

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

In the Matter of the Application of Kansas City )  
Power & Light Company for Approval to )  
Make Certain Changes in its Charges for )  
Electric Service to Implement its Regulatory )  
Plan. )

**File No. ER-2010-0355**  
Tariff No JE-2010-0692

In the Matter of the Application of KCP&L )  
Greater Missouri Operations Company for )  
Approval to Make Certain Changes in its )  
Charges for Electric Service. )

**File No. ER-2010-0356**  
Tariff No. JE-2010-0693

**Staff's Position Statements**

COMES NOW the Staff of the Missouri Public Service Commission (“Staff”) and, based on the issues as listed in the list of issues Staff filed January 7, 2011, states its position on each issue as follows:

**LIST OF ISSUES**

**Kansas City Power & Light Company Issues Only, File No. ER-2010-0355**

**REVENUE REQUIREMENT**

**Rate Base**

**1. Demand-Side Management:**

- a. Does KCPL’s Regulatory Plan require the return on KCPL’s demand-side management program costs authorized in this case be the allowance for funds used during construction rate specified in the Regulatory Plan or should they be treated as a rate base item in this proceeding?

Staff’s position: In EO-2005-0329, the signatories agreed to, and the Commission approved a Stipulation and Agreement (Agreement) setting forth an Experimental Regulatory Plan (Regulatory Plan) for KCPL. The Regulatory Plan at page 53, Paragraph 10 (f), states “[w]hen approved and adopted by the Commission, this Agreement shall constitute a binding agreement among the Signatory Parties hereto. The Signatory Parties shall cooperate in defending the validity and enforceability of this Agreement and the

operation of this Agreement according to its terms.” The Regulatory Plan established a return on the Company’s DSM program costs at the Allowance for Funds Used During Construction (AFUDC) rate. Since KCPL stipulated to this rate along with other signatories to the Agreement, KCPL is bound by the terms therein and to which the signatories obligated themselves to carry out.

b. Should KCPL be required to fund its demand-side programs and, if so, at what level?

Staff’s position: Yes. KCPL should continue to fund all DSM programs in its Regulatory Plan and in its last adopted preferred Integrated Resource Plan (IRP) at the levels established within those filings to achieve all cost effective demand-side savings.

c. Should 50% of Connections advertising program costs and certain other advertising costs be recovered as an expense or included in the demand-side management program rate base balance?

Staff’s position: 50% of the costs associated with the Connections program, as well as certain other advertising costs, should be included in the demand-side management program account, and not recovered as an expense.

d. Should KCPL be ordered to continue to fund and promote or implement each of the DSM programs in its Regulatory Plan and in its last adopted preferred resource plan, unless it has filed with the Commission documentation that explains why continuing, or initiating the program as planned, does not promote the Missouri Energy Efficiency Investment Act goal of achieving all cost-effective demand-side savings?

Staff’s position: Yes. With the enactment of MEEIA, the State of Missouri directed that it shall be the policy of the state to value demand-side investments equal to traditional investments in supply and delivery infrastructure and allow recovery of all reasonable and prudent costs of delivering cost-effective demand-side programs. The Company’s Regulatory Plan and IRP contained DSM programs. Until the Company can establish that these programs are no longer cost-effective, the Company is required by law to comply with MEEIA and fund and promote or implement each of the DSM programs.

i. Should the Commission require KCPL to expand its DSM programs if the current DSM portfolio does not meet the Act’s goal of achieving all cost-effective demand-side savings?

Staff’s position: Yes. The Company has not established that its DSM portfolio meets MEEIA’s goal of achieving all cost-effective savings. Until then, the Company is required by law to comply with MEEIA and fund and promote or implement each of the DSM programs within the portfolio. However, regardless of whether the Company’s current DSM portfolio meets MEEIA’s goals, the Company is required to achieve all cost-effective demand-side savings and implement any new plan outside the current portfolio that does such.

e. Should the amortization period for the energy efficiency regulatory asset account be

shortened from 10 years to 6 years?

Staff's position: No. In EO-2005-0329, the signatories agreed to, and the Commission approved a Stipulation and Agreement (Agreement) setting forth an Experimental Regulatory Plan (Regulatory Plan) for KCPL. The Regulatory Plan at page 53, Paragraph 10 (f), states "[w]hen approved and adopted by the Commission, this Agreement shall constitute a binding agreement among the Signatory Parties hereto. The Signatory Parties shall cooperate in defending the validity and enforceability of this Agreement and the operation of this Agreement according to its terms." The Regulatory Plan established an amortization period of ten (10) years for the energy efficiency regulatory asset account. Since KCPL stipulated to this rate along with other signatories to the Agreement, KCPL is bound by the terms therein and to which the signatories obligated themselves to carry out.

- i. Should the shortening of the amortization period be contingent on KCPL's continuation and/or expansion of its DSM portfolio, if required by the Commission?

Staff's position: No. As part of the EO-2005-0329 Agreement, the Company stipulated to a ten (10) year amortization period for costs part of the energy efficiency regulatory asset account and remains obligated to carry out the Agreement's terms.

**2. Low Income Program (Economic Relief Pilot Program):**

Should the Commission include the amortized balance of the deferred costs of KCPL's Economic Relief Pilot Program in KCPL's rate base for ratemaking purposes?

Staff's position: The Company should receive the projected on-going level of expenses of the program, as well as 1 year of the 3 years amortization of the deferred costs of the program. The Company should not receive any of the amortized balance of the deferred costs in rate base.

**3. SO<sub>2</sub> emission allowance regulatory liability:**

Should the SO<sub>2</sub> emission allowance regulatory liability be flowed back to ratepayers over 21 years as proposed by KCPL or 5 years as proposed by Public Counsel?

Staff's position: Staff has not taken a position on this issue.

## **CASH WORKING CAPITAL ISSUES**

**4. Gross Receipts Taxes:**

- a. Are municipal gross receipts taxes collected from customers before or after they are paid?

Staff's position: Gross Receipts Tax is paid in the arrears by the Company. The tax is paid on a monthly, quarterly, or semi-annually basis by the Company after collecting the

revenues from the ratepayers' prior billing period.

b. What is the cash working capital expense lag?

Staff's position:

Expense Lag:

Kansas City 6% GRT: 72.28 Days

Kansas City 4% GRT: 39.34 Days

All Other Cities GRT: 60.94 Days

c. What is the cash working capital revenue lag?

Staff's position:

Revenue Lag:

Kansas City 6% GRT: 8 Days

Kansas City 4% GRT: 8 Days

All Other Cities GRT: 8 Days

## 5. **Injuries & Damages:**

Should injuries and damages be a component of cash working capital?

Staff's position: Yes. Injuries and Damages should be included in Cash Working Capital because it is a revenue component paid by the ratepayer in the Company's set rates.

