ATTACHMENT 1

REPORT AND ORDER

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of	)	
Kansas City Power & Light Company's	)	File No. ER-2012-0174
Request for Authority to Implement	)	Tracking No. YE-2012-0404
a General Rate Increase for Electric Service	)	

and

In the Matter of	)	
KCP&L Greater Missouri Operations Company's	)	File No. ER-2012-0175
Request for Authority to Implement a	)	Tracking No. YE-2012-0405
General Rate Increase for Electric Service	)	

REPORT AND ORDER

Issue Date: January 9, 2013

Effective Date: January 9, 2013

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held at its office in Jefferson City on the 9th day of January, 2013.

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service	))))	File No. ER-2012-0174 Tracking No. YE-2012-0404

and

In the Matter of KCP&L Greater Missouri Operations Company's Request for Authority to Implement a General Rate Increase for Electric Service	))))	File No. ER-2012-0175 Tracking No. YE-2012-0405

REPORT AND ORDER

Issue Date: January 9, 2013 Effective Date: January 9, 2013

The Missouri Public Service Commission is rejecting the pending tariff sheets and ordering Kansas City Power & Light Company ("KCPL") and KCP&L Greater Missouri Operations Company ("GMO") (together, "Applicants") to file new tariff sheets in compliance with this order.

The Commission is authorizing return on equity as follows:

Applicant	*%*
KCPL	9.70
GMO	9.70

The Commission estimates that Applicants are authorized to increase the revenue they collect from Missouri customers by approximately the following amounts. [1]

[1] This number is only an estimate of the overall impact of the decisions described in this report and order and does not constitute a ruling.

Area	*Amount*
KCPL	
All	$64 million
GMO	
MPS area	$28 million
L&P area	$21 million

That estimate is based on the data contained in the updated reconciliations filed by the Commission's staff ("Staff") on January 8, 2013.

This report and order also addresses the settlement provisions incorporated into the Commission's orders. As to those matters as to which some parties agree and no parties oppose, but that are outside the Commission's subject matter jurisdiction to order, this report and order constitutes a consent order.

The Commission does not specifically discuss matters that are not dispositive. The Commission makes each ruling on consideration of each party's allegations and arguments, and has considered the substantial and competent evidence on the whole record. Where the evidence conflicts, the Commission must determine which is most credible and may do so implicitly.[2] The Commission's findings reflect its determinations of credibility and no law requires the Commission to make any statement as to what portions of the record the Commission accepted or rejected.[3]

On those grounds, the Commission independently makes its findings of fact, reports its conclusions of law,[4] and orders relief as follows.

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[2] *Stone v. Missouri Dept. of Health & Senior Services*, 350 S.W.3d 14, 26 (Mo. banc 2011).

[3] Stith v. Lakin, 129 S.W.3d 912, 919 (Mo. App., S.D. 2004).

[4] Section 386.420.2, RSMo 2000.

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I. Jurisdiction

The statutes give the Commission jurisdiction to determine Applicants' terms, and amounts charged, for electrical service.

Findings of Fact

1. Each applicant is a subsidiary of Great Plains Energy, Incorporated ("GPE"). GPE is a publicly traded corporation. GPE wholly owns both Applicants, neither of which is a publicly traded corporation. KCPL is a Missouri corporation. GMO is a Delaware corporation authorized to do business in Missouri. GMO is staffed with KCPL and GPE employees.

2. Applicants sell electricity at wholesale and retail. Applicant's service territories are in the central and northern parts of the western side of Missouri. GMO's service territory consists of two districts, one called MPS, and the other called L&P.

3. Applicants' customers consist of approximately the following.

KCPL	*Classification*	*GMO*
451,000	Residential	274,000
58,000	Commercial	38,000
2,100	Industrial, municipal, and other electric utilities	500
511,000	*Total*	312,000

Applicants each have their own generating capacity, but also buy power to serve their respective customers, GMO more than KCPL.

Discussion, Conclusions of Law, and Ruling

The Commission's jurisdiction generally includes every public utility corporation,[5] which includes electrical companies.[6] Electrical companies include the Applicants because

[5] Section 386.250(5), RSMo 2000.

[6] Section 386.020(15) and (43), RSMo Supp. 2012; and Sections 393.140(1).

Applicants provide electrical service to Missouri customers.[7] Regulating the Applicants' service and rates is specifically within the Commission's jurisdiction through the use of tariffs.[8] The filing of tariffs began this action. Therefore, the Commission concludes that it has jurisdiction to rule on the tariffs and determine Applicants' terms of and charges for service.

II. Procedural Background

On February 27, 2012, KCPL and GMO filed the pending tariffs seeking revenue increases approximately as follows:

Area	*Amount*	*Percentage*	*Per Day for a Typical Residential Customer*
KCPL			
All	$105.7 million	15.10%	$0.48
GMO			
MPS area	$58.3 million	10.90%	$0.27
L&P area	$25.2 million	14.60%	$0.36
GMO total	$83.5 million	11.76%	

The tariffs bear an effective date of March 28, 2012. By order dated February 28, 2012, the Commission suspended the tariff until January 26, 2013, the maximum time allowed by statute.[9]

The suspension of the tariffs initiated a contested case.[10] In the same order, the Commission set a deadline for filing applications to intervene. Movants for intervention cited varying interests in this action, including status as a supplier, industrial customer, advocacy group, seller of a competing commodity. The Commission granted applications to intervene as set forth in Appendix A, paragraph iii. Some of the intervenors are unincorporated

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[7] Section 386.020(20), RSMo Supp. 2012.

[8] Sections 393.140(11), 393.150, and 393.290, RSMo 2000.

[9] Section 393.150, RSMo 2000.

[10] Section 393.150.1, RSMo 2000; and Section 536.010(4), RSMO Supp. 2012.

associations of legal entities. On October 16, 2012, the Natural Resources Defense Council withdrew.

Intervenor Missouri Electrical Users Association-KC ("MEUA-KC"), an association of industrial customers, charges that the Commission's notice to the public was inadequate because it did not specifically refer to one of the proposals raised by another intervenor. In the order dated February 28, 2012, the Commission directed that notice of this action be provided to the county commission of each county within applicants' service area, and made notice available to the members of the General Assembly representing applicants' service area, and to the news media serving applicants' service area.[11] Further, the Commission ordered individual notice of local public hearings in this action to every customer of Applicants.[12] MEUA-KC cites no authority showing that the Commission's notice was insufficient.

By order dated April 19, 2012, the Commission established the periods relevant to the tariffs:

a. Test year to determine how much the Applicants need to provide safe and adequate service at just and reasonable rates: 12 months ending September 31, 2011;
b. Update for known and measurable changes to amounts drawn from the test year: through March 31, 2012; and
c. True-up for other significant items relevant to rates: through August 31, 2012.

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[11] *Order Suspending Tariff, Setting Pre-Hearing Conference, and Directing Filings; and Notice of Contested Case and Hearings*, issued Feb. 28, 2012, page 3.

[12] *Order Setting Local Public Hearings and Prescribing Notices*, issued June 5, 2012.

The Commission also consolidated File No. ER-2012-0174 with File No. EU-2012-0130,[13] in which KCPL sought an order authorizing deferred recording of certain amounts ("accounting authority order").

The Commission convened local public hearings in Applicants' service territories as follows.[14]

September 6	Nevada
	Sedalia
September 12	St. Joseph
	Riverside
September 13	Kansas City
	Lee's Summit

Staff filed a list of issues on October 11, 2012, and the parties filed position statements, the last on October 15, 2012.[15]

On December 21, 2012, GMO filed an application, with a request for expedited treatment, for a waiver or variance from the Commission's regulation on the costs of complying with renewable energy standards.[16] GMO also filed the same document in File No. ER-2013-0341. In the interest of administrative efficiency, and to avoid duplication of effort and potential inconsistencies, the Commission has addressed the matter under File No. ER-2013-0341.

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[13] *Order Granting Motion to Consolidate*, issued April 3, 2012.

[14] All cities in are Missouri and all dates are in 2012.

[15] An issues list and position statements function like pleadings. The issues list is a document that Staff assembles in coordination with the other parties, setting forth each matter on which any party seeks the Commission's ruling. A position statement sets forth the ruling that a party wants on an issue. Most parties take a position on less than all issues. For example, the interests of most intervenors are limited to their commercial or public policy purposes. An issues list and position statements appear late in a general rate action because not until then do the parties know which, of the countless items in the tariffs for a utility the size of Applicants, are at issue.

[16] *Application for Waiver or Variance of 4 CSR 240-20.100(6)(A) for St. Joseph Landfill Gas Facility and Motion for Expedited Treatment*, filed on December 21, 2012.

On December 24, 2012, Staff and KCPL filed notice of a new issue: [17] which demand-side programs a customer may opt out of under the Missouri Energy Efficiency Investment Act ("MEEIA").[18] Staff recommends that the Commission not address the new issue because it is too late to develop evidence and arguments. Staff is correct and the Commission will not address that matter in these actions.

On December 17, 2012, Midwest Energy Consumers Group ("MECG"), an association of large-scale purchasers, filed a motion to update its reply brief with additional authorities.[19] Applicants filed a response to that motion with additional authorities of their own on December 20, 2012.[20] Applicants filed further additional authorities on December 26, 2012.[21] The Commission will grant the motions and consider the additional authorities.

Three motions to strike remain pending. The Office of the Public Counsel ("OPC") raised the latest motion to strike in its post hearing brief. The Commission denies that motion as an untimely objection to testimony. MECG filed the first motion to strike[22] and the second motion to strike,[23] Staff joining in the latter. The first and second motions to strike addressed KCPL's proposed tariffs and supporting testimony for an interim energy charge ("IEC"). The Commission will deny the first and second motions to strike as moot because the IEC claim is among the issues that the parties have settled.

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[17] *Joint Notice of Dispute Between Staff and [KCPL] Regarding Customer Opt Out of Demand-Side Management Programs and Associated Programs' Costs*, filed by Staff and KCPL on December 24, 2012.

[18] Section 393.1075, RSMo Supp. 2012.

[19] *Motion to Update Reply Brief*, filed on December 17, 2012.

[20] *Response to MECG Motion to Update Reply Brief and Motion to Provide Supplemental Authorities*, filed on December 20, 2012.

[21] *Additional Orders in Support of Motion to Provide Supplemental Authorities*, filed on December 26, 2012.

[22] *Motion to Strike Pre-Filed Testimony and Reject Tariffs and Motion for Expedited Treatment,* filed on May 25.

[23] On July 6, 2012.

III. Settlements

A contested case allows for waiver of procedural formalities[24] and a decision without a hearing,[25] including by settlement.[26] The parties filed stipulations and agreements as follows.

ER-2012-0174 and ER-2012-0175			
Partial Nonunanimous Stipulation and Agreement Respecting Kansas City Water Services Department and Airport Issues			October 19[27]
Non-Unanimous Stipulation and Agreement as to Certain Issues			October 19
Non-Unanimous Stipulation and Agreement Regarding Low-Income Weatherization and Withdrawal of Objection and Request for Hearing			October 26
Non-Unanimous Stipulation and Agreement Regarding Praxair, Inc., Ag Processing Inc a Cooperative and the Midwest Energy Users' Association's Objection and Withdrawal of Objection and Request for Hearing			October 29
ER-2012-0174		**ER-2012-0175**	
Non-Unanimous Stipulation and Agreement Regarding Class Cost of Service / Rate Design	October 29	*Non-Unanimous Stipulation and Agreement Regarding Class Cost of Service / Rate Design*	October 29
Second Non-Unanimous Stipulation and Agreement as to Certain Issues	November 8	*Second Non-Unanimous Stipulation and Agreement as to Certain Issues*	November 8

Also, in File No. ER-2012-0175, Staff filed its Exhibit No. 392,[28] which is the stipulation and agreement in File No. EO-2012-0009. That action addressed issues under the Missouri Energy Efficiency Investment Act ("MEEIA") and the settlement resolves all MEEIA issues. Of those stipulations and agreements, only the *Non-Unanimous Stipulation and Agreement Regarding Class Cost of Service / Rate Design* in File No. ER-2012-0174, remains

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[24] Sections 536.060(3) and 536.063(3), RSMo 2000.

[25] Sections 536.060, RSMo 2000.

[26] *Id.* and 4 CSR 240-2.115.

[27] All dates in this chart are in 2012.

[28] *Nonunanimous Stipulation and Agreement Resolving [GMO]'s MEEIA Filing*, filed on October 29, 2012.

opposed and so constitutes the signatories' position statement on an issue to be tried.[29] All other stipulations and agreements ("settlements") are unopposed, so the Commission will treat the settlements as unanimous. [30]

The settlements address the accounting authority order application that was the subject of File No. EU-2012-0130, consolidated into ER-2012-0174, and other claims and defenses in File Nos. ER-2012-0174 and ER-2012-0175. On the matters disposed of by settlement, no party seeks an evidentiary hearing, so no hearing is required,[31] and the Commission need not separately state its findings of fact.[32] Nevertheless, applicants have the burden of proving that increased rates are just and reasonable.[33] Except as otherwise provided by statute, the preponderance of the evidence,[34]and reasonable inferences from the evidence, [35] guide each determination.

The Commission's review of the record shows that substantial and competent evidence weighs in favor of the settlements' provisions as follows.

A. Standard for Service

The standard for service is that Applicants must provide "service instrumentalities and facilities as shall be safe and adequate [.[36]]" Upon review of the record and the settlement, the Commission independently finds and concludes that the settlement's

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[29] 4 CSR 240-2.115(2)(D).

[30] 4 CSR 240-2.115(2)(C).

[31] *State ex rel. Rex Deffenderfer Ent., Inc. v. Public Serv. Comm'n*, 776 S.W.2d 494, 496 (Mo. App., W.D. 1989).

[32] Section 536.090, RSMo 2000.

[33] Section 393.150.2, RSMo 2000.

[34] *State Board of Nursing v. Berry*, 32 S.W.3d 638, 641 (Mo. App., W.D. 2000).

[35] *Farnham v. Boone*, 431 S.W.2d 154 (Mo. 1968).

[36] Section 393.130.1, RSMO Supp. 2012.

proposed terms support safe and adequate service. Without further discussion, the Commission incorporates such terms, as if fully set forth, into this report and order.

