b) Rate Design/Class Cost of Service Study Conclusions of Law:

24. The Commission concludes that it has the authority to establish just and reasonable rates, based upon the competent and substantial evidence in the whole record.

2. Resource Planning (KCP&L Issue Only).

(a) Resource Planning Findings of Fact:

25. The Commission declines to adopt the Sierra Club's recommendations regarding the La Cygne and Montrose investments. In so doing, the Commission relied on the following:

26. KCP&L has not requested recovery of costs related to the La Cygne project in this rate case. Any discussions of project prudence and the associated documentation and review would be addressed in a rate proceeding after the assets are determined by Staff to be in-service and a formal request for cost recovery is filed with the Commission. This is also true with Montrose. While a recently completed capital project at Montrose is included in this case, it is not a major addition comparable to the La Cygne retrofit project. See KCPL-42, Rush Rebuttal at 16-18.

(b) Resource Planning Conclusions of Law:

27. The Commission concludes that KCP&L and GMO are already heavily involved in the Integrated Resource Planning ("IRP") process, which is mandated by 4 CSR 240-22. See Tr. 589-90, 601-11. This IRP process involves a rigorous review of the Companies' planning process that is transparent with extensive participation by Staff, OPC, MDNR, the Sierra Club, and other participants.

28. The Commission concludes that Sierra Club's recommendation is of questionable relevance to this rate case proceeding. KCP&L has not requested recovery of costs related to the La Cygne project in this rate case. Any discussions of project prudence and the associated documentation and review would be addressed in a rate proceeding after the environmentally-upgraded La Cygne assets are determined by Staff to be in-service and a formal request for cost recovery is filed with the Commission. This is also true with respect to the Montrose plant.

3. Cost of Capital.

(a) Return on Common Equity Findings of Fact:

29. Dr. Samuel C. Hadaway testified on behalf of the Companies.[2] Dr. Hadaway holds a Ph.D. in finance from the University of Texas, where he has served as an adjunct professor. He has also served as a professor of finance at the University of Alabama, Texas Tech University, and Texas State University at San Marcos. Before becoming a private consultant and professor, he served as director of the Economic Research Division at the Public Utility Commission of Texas. See KCPL-19, Hadaway Direct at 1-2 & App. A.

30. Dr. Hadaway recommended that the Commission set the return on equity at 10.3%. He presented this updated ROE recommendation in his September 5, 2012 Rebuttal Testimony. His original recommendation of 10.4% was reduced as a result of more recent economic information and the addition of a fourth discounted cash flow ("DCF") model to his analysis. See KCPL-20, Hadaway Rebuttal at 2, 29-31.

[2] The recommendations of the parties expressing opinions on ROE and other cost of capital issues are virtually identical for both KCP&L and GMO. Therefore, reference will only be made to testimony filed in the KCP&L proceeding on these issues.

31. The methodologies presented by Dr. Hadaway followed the same principles that he has used in presenting his recommendations to the Commission in KCP&L's last four rate proceedings where his methods were accepted.

32. Dr. Hadaway's recommendation of 10.3% was based on a DCF range of 9.8% to 10.3%. In his updated ROE analysis, Dr. Hadaway adjusted the utilities included in his group of comparable companies. He dropped four utilities and added three others, so that the 21 companies in the proxy group met criteria of financial quality, stability, and regulated revenues. See KCPL-20, Hadaway Rebuttal at 29; KCPL-19, Hadaway Direct at 4 (stating criteria).

33. Dr. Hadaway's DCF analysis utilized four models: two versions of the traditional Constant Growth model, a Multi-Stage model, and a Terminal Value model. See KCPL-19, Hadaway Direct at 35; KCPL-20, Hadaway Rebuttal at 30. He added the Terminal Value price/earnings ("P/E") ratio model to provide needed balance to the traditional "yield plus growth" DCF model, which has been skewed by current abnormal market conditions. These conditions exist because of the U.S. Government's continuing efforts to stimulate the economy by keeping interest rates at artificially low levels. As a result, utility stock prices have risen, but their dividend yields have been depressed. The Terminal Value DCF model is not a replacement for the more traditional DCF approaches, all of which Dr. Hadaway used. However, including the Terminal Value model with its use of current utility P/E ratios to estimate future prices brings a necessary counter-balance to the low dividend yield results of the traditional DCF models. See KCPL-20, Hadaway Rebuttal at 30-31.

34. Dr. Hadaway also updated his Risk Premium Analysis, based on projected Triple-B utility interest rates. As a result, the Risk Premium Analysis indicated an ROE of 10.14%. See KCPL-20, Hadaway Rebuttal at 31.

35. Dr. Hadaway's updated ROE studies indicate a current cost of equity capital in the range of 9.8% to 10.3%. Given the current difficulties with interpreting financial model estimates and the forecast for higher interest rates that he has presented, he recommended that the Commission set an ROE at the upper end of the range at 10.3%. See KCPL-20, Hadaway Rebuttal at 31.

