

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

In the Matter of Kansas City Power & Light)	
Company's Demand Side Investment Rider)	<u>File No. ER-2016-0325</u>
Rate Adjustment and True-Up Required by)	Tracking No. JE-2016-0343
4 CSR 240-3.163(8))	

STAFF RECOMMENDATION TO REJECT TARIFF SHEETS

COMES NOW Staff of the Missouri Public Service Commission, by and through counsel, and submits its Recommendation to the Missouri Public Service Commission ("Commission") recommending that the Commission issue an order rejecting four (4) tariff Sheet Nos. 49G, 49H, 49I, and 49O as filed by Kansas City Power & Light Company ("KCPL") on June 1, 2016 bearing an effective date of August 1, 2016. Staff explains its reasons in Staff's Memorandum attached hereto as Appendix A and incorporated herein, further stating as follows:

1. KCPL filed Tariff Sheet Nos. 49G, 49H, and 49I for the purpose of modifying the Company's DSIM ('Demand Side Investment Mechanism') under the Missouri Energy Efficiency Investment Act ("MEEIA"). KCPL filed Tariff Sheet 49O to implement new DSIM rates incorporating the modifications sought in Sheet Nos. 49G, 49h and 49I.

2. KCPL seeks to do three things in its tariff filing: (1) collect in its DSIM rate its programs costs and its throughput disincentive for its residential and commercial and industrial ("C&I") customer classes¹; (2) collect the amount the Company under-billed its customers plus carrying costs due to its failure to discount its programs costs as

¹ Direct Testimony of Tim Rush, p. 6, Ins 1-6 "...the DSIM rate components consist of projected Program Costs and projected TD associated with Cycle 2 for July 2016 through December 2016 and the reconciliation of expected Program Costs and expected TD/TD-NSB for both Cycles 1 and 2 through June 2016.

required under terms of the stipulation and agreement in Case No. EO-2014-0095²; and (3) unilaterally modify Commission-approved stipulations in File No. EO-2015-0240 to extend the period of recovery related to certain C&I Custom Rebate Program DSIM costs from its C&I customer class from 6 months³ to 18 months.⁴

3. As explained in detail in its Memorandum, Staff supports appropriate recovery of item (1). Regarding item (2) Staff does not dispute that KCPL is entitled to recover its prudently incurred programs costs and its throughput disincentive, including the amount the Company under-collected from its customers. However, Staff recommends the Commission reject the Company's efforts to collect carrying costs from its customers because KCPL's calculation error, though inadvertent, failed to follow the agreed upon calculation method approved by the Commission as set out in the stipulation and agreement in Case No. EO-2014-0095.⁵

4. Regarding item (3), Staff recommends the Commission reject KCPL's requested tariff change to extend the collection period from 6 months to 18 months for the C&I customer class. KCPL's request not only distorts price signals by extending the cost collection period by a full year, it also includes charging C&I customers additional carrying costs during the extended one year recovery period on the uncollected cost balance. Staff further explains that the current 6 month recovery period mitigates the

² Direct Testimony of Tim Rush p. 4 ln 21 –p. 5 ln 2.

³ 4 CSR 240-20.093(4) provides for semi-annual DSIM rate adjustments.

⁴ KCPL seeks a DSIM cost recovery period of 18 months that would allow the Company to spread out recovery of its under-billed costs and recovery of increased program costs due to the year end 2015 promotion of the Business Customer Rebate Cycle 1 MEEIA program in the C&I rate class that was extended through June 30, 2015.

⁵ See page 7, para. 7 of the *Non-Unanimous Stipulation And Agreement Resolving Kansas City Power & Light Company's MEEIA Filing* in Case No. EO-2014-0095 (EFIS Item No. 90) and approved by Commission order (EFIS Item No. 92): "...The monthly TD-NSB is the 2014 net present value of the gross benefits of all measures installed in that month, less the 2014 net present value of all programs' costs in that month." Staff's First MEEIA Prudence Report for KCPL in Case No. EO-2016-0183 identified that KCPL had incorrectly calculated its TD-NSB for Cycle 1 when it failed to discount 2015 programs costs to 2014 dollars when calculating the TD-NSB amounts. In this filing KCPL included under collected amounts to correct its calculation error and also proposed to collect additional interest/carrying costs resulting from its error.