B. Standard for Rates

The standard for rates is "just and reasonable,"[37] a standard founded on constitutional provisions, as the United States Supreme Court has explained. [38] But the Commission must also consider the customers. [39] Balancing the interests of investor and consumer is not reducible to a single formula, [40] and making pragmatic adjustments is part of the Commission's duty. [41] Thus, the law requires a just and reasonable end, but does not specify a means. [42] The Commission is charged with approving rate schedules that are as "just and reasonable" to consumers as they are to the utility.[43]

Determining whether an increase is necessary requires comparing the companies' current net income to the companies' revenue requirement. Revenue requirement is the amount of money necessary for providing safe and effective service at a profit. Those needs are tangible and intangible. [44] The Commission determines the revenue requirement from a conventional analysis of the resources devoted to service.

To provide service, a utility devotes its resources, which accounting conventions classify as either investment or expense as follows.

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[37] *Id.* and Section 393.150.2, RSMo 2000.

[38] Bluefield Water Works & Improvement Co. v. Public Serv. Comm'n of the State of West Virginia, 262 U.S. 679, 690 (1923).

[39] Federal Power Comm'n v. Hope Natural Gas Co., 320 U.S. 591, 603 (1944).

[40] *Id.* at 586 (1942).

[41] Bluefield, 262 U.S at 692; State ex rel. Associated Natural Gas Co. v. Public. Serv. Comm'n, 706 S.W.2d 870, 873 (Mo. App., W.D. 1985) (citing Hope Natural Gas Co., 320 U.S. at 602-03).

[42] *Id.*

[43] Valley Sewage Co. v. Public Service Commission, 515 S.W.2d 845, 851 (Mo. App., K.C. D. 1974).

[44] Hope Natural Gas Co., 320 U.S. at 603 (1944).

- Investment is the capital basis devoted to public utility service ("rate base") on which the utility seeks profit ("return" on investment).
    - Return is therefore a percentage ("rate of return") of rate base.
    - Rate base equals capital assets ("gross plant"), minus historic deterioration of such assets ("accumulated depreciation"), plus other items.
- Expenses include operating costs, replacement of capital items as they depreciate ("current depreciation"), and taxes on the return.

Those components relate to each other in the following formula:

- Revenue Requirement = Expenses + (Return x Rate Base)
- Rate Base = Gross Plant – Accumulated Depreciation + Other Items
- Expenses = Operating Costs + Current Depreciation + Taxes

The rate of return depends on the cost of each component in the utility's capital structure.

But determining the revenue requirement is not the entire analysis. The utility collects its revenue from its customers, who are not all the same, and so need not—and sometimes should not—receive the same treatment. The treatment afforded among the various classes of customers is rate design. Rate design should reflect the costs attributable to serving each class of customer respectively.

Accordingly, just and reasonable rates may account for such differences among customers.

C. Conclusion as to Matters Settled

Under those standards of law and policy, the Commission has compared the evidence on the whole record with the settlements. The Commission independently finds

and concludes that the terms proposed in the settlement support safe and adequate service at just and reasonable rates. Therefore, the Commission will incorporate the settlements' provisions into this report and order, either as the Commission's rulings or, for those matters to which the parties agreed but the Commission has no authority to order, as the Commission's consent order.[45]

IV. Matters not Addressed in Settlements

The *Non-Unanimous Stipulation and Agreement Regarding Class Cost of Service / Rate Design* in File No. ER-2012-0174 remains subject to opposition from OPC, AARP, and Consumers Council of Missouri, Inc. and so constitutes the position statement of the signatories.[46]

The Commission consolidated the actions in File Nos. ER-2012-0174 and ER-2012-0175 for hearing on the remaining disputes regarding the test year, updates, and related matters.[47] The Commission set the evidentiary hearing for October 17, 19, 22, 23, 24, 25, 26, 29, and 30, 2012. The parties stipulated to the admission of certain exhibits without objection and all such exhibits are admitted into the record. The parties filed initial briefs and reply briefs as set forth in Appendix B.

Bearing in mind the standards of law and policy set forth above, the Commission makes conclusions of law on the matters not disposed of in the settlements, with separately stated findings of fact on those remaining in dispute, as follows.

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[45] Section 536.060, RSMo 2000.

[46] 4 CSR 240-2.115(2)(D).

[47] Knowing that the GPE subsidiaries would be the subject of overlapping evidence, the Commission made one record on both actions. That is why all exhibits appear under each file number in the Commission's electronic filing and information service (also called "EFIS"). Staff states that the actions "were consolidated for hearing but not for evidentiary purposes." *Staff's Reply Brief*, page 24. Because the hearing was an evidentiary hearing, Staff's statement is not well-taken.

A. KCPL and GMO

The following matters are common to both KCPL and GMO.

i. Policy Matters

AARP and Consumers Council of Missouri, Inc. ("CCoMo")—entities that advocate for residential customers—Staff, and OPC ask the Commission to put their dispute in perspective as follows.

Findings of Fact

1. Missouri's economy suffered more and is recovering more slowly than the rest of the nation's economy, expressed as gross domestic product, with 100 as the start of the downturn, as follows.

GDP	*Nation*	*State*
Lowest point	95.3	91.9
June 2012	101.2	94.4

Adjusted for inflation ("real GDP"), in 2011, the nation grew by 1.5% and Missouri grew by 0.04%

2. In 2010, the unemployment rate in the KCPL service area reached 9.8%. In 2011, all the counties that GMO serves had higher unemployment rates than in pre-recession 2007.

3. Between 2007 and 2011, the Consumer Price Index ("CPI") increased 11.58%. During that same time period, Applicants' customers have experienced the following increases in electric rates and weekly wages (expressed as percentages).

	Average Weekly Wages	Electric Rates
KCPL		
	11.45	43.80
GMO		
MPS	11.80	32.13
L&P	14.72	46.14

Discussion

The parties offering these matters do so as a factor affecting other matters in these actions, but seek no conclusions of law or ruling on them, so the Commission will make none.

ii. Return on Equity

The Commission is setting Applicants' return on common equity, also called return on equity, ("RoE") at 9.7%. Because RoE is so important in determining Applicants' rates, the Commission sets forth it determination on RoE first. That primacy in this report and order does not reflect an absence of other considerations, like capital structure, that influence RoE. Many are the issues affecting an appropriate RoE:

> Determining a rate of return on equity, however, is imprecise and involves balancing a utility's need to compensate investors against its need to keep prices low for consumers. [[48]]

The Commission's determination stands on evidence for which the foundation is unchallenged, and objections therefore waived, including the qualifications of any witness to offer an opinion as an expert.[49] As to each expert's testimony, the

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[48] *State ex rel. Pub. Counsel v. Pub. Serv. Comm'n*, 274 S.W.3d 569, 573-74 (Mo. App., W.D. 2009) (citations omitted).

[49] *Proffer v. Fed. Mogul Corp.*, 341 S.W.3d 184, 187 (Mo. App., S.D. 2011).

Commission may believe all, part, or none.[50] The most convincing evidence and argument is reflected in the Commission's findings of fact, as follows.

Findings of Fact

1. Return on equity ("RoE") influences the amount that a stock issuer pays to an investor, so it is a major factor in how much an investor is willing to pay for the stock. Applicants do not issue their own equity and debt. GPE issues debt and equity in Applicants' names.

2. To simulate an RoE for Applicants requires economic modeling. An accurate model requires accurate data, which means recent measures of comparable companies' earnings potentials and risks.

3. The three most commonly used economic models for simulating RoE are Risk Premium, Capital Asset Pricing Model ("CAPM") and Discounted Cash Flow ("DCF").

4. Risk Premium considers that debt is less risky than equity, so stock issuers must offer a premium to attract investors over bonds. Generally, the risk premium is the difference between cost of debt and return on equity. But return on equity is less subject to market forces for a regulated utility as it is for other businesses.

5. CAPM focuses on the degree of risk that distinguishes one investment from another. CAPM multiplies degree of risk (from standard references) times the risk premium (calculated as the difference between stock and a risk-free investment like a United States Treasury bond) and adds the risk-free rate to determine RoE.

6. DCF models posit that a stock's price equals the cumulative present value of the dividends per share that the stock will pay out for the indefinite future, discounted for a

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[50] *State ex rel. Office of Pub. Counsel v. Pub. Serv. Comm'n*, 367 S.W.3d 91, 103 (Mo. App., S.D. 2012).

present value. The discount rate is the investors' cost of equity for that stock, which is the competitive market return that investors find acceptable to hold or purchase that stock. It can be calculated as the stock's current dividend yield (as directly and precisely observed) plus the long term dividend growth rate (which must be estimated). Normally, this growth rate is assumed for simplicity to be constant, but in some applications it is assumed to change over time (e.g., the two-stage DCF).

7. The DCF formula focuses on current stock prices and dividends, consequent current dividend yields, and predicted growth rates as follows:

$$RoE = \frac{\text{current dividend}}{\text{stock price}} \times \frac{(1+\text{long-term dividend growth rate})}{2} + \text{long term dividend growth rate}$$

For those factors, current conditions are as follows.

Factor	*Conditions*
current stock dividends and prices	prices higher than dividends
predicted growth rates	Low
consequent current dividend yields	Lower

8. The best DCF analysis includes long-run investor expectations calculated by "sustainable" or earnings retention growth rates. Alternatives include published analyst earnings projections and historical trends. But projections may be overstated and are not necessarily reliable; and the most recent historical trend data is less useful than in the past due to recent economic disruptions.

9. From 2001 through 2012, capital costs have generally declined. Early in that period, utility bond yields averaged about 8% and 10-year Treasury yields about 5%. By 2011, those bond and Treasury yields had declined to 5.1% and 2.8%, respectively. In 2012, yields declined even further, to near or below the lowest levels in decades.

10. The reasons are several. The U.S. Treasury and the Federal Reserve Board bought U.S. government debt, which deflates interest rates. Other factors pushing interest rates down include low inflation rates and slow economic growth. None of those phenomena will end any time soon. That trend manifests in low inflation rates, and low ten-year Treasury yields, 3-month Treasury bill yields, and Moody's Single A yields on long-term utility bonds.

11. These disruptions also make Risk Premium and CAPM useful only as a check on the results from DCF analysis. The results from DCF analysis decrease when investor expectations decrease, which happens when interest rates decrease. Therefore, as a result of current economic conditions, RoE awards have trended lower, as shown by the national averages of other state commissions' awards:

Period	*Average*
2011	10.22
2012 first quarter	10.84
2012 second quarter	9.92
2012 third quarter	9.78
2012 first nine months	9.97

12. For future economic growth under DCF analysis, the best measure is gross domestic product ("GDP") plus inflation ("nominal GDP"). The best projections of nominal GDPs are:

Year	*Percent*
2012	3.9%
2013	4.1%
2014-15	5.1%
2018-23	4.7%

13. Currently, and for the foreseeable future, utility equity investors are accepting yields considerably lower than they have in the past. Nevertheless, returns on electric utility stocks are relatively stable and Applicant's business risk has not

increased since the Commission set Applicants' RoE at 10.0% on April 27, 2011. GPE's relatively strong capital structure supports a lower RoE for Applicants.

14. An RoE of 9.7 is enough for both KCPL and GMO to continue operating and to attract investment.

Conclusions of Law

Applicants have not carried their burden of proving that their RoE should be in the range they propose and, of all parties' evidence and argument, the single most persuasive is that of the federal executive agencies ("FEAs"), entities within the United States' government that are customers of Applicants.

The parties sponsored witnesses testifying to RoE ranges and recommendations as follows.

Sponsor	*Range*	*Recommendation*
Staff	8.00 to 9.00	9.00
OPC	9.10 to 9.50	9.40
FEAs	8.80 to 9.80	9.50
Applicants	9.80 to 10.30	10.30

Of the ranges supported by expert testimony, the authorized RoE is:

- within the FEAs',
- between OPC's and Applicants', and
- outside Staff's,

as follows.

	FEAs 8.80 to 9.80		
Staff 8.00 to 9.00	OPC 9.10 to 9.50	**Authorized 9.70**	Applicants 9.80 to 10.30

The Commission will discuss the parties' cases in the following order:

- The FEAs first because their case is the most persuasive,

- Applicants and OPC next because their experts' analyses bracket the authorized RoE, and
- Staff last because its expert's range is the outlier.

FEAs. The FEAs suggest a range of 8.8% to 9.8%, which includes the authorized RoE of 9.7%. The Commission finds their analysis the most persuasive for several reasons. The FEAs' expert used the Applicants' first proxy group[51] and so begins his analysis on the same footing. For growth projections, the FEAs' expert employed multiple sources of published projections, but did not rely on these alone, resulting in a more thoroughly researched result. The FEAs' expert also generously considered potential future earnings growth contribution from issuance of new common stock at prices above book value.

Applicants. Applicants suggest a range of 9.80% to 10.30%. In support of that range, Applicants offer several standard analyses, and one non-standard analysis, but all the results are exaggerated because of the values that Applicants use in the formulas.

Applicants' proxy group changed between the filing of their direct testimony and rebuttal testimony. The second group omitted three of the companies with the lowest RoE, while retaining the three companies with the highest RoE, and adding companies with higher-than-average RoEs. Inevitably, that raises the resulting RoE.

Also troubling is the DCF Terminal Value model that Applicants offer. DCF analyses look at long-term events but DCF Terminal Value looks at just four years. It is a new approach to DCF and is not in general use. Also, the proffered analysis is

flawed. The DCF Terminal Value analysis stands on the premise that current low interest rates make debt less attractive to investors, who therefore invest in stocks at prices higher than usual. The analysis assumes that investors will pay a price-to-earnings ("P:E") ratio of 16:1 through 2016. But the analysis also claims that interest rates will soon rise, which will send investors back to debt instruments and away from stocks, undercutting the 16:1 P:E ratio on which the analysis relies.

Further, all Applicants' DCF analysis share certain flaws. They use a 5.7% GDP projected from 1971-1980 data, which is not helpful compared to the 30 most recent lower growth years, and does not reflect investor expectations. Nor does that rate account for events likely to shape GDP in the future. Given the economic conditions currently prevailing, it is not credible that investors today use a 5.7% GDP to assess their expectations for low-risk investments.