36. There are three other ROE recommendations provided to the Commission. Staff witness David Murray recommended an ROE of 9.0%, but stated that "this is well above what Staff believes the true cost of equity to be in the current capital market environment." See Staff-200, Staff KCP&L Report at 65. Testifying on behalf of OPC, Michael P. Gorman (Brubaker & Associates, Inc.) recommended a range of 9.1% to 9.5%, based on a DCF analysis and a risk premium analysis. See OPC-300, Gorman Direct at 2, 39. Finally, Matthew I. Kahal (Exeter Associates, Inc., Columbia Maryland) testified for the U.S. Department of Energy on behalf of the Federal Executive Agencies within the Companies' service territory. His ROE recommendation, based upon a DCF analysis, was 9.5%. See USDOE-550, Kahal Direct at 7.

37. Both Mr. Gorman and Mr. Kahal accepted and based their ROE recommendations upon the proxy group of 22 comparable companies initially proposed by Dr. Hadaway. See OPC-300, Gorman Direct at 15; USDOE-550, Kahal Direct at 7. Mr. Murray relies on a substantially smaller group of 10 utilities. See Staff-200, Staff KCP&L Report, Sch. 8. In his rebuttal testimony, Dr. Hadaway modified his proxy group, dropping four companies that did not continue to meet his criteria, and adding three companies that did, for a total of 21 companies. See KCPL-20, Hadaway Rebuttal at 29. While Mr. Gorman and Mr. Kahal objected to most of these changes and subsequently adjusted their proxy groups, their changes were made simply to eliminate higher-earning companies, as opposed to testing the changes made by Dr. Hadaway to see if they met or failed his criteria. See OPC-301, Gorman Surrebuttal at 7-8; USDOE-551,

Kahal Surrebuttal at 6-8. Notably, low-earning utilities IDACORP and Xcel were retained in the revised Hadaway proxy group. See KCPL-20, Hadaway Rebuttal at 16-17, 29 & Sched. 12. Dr. Hadaway's revised proxy group is reasonable and appropriate.

38. Dr. Hadaway proposed a long-term GDP growth rate of 5.7%, giving more weight to recent low-growth trends as a basis for predicting the future. See KCPL-20, Hadaway Rebuttal, Sched. 11. This projected 5.7% growth rate is lower than the 6.6% average nominal GDP growth rate in the United States over the past 60 years. Id. Given that the long-term inflation rate has been 3.7%, estimates using current low inflation rates in the DCF model which requires a long-term analysis are not proper. See KCPL-20, Hadaway Rebuttal, Sched. SCH-11.

39. Mr. Gorman proposed a long-term growth rate of 4.9%. See OPC-300, Gorman Direct 25-27. Mr. Kahal recommended a wider range of 4.5% to 5.5%. See USDOE-550, Kahal Direct at 23. Staff's recommendation of 3.5% for the Multi-Stage DCF is well out of the mainstream, as is its recommendation of 4.3% for a GDP growth rate. See Staff-200, Staff Report at 45, 55-57.

40. Reliance on government rates of inflation must be critically analyzed. The U.S. Energy Information Administration predicted in 1979 a long-term inflation rate of 6.3%, and today predicts a long-term rate of 2.0%. See Tr. 444. It is likely that both are wrong and that a figure closer to Dr. Hadaway's is more reasonable.

41. The Commission also finds that taking into consideration the unprecedented intervention of the Federal Reserve Board in the nation's money supply is appropriate. Dr. Hadaway's conclusion that the Fed's actions have profoundly influenced the markets is shared by both Mr. Kahal and Mr. Gorman. Mr. Kahal testified that today's "extraordinarily low rates . . . are the result of an intentional policy of the Federal Reserve Board of Governors (the Fed) . . . ." See USDOE-550, Kahal Direct at 9. Mr. Gorman agreed that "the market actions for the

different levels of risky securities might be different if not for Federal Reserve actions." Tr. 531. As Dr. Hadaway stated, today's "artificially influenced interest rates" as a result of the action of the Federal Reserve Board distort the DCF model, producing an "abnormally low" and "incorrect estimate" of ROEs, similar to the distortion that is occurring in the market place (Tr. 409). Accord, KCPL-58, "Hoenig Worries About Low Interest Rates, Global Banking Risks," Kansas City Star (Sept. 17, 2012) ("Low interest rates distort the market, distort the allocation of capital," according to FDIC Vice Chairman and Director Thomas Hoenig, former President, Kansas City Federal Reserve Bank).

42. Other public utility commissions in the Midwest authorizing returns on equity during 2012 have averaged 10.15%. If a 9.25% decision by the South Dakota Commission is eliminated as an outlier, the average ROEs issued by Midwestern public utility commissions in 2012 is 10.28%. See GMO-116, Hadaway Surrebuttal, Sch. 14 at 5.

43. Based on the foregoing, the Commission sets the return on equity of the Companies at 10.3%.

(b) Capital Structure Findings of Fact:

44. The Commission adopts the Companies' recommended capital structure, based upon the actual capital structure of their holding company Great Plains Energy Incorporated ("GPE"), as of August 31, 2012. The capital structure proposed by the Company, as confirmed by Staff, is:

Capital Structure for the Companies	
Debt	46.84%
Preferred Stock	0.60%
Common Equity	52.56%
TOTAL	100.00%

See KCPL-10, Bryant Rebuttal at 5; KCPL-60, Rush True-up Rebuttal at 2.

