

## RECOMMENDATION MEMORANDUM

**To:** Missouri Public Service Commission  
Official Case File Case No. EO-2010-0211  
KCPL Greater Missouri Operations Company

**From:** Cary G. Featherstone, Auditor V, USD - Auditing Department

/s/ Cary G. Featherstone 02-16-10                      /s/ Jennifer Hernandez 02-16-10  
Project Coordinator / Date                      Staff Counsel's Office / Date

**Subject:** Staff Recommendation in Case No. EO-2010-0211  
KCPL Greater Missouri Operations Company request for Commission approval  
to sell its Liberty Service Center to a non-affiliated third party

**Date:** February 16, 2010

### Summary and Recommendation

On January 14, 2010, KCPL Greater Missouri Operations Company (KCPL-GMO) filed an application seeking Commission approval for the sale of the Liberty Service Center. The pending sale agreement is with Tuf-Flight Industries, Inc. (Tuf-Flight) for \*\* \_\_\_\_ \*\*. Aquila, Inc (Aquila) formally operated the Liberty Service Center as the north service center located in Liberty, Missouri [Application paragraphs 4 and 5]. The Liberty Service Center closed after Great Plains Energy Company (Great Plains or GPE) acquired Aquila, and Kansas City Power & Light Company (KCPL) and KCPL-GMO consolidated the customer service operations into KCPL's Northland Service Center. The consolidation formed a combined service center serving both the former Aquila service area and the KCPL service area [Application paragraph 6]. KCPL-GMO states at paragraph 7 of its application that the proposed sale of the Liberty Service Center "is not detrimental to the public interest since the sale will result in more efficient operations for KCP&L-GMO and KCP&L. Synergy savings from this proposed sale will be passed along to customers in future rate cases involving KCP&L-GMO and KCP&L..."

On January 19, 2010, the Commission issued an Order Directing Staff Status Report, which directed the Staff to file a recommendation and legal analysis regarding the proposed sale transaction by February 16, 2010. Staff recommends that the Commission approve the KCPL-GMO application requesting the sale of the Liberty Service Center to a third party non-affiliate of KCPL-GMO subject to the following ordered conditions:

1. Staff makes no ratemaking decision in this case relative to the sale of the Liberty Service Center and the Staff recommends the Commission include in its ordered section that no ratemaking decision is being made in this case relative to the sale of the Liberty Service Center and the parties will address the proper ratemaking treatment for this transaction in future KCPL and KCPL GMO rate cases.

\*\* Denotes Highly Confidential Information \*\*

Appendix A

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2. KCPL-GMO and KCPL will immediately notify the Commission's Engineering and Management Services Department Manager in the event that the 24 hour, seven day a week continual customer service coverage is discontinued relative to the portion of its service territory historically covered by the Liberty Service Center.
3. KCPL-GMO and KCPL shall supplement its customer service to the rural areas formerly served by the Liberty Service Center to the extent necessary to provide safe and adequate service.
4. KCPL-GMO and KCPL will notify the Managers of the Commission's Energy Department and Engineering and Management Services Department before any changes to the more rural service areas formally served by the Liberty Service Center take place.
5. In accordance with Commission Orders in Case Nos. ER-2004-0034 and EO-2005-0329, KCPL-GMO and KCPL will continue to submit monthly service quality reporting data to the Staff, including System Average Interruption Duration Index (SAIDI), System Average Interruption Frequency Index (SAIFI) and Customer Average Interruption Duration Index (CAIDI) metrics. KCPL-GMO and KCPL will also notify the Managers of the Commission's Energy Department and Engineering and Management Services Department of all specific customer complaint information regarding service provided in each of the service areas formerly served by the Liberty and Platte City Service Centers, and currently served by the Northland Service Center.
6. KCPL-GMO and KCPL are statutorily required to request Commission approval for both the sale and disposition of any future utility property involving other service centers, or prior to the discontinuance of operations at any service center.

The Staff based its recommendation on representations made by KCPL-GMO and KCPL, and recommend approval of the sale of the Liberty Service Center as long as KCPL-GMO and KCPL make commitments as follows, to be included in any Commission order approving the sale:

1. KCPL-GMO and KCPL will not discontinue providing the Northland and Lee's Summit Service Center functions to the companies' customers identified in this case without receiving prior Commission approval.
2. KCPL-GMO and KCPL will provide 24 hours, seven days per week coverage to the Applicant's service territory formerly covered by the Liberty service center.

