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

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

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Statement of Position of
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KCP&L Greater Missouri Operations Company

Kansas City Power & Light Company ("KCP&L" or "Company") and KCP&L Greater Missouri Operations Company ("GMO" or "Company") (collectively, the "Companies") submit this Statement of Position in accord with the Commission's *Order Consolidating Cases for Hearing and Setting Procedural Schedule* issued April 26, 2012.

I. STATEMENT OF THE CASE

This is the first rate case since the conclusion of KCP&L's Regulatory Plan (also known as KCP&L's "Comprehensive Energy Plan" or "CEP"), which was approved by the Commission seven years ago in Case No. EO-2005-0329.

Four KCP&L rate cases were contemplated by the Comprehensive Energy Plan, and each of the rate cases related to the completion of a major component included in the CEP.[1] With

[1]The first rate case, Case No. ER-2006-0314, included the construction of 100 mega-watts ("MW") of wind generation at the Spearville Wind Energy Facility that was completed in September 2006. The second rate case, Case No. ER-2007-0291, included investment to install selective catalytic reduction ("SCR") equipment at LaCygne Unit 1. The La Cygne Unit 1 SCR equipment was placed into service during the second quarter of 2007. The third rate case, Case No. ER-2009-0089, included the completion of the SCR equipment at Iatan 1, which was placed into service during the second quarter of 2009. The fourth case, Case No. ER-2010-0355, included the completion of an 850 MW supercritical coal-fired generation plant at Iatan 2, and 48 MW of additional wind investment at KCP&L's Spearville Wind Farm. Iatan 2 was placed in service in August, 2010. Under the CEP, the Companies also made substantial investments in transmission and distribution facilities and upgrades, and proposed a portfolio of Demand Response, Energy Efficiency, and Affordability Programs that were approved by the Commission.

the completion of the CEP, the Companies have provided their customers with renewable energy, reliable transmission and distribution, programs to manage energy usage, environmental upgrades to existing coal-fired generating facilities, and a significant base load supply of electricity that will provide low-cost, reliable power for decades.

Even with the four recent rate increases under the Comprehensive Energy Plan, KCP&L's average rates range between 13% and 23% below the national average. KCP&L's average residential customer spends $3.20 per day on electricity costs. See Bassham KCP&L Direct at 5-6. However, the Companies understand that rising electricity rates are a concern to our customers.[2]

At the end of KCP&L's construction cycle and rate phase-in plan related to the completion of the Wolf Creek nuclear power plant in the 1980s, the Company and its customers experienced a period of relatively stable rates. Twenty years passed between the Company's Wolf Creek rate case in 1986 and the next time the Company sought a general rate increase in 2006. Between these rate cases, there also were several negotiated rate reductions. Customers enjoyed a period of rate stability, and even rate decreases, despite there also occurring relatively high levels of inflation.

Economic and operating conditions are not the same today as they were at the end of the twentieth century. In particular, there is a current need to:

(1) retrofit existing coal plants such as the La Cygne coal-fired plant for Best Available Retrofit Technology ("BART") to meet environmental regulations no later than June 1, 2015;

(2) meet state-mandated standards for renewable energy;

[2] On September 20, 2012, the Commission issued its *Order Opening An Investigation Into The Establishment of a Rate Stabilization Mechanism To Reduce the Need For Frequent Rate Case Filings*. The Commission indicated in this Order that it wants to examine possible solutions to the problem of frequent rate case filings. The Companies support this effort and will participate with the Commission and other stakeholders to find constructive solutions.

(3) pay for substantial investments in transmission facilities principally to improve reliability and transmit renewable energy; and

(4) promote conservation and energy efficiency programs to postpone the need for another round of construction of new power plants.

More specifically, KCP&L has embarked on a substantial effort to complete environmental retrofits at the La Cygne plant, including wet scrubbers for flue gas desulfurization, baghouses with pulse-jet fabric filter technology, induced draft fans and a common dual-flue chimney for both La Cygne Units 1 and 2, and a selective catalytic reduction ("SCR"), low-NOx burners, and over-fire air system at La Cygne 2. See Bassham KCP&L Direct at 13-14. KCP&L expects many construction jobs to be created in the region by these retrofits. See id. at 14. KCP&L expects these retrofits to be completed by 2014.

Under Missouri's Renewable Energy Standard ("RES"), investor-owned utilities are required to deliver at least 5% of its electricity from renewable resources by 2014, and 10% by 2018. KCP&L entered into purchase power agreements for 232 MW of wind generation in 2011, and these agreements will allow the Company to continue to comply with Missouri's RES. See Bassham KCP&L Direct at 14-15.

KCP&L also signed a purchase power agreement for 56 MW of hydro-based generation from existing facilities in Nebraska. With respect to solar generation, KCP&L has issued over $3.0 million in solar rebates to eligible customers since the Solar Rebate Program tariff was initiated in 2010. Additionally, KCP&L installed a 100 kW solar facility at the Paseo High School in Kansas City, Missouri. See Bassham KCP&L Direct at 15.

Regarding transmission investments, KCP&L and GMO are members of the regional transmission organization ("RTO") Southwest Power Pool, Inc. ("SPP"). SPP and other RTOs have followed the Federal Energy Regulatory Commission's ("FERC") lead and have undertaken extensive transmission system infrastructure improvement projects in an effort to improve and extend the national transmission system. These improvements will not only improve the electrical grid, resulting in improved regional reliability, but will also allow the delivery of renewable energy to this region. These investments will also permit KCP&L to more actively participate in the off-system sales markets and Day-Ahead markets that are being developed at SPP. Part of the rate increase in this case reflects the Companies' allocated shares of SPP's transmission upgrade costs and increases in associated SPP administrative fees. See Ives KCP&L Direct at 5, 13-17.

KCP&L is also making substantial progress on its Smart Grid Demonstration Project which has as its goal the delivery of next generation smart grid technologies to enhance Kansas City's urban core, engage customers, and to evaluate technical, operational, and business model feasibility for KCP&L and its customers. See Bassham KCP&L Direct at 16.

KCP&L and GMO are continuing the demand response and energy efficiency programs that have been approved in the past, and the Companies expect to be expanding these efforts in the future. In fact, GMO is currently in the process of negotiating with the Commission's Staff ("Staff"), the Office of the Public Counsel ("OPC"), the Missouri Department of Natural Resources, and other stakeholders in Case No. EO-2012-0009 to obtain support for its proposed energy efficiency and demand-side management ("DSM") programs under the Missouri Energy Efficiency Investment Act ("MEEIA").

In the current environment, it may be more difficult to achieve a long period between the filing of rate cases, but the Companies believe there are a number of mechanisms and approaches, proposed in this case, that could help to achieve the goal of lengthening the time between rate cases.

The proposals that would promote this goal in the current cases include:

1. The Companies plan to aggressively pursue strategies to improve operating cost structure.

The Companies have worked to manage the costs that can be controlled, which ultimately reduce the need for future rate increases. Measures the Companies have taken to control cost include:

a) Implementing the Organizational Realignment and Voluntary Separation Program, which will yield considerable customer savings in the years to come;

b) Maintaining flat non-fuel operations and maintenance budgets in all areas in which we could control the costs;

c) Delaying non-critical projects and carefully scrutinizing all capital budgets to mitigate upward pressure on rates;

d) Implementing a Supply Chain Transformation Program, which will help the Companies' Supply Chain organization to become more forward-looking, strategic, and innovative, and will enable all areas of the Companies to operate much more efficiently and cost effectively; and

e) Introducing the Generation Division Benchmarking Project, which utilizes a national benchmarking database to analyze costs in generation units and related activities.

f) Reducing KCP&L's total number of senior executives by eight, and reducing its annual executive base labor costs by $1.7 million, since the acquisition.

Importantly, customers also have continued to benefit from the flow-through of the GMO acquisition synergy savings. The Companies realized greater savings from GMO's mid-2008 acquisition than initially anticipated, which flow back to the customers.

2. The Companies have proposals to reduce regulatory lag, and to utilize various riders or trackers to minimize the need for frequent rate cases.

The regulatory lag inherent in the current regulatory framework has made it a challenge to manage cost increases that are outside the control of the Companies. In fact, KCP&L has not earned its authorized return on equity for many years. See Ives KCP&L Surrebuttal at 3-4; Schedule DRI-8). In this case, the Company is proposing several mechanisms and approaches that would help with regulatory lag and promote the goal of lengthening the time between rate cases, including an Interim Energy Charge for KCP&L that includes the flow-through of off-system sales ("OSS") margins, transmission trackers, RES trackers, and property tax trackers for both companies.

The task of the Commission in these cases is to fashion rate orders that correctly balance risks with benefits as they affect customers, shareholders, and creditors. Two major factors that are unique to KCP&L among Missouri electric utilities continue to be important: (1) the Company's completion of multi-million dollar projects, including the La Cygne environmental retrofits now under construction and investment in additional wind generation, requires that KCP&L be permitted to generate sufficient revenues to earn a reasonable rate of return; and (2) the risk and uncertainty of the off-system sales market which, until recently, have accounted for a substantial amount of KCP&L's revenues.

These two factors continue to pose major risks to the Company. However, the Companies believe that if the Commission adopts their requests for an interim energy charge ("IEC"), transmission tracker, RES tracker, and property tax tracker, and authorizes a reasonable Return on Equity ("ROE"), as well as modifies its previous position on the Crossroads Energy Center issue in the GMO case, a proper balance will again be struck that will help KCP&L and

GMO to achieve rate stabilization goals and have a more reasonable opportunity to earn their authorized rate of return.

In these cases, KCP&L and GMO are requesting an ROE of 10.3%, based upon the Companies' outside expert witness Dr. Samuel C. Hadaway's recommended range of ROEs. The current, artificially low interest rates present a serious challenge to efforts to apply traditional rate of return models to estimate investors' expectations regarding ROE.

KCP&L also believes that the OSS Margins should again be established at the 40th percentile, but that the Commission should authorize an Interim Energy Charge with a sharing mechanism. This would eliminate the asymmetrical or one-way aspect of the current OSS mechanism, and instead make it a fairer and more effective two-way tracker. See Rush KCP&L Direct at 5-7.

Proper consideration of these issues (as well as the issues discussed below) will lead to a decision that sets just and reasonable rates that properly balances the interests of shareholders and customers, and will give the Companies an opportunity to earn a reasonable rate of return following the conclusion of the case.

II. STATEMENT OF POSITION ON ISSUES

A. KCP&L Only Issues

1. Deferral of 2011 Missouri River Flood Costs and Losses.

Last year's Missouri River Flood resulted in flooding of epic proportions all along the lower Missouri River basin. As KCP&L witness Wm. Edward Blunk explains, it was caused by more than double the normal snowpack in the Rocky Mountains and nearly a year's worth of rainfall in the river's upper basin in May 2011. See Blunk Supp. Direct at 1-2. The U.S. Army Corps of Engineers has jurisdiction over the upper basin which it manages it with six dams. Its response to the 2011 Flood was to permit a record release of massive water flows into the lower Missouri River system. Id. at 2-4.