45. Staff's final recommendation was presented during the true-up phase of the case and is consistent with the Companies' position. See Staff-383 and Staff-384, Capital Structure Schedules (Acct. Sched. 12), Staff KCP&L True-up Direct Accounting Schedules for KCP&L, GMO-MPS and GMO-L&P as of Aug. 31, 2012. This capital structure reflects the $287.5 million of new equity that resulted from the conversion of the GPE Equity Units on June 15, 2012 and the maturity of the GMO $500 million 11.785% Senior Notes. See KCPL-10, Bryant Rebuttal at 5-6.

46. Mr. Gorman recommended that the capital structure reflect GPE's actual capital structure as of March 31, 2012. See OPC-300, Gorman Direct at 10-13. KCP&L's Treasurer Kevin Bryant opposed this recommendation and responded to Mr. Gorman's concerns, noting the conversion of the Equity Units and the maturity of the GMO debt, discussed above. See KCPL-10, Bryant Rebuttal at 3-5. Mr. Gorman has replied with a recommendation that the Commission consider a proposal for a hypothetical capital structure. See OPC-301, Gorman Surrebuttal at 5.

47. Mr. Kahal did not offer a capital structure recommendation. However, he questioned the exclusion of Other Comprehensive Income ("OCI") from the Companies' proposal, requesting that they provide an explanation why this adjustment was proper. See USDOE-550, Kahal Direct at 6. Neither Staff nor any other party addressed this issue.

48. KCP&L's Mr. Bryant stated that the current OCI balance is primarily the unamortized net-of-tax income or loss on interest rate derivates that have been settled. Due to the temporary nature of the OCI balance resulting from GAAP accounting requirements, the exclusion of the OCI balance from the equity component of the capital structure of the

Companies is both proper and consistent with the capital structure that was approved by the Commission in the Companies' recent rate cases. See KCPL-10, Bryant Rebuttal at 13-14.

(c) Cost of Debt Findings of Fact:

49. The Commission finds that a consolidated cost of debt should be used for both KCP&L and GMO that reflects GPE's consolidated cost of debt, as proposed by Staff. The Companies do not oppose this recommendation and propose that the cost of debt for ratemaking purposes be 6.425%.

50. Adopting a consistent cost of debt method that reflects the status of KCP&L and GMO as part of their holding company is consistent with using GPE's actual consolidated capital structure as of August 31, 2012. See KCPL10, Bryant Rebuttal at 5-6, 13. As more of the Companies' utility operations are integrated, it makes sense to reflect the cost of financing their operations as part of a holding company structure. Id. at 13.

51. Staff proposes a variety of downward adjustments to the actual negotiated coupon rates of three debt issuances that GPE made after acquiring GMO. See Staff-200, Report at 34-37; Staff-258, Report at 37-40. These changes in interest rates were proposed by Staff witness David Murray, who recommended three different sets of adjustments: one in the Staff Reports, a second in rebuttal, and a third in surrebuttal. Id.; Staff-227, Murray Rebuttal at 28; Staff-250, Murray Surrebuttal at 4. Staff states that downward adjustments should be made to the actual coupon rates because their rates are too high and reflect alleged credit difficulties that continued after GPE acquired GMO, formerly Aquila, Inc. See Staff-200, Staff KCP&L Report at 34-37; Staff-258, Staff GMO Report at 37-40.

52. As Mr. Bryant explains, GPE's decisions regarding the three debt offerings were prudent at the time they were made. See KCPL-10, Bryant Rebuttal at 6-12; KCPL-11, Bryant Surrebuttal at 2-3. Staff failed to appreciate the fact that GMO as a stand-alone company could

not have independently issued the August 2010 and May 2011 issues that Staff adjusts because GMO did not have the requisite three years of continuous financial statements required for public or private offerings. It is notable that the Commission previously supported inclusion of the $250 million August 2010 issue without any adjustment in the cost of debt approved in GMO's last rate case. See Report and Order, Para. 415, 419, In re KCP&L Greater Mo. Operations Co., No. ER-2010-0356 (May 4, 2011); KCPL-10, Bryant Rebuttal at 7; KCPL-11, Bryant Surrebuttal at 4.

53. Staff failed to consider the fact that GMO currently has a split credit rating, where its Standard & Poor's rating of BBB is the same as KCP&L, but GMO's rating of Baa3 from Moody's is one notch lower than KCP&L. See KCPL-10, Bryant Rebuttal at 8-9.

54. Staff also proposed adjustments to the actual rates of debt based on "indicative" bids that KCP&L received on other potential debt issuances that were never consummated. However, Staff failed to consider the relevant time periods and the terms of the debt that was actually issued. See KCPL-11, Bryant Surrebuttal at 5-6.

55. Finally, Staff's criticism of the remarketing of the outstanding 10.0% subordinated notes that were components of the GPE Equity Units is misplaced. The cost of the Equity units was previously found by the Commission to be "reasonable" and "incurred in the best interest of the ratepayers" in GMO's last rate case. See KCPL-10, Bryant Rebuttal at 9. Given that these units were issued by GPE, not GMO, the subordinated notes were required to be sold by GPE. Id.

