

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

Application of Kansas City Power & Light Company for Approval of the)	
Transfer of Existing Common Facilities)	
and Permit Interests, and Materials)	<u>File No. EO-2011-0334</u>
and Supplies Inventory Administration)	
at the Iatan Generating Station)	

STAFF RECOMMENDATION

Comes now the Staff of the Missouri Public Service Commission ("Staff"), by and through the undersigned counsel, and on the Staff's behalf files this Staff Recommendation and states as follows:

1. On April 11, 2011, in File No. EO-2011-0334, Kansas City Power & Light Company ("KCPL") filed a Notice Of Intended Case Filing pursuant to 4 CSR 240-4.020 stating that it intended to file an application pursuant to Section 393.190 for (1) approval of the transfer of existing common facilities located at the Iatan Generating Station to the Kansas Electric Power Cooperative, Inc. ("KEPCo") and the Missouri Joint Municipal Electric Utility Commission ("MJMEUC"); (2) approval of the transfer of interests in permits to other owners of the new Iatan Unit 2 electric generating facility ("Unit 2"); (3) approval to enter into the Unit 2 Site lease; and (4) approval, if deemed necessary, for the sale of an interest in utility property to KEPCo and MJMEUC.

2. On July 15, 2011, in File No. EO-2012-0015, The Empire District Electric Company ("Empire") filed Empire's Notice Of Intended Case Filing pursuant to 4 CSR 240-4.020. Empire made note of the April 11, 2011 filing of KCPL in File No. EO-2011-0334, and stated that as a joint owner of the Iatan facilities,

Empire will be joining in the Application to be made by KCPL and will be requesting approval from the Commission to enter into the Unit 2 Site lease agreement.

3. On March 9, 2012, in File No. EO-2011-0334, KCPL filed an Application pursuant to 4 CSR 240-2.060 and 4 CSR 240.3110 for (1) approval of the transfer of existing common facilities located at the Iatan Generating Station to the Kansas Electric Power Cooperative, Inc. ("KEPCo") and the Missouri Joint Municipal Electric Utility Commission ("MJMEUC"), pursuant to Section 393.190.1; (2) approval of the transfer of interests in permits to other owners of the new Iatan Unit 2 electric generating facility ("Unit 2"), pursuant to Section 393.190.1; and (3) approval, if deemed necessary, for the sale of an interest in utility materials and supplies inventory to KEPCo and MJMEUC. The standard for Commission approval under Section 393.190.1 RSMo. 2000 is "not detrimental to the public." *State ex rel. City of St. Louis v. Public Serv. Comm'n*, 335 Mo. 448, 73 S.W.2d 393, 400 (Mo. banc 1934).

4. On March 9, 2012, in File No. EO-2012-0015, KCPL, KCP&L Greater Missouri Operations Company ("GMO"), and Empire filed a Joint Application pursuant to 4 CSR 240-2.060 and 4 CSR 240.3110 for the approval of (1) Unit 1 owners (KCPL, GMO, and Empire) to lease, and grant easements over, portions of the Initial Iatan Station Site to the Unit 2 owners (KCPL, GMO, MJMEUC, and KEPCo) covering Unit 2 and the Common Facilities, pursuant to Section 393.190.1 RSMo., and (2) the leasing of the Nower Property by KCPL to the other Unit 1 and Unit 2 owners for the landfill portion of the Common Facilities, pursuant to Section 393.190.1 RSMo. The standard for Commission approval under Section 393.190.1 is "not detrimental to the public."

5. On March 14, 2012, the Commission issued an Order Directing Notice Of Application And Order Directing Filing in File No. EO-2011-0334 and File No. EO-2012-0015 in which, among other things, the Commission directed the Staff to file its recommendation in File No. EO-2011-0334 and in File No. EO-2012-0015 no later than April 16, 2012.

6. On April 13, 2012, the Staff filed Staff's Motion For Extension Of Time To File Staff's Recommendation. The Staff stated that it was engaged in discovery but had not completed discovery, and, as a consequence, had not completed its analysis of the pending Application and Joint Application. Therefore, the Staff requested an extension of time to Friday, June 1, 2012 to complete discovery and its analysis and file a recommendation in File No. EO-2011-0334 and File No. EO-2012-0015.

7. On April 13, 2012, the Commission issued in File No. EO-2012-0015 an Order Extending Time To File Recommendation granting the Staff an extension of time until June 1, 2012 to file its recommendation.

8. On June 1, 2012, the Staff filed Staff's Motion For Extension Of Time To June 4, 2012 To File Staff's Recommendation.

9. The Staff herewith files the attached Staff Memorandum Recommendation of Staff Auditor Charles R. Hyneman. The Staff recommends that the Commission approve, pursuant to Section 393.190.1, as not detrimental to the public interest, KCPL's Application as related in the Staff Memorandum Recommendation:

The Staff recommends that the Commission grant KCPL the authority to sell the existing common plant assets along with the interest in materials and supplies inventory to MJMEUC and KEPCo at net book value as more fully described in KCPL's Application. The Staff also recommends the

Commission approve the transfer of interests in permits to other owners of the latan Unit 2 electric generating facility.