Moreover, Applicants' attempt to adjust for the economic intervention of the U.S. Treasury and the Federal Reserve Board that is lowering interest rates undercuts the DCF model itself. To an investor, a decrease in return figures into the price investors will pay for an investment only because it is a decrease, and the reason for the decrease is irrelevant whatever the cause. The markets are not wrong— RoE cannot increase when risk has not increased and capital costs have decreased.

Thus, Applicants' DCF analyses (other than Terminal Value) are sound but the variables employed exaggerate the results. Therefore, the Commission rejects Applicant's suggested range of RoEs. Nevertheless, the Commission notes that

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[51] Applicants' RoE witness changed his proxy group over the course of litigation, skewing his results, as

Applicants' second proxy group has a median RoE of 9.8 percent, which is just above the authorized RoE of 9.7%.

OPC. Just below the authorized RoE is the analysis of OPC's witness. OPC's witness offers a range of 9.1% to 9.5%, based on investor expectations of both short-term growth and long-term sustainable growth, therefore employing multi-stage DCF analysis, which thus constitutes a thorough consideration. The Commission finds the analyses slightly too cautious, resulting in results too modest, so the Commission rejects it. Nevertheless, the Commission notes that, accounting more fully for the inverse relationship between risk premiums and interest rates OPC's expert analysis results in a range that includes the authorized RoE of 9.7%.

Staff. Staff suggested one range at hearing and another in briefing, but neither is entirely persuasive for the following reasons.

At hearing, Staff offered a range of 8.00% to 9.00%. In support of that range, Staff offers data from the period between 1968 and 1999. After that period, Staff alleges, industry disruptions make data unreliable, and an earlier period analogous to recent years more useful. Those arguments do not persuade the Commission that data from a remote period starting 44 years ago is more reliable for determining recent RoE than more recent data. Therefore, the Commission rejects the 8.00% to 9.00% range.

In briefing, Staff argues for an expanded range of 8.00% to 9.78%. The new upper end comes from a variety of sources including the downward trend in national averages of other state commissions' RoE awards as the Commission has found:

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described more fully below.

Period	*Average*
2011	10.22
2012 first quarter	10.84
2012 second quarter	9.92
2012 third quarter	9.78

Those numbers are relevant, not because any other RoE ruling on different facts and different law helps calculate Applicants' RoE, but because Applicants must be able to attract capital. An RoE set too low will, as discussed above, unlawfully handicap Applicants when they compete for capital in the national marketplace.

Staff cites the 2012 third quarter amount—9.78%—for the high end of its expanded range. But the lower end of the expanded range comes from the discredited data discussed in the preceding paragraph. For that reason, the Commission does not entirely embrace the expanded range for RoE.

Nevertheless, the Commission notes that the authorized RoE is well within the upper end of Staff's expanded range.

Zone of Reasonableness. The national marketplace is also among the factors that help the Commission establish a zone of reasonableness for Applicants' RoE.[52] Based on the downward trend in national averages of other state commissions' RoE awards, the continuing downward pressure on interest rates nationally, the slower-than average recovery in Missouri, and the copious testimony of the many experts, the Commission has found a reasonable opportunity for Applicants to earn a reasonable return on their investment exists at 9.7%.

The Commission's Ruling. In proposing an RoE for Applicants, all experts agree that setting an RoE is not merely a matter of arithmetic. RoE is a multi-

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[52] *State ex rel. Pub. Counsel v. Pub. Serv. Comm'n*, 274 S.W.3d 569, 574 (Mo. App., W.D. 2009), citing

disciplinary exercise culminating in the application of the Commission's policy expertise. The factors influencing an RoE are legion, balancing or outweighing one another in permutations too numerous for any expert to fully catalogue, and growing exponentially as experts compare each others' models.

Among those myriad factors, the testimony indicates that a lower RoE may be appropriate for a utility that has an FAC like GMO than for a utility that does not have an FAC like KCPL, all things being equal. But no witness quantifies a difference between the Applicants, which implies that all things are not equal, and that other factors outweigh the distinction of the FAC, and support the same RoE for KCPL as for GMO: 9.7%.

An RoE of 9.7% lies within the zone of reasonableness as determined by the courts of Missouri and the United States. It will also allow Applicants to compete in the market for capital that they need to maintain their financial health, without raising rates unnecessarily. Therefore, the Commission concludes that an RoE of 9.7% for each of the Applicants will best support safe and adequate service at just and reasonable rates, and the Commission will order that RoE.

ii. Capital Structure

The Commission is ordering a capital structure reflecting GPE's actual capital structure for each Applicant.

Findings of Fact

1. As of August 31, 2012, GPE's capital structure is 46.84 % debt to 53.16% equity (52.56% common and 0.60% preferred).

In re Permian Basin Area Rate Cases, 390 U.S. 747 (1968).

2. Ordinarily, capital structure excludes short-term debt and includes long-term debt. GPE is re-financing long-term debt with short-term debt. The short-term debt excluded from GPE's capital structure is thus a temporary substitute for long-term debt. This makes the capital structure more equity-rich, which is more expensive. But GPE is consolidating the short-term debt for re-financing back into long-term debt which is likely to attract more buyers and cost less in interest.

3. GPE's capital structure also excludes other comprehensive income ("OCI"), which is ordinarily included in equity.

Discussion, Conclusions of Law, and Ruling

Applicants have carried their burden of proving that the actual capital structure of GPE as described by Applicants is more likely to support just and reasonable rates than the proffered alternatives. But the FEAs have shown that the capital structure should include Other Comprehensive Income ("OCI") in equity.

OPC and MECG argue for a hypothetical capital structure of 50% debt to 50% equity. In support, they cite the exclusion of short-term debt because it is a temporary stand-in for long-term debt, which is ordinarily included in capital structure. The argument for including the short-term debt is not without merit. But its proponents have not shown how including short term debt leads to the structure of 50% debt to 50% equity. Nor have they shown how much of the shift should come from preferred equity. Their proposal lacks evidentiary support and adopting it would be merely arbitrary.

The FEAs challenge Applicants' exclusion of OCI. Applicants argue that, while OCI is ordinarily part of equity, the relevant periods' OCI is more accurately allocated to debt because it comes from settled interest rate derivatives' unamortized net-of-tax income or

loss. Applicants cite no provision of USoA supporting that adjustment, so they have not carried their burden of proof on that issue. Therefore, the Commission will order that OCI shall be part of equity.

The Commission concludes that safe and adequate service at just and reasonable rates has better support in a capital structure for each Applicant at the actual capital structure of GPE as Applicants describe it—46.84 % debt to 53.16% equity (52.56% common and 0.60% preferred)—but including OCI, so the Commission will order that capital structure.

iii. Cost of Debt

The Commission is ordering that GPE's consolidated cost of debt be assigned to Applicants at 6.425% and is not ordering the reductions in interest suggested by Staff.

Findings of Fact

1. Aquila committed to assess debt costs to Missouri ratepayers at a rate consistent with a "BBB" credit rating. Aquila lost its investment grade credit rating and had to take on higher-cost debt.

2. When GPE acquired Aquila, now known as GMO, it boosted GMO's credit rating by guaranteeing its debt. As of July 2, 2012, all the Aquila high-cost debt is gone from GMO's books. GMO now has an investment grade credit rating. But GMO does not have ratings as high as KCPL, so GMO still pays more interest than Aquila promised to pass on to ratepayers, and more interest than KCPL has to.

3. GPE's consolidated cost of debt is 6.425%.

Discussion, Conclusions of Law, and Ruling

Applicants and Staff agree that the Commission should assign GPE's consolidated cost of debt to each Applicant, and GPE's practice of issuing securities in Applicants' names supports that practice.

Staff argues that the Commission should order each Applicant's consolidated cost of debt to be 6.187% by reducing GPE's notes as follows:

GPE Note	Recommended Reduction in Basis Points	Basis Point Estimate
$250 million, 3-year, 2.75%	60 to 75	65
$350 million, 10-year, 4.85%	60 to 85	65
$287.5 million, 10-year, 5.292%	110 to 120	115

In support, Staff argues that its adjustments align GMO's cost of debt with KCPL. KCPL's rating, Staff argues, would also be GMO's but for the misdeeds of Aquila. Hence, this is one of several Aquila legacy matters.

Staff's arguments are unpersuasive. Their basis—what GMO would look like if the past were different—is speculation. By contrast, no party disputes that GMO's ratings have improved under current management. And using GPE's consolidated cost of debt is more consistent with the capital structure that the Commission has ordered, which is based on GPE's actual capital structure.

Though succeeding to assets generally means succeeding to liabilities, for Missouri citizens it also means the rescue of a distressed utility and preservation of service. Those considerations suggest that the Commission's treatment of GMO should not stray too far into punitive action. The Commission concludes that a cost of debt at 6.425% will better support safe and adequate service at just and reasonable rates.

Therefore, the Commission concludes that a cost of debt for each Applicant at 6.425%, and without Staff's proposed adjustments, will better support safe and adequate service at just and reasonable rates, so the Commission will order that cost of debt for each of the Applicants.

iv. Transmission Tracker

Applicants have not carried their burden of proving that the Commission should order deferred recording ("a tracker") for transmission costs. The issue is moot because Applicants can already determine how to record that cost by themselves, as they do with almost every cost every day, under the *Uniform System of Accounts* ("USoA").

Findings of Fact

1. Applicants pay to send and receive power ("transmission") through the territory of regional transmission organizations including the Southwest Power Pool ("SPP"). The costs for transmission include:

Name	*USoA Account*
Transmission Costs	565
Schedule 1-A Administration Charge	561 and 575
Schedule 12 Assessment Fees	928

2. SPP's regional transmission upgrade projects and increasing SPP administrative fees are increasing Applicants' transmission costs as follows.

Calendar Year	Cost ($ million)	
	KCP&L	GMO
2012	$18.4	$6.8
2014	$25	$9.2
2019	$45.2	$16.7

Those increases represent an approximately 14% increase per year. Each of those amounts represents more than five percent of the respective applicant's income, computed before those costs.

4. Transmission costs will continue to increase at an accelerating pace.

Discussion, Conclusions of Law, and Ruling

The Applicants ask the Commission to order deferred recording[53] (a "tracker") for transmission costs. But that matter is moot because the Commission can grant no practical relief.[54] No practical relief is possible because Applicants can already "track" transmission cost increases under the plain language of the only authority that any party cites for a tracker.

That authority is the *Uniform System of Accounts* ("USoA"), which is the set of federal regulations that governs utilities' recording of gains and losses ("items"). 18 CFR 201. The Commission's regulation 4 CSR 240-40.040(1) incorporates USoA's *General Instructions, Definitions*, and *Balance Sheet Accounts Assets and other Debits* ("*Accounts*") into the Commission's regulations. 4 CSR 240-40.040(1). Specifically applicable are Accounts 182 and 254, other regulatory liabilities and assets, respectively, set forth at length in Appendix C. Those provisions describe accounts for recording an item outside the year of occurrence ("deferral") for determination in a later action.

Whether a utility may defer an item is the subject of General Instruction No. 7. General Instruction No. 7 provides that the Commission's order is only necessary for an item that is less:

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[53] Deferred recording was the subject of File No. GU-2011-0392, *In the Matter of the Application of Southern Union Company for the Issuance of an Accounting Authority Order Relating to its Natural Gas Operations* [,] *Report and Order* issued on January 25, 2012. Though that order does not constitute precedent and does not control the Commission. *McKnight Place Extended Care, L.L.C. v. Missouri Health Facilities Review Comm.*, 142 S.W.3d 228, 235 (Mo. App., W.D. 2004), the Commission finds the analysis in that order both insightful and persuasive. The event at issue in File No. GU-2011-0392 was the multi-vortex Joplin tornado of 2011.

[54] *Precision Invs., L.L.C. v. Cornerstone Propane, L.P.*, 220 S.W.3d 301, 304 (Mo. banc 2007).

> . . . than approximately 5 percent of income, computed before extraordinary items. Commission approval must be obtained to treat an item of less than 5 percent, as extraordinary. [55]

"Extraordinary" describes matters subject to deferral, and does not apply to transmission cost increases, as discussed below. But even if transmission cost increases were extraordinary, Applicants' evidence shows that transmission costs are not less than five percent of income. Therefore, no Commission order is needed to defer the transmission costs, and Applicants can decide for themselves whether to defer the transmission costs.

Whether to defer an item is a decision that Applicants make every day because it is simply a matter of recording. Recording any item ordinarily means assigning it to the year in which it occurred ("the period"):

> [N]et income shall reflect all items of profit and loss during the period with the exception of [certain items.[56]]

And:

> All other items of profit and loss recognized during the year shall be included in the determination of net income for that year. [[57]]

But, if an item with far-reaching impact for Applicants and their customers falls outside the test year, omitting that item from consideration may threaten just and reasonable rates. To protect just and reasonable rates, the Commission allows deferral for:

> Extraordinary items. . . . Those items related to the effects of events and transactions which have occurred during the current period and which are of unusual nature and infrequent occurrence shall be considered extraordinary items. Accordingly, they will be events and transactions of significant effect which are abnormal and significantly different from the ordinary and typical activities of the company, and which would

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[55] General Instruction No. 7.

[56] General Instruction No. 7 (emphasis added).

[57] General Instruction No. 7.1 (emphasis added).

> not reasonably be expected to recur in the foreseeable future [.[58]]

That language examines an event's:

- Time (during current period);
- Effect (significant);
- Rarity (unusual, infrequent, not foreseeably recurring, activities abnormal and significantly different from the ordinary and typical).

Applicants have not proved that the transmission cost increases meet that standard. The projected transmission cost increases are not "extraordinary" within the legal definition because they are not rare or current.

"Rare" does not describe cost increases in the utility business generally. Specifically, Applicants' evidence shows the following as to transmission. Transmission is an ordinary and typical, not an abnormal and significantly different, part of Applicants' activities. Also, Applicants showed that paying more for transmission than in the previous year is a foreseeably recurring event, not an unusual and infrequent event. Thus, "items related to the effects of" transmission cost increases are not rare and, therefore, are not extraordinary.