56. The Commission declines to adjust the terms of debt instruments that were negotiated in the market place and to assign a hypothetical interest rate to such issuances, which would simply be a substitution of its judgment on such matters for that of the management of the Companies or GPE.

57. The Commission therefore finds that it is reasonable to use the 6.425% actual consolidated cost of debt for ratemaking purposes, based on a goal to establish a consistent methodology for all of GPE's regulated jurisdictions, including the KCP&L Kansas jurisdiction. See KCPL-10, Bryant Rebuttal at 13; KCPL-11, Bryant Surrebuttal at 3.

(d) Cost of Capital Issues Conclusions of Law:

58. In setting just and reasonable rates, the Commission must include revenue sufficient to cover operating expenses, to service debt, and to pay a dividend commensurate with the risks facing the Company. Federal Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591, 603 (1943); Bluefield Waterworks & Improvement Co. v. Public Serv. Comm'n of West Virginia, 262 U.S. 679, 689-90 (1923). "A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding, risks and uncertainties . . . ." Bluefield, 262 U.S. at 692.

59. Sections 393.130.1 and 393.150.2 state that the rates of regulated electric public utilities shall be "just and reasonable."

60. A key concern in setting the appropriate return on common equity is that the return be reasonably sufficient to assure confidence in the financial soundness of the utility, so as to maintain its credit and to attract capital. Bluefield, 262 U.S. at 693; Hope, 320 U.S. at 603.

61. The Commission properly considers the effects of current economic conditions, including periods of inflation as well as deflation in order to balance the interests of utility investors with ratepayers. See State ex rel. Missouri Water Co. v. PSC, 308 S.W.2d 704, 718

(Mo. 1957); State ex rel. Missouri Pub. Serv. Co. v. Fraas, 627 S.W.2d 882, 886 (W.D. Mo. 1981).

62. The Commission's establishment of a zone of reasonableness is lawful and proper. Mobil Oil Exploration and Producing Southeast, Inc. v. United Distribution Companies, 498 U.S. 211, 216 (1991); In re Permian Basis Area Rate Cases, 390 U.S. 747, 822 (1968); State ex rel. Missouri Gas Energy v. PSC, 186 S.W.3d 376, 389-90 (Mo. App. W.D. 2005); State ex rel. Associated Natural Gas Co. v. PSC, 706 S.W.2d 870, 882 (Mo. App. W.D. 1995). "Statutory reasonableness is an abstract quality represented by an area rather than a pinpoint. It allows substantial spread between what is unreasonable because too low and what is unreasonable because too high." Federal Power Comm'n v. Conway Corp., 426 U.S. 271, 278 (1976) (quoting Montana-Dakota Util. Co. v. Northwestern Pub. Serv. Co., 341 U.S. 246, 251 (1951)).

63. The Commission's establishment of a zone of reasonableness at 100 basis points above and below the national average return on equity authorized for similarly-situated utilities is lawful and proper. See State ex rel. Office of Pub. Counsel, v. PSC, 367 S.W.3d 91, 110-11 (Mo. App. S.D. 2012); State ex rel. Public Counsel v. PSC, 274 S.W.3d 569, 574 (Mo. App. W.D. 2009).

64. "A public utility is entitled to have a rate of return which will yield a fair return . . . and not a rate which is confiscatory, or which is merely non-confiscatory." Northern Illinois Light & Traction Co. v. Illinois Commerce Comm'n, 134 N.E. 142, 147 (Ill. 1922). "A rate order may be unjust and unreasonable without being confiscatory . . . . If a rate order merely fails to yield a fair profit or return, it is unreasonable and unjust, but not confiscatory." Lone Star Gas Co. v. State, 153 S.W.2d 681, 696 (Tex. 1941).

4. Transmission Tracker.

(a) Transmission Tracker Findings of Fact:

65. The Commission adopts the Companies' proposed mechanism to ensure appropriate recovery of transmission costs as a result of charges from SPP and other providers of transmission service. The Commission finds that these transmission expenses are appropriate candidates for a tracker mechanism because they are material, expected to change significantly in the near future, and are primarily outside the control of GMO. In making this finding, the Commission relied on the following:

66. In the last rate case, the Company recommended transmission cost recovery through the FAC, or a transmission mechanism in lieu of that, and the Staff supported, with modifications, the Company's proposed tracker mechanism.

67. Transmission costs can vary significantly from year-to-year, and such costs are a material cost of service component. Historically, transmission costs have fluctuated due to load variations, both native and off-system. However, in coming years, the Companies expect that SPP's regional transmission upgrade projects and increasing SPP administrative fees will increase the Companies' costs significantly.

