

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

In the Matter of Kansas City Power &)
Light Company's Request for) **File No. ER-2016-0285**
Authority to Implement a General)
Rate Increase for Electric Service)

STATEMENT OF POSITIONS

COMES NOW the Staff of the Missouri Public Service Commission, by and through counsel, and for its *Statement of Positions*, states as follows:

I. Cost of Capital

A. Return on Common Equity – what return on common equity should be used for determining rate of return?

The allowed ROE should be set at 8.65%.

B. Capital structure – what capital structure should be used for determining rate of return?

The capital structure should be based on GPE's consolidated capital structure, which consists of 50.8% long-term debt and 49.2% common equity.

C. Cost of debt – what cost of debt should be used for determining rate of return?

The cost of debt should be based on GPE's consolidated embedded cost of debt, which correctly calculated is 5.42%.

II. Fuel Adjustment Clause ("FAC")

A. Has KCPL met the criteria for the Commission to authorize it to continue to have an FAC?

Yes. KCPL has met the criteria to continue to have an FAC.

B. Should the Commission authorize KCPL to continue to have an FAC?

Yes. The Commission should authorize KCPL to continue to have an FAC.

C. What costs should flow through KCPL's FAC?

KCPL should be allowed to continue to recover the same categories of prudently incurred fuel and purchased power costs plus net emission allowances through its FAC using the same methodology in the existing tariff.

D. What revenues should flow through KCPL's FAC?

KCPL should be allowed to continue to recover the same categories of prudently incurred off-system sales revenues and renewable energy credit revenues through its FAC using the same methodology in the existing tariff.

E. What is the appropriate sharing mechanism of the difference between actual and base fuel costs in KCPL's FAC?

The appropriate sharing mechanism for KCPL's FAC is 95% / 5%.

F. What FAC-related reporting requirements should the Commission impose?

The Commission should impose FAC-related reporting requirements that Staff recommends in its Revenue Requirement Cost of Service Report.

G. What is the appropriate base factor?

The appropriate base factor should be consistent with the revenue requirement that is ordered in this case.

H. Should the Commission direct the parties to determine baseline heat rates for each of the utility's nuclear and non-nuclear generators, steam and combustion turbines and heat recovery steam generators?

Since 4-CSR 240-3.161 does not require baseline heat rates to be set for each generating unit and baseline heat rates have not been previously defined, Staff finds that the recommendation to set baseline heat rates is inappropriate for this rate case. The recommendation to require baseline heat rates may be better suited for an FAC rulemaking.

I. If the Commission authorizes KCPL to have a FAC, should KCPL be allowed to add cost and revenue types to its FAC between rate cases?

Yes, the FAC should continue to allow for the addition of cost and revenue types for the FAC between rate cases as provided for on Pages 5 and 6 of Schedule TMR-3 of the Direct Testimony of Tim M. Rush.

III. Transmission Fees Expense and Transmission Revenues

A. What level of transmission fees expense should the Commission recognize in KCPL's revenue requirement?

Staff proposes an annualized level of transmission expense based on actual expense. Staff will annualize these costs in the true up through December 31, 2016

B. Should the Commission authorize KCPL prospectively to compare its actual transmission expenses that it does not recover through its fuel adjustment clause with the level of transmission expense used for setting permanent rates in this case, and to accrue and defer the difference for potential return to customers in future rate cases, i.e., to employ an asymmetrical tracker?

Forecasted costs are not known and measurable and disrupt the matching relationship among investment, revenue, and expense. Trackers should be used only in highly unique and unusual situations, such as when costs demonstrate high volatility over a period of time, when there are new

costs for which there are no historical data to develop an ongoing level of costs, or when uncertain levels of new costs are imposed on utilities by new Commission rules. The use of a tracker does not account for any changes in investment, expense, or revenue that could offset the expense being tracked. Transmission expense is a normal recurring operating costs incurred by KCPL that can be annualized using ratemaking principles. Therefore, Staff does not support KCPL's recommendation to use forecasted costs for transmission expense and including the forecasted level in KCPL's FAC or as an alternative, a tracker.