As to time, Applicants project increases on a yearly basis so each projection will apply to its respective "current period [.]" But no party cites any authority under which the Commission may order deferral of an item before the item occurs. And that predetermination—a ruling on facts that have not occurred—is what makes a "tracker" different from an accounting authority order under USoA's plain language. Thus, "items

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[58] General Instruction No. 7 (emphasis added).

related to the effects of" future transmission cost increases are not current and, therefore, are not extraordinary.

Because Applicants have not shown that the projected transmission increases are current and will be rare, Applicants have not carried their burden of proving that the projected transmission increases are extraordinary. If the increases—once they happen—prove to be less than five percent of income, Applicants may apply for an accounting authority order under the law they cite. If the projected transmission increases prove to be more than five percent of income, they will be subject to deferral without the Commission's order.

Either way, the law provides a "regulatory mechanism to ensure that increasing SPP transmission expenses between rate cases are appropriately deferred for possible recovery in a future rate proceeding."[59] The only thing that the Commission is denying Applicants is a blessing upon the treatment of facts that have not yet occurred, an order for which Applicants cite no authority in the law. Whether the Commission can create a transmission tracker by regulation, or the General Assembly can create a tracker by legislation, or some other jurisdiction has already done either, does not change the result.

For those reasons, the Commission concludes that denying a tracker is consistent with the law and does not threaten safe and adequate service at just and reasonable rates, so the Commission will not order a transmission tracker.[60]

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[59] *Reply Post-Hearing Brief of [KCPL] and [GMO]* page 25, paragraph 69.

[60] This conclusion renders it unnecessary to determine whether USoA General Instruction 7 represents unconstitutional retro-active ratemaking, or single-issue ratemaking that is contrary to statute as some parties argue. No party cites any authority under which the Commission may declare a regulation unconstitutional or resort to the statutes with which its own regulation conflicts.

v. Winter, Space Heat, and All-Electric

The Commission is changing Applicants' respective rate designs to bring certain classes of customer closer to paying the cost of serving them ("recovery"). The Commission:

- Is not eliminating and not freezing Applicants' residential space-heat classes.
- Is shifting[61] KCPL's costs of service away from small and general service rates and toward large power service as OPC proposes.
- Is increasing KCPL's first blocks of the residential space heating rates and winter All-Electric General Services rates, and GMO's non-residential and residential rates, as Staff proposes.
- Is not implementing the increasing residential true-up revenues by the additional 1.00%, with a corresponding equal-percentage revenue neutral decrease in the true-up revenues for all other non-lighting rate classes, proposed by signatories to the *Non-Unanimous Stipulation and Agreement Regarding Class Cost of Service / Rate Design* in File No. ER-2012-0174.
- Is not raising any monthly customer service charge.

The Commission bases those determinations on the credibility of the witnesses supporting the class cost of service studies ("CCoSSs") and other evidence, and the Commission's policy choices that, together, suggest relief as follows.

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[61] The parties use this term in different ways. For Staff, it means an increase in one place with no corresponding decrease in another. For Applicants and OPC, and this report and order, it means decreasing rates in one schedule and raising them correspondingly in another.

Findings of Fact

1. All of Applicant's customer classes recover their costs but some recover more than others. Recovery is among the focuses of experts in rate design because how much one class recovers determines how much other classes must recover. That creates the mechanism for one class to subsidize another, the use of which experts in rate design determine based on economic conditions, including those described in section IV.A.i of this report and order.

2. Because winter is Applicants' off-peak season, certain of Applicants' rate schedules recover less than their class's cost of service. Those schedules are, for KCPL:

- Residential general use and space heat – one meter ("RESB"),
- Residential general use and space heat – two meters separately metered, space heat rate ("RESC"),
- All-electric Small General Service ("SGS"), and
- All-electric Medium General Service ("MGS");

and for GMO:

- Residential service with space heating ("L&P MO 920 rate schedule"),
- Residential space heating / water heating – separate meter ("L&P MO 922 Frozen rate schedule"), and
- Non-residential space heating/water heating – separate meter ("L&P MO 941 Frozen rate schedule").

3. For example, KCPL's RESB generates a 5.859% return in the summer, but only 2.922% in the winter, and RESC generates 4.161% in the summer and only 2.284% in the winter.

4. Nevertheless, those rates recover their costs of service over the course of a year, do not constitute a discount or promotion, and do not constitute a subsidy of all-electric and space heat customers.

5. If residential space heat rates were eliminated or priced out of the market, Applicants would lose part of their winter load, and the profit margin it represents. To maintain their profitability, Applicants would have to seek that margin through other rates.

6. For example, a typical KCP&L customer's bill would increase 24.83%. A typical GMO's L&P customer's bill would increase 12.58%. For GMO's space heating customers, $50.88 per year at the low-use end and $674.88 for customers at the higher usage level of 4,000 kilowatt hours per month, or 17.53%. Those increases do not consider any increase ordered in this action.

7. To freeze a rate is to close it to new customers. Frozen rate tariff language has proven to be difficult to draft and administer for other services. Such a tariff has caused confusion among the utility, customers, and the Commission. The result was multiple customer complaints and litigation.[62]

8. On a scale in which 1.0 represents KCPL's system-average rate of return, KCPL's rate classes contribute to KCPL's rate of return as follows.

Residential	0.98
Small General Service	1.98
Medium General Service	1.28
Large General Service	1.05
Large Power Service	0.54

9. KCPL devotes $431,849,089 of its rate base to its Large Power Service ("LP"), which generates a 3.011% return, compared to the system average return of 5.539%.

10. Rate design sometimes employs two components for billing: a periodic customer charge that does not vary with use, and a volumetric charge that varies with usage. The amount of service the customer uses determines the volumetric charge, so the volumetric charge is more within the customer's control.

Conclusions of Law

Applicants propose that any increase awarded in this report and order apply equally to all classes and rate components, after any adjustment specific to any class, and MEUA-KC concurs. Staff, OPC, and Southern Union agree, but each adds a set of adjustments to remedy the disparity in certain classes between costs and recovery. The parties' proposals include the following.

- Eliminate space heat and all-electric rates (either immediately[63] or gradually through freezing[64]),
- Shift revenue among rate schedules,[65] and
- Raise some space heating and all-electric rates.[66]

Counter-proposals and other matters arise in response. Therefore, the Commission will order that any increase awarded in this report and order apply equally to all classes and rate components, after any adjustment specific to any class, as follows.

Eliminate Space Heating and All-Electric Rates. Southern Union d/b/a Missouri Gas Energy proposes eliminating Applicants' space-heating classes, either immediately or

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[62] *Briarcliff Developments v. Kansas City Power & Light Company,* Case No. EC-2011-0383, *Report and Order* issued Mar. 7, 2012.

[63] Issues List I.6.g.i. and III.7.e.i.

[64] Issues List I.6.g.ii. and III.7.e.ii.

[65] Issues List I.6.f.i. and III.7.d.i.

[66] Issues List I.6.g.iii and I.6.d; and III.e.iii and e'.

gradually after freezing those classes. In support, Southern Union offers several arguments. The Commission rejects that proposal as follows.

Southern Union alleges that residential space-heating rates represent an unfair subsidy from other customers, because they return less than other classes. The Commission has found otherwise; there is no such subsidy. Contrary to Southern Union's allegations, Applicants have shown that elimination of space heating rates would cause a hardship on Applicant's customers. Moreover, such hardship would be even greater under Southern Union's calculations. Southern Union's alternative, gradual elimination by freezing space heating rates, causes its own set of difficulties, as the Commission has learned from experience.

Southern Union also argues that residential space-heating rates are a policy relic of an earlier time, when the Commission favored electricity over natural gas for reasons that no longer exist, especially price. Southern Union cites the recent drop in natural gas prices. The Commission is aware of that development but is also aware of the investment that customers have made in reliance on those classifications, which represents a commitment that such rates represent among Applicants, customers, and the Commission. The Commission will not abandon its part of that commitment.

Southern Union asks whether it is fair that two of Applicants' customers pay different amounts for electricity just because one is all-electric? The answer is yes, if the record supports that result. Even ignoring Southern Union's obvious incentive to make electricity less attractive than natural gas, the Commission concludes that eliminating residential space heat rates—suddenly or gradually through freezing—does not support safe and adequate electric service at just and reasonable rates.

Revenue Shift among Rate Schedules. For KCPL, the low contribution to return of Large Power ("LP") and high contribution from Small Gas Service ("SGS") and Medium Gas Service ("MGS") requires a remedy.

Based on KCPL's CCoSS, which is in part the basis of the Commission's findings, OPC proposes to increase LP as follows. It takes the difference between LP return (3.011%) and KCPL's system-average return (5.539%). The difference is 2.528% (5.539% - 3.011%). The amount of LP rate base under-contributing is therefore $10,917,144. (2.528% x $431,849,089).

Using those amounts, OPC recommends shifting half the under-contributing LP rate base ($10,917,144 x ½ = $5,458,572) to decrease SGS and MGS by a 69% / 31% split:

$5,458,572 x 69% = $3,319,366 decrease to SGS,

$5,458,572 x 31% = $2,139,206 decrease to MGS,

with the remaining $5,458,572 as an increase to LP.

The results are:

- LP increases by $5,458,572, which is 50% of KCPL's CCoSS shifts.
- MGS decreases by $2,139,206, which is 39% of the LP increase; and
- SGS decreases by $3,319,366, which is 61% of the LP increase.

The Commission concludes that the shifts that OPC proposes for KCPL best furthers the policy of moving rates toward recovery. That is because it represents a middle ground between the undesirable results of the status quo (leaving disparities in recovery unaltered) and eliminating all disparities immediately (causing rate shock). The Commission concludes that OPC's proposal will best support safe and adequate service at just and reasonable rates, so the Commission will order the shifts that OPC proposes for KCPL.

Increase Space Heating and All-Electric Rates. In this matter, the Commission must resolve two policies that, as of this date, conflict. The general consensus is that a class of customers should pay for the cost of serving them. But the Commission's finding on lingering economic hardships, as set forth in section IV.A.i of this report and order raises a reluctance to increase rates. This is especially true of residential customers, who cannot simply pass on the expense to someone else. The Commission is applying its policy-making expertise by ordering rates altered according to the proposal of Staff.

Staff proposes to gradually move recovery toward winter costs by increasing certain rates, in addition to any other revenue increase required by this report and order, as follows. For KCPL, 5% to each of the following:

- First winter block of RESB (residential general use and space heat – one meter); and
- Winter season separately metered space heat rate of RESC (residential general use and space heat – two meters).

For GMO, 6% to each of the following:

- L&P MO 920 rate schedule (residential service with space heating), the two winter energy block rates;
- L&P MO 922 Frozen rate schedule (residential space heating / water heating – separate meter), the winter energy rate; and
- MO 941 Frozen rate schedule ("non-residential space heating / water heating – separate meter").

OPC concurs as to the KCPL increases. As to all Staff's proposed increases, the Commission concludes that safe and adequate service at just and reasonable rates finds

the most support in the shifts that Staff proposes for KCPL. Therefore, the Commission will order those increases as Staff recommends.

Additional 1% for KCPL Residential Rates. The signatories to the KCPL *Non-Unanimous Stipulations and Agreements Regarding Class Cost of Service / Rate Design* agree that the Commission should increase KCPL residential true-up revenues by 1% in addition to any other increase, with a corresponding equal-percentage revenue decrease in true-up revenues for all other non-lighting rate classes. OPC objects, and AARP and CCoMO join in that objection. The objectors are correct that the slow recovery from economic woes, on which the Commission heard much testimony during local public hearings, supports no more increase in residential rates than the Commission has already reluctantly ordered. Therefore, the Commission will rule in favor of OPC and against the 1% residential increase that OPC opposes.

Customer Charge[67] OPC asks the Commission that any increase in residential rates not apply to the monthly customer charge. AARP and CCoMO concur. Because volumetric charges are more within the customer's control to consume or conserve, the volumetric rate is the more appropriate to increase. Therefore, the Commission will order that any increase in residential rates should not apply to the monthly customer charge.

Rulings. The Commission concludes that the grant and denial of rate shifts and increases as described above will best support safe and adequate service at just and reasonable rates, so the Commission will order those shifts and increases accordingly.

[67] Issues List I.6.f.ii and III.7.d.2.

vi. PURPA

Staff seeks a determination that the Commission and Applicants need take no further actions under certain federal laws. That request has no opposition from any party.

Findings of Fact

1. To address the four Energy Independence and Security Act of 2007 ("EISA") standards, the Commission established Files No.

   a. EW-2009-0290 ("IRP Docket");[68]

   b. EW-2009-0291 ("Rate Design Docket");[69] and

   c. EW-2009-0292 ("Smart Grid Docket").[70]

In each of those files, the Commission issued its *Order Finding Consideration / Implementation of New Federal Standards through Workshop and Rulemaking Procedures Is Required*,[71] stating at page 5:

> The Commission has satisfied the requirements for consideration of the new EISA standards, and on the basis of the quasi-legislative record created in these workshops, the Commission determines that no comparable standards have been considered that would constitute prior state action and prohibit the Commission from taking any further action in relation to the new EISA standards [.]

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[68] *In the Matter of the Consideration of Adoption of the PURPA Section 111(d)(16) Integrated Resource Planning Standard as Required by Section 532 of the Energy Independence and Security Act of 2007*.

[69] *In the Matter of the Consideration of Adoption of the PURPA Section 111(d)(17) Rate Design Modifications to Promote Energy Efficiency Investments Standard as Required by Section 532 of the Energy Independence and Security Act of 2007*.

[70] *In the Matter of the Consideration of Adoption of the PURPA Section 111(d)(18), Smart Grid Investments Standard, and the PURPA Section 111(d)(19), Smart Grid Information Standard, as Required by Section 1307 of the Energy Independence and Security Act of 2007*.

[71] Issued on November 23, 2009.

2. The Commission promulgated a rulemaking in File No. EX-2010-0368,[72] as a result of which Commission regulations 4 CSR 240-20.093, 20.094, 3.163, and 3.164The rules became effective on May 30, 2011.

3. The Commission's promulgation of a rulemaking revising Chapter 22 Electric Resource Planning Rules in File No. EX-2010-0254[73] became effective on June 30, 2011.