During the summer of 2011, the flood waters swept into the Iatan generating station, causing KCP&L to incur a wide variety of expenses to protect the plant and to keep it operational. The 2011 Flood also caused major disruptions in the delivery of coal not just to Iatan, but to all of KCP&L's coal-fired power assets: the LaCygne, Hawthorn and Montrose generating stations. The three railroads that serve KCP&L (Burlington Northern Santa Fe, Kansas City Southern, and Union Pacific) each declared Force Majeure conditions which excused them from delivering coal to KCP&L's plants. Id. 4-8.

As a result of these events, KCP&L incurred a number of non-fuel expenses, as well as increased fuel and purchased power expenses. It also failed to realize the off-system sales margins that are built into KCP&L's retail rates.

KCP&L originally filed a request for an accounting authority order on December 19, 2011 in Case No. EU-2012-0130. On April 3, 2012 the Commission consolidated that AAO application into this case, where all of the issues raised by the Company are now pending.

a. Should KCP&L's increased fuel and purchased power costs caused by the flood be deferred and amortized over 5 years?

Yes, such losses should be deferred into a regulatory asset account and amortized over five years beginning with the effective date of rates in this case. The flood and disruptions in coal deliveries caused KCP&L to scale back power production, resulting in the loss of 132,978 MWh of generation for its Missouri retail load. Consequently, it incurred increased fuel and purchased power costs in order to serve its retail customers from July 2 through October 12, 2011 when coal conservation measures ended.

(i) If so, what amount of increased fuel and purchased power costs should be deferred and amortized?

The amount of KCP&L's Missouri increased native load fuel and purchased power costs caused by the flood are significant. See Bresette Supp. Direct at 3-4 (dollar amount highly confidential).

b. Should the off-system sales margins shortfall associated with the 2011 flood be deferred and amortized over five years?

Yes, such losses should be deferred into a regulatory asset account and amortized over five years beginning with the effective date of rates in this case. The reduction in KCP&L's coal-fired base load generation resulted in 721,047 MWh being unavailable for the Missouri-jurisdictional portion of its off-system sales. Consequently, its lost OSS margin during the third quarter of 2011 and for the period October 1-12, 2011 was also significant. Id. at 4 (dollar amount highly confidential).

Both of the deferral requests in (a) and (b), above, are opposed by Staff. See Mark Oligschlaeger KCP&L Rebuttal at 3-4 (off-system sales); E. Maloney KCP&L Rebuttal at 3-4 (fuel and purchased power cost). Summary opposition is also provided by the Office of the Public Counsel and the industrial groups. See T. Robertson KCP&L Rebuttal at 13-14; G. Meyer KCP&L Direct at 26. The Department of Energy (DOE) opposes the request related only to OSS, stating that the Company bears all risks of any shortfall with regard to OSS margins. See Etheridge Direct at 13-15.

Several opponents rely upon decisions of the Commission related to AAO's sought by Empire District Electric Co. and Missouri Gas Energy in connection with the Joplin tornado. See Order Approving Unanimous Stipulation and Agreement, In re Empire Dist. Elec. Co., No. EU-2011-0387 (Nov. 20, 2011); Report and Order, In re Missouri Gas Energy, No. GU-2011-0392 (Jan. 25, 2012). KCP&L believes that those utilities' requests, which related to the loss of retail load, are distinguishable from this case. See Blunk Rebuttal at 8-9.

KCP&L contends that the Company's analysis of increased fuel and purchased power expenses has been accepted by the Commission in related circumstances. See Blunk Surrebuttal at 4-20. The Company has also noted how KCP&L's OSS margins are built into rates on the basis of forward-looking projections which did not model an extraordinary event like the 2011 Flood. Id. at 20-23; Bresette Surrebuttal at 2-16.

(i) If so, what amount of off-system sales margins should be deferred and amortized?

KCP&L's last OSS margin for the third quarter of 2011 and for the period October 1-12, 2011 caused by the flood is significant. See Bresette Supp. Direct at 4 (dollar amount highly confidential).

2. Off-System Sales.

a. Should KCP&L's off-system sales margins be calculated based upon forecasted assumptions or normalized test year assumptions?

KCP&L's off-system sales margins should be calculated based upon the forward-looking, probabilistic analysis presented in the Direct Testimony of Company witness Michael Schnitzer, co-founder and a director of The NorthBridge Group, Inc. See Schnitzer Direct at 3-5.

b. What amount should be included in KCP&L's revenue requirement for off-system sales?

The Commission should set rates at the projected 40th percentile level at true-up, based upon the OSS margin probability analysis conducted by KCP&L witness Michael Schnitzer of the NorthBridge Group. As ordered in prior rate cases, this level of margin will benefit customers by being treated as a reduction to KCP&L's test-year revenue requirement.

The Company's proposal in this regard is accompanied by a recommendation to establish an Interim Energy Charge, discussed below.

The Commission should continue to use Mr. Schnitzer's forward-looking probability analysis of OSS margin, which it has accepted in KCP&L's last three contested rate cases. See

Report and Order at 35-37, No. ER-2006-0314 (Dec. 21, 2006); Report and Order at 39-40, No. ER-2007-0291 (Dec. 6, 2007); Report and Order at 129-41, No. ER-2010-0355 (April 12, 2011).

Staff has included Mr. Schnitzer's initial projected level of OSS margin at the 40th percentile level. See Staff KCP&L Report at 89. DOE has endorsed a continuation of the status quo. See Etheridge Rebuttal at 12-13.

However, Staff has raised certain concerns with regard to the analysis, noting that projected levels of OSS margin have fluctuated in the past. See Harris Rebuttal at 6. KCP&L has explained that such changes are to be expected in forward-looking models, which are based upon constantly changing fuel prices, load conditions and other economic and operational variables. See Coleman Surrebuttal at 4-12.

The Industrials have proposed a backward-looking analysis that sets OSS margin on the basis of historical prices and load conditions. See N. Phillips Direct at 5-6. This analysis is offered by the Industrials' Nicholas Phillips (Brubaker & Associates), who relies upon higher historical electricity prices that are not being charged today.

c. Should the Commission continue the off-system sales tracker?

Yes, to the extent a tracker is an element of the current method of measuring and calculating OSS margin, it should be continued as well as incorporated into the Interim Energy Charge proposed by the Company, discussed below.

d. Should the amount of off-system sales included in KCP&L revenue requirement include adjustments for purchases for resale, SPP line losses and revenue neutrality uplift charges?

Yes. KCP&L's Burton Crawford recommends adjustments to (1) Purchases for Resale, (2) Southwest Power Pool (SPP) Line Loss charges, and (3) SPP Revenue Neutrality Uplift (RNU) charges. See Crawford KCP&L Direct at 10-16.

Staff states that an adjustment to Mr. Schnitzer's OSS margin model is not the most appropriate method to reflect such costs. Although Staff accepted KCP&L's proposed adjustments in previous rate cases, Staff now recommends excluding them from the OSS margin calculations. See Harris KCP&L Rebuttal at 9. These adjustments were proposed by KCP&L in its last case and were accepted by the Commission. See Report and Order at 139-41, No. ER-2010-0355.

Staff has advised that if the Commission believes the adjustments are proper, they should be included in the Company's annualized fuel expense and its overall cost of service. See Harris Rebuttal at 9-10; Staff KCP&L Report at 90.

The Industrials argue that the SPP Line Loss charges and the Purchases for Resale expenses should be disallowed. However, they propose that the RNU charges be included in the Company's annualized fuel expense. See G. Meyer KCP&L Direct at 18-26. Mr. Crawford also addresses these arguments. See Crawford KCP&L Rebuttal at 6-11.

3. Hawthorn Selective Catalytic Reduction System ("SCR").

a. Should KCP&L's rate base and expense be adjusted to reflect the performance of the Hawthorn SCR as Staff proposes?

No. In February 1999, an explosion occurred at Hawthorn 5 which entirely destroyed the boiler. The Environmental Protection Agency ("EPA") permit for the reconstruction of the Unit 5 boiler island required the installation of Best Available Control Technology ("BACT") which included the addition of an SCR.

Babcock and Wilcox ("B&W") and KCP&L entered into an engineering, procurement, and construction agreement ("Agreement") for the construction of the Hawthorn 5 boiler island and included the installation of the SCR. Under the Agreement, B&W guaranteed specific performance standards, including ammonia slip tests. After the SCR was placed in service in 2001, the SCR failed the ammonia slip tests.

From 2002 through 2004, KCP&L and B&W attempted to enhance the SCR performance by doing additional work on the SCR, but were unsuccessful. Because of the failure to meet the ammonia slip test, KCP&L has had to replace catalysts more often and has used more ammonia than was in B&W's original design model.

Prior to the installation of the Hawthorn 5 SCR, KCP&L had no prior experience with this type of environmental equipment. Moreover, industry knowledge with respect to SCRs in the United States was in its infancy on units burning Powder River Basin coal. The SCR at Hawthorn 5 was the first installation of an SCR on a Powder River Basin pulverized-coal burning boiler in the United States. As part of the Agreement, B&W was responsible for the modeling and made the determination of the necessary design and equipment needed for the boiler island construction to meet compliance with the EPA permit requirements of the installation of BACT.

Because of the limited industry knowledge of the use of SCRs with pulverized Powder River Base coal in the United States at the time of the design of the Hawthorn 5 SCR, actual performance of the SCR has been below what B&W original design model represented. It is KCP&L's position that it is more accurate to judge the performances of the SCR after the unit was placed in service in 2001 rather than a design model based upon several variables with which the industry had limited experience at the time.

While O&M and capital costs have increased with the additional equipment to maintain, the cost increases are related to industry inflationary price increases. There has not been degradation in the performance of the SCR since it was placed in service.

Staff's position does not take into consideration the benefits of technology advances that were not also part of the original design. When B&W designed the SCR, it was not anticipated that the catalyst could be rejuvenated or regenerated, which KCP&L has done at Hawthorn 5. Thus, ratepayers have benefited and will continue to benefit from reduced costs when compared with purchasing new catalysts. See Hensley KCP&L Rebuttal at 2-6.

b. Should KCP&L's ongoing fuel expense be adjusted to reflect Staff's outage adjustment based on the performance of the Hawthorn SCR?

No. Staff has selectively removed events from the seven-year history of Hawthorn 5, which results in a modeled equivalent forced outage rate ("EFOR") that does not represent KCP&L's actual experience with this plant and that results in an artificially high level of availability for the plant. This may lead to an understatement of costs to serve retail customers.

Actual plant EFOR can vary greatly from year to year. As such, it is reasonable to use a long-term average of plant performance when normalizing fuel and purchased power expenses. "Normalizing out" one-time events or focusing on the performance of a particular piece of equipment can easily result in understating expected performance because abnormal events can and will occur.