C. Should the Commission accept KCPL's revenue adjustment R-80 to remove utility transmission revenues from its cost of service?

No.

D. Should the adjustment for Transource incentives as proposed by KCPL be adjusted for KCPL's cost of debt?

No. KCPL included in its direct revenue requirement filing an adjustment related to the *Stipulation and Agreement* reached by the parties and authorized by the Commission's *Report and Order* in File No. EA-2013-0098.¹ Staff's adjustment is based on Staff's recommended change to KCPL's assumed cost of long term debt in the ATRR ratemaking calculation authorized by the Commission in its *Report and Order* in File No. EA-2013-0098. Cost of debt is not listed as a FERC incentive in the ordered list of FERC incentives in Docket No. ER12-2554, *Order On Transmission Rate Incentives And Formula Rate Proposal And Establishing Hearing Procedures* issued October 31, 2012, 141 FERC ¶ 61,075. Differences in the cost of debt do not result from FERC transmission rate incentives, and should not be treated in such a manner.

¹ In File No. EA-2013-0098, the Commission granted a certificate of convenience and necessity to Transource Missouri, LLC, a wholly-owned subsidiary of Transource Energy, LLC to construct two transmission lines: the 345 kV Iatan - Nashua line and the 345 kV Sibley - Nebraska City line. Transource Energy, LLC is owned 86.5% by AEP Transmission Holding Company, LLC, which is a wholly-owned subsidiary of American Electric Power Company, Inc. ("AEP"), and is owned 13.5% by GPE Transmission Holding Company, LLC, which is a wholly-owned subsidiary of Great Plains Energy Incorporated ("GPE").

E. What level of transmission revenues should the Commission recognize in KCPL's revenue requirement?

Staff proposes an annualized level of transmission revenue based on actual revenue. Staff will annualize these revenues in the true up through December 31, 2016.

F. Should the Commission authorize KCPL prospectively to compare its actual transmission revenues that do not flow through its fuel adjustment clause with the level of transmission revenue used for setting permanent rates in this case, and to accrue and defer the difference for potential return to customers in future rate cases, i.e., to employ an asymmetrical tracker?

Forecasted costs are not known and measurable and disrupt the matching relationship among investment, revenue, and expense. Trackers should be used only in highly unique and unusual situations, such as when costs demonstrate high volatility over a period of time, when there are new costs for which there are no historical data to develop an ongoing level of costs, or when uncertain levels of new costs are imposed on utilities by new Commission rules. The use of a tracker does not account for any changes in investment, expense, or revenue that could offset the expense being tracked. Transmission revenue is a normal recurring operating revenue incurred by KCPL that can be annualized using ratemaking principles. Therefore, Staff does not support KCPL's recommendation to use forecasted costs for transmission revenue and including the forecasted level in KCPL's FAC or as an alternative, a tracker.

G. What level of RTO administrative fees, FERC Assessment Fees, and NERC Assessment Fees should the Commission recognize in KCPL's revenue requirement?

Staff proposes an annualized level of RTO, FERC, and NERC fees based on actual costs. Staff will annualize these costs in the true up through December 31, 2016

H. Should the Commission authorize KCPL prospectively to compare its actual RTO administrative fees with the level of RTO administrative fees used for setting permanent rates in this case, and to accrue and defer the difference for potential return to customers in future rate cases, i.e., to employ an asymmetrical tracker?

Forecasted costs are not known and measurable and disrupt the matching relationship among investment, revenue, and expense. Trackers should be used only in highly unique and unusual situations, such as when costs demonstrate high volatility over a period of time, when there are new costs for which there are no historical data to develop an ongoing level of costs, or when uncertain levels of new costs are imposed on utilities by new Commission rules. The use of a tracker does not account for any changes in investment, expense, or revenue that could offset the expense being tracked. RTO, FERC, and NERC fees are normal recurring operating costs incurred by KCPL that can be annualized using ratemaking principles. Therefore, does not support KCPL's recommendation to use forecasted costs for these fees and including the forecasted level in KCPL's FAC or as an alternative, a tracker.

