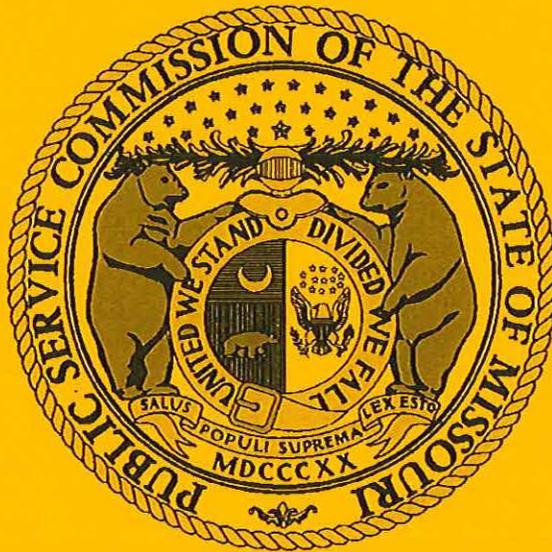


MISSOURI PUBLIC SERVICE COMMISSION

STAFF REPORT

COST OF SERVICE

FILED
October 22, 2018
Data Center
Missouri Public
Service Commission



KANSAS CITY POWER & LIGHT COMPANY

ER-2018-0145

and

KCP&L GREATER MISSOURI OPERATIONS COMPANY

ER-2018-0146

*Jefferson City, Missouri
June 19, 2018*

**** Denotes Confidential Information ****

Staff Exhibit No. 201-P
Date 9-25-18 Reporter TC
File No. ER-2018-0145-0146

**TABLE OF CONTENTS OF
COST OF SERVICE REPORT OF**

**KANSAS CITY POWER & LIGHT COMPANY (KCPL)
CASE NO. ER-2018-0145
and
KCP&L GREATER MISSOURI OPERATIONS COMPANY (GMO)
CASE NO. ER-2018-0146**

9	I.	Background	1
10	II.	Executive Summary	1
11	III.	Rate of Return and Capital Structure	4
12		A. Staff's Positions:	4
13		1. Return on Equity ("ROE"):	4
14		2. Capital Structure:	4
15		3. Cost of Debt:	5
16		B. Analytical Principles:	5
17		1. The Cost of Equity ("COE") vs. the Authorized ROE:	5
18		2. Benchmarking:	5
19		3. A Comparative Analysis Required:	6
20		C. Economic and Market Conditions:	6
21		1. Gross Domestic Product and the Debt Market:	6
22		2. The Stock Market:	7
23		D. Capital Structure:	8
24		1. Credit Rating:	8
25		2. Capital Structure:	8
26		3. Embedded Cost of Debt:	9
27		E. Cost of Equity:	9
28		1. The Proxy Group:	9
29		2. DCF ("Discounted Cash Flow") Analysis:	10
30		3. The Growth Rate:	11
31		4. Staff's DCF Results:	11
32		F. Tests of Reasonableness:	11
33		1. The Capital Asset Pricing Model ("CAPM"):	11
34		2. Average Authorized Returns:	12
35		G. Conclusion:	12
36	IV.	Rate Base	12
37		A. Plant-in-Service and Accumulated Depreciation Reserve	12
38		B. Plant Amortization	15
39		C. Crossroads Energy Center Valuation (GMO Only)	16

1	D.	Crossroads Miscellaneous Costs.....	26
2	E.	Stipulation and Agreement in Case No. ER-2012-0175 (GMO Only).....	26
3	F.	Greenwood - Solar Allocation	27
4	G.	Material and Supplies	29
5	H.	Prepayments.....	30
6	I.	Cash Working Capital.....	31
7	J.	Fuel Inventories	33
8	1.	Coal Inventory.....	33
9	2.	Nuclear Inventory (KCPL Only).....	33
10	3.	Oil and Fuel Additive Inventories.....	34
11	K.	Customer Deposits	34
12	L.	Customer Advances	35
13	M.	Iatan Construction Accounting Regulatory Assets	35
14	V.	Income Statement – Revenues	38
15	A.	Rate Revenues.....	38
16	1.	Introduction.....	38
17	2.	The Development of Rate Revenue	38
18	3.	Weather Normalization	39
19	a.	Weather Variables	39
20	b.	Weather Normalization	41
21	c.	365-Days Adjustment to Usage	42
22	4.	Regulatory Adjustments to Test Year Sales and Rate Revenue	43
23	5.	Customer Growth.....	44
24	a.	Customer Growth in Usage.....	44
25	b.	Adjustments for Non-Missouri classes (KCPL Only)	45
26	c.	Customer Growth in Rate Revenue.....	45
27	B.	Large Power Service (“LPS”) Adjustments.....	46
28	C.	Transmission Expense and Revenue- FERC Account 456.....	48
29	D.	Ancillary Services.....	50
30	E.	Transmission Congestion Rights (KCPL Only)	51
31	F.	Revenue Neutral Uplift.....	51
32	G.	Off-System Sales	52
33	1.	FERC Account 447-Sales for Resale	52
34	2.	Firm Off-System Sales.....	52
35	3.	Non-Firm Off-System Sales.....	53
36	4.	FERC Wholesale Sales	54
37	5.	Removal of Inter-Company/Rate District Energy Transfers (GMO Only)	54
38	6.	Excess Off-System Sales Margin Regulatory Liability (KCPL Only)	54
39	H.	SO ² Emissions Allowances.....	56
40	I.	Economic Development Rider (“EDR”).....	57
41	1.	KCPL EDR Adjustments	58
42	2.	GMO EDR Adjustments	63
43	J.	Miscellaneous Revenues.....	64
44	1.	Late Payment Revenue (Forfeited Discount).....	64
45	K.	Other Revenue Accounts	64
46	L.	Removal of Gross Receipts Taxes from Test Year Revenues	64

1	VI. Income Statement – Expenses.....	65
2	A. Fuel and Purchased Power Overview	65
3	1. KCPL	65
4	2. GMO	67
5	B. Fuel and Purchased Power Expense	68
6	1. Planned and Forced Outages.....	69
7	2. Heat Rate Testing.....	70
8	3. Lake Road Allocation Factors (GMO Only).....	70
9	a. Physical Layout and Basic Operations at the Lake Road Plant	70
10	b. Use of Allocation Factors at the Lake Road Plant	71
11	c. Changes at the Lake Road Plant	72
12	d. Summary of Previous Staff Recommendations	73
13	e. Current Status of Staff Review	74
14	f. Staff Recommendation.....	74
15	4. Contract Prices and Energy.....	75
16	5. Fixed Costs.....	75
17	6. Fixed Adders	76
18	7. Purchased Power – Energy.....	76
19	8. Purchased Power – Capacity Charges.....	77
20	9. Border Customers	77
21	10. Variable Costs	78
22	a. Fuel Prices	78
23	b. Coal Prices	78
24	c. Natural Gas Prices.....	79
25	d. Nuclear Fuel Prices (KCPL)	79
26	e. Oil Prices.....	79
27	11. Purchased Power Prices	80
28	12. Normalized Net System Input.....	80
29	13. System Energy Losses	82
30	14. Surface Transportation Board Reparation Amortization	83
31	C. Payroll, Payroll Related Benefits including 401k Benefit Costs	85
32	1. Payroll Costs	85
33	2. Payroll Related Benefits.....	88
34	3. Payroll Taxes.....	88
35	4. True-up of Payroll Costs	89
36	5. FAS 87 – Pension Cost Tracking Mechanism	89
37	6. FAS 106 – Other Post Employment Benefit Cost Tracking Mechanism	92
38	7. Supplemental Executive Retirement Plan (“SERP”) Expense.....	94
39	8. Incentive Compensation.....	95
40	D. Maintenance Normalization Adjustments.....	98
41	1. Wolf Creek Nuclear Refueling Outage (KCPL Only)	100
42	2. Wolf Creek Mid-Cycle Outage (KCPL Only)	101
43	3. Wolf Creek Water Contract (KCPL ONLY)	102
44	4. Nuclear Decommissioning	103
45	5. Meter Replacement Program – Incremental Meter Reading Costs.....	103
46	6. Iatan Unit 2 O&M Expenses	104

1	7.	IT Software Maintenance	105
2	8.	Critical Infrastructure Protection and Cyber-Security	105
3	E.	Other Non-Labor Adjustments	106
4	1.	Advertising Expense	106
5	2.	Bad Debt Expense	107
6	3.	Dues and Donations	108
7	a.	Edison Electric Institute (“EEI”) Dues	109
8	4.	Out of Period Items (CS-11)	110
9	5.	Debit/Credit Card Acceptance Program.....	111
10	6.	Accounts Receivable Bank Fees	111
11	7.	La Cygne Regulatory Asset – Obsolete Inventory.....	112
12	8.	Lease Expense.....	113
13	9.	Insurance Expense.....	114
14	10.	Injuries and Damages.....	115
15	11.	Property Tax Expense	116
16	12.	Rate Case Expense	118
17	13.	Regulatory Assessments	123
18	a.	Public Service Commission Assessment Fee.....	123
19	b.	FERC Assessment.....	123
20	14.	Customer Deposits – Interest Expense.....	124
21	15.	Depreciation - Clearing	125
22	16.	Economic Relief Pilot Program	125
23	17.	Income Eligible Weatherization Program (formally Low Income	
24		Weatherization Program)	129
25	a.	Accounting Treatment.....	130
26	18.	Regional Transmission Organization (“RTO”) Administrative Fees	131
27	19.	Transmission Expense-FERC Account 565.....	132
28	20.	Missouri Flood Amortizations (KCPL Only)	136
29	21.	Great Plains Energy – Westar Merger Transition Costs	137
30	22.	Demand-Side Management Cost Recovery	140
31	a.	Rate-Making Treatment for the DSM Program Cost (KCPL).....	140
32	b.	Rate-Making Treatment for the DSM Program Cost (GMO).....	141
33	c.	Accounting Treatment for Expiring Vintages for KCPL and GMO	142
34	23.	Amortization of Regulatory Assets and Liabilities	144
35	24.	Amortization of the St. Joseph Ice Storm Liability (GMO Only).....	145
36	25.	Regulatory Plan Additional Amortization (KCPL Only).....	146
37	26.	L&P Revenue Phase in Amortization (GMO Only)	150
38	27.	Allconnect Revenues and Expenses.....	151
39	28.	Common Use Plant Billings.....	152
40	29.	Customer Information System (CIS)	152
41	30.	Transource Adjustments.....	152
42	VII.	Depreciation	156
43	A.	Proposed Depreciation Rates	156
44	B.	Vehicle Charging Stations	156
45	C.	CIS Amortization	156
46	D.	Additional Annual Amortization for GMO	156

1	VIII. Current and Deferred Income Tax	157
2	A. Current Income Tax	157
3	B. Kansas City Earnings Tax.....	159
4	C. Accumulated Deferred Income Taxes (“ADIT”).....	160
5	D. Deferred Income Taxes - Crossroads (GMO Only).....	162
6	E. ADIT on Construction Work In Progress (“CWIP”).....	162
7	IX. Jurisdictional Allocations	164
8	A. Methodology	164
9	1. Demand Allocation Factor	164
10	2. Energy Allocation Factor	166
11	B. Application.....	167
12	1. Distribution Plant Investment	168
13	2. General Plant Allocation	168
14	3. Allocations of Expenses	169
15	4. Other Costs Allocations	169
16	5. Energy and Demand Allocations	169
17	X. Fuel Adjustment Clause (“FAC”)	171
18	A. FAC - Policy.....	171
19	1. History.....	172
20	a. GMO	172
21	b. KCPL	173
22	2. Continuation of FAC.....	174
23	3. Crossroads Transmission Costs (GMO Only).....	181
24	B. Hedging Activities	182
25	1. History.....	182
26	2. Current Hedging Strategy	183
27	3. Southwest Power Pool Participation	183
28	C. Revising the Base Factor	184
29	D. Additional Reporting Requirements for GMO.....	186
30	E. Additional Reporting Requirements for KCPL	187
31	XI. Other Miscellaneous Issues	188
32	A. Clean Charge Network O&M and Rate Base	188
33	B. Renewable Energy Standard – Costs	189
34	1. KCPL	189
35	2. GMO	190
36	C. Staff’s Second RESRAM Prudence Review (GMO Only).....	190
37	1. Background:	190
38	2. Description of costs included for recovery under GMO’s RESRAM:	191
39	3. Conclusion:	191
40	4. Documents Reviewed:	192
41	XII. Appendices	192

42

1 Act of 2017 (“TCJA”) reduces the revenue requirement requests in this case by \$38.4 million
2 (KCPL) and \$29.1 million (GMO). KCPL and GMO both proposed a return on equity (“ROE”)
3 of 9.85%. In its Direct Filing, KCPL and GMO both proposed to continue reflecting approved
4 fuel and purchased power increases and decreases in the FAC.³ Also, in their Direct Filing,
5 KCPL and GMO are requesting recovery of costs associated with electric vehicle charging
6 stations. Staff recommends adjustments to remove those costs from KCPL’s and GMO’s
7 costs of service. The removal of these costs is required by the Commission’s finding in
8 Case No. ER-2016-0285, In the Matter of Kansas City Power & Light Company’s Request for
9 Authority to Implement a General Rate Increase for Electric Service, that electric vehicle
10 charging stations are not “electric plant” as defined by Section 386.020(14), RSMo, which means
11 the Commission has no statutory authority to regulate their operations. As such, this issue will
12 be further addressed in Staff’s rebuttal testimony. Staff Witness Keith Majors sponsors Staff’s
13 adjustments related to the removal electric vehicle charging station costs from KCPL’s and
14 GMO’s costs of service.

15 Staff recommends an ROE of 9.85%⁴ for both KCPL and GMO, which is on the upper
16 end of the equity cost rate range of 9.0% to 10.0%.⁵ Combined with recommended capitalization
17 ratios and a senior capital cost rate, Staff’s recommended overall rate of return cost of capital is
18 7.36% for KCPL and 7.35% for GMO. Staff’s revenue requirement for KCPL, after adjustment
19 for the TCJA, is <\$19,076,751>.⁶ Staff’s revenue requirement for GMO, after adjusting for the
20 TCJA is <\$34,812,142>.

21 Staff’s recommended decreases in revenue requirement is based upon a test year for the
22 twelve months ending June 30, 2017, including true-up estimates through June 30, 2018. Below
23 are definitions of technical terms that will frequently be used in the Cost of Service Report:

24 **Test Year:** The test year income statement is the starting point for determining a utility’s
25 existing annual revenues, operating costs, and net operating income. In this case, the test year is
26 the 12 months ending June 30, 2017.

27 **Update Period:** The standard practice in ratemaking in Missouri to utilize a period,
28 beyond the established test year for a case, in which to match the major components of a utility’s

³ KCPL requested increases and ROE, Direct Testimony of Darrin R. Ives ER-2018-0145, pp. 7, 9.

GMO requested increase and ROE, Direct Testimony of Darrin R. Ives ER-2018-0146, pp. 8-9 and 11.

⁴ ER-2018-0146 Staff Cost of Service Report (page refer to Jeffrey Smith testimony end of p. 1 and p. 2.

⁵ Ibid.

⁶ A “<bracketed number>” represents a negative amount.

1 revenue requirement. The update period that was agreed to for this particular case is
2 the 12 months ending December 31, 2017.

3 **True-Up:** A true-up date generally is established when a significant change in a utility's
4 cost of service occurs after the end of the update period, but prior to the operation-of-law date,
5 and one or more of the parties has decided this significant change in cost of service should be
6 considered for cost-of-service recognition in the current case. True-up audits involve the filing
7 of additional testimony and, if necessary, additional hearings beyond the initial testimony filings
8 and hearings for a case. The true-up date ordered in this case is June 30, 2018.

9 The issues Staff anticipates for true-up include:

10 **RATE BASE:**

11 Plant in Service
12 Depreciation Reserve
13 All other rate base item (with exception of revenue and expense lags for cash
14 working capital)

15
16 **CAPITAL STRUCTURE:**

17 Capital structure

18
19 **INCOME STATEMENT**

20 Revenues (Growth)
21 Bad Debt and Forfeited discounts
22 Payroll (including changes in pay rate, number of employees)
23 Payroll benefits
24 Payroll taxes
25 Pensions/OPEB
26 Depreciation Expense
27 Fuel
28 Transmission
29 CIP's and Cyber Security
30 PSC Assessment
31 Rate Case Expense
32 Various Amortizations
33 Income Taxes

34
35 **Normalization:** Utility rates are intended to reflect normal ongoing operations.
36 A normalization adjustment is required when the test year reflects the impact of an abnormal
37 event. For example, overtime expense may be normalized to remove an unusual weather event,
38 and revenue may be normalized to remove abnormal weather conditions.

1 **Annualization:** Annualization adjustments are the most common adjustment made to test
2 year results to reflect the utility's most current annual level of revenue and expenses.
3 Annualization adjustments are required when changes have occurred during the test year and/or
4 update period, which are not fully reflected in the unadjusted test year results. For example,
5 signing a new labor contract would necessitate annualizing the new level of wages to expense.
6 Similarly, an addition of a large industrial customer would necessitate an annualization of billing
7 determinants and revenues.

8 **Disallowances:** In examining test year results, Staff makes disallowances to costs that
9 should not be recovered in rates. Examples of these types of costs are certain advertising costs
10 and donations made to charitable organizations.

11 **Return on Equity:** The ROE is the return allowed in rates on the shareholders' equity
12 investment in a regulated utility.

13 **Rate of Return:** The ROR is the overall cost capital; that is, the cost of debt and the
14 Commission-selected ROE weighted by the capital structure.

15 *Staff Expert/Witness: Scott Glasgow / J Luebbert*

16 **III. Rate of Return and Capital Structure**

17 **A. Staff's Positions:**

18 **1. Return on Equity ("ROE"):**

19 Comparing market and economic conditions at the time of KCP&L's last rate case in
20 2016, Case Number ER-2016-0285, in which the Commission authorized KCPL an ROE of
21 9.5%, and considering the Commission's authorized ROE of 9.8% in the Spire Missouri, Inc.,
22 rate cases, Case Numbers GR-2017-0215, and GR-2017-0216, an allowed ROE in the range
23 of 9.00% to 10.00%, with a point estimate of 9.85% is reasonable for KCP&L and GMO. Staff's
24 recommended ROE provides the companies with a fair and reasonable opportunity to earn their
25 cost of common equity ("COE"), in view of the fact that Staff's analyses shows that the COE for
26 electric utilities is most likely in the range of 6% to 8%.

27 **2. Capital Structure:**

28 Staff recommends the Commission use KCP&L's actual capital structure for purposes of
29 setting its allowed ROR. However, Staff recommends the Commission use GMO's adjusted
30 actual capital structure for purposes of setting its allowed ROR because this capital structure

1 acknowledges the fungibility of capital, balances goodwill, and safeguards ratepayers from
2 providing funding for assets not providing service.

3 **3. Cost of Debt:**

4 **

5 **

6 The analyses and methodologies utilized to develop Staff's rate of return and capital
7 structure recommendations are discussed in much more detail in my Detailed Direct Testimony
8 attached as Appendix 2 to this Report.

9 **B. Analytical Principles:**

10 **1. The Cost of Equity ("COE") vs. the Authorized ROE:**

11 The COE is a market constructed artifact; while Commission authorized ROEs are
12 regulatory constructed artifacts derived through regulatory processes. The COE, theoretically, is
13 the minimum return investors are willing to accept for their investment in a company compared
14 to returns on other investments available. An authorized ROE is an adjudicated return granted to
15 monopoly industries, allowing participants the opportunity to earn fair and reasonable
16 compensation for their investments. Staff intentionally differentiates between the
17 market-determined COE and the allowed ROE because financial officers and stock investment
18 analysts use market-determined COEs, which are much lower than average allowed ROEs, when
19 making capital budgeting decisions and valuing utility stocks.

20 **2. Benchmarking:**

21 COE results from an electric proxy group are used as a measuring tool to estimate an
22 unknown position from a known position, assisting in the derivation of the recommended ROE.
23 The unknown position is the proper ROE to recommend for KCPL and GMO in these
24 proceedings. The known position is the authorized ROE allowed by the Commission in the last
25 KCPL rate case, Case Number ER-2016-0285. Relying on multi-stage DCF models, Staff
26 calculated the COE at the time of KCPL's last rate case decision and compared it to calculations
27 on the current COE. Comparing differences in COE from the two timeframes shows that the
28 COE has increased by approximately 25 basis points. Adjusting the Commission's allowed ROE
29 in the last electric rate case to reflect current COE estimates would place an ROE benchmark
30 near 9.75%.

1 **3. A Comparative Analysis Required:**

2 The comparative nature of the constitutional parameters of the *Hope* and *Bluefield* cases
3 requires Staff's recommendation for KCPL's and GMO's allowed ROE be based on Staff's
4 assessment of economic and capital market changes since the Commission heard evidence in
5 KCPL's last rate case,⁷ as well as an assessment of the most recent major utility rate case
6 decisions rendered by the Commission, the Spire Missouri rate cases. Staff analyzed the most
7 recent ROE allowed by the Commission in the Spire Missouri rate cases to balance increases in
8 the COE with predictability in Commission decisions. Staff compared economic risks, general
9 industry risks, company specific risks, and average historically allowed ROEs for the industries
10 to arrive at its ROE recommendation for KCPL and GMO.

11 **C. Economic and Market Conditions:**

12 **1. Gross Domestic Product and the Debt Market:**

13 In setting utility rates, the Commission should take into account the evolution of
14 economic and market conditions. In 2016, and 2017, Real Gross Domestic Product ("GDP")
15 increased by 1.5%, and 2.3%, respectively. In the first quarter of 2018, GDP grew 2.2%.
16 Annualized GDP for the last four-quarters was 2.9%. Since KCPL's last rate case, 30-year
17 Treasury yields have risen. In 2017, 30-Year Treasury rates averaged 2.90%. In the first
18 four-months of 2018, 30-Year Treasury rates average 3.04%.

19 While average public utility bond yields have also risen, they have not kept pace
20 with 30-year Treasury yields, leading to compressing spreads between Treasury yields and utility
21 bond yields. Average public utility bond yields for 2017 and the first four-months of 2018 were
22 4.07% and 4.13%, respectively.⁸ Average spreads between 30-year Treasuries and utility bonds
23 for 2017 and the first four-months of 2018 were 1.17% and 1.09%, respectively.

24 Short-term interest rate increases in the Federal Reserve Funds Rate (Funds Rate) have
25 materialized in utilities short-term capital costs. The funds rate was set between .25% - .50% for
26 most of 2016, as of March 2018, the Funds Rate was set between 1.50% - 1.75%. ** _____
27

⁷ Prefiled direct testimonies filed at the end of 2016 through January 2017, with updated economic and market data introduced by parties at the hearings in February 2017.

⁸ Reported by Mergent Bond Record.

1
2 . **

3 These dynamics are important considerations when determining an ROE because recent
4 increased fiscal stimulus' boost to domestic economic activity make increases in short-term rates
5 more certain than several years ago, meaning that utilities short-term debt costs are likely to
6 continue rising. Meanwhile, monetary transmission mechanisms, longer-term structural
7 economic dynamics, and global forces continue to moderate longer-term interest rates, meaning
8 that although longer-term debt costs are likely to rise, they will not rise at the pace of short-term
9 rates. The sharper increases in short-term borrowing costs will be dampened by utilities'
10 refinancing of higher interest long-term debt as it matures, in what will likely continue to be a
11 historically low long-term debt yield environment, depressing increases in overall debt costs,
12 leading to slower increases in the cost of capital, translating into lower increases in the ROE.

13 2. The Stock Market:

14 Until recently, sustained low interest rates allowed utility stocks to outperform
15 the S&P 500. Total returns for the S&P 500 and the S&P 500 utilities sector were 13.7%, and
16 16.6% in 2016, respectively. The S&P 500 utilities sector outperformed the S&P 500 in total
17 returns for the majority of 2017, until November, when the passage of significant federal tax
18 legislation began to appear likely, boosting earnings outlooks and increasing valuations in the
19 broader market. Passage of the Tax Cuts and Jobs Act ("TCJA") in December 2017 led to
20 exuberant rallies in broader markets to end the year and start 2018. However, after processing
21 information on potential TCJA effects, and receiving new economic data, jubilation subsided and
22 markets contracted, correcting the ebullient expansion. For the first four-months of 2018, the
23 utility sector outperformed the broader market; the S&P 500 had a total return of -1.2%;
24 meanwhile, the S&P 500 utilities sector had a total return of -0.4%.

25 Price to last-twelve-months earnings ("P/E") ratios for Staff's electric proxy group
26 displayed corollary behavior. In 2016 and 2017 P/E ratios for Staff's proxy group averaged
27 20.61 and 27.65, respectively; for the first four months of 2018, P/E ratios averaged 19.80. The
28 contraction of stocks during recent months is due to increased risk aversion, leading to increases
29 in the cost of equity. However, strong economic forecasts and TCJA effects will likely lead to
30 inflowing funds and a more sustained expansion in broader equity prices in the near to mid-term.
31 Combined with the neutrality of TCJA effects on utility stocks, the inflow of funds to broader

1 markets will likely ebb the flow of funds to the utility sector, leading to contracted or flat utility
2 equity prices and higher COE.

3 As volatility in markets increases, undulations will likely lead to premiums being paid for
4 less volatile stocks such as utilities, buoying their prices and mitigating rises in their COE. The
5 vicissitudes of markets make it difficult to predict what stocks will do from one day to the next,
6 but recent market data indicates an increase in the COE for the utility industry. Furthermore,
7 economic data indicates that the COE for the utility industry will remain elevated in the short to
8 mid-term. The COE is an important determinant in setting an allowed ROE because the allowed
9 ROE serves as a vector to a fair and reasonable COE when considering current costs of capital,
10 the trajectories of costs of capital, and effects from regulatory lag going forward.

11 **D. Capital Structure:**

12 **1. Credit Rating:**

13 In determining the appropriate capital structure to use, the Commission must be mindful
14 that GPE has stated that it intends to manage its operating companies to a 50/50 capital structure.

15 **

16 . ** All of GPE's companies'
17 S&P corporate credit ratings are the same, currently a 'A-' rating from S&P. S&P's ratings on
18 KCPL and GMO reflect GPE's outlook, its assignment of an "excellent" business risk profile
19 and a "significant" financial risk profile.

20 **2. Capital Structure:**

21 GPE's ("Great Plains Energy") significant amount of equity financing in its capital
22 structure is a consequence of GPE's initial proposed transaction to acquire Westar Energy
23 Corporation in a majority cash transaction. GPE unwound the debt it had issued to finance the
24 acquisition, but did not buy back the equity it had issued to finance the acquisition.
25 Consequently, GPE's capital structure is more heavily weighted in common equity than debt.
26 GPE has communicated to investors the capital structure it intends to target for its subsidiaries on
27 a stand-alone basis and for GPE on a consolidated basis.

28 For purposes of the KCPL rate case, Staff recommends using KCPL's actual capital
29 structure because it resembles the 50/50 ratio, which GPE has communicated to investors it

1 intends to target for its operating companies. Furthermore, it resembles the average capital
2 structure of operating companies subsumed within the proxy group.

3 Substantial amounts of goodwill in GMO's financial statements, resulting from GPE
4 assets merging with Aquila assets, requires an adjustment to GMO's equity to comply with the
5 antecedent of the "net original cost rule," described in the *Report and Order* of the Aquila
6 acquisition case, Case No. EM-2007-0374, precluding the recovery of acquisition premiums.

7 ** _____
8 _____
9 _____

10 _____ . ** The adjustment acknowledges the fungibility of capital, and
11 ensures rate payers do not pay for acquisition premiums. Also this adjustment results in an
12 adjusted capital structure closely resembling the 50/50 ratio at which GPE has stated it intends to
13 manage its operating companies. Finally, it resembles the average capital structure of operating
14 companies subsumed within the proxy group.

15 **3. Embedded Cost of Debt:**

16 ** _____
17 _____
18 _____
19 _____

20 _____ . **

21 **E. Cost of Equity:**

22 **1. The Proxy Group:**

23 Staff estimated KCPL's and GMO's COE by applying COE methodologies to a proxy
24 group consisting of companies that are predominately vertically integrated, regulated, electric
25 utilities. Staff ensured the proxy group is confined to vertically integrated, regulated, electric
26 utility operations by starting with Edison Electric Institute's regulated electric utility index, and
27 then screened these companies further by ensuring that they:

- 28 ■ are publicly traded
- 29 ■ have investment grade credit ratings from two major U.S. credit rating
30 agencies
- 31 ■ have long-term growth coverage from at least 2 analysts

- 1 ▪ have no pending merger or acquisitions
- 2 ▪ had no pending merger or acquisitions during KCPL's 2016 rate case
- 3 ▪ have not reduced dividends since 2013
- 4 ▪ have 50% of plant from electric utility
- 5 ▪ have at least 25% of plant from electric generation
- 6 ▪ generate at least 80% of income from regulated utility operations (see
- 7 Appendix 2, Schedule JS-5-1).

8
9 While Staff continues to estimate a much lower COE than average allowed ROEs around the
10 country, Staff's recommended allowed ROE is based on an assessment of a fair and reasonable
11 allowed ROE and is guided by capital markets, this Commission's most recent decisions,
12 changes in the economic environment since those decisions, and decisions of utility
13 Commissions across the country.

14 **2. DCF ("Discounted Cash Flow") Analysis:**

15 In the DCF method, the cost of equity is the sum of the dividend yield and a perpetual
16 growth rate that is intended to replicate the projected capital appreciation of the stock. The
17 projected average dividend yield for the constant proxy group of 13 comparable companies is
18 approximately 3.45%. Investors invest in utility companies for yield and not growth.
19 Companies in the S&P 500 have retained approximately 58% of their earnings for reinvestment
20 since 2000; the electric proxy group's retention ratio has been approximately 27% over the same
21 period. Therefore, utilities will grow at a rate less than that of nominal GDP ("Gross Domestic
22 Product") growth because they retain less of their earnings for reinvestment.

23 A projected long-term, steady-state nominal GDP growth rate should be considered an
24 upper constraint when testing the reasonableness of growth rates used to estimate the cost of
25 equity for the regulated electric utility industry. Most economists do not project nominal GDP to
26 grow higher than 4.6% per year over the long-term, so serious doubt must attach to a constant
27 growth rate for the electric utility industry above that upper constraint. Equity analysts project a
28 compound annual growth rate in earnings per share over the next five years of approximately
29 4.91%. Although this growth rate is only slightly higher than long-term GDP projections, it is
30 above the electric utility industry's earnings per share growth rates during periods of much
31 higher economic growth.

1 **3. The Growth Rate:**

2 Analyzing growth in the electric utility industry from 1968 to 1999, before deregulation,
3 reveals that growth averaged about 3.6%, or about 44% of average nominal GDP growth of
4 around 8.1% over that same period. Factors that may determine potential growth for the
5 regulated electric utility industry are investment and demand/customer growth. Energy
6 consumption, i.e. demand, has been declining. The current rise in capital expenditures is not
7 driven by expected growth in demand, but by the need for infrastructure replacement,
8 environmental compliance for existing coal plants, renewable generation investments, and/or
9 grid integration/modernization.

10 **4. Staff's DCF Results:**

11 A constant-growth rate closer to 3.6% is more logical considering that projected growth
12 rates for the U.S. economy are much lower in the future as compared to the period analyzed.
13 Giving consideration to historical growth rates, higher near-term expected growth rates, and
14 GDP growth estimates during the last KCPL rate case, Staff used a growth rate range of 3.6% to
15 4.6%. This results in a cost of equity estimate of 7.46% to 8.26%. These COE estimates are
16 lower than average allowed ROEs; however, they are used as a relative measure, not as an
17 absolute value.

18 **F. Tests of Reasonableness:**

19 **1. The Capital Asset Pricing Model ("CAPM"):**

20 Staff used the CAPM to test the reasonableness of its DCF results and recommendation.
21 The risk free rate used was the average 30-year Treasury yield for the three months ended
22 April 30, 2018 (3.10%). The average beta for the proxy group was 0.64. For the market risk
23 premium ($R_m - R_f$) estimates, Staff relied on the historical difference between earned returns on
24 stocks and earned returns on bonds. The first risk premium was based on the long term
25 arithmetic average of historical return differences from 1926-2017 (6.10%). The second risk
26 premium was based on the long-term geometric average of historical return differences from
27 1926 to 2017 (4.70%). The results using the long-term arithmetic average risk premium and the
28 long-term geometric risk premium are 7.01% and 6.11%, respectively.

1 **2. Average Authorized Returns:**

2 In the past, the Commission has applied a test of reasonableness using average authorized
3 returns published by Regulatory Research Associates (“RRA”) to test the reasonableness of its
4 allowed ROE. According to RRA, the average authorized ROE for fully-litigated cases for
5 electric utilities in the first quarter of 2018 was 9.94% (based on five ROE determinations). The
6 average allowed ROE for electric utilities in 2017 and 2016 were 9.74% and 9.77%, respectively.

7 **G. Conclusion:**

8 A just and reasonable rate is one that is fair to investors and ratepayers. Fairness to the
9 ratepayers means rates that are no more than is necessary to be fair to shareholders. Fairness to
10 shareholders means rates that produce revenues sufficient to cover the Companies’ prudent cost
11 of service, including an allowed ROE. Using widely-accepted methods of financial analysis and
12 reviewing Wall Street equity analysts’ research shows that the COE for electric utility companies
13 is conservatively 6% - 8%. Given that the cost of capital is as real a cost as any other cost of
14 service, reducing this cost in the ratemaking formula to a value close to its actual cost is
15 consistent with the principles of cost-of-service ratemaking. Using Staff’s recommended allowed
16 ROE results in an allowed ROR of 7.36% for KCPL (*see* Appendix 2, Schedule JS-14). This rate
17 was calculated by applying an ** _____ ** and an allowed
18 ROE of 9.85% to a capital structure consisting of 49.45% common equity. Using my
19 recommended allowed ROE range results in an allowed ROR of 7.37% for GMO (*see* Schedule
20 Appendix 2, JS-14). This rate was calculated by applying an ** _____
21 _____ ** and an allowed ROE of 9.85% to a capital structure consisting
22 of 48.15% common equity.

23 *Staff Expert/Witness: Jeffrey Smith.*

24
25 **IV. Rate Base**

26 **A. Plant-in-Service and Accumulated Depreciation Reserve**

27 For KCPL and GMO, Staff recommends plant-in-service (“plant”) and accumulated
28 depreciation reserve (“reserve”) balances based on actual booked amounts as of the end of the
29 update period, December 31, 2017. This includes plant additions that have occurred since the
30 test year ending June 30, 2017, and the related depreciation reserve balances. At the time of the

1 true-up audit, adjustments to the plant balances Staff used for its direct filing will be updated to
2 include amounts for plant additions that have become fully operational and used for service as of
3 June 30, 2018, the ending point of the true-up period. Staff will also include depreciation reserve
4 balances related to all plant, including those additions and retirements. Plant must be “fully
5 operational and used for service” before it is appropriate to reflect that plant and its associated
6 reserve in rates.

7 The plant for KCPL and GMO for the period ending December 31, 2017, is identified on
8 the Plant Accounting Schedule- Schedule 3, and the accumulated depreciation reserve as of that
9 date is identified in the Depreciation Reserve Accounting Schedule- Schedule 6. The
10 information in Accounting Schedules 3 & 6 for plant and reserve are shown by Federal Energy
11 Regulatory Commission (“FERC”) Uniform System of Accounts (“USOA”) for each plant
12 category, broken out for production, transmission, distribution, and general facilities.

13 It is necessary for KCPL, GMO, and Staff to make adjustments to the plant reserve
14 balances to account for retirement work in progress (“RWIP”). RWIP is retired plant that has
15 not yet been classified for certain components of depreciation, namely cost of removal and
16 salvage. KCPL and GMO removed the retired plant and related depreciation reserve from its
17 plant and reserve account balances as of the retirement dates. However, as of December 31,
18 2017, KCPL and GMO had not removed the related reserve amounts associated with cost of
19 removal and salvage accruals calculated for the retired plant included in the RWIP balance.
20 While the actual plant is retired and removed from plant balance and the related reserve, the
21 plant has not been physically disassembled so the cost of removal and salvage components of
22 depreciation are still included in the reserve. As a result, KCPL’s and GMO’s books overstate
23 the reserve for this retired plant that is no longer serving the public. Because the plant that is no
24 longer being used for service is removed from rate base, it is also necessary to make a
25 corresponding adjustment to remove the amounts associated with the retired plant from the
26 reserve balances and for the cost of removal and salvage amounts. Staff included a line item in
27 the Accumulated Depreciation schedule, identifying the RWIP associated with Production,
28 Transmission, Distribution, and General Plant.

29 Staff requested the plant and reserve amounts by FERC account and, in the case of the
30 production facilities, by individual power plant. KCPL and GMO use an accounting package for
31 plant records called Power Plant. Staff requested plant and reserve information that came directly

1 from the Power Plant record system. As such, the plant and reserve information contained in
 2 Accounting Schedules 3 and 6 by the individual plant categories and FERC accounts are those
 3 that directly tie back to the books and records of KCPL and GMO. For the update period,
 4 December 31, 2017, Staff verified the actual plant and reserve balances tie directly back to the
 5 Power Plant record system source to substantiate the amounts provided by KCPL and GMO in
 6 data requests.

7 Other plant and reserve adjustments were necessary for KCPL and GMO and are
 8 addressed in separate sections of this report. The plant and reserve adjustments relating to the
 9 Crossroads Energy Center, Greenwood Solar Facility, and the Clean Charge Network will be
 10 discussed in following sections.

11 The following table identifies KCPL and GMO electric utility generation resources:

KCPL Electric Utility Generation:					
Load	Unit	Year Completed	Estimated 2018 MW Capacity	Primary Fuel	
Base Load	Iatan No. 2	2010	482 (a)	Coal	
	Wolf Creek	1985	552 (a)	Nuclear	
	Iatan No. 1	1980	490 (a)	Coal	
	La Cygne Nos. 1 and 2	1973, 1977	699 (a)	Coal	
	LaCygne No. 1 368 (a) in 2013	1973	See above	Coal	
	Hawthorn No. 5(b)	1969	564	Coal	
	Montrose No. 3	1964	334 combined	Coal	
	Montrose No. 2	1960	See above	Coal	
	Peak Load	West Gardner Nos. 1-4	2003	314	Natural Gas
		Osawatomie	2003	76	Natural Gas
Hawthorn Nos. 6 and 9		1997, 2000	235	Natural Gas	
Hawthorn No. 8		2000	79	Natural Gas	
Hawthorn No. 7		2000	78	Natural Gas	
Northeast Black Start Unit		1985	2	Oil	
Northeast Nos. 17-18		1977	105	Oil	
Northeast Nos. 13-14		1976	95	Oil	
Northeast Nos. 15-16		1975	106	Oil	
Northeast Nos. 11-12		1972	88	Oil	
Wind	Spearville 2 Wind Energy Facility (c)	2010	48	Wind	
	Spearville 1 Wind Energy Facility (d)	2006	101	Wind	
Total KCP&L			4,448 MWs		

KCPL Greater Missouri Operations Electric Utility Generation:				
Base Load	Iatan No. 2	2010	159 (a)	Coal
	Iatan No. 1	1980	126 (a)	Coal
	Jeffrey energy Center Nos. 1, 2 and 3	1978, 1980, 1983	173 (a)	Coal
	Sibley Nos. 2 and 3	1962, 1969	406	Coal
Peak Load	Lake Road Nos. 2 and 4	1957, 1967	115	Coal and Natural Gas
	South Harper Nos. 1, 2 and 3	2005	303	Natural Gas
	Crossroads Energy Center	2002	292	Natural Gas
	Ralph Green No. 3	1981	71	Natural Gas
	Greenwood Nos. 1, 2, 3 and 4	1975-1979	242	Natural Gas/Oil
	Lake Road No. 5	1974	62	Natural Gas/Oil
	Lake Road Nos. 1 and 3	1951, 1962	24	Natural Gas/Oil
	Lake Road Nos. 6 and 7	1989, 1990	42	Oil
	Nevada	1974	18	Oil
Total GMO			2,033 MWs	
Total Great Plains Energy			6,481 MWs	

Source: GREAT PLAINS ENERGY INC. 10-K February 21, 2018, page 29

- a. Share of a jointly owned unit.
- b. In 2001, a new boiler, air quality control equipment and an uprated turbine was placed in service at the Hawthorn Generating Station.
- c. Accredited capacity is 16MW pursuant to SPP reliability standards.
- d. Accredited capacity is 31MW pursuant to SPP reliability standards.

KCP&L owns 50% of La Cygne Nos. 1 and 2, 70% of Iatan 1, 55% of Iatan No. 2 and 47% of Wolf Creek. GMO owns 18% of each of Iatan Nos. 1 and 2 and 8% of Jeffrey Energy Center Nos. 1, 2, and 3.

Staff Expert/Witness: Michael Jason Taylor

B. Plant Amortization

Staff evaluated and annualized KCPL's and GMO's plant amortization expense. Similar to depreciation expense for tangible assets, plant amortization expense represents the return of the capital costs incurred in relation to intangible assets such as software, land rights, leasehold improvements, and other intangible items. Because these costs are intangible in nature, the plant accounts are not assigned a depreciation rate in the depreciation expense accounting schedule in Staff's Cost of Service schedules. But an amount of amortization is included in the cost of service calculation to provide for a return of capital investment for these intangible assets.

1 In this case, disallowances for the GMO Crossroads plant were calculated pursuant to the
2 Commission's *Reports and Orders* in Case Nos. ER-2010-0356 and ER-2012-0175. Staff
3 witness Cary G. Featherstone discusses these adjustments in the Crossroads Section of this
4 Report. A portion of the Crossroads ordered disallowance relates to an intangible amortizable
5 plant amount. The annual amount of plant amortization related to this portion of the Crossroads
6 plant disallowance has not been included in the annualized amount, pursuant to the
7 Commission's *Reports and Orders* issued in the above-cited cases. Staff has included the
8 annualized plant amortization expense on Staff Accounting Schedule 10, adjustments E-248.1
9 and E-253.2 for KCPL and E-186.1, E-188.3 for GMO.

10 *Staff Expert/Witness: Michael Jason Taylor*

11 **C. Crossroads Energy Center Valuation (GMO Only)**

12 Staff continues to recommend that the Commission include the Crossroads Energy Center
13 ("Crossroads") in total GMO combined rate base for MPS in this proceeding in a
14 manner consistent with the Commission's decision in GMO's 2010 rate case,
15 Case No. ER-2010-0356. The Commission re-affirmed its 2010 rate case decision
16 in GMO's 2012 rate case, Case No. ER-2012-0175. Since GMO's 2009 rate case
17 (Case No. ER-2009-0090), the Commission has consistently adopted a valuation and a level of
18 supporting operating costs for Crossroads equal to the costs Great Plains would have paid to
19 acquire Crossroads as part of its July 14, 2008, acquisition of Aquila. The Commission
20 determined the appropriate July 14, 2008, value of Crossroads to be \$61.8 million in the 2010
21 GMO rate case. An offset for accumulated depreciation reserve also had to be included in
22 GMO's rate base to reflect depreciation for Crossroads accumulated since the acquisition. As of
23 December 31, 2017, update period in this current rate case, that accumulated depreciation is
24 \$20.3 million. The plant-in-service value of Crossroads as of December 31, 2017, consistent
25 with the Commission's decisions in the 2010 and 2012 GMO rate cases, is \$63.9 million. GMO
26 calculated the rate base value for Crossroads at the December 31, 2017, end of update period,
27 as follows:

December 31, 2017

Plant in Service	\$63,875,313
Accumulated Depreciation	<u>20,286,386</u>
Net Crossroads Plant After Adjustments	\$ 43,588,927

In this case, both GMO and Staff made a series of adjustments to both plant and reserve in the generation and transmission plant accounts for Crossroads to properly reflect the valuation the Commission determined in GMO's 2010 rate case and reaffirmed in GMO's 2012 rate case. These plant and reserve adjustments to generation and transmission accounts were necessary because GMO has not written down the plant and reserve values on its plant property records to be consistent with the Commission determined levels. Staff made the following adjustments to reflect the previous Commission decisions:

FERC Plant Account Number	Plant Account Description	GMO Combined Plant Adjustment	GMO Combined Reserve Adjustment
303.01	Miscellaneous Intangible-Substation	P-175	R-175
340	Land	P-176	N/A
341	Structures	P-177	R-177
342	Fuel Holders	P-178	R-178
343	Prime Movers	P-179	R-179
344	Generators	P-180	R-180
345	Accessory	P-181	R-181
346	Miscellaneous Power Plant Equipment	P-182	R-182

Source: Accounting Schedules for GMO, Accounting Schedules 4 and 7

These adjustments to plant and reserve can be summarized as follows:

	December 31, 2017 Case No. ER-2018-0146	True-Up July 31, 2016 Case No. ER-2016- 0156
Plant	\$134,230,198	\$133,702,394
Adjustments	70,354,885	70,354,885
Plant less adjustments	\$63,875,313	\$63,347,509
Reserve	69,599,395	\$61,818,730
Adjustments	49,313,009	\$45,144,030
Net Reserve	20,286,386	\$16,674,700
Net Plant	\$64,630,803	\$71,883,664
Net Plant Adjustments	21,041,876	25,210,885
Net Plant	43,588,927	\$46,672,809

1 *Source:* Accounting Schedules for GMO, Accounting Schedules 3 & 4 and 6 & 7 in Case NO. ER-2018-0146 and
2 Case No. ER-2016-0156

3 The above table show the adjustments made to arrive at plant, reserve and the resulting net plant
4 for Crossroads in this case compared to GMO's last rate case in 2016, Case No. ER-2016-0156.
5 Consistent with the Commission decisions in GMO's 2010 and 2012 rate cases regarding
6 Crossroads, Staff has included the appropriate level of deferred income taxes as an offset
7 (reduction) to rate base consistent with the value at December 31, 2017.

8 Also, consistent with the Commission's decision in the 2010 and 2012 rate cases
9 (Case Nos. ER-2010-0356 and ER-2012-0175), Staff has excluded GMO's transmission costs
10 associated with Crossroads. Staff also excluded transmission costs relating to Crossroads in

1 | GMO's last rate case, Case No. ER-2016-0156. Staff made an adjustment to remove the entire
2 | amount of test year level of Crossroads transmission expenses in this current 2018 rate case.

3 | **Background**

4 | GMO owns four natural gas-fired combustion turbines at its Crossroads generating
5 | station located in Clarksdale, Mississippi, that have a combined capacity of 292 megawatts,
6 | according to the Great Plains 2016 Annual Report (page 30). Aquila Merchant Services, a
7 | wholly-owned non-regulated affiliate of Aquila, constructed Crossroads as a merchant plant in
8 | 2002, with the intent of selling the electricity generated into the non-regulated energy power
9 | market. As such, Aquila never thought of Crossroads as a production facility to serve customers'
10 | electricity requirements in western Missouri. Aquila Merchant made a deliberate decision and
11 | calculated risk to construct Crossroads in that part of the country to take advantage of the area's
12 | transmission constraints. When the merchant power market collapsed in 2002 after the Enron
13 | bankruptcy, Aquila and its affiliates decided to exit the non-regulated energy market and
14 | concentrate on traditional regulated operations, primarily the generation, transmission and
15 | distribution of electricity in Missouri. Starting in mid-2002, Aquila determined the need to
16 | return to its regulated utility roots and get back to being a vertically integrated utility.

17 | The 2002 decision by Aquila to exit the non-regulated energy markets as a result of the
18 | decline of the power markets coincided with Crossroads' completion. From the time of the
19 | completion of Crossroads in 2002 and throughout Aquila's down-sizing to when Great Plains
20 | acquired Aquila's Missouri electric assets, Aquila Merchant attempted to sell Crossroads and
21 | other non-regulated assets because they were not considered necessary, nor strategic to Aquila's
22 | regulated operations. While Aquila Merchant sold other non-regulated assets, it found no one
23 | interested in Crossroads even when Aquila offered Crossroads at distressed and deeply
24 | discounted plant values. Aquila never operated Crossroads to sell electricity into the
25 | non-regulated energy power markets. Crossroads did not generate any power in 2003, 2004 or
26 | 2006, with the only power generated in 2005 as result of a short-term summer purchased power
27 | agreement with Aquila's regulated operation, MPS.

28 | Great Plains acquired Aquila and its affiliates in July 2008. When Great Plains acquired
29 | Aquila, it also acquired the non-regulated Crossroads. Because of the unsuccessful attempts to
30 | sell Crossroads prior to the acquisition, Crossroads had been transferred from Aquila Merchant
31 | to a non-regulated subsidiary of Aquila. After Great Plains acquired Aquila, it transferred

1 Crossroads to its plant records for MPS in August 2008. In the 2010 GMO rate proceeding, the
2 Commission determined the rate base value of Crossroads to be \$61.8 million, which is the
3 dollar average of per kilowatt values of two combustion turbine facilities Aquila Merchant sold
4 to Ameren Missouri in 2006 that Staff introduced into evidence in that case. In the 2010 rate
5 case and again in the 2012 rate case, the Commission relied on those two sales transactions—one
6 for the sale of the Raccoon Creek Energy Center and the other for the sale of the Goose Creek
7 Energy Center—to determine the appropriate rate base valuation for Crossroads.

8 The following appears at page 100 of the Commission's May 4, 2011, Order in
9 Case No. ER-2010-0356:

10 The Commission also rejects GMO's inclusion of Crossroads in
11 rate base at its net book value. The Commission determines that
12 given Great Plains' statements to the Securities Exchange
13 Commission shortly before the transfer of the Crossroads unit to
14 the Missouri regulated operations, as well as the arm-length sale of
15 other General Electric combustion turbines by Aquila, that the fair
16 market value of Crossroads at the time of transfer (August 2008)
17 was \$61.8 million.

18 The Commission also stated at page 94 of its May 4, 2011, Order:

19 When conducting its due diligence review of Aquila's assets for
20 determining its offer price for Aquila, **GPE would have**
21 **considered the transmission constraints and other problems**
22 **associated with Crossroads. It is incomprehensible that GPE**
23 **would pay book value for generating facilities in Mississippi to**
24 **serve retail customers in and about Kansas City, Missouri.**
25 **And, it is a virtual certainty that GPE management was able to**
26 **negotiate a price for Aquila that considered the distressed**
27 **nature of Crossroads as a merchant plant which Aquila**
28 **Merchant was unable to sell despite trying for several years.**
29 **Further, it is equally likely that GPE was in as good a position to**
30 **negotiate a price for Crossroads as AmerenUE was when it**
31 **negotiated the purchases of Raccoon Creek and Goose Creek, both**
32 **located in Illinois, from Aquila Merchant in 2006.**
33 [footnotes omitted; emphasis added]

34 Consistent with its decision in GMO's 2010 rate case, the Commission reached the same
35 conclusion about Crossroads in GMO's 2012 rate case, where GMO again sought net book rate
36 base value and inclusion of transmission costs in expense for Crossroads. In the Commission's

1 January 9, 2013, decision in Case No. ER-2012-0175, it stated at page 57 of its Order the
2 following regarding Crossroads:

3 Therefore, the Commission will order that the value of Crossroads
4 for GMO's MPS rate base shall be \$62,609,430 without
5 transmission cost. At that value, GMO and Staff agree, the
6 accumulated depreciation is \$10,033,437 and the accumulated
7 deferred taxes are \$4,333,301. Those values best support safe and
8 adequate service at just and reasonable rates for MPS, so the
9 Commission will order those amounts to be included in GMO's
10 MPS rate base.

11
12 GMO requested court review of the Commission's disallowance in Case No. ER-2010-0356 of
13 its cost to transmit electricity from Crossroads. Both the Cole County Circuit Court
14 (Case No. 11AC-CC00415) and the Missouri Court of Appeals (Case No. WD75038, *State ex*
15 *rel. KCP&L Greater Missouri Operations Company v. Missouri Public Service Commission*,
16 408 SW3d 153 (Mo. App. 2013)) upheld the Commission, and when GMO sought U.S. Supreme
17 Court relief, that body declined to review the Commission's decision (Case No. 13-787).

18 Following the Commission's *Report and Order* in Case No. ER-2010-0356, GMO filed
19 Case No. ER-20120-175, where it again sought net book rate base value and inclusion of
20 transmission costs in expense for Crossroads. While Case No. ER-2010-0356 was still before the
21 courts, the Commission decided Case No. ER-2012-0175, again relying on the comparable
22 Ameren Missouri sales to value Crossroads and again disallowing transmission costs.