4. The Commission opened a repository on December 29, 2010, for information concerning the Smart Grid in Missouri as File No. EW-2011-0175. In File No. EW-2011-0175, on January 13, 2011, Staff, filed the *Missouri Smart Grid Report* Among other things, the *Missouri Smart Grid Report* presents issues and concerns and identifies key issues requiring further emphasis, including Smart Grid deployment, planning, implementation, cost recovery, cyber security and data privacy, customer acceptance and involvement, and customer savings and benefits. It recommends the Commission hold a Smart Grid workshop every six months for information exchange and sharing of best practices and educational opportunities; and also recommends the Commission open a docket to address cost recovery issues.[359]

5. The Commission has also held Smart Grid conferences on June 28, 2010, and November 29, 2011, and the Smart Grid was also the recent subject of the *PSConnection*, a publication of the Commission. On July 17, 2012, the Commission issued an *Order Directing Notice and Directing Filing* in File No. EW-2013-0011 to gather information related to cyber vulnerabilities and the integrity of the electric utilities' internal cyber security practices. This workshop proceeding provides another

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[72] *In the Matter of the Consideration and Implementation of Section 393.1075, The Missouri Energy Efficiency Investment Act*.

opportunity for the Commission to explore issues and take action related to the PURPA Smart Grid Investments standard. The Commission on October 5, 2012 issued a *Notice And Order Setting On-The-Record Proceeding* scheduling an on-the-record proceeding in File No. EW-2013-0011 for November 26, 2012 regarding cyber security practices.

6. In 2009, Governor Nixon signed Senate Bill 376, the "Missouri Energy Efficiency Investment Act," with a stated policy [74] to "value demand-side investments equal to traditional investments in supply and delivery infrastructure and allow recovery of all reasonable and prudent costs of delivering cost-effective demand-side programs."

7. The Commission has a workshop docket, Case No. EW-2010-0187, open to investigate how to achieve its statutory responsibilities under the Missouri Energy Efficiency Investment Act ("MEEIA"),[75] among other things, within the background of Federal Energy regulatory Commission ("FERC") policies that eliminate barriers to demand response and that direct the Midwest Independent Transmission System Operator ("MISO") and the Southwest Power Pool ("SPP") to accommodate state policy regarding retail customer demand-side activity.

8. On December 22, 2011, KCPL[76] and GMO[77] each submitted a MEEIA application.

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[73] *In the Matter of a Proposed Rulemaking Regarding Revision of the Commission's Chapter 22 Electric Utility Resource Planning Rules*.

[74] Section 393.1075.3, RSMo Supp. 2012.

[75] Section 393.1075, RSMo. Supp. 2012.

[76] File No. EO-2012-0008.

[77] File No. EO-2012-0009.

9. KCPL dismissed its action on February 17, 2012. The Commission closed that file on March 6, 2012. Nevertheless, the Commission has in place the framework necessary to make a determination on the associated PURPA principles.

10. In GMO's action, certain parties filed the *Non-Unanimous Stipulation And Agreement Resolving KCP&L Greater Missouri Operations Company's MEEIA Filing* ("GMO MEEIA settlement"), filed in File No. ER- 2012-0175 as Exhibit No. 392.[78]

11. On November 7, 2012, in File Nos. ER-2012-0174 and ER-2012-0175, the Commission issued an *Order Incorporating Unopposed Non-Unanimous Stipulations And Agreements* in which it incorporated, as if fully set forth at length, the GMO MEEIA agreement as modified by the October 26, 2012 *Non-Unanimous Stipulation And Agreement Regarding Low-Income Weatherization And Withdrawal Of Objection And Request For Hearing* and October 29, 2012 *Non-Unanimous Stipulation And Agreement Resolving KCP&L Greater Missouri Operations Company's MEEIA Filing*, among other documents.

12. On November 15, 2012, the Commission in File No. EO-2012-0009 issued an *Order Approving Non-Unanimous Stipulation and Agreement Resolving KCP&L Greater Missouri Operations Company's MEEIA Filing.*

Discussion, Conclusions of Law, and Ruling

The Commission must consider and determine whether to implement each of the four "new" Public Utility Regulatory Policies Act of 1978 ("PURPA") Section 111(d) standards for electric utilities established by Congress through the Energy Independence and

[78] On November 19, 2012.

Security Act of 2007 ("EISA") so as to carry out the purposes of PURPA, which are to encourage:

> (1) conservation of electric energy,
>
> (2) efficiency in the use of facilities and resources by electric utilities, and
>
> (3) equitable rates to consumers of electricity.[348]

If the Commission determines that a standard is appropriate to carry out the above-noted purposes, but declines to implement it, the Commission must state in writing its reasons. The law required the Commission to complete its consideration and determination of each standard no later than December 19, 2009. Absent such determination, the Commission is to consider whether or not it is appropriate to implement such standard to carry out the above noted purposes in the first general rate case for each individual electric utility commenced after December 19, 2010. Staff asks the Commission to consider each standard and make its determination with respect to Applicants.

PURPA Section 111(d)(16), Integrated Resource Planning Standard as required by Section 532 of EISA, requires state commission consideration of whether to implement the following:

> (A) integrate energy efficiency resources into utility, State, and regional plans; and
>
> (B) adopt policies establishing cost-effective energy efficiency as a priority resource.

While not specifically making a determination to implement PURPA Section 111(d)(16), the Commission has promulgated rulemakings to address the principles of that section.

Therefore, the Commission concludes that nothing remains for the Commission to determine in response to PURPA Section 111(d)(16) for KCPL and GMO.

PURPA Section 111(d)(17), Rate Design Modifications to Promote Energy Efficiency Investments Standard as required by Section 532 of EISA, requires state commissions to consider whether to implement:

> (1) removing the throughput incentive and disincentives to energy efficiency;
>
> (2) providing utility incentives for successful management of energy efficiency programs;
>
> (3) including the impact of energy efficiency as one of the goals of retail rate design;
>
> (4) adopting rate designs that encourage energy efficiency;
>
> (5) allowing timely recovery of energy efficiency related costs; and
>
> (6) offering energy audits, demand-response programs, publicizing the benefits of home energy efficiency improvements and educating homeowners about Federal and State incentives.

The Commission concludes that no further determination is needed in response to PURPA Section 111(d)(17) for Applicants.

PURPA Section 111(d)(18), the Smart Grid Investments Standard, requires the Commission to consider and determine whether the following is appropriate to implement to carry out the purposes of PURPA:

(A) IN GENERAL – Each State shall consider requiring that, prior to undertaking investments in nonadvanced grid technologies, an electric utility of the State demonstrate to the State that the electric utility considered an investment in a qualified smart grid system based on appropriate factors, including --

(i) total costs;

(ii) cost-effectiveness;

(iii) improved reliability;

(iv) security;

(v) system performance; and

(vi) societal benefit.

(B) RATE RECOVERY – Each State shall consider authorizing each electric utility of the State to recover from ratepayers any capital, operating expenditure, or other costs of the electric utility relating to the deployment of a qualified smart grid system, including a reasonable rate of return on the capital expenditures of the electric utility for the deployment of the qualified smart grid system.

(C) OBSOLETE EQUIPMENT – Each State shall consider authorizing any electric utility or other party of the State to deploy a qualified smart grid system to recover in a timely manner the remaining book-value costs of any equipment rendered obsolete by the deployment of the qualified smart grid system, based on the remaining depreciable life of the obsolete equipment.

PURPA Section 111(d)(19), the Smart Grid Information Standard, requires the Commission to consider and determine whether it is appropriate that all electricity purchasers and other interested parties should be provided access to information from their electricity provider related to, among other things, time-based prices, usage, and sources of power and type of generation, with associated greenhouse gas emissions for each type of generation, to the extent such information is available on a cost-effective basis, so as to carry out the purposes of PURPA. The standard appears in EISA as follows:

> (A) STANDARD. – All electricity purchasers shall be provided direct access, in written or machine-readable form as appropriate, to information from their electricity provider as provided in subparagraph (B).
>
> (B) INFORMATION. – Information provided under this section, to the extent practicable, shall include:
>
> > (i) PRICES. – Purchasers and other interested persons shall be provided with information on –
> >
> > > (I) time-based electricity process in the wholesale electricity market; and
> > >
> > > (II) time-based electricity retail prices or rates that are available to the purchasers.
> >
> > (ii) USAGE. – Purchasers shall be provided with the number of electricity units, expressed in kwh, purchased by them.
> >
> > (iii) INTERVALS AND PROJECTIONS – Updates of information on prices and usage shall be offered on not less than a daily basis, shall include hourly price and use information, where available, and shall include a day-ahead projection of such price information to the extent available.
> >
> > (iv) SOURCES – Purchasers and other interested persons shall be provided annually with written information on the sources of the power provided by the utility, to the extent it can be etermined, by type of

> generation, including greenhouse gas missions associated with each type of generation, for intervals during which such information is available on a cost-effective basis.
>
> (C) ACCESS – Purchasers shall be able to access their own information at any time through the internet and on other means of communication elected by that utility for Smart Grid applications. Other interested persons shall be able to access information not specific to any purchaser through the Internet. Information specific to any purchaser shall be provided solely to that purchaser.

The Commission has established the appropriate avenues for monitoring smart grid activities and no greater ongoing activity is needed in response to PURPA sections 111(d)(18) and 111(d)(19).

B. KCPL Only (ER-2012-0174): Additional Resource Planning

The following matter relates to KCPL only, and not to GMO.

- The Commission is not ordering procedures and standards in addition to those already provided by law for examining the prudence of environmental protection measures at Montrose and La Cygne.

Sierra Club, OPC, and the consumer groups ask the Commission to order procedures and standards, related to environmental retrofits at coal-fired plant, in addition to those already existing at law.

Findings of Fact

1. When running a power plant costs more than the revenue it generates, it is time to consider retiring the plant. Retirement of coal-fired plants is common for several reasons. The cost of complying with environmental regulations are rising. Market prices for natural gas and wholesale electricity are declining. The availability of alternative resources like

renewable energy and energy efficiency are growing. Those trends make sales of electricity off-system less profitable.

2. KCPL owns 50 percent of the coal-fired La Cygne generating plant. The only other owner of La Cygne is Westar. That power plant has two units, one of which started operating in 1973 and the other of which started operating in 1977.

3. KCPL also owns Montrose Generating Station, which consists of three coal – fired generating units built in 1958, 1960, and 1964

4. To comply with environmental standards, KCPL is investing a highly confidential amount in Montrose and approximately $1.23 billion in La Cygne. Of that latter amount, Westar will pay 50 percent to KCPL when the work is done, which will be approximately June 2015. KCP&L's 2012 IRP filing addresses the economics of retrofitting coal units at La Cygne and Montrose versus retiring them.

Discussion, Conclusions of Law, and Ruling

In support of its proposed orders for more procedures and standards, Sierra Club alleges that retrofitting La Cygne and Montrose is economically inefficient, but the Commission will not pre-determine the prudence of those expenses.

Sierra Club also cites the possibility of rate shock because the Commission cannot include the retrofit costs in rates not until that work is done. That is because of an initiative passed in 1976:

> Any charge made or demanded by an electrical corporation for service, or in connection therewith, which is based on the costs of construction in progress upon any existing or new facility of the electrical corporation, or any other cost associated with owning, operating, maintaining, or financing any property

> before it is fully operational and used for service, is unjust and unreasonable, and is prohibited.[79]

That provision bars construction work in progress ("CWIP"), like the retrofit, from rate base and makes graduated accommodation nearly impossible. Sierra Club also cites the possibility of imprudent expenditures. On those bases, Sierra Club, OPC AARP, and the Consumers Council of Missouri ask the Commission to prescribe an ongoing formal procedure during retrofitting.

Sierra Club acknowledges the existence of the Integrated Resource Planning ("IRP") procedure, KCPL's informational meetings with Staff and OPC, and the Commission's periodic prudence reviews. Nevertheless, Sierra Club alleges that some kind of ongoing formal hearing procedure would benefit shareholders and customers. The cost of such proceedings to rate-payers does not figure into Sierra Club's proposal. Absent a full analysis of the effects on ratepayers, Sierra Club's proposals are unpersuasive as a matter of fact and policy. Moreover, no rulemaking, IRP, or prudence review is before the Commission in this contested case.

The Commission concludes that the proposed additional standards and procedures do not support safe and adequate service at just and reasonable rates, so the Commission will not order the proposed procedures or standards for KCPL in this contested case.

C. GMO Only (ER-2012-0175)

The following matters relate to GMO only, and not to KCPL.

- Crossroads: the Commission is updating, but not changing, the method of valuing amounts to include in MPS rate base, and exclude transmission costs

[79] Section 393.135, RSMo 2000.

- Off-System Sales: the Commission is making no ruling because none is sought.
- FAC: The Commission is not changing the sharing percentage, ordering flow-through of both gains and losses for REC flow-through, excluding transmission costs, continuing current reporting, and ordering new tariff terminology.

i. Crossroads

The parties dispute the value for MPS rate base of the Crossroads as to physical plant, depreciation, accumulated tax set-off and transmission costs. The Commission already ruled on these issues in GMO's last general rate action ("previous rulings"), which was in File No. ER-2010-0356.[80] GMO asks to increase the amounts in rate base attributable to Crossroads. Dogwood Energy, LLC, ("Dogwood,") which owns a generating facility), and Staff oppose that claim. MECG, MEUG, and Ag Processing, Inc. a Cooperative ("Ag Processing," a customer) ask to reduce those amounts. No party has shown that the Commission should change its previous rulings. The Commission incorporates, as if fully set forth its findings of fact and conclusions of law from the previous rulings and recapitulates only the most salient facts relevant to Crossroads' valuation only as necessary to show how the movants for change have failed to meet their burden of proof.

[80] *In the Matter of the Application of KCP&L Greater Missouri Operations Company for Approval to Make Certain Changes in its Charges for Electric Service*, *Report and Order*, issued May 4, 2011.

Generally. The following matters relate generally to both valuation and transmission costs.

Findings of Fact

1. GMO's MPS service area receives part of its power from Crossroads Energy Center ("Crossroads"), a generating facility in Clarksdale, Mississippi.