I. Is there currently regulatory lag preventing KCPL from achieving its authorized return and, if so, does the amount of such regulatory lag experienced currently and in the recent past by KCPL justify adoption of its tracker proposal for transmission expense in this proceeding?

Staff asserts that the current amount of regulatory lag experienced by KCPL has not prevented it from earning its authorized return in recent months, and it should not be assumed that regulatory lag will prevent KCPL from having a reasonably opportunity to earn its authorized return in

the future. The amount of regulatory lag experienced currently and in the recent past by KCPL does not justify adoption of its tracker proposal for transmission fees expense and transmission revenues in this proceeding.

IV. Transmission Revenue ROE adjustment--Should transmission revenues be adjusted to reflect differences between MoPSC and FERC authorized ROEs?

No.

V. Property Tax Expense

A. What level of property tax expense should the Commission recognize in KCPL's revenue requirement?

Property tax assessments are based on January 1 of each year. For the cut-off, Staff annualized property tax expense by applying a property tax ratio derived from 2015 property tax payments and KCPL's plant-in service as of January 1, 2015 and applied the ratio to its plant-in service as of January 1, 2016. Staff will use the same method to annualize property taxes for the true-up by using a property tax ratio based on 2016 property taxes and January 1, 2016 plant-in-service and apply the ratio to plant in service as of January 1, 2017.

B. Should the Commission authorize KCPL prospectively to compare its actual property tax expense with the level of property tax expense used for setting permanent rates in this case, and to accrue and defer the difference for potential return to customers in future rate cases, i.e., to employ an asymmetrical tracker?

No. Forecasted costs are not known and measurable and disrupt the matching relationship among investment, revenue, and expense. Trackers should be used only in highly unique and unusual situations, such as when costs demonstrate high volatility over a period of time, when there are new costs for which there are no historical data to develop an ongoing level of costs, or when uncertain levels of new costs are imposed on utilities by new Commission rules. The use of a tracker does not account for any changes in investment, expense, or revenue that could

offset the expense being tracked. Property taxes are normal recurring operating costs incurred by KCPL that can be annualized using ratemaking principles. Therefore, Staff does not support KCPL's recommendation to track property taxes based on a forecasted level.

C. Does the amount of regulatory lag experienced currently and in the recent past by KCPL justify adoption of its tracker proposal for special ratemaking treatment of property tax expense in this proceeding?

The amount of regulatory lag experienced currently and in the recent past by KCPL does not justify adoption of its tracker proposal for property tax expense in this proceeding.

VI. Incentive Compensation

A. What methodology should be used to determine the level of incentive compensation included in KCPL's cost of service used for setting rates in this case?

The average of the compensation KCPL paid out for years 2012, 2014, and 2015. The value in KCPL's cost of service due to the difference between KCPL and Staff on this issue is \$923,991.

B. Should that level be based on data not known and measurable as of the true up cutoff date of December 31, 2016?

No. Because KCPL will not pay out incentive compensation for 2016 until March 2017, and only those eligible for the incentive who are employed by KCPL that date will receive incentive compensation, KCPL's total incentive compensation payout is not known and measurable as of the December 31, 2016, true-up cutoff date.

VII. Supplemental Executive Retirement Program ("SERP")

A. What level of SERP expense should the Commission recognize in KCPL's revenue requirement?

Staff recommends the use of a 3.5 year average of SERP expense, net of capitalization, be included in KCPL's revenue requirement.

B. Should SERP expense be capitalized?

Yes. Staff recommends a portion of SERP expenses should be charged to capital accounts using Staff's payroll capitalization ratio.

VIII. Severance- Should employee severance expenses be reflected in the cost of service?

No. Staff recommends no level of ongoing severance expense be included in the cost of service.

IX. Kansas City Earnings Tax- What level of Kansas City Earnings Tax expense should the Commission recognize when determining KCPL's revenue requirement?

Staff recommends no amount of Kansas City Earnings Tax expense should be recognized when determining KCPL's revenue requirement.

X. Trackers in Rate Base-Should expense trackers be included in rate base?

The decision of whether to include the unamortized balances of expense trackers in rate base should be made by the Commission on a case-by-case basis. In this proceeding, Staff recommends that the unamortized balances of previous latan construction accounting deferrals be included in rate base.