23 Both because Staff believes the Commission considers its prior determinations of the rate
24 base value of Crossroads as of July 14, 2008, and the disallowance of the costs to transmit
25 electricity from Crossroads to GMO's retail customers in Missouri to be final, and because Staff
26 believes those Commission determinations to be appropriate because the value of Crossroads is
27 inextricably intertwined with the cost of transmitting electricity from Crossroads, in this case
28 Staff again used the Commission-determined plant value of Crossroads of \$61.8 million as of
29 July 14, 2008, the date Great Plains acquired Aquila, as its starting point.⁹ Based on this
30 initial \$61.9 million plant value, from July 14, 2008, to December 31, 2017, \$20.3million of
31 depreciation has accumulated for Crossroads. However, due to capital additions and retirements,
32 the plant-in-service ("plant") value of Crossroads as of December 31, 2017, consistent with the

⁹ EFIS #1092 Case No. ER-2010-0356- Revised True-up Direct for the May 4, 2011 Commission Report and Order Accounting Schedules, Schedule 3- Plant in Service, page 3 of 5- Crossroads section.

1 Commission's decisions in Case Nos. ER-2010-0356 and ER-2012-0175, is now \$63.9 million,
2 resulting in a net plant value for Crossroads of \$43.6 million.

3 CROSSROADS DEFERRED INCOME TAXES

4 Staff has included a level of deferred income taxes ("deferred taxes") relating
5 to Crossroads consistent with the Commission's decision in GMO's 2010 rate case
6 regarding the plant values for that unit. The Commission stated at page 55 of its Order in
7 Case No. ER-2012-0175 that the appropriate value of Crossroads deferred taxes is \$4,333,401 as
8 of August 31, 2012, the true-up date in that case. Deferred taxes are now valued as \$4,826,610
9 at December 31, 2017. Staff has included deferred taxes consistent with the approach taken in
10 the 2012 rate cases.

11 CROSSROADS TRANSMISSION COSTS

12 Because Crossroads is located in Mississippi, GMO has had to make firm transmission
13 commitments to transport electricity from it to GMO's load center in western Missouri.
14 The Commission has noted the costs to do so are significant. On page 86 of its Order in GMO's
15 2010 rate case, the Commission disallowed transmission costs relating to Crossroads,
16 recognizing they were ongoing and indicating that it would not allow them in future rate cases,
17 as follows:

18 Staff argues that the cost of transmission to move energy from
19 Crossroads in Mississippi to GMO's service territory justifies, in
20 part, removing Crossroads from GMO's cost of service. The
21 Company argues that the cost of transmission is offset by the lower
22 gas reservation costs.

23 The cost of transmission to move energy from Crossroads to
24 customers served by MPS is a very significant cost that is far
25 greater than the transmission cost for power plants located in the
26 MPS district. The annual energy transmission cost was estimated
27 as \$406,000 per month. This is also substantially higher on an
28 annual basis than the transmission plant costs for the Aries site
29 where the three South Harper Turbines were originally planned to
30 be installed.

31 This higher transmission cost is an ongoing cost that will be paid
32 every year that Crossroads is operating to provide electricity to
33 customers located in and about Kansas City, Missouri. GMO does

1 not incur any transmission costs for its other production facilities
2 that are located in its MPS district that are used to serve its native
3 load customers in that district. **This ongoing transmission cost**
4 **GMO incurs for Crossroads is a cost that it does not incur for**
5 **South Harper, and is the cause of one of the biggest differences**
6 **in the on-going operating costs between the two facilities.**

7 It is not just and reasonable to require ratepayers to pay for the
8 added transmission costs of electricity generated so far away in a
9 transmission constricted location. Thus, the Commission will
10 exclude the excessive transmission costs from recovery in rates.
11 [Emphasis added]

12 The Commission noted at page 58 of the Order in Case No. ER-2012-0175:

- 13 1. Crossroads is 500 miles from GMO's MPS territory.
- 14 2. Between the territory of MPS and Crossroads are the
15 territories of regional transmission organizations ("RTOs"). RTOs
16 collect payment for the transmission of power through their
17 territories. GMO does not belong to all those RTOs so GMO must
18 pay higher fees for transporting power than to an RTO of which
19 GMO is a member.
- 20 3. There are generating facilities closer, including Dogwood's
21 facility and the South Harper plant. Even though Crossroads
22 provides power for GMO only during half of the days in the
23 summer, GMO pays about \$5.2 million to transmit power from
24 Crossroads all year round. The high cost of transmission is not
25 outweighed by lower fuel costs in Mississippi.

26 Discussion, Conclusion of Law, and Ruling

27 **GMO has not carried its burden of proof on transmission**
28 **costs.** GMO alleges that the lower price of fuel in Mississippi
29 outweighs the cost of transmission. The Commission has found
30 that the evidence preponderates otherwise.

31

32 Therefore, the Commission concludes that including the
33 Crossroads transmission costs does not support safe and adequate
34 service at just and reasonable rates, and the Commission will deny
35 those costs.

36 [page 59 of Order in Case No. ER-2012-0175; emphasis added]

1 The Commission's Order in both the 2010 and 2012 rate cases prohibited GMO from any
2 recovery of transmission costs related to Crossroads. The Commission stated at page 64 of its
3 2012 Order with respect to the recovery of Crossroads transmission costs:

4 Crossroads Transmission. Several parties ask the Commission to
5 order that GMO's FAC tariff sheets state expressly that GMO's
6 FAC excludes transmission costs related to Crossroads. Insofar as
7 the Commission has determined that no transmission costs from
8 Crossroads will enter GMO's MPS rates, there is no further
9 dispute, and no further findings of fact and conclusion of law are
10 required. The Commission will order GMO's FAC clarified to
11 state that GMO's FAC excludes transmission costs related to
12 Crossroads.

13 Consistent with the Commission's decision in GMO's 2010 and 2012 rate cases, and
14 consistent with the position taken by Staff in GMO's most recent rate case in 2016, Staff
15 excluded all Crossroads transmission costs in this current case. Staff continues to recommend
16 that GMO not be allowed any recovery of transmission costs associated with Crossroads either in
17 base rates or through the fuel clause. This generating facility is over 500 miles from the service
18 area of GMO. Crossroads was originally built in Mississippi by Aquila Merchant to take
19 advantage of that region's transmission constraints. The transmission constraints and distance of
20 this facility from GMO's customers now results in the extremely high transmission costs
21 resulting from this plant's operations.

22 Though Crossroads transmission costs were already excessive due to the location of the
23 generating plant, Crossroads transmission expense further increased dramatically in 2014 and
24 2015, when Entergy joined the MISO RTO in December 2013, and those higher transmission
25 costs continued in 2016 right through current 2017 levels. GMO customers should not have to
26 pay for any portion of those costs as it is an imprudent decision to install a power plant located
27 over five hundred miles from where the electricity is used. If this peaking plant, originally built
28 as a merchant power plant, had been properly located as other peaking units in GMO's and
29 KCPL's fleet, there would be no additional transmission costs to operate the plant. No other
30 generating unit in KCPL's or GMO's fleet is in a different RTO and no other generating unit
31 incurs transmission costs as a result to transport its power to GMO's customers.

32 Crossroads, constructed in 2002 as a non-regulated merchant plant, was never
33 contemplated to be used as a regulated generating facility and certainly never was designed to

1 serve electric loads over 500 miles from the location of the generating facility. It is the location
 2 of this generating facility in relation to the customers' electric needs that makes Crossroads
 3 imprudent. Accordingly, disallowance of Crossroads transmission costs is not a "transmission"
 4 issue as GMO has argued to the Commission, but rather the direct outcome of the placement of
 5 this power plant that has resulted in the tremendous costs to operate the plant. Once the
 6 generating units could not be sold when it was determined to no longer be necessary to Aquila
 7 Merchant's non-regulated business model, it was then a power plant operating in a distressed
 8 market having very limited value to any regulated entity.

9 It is imprudent for GMO to attempt to charge its customers for having a power plant
 10 located in Mississippi to serve western Missouri customers. It is therefore also imprudent to
 11 allow recovery of the excessive transmission costs to operate this power plant facility. In the
 12 2010 and 2012 rate cases, the Commission deemed Crossroads prudent as long as customers did
 13 not have to pay the purchase price when the facility was built by Aquila Merchant and as long as
 14 customers did not have to pay for the transmission costs associated with a very constrained
 15 transmission system and transmitting power through a non-SPP regional transmission
 16 organization. These decisions are still appropriate today in the context of this rate proceeding.

17 The adjustment to remove the Crossroads transmission costs from the test year is E-85.1
 18 in Staff's Accounting Schedule 10. Staff witness Keith Majors also addresses other adjustments
 19 for transmission expenses for MISO administrative costs related to Crossroads in the
 20 Transmission Costs section of this report.

21 GMO's annual total transmission costs for Crossroads by year from 2007
 22 through 2017 are:

23	2017	** _____	** excluding settlement amount ¹⁰
24	2016	** _____	** excluding settlement amount
25	2015	** _____	**
26	2014	** _____	**
27	2013	** _____	**
28	2012	** _____	**
29	2011	** _____	**

¹⁰ Years 2016 and 2017 GMO transmission costs included settlement amounts. For 2017, the transmission costs with settlement amounts total \$11,703,332 and without settlements \$11,127,897. For 2016, transmission costs with settlement amounts total \$6,346,779 and without settlements \$7,967,285.

1	2010	**	_____	**
2	2009	**	_____	**
3	2008	**	_____	**
4	2007	**	_____	**

5
6 [Response to Data Request 154 in Case ER-2012-0175 and Data Request 155.1S, 160 and 167.3S in Case
7 No. ER-2016-0156 and Data Request 357 and 390 in Case No. ER-2018-0146]
8

9 *Staff Expert/Witness: Cary G. Featherstone*

10 **D. Crossroads Miscellaneous Costs**

11 Staff identified other incremental costs directly related to the Crossroads Generating
12 Station in the test year. Staff identified Mississippi state franchise taxes and travel expense
13 reports recorded in the test year. Staff recommends removal of these costs from the cost of
14 service, for the same purposes identified in the COS section concerning the Crossroads
15 Generating Station sponsored by Staff Witness Cary G. Featherstone. GMO adjustments E-58.2,
16 E-61.3, and E-194.1 in Staff Accounting Schedule 9 remove these expenses from the test year.

17 *Staff Expert/Witness: Keith Majors*

18 **E. Stipulation and Agreement in Case No. ER-2012-0175 (GMO Only)**

19 In GMO's 2012 rate case, it agreed to reduce transmission and distribution plant through
20 a series of adjustments to increase depreciation reserve. At page 12, under the GMO Only Issues
21 in the *Non-Unanimous Stipulation and Agreement As To Certain Issues*, the following appears as
22 item 3:

23 3. Transmission and Distribution Plant: Upon Commission
24 approval of this Stipulation GMO will reduce its transmission and
25 distribution plant rate base by a total of \$8.0 million, 65% for MPS
26 and 35% for L&P, to be reflected in Staff's and Company's models
27 for the true-up in this cases. GMO agrees it will not request
28 recovery of this reduction by any means, directly or indirectly, in
29 the future. GMO will provide to Staff plant accounting records
30 that identify exclusion of these amounts from future rate base
31 consideration.

FERC USOA Account Number & Description		Plant Adjustment	Plant Total	Reserve Adjustment	Reserve
355	Transmission- Poles & Fixtures	P-376	\$1,402,180	R-376	\$201,996
356	Transmission- Cond & Devices	P-378	3,221,405	R-378	367,455
365	Distribution- OH Conductor	P-393	3,055,085	R-393	\$327,454
366	Distribution- UG Circuit	P-395	321,331	R-395	26,858
Total			\$8,000,000		\$923,763

Staff Accounting Schedules 4- Adjustments to Plant in Service and Accounting Schedule 7- Adjustments to Depreciation Reserve

Both GMO and Staff made these adjustments to reflect the agreement reached in Case No. ER-2012-0175. The adjustments to plant are P-376, P-378, P-393 and P-395 and adjustments to reserve are R-376, R-378, R-393 and R-395.

Staff Expert/Witness: Cary G. Featherstone

F. Greenwood - Solar Allocation

On November 12, 2015, GMO filed an application, Case No. EA-2015-0256, with the Commission requesting permission and approval of a Certificate of Public Convenience and Necessity ("CCN") authorizing it to construct, install, own, operate, maintain and otherwise control and manage solar generation facilities in Greenwood Missouri ("Greenwood Solar Facility"). GMO entered into a Master Service Agreement ("Agreement") with ** _____ ** for the engineering, procurement, and construction of the Greenwood Solar Facility.¹¹ The Greenwood Solar Facility is a three megawatt ("MW") solar facility that will produce approximately 4,700 megawatt-hours ("MWh") of solar energy per year.¹² GMO indicated in its certificate application the Greenwood Solar facility was being proposed to gain experience owning, maintaining, and operating a utility scale solar facility.

The Commission approved GMO's request for a CCN for the Greenwood Solar Facility in its *Report and Order* effective March 12, 2016. On page 18 of its *Report and Order*, the Commission stated, "The Commission has found that GMO's proposal to construct a pilot solar plant is necessary or convenient for the public service and will grant the company the certificate

¹¹ KCPL-GMO response to Staff Data Request No. 0006 in Case No. EA-2015-0256.

¹² *Application of KCP&L Greater Missouri Operations Company for Permission and Approval of a Certificate of Public Convenience and Necessity Authorizing It to Construct, Install, Own, Operate, Maintain and Otherwise Control and Manage Solar Generation Facilities in Western Missouri*, Page 3.

1 of convenience and necessity it seeks.” In Case No. ER-2016-0285, Staff verified that the
2 Greenwood Solar facility met the in-service criteria effective June 20, 2016.

3 In addition to granting GMO the CCN for the Greenwood Solar Facility, the Commission
4 also addressed concern that GMO ratepayers will bear all the costs of a facility that is primarily
5 being built to allow KCPL to gain experience owning, maintaining, and operating a utility scale
6 solar facility. Beginning on page 16 of its *Report and Order* in Case No. EA-2015-0256,
7 the Commission stated:

8 The Commission is concerned that only GMO ratepayers will bear
9 the cost of the project. The Commission will not make any specific
10 ratemaking decisions in this case. Those will be reserved for
11 GMO’s pending rate case. However, the matter will once again
12 come before the Commission when GMO seeks to add the plant to
13 its rate base. **At that time, the Commission will expect GMO to**
14 **propose a means by which those costs will be shared with**
15 **KCP&L’s customers who will also benefit from the lessons**
16 **learned from this pilot project.** (Emphasis added.)
17

18 GMO does not have any employees. KCPL employees perform all services for Great Plains,
19 KCPL, and GMO under an operating agreement. The employees that will gain the experience
20 operating a utility scale solar facility are KCPL employees. Consequently, all rate districts,
21 KCPL-Missouri, KCPL-Kansas, and GMO, will benefit from the acquired knowledge from
22 building and operating a utility scale solar facility.

23 In KCPL’s and GMO’s previous general rate cases, ER-2016-0285 and ER-2016-0156,
24 respectively, no proposals to allocate the Greenwood Solar Facility costs were made by KCPL
25 and GMO as ordered by the Commission in Case No. EA-2015-0256. Again, in KCPL’s and
26 GMO’s current general rate cases, no proposal to allocate the Greenwood Solar Facility was
27 included in their direct filings. Consequently, consistent with the Commission Order in Case No.
28 EA-2015-0256, Staff is proposing an allocation methodology for the Greenwood Solar Facility
29 costs that will be included in KCPL’s and GMO’s cost of service.

30 Staff recommends allocating the Greenwood solar capital costs and any related
31 expenses based on number of customers. The Commission addressed in its Order in
32 Case No. EA-2015-0256 the intangible benefits that will be gained from the experience of
33 constructing and operating the facility and the results that will lead to increased use of solar

1 power in the future.¹³ Since the experience gained will benefit all of KCPL and GMO's
2 customers in the future, allocating the costs using customers is a reasonable approach. The table
3 below reflects the allocation between KCPL and GMO using customers:¹⁴
4

Methodology	KCPL	%	GMO	%	Total
Customers	539,416	62.51%	323,470	37.49%	862,886

5
6 The adjustment to allocate capital costs is reflected on Schedule 4 and 7 of Staff's Accounting
7 Schedules, Adjustment P-237.1 and R-237.1 for KCPL, and P-370.1 and R-370.1 for GMO.
8 Staff used the same methodology to allocate maintenance costs associated with the facility.
9 Staff's adjustment for the maintenance costs is reflected on Schedule 10 of Staff's Accounting
10 Schedules, Adjustment E-109.2 for KCPL and E-63.2 for GMO.

11 Since the Greenwood Solar Project is being built to gain experience owning, operating,
12 and maintaining a utility scale solar facility with KCPL employees gaining the experience, Staff
13 also recommends that the costs of the Greenwood Solar facility be allocated to the KCPL Kansas
14 jurisdiction. Staff utilizes a demand allocator to allocate production plant and reserve costs
15 between Kansas and Missouri. Staff used the same approach to allocate the Greenwood Solar
16 facility between Missouri and Kansas.

17 *Staff Expert/Witness: Karen Lyons*

18 **G. Material and Supplies**

19 Staff's recommended treatment of materials and supplies is to examine each account
20 individually in order to determine an appropriate level that most accurately reflects the ongoing
21 future investment costs of a particular account that should be included in rate base. Materials
22 and supplies represent an investment in inventory for items such as spare parts, electric cables,
23 poles, meters, and other miscellaneous items used in daily operations, maintenance, and
24 construction activities by KCPL and GMO to maintain and build KCPL's and GMO's
25 production facilities and electric system. Because the account balances varied greatly depending
26 on each individual account, Staff reviewed the balances for each account for materials and

¹³ Case No. EA-2015-0256 Commission Report and Order, page 16.

¹⁴ Data from KCPL and GMO Annual Report and FERC form 1 filed on May 15, 2018.

1 supplies individually on a monthly basis to determine whether trends within an individual
2 account existed over time. Staff reviewed the monthly balances for materials and supplies
3 accounts from December 2016 to December 2017. If an upward or downward trend was
4 detected, then Staff used the ending balance for that account. If there was no discernible trend,
5 then a 13-month average was determined to be the most appropriate measure of the ongoing
6 investment level for that account. Staff examined the accounts individually and determined
7 which methodology, 13-month average or ending balance, was the most appropriate measure to
8 accurately predict the ongoing future investment costs of a particular account that should be
9 included in rate base (Accounting Schedule 2).

10 *Staff Expert/Witness: Antonija Nieto*

11 **H. Prepayments**

12 Staff's recommended treatment of prepayments is to examine each prepayment account
13 individually in order to determine an appropriate measure that most accurately predicts the
14 ongoing future investment costs of a particular prepayment account, and then to include the
15 appropriate level of prepayments in KCPL's and GMO's rate base. Prepayments are expenses
16 that a company pays in advance of the associated good or service to be obtained. Since there are
17 investment costs incurred by the utility when it prepays expenses, the company is allowed to earn
18 a return on these amounts through inclusion in rate base. For example, KCPL or GMO prepay
19 for a property insurance policy to protect their assets in advance of the coverage period.
20 Accordingly, the cost of that insurance policy is considered to be a prepaid asset and is included
21 in rate base to allow a return on the unused portion of the prepaid asset. As the prepayments are
22 consumed, an amount is charged to an expense account in the income statement.

23 Staff included amounts in its rate base for all prepayments required for KCPL and GMO
24 to provide electric utility service to their customers. Staff examined all of KCPL's and GMO's
25 prepayment account balances from December 2016 to December 2017, on a month-by-month
26 basis. Based on this review, and the variability in the monthly account balances, Staff
27 determined the prepayment levels to be included in KCPL's and GMO's rate base. For accounts
28 where there was no discernible upward or downward trend in the monthly balances, Staff
29 calculated an average based on balances for the 13-months ending December 30, 2017. For
30 accounts where a noticeable upward or downward trend was present, Staff used the most recent

1 account balances (December 31, 2017). Staff removed Missouri Public Service Commission
2 (“MPSC”) Assessment fees, Kansas Corporation Commission (“KCC”) Assessment fees and
3 Edison Electric Institute (“EEI”) dues booked to account 165008 – Prepayments Other. Staff
4 removed the EEI dues from KCPL’s and GMO’s prepayments consistent with Staff’s treatment
5 of EEI dues addressed in the Dues and Donations section of Staff’s Cost of Service Report. Staff
6 eliminated the KCC Assessment fees because there are no benefits to the Missouri ratepayers
7 associated with this item. Staff eliminated the MPSC Assessment fees from prepayments and
8 included them in Staff’s Cash Working Capital (“CWC”) schedule; this issue is discussed further
9 in the CWC section of this report.

10 *Staff Expert/Witness: Antonija Nieto*

11 I. Cash Working Capital

12 Cash Working Capital is the amount of cash necessary for a utility to pay the day-to-day
13 expenses incurred to provide utility services to its customers. Cash inflows from payments
14 received by the company from its customers for the provision of utility service and cash outflows
15 for expenses paid by the company in providing that utility service are analyzed using a
16 lead/lag study.

17 When the company expends funds to pay an expense before its customers provide the
18 cash, the shareholders are the source of the funds. This cash represents a portion of the
19 shareholders’ total investment in the company. The shareholders are compensated for the CWC
20 funds they provide by the inclusion of these funds in rate base. By including these funds in rate
21 base, the shareholders earn a return on the funds they have invested. Customers supply CWC
22 when they pay for electric services received before the Company pays expenses incurred to
23 provide that service. Utility customers are compensated for the CWC funds they provide by a
24 reduction to the utility’s rate base.

25 A positive CWC requirement indicates that, in the aggregate, the shareholders provided
26 the CWC. This means that, on average, the utility paid the expenses incurred to provide the
27 electric services to its customers before those customers had to pay the company for the
28 provision of these utility services. A negative CWC requirement indicates that, in the aggregate,
29 the utility’s customers provided the CWC. This means that, on average, the customers paid for

1 the utility's electric services before the utility paid the expenses that the utility incurred to
2 provide those services.

3 KCPL and GMO revised the revenue lag to account for changes in the collection lag.
4 The collection lag is a weighted value that reflects two components: 1) a zero-day lag for the
5 percentage of receivables sold to the GMO and KCPL Accounts Receivable facility and 2) an
6 average number of days outstanding for the percentage that is not sold. KCPL and GMO used
7 the same expense lags agreed to in Case No ER-2016-0285 and ER-2016-0156 rate cases.

8 Staff is in agreement with the change to the KCPL and GMO revenue lags. Staff is also
9 in agreement with the expense lags utilized by KCPL and GMO, with the exception of
10 the following:

- 11 ▪ Bad Debt expense,
- 12 ▪ PSC Assessment, and
- 13 ▪ Federal income tax lags.

14 As discussed above, KCPL's and GMO's CWC measures cash flow. Bad Debt expense
15 is a non-cash item similar to depreciation expense. In these two examples, the Company collects
16 revenue for these expenses, but there are no subsequent payments. Since there is no cash flow
17 impact associated with bad debt expense, Staff excluded bad debt in the CWC schedule

18 KCPL and GMO include the PSC assessment in prepayments. Prepayments are costs that
19 are paid in advance such as rents, leases, insurance, etc. The PSC Assessment is billed on an
20 annual basis with the option to pay the balance in full or in quarterly payments. KCPL and
21 GMO pay the assessment on a quarterly basis. Consequently, the assessment is not considered a
22 prepayment. Staff eliminated the assessment from prepayments and included it in the cash
23 working capital schedule with an expense lag appropriate for a quarterly payment.

24 Currently KCPL and GMO do not pay any income taxes as a result of net operating
25 losses. Since KCPL and GMO do not pay for these taxes, the cash flow impact of these taxes
26 should be reflected in the CWC schedule. Staff reflected an expense lag of zero days for federal
27 income taxes in the CWC schedule.

28 In conclusion, the revisions made to the CWC schedule by Staff resulted in a negative
29 CWC requirement. This means that in the aggregate, the customers have provided the CWC to
30 the Company during the year. Therefore, the customers should be compensated for the CWC
31 that they provide by decreasing KCPL's and GMO's rate base.

32 *Staff Expert/Witness: Karen Lyons*

1 **J. Fuel Inventories**

2 **1. Coal Inventory**

3 The amount Staff included in KCPL's and GMO's rate bases for coal inventory is based
4 on the results obtained from Staff's production cost model ("fuel model"). Staff used its fuel
5 model to determine the appropriate mix of generation and purchased power utilization to match
6 the normalized native load for KCPL and GMO. In doing so, Staff obtained from the fuel model
7 an annual amount of tons of coal burned by each coal-fired generation unit during the normalized
8 updated test year. Staff divided the annual tons of coal burned from the fuel model by 365 days
9 to calculate an average daily burn by unit. Staff then multiplied this average daily burn by
10 KCPL's and GMO's recommended number of burn days of coal inventory for each generation
11 unit and added an estimated level of basemat coal. Basemat coal is the bottom portion of the
12 coal pile that is difficult to burn in the generating facilities because of the contamination of
13 moisture, soil, clay, and other contaminants. Staff then multiplied the resulting normalized level
14 of inventory for each unit by the delivered cost per ton of coal for use at that unit. The resulting
15 annual coal costs for each unit were then aggregated. The aggregated amount was multiplied by
16 Staff's energy jurisdictional allocation factor to arrive at the coal inventory amount shown in
17 Rate Base – Accounting Schedule 2.

18 *Staff Expert/Witness: Matthew R. Young*

19 **2. Nuclear Inventory (KCPL Only)**

20 To determine the amount to include in rate base for KCPL's nuclear fuel inventory, Staff
21 used an 18-month average of the value of nuclear fuel that was contained in the fuel core of the
22 Wolf Creek nuclear generating unit. Since the Wolf Creek unit is refueled every 18 months, this
23 18-month time period reflects the average nuclear fuel inventory value during a complete nuclear
24 fuel usage cycle at Wolf Creek. This approach is consistent with the method used by KCPL to
25 calculate the revenue requirement in this case. Staff's recommended level of nuclear fuel
26 inventory for KCPL is shown on Schedule 2 of Staff's Accounting Schedules.

27 *Staff Expert/Witness: Matthew R. Young*

1 **3. Oil and Fuel Additive Inventories**

2 Staff used 13-month averages to determine the inventory levels for oil, lime, limestone,
3 ammonia, propane, urea, and powder activated carbon inventories as of December 31, 2017.
4 Staff priced out the various inventories using the latest pricing or the actual monthly dollar levels
5 of inventory. Use of 13-month average inventory levels is appropriate in that it reflects KCPL's
6 and GMO's actual experience for the entire 12-month test year period by including a beginning
7 inventory and an ending inventory. For example, if the test year were a calendar year it would
8 begin with January 1 and end with December 31. A 13-month average reflects the entire year by
9 using the December 31 (January 1) beginning balance and including each subsequent
10 month-ending balance through the end of the year (December 31). When inventory levels
11 fluctuate from month-to-month, as they do with fuel stocks, a 13-month average is used to
12 smooth out those fluctuations. Staff's inventory levels for oil, lime, limestone, ammonia,
13 propane, urea, and powder activated carbon are shown in Staff's Accounting Schedules in Rate
14 Base – Schedule 2. Staff's approach is consistent with the method used by KCPL and GMO to
15 calculate the revenue requirement in this case.

16 *Staff Expert/Witness: Matthew R. Young*

17 **K. Customer Deposits**

18 Staff's recommended treatment of customer deposits is to deduct from KCPL's and
19 GMO's rate base a thirteen (13) month average of the customer deposit balance ending
20 December 31, 2017, as reflected in the Missouri jurisdictional total. Customer deposits are the
21 funds required to be provided by certain customers taking electrical service from KCPL and
22 GMO in order to initiate receipt of utility services. These funds are deducted from KCPL's and
23 GMO's rate base because these funds are cost-free to KCPL and GMO. The amount reflected
24 for customer deposits on Accounting Schedule 2, Rate Base, is a 13 month average for the period
25 December 2016 to December 2017. The balance reflected on the Rate Base Accounting Schedule
26 is the Missouri jurisdictional total for customer deposits. The 13 month average was used
27 because the account balance fluctuated over that period. In addition to the amount deducted
28 from rate base for customer deposits, an amount for interest on customer deposits has been
29 included as an adjustment to the income statement under Account 903 (Accounting
30 Schedule 10). Customers are paid interest for the use of the funds they provide to KCPL and

1 GMO on a cost-free basis, and that interest expense is included as an expense in the revenue
2 requirement calculation discussed in more detail in the “Customer Deposits - Interest Expense”
3 section below.

4 *Staff Expert/Witness: Antonija Nieto*

5 **L. Customer Advances**

6 Staff’s recommended treatment of customer advances is to deduct from KCPL’s and
7 GMO’s rate base a 13-month average of account balances ending December 31, 2017, as the
8 monthly account balances for KCPL and GMO did not exhibit a discernible upward or
9 downward trend.

10 Customer advances are funds typically provided by construction developers to KCPL and
11 GMO in order to ensure that KCPL and GMO build electric infrastructure in areas that have
12 potential for future development. These advances are also used by the utility to establish electric
13 service for potential future customers without investing a substantial amount of money at the risk
14 of the utility and its other customers. Unlike customer deposits, where KCPL and GMO receive
15 these payments from respective customers on a cost-free basis without any future obligation to
16 provide electrical service to those customers, customer advances are provided to KCPL and
17 GMO from certain customers that obligate KCPL and GMO to provide future electrical
18 infrastructure and service for those affected customers. Customer advances represent a recorded
19 liability to recognize, in most instances, the obligation to eventually return the funds advanced by
20 customers to KCPL and GMO. The infrastructure constructed with these funds is not financed
21 with debt or equity and, thus, ratepayers should not be obligated to pay a return on these plant
22 investments. Therefore, customer advances are included in the rate base on Accounting
23 Schedule 2 as a reduction, lowering the amount of overall investment that customers must supply
24 as a return to the utility.

25 *Staff Expert/Witness: Antonija Nieto*

26 **M. Iatan Construction Accounting Regulatory Assets**

27 During the creation and execution of KCPL’s Experimental Regulatory Plan for the
28 construction of Iatan 2, which involved adding pollution control equipment to Iatan 1, as well as
29 other investments, the Commission authorized KCPL to book certain costs into regulatory asset

1 accounts for potential recovery in future general rate cases. Similarly, GMO was authorized to
 2 establish regulatory assets for consideration in future rate cases. Below is a table that identifies
 3 the Iatan generating units, the costs associated with that generating unit the Commission
 4 authorized KCPL and GMO book in regulatory asset accounts, and the time period over which
 5 the costs were collected in the regulatory asset account:
 6

Owner	Generating Unit	Expense Type	Accumulation Period	Authorization
KCPL	Iatan 1 and Common	Depreciation, Carrying Cost, No O&M	May 1, 2009 – May 4, 2011	ER-2009-0089 Stipulation
KCPL	Iatan 2	Depreciation, Carrying Cost, O&M	August 26, 2010 – May 4, 2011	Accounting Authority Order EO-2005-0329
GMO – MPS and L&P	Iatan 1 and Common	Depreciation, Carrying Cost, No O&M	May 1, 2009 – June 25, 2011	ER-2009-0090 Stipulation
GMO – MPS and L&P	Iatan 2	Depreciation, Carrying Cost, O&M	August 26, 2010 – June 25, 2011	Accounting Authority Order EU-2011-0034

7
 8 Pursuant to the Commission’s Order on June 10, 2009, in Case Nos. ER-2009-0089 and
 9 ER-2009-0090, approving the 2009 rate case Stipulation and Agreements, the Commission
 10 authorized KCPL and GMO to create regulatory assets accounts for recording the depreciation
 11 and carrying costs for the Iatan Unit 1 AQCS¹⁵ and Iatan common facilities appropriately
 12 recorded to electric plant-in-service, but for which the amount in that account was not included
 13 in KCPL’s and GMO’s rate base in that case (also known as “construction accounting”).
 14 Pursuant to the Commission’s July 28, 2005, Report and Order approving the Stipulation and
 15 Agreements filed in KCPL’s Case No. EO-2005-0329 and GMO’s Case No. EU-2011-0034, the
 16 Commission authorized KCPL and GMO to create regulatory asset accounts for booking the
 17 depreciation, carrying costs, and other operating expenses and credits for Iatan Unit 2 subsequent
 18 to its fully operational and used for service date of August 26, 2010.

¹⁵ Air quality control system.

1 For purposes of inclusion in KCPL's and GMO's rate base, Staff reflected the
2 unamortized balances of these regulatory asset accounts as of June 30, 2018, the true-up period
3 the Commission ordered in its procedural schedule in this case.

4 The Iatan Unit 1 and Iatan facilities common regulatory assets, capturing construction
5 accounting from May 1, 2009, through December 31, 2010, the true-up cutoff in
6 Case Nos. ER-2010-0355 and ER-2010-0356, is referred to by Staff as "Iatan 1 - Vintage 1."
7 This regulatory asset is included in Staff's schedule labeled, "Rate Base – Schedule 2," and
8 amortized to expense over 26 years.

9 The Iatan Unit 1 and common regulatory asset, capturing construction accounting
10 from January 1, 2011, through May 4, 2011 (the effective date of new rates in
11 Case No. ER-2010-0355), is referred to by Staff as "Iatan 1 - Vintage 2." This regulatory asset is
12 included in Staff's schedule labeled, "Rate Base – Schedule 2," and amortized to expense
13 over 24.3 years.

14 The Iatan Unit 2 regulatory asset, capturing construction accounting from August 26,
15 2010, through December 31, 2010, the true-up cutoff in Case Nos. ER-2010-0355
16 and ER-2010-0356, is referred to by Staff as "Iatan 2 - Vintage 1." This regulatory asset is
17 included in Staff's schedule labeled, "Rate Base – Schedule 2," and is amortized to expense
18 over 47.7 years.

19 The Iatan Unit 2 regulatory asset, capturing construction accounting from January 1,
20 2011, through May 4, 2011, the effective date of rates in Case No. ER-2010-0355, is referred to
21 by Staff as "Iatan 2 - Vintage 2." This regulatory asset is included in Staff's schedule labeled,
22 "Rate Base – Schedule 2," and amortized to expense over 46 years.

23 The test year ending June 30, 2017, includes a full 12 months of amortization related to
24 these regulatory assets. However, GMO's test year also contains a corrective journal entry,
25 made in February 2017. Staff adjustment E-187.1 reverses the correcting journal entry to restore
26 the annual amortization expense.

27 *Staff Expert/Witness: Matthew R. Young*

1 **V. Income Statement – Revenues**

2 **A. Rate Revenues**

3 **1. Introduction**

4 This section describes how Staff determined the level of KCPL and GMO Operating
5 Revenues. The largest component of operating revenues results from the rates charged to
6 KCPL's and GMO's retail customers, therefore, a comparison of operating revenues with cost of
7 service is fundamentally a test of the adequacy of the currently effective Missouri retail
8 electricity rates.

9 One of the major tasks in a rate case is to determine the magnitude of any deficiency
10 (or excess) between cost of service and operating revenues. Once determined, the deficiency
11 (or excess) can only be corrected (or otherwise addressed) by adjusting Missouri retail rates
12 (i.e., rate revenue) prospectively. Operating Revenues are composed of Off-system Sales,
13 Other Operating Revenue, and Rate Revenue.

14 **Rate Revenue** – Test Year rate revenues consist solely of the revenues derived from
15 KCPL's and GMO's charges for providing electric service to its Missouri retail customers.
16 KCPL's and GMO's revenues are determined by taking each customer's usage and applying the
17 appropriate tariffed rates. The appropriate tariffed rate varies based on different factors,
18 including the time of the year (summer vs. winter), types of charges (demand, energy, etc.), and
19 the customers' rate class.

20 *Staff Expert/Witness: Kim Cox*

21 **2. The Development of Rate Revenue**

22 Staff's adjustments to KCPL's Missouri jurisdictional billing units and rate revenues, and
23 GMO's billing units and rate revenues, are based upon information that is "known and
24 measurable" through the end of the update period for revenues (October 31, 2017). The two
25 major categories of revenue adjustments are known as "normalization" and "annualization."
26 Normalizations address events through the update period that are unusual and unlikely to be
27 repeated in the years when the new rates from this case are in effect, e.g., events such as the
28 update period weather. Annualizations are adjustments that restate the test year results, updated
29 through October 31, 2017, for rate switchers, customer growth, and new retail rates, as if

1 conditions known at the end of the 12 month period ending October 31, 2017, had existed the
2 entire 12 months.

3 This report briefly describes the adjustments that Staff made to test year and update
4 period billed rate revenues. Not all adjustments affect both billing units and rate revenue and not
5 all rate classes are subject to every adjustment.

6 *Staff Expert/Witness: Kim Cox*

7 **3. Weather Normalization**

8 **a. Weather Variables**

9 Each year's weather is unique; consequently, test year usage, hourly loads, revenue, and
10 fuel and purchased power expense need to be adjusted to "normal" weather patterns so that rates
11 will be designed on the basis of normal weather rather than any anomalous weather in the
12 test year.

13 **Source of Weather Data** – In the quantification of the relationship between test year
14 weather and energy sales, Staff used weather observations of the Kansas City International
15 Airport ("MCI") in Kansas City, Missouri, for the update period of November 1, 2016, through
16 October 31, 2017.

17 Staff used a 30-year period of "climate normals" ("normals") by the National Climatic
18 Data Center ("NCDC") of the U.S. National Oceanic and Atmospheric Administration
19 ("NOAA") as a measure of "normal" weather. According to NOAA, a climate normal is defined
20 as the arithmetic mean of a climatological element computed over three consecutive decades.¹⁶
21 To conform to the NOAA's three consecutive decades for determining normal temperatures,
22 Staff used observed maximum and minimum daily temperatures for the 30-year period of
23 January 1, 1981, through December 31, 2010. Therefore, Staff bases its calculations on the time
24 period of the most recent climate normals produced by NCDC.¹⁷

25 Although the definition of normal weather is relatively simple, the actual calculations
26 may be more complicated. Inconsistencies and biases in the 30-year time series of daily
27 temperature observations occur if weather instruments are relocated, replaced, or recalibrated.

¹⁶ Retrieved on January 27, 2016, <http://www.ncdc.noaa.gov/data-access/land-based-station-data/land-based-datasets/climate-normals>.

¹⁷ Retrieved on January 27, 2016, <http://www.ncdc.noaa.gov/data-access/land-based-station-data/land-based-datasets/climate-normals/1981-2010-normals-data>.

1 Changes in observation procedures or in an instrument's environment may also occur during the
2 30-year period. NOAA accounted for these anomalies in calculating the normal temperatures it
3 published in July 2011.¹⁸

4 Staff verified the adjustments for anomalies in the MCI time series by direct
5 communication with NCDC, and through Staff's own review of the daily observations.
6 According to NCDC, the serially-complete monthly minimum and maximum temperature data
7 sets have been adjusted to remove all inconsistencies and biases due to changes in the associated
8 historical database. Furthermore, Staff reviewed NCDC's peer-reviewed, published paper¹⁹ that
9 explains the accuracy of the NCDC's monthly temperature series homogenization procedure for
10 removing documented and undocumented anomalies, and found it to be meteorologically and
11 statistically sound.

12 Because Staff uses daily temperature observations to calculate normal weather values and
13 NOAA's normals are monthly values, Staff adjusted the observed daily temperatures so that the
14 monthly average temperature calculated from these adjusted daily values is the same as the
15 NCDC's serially-complete monthly temperature time series. Staff derived the daily mean
16 temperature ("DMT") time series, daily two-day weighted mean temperatures, and normal daily
17 temperatures from these adjusted daily temperatures.

18 **Definition of Weather Variables** - Because weather fluctuates greatly from day-to-day,
19 the MCI temperature variables required to weather-normalize sales are two-day weighted DMT
20 of the update period actual and the 30-year normal. The day's DMT is generally defined as the
21 simple average of the day's maximum daily temperature and minimum daily temperature. The
22 daily two-day weighted mean temperature is calculated using the previous day's mean daily
23 temperature with a one-third weight and the current day's mean daily temperature with
24 a two-thirds weight.²⁰

25 This was done because yesterday's weather effects how electricity is used today in the
26 KCPL and GMO service area. This is likely due to heat retention by the structures in the service

¹⁸ Arguez, A., I. Durre, S. Applequist, R. S. Vose, M. F. Squires, X. Yin, R. R. Heim, Jr., and T. W. Owen, (2012): NOAA's 1981-2010 U.S. Climate Normals: An Overview. *Bulletin of the American Meteorological Society*, 93, 1687-1697,

¹⁹ Menne, M.J., and C.N. Williams, Jr., (2009) Homogenization of temperature series via pairwise comparisons. *J. Climate*, 22, 1700-1717.

²⁰ To calculate the Dth day's two-day weighted mean temperature (TWMT_D), the current day's (D) daily mean temperature (DMT_D) is averaged with the prior day's (D-1) daily mean temperature (DMT_{D-1}), applying a 2/3 weight on the current day and 1/3 weight on the prior day: TWMT_D = (2/3) DMT_D + (1/3) DMT_{D-1}.

1 area. For example, if today's temperature is mild, but yesterday's temperature was hot and the
2 air conditioner was on, it is likely that the air conditioner will also be used today. Similarly, if
3 yesterday's temperature was mild and air conditioning was not used, then if today's temperature
4 is slightly warmer, air conditioning may not be used until later in the day. Staff used the MCI
5 daily two-day weighted mean temperature data series to normalize both class usages and hourly
6 net system loads.

7 **Calculation of "Normal Weather"** - Staff used a ranking method to calculate normal
8 weather estimates of daily normal temperature values, ranging from the temperature that is
9 "normally" the hottest to the temperature that is "normally" the coldest, thus estimating "normal
10 extremes." Staff ranked the two-day weighted temperatures for each year of the 30-year history
11 from hottest to coldest and then calculated the normal daily temperature values by averaging the
12 ranked two-day weighted mean temperatures for each rank, irrespective of the calendar date.

13 This results in the normal extreme being the average of the most extreme temperatures in
14 each year of the 30-year normals period. The second most extreme temperature is based on the
15 average of the second most extreme day of each year, and so forth. Staff's calculation of daily
16 normal temperatures is not the same as NOAA's calculation of smoothed daily normal
17 temperatures. Because the test year temperatures do not follow smooth patterns from day to day,
18 Staff calculated normal daily temperatures based on the rankings of the actual temperatures of
19 the test year period. Staff's calculation procedure of weather variables of MCI is consistent with
20 calculations used in past rate cases, including the last GMO rate case, ER-2016-0156, and the
21 last KCPL rate case, ER-2016-0285.

22 *Staff Expert/Witness: Seoung Joun Won Ph.D.*

23
24 **b. Weather Normalization**

25 In many of the classes of service, electricity consumption is highly responsive to the
26 weather, specifically temperature. As the temperature increases, the demand for cooling, air
27 conditioning, and fans increases the customers' consumption of electricity. As the weather
28 becomes colder and the temperature falls, the demand for additional heating, for example electric
29 space heating, also increases electricity consumption. Because electric air conditioning and
30 space heating are prevalent in the KPCL and GMO service territories, KCPL's and GMO's
31 electric loads are linked and responsive to daily changes in temperature.

1 Staff used the most recent temperature and load data available for the update period of
2 November 1, 2016, through October 31, 2017, to capture a more likely, forward-looking indicator
3 of non-weather related electricity usage per customer. December 2016 experienced temperatures
4 colder than normal, and June, July, and September 2017 experienced temperatures hotter than
5 normal, resulting in electric energy usage above that which would have been expected under
6 normal weather conditions. November 2016, January through March 2017, and August 2017
7 experienced temperatures more mild than normal resulting in usage below that which would
8 have been anticipated under normal conditions. The temperatures used by Staff in the test year
9 period deviated from normal, thus Staff performed a weather impact analysis using loss factors
10 reviewed by Staff witness Alan Bax.

11 Staff's model and methodology contained elements important in the class level weather
12 normalization process; in particular, use of daily load research data to determine non-linear, class
13 and district specific responses to changes in temperature with the incorporation of different base
14 usage parameters to account for different days of the week, months of the year, and holidays.
15 The results of Staff's analysis were provided to Staff witnesses Kim Cox, Joseph Roling, and
16 Jose Perez to be used in the normalization of revenues for each districts' weather sensitive
17 classes: Residential ("RES"), Small General Service ("SGS"), Medium General Service
18 ("MGS"), Large General Service ("LGS") and Large Power Service ("LPS") classes.

19 *Staff Expert/Witness: Seoung Joun Won, Ph.D.*

20 21 c. 365-Days Adjustment to Usage

22 KPCL and GMO customers' usage is measured, and rate revenue is collected over a
23 period known as a revenue month, which is the interval of time over which KPCL and GMO
24 reads customers' meters and generates invoices. Calendar months, which coincide with a
25 standard calendar and begin on the first day of the month and end on the last day of the month,
26 differ from revenue months because the periods they cover begin and end at different times. An
27 invoice rendered for a given revenue month may charge for usage in portions of two calendar
28 months. Revenue months take their names from the calendar month in which the customer's
29 invoice is rendered. For example, assume a customer's meter was read and usage was
30 determined on June 8 and then again on July 8; assume also that the invoice was sent to the
31 customer on July 15. The revenue month for this invoice is July, even though 22 days of the

1 usage measured for this invoice occurred from June 9 through June 30 and it contained only
2 eight days of usage in July. Staff calculated a normalization adjustment to KCPL's and GMO's
3 kWh usage to reflect a calendar year's (365 days) worth of usage.

4 The length of a revenue month is dependent upon the interval between meter readings
5 and does not necessarily have the same number of days that occur in a given calendar month of
6 the same name; that is, a revenue month may have more than or less than the number of days for
7 the same-named calendar month. For the example above, the usage is for 30 days
8 (June 9 through July 8) even though the revenue month is July which has 31 days. When
9 revenue month usage is totaled over the year, the resulting revenue year will include usage from
10 the immediately prior calendar year and assign usage to the next calendar year, meaning a
11 revenue year may contain more than or less than 365 days' usage. Therefore, since the costs and
12 expenses are accounted over a calendar year, Staff calculates an annualization adjustment to
13 bring the revenue year kWh into a 365-days interval. This adjustment stated in kWh is referred
14 to as 365-Days Adjustment.

15 Staff calculates the 365-Days Adjustment by subtracting the weather normalized revenue
16 month kWh from the weather normalized calendar month kWh for the test year; the difference,
17 or the 365-Days Adjustment, may be either positive or negative. The 365-Days Adjustments for
18 RES, SGS, MGS, and LGS were provided to Staff witness Kim Cox, who used the 365-Days
19 Adjustment to adjust the revenues of the weather normalized class revenues months to the twelve
20 months ended October 31, 2017. For 365-Days Adjustments of LPS customers, please see the
21 large customer section of Staff witnesses Joseph Roling and Jose Perez's direct testimony.

22 *Staff Expert/Witness: Seoung Joun Won, PhD.*

23 **4. Regulatory Adjustments to Test Year Sales and Rate Revenue**

24
25 Staff normalized and annualized billing determinants for the RES, SGS, MGS (KCPL
26 only) and LGS rate classes based on the normalized and annualized kWh factor supplied by Staff
27 witness Seoung Joun Won.²¹ For example, if the normalized and annualized kWh factor is 0.97

²¹ Separate kWh adjustments are calculated for the change in kWh due to weather normalization, Missouri Energy Efficiency Investment Act ("MEEIA") Cycle 2 savings and the change in kWh due to the annualization of the number of days in the 12 months ending October 31, 2017. The combined impact of these adjustments is applied to kWh as a single adjustment factor for ease of application.

1 for the month of September in the RES rate class, then the total actual usage for that month and
2 for that rate class is decreased by 3%.

3 Staff adjusted the total actual blocked billing determinants to equal the normalized and
4 annualized monthly kWh using the relationship between actual average usage per customer and
5 normalized and annualized average usage per customer. Staff also used the relationship between
6 percentage of usage priced in the first rate block and the second rate block to distribute
7 normalized and annualized monthly kWh to the rate blocks for rate classes RES, SGS, MGS
8 (KCPL only) and LGS. This calculation resulted in normalized usage by rate block, which was
9 then converted to total normalized and annualized revenues by multiplying rate block usage by
10 the appropriate rates.

11 The overall difference between KCPL's and GMO's actual billing determinants and rate
12 revenue and Staff's normalized and annualized billing determinants and rate revenue results in
13 Staff's normalized and annualized kWh and revenue adjustment.

14 *Staff Expert/Witness: Kim Cox*

15
16 **5. Customer Growth**

17 **a. Customer Growth in Usage**

18 GMO rate classes and rate structures were consolidated in February 2017 as a result of
19 Case No. ER-2016-0156. The GMO pre-consolidated SGS and LGS rate codes did not consist
20 of the same billing determinants. Some of the pre-consolidated rate codes charged a facilities
21 charge and demand charge while other pre-consolidated rate codes did not. In order for the new
22 consolidated rate codes to reflect rates and usage as if they had existed for the twelve months
23 ending October 31, 2017, Staff developed annualized billing determinants by taking the average
24 of each determinant for the months of April 2017 through October 2017 and applying that
25 average to the months of November 2016 through March 2017.²² For the GMO residential class
26 and the KCPL Residential, SGS, MGS, and LGS rate classes, Staff adjusted the usage and
27 revenue through October 31, 2017, for customer growth, using the kWh information provided by
28 Staff witness Antonija Nieto for all Missouri customers, to reflect the additional usage and rate

²² Staff will review actual billing determinants for November 2017 through June 2018 and make any necessary adjustments once actual billing determinants are supplied in true-up.

1 revenues that would have occurred if the number of customers taking service at the end of
2 December 31, 2017,²³ had existed throughout the entire 12 months.

3 *Staff Expert/Witness: Kim Cox*

4 **b. Adjustments for Non-Missouri classes (KCPL Only)**

5 Staff adjusted the Residential, SGS, MGS, and LGS classes' usage for KCPL's Kansas
6 customers for weather, both to provide normalized kWh and for the 365 days adjustment. These
7 adjusted usages were provided to the Staff auditors for application to customer growth. Once
8 Staff applied the growth adjustment, the final normalized and annualized usage was provided to
9 Staff witness Seoung Joun Won for inclusion in his calculations of Net System Input ("NSI"),
10 and to Staff witness Alan J. Bax for inclusion in his determination of jurisdictional allocations.

11 *Staff Expert/Witness: Kim Cox*

12 **c. Customer Growth in Rate Revenue**

13 Staff made customer growth adjustments to the KCPL and GMO test year kWh sales and
14 rate revenue to reflect the additional kWh sales and rate revenue which would have occurred if
15 the number of customers taking service at the end of the update period (December 31, 2017) had
16 existed throughout the entire test year. Staff calculated customer growth for the Residential,
17 Small General Service ("SGS"), Medium General Service ("MGS"), and Large General Service
18 ("LGS") rate classes using customer levels as of December 31, 2017.

19 For this Direct Testimony filing, Staff updated all significant elements of revenue,
20 expense, and rate base through the 12-month period ended June 30, 2017, test year level and for
21 any known and measurable changes through December 31, 2017. For Residential and
22 General Service (Small, Medium, and Large) retail customer groups, Staff employed the
23 following method of computing the annualized level of increased revenue from customer growth
24 at December 31, 2017. For each of these customer rate groups, the customer level during each
25 month of the test year is compared to the level as of December 31, 2017, and the monthly change
26 in customer level is computed. This growth in customers is then multiplied by the
27 weather-normalized revenue per customer experienced for that month of the test year.

²³ Staff accounted for growth through December 31, 2017 because Staff updated plant investment and expenses through December 31, 2017. Staff was unable to update weather normalized billing determinants through this same period due to data availability.

1 Staff's approach assumes that the revenue pattern experienced in each month of the test
2 year will recur on a weather-normalized basis, factored up (or down) in accordance with the
3 growth (or decrease) in customer numbers at December 31, 2017.

4 The only retail customer rate group for which this approach is not taken is the Large
5 Power Service customers. With respect to Large Power Service customers, energy consumption
6 and revenue patterns vary significantly across this group of customers, making it necessary to
7 examine the history of each customer on an individual basis, and to adjust the test year revenue
8 level accordingly. Staff witnesses Jose Perez and Joe Roling address the Large Power Service
9 revenue annualization. Staff's customer growth adjustment to test year revenues for all retail
10 customer groups combines the results of the analysis described above for Residential, General
11 Service, and Large Power Service customers in order to provide the annualized level as of
12 December 31, 2017. The retail customer growth adjustment other than Large Power Service is
13 reflected in the Staff Accounting Schedule 9 as Adjustments Rev-2-13 and Rev-2-14 for KCPL
14 and GMO, respectively.

15 *Staff Expert/Witness: Antonija Nieto*

16 **B. Large Power Service ("LPS") Adjustments**

17 **Introduction**

18 Staff determined annualized and normalized usage and revenues for KCPL's and GMO's
19 Large Power Service (LPS) class and adjusted for known and measurable changes, such as rate
20 switchers, on an individual customer basis through the 12 months ending October 31, 2017.