68. The Commission determines that transmission costs, as defined in the transmission tracker, be set in the true-up process in this rate proceeding. The Companies should track its actual charges on an annual basis against this amount, with the jurisdictional portion of any excess treated as a regulatory asset (Account 182) and the jurisdictional portion of any shortfall treated as a regulatory liability (Account 254). The regulatory asset or liability will then be included in rate base. See KCPL-29, Ives Direct at 13-17; KCPL-12, Carlson Direct at 2-11; KCPL-30, Ives Rebuttal at 23-25; KCPL-13, Carlson Rebuttal at 2-4; KCPL-49, Weisensee Direct at 33-35; GMO-123, Ives Direct at 11-15; GMO-108, Carlson Direct at 2-11; GMO-124,

Ives Rebuttal at 24-26; GMO-109, Carlson Rebuttal at 2-3; GMO-140, Weisensee Direct at 34-36.

(b) Transmission Tracker Conclusions of Law:

69. The Commission concludes that has the authority to establish just and reasonable rates, and that the adoption of the Transmission Tracker in this case will promote this goal in future rate proceedings.

5. Crossroads (GMO Issue Only).

(a) Crossroads Findings of Fact:

70. The Commission finds (i) that the value of the Crossroads Energy Center that should be included in rate base is $82.7 million, which is the value placed on Crossroads by GMO as of March 31, 2012 (see GMO-111, Crawford Rebuttal at 1); (ii) that the amount of accumulated deferred taxes should correspond with this value (see GMO-118, Hardesty Rebuttal at 3-4; Staff-271, Featherstone Rebuttal at 47); (iii) that depreciation expense should be based upon the authorized gross plant value for Crossroads (id.); and (iv) that the cost of transmission should be included in revenue requirement (see GMO-102, Blunk Direct at 29-30; Crawford GMO Direct at 13; Tr. 316-18, 321, 956-57). In making these findings, the Commission relied on the following:

71. Crossroads is the least cost option in a 20-year preferred resource plan analysis and meets the Staff's in-service criteria. See GMO-111, Crawford Rebuttal at 3, 7; Sch. BLC2010-9(HC); Tr. 913-14.

72. The Company's witnesses are more credible than other witnesses on the value of Crossroads and the Commission finds the Company's valuation to be the only credible valuation.

73. The value the Company places on Crossroads is its "original value" for accounting purposes. See GMO-125, Ives Surrebuttal at 26.

74. The Raccoon Creek and Goose Creek plants, presented by Staff witnesses as comparable plants for purposes of valuation of Crossroads, are not proper comparisons because these plants are not sufficiently similar to Crossroads. See GMO-103, Blunk Rebuttal at 3; Staff-271, Featherstone Rebuttal at 20-21. See also State ex rel. Public Counsel v. PSC, 274 S.W.3d 569, 579 (Mo. App. W.D. 2009).

75. The amount of accumulated deferred taxes should correspond with the value set by the Commission for Crossroads. See GMO-118, Hardesty Rebuttal at 3-4; Staff-271, Featherstone Rebuttal at 47.

76. After a thorough analysis of the available options for adding additional resources to its supply portfolio, GMO concluded that the addition of Crossroads and a baseload purchased power agreement was the lowest cost option to meet GMO's electricity resource requirements. Transmission costs were included in this 20-year preferred resource plan analysis. See GMO-111, Crawford Rebuttal at 3, 7; Sch. BLC2010-9(HC); Tr. 913-14. In other words, transmission costs were factored into the analysis when considering capacity options and when all costs were considered (including the transmission cost component), Crossroads was the lowest total cost option to meet GMO's electricity resource requirements. Since Crossroads is used for service, the cost of transmission should be included in the revenue requirement. See GMO-102, Blunk Direct at 29-30; Crawford GMO Direct at 13; Tr. 316-18, 321, 956-57.

(b) Crossroads Conclusions of Law:

77. While there is no fixed rule in determining fair value of property for ratemaking purposes, "[a]ll facts which shed light on the question must be given due consideration." State ex rel. Missouri Water Co. v. PSC, 308 S.W.2d 704, 717 (Mo. 1957). An appraisal is the preferred method of ascertaining the fair value of property, absent an arm's length transaction. Springfield Gas & Elec. Co. v. PSC, 10 F.2d 252, 255 (W.D. Mo. 1925).

78. The company is entitled to a reasonable return upon the investment it has made in Crossroads. State ex rel. Missouri Pub. Serv. Co. v. Fraas, 627 S.W.2d 882, 866 (Mo. App. W.D. 1981).

79. Original cost is the proper cost to be used in determining the fair value of an asset. State ex rel. Missouri Water Co. v. PSC, 308 S.W.2d 704, 719 (Mo. 1958).

80. Failing to treat ADIT consistently with other rate base components is unlawful and unreasonable. See Southwestern Bell Tel. Co. v. Arkansas Pub. Serv. Comm'n, 720 S.W.2d 924, 927-28 (Ark. Ct. App. 1986); Arkansas Power & Light Co. v. Arkansas Pub. Serv. Comm'n, 546 S.W.2d 720, 723 (Ark. 1977); Commonwealth Edison Co. v. Illinois Commerce Comm'n, 937 N.E.2d 685, 703 (Ill. Ct. App. 2010).