Injuries and Damages is a cash flow issue due to the lag from when the incident occurs and when the claim is paid. Prior to payment, the Company holds and has access to the amounts paid by the customers through rates. Staff considers the normalization amount of Injuries and Damages and Cash Working Capital as two different issues.

If so, what is the appropriate number of days of lag?

Staff's position: The appropriate lag is 149.56 days.

## **EXPENSES**

### 6. **Depreciation:**

a. Should KCPL's rates for KCPL's steam production generation fleet excluding Iatan 2, Hawthorn 5, and Wolf Creek be based on (a) mass asset, whole life depreciation rates or (b) life spanned, remaining life depreciation rates?

Staff's position: Mass asset, whole life rates.

b. What is the appropriate life estimate to use for calculating Iatan 2's remaining life depreciation rates?

Staff's position: 60 years.

- c. Should Wolf Creek's rates reflect an adjustment to the net salvage rates to collect net salvage only on the portion of plant expected to retire as interim retirements?

Staff's position: Yes, net salvage should only be collected on the portion of plant expected to retire as interim retirements.

- d. Should the appropriate depreciation rates for General Plant account numbers 391, 393, 394, 395, and 398 remain the same as ordered in Case No. ER-2005-0329, or be amortized over a set period of time representing an estimated average service life for each year (vintage) of plant additions?

Staff's position: Remain the same as ordered in Case No. ER-2005-0329.

- i. Should KCPL be allowed to amortize over 10 years the unrecovered General Plant?

Staff's position: Not at this time.

- ii. Should KCPL be ordered to inventory the property in these accounts, retire equipment from the books which is no longer used and useful, provide Staff with information concerning these accounts, and work with Staff to determine if any reserve transfers are warranted?

Staff's position: Yes.

- e. Should KCPL's rates for KCPL's combustion turbine generation fleet be based on (a) mass asset, whole life depreciation rates or (b) life spanned, remaining life depreciation rates?

Staff's position: Mass asset, whole life depreciation rates.

- f. To what accounts should the approximately \$36.7 million and \$132.2 million (total \$168.9 million) accumulated additional amortizations currently held in account 399 be allocated, and on what basis?

Staff's position: Iatan 2 reserve accounts 311.5, 312.5, 314.5, 315.5, and 316.5, until the later of August 7, 2015, or the removal of Iatan 2 from service.

- g. Is it appropriate to make transfers among reserve accounts at this time, or use remaining life depreciation rates to correct for over or under accrued reserves?

Staff's position: Use remaining life for the Hawthorn 5 rebuild, Iatan 2, and Wolf Creek accounts, but not any other accounts. Transfer reserves from account 316 to 315, and transfer reserves between accounts within Transmission Plant and also within Distribution Plant.

**7. Hawthorn 5 Selective Catalytic Reduction Warranty Settlement:**

Should a settlement payment from Hawthorn 5 SCR warranty litigation be used to offset the costs that KCPL seeks to charge customers now and into the future because the Hawthorn 5 SCR has not, does not and will not operate within its design parameters?

Staff's position: Yes. The Company received a settlement from the vendor for the defective plant in service. KCPL's customers have paid in the past, are currently paying, and will continue to pay for capital, and operation & maintenance costs of this defective plant in service. Therefore, KCPL customers should receive the benefit of the settlement received by KCPL.

**8. Hawthorn Transformer Settlement:**

Should a settlement payment from defective product litigation over the Hawthorn 5 transformer be used to offset the increased costs KCPL is seeking to recover from its customers through rates in this case for the more expensive replacement transformer and the premature retirement of the defective transformer?

Staff's position: Yes. The Company received a settlement from the vendor for the defective plant in service. KCPL's customers paid for the costs to replace the defective transformer, in addition to increased purchased power costs for power KCPL acquired for customers during the Company's outage. Therefore, KCPL customers should receive the benefit of the settlement received by KCPL.

**9. Non-labor production, maintenance expenses:**

What is the appropriate level of non-labor Production, Maintenance expenses that should be included in KCPL's revenue requirement for setting KCPL's rates?

Staff Position: Staff has included a two (2) year average, 2008-2009 of historical non-labor maintenance costs.

**10. Demand-Side Management Amortization Expense:**

a. How should demand-side amortization expense be determined?

Staff's position: The Regulatory Plan in EO-2005-0329 established an amortization period of ten (10) years for the energy efficiency regulatory asset account. Since KCPL stipulated to this treatment and rate for "return on" the program costs, the Company is bound by the terms of the Agreement and obligated to carry them out.

b. Should 50% of Connections advertising program costs and certain other advertising costs be recovered as an expense or included in the demand-side management program rate base balance?

Staff's position: 50% of the costs associated with the Connections program, as well as

certain other advertising costs, should be included in the demand-side management program account, and not recovered as an expense.

## **JURISDICTIONAL ALLOCATIONS**

### **11. Allocation of Off-System Sales Margins:**

What methodology should be used to allocate KCPL's off-system sales margins between the Missouri, Kansas and FERC jurisdictions?

Staff's position: Staff's energy allocation methodology.

## **RATE DESIGN/ CLASS COST OF SERVICE STUDY**

### **12. Should the frozen general service All-electric and separately metered space heating rate schedules currently serving no customers be eliminated?**

Staff's position: Yes.

### **13. Should KCPL's discounted residential electric rates, specifically, Rate B – Residential General Use and Space Heat – One Meter; Rate C – Residential General Use and Space Heat – 2 Meters; and Rate D (applicable to electric space and water heating)—be eliminated? (MGE's issue)**

Staff's position: No. Staff recommends that the customers on such rate schedule(s) be moved closer toward the cost to serve them.

### **14. Which class cost of service study provides the best guidance for determining shifts in customer class revenue responsibilities that are revenue neutral on an overall company basis?**

Staff's position: Staff's class cost-of-service (CCOS) study better reflects the cost to serve.

### **15. Allocation of Increase Among Customer Classes: How should any rate increase be allocated among the various customer classes?**

Staff's position: Allocate the first \$13 million of any Commission ordered increase as an equal percentage increase to the rate schedules for classes in that show in Staff's CCOS study revenue less than the cost to serve that class; allocate any Commission ordered increase above \$13 million to all rate schedules on an equal percentage increase; allocate any Commission ordered decrease as an equal percentage decrease to the rate schedules for classes in that show in Staff's CCOS study revenues exceed cost to serve.

What allocation methodology should be used for determining off-system sales between classes of customers?

Staff's position: Staff's energy allocation methodology.

**16. Should the new “Residential Other Use” (ROU) tariff provision KCPL has proposed be implemented?**

Staff’s position: Yes, with Staff modifications.

**17. Should a fee of \$25.00 for customer collection by a field service person making a final collection attempt at the meter location prior to the meter to be disconnected for non-payment be added to KCPL’s tariff as KCPL has proposed?**

Staff’s position: Yes.

**18. Should the energy charges the Industrials have proposed for the Large General Service and Large Power Service rate schedules be implemented?**

Staff’s position: No.