As of this filing, Staff is unaware of any KCPL-GMO or KCPL known or unresolved issues and/or liabilities at the Liberty Service Center after the sale to the third party. Staff believes that any present outstanding issues will be resolved by the closing date. Staff has not yet received the results of any environmental study(ies) elected by the purchaser, but has requested the results be forwarded when complete. The Staff's recommendation in this matter is condition upon there

being no environmental issues that GPE, KCPL, and/or KCPL-GMO will be responsible for in the future. The Staff will update the Commission after the receipt of any environmental study(ies) completed by the purchaser.

To the extent that any of the representations made by KCPL-GMO and KCPL during this investigation are proven to be false, inaccurate or misleading, the Staff will file a complaint, which in part, will request authority for the General Counsel's office to seek penalties in circuit court.

### **Background of the Sale Transaction**

GPE is a utility holding company whose subsidiaries are in the business of producing, transporting and distributing electricity at retail in the western and central Missouri and eastern Kansas. These subsidiaries also provide wholesale electricity to various customers in Kansas and Missouri under the jurisdiction of the Federal Energy Regulatory Commission (FERC). GPE wholly owns KCPL and KCPL-GMO.

GPE acquired the Missouri electric operations of Aquila on July 14, 2008, after the Commission approved the transaction in Case No. EM-2007-0374. The Liberty Service Center, which was part of the Aquila organization prior to the acquisition, has been closed since November 7, 2008, due to the consolidation of customer service operations into the Northland Service Center between KCPL and KCPL-GMO.

In addition to the closing of the Liberty Service Center, KCPL and KCPL-GMO closed the Platte City Service Center on September 19, 2008. The Platte City Service Center operations were also consolidated with the Northland Service Center. The Platte City facility was sold in early 2009 upon the Commission's approval in Case No. EO-2009-0148 (Order effective December 31, 2008).

### **Pre-Acquisition Liberty Service Center**

The Liberty Service Center is located at 2250 N Church Rd., Liberty, Missouri, on an 8.4 acre site with 5 acres paved. This facility has 10,000 square feet of office and warehouse space. This service center had general boundaries covering all of Clay County, north to Missouri Highway 169 to south to Missouri Highway 210, including the towns of Liberty and Glenaire. The east boundary was Ray County line, including the town of Missouri City and multiple rural customers, and the west boundary was located to I-435, including the towns of Liberty and some of Kansas City, Missouri. [Attachment A of the November 20, 2008 response from KCPL in EO-2009-0148].

Before the July 14, 2008 Aquila acquisition, the Liberty Service Center had 22 employees assigned to it, including three 3-man electric crews with 16 vehicles in total. This service center

stored materials used in the maintenance and construction of the transmission and distribution facilities of the former Aquila electric operations in Liberty, Missouri. "The service center's 18 employees included three electric 3-man line crews principally responsible for construction and maintenance of distribution system. The line crews support three electric servicemen, linemen, who act independently and are responsible for service restoration, construction and maintenance of overhead and underground services, cable locating, maintenance of street lights, and scheduled monthly inspections of substations and other apparatus." Aquila contracted meter reading to an outside vendor, but had company employees to turn-on and turn-off electric service and collect for delinquent accounts. There was also support functions for field engineering and design, and clerical and administrative employees at the Liberty facility. [Attachment A of the November 20, 2008 response from KCPL in EO-2009-0148].

At the time of the July 14, 2008 close of the Aquila acquisition, there were 22 employees assigned to the Liberty Service Center. At the time of the November 7, 2008 closing of the Liberty Service Center, there were 18 employees working out of this facility. All of these employees were transferred to KCPL's Northland Service Center. There were 16 vehicles relocated from Liberty to the Northland Service Center. [Responses 13 and 14 of November 20, 2008 letter from KCPL in EO-2009-0148].

#### **Pre-Acquisition Northland Service Center**

The Northland Service Center address is 8325 North Platte Purchase Drive, Kansas City, Missouri, which is located on the south side of Barry Road and on the east side of Platte Purchase Drive. The service center is comprised of over 48 acres (396,000 square feet paved), with 85,000 square feet being office and warehouse space. The general boundaries covering this service center are north on highway I-29 to Faucett, Missouri; south to the Missouri River; east to the Kansas state line and west to the Ray county line, just east of Missouri City, Missouri [Attachment A of the November 20, 2008 response from KCPL in EO-2009-0148].