81. Any disallowance of FERC-approved transmission costs would violate the Filed Rate Doctrine and the Supremacy Clause of the U.S. Constitution because it unlawfully "traps" such costs and prevents them from being recovered by the Company. "[I]nterstate power rates fixed by the FERC must be given binding effect by state utility commissions determining intrastate rates." See Associated Natural Gas Co. v. PSC, 954 S.W.2d 520, 530 (Mo. App. W.D. 1997). Consequently, "a state utility commission setting retail prices must allow, as reasonable operating expenses, costs incurred as a result of paying a FERC-determined wholesale price." Nantahala Power and Light Co. v. Thornburg, 476 U.S. 953, 965 (1986). "Once FERC sets such a rate, a State may not conclude in setting retail rates that the FERC-approved wholesale rates are unreasonable. A State must rather give effect to Congress' desire to give FERC plenary authority over interstate wholesale rates, and to ensure that the States do not interfere with this authority." Id. at 966. See also Order Consolidating Cases, In re Mo. Gas Energy's Purchased Gas Adjustment Tariff Revisions, Case No. GR-2001-382, 2002 WL 31492304 *2 (Sept. 10, 2002).

82. Missouri courts have explicitly recognized and honored these concepts of federalism and the Filed Rate Doctrine. See Associated Natural Gas Co. v. PSC, 954 S.W.2d 520, 531 (Mo. App. W.D. 1997) (noting that federal preemption principles require that a utility be allowed to recover all costs that have been approved by FERC).

6. GMO Off-System Sales Margins (GMO Issue Only).

(a) GMO Off-System Sales Margins Findings of Fact:

83. The level of off-system sales ("OSS") margin proposed by Staff is not opposed by GMO. Although Staff proposes no adjustment to OSS margin, the Staff Report expresses concern over the level of negative margins experienced by GMO in recent years. See Staff-258, Staff GMO Report at 106-09.

84. As Mr. Crawford explained in his rebuttal, the negative margins being experienced by GMO are the result of Purchases for Resale. See GMO-111, Crawford Rebuttal at 8-9. During actual operations a portion of these purchases are sold back into the wholesale market, and, on average, the cost of the purchases is greater than the revenue received from the sale. Id. at 8. Such energy is not purchased with the intent to sell it back into the wholesale market. Rather, such sales are the result of day-to-day operational and market conditions.

85. Both GMO and KCP&L experience negative margins. However, the losses on such sales are more apparent in GMO's case than they are for KCP&L because GMO has little excess energy to sell, whereas KCP&L has excess energy and is able to make significantly more OSS. Id. at 9.

86. Additionally, GMO explained that Staff has not considered changes in GMO's wholesale trading practices since being acquired by GPE. Under GMO's Open-Access Transmission Tariff (OATT), network integrated transmission service is only used to support its native load and not to support OSS. See GMO-104, Blunk Surrebuttal at 8.

(b) GMO Off-System Sales Margins Conclusions of Law:

87. It is not appropriate for a utility to use network transmission service available under its OATT to facilitate purchases of energy for resale at a profit. See Mid-American Energy Co., 112 FERC ¶61, 346 at 6, 2005 WL 2430182 (2005). FERC has stated that utilities are not to use network service to advance their own off-system sales, and that network transmission service should only be used to satisfy a utility's native load. In Mid-American the Audit Report of FERC's Office of Market Oversight described a variety of irregularities, which the utility settled by agreeing to construct $9.2 million of previously unplanned transmission upgrades, and to forego recovery of all costs associated with these projects for six years from the time the assets are placed in service. Id. at 2-3. FERC approved the Audit Report "in its entirety without modification." Id. at 3.

7. Rate Design/Class Cost of Service Study (GMO Issue Only).

(a) Rate Design/Class Cost of Service Study Findings of Fact:

88. The Commission finds that the existing rate design should be maintained, as the Company recommends. See KCPL-40, Rush Direct at 7-10; KCPL-42, Rush Rebuttal at 1-13; GMO-134, Rush Direct at 10-13; GMO-135, Rush Rebuttal at 2-14. In making this finding, the Commission relied on the following:

89. The Commission will adopt the Non-Unanimous Stipulation and Agreement Regarding Class Cost of Service/Rate Design ("GMO CCOS Stipulation") which was filed on October 29, 2012. No party has filed an objection to this GMO CCOS Stipulation, and as a result, the Commission will treat it as a Unanimous Stipulation and Agreement, pursuant to 4 CSR 240-2.115(2)(C).

90. In the GMO CCOS Stipulation, the Signatories agree that any rate increase for either the GMO – MPS or GMO – L&P rate districts should be implemented by: (1) allocating

the portion of the increase not related to MEEIA on an equal percentage across-the-board basis to the current base revenues of all rate classes, and (2) assigning the portion of the increase related to MEEIA to customer classes in the manner outlined in the Stipulation and Agreement in Case No. EO-2012-0009.

91. The Signatories further agreed that, for the Large General Service, Large Power Service and Lighting classes of the MPS and L&P rate districts, any non-MEEIA portion of the rate increase to the rate class should be implemented on an equal percentage, across-the-board basis to each rate element for that rate class, and that the MEEIA portion of the increase shall be in the form of a separate energy charge in each applicable rate schedule. The Signatories further agreed that the customer charge for the residential and Small General Service ("SGS") classes will remain unchanged. See GMO CCOS Stipulation, pp. 2-3. The Commission finds that the recommendations contained in the GMO CCOS Stipulation are reasonable and should be adopted.