2. In the previous rulings, the Commission determined that the fair market value of Crossroads was $61.8 million before depreciation and deferred taxes.

3. In the previous rulings, the Commission denied the costs of transmitting power from Crossroads to MPS territory.

Discussion, Conclusions of Law, and Ruling

The parties may seek review of matters already determined under the previous rulings before the current Commission, which may alter those rulings.

> Every order or decision of the commission . . . shall continue in force either for a period which may be designated therein or until changed or abrogated by the commission [.[81]]

But even if GMO met its burden of proof, administrative and judicial economy would support a reservation of ruling in this report and order. That is because the previous rulings are pending before the Court of Appeals.[82] Departure from the previous rulings before the

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[81] Section 386.490.2, RSMo 2000. Another standard of proof appears in the statutes for "[a]ll proceedings arising under the provisions of" chapter 386, RSMo: A "party . . . seeking to set aside any . . . order of said commission [must] show by clear and satisfactory evidence that the . . . order of the commission complained of is unreasonable or unlawful as the case may be. Section 386.430, RSMo 2000. Clear and satisfactory evidence is a standard higher than the preponderance of the evidence. *State ex rel. Taylor v. Anderson*, 254 S.W.2d 609, 615 (Mo. Div. 1, 1953). Missouri courts equate it with clear and convincing evidence. *Hackbarth v. Gibstine*, 182 S.W.2d 113, 118 (St.L. Ct. App. 1944). The Commission need not decide whether the higher standard applies because GMO did not meet the lower preponderance of evidence in addressing the previous rulings.

[82] Case No. WD75038, *KCPL&L v. Missouri Public Service Comm'n*.

Court of Appeals has reviewed them invites confusion and uncertainty to these matters for all involved.

Plant, Depreciation, Taxes. The parties dispute the value that Crossroads represents for MPS rate base, including physical plant, depreciation, and deferred taxes. GMO has not shown that GMO's proposed valuation best supports safe and adequate service at just and reasonable rates. The preponderance of the evidence shows the updated values as follows.

Findings of Fact

1. Crossroads is the property of the City of Clarksdale, Mississippi. GMO neither owns nor leases any part of Crossroads. GMO has a capital lease on the power generated at Crossroads that includes the duty to pay for, and the right to inspect, Crossroads operations.

2. GMO uses Crossroads power for peak demand in the summer. Crossroads runs less than half of the summer's days and has never run in the winter. Nevertheless, GMO pays for gas to be available in the winter.

3. The previous rulings recognized that Crossroads represents some value to GMO customers, and based valuation upon the market for the same technology, and on GPE's valuation of Crossroads in filings with the United States Securities and Exchange Commission ("SEC").[83]

4. In a Joint Proxy Statement/Prospectus and amendments filed with the SEC between May and August 2007, Aquila (GMO under its previous name and management)

[83] File No. ER-2010-0356, *Report and Order* page 96.

and GPE stated three times that the fair market value of Crossroads was $51.6 million. Aquila and GPE stated that they based the evaluation on sales of comparable assets.

5. The comparable assets were combustion turbines of the same type as those in Crossroads. Aquila Merchant installed the turbines in two Illinois facilities: Raccoon Creek and Goose Creek, both of which facilities it sold at a loss. Aquila Merchant (Aquila's unregulated affiliate) sold other turbines to utilities in Nebraska and Colorado at a loss. Aquila Merchant returned the last of those turbines to the manufacturer and, in so doing, surrendered to the manufacturer the deposit it had put down on that turbine. Those sales occurred between 2006 and 2008.

6. Aquila Merchant also tried to sell Crossroads, but could come to terms with no buyer, so it transferred Crossroads to a subsidiary of Aquila. Aquila became financially distressed and GPE bought it, thus acquiring Crossroads. GPE also tried, but failed, to sell Crossroads to an outside buyer. GPE sold Crossroads to Aquila, which it later renamed GMO.

7. Using the same valuation principles as in the previous rulings, the value of Crossroads updated as of August 31, 2012, is $62,609,430. Based on a fair market value of Crossroads at $62,609,430, the applicable depreciation is $10,033,437 and the deferred tax due on Crossroads is $4,333,301.

Discussion, Conclusions of Law, and Ruling

The parties agree generally that depreciation and accumulated taxes must follow the valuation of physical plant.

GMO argues that Crossroads' rate base value is GMO's depreciated net original cost, sometimes called depreciated book value, of $82.7 million. In support, GMO offers

case law from another jurisdiction,[84] which states that all evidence bearing on value is relevant, but pre-dating the Commission regulation that adopts USoA.[85] USoA defines cost as beginning with the amount incurred by the entity that first put the asset to public service. GMO relies on Aquila's building costs, the price in a transaction between affiliated entities GPE and GMO, and an estimate expressly designed to justify the price paid in that transaction, none of which are persuasive.

Holding GMO to those statements nonetheless, MECG suggests that, if the Commission departs from its previous rulings, the Commission should embrace the values that GPE and GMO (then Aquila) assigned in its filings with the SEC.

MECG also cites the Commission's affiliate transaction rule, which sets the cost of goods from an affiliate at the lesser of either (i) fully distributed cost or (ii) fair market price.[86] Staff emphasizes fair market price as determined in the previous rulings. Then, as now, Staff argues, the fair market price is determinable from the sales of the comparable Raccoon Creek and Goose Creek facilities. The Commission stated:

> The ten 75 MW General Electric model 7EA combustion turbines installed at Raccoon Creek and Goose Creek that Aquila Merchant sold to AmerenUE in 2006 are ten of the eighteen combustion turbines Aquila Merchant bought at the same time. Four of those eighteen were installed at Crossroads. The turbines sold at an average installed cost of $205.88 per kW. Based on that average installed cost of $205.88 per kW, the 300 MW of combustion turbines at Crossroads would have an installed cost of $61.8 million.[87]

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[84] Springfield Gas & Elec. Co. v. PSC, 10 F.2d 252, 255 (W.D. Mo. 1925); and State ex rel. Missouri Water Co. v. PSC, 308 S.W.2d 704, 717 (Mo. 1957).

[85] 4 CSR 240-20-030.

[86] 4 CSR 240-20.015(2)(A).

[87] File No. ER-2010-0356, *Report and Order*, page 94 (citations omitted).

Staff provides an analysis based on that method in direct testimony on its true-up accounting schedules. That amount is less than GMO's cost figure and therefore controls. In this regard, the arguments for maintaining the status quo analysis rebuts GMO's claim for a higher amount in rate base.

Finally, MEUG and Ag Processing succinctly suggest that the MPS rate base value of Crossroads is zero. The argument has an elegant simplicity. After all, GMO does not own or lease Crossroads. And constructing a surrogate value for Crossroads is not the only way to account for the power that GMO buys from the City of Clarksdale, Mississippi. But the evidence does not weigh in that direction. The Commission rejected Staff's argument to disallow Crossroads from rate base entirely in the previous rulings[88]because some benefit from distant Mississippi does reach the MPS customers and that remains true today. Therefore, the Commission will not value Crossroads at zero.

Crossroads is a relic of the failed utility Aquila. A full recital of Aquila's tortured history is unnecessary to the Commission's rulings,[89] because it only raises the issue of how long the Commission will visit the sins of the predecessor on the successor. It is true that GMO is the same legal entity as Aquila, but it is also true that management is different.

Therefore, the Commission will order that the value of Crossroads for GMO's MPS rate base shall be $62,609,430 without transmission cost. At that value, GMO and Staff agree, the accumulated depreciation is $10,033,437 and the accumulated deferred taxes are $4,333,301. Those values best support safe and adequate service at just and

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[88] File No. ER-2010-0356, *Report and Order*, page 99.

[89] MECG spares its readers no gruesome detail. *Initial Post-Hearing Brief of [MECG] (GMO Issues)*, pages 59-73.

reasonable rates for MPS, so the Commission will order those amounts to be included in GMO's MPS rate base.

Transmission Costs. GMO asks the Commission to depart from the previous rulings and include in MPS rates the costs of transmitting power from Crossroads to MPS territory but it has not carried its burden of proof on that claim.

Findings of Fact

1. Crossroads is 500 miles from GMO's MPS territory.

2. Between the territory of MPS and Crossroads are the territories of regional transmission organizations ("RTOs"). RTOs collect payment for the transmission of power through their territories. GMO does not belong to all those RTOs so GMO must pay higher fees for transporting power than to an RTO of which GMO is a member.

3. There are generating facilities closer, including Dogwood's facility and the South Harper plant. Even though Crossroads provides power for GMO only during half of the days in the summer, GMO pays about $5.2 million to transmit power from Crossroads all year round. The high cost of transmission is not outweighed by lower fuel costs in Mississippi.

Discussion, Conclusions of Law, and Ruling

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

GMO also argues that the Commission must include transmission costs because FERC has approved a rate for that service. In support, GMO cites opinions providing that the Commission cannot nullify FERC's rate or any other FERC ruling.

But as Dogwood explains, and Staff and MECG agree, those opinions do not bar the Commission from determining the prudence of buying power from Crossroads. For example:

> Without deciding this issue, we may assume that a particular *quantity* of power procured by a utility from a particular source could be deemed unreasonably excessive if lower cost power is available elsewhere, even though the higher cost power actually purchased is obtained at a FERC-approved, and therefore reasonable, *price*. [90]

In other words, FERC's rate-setting for a facility requires neither the purchase of power, nor approval of that purchase, from that facility.

Moreover, in the presence of a FERC-approved rate, the courts have opined that review of cost prudence remains within the Commission's jurisdiction.

> Regarding the states' traditional power to consider the prudence of a retailer's purchasing decision in setting retail rates, we find no reason why utilities must be permitted to recover costs that are imprudently incurred; those should be borne by the stockholders, not the rate payers. Although Nantahala underscores that a state cannot independently pass upon the reasonableness of a wholesale rate on file with FERC, it in no way undermines the long-standing notion that a state commission may legitimately inquire into whether the retailer prudently chose to pay the FERC-approved wholesale rate of one source, as opposed to the lower rate of another source. [91]

And to recognize the marginal value of purchased power from Crossroads does not constitute an endorsement of its inflated cost.

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

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[90] *Nantahala Power and Light Co. v. Thornburg*, 476 U.S. 953, 972 (1986).

ii. Off-System Sales Margins

Staff expresses concerns at the amount of negative margins in GMO's off-system sales compared to other regulated electric companies and asks the Commission to urge GMO to do better. GMO promises to try. No party seeks any relief on this matter any longer so the Commission will order none, and no further findings of fact and conclusions of law are required..

iii. Fuel Adjustment Clause

The fuel and purchased power adjustment clause ("FAC") is, essentially, a device by which GMO can pass increases or decreases in fuel or purchased power costs to its customers without a general rate action.

AARP and CCoMO argue for an end to GMO's FAC, and all FACs, on policy grounds. But the General Assembly has determined that the Commission shall have discretion to order an FAC. AARP and CCoMO have not shown that an FAC for GMO makes safe and adequate service at just and reasonable rates impossible, so the Commission will not grant AARP and GMO's request.

For GMO's FAC, the Commission is ordering:

- No change in the sharing mechanism.
- Flow-through of revenues from excess RECs.
- Specific exclusion of Crossroads transmission costs.
- Continued reporting.
- New tariff language.

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[91] *Kentucky W. Virginia Gas Co. v. Pennsylvania Pub. Util. Comm'n*, 837 F.2d 600, 609 (3d Cir. 1988).

Sharing Percentages. The sharing percentage splits fuel and purchased power price fluctuations between GMO and its customers.

Findings of Fact

1. The essence of the current FAC is that fluctuations in the price of fuel and purchased power, up or down from an established baseline, pass through to GMO customers at 95%, the remaining 5% is GMO's to pay or retain.

2. The record shows no incident of imprudent GMO purchasing.

3. The 95%-5% sharing has been enough incentive for GMO to maintain prudence in its purchases.

Discussion, Conclusions of Law, and Ruling

In simplified terms, an FAC measures fluctuations in the price that GMO pays for fuel and purchased power and allows GMO to pass such fluctuations through to customers between general rate actions:

> 1. . . . periodic rate adjustments outside of general rate proceedings to reflect increases and decreases in its prudently incurred fuel and purchased-power costs, including transportation. [92]

An FAC must not compromise the opportunity to earn a fair rate of return; and include periodic true-ups, prudence reviews, refunds, and review during a general rate action.[93] The statutes also allow incentives to look for lower prices:

> The commission may, in accordance with existing law, include in such rate schedules features designed to provide the electrical corporation with incentives to improve the efficiency

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[92] Section 386.266.1, RSMo Supp. 2012.

[93] Section 386.266.1, RSMo Supp. 2012.

> and cost-effectiveness of its fuel and purchased-power procurement activities. [94]

Among those incentives is the sharing percentage.

Essentially, under the current sharing percentage, of any price decrease, GMO gets to keep 5% and the rest passes on to customers in the form of a rate decrease. And of any price increase, GMO has to pay 5% and the rest passes on to customers in the form of a rate increase. Staff proposes an 85%-15% split.

In support, Staff alleges that the current split does not give GMO enough incentive to seek the best prices. In support, Staff offers evidence related to GMO's satisfaction with the current split, its transactions with KCPL, and its use of short-term purchase contracts. None of that is persuasive because Staff has cited no incident of imprudent purchasing. "[M]ere speculations . . . do not demonstrate that the Commission act[s] unreasonably in permitting this particular FAC."[95]

The Commission concludes that GMO's current FAC sharing percentages of 95%-5% better support safe and adequate service at just and reasonable rates than 85%-15%, so the Commission will order GMO's current percentages for GMO's FAC.

REC Flow-Through. Staff proposes that, if GMO has more renewable energy certificates than it needs for compliance with the renewable energy laws[96] ("excess RECs"), and GMO sells those excess RECs, the proceeds must pass

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[94] Section 386.266.1, RSMo Supp. 2012.

[95] *State ex rel. Noranda Aluminum, Inc. v. Pub. Serv. Comm'n of State*, 356 S.W.3d 293, 314 (Mo. App., S.D. 2011).

through the FAC like a fuel price decrease. GMO proposes that the costs of those RECs pass through the FAC, too, like a fuel price increase. Staff's proposal is consistent with law and GMO's proposal is contrary to law as follows.