21 **Adjustments to Usage and Revenue**

22 *Update Period Adjustment*

23 Staff made an adjustment to kWh and revenues for the 12 months of the test year ending June 30
24 2017, to update through October 31, 2017.

25 *Interclass Rate Switching*

26 There were 252 customers in GMO's LPS rate class at the beginning of the test year and 186 at
27 the end, providing a net difference of 66 customers. KCPL had 63 customers in the LPS rate
28 class at the beginning of the test year. Three customers left the LPS rate class while two new

1 customers were added. This resulted in Staff analyzing the usage history of 186 GMO LPS
2 rate class customers and 62 KCPL LPS rate class customers.

3 ***Load Annualization***

4 Because LPS customers use large amounts of electricity, and the class's electric use and load
5 factor are dissimilar, Staff annualized sales and revenues on an individual customer account
6 basis. Doing so restates the results of the test year billing units as if conditions at the end of the
7 test year had existed throughout the entire test year. For example, LPS class revenues were
8 annualized for customers entering and exiting the class through the update period ending
9 October 31, 2017. These customer changes were annualized, in order for every customer in the
10 LPS class to have 12-months of usage and revenue. Staff removed the usage of customers no
11 longer in the LPS service class and applied new LPS customers' 12-months usages to reflect
12 their average recorded usage so far.

13 **Weather Normalization**

14 Staff normalized the actual usage data from the test year data provided by GMO and KCPL
15 for each LPS customer by applying monthly weather normalization factors provided by
16 Staff witness Seoung Joun Won. Staff adjusted the billing units associated with energy by
17 these factors for each month, and applied current rates to determine the weather-normalized
18 revenue. The difference between these weather-normalized revenues and the test year
19 actual revenues determined the amount of the weather normalization adjustment.

20 **365-Days Adjustment**

21 Rate revenues and billing units for KCPL²⁴ were measured by billing month (the period of time
22 over which the staggered bill cycles result in each customer being billed precisely once) rather
23 than by calendar month. The number of days in the 12 billing months comprising the test year
24 for each customer was compared to a 365-day calendar year. Staff made a per-day kWh
25 adjustment, with the appropriate rates applied to determine the revenue adjustment, for the LPS
26 customers whose billing cycles for the twelve months ending October 31, 2017, totaled greater or
27 less than 365 days. After the normalization was calculated, the 365-Days Adjustment for the test

²⁴ Staff did not calculate a 365-Days Adjustment for GMO LPS customers. Due to rate consolidation, the start and end dates of billing periods were unavailable for Staff to have an appropriate count of days in the 12 month period. Staff will reevaluate this adjustment for GMO in true-up.

1 year was calculated. Appropriate rates were applied to each month's adjusted usage to obtain
2 revenue. The differences between the revenues produced by the 365 Days Adjusted usage and
3 the actual usage are the "365-days" revenue adjustments. For the 365-Days Adjustment of
4 classes other than LPS customers, please see the 365-Days Adjustment to Usage section of
5 Staff witness Seoung Joun Won's direct testimony.

6 *Staff Experts/Witnesses: Joseph P. Roling and Jose R. Perez*

7 **C. Transmission Expense and Revenue- FERC Account 456**

8 KCPL and GMO record transmission revenue to FERC Account 456. KCPL and GMO
9 receive revenues from SPP from the following SPP tariff schedules:

- 10 ■ Schedule 1: System Control and Dispatch Service
- 11 ■ Schedule 2: Revenues related to reactive supply for generators connected to the
12 transmission system
- 13 ■ Schedule 7: Revenues related to firm point-to-point transmission
- 14 ■ Schedule 8: Revenues related to non-firm point-to-point transmission
- 15 ■ Schedule 9: Revenue related to network integrated transmission
- 16 ■ Schedule 11: Revenues related to the base plan transmission upgrades
- 17 ■ Other miscellaneous transmission revenue

18 Although KCPL and GMO receive revenues from SPP based on all of the schedules listed above,
19 a significant percentage of the transmission revenues received from SPP are from network
20 integrated transmission, firm point-to-point transmission, and base plan transmission activities.

21 Staff analyzed KCPL's and GMO's transmission revenue for the period of 2009 through
22 2017, and reviewed KCPL's and GMO's proposed wholesale revenue adjustment.
23 The wholesale revenue adjustment proposed by KCPL and GMO is the difference in their
24 respective authorized FERC ROEs of 11.1% and KCPL's and GMO's proposed ROE in this case
25 of 9.85% and is discussed in further detail below.

26 The following chart reflects KCPL's and GMO's actual historical transmission revenues
27 for the period of 2009-2017:

28

Year	KCPL Transmission Revenue		GMO Transmission Revenue	
2009	**	**	**	**
2010	**	**	**	**
2011	** I	**	**	**
2012	**	**	**	**
2013	**	**	**	**
2014	**	**	**	**
2015	**	**	**	**
2016	**	²⁵ **	**	**
2017	**	²⁶ **	**	**

2

3 Staff identified an upward trend in both KCPL's and GMO's transmission revenue; therefore,
4 Staff recommends an annualized level of GMO's transmission revenue based on the 12 months
5 ending December 31, 2017. Staff's adjustment is identified on Schedule 9 of Staff's KCPL and
6 GMO Accounting Schedules, Adjustment Rev-26.2 and Rev-26.1, respectively.

7 In its direct case, KCPL and GMO proposed an adjustment to reduce transmission
8 revenue for the difference between KCPL's and GMO's authorized FERC ROE of 11.1% and
9 KCPL's and GMO's proposed ROE in this case of 9.85%. As transmission owners, KCPL and
10 GMO receive transmission revenues from SPP for regional and zonal transmission upgrades.
11 The wholesale transmission revenue adjustment is calculated using the Annual Transmission
12 Revenue Requirement ("ATRR") and using KCPL's and GMO's authorized FERC ROE of
13 11.1%. The ATRR is used by SPP to allocate revenues and expenses to all transmission owners
14 and transmission customers of SPP. The transmission owners receive allocated revenues based
15 on the ATRR and the transmission customers are charged for allocated costs based on the ATRR.
16 The ATRR may include incentives such as allowing CWIP in the revenue requirement,
17 ROE adders, etc. KCPL's and GMO's authorized FERC ROE of 11.1% includes a ROE adder
18 for being a member of a regional transmission organization ("RTO") of 50 basis points.

19 Other SPP transmission owners submit the ATRR that may include the previously
20 discussed incentives. KCPL and GMO will then receive its allocated share of the transmission

²⁵ Includes impact of Z2 Credit Resettlement, MISO Seams Payment, and Independence Power & Light Schedule 9 Revenues

²⁶ Includes impact of Z2 Credit Resettlement, MISO Seams Payment, and Independence Power & Light Schedule 9 Revenues

1 costs that include these incentives. Since no adjustment was made to its transmission expense
2 for the incentives that are included in the costs KCPL and GMO receive from SPP and charges to
3 its customers, for consistency Staff did not reduce transmission revenues for the difference in
4 KCPL's and GMO's authorized FERC ROE of 11.1% and its proposed ROE of 9.85% in this
5 case. Staff did reflect the full financial impact of both transmission revenue and transmission
6 expense. It is Staff's position that KCPL's participation in SPP encompasses both the financial
7 impact of KCPL's and GMO's ownership of transmission assets and the financial impacts
8 of the use of other SPP members' transmission assets. Consequently, KCPL and GMO
9 customers are entitled to all transmission revenues that offset a part of the significant increases in
10 transmission expense.

11 *Staff Expert/Witness: Keith Majors*

12 **D. Ancillary Services**

13 Ancillary services, also known as operating reserves, include Regulation-up,
14 Regulation-down, Spinning Reserve, and Supplemental Reserve services that are a source of
15 revenue and expense for KCPL and GMO. These services support the transmission of capacity
16 and energy while maintaining the reliability of the transmission system. Regulation-up and
17 Regulation-down maintains the balance between the generation and the load. Spinning reserve
18 and Supplemental reserve requires that an energy resource such as a power plant must be
19 available in the event of an outage. Prior to March 1, 2014, KCPL and GMO were part of an
20 Energy Imbalance Service market ("EIS") and self-designated ancillary services. On March 1,
21 2014, the SPP Integrated Marketplace began replacing the previous EIS market. Consequently,
22 KCPL and GMO now purchase ancillary services for its load from SPP and sells ancillary
23 services to SPP.

24 Staff annualized ancillary services for the 12-month period ending December 31, 2017,
25 the update period in this case and is included in Staff's Off-System Sales adjustments. Staff's
26 adjustment is identified on Schedule 10 of Staff's Accounting Schedules for KCPL and GMO,
27 Adjustment E-Rev-11.3, Adjustment E-Rev-7.2, respectively.

28 *Staff Expert/Witness: Karen Lyons*

1 **E. Transmission Congestion Rights (KCPL Only)**

2 Transmission Congestion Rights (“TCR”) are an energy financial instrument that entitles
3 the holder to be compensated or charged for congestion in the SPP Integrated Market between
4 two settlement locations.²⁷ When transmission congestion occurs, KCPL incurs additional
5 charges from SPP for moving energy from generation to load. KCPL, as a transmission owner,
6 is allocated TCRs to hedge the actual transmission congestion charges incurred to serve its native
7 load. A “transmission owner” in SPP is an owner of physical transmission assets within a given
8 service territory

9 TCRs may result in a source of revenue or a charge from SPP. Based on discussions with
10 KCPL personnel and responses to Staff Data Requests, KCPL sells more power into SPP than it
11 purchases from SPP, a situation commonly referred to as “long-in-the-market.” In other words,
12 in total, KCPL produces more electrical energy for the SPP market than it takes from this market.
13 Consequently, TCRs are a source of revenue. The opposite is true for GMO. GMO generally
14 generates less than its native load, a situation commonly referred to as “short-in-the market”.
15 Since GMO generally generates less than its native load obligations, a complete view of the
16 actual congestion costs incurred in serving all GMO load is unknown.²⁸

17 For KCPL, Staff reflected TCRs for the 12 months ending December 31, 2017, the
18 update period in this case. Staff’s adjustment is identified on Schedule 10 of Staff’s Accounting
19 Schedules, Adjustment Rev-11.2.

20 *Staff Expert/Witness: Karen Lyons*

21 **F. Revenue Neutral Uplift**

22 The revenue neutral uplift charges are imbalances between revenues and
23 disbursements that are distributed by SPP to SPP market participants as either a charge or a
24 credit. As a not-for-profit organization, SPP must remain revenue neutral. Consequently,
25 SPP will charge or credit KCPL and GMO for the revenue neutral uplift charge. The charge
26 consists of miscellaneous charges or credits that SPP has no other method of distributing to SPP
27 market participants. Staff analyzed KCPL’s and GMO’s revenue neutral uplift net charges for
28 the calendar years 2014 through 2017. Staff found that KCPL’s and GMO’s revenue uplift net

²⁷ SPP Tariff 105.

²⁸ Staff Data Request No. 313 in Case No. ER-2016-0156.

1 charges increased over 200%. In response to a Staff data request, the following explanation for
2 the increase was provided:

3 Revenue Neutrality Uplift Distribution is a charge type that is based on the
4 entire SPP footprint and each settlement location for each asset owner in
5 the footprint will receive charges (expenses or revenues) based on their
6 share calculated by their participation in the market. SPP's total footprint
7 RNU for 2017 increased over the total for 2016, which resulted in the
8 increased amount of RNU for both KCPL and KCPL GMO. **SPP has**
9 **been requested to provide an explanation for this increase. Any**
10 **additional information will be sent to Staff in a Supplemental DR.**
11 Emphasis added.

12
13 Staff annualized revenue neutral uplift charges, for the 12-month period ending
14 December 31, 2017, the update period in this case, and included them in Staff's Off-System
15 Sales adjustments. However, Staff has concerns about the level of costs KCPL and GMO
16 incurred during this period. For this reason and KCPL and GMO's response to Staff's data
17 request, an appropriate level of costs will be determined in the true up. Staff's adjustment is
18 identified on Schedule 10 of Staff's Accounting Schedules for KCPL and GMO,
19 Adjustment E-Rev-11.4, Adjustment E-Rev-7.3, respectively.

20 *Staff Expert/Witness: Karen Lyons*

21 **G. Off-System Sales**

22 **1. FERC Account 447-Sales for Resale**

23 FERC Account 447, Sales for Resale, includes three sources of revenue for KCPL
24 and GMO:

- 25 ▪ firm off-system sales;
- 26 ▪ non-firm off-system sales; and
- 27 ▪ FERC wholesale sales

28 **2. Firm Off-System Sales**

29 KCPL contracted to sell firm off-system power during the test year ended June 30, 2017
30 updated through December 31 2017, to the following customers:

- 31 1. City of Eudora, Kansas ("Eudora")
- 32 2. Kansas Municipal Energy Agency ("KMEA")

1 Under their respective contracts, these customers paid both a demand charge for the megawatt
2 capacity commitment from KCPL and an energy charge for the cost of delivered energy. In
3 addition, KCPL has an agreement with GMO to sell a specified amount of capacity at GMO's
4 option. As a result, Staff annualized KCPL's firm demand and energy sales based solely on the
5 capacity contracts in effect with Eudora, and KMEA, plus the capacity sales option with GMO as
6 of the update period ended December 31, 2017.

7 Staff has reviewed KCPL's firm off-system sales levels and adjusted test year levels to
8 reflect the levels for the 12-month update period ended December 31, 2017. Schedule 10 of
9 Staff's KCPL Accounting Schedules reflect the adjustments to firm off-system sales levels,
10 Adjustments Rev-8.1 and Rev-10.1.

11 GMO contracted to sell firm off-system power to Black Hills Power, Inc. ("Black Hills")
12 during the Test Year ended June 30, 2017, updated through December 31, 2017. As a result,
13 Staff annualized GMO's firm demand and energy sales based solely on the capacity contract in
14 effect with Black Hills as of the update period ended December 31, 2017.

15 Staff has reviewed GMO's firm off-system sales levels and adjusted test year levels to
16 reflect the levels for the 12-month update period ended December 31, 2017. Schedule 10 of
17 Staff's GMO Accounting Schedules reflect the adjustment to firm off-system sales levels,
18 Adjustment Rev-14.1.

19 **3. Non-Firm Off-System Sales**

20 For purposes of discussing revenue requirement calculations, non-firm off-system sales
21 are sales of electricity made at times when a utility's generation output exceeds the load
22 requirements of its native load customers (rate tariff customers) and firm sale customers. KCPL
23 and GMO must first meet its firm sales loads and, if it has excess electricity to sell, it will make
24 off-system sales. The difference between the revenue received for selling the excess generation
25 and the cost of the fuel used to produce the energy sold are referred to as off-system sales margin
26 ("OSSM"). Off-system sales are made at market-based rates. Off-system sales are made through
27 KCPL's and GMO's generation or through electricity purchased from other utilities. The
28 aggregate off-system sales net margins are used in the revenue requirement calculation.

29 Since March 2014, KCPL and GMO have taken part in the SPP integrated market.
30 KCPL and GMO offers its generating units for dispatch through the SPP, and the SPP dispatches
31 KCPL and GMO and all other SPP generating owners' generation to meet the load requirements

1 of the entire SPP region. For purposes of discussing revenue requirement calculations, once all
2 firm commitments are met (native load), any excess generation is available to sell through the
3 market on a non-firm basis—off-system sales. Off-system sales generated through the fuel
4 model are reflected in Staff’s Accounting Schedule 10 for KCPL and GMO, Adjustments Rev
5 Rev-11.1 and Rev-7.1, respectively.

6 **4. FERC Wholesale Sales**

7 FERC wholesale customers are municipalities that buy electricity under a firm power
8 tariff regulated by the FERC. Since the wholesale customers are treated as if they were located
9 in another jurisdiction, none of the revenues from these customers are included in the Missouri
10 utility’s regulated operations. Staff allocates to the Missouri utility the plant-in-service,
11 accumulated depreciation reserves, revenues, fuel and purchased-power costs, and maintenance
12 costs required to serve Missouri customers using demand and energy allocation factors
13 developed by Staff witness, Alan J. Bax. The FERC jurisdictional loads are not included in the
14 demand and energy allocators developed for the Missouri jurisdiction.

15 **5. Removal of Inter-Company/Rate District Energy Transfers (GMO Only)**

16 GMO’s MPS and L&P rate districts were combined effective February 22, 2017. Prior to
17 this date, transfers occurred between MPS and L&P for the energy and revenue associated with
18 off system sales. The test year in this case is the 12 months ending June 30, 2017. Since the
19 GMO consolidation did not occur until February 22, 2017, adjustments are necessary to
20 eliminate the transfers between MPS and L&P prior to the consolidation of these rate districts on
21 February 22, 2017. Staff’s adjustment is reflected in Staff’s Accounting Schedule 10,
22 Adjustment Rev-13.1.

23 **6. Excess Off-System Sales Margin Regulatory Liability (KCPL Only)**

24 Pursuant to KCPL’s Regulatory Plan, KCPL agreed that off-system energy and capacity
25 sales revenues, and related costs, will continue to be treated “above the line” for ratemaking
26 purposes over the course of the Regulatory Plan. KCPL also agreed that it would not propose
27 any adjustment that would remove any portion of its off-system sales from its revenue
28 requirement determination in any rate case during the life of the Regulatory Plan.

1 In its first rate case after the Commission approved the Regulatory Plan,
2 Case No. ER-2006-0314, the Commission determined that, in setting KCPL's rates, the amount
3 included in KCPL's revenue requirement for off-system sales should be the 25th percentile of
4 non-firm off-system sales margin as projected in that proceeding; that KCPL book all amounts
5 above the 25th percentile as a regulatory liability; but that no corresponding regulatory asset
6 would be booked should sales fail to meet the 25th percentile. This Order established the 2006
7 rate case tracker for off-system sales. The Commission ordered a continuation of this method of
8 accounting for off-system sales in each of KCPL's three subsequent general rate cases,
9 Case Nos. ER-2007-0291, ER-2009-0089, and ER-2010-0355.

10 In the *Non-Unanimous Stipulation and Agreement* the Commission approved in
11 Case No. ER-2009-0089, the parties agreed to the final dollar amount for the 2006 and 2007 rate
12 case trackers. The parties also agreed to set the 2009 rate case tracker off-system sales baseline
13 at \$30,000,000:

14 Off-System Sales ("OSS") Margins—Excess Over 25th Percentile
15 for 2007 and 2008

16 The Signatory Parties agree that the \$1,082,974 (Missouri
17 jurisdictional) excess of 2007 OSS margins over the amount
18 included in rates in Case No. ER-2006-0314 and the \$2,947,332
19 (Missouri jurisdictional) excess of 2008 OSS margins over the
20 amount included in rates in Case No. ER-2007-0291, together with
21 interest (Missouri jurisdictional), will be deferred in a regulatory
22 liability account and amortized over ten years beginning with the
23 date new rates become effective in this rate case, with one year's
24 amortization included in cost of service in this case. The
25 unamortized balance will not be included in rate base.

26 * * *

27 Off-System Sales Tracker

28 KCP&L's OSS margins at the 25th percentile shall be set at \$30
29 million, and shall be used for tracking purposes. Such tracker will
30 reflect a pro-ration, on a monthly basis, of this amount for any
31 partial years consistent with the percent of actual OSS realized in
32 each month of 2008. All OSS margins will be tracked against the
33 \$30 million baseline. The Signatory Parties reserve the right to
34 assert a position regarding the appropriate definition of OSS in the
35 Company's next general rate case.

1 Page 141 of the Commission *Report and Order* in KCPL Case No. ER-2010-0355, issued
2 April 12, 2011, states, “KCP&L’s rates shall be set at the 40th percentile of non-firm off-system
3 sales margin as projected by KCP&L, as listed in KCP&L witness Schnitzer’s Direct Testimony.
4 Margins above the 40th percentile shall be returned to ratepayers in a subsequent rate case or rate
5 cases.” KCPL did not realize any excess margins over the 40th percentile from the 2010
6 rate case and, thus, made no related adjustments to its regulatory liability.

7 Staff has calculated the amount of KCPL’s amortization and interest related to this
8 regulatory liability from the 2006, 2007, and 2009 rate cases and reflected the appropriate
9 amount in Adjustment Rev-4.1.

10 The off-system sales amortizations addressed above will end in 2019 and 2021. When
11 the amortizations end, KCPL will be returning funds to ratepayers in excess of the amortization
12 balance approved by the Commission. Consistent with the Stipulation and Agreements approved
13 by the Commission in Case Nos ER-2016-0156 and ER-2016-0285, Staff recommends that
14 KCPL track the funds returned to ratepayers in excess of the agreed upon balance and address
15 the ratemaking treatment in KCPL’s next general rate case.

16 *Staff Expert/Witness: Karen Lyons*

17 H. SO² Emissions Allowances

18 1. Deferred Sales from SO² Emissions Allowances

19 KCPL and GMO receive SO₂ emission allowances (“SO₂ allowances”) from the
20 United States Environmental Protection Agency (“EPA”), which authorize KCPL and GMO to
21 emit one ton of emissions during a given compliance period. KCPL and GMO use these
22 allowances to serve each of its electric customers. Because KCPL and GMO have reduced their
23 need for emission allowances below the number of allowances they each hold, the EPA also
24 holds back the additional unused allowances for the specific purpose of having allowances
25 available for auction. When the allowances are sold at the annual EPA auction, the proceeds are
26 forwarded to KCPL and GMO. Under the FERC Uniform System of Accounts (“USOA”),
27 proceeds from the sales of SO₂ emissions allowances are recorded in FERC Account 254, the
28 regulatory liabilities account. For ratemaking purposes, amounts recorded as regulatory
29 liabilities reduce a utility’s rate base; i.e., the net amount in FERC Account 254, after any

1 appropriate adjustments, is an offset to rate base. KCPL and GMO did not have any sales of
2 emission allowances in the test year so no allowances were available as an offset to rate base.

3 When emission allowances are purchased they are accounted for in FERC
4 Account 158- Emission Allowances Inventory. Staff examined both KCPL's and GMO's work
5 papers where a 13-month average was used to determine a level of emission allowances added to
6 rate base. Staff has included in its direct case the balance of Account 158.100 on December 31,
7 2017, as an addition to rate base. This approach is consistent with the treatment in the last five
8 GMO/Aquila rate cases, Case Nos. ER-2007-0004, ER-2009-0090, ER-2010-0356,
9 ER-2012-0175 and ER-2016-0156. The rationale for treating these SO2 emissions allowances in
10 this manner is to acknowledge that, through rates, GMO's customers either have paid for GMO's
11 production facilities that reduce emissions and thus create these overages in SO2 emissions
12 allowances or to give recognition for the purchase of emission allowances that are included rate
13 base. In this instance, the emission allowances were included in Accounting
14 Schedule 2-Rate Base for both KCPL and GMO rate cases.

15 *Staff Expert/Witness: Cary G. Featherstone*

16 **I. Economic Development Rider ("EDR")**

17 Staff calculated the normalized level of revenue forgone by both KCPL and GMO, by
18 class, due to discounts provided under the EDR and Urban Core tariffs. Staff calculated this
19 amount by applying the discount percentage applicable under each customer's contract for each
20 of the 12 months November 2017 – October 2018 to each customer's bill for each month during
21 the period November 2016 – November 2017. Staff will update this calculation and resulting
22 revenue adjustment as part of true-up.

23 Staff excluded customers from the EDR calculation in the following instances: where
24 documentation of the EDR contract was not provided, where a review of documentation
25 provided indicated that the customer did not qualify for the EDR or continued receipt of the
26 EDR, or where the form of the EDR provided was improper. Staff also adjusted the start date of
27 EDR discounts for an account that received service as a new customer for several years before
28 KCPL began applying discounts to that customer's bills. The dollars of revenue reduced due to
29 the EDR discount was provided by utility and by rate schedule to Staff's revenue witness (Kim
30 Cox) to reduce the total revenue calculated.

1 Staff recommends that KCPL and GMO conduct a thorough review of the compliance of
2 customers receiving an EDR discount with the applicable contract and tariff. As part of rebuttal
3 testimony KCPL and GMO should provide a report on the review of the continued qualification
4 of each customer pursuant to the EDR tariff terms, including, but not limited to the following:

- 5 1. Ensuring that the local, regional, or state governmental economic development
6 incentives that are provided as qualification under the Availability provisions of tariff
7 sheet 32E are actually awarded and accepted. Many of the EDR documents provided
8 to the Commission include only an offer letter from a governmental economic
9 development agency and there is no indication that the incentives were ultimately
10 accepted and that conditions associated with the receipt of such incentives have been
11 met and maintained.
- 12 2. Ensuring that an annual load factor of 55% or greater has been maintained in years
13 three through five of service under the EDR, as applicable, pursuant to tariff sheet
14 32E, Applicability Paragraph 1.
- 15 3. Review whether any load shifting has occurred in the case of expansion customers,
16 pursuant to tariff sheet 32G, Incentive Provision Paragraph 2. If any shifting has
17 occurred, metering arrangements must be made to exclude shifted amounts from the
18 metered amount subject to the EDR discount.
- 19 4. In the case of retention customers, review documentation provided regarding the
20 availability of a viable alternative electric supply option, pursuant to tariff sheet 32F,
21 and the Termination provisions of tariff sheet 32H.

22
23 As part of the report, KCPL and GMO should present documentation confirming the
24 continued eligibility of each EDR customer under each item provided above. Pursuant to this
25 review, customers not meeting continued eligibility requirements to receive the EDR discounts
26 should be removed from the EDR calculation. At this time, Staff has not excluded customers
27 related to continued qualification to receive EDR discounts. Staff will continue to review and
28 monitor the EDR customer program and may make further recommendations in this case or
29 future cases.

30 31 **1. KCPL EDR Adjustments**

32
33 The KCPL EDR is available to customers otherwise qualified for service on the MGS,
34 LGS, LPS, MGA, or LGA rate schedules. Staff excluded KCPL Account ** _____
35 _____ ** because it receives service in the SGS class. Staff did include the
36 ** _____ **, as it is receiving service on the LGS rate
37 schedule in its annualized level of discounts.

1 Staff did not include discounts associated with KCPL Accounts ** _____
2 _____ . ** Although KCPL provided billing information for these
3 account numbers, Staff has been unable to determine which contract is applicable to these
4 accounts. Staff did not include discounts associated with KCPL Accounts ** _____
5 _____ ** although KCPL provided contracts applicable to these accounts, KCPL did not
6 provide billing information for these account numbers. Pending receipt of necessary
7 information, Staff will include in true-up any applicable discounts associated with
8 these accounts.

9 Staff adjusted the discount associated with KCPL Account ** _____
10 _____
11 _____ , ** as a new or expansion customer, and discounts provided pursuant to the
12 frozen tariff sheets 32 – 32D. This treatment is consistent with the customer’s application
13 submitted ** _____ . ** Staff adjusted its treatment of
14 the account from KCPL’s apparent treatment of the customer as a new or expansion customer in
15 ** _____ , ** pursuant to tariff sheets 32E – 32J which did not take effect until October
16 19, 2013. In the alternative, if KCPL treated this customer as a retention customer as of the
17 contract execution date of ** _____ , ** KCPL has failed to provide an affidavit and
18 supporting documentation, as provided on tariff sheet 32F requiring that

19 [i]n the case of retention of an existing Customer, as a condition for service under
20 this Rider, Customer must furnish to Company such documentation (e.g.
21 Influencing factors and a comparison of the rates and other economic
22 development incentives) as deemed necessary by Company to verify the
23 availability of a viable electric supply option outside of KCP&L's service territory
24 and Customer's intent to select this viable electric supply option. Customer must
25 also furnish an affidavit stating Customer's intent to select this viable electric
26 supply option unless it is able to receive service under this Rider.
27

28 In response to Staff Data Request 0001 under Tracking No. BEDR-2017-1773, KCPL
29 provided the following timeline relating to ** _____ .
30 _____
31 _____
32 _____
33 _____
34

1 incentive required to qualify for the KCPL EDR at any point after ** _____
2 _____ ** Given the date at which the facility became fully operational and
3 the lack of the receipt of any state, regional, or local economic incentives in the ** ____ **
4 time frame, there is no reasonable interpretation that the ** _____ ** facility be
5 viewed as a new or expanded load in ** _____ ** and it is not reasonable to treat the
6 facility as an expansion customer as of ** _____ ** Further, because there is no
7 documentation of the customer's intent to select an alternative energy provider in the
8 ** ____ ** time frame, it is not reasonable to treat the ** _____ ** facility as a
9 retention customer as of ** _____ . ** Staff's treatment of the ** _____ **
10 facility to reflect a discount start date of ** _____ , ** with discounts provided pursuant to
11 the frozen tariff sheets 32 – 32D is the most reasonable treatment of the EDR discounts
12 associated with this account.

13 Staff notes that in its response to DR 194 in File No. ER-2018-0145, KCPL indicated that
14 the ** _____
15 _____ . ** Staff will include any applicable
16 annualizations of these reductions in usage in its true-up calculation of the discounts associated
17 with ** _____ . **

18 Staff excluded discounts associated with KCPL Account ** _____
19 _____ . ** because the governmental economic incentives
20 associated with its application are of only specious value. Additionally, an executed affidavit has
21 not been presented as required pursuant to tariff sheet 32F; there is a lack of certainty as to
22 whether load has been shifted from ** _____ ** and properly excluded from
23 size and metering requirements at ** _____ ; ** it is not clear that the facility
24 is not in the business of providing services directly to the general public; and it is not clear that
25 the customer has met or maintained load factor requirements.

26 The Availability provisions of tariff sheet 32E state, in pertinent part, “[e]lectric service
27 under this Rider is only available in conjunction with local, regional and state governmental
28 economic development activities where incentives have been offered and accepted by the
29 Customer to locate new facilities, expand existing facilities, or retain existing facilities in the
30 Company's service area.” As indicated in KCPL's response to DR 0001 in Tracking No. BEDR-
31 2018-0022, the local incentives offered by the ** _____ ≡

1 _____, ** for the retention of the facility located at ** _____

2 _____, ** consisted of ** _____

3 _____

4 _____

5 _____

6 _____ .**

7 Utilities with EDR(s) rely on state, regional, and local economic development offices to
8 vet the merits of a potential facility for subsidization. Staff and other stakeholders rely on the
9 determination that the relevant governmental or quasi-governmental body – a body with limited
10 funds to expend – has chosen to place some of those funds into the development, expansion, or
11 retention of a particular facility. This reliance takes the place of an individualized review that is
12 generally beyond the scope of expertise of both Staff and the utility. Such a review would also
13 be difficult if not impossible unless Staff and the utility had access to the confidential
14 information of other potential customers, which are possessed by the economic development
15 office(s). An economic development office’s award of “incentives” that have little or no
16 monetary value, or that are of only specious value, does not support a reasonable inference that
17 the potential facility merits subsidization in the form of incentives of monetary value from a
18 constrained budget of a governmental economic development office. The local incentives
19 associated with Account ** _____

20 _____ ** do not meet the clear spirit of the tariff to support a reasonable inference that the
21 economic development office found merit in such subsidization.

22 As indicated in KCPL’s response to DR 0001 in Tracking No. BEDR-2018-0022, KCPL
23 did not receive a properly executed affidavit stating the customer’s intent to select a different
24 viable electric supply option unless it was able to receive service under KCPL’s EDR. KCPL
25 has provided a copy of an unsworn letter stating in pertinent part, ** _____

26 _____

27 _____ .** However, this statement is not in the form
28 of an affidavit and it does not indicate the customer’s intent to select an alternative site unless it
29 receives the EDR discount. This further supports the exclusion of Account ** _____

30 _____ .**

1 Staff is concerned that the discounts associated with KCPL Accounts ** _____
2 _____ ** may not properly reflect the exclusion of existing load.
3 However, Staff has not removed these accounts from its annualization at this time, pending either
4 confirmation that existing load has been accounted for, or provision of a level of load to remove
5 from the annualizations of the discount.

6 2. GMO EDR Adjustments

7 Staff excluded discounts associated with GMO Accounts ** _____
8 _____ . ** GMO provided no evidence of any governmental economic
9 development incentive offered or awarded in conjunction with these accounts.

10 Further, as indicated in GMO's response to DR 122.3 in File No ER-2018-0146, GMO did
11 not receive a properly executed affidavit stating the customer's intent to select a different viable
12 electric supply option unless it was able to receive service under GMO's EDR. GMO has
13 provided a copy of an unsworn letter generally inquiring whether the customer would qualify for
14 KCP&L [sic] Economic Development Rider however, it is not in the form of an affidavit and it
15 does not indicate the customer's intent to select an alternative site unless it receives the EDR
16 discount.

17 Staff excluded discounts associated with GMO Account ** _____ **,
18 because the governmental economic incentives associated with its application are of specious
19 value and do not support a reasonable inference that the potential facility merits subsidization in
20 the form of incentives of monetary value from a constrained budget of a governmental economic
21 development office. Per GMO's response to DR 1, question 5 under BEDR-2018-0017, for this
22 account, GMO relied on a ** _____ ** municipal ordinance exempting GMO from
23 remitting to ** _____ ** a license fee on "revenue from sale of service to the City or
24 any revenue from sales to industrial consumers." The ordinance indicates that for purposes of
25 this license fee exemption, industrial consumers are those businesses within the limits of the City
26 which have Industrial Classification Codes. Because under this ordinance each and every
27 manufacturer, industry, and factory located within ** _____ ** city limits is exempted
28 from the licensee fee to be remitted by GMO to the city, this ordinance does not constitute a
29 governmental economic incentive within the meaning of the Availability provisions of tariff
30 sheet 32E stating in pertinent part, "Electric service under this Rider is only available in
31 conjunction with local, regional and state governmental economic development activities where

1 incentives have been offered and accepted by the Customer to locate new facilities, expand
2 existing facilities, or retain existing facilities in the Company's service area."

3 *Staff Expert/Witness: Sarah L.K. Lange*

4 **J. Miscellaneous Revenues**

5 **1. Late Payment Revenue (Forfeited Discount)**

6 KCPL and GMO charge a late payment fee to customers who fail to pay bills in a timely
7 manner. Staff annualized late payment fee revenues by using the ratio of late payment fees to
8 Missouri total retail sales, both net of gross receipt taxes ("GRT"), from December 31, 2016, to
9 December 31, 2017, because the data from this time period represents the most recent
10 and most relevant information. Staff multiplied this ratio by the annualized revenue,
11 resulting in an annualized level of late payment fees. Staff's adjustments are identified on
12 Schedules 9 of Staff's KCPL and GMO Accounting Schedules, Adjustments Rev-16-3
13 and Rev-18-1, respectively.

14 *Staff Expert/Witness: Antonija Nieto*

15 **K. Other Revenue Accounts**

16 Staff reviewed the amounts KCPL and GMO included in their cost of service calculations
17 for "Other Revenues," which include rent from electric property, miscellaneous service revenues,
18 and temporary installation profit. Staff concluded the test year amounts for Other Revenues
19 appeared to be reasonable and representative of an annualized level of revenue for each
20 respective category and, therefore, do not require adjustment. However, Staff will apply
21 its own allocation factors to those amounts that are common to other KCPL and GMO
22 operational jurisdictions.

23 *Staff Expert/Witness: Antonija Nieto*

24 **L. Removal of Gross Receipts Taxes from Test Year Revenues**

25 The amounts received from customer payments and recorded as revenues during the test
26 year include Gross Receipts Taxes ("GRT"). GRTs are imposed by a taxing authority for which
27 KCPL and GMO are obligated to charge customers on their utility bills. After KCPL and GMO
28 collect these taxes from their customers, they periodically remit these amounts to the appropriate

1 taxing authority. In this regard, to accurately account for KCPL's and GMO's actual test year
 2 retail revenues, it is both necessary to remove GRT from the amounts recorded as revenues
 3 during the test year and to remove the corresponding remittances to the taxing authority as a
 4 charge to expenses. As a result of these adjustments, GRT should have no impact on KCPL's
 5 and GMO's final revenue requirement amount.

6 *Staff Expert/Witness: Antonija Nieto*

7
 8 **VI. Income Statement – Expenses**

9 **A. Fuel and Purchased Power Overview**

10 **1. KCPL**

11 KCPL estimates its 2018 total generating capacity, consisting of nuclear, coal-fired,
 12 natural gas, oil-fired generating units, and wind generation, to be 4,448 megawatts.²⁹ KCPL's
 13 estimated generation capacity is made up of the following types of generation:

14

Generation Capacity by Fuel Type	Estimated 2018 Megawatts	Percentage of Generation Capacity (MW) by Fuel Type	2017 Percentage of MWHs Generated by Fuel Type
Coal	2,569 MWs	57.8%	69.5%
Nuclear	552 MWs	12.4%	28.2%
Natural Gas	782 MWs	17.6%	Less than 1%
Oil	396 MWs	8.9%	Less than 1%
Wind	149 MWs	3.3%	1.8%
Total	4,448 MWs	100%	100%

15 Source: Great Plains Energy 10-K for fiscal year ended December 31, 2017.

16
²⁹ Estimated data provided due to the unavailability of 2017 Annual Report to Shareholders as explained in the response to Staff Data Request No. 11.

1 While KCPL's coal-fired generating units make up 58% of its total generating fleet, those
 2 units produce 70% of total system load requirements. Nuclear generating capacity makes up
 3 12% of total KCPL capacity, but it produces 28% of total generation. Natural gas capacity
 4 makes up 18% of total capacity; however, this fuel type makes up less than 1% of KCPL's total
 5 generation based on 2017 actual megawatt hours of generation.

6 **

—	—	=	—	=	—	=
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—

7
 8 **

9 Based on the actual 2017 generation by fuel type in MMBTus, coal and nuclear
 10 make up 99% of total generation, with oil and natural gas making 1% of generation.

11 *Staff Expert/Witness: Matthew R. Young*

1 **2. GMO**

2 GMO estimates its 2018 total generating capacity, consisting of coal-fired, natural gas,
3 oil-fired generating units, and combined natural gas/oil, to be 2,033 megawatts.³⁰ GMO's
4 estimated generation capacity is made up of the following types of generation:
5

Generation Capacity by Fuel Type	Estimated 2018 Megawatts	Percentage of Generation Capacity (MW) by Fuel Type	2017 Percentage of MWHs Generated by Fuel Type
Coal	864 MWs	42.5%	99.18%
Natural Gas	781 MWs	38.4%	0.75%
Natural Gas/Oil	328 MWs	16.1%	0.00%
Oil	60 MWs	3.0%	0.00%
Total	2,033 MWs	100%	100%

6 Source: Great Plains Energy 10-K for fiscal year ended December 31, 2017.
7

8 While GMO's coal-fired generating units make up 43% of its total generating fleet, those
9 units produce 99% of total system load requirements. Natural gas generating capacity makes up
10 38% of total GMO capacity, but it produces less than 1% of total generation. Oil capacity makes
11 up 3% of total capacity, but this fuel type makes up less than 1% of GMO's total generation,
12 based on 2017 actual megawatt hours of generation. The table below on the next page shows
13 2014-2017 actual generation based on MMBTUs:
14

³⁰ Estimated data provided due to the unavailability of 2017 Annual Report to Shareholders as explained in the response to Staff Data Request No. 11.

1 Rate Revenue Section of Staff's Cost of Service Report, ending December 31, 2017,
2 to be \$173,753,391 including off-system sales.

3 Staff uses the PLEXOS production cost model to perform an hour-by-hour chronological
4 simulation of a utility's generation and power purchases. Staff uses this model to determine
5 annual variable cost of fuel and net purchased power energy costs and fuel consumption. These
6 amounts are supplied to Auditing Department Staff who uses this input in its annualization of
7 fuel expense.

8 Staff used market prices in its fuel model dispatch to simulate KCPL's and GMO's
9 operations in the Southwest Power Pool ("SPP") integrated marketplace ("IM"). The price for
10 energy in the IM dictates the amount of energy the Companies sell in the IM. Consequently,
11 Staff's fuel run dispatches the Companies generation to match the SPP market price,
12 thus simulating how the SPP would dispatch generation if it were being dispatched into
13 the SPP IM based on prices set by the SPP's regional load requirements.

14 The model operates in a chronological fashion, meeting each hour's energy demand
15 before moving to the next hour.

16 Model inputs calculated by Staff are: fuel prices, market power prices and availability,
17 hourly load requirements at transmission, and unit planned and forced outages. Staff relied on
18 KCPL's and GMO's responses to Staff's data requests and workpapers for factors relating to
19 each generating unit. These factors include: capacity of the unit, unit heat rate curve, primary
20 fuels, ramp-up rate, startup costs, fixed operating and maintenance expense as well as
21 information from wholesale loads.

22 *Staff Expert: Shawn E. Lange, PE and Charles T. Poston, PE*

23 **1. Planned and Forced Outages**

24 Planned and forced outages are infrequent in occurrence, and variable in duration. In
25 order to capture this variability, the generating unit outages for KCPL and GMO were
26 normalized by averaging seven years (January, 2011 through December, 2017) of actual values
27 taken from data the Companies supplied to Staff to comply with 4 CSR 240-3.190 and data the
28 Companies supplied to in response to Staff data requests. If seven years of data were not
29 available for a specific generating unit, Staff used an average of the years available.

30 *Staff Experts/Witnesses: Shawn E. Lange, PE and Charles T. Poston, PE*

1 **2. Heat Rate Testing**

2 If an electric utility requests that a Rate Adjustment Mechanism (Fuel Adjustment Clause
3 (“FAC”)) be continued or modified, Commission Rule 4 CSR 240-3.161(3)(Q) requires that an
4 electric utility shall file specific information as a part of its direct testimony in a general
5 rate proceeding:

6 (Q) The results of heat rate tests and/or efficiency tests on all the electric utility’s
7 nuclear and non-nuclear steam generators, HRSG, steam turbines and combustion
8 turbines conducted within the previous twenty-four (24) months;
9

10 GMO has had an FAC since the Commission first authorized one in Case No. ER-2007-0004.
11 GMO has again requested the FAC be continued in the current general rate proceeding,
12 Case No. ER- 2018-0146.

13 The Commission first authorized KCPL’s FAC in Case No. ER-2014-0370. The FAC
14 was continued in Case No. ER-2016-0285. KCPL is again requesting that its FAC be continued
15 with modification in the current general rate proceeding, Case No. ER- 2018-0145.

16 Company witness Burton L. Crawford filed testimony that included the results of the
17 most recent heat rate/efficiency tests for GMO³¹ and KCPL’s³² generating units. Staff has
18 conducted a review of those results and found them to be reasonable based on comparisons with
19 data filed in previous general rate case proceedings. All of the testing dates submitted by GMO
20 and KCPL were found to be in accordance with the twenty-four (24) month requirement
21 of 4 CSR 240-3.161(3)(Q).

22 *Staff Expert/Witness: Daniel I. Beck, P.E.*

23 **3. Lake Road Allocation Factors (GMO Only)**

24 **a. Physical Layout and Basic Operations at the Lake Road Plant**

25 The Lake Road Plant is located at 1413 Lower Lake Road in St. Joseph, Missouri.
26 Seven electric generators are located at the site along with equipment for the production and
27 delivery of industrial steam. Four of the seven generators are driven by steam turbines and have
28 a combined name plate capacity of 150.5 megawatts³³ (“MW”). Units 1, 2, and 3 are part of the

³¹ Direct Testimony of Burton L. Crawford, Schedule BLC-6, ER-2018-0146

³² Direct Testimony of Burton L. Crawford, Schedule BLC-6 and BLC-7, ER-2018-0145

³³ KCP&L Greater Missouri Operations Company FERC Form No. 1, page 403.1, line 5, column (d)

1 900 lb. steam system and Unit 4 is part of the 1800 lb. steam system. Units 5, 6, and 7 are
2 combustion turbines and have a combined name plate capacity of 127.6 MW.³⁴

3 The 900 lb. Steam System: The boilers on the 900 lb. steam system create steam that is
4 used to pressurize two steam headers. The first steam header operates at a nominal pressure of
5 900 pounds per square inch (“psi”) and provides steam to an industrial steam customer along
6 with steam that can be used to drive Units 1 and 2. The boilers on the 900 psi header are fueled
7 by coal, natural gas, and fuel oil. The 900 psi header also provides steam to a second steam
8 header that operates at a nominal pressure of 200 psi. Additional boilers directly supply the 200
9 psi steam header. These boilers are fueled by natural gas and fuel oil. The 200 psi steam header
10 provides steam to multiple industrial steam customers, steam that can be used to drive Unit 3,
11 and steam for use in auxiliary steam loads at the Lake Road Plant.

12 The 1800 lb. Steam System: Boiler 6 provides the steam necessary to drive Unit 4 on the
13 1800 lb. steam system. Boiler 6 is capable of burning natural gas and fuel oil. The 1800 lb.
14 steam system is only used for the generation of electricity and does not produce any steam for
15 use by industrial steam customers.

16 The Combustion Turbines: Three combustion turbines are located at the Lake Road
17 Plant. Unit 5 burns natural gas as its primary fuel, while Units 6 and 7 primarily burn fuel oil.
18 The combustion turbine systems are only used for the generation of electricity and do not
19 produce any steam for use by industrial steam customers.

20 21 **b. Use of Allocation Factors at the Lake Road Plant**

22 GMO uses a method of allocations for the Lake Road Plant in order to provide a
23 systematic way of dividing expenses between steam and electric customers. The current
24 allocation method recognizes three basic types of expenses: expenses allocated 100% to electric
25 customers, expenses allocated 100% to steam customers, and expenses that are allocated to both
26 steam and electric customers. Staff expects that any method of allocations at the Lake Road
27 Plant will appropriately categorize all expenses and provide for a rational method of dividing
28 shared costs between electric and steam customers.

29
30

³⁴ KCP&L Greater Missouri Operations Company FERC Form No. 1, page 403.1, line 5, column (e)

1 **c. Changes at the Lake Road Plant**

2 In recent years there have been a number of changes at both the Lake Road Plant and in
3 the marketplace in which it operates. These changes include the cessation of coal use at Unit 4,
4 an increase in wind generation, and the launch of SPP's Integrated Marketplace. GMO has also
5 announced its intention to permanently retire Unit 4 at the end of 2019.³⁵

6 Cessation of Coal Use for Unit 4: In the summer of 2016, the primary fuel used in Boiler
7 6 was changed from coal to natural gas. Boiler 6 is the sole source of 1800 psi steam for Unit 4.
8 Following this conversion, the only use for coal at the Lake Road Plant is for Boiler 5 on the 900
9 lb. steam system. Lake Road coal is less expensive than natural gas on a \$/mmBTU basis and so
10 the decision to stop burning coal had the effect of increasing the cost of electrical generation
11 at Unit 4.

12 Increase in Wind Generation: Wind generation within SPP has been growing for a
13 number of years. Wind's share of generation within SPP was only 3% in 2007, but rose to nearly
14 23% in 2017.³⁶ This increase in wind generation has also increased the frequency of negative
15 market prices for electricity due to an oversupply of energy.³⁷ This has the effect of making the
16 generators at the Lake Road Plant less competitive in the marketplace.

17 Launch of the SPP Integrated Marketplace: Since March, 2014, GMO has been a
18 participant in the SPP Integrated Marketplace. Many factors can influence the optimal mix of
19 self-generation, purchased power contracts, and market purchases, but one of the effects of the
20 Integrated Marketplace is to decrease the cost of meeting load while still ensuring reliability.
21 The Lake Road Plant is a higher cost generator within GMO's generation portfolio and would
22 therefore be less desirable to dispatch for generation due to the launch of the Integrated
23 Marketplace.

24 The change in fuel type at Unit 4 combined with the increase in wind generation and
25 GMO's continued participation within the SPP Integrated Marketplace have been coincident
26 with a dramatic decrease in the amount of energy generated at the Lake Road Plant. The changes
27 in dispatching behavior resulted in the Lake Road Plant consuming more energy than it produced
28 during 2017.

³⁵ EO-2018-0269, KCP&L Greater Missouri Operations Company, Integrated Resource Planning, Volume 1
"Executive Summary", Section 7.2 "Unit Retirement Planning"

³⁶ SPP Market Monitoring Unit, "State of the Market 2017", Dated: May 8, 2018, page 35

³⁷ SPP Market Monitoring Unit, "State of the Market 2017", Dated: May 8, 2018, page 103

Table 1. Lake Road Net Generation 2009-2017³⁸

	Steam Turbines	Gas Turbines
Year	Sum of Units 1, 2, 3, 4 [MWh]	Sum of Units 5, 6, 7 [MWh]
2009	469,452	-969
2010	465,417	594
2011	398,097	4,572
2012	346,466	6,609
2013	437,856	2,677
2014	248,527	-1,056
2015	213,482	-1,176
2016	83,128	-1,727
2017	-22,485	-2,065

d. Summary of Previous Staff Recommendations

In Case No. ER-2016-0156, Staff recommended³⁹ that the Lake Road allocation factors remain unchanged from those submitted by GMO in Case No. ER-2012-0175. Staff further recommended that changes to the methods of allocation be deferred to future electric and steam rate cases. This recommendation was made in order to allow for the effects of operational changes that were being made at the time to be more fully understood. At that time, Unit 4 was being converted to run on natural gas as its primary fuel source instead of coal. Staff concluded that due to the uncertainty caused by the significant changes at Unit 4 and the lack of any other changes in the way the 900 lb. steam system was being used, that it was not appropriate to make changes to the Lake Road allocation factors.

In the Non-Unanimous Stipulation and Agreement filed in Case No. ER-2016-0156, Staff and GMO agreed, for the purposes of that case, to adopt a series of allocation factors provided in a table.⁴⁰ No changes were made to the methods used to calculate the allocation factors other than those necessary to facilitate the consolidation of rate districts within GMO's service territory. The table from that Stipulation and Agreement is reproduced below.

³⁸ Data taken from FERC Form No. 1s submitted with KCP&L Greater Missouri Operations Company's Annual Reports that are filed in EFIS

³⁹ ER-2016-0156, Staff Direct Revenue Requirement Report, pages 99-101

⁴⁰ ER-2016-0156, EFIS Item No. 305, "Non-Unanimous Stipulation and Agreement," page 12

Table 2. Lake Road Allocation Factors from ER-2016-0156
**KCP&L Greater Missouri Operations (GMO)- Combined
Allocation Factors**

Electric/Steam Allocation Factors		Electric	Steam	
1,1	Jurisdictional-100% Electric	100.000 %	0.000 %	100.000 %
1,3	100% Jurisdictional/Allocated Plant Base	98.887 %	1.113 %	100.000 %
1,13	100% Jurisdictional/O&M	92.846 %	7.154 %	100.000 %
2,2	Non-Juris/Steam	0.000 %	100.000 %	100.000 %
3,1	Demand/Electric	99.540 %	0.460 %	100.000 %
3,4	Demand/Land	75.730 %	24.270 %	100.000 %
3,5	Demand/Structures	75.730 %	24.270 %	100.000 %
3,6	Demand/Boiler Plant	65.515 %	34.485 %	100.000 %
3,7	Demand/Turbogenerators	99.255 %	0.745 %	100.000 %
3,8	Demand/Access Elec Eqpt	75.730 %	24.270 %	100.000 %
3,9	Demand/Misc Steam Gen Eqpt	47.381 %	52.619 %	100.000 %
3,10	Demand/Electric/Steam Plant	75.730 %	24.270 %	100.000 %
3,13	Demand/O&M	92.419 %	7.581 %	100.000 %
4,1	Energy/Electric	99.500 %	0.500 %	100.000 %
5,1	Distribution/Electric	99.667 %	0.333 %	100.000 %
6,1	Payroll/Electric	99.591 %	0.409 %	100.000 %
6,14	Payroll/A&G	98.911 %	1.089 %	100.000 %
7,1	Plant/Electric	99.591 %	0.409 %	100.000 %
7,3	Plant/Alloc Plant	98.483 %	1.517 %	100.000 %
7,14	Plant/A&G	98.911 %	1.089 %	100.000 %
8,1	Transmission/Electric	99.540 %	0.460 %	100.000 %

e. Current Status of Staff Review

A proposed revision to the Lake Road allocation procedures was provided as a part of Mr. Tim Rush’s direct testimony in Case No. ER-2018-0146. Following its review, Staff sent a number of data requests to GMO and as a result, determined that revisions to the proposed allocation procedures were necessary. GMO responded to a Staff data request with a revised allocation procedure on June 5, 2018,⁴¹ which Staff is currently reviewing.

f. Staff Recommendation

Staff is not opposed to a revision of the Lake Road allocation procedures that would account for the changes in fuel use and market conditions that have occurred in the past several years. However, Staff’s review of this issue is ongoing due to the delays in receiving GMO’s revision to the allocation procedures it originally proposed in this case. Therefore, at this time Staff must recommend that the allocation factors agreed to in the Stipulation and Agreement in

⁴¹ ER-2018-0146, GMO response to Staff Data Request 386

1 Case No. ER-2016-0156 be left in place. This recommendation may be subject to modification
2 depending on the results of Staff's final review of GMO's proposed revisions to the allocation
3 procedures it submitted in this case.