92. In this proceeding, several parties, including the Company, Staff, and Industrial Intervenors sponsored class cost of service studies. See GMO-132, Normand Direct, Sch. PMN-2; Staff Rate Design and Class Cost of Service Report at 3-7; MIEC-831, Brubaker Direct at 3-29. The Commission finds that the cost of service studies largely supported the conclusion that residential all-electric rates are providing a higher return than the general residential rates, as Staff witness Michael Scheperle testified during cross-examination. See Tr. 1064-67.

93. The Commission finds that Staff's cost of service study shows that for GMO, the index of return for all-electric rates was 0.96% compared to the overall residential rates which had an index of return of only 0.91%. See Tr. 1065.

94. While GMO's cost of service study had a slightly lower index of return for residential all-electric rates than the overall residential rates, the Commission finds that such a

small differential does not justify the radical step of eliminating residential all-electric and space heating rates, as suggested by GMO's competitor for residential space heating service.

95. With regard to GMO's Residential Space Heating services, the Commission finds that MGE's argument for eliminating residential space heating rates is an anti-competitive attempt to prevent KCP&L from providing cost-based rates for customers who choose to use electricity to heat their homes. No study was presented that would justify the proposed changes in rate design suggested by MGE. Additionally, there is no examination of the impacts of MGE's proposed changes by MGE. See KCPL-40, Rush Direct at 7-10; KCPL-42, Rush Rebuttal at 1-13; GMO-134, Rush Direct at 10-13; GMO-135, Rush Rebuttal at 2-14.

96. Based upon the totality of the cost of service study evidence, the Commission finds it would be inappropriate to raise the residential all-electric rates and space heating rates by a greater percentage than the residential general class.

97. The Commission finds that the competent and substantial evidence also demonstrates that GMO's residential all-electric and space-heating rates recover more than the incremental or variable costs and make a contribution to the fixed costs of the Company. See Tr. 1027-28.

98. The Commission finds that if the space-heating service rates were priced so high that the service was not competitive with natural gas or other fuels, then it would have an adverse effect on the Company's remaining residential and other customers.

99. The Commission finds that there would be a severe rate impact upon the Company's space heating customers if MGE's recommendations were adopted. See KCPL-40, Rush Direct at 7-10; KCPL-42, Rush Rebuttal at 1-13; GMO-134, Rush Direct at 10-13; GMO-135, Rush Rebuttal at 2-14.

100. If the Commission adopted MGE's proposal to eliminate residential all-electric and space-heating rates, there would be a substantial, adverse rate impact upon GMO's space heating customers. Staff witness Scheperle testified the annual bills for such customers would increase from $50.88 per year for lower use customers to $674.88 for customers that used the 4,000 kilowatt hours per month. At the higher usage level, this would amount to a 17.53% increase before any rate increase in the GMO rate case is approved. See Tr. 1069.

101. Company witness Tim Rush also presented evidence of the severe impact upon customers from the elimination of space-heating and all-electric rates. For a typical GMO customer in the L&P district, the impact of the elimination of all-electric and space heating rates could be 12.58%, before any increase in this proceeding is granted. See GMO-136, Rush Surrebuttal, Sch. TMR-12 at 6. Assuming a 10% increase in this case, then the total impact upon KCP&L's typical space heating customers could be approximately 22.58%. See Tr. 1025-26. While the Commission notes that MGE may be proposing to implement its proposal in a different manner than originally understood by Mr. Rush, the Commission finds that MGE's proposal, as explained by MGE's witness, would still have an adverse impact upon the Company's space-heating and all-electric customers.

102. During cross-examination, counsel for MGE attempted to suggest that Mr. Rush did not understand MGE's proposal, and if he understood that MGE would shift some of the cost recovery to the summer months, that it would change Mr. Rush's analysis. See Tr. 997-1003. However, as Mr. Rush pointed out, if he corrected his analysis to conform to MGE's counsel's representations about the MGE proposal, it would appear to make the percentage increases for a typical space heating customer greater than presented in Mr. Rush's schedules. See Tr. 1003.

103. The Commission finds that MGE's proposals in this case would not promote the public interest, and instead would be detrimental to the interest of KCP&L's customers.

(b) Rate Design/Class Cost of Service Study Conclusions of Law:

104. The Commission concludes that it has discretion to set just and reasonable rates, based upon competent and substantial evidence in the whole record.

8. GMO's MEEIA Application (GMO Issue Only).

(a) GMO's MEEIA Application Conclusions of Law:

105. On November 7, 2012, the Commission issued its Order Incorporating Unopposed Non-Unanimous Stipulations and Agreement. This order effectively resolves the MEEIA issue in this case, and the revenue requirement associated with GMO's MEEIA program will be incorporated into this case.