While incidents do occur that can take a unit off-line for an extended period of time, there are also periods of exceptional, sustained performance where a unit remains on-line for an extended period of time. As explained by Company witness Burton Crawford, Hawthorn 5 is an excellent example. While Staff has removed events that have de-rated or taken the unit out of service, it has not normalized out the fact that Hawthorn 5 had an all-time record run during this seven year period. During 2009-2010, Hawthorn 5 experienced a record-breaking 186-day continuous run. This was the plant's longest run since at least 1990. Staff has not normalized out this unusual event from Hawthorn 5's seven-year history.

In summary, coal plant availability can vary greatly year-to-year based on any number of events. While there may be a rare and unusual event that supports an adjustment, difficulties with an SCR and a transformer are not such events, and do not justify Staff's adjustment in this case. See Crawford Rebuttal at 4-5.

4. Income Tax.

a. Should the amount included in revenue requirement for Iatan 2 Advanced Coal Tax Credit be based on the amount utilized for federal income tax purposes on a separate income tax return basis or on a consolidated tax return basis?

KCP&L files its federal income tax return as part of the consolidated GPE and subsidiaries federal income tax return. The Company believes that it would violate the Internal Revenue Code's normalization requirements for ITC if it computed the amount of amortization for ITC based on the amount of ITC that would have been utilized to offset federal tax liabilities of KCP&L on a stand alone basis instead of the amount of ITC utilized to offset the GPE and subsidiaries federal tax liability on a consolidated basis. See Hardesty Rebuttal at 13.

5. Kansas City Missouri Earnings Tax.

a. What amount should be included in KCP&L's revenue requirement for earnings tax?

KCP&L's method for calculating earnings tax expense should be adopted because it is based upon Missouri jurisdictional ratemaking taxable income. See Hardesty Rebuttal at 1-2.

(i) If an amount for earnings tax is included in KCP&L's revenue requirement should that amount be determined after allocation of a portion of KCP&L's Kansas City earnings tax to GMO and to KCP&L's Kansas jurisdiction?

No. The earnings tax is already computed based on an apportionment of taxable earnings to Kansas City, Missouri and does not require an additional allocation to GMO and KCP&L Kansas customers. See Hardesty Rebuttal at 10.

(ii) Should KCMO earnings tax be included in revenue requirement as an income tax applied to adjusted Missouri jurisdictional taxable income consistent with taxable income calculated for ratemaking?

Yes. KCMO earnings tax should be based on Missouri jurisdictional taxable income as calculated for ratemaking. Taxable income for ratemaking purposes can be significantly different from taxable income used in the Company's filed federal, state and city tax returns. All elements of cost of service should be calculated consistently, based on the treatment of those costs for ratemaking purposes. See Hardesty Rebuttal at 3.

b. Should the effective income tax rate used to gross up the authorized revenue requirement include a component for the KCMO earnings tax as well as federal and state income taxes?

Yes. The Earnings Tax is simply a city income tax, consistent with the definition of the Missouri or Kansas taxes as state income taxes. The revenue requirement reflects the additional revenue that the Company will be authorized to collect with the implementation of new rates. The Company will have to include these new revenues in its subsequent Earnings Tax returns and incur the associated Earnings Tax expense. See Hardesty Rebuttal at 2 and 4.

6. Rate Design/Class Cost Of Service Study.

a. How should the class cost of service studies be relied on for determining shifts in customer class revenue responsibilities that are revenue neutral on an overall company basis?

The Company believes that the Commission in its judgment of the facts of this case must evaluate the methods proposed by the various parties to determine which options produce fair and reasonable results.

(i) What methodology should be used to allocate demand-related (fixed) production costs in KCP&L's class cost-of-service study?

The Company and Staff have utilized the Base-Intermediate-Peak ("BIP") method which attempts to balance the allocation across the classes based on a layered allocation of production

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plant. See Rush KCP&L Direct at 7-10; Rush KCP&L Rebuttal at 1-13; Rush GMO Direct at 10-13; Rush GMO Rebuttal at 2-14.

(ii) What methodology should be used in the CCOS to allocate OSS margins?

The Company recommends the 12 CP Remaining allocator to synchronize the plant cost assignment to classes with the margins recovered from any sales from these resources. See Normand Direct at 15

b. How should any rate increase be allocated among the various customer classes?

The Company recommends that the existing rate design be maintained. Any increase in rates should be spread equally to all classes and rate components. See Rush KCP&L Direct at 7-10; Rush KCP&L Rebuttal at 1-13; Rush GMO Direct at 10-13; Rush GMO Rebuttal at 2-14.

c. How should rates be designed?

The Company recommends that the existing rate design be maintained. See Rush KCP&L Direct at 7-10; Rush KCP&L Rebuttal at 1-13; Rush GMO Direct at 10-13; Rush GMO Rebuttal at 2-14.

d. Should the Commission adopt Staff's proposal to increase by 5% the first energy block rate of the winter All-Electric General Services rates?

No. The Company recommends that the existing rate design be maintained. Any increase in rates should be spread equally to all classes and rate components. See Rush KCP&L Direct at 7-10; Rush KCP&L Rebuttal at 1-13; Rush GMO Direct at 10-13; Rush GMO Rebuttal at 2-14; Rush KCP&L Surrebuttal at 4-10.

e. Should the Commission adopt Mr. Brubaker's LGS / LP rate design methodology?

Yes. The Company supports Mr. Brubaker's LGS/LP rate design and his recommendation 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 Rush KCP&L Surrebuttal at 13.

f. Residential rate adjustments:

(i) Should current residential rates be adjusted to reflect a revenue-neutral shift seasonally and among residential rate schedules in the winter based on KCP&L's class cost of service study?

No. The Company recommends that the existing rate design be maintained. Any increase in rates should be spread equally to all classes and rate components. See Rush KCP&L Direct at 7-10; Rush KCP&L Rebuttal at 1-13; Rush GMO Direct at 10-13; Rush GMO Rebuttal at 2-14; Rush KCP&L Surrebuttal at 4-10.

(ii) How should any residential rate increase be assigned to rate elements?

The Company recommends that the existing rate design be maintained. Any increase in rates should be spread equally to all classes and rate components. See Rush KCP&L Direct at 7-10; Rush KCP&L Rebuttal at 1-13; Rush GMO Direct at 10-13; Rush GMO Rebuttal at 2-14; Rush KCP&L Surrebuttal at 4-10.

g. Residential Space Heat services:

(i) Should KCP&L's Residential Space Heat services be eliminated?

No. MGE's argument for eliminating residential space heating rates appears to be nothing more than 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. See Rush KCP&L Direct at 7-10; Rush KCP&L Rebuttal at 1-13; Rush GMO Direct at 10-13; Rush GMO Rebuttal at 2-14.

(ii) In the alternative, should KCP&L's Residential Space Heat services be scheduled for elimination in a subsequent rate case by freezing their availability in this case?

No.

(iii) Should the Commission adopt Staff's proposal to increase by 5% the first block of the residential space heating rates?

No. The Company recommends that the existing rate design be maintained. Any increase in rates should be spread equally to all classes and rate components. See Rush KCP&L Direct at 7-10; Rush KCP&L Rebuttal at 1-13; Rush GMO Direct at 10-13; Rush GMO Rebuttal at 2-14; Rush KCP&L Surrebuttal at 4-10.

7. Fuel and Purchased Power Expense.

a. What is the proper treatment of firm contract sales?

KCP&L contends that Staff has double-counted the wholesale sales to the Kansas Municipal Energy Agency ("KMEA"). While Staff accepted the Company's estimated of non-firm off-system sales margin that included energy that would have been sold to KMEA under a contract that will expire November 30, 2012, it then included KMEA sales in KCP&L's cost of service. The Company hopes to resolve these issues prior to true-up. See Crawford Rebuttal at 2-3.

b. What is the proper treatment of new wind resources?

At the present time KCP&L believes that Staff's cost of service model regarding the Company's new 2012 wind generation resources is not accurate. Staff did not include in its model the generation or the cost of the new wind resources under purchased power agreements (Cimarron and Spearville 3) that began delivering energy earlier this year. The Company hopes to resolve these issues in the true-up case. See Crawford Rebuttal at 3.

c. Should margins from non-asset based wholesale transaction, also referred to as "Q" sales, be excluded from KCP&L's cost service?

Yes. However, Staff proposes to include such margins in the Company's cost of service. See Staff KCP&L Report at 90.

Such transactions are wholesale market purchases and sales that do not involve KCP&L's generation or transmission assets, and are outside the Southwest Power Pool (SPP) footprint in which the Company operates. For example, such Q sales and purchases occur within the systems of the Midwest ISO or PJM Interconnection, and are considered non-asset based transactions. Because such transactions do not involve KCP&L's regulated assets and are not directly related to the provision of retail electric service in Missouri, they should be excluded from the Company's cost of service. See Crawford Rebuttal at 3-4.

d. What is the equivalent forced outage rate for Iatan 2?

The Company's outage rate should be accepted and Staff's proposed adjustments should not be accepted. See Crawford Rebuttal at 4.

e. What is the proper treatment of equivalent forced outage rate at Hawthorn Unit 5?

Staff's adjustments to the historical EFOR for outages and derates relating to Hawthorn 5 are not appropriate. Staff has removed events from the 7-year history of Hawthorn 5 that do not represent KCP&L's actual experience with the plant.

KCP&L contends that Hawthorn 5 has experienced a good record of operations, including a 186-day record-breaking continuous run during 2009-2010, and that no adjustment is justified. See Crawford Rebuttal at 4-5.

8. Interim Energy Charge (IEC) proposal by KCP&L.

a. Should the IEC proposed by KCP&L be approved?

Yes. KCP&L has proposed an IEC consistent with the parameters set forth in Section III(B)(1)(c) at pages 7-8 of the Stipulation and Agreement approved by the Commission in KCP&L's Experimental Regulatory Plan. See Report and Order at 15-16, No. EO-2005-0329 (July 28, 2005). In that case the Commission approved a regulatory plan under which the Company would not seek any rate adjustment mechanism afforded by Senate Bill 179 (now codified at Section 386.266) prior to June 1, 2015. However, the Company was not prohibited from requesting an IEC.

KCP&L requests that an IEC rate be set at $0.00/kWh for a two-year period beginning with the effective date of rates in this case. The IEC would contain all variable fuel and purchased power costs (increases and decreases), consistent with the Commission's regulations. See Rush Direct at 11-12.

The IEC rate of 0 will also be consistent with the Company's proposal to include in base rates the 40th percentile of projected OSS margin. If the OSS margin falls below the 40th percentile, KCP&L proposes to place 25% of such amount in a deferred account to be recovered in the next rate case. The remaining 75% of the OSS margin would be included as an offset to the fuel and purchased power costs necessary to meet Net System Input (NSI). KCP&L proposes to include 100% of the projected OSS margin as an offset to those costs when such margin is between the 40th and the 60th percentiles.

If OSS margin is greater than the 60th percentile, KCP&L would retain 25% of the margin, but assign 75% as an offset to such fuel and purchased power costs. See Rush Direct at 12-13.