4 *Staff Expert/Witness: Charles T. Poston, PE*

5 **4. Contract Prices and Energy**

6 Utilities may enter into contracts for a specific amount of energy (megawatts or "MW")
7 and/or a maximum amount of hourly energy (megawatt-hours or "MWh"). Prices for the energy
8 from these contracts are based on either a fixed contract price or the generating costs of
9 providing the energy. The contracts relevant to KCPL are the Cimmaron II, Spearville 3,
10 Slate Creek, Waverly, Rock Creek, and Osborn wind power contracts and the Central Nebraska
11 Public Power and Irrigation District ("CNPPID") hydro power contract. The contracts relevant to
12 GMO are Ensign, Gray County, Osborn, and Rock Creek wind farms and the State Fair
13 Community College landfill gas facility.

14 For the KCPL contracts of Cimmaron II, Spearville 3, Slate Creek, Waverly, Rock Creek,
15 Osborn and CNPPID and the GMO contracts of Ensign, Gray County, and Osborn, Staff
16 developed hourly energy production by averaging the historic hourly generation records that
17 were supplied by the Companies. In the case of Rock Creek, less than one year of actual
18 production statistics was available. As a result, Staff adopted the estimated generation levels
19 used by KCPL and GMO respectively. The State Fair Community College landfill gas facility
20 was modeled as having fixed generation equal to the value assumed by GMO. Energy prices
21 per MWh were obtained from the wind, landfill gas, and hydro power contracts provided
22 by KCPL & GMO.

23 *Staff Experts/Witnesses: Shawn E. Lange, PE and Charles T. Poston, PE*

24 **5. Fixed Costs**

25 Fuel and purchased power costs that do not vary directly with the amount of fuel burned
26 were not included in Staff's fuel model, but were determined separately. The non-variable fuel
27 costs that were determined separately and included in fuel expense are typically referred to as
28 "fuel adders." These types of costs include non-wage fuel handling, dust suppressant, and freeze
29 proofing coal for transportation from the mines to power plants. The non-variable purchased

1 power costs not included in Staff's fuel model are commonly referred to as "capacity charges" or
2 "demand charges" and are annualized separately from purchased power energy costs and are
3 addressed in a later section of this report.

4 *Staff Expert/Witness: Matthew R. Young*

5 **6. Fixed Adders**

6 The costs of fuel adders are determined separately and are added to the level of fuel
7 expense determined by the model to determine overall fuel expense. Costs added to coal
8 expense include unit train lease payments and unit train rail car maintenance costs. Fuel adders
9 for natural gas include transportation charges and hedging costs. A significant percentage of
10 natural gas transportation charges is fixed and under contract. Other fuel adder expenses
11 incurred by KCPL and GMO include ammonia, lime, limestone, sulfur, and powder activated
12 carbon ("PAC").

13 For natural gas fixed transportation costs and additives such as limestone and
14 ammonia, Staff used the actual expenses for the 12-months ending December 31, 2017. Staff's
15 adjustments are identified on Schedule 10 of Staff's KCPL Accounting Schedules, as
16 adjustments E-7.3, E-12.1, E-12.2, E-99.2, and E-101.1. In Staff's GMO Accounting Schedules,
17 the annualized expense is reflected in adjustments E-6.3, E-6.4, E-6.7, E-9.1, and E-51.1. Staff
18 will re-examine these expenses at the time of Staff's true-up, and update any costs as necessary.

19 *Staff Expert/Witness: Matthew R. Young*

20 **7. Purchased Power – Energy**

21 Staff Adjustments E-114.3 (KCPL) and E-68.3 (GMO) annualizes purchased power
22 energy charges based on Staff's fuel model results. These purchased power energy charges
23 represent the energy KCPL and GMO purchase on the spot market and through contracts to meet
24 the system load requirements of its retail electric customers. Staff witness Shawn Lange of the
25 Engineering Analysis Unit of the Operational Analysis Department is responsible for
26 determining Staff's recommended hourly market prices for use as inputs in Staff's fuel
27 models. Mr. Lange is responsible for the KCPL fuel model while Staff witness
28 Charles T. Poston is responsible for the GMO fuel model. Mr. Lange and Mr. Poston use the
29 same hourly market prices within their respective models.

30 *Staff Expert/Witness: Matthew R. Young*

1 **8. Purchased Power – Capacity Charges**

2 Capacity charges, commonly referred to as “demand charges,” represent fixed amounts
3 that KCPL and GMO either pays for the “right” to purchase power, also known as capacity
4 purchases, or is paid by another entity for the “right” to purchase power from KCPL or GMO. In
5 the case of purchased power, the selling entity reserves generating capacity for KCPL or GMO to
6 purchase when the electricity is needed under terms of the purchased power agreements.
7 KCPL and GMO contract this power with various entities and pay a fixed component for the
8 reserve capacity and an energy component for any energy consumed. Generally, there is also an
9 amount for operational and maintenance costs charged for the usage of energy. The fixed
10 component is paid by KCPL and GMO as a demand charge, generally on a monthly basis,
11 regardless of the level of power actually purchased. This amount is for the “right” to purchase
12 the power in much the same way that natural gas utilities purchase the reservation of capacity
13 from pipelines through reservation payments. The demand charges relate to the fixed expenses
14 of operating a generating facility.

15 The demand charges paid to KCPL and GMO by other generating entities, giving those
16 entities the “right” to purchased power from KCPL and GMO, are known as capacity sales.
17 The demand charges for capacity sales are addressed in the revenue portion of this
18 Cost of Service Report.

19 Staff annualizes purchased power demand charges based on existing capacity contracts
20 currently in effect. These charges represent amounts that are paid under capacity agreements
21 related to the fixed costs of reserving capacity. Staff determined the appropriate costs per
22 megawatt hour and the amount of megawatts purchased for each contract and included the costs
23 reflected in KCPL’s and GMO’s capacity agreements in effect on December 31, 2017.

24 *Staff Expert/Witness: Matthew R. Young*

25 **9. Border Customers**

26 Border customers are customers who are in the service territory of one utility to which
27 the customer will pay its bill, but are physically served by another utility’s power lines. In other
28 words, there are KCPL and GMO customers currently being served by another utility’s power
29 and customers of other utilities that are being served by KCPL’s and GMO’s power. When
30 KCPL and GMO customers are served by another utility, KCPL and GMO must pay the utility
31 for the costs to serve these customers. The energy supplied by another utility for KCPL’s and

1 GMO's customers is included in Staff's fuel model as a reduction to the net system input ("NSI")
2 and the revenues for KCPL and GMO customers that are served by another utility are included in
3 Staff's retail revenue calculation and included in KCPL's and GMO's cost of service. When
4 another utility's customers are served by KCPL and GMO, the utility must reimburse KCPL and
5 GMO for the cost of serving those customers. The energy supplied by KCPL and GMO is
6 included in Staff's fuel model and the related fuel costs are included in KCPL's and GMO's cost
7 of service.

8 To ensure that all border customer costs and revenues are included in KCPL's and
9 GMO's cost of service, an additional adjustment must be made to include (1) the payment KCPL
10 and GMO makes to reimburse other utilities for the costs to serve KCPL's and GMO's
11 customers -- purchased power, and (2) the payment KCPL and GMO receives from other utilities
12 for the costs to serve those utilities' customers -- sales.

13 Staff reflected actual KCPL and GMO border customer revenues and expenses for the
14 twelve months ending December 31, 2017, the end of the test year update period. Staff's
15 adjustment for border customers is reflected on Schedule 10 of Staff's Accounting Schedules for
16 KCPL and GMO, Adjustment E-113.2 and Adjustment E-68.2, respectively.

17 *Staff Expert/Witness: Karen Lyons*

18 **10. Variable Costs**

19 **a. Fuel Prices**

20 Staff computed fuel expense using prices and quantities actually incurred by KCPL and
21 GMO as of December 31, 2017. Staff included fuel prices for nuclear, coal, natural gas, and oil,
22 including transportation charges in the fuel USOA accounts 501 (coal), 518 (nuclear), 547
23 (natural gas), and 555 (energy portion of purchased power expense).

24 *Staff Expert/Witness: Matthew R. Young*

25 **b. Coal Prices**

26 Staff determined coal prices by generation facility based on a review and analysis of
27 KCPL's and GMO's coal purchase (supply) and coal transportation (freight) contracts. Staff's
28 recommended coal prices reflect KCPL's and GMO's actual contracted coal purchase and
29 transportation prices (excluding sulfur premiums or discounts) in effect on December 31, 2017.
30 Staff will review the coal prices during the true-up process.

31 *Staff Expert/Witness: Matthew R. Young*

1 **c. Natural Gas Prices**

2 As an input to its production cost model, Staff used twelve (12) monthly natural gas
3 prices calculated using 12-month weighted averages of KCPL's and GMO's actual commodity
4 cost of natural gas through the end of the test year update period of December 31, 2017. KCPL's
5 natural gas fixed transportation costs are annualized and normalized separately as a part of
6 fuel adders.

7 *Staff Expert/Witness: Matthew R. Young*

8 **d. Nuclear Fuel Prices (KCPL)**

9 KCPL owns 47% of Wolf Creek. KCPL's 47% ownership interest in Wolf Creek entitles
10 it to 552 megawatts⁴² of the plant's capacity. In determining its nuclear fuel price, Staff relied
11 upon KCPL's monthly Report 25 - the Fuel Report. Beginning in May 2014 the monthly nuclear
12 fuel price decreased and, based on discussions with KCPL personnel, the decrease in price is
13 attributable to the discontinuance of the nuclear waste disposal fee in May 2014. Staff's
14 proposed nuclear fuel price is based on the most current fuel price as of December 31, 2017.

15 *Staff Expert/Witness: Matthew R. Young*

16 **e. Oil Prices**

17 Staff used the actual cost KCPL and GMO paid for its most recent fuel oil purchases to
18 determine variable fuel oil expense. KCPL and GMO burn fuel oil mainly as a start-up fuel for
19 the coal-fired generating units or, in some instances, for flame stabilization. Oil is a primary fuel
20 source at KCPL's Northeast units, which see very limited run time. As a result, KCPL and GMO
21 purchase fuel oil infrequently. Historically, the limited number of purchases of fuel oil makes it
22 difficult to employ any meaningful type of averaging method. An accurate historical analysis of
23 fuel oil prices is also not possible because KCPL and GMO do not make purchases during the
24 majority of the year. For its direct filed case, Staff recommends KCPL's and GMO's most
25 recent fuel oil purchase prices as of December 31, 2017, to input into the fuel model for
26 determining KCPL's and GMO's variable fuel and purchased power expense on a going
27 forward basis.

28 *Staff Expert/Witness: Matthew R. Young*

⁴² KCPL response to Staff Data Request No. 0057 in Case No. ER-2016-0285.

1 **11. Purchased Power Prices**

2 **Market Prices:**

3 Staff analyzed hourly Southwest Power Pool Integrated Market Day Ahead market prices
4 (“market prices”) from the beginning of market operations on March 3, 2014 to the end of
5 December 2017. Since the onset of the two-day markets in Missouri, Staff has used a three-year
6 average of day ahead market prices (when data is available) to adjust for extreme price points.
7 Extreme price points can be caused by weather, new market operation, natural disasters,
8 economic down turns, and flooding to name a few. Early market prices saw extreme highs and
9 huge fluctuations with prices steadily dropping through 2015, 2016, and 2017. For Staff’s direct
10 case, a three-year average of market prices has been adopted as a reasonable normalized forecast
11 of market prices. Staff will continue to review market prices through the true-up period and will
12 update prices as necessary

13 *Staff Expert/Witness: Shawn Lange, PE*

14 **12. Normalized Net System Input**

15 Hourly net system input is the hourly electric supply necessary to meet the hourly energy
16 demands of a utility’s customers; the input is net of (i.e., does not include) station use, which is
17 the electricity requirement of the utility's generating plants.

18 Due to the presence of significant air conditioning and electric space heating in KCPL’s
19 and GMO’s respective service territories, the magnitude and shape of KCPL’s and GMO’s net
20 system input is directly related to daily temperatures. To normalize the net system input, Staff
21 used actual and normal daily temperatures provided by Staff witness Dr. Seoung Joun Won in its
22 analysis. The actual daily temperatures for the test year, the twelve months ending June 30,
23 2017, as well as the update period ending December 31, 2017, differed from normal daily
24 temperatures. Therefore, to reflect normal weather, daily peak and average net system loads
25 were each adjusted independently, but using the same methodology.

26 Daily average load is the summation of the hourly load for the day divided by twenty-
27 four hours. Daily peak is the maximum hourly load for the day. Staff uses separate regression
28 models to estimate both (1) a base component, which is allowed to fluctuate across time as
29 non-weather factors, and (2) a weather-sensitive component, which measures the response to
30 daily fluctuations in weather for daily average loads and peak loads. Independent regression

1 models are necessary because daily average loads respond differently to weather than peak loads.
2 The models' regression parameters, along with the difference between normal and actual cooling
3 and heating measures, are used to calculate weather adjustments to both the average and peak
4 loads for each day. The adjustments for each day are added, respectively, to the actual average
5 and to the peak loads of each day. In order to allocate the weather-normalized daily peak and
6 average loads to each individual hour of the year, Staff begins with the actual hourly loads for
7 the year being normalized. A unitized load curve⁴³ is calculated for each day as a
8 function of the actual peak and average loads for that day. Staff uses the corresponding
9 weather-normalized daily peak and average loads, along with the unitized load curve, to
10 calculate weather-normalized hourly loads for each hour of the year.

11 This process includes many checks and balances, which are included in Staff's direct
12 workpapers. The Staff analyst is required to examine the data at several points in the process to
13 further ensure accuracy. For more information, the process is described in greater detail in the
14 document "*Weather Normalization of Electric Loads, Part A: Hourly Net System Loads.*"⁴⁴

15 After the weather-normalizing and annualizing usage for KCPL's and GMO's retail
16 customer classes is completed, weather-normalized wholesale usage is added to produce an
17 annual sum of the hourly net system loads that equals the adjusted twelve month period usage,
18 plus losses, and is consistent with Staff's normalized revenues.

19 Staff applies a factor to each hour of the weather-normalized loads to produce an annual
20 sum of the hourly net-system loads that equals the usage, plus losses, consistent with normalized
21 revenues. Once completed, the hourly normalized system loads were used in developing Staff's
22 fuel and purchased power expense as explained in Staff witnesses Shawn Lange's and Charles
23 Poston's direct testimonies. Staff witness Alan J. Bax also used the annual requirement of the
24 net system input in developing Staff's jurisdictional energy allocator, as explained in
25 his testimony.

26 *Staff Expert/Witness: Shawn Lange and Seoung Joun Won, Ph.D.*

⁴³ A unitized load curve is a set of 24 hourly loads of a given day calculated by subtracting the average daily load from each hourly load, then dividing by the difference between the peak and the average so that the average of the calculated hourly loads is 0 and the peak is 1.

⁴⁴ *Weather Normalization of Electric Loads, Part A: Hourly Net System Loads*" (November 28, 1990), written by Dr. Michael Proctor, Manager of the Economic Analysis Department.

1 **13. System Energy Losses**

2 Staff, as part of its review, evaluated KCPL’s and GMO’s system energy losses. System
3 energy losses largely occur in the electrical equipment between a utility’s generating sources and
4 its customers’ meters (e.g., transformers, transmission and distribution lines, etc.). In addition,
5 Staff has also included in its calculation of system energy losses small fractional amounts of
6 energy, either stolen (diversion) or not metered. The basis for calculating system energy losses is
7 that Net System Input (“NSI”) equals the sum of Retail Sales, Wholesale Sales, Company Use,
8 and System Energy Losses. This can be expressed mathematically as:

9
10
$$\text{NSI} = \text{Retail Sales} + \text{Wholesale Sales} + \text{Company Use} + \text{System Energy Losses}$$

11
12 NSI, Retail Sales, Wholesale Sales, and Company Use are known quantities; therefore,
13 system energy losses may be calculated as follows:

14
15
$$\text{System Energy Losses} = \text{NSI} - (\text{Retail Sales} + \text{Wholesale Sales} + \text{Company Use})$$

16
17 The system energy loss percentage is the ratio of system energy losses to NSI multiplied
18 by 100:

19
20
$$\text{System Energy Loss Percentage} = (\text{System Energy Losses} \div \text{NSI}) \times 100$$

21
22 NSI is also equal to the sum of net generation and net interchange. Net interchange is the
23 difference between off-system purchases and off-system sales. Net generation is the total energy
24 output of each generating plant minus the energy consumed internally to enable the production of
25 electricity at each plant. The output of each generating plant is monitored and metered
26 continuously. The net of off-system purchases and off-system sales (“Net Interchange”) is also
27 similarly monitored.

28 Staff has calculated the following system energy loss factors for KCPL and GMO based
29 on a respective analysis of associated data experienced during the twelve-month period
30 July 2016 – June 2017, which is the test year utilized in these current cases.

1 KCPL - .0608
2 GMO - .0609
3

4 These system energy loss factors will be provided to and used by Staff witness Seoungjoun Won,
5 Ph.D. in the development of hourly loads that are included in Staff's corresponding fuel models
6 for KCPL and GMO.

7 *Staff Expert/Witness: Alan J. Bax*

8 **14. Surface Transportation Board Reparation Amortization**

9 On October 12, 2005, KCPL filed a rate complaint case with the Surface Transportation
10 Board ("STB") against Union Pacific Railroad ("UPRR") alleging UPRR's charges to transport
11 coal from Wyoming's Powder River Basin ("PRB") to KCPL's Montrose plant in Missouri
12 were excessive.

13 On May 15, 2008, the STB ruled in favor of KCPL and ordered UPRR to reduce its rates
14 to KCPL and pay KCPL reparations for prior overcharges. The STB estimated the value of the
15 rate reductions and reparations to be \$30 million.

16 During the period between the STB rate complaint case and the final decision,
17 KCPL filed two general rate cases before this Commission, Case No. ER-2006-0314 and
18 Case No. ER-2007-0291. In Case No. ER-2006-0314, Staff and KCPL, by agreement, treated
19 KCPL's actual STB litigation costs as a regulatory asset amortized to expense over five (5) years
20 beginning in January 2007. Staff and KCPL also agreed that proceeds from the complaint were
21 first to be applied as an offset to any existing balance of the STB case costs in the regulatory
22 asset, with the remainder being applied to offset fuel costs as determined in future proceedings.
23 The Commission in its Report and Order in that case observed that the agreement
24 between Staff and KCPL "appears just and reasonable". In KCPL's next Missouri rate case,
25 Case No. ER-2007-0291, Staff and KCPL continued this same treatment of deferring and
26 amortizing the Missouri jurisdictional portion of KCPL's STB litigation costs.

27 In the KCPL rate case subsequent to the 2008 STB ruling, Case No. ER-2009-0089,
28 KCPL calculated a rate recovery for STB costs and reparations from UPRR in excess of
29 its STB costs of \$1.38 million. KCPL distributed this excess to the three entities that it claimed
30 contributed funds to the cost of prosecuting the STB case. These entities were the

1 City of Independence (through its capacity contract with KCPL), Missouri regulated customers,
2 and Kansas regulated customers. In addition, KCPL allocated a portion of the excess
3 to its wholesale customers who apparently did not contribute funds to the cost of the
4 STB complaint case.

5 KCPL updated this calculation in the 2009 rate case based on corrected information and
6 included additional reparations received from UPRR. Staff used the calculation methodology in
7 KCPL's work paper, with two corrections.

8 First, KCPL failed to include all of the funds that were included in
9 Case No. ER-2007-0291 rates in the total amount of the STB costs contributed by Missouri
10 ratepayers. Staff added \$143,945, the amount KCPL collected in rates from January 2008
11 through September 2008. This amount was earmarked for STB case expense recovery, but was
12 excluded by KCPL in its calculation. Second, since KCPL's wholesale customers did not
13 contribute to the STB rate case recovery, Staff reallocated the amounts credited to Missouri and
14 Kansas regulated customers by using the appropriate Missouri-Kansas allocation percentage.

15 The Non-Unanimous Stipulation and Agreement in Case No. ER-2009-0089, approved
16 by Commission Order effective June 23, 2009, states in part, "the Missouri jurisdictional excess
17 of STB litigation proceeds over un-recovered STB litigation costs of \$1,017,593 will be deferred
18 in a regulatory liability account and amortized over ten (10) years beginning with the date new
19 rates become effective in this case, with one year's amortization included in cost of service in
20 this case. The unamortized balance will not be included in rate base." Rates became effective
21 September 1, 2009, and the amortization of STB proceeds is still included in current rates. The
22 test year amount on KCPL's books reflects the appropriate amortization level; therefore, no
23 adjustment was necessary for this case.

24 Although the amortization of the excess of STB litigation proceeds is not yet completed,
25 the liability will be fully amortized on August 31, 2019. In the event that the amortization ends
26 before rates are reset in KCPL's next general rate proceeding, Staff recommends that amounts
27 over-amortized should be tracked for consideration in KCPL's next rate case.

28 *Staff Expert/Witness: Matthew R. Young*

29

1 **15. Missouri Iowa Nebraska Transmission Line Losses**

2 These are payments made to Associated Electric Cooperative, Inc. (“AEC”) for
3 transmission losses on the Missouri Iowa Nebraska Transmission line (“MINT”). Staff included
4 an annualized level of actual payments made by KCPL and GMO for the 12 month period ending
5 December 31, 2017. Staff’s adjustment is identified on Schedule 10 of Staff’s Accounting
6 Schedules for KCPL and GMO, Adjustment E-Rev-11.5, Adjustment E-Rev-7.4, respectively.

7 *Staff Expert/Witness: Karen Lyons*

8 **C. Payroll, Payroll Related Benefits including 401k Benefit Costs**

9 **1. Payroll Costs**

10 Staff examined the payroll costs of KCPL and recommends allocating KCPL’s
11 annualized payroll costs using ratios derived from how KCPL recorded its allocated payroll costs
12 during the test year. Staff recommends annualizing KCPL’s payroll based on actual employee
13 levels as of the end of the update period, December 31, 2017, plus direct assignment of Wolf
14 Creek and Jeffrey Energy Center payroll. Because KCPL is the only Great Plains entity that has
15 employees, KCPL employees perform all services for Great Plains, KCPL, GMO, and certain
16 portions of KCPL’s non-regulated enterprises. Therefore, it is necessary to allocate KCPL’s
17 payroll costs in order to assign the proper amounts of payroll costs to each of the Great Plains
18 entities, including KCPL. Staff based its recommended allocation of KCPL’s annualized payroll
19 on KCPL’s historical allocation practices.

20 Staff annualized payroll for all employees, including part time and temporary employees,
21 includes base wages, overtime wages, differential wages, and premium pay paid to KCPL’s
22 union employees based on union contracts, as well as an annualized level of payroll for the Wolf
23 Creek and Jeffrey generation facilities (Wolf Creek and Jeffrey payroll is discussed further
24 below).

25 Staff annualized KCPL’s payroll costs in this case based on the actual number of KCPL
26 employees as of December 31, 2017, the end of the update period. Each individual employee’s
27 current hourly wage or salary was used to compute an annual total payroll cost for that KCPL
28 employee. After KCPL’s base payroll was annualized, payroll costs linked to employees of
29 KCPL’s jointly-owned generation facilities were deducted using the most recent actual

1 joint-owner billings. The following table shows KCPL's ownership share of jointly owned
 2 plant facilities:

<u>Power Plant</u>	<u>KCPL's Ownership Share</u>	<u>GMO Ownership Share</u>	<u>Other Utility's Ownership Shares</u>
La Cygne 1	50%	0%	50%
La Cygne 2	50%	0%	50%
Iatan 1	70%	18%	30%
Iatan 2	55%	18%	45%
Wolf Creek	47%	0%	47%
Jeffrey 1, 2, and 3	0%	8%	92%

4
 5 After removing payroll allocated to joint-owners, Staff allocated KCPL's remaining base
 6 payroll costs among KCPL and its affiliates. Staff used allocation ratios based on the actual
 7 payroll allocation that occurred during the 12-month period ended December 31, 2017.

8 To normalize overtime wages, Staff multiplied the last-known composite hourly rate for
 9 overtime by a three-year average (2015-2017) of overtime hours for union overtime, and a
 10 five-year average (2013-2017) for non-union overtime, as the volume of overtime hours has
 11 fluctuated in recent years. To annualize wages for premium pay, Staff included the actual
 12 expense recorded during the 12-month period ended December 31, 2017, as costs have been
 13 increasing. To normalize wages for temporary employees, Staff included a three-year average of
 14 expense as costs have been fluctuating. Staff's total annualized payroll consists of the sum of
 15 these four types of payroll costs (base, overtime, premium, and temporary).

16 After allocating KCPL's annualized payroll to Great Plains, KCPL, and GMO, Staff
 17 further allocated the KCPL-only payroll costs between Operations & Maintenance ("O&M")
 18 Expense and Non-O&M Expense in order to calculate the ongoing O&M payroll costs charged
 19 to expense. Non-O&M expense relates to construction or other capital projects (capital), along
 20 with non-utility functions (below-the-line) to which KCPL employees charge time. The amounts
 21 that are included in the revenue requirement calculations for KCPL and GMO are the O&M
 22 levels of total payroll expense after the application of an O&M expense ratio. An examination of
 23 the historical capitalized payroll revealed that the actual capitalization ratios have fluctuated

1 from year to year. Staff used a three-year average of historical O&M expense ratios to calculate
2 the proper level of payroll costs to charge to KCPL's O&M expense.

3 Staff did not include payroll expense related to KCPL's demand-side management
4 ("DSIM") programs in this case, as those costs are included separately as they are allowed to be
5 recovered as a MEEIA surcharge.

6 The Wolf Creek generating station is managed by a separate entity, Wolf Creek Nuclear
7 Operating Company ("WCNOC"), which charges Wolf Creek payroll directly to KCPL for its
8 share (based on 47% KCPL plant ownership) of the total Wolf Creek payroll expenses. Since
9 WCNOC directly assigns the appropriate portion of Wolf Creek payroll to KCPL, and KCPL is
10 the only Great Plains entity that has an ownership share of Wolf Creek, as of December 31,
11 2017, there is no need to allocate Wolf Creek payroll costs to KCPL's affiliates. For Wolf Creek
12 base payroll, Staff included the last known annual amount, as costs have been increasing. For
13 Wolf Creek overtime, Staff included the amount of overtime cost WCNOC assigned to KCPL
14 based on a three year average of 2015 through 2017. Similarly, GMO is billed for its ownership
15 interest in Jeffrey for the payroll costs incurred to operate the power plant. Staff included payroll
16 and overtime amounts based on the last known annual costs.

17 After allocating KCPL's total payroll costs to joint-owners, affiliates, and O&M, Staff
18 distributed its resulting payroll adjustment among FERC accounts based upon how KCPL and
19 GMO distributed its actual payroll costs among those same accounts during the test year, ending
20 June 30, 2017. The following are the adjustments Staff made to allocate the annualized payroll
21 to each of these FERC accounts for KCPL and GMO:

22 KCPL adjustments: E-4-1, E-13-1, E-14-1, E-15-1, E-16-1, E-17-1, E-18-1, E-19-1,
23 E-22-1, E-36-1, E-39-1, E-42-1, E-45-1, E-48-1, E-55-1, E-59-1, E-60-1, E-62-1, E-63-1,
24 E-64-1, E-74-1, E-76-1, E-78-1, E-79-2, E-83-1, E-85-1, E-97-1, E-98-1, E-103-1, E-104-1,
25 E-107-1, E-108-2, E-109-3, E-110-2, E-117-1, E-118-2, E-125-1, E-126-1, E-127-1, E-128-1,
26 E-133-1, E-138-2, E-140-2, E-141-2, E-149-1, E-150-1, E-151-1, E-152-1, E-153-1, E-155-1,
27 E-156-1, E-157-1, E-158-1, E-161-2, E-163-2, E-164-3, E-165-2, E-166-2, E-167-2, E-168-2,
28 E-169-3, E-173-1, E-174-2, E-175-2, E-180-1, E-183-1, E-184-4, E-192-2, E-197-1, E-203-1,
29 E-206-4, E-209-2, E-214-3, E-223-1, E-225-4, E-233-4, and E-240-3.

30 GMO adjustments: E-4-1, E-6-1, E-7-1, E-15-1, E-17-1, E-18-1, E-26-1, E-27-1, E-28-1,
31 E-30-1, E-31-1, E-47-1, E-49-1, E-57-1, E-58-1, E-61-1, E-62-1, E-63-1, E-64-1, E-73-1, E-74.2,

1 E-80-1, E-81-1, E-82-1, E-83-1, E-86-1, E-87-1, E-91-1, E-93-1, E-94-1, E-96-1, E-101-1,
2 E-102-1, E-103-1, E-104-1, E-105-1, E-10701, E-108-1, E-110-1, E-14-1, E-115-1, E-116-1,
3 E-117-1, E-118-2, E-119-2, E-120-1, E-121-2, E-122-1, E-127-1, E-128-1, E-129-1, E-131-1,
4 E-135-1, E-136-1, E-138-2, E-142-1, E-148-1, E-150-1, E-151-2, E-156-3, E-157-1, E-165-2,
5 E-167-2, and E-177-3.

6 *Staff Expert/Witness: Antonija Nieto*

7 **2. Payroll Related Benefits**

8 KCPL and GMO incur costs for a variety of payroll-related benefits, such as 401k
9 matching and employee insurance premium contributions. Staff included the most recent
10 historical cost levels, as of December 31, 2017, in its determination of KCPL's and GMO's cost
11 of service for all payroll benefits, excluding 401k matching costs, as costs have been increasing.
12 Because it is additional employee compensation, Staff allocated payroll-related benefits to the
13 owners of jointly-owned generating stations using the same method Staff utilized to allocate the
14 associated base payroll costs of those employees. That method is described in the payroll section
15 of this report.

16 Staff calculated KCPL's and GMO's annualized 401k costs by applying an average of the
17 actual 401k percentage match to KCPL's and GMO's share of total annualized payroll costs.
18 Staff calculated the average percentage match by dividing the percentage of KCPL's actual 401k
19 match by the actual 401k eligible payroll expense in seven separate pay periods, and averaging
20 those ratios. Staff Adjustments E-215-5 and E-157-6 to Staff's Income Statement
21 (EMS Schedule 9) reflect Staff's normalized payroll benefits, based on KCPL's and GMO's
22 payroll costs as of the update period of December 31, 2017.

23 *Staff Expert/Witness: Antonija Nieto*

24 **3. Payroll Taxes**

25 Staff annualized KCPL's and GMO's payroll taxes by applying current payroll tax rates
26 to each employee's annualized level of payroll and each employee's last known receipt of
27 Value-Link incentive compensation. To calculate payroll taxes on incentive compensation, Staff
28 applied the composite current rate for FICA tax to Staff's annualized executive incentive
29 compensation under the assumption that all tax wage ceilings were achieved through base

1 payroll. To compute payroll taxes for overtime, temporary labor, premium pay, and Wolf Creek
2 payroll, Staff applied the current payroll tax rates to these “other” wages assuming the
3 Federal Unemployment Tax Act (“FUTA”) and State Unemployment Tax Act (“SUTA”) wage
4 ceilings were achieved. To allocate Staff’s annualized payroll taxes to the various subsidiaries of
5 GPE, Staff used the same method that it used to allocate KCPL’s payroll costs.
6 Staff Adjustments E-264-1 and E-195-1 to Staff’s Income Statement (EMS Schedule 9) reflects
7 the annualized payroll taxes based on payroll costs as of December 31, 2017, for KCPL and
8 GMO, respectively.

9 *Staff Expert/Witness: Antonija Nieto*

10 **4. True-up of Payroll Costs**

11 Staff will update the total payroll costs, payroll-related benefits, and payroll taxes based
12 on actual historical information through June 30, 2018, for the true-up in this case. Unless
13 true-up data indicate a change in circumstance, the same methodology used to annualize payroll
14 as of December 31, 2017, will be used for the true-up.

15 *Staff Expert/Witness: Antonija Nieto*

16 **5. FAS 87 – Pension Cost Tracking Mechanism**

17 Staff and KCPL entered into a *Non-Unanimous Stipulation and Agreement Regarding*
18 *Pensions and Other Post Employment Benefits* in KCPL’s Case No. ER-2016-0285. Staff and
19 GMO entered into a similar *Non-Unanimous Stipulation and Agreement Regarding Pensions and*
20 *Other Post Employment Benefits* in GMO’s Case No. ER-2016-0156 (collectively referred to as
21 “Agreements”). Among other items, these Agreements addressed the ratemaking treatment for
22 annual pension costs under Financial Accounting Standard No. 87 (“FAS 87”), and pension
23 settlement and curtailment accounting under Financial Accounting Standard No. 88 (“FAS 88”).
24 Both Agreements were approved by the Commission in their respective cases. The Agreements
25 reaffirmed the prior provisions regarding these matters reached in KCPL’s Regulatory Plan and
26 subsequent rate cases, as well as GMO’s File No. ER-2012-0175 and subsequent rate cases, and
27 clarified the accounting for pension cost allocated to KCPL’s joint partners in the Iatan and
28 La Cygne generating stations. It also addressed the ratemaking treatment for a curtailment or
29 settlement recognized under FAS 88.

1 The names of the FASs have changed. The Financial Accounting Standards Board's
2 ("FASB") Accounting Standards Codification project was launched in 2009 and became the
3 single source of authoritative nongovernmental U.S. Generally Accepted Accounting Principles
4 ("GAAP") (other than guidance issued by the Securities and Exchange Commission). The
5 Codification Topic 715 covers all of the following FAS statements under its various subtopics:

- 6 ▪ FAS 87 and FAS 88, Employers' Accounting for Pensions;
- 7 ▪ FAS 158, Employers' Accounting for Defined Benefit Pension and Other
8 Postretirement Plans; and
- 9 ▪ FAS 106, Employers' Accounting for Post Retirement Benefits other than
10 Pensions.

11 While the above individual FAS statements have been combined into Codification Topic
12 715, for the purposes of this Report, Staff will refer to the original FAS statement numbers, such
13 as FAS 87, FAS 88, FAS 106, and FAS 158, as needed.

14 There are two amounts in KCPL's rate base relating to pensions resulting from
15 various agreements reached in Case Nos. EO-2005-0329, ER-2006-0314, ER-2007-0291,
16 ER-2009-0089, ER-2010-0355, ER-2012-0174, ER-2014-0370, and ER-2016-0285:

17 1) A Prepaid Pension Asset – The prepaid pension asset
18 represents the unrecovered balance of negative pension cost flowed
19 back to ratepayers in prior years. A prepaid pension asset can also
20 be created when contributions to the pension plans exceed the FAS
21 87 expense.

22 2) A FAS 87 Regulatory Asset – Under the terms of the
23 Stipulation and Agreements referenced above, the difference
24 between FAS 87 reflected in rates and KCPL's actual cost
25 recorded in its financial statements is tracked and recorded as
26 either a regulatory asset or liability, and is then amortized over five
27 years in the next rate case. The cumulative tracker balance as of
28 June 30, 2018, is a regulatory asset; that is, the amount collected in
29 rates has been less than the incurred FAS 87 expense.

30 Historically, there have been two amounts in GMO's rate base relating to
31 agreements regarding pension regulatory assets reached in the various agreements attained in
32 Case Nos. ER-2007-0007, ER-2009-0090, ER-2010-0356, ER-2012-0175, and ER-2016-0156:

1) ERISA Minimum Tracker – This balance is the remaining tracked amount from the prior pension tracking method.

2) A FAS 87 Regulatory Asset – Under the terms of the agreements referenced above, the difference between FAS 87 reflected in rates and GMO’s actual cost recorded in its financial statements is tracked and recorded as either a regulatory asset or liability, and is then amortized over five years in the next rate case. GMO’s rate base includes a regulatory asset as of June 30, 2018.

In the current case, GMO’s deferred costs under the ERISA Minimum Tracker have been fully recovered. Staff measured the amounts that were over-amortized related to the ERISA Minimum Tracker, and offset it against the balance of GMO’s FAS 87 Regulatory Asset.

Staff’s recommended annualized level of KCPL’s and GMO’s pension expense is based on information provided by KCPL’s actuarial firm, Towers Watson, which KCPL in turn provided to Staff in response to Staff Data Request No. 0131. Staff’s calculation of KCPL’s pension expense was made in accordance with the methodology described in the Agreement reached in Case No. ER-2016-0285. However, the methodology used to calculate GMO’s pension expense in Case No. ER-2016-0156 was, in part, based on a 12-year average of cost projections rather than the agreed-to method of FAS 87 expense calculations, with the difference between the projected cost and FAS 87 expense flowing to GMO’s FAS 87 regulatory asset.⁴⁵ In this case, Staff recommends that GMO’s pension expense no longer be based on the 12-year average projected pension cost. Instead, Staff’s adjustment includes GMO’s pension expense as calculated consistent with KCPL’s pension expense. Staff recommends the continuation of the remainder of the methodologies described in the Agreement reached in Case No. ER-2016-0156.

Based on the language of the Agreements, Staff recommends cost of service recovery of KCPL’s and GMO’s share of FAS 88 charges through a five-year amortization increase to pension expense. The FAS 88 charge is related to the impact on pension expense of employees being removed from KCPL’s and GMO’s pension plans through early retirement or for other reasons, and the impact of paying lump sum pension distributions to these employees as the alternative to distributing pension benefits through annuity payment. While the FAS 88 charge

⁴⁵ See page 5, paragraph 3, of the Non-Unanimous Stipulation and Agreement Regarding Pensions and Other Post-Employment Benefits in Case No. ER-2016-0156.

1 is an increase to cost of service, the ongoing level of pension expense should be lower due to the
2 removal of these employees' costs from the pension plan.

3 KCPL's rates resulting from Case No. ER-2016-0285 and GMO's rates resulting from
4 Case No. ER-2016-0156 contained a five-year amortization of FAS 88 charges experienced in
5 2011, which will be fully recovered before the June 30, 2018, true-up date in this case. Staff
6 offset the cost of KCPL's and GMO's 2017 FAS 88 charges with the over-collection related to
7 the 2011 vintage.

8 Due to the timing of the cut-off and true-up dates in this case, the additions and
9 deductions to KCPL's and GMO's pension assets through the June 30, 2018, true-up
10 date is known and measurable. As such, Staff has included true-up values for pensions in its
11 direct case. Ongoing pension expense and the rate base portion of the pension tracker
12 mechanism are included in Staff's KCPL Accounting Schedules as adjustment E-215.1 in the
13 Income Statement – Schedule 10, and Rate Base – Schedule 2. Staff reflected ongoing pension
14 costs in Staff's GMO Accounting Schedules as adjustment E-157.2 in the Income Statement –
15 Schedule 10, and Rate Base – Schedule 2.

16 *Staff Expert/Witness: Matthew R. Young*

17 **6. FAS 106 – Other Post Employment Benefit Cost Tracking Mechanism**

18 Staff and KCPL entered into a *Non-Unanimous Stipulation and Agreement Regarding*
19 *Pensions and Other Post Employment Benefits* in KCPL's Case No. ER-2016-0285. Staff and
20 GMO entered into a similar *Non-Unanimous Stipulation and Agreement Regarding Pensions and*
21 *Other Post Employment Benefits* in GMO's Case No. ER-2016-0156 (collectively referred to as
22 "Agreements"). Among other items, these Agreements addressed the ratemaking treatment for
23 annual Other Post Employment Benefit ("OPEB") Costs under Financial Accounting Standard
24 No. 106 ("FAS 106"). Both Stipulation and Agreements were approved by the Commission in
25 their respective cases.

26 OPEBs are those costs KCPL and GMO incur to provide certain benefits to retirees.
27 The primary benefit is medical insurance, but they also include life, dental, and vision
28 insurance benefits.

29 FAS 106 is the FASB approved accrual accounting method used for financial statement
30 recognition of annual OPEB costs, and is also used as the basis of rate recovery for this item.

1 The accounting of the cost of postretirement benefits under FAS 106 is not based on the actual
2 dollars KCPL and GMO pay for OPEBs to its retirees currently, but is accrual-based in that it
3 attempts to recognize the financial effects of noncash transactions and events as they occur.
4 These noncash transactions and events are primarily an estimate of current benefits earned by
5 employees before retirement, but will not be paid until after retirement, as well as the interest
6 cost arising from the passage of time until those benefits are paid.

7 KCPL does not fund its share of Wolf Creek OPEB expense based on FAS 106
8 calculations. KCPL funds Wolf Creek OPEB based on the actual amount of benefits paid. This
9 method is generally referred to as “pay-as-you-go”. Accordingly, the Wolf Creek OPEB costs
10 are not included in the FAS 106 tracking mechanism, but are included separately in the cost of
11 service on a pay-as-you-go basis.

12 Staff’s OPEB adjustment to KCPL and GMO Account 926, Employee Benefits,
13 annualizes the level of OPEB expense determined by KCPL’s actuaries using the FAS 106
14 accounting method, with the exception of KCPL’s portion of Wolf Creek OPEB expense,
15 calculated as the 12 months ending December 31, 2017, actual payments.

16 Beginning May 4, 2011, KCPL initiated a new tracking mechanism for OPEBs, which
17 the Commission authorized in Case No. ER-2010-0355. GMO initiated a similar tracker for
18 OPEB’s on June 25, 2011, which the Commission authorized in Case No. ER-2010-0356. Under
19 this mechanism, what are tracked are the differences between the current ongoing level of OPEB
20 expense funded by KCPL and GMO in an external trust and the dollar amount of OPEB expense
21 reflected in rates in each case. The unamortized balance of this tracker will be amortized over
22 five years in each successive rate case, and will either be added to or subtracted from the level of
23 OPEB expense as determined by KCPL’s actuaries. The cumulative tracker balance as of June
24 30, 2018, is a regulatory liability for KCPL and GMO; that is, the amount collected in rates has
25 been more than the incurred FAS 106 OPEB expense. Similar to Staff’s measurement of KCPL
26 and GMO’s pension asset, Staff has updated the OPEB liabilities to the June 30, 2018,
27 true-up date.

28 Ongoing OPEBs expense and the rate base portion of the OPEB tracker m
29 echanism are included in Staff’s KCPL Accounting Schedules as adjustment E-215.2 in the
30 Income Statement – Schedule 10, and Rate Base – Schedule 2. Staff reflected ongoing

1 pension costs in Staff's GMO Accounting Schedules as adjustment E-157.3 in the
2 Income Statement – Schedule 10, Rate Base – Schedule 2.

3 *Staff Expert/Witness: Matthew R. Young*

4 **7. Supplemental Executive Retirement Plan (“SERP”) Expense**

5 Included in Staff's revenue requirement recommendation is an annualized level of actual
6 monthly-recurring SERP payments KCPL and GMO made to their former executives and other
7 highly compensated former employees. SERPs are “non-qualified” retirement plans for officers
8 and other highly-compensated employees that provide pension benefits that these individuals
9 would have received under other company retirement plans, but for compensation and benefit
10 limits imposed by the Internal Revenue Service (“IRS”). These supplemental pension benefits
11 paid to retired former officers and executives are in addition to the cost of pension benefits
12 KCPL and GMO pays under its FAS 87 pension plan. SERP pension benefits generally exceed
13 various limits imposed on retirement programs by the IRS and therefore are referred to as
14 "non-qualified" plans. SERP benefits are not externally funded to a trust by KCPL or GMO, and
15 the amounts Staff included in its cost of services are based upon actual cash SERP payouts to
16 covered employees.

17 SERP payments can consist of either monthly annuity payments or periodic lump-sum
18 distributions. The amount of lump-sum payments can be significant and the timing of these
19 payments is often difficult to predict. As opposed to including a normalized amount of actual
20 lump-sum payments, a conversion factor of 14.3⁴⁶ can be applied to convert prior lump-sum
21 payments to an amount that approximates the equivalent annuity payments to the qualifying
22 employees as if that lump-sum payment option were not elected. Staff utilized this factor for the
23 calculation of a normalized level of converted lump-sum payments.

24 KCPL and GMO currently capitalize a portion of SERP costs to plant accounts. In the
25 response to Staff Data Request No. 130, KCPL and GMO identified that all components of the
26 accrued SERP costs are eligible for capitalization and there is not an expected change in the
27 SERP capitalization policy. The cumulative portion of capitalized SERP is included in the plant
28 in service balances in Staff Accounting Schedule 3 as a portion of construction costs. Because
29 KCPL and GMO capitalize SERP costs (in accordance with GAAP), Staff has included a

⁴⁶ The 14.3 conversion factor obtained from GPE's actuary in KCPL Rate Case ER-2014-0370.

1. reduction in SERP expense commensurate with the capitalization rate used in Staff's payroll
2 adjustment in this case.

3 Staff recommends that the actual annuity payments made in 2017, and a five year average
4 of converted lump-sum payments, be used in this rate case to determine SERP expense in rates.
5 This approach is reflected in Staff's KCPL Accounting Schedule 10, adjustment E-215.3 and
6 Staff's GMO Accounting Schedule 10, adjustment E-157.4.

7 *Staff Expert/Witness: Matthew R. Young*

8 **8. Incentive Compensation**

9 **a. Short Term Annual Incentive Compensation**

10 KCPL has two separate, short-term annual incentive compensation plans for executive
11 and other non-union employees, with a portion of the costs associated with those plans being
12 allocated to GMO using the same allocations as the payroll expense adjustment, because GMO
13 has no employees of its own. These plans are designed to grant cash awards of various amounts
14 calculated upon designated annual metrics. The timing of the payout for amounts accrued under
15 the terms of each plan for a calendar year is during the first quarter of the following calendar
16 year. The two incentive compensation plans are: (1) the Value-Link Plan for non-executive,
17 non-union KCPL employees and (2) the Annual Executive Incentive Plan for senior KCPL
18 management employees.

19 The incentive plans have benchmarks to identify targets that KCPL employees are
20 expected to achieve before any cash payouts are awarded. These targets are evaluated each
21 calendar year and communicated to the employees early enough so that the employees have
22 sufficient opportunity to achieve the benchmarks.

23 The Value-Link Plan was implemented to provide an incentive for the achievement of
24 defined annual results of KCPL and its business units by non-executive, non-union KCPL
25 employees. ** _____
26 _____
27 _____
28 _____
29 _____

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

- _____
- _____
- _____

**

The second short-term annual incentive plan is the Annual Incentive Plan, which is designed to motivate and reward senior management to achieve specific key financial and business goals and to also reward individual performance of senior KCPL management.

**

**

For the Annual Incentive Plan, Staff included the 2017 payouts after the removal of payouts for achieving EPS and non-regulated benchmarks for the Annual Incentive Plan and the Value-Link Plan.

The Commission has historically disallowed incentive compensation awards tied to the achievement of certain corporate financial measures on the basis that these measures provide no tangible benefit to Missouri ratepayers. *See specifically Re KCPL*, Case No. ER-2006-0314, 15 Mo.P.S.C.3d 138, 171-72 (2006) and *Re KCPL*, Case No. ER-2007-0291, 15 Mo.P.S.C.3d 552, 585-87 (2007). To normalize incentive compensation expense, Staff removed the EPS and non-regulated venture payouts from the total payouts and included a the 2017 non-EPS incentive compensation in the cost of service.

1 KCPL and GMO Adjustments in Staff Accounting Schedule 9 reflect the
2 normalized amounts.

3 *Staff Expert/Witness: Keith Majors*

4 **b. Capitalized Short Term Incentive Compensation**

5 In the same manner as Staff adjusted the expense portion of short term incentive
6 compensation for earnings based awards, Staff recommends removal of the capitalized portion of
7 short term incentive compensation based on earnings or shareholder metrics. The Commission
8 recently ordered that these costs should not be reflected in the plant-in-service balances in the
9 cost of service in the *Report and Order* in Spire Missouri Case Nos. GR-2017-0215
10 and GR-2017-0216. Staff has calculated this adjustment beginning from January 1, 2017,
11 plant in service through the cutoff, December 31, 2017. In accordance with the *Report and*
12 *Order*, Staff did not calculate this adjustment on plant prior to the cutoff of plant in service in the
13 last KCPL rate case, December 31, 2016.

14 Adjustment P-325.2 and P-476.2 in the KCPL and GMO Schedule 3 – Plant In Service,
15 respectively, reflect these adjustments.

16 *Staff Expert/Witness: Keith Majors*

17 **c. Long-Term Incentive Compensation**

18 Great Plains offers an equity-based LTIP the cost of which is partially allocated to GMO.
19 Staff has removed the test year expense portion of the LTIP recorded in the test year ended
20 June 30, 2017. The Commission denied recovery of stock-based compensation in its Report and
21 Order in KCPL Case Nos. ER-2006-0314, 15 Mo.P.S.C.3d 138, 171-72 (2006) and ER-2007-
22 0291, 15 Mo.P.S.C.3d 552, 585-87 (2007). In KCPL and GMO's 2010, 2012, 2014, and 2016
23 rate cases, KCPL and GMO voluntarily removed costs related to the LTIP from the cost of
24 service. In its *Report and Order* in KCPL File No. ER-2014-0370 at page 68, the Commission
25 noted that “[u]tility expenses that are highly discretionary and do not benefit customers, such as
26 charitable donations, political lobbying expenses, and incentive compensation tied to earnings
27 per share, are typically allocated entirely to shareholders.” (Footnote omitted).

28 KCPL and GMO proposed to remove the costs from the Long-Term Incentive
29 Compensation Plan (“LTIP”) expenses for its senior officers in its direct filed KCPL and

1 GMO adjustment CS-11. The Staff agrees with this proposal, and has also made the adjustment
2 to remove the Long-Term Incentive Compensation Plan from this case.

3 *Staff Expert/Witness: Keith Majors*

4 **d. Capitalized Long-Term Incentive Equity Compensation**

5 Beginning in 2014, KCPL and GMO began charging to capital accounts a portion of the
6 allocated LTIP expense. Prior to 2014, no portion of this expense was capitalized to plant
7 accounts. Because stock-based compensation is not appropriate to be recovered as an expense in
8 the cost of service, neither should it be recovered as a portion of plant in service included in rate
9 base. Therefore, Staff recommends the amount of LTIP capitalized should be removed from
10 plant in service. Staff's adjustment is included in Staff's KCPL and GMO Accounting Schedule
11 3 – Plant In Service, Adjustments P-325.1 and P-476.1, respectively.

12 *Staff Expert/Witness: Keith Majors*

13 **D. Maintenance Normalization Adjustments**

14 Maintenance expense is the cost of maintenance chargeable to the various operating
15 expenses and clearing accounts. It includes labor, materials, overheads, and any other expenses
16 incurred in maintaining the Company's assets - including power plants, the transmission and
17 distribution network of the electric system, and the general plant. Specific types of maintenance
18 work tied to specific classes of plant are listed in functional maintenance expense accounts in the
19 FERC Uniform System of Accounts ("USOA") for the various types of utilities. Maintenance
20 expense normally consists of the costs of the following activities:

- 21 ▪ Direct field supervision of maintenance;
- 22 ▪ Inspecting, testing and reporting on condition of plant, specifically to
23 determine the need for repairs and replacements;
- 24 ▪ Work performed with the intent to prevent failure, restore serviceability or
25 maintain the expected life of the plant;
- 26 ▪ Testing for, locating, and clearing trouble;
- 27 ▪ Installing, maintaining, and removing temporary facilities to prevent
28 interruptions; and
- 29 ▪ Replacing or adding minor items of plant, which do not constitute a
30 retirement unit.

1 Because KPCL, GMO, and Staff separately include payroll (labor) costs in their
 2 respective revenue requirement model, maintenance is analyzed on a non-labor basis. Staff
 3 analyzed non-labor maintenance costs from January 1999 through December 31, 2017, for KCPL
 4 and January 2001 through December 31, 2017, for GMO, by functional area for production,
 5 transmission, distribution, and general plant by FERC account.