Findings of Fact

1. When GMO customers pay their bills, GMO uses that money for a variety of purposes, including purchasing power. GMO has agreements to purchase power from sellers of renewable energy, including wind and methane. Purchases or use of power from those sources generate renewable energy certificates ("RECs").

2. RECs are a measure of compliance with laws promoting the use of renewable energy. When purchasing power, the REC does not cost extra. If GMO has more RECs than it needs to satisfy the requirements of law ("excess RECs"), it is prudent practice to sell them.

3. Because GMO customers paid the money that generated the REC, if GMO sells the REC, it sells something that the customers bought.

Discussion, Conclusions of Law, and Ruling

The FAC law provides that the Commission may use GMO's FAC to encourage efficient fuel and power purchasing:

> The commission may, in accordance with existing law, include in such rate schedules features designed to provide the electrical corporation with incentives to improve the efficiency and cost-effectiveness of its fuel and purchased-power procurement activities. [97]

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[96] Section 393.1030, RSMo Supp. 2012; and Commission regulation 4 CSR 240-20.100.

[97] Section 386.266.1, RSMo Supp. 2012.

Making sure that GMO does not retain the revenue from excess RECs constitutes an incentive to purchase renewable power efficiently.

GMO proposes to pass the costs of excess RECs on to customers through the FAC but Staff cites 4 CSR 240-20.100(6)(A)16, which bars GMO's proposal:

> RES compliance costs shall only be recovered through an RESRAM or as part of a general rate proceeding and shall not be considered for cost recovery through an environmental cost recovery mechanism or fuel adjustment clause or interim energy charge.

That law bars the pass-through of REC costs through GMO's FAC. Even without that regulation, GMO's proposal constitutes a disincentive to purchase renewable power efficiently.

Staff's proposal supports safe and adequate service at just and reasonable rates, so the Commission will order excess REC revenues to pass through the FAC, but not the costs of RECs.

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

Additional Reporting. Staff and GMO dispute only whether the Commission should order the reporting in Appendix D to continue. GMO objects only to the implication that it has failed to deliver something demanded of it. That dispute

requires no findings of fact and no conclusions of law because no party seeks relief on it. Therefore, without any finding that GMO has failed to do anything listed in Appendix D, the Commission will order GMO to do, or continue to do, the reporting listed in Appendix D.

Changes to FAC Tariff Sheet Terminology. Staff asks the Commission to order GMO's FAC tariff modified to include replacement sheets that, without making substantive changes, employ standard terminology proposed for all of the Missouri regulated electrical corporations FACs. No party opposes that request so the Commission makes no findings of fact and no conclusions of law. Therefore, the Commission will order that any FAC tariff sheets filed pursuant to this report and order shall employ the language sought by Staff as set forth in the revised exemplar FAC tariff sheets.

V. Compliance Tariffs

For those reasons, the Commission will reject the tariffs and order the filing of new tariff sheets in compliance with this report and order ("compliance tariffs"). The parties request approval of such compliance tariffs effective on January 26, 2013. To accommodate that request, the Commission will expedite the effective date for this decision,[98] the filing date for compliance tariffs, and the filing date for Staff's recommendation on the compliance tariffs.

THE COMMISSION ORDERS THAT:

1. The provisions of the following documents are incorporated into this order as if fully set forth, either as the Commission's order or as a consent order, as described in the body of this report and order:

---

[98] Section 386.490.2, RSMo 2000.

a. In File Nos. ER-2012-0174 and ER-2012-0175:

Document	Filed (2012)
Partial Nonunanimous Stipulation and Agreement Respecting Kansas City Water Services Department and Airport Issues	October 19
Non-Unanimous Stipulation and Agreement as to Certain Issues	October 19
Non-Unanimous Stipulation and Agreement Regarding Low-Income Weatherization and Withdrawal of Objection and Request for Hearing	October 26
Non-Unanimous Stipulation and Agreement Regarding Praxair, Inc., Ag Processing Inc a Cooperative and the Midwest Energy Users' Association's Objection and Withdrawal of Objection and Request for Hearing	October 29

b. In File No. ER-2012-0174:

Second Non-Unanimous Stipulation and Agreement as to Certain Issues	November 8

c. In File No. ER-2012-0175:

Non-Unanimous Stipulation and Agreement Regarding Class Cost of Service / Rate Design	October 29
Second Non-Unanimous Stipulation and Agreement as to Certain Issues	November 8

2. The first and second motions to strike, as described in the body of this report and order, are denied without ruling on the merits. The third motion to strike, as described in the body of this report and order, is denied.

3. The *Motion to Update Reply Brief* and *Motion to Provide Supplemental Authorities*, including the additional orders filed on December 26, 2012, are granted.

4. All other rulings described in the body of this report and order are made in, and incorporated into, this paragraph as if fully set forth; and, on those grounds, the tariff sheets listed in Appendix E are rejected.

5. No later than January 16, 2013:

a. Kansas City Power and Light Company ("KCPL") shall file a new tariff consistent with the rulings described in this report and order ("compliance tariff") under File No. ER-2012-0174; and

b. KCPL Greater Missouri Operations Company ("GMO") shall file a compliance tariff in File No. ER-2012-0175.

6. No later than January 24, 2013, the Commission's staff shall file a recommendation on the compliance tariffs.

7. No later than February 5, 2013, the information required under Section 393.275.1, RSMo 2000, and 4 CSR 240-10.060 shall be filed:

a. By KCPL in File No. ER-2012-0174; and

b. By GMO in File No. ER-2012-0175

8. This order shall become effective on January 9, 2013.

BY THE COMMISSION

(S E A L)

Shelley Brueggemann
Acting Secretary

Gunn, Chm., Jarrett, Kenney, and
Stoll, CC., concur;
and certify compliance with the
provisions of Section 536.080, RSMo.

Dated at Jefferson City, Missouri,
on this 9th day of January, 2013

Appendix A: Appearances

Party	Counsel	Counsel's Address
i. Applicants		
Kansas City Power & Light Company; and KCP&L Greater Missouri Operations Company	James M. Fischer	101 Madison Street Jefferson City, Missouri 65101
	Lisa A. Gilbreath Karl Zobrist	4520 Main, Suite 1100 Kansas City, MO 64111
	Heather A. Humphrey Roger W. Steiner	1200 Main, PO Box 418679 Kansas City, MO 64141-9679
	Charles W. Hatfield	230 W. McCarty Street Jefferson City, MO 65101-1553
ii. Parties under 4 CSR 240-2.010(10)		
Staff of the Commission	Kevin Thompson Steven Dottheim Nathan Williams Jeff Keevil Sarah Kliethermes Annette Slack Tanya Alm John Borgmeyer	P.O. Box 360 200 Madison Street, Suite 800 Jefferson City, MO 65102
Office of the Public Counsel	Lewis R. Mills, Jr. Christina Baker	200 Madison Street, Suite 650 P.O. Box 2230 Jefferson City, MO 65102
iii. Intervenors		
AARP; and Consumers Council of Missouri	John B. Coffman	871 Tuxedo Blvd. St. Louis, MO 63119-2044
AG Processing, Inc. a Cooperative and Midwest Energy Users' Group[99]	Stuart Conrad	3100 Broadway Suite 1209 Kansas City, MO 64111
City of Kansas City, Missouri	Mark W. Comley	601 MonRoE Street., Suite 301 Jefferson City, MO

[99] Which sometimes calls itself Midwest Energy Users' Association.

		65102-0537
Dogwood Energy, LLC	Carl J. Lumley	130 S. Bemiston, Ste 200 St. Louis, MO 63105
Federal Executive Agencies	Steven E. Jones	1104 SE Talonia Drive Lee's Summit, MO 64081
Midwest Energy Consumers Group	David Woodsmall	807 Winston Court Jefferson City, MO 65101
Midwest Energy Users' Association-Kansas City[100]	Reed J. Bartels	3100 Broadway, Suite 1209
	Jeremiah D. Finnegan	1200 Penntower Office Center 3100 Broadway Kansas City, MO 64111
Missouri Department of Natural Resources	Jessica L. Blome Mary Ann Young	221 W. High Street P.O. Box 899 Jefferson City, MO 65102
The Empire District Electric Company	Diana C. Carter	312 East Capitol P.O. Box 456 Jefferson City, MO 65102
Southern Union Company	Dean L. Cooper	312 East Capitol P.O. Box 456 Jefferson City, MO 65102
	Todd J. Jacobs	3420 Broadway Kansas City, MO 64111
Missouri Industrial Energy Consumers	Diana M. Vuylsteke John R. Kindschuh	211 N. Broadway, Suite 3600 St. Louis, MO 63102
Natural Resources Defense Council; and Sierra Club	Henry B. Robertson	705 Olive Street, Suite 614 St. Louis, MO 63101
	Thomas Cmar	5042 N. Leavitt St., Ste 1 Chicago, IL 60625
	Shannon Fisk	1617 John F. Kennedy Blvd. Suite 1675 Philadelphia, PA 19103
Earth Island Institute d/b/a Renew Missouri	Shannon Fisk	1617 John F. Kennedy Blvd Suite 1675, Philadelphia, PA 19103
Union Electric Company	James B. Lowery	111 South Ninth St. Suite 200, P.O. Box 918 Columbia, MO 65205-0918
	Thomas M. Byrne	1901 Chouteau Avenue P.O. Box 66149 (MC 1310) St. Louis, MO 63166-6149
United States Air Force-	Steven E. Jones	1104 SE Talonia Drive

[100] Which also sometimes calls itself Midwest Energy Users' Association.

Whiteman AFB and other affected federal agencies		Lee's Summit, MO 64081
	Capt. Samuel T. Miller	139 Barnes Drive, Suite 1 Tyndall Air Force Base, FL 32403
United States Department of Energy and other affected federal agencies	Therese LeBlanc	2000 E. 95th St. P.O. Box 419159 Kansas City, MO 64141
	Arthur Perry Bruder	1000 Independence Ave. SW Washington, DC 20585
Missouri Joint Municipal Electrical Utility Commission	Douglas L. Healy	939 Boonville, Suite A Springfield, Missouri 65802

Senior Regulatory Law Judge: Daniel Jordan.

Appendix B: Briefs and Statements after Evidentiary Hearing

i. Initial Briefs

Party	ER-2012-0174 and ER2012-0175	
Kansas City Power & Light Company; and KCP&L Greater Missouri Operations Company	Proposed Findings of Fact and Conclusions of Law of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company; and Initial Post-Hearing Brief of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company	
Staff	Staff's Initial Brief	
Office of the Public Counsel	Initial Brief of the Office of the Public Counsel	
AARP	Initial Brief of AARP	
Consumers Council of Missouri	Initial Brief of Consumers Council of Missouri	
Federal Executive Agencies[101]	The Federal Executive Agencies' Post-Hearing Brief on Rate of Return and Capital Structure	
Missouri Industrial Energy Consumers	Initial Brief of Missouri Industrial Energy Consumers	
	ER-2012-0174	**ER-2012-0175**
Midwest Energy Consumers' Group	Initial Posthearing Brief of Midwest Energy Consumers' Group (KCPL Issues)	Initial Posthearing Brief of Midwest Energy Consumers' Group (GMO Issues)
Southern Union Company	Initial Brief of Southern Union Company d/b/a Missouri Gas Energy	Initial Brief of Southern Union Company d/b/a Missouri Gas Energy
	ER-2012-0174	
Sierra Club	Brief of Sierra Club	
Midwest Energy Users' Association-Kansas City	Post-Hearing Brief Midwest Energy Users' Association	
Praxair, Inc.	Praxair, Inc. Statement in Lieu of Initial Brief	
	ER-2012-0175	
Midwest Energy Users' Group and AG Processing, Inc. a Co-Operative	Initial Brief on Limited Issues by Midwest Energy Users' Group and AG Processing, Inc. a Co-Operative	
Dogwood Energy, LLC	Proposed Findings of Fact and Conclusions of Law; and Brief	
Federal Executive Agencies[102]	The Federal Executive Agencies' Post-Hearing Brief on Transmission Tracker	

[101] Filed by counsel for the United States Department of Energy.

[102] Filed by counsel for the United States Air Force.

ii. Reply Briefs

Party	ER-2012-0174 and ER2012-0175
Kansas City Power & Light Company; and KCP&L Greater Missouri Operations Company	Reply Post-Hearing Brief of Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company
Staff	Staff's Reply Brief
Office of the Public Counsel	Post-Hearing Reply Brief of the Office of the Public Counsel
Federal Executive Agencies	The Federal Executive Agencies' Reply Brief on Rate of Return and Capital Structure
Missouri Industrial Energy Consumers	Reply Brief of the Missouri Industrial Energy Consumers
Midwest Energy Consumers' Group	Reply Posthearing Brief of Midwest Energy Consumers' Group; and Proposed Findings of Fact and Conclusions of Law
Southern Union Company	Reply Brief of Southern Union Company d/b/a Missouri Gas Energy
	ER-2012-0174
Sierra Club	Reply Brief of Sierra Club
Midwest Energy Users' Association-Kansas City	Post-Hearing Reply Brief Midwest Energy Users' Association-Kansas City
	ER-2012-0175
Dogwood Energy, LLC	Dogwood Energy, LLC's Reply Brief

Appendix C: USoA Accounts for Other Regulatory Assets and Liabilities

182.3 Other regulatory assets.

A. This account shall include the amounts of regulatory-created assets, not includible in other accounts, resulting from the ratemaking actions of regulatory agencies. (See Definition No. 31.)

B. The amounts included in this account are to be established by those charges which would have been included in net income, or accumulated other comprehensive income, determinations in the current period under the general requirements of the Uniform System of Accounts but for it being probable that such items will be included in a different period(s) for purposes of developing rates that the utility is authorized to charge for its utility services. When specific identification of the particular source of a regulatory asset cannot be made, such as in plant phase-ins, rate moderation plans, or rate levelization plans, account 407.4, regulatory credits, shall be credited. The amounts recorded in this account are generally to be charged, concurrently with the recovery of the amounts in rates, to the same account that would have been charged if included in income when incurred, except all regulatory assets established through the use of account 407.4 shall be charged to account 407.3, Regulatory debits, concurrent with the recovery in rates.