KCP&L's proposal to establish an IEC is opposed by Staff and other parties who contend that it is not permitted by the 2005 Stipulation or that the IEC being proposed by KCP&L is not a true IEC. See Mantle Rebuttal at 2-13; Featherstone Rebuttal at 17-21. The Industrials oppose the IEC (G. Meyer Direct at 27-32), and DOE recommends that issues related to OSS margin "be addressed separate and independent" of the IEC proposal. See Etheridge Direct at 4.

9. Resource Planning.

a. Should the Sierra Club's recommendations regarding the La Cygne and Montrose investments be adopted?

No. 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 Rush KCP&L Rebuttal at 16-18.

10. Charles B. Wheeler Airport and Kansas City Water Department.

a. What actions has KCP&L taken, or what actions should KCP&L be taking, to address the quality and reliability of service at Charles B. Wheeler Airport ("Downtown Airport")?

As described by Company witness Jeffrey M. Wolf, KCP&L has initiated the following processes to address quality and reliability of service at the Downtown Airport:

- KCP&L is patrolling both primary circuits that provide service to the Downtown Airport. This patrol will look at equipment and any vegetation issues. Issues identified during the patrol will be evaluated and addressed.
- KCP&L has met with and will continue to work with Downtown Airport Staff to determine the causes of any quality and reliability of service issues at the Downtown Airport. Downtown Airport Staff will log each impulsive transient power event time and equipment affected by such event. KCP&L has installed monitoring equipment on five different areas of its system. As future events occur, KCP&L and Downtown Airport Staff will review data to help identify the problems that may be causing such events.

- When a cause of transient power events is identified, KCP&L and Downtown Airport Staff will work together to determine appropriate action plans to address such cause. Consideration of future expansions on airport property will also be part of this investigation.

See Wolf Rebuttal at 3.

> (i) Should the Commission order KCP&L to conduct an investigation into the cause of power fluctuations and interruptions at Downtown Airport.

No. As described by Company witness Jeffrey M. Wolf, KCP&L already is working with the Downtown Airport to try to determine the cause(s) of power fluctuations and interruptions. See Wolf Rebuttal at 3-4.

> b. What actions has KCP&L taken, or what actions should KCP&L be taking, to address the quality and reliability of service at pumping stations and other installations operated and managed by the Kansas City Water Department.

As described by Company witness Jeffrey M. Wolf, KCP&L has met with the Kansas City Water Department on multiple occasions to review and address such issues. KCP&L, with Kansas City Water Department support, has implemented the following actions, the results upon which KCP&L and the City will determine an action plan to address possible solutions to such issues:

- KCP&L has completed site visits for each facility in question to evaluate and assess both KCP&L and City electrical facilities.
- Event recorded have been placed at specific equipment locations to monitor voltage activity in and out of identified facilities.

- The City and KCP&L will work together to analyze the information from the recorders to determine if there are discrepancies or incompatibilities within the systems.
- The Water Services Department and KCP&L are analyzing historical data.
- The Water Services Department and KCP&L are logging event information.
- KCP&L will evaluate its distribution system network providing electric service to each of the affected facilities.
- KCP&L hired an independent company, Power Protection Products, Inc. to provide recommendations based on data collected from the various sites.
- KCP&L will look into opportunities to improve reliability in the southeast area. However, KCP&L will need feedback from the City on a timeframe within which to make such improvements.

See Wolf Rebuttal at 5-6.

11. Arbitration Expenses and Settlement.

a. Should the expenses KCP&L incurred in arbitrating with Empire over access to Schiff-Hardin legal invoices be included in revenue requirement?

Yes, KCP&L had valid reasons for redacting various information and therefore the resulting payments required by the Arbitration should be includable in plant in service. See Weisensee KCP&L Rebuttal at 11.

b. Should the settlement of the arbitration with Empire over access to Schiff-Hardin legal invoices charged to plant-in-service be included in rate base?

Yes, KCP&L had valid reasons for redacting various information and therefore the resulting payments required by the Arbitration should be includable in plant in service. See Weisensee KCP&L Rebuttal at 11.

B. KCP&L – GMO Common Issues

1. Regulatory Policy and Economic Considerations.

2. Economic Relief Pilot Program ("ERPP").

   a. Should the Economic Relied Pilot Program be expanded as a permanent rate payer funded program or should it remain a pilot program, maintaining current program terms including participation levels, and program funding remain 50% ratepayer/50% company?

The Companies' witness Scott H. Heidtbrink recommends continuation of the Program as a permanent program and expansion of the Program to approximately 5,000 customers per year on a combined company basis, with 100% rate recovery allowed for all associated Program costs. See Heidtbrink KCP&L and GMO Rebuttal at 5. The ERPP provides an opportunity to relieve financial hardship experienced by certain customers, particularly in light of the current state of the economy. See Alberts KCP&L and GMO Direct at 9; Heidtbrink KCP&L and GMO Rebuttal at 5. KCP&L and GMO each are requesting an expansion of the Program from 1,000 to 2,500 participants, and for the Program to become a permanent program. See Heidtbrink KCP&L Rebuttal at 3, 5; Heidtbrink GMO Rebuttal at 3, 6. If the Program becomes permanent, full cost recovery is appropriate. See Heidtbrink KCP&L and GMO Rebuttal at 6.

   b. Should a separate advisory group who is familiar with low-income customers, issues and rate programs be developed for all future collaborative discussions regarding the ERPP?

No. The Program is already reviewed by the DSM advisory group.

   c. Should KCP&L and GMO be ordered to provide an ERPP report to the advisory group described above on a monthly basis?

No. A Monthly reporting requirement would unnecessarily add to the cost of the Program.

3. Cost of Capital.

a. Return on Common Equity: What return on common equity should be used for determining rate of return?

Dr. Hadaway, the Companies' outside expert witness, recommends that the Commission set the return on equity at 10.30%.[3] He presented this updated ROE recommendation in his September 5, 2012 Rebuttal Testimony. His original recommendation of 10.40% was reduced as a result of more recent economic information and the addition of a fourth discounted cash flow ("DCF") model to his analysis.

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. In two of these cases his recommendations were expressly adopted.

Dr. Hadaway's current recommendation of 10.30% is 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 Hadaway KCP&L Rebuttal at 29; Hadaway KCP&L Direct at 4 (stating criteria).

He also added a fourth DCF model known as a Terminal Value approach. The Terminal Value price/earnings (P/E) ratio model provides 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

[3] 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.

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 uses. 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 Hadaway KCP&L Rebuttal at 30-31.

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 Hadaway KCP&L Rebuttal at 31.

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 recommends that the Commission set an ROE at the upper end of the range at 10.3%. See Hadaway KCP&L Rebuttal at 31.

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

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 Gorman KCP&L Direct at 15; Kahal KCP&L Direct at 7. Mr. Murray relies on a smaller group of 10 utilities. See Staff KCP&L Report, Schedule 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 Hadaway Rebuttal at 29. As a result, Mr. Gorman and Mr. Kahal have adjusted their proxy groups, as well. See Gorman KCP&L Surrebuttal at 7-8; Kahal KCP&L Surrebuttal at 6-8.

b. Capital Structure: What capital structure should be used for determining rate of return?

The Companies recommend the following capital structure, based upon the actual capital structure of their holding company Great Plains Energy Incorporated ("GPE"), projected as of August 31, 2012:

Proposed Capital Structure for the Companies

Debt	46.918%
Preferred Stock	0.607%
Common Equity	52.475%
TOTAL	100.00%

See Hadaway KCP&L Direct at 5.

Staff offered a similar recommendation, based upon GPE's capital structure as of June 30, 2012, and advised that it would present its final recommendation during the true-up phase of this case, which is consistent with the Companies' position. See Staff KCP&L Report at 33-34. This capital structure will reflect 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 K. Bryant KCP&L Rebuttal at 5-6.

Mr. Gorman recommends that the capital structure reflect GPE's actual capital structure as of March 31, 2012. See Gorman KCP&L Direct at 10-13. KCP&L's Treasurer Kevin Bryant comments on this view, given the conversion of the Equity Units and the maturity of the GMO debt, discussed above. See K. Bryant KCP&L Rebuttal at 3-5. Mr. Gorman has responded with a recommendation that the Commission consider a proposal for a hypothetical capital structure. See Gorman KCP&L Surrebuttal at 5.

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 Kahal KCP&L Direct at 6. KCP&L's Mr. Bryant addresses these issues. See Bryant KCP&L Rebuttal at 13-14.

c. Cost of Debt:

(i) Should GPE's consolidated cost of debt be assigned to KCP&L and GMO or should the cost of debt be subsidiary specific?

KCP&L and GMO would accept an actual GPE consolidated cost of debt for ratemaking purposes of 6.425%.

(ii) In either case, should adjustments be made to holding company debt issued subsequent to GPE's acquisition of GMO?

No. Staff states that an adjusted consolidated cost of debt structure should be imposed on KCP&L and GMO that does not reflect their actual debt. Staff also contends that downward adjustments should be made to the actual coupon rates of three debt issuances that GPE made subsequent to acquiring GMO, the former Aquila, Inc. See Staff KCP&L Report at 34-37; Staff GMO Report at 37-40.

As Mr. Bryant explains, GPE's decisions regarding the three debt offerings were prudent at the time they were made. See Bryant KCP&L Rebuttal at 6-12; Bryant KCP&L Surrebuttal at 2-3.

However, the Companies would not oppose using 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 Bryant KCP&L Rebuttal at 13; Bryant KCP&L Surrebuttal at 3.

4. Payroll.

a. What amount should be included in cost of service for overtime?

Overtime costs for the various years used in the normalization should be escalated to current dollars. Escalation is necessary whenever an average involves costs from several years ago, to arrive at an "apples-to-apples" comparison.

5. Pensions, OPEBs, SERP Costs.

a. Should the Company's salary assumption of 4.0% for management and 4.25% for bargaining unit employees based on Company specific historical data be used to determine pension cost or should Staff's salary assumption of 3.5% based on a current Missouri utility average be used?

The Company's salary assumption of 4.0% for management and 4.25% for bargaining unit employees based on Company specific historical data should be used to determine pension cost. Financial Accounting Standard No. 87 requires that the assumptions used in calculating pension cost be based on the Company's specific facts and circumstances. Staff's lower assumption is based on the experience of other companies and therefore not consistent with Generally Accepted Accounting Principles ("GAAP"). See Foltz KCP&L Surrebuttal at 5-6.

b. Should Supplemental Executive Retirement Plan ("SERP") pension costs paid by KCP&L as a lump-sum be included in addition to annuity payments in revenue requirement based on a multi-year average of actual amounts paid or should SERP costs be based solely on annual annuity payments to former KCP&L executive?

SERP pension costs paid by KCP&L as a lump-sum should be included in addition to annuity payments in revenue requirement based on a multi-year average of actual amounts paid. SERP payments are made by both annuity and lump sum. Staff's adjustment only includes annuity payments. Because the Company will likely experience both annuity and lump sum payments on a going forward basis, the Company has requested that both types of payments, averaged over a 3.66-year period, be recovered in rates. See Foltz KCP&L Rebuttal at 6-7.

c. Should SERP pension costs paid by the Wolf Creek Generating Station ("WCNOC") as monthly annuities be included in revenue requirement based on actual amounts paid or should these amounts be subject to the Staff's reasonableness tests?