6 Staff took several steps to analyze the maintenance data. They included examining the
 7 non-labor maintenance amounts to identify any characteristics of the maintenance dollars such
 8 as trends or fluctuations from one period to another. Another approach Staff used
 9 was to compare functional averages for each category of maintenance, which included
 10 calculating two (2)-year averages through seven (7)-year averages to determine if there were
 11 fluctuations with each functional area. Each of the costs by year and averages for maintenance
 12 were also compared to results for the test year, the 12-month period ended June 30, 2017, and the
 13 update period ended December 31, 2017. Staff reviewed the data as detailed above to establish a
 14 maintenance level that is anticipated to result in a reasonable annualized and normalized level of
 15 KCPL's and GMO's maintenance costs to include in rates. Staff's recommended approach for
 16 each category of maintenance expense is presented in the following table:
 17

Results of Staff's Non-Labor Maintenance Analysis	KCPL	GMO
Steam Production Maintenance	3 Year Average 2015-2017	4 Year Average 2014 - 2017
Nuclear Production Maintenance	2 Year Average 2016 - 2017	
Other Production Maintenance	Update 12-Months Ending December 31, 2017	4 Year Average 2014 - 2017
Transmission Maintenance	4 Year Average 2014-2017	4 Year Average 2014 - 2017
Distribution Maintenance	4 Year Average 2014-2017	4 Year Average 2014 - 2017
General Maintenance	12-Month Test Year Ended June 30, 2017	12-Month Test Year Ended December 31, 2017

1 As identified in the table above, for KCPL Staff used a 3 year average to represent future
2 maintenance costs for Production. Staff used a 2 year average to represent future maintenance
3 costs for Nuclear, and Staff used the 12 month update period ending December 31, 2017, account
4 balances to represent future maintenance costs for Other Production. Staff used a 4-year average
5 for Transmission and Distribution expense and the test year ending June 30, 2017 level for
6 General Maintenance for purposes of its direct case filing for KCPL. For GMO, Staff used
7 a 4 year average, for Production, Other Production, Transmission, and Distribution Maintenance.
8 Staff used the test year ending June 30, 2017 for General Maintenance.

9 Wolf Creek is a KCPL generating facility. For Wolf Creek, there are two types of
10 O&M costs – O&M for general plant (“nuclear production maintenance”), and O&M relating to
11 the refueling outages that occur every 18 months. Staff performed separate analyses for each.
12 A discussion of the O&M expenses related to the Wolf Creek refueling is located under the
13 heading *Wolf Creek Nuclear Refueling Outage* in this report.

14 *Staff Expert/Witness: Michael Jason Taylor*

15 **1. Wolf Creek Nuclear Refueling Outage (KCPL Only)**

16 Every 18 months, an extended outage of the Wolf Creek Nuclear facility is necessary in
17 order to allow for nuclear refueling of the plant. Staff included an annualized level of refueling
18 cost for refueling outage #21, completed in fall of 2016, and an amortization of non-routine
19 maintenance cost that occurred during refueling outage #18 as calculated and agreed to in the
20 KCPL rate case, Case No. ER-2012-0174. Staff reviewed information provided by KCPL for the
21 last seven nuclear refueling outages. While refueling costs have generally increased since
22 refueling #14, they declined from refueling #19 to refueling #20, and have continued to decline
23 in refueling #21. The only significant increase was from refueling #17 to refueling #18. Staff
24 determined the age of the plant and unplanned equipment issues led to the increased costs
25 experienced with outage #18.⁴⁷

26 The costs on KCPL’s books associated with Wolf Creek refueling outage #21 have been
27 deferred and amortized over an 18-month period. Adjustments E-69.3 and E-80.4 reflect the
28 annualized amortization of outage #21 refueling costs.

⁴⁷ Staff Data Request No. 0147.2 in Case No. ER-2012-0174.

1 In addition to costs for refueling outage #21, Staff reflected the refueling amortizations
2 established in the KCPL rate case – refueling #18, Case No. ER-2012-0174. The amortization
3 was established for non-routine maintenance costs that occurred during refueling #18. The
4 amortization of the non-routine maintenance costs that occurred during refueling #18 began
5 February 2013 and ended January 2018. Since KCPL has fully recovered these costs, Staff made
6 an adjustment to remove the test year amount recorded on KCPL’s books. Staff also
7 recommends that KCPL apply prospective tracking to amortization costs that continue to be
8 recovered in rates and that any over collection of these costs be returned to customers in a future
9 general rate case. This recommendation is consistent with the Stipulation and Agreements
10 approved by the Commission in Case Nos. ER-2016-0156 and ER-2016-0285.⁴⁸ Staff’s
11 Adjustments for refueling #18 amortization are E-70.1 and E-81.1.

12 *Staff Expert/Witness: Michael Jason Taylor*

13 **2. Wolf Creek Mid-Cycle Outage (KCPL Only)**

14 KCPL’s test year in Case No. ER-2014-0370 included a planned mid-cycle outage at the
15 Wolf Creek generating station that occurred between refueling #19 and refueling #20. The
16 mid-cycle outage began March 8, 2014, and was completed on May 13, 2014, and was not
17 related to the refueling outages that occur every 18 months. The mid-cycle outage resulted in
18 maintenance expense, but did not include refueling. The maintenance work completed during
19 the mid-cycle outage resulted in less maintenance work being required during refueling outage
20 #20 than what would normally be expected.

21 Pursuant to the *Partial Non-Unanimous Stipulation and Agreement as to True Up,*
22 *Depreciation and Other Miscellaneous Issues* and the *Partial Non-Unanimous Stipulation and*
23 *Agreement as to Certain Issues*⁴⁹ in Case No. ER-2014-0370, both Stipulations filed on July 1,
24 2015, and approved by the Commission on July 17, 2015, KCPL was authorized to create a
25 regulatory asset and amortize the costs related to the mid-cycle outage over a five (5)-year

⁴⁸ Case No. ER-2016-0156, *Non-Unanimous Stipulation and Agreement* approved by the Commission on September 28, 2016 and Case No. ER-2016-0285 *Non-Unanimous Partial Stipulation and Agreement* approved by the Commission on March 8, 2017.

⁴⁹ *In the Matter of Kansas City Power & Light Company’s Request for Authority to Implement a General Rate Increase for Electric Service*, Case No. ER-2014-0370, (*Partial Non-Unanimous Stipulation and Agreement as to Certain Issues*, filed July, 1, 2015) page 3. The Commission issued an *Order Approving Stipulation and Agreement Regarding True Up, Depreciation, and Other Issues* and an *Order Approving Stipulation and Agreement Regarding Certain Issues* both on July 17, 2015.

1 period. The amortization of these costs commenced with the charging of the new rates
2 authorized by the Commission in Case No. ER-2014-0370 on September 29, 2015. The test year
3 ending June 30, 2017, includes a full 12 months of amortization related to these deferred
4 expenses; therefore, no adjustment is necessary. The amortization is included in the test year of
5 expenses in Staff Accounting Schedule 9 – Income Statement.

6 Staff also recommends that KCPL apply prospective tracking of amortization costs that
7 continue to be recovered in rates and that any over collection of these costs be returned to
8 customers in a future general rate case. This recommendation is consistent with the Stipulation
9 and Agreements approved by the Commission in Case Nos. ER-2016-0156 and ER-2016-0285.⁵⁰

10 *Staff Expert/Witness: Michael Jason Taylor*

11 **3. Wolf Creek Water Contract (KCPL ONLY)**

12 The Wolf Creek Nuclear Operating Company (“WCNOC”) currently has a water
13 purchase contract in place for its operations at the power plant, and KCPL is responsible for its
14 47% share of the contract costs.

15 Prior to January 1, 2018, the contract between the State of Kansas and the owners of the
16 Wolf Creek facility established the rights and obligations of the signatories. The initial contract
17 was effective for a ** _____ **⁵¹

18 WCNOC negotiated a new contract, effective January 1, 2018, with similar rights and
19 obligations, but the cost per 1,000 gallons of water has been revised.

20 Beginning on January 1, 2018, the contracted price of water will increase from \$0.10 to
21 \$0.392 per 1,000 gallons of water. Staff normalized Wolf Creek’s water consumption by
22 averaging the actual usage from 2014 through 2017. Staff then calculated an annual cost of
23 water at Wolf Creek under the terms of the revised water contract. KCPL’s 47% share of this
24 cost is reflected in Staff’s adjustment E-59.2.

25 *Staff Expert/Witness: Matthew R. Young*

⁵⁰ Case No. ER-2016-0156, *Non-Unanimous Stipulation and Agreement* approved by the Commission on September 28, 2016 and Case No. ER-2016-0285 *Non-Unanimous Partial Stipulation and Agreement* approved by the Commission on March 8, 2017.

⁵¹ Staff Data Request No. 342.

1 **4. Nuclear Decommissioning**

2 In its *Order Approving Stipulation And Agreement* in Case No. EO-2015-0056, the
3 Commission ordered the following:

4 ...

5 4) Kansas City Power & Light Company's retail jurisdiction
6 annual decommissioning expense accruals and trust fund payments
7 shall continue at the current level of \$1,281,264.

8 5) Kansas City Power & Light Company is authorized to
9 continue to record and preserve Wolf Creek asset retirement
10 obligation costs, as agreed by the Commission Staff, the Office of
11 the Public Counsel, and KCP&L and authorized by the
12 Commission in Case No. EU-2004-0294.

13 6) This order shall become effective on January 21, 2015.⁵²

14 Staff found the KCPL test year decommissioning expense reflected the amount ordered
15 by the Commission; therefore, no adjustment was necessary.

16 *Staff Expert/Witness: Michael Jason Taylor*

17 **5. Meter Replacement Program – Incremental Meter Reading Costs**

18 In 2014, KCPL began installing Advanced Metering Infrastructure (AMI) technology that
19 replaced nearly all of the KCPL's Automated Meter Reading ("AMR") meters. KCPL entered
20 into a new meter reading contract during the pendency of Case No. ER-2014-0370 associated
21 with the newly installed AMI meters. Similarly, GMO began installing AMI meters in its
22 service territory in early 2016. GMO's investment in AMI technology replaced the existing
23 manual-read meters that existed in much of its distribution system.

24 On April 5, 2013, an agreement was made between GPE and Landis+Gyr Technology,
25 Inc. ("Supplier") to provide services necessary to operate AMI meters in all of the Great Plains
26 territories. The contract states a price-per-meter to charge to KCPL and GMO, which is
27 renegotiated periodically. Staff made an adjustment to recognize an increase in the 2018 price

⁵² *In the Matter of the Application of Kansas City Power & Light Company for Approval of the Accrual and Funding of Wolf Creek Generating Station Decommissioning Costs at Current Levels, Case No. EO-2015-0056, (Order Approving Stipulation and Agreement), at page 3.*

1 from the 2017 price for Landis+Gyr's services by applying the 2018 per-meter charge to the
2 number of meter reads performed for KCPL and GMO during the test year.

3 *Staff Expert/Witness: Matthew R. Young*

4 **6. Iatan Unit 2 O&M Expenses**

5 In Case Nos. ER-2010-0355 and ER-2010-0356, Staff recommended a tracker for
6 Iatan Unit 2 non-labor O&M expense, so the actual cost of the non-labor portion of
7 O&M expense for Iatan Unit 2 would be recovered through rates in future KCPL and GMO rate
8 cases. Since Iatan Unit 2 was a newly completed generating facility and was placed in service on
9 August 26, 2010, KCPL's operational experience with Iatan Unit 2 was non-existent at the time
10 of KCPL's and GMO's 2010 general rate case. Staff proposed an O&M tracker for this unique
11 and unusual situation to protect KCPL, GMO, and their customers from including projected costs
12 in rates that would in all likelihood vary from the actual costs incurred for Iatan Unit 2's
13 O&M expense. KCPL, GMO, and other signatory parties agreed in a Non-Unanimous
14 Stipulation and Agreement in Case No. ER-2010-0355 and ER-2010-0356 to establish
15 a non-labor O&M tracker for Iatan Unit 2 costs and on April 12, 2011, the Commission approved
16 the use of a tracker for these costs. In Case No. ER-2016-0156, the plant had operated for nearly
17 six years. As a result, both Staff and GMO recommended that the tracker be discontinued, since
18 a level of historical O&M expense had been established for Iatan Unit 2 and common operations.

19 As of April 2018, all the Iatan Unit 2 vintages⁵³ have been recovered for KCPL and for
20 GMO Vintage 1 is fully recovered. Staff made an adjustment to remove the amortizations of
21 these vintages recorded in the test year. In addition, Staff made an adjustment to include the
22 annual amortization, based on a four-year period, for GMO's remaining vintages. Staff also
23 recommends that KCPL and GMO apply prospective tracking to Iatan Unit 2 O&M amortization
24 costs that continue to be recovered in rates due to past operation of the tracker, and that any over
25 collection of these costs be returned to customers in the true-up Accounting Schedules and a
26 future general rate case. This recommendation is consistent with the Stipulation and Agreements
27 approved by the Commission in Case Nos. ER-2016-0156 and ER-2016-0285.⁵⁴

28 *Staff Expert/Witness: Michael Jason Taylor*

⁵³ The Company uses the word "Vintage" to refer to a certain amortization within that issue.

⁵⁴ Case No. ER-2016-0156, *Non-Unanimous Stipulation and Agreement* approved by the Commission on September 28, 2016 and Case No. ER-2016-0285 *Non-Unanimous Partial Stipulation and Agreement* approved by the Commission on March 8, 2017.

1 Staff found the costs for CIP and Cyber-Security showed an upward trend during the last several
2 years. Consequently, Staff annualized the non-labor CIP and Cyber-Security costs as of the
3 twelve months ending December 31, 2017. Consistent with other expenses, Staff did not include
4 internal labor costs for CIP and Cyber-Security as those are included in the cost of service
5 through Staff's payroll annualization. Staff's adjustments are identified on Schedule 9 of
6 Staff's KCPL and GMO Accounting Schedules, Adjustments E-210.3, E-240.4 and E-153.2,
7 E-177.4.

8 *Staff Expert/Witness: Keith Majors*

9 **E. Other Non-Labor Adjustments**

10 **1. Advertising Expense**

11 In forming its recommendation of the allowable level of advertising expense, Staff relied
12 on the principles the Commission propounded in the 1985 KCPL rate case, Case No. EO-85-185,
13 *In Re: Kansas City Power and Light Company*, 28 MO P.S.C. (N.S.) 228 (1986), in which the
14 Commission adopted an approach that classifies advertisements into five categories and provides
15 separate rate treatment for each category. The five categories of advertisements recognized by
16 the Commission are:

- 17 1. General: advertising that is useful in the provision of adequate
18 service;
- 19 2. Safety: advertising which conveys the ways to safely use electricity
20 and to avoid accidents;
- 21 3. Promotional: advertising used to encourage or promote the use of
22 electricity;
- 23 4. Institutional: advertising used to improve the company's public
24 image; and
- 25 5. Political: advertising associated with political issues.

26 The Commission adopted these categories of advertisements because a utility's revenue
27 requirement should: 1) always include the reasonable and necessary cost of general and safety
28 advertisements; 2) never include the cost of institutional or political advertisements; and
29 3) include the cost of promotional advertisements only to the extent that the utility can provide

1 cost-justification for the advertisement (*Report and Order* in KCPL Case No. EO-85-185,
2 28 Mo.P.S.C. (N.S.) 228, 269-271 (April 23, 1986)).

3 In response to Staff data requests issued in this case, KCPL and GMO provided
4 supporting documentation for their advertising costs and copies of the actual advertisements.
5 Staff examined each advertisement and classified them into the individual categories the
6 Commission has used in prior cases to determine the advertisements that should be either
7 included or excluded from KCPL's and GMO's cost of service. The purpose of Staff's review of
8 KCPL's and GMO's advertising costs was to ensure that only advertising costs for programs
9 necessary for the provision of safe and adequate utility service are included in KCPL's and
10 GMO's cost of service. For example, all direct and indirect costs associated with safety
11 advertising were included, as well as the other costs necessary for KCPL and GMO to
12 communicate with their customers on utility matters (i.e., general advertising). Staff's review
13 focused on advertising campaigns, not just individual advertisements, which is consistent
14 with the Commission's guidance in its Report and Order for Ameren Missouri in
15 Case No. ER-2008-0318.

16 KCPL and GMO are allowed the opportunity to recover advertising expenses associated
17 with MEEIA activities through their authorized MEEIA surcharge. As these advertising
18 expenses are recovered outside of base rates, KCPL and GMO removed these expenses from the
19 cost of service requested in this rate case. Additionally, there were correcting entries to
20 advertising in the test year. Staff recommends inclusion of these adjustments. Staff's
21 adjustments are identified on Schedule 9 of Staff's KCPL and GMO Accounting schedules
22 as follows;

- 23 - KCPL adjustments: E-184-3, E-190-1, E-192-1, E-206-3
- 24 - GMO adjustments: E-136-4, E-138-1

25 *Staff Expert/Witness: Antonija Nieto*

26 **2. Bad Debt Expense**

27 Staff's recommended treatment of bad debt expense is to calculate the ratio of KCPL's
28 and GMO's net write-offs to annualized retail revenue to determine an appropriate level of bad
29 debt expense. Bad debt expense is the portion of retail revenues KCPL and GMO are unable to
30 collect from retail customers by reason of bill non-payment. After a certain amount of time has

1 passed, delinquent customer accounts are written off and turned over to a third party collection
2 agency for recovery. If the collection agency is subsequently able to successfully collect some
3 portion of previously written off delinquent amounts owed, then those collected amounts reduce
4 current write-offs. Offsetting successful collection agency recoveries against total write-offs
5 creates the "net write-off" amount used to determine the annualized level of bad debt expense.

6 Staff calculated the annualized bad debt expense by examining the ratio between billed
7 revenues, net of gross receipt taxes, for the twelve month period ended December 31, 2017, and
8 the actual 12-month history of billed revenues that were never collected (net write-offs) for the
9 twelve months ended June 30, 2017. From this information a bad debt ratio was derived, which
10 was then applied to Staff's adjusted weather normalized level of retail revenues to obtain the
11 annualized level of bad debt expense.

12 The six-month lag time between the net retail sales and actual net write-off calculations
13 used by Staff to derive a net write-off percentage is consistent with KCPL's and GMO's position
14 on how bad debt write-offs are accounted, in that it takes approximately six months for a
15 customer's unpaid bill to be written off after the customer receives service.

16 Staff's adjustment for bad debt expense adjusts the test year results to reflect a level of
17 bad debt expense that is consistent with Staff's annualized level of retail revenue. Adjustments
18 E-179.1 and E-130.1 in Staff's Accounting Schedules reflect an annualized level of bad debt
19 expense for KCPL and GMO, respectively.

20 *Staff Expert/Witness: Antonija Nieto*

21 **3. Dues and Donations**

22 Staff reviewed the list of paid membership dues and donations made to various
23 organizations that KCPL and GMO charged to their utility accounts during the test year. In the
24 current case, Staff applied the same four criteria used in KCPL's 1985 general rate case
25 Case No. EO-85-185 and more recently in Case No. ER-2016-0285 to establish when dues and
26 donations expenses should be excluded from customer rates. The criteria for excluding
27 mentioned expenses are:

- 28 (1) The expenses are involuntary ratepayer contributions of a charitable nature;
- 29 (2) The expenses are supportive of activities which are duplicative of those
30 performed by other organizations to which the Company belongs or pays
31 dues;

- 1 (3) The expenses are associated with active lobbying activities which have not
2 been demonstrated to provide any direct benefit to the ratepayers; or,
3 (4) The expenses represent costs of other activities that provide no benefit or
4 increased service quality to the ratepayer.

5 In regard to the first criteria listed above, KCPL and GMO accounted for all donations
6 made to charitable organizations as a below-the-line expense amount and, consequently, they are
7 not included in KCPL's and GMO's determination of their revenue requirements.

8 While Staff recognizes the importance of charitable contributions to the communities
9 served by utilities, donations that do not provide any direct benefit to ratepayers and are not
10 necessary for the provision of safe and adequate service should be excluded from KCPL's and
11 GMO's revenue requirement. In addition, recovery in rates of donations made by regulated
12 utilities would constitute an involuntary contribution on behalf of the rate-paying customer, and
13 thus, those donations were excluded from the Companies' revenue requirements. The following
14 adjustments remove Dues and Donations from the test year expense:

15 KCP&L: E-164-2, E-206-6, E-233-2, E-233-3

16 GMO: E-167-1, E-168-3

17 *Staff Expert/Witness: Antonija Nieto*

18 **a. Edison Electric Institute ("EEI") Dues**

19 According to information obtained from the EEI website (www.eei.org), EEI is an
20 association of investor-owned electric utilities and industrial affiliates. Based upon its review of
21 EEI information, Staff determined that the primary function of EEI is to represent the interests of
22 the electric utility industry in the legislative and regulatory arenas. This role includes EEI's
23 engagement in lobbying activities.

24 In Case No. ER-82-66, a prior KCPL rate increase case, the Commission stated
25 the following:

26 ...until the Company can better quantify the benefit and the
27 activities that were the causal factor of the benefit, the Commission
28 must disallow EEI dues as an expense.⁵⁵

29 This position has been re-affirmed by the Commission in subsequent rate proceedings.⁵⁶

⁵⁵ See *Re: Kansas City Power & Light Co.*, 25 Mo. P.S.C. (N.S.) 229, 245 (1982).

⁵⁶ See Case No. ER-83-49 (the Commission stated in its Report and Order that EEI dues:

"...would be excluded as an expense until the company could better quantify the benefit accruing to both the company's ratepayers and shareholders.") and *In the Matter of Kansas City Power & Light Co.*, 28 MO P.S.C.

1 In Staff's view, the overall purpose of EEI and its involvement in political and regulatory
2 lobbying activities has not materially changed since the time the Commission made the findings
3 regarding EEI exclusion from rates in the above cited cases.

4 Staff recommends removal of the amount of EEI dues included "above-the-line" in test
5 year expense from KCPL's and GMO's cost of service, consistent with prior Commission Report
6 and Orders. These amounts include contributions to the Utility Air Regulatory Group, a
7 separately funded contribution.

8 Accounting adjustment E-233-2 removes EEI dues from the test year expense levels.

9 *Staff Expert/Witness: Antonija Nieto*

10 **4. Out of Period Items (CS-11)**

11 In its direct filing, KCPL and GMO included Adjustment CS-11, which includes several
12 categories of miscellaneous adjustments to its test year cost of service, such as adjustments to:

- 13 1. Remove equity compensation;
- 14 2. Reclassify the costs of non-recoverable dues and expense reports to
15 "below-the-line;"
- 16 3. Miscellaneous coding corrections that occurred after the test year;
- 17 4. Remove the effect of accounting entries made during the test year to
18 comply with the Report and Order in Case Nos. ER-2016-0156 and
19 ER-2016-0285; and
- 20 5. Remove test year balances for GMO's L&P rate district's landfill costs.

21
22 Staff has reviewed the adjustments in CS-11 and agrees they are appropriate. Staff
23 reflected the adjustments in Staff's KCPL Accounting Schedules in adjustments E-22.2, E-157.1,
24 E-184.1, E-204.1, E-206.1, E-206.2, and E-233.1. The adjustments are reflected in Staff's GMO
25 Accounting Schedules in adjustments E-109.3, E-136.2, E-138.6, E-148.2, E-148.3, E-153.3,
26 E-168.2, and E-172.2.

27 *Staff Expert/Witness: Matthew R. Young*

(N.S.) 228, 259 (1986) ("It is not determinative that the quantification of benefits to the ratepayer is greater than the EEI dues themselves. The determining factor is what proportion of those benefits should be allocated to the ratepayer as opposed to the shareholder. It is obvious that the interests of the electric industry are not consistently the same as those of the ratepayers. The ratepayers should not be required to pay the entire amount of EEI dues if there is benefit accruing to the shareholders from EEI membership as well. The Commission finds this to be the case. The Company has been informed in prior rate cases that it must allocate its quantified benefits from membership in EEI. That has not been done herein. Therefore, no portion of EEI dues will be allowed in this case.")

1 **5. Debit/Credit Card Acceptance Program**

2 In February 2007, KCPL implemented a Credit/Debit Card payment program designed to
3 offer utility ratepayers a simplified, quick, convenient way to pay their bills, and to manage their
4 accounts electronically. GMO implemented a similar program in September 2009. KCPL and
5 GMO implemented the program through two service agreements. The first agreement is with
6 Paymentech, LLC (“Paymentech”), a subsidiary of JPMorgan Chase Bank, N.A., and is for
7 credit and debit card payments. The second agreement is with Speedpay, Inc. (“Speedpay”), a
8 subsidiary of E Commerce Group Products, Inc. (a subsidiary of The Western Union Company),
9 and is for ATM and debit card payments made over the telephone. Paymentech and Speedpay
10 act as third party facilitators for the processing of payments to KCPL and GMO. Payment
11 options that are available to customers through the program include the Interactive Voice
12 Response System (“IVR”) and/or by registering on KCPL’s website. Payment through the
13 website offers the following two options: one time payments or what the Company defines as the
14 “recurring card payment option.” The cost for providing this service is absorbed by KCPL and
15 GMO and later built into rates; therefore, customers who use this payment option are not charged
16 any direct transaction fees. Since the introduction of the programs, customer participation has
17 been gradually increasing. As customer participation increases, the per unit transaction cost to
18 KCPL and GMO for providing the debit/credit payment service looked to remain stay the same.
19 Staff included an annualized amount of credit and debit card transactions costs for KCPL and
20 GMO based upon the total card level and per unit transaction cost as of the twelve months ended
21 December 31, 2017, to represent an ongoing level of costs for KCPL and GMO. Staff’s
22 adjustments are reflected in Staff’s Accounting Schedule 10 for KCPL and GMO,
23 Adjustment E-175.1 and Adjustment E-129.4 respectively.

24 *Staff Expert/Witness: Michael Jason Taylor*

25 **6. Accounts Receivable Bank Fees**

26 KCPL sells its accounts receivable to Kansas City Power & Light Receivables Company
27 (“KCREC”), and GMO sells its accounts receivable to GMO Receivables Company (“GREC”),
28 all of which are affiliated entities. The sale of accounts receivable increases immediate cash
29 flow to KCPL and GMO and provides access to funds through lines of credit. The impact of the

1 sale of accounts receivable on KCPL's and GMO's cash working capital ("CWC") requirement
2 is a reduction to the collection lag component of the overall revenue lag. This is because KCPL
3 and GMO receive monies faster when accounting receivables are sold, shortening the revenue
4 lag and reducing KCPL's and GMO's revenue requirement. It is the entity purchasing the
5 accounts receivable from KCPL and GMO that has to wait for the customers to pay amounts due
6 within the normal time frame set out in the Commission's billing rules. KCPL and GMO have to
7 pay The Bank of Tokyo-Mitsubishi UFJ, Ltd. ("BTM") certain fees associated with the selling of
8 the accounts receivable. As long as the amount of fees KCPL and GMO pay to accelerate cash
9 recovery through the sale of its receivables is less than the revenue requirement decrease
10 resulting from the shorter collection lag.

11 The adjustments for bank fee relate to KCPL's and GMO's cost incurred in order to sell
12 accounts receivable. Staff recognized an upward trend of expense for KCPL's bank fees and is
13 recommending an annualized level using the last known monthly expense for our adjustment.
14 Adjustment E-180.2 and E-180.3 reflects the difference between KCPL's test year level and
15 Staff's annualized level of bank fees, using the last known monthly expense. Staff did not detect
16 a recognizable trend with GMO's bank fees within the test year and update periods and used the
17 12 months ending December 31, 2017 annualized level of bank fees for Staff's adjustment.
18 Adjustment E-131.2 and E-131.3 reflects the difference between the GMO test year level and
19 Staff's annualized level of bank fees.

20 *Staff Expert/Witness: Michael Jason Taylor*

21 **7. La Cygne Regulatory Asset – Obsolete Inventory**

22 As a result of environmental equipment upgrades that were placed in service at its
23 LaCygne plant during 2015, KCPL proposed to remove from rate base certain spare parts from
24 its materials and supplies inventory that became obsolete. KCPL also further proposed that the
25 write-off of spare parts be amortized over a five-year period once the LaCygne environmental
26 equipment was placed into service. After completion of the LaCygne upgrades, KCPL removed
27 the spare parts from rate base and included an annualized amount of amortization expense in its
28 cost of service.

29 In the 2014 KCPL rate case, Case No. ER-2014-0370, both the Company and Staff
30 removed spare parts from rate base and included an annualized amount of amortization expense

1 in its cost of service for the direct filing. In KCPL's 2015 rate case, Case No. ER-2016-0285,
2 Staff indicated it expected KCPL to remove from the amortization adjustment any spare parts
3 that can be considered "used and useful" at other KCPL plant facilities. Similarly, Staff also
4 expected KCPL to offset the obsolete inventory adjustment with any residual or scrap value it
5 realizes upon the sale or other disposition of the spare parts. Staff recommended the
6 Commission allow KCPL to amortize, over a five-year period, the obsolete inventory levels
7 determined at the end of the true-up period and track any over-recovery associated with the
8 amortization in order for such over-recovery to be addressed for future treatment in subsequent
9 rate proceedings. This amortization started in July 2017 and will end September 2020. If this
10 amortization ends outside of a rate case, KCPL should identify any amount over collected to use
11 as an offset (reduction) to other amortizations authorized by the Commission. The test year
12 ending June 30, 2017, includes a full 12 months of amortization related to these deferred
13 expenses; therefore, no adjustment is necessary. The amortization is included in the test year
14 amount of expenses presented in Staff Accounting Schedule 9 – Income Statement.

15 *Staff Expert/Witness: Michael Jason Taylor*

16 **8. Lease Expense**

17 Lease expenses are those costs incurred by KCPL and GMO for the leasing of its
18 corporate headquarters and other items. Staff examined these costs for the test year ended June
19 30, 2017, and update period through December 31, 2017.

20 Staff verified that the leases currently in effect are planned to remain in effect at the same
21 base rent as what is presently charged to KCPL and GMO in the existing lease agreements.
22 Also, Staff confirmed with KCPL and GMO that no lease is set to expire as of December 31,
23 2017, and that none of the current lease terms within each of its agreements will change
24 materially from those in effect during the test year.

25 Staff examined the current lease expense for KCPL and GMO's headquarters in
26 Kansas City. Staff annualized the current lease, additional space, and parking space expenses as
27 of December 31, 2018.

28 When KCPL relocated to its current headquarters, it was allowed 270 days (nine months)
29 of rent-free time, called an abatement period, as part of the lease agreement. In the 2010 rate
30 case, No. ER-2010-0355, KCPL agreed to establish a regulatory liability to account for the rate
31 expense collected in rates, but not incurred during the abatement period. These costs were

1 amortized and returned to ratepayers over a five-year period that ended on April 30, 2016. In the
2 2014 rate case, No. ER-2014-0370, KCPL agreed to track the amount of any over collections of
3 regulatory liabilities and regulatory assets that were being amortized to cost of service, but had
4 been fully recovered from, or fully returned, to ratepayers. As of the end of the update period,
5 two months of amortizations have been over-returned to ratepayers. In Case No. ER-2016-0285,
6 Staff captured from May 2016 through December 31, 2016, true-up, eight months of this item
7 will have been over-returned; this situation will continue through the effective date of new rates.
8 Staff in the current case, ER-2018-0145 has captured the over-returned amount from January
9 2017 through the effective date of rates, June 8, 2017. Staff has proposed for vintage 1 and 2 to
10 be amortized at four (4) years; this adjustment to the test year is reflected in Adjustment E-234.1.

11 For GMO, the amortization to return to rate payers the lease abatement ended on June 30,
12 2016, the lease abatement will be over-returned from June 31, 2016, through the effective date of
13 rates of February 22, 2017. Staff has captured the nine (9) months over-returned and amortized
14 over four (4) years to be returned to GMO. This adjustment to the test year is reflected in
15 Adjustment E-172.1.

16 *Staff Expert/Witness: Michael Jason Taylor*

17 **9. Insurance Expense**

18 Staff's recommended treatment of Insurance Expense is to treat prepaid insurance as an
19 asset to be included in rate base and amortized ratably over the life of the insurance policy by
20 annualizing the level of insurance expense and allocating an appropriate portion of the expense
21 to KCPL's and GMO's cost of service. Insurance expense is the cost of protection obtained from
22 third parties by utilities against the risk of financial loss associated with unanticipated events.

23 Utilities, like non-regulated entities, routinely incur insurance expense in order to
24 minimize their liability associated with unanticipated losses for property assets and personal
25 injury from accidents. Certain forms of insurance reduce ratepayer's exposure to risk.
26 Premiums for insurance are normally paid in advance by utilities, such as the utility payment to
27 the insurance vendor in advance of the policy going into effect. These insurance payments are
28 normally treated as prepayments, with the amount of the premium being booked as an asset and
29 amortized to expense ratably over the life of the period the insurance is in force. The
30 unamortized balance of the prepaid insurance account (either the period-ending balance or a

1 13 month average balance) is included in rate base, with an annualized level of insurance
2 expense included in rates. Staff witness Antonija Nieto discusses the rate base treatment for
3 prepayments in the Rate Base section of Staff's Cost of Service Report.

4 During the audit, Staff reviewed KCPL's and GMO's insurance policies for the following
5 forms of insurance:

- 6 ▪ Commercial Crime
- 7 ▪ Fiduciary Liability
- 8 ▪ Directors and Officers ("D&O") Liability
- 9 ▪ General Liability/Umbrella
- 10 ▪ Excess Directors & Officers
- 11 ▪ Excess Liability
- 12 ▪ Excess Fiduciary Liability
- 13 ▪ Workers Compensation
- 14 ▪ Excess Workers Compensation
- 15 ▪ Property
- 16 ▪ Cyber-Security Liability
- 17 ▪ Labor Management Trust Fiduciary
- 18 ▪ Auto Liability
- 19 ▪ Bonds

20 Staff reviewed the policies and verified the current insurance premiums for each insurance
21 type. An annualized amount was determined and allocated between KCPL, GMO, and its
22 affiliates. The annualized levels for KCPL's and GMO's portion of the insurance costs are
23 reflected in Adjustments E-212.1 and E-213.2 for KCPL and E-155.1 and E-156.2 for GMO.

24 *Staff Expert/Witness: Karen Lyons*

25 **10. Injuries and Damages**

26 Staff's recommended treatment of injuries and damages is to normalize KCPL's and
27 GMO's costs associated with injuries and damages, using actual cash payments made by KCPL
28 and GMO and paid to entities that had an injury and/or claim against KCPL and GMO. Injuries
29 and damages relate to insurance claims that are not covered by insurance policies and usually
30 consist of claims associated with general liability, worker's compensation, and auto liability.

31 Staff analyzed several years of data to determine an appropriate level of costs to include
32 in KCPL's and GMO's cost of service. In 2017, the actual cash payments made by KCPL were
33 approximately three times higher than actual payments made by KCPL since 2009, and at least

1 two and a half times higher than actual cash payments made prior to 2009.⁵⁷ Staff has concerns
2 regarding whether KCPL customers should bear the cost for these payments, in part or at all.
3 Staff has requested additional information from KCPL regarding the significant level of costs
4 incurred in 2017. The information requested will not be available at the time Staff files its
5 Cost of Service Report. For its direct filing, Staff included a three year average (2015-2017) of
6 actual cash payments excluding the 2017 payments that are in question for KCPL. Staff's
7 adjusted three-year average of actual cash payments is intended to be a place holder until
8 additional information is received and reviewed. If Staff determines that KCPL customers
9 should be responsible for the significant increase in 2017, Staff will recommend a four-year
10 average (2014-2017) of KCPL actual payments.

11 Staff's analysis found that there was nothing unusual about the actual cash payments
12 made by GMO. Staff determined that a three year average of actual payments is appropriate for
13 GMO. Adjustment E-214.1 and E- 156.1 reflects a normalized level of costs for injuries and
14 damages for KCPL and GMO respectively.

15 *Staff Expert/Witness: Karen Lyons*

16 **11. Property Tax Expense**

17 Staff's recommended treatment of property tax expense is to annualize property taxes
18 based upon KCPL's and GMO's property that is in-service on January 1, 2018, by multiplying
19 the value of the in-service property by Staff's property tax ratio derived from KCPL's and
20 GMO's historical tax payments. Staff adjusted test year property tax expense in order to include
21 in rates the annualized level of 2018 property taxes.

22 Each year KCPL and GMO are billed by each of the local and state taxing authorities that
23 have jurisdiction over KCPL's and GMO's property. Tax bills for the year are based (assessed)
24 on the value of the property KCPL and GMO own exclusively on January 1 of that calendar year.
25 The property taxes assessed on the property owned as of January 1 of each year are typically not
26 due to the various taxing authorities until December 31 of that same year. The exception is the
27 property taxes assessed in the state of Kansas, where one-half of the year's property taxes are not
28 due until late in the first quarter of the following year. The test year used in this case is
29 the 12-month period ended June 30, 2017, updated through December 31, 2017. Since the

⁵⁷ Staff analyzed cash payments for 2005-2017 for KCPL and 2006-2017 for GMO.

1 update period in this case is December 31, 2017, Staff determined the annualized property taxes
2 based on the property KCPL and GMO had in-service on January 1, 2018. Staff applied a
3 property tax ratio based on actual 2017 property tax payments divided by the taxable plant as of
4 January 1, 2017. This ratio of property taxes applied to the January 1, 2018, actual plant in
5 service provides the amount of property taxes expected to be due at the end of the year in 2018.
6 Because the test year in this case ended June 30, 2017, property tax expenses for 2018 were
7 annualized as of the January 1, 2018, date, and this calculation is what Staff expects KCPL's and
8 GMO's property tax cost to be for 2018. Historically, Staff, KCPL, and GMO calculate this
9 value by applying the tax rate paid for the previous year to the property owned at the start of the
10 current year.

11 For the current rate case, Staff obtained from KCPL and GMO the total amount of
12 taxable property KCPL and GMO owned on January 1, 2018, and then multiplied it by
13 the 2017 property tax ratio previously discussed. Staff's annualized 2018 property tax was then
14 increased by KCPL's and GMO's 2017 contractual payments in lieu of taxes ("PILOTS")
15 applicable to non-taxable property.

16 Staff recommends this method of calculation as being based on the most recent and best
17 available information, since it relies on the actual January 1, 2018, balance of KCPL's and
18 GMO's property and uses the most recent, known effective tax rate (2017). This method does not
19 attempt to estimate or project any change in the rate of taxation for 2018 that is not known for
20 the update period of December 31, 2017, or the true up period of June 30, 2018.

21 Staff's approach is consistent with that taken previously, which received several
22 favorable rulings from the Commission in prior cases, notably in the KCPL 2006 rate case. In its
23 *Report and Order* issued in that case, Case No. ER-2006-0314, the Commission stated
24 the following:

25 Staff recommends that the Commission calculate property tax
26 expense by multiplying the January 1, 2006 plant-in-service
27 balance by the ratio of the January 1, 2005 plant-in-service balance
28 to the amount of property taxes paid in 2005. KCPL wants the
29 property tax cost of service updated to include 2006 assessments
30 and levies. The Commission finds that the competent and
31 substantial evidence supports Staff's position, and finds this issue
32 in favor of Staff.

1 Adjustment E-263.1 reflects Staff's adjustment to KCPL's annualized property taxes.
2 Adjustment E-196.1 reflects Staff's adjustment to GMO's annualized property taxes.

3 *Staff Expert/Witness: Michael Jason Taylor*

4 **12. Rate Case Expense**

5 Rate case expense is the sum of the costs a utility incurs in preparing and filing a rate
6 case. In the instant case, KCPL and GMO have incurred expenses in conjunction with legal
7 counsel, regulatory consulting, and outside consultants. Staff recommends full recovery of rate
8 case expense incurred to comply with statutory requirements; namely, the expenses for GMO's
9 depreciation study and the cost of customer notices informing customers of the rate cases and
10 local public hearings. Staff recommends assigning the remaining discretionary rate case expense
11 to both ratepayers and shareholders based upon a 50/50 split. This allocation results from the
12 Commission's most recent guidance concerning rate case expense in the Spire Missouri Inc.
13 ("Spire Missouri") rate cases, Case Nos. GR-2017-0215⁵⁸, and GR-2017-0216⁵⁹. Alternatively,
14 Staff recommends rate case expense sharing based on the ratio of Staff's recommended rate
15 increase to KCPL's and GMO's requested rate increase. This sharing methodology was ordered
16 by the Commission in both recent KCPL cases, Case Nos. ER-2014-0370 and ER-2016-0285.
17 This ratio would be updated throughout the remainder of the case and will ultimately be based on
18 the ratio of the Commission approved rate increases to KCPL's and GMO's requested rate
19 increases, if the Commission orders this option.

20 Staff recommends that this sharing of expenses is appropriate in this proceeding for the
21 following reasons:

- 22 1. Rate case expense sharing creates an incentive, and eliminates a disincentive, on
23 the utility's part to control rate case expense to reasonable levels;
- 24 2. Considering that ratepayers currently pay for the majority of the rate case and
25 regulatory process, it is fair and equitable to ask shareholders to pay for at least
26 some of these expenses;

⁵⁸ *In The Matter of Laclede Gas Company's Request to Increase its Revenues for Gas Service*

⁵⁹ *In the Matter of Laclede Gas Company d/b/a Missouri Gas Energy's Request to Increase its Revenues for Gas Service*

1 3. Both ratepayers and shareholders benefit from the rate case process; the ratepayer
2 receiving safe and adequate service at a just and reasonable rate, and the
3 shareholder receiving an opportunity to receive an adequate return on investment.
4

5 Rate case expense can be defined as all incremental costs incurred by a utility directly
6 related to an application to change its general rate levels. These applications are usually initiated
7 by the utility, but rate case expenses may also be incurred as a result of the filing of an earnings
8 complaint case by another party. The largest amounts of rate case expense usually consist of
9 costs associated with use of outside witnesses, consultants, and outside attorneys hired by the
10 utility to participate in the rate case process.

11 Generally, utility management has a high degree of control over rate case expense.
12 Attorneys, consultants, and other services can either be provided by in-house personnel or can be
13 procured from an outside party. Some Missouri utilities employ in-house counsel and primarily
14 utilize internal labor to process rate filings; therefore, the use of outside attorneys in rate
15 proceedings is not always necessary. However, KCPL and GMO currently procure outside
16 counsel in addition to several in-house attorneys with significant prior experience in Missouri
17 rate proceedings. Rate case expenses do not include internal labor costs as those are included in
18 the cost of service through the payroll annualization and are not incremental expenses resulting
19 from the rate case process.

20 During rate proceedings, and generally in the utility regulatory process, there are four
21 broad categories of costs involved:

- 22 1. The cost incurred by the Commission for itself and its Staff;
 - 23 2. The cost incurred by the Office of the Public Counsel;
 - 24 3. The cost incurred by intervenors in Commission proceedings; and
 - 25 4. The cost incurred by the utility in the regulatory process.
- 26

27 Category 1 is the cost incurred by the Commission. This includes all operating expenses,
28 salaries, wages, and benefits of the Commission and its Staff. The Commission's operating
29 expenses are limited to the amount the Missouri General Assembly appropriates for that purpose.
30 An annual amount of operating expenses is assessed by the Commission and paid by the utilities
31 it regulates. The utility, in turn, passes on this expense to its ratepayers through the rate case
32 process. The utility is not charged the direct cost of processing its filings or regulating
33 company-specific activities. KCPL and GMO are charged based on an assignment of the

1 Commission's budget to regulation of the electric industry with this amount allocated to KCPL
2 and GMO based on the percentage of their regulated revenues of the total electric regulated
3 revenues in Missouri. The utilities, in turn, pass on this expense to their ratepayers through the
4 rate case process. Ultimately customers pay these expenses through rates for utility services.

5 Category 2 is the cost incurred by the Office of the Public Counsel. Public Counsel
6 represents the public and the interests of utility customers in proceedings before the Commission.
7 An amount for Public Counsel's annual operating expenses is appropriated by the Missouri
8 General Assembly, which is sourced from the Commission's assessment, billed to the utilities
9 and included in the cost of service. Ultimately customers pay these expenses through rates for
10 utility services.

11 Category 3 is the cost incurred by intervenors in Commission proceedings. Intervenors
12 may be involved in Commission proceedings for a variety of reasons, but most frequently for
13 reasons related to revenue requirement and rate design issues raised in general rate proceedings.
14 Some intervening parties represent large individual utility customers or groups of customers.
15 There are several intervenors in this case, some of whom have retained their own counsel and
16 experts to review KCPL's and GMO's rate increases. Each intervenor is responsible for its own
17 rate case expenses.

18 Category 4 is the cost incurred by the utility in the regulatory and rate setting process. In
19 prior rate cases, the Commission allowed utilities to pass through to ratepayers the full amount of
20 normalized and prudently incurred rate case and regulatory expenses in the rate-setting process.
21 When utilities were allowed to pass full rate case costs on to ratepayers, the utilities were the
22 only rate case participants that did not face an inherent limit in the amount of rate case expense
23 they chose to incur. All of the other types of participants were and are limited in the amounts of
24 rate case expense they can incur by the budgetary decisions of the General Assembly or by the
25 willingness of the intervening parties to fund rate case activities. However, with full rate case
26 expense recovery, the utilities were free to plan their rate case activities with the knowledge that
27 the associated cost of those activities were highly likely to be passed on to a third party; i.e.,
28 its customers.

29 The practice of allowing a utility to recover all, or almost all, of its rate case expense
30 from customers creates a disincentive for the utility to control rate case expenses. For all other
31 parties to the rate case process, the funds spent are ultimately limited by a budget and financial

1 restraints. Having significant financial resources to fund rate case activities combined with the
2 ability to pass through the entire amount of the expenses creates what can be perceived as an
3 unfair advantage over all other parties in the rate case process.

4 Some of a utility's discretionary expenses are not recovered by the utility in the
5 ratemaking process. For example, charitable donations, discretionary amounts paid to
6 individuals or organizations for charitable reasons with no direct business benefit, have
7 historically not been an includable expense in the cost of service. While the utility may believe it
8 has a responsibility to be a "good corporate citizen," if included in the cost of service, charitable
9 contributions would equate to an involuntary contribution by the ratepayer. Costs associated
10 with political activities ("lobbying") are another type of cost routinely disallowed and not
11 included in customer rates. These are examples of costs that are not necessary for the provision
12 of safe and adequate utility service in Missouri.

13 The Commission ordered a sharing of rate case expenses in its *Report and Order* in
14 KCPL's most recent rate case, Case No. ER-2014-0370, on page 72:

15 The Commission finds that in order to set just and reasonable rates
16 under the facts in this case, the Commission will require KCPL
17 shareholders to cover a portion of KCPL's rate case expense. One
18 method to encourage KCPL to limit its rate case expenditures
19 would be to link KCPL's percentage recovery of rate case expense
20 to the percentage of its rate increase request the Commission finds
21 just and reasonable. The Commission determines that this
22 approach would directly link KCPL's recovery of rate case
23 expense to both the reasonableness of its issue positions and the
24 dollar value sought from customers in this rate case.

25 The Commission concludes that KCPL should receive rate
26 recovery of its rate case expenses in proportion to the amount of
27 revenue requirement it is granted as a result of this Report and
28 Order, compared to the amount of its revenue requirement rate
29 increase originally requested. This amount should be normalized
30 over three years. The Commission also finds that it is appropriate
31 to require a full allocation to ratepayers of the expenses for
32 KCPL's depreciation study, recovered over five years, because this
33 study is required under Commission rules to be conducted every
34 five years. [footnotes omitted]
35

1 The footnote omitted in the above reference, Footnote 251 on page 72 of the Report and Order in
2 Case No. ER-2014-0370, further clarifies the Commission's conclusions concerning recovery of
3 rate case expenses:

4 It is understood that some of the issues litigated in this case do not
5 directly affect the overall revenue requirement granted by the
6 Commission; but it is also clear that the vast majority of the
7 litigated issues do have a direct or indirect impact on the revenue
8 requirement. Accordingly, percentage sharing is a reasonable
9 approach to correlating recovery of rate case expense to the
10 relationship between the amount of litigation that benefited both
11 ratepayers and shareholders and that which benefited only
12 shareholders.

13 In the most recent Spire Missouri rate cases, the Commission ordered a 50/50 split of rate case
14 expenses on page 52 of its Report and Order in that case:

15 Therefore, it is just and reasonable that the shareholders and the
16 ratepayers who both benefited from the rate case, share in the rate
17 case expense. The Commission finds that in order to set just and
18 reasonable rates under the specific facts in this case, the Commission
19 will require Spire Missouri shareholders to cover half of the rate case
20 expense and the ratepayers to cover half with the exception of the cost
21 of customer notices and the depreciation study.

22 In accordance with the Commission's *Report and Order*, Staff recommends the same rate case
23 expense sharing mechanism ordered in the Spire Missouri rate cases be applied to KCPL's and
24 GMO's rate case expenses.

25 Generally, Staff divides rate case expense over the period of time it estimates will pass
26 before the utility's next rate case and includes an annual amount in the utility's revenue
27 requirement. Typically, this cost is not "amortized" for ratemaking purposes, and the utility's
28 recovery of this expense in rates is not tracked against its actual rate case expense for
29 consideration of over or under recovery. In the current case, Staff recommends a four year
30 normalization of rate case expenses. Staff has also included depreciation study expenses over
31 five years with no sharing, which is the required time-interval for KCPL and GMO to conduct
32 depreciation studies.

1 Staff Adjustments E-225.1 and E-165.1 reflect Staff's recommended rate case expense,
2 for KCPL and GMO, respectively, calculated as described above. Staff Adjustments E-225.5
3 and E-165.3 spreads the cost recovery of KCPL's and GMO's most recent depreciation study
4 over five years, respectively. KCPL Staff Adjustments E-225.2 and E-225.3, and GMO Staff
5 Adjustment E-164.1 remove test year rate case expenses related to prior cases.

6 *Staff Expert/Witness: Keith Majors*

7 **13. Regulatory Assessments**

8 **a. Public Service Commission Assessment Fee**

9 The Public Service Commission assessment ("PSC Assessment") is an amount billed to
10 all regulated utilities operating under the jurisdiction of the Commission as an allocation of the
11 Commission's operating costs associated with utility regulation. KCPL's and GMO's
12 PSC Assessment was annualized using the latest assessment available for the current fiscal year
13 (FY-2018) on information obtained from the Commission's records. The updated KCPL and
14 GMO PSC Assessment was compared to the PSC Assessment amount included in KCPL's and
15 GMO's test year to form the basis for the adjustment in Staff's cost-of-service. Staff's
16 adjustments are identified on Schedule 9 of Staff's KCPL and GMO Accounting Schedules,
17 Adjustment E-222.1 and E-164.3, respectively.

18 *Staff Expert/Witness: Keith Majors*

19 **b. FERC Assessment**

20 KCPL and GMO are assessed a regulatory fee from FERC. The FERC assesses fees to
21 public utilities and Regional Transmission Organizations ("RTO") based on their usage of
22 transmission of electric energy. Staff reviewed KCPL's and GMO's FERC assessment for the
23 period of January 2012 through December 2017. Beginning in June 2013, GMO incurred FERC
24 assessment costs from the MISO RTO. During the test year the MISO FERC Assessment
25 (Schedule 10) was solely related to the Crossroads generating facility.

26 The Commission stated in its *Report and Order* in Case No. ER-2010-0356, "it is not just
27 and reasonable to require ratepayers to pay for the added transmission costs of electricity
28 generated so far away in a transmission constricted location."⁶⁰ The Commission further stated

⁶⁰ Case No ER-2010-0356 Report and Order, paragraph 247, May 4, 2011.

1 in its *Report and Order* in Case No. ER-2012-0175, “the Crossroads transmission costs does
2 [*sic*] not support safe and adequate service at just and reasonable rates, and the Commission will
3 deny those costs.”⁶¹ Since the Commission disallowed Crossroads transmission costs in
4 Case No. ER-2010-0356, and Case No. ER-2012-0175, Staff recommends an adjustment to also
5 eliminate the FERC Assessment fees incurred by GMO for its MISO transmission incurred in the
6 test year, and also for the 12-month period ending December 31, 2017, that is associated with
7 Crossroads. Staff’s adjustment to eliminate FERC assessments related to Crossroads is identified
8 on Schedule 9 of Staff’s GMO Accounting Schedules, Adjustment E-164.4

9 Staff included an annualized level of the FERC assessment incurred by KCPL and GMO
10 for its SPP RTO transmission based on the most recent FERC assessment and the 12-month
11 period ending December 31, 2017, applicable load volumes. Staff’s adjustment
12 is identified on Schedule 9 of Staff’s KCPL and GMO Accounting Schedules,
13 Adjustment E-221.1 and E-164.2, respectively.

14 *Staff Expert/Witness: Keith Majors*

15 **14. Customer Deposits – Interest Expense**

16 Staff’s recommended treatment of interest expense on customer deposits is to include the
17 interest expense in the expense portion of the revenue requirement calculation, since customer
18 deposits were deducted in the calculation of rate base. Staff calculated the interest for customer
19 deposits consistent with the level of customer deposits reflected in the Rate Base - Schedule 2
20 (see discussion in the Rate Base section of this report for Customer Deposits included in rate
21 base). For this calculation, Staff used the method outlined in KCPL’s and GMO’s tariff, which
22 is to use the customer deposit balance to be included in rate base, and then multiply that number
23 by the most current prime interest rate published in the Wall Street Journal (4.25) plus 100 basis
24 points, for a total of 5.25%. The amount of interest relating to customer deposits has been
25 included as an adjustment to KCPL’s and GMO’s Income Statements - Schedule 9, adjustments
26 E-176-1 and E-129-3, respectively.