## **REGULATORY AMORTIZATIONS**

**19. What should be the ratemaking treatment for the Regulatory Additional Amortizations?**

Staff’s position: Apply to Iatan 2 reserve accounts 311.5, 312.5, 314.5, 315.5, and 316.5, until the later of August 7, 2015, or the removal of Iatan 2 from service.

**20. What is the appropriate reduction of accumulated deferred income tax reserve that is an offset to rate base that is attributable to the regulatory plan additional amortizations?**

Staff’s position: Staff recommends the Regulatory Amortizations be used as a rate base reduction through the accumulated depreciation reserve specifically identified for Iatan 2. The Amortization should be part of the Iatan 2 depreciation reserve for over its useful life—in this case Staff recommended period of 60 years or for as long as Iatan 2 remains in rate base. This treatment adds to the Iatan 2 depreciation reserves the total amount of the Regulatory Amortizations of \$168.9 million (Missouri jurisdictional) as of December 31, 2010 made up of the assignment of the approximate \$36.7 million and \$132.2 million (Missouri jurisdictional). These amounts are currently reflected in depreciation reserves identified as account 399.

### **KCPL and GMO common issues**

## **REVENUE REQUIREMENT**

### **Rate Base**

#### **Iatan 1, Iatan 2 and Iatan Common**

**21. Should the Iatan 1 and 2 plant additions be included in rate base in this proceeding?**



Staff's position: Yes, net of Staff's adjustments. The Iatan 1 AQCS and Iatan 2 plant additions as of October 31, 2010, as adjusted by the Staff's proposed construction audit/prudence review adjustments should be reflected in rate base in this proceeding.

**22. Has doubt regarding the prudence or reasonableness of the Iatan 1 and 2 plant additions been raised by any party in this proceeding?**

Staff's position: The Staff has raised a serious doubt concerning the prudence, reasonableness and/or appropriateness of certain costs of the Iatan 1 and 2 plant additions.

**23. What should be the appropriate prudence standard regarding the costs of Iatan 1 and 2 plant additions?**

Staff's position: See Staff's Report filed on November 3, 2010 on pages 8-11. The Commission is not limited to disallowing imprudent costs. For example, the Commission may disallow costs that are not of benefit to ratepayers, and there does not need to be a showing of bad faith or abuse of discretion for the Commission to disallow such costs. *State ex rel. Laclede Gas Co. v. Public Serv. Comm'n*, 600 S.W.2d 222, 228-29 (Mo.App. W.D. 1980), *appeal dismissed*, 449 U.S. 1072, 101 S.Ct. 848, 66 L.Ed.2d 795 (1981); *State ex rel. Southwestern Bell Tel. Co. v. Public Serv. Comm'n*, 645 S.W.2d 44, 55-56 (Mo.App. W.D. 1982).

**24. Did KCP&L prudently manage the Iatan 1 and 2 projects?**

Staff's position: No.

**25. Is the December 2006 Control Budget Estimate the "Definitive Estimate"?**

Staff's position: No. The Staff's position is that the 2006 Control Budget Estimate is not a definitive estimate.

**26. Should the costs of the Iatan 1 and 2 projects be measured against the Control Budget Estimate?**

Staff's position: Yes.

**27. What amount of Iatan 1, 2, and Common regulatory assets and annualized amortization expense should be included in rate base in this case?**

Staff's position: The amount net of Staff's adjustment.

**28. Has KCPL carried its burden of proving the common costs of its Iatan 1 and Iatan 2 construction projects?**

Staff's position: No, Staff has proposed adjustments.

**29. What portion of the Common Costs of the Iatan 1 and Iatan 2 construction projects**

**should be included in rate base in this proceeding?**

Staff's Position: The amount in past accounting schedules that is net of Staff's adjustment.

**List of Iatan Project Issues:**

**30. UNIDENTIFIED, UNEXPLAINED COST OVERRUNS:**

- a. Has KCPL identified and explained cost overruns above the definitive estimate, as required by The Experimental Alternative Regulatory Plan Stipulation and Agreement, page 28, Case No. EO-2005-0329, sufficiently to show the cost overruns were prudently incurred?

Staff position: No.

- b. Should these unidentified, unexplained cost overruns in the Iatan project costs be included in rate base?

Staff position: No.

**31. IATAN 1 AQCS INDIRECT COSTS RELATED TO COMMON PLANT:**

Should KCPL include the Iatan Unit 1 indirect costs fully in the cost of Iatan Unit 1 or allocate a portion of those costs to Iatan Common?

Staff's position: KCPL should allocate a portion of those costs to Iatan Common.

**32. INAPPROPRIATE CHARGES:**

Has KCPL included inappropriate charges in the Iatan Unit 1 and Iatan Unit 2 plant costs?

Staff's position: Yes. Those costs should be excluded from the cost of the Iatan Unit 1 and Iatan Unit 2 plant costs.

**33. MAY 23, 2008 CRANE ACCIDENT IATAN 1:**

Should costs related to the May 23, 2008 Crane Accident be included as costs of Iatan Unit 1?

Staff's position: No.

**34. PROJECT DEVELOPMENT COSTS:**

Should Project Development Costs related to Iatan Unit 2 be included as costs of Iatan Unit 1 or Iatan Unit 2?

Staff's position: Project Development Costs should be included as Iatan 2.

**35. SEVERANCE ADJUSTMENT:**

Should employee severance costs be included in the costs of Iatan Unit 1 and Iatan Unit 2?

Staff's position: No.

**36. CAMPUS RELOCATION FOR UNIT 2 TURBINE BUILDING:**

Should the costs related to the campus relocation be included in the costs of Iatan Unit 1 and Iatan Unit 2?

Staff's position: No.

**37. AUGUST 25, 2007 JLG ACCIDENT:**

Should costs related to the August 25, 2007 JLG accident be included in the costs of Iatan Unit 1 and Iatan Unit 2?

Staff's position: No.

**38. CONSTRUCTION RESURFACING PROJECT:**

Should KCPL include costs related to the construction resurfacing project in the costs of Iatan Unit 1 and Iatan Unit 2?

Staff's position: No.

**39. EMPLOYEE MILEAGE CHARGES:**

Has KCPL included inappropriate employee mileage charges in the costs of Iatan Unit 1?

Staff's position: Yes.

**40. AFFILIATE TRANSACTION - GREAT PLAINS POWER:**

Should costs originally incurred by a non-regulated affiliated entity be included in the costs of Iatan Unit 2?

Staff's position: No.

**41. KCPL'S JULY 18, 2008 ALSTOM SETTLEMENT IATAN 1:**

Should the cost of the July 18, 2008 settlement and foregone liquidated damages be included in the costs of Iatan Unit 1?

Staff's position: No. The Staff does not believe that any of the costs of the July 18, 2008 Alstom Unit 1 Settlement should be included in the cost of the Iatan 1 AQCS plant

additions and the amount of the KCPL foregone liquidated damages should be a reduction to the Iatan 1 AQCS plant additions.