“pancaking” of Cycle 1 and Cycle 2 cost recoveries as was contemplated by the parties in designing the DSIM. Customers should be protected from the “pancaking” of Cycle 2 costs on top of Cycle 1 programs costs, Cycle 1 TD-NSB and the yet unknown amount of Cycle 1 Performance Incentive over the extra 12 month period that KCPL has requested to recover those costs.⁶

WHEREFORE, for the reasons discussed above and further explained in Staff’s Memorandum, Staff recommends the Commission issue an order:

(1) rejecting KCPL’s requested modifications to its Cycle 2 DSIM Rider as reflected in KCP&L’s P.S.C. MO. No. 7 First Revised Sheet Nos. 49G, 49H, 49I, and 49O; and,

(2) directing KCPL to file a corrected First Revised Sheet No. 49O which includes DSIM rates which are calculated pursuant to the existing DSIM Rider that includes the Cycle 1 under-billed amount but does not include carrying costs attributed to the under-billed amount resulting from KCPL’s calculation error.

Respectfully submitted,

/s/ Robert S. Berlin

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⁶ See page 4 of Staff’s Memorandum for a more detailed explanation and analysis of the timeline and the expected “pancaking” of Cycle 1 and Cycle 2 MEEIA costs.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served electronically on this 1st day of July, 2016 to the parties of record as set out on the official Service List maintained by the Data Center of the Missouri Public Service Commission for this case.

/s/ Robert S. Berlin

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. ER-2016-0325 and Tariff Tracking No. JE-2016-0343
Kansas City Power & Light Company

FROM: Sarah Kliethermes, Regulatory Economist III

/s/ Natelle Dietrich 7/01/16 /s/ Robert S. Berlin 7/01/16
Commission Staff Director / Date Staff Counsel Division / Date

SUBJECT: Staff Recommendation to Reject Kansas City Power & Light Company's ("KCPL") Proposed Tariff Sheets to Modify its Demand Side Investment Mechanism ("DSIM") Rider Tariff Sheets and to Adjust its DSIM Rider Rates effective August 1, 2016.

DATE: July 1, 2016

Summary

This filing concerns a request by Kansas City Power & Light Company ("KCPL" or "Company") to modify the Company's DSIM Rider rates and mechanism under the Missouri Energy Efficiency Investment Act ("MEEIA") and also to implement new DSIM rates reflecting that modification, among other things. For the reasons described below, Staff recommends the Commission reject KCPL's request to modify Sheet Nos. 49G, 49H, and 49I. Staff further recommends the Commission reject KCPL's filed Sheet No. 49O, and direct KCPL to file a revised Sheet No. 49O which is in compliance with the Commission's March 2, 2016 *Report and Order* in Case No. EO-2015-0240 and April 6, 2016 *Order Approving Demand-Side Programs Budget Modifications* in Case No. EO-2014-0095.

Background

DSIM Rider Mechanism Modification Issue

Commercial and Industrial ("C&I") Custom Rebate Program costs increased dramatically beginning in the third quarter of 2015, under KCPL's MEEIA Cycle 1 and the Cycle 1 Transition. This increase in spending was the result of the aggressive promotion of the Custom Rebate Program by trade allies seeking to take advantage of the more generous Cycle 1 rebates prior to the mid-December 2015 end date for project applications. The increase in spending was also due to the June 30, 2016, deadline for completing Custom Rebate Program projects under the Cycle 1 Transition.¹

See page 3 of the *Memorandum* in support of the *Staff Recommendation to Approve Demand-Side Programs Budget Modifications*, filed April 4, 2016, in File No. EO-2014-0095.

On November 13, 2015, KCPL filed in Case No. EO-2014-0095 its *Application for Approval of Modifications of Demand-Side Programs* in which KCPL estimated that its actual Cycle 1 programs costs would be approximately \$32.6 million, which is 170% of the original \$19.2 million Cycle 1 budget, due to higher than expected level of participation in its Custom Rebate Program.

On December 11, 2015, KCPL and Staff jointly presented in Case No. EO-2014-0095 a non-unanimous stipulation and agreement designed to provide a transition from KCPL's MEEIA Cycle 1 demand-side programs to its MEEIA Cycle 2 programs ("Cycle 1 Transition"). The Commission approved this request effective December 31, 2015.

On March 2, 2016, in Case No. EO-2015-0240, the Commission entered its *Order Approving the Non-Unanimous Stipulation and Agreement Resolving MEEIA Filings*, filed on November 23, 2015 ("November Stipulation"). To effectuate the mechanism described in the November Stipulation, KCPL filed compliance tariff sheets on March 16, with three substitute tariff sheets filed on March 21. On March 23, 2016, the Commission entered its *Order Approving Expedited Tariff Sheets* to effectuate the mechanism described in the November Stipulation. Those tariff sheets took effect pursuant to Commission order on April 1, 2016.