SERP pension costs paid by Wolf Creek as monthly annuities should be included in revenue requirement based on actual amounts paid. These SERP contracts were established as a necessary component of overall compensation necessary to attract the experience necessary for the position. See Foltz KCP&L Rebuttal at 10.

d. Should GMO SERP costs be included in revenue requirement at the amount proposed in the Company's rebuttal testimony without recognition of a $50,000 annual ceiling proposed by Staff? How should the allocation factor to determine GMO-MPS regulated operations be recalculated to only eliminate regulated operations not acquired by GPE?

Yes. There is no basis for the $50,000 ceiling for two individuals proposed by Staff. The GMO SERP costs for the two individuals that are in excess of $50,000 should be recovered in rates since the payments were paid to long serving executives and it is expected that their SERP benefit would be higher relative to other executives. See Foltz GMO Rebuttal at 8. Staff's allocation factor improperly eliminated the portion of SERP costs assigned to the SJL&P. See FOLTZ GMO Rebuttal at 10.

e. Should WCNOC Other Post Employment Benefits ("OPEB") expense be based on the actual dollar amount of OPEB expense paid by KCP&L to WCNOC or as a Financial Accounting Standard No. 106 ("FAS 106") accrual amount? If it is appropriate to include FAS 106, including WCNOC, in revenue requirement, then should KCP&L be required to contribute amounts collected in rates for WCNOC employees to a segregated WCNOC OPEB fund or should amounts in excess of amounts paid by KCP&L to WCNOC be deposited in a KCP&L OPEB fund?

KCP&L has appropriately recorded OPEB costs based on FAS 106 consistent with the provisions of Section 386.315 RSMo as it makes OPEB contributions based on jurisdictional funding requirements for all OPEB plans in total. See Foltz KCP&L Rebuttal at 11. KCP&L's contributions exceeded the Missouri statutory and regulatory funding requirements. See Foltz KCP&L Rebuttal at 13. If KCP&L were to make additional OPEB payments to WCNOC over their requested amount, any excess would apply to all partners and KCP&L would only receive its ownership share of future benefits. See Foltz KCP&L Rebuttal at 11.

6. Fuel & Purchased Power Expense.

a. How should spot market purchased power prices be determined?

Such prices should be determined on the basis of the MIDAS™ production cost model, as described by KCP&L witness Burton Crawford. See Crawford Direct at 6-9.

7. Acquisition Transition Costs.

a. Should recovery of the amortized acquisition transition costs end?

No. The Companies previously met all requirements to receive recovery of transition costs through amortization over five years beginning with rates effective in Case Nos. ER-2010-0355 and ER-2010-0356 (the "2010 rate cases"). The Companies' actions are consistent with the previous rulings of the Commission in the Merger Report & Order and in the 2010 rate cases. Given that there has been no change in the facts, the Companies request that the Commission simply reject Staff's request for the stoppage of transition costs amortization recovery, and reaffirm its previous decision that the Company has already demonstrated compliance with all transition cost requirements and should be allowed to continue to amortize and recover the costs over five years.

Contrary to the assertions of the Staff, the Company has continued to track merger synergies. In the 2010 rate cases, the Companies presented a Synergy Tracking Model ("Tracker") which showed $48.5 million of synergies compared to $10.4 million annual amortization of transition costs in all jurisdictions. This demonstrated that in one year the amount of synergies retained were almost as great as the entire amount of transition costs to be amortized.

The Companies also presented a synergy project charter database ("Database") that tracked all synergies on a project-by-project basis for internal purposes. The Commission found that "Staff's analysis showed that the amount of synergies in the synergy project database exceeded those in the Commission-ordered tracking system." See Case No. ER-2010-0356, Report & Order at 169 ¶ 471.

The evidence indicates that the Companies are generating synergy benefits far in excess of merger transition costs. In fact, in this case the Companies have not presented any new transition costs to be amortized that were not already ordered in the 2010 rate cases. As demonstrated in the 2010 rate cases, in 2009 alone over $48.5 million of synergies were realized, according to the Tracker and Database. In other words, in 2009 alone, the Companies generated enough synergies to cover 93% of the $52 million in total transition costs that are flowing through rates in all jurisdictions.

In the 2010 rate cases, the Commission and Staff noted that $344 million of regulated synergy savings was projected over 5 years, with $150 million going to customers. Using the same methodology through March 31, 2012, the Companies now project $364 million of regulated synergy savings over 5 years, with $168 million going to ratepayers. The evidence clearly shows that synergy savings still significantly exceed merger transitions costs.

The Companies have met their responsibility to ensure that the promised synergy targets are being met, and have prepared reasonable documentation of synergies through the Synergy Tracker Database, which demonstrates a consistent amount of synergy savings as was contemplated in the 2010 rate cases. It is not necessary to maintain a Tracker model in addition to the Synergy Tracker Database. See Ives KCP&L Rebuttal at 25-40; Ives GMO Rebuttal at 26-41.

(i) If not, what amount should be included in revenue requirement for the acquisition transition cost amortization?

The recovery of the amortization of the amortized acquisition transition costs should continue over the period previously ordered by the Commission.

8. Depreciation.

a. Have KCP&L and GMO complied with the provisions of the 2010 Depreciation Stipulation entered into in the last rate cases?

Yes. In the 2010 KCP&L Rate Case, Case No. ER-2010-0355, the Company and Staff entered into a depreciation stipulation and agreement, titled *Non Unanimous Stipulation and Agreement Regarding Depreciation and Accumulated Additional Amortization* ("Depreciation Stipulation"), which the Commission approved on May 4, 2011. Staff contends in its Direct Testimony in this rate case that the Companies did not comply with two provisions of the Depreciation Stipulation. The Companies believe that they did comply in all respects.

The Companies completed a thorough study regarding retirements of property from the General Plant Accounts due to KCP&L's operation of Aquila, Inc. as required by the Stipulation and Agreement. The Companies also completed a similar study regarding KCP&L's corporate office relocations. The Companies discussed the scope and the approach of the review for the studies with Staff prior to conducting the studies. The studies were completed and submitted to Staff, OPC, and the Industrials on July 28, 2011. See Weisensee KCP&L Direct at 53-54; Weisensee GMO Direct at 49-50; Weisensee KCP&L Rebuttal at 10-16; Weisensee GMO Rebuttal at 13-18.

b. Should KCP&L and GMO continue to utilize the General Plant Amortization method?

Yes. In the 2010 rate cases, the Companies and Staff agreed in the Depreciation Stipulation that the Companies should utilize the General Plant Amortization methodology on an experimental basis. Establishing a General Plant Amortization methodology for the seven KCP&L and ten GMO small-asset accounts that represent approximately 2% of each Companies' depreciable plant is reasonable and consistent with the majority of policies adopted by regulatory commissions in the United States.

It is important to recognize that "amortization accounting" has been adopted by other utility regulators, including FERC, to deal with General Plant accounts that contain a large number of units with small asset values. Under amortization accounting, these units of property are capitalized in the same manner as in depreciation accounting. However, depreciation accounting is problematic for these assets as record keeping is time-consuming and it is expensive to reflect these small assets as plants in service. Under the General Plant Amortization concept, retirements are recorded with a vintage of assets (for example, all desks and chairs purchased in 2000) that is fully amortized, rather than when each individual unit is removed from service. Therefore, all units are retired when the age of the vintage reaches the end of the amortization period.

Under this system, each General Plant account or group of assets is assigned a fixed period that represents an anticipated life during which the asset will render service. The use of

General Plant Amortization is designed to smooth depreciation expense, consistent with capital investment. In order to establish constant rates consistent with amortization accounting and the Remaining Life method, Company witness Spanos has set the accumulated reserve equal to the theoretical reserve of these assets.

Mr. Spanos noted in his Rebuttal Testimony that FERC's adoption of vintage year accounting methods for General Plant accounts is identical to his General Plant Amortization proposal in this case. See Spanos KCP&L and GMO Rebuttal at 4. As FERC has noted in its Accounting Release No. 15 ("AR-15"), use of this system "would eliminate the utilization and record keeping requirements associated with individual items of property and allow such companies to record only the total cost of plant additions for the year as a vintage group for each account." See Weisensee KCP&L Direct at 10-16; Ives KCP&L Rebuttal at 14-17; Spanos KCP&L and GMO Rebuttal at 3-7.

c. Should KCP&L and GMO conduct an inventory of property in the General Plant Accounts?

No. As Mr. Spanos stated in his Rebuttal Testimony, the biggest challenge of General Plant account assets is that there are so many of them with a low individual value. See Spanos KCP&L and GMO Rebuttal at 5. Given the issues in keeping track of each of these individual assets, an extensive inventory would consume much employee time and expense, but add little value or information to the Company's accounting records. More importantly, it would not improve the future practices of asset retention, and would leave the Companies in the same position they are today in a few years.

The solution is to establish a reasonable useful life for each General Plant account or group of assets that fall into the amortization criteria, and retire all assets installed prior to that period. See Spanos KCP&L and GMO Rebuttal at 5-6. Such action will assure that virtually all assets that are not used and useful will be taken off the books of the Company. This can be accomplished with a limited number of employee hours, and will establish and improve the process for future recovery of these small assets, at the same time as stabilizing depreciation rates.

General Plant Amortization creates improved accounting processes and minimizes the costs to manage a small percentage of a utility's capital investment. See Spanos KCP&L and GMO Rebuttal at 5-6. Simply raising capitalization thresholds with regard to these assets, as suggested by Staff, only increases the amount of dollars being expensed. See Spanos KCP&L Rebuttal at 6-7; Spanos GMO Rebuttal at 5-7.

d. Should Staff's depreciation adjustments be adopted?

If general plant amortization is continued, the Company believes that Staff's unrecovered reserve adjustments as described in Arthur Rice's surrebuttal testimony should be adopted conceptually, but the amounts should be based on the unrecovered reserve calculations of Company witness John Spanos. Staff has recommended in its surrebuttal testimony certain adjustments that would be needed if general plant amortization is to continue. Staff's recommendations are as follows:

- KCP&L: Booking $4,003,058 of retirements to reflect retirement of general plant in the vintage amortized accounts where vintages have exceeded stated vintage lives.
- KCP&L: Transfer $6,483,406 of excess accumulated depreciation reserves from Transmission Plan account 353 (Station Equipment) to the general plant accounts, and transfer $5,625,000 of excess accumulated reserves from general plant account 390 (general plant structures) to the reserves of the vintage amortized accounts to cover an under-recovery in the vintage amortized accounts of $12,108,406.

- GMO: Booking approximately $16,000,000 (Missouri jurisdictional) of retirements to reflect retirement of general plant in the vintage amortized accounts where vintages have exceeded stated vintage lives.
- GMO: Transfer approximately $24,000,000 of excess accumulated depreciation reserves from the transmission plant accounts and production plant account 331 (Structures) to the general plant accounts.