XI. Bad debt gross-up – Should bad debt expense be grossed-up for the revenue requirement change the Commission finds for KCPL in this case?

No. Staff does not believe there is any direct relationship between bad debts or increasing or decreasing revenues and, as such, is opposed to the bad debt factor up or gross up. KCPL treats the bad debt gross up like an income tax gross up, as any increase in revenues causes an increase in bad debts. Staff's analysis shows that the relationship between net income and income tax is not identical to the relationship between revenues and bad debt expense. Therefore, Staff is opposed to any bad debt gross up.

XII. Dues and Donations

A. What level of dues and donations expense should the Commission recognize in KCPL's revenue requirement?

Staff recommends that the Commission not recognize KCPL's Edison Electric Institute ("EEI") dues, some KCPL chamber of commerce contributions that are duplicative, and donations KCPL made because they are charitable in nature and do not benefit KCPL's ratepayers. Staff recommends the Commission include EPRI dues as booked in the test year as an ongoing expense. These recommendations are consistent with how the Commission treated these same or similar dues and donations in its Report and Order in Case No. EO-85-185.

B. What level of Edison Electric Institute expense should the Commission recognize in KCPL's revenue requirement?

Staff recommends that the Commission not recognize KCPL's Edison Electric Institute dues in KCPL's revenue requirement, because KCPL has not quantified the benefit that membership to this organization has to its ratepayers.

C. What level of EPRI expense should the Commission recognize in KCPL's revenue requirement?

Staff recommends that the Commission recognize the full amount of EPRI dues, as included in the test year, in KCPL's revenue requirement.

XIII. Credit Card Acceptance Fees-What level of Credit Card Fee expense should the Commission recognize in KCPL's revenue requirement?

Staff recommends utilizing a twelve (12) month actual total number of payment transactions, multiplied by the twelve (12) month average cost per transaction, to determine an annualized level of credit card acceptance fees.

XIV. Bank Fees- What level of accounts receivable bank fee expense should the Commission recognize in KCPL's revenue requirement?

Staff recommends using a twelve (12) month actual total of commercial paper fees to determine the appropriate level of accounts receivable bank fees.

XV. Rate case expense

A. Were any rate case expenses claimed by KCPL imprudently incurred?

Staff is not recommending a prudency adjustment in this case.

B. Should the Commission allocate a portion of proposed rate case expense to KCPL shareholders?

Yes. Rate case expense should be proportionally assigned to all beneficiaries of a rate increase.

C. What method of rate case expense allocation should the Commission order in this case?

The same as it employed in KCPL's last rate case, Case No. ER-2014-0370: (Actual Prudent Rate Case Expense) X (Revenue Requirement Approved) / (Original Revenue Requirement)

KCPL requested \$90.1 million in their direct filing.

XVI. Depreciation Study Expense- Over what period of time should KCPL's normalized depreciation study expense be amortized to determine the level of depreciation study expense to include in KCPL's revenue requirement?

Five years—by rule the minimum frequency by which KCPL is to perform depreciation studies.

XVII. Depreciation

A. Should the Commission allow terminal net salvage in the calculation of KCPL's depreciation rates?

B. What depreciation rates should the Commission order KCPL to use?

TERMINAL NET SALVAGE

Staff recommends that KCPL continue to use depreciation rates for production plant that the Commission approved in Case No. ER-2014-0307 except as noted in the COS Report to acknowledge the retirement of Montrose Generating Unit 1 and to address the portion of the Greenwood Solar Facility allocated to KCPL. Staff opposes the inclusion of terminal net salvage in the calculation of depreciation rates; the costs are not known and measureable.

RETIREMENT OF MONTROSE GENERATING UNIT 1

Staff's recommended depreciation schedule strikes out lines associated with the retired Montrose Generating Unit 1. Leaving or removing these lines has not effect on the depreciation expense because the plant in service associated with the unit is zero.

GREENWOOD SOLAR FACILITY

Staff recommends including in the KCPL depreciation rate schedule rates for the Greenwood Solar Facility that the Commission approved for GMO in Case No. ER-2016-0156.