On March 8, 2016, KCPL filed its second *Application For Approval of Demand-Side Programs Budget Modifications* in File EO-2014-0095, stating "[a]s its specific request for relief, KCP&L asks that the Commission take any action the Commission deems necessary to permit KCP&L to continue paying for completion of Business Energy Efficiency Rebates-Custom program applications received by December 15, 2015 and paying for completion of all other Cycle 1 program applications by December 31, 2015." The Commission issued its *Order Approving Demand-Side Programs Budget Modifications* on April 6, 2016, in File No. EO-2014-0095, stating "KCP&L's MEEIA programs have been successful at attracting participants, and as a result, the programs have cost more than was anticipated when they were implemented. However, those programs have all been determined to be cost-effective, so costs that exceed the originally anticipated amounts will produce energy savings benefits greater than originally anticipated. After considering KCP&L's application, Staff's recommendation, and the responses filed by The Sierra Club and Renew Missouri, the Commission finds that the application is reasonable and should be granted."

No modifications concerning Sheet Nos. 49G, 49H, and 49I were sought or granted in the *Application For Approval of Demand-Side Programs Budget Modifications* or the *Order Approving Demand-Side Programs Budget Modifications* in File No. EO-2014-0095.

In his Direct Testimony in File No. ER-2016-0325 at page 3, Tim Rush states that KCPL requests to change the MEEIA Cycle 2 mechanism as it pertains to the Cycle 1 and Cycle 1 Transition C&I program costs and Throughput Disincentive-Net Shared Benefits ("TD-NSB").

Mr. Rush states that he recommends this change “because of the unprecedented increase in program participation ... primarily driven by the Business Energy Efficiency Rebates-Custom program.”²

KCPL’s requested changes to its Cycle 2 MEEIA mechanism are reflected in KCPL’s P.S.C. MO. No. 7 First Revised Sheet Nos. 49G, 49H, and 49I, canceling KCPL’s P.S.C. MO. No. 7 Original Sheet Nos. 49G, 49H, and 49I, with the revised sheets being submitted June 1, 2016, in File No. JE-2016-0343. The rates that would result from these modifications are reflected on KCPL’s Sheet No. 49O.

KCPL TD-NSB Calculation Error Issue

As discussed in Staff’s “Prudence Review of Costs Related to the Missouri Energy Efficiency Act for the Electric Operations of Kansas City Power and Light Company” in File No. EO-2016-0183, KCPL incorrectly calculated its TD-NSB for Cycle 1 when it failed to discount 2015 program costs to 2014 dollars when calculating the TD-NSB amounts. In this filing, KCPL included amounts to correct the TD-NSB Share that it did not collect due to its improper calculation, but it also proposed to collect additional interest from its customers associated with the under-collection from its customers because of KCPL’s error. Their error, though inadvertent, is also a violation of the calculation method agreed to on page 7 of the *Non-Unanimous Stipulation And Agreement Resolving Kansas City Power & Light Company’s MEEIA Filing* in Case No. EO-2014-0095 (EFIS Item No. 90) and approved by order of the Commission on June 5, 2014 (EFIS Item No. 92). While Staff does not dispute that KCPL should recover its proper TD-NSB Share amount, Staff recommends that KCPL not be allowed to recover interest from ratepayers as a direct result of its error.

Discussion

Tariff Modification Issue

Staff recommends the Commission issue an order rejecting KCPL’s request to modify Sheet Nos. 49G, 49H, and 49I, as well as KCPL’s request to implement the rates resulting from those modifications on Sheet No. 49O.

² See Tim Rush Direct testimony in File No. ER-2016-0325, at page 3, line 7 et seq.

KCPL's currently tariffed total DSIM charge for Non-Residential Service is \$0.00550/kWh. This rate became effective April 1, 2016. KCPL's DSIM rate history for Non-Residential Service is provided below.³

February 1, 2015	\$ 0.00247
August 1, 2015	\$ 0.00450
February 1, 2016	\$ 0.00358
April 1, 2016	\$ 0.00550

As discussed by Mr. Rush at page 4 of his Direct Testimony, while the amount of the Cycle 1 Performance Incentive is currently not known, it is expected that it will result in an increase to the DSIM rates beginning February 2017 over what those rates would otherwise be. Because the Performance Incentive is dependent on retrospective EM&V, it is necessary that there be some delay after the completion of a program cycle and the beginning of Cycle 1 performance incentive ("PI") payout to provide an interval for the EM&V to become final. Pursuant to the currently-promulgated DSIM Rider, recovery of the Cycle 1 and Cycle 1 Transition C&I program costs and TD-NSB Share will be completing just as the Cycle 1 PI is beginning, thus avoiding "pancaking" the recoveries. This result is consistent with the agreement of the parties in designing the tariffs implementing the MEEIA mechanism, as demonstrated by the timeline provided in the background section described above.