Before the July 2008 acquisition of Aquila, the Northland Service Center had 60 employees, with 57 operations employees and three fleet service employees, all of which served only the KCPL electrical operations. This service center served very much the same function as the pre-merger GMO Liberty Service Center in that the Northland Service Center provided storage facilities for materials and facilitated delivery of electric services to customers in the service territories of KCPL. This service center has construction and maintenance crews to build and maintain the electric systems in the respective KCPL and KCPL-GMO service areas. [Response 15 and Attachment A of the November 20, 2008 response from KCPL in EO-2009-0148].

#### **Post-Acquisition Consolidated Northland Service Center after November 7, 2008**

After the closing of the Liberty service center on November 7, 2009, the combined Northland service center has 96 employees and 76 vehicles. This combined facility does the same work

functions as the previous stand-alone Aquila Liberty and Platte City service centers and the KCPL Northland service center.

The combined Northland service center will provide the same function and activities to maintain the electric distribution network for KCPL and KCPL-GMO operations and serve as a material storage, staging and reporting area for the combined work force. This service center will also serve as basis for the restoration of electric service during periods of outages. It will continue to contract with an outside vendor for meter reading activities but company employees will perform the collection of delinquent accounts and the discontinuing and reconnection of electric service. Just as the stand alone service centers had personnel to serve field engineering and design and clerical and administrative functions, the combined post-merger Northland service center will perform these functions as well.

While Northland service center serving only KCPL operations had 60 employees prior to the Aquila acquisition, it had a combined 96 employees after it combined the Platte City (closed September 19, 2008) and Liberty service centers (closed November 7, 2008). With the transfer of the 18 employees from Liberty service center after its closure and 18 employees from Platte City transferred, the combined Northland facility with its 96 employees is comparative to the 103 total service center employees for the three stand alone service centers prior to the consolidation. (60 employees for the stand-alone KCPL, 22 for Liberty and 21 employees for Platte City service centers) [Source: GMO November 20, 2008 response].

### **Operations of Kansas City Power & Light Company and KCPL Greater Missouri Operations Company**

Paragraphs 8 and 9 (pages 3 and 4) of the KCPL-GMO Application identify how the two companies intended on operating and providing utility service to its customers after the consolidation of the service centers. These paragraphs state:

8. The Greater Kansas City Metropolitan Area is managed as a single district, including both the service areas of KCP&L-GMO and KCP&L. To more efficiently serve the metropolitan area, KCP&L-GMO and KCP&L planned two service center consolidations. The first was a merger of the existing Liberty and former Platte City Service Centers into KCP&L's Northland facility. The Commission approved the sale of the Platte City Service Center in Case No. EO-2009-0148. The second consolidation will combine existing service center operations in Lee's Summit, Blue Springs, and Dodson into a new facility to be built in or near Lee's Summit along the I-470 corridor. In addition to improved efficiencies, these consolidations will also help foster a unified culture. The consolidation efforts will also deliver labor efficiencies from economies of scale. These changes will continue to improve customer

satisfaction, reliability, safety and cost related to the distribution of electricity in the Greater Kansas City Metropolitan Area.

9. Because of the geographical proximity of the existing service centers, the two consolidations discussed above will allow KCP&L-GMO and KCP&L to operate more efficiently, leveraging manpower and equipment. The combination of these service centers will allow the companies to more efficiently man crews and to be able to respond to customer requests in a timely manner. The outage response will be enhanced in the north eastern metropolitan area by inclusion of the primary population centers into KCP&L's 24/7 coverage. Operations crews assigned to the Northland Service Center are staffed in accordance with the policy of continual coverage.

In addition to the 24 hour operations that KCPL and KCPL-GMO currently use in its service centers to address customer service requirements, these entities also have certain employees assigned vehicles at their homes so they can make calls to more rural parts of the service territories. In the Platte City Service Center Sale case, (Case No. EO-2009-0148) KCPL-GMO and KCPL indicated two employees would have vehicles at their homes to make customer calls to reduce drive times from the central service centers. KCPL-GMO and KCPL use this procedure to enhance customer service for both the closing of the Liberty and Platte City service centers into the combined Northland Service Center. Having employees with vehicles at their homes allows for a quicker response in the more rural communities served by the combined Northland Service Center, as was the case for the pre-acquisition Aquila. In the more rural service areas, the former Aquila entity also utilized the practice of having its employees take vehicles home to respond to any customer concerns that occurred during the night.

### **KCPL and KCPL-GMO Customer Service**

Both KCPL-GMO and KCPL maintain customer service metrics for each of their service centers. These metrics measure the companies' response times for outages. The three metrics are a) SAIFI; b) SAIDI; and c) CAIDI. The measurements are used to determine the reliability performance of the companies' electrical system, the response times of the service centers in addressing outages, and to assist in the identification of problems and potential problems restoring the electrical system during an outage.