**42. KCPL'S IATAN 2 ALSTOM SETTLEMENT:**

Should the cost of the January 13, 2010 settlement be included in the costs of Iatan Unit 2?

Staff's position: No.

**43. SCHIFF HARDIN, LLP:**

**SCHIFF ADJUSTMENTS**

Should the following adjustments be made before the costs of services provided by Schiff Hardin for the Iatan Project be included in the costs of Iatan Unit 1 and Iatan Unit 2?

- i. Travel and other expenses adjustment

Staff's position: Yes.

- ii. Hourly rate adjustment for Project Management duties

Staff's position: Yes.

- iii. Schiff Hourly rate adjustment for legal services

Staff's position: Yes.

**44. ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) :**

Should the following adjustments be made to the cost of AFUDC accrued on Iatan Unit 1 and Iatan Unit 2 construction costs?

- i. Adjust additional AFUDC due to Iatan 1 Turbine Start-Up Failure

Staff's position: Yes.

- ii. Adjust additional AFUDC Caused By GPE Acquisition of Aquila

Staff's position: Yes.

- iii. Adjust the Equity Rate Used in Calculating AFUDC

Staff's position: Yes.

- iv. Adjust additional AFUDC due Transfer of Iatan 1 Common Plant

Staff's position: Yes.

- v. Adjust SECTION 48A ADVANCED COAL PROJECT TAX CREDIT AFUDC

Staff's position: Yes.

- vi. Adjust AFUDC Accrued on Staff's Prudency Adjustments

Staff's position: Yes.

**45. EXCESS PROPERTY TAXES TRANSFERRED FROM IATAN 1 TO IATAN COMMON :**

Should excess property taxes paid on Iatan Unit 1 that was transferred to Iatan Common be included in the costs of Iatan Unit 1?

Staff's position: No.

**46. CUSHMAN & ASSOCIATES:**

Should the full amount of the Cushman & Associates charges be included in the costs of Iatan Unit 1 and Iatan Unit 2?

Staff's position: No.

**47. PERMANENT AUXILIARY ELECTRIC BOILERS :**

Is the cost of the permanent auxiliary electric boilers an Iatan Unit 1 cost or an Iatan Common Cost?

Staff's position: Permanent auxiliary electric boiler cost should be allocated to Iatan Common.

**48. IATAN CHIMNEY PULLMAN ADJUSTMENT:**

Should KCPL include the full amount of costs paid to Pullman for the Iatan Chimney?

Staff's position: No.

**49. ADJUSTMENTS FROM KCC STAFF IATAN 1 AUDIT:**

Should the cost of Iatan Unit 1 and Iatan Unit 2 be reduced by the adjustments proposed by the KCC Staff?

Staff's position: Yes.

**50. ALSTOM WELDING SERVICES INCORPORATED (WSI) CHANGE ORDER**

**ADJUSTMENT :**

Should the cost of Iatan Unit 2 be reduced by costs paid to Welding Services Incorporated?

Staff's position: Yes.

**51. TEMPORARY AUXILLARY BOILER:**

Should the cost of Iatan Unit 2 be reduced by the cost of the temporary auxiliary boilers?

Staff's position: Yes.

**52. Iatan Common Costs:**

a. Has KCPL carried its burden of proving the common costs of its Iatan 1 and Iatan 2 construction projects?

Staff's position: No.

b. What portion of the Common Costs of the Iatan 1 and Iatan 2 construction projects should be included in KCPL's rate base in this proceeding?

Staff's position: Cost should be net of Staff's adjustment, trued up through October 31, 2010.

**Other Iatan Issues:**

**53. Tracker for Iatan 2 and Iatan Common Operations and Maintenance Expenses:**

Should the Commission authorize the use of a tracker for Iatan 2 and Iatan Common operations and maintenance expenses?

Staff position: Yes. Because there is no historical data to determine a normalized level of non-labor operations and maintenance expenses for Iatan 2, the Staff believes the use of a tracker is appropriate in this instance.

**54. Iatan 2 Generating Unit In-Service:**

a. What criteria should the Commission use to determine when the Iatan 2 Generating Unit Rate Base Additions are "fully operational and used for service?"

Staff's position: The criteria set in the Stipulation and Agreement in Case No. EO-2005-0329.

b. Is the Iatan 2 Generating Unit Rate Base Additions fully operational and used for service?

Staff's position: Yes.

- c. How should Iatan 2 test energy and emission credits during the testing of Iatan 2 be treated?

Staff's position: Prior to in-service it should be an offset to plant construction costs. Post in-service test energy and emission credits should be an offset cost to construction accounting.

**55. Fuel Switching Program: (MGE issue)**

Should the Commission order the implementation of MGE's proposed fuel switching program?

Staff's position: No. The Commission should disapprove the fuel switching program proposed by MGE witness Mr. Reed, because the proposed fuel switching program is not being proposed by KCPL, but rather by a competitor of KCPL, and KCPL has not analyzed the program in its Chapter 22 Electric Utility Resource Planning integration analysis.

**56. Bad Debt:**

What is the appropriate level of bad debt expense to include in revenue requirement?

Staff's Position: Bad debt expense should be based on the normalized level experienced through the update period. An increase in revenue does not support a proportionate increase in bad debt expense. Therefore, the Staff did not include an amount for the bad debt "factor up" in this case.

## **COST OF CAPITAL**

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

Staff's position: KCPL and GMO - Staff recommends, based upon its expert analysis, that the Commission authorize a return on common equity ("ROE") in the range of 8.50% to 9.50%. Staff's recommendation is based upon Staff's sound use of well-respected cost of capital estimation techniques, is sufficient to meet the required Constitutional standards, and is consistent with the required returns used by of real-world investors and independent financial analysts. KCPL should not receive an upward adjustment for customer service.

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

Staff's position: KCPL and GMO – Staff and the Company (KCPL and GMO) now agree on the appropriate methodology to use to determine the percentage of each capital structure component. As a result, this issue is no longer contested. The KCPL and GMO capital structures will be provided when the true-up data is available in this case.

**59. Equity Units: What cost of equity units should be included in the capital structure used for determining rate of return?**

Staff's position:

KCPL – Staff recommends that the Commission include equity units in KCPL's capital structure at the cost of 11.14%. This recommendation attempts to compensate for the effect on the cost of the equity units resulting from GPE's acquisition of Aquila, Inc.. Staff's recommendation is based upon an analysis of costs incurred by a proxy company in issuing its own equity units at roughly the same time as GPE, adjusted to reflect the differences in credit ratings between that entity and KCPL.

GMO - Staff recommends that the Commission include equity units in GMO's capital structure at the cost of 12.35%. This recommendation attempts to compensate for the effect on the cost of the equity units resulting from GPE's acquisition of Aquila, Inc.. Staff's recommendation is based upon an analysis of costs incurred by a proxy company in issuing its own equity units at roughly the same time as GPE, adjusted to reflect the differences in credit ratings between that entity and GMO.