27 *Staff Expert/Witness: Antonija Nieto*

⁶¹ Case No ER-2012-0175 Report and Order, Page 59, January 9, 2013.

1 **15. Depreciation - Clearing**

2 During the test year, KCPL and GMO incurred depreciation for transportation equipment
3 that was charged to expense through a clearing account. Both KCPL and GMO have vehicles
4 and power equipment in their fleets to maintain existing operations as well as to be used in
5 construction related activities. An accounting process is used to assign use of the vehicles and
6 this equipment between on-going operations and construction costs. The clearing process
7 identifies when vehicles are used for O&M activities and when those vehicles are used for
8 construction projects.

9 During the course of the audit, Staff learned the two companies have different policies on
10 the treatment of assigning capitalized costs to construction projects for large power equipment.
11 KCPL personnel have committed to review this policy in the future to determine the best practice
12 for both companies. Staff believes that going forward all vehicles and large power equipment
13 used in construction activities should have a portion of its depreciation assigned to the
14 construction project in which the costs are incurred. While a portion of the depreciation is
15 capitalized to construction projects, Staff believes depreciation on large power equipment should
16 also be an identifiable cost charged to the various construction projects. KCPL committed to
17 examine a consistent policy on capitalizing depreciation for vehicles and large power equipment
18 and address this matter in future KCPL and GMO rate cases.

19 In these current rate cases, because depreciation expense is accounted for in Staff's
20 Accounting Schedule 5, Staff made an adjustment to remove the depreciation amount booked to
21 the clearing account for construction activities. The removed costs are charged to construction
22 projects that will eventually be plant in service—the cost of which will be recovered through
23 depreciation over the life of the assets.

24 Adjustment E-237.1 capitalizes depreciation for KCPL and adjustment E-174.1
25 capitalizes depreciation for GMO.

26 *Staff Expert/Witness: Michael Jason Taylor*

27 **16. Economic Relief Pilot Program**

28 The Economic Relief Pilot Program ("ERPP") was approved by the Commission in
29 Case No. ER-2009-0089 for KCPL and Case No. ER-2009-0090 for GMO as part of

1 a Non-Unanimous Stipulation and Agreement. The ERPP commenced on September 1, 2009, as
2 a three-year pilot program. Commission decisions in subsequent rate cases permitted the
3 Program to continue beyond the initial three years.

4 KCPL and GMO are requesting continuation of the ERPP. Neither KCPL nor GMO are
5 proposing changes to the Program's current design or funding levels. Staff recommends the
6 ERPP continue as designed; however, Staff concludes a third party evaluation is warranted to
7 determine the Program's effectiveness, including an assessment of administrative and procedural
8 processes and evaluation of participant experiences. Considering the ERPP is in its ninth year,
9 Staff recommends GMO update tariff sheet R-62.15 removing language that refers to the ERPP
10 as a three (3) year pilot. Staff reviewed cancelled tariff sheets and it appears KCPL
11 removed the "three (3) year" language from its tariff when filing revised tariff sheets in
12 Case No. ER-2014-0370, but the "three (3) year" language remains in the GMO tariff.

13 The ERPP is designed to deliver energy affordability benefits to qualifying low-income
14 residential customers. Participants with an annual household income no greater than 200% of
15 the federal poverty level ("FPL") can receive up to a sixty-five dollar (\$65.00) monthly credit for
16 12 months. According to KCPL and GMO witness Darrin Ives, the monthly credit is based on
17 the average of the low income qualifying customer's last twelve monthly bills.⁶² At the end of
18 the 12-month period, a customer may reapply to participate further in the program through the
19 term of the pilot program.⁶³

20 In KCPL's last rate case (Case No. ER-2016-0285) the Commission approved ERPP
21 funding at \$1,260,000 annually. In GMO's last rate case (Case No. ER-2016-0156) the
22 Commission approved ERPP funding at \$788,019 annually. Program funding is split 50%
23 shareholder and 50% ratepayer. Additionally, in the preceding rate case KCPL and GMO
24 updated tariff language removing the maximum number of customers that can participate in the
25 Program, and both companies added language stating any excess funds will be spent
26 until exhausted.

27 Staff Data Request No. 0362 requested the average monthly ERPP credit for participants,
28 the average number of enrollees per year, and monthly participation data to determine if KCPL

⁶² ER-2018-0145 Direct Testimony of Darrin R. Ives p. 17, 17-19. ER-2018-0146 Direct Testimony of Darrin R. Ives p. 18, 16-18.

⁶³ KANSAS CITY POWER AND LIGHT COMPANY, P.S.C. MO. No. 7, 4th Revised Sheet No. 43Z. KCP&L GREATER MISSOURI OPERATIONS COMPANY, P.S.C. MO. No. 1, 4th Revised Sheet No. R-62.15.

1 increased participation numbers as intended. KCPL's response indicates participation levels and
2 the average monthly credit did increase from April 2015 through April 2018:

3

Year (April 1 st)	2015	2016	2017	2018
Number of Participants	983	1266	1495	1964
Average ERPP Credit	\$47.00	\$54.00	\$60.00	\$61.00

4 *April 2018 is the most current data provided by KCPL*

5
6 GMO's data indicates participation levels and the average monthly credit did increase
7 significantly from April 2017 to April 2018:

8

Year (April 1 st)	2015	2016	2017	2018
Number of Participants	1014	1008	919	1920
Average ERPP Credit	\$49.00	\$48.00	\$51.00	\$61.00

9 *April 2018 is the most current data provided by GMO*

10
11 Staff requested all independent contractor evaluations of the ERPP including survey or
12 examination instruments used to acquire feedback from the Salvation Army or other community
13 partners as to the effectiveness and administration of the ERPP. KCPL and GMO responded that
14 they commissioned True North Market Insights to evaluate the program and to make a
15 recommendation as to its future. In June 2012, an evaluation was completed.⁶⁴

16 Staff suggests the ERPP continue maintaining current funding levels; however Staff recommends
17 an independent third party evaluation of the Program before KCPL and GMO file their next rate
18 case, as the last, and only, evaluation was completed in June 2012.

19 KCPL 2nd Revised Sheet No. 43Z.3 and GMO 2nd Revised Sheet No. R-62.18 states:

20 The pilot program may be evaluated in any Company rate or complaint case. The
21 evaluation shall be conducted by an independent third party evaluator under
22 contract with the Company, that is acceptable to the Company, Commission Staff
23 and the Public Counsel. The costs of the evaluator shall be paid from the program
24 funds.⁶⁵

25
26 Since its inception in 2009, the ERPP has undergone several modifications. To ensure the ERPP
27 is providing the desired outcomes a comprehensive assessment of the ERPP is needed. Staff
28 recommends KCPL and GMO work with an independent evaluator to design an evaluation

⁶⁴ Response to Staff Data Request No. 0361.

⁶⁵ KANSAS CITY POWER AND LIGHT COMPANY, P.S.C. MO. No. 7, 2nd Revised Sheet No. 43Z .3.
KCP&L GREATER MISSOURI OPERATIONS COMPANY, P.S.C. MO. No. 1, 2nd Revised Sheet No. R-62.18.

1 mechanism that minimizes costs ensuring the maximum amount of ERPP dollars go toward
2 assisting participants in the program.

3 To reflect the current structure of the ERPP Staff recommends GMO update its tariff,
4 removing the language "Through this three (3) year pilot" from tariff sheet 4th Revised
5 Sheet No. R-62.15.

6 *Staff Expert/Witness: Contessa King*

7 **a. Accounting Treatment**

8 KCPL began collecting ERPP funds through base rates in Case No. ER-2012-0174, while
9 GMO began collecting ERPP funding through rates in Case No. ER-2012-0175. ERPP funding
10 was also included in rates resulting from KCPL's and GMO's subsequent rate cases. The
11 following table shows the amount of funding included in base rates:

KCPL and GMO ERPP Funding		
Case Number	KCPL Funding	GMO Funding
ER-2012-0174, ER-2012-0175	\$630,000	\$630,000
ER-2014-0370	\$1,260,000	
ER-2016-0156		\$788,019
ER-2016-0285	\$1,260,000	
ER-2018-0145, ER-2018-0146 (Staff's recommendation)	\$1,260,000	\$788,019

12 Note: shareholders and ratepayers each provide 50% of the ERPP funding shown above.

13
14 Staff's adjustment for KCPL E-184.6 and Staff's adjustment for GMO E-136.6 increases
15 the test year ERPP expense to include the full amount of recommended ratepayer funding. Staff
16 recommends that any unspent ERPP funding collected from ratepayers be made available for
17 future ERPP funding.

18 *Staff Expert/Witness: Michael Jason Taylor*

1 **17. Income Eligible Weatherization Program (formally Low Income**
2 **Weatherization Program)**

3 Low-income customers often live in housing that is energy inefficient with substandard
4 insulation and other deficiencies. These customers can benefit from energy conservation
5 measures such as weatherization and/or energy efficient appliances. KCPL and GMO customers
6 benefit from the IEW through the reduction in the expenses associated with arrearages in billing
7 and shutoffs, which occur in greater proportions among low-income customers.

8 In KCPL's most recent rate case, Case No. ER-2016-0285,⁶⁶ the IEW had unspent funds
9 of \$1,296,862. The parties to the case agreed to keep the annual IEW funding level at \$573,888;
10 however, the annual amount recovered in base rates was reduced to \$254,385. The difference in
11 funding levels was to be made up by utilizing \$319,503 of the unspent funds annually,
12 amortizing the \$1,296,862 in unspent funds over four years. At this time, only \$129,194 of the
13 \$1,296,862 in unspent funds has been spent within the test year period for this case. Staff expert
14 witness Jason Taylor's testimony provides further detail on the accounting treatment of
15 the IEW funds.

16 In GMO's last rate case, Case No. ER-2016-0156⁶⁷, the budget for IEW was changed
17 from \$300,000 to \$400,000,⁶⁸ with up to \$100,000 to be included in a regulatory asset account if
18 the amount funded through rates is reached before the end of the program year. GMO currently
19 has an unspent balance of \$80,000.

20 Staff has three recommendations regarding IEW:

- 21 1) The Commission approve the continuation of GMO's IEW Program at the annual funding
22 level of \$400,000 to be included in base rates.
- 23 2) The Commission approve the continuation of the KCPL IEW Program at the current
24 annual funding level of \$573,888; authorizing an annual amount of \$258,914 to be
25 included in base rates, and the unspent funds to be amortized over four years to reach
26 IEW yearly funding amount of \$573,888.

⁶⁶ *In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service*

⁶⁷ *In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement A General Rate Increase for Electric Service*

⁶⁸ *In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement A General Rate Increase for Electric Service. NON-UNANIMOUS STIPULATION AND AGREEMENT, 9. INCOME-ELIBIBLE WEATHERIZATION, pg. 5.*

3) KCPL and GMO work closely with the CAAs to address any process barriers to getting the funds fully expended within the IEW program year.

Staff Expert/Witness: Kory Boustead

a. Accounting Treatment

The funding for KCPL’s and GMO’s IEW was established and ordered to be funded through rates at a level of \$573,888 per year for KCPL in Case No. ER-2012-0174, and \$0 per year (IEW was charged to GMO’s MEEIA rider) in GMO Case No. ER-2012-0175. The same level of funding was included in the rates resulting from KCPL’s subsequent rate cases, but GMO’s funding was increased to \$400,000 in Case No. ER-2016-0156. Additionally, page 5 of the *Non-Unanimous Stipulation and Agreement* agreed to in GMO’s last rate case, Case No. ER-2016-0156, concerning this item specifies that “Any unspent funds will accrue interest at the AFUDC rate.”

Staff compared the total funding KCPL and GMO have collected through rates for IEW through December 31, 2017, and compared the total with the actual IEW costs over the same time period. The comparison yielded a balance of unspent IEW funding that was earmarked for IEW expenditures. Staff has included the IEW liability as of December 31, 2017, as a deduction to KCPL’s and GMO’s rate base.

Staff recommends that the target annual IEW spending remain consistent with what was approved in KCPL’s and GMO’s prior rate cases. However, due to the balance of unspent IEW funds, Staff recommends a reduced level of IEW funds be included in the current case. Reducing the ongoing level of IEW funds collected from customers provides KCPL and GMO an opportunity to utilize the funds that have already been collected but not spent. Staff recommends reducing ongoing funding collected from ratepayers by 25% of KCPL’s and GMO’s balance of unspent IEW funds. Staff’s Recommendation is as follows:

	KCPL		GMO	
Target IEW Spending		\$578,888		\$400,000
Unspent funds @ 12/31/17	\$1,075,612		\$80,430	
Funding Reduction percent	25%		25%	
Amount of reduction to funding		(\$268,903)		(\$20,107)
Funding included in rates		\$309,985		\$379,893

1 Staff's adjustment for KCPL E-184.5 and Staff's adjustment for GMO E-136.5 increases
2 test year IEW expense to match the level of funding recommended by Staff.

3 *Staff Expert/Witness: Michael Jason Taylor*

4 **18. Regional Transmission Organization ("RTO") Administrative Fees**

5 The SPP is a not-for-profit regional transmission organization ("RTO") that maintains
6 functional control over the transmission assets of its members and provides transmission services
7 through its FERC approved Open Access Transmission Tariff ("Open Access Transmission
8 Tariff" or "OATT"). SPP's costs must be recovered from its users (transmission customers,
9 which, in this case, are utility companies such as KCPL, GMO, The Empire District Electric
10 Company, Westar, and many others). Consequently, KCPL and GMO pay SPP an administration
11 charge for performing transmission functions on its behalf.

12 Under its Open Access Transmission Tariff, SPP establishes a rate for its annual
13 administration charge that enables it to recover 100% of its total annual administrative costs for
14 RTO functions, subject to a rate cap. The rate cap serves as a limit on the annual administration
15 charge in order to provide SPP customers a level of certainty and predictability regarding SPP's
16 year-to-year administrative costs. SPP's administrative rate cap is currently \$.43per MWh, and
17 effective 2018, SPP members paid administrative fees based of the \$.429 per MWh. The
18 following charts reflect SPP's historical administrative fee rate for the period of 2006-2018:

19 **SPP Administrative Fee Rate (\$/MWh)**

20

21

Year	2006	2007	2008	2009	2010	2011
Rate	\$.16	\$.19	\$.19	\$.21	\$.255	\$.210

22

Year	2012	2013	2014	2015	2016	2017	2018
Rate	\$.255	\$.315	\$.381	\$.39	\$.37	\$.419	\$.429

23 Staff annualized SPP administration fees based on the administrative rate of \$.429 per MWh
24 effective January 1, 2018, and included an annualized amount for the North American Electric
25 Reliability Corporation ("NERC") fees. Staff also made an adjustment to eliminate the
26 Midcontinent Independent System Operator ("MISO") RTO administrative fees for
27 point-to-point transmission. The Commission's Reports and Orders in Case Nos. ER-2010-0356
28 and ER-2012-0175 both prohibited GMO from any recovery of transmission costs for the
29

1 Crossroads generating station.⁶⁹ Prior to December 19, 2013, when Entergy Services Inc.
2 (“Entergy”) became a member of MISO, Entergy billed GMO for firm point-to-point
3 transmission service to Crossroads. Subsequent to Entergy becoming a member of MISO in
4 December 2013, MISO billed GMO for transmission administrative fees directly related to
5 transmission service to Crossroads, in addition to firm point-to-point transmission. Since the
6 Commission has previously prohibited GMO from any rate recovery of transmission costs, Staff
7 recommends an adjustment to eliminate the MISO transmission administrative fees.

8 Staff’s adjustments for SPP Administration fees and the elimination of MISO
9 administrative fees are identified on Schedule 9 of Staff’s KCPL and GMO Accounting
10 Schedules, Adjustments E-130.3, E-85.5, and E-85.6.

11 *Staff Expert/Witness: Keith Majors*

12 **19. Transmission Expense-FERC Account 565**

13 KCPL and GMO are members of the SPP. In 2004, SPP became a RTO responsible
14 for ensuring reliable supplies of power, adequate transmission infrastructure, and
15 competitive wholesale electricity prices.⁷⁰ Prior to 2006, KCPL had full functional
16 control over its transmission system that served its retail customers within its service territory. In
17 Case No. EO-2006-0142, KCPL filed an application with the Commission to transfer functional
18 control of its transmission facilities to SPP. Most of the parties to that case entered into a
19 *Stipulation and Agreement* on February 24, 2006, and the Commission approved the *Stipulation*
20 *and Agreement* by Order effective on June 23, 2006. The transfer of functional control of
21 KCPL’s transmission system to SPP was finalized upon the approval by the FERC on
22 October 1, 2006.

23 Prior to 2009, GMO had full functional control over its transmission system that served
24 its retail customers within its service territory. In Case No. EO-2009-0179, GMO filed an
25 application with the Commission to transfer functional control of its transmission facilities to
26 SPP. The parties to this case entered into a *Stipulation and Agreement* on January 27, 2009, and
27 the Commission approved the *Stipulation and Agreement* by Order effective on February 10,

⁶⁹ Case No. ER-2010-0356, *Commission Report and Order*, page 99 and Case No. ER-2012-0175, *Commission Report and Order*, page 59.

⁷⁰ Market Protocols for SPP Integrated Marketplace, p. 60.

1 2009. The transfer of functional control of GMO's transmission system to SPP was finalized
2 upon the approval by the FERC on April 15, 2009.

3 As a transmission customer of SPP, SPP charges KCPL and GMO for point-to-point,
4 base plan zonal and region-wide transmission costs that are booked to FERC Account 565.
5 Point-to-point transmission costs are billed based on Schedule 7 and Schedule 8 of SPP's Open
6 Access Transmission Tariff. Base-plan-zonal charges and region-wide charges are billed based
7 on Schedule 11 of the Open Access Transmission Tariff.

8 Base-plan-zonal and region-wide costs are a result of transmission upgrades in the SPP
9 region. The transmission upgrades are directed by SPP's Transmission Expansion Plan in place
10 to ensure the reliability of the transmission system for SPP's members.⁷¹ The costs of base-plan
11 and region-wide projects are allocated to the SPP region based on the voltage of the project. The
12 allocation method is referred to as the "Highway-Byway" method and is shown in the
13 following table:

SPP Base Plan Highway-Byway Allocation Method		
Voltage	Regional (SPP region)	Zonal (KCPL or GMO local zone)
300 kV and Above	100%	0%
100-300 kV	33%	67%
Below 100 kV	0%	100%

14
15 The costs allocated to the SPP region are then allocated to SPP transmission owners
16 based on a load ratio share determination. The load ratio share is developed using the
17 transmission owners' network load divided by the SPP total load. KCPL's current load ratio
18 share, on a total company basis (Missouri and Kansas), is 7.27%. GMO's current load ratio
19 share is 4.08%.

20 Staff analyzed KCPL and GMO's actual transmission expenses for the period of 2009
21 through 2017. KCPL and GMO's transmission expenses have increased substantially over this
22 period. The following chart reflects KCPL and GMO's historical transmission expenses for the
23 period of 2009-2017:
24

⁷¹ SPP OATT.

The following chart compares GMO's annual historical transmission expenses and Crossroads transmission expenses to GMO's annual historical generation output and Crossroads generation output, in mega-watt hours ("MWh"), for the period of 2009-2017. GMO's annual transmission expense was derived by combining MPS and L&P rate districts actual transmission expense booked in FERC account 565 and GMO's MWhs by combining MPS and L&P rate districts MWhs from its production report:

**

Year	Crossroads Transmission Expense	GMO Total Transmission Expense	Crossroads MWh	GMO Total MWh
2009				
2010				
2011				
2012				
2013				
2014				
2015				
2016				
2017				

**

As can be seen from the table above, 2017 Crossroads transmission expense represents ** ____ ** of GMO's total transmission expense and the MWhs generated by Crossroads represents ** ____ ** of GMO's total MWhs of generation for the same year.

For the period of 2013-2017, KCPL and GMO's transmission expenses have significantly increased. Consequently, Staff included an annualized level of total transmission expense based on the 12-month period ended December 31, 2017, and a nine-year amortization of SPP Z-2 one-time transmission credits. These transmission credits were identified in Case No. ER-2016-0285 and amortized over a nine-year time period. Staff's adjustment for transmission expense is identified on Schedule 9 of Staff's KCPL and GMO Accounting Schedules, Adjustment E-130.1 and E-85.2, respectively.

1 The Commission's *Report and Orders* in both Case No. ER-2010-0356 and
2 Case No. ER-2012-0175 prohibited GMO from any recovery through its retail rates of its
3 Crossroads transmission costs.⁷² Consistent with the Commission's *Report and Orders* in those
4 cases, Staff eliminated GMO's Crossroads transmission expense for the test year period ending
5 June 30, 2017, and no Crossroads transmission expense is included in Staff's annualized
6 transmission expense adjustment. Staff's adjustment to eliminate Crossroads transmission
7 expense in FERC account 565 is identified on Schedule 9 of Staff's GMO Consolidated,
8 MPS and L&P Accounting Schedules, Adjustment E-85.1. Crossroads transmission expense is
9 also discussed in the following Sections of this report: *Crossroads Energy Center, Regional*
10 *Transmission Administrative Fees, and FERC Assessment.*

11 *Staff Expert/Witness: Keith Majors*

12 **20. Missouri Flood Amortizations (KCPL Only)**

13 **a. 2011 Missouri River Flood Incremental Non-Fuel Operations &**
14 **Maintenance ("NFOM") Expense**

15 The Commission authorized KCPL to defer the incremental \$1.4 million Missouri
16 jurisdictional NFOM expense related to the 2011 Missouri flood into a regulatory
17 asset with amortization over 5 (five) years beginning with the effective date of rates in
18 Case No. ER-2012-0174. The test year ending June 30, 2017, includes a full 12 months of
19 amortization related to these deferred expenses. Since the amortization has ended as of January
20 2018, Staff has made an adjustment to remove the test year amount from the cost of service.

21 Pursuant to the terms of the *Non-Unanimous Partial Stipulation and Agreement* in
22 Case No. ER-2016-0285, Staff will track the over-return of this amortization to offset a liability
23 or return to the Company over 4 years at the true-up in this case.

24 Adjustments E-22.4 reflects this removal of the amortization expense booked in the test year.

25 *Staff Expert/Witness: Michael Jason Taylor*

26

⁷² Case No. ER-2010-0356, Commission *Report and Order*, page 99 and Case No. ER-2012-0175, Commission
Report and Order, page 59.

1 such Merger transition costs for approval by the Commission over
2 a 10-year period beginning when such costs have been included in
3 Missouri base rates, with no carrying costs or rate base inclusion
4 allowed for the unamortized portion of such costs at any time.
5 Signatories agree that no other Merger transition costs shall be
6 requested for recovery from Missouri customers in the 2018 rate
7 cases or thereafter. This agreement regarding transition cost
8 recovery is an additional limitation to Condition 19 in Exhibit A to
9 the Stipulation and Agreement filed on January 12, 2018.

10
11 Condition 19, in Exhibit A to the 1st Stipulation and Agreement, outlined and defined transition
12 costs for purposes of potential recovery in rates:

- 13 ▪ Transition Costs: Neither GMO nor KCP&L will ever include in cost of
14 service, and shall never seek to recover in rates, any transition costs
15 related to this Merger that are in excess of the benefits that these transition
16 costs are intended to attain.
- 17 ▪ Transition costs are those costs incurred to integrate Westar and GPE, and
18 include integration planning, execution, and “costs to achieve.”
- 19 ▪ Non-capital transition costs can be ongoing costs or one-time costs.
20 KCP&L’s and GMO’s non-capital transition costs, which shall include but
21 not be limited to severance payments made to employees other than those
22 required to be made under change of control agreements, can be deferred
23 on the books of either KCP&L or GMO to be considered for recovery in
24 KCP&L and GMO future rate cases. If subsequent rate recovery is
25 sought, KCP&L and GMO will have the burden of proof to clearly
26 identify where all transition costs are recorded and of proving that the
27 recoveries of any transition costs are just and reasonable as their
28 incurrence facilitated the ability to provide benefits in excess of those
29 costs to its Missouri customers. Such benefits may be the result of
30 avoiding or shifting costs and activities.
- 31 ▪ KCP&L and GMO shall be required to attest in all future rate proceedings
32 before the Commission that no transition costs in excess of their
33 corresponding benefits are included in cost of service and rates, and to
34 provide a complete explanation of the procedures used to ensure that
35 transition costs, in excess of their corresponding benefits, are not included
36 in cost of service or rates. This commitment shall be required until all
37 transition costs are fully amortized.
- 38 ▪ KCP&L and/or GMO, as applicable, shall bear the burden of proving and
39 fully documenting that any transition costs for which rate recovery is
40 sought have produced net benefits. Such benefits may be the result of
41 avoiding or shifting costs and activities.

1 In its direct filing, KCPL and GMO sponsored Adjustment CS-95, which included a four-year
 2 amortization of KCPL's and GMO's allocated share of actual and forecasted transition costs
 3 through June 2018. Condition 19 provides that KCPL and GMO must attest that no transition
 4 costs in excess of their corresponding benefits are included in cost of service and rates. KCPL
 5 and GMO calculated the labor and benefit savings resulting from headcount reductions since
 6 their most recent prior rate cases. KCPL's and GMO's calculated Operations and Maintenance
 7 ("O&M") savings from labor and benefit reductions since the most recent prior rate cases, which
 8 exclude amounts capitalized, and include Westar savings, are shown below⁷³:
 9

Jurisdiction	Total Annual O&M Labor and Benefit Savings
KCPL – Missouri	\$3,402,643
KCPL – Kansas	\$6,412,894
GMO	\$6,902,054
Westar	\$11,119,398
Total	\$27,836,980

10
 11 KCPL and GMO enacted the Voluntary Employee Exit Program ("VEEP"), a voluntary
 12 severance program completed in 2017 at a cost of \$6.1 million.⁷⁴ Using assumptions for benefit
 13 loading and capitalization rates, the table below contains the annual savings from VEEP:
 14

Total Savings From VEEP	KCPL-MO	GMO
Payroll Savings	10,098,495	10,098,495
Payroll and Benefit Savings	13,581,466	13,581,466
Payroll Allocation	66.70%	32.88%
O&M Rate	67.01%	69.79%
Juris. Allocation (approx.)	53.00%	99.50%
Total Missouri Annual Savings	\$3,217,273	\$3,100,950

15
 16 These savings would be offset by the \$6.1 million of severance costs incurred for this program.
 17 These costs were charged to transition costs, of which Staff recommends a 10 year amortization
 18 in cost of service.

⁷³ KCPL and GMO Direct workpapers, Adjustment CS-95.

⁷⁴ Case No. EM-2018-0012, Busser Direct, page 35.

1 In addition to the current savings, KCPL and GMO projected synergy savings post-
 2 merger in a synergy charter tracking database similar to that used in the Aquila acquisition.
 3 These savings will accrue after the merger and will be reflected in future KCPL and GMO rate
 4 cases. A summary of these projected synergies is below⁷⁵:

5 **GPE-Westar Merger Projected Synergies (In Millions)**

	2018	2019	2020	2021	2022	Total
Support Services	\$18.3	\$31.1	\$35.5	\$39.6	\$47.0	\$171.4
Generation	\$13.6	\$33.1	\$35.2	\$32.0	\$33.5	\$147.4
Supply Chain	\$4.3	\$24.3	\$38.2	\$39.4	\$39.7	\$145.9
T&D/Customer Service	\$1.7	\$6.1	\$8.7	\$9.5	\$9.6	\$35.5
Benchmark Staffing	\$11.7	\$22.4	\$29.1	\$31.3	\$32.3	\$126.7
Total	\$49.7	\$116.9	\$146.7	\$151.9	\$162.0	\$627.0

6
 7 Consistent with the 1st and 2nd Stipulations and Agreements in Case No. EM-2018-0092, Staff
 8 recommends inclusion of a 10-year amortization of merger transition costs in the cost of service
 9 for KCPL, in the amount of \$972,559 and GMO, in the amount of \$720,921. Staff adjustments
 10 E-211.1 and E-153.1 for KCPL and GMO, respectively, in Staff Accounting Schedule 9 reflect
 11 these amounts.

12 *Staff Expert/Witness: Keith Majors*

13 **22. Demand-Side Management Cost Recovery**

14 **a. Rate-Making Treatment for the DSM Program Cost (KCPL)**

15 In its Report and Order in Case No. ER-2010-0355, with regard to how the past and
 16 future demand-side management (“DSM”) costs should be treated, the Commission stated:

17 One area of agreement is that the “old” regulatory assets
 18 (Vintages 1, 2, and 3) should be governed by the previous
 19 decisions to amortize those regulatory asset accounts over a
 20 ten-year period and that amortization period should not change.
 21 The Commission also agrees and directs that Vintages 1, 2, and 3
 22 continue to be amortized over a ten-year period.

23 KCP&L agrees with MDNR regarding the treatment for “future”
 24 investments. The Commission agrees as well and will direct that
 25 DSM program costs for investments made from December 31,
 26 2010, until a future recovery mechanism is in place [Vintage 5]
 27 shall be placed in a regulatory asset account and amortized over six

⁷⁵ Sourced from Case No. EM-2018-0012, Busser Direct, page 10.

1 years with a carrying cost equal to the AFUDC rate applied to the
2 unamortized balance.

3 With regard to the "current" investments, it would be inconsistent
4 with previous Commission orders to authorize a six-year
5 amortization for the current investments (Vintage 4). The
6 Commission determines that these Vintage 4 investments should
7 continue to be amortized over a ten-year period.

8 The Commission determines that the unamortized balances of the
9 regulatory asset accounts shall be included in rate base for
10 determining rates in this case.

11 KCPL has fully recovered the costs for DSM Vintage 1 and Vintage 2. To prevent an
12 over recovery of these costs, Staff made an adjustment to remove the amortizations of these
13 vintages recorded in the test year. In addition, Staff included the unamortized balances for
14 Vintages 3-7 in its Rate Base Accounting Schedule 2 and included the annual amortization for
15 each vintage based on the Commission approved amortization discussed above. DSM Vintage 8,
16 the final DSM Vintage, includes the carrying costs incurred subsequent to the December 31,
17 2016, true-up date in Case No. ER-2016-0285 and the effective date of rates in that case,
18 June 8, 2017. Staff recommends including the unamortized balance in rate base and a
19 six year amortization for this Vintage 8, which is consistent with the Commission Order in
20 Case No. ER-2010-0355.

21 **b. Rate-Making Treatment for the DSM Program Cost (GMO)**

22 On June 10, 2009, the Commission issued its *Order Approving Non-Unanimous*
23 *Stipulation and Agreements and Authorizing Tariff Filing* in Case No. ER-2009-0090, which
24 approved the following:

25 The Signatories agree that for ratemaking purposes GMO will
26 defer the costs of its DSM programs in a regulatory asset, and
27 annually calculate AFUDC on the balance in that regulatory asset.
28 DSM programs are defined as demand response and energy
29 efficiency programs. The prudently-incurred costs included in the
30 regulatory asset balance will be amortized over a ten (10) year
31 period. When new rates go into effect reflecting amortization
32 recovery as a result of future general rate proceedings, the
33 prudently-incurred costs included in the regulatory asset balance
34 will be added to rate base, GMO will stop accruing AFUDC on the

1 amount included in rate base, and GMO will begin amortizing the
2 balance. Additional DSM program costs incurred after the
3 effective date of a final Report and Order in GMO's next general
4 electric rate proceeding following this case, Case No. ER-2009-
5 0090, will be treated in the same manner, but will be deferred in a
6 different sub-account by vintage.

7 The Commission's *Report and Order* in GMO's next rate case following
8 Case No. ER-2009-0090, Case No. ER-2010-0356, directed that "DSM program costs for
9 investments made from December 31, 2010, until a future recovery mechanism is in place shall
10 be placed in a regulatory asset account and amortized over six years with a carrying cost equal to
11 the AFUDC rate applied to the unamortized balance." In the same *Report and Order*, the
12 Commission determined that "the unamortized balances of the regulatory asset account shall be
13 included in rate base for determining rates in this case."⁷⁶

14 Staff included the unamortized balances for Vintages 1-4 in its Rate Base Accounting
15 Schedule 2 and included the annual amortization for each vintage based on the Commission
16 approved amortization discussed above. DSM Vintage 5, GMO's final DSM Vintage,
17 includes the carrying costs incurred subsequent to the July 31, 2016, true-up date in
18 Case No. ER-2016-0156 and the effective date of rates in that case, February 22, 2017. Staff
19 recommends including the unamortized balance in rate base and a six year amortization for
20 Vintage 5 which is consistent with the Commission Order in Case No. ER-2010-0356.

21 In the KCPL and GMO 2009 and 2010 general rate cases, the Commission authorized
22 KCPL and GMO to defer and amortize DSM advertising costs over a ten year period.⁷⁷ No
23 additional adjustment is necessary as the test year is reflective of the appropriate on-going level
24 of expense.

25 Consistent with the agreement reached in KCPL's 2014 rate case, KCPL has deferred the
26 pre-MEEIA opt-out costs into regulatory asset accounts. Staff recommends that each of
27 Vintages 1-3 should be amortized over six years, which is reflected in Staff Adjustment E-185.2.

28 **c. Accounting Treatment for Expiring Vintages for KCPL and GMO**

29 Once the DSM vintages are fully recovered, including DSM advertising and
30 DSM Opt-outs, KCPL and GMO will be collecting funds in rates for expenses the utilities are no

⁷⁶ Commission's *Report and Order* in File No. ER-2010-0356 issued on May 4, 2011, at pages 119 – 120.

⁷⁷ Case No. ER-2009-0089, *Non-Unanimous Stipulation and Agreement*, Page 8. Case No. ER-2010-0355, *Report and Order* Pages 80-93 and Case No. ER-2010-0356, *Report and Order* Pages 106-119.

1 longer incurring. Consistent with the Stipulation and Agreements approved by the Commission
 2 in Case Nos. ER-2016-0156 and ER-2016-0285, Staff recommends that once an amortization of
 3 a DSM vintage is complete, KCPL and GMO apply the funds that will continue to be collected
 4 through rates (for the completed amortizations) to the unrecovered amounts of the next DSM
 5 vintage scheduled to expire next. KCPL and GMO DSM advertising vintages and corresponding
 6 amortization periods are shown in the following table:
 7

KCPL and GMO Demand Side Management Advertising Vintages				
	KCPL		GMO	
DSM advertising Vintage	Amortization Start Date	Amortization End Date	Amortization Start Date	Amortization End Date
Vintage 1	September 2009	August 2019	June 2011	May 2021
Vintage 2	May 2011	April 2021		

8
 9 KCPL and GMO DSM vintages and corresponding amortization periods are shown in the
 10 following table
 11

KCPL and GMO Demand Side Management Vintages				
	KCPL		GMO	
DSM Vintage	Amortization Start Date	Amortization End Date	Amortization Start Date	Amortization End Date
Vintage 1	January 2007	December 2016	September 2009	August 2019
Vintage 2	January 2008	October 2017 ⁷⁸	June 2011	May 2021
Vintage 3	September 2009	August 2019	February 2013	January 2019
Vintage 4	May 2011	April 2021	February 2017	January 2023
Vintage 5	February 2013	January 2019	Effective date of rates in this case	
Vintage 6	October 2015	September 2021		
Vintage 7	June 2017	May 2023		
Vintage 8	Effective date of rates in this case			

12
 13 *Staff Expert/Witness: Michael Jason Taylor*

⁷⁸ KCPL's Vintage 1 and Vintage 2 have ended. The over collection for Vintage 1 was applied to Vintage 2 resulting in a reduced recovery period less than the 10 year amortization period ordered by the Commission.

1 **23. Amortization of Regulatory Assets and Liabilities**

2 Both regulatory assets and liabilities have been authorized by the Commission to be
3 deferred and included in rates to be returned to or received from ratepayers. In the
4 *Non-Unanimous Stipulation and Agreement* in Case No. ER-2016-0156 and the *Non-Unanimous*
5 *Partial Stipulation and Agreement* in Case No. ER-2016-0285, the parties agreed to prospective
6 tracking of regulatory assets and liabilities for KCPL and GMO.⁷⁹

7 Pursuant to the stipulations in Case Nos. ER-2016-0156 and ER-2016-0285, Staff
8 addressed in this audit the over collections and under collections of KCPL's and GMO's
9 amortizations. The following amortizations are discussed in more detail in separate sections of
10 Staff's Cost Of Service Report:

- 11 ▪ 2011 Missouri River Flood Non-Fuel O&M – Staff Expert/Witness: Michael Jason Taylor
- 12 ▪ 2011 Missouri River Flood Insurance Reimbursement–Staff Expert/Witness:
13 Michael Jason Taylor
- 14 ▪ Transource Missouri Account Review–Staff Expert/Witness: Keith Majors
- 15 ▪ Demand Side Management Programs and Advertising Costs– Staff Expert/Witness:
16 Michael Jason Taylor
- 17 ▪ Surface Transportation Board Litigation-- Staff Expert/Witness: Matthew Young
- 18 ▪ LaCygne Obsolete Inventory– Staff Expert/Witness: Michael Jason Taylor
- 19 ▪ Cost of Removal Deferred Income Tax– Staff Expert/Witness: Karen Lyons
- 20 ▪ Wolf Creek Mid-Cycle Outage– Staff Expert/Witness: Michael Jason Taylor
- 21 ▪ Wolf Creek Nuclear Refueling Outage 21– Staff Expert/Witness: Michael Jason Taylor
- 22 ▪ Renewable Energy Standards– Staff Expert/Witness: Michael Jason Taylor
- 23 ▪ Economic Relief Pilot Program– Staff Expert/Witness: Michael Jason Taylor
- 24 ▪ Iatan 2 O&M Tracker– Staff Expert/Witness: Michael Jason Taylor
- 25 ▪ Saint Joseph Ice Storm – Staff Expert/Witness: Michael Jason Taylor
- 26 ▪ L&P “Phase-in” – Staff Expert/Witness: Michael Jason Taylor
- 27 ▪ KCPL Lease Abatement– Staff Expert/Witness: Michael Jason Taylor
- 28 ▪ Iatan 2 Regulatory Assets– Staff Expert/Witness: Matthew Young
- 29 ▪ Emission Allowance– Staff Expert/Witness: Cary G. Featherstone
- 30 ▪ Low Income Weatherization– Staff Expert/Witness: Michael Jason Taylor
- 31 ▪ Excess Off-System Sales Margin Staff Expert/Witness: Karen Lyons

32
33 *Staff Expert/Witness: Michael Jason Taylor*

⁷⁹ Case No. ER-2016-0156, *Non-Unanimous Stipulation and Agreement* approved by the Commission on September 28, 2016 and Case No. ER-2016-0285 *Non-Unanimous Partial Stipulation and Agreement* approved by the Commission on March 8, 2017.

1 **24. Amortization of the St. Joseph Ice Storm Liability (GMO Only)**

2 In 2007, a significant ice storm struck the city of St Joseph, Missouri. St. Joseph,
3 Missouri, is within the GMO territory formally known as the GMO L&P rate district. The
4 Company filed an application with the Commission for an AAO in Case No. EU-2008-0233, to
5 defer the incremental maintenance and operational costs resulting from the ice storm. The
6 Commission granted the AAO and ordered a five-year amortization of the costs with the
7 amortization ending in 2013. The January 9, 2013, Commission *Report and Order* in
8 Case No. ER-2012-0175 approved a *Non-Unanimous Stipulation and Agreement as to Certain*
9 *Issues* filed October 19, 2012, including the following provision:

10
11 GMO’s recovery of its five-year amortization for the L&P Ice Storm in
12 December 2007 shall end on October 1, 2013, and to the extent GMO’s
13 L&P rate district rates from this case continue beyond that date, GMO
14 shall “track” as a single issue the over- recovery of that amortization and
15 adjust its revenue requirement for L&P in the following general electric
16 rate case to return that “over-recovery” to its retail customers in its L&P
17 rate district.

18
19 Consistent with the *Stipulation and Agreement* and Commission’s *Report and Order*,
20 GMO tracked the over collection of the ice storm amortization and included an annual
21 amortization of the over-recovery in its cost of service in Case No. ER-2016-0156. In that case,
22 Staff recommended an annual amortization of the over collection amount through July 2016, the
23 true-up period in Case No. ER-2016-0156, based on a four-year period. The Commission
24 approved a *Non-Unanimous Stipulation and Agreement* on September 28, 2016, that returns the
25 over collection of the ice storm to GMO ratepayers over a four year period beginning with the
26 effective date of rates, February 22, 2017.⁸⁰

27 Since the *Non-Unanimous Stipulation and Agreement* accounted for over collections
28 through July 2016, GMO continued to over collect this item from August 2016 through
29 February 2017, the effective date of rates in Case No. ER-2016-0156. Staff recommends the
30 over collection for the period of August 2016 through February 2017 be returned to ratepayers

⁸⁰ The effective date of rates in Case No. ER-2016-0156 was expected to be in December at the time the Non-Unanimous Stipulation and Agreement was approved by the Commission. As a result of the Consolidation of the GMO MPS and GMO L&P rate districts, the effective date of rates was delayed to February 22, 2017.

1 over a four-year period consistent with the over collection that occurred prior to August 2016.
2 Staff's Adjustment (E-189.2) is included in Staff's Accounting Schedule 10.

3 *Staff Expert/Witness: Michael Jason Taylor*

4 **25. Regulatory Plan Additional Amortization (KCPL Only)**

5 The Commission authorized the Experimental Alternative Regulatory Plan Additional
6 Amortizations in Case No. EO-2005-0329. In that case, the Commission approved a unique
7 regulatory approach presented in a Stipulation and Agreement signed by KCPL and numerous
8 parties, including The Office of the Public Counsel and Staff, which allowed KCPL certain
9 accommodations to traditional ratemaking for pursuing what KCPL referred to as its
10 "Comprehensive Energy Plan" ("CEP"). This experimental alternative regulatory plan
11 (the "Regulatory Plan") resulted, among other things, in fostering the construction of Iatan 2.
12 KCPL completed construction of this 850 megawatt pulverized coal-fired supercritical steam
13 electricity generating unit, which KCPL declared met the in-service criteria of the Regulatory
14 Plan on August 26, 2010.

15 In the Regulatory Plan, KCPL also committed to make significant environmental
16 upgrades to LaCygne 1 and to Iatan 1, and to construct 100 megawatts of wind generation.
17 KCPL satisfied the requirement to build wind generation by installing its Spearville Wind Farm
18 in western Kansas, which was included in rates in 2007 in Case No. ER-2006-0314. The first
19 phase of the environmental upgrades at LaCygne 1 was completed in 2007. KCPL's Missouri
20 jurisdictional portion of the LaCygne 1 investment was included in KCPL's rate base in KCPL's
21 2007 rate case, Case No. ER-2007-0291. KCPL completed the extensive environmental
22 upgrades to Iatan 1 in the first quarter of 2009. The Missouri jurisdictional part of KCPL's
23 investment in those upgrades was primarily included in KCPL's rate base in KCPL's 2009 rate
24 case (Case No. ER-2009-0089). KCPL completed Iatan 2 in August 2010 and the costs for this
25 power plant and the remainder of the Iatan 1 upgrades were included in KCPL's 2010 rate case
26 (Case No. ER-2010-0355).

27 The Additional Amortizations were an accommodation to traditional ratemaking to assist
28 KCPL in maintaining certain financial ratios during a period of heavy construction. KCPL was
29 permitted to calculate its revenue requirement using these cash flow ratios or financial
30 benchmarks in order to provide KCPL with sufficient cash (earnings) to maintain certain

1 investment grade financial measures. In the Regulatory Plan, the signatory parties agreed to
2 allow KCPL to include amounts in its rate cases referred to as “additional amortizations” which
3 had the effect of increasing KCPL’s cash flow through increased retail revenues. These
4 additional amortizations were determined using a model set out in the Regulatory Plan.

5 The additional amortizations were an addition to the cost of service, and caused the rate
6 increases resulting from each of the affected rate cases to be greater than the amount of the
7 increase determined necessary using a traditional cost of service calculation.

8 The additional amortizations resulting from the 2006, 2007 and 2009 KCPL rate cases
9 were cumulatively reflected in the revenue requirement calculation for KCPL. The rate cases
10 and Commission-ordered additional amortizations in each follow stated on an annual basis:
11

Case No.	Additional Amortizations Ordered	Cumulative Additional Amortizations
Case No. ER-2006-0314	\$21.7 Million	\$21.7 Million
Case No. ER-2007-0291	\$10.7 Million	\$32.4 Million
Case No. ER-2009-0089	\$10.0 Million	\$42.4 Million

12
13 The accumulated additional amortizations amounts from those three rate cases have
14 been included in each KCPL rate case since Iatan 2 became operational in 2010. In all KCPL
15 rate cases completed since Iatan 2, the total additional amortizations amounts are
16 included in Staff’s cost of service determination for KCPL as an offset (reduction) to plant in
17 service through the accumulated depreciation reserve. These amounts are reflected in
18 Schedule 6—Depreciation Reserve.

19 In KCPL’s 2010 rate case (Case No. ER-2010-0355), several parties, including KCPL
20 and Staff, agreed to the on-going treatment for the additional amortizations in future rate cases.
21 The Commission approved a Non Unanimous Stipulation and Agreement Regarding
22 Depreciation and Accumulated Additional Amortizations that authorized the transfer of
23 \$146.7 million of accumulated additional amortizations to Accumulated Depreciation
24 Reserve- Account 399 through May 3, 2011 – the date rates changed in Case No. ER-2010-0355.
25 Since each state (Kansas and Missouri) had separate regulatory plans and collected the additional
26 amortizations from each state’s customers separately, all the additional amortizations collected

1 from KCPL's Missouri customers are identified on a Missouri jurisdictional basis. The amounts
 2 of the three additional amortizations from the three previous rate cases as of May 3, 2011, based
 3 on the Stipulation are:
 4

ADDITIONAL AMORTIZATIONS RESULTING FROM REGULATORY PLAN— Case No. EO-2005-0329—Accumulated Reserve Amounts-Missouri Jurisdictional Basis		
Rate Case		May 3, 2011
Case No. ER-2006-0314		\$94,120,782
Case No. ER-2007-0291		35,834,231
Case No. ER-2009-0089		16,748,858
TOTAL		\$146,703,871

5 KCPL's Accumulated Depreciation Reserve Account 399—page 6, paragraph 7 of 2010 rate case
 6 Stipulation (ER-2010-0355), EFIS # 471

7 Aside from the additional amortizations from KCPL's Regulatory Plan, KCPL also had
 8 the benefit of an additional amortization from a Stipulation and Agreement the Commission
 9 approved on July 3, 1996, in Case No. EO-94-199. The Stipulation the Commission approved
 10 included a \$3.5 million additional annual amortization amount. This additional amortization
 11 continued to accumulate each year until December 31, 2006, when rates changed from Case No.
 12 ER-2006-0314. The total accumulation of amortizations resulted in \$36,674,731, booked in
 13 KCPL's Accumulated Depreciation Reserve-- Account 399 when it ended on
 14 December 31, 2006.

15 The totals of all these accumulated additional amortizations from the Regulatory Plan--
 16 Case No. EO-2005-0329 and from Case No. EO-94-199 as of May 3, 2011 are shown as
 17 Missouri Jurisdictional amounts in the table continued on the next page:
 18

1

	Total Missouri Jurisdictional Additional Amortizations
Case No.	May 3, 2011
Case No. EO-2005-0329	\$146,703, 871
Case No. EO-94-199	36,674,731
TOTAL	\$183,378,602

2 KCPL's Accumulated Depreciation Reserve Account 399—page 6, paragraph 7 of 2011 Stipulation (ER-
3 2010-0355), EFIS #471

4
5 The total additional amortizations of \$183.4 million are treated in this case, as they have
6 been in each rate case since the 2010 rate case, consistent with the agreement approved in
7 Case No. ER-2010-0355. The accumulated additional amortizations are specifically identified in
8 the plant accounting record system for depreciation reserve. The additional amortizations were
9 distributed to Iatan 2 accumulated reserve account numbers 311, 312, 314, 315 and 316 -- as
10 specified in the agreement in the 2010 KCPL rate case as follows:

STIPULATION IN CASE NO. ER-2010-0355 FOR ADDITIONAL AMORTIZATIONS RESULTING FROM REGULATORY PLAN— Case No. EO-2005-0329—Accumulated Reserve Amounts—Missouri Jurisdictional Basis		
Account 311.070		\$19,240,688
Account 312.070		137,897,545
Account 314.070		19,135,918
Account 315.070		6,399,672
Account 316.070		704,779
TOTAL		\$183,378,602

11 *Source:* Staff EMS Run—Schedule 6—Accumulated Depreciation Reserve for Iatan 2 Plant

12
13 Transferring the Missouri jurisdictional additional amortization amounts to Iatan 2
14 depreciation reserve reduces KCPL's rate base for amounts collected from its customers during

1 the time of the Regulatory Plan. The agreement ensured that the additional amortizations
2 collected from Missouri customers are used to lower customer rates through a reduction to rate
3 base throughout the life of Iatan 2. As such, KCPL receives no return on investment through
4 inclusion in rate base or return of investment through depreciation expense for the \$184.3 million
5 of Additional Amortizations for Iatan 2 plant throughout its life.

6 *Staff Expert/Witness: Cary G. Featherstone*

7 **26. L&P Revenue Phase in Amortization (GMO Only)**

8 In Case Nos. ER-2010-0356 and ER-2012-0024, the parties reached an agreement
9 to allow the former GMO L&P rate district to recover ordered revenue through a "phase-in." In
10 Case No. ER-2012-0174, the previous agreement for a revenue phase-in was terminated. The
11 parties reached a new agreement that established a three-year amortization to allow the former
12 GMO L&P recovery of the still unrecovered revenues, including carrying costs. The
13 Commission approved the amortization on January 9, 2013, as part of the October 19, 2012,
14 *Non-Unanimous Stipulation and Agreement as to Certain Issues*. The agreement for the
15 amortization states:

16 The phase-in of the rate increase in the L&P rate district that was
17 the subject of Case Nos. ER-2012-0024 and ER-2010-0356
18 shall be terminated early and the unrecovered portion of the
19 remaining increase plus carrying costs the Commission ordered be
20 recovered shall be included in the revenue requirement for the
21 L&P rate district in this case at the annual amount of \$1,870,245.
22 The annual amount of \$1,870,245 is based on a three-year
23 amortization of the unrecovered portion of the remaining increase
24 plus carrying costs. **To the extent that GMO's general rates
25 that include this annual amount for more than three years,
26 GMO shall pro rate the annual amount by the time period
27 beyond three years and shall reduce the revenue requirement
28 upon which it bases its subsequent general electric rate
29 increase to return that amount to its retail customers in its
30 L&P rate district. [Emphasis added]**

31 In Case No. ER-2016-0156, Staff recommended an annual amortization of the
32 over-collection amount through July 2016, the true-up period in Case No. ER-2016-0285, based
33 on a four-year period, consistent with the agreement reached in Case No. ER-2012-0175. The
34 Commission approved a Non-Unanimous Stipulation and Agreement on September 28, 2016,

1 that returns the over recovery of the revenue phase-in to GMO ratepayers over a four year period
2 beginning with the effective date of rates, February 22, 2017.⁸¹

3 Since the Non-Unanimous Stipulation and Agreement accounted for the over recovery
4 through July 2016, GMO continued to over collect this item from August 2016 through
5 February 2017, the effective date of rates in Case No. ER-2016-0156. Staff recommends the
6 over collection for the period of August 2016 through February 2017 be returned to ratepayers
7 over a four (4) year period consistent with the over collection that occurred prior to August 2016.
8 Staff's Adjustment (Rev – 17.1) is included in Staff's Accounting Schedule 10.

9 *Staff Expert/Witness: Michael Jason Taylor*

10 **27. Allconnect Revenues and Expenses**

11 On December 9, 2016, KCPL filed, in File No. ER-2016-0285, *Kansas City Power &*
12 *Light Company's Notice of Termination of Transferring Missouri Customer Calls to Allconnect*,
13 notifying Staff and the Commission of KCPL's and GMO's intent to discontinue
14 transferring calls to Allconnect from their new or moving in Missouri customers effective
15 January 1, 2017. This action followed the Commission's April 27, 2016, *Report and Order* in
16 File No. EC-2015-0309. In EC-2015-0309, the Commission ordered all expenses and revenues
17 associated with the Allconnect relationship to be brought "above the line" and included in
18 regulated cost of service.