XVIII. Greenwood Solar Energy Center— Should the Commission allocate any of the capital costs, operating and maintenance costs, etc., attributable to the Greenwood Solar Energy Center between GMO and KCP&L? If so, how should it be allocated?

The Greenwood Solar project was constructed to allow KCPL employees to gain experience designing, constructing, maintaining, and operating a utility scale solar facility. The percentage of GMO customers that will actually benefit from the energy is approximately 0.1%. However, both KCPL (Missouri and Kansas operations) and GMO will benefit from the knowledge acquired from building and operating a utility-scale solar facility. Staff recommends the Commission allocate the facility costs and related expenses between KCPL and GMO based on customers.

XVIII. Revenues

A. Should KCPL be permitted to make an adjustment to annualize kWh sales in this rate case as a result of KCPL's Missouri Energy Efficiency Investment Act ("MEEIA") Cycle 1 demand-side programs?

No. KCPL's annualization adjustment of kWh sales resulting from its Cycle 1 demand-side programs is prohibited under 1) the *Non-Unanimous Stipulation and Agreement Resolving Kansas City Power & Light Company's MEEIA Filing* filed on May 27, 2014 in Case No. EO-2014-0095; 2) the *Non-Unanimous Stipulation and Agreement Resolving MEEIA Filings* filed on November 23, 2015 in Case Nos. EO-2015-0240 and EO-2015-0241; and 3) KCPL's Cycle 2 DSIM Rider, P.S.C. MO. No. 7, Original Sheet Nos. 49F through 49P.

B. How should the Large Power class kW demand billing units be adjusted when a customer leaves the Large Power class?

The customer's normalized actual kW demand billing units should be removed from the class.

C. How should customers who left the Large Power class and switched into the Large General Service and Medium General Service classes be annualized?

The customer's normalized actual billing units and revenue should be removed from the Large Power class and added to the billing units and revenue for the class the customer is moving into. The customer's new revenue will be priced using the rates the class the customer is moving into.

D. What methodology should be utilized to measure customer growth?

Customer Charge counts should be used to measure the growth of customer count.

XIX. Rate Design/Class Cost of Service

A. What interclass shifts in revenue responsibility, if any should the Commission order in this case?

None.

B. How should any increase ordered in this case be applied to each class?

C. Should KCPL be permitted to increase the fixed customer charge on residential customers?

D. Should KCPL be required to implement the block rate structure proposed by the Division of Energy for residential customers?

All rate elements should be increased at an equal percentage. Within the residential class, the residential customer charge should be increased at the same percentage as the residential class only up to \$12.62, with any potential increase beyond that point applied evenly to the blocked energy charges.

E. Should KCPL be required to propose time-varying rate offerings for residential customers in future cases?

Staff supports working towards a well-designed pilot program for TOU rates. Staff is not opposed to Commission guidance directing KCPL to work towards general use time varying rate options for residential customers.

F. How should any increase to Rates LGS and LPS be distributed?

All rate components should be increased by an equal percentage. This is consistent with studied cost causation, avoids sending a price signal that encourages consumption of energy as a result of the hours use rate design, and reduces the likelihood of causing some customers' rates to decrease while other customers' rates dramatically increase. Shifting revenue-setting responsibility to individual customer

NCPs improperly signals that this determinant that is not related to production capacity requirements is relevant to the cost of energy.

XX. Clean Charge Network

A. Is the Clean Charge Network a regulated public utility service?

Yes, the Commission has jurisdiction to regulate utility owned and operated electric vehicle charging stations. The Commission has jurisdiction to regulate public electric utilities engaged in the practice of manufacturing, selling, or distributing electricity to consumers for light, heat, and power under Section 386.250, RSMo. An electric vehicle charging station is a specialized device designed for consumers to deliver electricity to their electric vehicle battery to power the vehicle's functions. When said charging station is operated by a regulated electric utility for the purpose of selling electricity to those consumers, it falls squarely within the Commission's jurisdiction.