## **EXPENSES**

### **60. Fuel & Purchased Power Expense, and Off-System Sales Margins:**

- a. How should the revenues and charges to KCPL and GMO for Southwest Power Pool transmission system energy loss from the wholesale of energy to entities outside the SPP market be included in their revenue requirements?

Staff's position: Mr. Schnitzer's model should not be adjusted to reflect charges related to sales that are not in Mr. Schnitzer's database. These revenues and charges should be included in KCPL and GMO's revenue requirements as proposed by MEUA witness Greg Meyer.

- b. Should Revenue Neutrality Uplift Charges be removed from the appropriate level of off-system sales margins?

Staff's position: Staff currently has no basis to dispute Company witness Crawford's proposed adjustments for Revenue Neutrality Uplift (RNU) Charges. Should additional information on this issue become available during the evidentiary hearing, Staff reserves the right to address this issue.

- c. Should the losses associated with wholesale purchases that are later resold be removed from the appropriate level of off-system sales margins?

Staff's position: Staff has no position on this issue at this time. Should additional information on this issue become available during the evidentiary hearing, Staff reserves the right to address this issue.

- d. How should the Commission determine the level of non-firm off-system sales margin to use for setting rates in this case, i.e., should the non-firm off-system



sales margin level proposed by KCPL/GMO, or by Staff and Industrials be used for setting rates?

Staff's position: The Commission should set the level of KCPL and GMO's OSS margins at least equal to the 25<sup>th</sup> percentile of Mr. Schnitzer's model; however, Staff believes it may be warranted to establish such level as high as the 40<sup>th</sup> percentile.

- e. Are the purchases for resale, SPP line losses and revenue neutrality uplift charges adjustments KCPL makes to arrive at its proposed level of non-firm off-system sales margin to be used for setting rates appropriate?

Staff's position: This question is addressed by Staff's responses to sub-issues a. through d. above.

- f. Should the Commission require tracking of off-system sales margin levels that exceed the level of off-system sales margin the Commission includes in revenue requirement, and include interest on those amounts tracked?

Staff's position:

KCPL - The Commission should require tracking of off-system sales margin that exceed the level of off-system sales margin the Commission includes in revenue requirement, but the Commission should not include in revenue requirement any interest on those amounts tracked. Rather, the OSS sales margins over those amounts included in revenue requirement should be reflected as an offset to KCPL's DSM referrals.

GMO – This is not an issue as applied to GMO.

- g. For the purpose of developing purchased power prices (spot market prices), should Staff's method of using historical test year inputs or the Company's method using forecasted inputs be used?

Staff's position: KCPL and GMO – Staff recommends that the Commission apply Staff's analysis, which is based on historical test-year data. Analyses based on historical test-year data provide the best prediction of what may occur in the future. Forecasted inputs introduce additional levels of possible inaccuracies. The use of historical information eliminates the introduction of these inaccuracies and provides an accurate and reliable method for determining spot market prices.

#### **61. RESRAM/Proposition C:**

- a. Should Proposition C expenses be included in cost of service?

Staff's position: Yes, the Commission should include the Company's actual expenses through the true up period that are associated with Renewable Energy Standard (Proposition C) compliance.

- b. Should 2010 Proposition C expenses be amortized over a two-year period beginning with the implementation of rates in this case?

Staff's position: No. The Staff expensed the Company's known RES compliance costs so as to capture all of such costs in the Staff's recommended rates for this case.

**62. Supplemental Executive Retirement Pension (SERP) Costs:**

What level of SERP costs should be included in KCPL's and GMO's revenue requirements for setting their rates?

Staff's position:

KCPL – Staff recommends that KCPL's revenue requirement include the actual test-year dollar amount of recurring SERP payments made by KCPL to its former executive employees. In the 2009 test year in this case, KCPL paid \$168,140 in recurring annual SERP payments to a total of eight retired former officers. This amount has remained exactly the same since 2002, and is the amount recommended by Staff.

GMO – Staff recommends that GMO's revenue requirement include the adjusted test-year dollar amount of recurring SERP payments made by KCPL to its former executive employees. Staff recommends the Commission include \$89,312 in GMO's revenue requirement in recovery of these costs. Staff's adjustment allocates SERP payments made to former Aquila, Inc. executives based upon the approximate percentage basis that Aquila, Inc. charged their payroll and other costs to its Missouri regulated operations.

**63. Talent Assessment:**

Should the amortization of severance costs and related costs associated with the Talent Assessment program be included in KCPL's and GMO's revenue requirement for setting their rates?

Staff's position: KCPL – No. Staff recommends that the Commission find that the costs incurred by KCPL in administering the Talent Assessment Program did not result in the expected customer benefits, and, therefore, that a previously-authorized \$968,000 annual amortization amount not be included in KCPL's cost of service. By May of 2011, KCPL's customers will have already paid approximately 2/3 of the costs of the Talent Assessment Program, the benefits of which the KCPL cannot demonstrate to exist.

**64. Non-Talent--Severance Costs:**

What level of severance costs of KCPL employees terminated for reasons other than KCPL's talent assessment program should be included in KCPL's and GMO's revenue requirements for setting their rates?

Staff's position: KCPL – None. Severance payments made by KCPL are not recurring

costs that should be borne by regulated customers. These payments will not result in any payroll savings and lack support that they will ever provide any benefit to KCPL or its customers.

**65. Advanced Coal Investment Federal Income Tax Credit:**

- a. Should KCPL's advanced coal investment federal income tax credit for Iatan 2 be reduced to reflect a redistribution of a portion of that credit to GMO based on GMO's 18% ownership interest in the Iatan 2 Generating Unit and, concurrently, should GMO be treated as getting the benefit of that credit redistribution?

Staff's position:

Yes. There should be redistribution to reflect GMO's 18% ownership interest.

Yes, GMO should be treated as if it received the benefit.

- b. If in this case the Commission orders a change to the average book depreciation rate, should the amortization period for deferred investment tax credit associated with the depreciation also change?

Staff's position: Yes. Based on the Commission's determination for the depreciable life of Iatan 2 should be amortized for that period for the investment tax credits.

**66. Excess Deferred Income Taxes associated with Depreciation:**

If in this case the Commission orders a change to the average book depreciation rate, should the amortization period for excess deferred taxes associated with the depreciation also change?

Staff's position: Yes.

**67. Kansas City Earnings Tax:**

What is the appropriate amount of Kansas City Earnings Tax to be included in revenue requirement?

Staff's position: Staff believes that 25% of the earnings taxes should be allocated to Kansas and GMO customers. 55,832 built into KCPL's cost of service for KC earnings tax. This amount should be separate from the income tax calculation and be normalized level as expense in the income statement.

Whether a portion of the Kansas City Earnings Tax should be allocated to GMO and Kansas?