The Company agrees to these adjustments concepts provided by Staff if will need to be made if general plant amortization is allowed to continue on a permanent basis. But, the amounts that should be used to book retirements and the amount of the unrecovered reserve to be transferred should be based on the calculations provided by John Spanos in his surrebuttal testimony. They are as follows:

- KCP&L: Booking $3,318,238 of retirements.
- KCP&L: Transfer $10,863,678 of excess accumulated depreciation reserves from a combination of transmission plant account 353 (Station Equipment) and general plant account 390 (general plant structures).
- GMO: Booking $16,460,424 of retirements.
- GMO: Transfer $22,260,246 of excess accumulated depreciation reserves from a combination of transmission plant accounts and production plant account 311 (Structures) to the general plant accounts.

The Company does not agree to increase GMO's general plant reserves to account for periods where depreciation was stopped to avoid over accrual. Company witness Weisensee discusses that general plant account 391.05 Computer System Development which accounts for 99% of the issue had become fully depreciated. Since there was not expected to be anymore plant additions to this account, the depreciation accrual was set to 0% once the plant had become fully depreciated. This is exactly the same rate that Staff witness Schad recommended in the 2009 rate case. The Company relied on Missouri regulation 4 CSR 240-20.030 that adopted the Code of Federal Regulations (18 CFR Part 101), which provides instructions for recording electric utility financial information. Part 101, General Instruction 22 "Depreciation Accounting" states "Utilities must use a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property over the service life of the property." It continues "Utilities must use percentage rates of depreciation that are based on a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property to the service life of the property." GMO believes it used a systematic and rational approach when no more additions were expected for that asset class. Thus, the depreciation rate was set to 0. No additional depreciation expense should be recorded associated with this asset class.

9. Bad Debt.

a. Should bad debt expense and forfeited discount revenue included in rates in this case include a provision for the respective impacts resulting from the revenue increase in this case?

The Company contends that the revenue requirement in this case should include estimated bad debt write-offs on the revenue increase granted in this case, as it is logical that additional revenues will result in additional bad debt write-offs.

b. How should normalized bad debt be determined.

Bad expense should be normalized based on recent activity, to incorporate current economic impact.

10. Rate Case Expense.

a. What amount should be included in revenue requirement for rate case expense?

It is long-standing Commission policy to allow the recovery of prudently incurred expenses, including rate case expenses. The Company believes that its expenses were prudently incurred. The Company's two-year average proposal based on 2009 and current case estimated costs is the most appropriate way to normalize rate case expense as these cases are the best representation of the level of rate case expense experienced by the company.

(i) Should it be based on deferring and amortizing rate case expenses or on normalizing them?

The defer and amortize method ensures that the exact amount of rate case expense is recovered in rates. However, the Company would be willing to move away from defer and amortize provided the normalization method used was reasonable.

b. Should certain Schiff Hardin fees be excluded from post true-up rate case expenses?

No. These costs were prudently incurred as part of the Company's last rate case as determined by the Commission. See Rush Rebuttal at 23.

11. Transmission Tracker.

a. Should the Commission authorize KCP&L and GMO to compare their actual transmission expenses with the levels used for setting permanent rates in these cases, and to accrue and defer the difference into a regulatory asset?

Yes. The Companies propose a mechanism to ensure appropriate recovery of transmission costs as a result of charges from SPP and other providers of transmission service. The Companies believe 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 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.

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.

The Companies propose that transmission costs, as defined in the transmission tracker, be set in the true-up process in this rate proceeding. The Companies would then 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 would be included in rate base. See Ives KCP&L Direct at 13-17; Carlson KCP&L Direct at 2-11; Ives KCP&L Rebuttal at 23-25; Carlson KCP&L Rebuttal at 2-4; Ives GMO Direct at 11-15; Carlson GMO Direct at 2-11; Ives GMO Rebuttal at 24-26; Carlson GMO Rebuttal at 2-3; Weisensee KCP&L Direct at 33-35; Weisensee GMO Direct at 34-36.

12. Property Tax Tracker.

a. Should the Commission authorize KCP&L and GMO to compare their actual property taxes with the levels used for setting permanent rates in these cases, and to accrue and defer the difference into a regulatory asset?

Yes. The Companies propose a mechanism to ensure appropriate recovery of property taxes. The Companies believe that these expenses are appropriate candidates for a tracker mechanism because they are material, expected to change significantly in the near future, and are outside the control of KCP&L and GMO. Property tax expenses have been escalating over the past four years. They are determined by Missouri state assessors, are a significant component of the cost of service, and amounts assessed are out of the control of the Companies.

The Companies' request for a property tax tracker would be treated similarly to the tracking mechanism for transmission and RES trackers requested in this case, allowing for differences in the rate used to calculate carrying costs, and other tracker mechanisms approved by the Commission for other utilities. See Ives KCP&L Direct at 19-21; Ives KCP&L Rebuttal at 22-23; Ives GMO Direct at 17-18; Ives GMO Rebuttal at 21-23; Smith KCP&L Direct at 2-5; Smith GMO Direct; pp. 2-4.

13. RES and RES Tracker.

a. Should RES costs be included in KCP&L's and GMO's revenue requirements?

Yes.

(i) If so, what is the amount?

The Companies propose a mechanism to ensure appropriate recovery of renewable energy standards expenses as a result of costs associated with compliance with the RES law. The Companies believe that these 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 KCP&L and GMO.

Due to the unpredictability of costs expected to be incurred under the RES law prospectively, the Companies request that the Commission authorize an RES expense tracker authorizing the Companies to defer and record as a regulatory asset in Account 182 or as a regulatory liability in Account 254 of the Uniform System of Accounts ("USOA") certain incremental costs incurred by the Companies above or below the base ongoing costs as determined in the true-up process in these cases to comply with Missouri's RES, Section

393.1020, et seq. This standard establishes requirements for electric utilities (i) to generate or purchase electricity generated from renewable energy resources; and (ii) to include carrying costs based on each Company's short-term debt rate on the balances in the regulatory asset or liability with their disposition to be determined in the Companies' next general rate proceeding.

The Companies propose that new amounts added to the regulatory asset or liability after the effective date of rates in this case, including carrying costs, be amortized to cost of service in each Company's next rate proceeding over the same length of period as costs are accumulated, with the unamortized balance included in rate base. The Companies would reset the level on ongoing RES costs in base rates in the next rate case, similar to how ongoing pension costs are reset each case. The regulatory asset or liability would include accrued carrying costs from the time costs are incurred until they are included in rate base. See Ives KCP&L Direct at 17-19; Ives KCP&L Rebuttal at 22-24; Ives GMO Direct at 15-17; Ives GMO Rebuttal at 23-24.

b. Should RES costs KCP&L and GMO incurred from 2010 through 2012 that exceed the level of RES costs included in cost of service be given rate base treatment, i.e., should they not only get a return of those costs, but also a return on them?

Yes. See Rush KCP&L Rebuttal at 46.

c. What amortization period should be used to determine the annual level to include in KCP&L's and GMO's revenue requirements for recovery of the RES costs KCP&L and GMO incurred from 2010 through 2012 that exceed the level of RES costs used in the revenue requirements upon which their current permanent rates are based?

The Company recommends the use of a five-year amortization period. See Weisensee KCP&L Direct at 22.

d. Should KCP&L and GMO be allowed to compare their actual RES costs with the levels used for setting permanent rates in these cases, and to accrue and defer the difference into a regulatory asset?

Yes. See Weisensee KCP&L Direct at 22; Ives KCP&L Direct at 17-19.

14. Low Income Weatherization.

a. At what level should low-income weatherization be funded and included in revenue requirement?

The Companies believe that the current level of funding included in rates is adequate for the current demand for the low-income weatherization programs. See Rush KCP&L Rebuttal at 18-20; Rush GMO Rebuttal at 37-38.

b. Are the Companies distributing the weatherization funds collected from ratepayers?

No, the Companies are not.

(i) If not, why not?

It has been the Companies' experience that, with the exception of a select few, the Community Action Agencies ("CAA") have not been able to utilize the annual funding allocations. Therefore, before execution of the 2012 contracts with the CAA, the Companies met with each agency and arrived at an agreed upon funding level in line with the expected level of weatherization projects. If an agency depletes its annual allocation of weatherization funding provided by the Companies, then the Companies would propose to discuss the request with the DSM Advisory Group and work within the DSM Advisory Group to provide additional funding. See Rush KCP&L Rebuttal at 18-20; Rush GMO Rebuttal at 37-39.

c. Should any weatherization funds which are collected during a year (plus any interest or return earned thereon) which are not distributed be available for distribution in subsequent years?

The Company does not believe that the current tariff allows for distribution in subsequent years.

d. Should the Companies consult the DSM Advisory Group ("DSMAG") on the allocation and distribution of funds?

Yes. The Company is not opposed to this proposal.

e. Should the Companies provide quarterly reports to the DSMAG on the allocation and distribution of funds?

The Company currently provides information on a quarterly basis to the DSMAG regarding low-income weatherization programs.

f. Should the Companies file revised tariff sheets regarding their low-income weatherization program?

No, unless the Commission orders changes to these programs. The Company does not believe it is necessary to file revised tariffs regarding the low-income weatherization program.

15. <u>Joint Resource Planning.</u>

a. Should KCP&L and GMO be allowed to conduct joint resource planning?

Yes. The Companies have requested that the Commission acknowledge that, under 4 CSR 240-22.080(17), it is reasonable for the Companies to plan on a joint company basis, as evidenced by the significant savings to retail customers from joint planning. <u>See</u> April 9, 2012 Letter to Steven Reed, Case Nos. EO-2012-0323 and EO-2012-0324.

In the Companies' 2012 IRP filings, the Companies have demonstrated that GMO would benefit from joint resource planning by $140 Million on a 20-year Net Present Value Revenue Requirement ("NPVRR") basis in savings in comparison to the plan that would be selected from GMO on a stand-alone basis. This savings is due to GMO being able to delay building new capacity by seven years and the opportunity to share with KCP&L a small portion of a new combined cycle facility that would be built in the future under a combined-company scenario. KCP&L would benefit by $8 million on a 20-year NPVRR basis in savings compared to the plan that would be selected for KCP&L on a stand-alone basis. This savings is due to increased capacity sales and the opportunity to share with GMO a smaller portion of a new combined cycle facility that would be built in the future under a combined-company scenario. <u>See</u> Rush GMO Rebuttal at 34-35.

(i) If yes, should the Commission require KCP&L and GMO to file with the Commission for approval a detailed proposal for allocating capacity and energy between them?

If Staff is of the opinion that KCP&L and GMO's joint capacity planning means that all the resources from KCP&L and GMO are to be merged and then re-assign the plants, then a detailed proposal to allocate capacity and energy between KCP&L and GMO would be necessary. However, the Companies do not believe that this approach is necessary or appropriate. Joint planning of KCP&L and GMO can provide benefits for determining both future generation needs as well as retirements, without requiring a formal merger. See Rush GMO Rebuttal at 34-35.