C. If rate recovery of all or part of an amount included in this account is disallowed, the disallowed amount shall be charged to Account 426.5, Other Deductions, or Account 435, Extraordinary Deductions, in the year of the disallowance.

D. The records supporting the entries to this account shall be kept so that the utility can furnish full information as to the nature and amount of each regulatory asset included in this account, including justification for inclusion of such amounts in this account.

18 C.F.R. § 201

254 Other regulatory liabilities.

A. This account shall include the amounts of regulatory liabilities, not includible in other accounts, imposed on the utility by the ratemaking actions of regulatory agencies. (See Definition No. 30.)

B. The amounts included in this account are to be established by those credits which would have been included in net income, or accumulated other comprehensive income, determinations in the current period under the general requirements of the Uniform System of Accounts but for it being probable that: Such items will be included in a different period(s) for purposes of developing the rates that the utility is authorized to charge for its utility services; or refunds to customers, not provided for in other accounts, will be required. When specific identification of the particular source of the regulatory liability cannot be made or when the liability arises from revenues collected pursuant to tariffs on file at a regulatory agency, account 407.3, regulatory debits, shall be debited. The amounts recorded in this account generally are to be credited to the same account that would have been credited if included in income when earned except: All regulatory liabilities established through the use of account 407.3 shall be credited to account 407.4, regulatory credits; and in the case of refunds, a cash account or other appropriate account should be credited when the obligation is satisfied.

C. If it is later determined that the amounts recorded in this account will not be returned to customers through rates or refunds, such amounts shall be credited to Account 421, Miscellaneous Nonoperating Income, or Account 434, Extraordinary Income, as appropriate, in the year such determination is made.

D. The records supporting the entries to this account shall be so kept that the utility can furnish full information as to the nature and amount of each regulatory liability included in this account, including justification for inclusion of such amounts in this account.

18 C.F.R. § 201

Appendix D: Additional FAC Reporting

- As part of the information GMO submits when it files a tariff modification to change its FAC rate, GMO includes GMO's calculation of the interest included in the proposed rate;
- GMO maintains at GMO's corporate headquarters or at some other mutually agreed upon place within a mutually agreed upon time for review, a copy of each and every nuclear fuel, coal and transportation contract GMO has that is, or was, in effect for the previous four years;
- Within 30 days of the effective date of each and every nuclear fuel, coal and transportation contract GMO enters into, GMO provides both notice to the Staff of the contract and opportunity to review the contract at GMO's corporate headquarters or at some other mutually agreed upon place;
- GMO maintains at GMO's corporate headquarters or provides at some other mutually agreed upon place within a mutually agreed upon time, a copy for review of each and every natural gas contract GMO has that is in effect;
- Within 30 days of the effective date of each and every natural gas contract GMO enters into, GMO provides both notice to the Staff of the contract and opportunity for review of the contract at GMO's corporate headquarters or at some other mutually agreed upon place;
- GMO provides a copy of each and every GMO hedging policy that is in effect at the time the tariff changes ordered by the Commission in this rate case go into effect for Staff to retain;

- Within 30 days of any change in a GMO hedging policy, GMO provides a copy of the changed hedging policy for Staff to retain;
- GMO provides a copy of GMO's internal policy for participating in the SPP, including any GMO sales or purchases from that market that are in effect at the time the tariff changes ordered by the Commission in this rate case go into effect for Staff to retain; and
- If GMO revises any internal policy for participating in the SPP, within 30 days of that revision, GMO provides a copy of the revised policy with the revisions identified for Staff to retain.

Appendix E: Tariff Sheets Rejected

The tariff sheets rejected are:

i. In File No. ER-2012-0174, the tariff assigned tracking number YE-2012-0404:

Kansas City Power & Light Company
PSC Mo. No. 7

11th Revised Sheet No. TOC-1, canceling 10th Revised Sheet No. TOC-1
7th Revised Sheet No. 5A, canceling 6th Revised Sheet No. 5A
7th Revised Sheet No. 5B, canceling 6th Revised Sheet No. 5B
2nd Revised Sheet No. 5C, canceling 1st Revised Sheet No. 5C
2nd Revised Sheet No. 6, canceling 1st Revised Sheet No. 6
7th Revised Sheet No. 8, canceling 6th Revised Sheet No. 8
6th Revised Sheet No. 8A, canceling 5th Revised Sheet No. 8A
7th Revised Sheet No. 9A, canceling 6th Revised Sheet No. 9A
7th Revised Sheet No. 9B, canceling 6th Revised Sheet No. 9B
2nd Revised Sheet No. 9E, canceling 1st Revised Sheet No. 9E
7th Revised Sheet No. 10A, canceling 6th Revised Sheet No. 10A
7th Revised Sheet No. 10B, canceling 6th Revised Sheet No. 10B
7th Revised Sheet No. 10C, canceling 6th Revised Sheet No. 10C
2nd Revised Sheet No. 10E, canceling 1st Revised Sheet No. 10E
7th Revised Sheet No. 11A, canceling 6th Revised Sheet No. 11A
7th Revised Sheet No. 11B, canceling 6th Revised Sheet No. 11B
7th Revised Sheet No. 11C, canceling 6th Revised Sheet No. 11C
2nd Revised Sheet No. 11E, canceling 1st Revised Sheet No. 11E
7th Revised Sheet No. 14A, canceling 6th Revised Sheet No. 14A
7th Revised Sheet No. 14B, canceling 6th Revised Sheet No. 14B
7th Revised Sheet No. 14C, canceling 6th Revised Sheet No. 14C
2nd Revised Sheet No. 14E, canceling 1st Revised Sheet No. 14E
7th Revised Sheet No. 17A, canceling 6th Revised Sheet No. 17A
3rd Revised Sheet No. 17D, canceling 2nd Revised Sheet No. 17D
7th Revised Sheet No. 18A, canceling 6th Revised Sheet No. 18A
7th Revised Sheet No. 18B, canceling 6th Revised Sheet No. 18B
7th Revised Sheet No. 18C, canceling 6th Revised Sheet No. 18C
3rd Revised Sheet No. 18E, canceling 2nd Revised Sheet No. 18E
7th Revised Sheet No. 19A, canceling 6th Revised Sheet No. 19A
7th Revised Sheet No. 19B, canceling 6th Revised Sheet No. 19B
7th Revised Sheet No. 19C, canceling 6th Revised Sheet No. 19C
3rd Revised Sheet No. 19D, canceling 2nd Revised Sheet No. 19D
7th Revised Sheet No. 20C, canceling 6th Revised Sheet No. 20C
1st Revised Sheet No. 20E, canceling Original Sheet No. 20E
2nd Revised Sheet No. 24, canceling 1st Revised Sheet No. 24
12th Revised Sheet No. 24A, canceling 11th Revised Sheet No. 24A
3rd Revised Sheet No. 25D, canceling 2nd Revised Sheet No. 25D
3rd Revised Sheet No. 26D, canceling 2nd Revised Sheet No. 26D

6th Revised Sheet No. 28B, canceling 5th Revised Sheet No. 28B
2nd Revised Sheet No. 28D, canceling 1st Revised Sheet No. 28D
2nd Revised Sheet No. 29D, canceling 1st Revised Sheet No. 29D
7th Revised Sheet No. 30, canceling 6th Revised Sheet No. 30
1st Revised Sheet No. 30A, canceling Original Sheet No. 30A
7th Revised Sheet No. 33, canceling 6th Revised Sheet No. 33
3rd Revised Sheet No. 33B, canceling 2nd Revised Sheet No. 33B
7th Revised Sheet No. 35, canceling 6th Revised Sheet No. 35
7th Revised Sheet No. 35A, canceling 6th Revised Sheet No. 35A
7th Revised Sheet No. 35B, canceling 6th Revised Sheet No. 35B
7th Revised Sheet No. 35C, canceling 6th Revised Sheet No. 35C
7th Revised Sheet No. 36, canceling 6th Revised Sheet No. 36
7th Revised Sheet No. 36A, canceling 6th Revised Sheet No. 36A
7th Revised Sheet No. 36B, canceling 6th Revised Sheet No. 36B
7th Revised Sheet No. 37, canceling 6th Revised Sheet No. 37
7th Revised Sheet No. 37A, canceling 6th Revised Sheet No. 37A
7th Revised Sheet No. 37B, canceling 6th Revised Sheet No. 37B
7th Revised Sheet No. 37C, canceling 6th Revised Sheet No. 37C
7th Revised Sheet No. 37D, canceling 6th Revised Sheet No. 37D
7th Revised Sheet No. 37E, canceling 6th Revised Sheet No. 37E
7th Revised Sheet No. 37F, canceling 6th Revised Sheet No. 37F
7th Revised Sheet No. 37G, canceling 6th Revised Sheet No. 37G
7th Revised Sheet No. 45, canceling 6th Revised Sheet No. 45
7th Revised Sheet No. 45A, canceling 6th Revised Sheet No. 45A
1st Revised Sheet No. 43Z, canceling Original Sheet No. 43Z
1st Revised Sheet No. 43Z.1, canceling Original Sheet No. 43Z.1
1st Revised Sheet No. 43Z.2, canceling Original Sheet No. 43Z.2
1st Revised Sheet No. 43Z.3, canceling Original Sheet No. 43Z.3
1st Revised Sheet No. 43AQ, canceling Original Sheet No. 43AQ
1st Revised Sheet No. 50, canceling Original Sheet No. 50.

ii. In File No. ER-2012-0175, the tariff assigned tracking number YE-2012-0405.

KCP&L Greater Missouri Operations Company
PSC Mo. No. 1, Electric Rates
5th Revised Sheet No. 1, canceling 4th Revised Sheet No.1
6th Revised Sheet No. 18, canceling 5th Revised Sheet No. 18
6th Revised Sheet No. 19, canceling 5th Revised Sheet No. 19
6th Revised Sheet No. 21, canceling 5th Revised Sheet No. 21
6th Revised Sheet No. 22, canceling 5th Revised Sheet No. 22
6th Revised Sheet No. 23, canceling 5th Revised Sheet No. 23
6th Revised Sheet No. 24, canceling 5th Revised Sheet No. 24
6th Revised Sheet No. 25, canceling 5th Revised Sheet No. 25
6th Revised Sheet No. 28, canceling 5th Revised Sheet No. 28
6th Revised Sheet No. 29, canceling 5th Revised Sheet No. 29
6th Revised Sheet No. 31, canceling 5th Revised Sheet No. 31

6th Revised Sheet No. 34, canceling 5th Revised Sheet No. 34
6th Revised Sheet No. 35, canceling 5th Revised Sheet No. 35
6th Revised Sheet No. 41, canceling 5th Revised Sheet No. 41
6th Revised Sheet No. 42, canceling 5th Revised Sheet No. 42
6th Revised Sheet No. 43, canceling 5th Revised Sheet No. 43
6th Revised Sheet No. 44, canceling 5th Revised Sheet No. 44
6th Revised Sheet No. 47, canceling 5th Revised Sheet No. 47
6th Revised Sheet No. 48, canceling 5th Revised Sheet No. 48
6th Revised Sheet No. 50, canceling 5th Revised Sheet No. 50
5th Revised Sheet No. 51, canceling 4th Revised Sheet No. 51
5th Revised Sheet No. 52, canceling 4th Revised Sheet No. 52
5th Revised Sheet No. 53, canceling 4th Revised Sheet No. 53
5th Revised Sheet No. 54, canceling 4th Revised Sheet No. 54
5th Revised Sheet No. 56, canceling 4th Revised Sheet No. 56
5th Revised Sheet No. 57, canceling 4th Revised Sheet No. 57
6th Revised Sheet No. 60, canceling 5th Revised Sheet No. 60
6th Revised Sheet No. 61, canceling 5th Revised Sheet No. 61
5th Revised Sheet No. 66, canceling 4th Revised Sheet No. 66
5th Revised Sheet No. 67, canceling 4th Revised Sheet No. 67
5th Revised Sheet No. 68, canceling 4th Revised Sheet No. 68
5th Revised Sheet No. 70, canceling 4th Revised Sheet No. 70
5th Revised Sheet No. 71, canceling 4th Revised Sheet No. 71
5th Revised Sheet No. 74, canceling 4th Revised Sheet No. 74
5th Revised Sheet No. 76, canceling 4th Revised Sheet No. 76
5th Revised Sheet No. 79, canceling 4th Revised Sheet No. 79
5th Revised Sheet No. 80, canceling 4th Revised Sheet No. 80
6th Revised Sheet No. 88, canceling 5th Revised Sheet No. 88
6th Revised Sheet No. 89, canceling 5th Revised Sheet No. 89
5th Revised Sheet No. 90, canceling 4th Revised Sheet No. 90
6th Revised Sheet No. 91, canceling 5th Revised Sheet No. 91
6th Revised Sheet No. 92, canceling 5th Revised Sheet No. 92
4th Revised Sheet No. 93, canceling 3rd Revised Sheet No. 93
6th Revised Sheet No. 95, canceling 5th Revised Sheet No. 95
5th Revised Sheet No. 103, canceling 4th Revised Sheet No. 103
5th Revised Sheet No. 104, canceling 4th Revised Sheet No. 104
1st Revised Sheet No. 127.6, canceling Original Sheet No. 127.6
1st Revised Sheet No. 127.7, canceling Original Sheet No. 127.7
1st Revised Sheet No. 127.8, canceling Original Sheet No. 127.8
1st Revised Sheet No. 127.9, canceling Original Sheet No. 127.9
Original Sheet No. 127.11
Original Sheet No. 127.12
Original Sheet No. 127.13
Original Sheet No. 127.14
Original Sheet No. 127.15
1st Revised Sheet No. 143, canceling Original Sheet No. 143

KCP&L Greater Missouri Operations Company
PSC Mo. No. 1, Electric Rules and Regulations
1st Revised Sheet No. 62.15, canceling Original Sheet No. 62.15
1st Revised Sheet No. 62.16, canceling Original Sheet No. 62.16
1st Revised Sheet No. 62.17, canceling Original Sheet No. 62.17
1st Revised Sheet No. 62.18, canceling Original Sheet No. 62.18.