Staff's position: Yes, a portion of the Kansas City Earning Tax should be allocated both to GMO and Kansas.

**68. Property Tax Expense:**

- a. What methodology should be used to determine the appropriate level of property tax expense to include in the revenue requirement used to set rates in this case?  
(Hardesty, Lyons)

Staff's position: Annualized property taxes included in KCPL's cost of service should not include property taxes for plant that is not in-service. Property taxes are assessed on January 1 of any given year. The only property taxes that are expensed are those that are assessed for plant-in-service owned on January 1. To expense the taxes assessed for CWIP in 2010 would allow double recovery by the Company, once as a "return on" in depreciation over the life of the plant, and also recovery of the tax amount that the Company will not pay until December 30, 2011.

- b. Should property taxes in the amount of \$ (total company, i.e., Missouri and Kansas) assessed and paid in, and capitalized into the cost of the new Iatan 2 generating station (included in rate base) also be included as an annualized property tax expense to KCPL and included in KCPL's revenue requirement for setting KCPL's rates?

Staff's position: No. Property Taxes are based on plant in service as of January 1 of any given year. Iatan 2 was not placed in-service until August 26, 2010. It was assessed for property taxes on January 1, 2010 as CWIP. Therefore, the property taxes assessed as CWIP, for Iatan 2 should not be included in property tax expense but will be capitalized and as such, KCPL will recover the costs through depreciation as a rate base component of the cost of service.

**69. Acquisition Transition Costs:**

Should merger transition cost amortization be included in cost of service?

Staff's Position: No. KCPL and GMO should not include acquisition transition costs in the cost of service. KCPL and GMO have already recovered these costs through retained synergies by means of regulatory lag.

**70. Rate Case Expense:**

What is the appropriate amount of rate case expense that should be included in revenue requirement for setting rates?

Staff's Position: At this time, the Staff cannot support any level of rate case expense. Staff has not examined the prudence and reasonableness of GMO's rate case expenses due to the delay in the Company providing invoices for the Staff's review. Staff received a response to the requested invoices on December 18, 2010. Prior to that time, KCPL had provided only "face sheets" to invoices, which makes no mention of the hourly rates charged, the number of hours worked, a description of the work done and by whom, or any additional expenses incurred by the vendor to perform the work; information necessary for any review of prudence or reasonableness. Assuming KCPL's December

18 response was complete, and the Staff receives complete invoices through the December 31 true-up date, the Staff anticipates it can recommend any prudent and reasonable rate case expenses for inclusion in the revenue requirement to set rates.

**71. Transmission Expense and Revenue Tracker:**

Should the Commission authorize the use of a tracker for changes in certain transmission-related expenses? If so, should changes in transmission related-revenues be included in that tracker?

Staff's position: The Commission should authorize a tracker for both transmission related expenses and revenues.

**72. Low-income Weatherization program:**

- a. Should KCPL and GMO continue to fund their low-income weatherization programs at the current levels of funding?

Staff's position: Yes

- i. If so, should the funds continue to be administered under current procedures or should the Commission order they be deposited into an account with the Environmental Improvement and Energy Resources Authority (EIERA) to be administered by EIERA and MDNR?

Staff's position: The funds should be deposited into an account with the EIERA to be administered by EIERA and MDNR.

**RATE DESIGN/ CLASS COST OF SERVICE STUDY**

**73. What methodology should be used to develop the class cost-of-service study production-capacity allocator?**

Staff's position: Staff's Base, Intermediate and Peaking (BIP) method.

**74. Facility extension practices:**

Should KCPL/GMO be allowed to offer discounts or refunds to customers or developers in exchange for agreeing to install heat pumps?

Staff's position: Current practice should continue.

**75. LED street and area lighting systems:**

Should the Commission order KPCL and GMO to complete an evaluation of Light Emitting Diode (LED) Street and Area Lighting (SAL) systems and, no later than twelve (12) months after the effective date of the Commission's Report and Order in this case, file proposed LED lighting tariff sheet(s) to offer a LED SAL demand-side program,

unless KCPL's and GMO's analysis shows that a LED SAL demand-side program would not be cost-effective, and, if a LED SAL demand-side program is not cost-effective, update the Staff as to the rationale of the analysis and file a proposed tariff sheet(s) that would provide LED SAL services at cost to its customers.

Staff's position: Yes

**76. Outdoor Lighting:** Should the Commission adopt Mr. Wagner's proposals to order KCPL and GMO to do the following?

a. Develop LED Lighting rates within a year

Staff's position: Yes, the respective company should file a tariff with the Commission within a year if the respective companies' evaluation of a LED SAL demand-side program shows the program as cost effective. If the evaluation shows the LED SAL demand-side program is not cost effective, then the company shall file a proposed tariff sheet with the Commission to provide LED SAL services at cost to its customers. See position on LED street and area lighting systems above.

b. Add voluntary part-night outdoor lighting rates

Staff's position: Staff has taken no position on this issue.

c. Add lower wattage outdoor lights as an available option

Staff's position: Staff has taken no position on this issue.

d. Convert rates from listing output lumens/wattage to the amount of light on the ground

Staff's position: Staff has taken no position on this issue.

e. Discontinue marketing outdoor lights as safety or crime prevention devices without a guarantee

Staff's position: Staff has taken no position on this issue.

## **KCP&L Greater Missouri Operations Company ISSUES—Case No. ER-2010-0356**

### **REVENUE REQUIREMENT**

#### **Rate Base**

**77. Iatan Unit 2 and Iatan Common Costs:**

a. How should GMO's portion of the costs of Iatan 2 and associated Iatan Common Plant be allocated to the rate bases of L&P and MPS, respectively?

Staff's Position: They should be allocated based on L&P having 100 MW and MPS having

53 MW, i.e., the cost allocators should be 0.6536 for allocation L&P and 0.3464 for allocation to MPS.

- b. Should GMO maintain separate accounting of amounts accrued for recovery of its initial investment in plant and the amounts accrued for cost of removal of plant? (Rice)

Staff's Position: Yes.

**78. Prudence of MPS Generating Capacity Additions (MPS only):**

- a. Was the decision of MPS to wait to add the approximately 300 MW of capacity GMO is obtaining from Crossroads prudent?

Staff's position: No. Two additional 105 MW combustion turbines should have been installed in 2005 at a GMO site that would permit the building of six such combustion turbines.

- b. If the Commission determines the addition of the approximately 300 MW of capacity from Crossroads was prudent, for purposes of setting rates for MPS, should the revenue requirement for the approximately 300 MW of capacity GMO is obtaining from Crossroads be based on the depreciated net book value of Crossroads on MPS's books and included in MPS's rate base?

Staff's position: No, it should be based on the costs of CTs installed in 2005 at a GMO site that would permit the building of six such combustion turbines because GMO was imprudent by not acquiring the capacity of those two additional combustion turbines in 2005.