19 According to the response to Staff Data Request No. 359 in this case, the time charged by
20 employees related to Allconnect has been re-prioritized to other regulated business activities, the
21 plant and depreciation reserve associated with Allconnect has been transferred to non-utility
22 plant, but Allconnect revenues remain in the test year. Staff recommends removal of the test
23 year revenues related to Allconnect because there will be no Missouri transfer revenues going
24 forward. Staff revenue Adjustment Rev-27.1 and Rev-27.1 in the KCPL and GMO costs of
25 service, respectively, remove the test year Allconnect revenues.

26 *Staff Expert/Witness: Keith Majors*

⁸¹ The effective date of rates in Case No. ER-2016-0156 was expected to be in December at the time the Non-Unanimous Stipulation and Agreement was approved by the Commission. As a result of the Consolidation of the GMO MPS and GMO L&P rate districts, the effective date of rates was delayed to February 22, 2017.

1 **28. Common Use Plant Billings**

2 Common use plant is plant recorded on the books of KCPL that can be used by affiliates
3 of KCPL, including GMO. Common use plant billings are the monthly billings to affiliated
4 entities of KCPL for the entities' use of KCPL's plant. KCPL charges its affiliates for the use of
5 these assets. Included in the charge for common use plant is the impact of any capital additions
6 KCPL has expended. An adjustment is necessary to annualize the amount of common use
7 billings. Since common use plant is on the books of KCPL, the adjustment results in a reduction
8 to KCPL's cost of service. Since GMO benefits from the use of KCPL's plant, the adjustment
9 results in an increase to GMO's cost of service.

10 Staff's adjustments are identified on Schedule 10 of Staff's KCPL and GMO Accounting
11 Schedules, Adjustment E-209.1 and E-151.1 respectively.

12 *Staff Expert/Witness: Karen Lyons*

13 **29. Customer Information System (CIS)**

14 KCPL has invested in excess of \$118 million for a new customer information system ("CIS"),
15 which went into service May 2018.⁸² KCPL has declared this capital investment in service and
16 has made the necessary accounting entries to reflect the costs to the proper plant accounts at end
17 of May 2018. The CIS is a capital project and will be included in plant, increasing rate base for
18 return on the investment and cost recovery through amortization. This system is a customer
19 billing, information and interface program allowing payment and customer contact with KCPL's
20 and GMO's customer service call center. The costs of the new customer service system will be
21 included in the true-up ending June 30, 2018 and will be assigned to KCPL, split between its
22 Kansas and Missouri customers, and GMO. The costs will be allocated approximately one third
23 each between KCPL Kansas, KCPL Missouri, and GMO.

24 *Staff Expert/Witness: Cary G. Featherstone*

25 **30. Transource Adjustments**

26 KCPL and GMO have included in their direct revenue requirement filing three
27 adjustments related to the *Stipulation and Agreement* reached by the parties and included in the

⁸² Direct testimony of KCPL witness Forrest Archibald, page 15

1 Commission's *Report and Order* in File No. EA-2013-0098 ("Transource Missouri Case"). The
2 adjustments include the Transource Missouri payment to GMO for transmission assets
3 (Transource – GMO Deferred Asset Value), adjustments for the difference between Transource
4 Missouri FERC revenue requirement and KCPL and GMO FERC revenue requirement
5 (Transource – FERC Incentives), and an adjustment to return costs booked in the test year of
6 File No. ER-2012-0175 to KCPL and GMO customers (Transource Account Review).

7 **Transource – GMO Deferred Asset Value**

8 The first adjustment addresses transmission assets that were previously included in
9 GMO's rate base. On page 28, Appendix 4, of the Commission *Report and Order* in
10 File No. EA-2013-0098, the Commission stated:

11 Transource Missouri will pay GMO the higher of \$5.9 million or net
12 book value for transferred transmission assets, easements, and right-
13 of-ways that have been previously included in the rate base and
14 reflected in the retail rates of KCP&L and GMO customers. KCP&L
15 and GMO agree to book a regulatory liability reflecting the value of
16 this payment to the extent it exceeds net book value. This regulatory
17 liability shall be amortized over three years beginning with the
18 effective date of new rates in KCP&L's and GMO's next retail
19 rate cases.

20 Through discussions with Company personnel and review of GMO's adjustment, Staff
21 confirmed the adjustment is consistent with the Commission approved *Stipulation and*
22 *Agreement* in File No. EA-2013-0098. Staff's adjustment for the annualized amortization of the
23 Transource Missouri payment for transmission assets is identified on Schedule 9 of Staff's GMO
24 Accounting Schedules, Adjustment E-189.1.

25 **Transource – FERC Incentives**

26 The second adjustment addresses Transource Missouri FERC authorized rate treatments
27 and incentives. On page 28, Appendix 4, of the Commission *Report and Order* in
28 File No. EA-2013-0098 the Commission stated:

29 A. Rate Treatment – Affiliate Owned Transmission

- 30 1. With respect to transmission facilities located in KCP&L
31 certificated territory that are constructed by Transource

1 Missouri that are part of the Iatan-Nashua and Sibley-Nebraska
2 City Projects, KCP&L agrees that for ratemaking purposes in
3 Missouri the costs allocated to KCP&L by SPP will be adjusted
4 by an amount equal to the difference between: (a) the SPP load
5 ratio share of the annual revenue requirement for such facilities
6 that would have resulted if KCP&L's authorized ROE and
7 capital structure had been applied and there had been no
8 Construction Work in Progress ("CWIP") (if applicable) or
9 other FERC Transmission Rate Incentives, including but not
10 limited to Abandoned Plant Recovery, recovery on a current
11 basis instead of capitalizing pre-commercial operations
12 expenses and accelerated depreciation, applied to such facilities;
13 and (b) the SPP load ratio share of the annual FERC-authorized
14 revenue requirement for such facilities. KCP&L will make this
15 adjustment in all rate cases so long as these transmission facilities
16 are in service.

- 17
- 18 2. With respect to transmission facilities located in GMO certificated
19 territory that are constructed by Transource Missouri that are part
20 of the Iatan-Nashua and Sibley-Nebraska City Projects, GMO
21 agrees that for ratemaking purposes in Missouri the costs
22 allocated to GMO by SPP will be adjusted by an amount equal to
23 the difference between: (a) the SPP load ratio share of the annual
24 revenue requirement for such facilities that would have resulted if
25 GMO's authorized ROE and capital structure had been applied
26 and there had been no CWIP (if applicable) or other FERC
27 Transmission Rate Incentives, including but not limited to
28 Abandoned Plant Recovery, recovery on a current basis instead of
29 capitalizing pre-commercial operations expenses and accelerated
30 depreciation, applied to such facilities; and (b) the SPP load ratio
31 share of the annual FERC authorized revenue requirement for
32 such facilities. GMO will make this adjustment in all rate cases
33 so long as these transmission facilities are in service.

34

35 The Transource Missouri Annual Transmission Revenue Requirement ("ATRR") reflects costs,
36 such as inclusion of CWIP in rate base, that are not allowed to be recovered in retail rates in
37 Missouri. In addition, Transource Missouri's FERC authorized return on equity is 50 to 100
38 basis points higher than KCPL's and GMO's MPSC authorized return on equity. KCPL and
39 GMO performed an analysis to determine the differences between FERC and KCPL and GMO
40 ratemaking for the projects at issue in File No. EA-2013-0098 in order to comply with the

1 Commission's *Report and Order* language quoted above. Staff reviewed KCPL's and GMO's
2 proposed adjustment and recommends it be revised in various respects to make it consistent with
3 the Commission's *Report and Order* in File No. EA-2013-0098.

4 Staff's recommended changes are as follows:

- 5 • Cost of debt – differences in the assumed cost of long term debt do not
6 result from FERC Transmission Rate Incentives, and therefore should not
7 be included in the difference calculation
- 8 • Federal income tax rate – Staff calculated the adjustment based on the
9 current federal income tax rates effective January 1, 2018.

10
11 Staff's adjustment for the difference of costs allocated to KCPL and GMO by SPP and the costs
12 based on KCPL's and GMO's authorized return on equity is identified on Schedule 9 of Staff's
13 KCPL and GMO Accounting Schedules, Adjustment E-130.2 and E-85.4, respectively.

14 **Transource Account Review**

15 The third adjustment reflects an amortization of costs that should have been charged to
16 Transource Missouri but were retained on the regulated books of KCPL and GMO for the test
17 year period in File No. ER-2012-0175, 12 months ending September 2011. This regulatory
18 liability included the following costs:

- 19 • Labor – Labor charges of all the project participants were reviewed.
- 20 • Non-Labor – All invoices were reviewed for the vendors who supported the Transource
21 project.
- 22 • Expense Reports – Expense reports of the Transource project participants were reviewed.
- 23 • Facilities Allocation – A portion of common facilities was allocated to the Transource
24 project.

25
26 This amortization will end prior to the effective date of rates in this case for KCPL. Staff
27 recommends the removal of the amortization. Staff's adjustment to remove the amortization of
28 these costs is identified on Schedule 9 of Staff's KCPL Accounting Schedules,
29 Adjustments E-203.18 and E-211.1.

30 For GMO, this amortization will end in February 2020. The test year in this case includes a
31 partial year of amortization. Staff Adjustments E-149.1 and E-154.1 in the GMO Accounting
32 Schedules annualize this amortization.

33 *Staff Expert/Witness: Keith Majors*

1 **VII. Depreciation**

2 **A. Proposed Depreciation Rates**

3 The Commission ordered the current depreciation rates for KPCL in the Report and
4 Order in Case Number ER-2016-0285. The Commission ordered the current depreciation rates
5 for GMO in Case Number ER-2016-0156 through approval of the Non-Unanimous Stipulation
6 and Agreement. In the current cases, KCPL and GMO have proposed no changes to the rates of
7 either KPCL or GMO. In addition, KCPL and GMO have not filed any new depreciation studies
8 with the requests for rate increases. For these reasons, Staff proposes no changes to the
9 depreciation rates.

10 **B. Vehicle Charging Stations**

11 In the Report and Order issued in Case Number ER-2016-0285, the Commission ruled
12 that electric vehicle charging stations are not regulated assets, and are therefore not included in
13 plant. By default, this ruling also implies that the cost of electric vehicle charging stations
14 should not be covered by ratepayers because electric vehicle charging stations are not regulated
15 property.

16 KPCL and GMO are currently proposing to include electric vehicle charging stations in a new
17 plant subaccount – Account 371.01 – and to depreciate the assets in this account at a rate of 10%.
18 Staff is not proposing a depreciation rate for these assets because the Commission has ruled that
19 EV charging stations do not qualify as electric plant.⁸³ In the event the Commission reverses its
20 order and decides to include electric vehicle charging stations in rate base, Staff currently has no
21 reason to oppose the 10% depreciation rate.

22 **C. CIS Amortization**

23 KCPL and GMO are currently proposing to employ a 15-year amortization of
24 the CIS Software that has recently been placed into service. Staff finds a 15-year life to be
25 reasonable, and is therefore unopposed to a 15-year amortization of the CIS project costs.

26 **D. Additional Annual Amortization for GMO**

27 In GMO's last general rate case, Case No. ER-2016-0156, the Non-Unanimous
28 Stipulation and Agreement approved by the Commission included an amortization amount of
29 \$7.2 million in addition to the approved depreciation expense. The language describing the

⁸³ Report and Order, Case No. ER-2016-0285, page 45.

1 additional amortization, as it is recorded in the Non-Unanimous Stipulation and Agreement, is as
2 follows: “In addition to the attached schedule, GMO shall be allowed to collect an annual
3 amortization amount equal to \$7.2 million. This additional amortization shall be booked and
4 accounted for on an annual basis until GMO’s next general electric rate case. In GMO’s next
5 filed rate case the Commission will determine the distribution of the additional amortization. The
6 balance will be used to cover any deficiencies in reserves across production, transmission and
7 distribution accounts. Any undisturbed balance will be used as an offset to future rate base. This
8 amortization is for purpose of settlement of this case only and does not constitute an agreement
9 as to the methodology or a precedent for any future rate case.”

10 Staff in this case recommends ceasing collection of the additional amortized expense
11 of \$7.2 million. The language provided in the Stipulation indicates the amount is to be collected
12 until GMO’s next rate case. In addition, Staff recommends the Commission wait until the next
13 filed general rate case (at which time the Company has committed to submitting a new
14 depreciation study of plant assets)⁸⁴ to consider the collected amortized amount for distribution
15 to plant accounts.

16 *Staff Expert/Witness: Stephen Moilanen*

17 **VIII. Current and Deferred Income Tax**

18 **A. Current Income Tax**

19 Current income tax for this case has been calculated by Staff, generally consistent with
20 the methodology used in KCPL’s and GMO’s previous rate cases; however, in this case there
21 will be some differences due to the recent tax reform. On December 22, 2017, the federal
22 Tax Cuts and Jobs Act (“TCJA”) was signed into law, and took effect on January 1, 2018. Staff
23 addressed known changes in the tax law as part of Staff’s recommended normalized taxes
24 in this case.

25 To calculate income tax expense, Staff adjusts the utility’s net operating income before
26 taxes by adding to or subtracting from net income various timing differences, in order to obtain
27 net taxable income for ratemaking purposes. These “add back” and/or subtraction adjustments
28 are necessary to identify new amounts for the tax deductions that are different from those levels

⁸⁴ Direct Testimony of Ronald A. Klote, Case No. ER-2018-0146, Page 39, Lines 6-9.

1 reflected in the income statement as revenues or expenses. The adjustments are the result of
2 various book versus tax timing differences and the effect of such differences under separate tax
3 ratemaking methods, i.e., flow-through versus normalization. A tax timing difference occurs
4 when the timing used in reflecting a cost (or revenue) for financial reporting purposes
5 (book purposes) is different than the timing required by the IRS in determining taxable income
6 (tax purposes). Current income tax reflects timing differences consistent with the timing required
7 by the IRS. The tax timing differences used in calculating taxable income for computing current
8 income tax for KCPL are as follows:

9 **Add Back to Operating Income Before Taxes:**

- 10 ▪ Book Depreciation Expense
- 11 ▪ 50% Business Meals
- 12 ▪ Book Nuclear Fuel Amortization
- 13 ▪ Book Amortization Expense

14 **Subtractions from Operating Income:**

- 15 ▪ Interest Expense - Weighted Cost of Debt multiplied by Net Rate Base
- 16 ▪ IRS Accelerated Tax Depreciation
- 17 ▪ IRS Nuclear Fuel Amortization
- 18 ▪ IRS Tax Return Plant Amortization
- 19 ▪ Employee 401k ESOP Deduction

20 **Subtractions - Federal Income Tax Credit:**

- 21 ▪ Wind Production Tax Credit
- 22 ▪ Research and Development Tax Credit

23
24 The tax timing differences used in calculating taxable income for computing current income tax
25 for GMO are as follows:

26 **Add Back to Operating Income Before Taxes:**

- 27 ▪ Book Depreciation Expense
- 28 ▪ Plant Amortization Expense
- 29 ▪ 50% Business Meals

30 **Subtractions from Operating Income Before Taxes:**

- 31 ▪ Interest Expense (Weighted Cost of Debt x Rate Base)
- 32 ▪ IRS Accelerated Tax Depreciation
- 33 ▪ IRS Tax Return Plant Amortization

34
35 The tax normalization method defers for ratemaking purposes the deduction taken for tax
36 purposes for certain tax timing differences. The effect of the use of tax normalization is to allow

1 utilities the net benefit of certain net tax deductions for a period of time before those benefits are
2 passed on to the utility's customers in rates. Alternately, the flow-through tax method essentially
3 provides for the same tax deduction taken as a deduction for ratemaking purposes as is taken for
4 tax purposes. Under either the tax normalization or tax flow-through approach, the resulting net
5 taxable income for ratemaking is then multiplied by the appropriate federal, state, and city tax
6 rates to obtain the current liability for income taxes.

7 Based on the TCJA, a new corporate federal tax rate of 21 percent was applied, as well as
8 the ongoing state income tax rate of 6.25 percent, in order to calculate the KCPL and GMO
9 current income tax liability. The difference between the calculated current income tax provision
10 and the per book income tax provision is the current income tax provision adjustment. Staff's
11 recommended level of current income taxes for KCPL and GMO is on Staff's Accounting
12 Schedule 11.

13 *Staff Expert/Witness: Karen Lyons*

14 **B. Kansas City Earnings Tax**

15 Additionally, Staff normalized the Kansas City, Missouri earnings tax in this rate case.
16 The Kansas City earnings tax is also impacted by the 2018 tax reform. For the period
17 of 2014-2016 GMO has not paid any Kansas City earning taxes. KCPL did not pay Kansas City
18 earnings tax in 2014 and 2015, but did incur costs in 2016. The actual amount of 2017 Kansas
19 City earnings tax will not be available until October 2018. Staff understands that the level of
20 Kansas City earnings tax paid by KCPL and GMO will likely be impacted by the discontinuation
21 of bonus depreciation and its impact on taxable income for federal income tax purposes.
22 However, the impact of the 2018 tax reform on the Kansas City earnings tax is uncertain,
23 therefore, Staff recommends including an annual level of expense based on the actual amounts
24 paid by KCPL and GMO in 2016. Staff's adjustment for KCPL's and GMO's Kansas City
25 earnings tax is reflected in Staff's Accounting Schedule 10 – Income Statement,
26 Adjustment E-268.1 and E-197.1.

27 *Staff Expert/Witness: Karen Lyons*

1 **C. Accumulated Deferred Income Taxes (“ADIT”)**

2 KCPL’s and GMO’s deferred tax reserve represents, in effect, a net prepayment of
3 income taxes by the company’s customers in rates prior to actual payment to the taxing
4 authorities by KCPL and GMO. For example, KCPL and GMO are allowed to deduct from
5 taxable income, depreciation expense on an accelerated basis for income tax purposes. As a
6 result, depreciation expense used to determine income taxes paid by KCPL and GMO for federal
7 and state income taxes is considerably higher than the depreciation expense used for rate making
8 purposes. This results in what is referred to as a “book-tax timing difference,” and creates a
9 deferral of income taxes to be paid in the future by KCPL and GMO. These deferred income
10 taxes are accumulated in a liability account in both KCPL’s and GMO’s accounting records as
11 accumulated deferred income tax reserve. The net credit balance in the deferred tax reserve
12 represents a source of cost-free funds. Therefore, KCPL’s and GMO’s rate bases are reduced by
13 the deferred tax reserve balances since customers have essentially paid those income taxes in
14 advance—a prepayment. This treatment of reducing rate base for the deferred taxes of each
15 company recognizes that ratepayers do not have to provide shareholders a return on the portion
16 of rate base that is provided cost-free to the company. Since the expense recognized for
17 depreciation is considerably lower for accounting and ratemaking purposes than for income tax
18 purposes, KCPL and GMO customers are normally required to pay higher costs for income taxes
19 in rates than each company will actually pay to the IRS. The difference in income tax paid to the
20 IRS and those paid in utility rates are “accumulated” to recognize the future tax liability that will
21 eventually be paid to the IRS. During the time KCPL and GMO retains the benefit of these tax
22 deferrals, they will be used as an offset to rate base.

23 On December 22, 2017, the federal Tax Cuts and Jobs Act of 2017 (“TCJA” or the 2018
24 Tax Reform) was signed into law and took effect on January 1, 2018. As part of this tax reform,
25 there are several impacts to the energy sector; some of which may not be fully known or
26 quantifiable at this time. One of the main provisions of the 2018 Tax Reform was a reduction to
27 the corporate income tax rate from 35% to 21%. This reduction in the corporate income tax rate
28 had a significant impact on the determination of federal and state income taxes. The tax rate
29 reduction, by extension, impacts deferred income taxes as well. Deferred income taxes were
30 generated or created at the higher income tax rate in effect at that time. With the recent
31 reduction to this tax rate, deferred taxes will have to be adjusted as those benefits are “flowed”

1 back to customers over the life of the assets giving rise to the deferred taxes. This is a known
2 impact on KCPL's and GMO's deferred income tax balances because the deferred taxes reflected
3 on KCPL's and GMO's books through December 31, 2017, were calculated assuming
4 a 35% federal tax rate. These recorded deferred taxes were in effect a prepayment of income tax,
5 creating interest free funds that the companies can use. For that reason, as discussed above, the
6 net balance of deferred taxes is reflected in utility cost of service as a reduction to rate base.
7 However, any deferred taxes generated beginning January 1, 2018, will be recorded at the new
8 21% tax rate. In addition, any deferred taxes remaining on KCPL's and GMO's books that were
9 recorded assuming a 35% federal corporate tax rate will actually be paid by KCPL and GMO
10 under the new 21% federal corporate tax rate. This means that KCPL's and GMO's accumulated
11 deferred tax reserves are now overstated, and the excess deferred tax amount (the difference
12 between the deferred tax amounts calculated using a 35% rate and a 21% rate) should be flowed
13 back to ratepayers in rates as a reduction to cost of service over time. The timing of the
14 amortization for the flow back of these deferred taxes is determined by the extent to which the
15 deferred taxes are considered "protected" and "unprotected."

16 The IRS has very specific requirements on the treatment of certain deductions it allows
17 corporations. One such requirement is a restriction on how the tax deductions from various
18 methods of accelerated depreciation, which generates deferred taxes, are to be reflected in the
19 ratemaking process. The IRS restricts immediate recognition of the accelerated depreciation in
20 utility rates. This restriction is referred to as a "protected" deduction. The IRS requires that the
21 accelerated depreciation not be "flowed-through" to customers at the time utilities recognize the
22 deduction but over the life of the assets. The difference in deductions determined through the
23 accelerated depreciation methods and the deductions in rates generate the accumulated deferred
24 tax balances. These are "protected" by the IRS code. The protected deferred taxes relate to
25 "method and life" timing differences,⁸⁵ for example accelerated depreciation tax timing
26 differences, while the unprotected deferred taxes are associated with tax timing differences other
27 than those resulting from accelerated depreciation deductions. Staff's understanding is that the
28 protected deferred taxes must be flowed back to customers in rates no quicker than over the
29 estimated average remaining life of the assets that created the deferred taxes under current tax
30 normalization requirements.

⁸⁵ Case No. ER-2018-0145 Staff Data Request 239

1 In Staff's accounting schedules for its direct filing, Staff reflected the deferred tax
2 balance as of December 31, 2017, for the update period as a reduction to rate base, including the
3 full amount of excess deferred taxes not yet returned to customers.

4 Staff recommends that KCPL and GMO defer an amortization of excess deferred taxes
5 for the period beginning January 1, 2018, both protected and unprotected, in a regulatory liability
6 for consideration in a subsequent rate case. If all, or some part, of the excess deferred taxes can
7 be quantified accurately within the scope of this case, Staff further recommends that the
8 amortization of excess deferred taxes be reflected in rates in this case. In that event, Staff
9 recommends that the protected excess deferred taxes are flowed back to KCPL and GMO
10 ratepayers based on an estimated average remaining life of the assets giving rise to the deferred
11 taxes, and the unprotected excess deferred taxes be flowed back to KCPL and GMO customers
12 over a ten year period.

13 *Staff Expert/Witness: Karen Lyons*

14 **D. Deferred Income Taxes - Crossroads (GMO Only)**

15 Pursuant to the Commission's *Report and Order* in Case No. ER-2012-0175, Staff has
16 reduced the amount of deferred taxes related to the Crossroads combustion turbines. The net
17 amount of deferred taxes is based on the Commission ordered value of Crossroads. This value,
18 and the associated adjustments to GMO's books and records, is further discussed by Staff
19 witness Cary G. Featherstone in the Crossroads Section of this Report. The reduction to deferred
20 taxes is in Staff's Accounting Schedule 2 – Rate Base.

21 *Staff Expert/Witness: Karen Lyons*

22 **E. ADIT on Construction Work In Progress ("CWIP")**

23 KCPL and GMO record ADIT that is associated with the CWIP reflected on its books
24 and records. This ADIT represents a free source of capital funds available for use by the utility
25 before the construction project is completed and included in plant-in-service. CWIP is excluded
26 from the rate base on which KCPL and GMO earns a return in the ratemaking process. Although
27 CWIP is not included in rate base, KCPL and GMO are allowed to earn an Allowance for Funds
28 Used During Construction ("AFUDC") deferred return before the property under construction is
29 added to rate base. AFUDC is accrued during the construction of the asset and included in rate
30 base when the plant is placed into service. The amount of AFUDC is included in depreciation

1 expense and rate base over the life of the plant. For the calculation of AFUDC, there is no
2 consideration for ADIT as a reduction to the base on which it is calculated; the AFUDC is
3 calculated on the "gross" amount, with no consideration of ADIT.

4 Utilities have argued that it is inappropriate to reduce rate base for ADIT associated with
5 CWIP balances, when the CWIP amounts are not included in rate base. However, the
6 Commission has found to the contrary recently. Reducing rate base by the amount of ADIT on
7 CWIP was an issue decided by the Commission in a past Ameren Missouri general rate case,
8 Case No. ER-2012-0166. On page 30 of its *Report and Order* in that case, the Commission
9 stated why this treatment is appropriate:

10 In other words, failure to recognize the CWIP-related ADIT balance in the
11 company's rate base will overstate the companies AFUDC costs and
12 future rate base, essentially allowing the company to earn AFUDC and a
13 return on capital supplied by ratepayers...

14
15 ...As fully explained in the findings of fact, Ameren Missouri must
16 include CWIP-related ADIT balances as an offset to rate base to avoid
17 overstating AFUDC and future rate base, to the detriment of both current
18 and future ratepayers.

19
20 On page 79 of its Report and Order in Case No. ER-2014-0370, the Commission affirmed
21 its treatment of ADIT on CWIP:

22 KCPL asserts that its situation is different than that of the utility at issue in
23 File No. ER-2012-0166 because KCPL has a net operating loss and, as a
24 consequence, KCPL has more deductions than it has revenues during the
25 applicable period, so it has not and will not receive a cash tax benefit.
26 However, KCPL ratepayers provide fully-normalized income taxes in cost
27 of service regardless of whether KCPL pays those taxes concurrently to
28 the IRS. Even if KCPL is not realizing all the benefits of accelerated
29 depreciation due to a net operating loss position, it does not invalidate the
30 fact that ratepayers are providing several million dollars in cash income
31 taxes. The Commission concludes that the amount of ADIT related to
32 CWIP should be an additional reduction to KCPL's rate base.

33
34 Therefore, Staff recommends the amount of ADIT associated with CWIP as of December
35 31, 2017, be used as an additional reduction to KCPL's and GMO's rate base, similar to other
36 amounts of ADIT. The amount of ADIT on CWIP is listed as a reduction to rate base on
37 Schedule 2 – Rate Base, in Staff's Accounting Schedules.

38 *Staff Expert/Witness: Karen Lyons*

1 **IX. Jurisdictional Allocations**

2 Jurisdictional allocation refers to the process by which demand-related and energy-related
3 costs are allocated to KCPL's and GMO's applicable jurisdictions. KCPL and GMO incur costs
4 in the course of providing service to their retail customers, which must be passed on to those
5 customers through associated applicable rates. However, both KCPL and GMO have retail and
6 wholesale customers. In addition, KCPL has customers in both Missouri and Kansas. Retail
7 sales in Missouri, retail sales in Kansas, and wholesale sales under the jurisdiction of the FERC,
8 are described as sales in three separate "jurisdictions." A portion of the costs incurred to serve a
9 particular jurisdiction may be directly assignable to that jurisdiction; however, other costs may
10 not. Those costs are instead allocated among the various corresponding applicable jurisdictions.
11 Costs that vary with energy consumption, i.e. "variable costs" - such as fuel and purchased
12 power - are denoted as "energy-related." Costs that do not vary with energy consumption, i.e.
13 "fixed-costs" - such as capital costs associated with generation and transmission plant - are
14 denoted as "demand-related." Different allocation factors are developed and utilized for each.

15 *Staff Expert/Witness: Alan J. Bax*

16 **A. Methodology**

17 **1. Demand Allocation Factor**

18 Demand refers to the rate at which electric energy is delivered to a system to match
19 the requirements of its customers, generally expressed in kilowatts ("kW") or
20 megawatts ("MW"), either at an instant in time or averaged over a specified time interval.
21 System peak demand is the largest electric requirement that occurs within a specified period of
22 time, (e.g. hour, day, month, season, and year) on a utility's system. Since generation units and
23 transmission lines are planned, designed, and constructed to meet a utility's anticipated system
24 peak demands, plus required reserves, the contribution of each of KCPL's three jurisdictions:
25 Missouri Retail, Kansas Retail, and Wholesale Operations, and GMO's two jurisdictions:
26 Missouri Retail and Wholesale Operations, coincident to the respective system's peak demand,
27 i.e., each individual jurisdiction's demand at the time of the corresponding system peak, is the
28 appropriate basis on which to allocate the costs of these facilities. Thus, the term coincident
29 peak ("CP") refers to the load, generally in kW or MW, in each of the applicable jurisdictions

1 that coincide with KCPL's and GMO's corresponding overall system peak recorded for the time
2 period in the respective analyses.

3 Staff is utilizing a Four Coincident Peak ("4 CP") methodology in its determination of
4 demand allocation factors for KCPL and GMO. Staff's 4 CP is based on the monthly seasonal
5 coincident peaks of the four summer months in calendar year 2017, a period of time included
6 within the update period of these rate cases. The 4 CP method has been used in each of the recent
7 rate cases filed by KCPL⁸⁶ and GMO⁸⁷. The 4 CP method is appropriate for utilities such as
8 KCPL and GMO that experience dominant seasonal demands in the four summer months
9 (June through September) relative to the demands in the other eight months of a calendar year.
10 A utility that experiences a needle peak in a particular month may consider utilizing
11 a 1 CP method. Comparatively, a utility that experiences similar hourly peaks in both winter and
12 summer months might employ the 12 CP method. The monthly demands reported for the
13 calendar months included in the test year and update period for the current cases are consistent
14 with the monthly demands in the reporting periods associated with the noted recent rate cases
15 involving KCPL and GMO.

16 Staff determined the demand allocation factor for each applicable jurisdiction for KCPL
17 and GMO using the following process:

- 18 a. Identify KCPL's or GMO's system peak hourly load in each month for the
19 four month period June 2017 through September 2017 and sum these
20 hourly peak loads.
- 21 b. Sum the particular applicable jurisdiction's corresponding loads for the
22 hours identified in a. above.
- 23 c. Divide b. by a. above.

24 The resultant ratios are the allocation factors for each applicable jurisdiction. The
25 respective KCPL and GMO jurisdictional demand allocation factors are calculated as follows:

26 KCPL:

27	Missouri Retail Jurisdiction:	0.5276
28	Kansas Retail Jurisdiction:	0.4709
29	Wholesale Jurisdiction:	0.0015
30	Total:	1.0000

⁸⁶ ER-2006-0314, ER-2007-0291, ER-2009-0089, ER-2010-0355, ER-2012-0174, ER-2014-0370, and ER-2016-0285.

⁸⁷ ER-2009-0090, ER-2010-0356, ER-2012-0175, and ER-2016-0156

1 GMO:

2 Missouri Retail Jurisdiction: 0.9966
3 Wholesale Jurisdiction: 0.0034
4 Total: 1.0000

5 **2. Energy Allocation Factor**

6 Variable expenses, such as fuel and purchase power, are allocated to the corresponding
7 jurisdictions based on energy consumption. The energy allocation factor for an individual
8 jurisdiction is the ratio of the normalized annual kilowatt-hour (“kWh”) usage in the particular
9 jurisdiction, during the 12-month test year period of these cases July 2016 – June 2017, to the
10 respective KCPL or GMO total system normalized kWh. Staff applied adjustments to these
11 kWhs to account for losses, anticipated growth, and certain annualizations. Staff witness
12 Seoungjoun Won, Ph.D., provided the weather adjustments. Staff witnesses Antonija Nieto and
13 Kim Cox provided the adjustments for customer growth and certain annualizations respectively.

14 Staff has calculated the following energy allocation factors for the aforementioned
15 applicable jurisdictions, for both KCPL and GMO, utilizing kWh usage data in the test year
16 July 2016 – June 2017:

17 KCPL:

18 Missouri Retail Jurisdiction: 0.5660
19 Kansas Retail Jurisdiction: 0.4324
20 Wholesale Jurisdiction: 0.0016
21 Total: 1.0000
22

23 GMO:

24 Missouri Retail Jurisdiction 0.9962
25 Wholesale Jurisdiction: 0.0038
26 Total: 1.0000

27 These jurisdictional demand and energy allocation factors were provided to Staff witness
28 Cary G. Featherstone to allocate related costs to the respective applicable jurisdictions for
29 both KCPL and GMO.

30 *Staff Expert/Witness: Alan J. Bax*

1 **B. Application**

2 As stated above, KCPL operates within two state jurisdictions, Missouri and Kansas, and
3 in the wholesale jurisdiction regulated by the FERC. GMO operates in Missouri and FERC
4 jurisdictions. In order to develop the cost of service runs for KCPL and GMO, the allocation
5 factors discussed above were applied to the various FERC accounts for plant
6 (accounting Schedule 3), reserve (Accounting Schedule 6) and the income statement
7 (Accounting Schedule 9).

8 Therefore, it is necessary to identify, then allocate and/or assign, KCPL's specific
9 investments and costs among KCPL's three jurisdictions and GMO's two jurisdictions. To
10 identify KCPL's and GMO's revenue requirement, Staff must develop both entities' cost of
11 service for the Missouri retail jurisdiction. To do that, KCPL's and GMO's plant investments
12 and costs in their income statements must be appropriately assigned or allocated to the Missouri
13 retail jurisdiction.

14 To develop KCPL's and GMO's cost of service for its Missouri retail jurisdiction, Staff
15 began with each of companies' records kept in accordance with FERC accounting requirements
16 per Commission rule. Where these records reflected costs or investments that KCPL and GMO
17 incurred solely to serve the Missouri retail jurisdiction, Staff directly assigned those costs or
18 investments to each Missouri jurisdictional cost of service. However, when it was not
19 appropriate to directly assign costs or investments, Staff allocated those costs using either a
20 demand allocation factor or an energy allocation factor, depending upon whether the investment
21 or cost is more related to demand or energy.

22 KCPL and GMO use their generation and transmission facilities to produce and transport
23 electricity to their customers; in the case of KCPL, to its Missouri retail customers, Kansas retail
24 customers, and wholesale customers (FERC jurisdiction), and in the case of GMO, to its
25 Missouri retail customers and wholesale customers. Because these facilities are demand-related,
26 Staff allocated KCPL's and GMO's costs and investments in these facilities, as well as the
27 related depreciation reserve accounts, to each of the states' jurisdiction and the federal
28 jurisdiction using the demand allocator. Since KCPL and GMO both are a four summer month
29 peaking utility, Staff used the 4 coincident peak ("4 CP") method to develop the Missouri retail
30 jurisdiction, Kansas retail jurisdiction, and wholesale jurisdiction demand allocators for KCPL
31 and GMO's Missouri jurisdiction.

1 Staff has consistently used the 4 CP method to develop the KCPL demand allocators
2 since KCPL's 1985 Wolf Creek rate case, including each of the four KCPL Regulatory Plan rate
3 cases filed with the Commission and the subsequent 2012 and 2014 rate cases.⁸⁸ Staff has also
4 used the 4 CP method of allocation for GMO.

5 For KCPL, the Commission has approved the use of the 4 CP method to allocate joint
6 investment costs and expenses since the 1985 Wolf Creek rate case. The Commission decided
7 the use of the 4 CP method was proper again in 2006 KCPL rate case.⁸⁹

8 **1. Distribution Plant Investment**

9 In its records kept in accordance with FERC accounting requirements, KCPL and GMO
10 separately account for investment in distribution plant located in each of the jurisdictions
11 (Kansas and Missouri for KCPL and Missouri only for GMO). Plant identified in this way is
12 referred to as site specific or *situs* plant. Staff used KCPL's and GMO's actual distribution plant
13 investment in Missouri at December 31, 2017, to develop site specific allocation factors to
14 allocate the total company distribution plant and reserve amounts to quantify only the
15 distribution plant and reserve amounts specific to each of the Missouri retail jurisdictions. This
16 is consistent with how KCPL and GMO treated distribution plant in their rate cases.

17 **2. General Plant Allocation**

18 Staff created the Missouri retail jurisdictional allocation factor for general plant
19 investment, and related costs, based on a composite of its demand allocation factor used for
20 production and transmission plant and distribution plant using the site specific allocation factors.
21 Staff applied the demand allocation factor used to quantify the Missouri retail jurisdictional share
22 of KCPL's and GMO's production and transmission costs and the site specific allocation factor
23 used to allocate an appropriate part of each companies' distribution plant and reserve amounts to
24 KCPL's and GMO's Missouri retail jurisdiction. Staff used the resulting production plant and
25 depreciation reserve amounts and distribution plant costs allocated to KCPL's and GMO's
26 Missouri retail jurisdiction to form the basis for allocating their general plant to its Missouri
27 retail jurisdiction. Thus, Staff's Missouri retail jurisdiction allocation factor for the general plant

⁸⁸ The four rate cases filed under the Experimental Regulatory Plan authorized by the Commission in Case No. EO-2005-0329 are Case Nos. ER-2006-0314, ER-2007-0291, ER-2009-0089, and ER-2010-0355 and the last KCPL two rate cases, ER-2012-0174 and ER-2014-0370.

⁸⁹ *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 Begin the Implementation of its Regulatory Plan*, Case No. ER-2006-0314, (Report and Order, filed December 21, 2006, page 74).

1 is based on a composite of the Missouri retail jurisdiction allocation factors Staff developed for
2 production, transmission and distribution plant costs. Staff used this composite general plant
3 allocation factor to allocate to Missouri retail jurisdiction what are described in KCPL's and
4 GMO's income statement (Staff Accounting Schedule 9) as "general" costs.

5 **3. Allocations of Expenses**

6 Using the principle that expenses (costs) should follow plant investment, Staff used the
7 same jurisdictional allocation factors it developed to allocate investment to allocate expenses
8 related to that investment. The FERC expense accounts found in KCPL's and GMO's income
9 statements (reproduced as Schedule 9 in Staff's Accounting Schedules) include amounts for
10 costs broadly described as production, transmission, distribution, general, and administrative and
11 general ("A&G"). Using the expense accounts found in the income statements, this principle
12 that expenses should follow plant investment is appropriate because KCPL and GMO incur
13 production (generation) plant expenses to maintain and operate their generation facilities.
14 As such, it is proper to use the same jurisdictional allocator to allocate production plant expenses
15 that is used to allocate its investment costs in the generating facilities. Similarly, costs are
16 incurred to operate transmission facilities. These expenses are allocated to maintain and
17 operate the transmission facilities and, therefore, it is appropriate to use the same jurisdictional
18 allocator to allocate transmission expenses that is used to allocate investment costs in
19 transmission facilities.

20 **4. Other Costs Allocations**

21 Staff also used a variety of jurisdictional allocation factors to allocate the appropriate part
22 of administrative and general costs found in the income statement (Staff Accounting Schedule 9),
23 to KCPL's and GMO's Missouri retail jurisdictions. Staff relied on KCPL and GMO for these
24 allocation factors. Some of these allocation factors are based on the number of KCPL and GMO
25 customers in each jurisdiction. Some are based on the number of KCPL employees working in
26 each jurisdiction. Each specific account had a specific allocation factor that Staff used to
27 allocate the appropriate cost to the Missouri retail jurisdictions.

28 **5. Energy and Demand Allocations**

29 Staff used the energy allocation factor to allocate costs to the Missouri retail jurisdiction
30 that are considered to vary directly with electricity usage. For example, in response to increased
31 demand for electricity in a particular hour, KCPL must either buy or generate more electricity,

1 causing one or more of its fuel and purchased power costs to increase. In contrast, costs such as
2 fixed to operate power plants or capacity or demand charges on a purchased power contract are
3 constant, regardless of the demand for electricity in a given non-peak hour and, therefore, are
4 allocated using the demand allocator.

5 The demand portion of capacity agreements are assigned or allocated to the jurisdictions
6 using the demand allocator. However, energy sold or purchased using that capacity is a variable
7 cost and is allocated to the jurisdictions with energy allocation factors. The rationale for the
8 demand portion of a capacity purchase or sale agreement is to recover the costs of the facilities
9 that underlie these transactions. For example, if KCPL sells capacity under a firm purchased
10 power agreement, a commitment is made to have necessary generating commitment in place that
11 is dedicated to meeting the load requirements of the customer to whom it is selling the capacity.
12 The demand portion of a capacity sale can be thought of as the recovery of the costs of
13 generating assets used to provide electricity to the buyer of power. Similar to when it sells
14 capacity, when KCPL purchases capacity to assure it can meet its system load requirements with
15 energy, it will pay a demand charge (payment) to the seller.

16 In March 2014, SPP implemented an integrated market to dispatch generation to meet the
17 system load requirements for all its members. However, for purposes of presenting this rate
18 case, Staff has developed KCPL's and GMO's revenue requirement on the assumption that the
19 Missouri-allocated portions of all of KCPL's generation facilities are primarily used to produce
20 electricity for KCPL's and GMO's retail customers. Accordingly, Staff's assumption is that
21 KCPL and GMO meet their native load with the same generating plant and transmission plant
22 that they use to generate and transport electricity to make off-system sales— sales to firm and
23 non-firm customers in the bulk power markets (off-system sales). Staff uses the energy
24 allocation factor to allocate energy (variable) costs of fuel and purchased power that are assumed
25 to be incurred to meet system load requirements of both companies' native load customers. Staff
26 also used the same energy factor used to allocate the variable costs incurred to meet retail load
27 requirements for Missouri retail customers to allocate KCPL's and GMO's revenues and energy
28 costs that are assumed to be incurred to make off-system sales to its Missouri retail jurisdiction.
29 Since the non-firm, off-system sales market is made up of short-term sales, Staff assumes that
30 KCPL does not reserve dedicated generating capacity for these sales. Traditionally, non-firm
31 off-system sales have been allocated using the energy allocation factors since the costs of making

1 these sales are variable in nature, primarily being the cost of the fuel used to generate the
2 electricity sold. As more megawatts are sold, more fuel is consumed or power purchased and,
3 therefore, the higher the fuel cost or the purchased power cost. These costs vary directly with the
4 megawatt hours sold or purchased and, thus, using the energy allocation factors is proper. Staff
5 has used energy allocation factors to allocate off-system sales to KCPL's Missouri retail
6 jurisdiction in each of KCPL's rate cases during its Regulatory Plan and in the 2012, 2015, and
7 2016 rate cases. Historically, Staff has also used the energy allocation factors to allocate
8 off-system sales revenues to the Missouri retail jurisdiction of The Empire District Electric
9 Company and for setting retail rates in GMO's many rate cases, dating back to at least the 1990s.

10 *Staff Expert/Witness: Cary G. Featherstone*

11 **X. Fuel Adjustment Clause ("FAC")**

12 **A. FAC - Policy**

13 In summary, Staff makes the following recommendations regarding KCPL's Fuel
14 Adjustment Clause ("FAC") and GMO's FAC to the Commission:

- 15 1. Continue GMO's FAC and KCPL's FAC with modifications;
- 16 2. Continue to include one Base Factor in the FAC tariff sheets for KCPL and
17 one Base Factor in the FAC tariff sheets for GMO, calculated from the
18 Net Base Energy Cost⁹⁰ that the Commission includes in the revenue
19 requirement upon which it sets GMO's and KCPL's general rates in this
20 consolidated case;
- 21 3. Clarify that the only transmission costs that are included in KCPL's FAC are
22 those that KCPL incurs for purchased power and off-system sales ("OSS");
- 23 4. Clarify that the only transmission costs that are included in GMO's FAC are
24 those that GMO incurs for purchased power and off-system sales ("OSS")
25 excluding any and all transmission costs related to GMO's Crossroads
26 Generating plant;
- 27 5. Order GMO to exclude any and all transmission costs related to its Crossroads
28 generating plant from its FAC;

⁹⁰ Net Base Energy Cost is defined in GMO's 4th Revised Sheet No. 127.10 as Net base energy costs ordered by the Commission in the last general rate case consistent with the costs and revenues included in the calculation of the FPA".

- 1 6. Order KCPL to continue to provide the additional information as part of its
2 monthly reports;⁹¹ as KCPL was ordered⁹² to do in Case No. ER-2016-0285;
3 and has continued to provide in its FAC monthly reports;
4 7. Order GMO to continue to provide the additional information as part of its
5 monthly reports as GMO was ordered⁹³ to do in Case No. ER-2016-0156 and
6 has continued to provide in its FAC monthly reports.

7 *Staff Witness/Expert: Brooke M. Richter and Catherine F. Lucia*

8 **1. History**

9 **a. GMO**

10 The Commission first authorized a FAC for GMO in its *Report and Order* in GMO's
11 2007 general electric rate proceeding (Case No. ER-2007-0004) for GMO's two rate districts,
12 then called Aquila Networks-MPS and Aquila Networks-L&P, with the original FAC tariff
13 sheets becoming effective July 5, 2007. In GMO's subsequent electric rate cases,
14 Case Nos. ER-2009-0090, ER-2010-0356, ER-2012-0175, and ER-2016-0156, the Commission
15 authorized continuation with modifications of GMO's FAC. The primary features of GMO's
16 present FAC (tariff sheets numbered 127.1 through 127.12) include:

- 17 ▪ Two 6-month accumulation periods: June through November and
18 December through May;
19 ▪ Two 12-month recovery periods: March through February and
20 September through August;
21 ▪ Two fuel adjustment rate ("FAR") filings annually not later than
22 January 1 and July 1;
23 ▪ A 95%/5% sharing mechanism;
24 ▪ FARs for individual service classifications are rounded to the
25 nearest \$0.00001, and charged on each applicable kWh billed;
26 ▪ True-up of any over- or under-recovery of revenues following each
27 recovery period with true-up amounts being included in
28 determination of FARs for a subsequent recovery period; and

⁹¹ Monthly reports are required by 4 CSR 240-3.161(5)

⁹² Item 535, Page 31 – 32 of the Commission's *Report and Order*, issued May 3, 2017

⁹³ Item 305, Page 13 of the Commission's *Non-Unanimous Stipulation and Agreement*, issued September 20, 2016 in File No. ER-2016-0156.

- 1 ▪ Prudence reviews of the costs subject to the FAC shall occur no
2 less frequently than every eighteen months.
3

4 In GMO's 2016 rate case (Case No. ER-2016-0156), Staff and GMO proposed to
5 consolidate GMO's MPS and L&P rate districts and calculate the Base Factor on a combined
6 GMO basis. The consolidated Base Factor was set at \$0.02055 per kWh.

7 In the current rate case (Case No. ER-2018-0146), GMO is proposing to re-base the
8 Base Factor to \$0.02465 per kWh.

9 *Staff Expert/Witness: Brooke M. Richter*
10

11 **b. KCPL**

12 The Commission first authorized a FAC for KCPL in its *Report and Order* in KCPL's
13 2015 general electric rate proceeding (Case No. ER-2014-0370), with the original FAC tariff
14 sheets becoming effective September 29, 2015. KCPL is requesting continuance of the FAC in
15 this rate case. The primary features of KCPL's present FAC (tariff sheets numbered 50.11
16 through 50.20⁹⁴) include:

- 17 ▪ Two 6-month accumulation periods: January through June and July
18 through December;
19 ▪ Two 12-month recovery periods: October through September and
20 April through March;
21 ▪ Two fuel adjustment rate ("FAR") filings annually not later than
22 February 1 and August 1;
23 ▪ A 95%/5% sharing mechanism;
24 ▪ FARs for individual service classifications are rounded to the
25 nearest \$0.00001, and charged on each applicable kWh billed;
26 ▪ True-up of any over- or under-recovery of revenues following each
27 recovery period with true-up amounts being included in
28 determination of FARs for a subsequent recovery period; and
29 ▪ Prudence reviews of the costs subject to the FAC shall occur no
30 less frequently than every eighteen months.

⁹⁴ First Revised Sheet Nos. 50.11, 50.12, 50.13, 50.14, 50.15, 50.16, 50.17, 50.18, 50.19, and 3rd Revised Sheet No. 50.20.

1 In KCPL's 2015 general rate case (Case No. ER-2014-0370), the initial Base Factor
2 (base energy cost per kWh rate) was set at \$0.01186 per kWh and was then set at \$0.01542 per
3 kWh in Case No. ER-2016-0285. In this case, KCPL is proposing to increase the FAC Base
4 Factor to \$0.01635 per kWh.

5 *Staff Expert/Witness: Catherine F. Lucia*

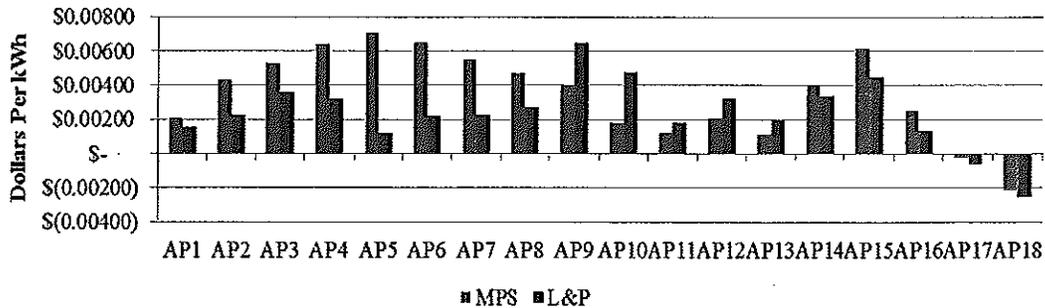
6 **2. Continuation of FAC**

7 Staff recommends that the Commission approve, with modifications, the continuation of
8 GMO's FAC and KCPL's FAC. At this time Staff does not have its estimates for the Base
9 Factor for either FAC, but will provide them and a discussion on the calculation of each Base
10 Factor when Staff files its Class Cost of Service/Rate Design Report on July 6, 2018. Staff will
11 use the Net Base Energy Cost and the kWh at the generator from its fuel run for KCPL and
12 GMO, respectively, to develop each utility's Base Factor. Staff will also provide a response to
13 the Company's proposal of the two new programs, *Solar Subscription Pilot Rider* and *Renewable*
14 *Energy Rider*, as they require modifications to the current FACs, in rebuttal testimony.

15 GMO has filed for and received approval of changes to its FARs for twenty-one (21)
16 completed accumulation periods ("AP") (AP1 through AP21). Chart 1 shows the
17 secondary voltage FARs for AP1 through AP18. This was prior to the rate districts MPS and
18 L&P being consolidated into one rate district, which was approved by the Commission in
19 Case No. ER-2016-0156 in the Non-Unanimous Stipulation and Agreement.⁹⁵ Chart 2 shows the
20 primary and secondary voltage FARs for AP19 through AP21.