The following provide the metrics by service center for the period of 2003 through 2009 for Liberty, Platte City and Northland:

**ALL STATISTICS ARE WEATHER NORMALIZED**

**Liberty – (2003 - 2007 pre-acquisition Aquila)**

| <u>Year</u> | <u>SAIFI</u> | <u>SAIDI</u><br><u>(minutes)</u> | <u>CAIDI</u><br><u>(minutes)</u> | <u>Customers</u><br><u>Served</u> |
|-------------|--------------|----------------------------------|----------------------------------|-----------------------------------|
| 2003*       | **    **     | **    **                         | **    **                         | **    **                          |
| 2004        | **    **     | **    **                         | **    **                         | **    **                          |
| 2005        | **    **     | **    **                         | **    **                         | **    **                          |
| 2006        | **    **     | **    **                         | **    **                         | **    **                          |
| 2007        | **    **     | **    **                         | **    **                         | **    **                          |
| 2008        | **    **     | **    **                         | **    **                         | **    **                          |
| 2009        | **    **     | **    **                         | **    **                         | **    ** Aug 2009                 |

\* In 2003, the Platte City data was included in the Liberty data.

**Platte City – (2003 - 2007 pre-acquisition Aquila)**

| <u>Year</u> | <u>SAIFI</u> | <u>SAIDI</u><br><u>(minutes)</u> | <u>CAIDI</u><br><u>(minutes)</u> | <u>Customers</u><br><u>Served</u> |
|-------------|--------------|----------------------------------|----------------------------------|-----------------------------------|
| 2003*       | --           | --                               | --                               | --                                |
| 2004        | **    **     | **    **                         | **    **                         | **    **                          |
| 2005        | **    **     | **    **                         | **    **                         | **    **                          |
| 2006        | **    **     | **    **                         | **    **                         | **    **                          |
| 2007        | **    **     | **    **                         | **    **                         | **    **                          |
| 2008        | **    **     | **    **                         | **    **                         | **    **                          |
| 2009        | **    **     | **    **                         | **    **                         | **    ** Aug 2009                 |

**Northland – (2003 - 2007 KCPL only)**

| <u>Year</u> | <u>SAIFI</u> | <u>SAIDI</u><br><u>(minutes)</u> | <u>CAIDI</u><br><u>(minutes)</u> | <u>Customers</u><br><u>Served</u> |
|-------------|--------------|----------------------------------|----------------------------------|-----------------------------------|
| 2003        | **    **     | **    **                         | **    **                         | **    **                          |
| 2004        | **    **     | **    **                         | **    **                         | **    **                          |
| 2005        | **    **     | **    **                         | **    **                         | **    **                          |
| 2006        | **    **     | **    **                         | **    **                         | **    **                          |
| 2007        | **    **     | **    **                         | **    **                         | **    **                          |
| 2008        | **    **     | **    **                         | **    **                         | **    **                          |
| 2009        | **    **     | **    **                         | **    **                         | **    ** Aug 2009                 |

[Source: for Platte City, Liberty and Northland 2003 to 2007 information from Case No. EO-2009-0148; for 2008 and 2009 information from Case No. EO-2010-0060 Data Request 13 and 2009 information from Case No. EO-2010-0211 February 3, 2010 e-mail response]

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For comparison purposes, the following provide the metrics by service center for the period of 2003 through 2009, and January through August 2009 for the Blue Springs and Lee's Summit service centers:

| <u>Blue Springs</u> |              |                           |                           |                                   |          |
|---------------------|--------------|---------------------------|---------------------------|-----------------------------------|----------|
| <u>Year</u>         | <u>SAIFI</u> | <u>SAIDI</u><br>(minutes) | <u>CAIDI</u><br>(minutes) | <u>Customers</u><br><u>Served</u> |          |
| 2003                | ** _____ **  | ** _____ **               | ** _____ **               | ** _____ **                       |          |
| 2004                | ** _____ **  | ** _____ **               | ** _____ **               | ** _____ **                       |          |
| 2005                | ** _____ **  | ** _____ **               | ** _____ **               | ** _____ **                       |          |
| 2006                | ** _____ **  | ** _____ **               | ** _____ **               | ** _____ **                       |          |
| 2007                | ** _____ **  | ** _____ **               | ** _____ **               | ** _____ **                       |          |
| 2008                | ** _____ **  | ** _____ **               | ** _____ **               | ** _____ **                       |          |
| 2009 (Jan-Aug)      | ** _____ **  | ** _____ **               | ** _____ **               | ** _____ **                       | Aug 2009 |