- c. If the Commission determines the addition of the approximately 300 MW of capacity from Crossroads was prudent, for purposes of setting rates for MPS, should the revenue requirement for the approximately 300 MW of capacity GMO is obtaining from Crossroads be based on the present cost of two additional 105 MW combustion turbines installed in 2005 at a GMO site that would permit the building of six such combustion turbines (rate base) because GMO was imprudent by not acquiring the capacity of those two additional combustion turbines in 2005? (GMO—Crawford, Staff--Mantle, Hyneman and Featherstone)

Staff's position: If the Commission determines the addition of the approximately 300 MW of capacity from Crossroads was prudent, the revenue requirement for the approximately 300 MW of capacity GMO is obtaining from Crossroads should be based on the present cost of two additional 105 MW combustion turbines installed in 2005 at a GMO site that would permit the building of six such combustion turbines (rate base) because GMO was imprudent by not acquiring the capacity of those two additional combustion turbines in 2005.

- d. If the Commission determines the addition of the approximately 300 MW of capacity from Crossroads was prudent, should the accumulated deferred taxes associated with

Crossroads be used as an offset to rate base?

Staff's position: Yes.

- e. Was the transfer on GMO's books of Crossroads from non-regulated operations to the regulated operations of MPS at cost permitted by the Commission's Affiliated Transaction Rule without a variance from the Commission? (GMO—Crawford, Staff---, Hyneman and Featherstone)

Staff's position: No.

- f. If a value of Crossroads is included in rate base, should the transmission expense to get the energy from Crossroads to MPS's territory be included in expenses? If so, should the Commission reflect any transmission cost savings to the Company resulting in its future participation in SPP as a network service customer related to the Crossroads plant? (GMO—Crawford, Staff--Mantle, Hyneman and Featherstone)

Staff's position: No, transmission expense to get energy from Crossroads to MPS territory should not be included in cost of service, but if the Commission disagrees, any cost savings from future participation in SPP as a network service customer related to the Crossroads plant should be an offset.

- g. Would GMO be prudent to delay building additional combustion turbine capacity in order to utilize the power and asset sales offers by Dogwood in response to GMO's RFPs?

Staff's position: Staff has no position on this issue.

## **79. Demand-Side Management:**

- a. Should GMO be required to fund its demand-side programs and, if so, at what level?

Staff's position: Yes. GMO should fund all DSM programs in its last adopted preferred Integrated Resource Plan (IRP) at the levels established within those filings to achieve all cost effective demand-side savings.

- b. Should GMO be ordered to continue to fund and promote or implement each of the demand-side management programs in its last adopted preferred resource plan, unless it has filed with the Commission documentation that explains why continuing, or initiating the program as planned, does not promote the Missouri Energy Efficiency Investment Act goal of achieving all cost-effective demand-side savings? (Rogers)

Staff's position: Yes. With the enactment of MEEIA, The State of Missouri directed that it shall be the policy of the state to value demand-side investments equal to traditional investments in supply and delivery infrastructure and allow recovery of all reasonable and prudent costs of delivering cost-effective demand-side programs. The Company's filed IRP contained DSM programs. Until the Company can establish that these programs are no longer cost-effective, the Company is required by law to comply with



MEEIA and fund and promote or implement each of the DSM programs.

- i. Should the Commission require GMO to expand its DSM programs if the current DSM portfolio does not meet the Act's goal of achieving all cost-effective demand-side savings?

Staff's position: Yes. The Company has not established that its DSM portfolio meets MEEIA's goal of achieving all cost-effective savings. Until then, the Company is required by law to comply with MEEIA and fund and promote or implement each of the DSM programs within the portfolio. However, regardless of whether the Company's current DSM portfolio meets MEEIA's goals, the Company is required to achieve all cost-effective demand-side savings and implement any new plan outside the current portfolio that does such.

- c. Should 50% of Connections advertising program costs and certain other advertising costs be recovered as an expense or included in the demand-side management program rate base balance?

Staff's Position: 50% of the costs associated with the Connections program, as well as certain other advertising costs, should be included in the demand-side management program account, and not recovered as an expense.

#### **79.5 Low Income Program (Economic Relief Pilot Program):**

Should the Commission include the amortized balance of the deferred costs of KCPL's Economic Relief Pilot Program in KCPL's rate base for ratemaking purposes?

Staff's position: The Company should receive the projected on-going level of expenses of the program, as well as 1 year of the 3 years amortization of the deferred costs of the program. The Company should not receive any of the amortized balance of the deferred costs in rate base.

### **CASH WORKING CAPITAL ISSUES**

#### **80. Accounts Receivable Sales Program:**

Should GMO's accounts receivable sales program be a component of cash working capital?

Staff's Position: Staff has chosen to include an A/R Sales Program for GMO, which is consistent with the Program maintained by former Aquila Inc. Because of the non-regulated failures of Aquila Inc, the A/R Sales Program was forced to be terminated. This inclusion is made to isolate the GMO customers from the non-regulated entity's failures.

### **COST OF CAPITAL**

#### **81. Cost of Debt**

What cost of debt should be used in determining GMO's authorized rate-of-return?

Staff's position: Staff recommends that the Commission use the embedded cost of long-term debt of the Empire District Electric Company (Empire) as a proxy for GMO's cost of debt. Empire's embedded cost of debt was 6.52 percent as of June 30, 2010, the end of the test year employed in this proceeding. Staff believes the use of Empire's embedded cost of debt is appropriate because the risk profile of Empire and GMO are fairly similar and the embedded cost of Empire's debt more appropriate reflects costs incurred in arms-length market transactions.

## **EXPENSES**

### **82. Depreciation**

- a. Is it appropriate to update the depreciation rates for GMO to reflect the recent depreciation study, or to continue to use the rates ordered in 2005?

Staff's Position: All rates should be updated except for the General Plant accounts.

- b. Should GMO's depreciation rates for GMO's steam production generation fleet be based on (a) mass asset, whole life depreciation rates or (b) life spanned, remaining life depreciation rates?

Staff's Position: Mass asset, whole life depreciation rates.

- i. If Iatan 2 depreciation rates are based on life span, remaining life rates, should the rates be computed on a life span basis of 50 or 60 years?

Staff's Position: 60 years.

- c. Should GMO's rates for GMO's combustion turbine generation fleet be based on (a) mass asset, whole life depreciation rates or (b) life spanned, remaining life depreciation rates?

Staff's Position: Mass asset, whole life depreciation rates.

- d. Should the appropriate depreciation rates for General Plant account numbers 391, 393, 394, 395, 397 and 398 remain the same as ordered in Case No. ER-2005-0436, or be amortized over a set period of time representing an estimated average service life for each year (vintage) of plant additions.

Staff's Position: Remain as ordered in Case No. ER-2005-0436 at this time.