(ii) If yes, should the Commission require KCP&L and GMO to file a definitive plan for merging KCP&L and GMO into one electrical corporation?

No. Any plan to merge KCP&L and GMO into one electrical corporation should be left to management to develop and propose at an appropriate time. The Commission should not require KCP&L and GMO to file a definitive plan for merging KCP&L and GMO into one electrical corporation at this time.

16. Organizational Realignment and Voluntary Separation ("ORVS").

a. Should the annual amount based on a five-year amortization of the severance and related costs associated with KCP&L's ORVS Program be included in revenue requirement?

Yes. The Companies' witness Kelly R. Murphy supports the rate case adjustment to defer costs associated with ORVS for recovery over five years. See Murphy KCP&L and GMO Direct at 2. The ORVS Program was implemented to enhance organizational efficiency and to assist in the overall management of labor costs. See Murphy KCP&L and GMO Direct at 2. The realigned organizational structure that resulted from this Program will benefit the Company and its customers over future years through the enhanced efficiencies and lower overall employee headcount. See Murphy KCP&L and GMO Direct at 3. Deferring the costs of the Program into a regulatory asset and amortizing the deferred costs over five years is appropriate because this Program will provide benefits to customers for years to come and is consistent with the Commission's authorization of a five-year amortization period to recover the costs of the Talent Assessment Program in Case No. ER-2007-0291. See Murphy KCP&L Direct at 4; Murphy GMO Direct at 4-5. The benefits to customers over the five-year proposed recovery period total over $74 million. See Ives KCP&L Rebuttal at 42; Ives GMO Rebuttal at 43. The Companies have no plans to fill those positions that were eliminated. See Ives KCP&L Rebuttal at 43; Ives GMO Rebuttal at 44.

b. Have KCP&L and GMO recovered in rates at a minimum the dollar amount severance costs related to the ORVS Program employees who left the employ of KCP&L in March 2011?

No. As the Companies' witness Darrin R. Ives explains, the Companies will not have already recovered the costs of the ORVS Program through regulatory lag by the time rates are in effect for these cases. See Ives KCP&L Rebuttal at 40-41; Ives GMO Rebuttal at 41-42. A comparison of earned returns to authorized returns demonstrates that the Companies have been impacted by negative regulatory lag over the prior five years by a much greater extent than they have benefited from any areas of positive regulatory lag. See Ives KCP&L Rebuttal at 41; Ives GMO Rebuttal at 42. Staff has provided recovery for the deferral and recovery of pension settlement costs in accordance with Statement of Financial Accounting Standard No. 88, which requires immediate recognition of certain costs arising from settlements of defined benefit plans, such as that for ORVS, rather than the normal slower recognition of these pension costs over the employees' remaining service lives. See Ives KCP&L Rebuttal at 41-42; Ives GMO Rebuttal at 42-43.

17. Advanced Coal Tax Credit.

a. What is the proper course of action to resolve whether or not the amount included for KCP&L's advanced coal investment federal income tax credit for Iatan 2 be reduced to reflect a reallocation of a portion of that credit to GMO based on GMO's ownership interest in Iatan 2 and, concurrently, whether or not the amount included for GMO be treated as getting the benefit of that credit redistribution?

See responses below.

(i) Should the Commission order KCP&L, GMO, and Great Plains Energy to file a private letter ruling with the IRS to determine if any of the proposed Staff recommendations (11-iv below) for a reallocation of a portion of the advanced coal investment federal income tax credit for Iatan 2 from KCP&L to GMO, based on GMO's ownership interest share, would constitute a normalization violation?

Yes, this is the best way to get this issue before the IRS. See Hardesty Surrebuttal at 9.

(a) If the IRS issues a private letter ruling which states that any of the Staff's recommendations for a reallocation of Iatan 2 coal credits to GMO based on its ownership share of Iatan 2 would NOT be a normalization violation, then should the Commission order KCPL to implement one of the recommendations that is not a normalization violation in order for GMO to receive an equivalent amount of tax benefits based on its ownership share of Iatan 2?

Yes.

(b) If the IRS issues a private letter ruling which states that all of the Staff's recommendations for a reallocation of Iatan 2 coal credits to GMO based on its ownership share of Iatan 2 are normalization violations, then should the Commission order that no reallocation of these credits to GMO should be attempted in any manner in the future?

Yes. The Company believes it would be a violation of the Internal Revenue Service normalization rules under Internal Revenue Code Section 46(f) to allocate advanced coal ITC directly or indirectly to an entity that did not claim the credit on its tax return. The penalty is the repayment to the IRS the greater of ITC claimed in all open tax years as of the date of the violation or the amount of ITC tax credit remaining on the taxpayers' books of account. For KCP&L, this equates to a repayment of the Missouri jurisdiction portion of unamortized credits utilized on its tax returns, and it would lose the ability to use the Missouri jurisdictional portion of unused credits to offset future tax liabilities for a total impact of the Missouri jurisdictional portion of approximately $126.9 million. KCP&L would also be unable to claim ITC on future tax returns until the normalization violation is corrected.

(ii) Should the Commission order KCP&L, GMO, and Great Plains Energy jointly to seek a revised IRS memorandum of understanding to reallocate a portion of the credit to GMO based on GMO's ownership interest in Iatan 2 for a second time?

No, the Company believes that filing for a private letter ruling is the most appropriate way to get this issue before the IRS. The Company has already requested such a revision from the IRS which was denied. The Company does not believe that the IRS would be willing to reallocate the credits, if requested again. See Hardesty Surrebuttal at 4.

(a) If the IRS does not agree to reallocate these Iatan 2 coal credits to GMO based on its ownership share of Iatan 2, then should the Commission order KCPL to pay the monetary equivalent to GMO of the value of the coal credits that should be allocated to GMO, or alternatively, should the Commission impute the value of the coal credits to GMO based on its ownership share of Iatan 2?

No, adopting Staff's recommendation without first obtaining a ruling from the IRS could have a severe negative financial impact on both KCP&L and GMO. See Hardesty Surrebuttal at 4.

(iii) In the alternative, should the Commission disallow certain Great Plains Energy and KCPL officers' salaries and benefits allocated to GMO?

No, see a.i.2 above.

(iv) Or, in the alternative, should the Commission consider the Coal Credit issue when it determines the proper rate of return to use in the KCPL and GMO rate cases?

No, see a.i.2 above.

18. Inventory Management.

a. Should Great Plains Energy Services be permitted to purchase KCP&L's and GMO's current material and supply inventories and then become their source of materials and supplies?

Yes. The Companies' witness Jeffrey M. Wolf recommends that GPES purchase KCP&L's and GMO's current inventories, as well as all future Material and Supply inventory. See Wolf KCP&L and GMO Direct at 2. Combining the management of inventory of stock materials and tools will improve operational efficiencies at both KCP&L and GMO. See Herdegen KCP&L Direct at 9; Herdegen GMO Direct at 21. By reducing the redundant level of inventory and easing the process of sharing items between KCP&L and GMO service centers, the Companies will realize savings and gains in productivity. See Herdegen KCP&L Direct at 15-16; Herdegen GMO Direct at 27. GPES should purchase KCP&L's and GMO's current inventories and future Material and Supply inventory so as to avoid having to physically segregate any of the inventory as required by Missouri sales tax laws. See Herdegen KCP&L Direct at 16-17; Herdegen GMO Direct at 16.

19. Distribution Field Intelligence Tech Support ("DFITS").

a. Should the cost of establishing, training and sustaining the Distribution Field Intelligence and Tech Support group be included in rate base in this proceeding? Should the estimated future employee and plant costs of a future projected addition to KCP&L and GMO's Distribution maintenance program, referred to as Distribution Field Intelligence and Tech Support group, be included in cost of service in this proceeding?

Yes. The Companies' witness Jeffrey M. Wolf recommends recovery of the DFITS costs in this case. See Wolf KCP&L and GMO Direct at 2. In order to continue deployment of and to maintain specialized Distribution Automation and Smart Grid technologies, a new work group that focuses on these technologies is necessary. See Herdegen KCP&L and GMO Direct at 3-5. The DFITS group will focus on the distribution system, train specifically on equipment applied to that system, and will be significantly more technical than traditional distribution line workers and field operators. See Herdegen KCP&L and GMO Direct at 3. None of the anticipated startup costs for implementing DFITS currently is in rates. See Herdegen KCP&L and GMO Direct at 8. While the program costs are based on estimates, the Commission has previously allowed estimated program costs to be included in the cost of service. See Ives Surrebuttal at 23-24.

20. Revenue Normalization.

a. Should the LPS class be weather normalized?

Yes. As the Companies' witness George M. McCollister explains, a weather adjustment, or adjustment to reflect normal weather conditions, is appropriate for both monthly and hourly kWh sales. See McCollister KCP&L and GMO Direct at 2-5. Because abnormal weather can increase or decrease revenues, fuel costs, and rate of return, revenues and expenses typically are adjusted to reflect normal weather when used to determine a utility's future electric rates. See McCollister KCP&L and GMO Direct at 3. The appropriate methodology to weather-normalize kWh sales is based on load research data, which is derived by measuring hourly loads for a same of each Company's customers representing Residential, Small General Service ("GS"), Large GS, and Large Power classes. See McCollister KCP&L Direct at 3-5; McCollister GMO Direct at 4-5.

21. Revenues.

a. Should the difference in the General Ledger and the recalculation of revenues (i.e., tie amount used to verify the recalculation process) be carried forward and included in the normalized and annualized test year revenues?

No. See Rush Surrebuttal at 2-4.

22. Mutual Assistance Revenues.

a. Should KCP&L's revenue requirement reflect a normalized level of mutual assistance revenues?

The Company believes that this issue has been resolved.

C. GMO Only Issues

1. Crossroads.

a. What should be the value of Crossroads included in rate base?

As of March 31, 2012, GMO values Crossroads at a net value of approximately $82.7 million. Since Crossroads has been determined to be the least cost option in a 20-year preferred resource plan analysis and has met the Staff's in service criteria, this is the value that should be used. See Crawford GMO Rebuttal at 1-4.

b. What amount of accumulated deferred taxes associated with Crossroads should offset the value of Crossroads in rate base?

The amount of accumulated deferred taxes should correspond with the value set by the Commission for Crossroads. If the Commission continues to value Crossroads lower than net book value, then this value should be used. If the Commission adopts the higher value then that it the value that should be used (excluding deferred taxes generated prior to the transfer of Crossroads to GMO). See Hardesty Rebuttal at 6.

c. Should depreciation expense be based upon the authorized gross plant value for Crossroads?

Yes.

d. What transmission costs for energy from Crossroads should be included in revenue requirement?

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. 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 revenue requirement. See Crawford GMO Direct at 13.

Furthermore, 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).

2. Capacity allocation (MPS vs. L&P).

a. For determining revenue requirement, including fuel costs, how should GMO's Ralph Green generating facility and short-term purchased power agreements be assigned between MPS and L&P?