| <u>Lee's Summit- KCPL</u> |              |                           |                           |                                   |          |
|---------------------------|--------------|---------------------------|---------------------------|-----------------------------------|----------|
| <u>Year</u>               | <u>SAIFI</u> | <u>SAIDI</u><br>(minutes) | <u>CAIDI</u><br>(minutes) | <u>Customers</u><br><u>Served</u> |          |
| 2003                      | ** _____ **  | ** _____ **               | ** _____ **               | ** _____ **                       |          |
| 2004                      | ** _____ **  | ** _____ **               | ** _____ **               | ** _____ **                       |          |
| 2005                      | ** _____ **  | ** _____ **               | ** _____ **               | ** _____ **                       |          |
| 2006                      | ** _____ **  | ** _____ **               | ** _____ **               | ** _____ **                       |          |
| 2007                      | ** _____ **  | ** _____ **               | ** _____ **               | ** _____ **                       |          |
| 2008                      | ** _____ **  | ** _____ **               | ** _____ **               | ** _____ **                       |          |
| 2009 (Jan-Aug)            | ** _____ **  | ** _____ **               | ** _____ **               | ** _____ **                       | Aug 2009 |

[Source: for Blue Springs and Lee's Summit service centers for 2003 and 2009 information from Case No. EO-2010-0060 Data Request 13]

### Standard Used to Make Recommendation

In the past, the Commission has used the "not detrimental to public interest" standard in the sale and disposition of utility property. Staff has used the not detrimental standard in the evaluation of the proposed sale of the Liberty Service Center. Based on the application presented by KCPL-GMO, a site visit to the abandoned Liberty Service Center and the information provided by KCPL-GMO and KCPL, Staff concurs with the Application that the proposed sale is not detrimental to the public interest.

Staff requested the customer service metrics used to evaluate system reliability and the performance of service centers. KCPL-GMO and KCPL provided the SAIFI, SAIDI and CAIDI metrics identified in the previous section. Historically, it appears that the Northland Service Center has favorable metrics compared to the Liberty Service Center. Staff will continue to

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accumulated depreciation reserve) thereby reducing the amount of return on the decreased value of rate base along with associated depreciation expense. There is expected operating savings from the consolidation of the Liberty Service Center into the Northland Service Center. Also, it is expected that property taxes will be reduced relating to the sale of Liberty Service Center, which will be reflected in the next KCPL-GMO rate case.

The service center at Liberty is no longer providing utility service to the consolidated KCPL and KCPL-GMO operations. The Liberty Service Center closed on November 7, 2008. All operational requirements previously performed out of the Liberty Service Center are now being performed from the Northland Service Center. All equipment and employee personnel have been moved and relocated to other operating entities of KCPL and KCPL-GMO. The Liberty service center should not be included in rate base in the future.

The Staff has verified that KCPL and KCPL-GMO are current on the filing of the PSC annual reports and neither of these entities is delinquent on the payment of the PSC Assessment. The Company's Application in this case does not affect the filings of any other matter that either KCPL or KCPL-GMO has pending before the Commission.

As the Staff concurs that the proposed sale is not detrimental to the public interest, the Staff recommends that the Commission approve the sale of the Liberty Service Center with the ordered conditions as set out above in the Summary and Recommendation section.

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

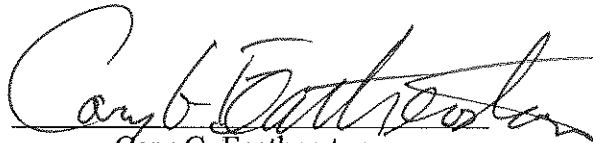
In the Matter of the Application of KCP&L )  
Greater Missouri Operations Company for )  
authority to Sell its Liberty Service Center )  
)

Case No. EO-2010-0211

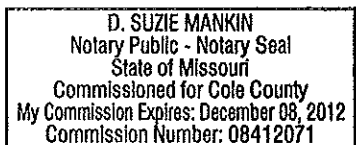
AFFIDAVIT OF CARY G. FEATHERSTONE

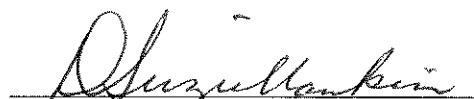
STATE OF MISSOURI            )  
  ) ss.  
COUNTY OF COLE            )

Cary G. Featherstone, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.

  
Cary G. Featherstone

Subscribed and sworn to before me this 16<sup>th</sup> day of February, 2010.



  
Notary Public