- i. Should the Company be allowed to amortize over 20 years the unrecovered General Plant

Staff's Position: The Company should not be allowed to amortize these disputed account balances

- ii. Should KCPL be ordered to inventory the property in these accounts, retire equipment from the books that is no longer used and useful, provide Staff with information concerning these accounts, and work with Staff to determine if any reserve transfers are warranted?

Staff's Position: Yes.

- e. Should an amortization of the difference between the theoretical reserve and the actual reserve be a component of the depreciation rate?

Staff's Position: Yes.

**83. Demand-Side Management Amortization Expense:**

- a. How should demand-side amortization expense be determined?

Staff's Position: As part of the EO-2005-0329 Agreement, the Company stipulated to a ten (10) year amortization period for costs part of the energy efficiency regulatory asset account with a "return on" at the AFUDC rate. The Company remains obligated to carry out the Agreement's terms.

- b. Should 50% of Connections advertising program costs and certain other advertising costs be recovered as an expense or included in the demand-side management program?

Staff's Position: 50% of the costs associated with the Connections program, as well as certain other advertising costs, should be included in the demand-side management program account, and not be recovered as an expense.

**84. Jeffrey Energy Center (Jeffrey) Flue Gas Desulphurization (FGD) Rebuild Project:**

- a. Should the Jeffrey FGD rebuild project costs be included in rate base in this proceeding?

Staff's position: Yes, net of Staff's adjustment.

- b. Has doubt regarding the prudence or reasonableness of the Jeffrey FGD rebuild project been raised by any party in this proceeding?

Staff's position: Yes.

- c. What should be the appropriate prudence standard regarding the costs of Jeffrey FGD rebuild project?

Staff's position: See Staff's Report filed on November 3, 2010 on pages 8-11. The Commission is not limited to disallowing imprudent costs. For example, the Commission may disallow costs that are not of benefit to ratepayers, and there does not need to be a showing of bad faith or abuse of discretion for the Commission to disallow such costs.

*State ex rel. Laclede Gas Co. v. Public Serv. Comm'n*, 600 S.W.2d 222, 228-29 (Mo.App. W.D. 1980), *appeal dismissed*, 449 U.S. 1072, 101 S.Ct. 848, 66 L.Ed.2d 795 (1981); *State ex rel. Southwestern Bell Tel. Co. v. Public Serv. Comm'n*, 645 S.W.2d 44, 55-56 (Mo.App. W.D. 1982).

d. Did GMO prudently manage the Jeffrey FGD rebuild project?

Staff's position: No, because Westar, the manager of the project and the majority owner of the plant did not prudently manage the project in which GMO is an 8% owner. The Staff has raised a serious doubt concerning the prudence, reasonableness and/or appropriateness of certain costs of the Jeffrey FGD.

e. Has GMO carried its burden of proving the costs of the Jeffrey FGD rebuild project?

Staff's position: No.

## **RATE DESIGN/ CLASS COST OF SERVICE STUDY**

**85. Which class cost of service study provides the best guidance for determining shifts in customer class revenue responsibilities that are revenue neutral on an overall company basis?**

Staff's position: Staff's CCOS study.

**86. Allocation of Increase Among Customer Classes:** How should the rate increase be allocated among the various customer classes?

Staff's position:

That each MPS customer class in Staff's CCOS study with a negative revenue shift percentage (revenue from the class exceeds the cost to serve) over ten percent (-10%) receive no increase for any Commission ordered increase for MPS up to and including \$5 million; each MPS customer class in Staff's CCOS study with a positive revenue shift percentage (cost to serve exceeds revenue from the class) over ten percent (+10%) share the first \$5 million of any rate increase on an equal percentage basis; and for any increase above \$5 million, Staff recommends that the additional amount above \$5 million be allocated to all MPS customer classes on an equal percentage basis.

That each L&P customer class in Staff's CCOS study with a positive revenue shift percentage (cost to serve exceeds revenue) share the first \$3 million of any Commission ordered rate increase for L&P on an equal percentage basis; and, for any increase above \$3million, Staff recommends that the additional amount above \$3 million be allocated to all L&P customer classes on an equal percentage basis.

**87. Should the residential electric space heating rates for both MPS and L&P, specifically, MPS Rate MO870 – Residential Electric Space Heating, L&P Rate MO920 – Residential Service – with Electric Space Heating; and L&P Rate MO922**

– **Residential Space Heating/Water Heating – Separate Meter be eliminated?** (MGE proposals)

Staff's position: No.

**88. Municipal Street Lighting:**

Should GMO's proposed increase in rates for its Municipal Street Lighting Service be applied to all elements involved in the leased street light system?

Staff's position: Yes.

**89. Street Lighting Purchase:**

Should the effect on current negotiations between Lee's Summit and GMO for purchase of the leased street light system be considered in setting increased rates for Municipal Street Lighting Service?

Staff's position: No.

**FUEL ADJUSTMENT CLAUSE**

**90. Fuel Adjustment Clause continuation:**

Should GMO's Fuel Adjustment Clause (FAC) be modified, continued, or discontinued?

Staff's position: GMO's FAC should be continued with modifications.

**91. Sharing Mechanism:**

What should be the level of sharing in GMO's Fuel Adjustment Clause sharing mechanism?

Staff's position: The sharing mechanism should be 75% customers /25% GMO

**92. Base Energy Cost:**

Should GMO's Fuel Adjustment Clause be modified to require the base energy cost in the Fuel Adjustment Clause equal the base energy cost in the test year total revenue requirement used for setting rates in the rate case?

Staff's position: Yes

**93. Should transmission expenses be included in GMO's Fuel Adjustment Clause?**

Staff's position: No.

Should two FERC accounts now in the definition of Purchased Power Cost be deleted since these FERC accounts are for transmission expenses and, therefore, are not

consistent with the definition of fuel and purchased power cost in 4 CSR 240-20.090(1)(B).

Staff's position: Yes.

**94. Should factor RNSI (forecasted retail net system input) be redefined in GMO's Fuel Adjustment Clause as RNSI = Forecasted recovery period net system input, at the generator, for the calculation of the CAF (cost adjustment factor)?**

Staff's position: Yes.

**95. Should the definition of OSSR be changed to clarify that only sales to Missouri municipalities are excluded from OSSR.**

Staff's position: Yes.

**96. Should GMO's Fuel Adjustment Clause include a new factor to exclude GMO's fuel costs for its Crossroads generating plant from GMO's Fuel Adjustment Clause?**

Staff's position: Yes.

**97. Should GMO's Fuel Adjustment Clause tariff sheets follow the example tariff sheet filed with the surrebuttal testimony of Staff witness John Rogers or the example tariff sheet filed with the testimony of GMO witness Tim Rush?**

Staff's position: The exemplar tariff sheets as filed with the surrebuttal testimony of John Rogers.

**WHEREFORE**, the Staff submits the foregoing position statements to the list of issues filed January 7, 2011.

Respectfully submitted,

/s/ Nathan Williams

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**Certificate of Service**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 12<sup>th</sup> day of January 2011.

**/s/ Nathan Williams**