9. GMO Fuel Adjustment Clause (GMO Issue Only).

(a) GMO Fuel Adjustment Clause Findings of Fact

106. Under the existing Fuel Adjustment Clause (FAC) sharing mechanism, GMO is permitted to charge customers 95% of its fuel and purchased power expenses costs that exceed its base energy rates (net of OSS), with the Company bearing 5% of such costs itself. See GMO-135, Rush Rebuttal at 16-23.

107. Staff proposes that the sharing mechanism be reduced to 85%-15%, arguing that this adjustment will provide a greater incentive for GMO to reduce its purchased power cost. See Staff-258, Staff GMO Report at 169-78; Staff-269, Barnes Rebuttal at 1-2. Staff does not cite any imprudence in GMO's fuel procurement practices, which are the subject of regular reviews and audits. See GMO-135, Rush Rebuttal at 20-21.

108. When the Commission authorized the FAC, it found that the 95%-5% sharing mechanism was an "appropriate" and "significant incentive" for GMO "to keep its fuel and purchased power costs as low as possible, and still have an opportunity to earn a fair return on its investment." See Report and Order at 54, In re Aquila, Inc., No. ER-2007-0004 (May 17, 2007).

109. Over the course of the past four and half years, Staff found that GMO under-collected $165 million of such expenses, which it concluded was "significant to GMO." See Staff Report at 269. Staff found that if an FAC had not been approved by the Commission, "GMO would have lost approximately 36.4% of its test year net income before taxes (NIBT)." Id.

110. During each of the FAC's ten Accumulation Periods, GMO always under-collected its expenses, except for the most recent period when the price of wholesale electricity decreased substantially as a result of the drop in the price of natural gas. Id. at 265-67. Despite this significant track record of under-collections, Staff proposed to triple the average costs that GMO would be required to absorb. Based on historical data, this would increase GMO's costs per Accumulation Period from $919,000 to $2.8 million. Id. at 272.

111. GMO witness Tim Rush stated that if the sharing mechanism had been set at 85/15, GMO's earnings would have been reduced by $16.5 million. See GMO-135, Rush Rebuttal at 18. Staff agrees, noting that if the $8.3 million absorbed by GMO under the 95/5 formula had been 85/15, the amount absorbed would have been three times as high for a total of $24.8 million. See Staff-258 at 270-71.

112. A recent decision by the Commission rejected Staff's allegations of imprudence regarding GMO's hedging practices. See Report and Order at 64-66, In re Third Prudence Review of Costs Subject to Fuel Adjustment Clause of KCP&L Greater Mo. Operations Co., No. EO-2011-0390 (Sept. 4, 2012). This was the only aspect of GMO's fuel and purchased power procurement that Staff challenged, having found no evidence of GMO imprudence in its other practices. See Staff's Third Prudence Review Report and Recommendation, In re Third Prudence Review of Costs Subject to Fuel Adjustment Clause of KCP&L Greater Mo. Operations Co., No. EO-2011-0390 (Nov. 28, 2011).

113. Staff relies upon live testimony given by GMO witness Wm. Edward Blunk at the hearing of that Third Prudence Review case which Staff contends shows GMO's "total indifference" (Staff's language, not Mr. Blunk's) regarding net energy costs, which include fuel, purchased power and hedging costs. See Staff-258, Staff GMO Report at 274. However, Staff's citation to such language is taken out of context. See GMO-103, Blunk Rebuttal at 4-8. Mr. Blunk stated that GMO would be "indifferent" to higher prices only because through its hedging program it had accumulated "insurance proceeds … to help pay for this now higher price electricity." Id. at 7. Even under these circumstances, GMO would be required to absorb 5% of such higher electricity costs, about which Mr. Blunk noted "GMO is not indifferent." Id.

114. GMO contends that changing the formula would punish GMO without good cause and that such a change would be a significant negative development for GMO, considering that most states using sharing mechanisms only apply them to off-system sales, not to fuel costs. See Tr. 802-04; GMO-135, Rush Rebuttal at 21-22. The Commission considered an earlier Staff proposal to change the sharing mechanism in GMO's last case and rejected it. See Report and Order at 209-12, In re KCP&L Greater Mo. Operations Co., No. ER-2010-0356 (May 4, 2011).

115. Staff has provided no persuasive reason to change the FAC sharing mechanism from its current 95%-5% ratio.

116. Both the revenues and the costs associated with Renewable Energy Certificates Should flow through GMO's FAC. See GMO-135, Rush Rebuttal at 27.

117. The Commission declines to clarify GMO's FAC tariff to specify that the only transmission costs included in it are those that GMO incurs for purchased power and off-system sales, excluding the transmission costs related to the Crossroads Energy Center, as such transmission costs are prudent.

118. The Commission declines to order GMO to provide or make available the additional information and documents requested by Staff to aid Staff in performing FAC tariff, prudence, and true-up reviews, as Staff has the information it needs in performing FAC tariff, prudence, and true-up reviews.

(b) GMO Fuel Adjustment Clause Conclusions of Law:

119. The Commission concludes that the current FAC 95%-5% sharing mechanism is just and reasonable, and fulfills the intent and purpose of Section 386.266 which authorized such rate adjustments.

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 28th day of November, 2012, to all counsel of record.

/s/ Lisa A. Gilbreath