While final values are not yet known, as stated in Tim Rush's testimony, KCPL anticipates approximately \$16.2 million of Cycle 1 program costs and \$5.7 million of Cycle 1 TD-NSB. Both Cycle 1 and Cycle 2 were designed to provide for contemporaneous recovery of program costs and TD-NSB Share with final true-up. KCPL's requested tariff change would extend – with interest – recovery of program costs and TD-NSB Share for projects submitted to the Company prior to December 15, 2015 under Cycle 1 until January of 2018, over halfway through Cycle 2. If Cycle 2 ramps up from relatively low spending levels in the initial 6 months of the Cycle, to relatively high spending levels in the final 6 months of the Cycle, KCPL's request to delay the recovery of Cycle 1 program costs and TD-NSB for an additional year over the time period provided for in the Cycle 1 Transition would result in the "pancaking" of Cycle 1 program costs, TD-NSB Share, and PI on top of Cycle 2 program costs and throughput disincentive ("TD") at a time when it is anticipated that Cycle 2 program costs and TD will be growing.

³ Pursuant to KCPL's P.S.C. MO. No. 7 3rd Revised Sheet No. 49E, canceling KCPL's P.S.C. MO. No. 7 2nd Revised Sheet No. 49E, effective February 1, 2016 that DSIM rate was \$0.00358/kWh. Prior to February of 2016, KCPL's P.S.C. MO. No. 7 2nd Revised Sheet No. 49E, canceling KCPL's P.S.C. MO. No. 7 1st Revised Sheet No. 49E, effective August 1, 2015, that DSIM rate was \$0.00450/kWh. Prior to August of 2016, KCPL's P.S.C. MO. No. 7 1st Revised Sheet No. 49E, canceling KCPL's P.S.C. MO. No. 7 Original Sheet No. 49E, effective February 1, 2015, that DSIM rate was \$0.00247/kWh. Prior to February 1, 2015, KCPL did not have a DSIM rate.

While Staff appreciates Mr. Rush's concern that "KCP&L feels that such an increase [of approximately ½ cent per kWh] to the DSIM charge is not reasonable,"⁴ KCPL's requested tariff revision would cause the C&I DSIM rate to actually *reduce* to \$0.00432/kWh from the current \$0.00550/kWh on the heels of KCPL's 170% budget exceedance of C&I program spending. This reduction would provide a pointedly wrong price signal to C&I customers.

KCPL Error Issue

Staff recommends the Commission issue an order rejecting KCPL's inclusion of interest on the TD-NSB Share amounts that were under-billed from its customers and require KCPL to file a new Sheet No. 49O that excludes the interest. As discussed in Staff's Prudence Review of Costs Related to the Missouri Energy Efficiency Act for the Electric Operations of Kansas City Power and Light Company in File No. EO-2016-0183, ratepayer harm would result from an increase in rates if KCPL is allowed to recover the interest costs attributed to its miscalculation of its TD-NSB Share – a miscalculation that should not have occurred had KCPL followed the terms of the November Stipulation.

Recommendation

Staff recommends the Commission issue an order rejecting KCPL's requested modifications to its Cycle 2 DSIM Rider reflected in KCPL's P.S.C. MO. No. 7 First Revised Sheet Nos. 49G, 49H, and 49I, canceling KCPL's P.S.C. MO. No. 7 Original Sheet Nos. 49G, 49H, and 49I, submitted June 1, 2016, in File No. JE-2016-0343 since they are not consistent with the agreement of the parties in designing the tariffs implementing the MEEIA mechanism. Staff further recommends the Commission issue an order rejecting KCPL's requested DSIM rates resulting from those modifications and the improper inclusion of interest on Sheet No. 49O.

Staff further recommends the Commission issue an order directing KCPL to file a corrected First Revised Sheet No. 49O which includes DSIM rates which are calculated pursuant to the existing DSIM Rider, and that includes the Cycle 1 correction amount, but disallows recovery of the interest incurred pursuant to KCPL's error.

⁴ See Rush Direct, at page 3, line 13 et seq.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

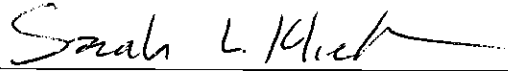
In the Matter of Kansas City Power & Light)
Company's Demand Side Investment)
Mechanism Rider Rate Adjustment and) **File No. ER-2016-0325**
True-Up Required by 4 CSR 240-3.163(8))

AFFIDAVIT OF SARAH L. KLIETHERMES

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

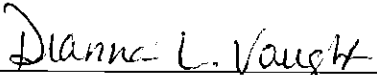
COMES NOW, Sarah L. Kliethermes and on her oath declares that she is of sound mind and lawful age; that she contributed to the attached Staff Recommendation in Memorandum form; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.



Sarah L. Kliethermes

Subscribed and sworn to be this 1st day of July, 2016.



Notary Public

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: June 28, 2019
Commission Number: 15207377