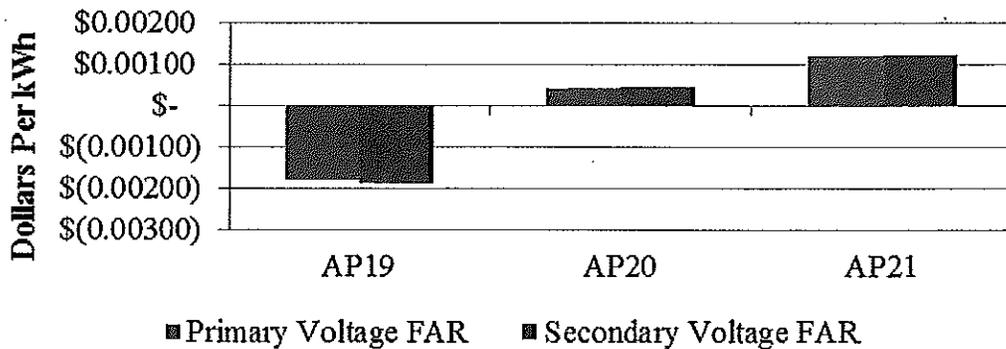
⁹⁵ Item No. 305 in Case No. ER-2016-0156

**Chart 1:
MPS and L&P Fuel Adjustment Rates (Secondary
Voltage FAR)**



1

**Chart 2:
GMO Fuel Adjustment Rates**



2

3

4

The time periods of the accumulation periods (“APs”) in Chart 1 and 2 are as follows:

5

AP1: Jun 2007 – Nov 2007

AP2: Dec 2007 – May 2008

6

AP3: Jun 2008 – Nov 2008

AP4: Dec 2008 – May 2009

7

AP5: Jun 2009 – Nov 2009

AP6: Dec 2009 – May 2010

8

AP7: Jun 2010 – Nov 2010

AP8: Dec 2010 – May 2011

9

AP9: Jun 2011 – Nov 2011

AP10: Dec 2011 – May 2012

10

AP11: Jun 2012 – Nov 2012

AP12: Dec 2012 – May 2013

11

AP13: Jun 2013 – Nov 2013

AP14: Dec 2013 – May 2014

12

AP15: Jun 2014 – Nov 2014

AP16: Dec 2014 – May 2015

13

AP17: Jun 2015 – Nov 2015

AP18: Dec 2015 – May 2016

14

AP19: Jun 2016 – Nov 2016

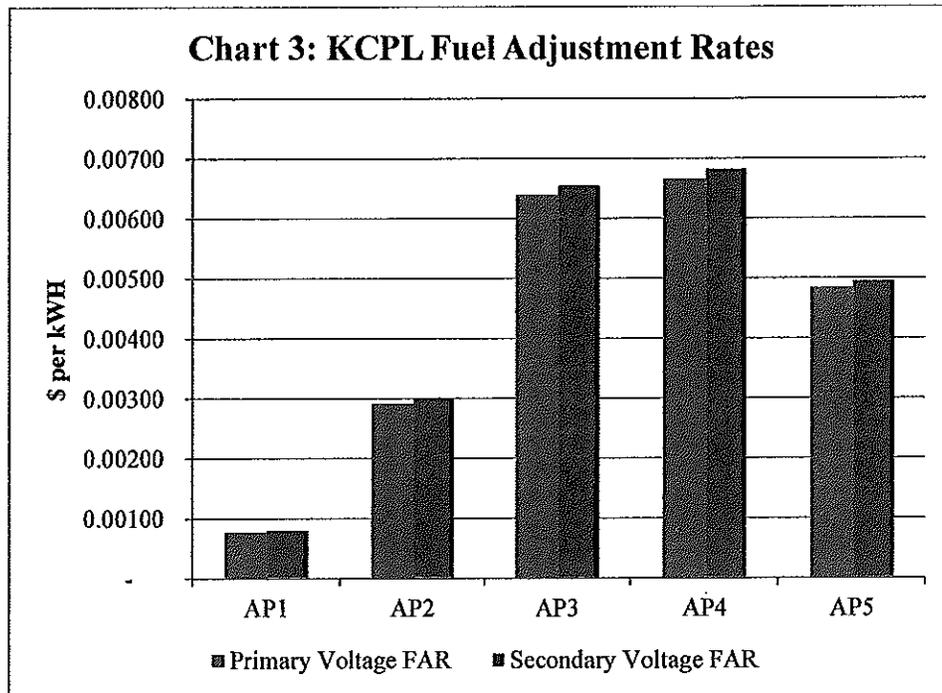
AP20: Dec 2016 – May 2017

15

AP21: Jun 2017 – Nov 2017

16

1 KCPL has filed for and received approval of changes to its FARs for five (5) completed
2 APs. Chart 3 shows the primary and secondary FARs for AP1 through AP5.



5 The time periods of the five APs are:

6 AP1: September 29, 2015⁹⁶ – December 2015

7 AP2: January 2016 - June 2016

8 AP3: July 2016 – December 2016

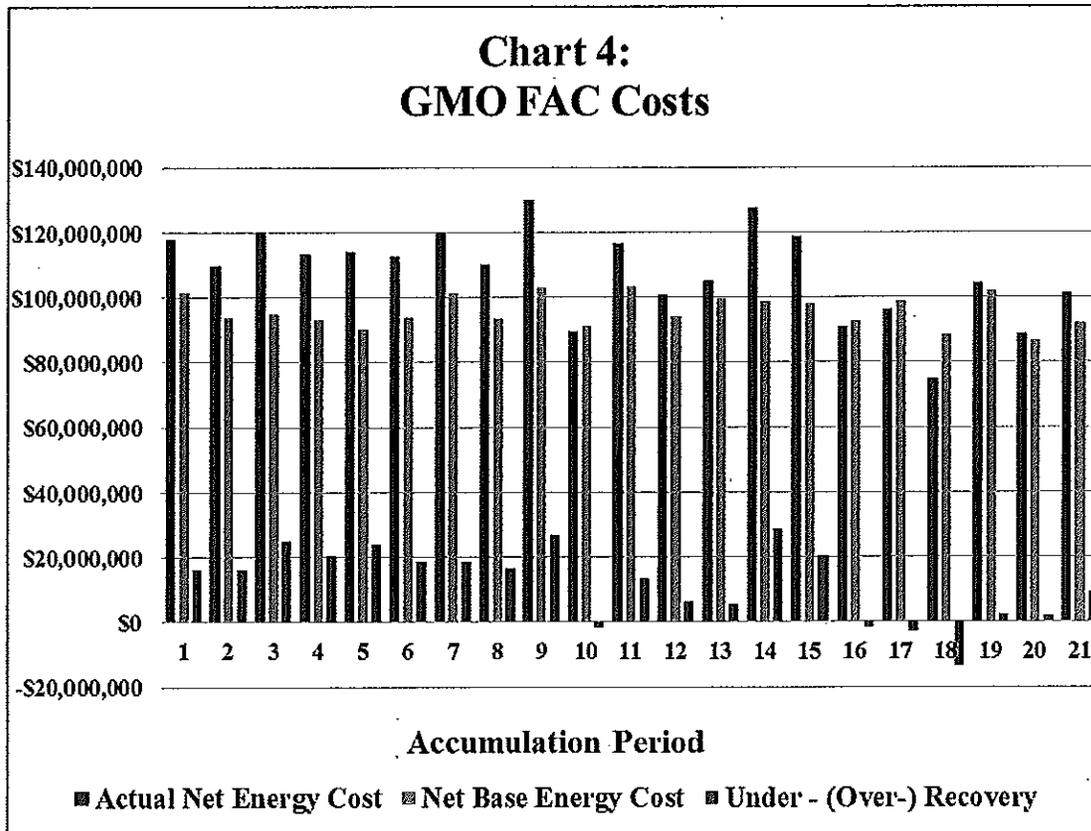
9 AP4: January 2017 – June 2017

10 AP5: July 2017 – December 2017

11
12 Actual FAC costs include: GMO's and KCPL's total booked costs as allocated for fuel
13 consumed in the GMO's and KCPL's respective generating units; purchased power energy
14 charges, including applicable transmission fees; SPP variable costs; air quality control system
15 consumables, such as anhydrous ammonia, limestone, and powder activated carbon, and net
16 emission allowance costs. Actual FAC costs are off-set by actual revenue from Off-System
17 Sales and actual revenue from the sale of Renewable Energy Credits.

⁹⁶ September 29, 2015 was the effective date of rates for Rate Case No. ER-2014-0370.

1 Chart 4 illustrates the variability of the GMO's variations in each accumulation period's
 2 billed Net Base Energy Cost and Actual Net Energy Cost. Chart 4 shows GMO's Actual Net
 3 Energy Cost have exceeded the then-effective Base Factors multiplied by monthly usage billed
 4 to GMO's customers' in seventeen (17) out of twenty-one (21) completed accumulation periods
 5 and are illustrated as under-recovery amounts prior to application of the jurisdictional factor.⁹⁷
 6

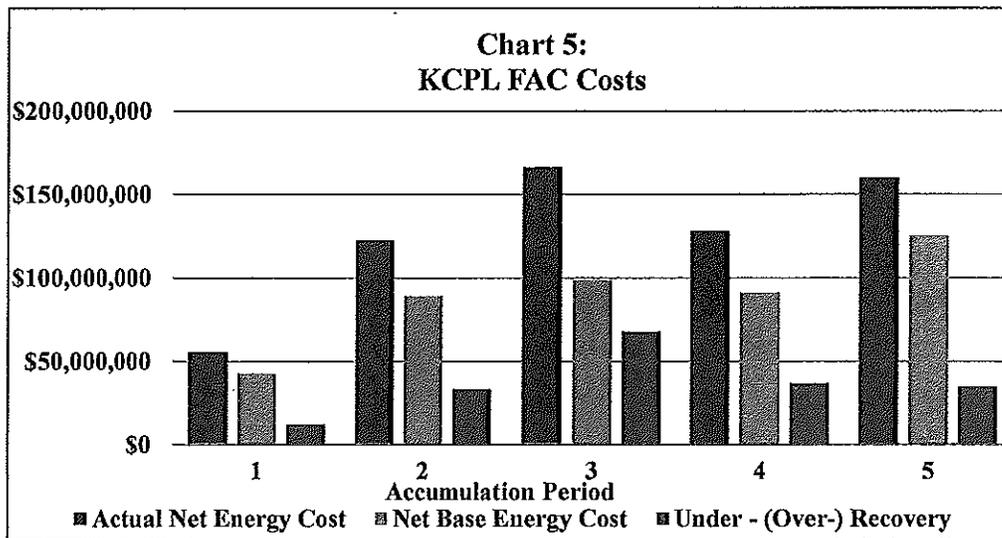


7
 8 During four accumulation periods, AP10, AP16, AP17, and AP18, GMO's Net Base
 9 Energy Cost exceeded Actual Net Energy Cost; 95% of such excess amounts were returned to
 10 customers during four recovery periods ("RP") RP10, RP16, RP17, and RP18. In seventeen of
 11 its accumulation periods (AP1, AP2, AP3, AP4, AP5, AP6, AP7, AP8, AP9, AP11, AP12, AP13,
 12 AP14, AP15, AP19, AP20, and AP21), GMO under-collected its Actual Net Energy Costs, and
 13 95% of the amounts of under-collection were recovered from GMO's customers during recovery

⁹⁷ Jurisdictional factor: $J = \text{Missouri Retail Energy Ratio} = \frac{\text{retail kWh sales}}{\text{total system kWh}}$, where total system kWh equals retail and full and partial requirement sales associated with GMO.

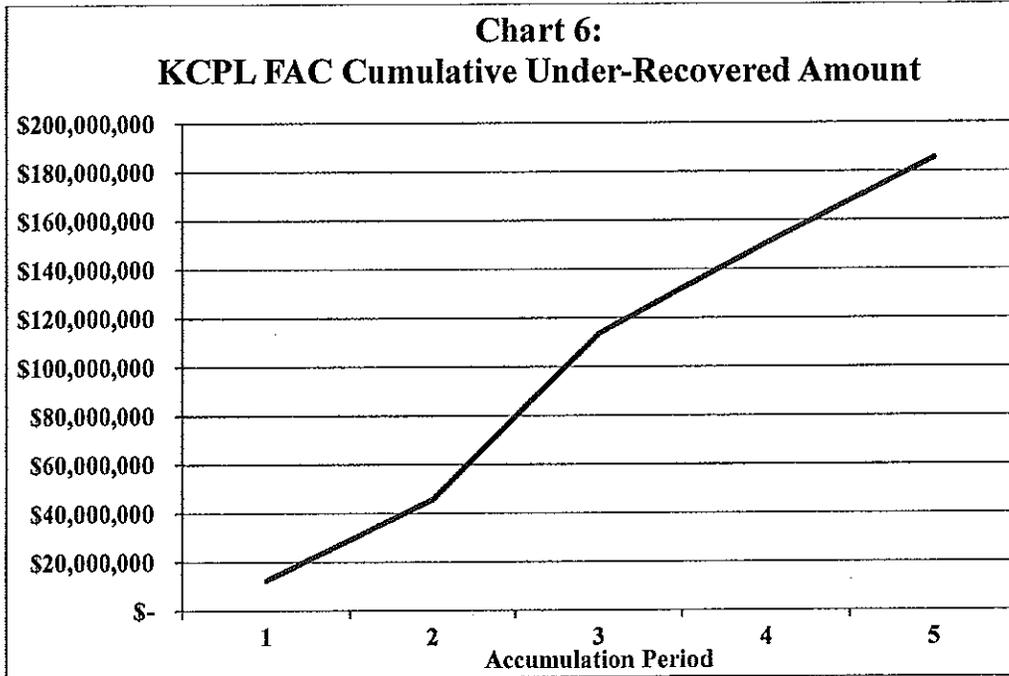
1 periods RP1, RP2, RP3, RP4, RP5, RP6, RP7, RP8, RP9, RP11, RP12, RP13, RP14, RP15,
 2 RP19, RP20, and RP21.

3 KCPL's Actual Net Energy Cost during all five accumulation periods, AP1 through AP5,
 4 exceeded Net Base Energy Cost. During Recovery Period 1 (RP1) and RP2, 95% of the under-
 5 collected Actual Net Base Energy Cost was recovered from ratepayers. Chart 5 illustrates the
 6 Actual Net Base Energy Cost, billed Net Base Energy Cost and under-recovered amounts for
 7 AP1 through AP5.



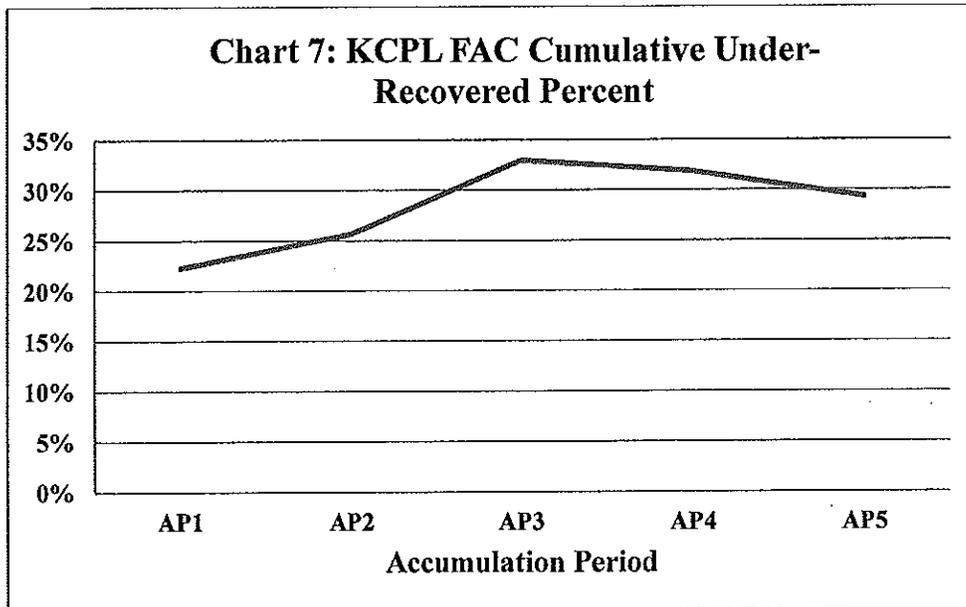
8
 9 Chart 6 illustrates the cumulative amounts⁹⁸ by which KCPL's Actual Net Energy Cost
 10 have exceeded the Base Factor multiplied by monthly usage billed to KCPL's customers in the
 11 completed accumulation periods.

12
⁹⁸ Amounts represent an aggregate of energy costs for Missouri and Kansas prior to application of jurisdictional factor (J).
 $J = \text{Missouri Retail Energy Ratio} = (\text{MO Retail kWh sales} + \text{MO Losses}) / (\text{MO Retail kWh Sales} + \text{MO Losses} + \text{KS Retail kWh Sales} + \text{KS Losses} + \text{Sales for Resale, Municipals kWh Sales [includes border customers]} + \text{Sales for Resale, Municipals Losses}).$



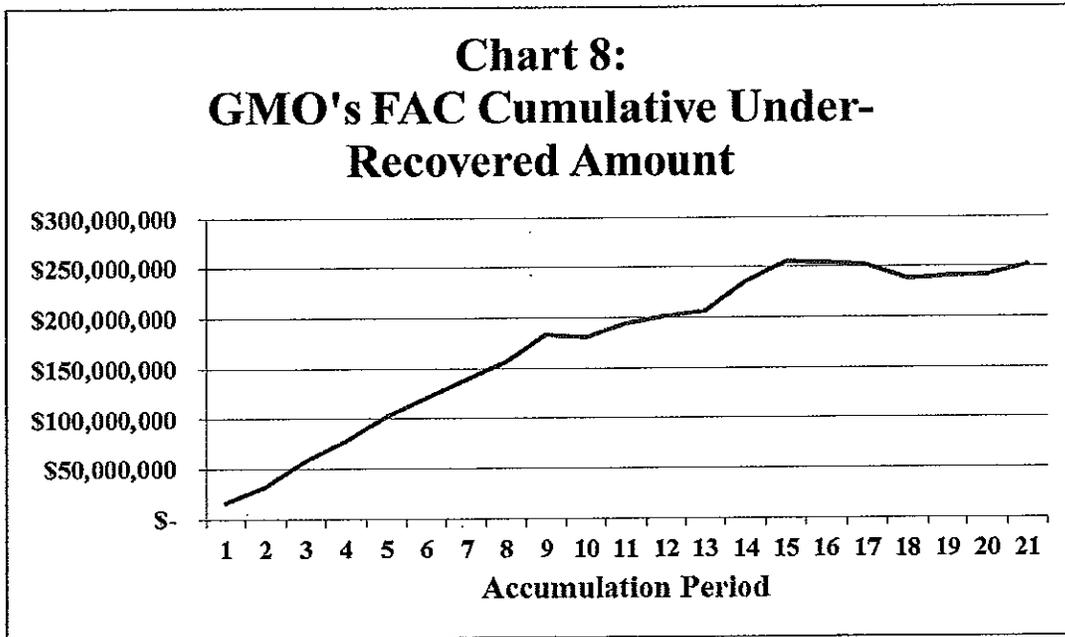
1
2
3
4
5

For AP1 through AP5, Chart 7 illustrates the cumulative under-collected amount is about 29 percent of the cumulative Actual Net Energy Cost for KCPL.

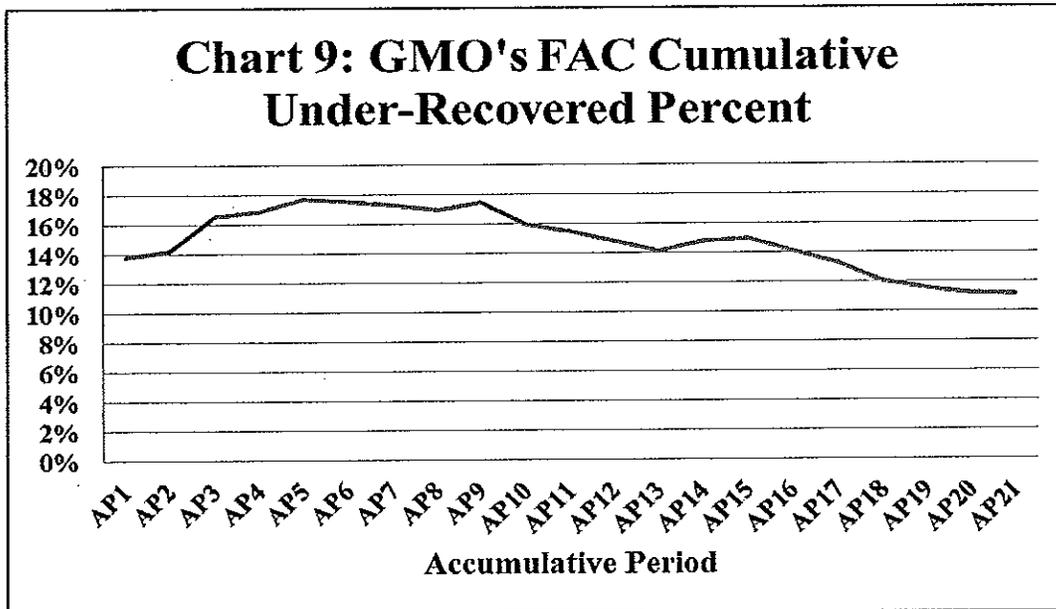


6
7

1 Charts 8 and 9 illustrates GMO's cumulative under-recovered amount over eleven years is
2 approximately \$250 million or about 11 percent of cumulative Actual Net Energy Cost.



3
4



5
6

7 Staff recommends continuation of GMO's FAC and KCPL's FAC with modifications.
8 As shown in the previous charts and discussion, GMO's and KCPL's Actual Net Energy Costs

1 continue to be relatively large and volatile. Further, Actual Net Energy Costs are beyond the
2 control of the Companies.

3 *Staff Expert/Witness: Brooke M. Richter and Catherine F. Lucia*

4 **3. Crossroads Transmission Costs (GMO Only)**

5 The transmission costs that should be included in GMO's FAC are those costs that GMO
6 incurs to: (1) transmit electric power it did not generate to serve its own native load,
7 and (2) transmit excess electric power it is selling to third parties located outside of SPP
8 excluding any and all MISO transmission charges related to GMO's Crossroads generating plant.
9 Staff recommends that the Commission order the following transmission costs reflected in FERC
10 Account Number 565 be included in GMO's FAC, and order that any and all MISO transmission
11 charges for GMO's Crossroads generating plant be excluded from GMO's FAC:

12 Subaccount 565000: non-SPP transmission used to serve off-system sales or to make
13 purchases for load and a percent⁹⁹ of the SPP transmission service costs, which includes the
14 schedules listed below as well as any adjustments to the charges (excluding any and all MISO
15 transmission charges for GMO's Crossroads generating plant) in the schedules below:

16 Schedule 7 – Long Term Firm and Short Term Point to Point Transmission Service
17 (excluding any and all MISO transmission charges for GMO's Crossroads generating
18 plant);

19
20 Schedule 8 – Non Firm Point to Point Transmission Service (excluding any and all MISO
21 transmission charges for GMO's Crossroads generating plant);

22
23 Schedule 9 – Network Integration Transmission Service (excluding any and all MISO
24 transmission charges for GMO's Crossroads generating plant);

25
26 Schedule 10 – Wholesale Distribution Service (excluding any and all MISO transmission
27 charges for GMO's Crossroads generating plant);

28
29 Schedule 11 – Base Plan Zonal Charge and Region Wide Charge (excluding any and all
30 MISO transmission charges for GMO's Crossroads generating plant);

31 Subaccount 565020: the allocation of the allowed costs in the 565000 account attributed
32 to native load (excluding any and all MISO transmission charges for GMO's Crossroads
33 generating plant);
34

⁹⁹ The percent of SPP transmission service costs will be calculated with the Base Factor to be filed in Staff's Class Cost of Service Report on July 6, 2018.

1 Subaccount 565027: the allocation of the allowed costs in the 565000 account attributed to
2 transmission demand charges (excluding any and all MISO transmission charges for
3 GMO's Crossroads generating plant); and
4

5 Subaccount 565030: the allocation of the allowed costs in account 565000 attributed to
6 off-system sales (excluding any and all MISO transmission charges for GMO's
7 Crossroads generating plant).
8

9 The *Non-Unanimous Stipulation and Agreement* filed in GMO's last general rate case,
10 File No. ER-2016-0156, stated on page 13:

11 The costs and revenues in GMO's FAC will not include transmission costs
12 associated with Crossroads Energy Center and will be consistent with
13 those in Kansas City Power & Light Company's current FAC, with two
14 exceptions: 1) the percentage of SPP transmission costs included will be
15 consistent with the 39.62% Staff calculated and 2) once the current
16 hedging positions are unwound, no hedging costs would be included in the
17 FAC. No Crossroads transmission costs will be included in the FAC.
18

19 In GMO's last general rate case, File No. ER-2016-0156, Staff discovered that GMO had
20 inadvertently included some Crossroads transmission expense in the FAC. GMO subsequently
21 corrected its error in File No. ER-2017-0002. Since then, Staff has reviewed GMO's Section 7
22 filings, filed in compliance with 4 CSR 240-3.161(5), and has also reviewed GMO witness Tim
23 Rush's workpapers. Staff is not aware of any Crossroads transmission expense being included in
24 the FAC.

25 Staff's recommendation to exclude Crossroads transmission expense from permanent
26 rates and the FAC for this general rate case is discussed in more detail in the testimony of Staff
27 witness Cary Featherstone.

28 *Staff Expert/Witness: Brooke M. Richter*

29 **B. Hedging Activities**

30 **1. History**

31 In its most recent general rate case, GMO agreed to modify its hedging activities as related to
32 the reduction of risk of operating generation plants fueled by natural gas ("Fuel Hedging") and
33 price risk associated with electrical energy purchases ("Cross Hedging"). GMO agreed in a

1 Partial Nonunanimous Stipulation and Agreement¹⁰⁰ (“Agreement”) to unwind all financial
2 trading instruments¹⁰¹ GMO had in place associated with NYMEX futures and other financial
3 instruments that was used to mitigate price risk for fuel and energy (“purchase power”). During
4 Staff’s Seventh Prudence Review¹⁰² of GMO’s fuel and purchased power costs, Staff confirmed
5 that GMO had complied with the Agreement and did unwind all relevant transactions, and
6 flowed the financial results through its FAC.

7 KCPL’s hedging financial fuel activities were comingled with GMO’s hedging activities and
8 KCPL made the decision to discontinue its financial hedging strategy when it ceased¹⁰³ them on
9 behalf of GMO. KCPL did not use a Cross Hedging strategy as part of its risk management
10 plans as KCPL has sufficient economic generation that this cross hedging strategy was
11 not needed.

12 **2. Current Hedging Strategy**

13 Although KCPL and GMO do not place financial hedges for its fuel or energy, KCPL and
14 GMO still pre-purchase a certain level of its fossil fuel commodities (Coal, Natural Gas, and Oil)
15 used in their electric generation facilities. These purchases are necessary to secure the actual
16 physical commodity that KCPL and GMO rely on for the generation of electricity from its
17 generation fleets. KCPL and GMO are not requesting any changes in their current hedging
18 policies. Staff is also not recommending any changes to KCPL’s or GMO’s fuel hedging policies
19 or practices.

20 **3. Southwest Power Pool Participation**

21 KCPL and GMO participate in the Southwest Power Pool (“SPP”) which operates an
22 Integrated Market Place that provides such services as a Day-Ahead Market with Transmission
23 Congestion Rights, a Reliability Unit Commitment process and Real-time Balancing Market.
24 SPP operates in 14 states, has 95 members and serves 17.5 million customers. SPP is responsible

¹⁰⁰ In the Matter of KCPL Greater Missouri Operation Company’s Request for Authority to Implement a General Rate Increase for electric Service, Case No ER-2016-0156, NON-UNANIMOUS PARTIAL STIPULATION AND AGREEMENT

¹⁰¹ GMO financial trading instruments could have consisted of NYMEX natural gas futures contracts, Puts, Call and Over the Counter Energy Swaps.

¹⁰² In the Matter of the Seventh Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of KCPL Greater Missouri Operations Company, Case No. ER-2017-0232.

¹⁰³ September 2016

1 for the dispatching of KCPL's and GMO's generation fleets once offered into the market. The
2 price at which KCPL and GMO purchase energy from the market will be at the Locational
3 Marginal Price ("LMP"),¹⁰⁴ set every 5 minutes by SPP, that reflects a regional market price of
4 energy and congestion and losses location specific. KCPL and GMO offer to SPP their
5 generation fleets in sufficient quantity to cover the energy needs of its customers. Depending on
6 LMP pricing some of KCPL's and GMO's generation fleets may be more costly to operate than
7 purchasing directly from SPP. One of the main purposes of SPP is to fully optimize the system
8 resources so that the least cost generation issued in the production of energy.

9 *Staff Expert/Witness: Dana Eaves*

10 **C. Revising the Base Factor**

11 Correctly setting the Base Factor in GMO's and KCPL's FAC tariff sheets is critical to
12 both a well-functioning FAC and a well-functioning FAC sharing mechanism. For the reasons
13 below, Staff recommends the Commission require the Base Factor in GMO's and KCPL's FAC
14 be set based on the Base Energy Cost that the Commission includes in the revenue requirement
15 on which it sets GMO's and KCPL's general rates in this case.

16 Table 1 below shows three scenarios in which the FAC Base Energy Cost used to set the
17 FAC Base Factor are equal to, less than, or greater than the Base Energy Cost in the revenue
18 requirement upon which the Commission sets general rates:

¹⁰⁴ Locational Marginal Price = Market Price of Energy + Congestion Charge + Losses

Table 1: Base Energy Cost Case Studies				
		Case 1	Case 2	Case 3
Line	95%/5% Sharing Mechanism	Energy Cost in FAC <u>Equal To</u> Base Energy Cost in Rev. Req.	Energy Cost in FAC <u>Less Than</u> Base Energy Cost in Rev. Req.	Energy Cost in FAC <u>Greater Than</u> Base Energy Cost in Rev. Req.
a	Revenue Requirement	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
b	Base Energy Cost in Rev. Req.	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000
c	Base Energy Cost in FAC	\$ 4,000,000	\$ 3,900,000	\$ 4,100,000
Outcome 1: Actual Energy Cost <u>Greater Than</u> Base Energy Cost in Revenue Requirement				
d	Actual Total Energy Cost	\$ 4,200,000	\$ 4,200,000	\$ 4,200,000
	Billed to Customer:			
= b	in Permanent Rates	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000
$e = (d - c) \times 0.95$	through FAC	\$ 190,000	\$ 285,000	\$ 95,000
$f = b + e$	Total Billed to Customers	\$ 4,190,000	\$ 4,285,000	\$ 4,095,000
$g = f - d$	Kept/(Paid) by Company	\$ (10,000)	\$ 85,000	\$ (105,000)
Outcome 2: Actual Energy Cost <u>Less Than</u> Base Energy Cost in Revenue Requirement				
h	Actual Energy Cost	\$ 3,800,000	\$ 3,800,000	\$ 3,800,000
	Billed to Customer:			
= b	in Permanent Rates	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000
$i = (h - c) \times 0.95$	through FAC	\$ (190,000)	\$ (95,000)	\$ (285,000)
$j = b + i$	Total Billed to Customers	\$ 3,810,000	\$ 3,905,000	\$ 3,715,000
$k = j - h$	Kept/(Paid) by Company	\$ 10,000	\$ 105,000	\$ (85,000)

1

2

Case 1 illustrates that if the FAC Base Energy Cost used for the Base Factor is equal to the Base Energy Cost in the revenue requirement used for setting general rates, the utility does not over or under-collect as a result of the level of total actual energy costs. The FAC works as it is intended to.

6

Case 2 illustrates that if the FAC Base Energy Cost used for the Base Factor is less than the Base Energy Cost in the revenue requirement used for setting general rates, the utility will collect more than was intended and customers pay more than the FAC was designed for them to pay, regardless of the level of actual energy costs.

10

Case 3 illustrates that if the FAC Base Energy Cost used for the Base Factor is greater than the Base Energy Cost in the revenue requirement used for setting general rates, the utility will not collect all of the costs that was intended in the FAC design, and customers pay less than the entire amount intended regardless of the level of actual energy costs.

13

1 These three cases illustrate the importance of setting the Base Factor in the FAC
2 correctly, i.e., revising the Base Factor to match the Base Energy Cost in the revenue
3 requirement used for setting general rates. Case 1 is the preferred case, and illustrates how the
4 FAC is intended to work.

5 *Staff Expert/Witness: Brooke M. Richter and Catherine F. Lucia*

6 **D. Additional Reporting Requirements for GMO**

7 Due to the accelerated Staff review process necessary with FAC adjustment filings,¹⁰⁵
8 Staff recommends the Commission order GMO to continue to provide the following information
9 as part of its monthly reports:

- 10 1. Monthly SPP market settlements and revenue neutrality uplift charges;
- 11 2. Notify Staff within 30 days of entering a new long-term contract for transportation, coal,
12 natural gas or other fuel; natural gas spot transactions are specifically excluded;
- 13 3. Provide Staff with a monthly natural gas fuel report that includes all transactions, spot and
14 longer term; the report will include term, volumes, price, and analysis of number of bids;
- 15 4. Notify Staff within 30 days of any material change in GMO's fuel hedging policy and
16 provide the Staff with access to new written policy;
- 17 5. Provide Staff its Missouri Fuel Adjustment Interest calculation workpapers in electronic
18 format with all formulas intact when GMO files for a change in the cost adjustment factor;
- 19 6. Notify Staff within 30 days of any change in GMO's internal policies for participating in
20 the SPP;
- 21 7. Continue to provide Staff access to all contracts and policies upon Staff's request, at
22 GMO's corporate office in Kansas City, Missouri.

23

¹⁰⁵ The company must file its FAC adjustment 60 days prior to the effective date of its proposed tariff sheet. Staff has 30 days to review the filing and make a recommendation to the Commission. The Commission then has 30 days to approve or deny Staff's recommendation.

1 **E. Additional Reporting Requirements for KCPL**

2 Due to the accelerated Staff review process necessary with FAC adjustment filings,¹⁰⁶
3 Staff recommends the Commission again order¹⁰⁷ KCPL to continue to provide the following
4 information as part of its monthly reports:

- 5 1. As part of the information KCPL submits when it files a tariff modification to change its
6 Fuel and Purchased Power Adjustment rate, include KCPL's calculation of the interest
7 included in the proposed rate;
- 8 2. Maintain at KCPL's corporate headquarters or at some other mutually agreed-upon place
9 and make available within a mutually-agreed-upon time for review, a copy of each and
10 every coal and coal transportation, natural gas, fuel oil and nuclear fuel contract KCPL
11 has that is in or was in effect for the previous four years;
- 12 3. Within 30 days of the effective date of each and every coal and coal transportation,
13 natural gas, fuel oil and nuclear fuel contract KCPL enters into, KCPL provide both
14 notice to the Staff of the contract and opportunity to review the contract at KCPL's
15 corporate headquarters or at some other mutually-agreed-upon place;
- 16 4. Provide a copy of each and every KCPL hedging policy that is in effect at the time the
17 tariff changes ordered by the Commission in the rate case go into effect for Staff to
18 retain;
- 19 5. Within 30 days of any change in KCPL hedging policy, provide a copy of the changed
20 hedging policy for Staff to retain;
- 21 6. Provide a copy of KCPL's internal policy for participating in the Southwest Power Pool's
22 Integrated Market;
- 23 7. Maintain at KCPL's corporate headquarters or at some other mutually agreed-upon place
24 and make available within a mutually agreed-upon time for review, a copy of each and
25 every bilateral energy or demand sales/purchase contract;
- 26 8. If KCPL revises any internal policy for participating in the SPP, within 30 days of that
27 revision, provide a copy of the revised policy with the revisions identified for Staff to

¹⁰⁶ The company must file its FAC adjustment 60 days prior to the effective date of its proposed tariff sheet. Staff has 30 days to review the filing and make a recommendation to the Commission. The Commission then has 30 days to approve or deny Staff's recommendation.

¹⁰⁷ Page 47 - 48 of the Commission's *Report and Order*, issued September 2, 2015 in Case No. ER-2014-0370.

1 retain; and, the monthly as-burned fuel report supplied by KCPL required
2 by 4 CSR 240-3.190(1)(B) shall explicitly designate fixed and variable components of
3 the average cost per unit burned including commodity, transportation, emissions, tax, fuel
4 blend, and any additional fixed or variable costs associated with the average cost per
5 unit reported.

6 *Staff Expert/Witness: Brooke M. Richter and Catherine F. Lucia*

7 **XI. Other Miscellaneous Issues**

8 **A. Clean Charge Network O&M and Rate Base**

9 Staff recommends removal of the operations and maintenance (“O&M”) expense, plant in
10 service, and accumulated depreciation reserve related to the Clean Charge Network from the cost
11 of service. As stated in Natelle Dietrich’s testimony sponsoring this report, the removal of these
12 costs is required by the Commission’s finding in Case No. ER-2016-0285, *In the Matter of*
13 *Kansas City Power & Light Company’s Request for Authority to Implement a General Rate*
14 *Increase for Electric Service*, that electric vehicle charging stations are not “electric plant” as
15 defined by Section 386.020(14), RSMo, which means the Commission has no statutory authority
16 to regulate their operations.¹⁰⁸ This issue will be further addressed in Staff’s rebuttal testimony.

17 KCPL and GMO have transferred the plant-in-service and reserve to non-utility accounts,
18 the equivalent of “below the line”. Included in the plant-in-service balance at December 31,
19 2017, is a small amount of plant that has not been transferred to non-utility accounts. Staff
20 recommends removal of these plant amounts for KCPL and GMO. Staff also recommends the
21 removal of all O&M expenses incurred for the Clean Charge Network. Staff’s adjustments are
22 identified on Schedule 9 of Staff’s KCPL and GMO Accounting Schedules, and Schedule 3 –
23 Plant in Service, Adjustments P-293.1 and P-413.1.

24 *Staff Expert/Witness: Keith Majors*

¹⁰⁸ *Report and Order*, issued May 3, 2017, p. 45.

1 **B. Renewable Energy Standard – Costs**

2 **1. KCPL**

3 Pursuant to 4 CSR 240-20.100 (6)(D), the RES rule provides a recovery option for
4 compliance costs. The rule provides that KCPL may:

5 ...recover RES compliance costs without the use of a RESRAM
6 through rates established in a general rate proceeding. In the
7 interval between general rate proceedings, the electric utility may
8 defer the costs in a regulatory asset account and monthly calculate
9 a carrying charge on the balance in that regulatory asset account
10 equal to its short-term cost of borrowing. All questions pertaining
11 to rate recovery of the RES compliance costs in a subsequent
12 general rate proceeding will be reserved to that proceeding,
13 including the prudence of the costs for which rate recovery is
14 sought and the period of time over which any costs allowed rate
15 recovery will be amortized.

16 On April 19, 2012, the Commission authorized KCPL’s use of an accounting authority order in
17 Case No. EU-2012-0131 to:

18 (a) record all incremental operating expenses associated with the
19 cost of solar rebates, the cost to purchase renewable energy credits,
20 the cost of the standard offer and other related costs incurred as a
21 result of compliance with Missouri’s Renewable Energy Standard
22 Law in USOA Account 182; (b) include carrying costs based on
23 the Compan[y’s] short term debt rate on the balances in those
24 regulatory assets; and (c) defer such amounts in a separate
25 regulatory asset with the disposition to be determined in the
26 Compan[y’s] next general rate cases.¹⁰⁹

27 In Case No. ER-2012-0174, a regulatory asset was established for costs incurred through
28 August 31, 2012, to be amortized over three (3) years. The regulatory asset defined in that case
29 is labeled “Vintage 1”¹¹⁰ and was completed in January, 2016. In compliance with the
30 Stipulation and Agreement in Case No. ER-2014-0370 (continued in Case No. ER-2016-0285),
31 KCPL applied prospective tracking of the Vintage 1 amortization to the current RES costs
32 deferred in Vintage 3, after full recovery of Vintage 1.

¹⁰⁹ *In the Matter of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company's Notice of Intent to File a Joint Application for an Accounting Authority Order Related to its Electrical Operations, Case No. EU-2012-0131, (Order Approving and Incorporating Stipulation and Agreement), at page 2.*

¹¹⁰ The Company uses the word “Vintage” to refer to a certain amortization within that issue.

1 Similar to Staff's recommended treatment of other expiring amortizations, Staff
2 recommends that once the amortization of a vintage is complete, KCPL should apply the funds
3 that will continue to be collected in rates for the amortization of the recovered vintage to the
4 current deferred RES program costs.

5 In Adjustment E-193.1, Staff has included deferred RES costs (Vintage 4) incurred
6 through December 31, 2017, with the recovery period set at 3.6 years.

7 **2. GMO**

8 Unlike KCPL's RES recovery methodology, GMO's renewable energy costs are
9 recovered outside of base rates through the RESRAM mechanism.¹¹¹ Staff made Adjustment E-
10 138.3 to remove those costs from the test year.

11 *Staff Expert/Witness: Michael Jason Taylor*

12
13 **C. Staff's Second RESRAM Prudence Review (GMO Only)**

14 **1. Background:**

15
16 The Commission first authorized a Renewable Energy Standard Rate Adjustment Mechanism
17 ("RESRAM") for GMO in Case No. EO-2014-0151.

18 Commission rule 4 CSR 240-20.100(6)(A)26 requires the interval for prudence reviews to be
19 established when the RESRAM is established. GMO's RESRAM tariff specifies the interval for
20 prudence reviews to be no less than every 24 months and concurrent with each rate case.¹¹² In its
21 second prudence review of GMO's RESRAM for the period January 1, 2016, through December
22 31, 2017, Staff reviewed items affecting GMO's Renewable Energy Standard Compliance costs.

23 Staff's previous GMO prudence reviews are listed in the table below:

Prudence Review	File Number	Review Period
First	ER-2016-0156	Through December 31, 2015
Second	ER-2018-0146	January 1, 2016 through December 31, 2017

24
¹¹¹ "RESRAM" is Renewable Energy Standard Rate Adjustment Mechanism.

¹¹² KCP&L Greater Missouri Operations, P.S.C. MO. No. 1, 1st Revised Sheet No. 137.2.

1 **2. Description of costs included for recovery under GMO's RESRAM:**

2 Below is a description of major cost categories¹¹³ included for recovery under GMO's ESRAM:

3 Solar Rebates: Costs associated with the payment of solar rebates to customers.

- 4 • Contractors: Administrative costs for contractors employed to administer the solar rebate
- 5 program and third party contractors employed to administer the solar rebate program.
- 6 During the review period, this category includes costs related to non-rebate
- 7 interconnection applications and net metering.^{114,115}
- 8 • Renewable Energy Credits ("RECs"): Costs associated with the retirement of RECs.¹¹⁶
- 9 • Solar RECs: A REC created by generation of electric energy from solar thermal sources,
- 10 photovoltaic cells, and photovoltaic panels.
- 11 • North American Renewables Registry ("NAR"): Administrative costs associated with
- 12 registering RECs and S-RECs.
- 13 • Carrying Costs: Financing charges applicable to RES compliance costs based on the
- 14 Company's short-term debt rate.
- 15 • St. Joseph Landfill: Fuel and Non-Fuel O&M Expenses.

16 **3. Conclusion:**

17 With regards to RESRAM prudence, Staff did not find evidence that GMO's management of
18 RES compliance costs during the review period was imprudent.

19 Staff is concerned with GMO's decision to not pursue the sale of RECs¹¹⁷ that will not be
20 utilized for future Missouri RES compliance. Revenue from the sale of RECs is returned to
21 customers through the FAC;¹¹⁸ therefore, Staff reviews the management of REC sales during
22 FAC prudence reviews and further exploration of the decision will be conducted at that time.

23 Costs related to the tracking of RECs,¹¹⁹ which will ultimately be retired or unused, are
24 included for recovery in GMO's RESRAM. Expiration of GMO RECs occurred in 2018, outside

¹¹³ Response to Staff Data Request 180 in ER-2018-0146.

¹¹⁴ Response to Staff Data Request 0182.3 in ER-2018-0146.

¹¹⁵ Staff does not consider the contractor costs related to processing of non-solar rebate net metering applications as directly related to RES compliance because these costs are incurred due to the Net Metering and Easy Connection Act. For a period of time, customers were required to transfer RECs as condition of receiving a solar rebate.

¹¹⁶ GMO initially records RECs to an inventory account. At the end of the year an entry is made to retire RECs used for RES requirements. The retired RECs are transferred to deferred regulatory asset account 182513. Costs associated with the retirement, such as registration and subscription fees, are also included with the costs of the RECs recorded to account 182513.

¹¹⁷ Response to Staff Data Request 0400 in ER-2018-0146. KCPL has also made the decision not to pursue the sale of RECs per response to Staff Data request 400 in ER-2018-0145.

¹¹⁸ KCP&L Greater Missouri Operations, P.S.C. MO. No. 1, 3rd Revised Sheet No. 124.

¹¹⁹ North American Renewables Registry fees include annual subscription fees and volumetric fees for issuance, transfer, retirement, export, and import.

1 of the current RESRAM prudence review period. GMO's annual estimated REC production from
2 existing non-solar resources (1,422,000 RECs)¹²⁰ is well in excess of the projected average RES
3 requirement (787,605 RECs);¹²¹ resulting in unused RECs and increased annual issuance fees of
4 approximately \$19,000.¹²²

5 **4. Documents Reviewed:**

6 Staff reviewed GMO's General Ledger, various data request responses, RES compliance reports,
7 and Staff's seventh prudence review of costs related GMO's FAC (EO-2017-0232).

8 *Staff Witness: Claire M. Eubanks, P.E.*

9
10 **XII. Appendices**

11 **Appendix 1 – Staff Credentials**

12 **Appendix 2 – Confidential – Detailed Direct Testimony of Jeffrey Smith**

13
14

¹²⁰ Page 3 of Staff's Report on KCP&L Greater Missouri Operations Company's 2018 Annual Renewable Energy Standard Compliance Plan (EO-2018-0291). KCPL's annual REC production is also well in excess of its 2020 RES requirements, page 3 of Staff Report on Kansas City Power & Light Company's 2018 Annual Renewable Energy Standard Compliance Plan (EO-2018-0290).

¹²¹ Average of the projected non-solar requirement 2018-2020 listed on Page 6 of GMO's 2018 RES Compliance Plan, EO-2018-0291.

¹²² Current tracking system fee schedule is \$0.03/REC issued, a decrease from historical issuance fees.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0145
)
)
) and

In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0146
)
)
)

AFFIDAVIT OF ALAN J. BAX

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW ALAN J. BAX and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Report - Cost of Service* and that the same is true and correct according to his best knowledge and belief.

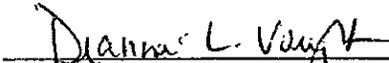
Further the Affiant sayeth not.


ALAN J. BAX

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 15th day of June 2018.

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


Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0145
)
)
) and

In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0146
)
)
)

AFFIDAVIT OF DANIEL I. BECK, P.E.

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW DANIEL I. BECK, P.E., and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Report - Cost of Service* and that the same is true and correct according to his best knowledge and belief.

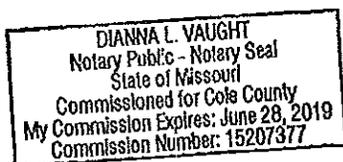
Further the Affiant sayeth not.



DANIEL I. BECK, P.E.

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 15th day of June 2018.





Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0145
)
)
) and

In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0146
)
)
)

AFFIDAVIT OF KORY J. BOUSTEAD

STATE OF MISSOURI)
)
) ss.
COUNTY OF COLE)

COMES NOW KORY J. BOUSTEAD and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Report - Cost of Service* and that the same is true and correct according to her best knowledge and belief.

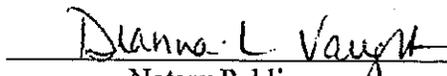
Further the Affiant sayeth not.


KORY J. BOUSTEAD

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 14th day of June 2018.

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


Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service)) Case No. ER-2018-0145
))
))
)) and

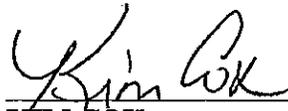
In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service)) Case No. ER-2018-0146
))
))
))

AFFIDAVIT OF KIM COX

STATE OF MISSOURI))
)) ss.
COUNTY OF COLE))

COMES NOW KIM COX and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Report - Cost of Service* and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

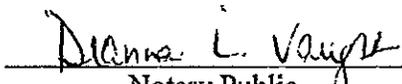


KIM COX

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 12th day of June 2018.

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



Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0145
)
)
) and

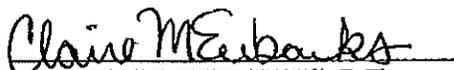
In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0146
)
)
)

AFFIDAVIT OF CLAIRE M. EUBANKS, P.E.

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW CLAIRE M. EUBANKS, P.E., and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Report - Cost of Service* and that the same is true and correct according to her best knowledge and belief.

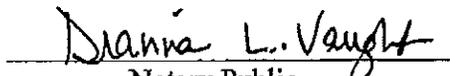
Further the Affiant sayeth not.


CLAIRE M. EUBANKS, P.E.

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 15th day of June 2018.

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


Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0145
)
)
) and

In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0146
)
)
)

AFFIDAVIT OF CARY G. FEATHERSTONE

STATE OF MISSOURI)
)
) ss.
COUNTY OF COLE)

COMES NOW CARY G. FEATHERSTONE and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Report - Cost of Service* and that the same is true and correct according to his best knowledge and belief.

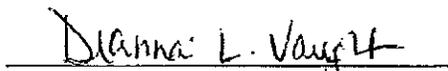
Further the Affiant sayeth not.


CARY G. FEATHERSTONE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 14th day of June 2018.

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


Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0145
)
)
) and

In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0146
)
)
)

AFFIDAVIT OF SCOTT J. GLASGOW

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW SCOTT J. GLASGOW and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Report - Cost of Service* and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.


SCOTT J. GLASGOW

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 15th day of June 2018.

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


Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service)) Case No. ER-2018-0145
))
))
)) and

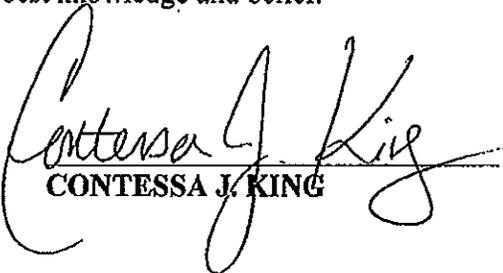
In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service)) Case No. ER-2018-0146
))
))
))

AFFIDAVIT OF CONTESSA J. KING

STATE OF MISSOURI))
)) ss.
COUNTY OF COLE))

COMES NOW CONTESSA J. KING and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Report - Cost of Service* and that the same is true and correct according to her best knowledge and belief.

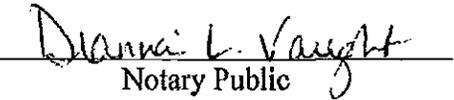
Further the Affiant sayeth not.


CONTESSA J. KING

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 12th day of June 2018.

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


Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0145
)
)
) and

In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0146
)
)
)

AFFIDAVIT OF SARAH L. K. LANGE

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

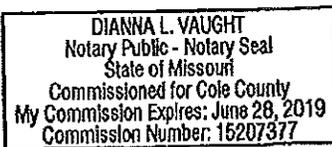
COMES NOW SARAH L. K. LANGE and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Report - Cost of Service* and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Sarah L. K. Lange
SARAH L. K. LANGE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 15th day of June 2018.



Dianna L. Vaught
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0145
)
)
) and

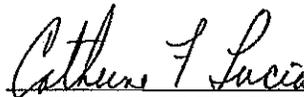
In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0146
)
)
)

AFFIDAVIT OF CATHERINE F. LUCIA

STATE OF MISSOURI)
)
) ss.
COUNTY OF COLE)

COMES NOW CATHERINE F. LUCIA and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Report - Cost of Service* and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

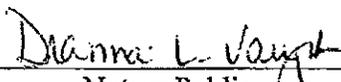


CATHERINE F. LUCIA

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 14th day of June 2018.

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



Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0145
)
)
) and

In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0146
)
)
)

AFFIDAVIT OF J LUEBBERT

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW J LUEBBERT and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Report - Cost of Service* and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

J LUEBBERT 

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 15th day of June 2018.

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

Dianna L. Vaught
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0145
)
) and

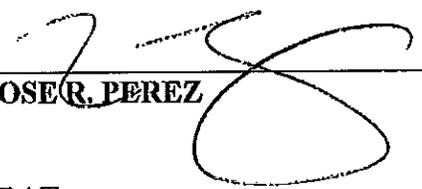
In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0146
)
)

AFFIDAVIT OF JOSE R. PEREZ

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW JOSE R. PEREZ and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Report - Cost of Service* and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

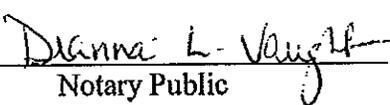


JOSE R. PEREZ

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 14th day of June 2018.

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



Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0145
)
)
) and

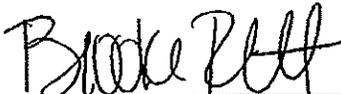
In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service)
) Case No. ER-2018-0146
)
)
)

AFFIDAVIT OF BROOKE RICHTER

STATE OF MISSOURI)
)) ss.
COUNTY OF COLE)

COMES NOW BROOKE RICHTER and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Report - Cost of Service* and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

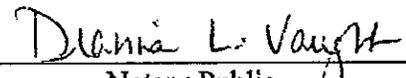


BROOKE RICHTER

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 18th day of June 2018.

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



Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service)) Case No. ER-2018-0145
))
))
)) and

In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service)) Case No. ER-2018-0146
))
))
))

AFFIDAVIT OF MICHAEL JASON TAYLOR

STATE OF MISSOURI)
)) ss.
COUNTY OF COLE)

COMES NOW MICHAEL JASON TAYLOR and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Report - Cost of Service* and that the same is true and correct according to his best knowledge and belief.

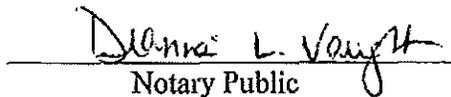
Further the Affiant sayeth not.


MICHAEL JASON TAYLOR

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 14th day of June 2018.

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


Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service)) Case No. ER-2018-0145))
and

In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service)) Case No. ER-2018-0146))

AFFIDAVIT OF MATTHEW R. YOUNG

STATE OF MISSOURI))
)) ss.
COUNTY OF COLE))

COMES NOW MATTHEW R. YOUNG and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Report - Cost of Service* and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

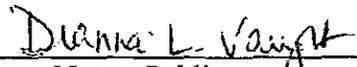


MATTHEW R. YOUNG

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 14th day of June 2018.

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



Notary Public