Capacity from the Ralph Green Plan should not be allocated from MPS to LMP. Staff witness Lena Mantle has recommended that the Commission reassign GMO's natural gas-fired, combustion turbine Ralph Green Plant (71 MW) from the MPS rate base to the L&P rate base, in order to address a perceived shortfall in capacity and energy for the L&P district. See Staff GMO Report at 120-26.

GMO believes such a reassignment is unnecessary. Because GMO was an estimated 61 MW short of meeting its reserve obligations in 2012, GMO entered into a 61 MW capacity contract. Because the L&P district was generation short, GMO assigned the 61 MW contract to L&P. Given that the revenue requirement of the Ralph Green Plant (71 MW) is greater than the cost of the capacity contract (61 MW), any assignment of the plant to L&P would unnecessarily increase the costs to L&P customers and result in a misallocation of capacity to the MPS rate base, where Ralph Green has historically been assigned. See Crawford GMO Rebuttal at 9-10.

3. Off Systems Sales Margins.

a. How should Purchases for Resale (including issues related to negative margins) be treated?

The Staff Report expresses concern over the level of negative margins experienced by GMO over the last several years. See Staff GMO Report at 106-09.

As Mr. Crawford explains in his rebuttal, the negative margins being experienced by GMO are the result of Purchases for Resale. See Crawford GMO 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.

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 off-system sales. Id. at 9.

4. St. Joseph Infrastructure Program.

a. Should the Commission authorize construction accounting for GMO's proposed St. Joseph infrastructure program?

Yes. GMO witness Jeffrey M. Wolf recommends implementation of the St. Joseph infrastructure program as set forth in the Direct Testimony of William P. Herdegen, with future rate recovery allowed for all program costs. See Wolf GMO Rebuttal at 2. GMO has submitted a comprehensive five-year plan that will address the overall distribution reliability, condition, and future capacity needs of the St. Joseph electrical system. See Herdegen GMO Direct at 9. This program will include the construction of two new substations, as well as replacement of St. Joseph's worst performing lateral lines. See Herdegen GMO Direct at 10. The total 5-year cost of the program is $27.0 million. See Herdegen GMO Direct at 20.

As explained by Company witness John P. Weisensee, construction accounting is necessary to avoid a cash flow detriment and an earnings decline. Without rate relief timed to when these assets are included in Plant and the start of depreciation, GMO will experience earnings decline due to rates not reflective of these new assets. See Weisensee GMO Surrebuttal at 16. Absent construction accounting, the Company would realize a cash flow detriment and an earnings decline, as it incurs significant construction expenditures without the ability to earn a return on and a return of those costs. See Weisensee GMO Surrebuttal at 16. Also, the increase to the depreciation reserve would represent a permanent loss; that is, the inability to recover a portion of the costs incurred. See Weisensee GMO Surrebuttal at 16. The scope and size of this delivery infrastructure program, coupled with the length of time to complete the program, warrants construction accounting treatment. See Weisensee GMO Surrebuttal at 16. The Commission has approved this method of accounting treatment in the past, primarily for generation plant additions. See Weisensee GMO Surrebuttal at 16.

5. L&P Ice Storm AAO.

a. Should the amortization level of the L&P Ice Storm be reduced, recovery of that amortization tracked, and any over-recovery addressed in GMO's next rate case?

An annual level of amortization should be included in rates in this case, since the Company did not begin its allowed five-year recovery of these costs until rates became effective in Case No. ER-2009-0090 on September 1, 2009. See Weisensee GMO Surrebuttal at 14.

6. Sibley AAO.

a. Should the Sibley AAO de discontinued?

This is an issue between Staff and OPC.

b. Should the Sibley AAO be rebased?

This is an issue between Staff and OPC.

c. Should the recovery of the Sibley AAO be tracked and any over-recovery addressed in GMO's next rate case?

This is an issue between Staff and OPC.

7. Rate Design/Class Cost of Service Study.

a. How should the class cost of service studies be relied on for determining shifts in customer class revenue responsibilities that are revenue neutral on an overall company basis?

The Company believes that the Commission in its judgment of the facts of this case must evaluate the methods proposed by the various parties to determine which options produce fair and reasonable results. The Company and Staff have utilized the Base-Intermediate-Peak ("BIP") method which attempts to balance the allocation across the classes based on a layered allocation of production plant. See Rush KCP&L Direct at 7-10; Rush KCP&L Rebuttal at 1-13; Rush GMO Direct at 10-13; Rush GMO Rebuttal at 2-14.

b. How should any rate increase be allocated among the various customer classes?

The Company recommends that the existing rate design be maintained. Any increase in rates should be spread equally to all classes and rate components. See Rush KCP&L Direct at 7-10; Rush KCP&L Rebuttal at 1-13; Rush GMO Direct at 10-13; Rush GMO Rebuttal at 2-14.

c. What is the appropriate rate design?

The Company recommends that the existing rate design be maintained. See Rush KCP&L Direct at 7-10; Rush KCP&L Rebuttal at 1-13; Rush GMO Direct at 10-13; Rush GMO Rebuttal at 2-14.

d. Residential rate adjustments:

(i) Should current Residential rates be adjusted to reflect a revenue-neutral shift seasonally and among Residential rate schedules in the winter based on GMO's class cost of service study?

The Company recommends that the existing rate design be maintained. See Rush KCP&L Direct at 7-10; Rush KCP&L Rebuttal at 1-13; Rush GMO Direct at 10-13; Rush GMO Rebuttal at 2-14.

(ii) How should any Residential revenue increase be assigned to rate elements?

The Company recommends that the existing rate design be maintained. See Rush KCP&L Direct at 7-10; Rush KCP&L Rebuttal at 1-13; Rush GMO Direct at 10-13; Rush GMO Rebuttal at 2-14.

e. Residential Space Heating services:

(i) Should GMO's Residential Space Heating services be eliminated?

No. MGE's argument for eliminating residential space heating rates appears to be nothing more than 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. <u>See</u> Rush KCP&L Direct at 7-10; Rush KCP&L Rebuttal at 1-13; Rush GMO Direct at 10-13; Rush GMO Rebuttal at 2-14.

(ii) In the alternative, should KCP&L's Residential Space Heat services be scheduled for elimination in a subsequent rate case by freezing their availability in this case?

No.

(iii) Should the Commission adopt Staff's proposal to increase the residential space heating rates?

No. The Company recommends that the existing rate design be maintained. <u>See</u> Rush KCP&L Direct at 7-10; Rush KCP&L Rebuttal at 1-13; Rush GMO Direct at 10-13; Rush GMO Rebuttal at 2-14.

f. Should the Commission adopt Staff's proposal to increase the non-residential space heating rates?

No. The Company recommends that the existing rate design be maintained. <u>See</u> Rush KCP&L Direct at 7-10; Rush KCP&L Rebuttal at 1-13; Rush GMO Direct at 10-13; Rush GMO Rebuttal at 2-14.

g. Should GMO be required to conduct a comprehensive study on the impacts of its retail customers of eliminating the MPS and L&P rate districts and implementing company-wide uniform rate classes?

The Company is supportive of this proposal so long as the phase-in for the L&P jurisdiction is completed by the time that the rates would go into effect from the comprehensive studies. See Rush GMO Rebuttal at 32.

h. Should GMO be required to conduct a class cost of service study to determine the differences in its cost of service for each of the classes of MPS and L&P customers?

The Company is supportive of this proposal so long as the phase-in for the L&P jurisdiction is completed by the time that the rates would go into effect from the comprehensive studies. See Rush GMO Rebuttal at 32.

8. L&P Phase In.

a. Should the rate changes addressed in the Commission's Report and Order in GMO's last rate case to phase-in rates in the L&P district be ended early and, instead, should the annual amount of a three-year amortization of the unrecovered phase-in amount be included in the L&P revenue requirement?

The Company is not opposed to Staff's proposal on this issue. However, the amortization period places a significant lag in the timeliness of the revenue recovery from the prior rate case. GMO believes it would be more appropriate for the amortization period of the phase-in to be two years, rather than three years as proposed by Staff. See Rush GMO Rebuttal at 15-16.

9. ADIT – FAC.

a. Should GMO's rate base be reduced by the accumulated deferred income taxes related to GMO's Fuel Adjustment Clause ("FAC")?

Only deferred income taxes associated with items included in cost of service or rate base should be included in rate base. The fuel adjustment clause has been excluded in the calculation of the cost of service. Therefore, deferred taxes related to the FAC should be excluded from rate base. See Hardesty GMO Rebuttal at 2.

10. GMO's MEEIA Application.

a. Should the costs of any programs, shared benefits or lost revenues under MEEIA be recovered from retail customers? If so, what is the amount, and the associated per kWh rate?

As explained by Company witness Tim Rush, GMO and all parties to the MEEIA application (Case No. EO-2012-0009) have been working toward an agreement to settle how the Company's MEEIA program should be considered and otherwise incorporated into this rate case. The Company intends to either withdraw its MEEIA application filing from consideration before the Commission or will move forward to try Case No. EO-2012-0009 if a settlement is not reached. Should GMO and the parties reach a final settlement agreement, the Company will request that GMO be allowed to incorporate any terms that affect the current rate case at that time. See Rush GMO Rebuttal at 37.

11. FAC.

a. Should the Commission approve, modify, or reject GMO's request for a Fuel Adjustment Clause?

As discussed by GMO witnesses Tim Rush and Edward Blunk, there is no reason to change the current program because the Company's practices have been found to be prudent.

b. What should GMO's FAC sharing be?

Today GMO is permitted to charge customers 95% of its fuel and purchased power expenses costs that exceed its base energy rates (net of OSS sales), with the Company bearing 5% of such costs itself. See Rush GMO Rebuttal at 16-23.

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 GMO Report at 169-78; M. Barnes GMO 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 Rush GMO Rebuttal at 20-21.

A recent decision by the Commission's 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). Staff relies upon live testimony given by GMO witness Wm. Edward Blunk at the hearing of that 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 GMO Report at 274. The quote is taken entirely out of context. See Blunk GMO Rebuttal at 4-8.

GMO contends that changing the formula would punish GMO without good cause, and such a change would be a significant negative development for GMO, considering that few states have such sharing mechanisms related to fuel costs. See 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).

c. Should both the revenues and the costs associated with Renewable Energy Certificates flow through GMO's FAC?

Yes. See Rush GMO Rebuttal at 27.

d. Should GMO's FAC tariff be clarified 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?

No. Such transmission costs are prudent.

e. Should GMO be ordered 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?

The Company believes that Staff has the information it needs in performing FAC tariff, prudence, and true-up reviews.

12. Kansas City International Airport.

a. What actions has GMO taken to date to address quality and reliability of service at Kansas City International Airport ("KCI")?

GMO has met with airport officials to address any issues.

b. What actions should GMO be taking to address the quality and reliability of service at KCI in anticipation of changes in the layout of the airport terminals?

GMO will meet with airport officials to discuss upcoming changes.

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 12th day of October, 2012, to all counsel of record.

/s/Lisa A. Gilbreath