B. Should capital and O&M expenses associated with the Clean Charge Network be recovered from ratepayers?

Ratepayers should be held harmless, and the costs associated with installing the charging stations and the revenues attributed to the stations should be booked above the line. Those costs and revenues will be reviewed by Staff in the succeeding KCPL general rate case, and a revenue imputation will be applied for any costs exceeding the amount of revenues. This is an evolution from testimony of Staff's direct position on this point and reflects both its position that electric vehicle charging stations operated by an electric utility are part of its regulated business operations and its concern that the ratepayers not bear the risk and provide a subsidy supporting the Company's effort to establish a new market for its service. Staff recommends that if the revenues from the electric charging stations do not offset the costs of the charging stations, then Staff will impute a level of revenue to offset the shortfall, keeping captive ratepayers harmless.

C. Should KCPL develop a PEV-TOU rate to be considered in its next general rate case?

KCPL should be ordered to design a PEV-TOU rate to be implemented in KCPL's next general rate case. Additionally, KCPL should create a TOU rate for general, residential customers that offers a Super-Off peak rate option for customers with EV home charging.

D. Should the session charge be removed from the tariff?

KCPL's proposed session charge should be removed altogether or edited to comply with Section 393.130, RSMo, to ensure that only an electric corporation is demanding and receiving remuneration for the provision of electric service, and to ensure that no individual is charged greater or less compensation for a like and contemporaneous service. As proposed by KCPL, its session charge would empower third party non-utility host site owners to impose an optional fee of anywhere between \$1.00 and \$6.00 per hour in addition to the kWh rate assessed to EV consumers under the tariff. As this rate would be set by tariff, Staff's position is that non-utility third party host sites have no legal authority to demand compensation for the provision of electric service, as such entities are not an electric corporation. Further, as the electric service provided under the proposed tariff will be same across KCPL's service territory, the application of a variable rate through a session charge would violate Section 393.130, RSMo.

XXI. Economic Relief Pilot Program ("ERRP") - Should the program annual funding be decreased to \$589,984 for both ratepayers and shareholders? Should enrollment for the program be extended to include other community action agencies?

Staff recommends KCPL continue the amount of program costs as filed by company witness Ronald A. Klote for ratepayer expenditures of \$589,984. Due to an accumulation of over a half-million dollars in unspent funds, Staff further recommends ratepayer funding be set at \$500,000 annually and \$89,984 be funded annually from the balance of unspent funds. KCPL should expand

program enrollment further than the Salvation Army to other community action agencies. Doing so could help reach the monthly enrollment cap and prevent the accumulation of unspent funds annually.

XXII. Cost Allocation Manual (“CAM”)- Should the Commission approve a CAM for KCPL in this case?

The Commission should not approve a CAM in this case, but rather address this issue in another docket.

XXIII. Management Expense

A. Is KCPL incurring and charging imprudent and excessive management expenses to ratepayers?

B. Should the Commission adjust KCPL’s management expense amount as proposed by OPC witnesses?

C. Should the Commission direct or encourage KCPL to adopt the expense report policy changes as listed at page 9 of OPC witness Mr. Hyneman’s Direct testimony?

Staff reserves the right to take a position on this issue at a later time, based upon the evidence presented at the evidentiary hearing.

XXIV. Customer Disclaimer – Should the Commission order KCPL to adopt a customer disclaimer as proposed by OPC witness Marke?

Staff reserves the right to take a position on this issue at a later time, based upon the evidence presented at the evidentiary hearing.

XXV. Customer Experience- Is KCPL’s strategy with respect to customer service, customer experience and community involvement in the interest of its customers?

Staff reserves the right to take a position on this issue at a later time, based upon the evidence presented at the evidentiary hearing.

Respectfully submitted,

/s/ Nicole Mers

Nicole Mers

Assistant Staff Counsel

Missouri Bar No. 66766

P.O. Box 360

Jefferson City, MO 65012

(573) 751-6651 (Telephone)

(573) 751-9285 (Fax)

Nicole.mers@psc.mo.gov

Attorney for the Staff of the

Missouri Public Service Commission

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered, transmitted by facsimile or by electronic mail to all counsel of record on this 2nd day of February, 2016.

/s/ Nicole Mers