WHEREFORE, the Staff submits herewith the Staff Memorandum Recommendation of Staff Auditor Charles R. Hyneman in this proceeding, File No. EO-2011-0334.

Respectfully submitted,

/s/ Steven Dottheim

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing *Staff Recommendation* have been transmitted electronically to all counsel of record this 4th day of June, 2012.

/s/ Steven Dottheim

MEMORANDUM

TO: Missouri Public Service Commission Official Case File, No. EO-2011-0334
Kansas City Power & Light Company

FROM: Charles R. Hyneman –Auditing Unit

/s/ Charles R. Hyneman 06/04/2012
Project Coordinator/Date

/s/ Steven Dottheim 06/04/2012
Staff Counsel's Department/Date

SUBJECT: Staff's Recommendation for Kansas City Power & Light Company Transfer of Existing Common Facilities and Permit Interests, and Materials and Supplies Inventory Administration at the Iatan Generating Station

DATE: June 4, 2012

OVERVIEW

On March 9, 2012 Kansas City Power & Light Company ("KCPL" or "Company") submitted an application ("Application") for (1) approval of the transfer of existing common facilities located at the Iatan Generating Station to the Kansas Electric Power Cooperative, Inc. ("KEPCo") and the Missouri Joint Municipal Electric Utility Commission ("MJMEUC"); (2) approval of the transfer of interests in permits to other owners of the new Iatan Unit 2 electric generating facility ("Unit 2"); and (3) approval for the sale of an interest in utility materials and supplies inventory to KEPCo and MJMEUC.

Both Iatan Unit 1 and Unit 2 generating units are located at the Iatan Generating Station in Platte County, Missouri ("Iatan Station"). For the 30-year period 1980 to 2010 the Iatan Station consisted only of Unit 1. On August 26, 2010, Iatan Unit 2, which is located adjacent to Unit 1, was placed in service.

KCPL, KCP&L Greater Missouri Operations Company (GMO), and The Empire District Electric Company (Empire) (collectively "Unit 1 Owners") own 70%, 18% and 12% of Unit 1, respectively. The ownership interests in Iatan Unit 2 are KCPL 54.71%, GMO 18%, Empire 12%, MJMEUC 11.76% and KEPCo 3.53%. The Unit 1 and Unit 2 owners have agreed to allocate Existing Common Facilities among the owners in proportion to the respective capacities of the two units (670 MW for Unit 1 and 850 MW for Unit 2 combined). Applying the combined relative ownership interests in Units 1 and 2, the resulting ownership interest in combined Common Facilities (the common plant that existed prior to the construction of Iatan 2 and the common plant constructed concurrently with Iatan 2) equates to an ownership interest for KCPL of 61.45%, GMO 18%, Empire 12%, MJMEUC 6.58%, and KEPCo 1.97%.

On May 19, 2006, KCPL along with GMO (then Aquila, Inc.), Empire, MJMEUC and KEPCo entered into an agreement entitled "*Iatan Unit 2 and Common Facilities Ownership Agreement*" (Common Plant Agreement). In this Common Plant Agreement, among other things, KCPL

agreed to sell to MJMEUC and KEPCo an interest in the Existing Common Facilities (common plant that existed at May 19, 2006) that would equate to MJMEUC and KEPCo's ownership interest in the combined common plant when the construction of Unit 2 and the Common Plant constructed with Unit 2 was completed. As noted above, this ownership percentage in total common plant for MJMEUC is 6.58% and for KEPCo is 1.97%. Also in the Common Plant Agreement, KCPL agreed to sell its Existing Common Plant to MJMEUC and KEPCo at net book value.

The substance of this Application is to synchronize MJMEUC's and KEPCO's ownership interests in the total Common Facilities that currently serve both Unit 1 and Unit 2 with MJMEUC and KEPCo's relative combined ownership interests of the actual Unit 1 and Unit 2 generating units themselves.

DISCUSSION

KCPL is proposing to sell these existing Iatan common plant assets at depreciated original cost, or net book value, which is the original constructed cost of the asset less the accumulated depreciation expense recorded since these plant assets were placed in service. The Common Plant Agreement states in section 2.2f, that the sale will be at book value.

2.2 Interests in Real Property and Common Facilities.

f) On the Reciprocal Conveyance Date:

(i) to the extent necessary to accomplish the ownership interests provided in Section 2.2(g) of this Agreement, the Unit I Owners shall execute and deliver one or more bills of sale or other instruments conveying title to the Existing Common Facilities in the appropriate undivided interest percentages at book value to the Owners and their successors and assigns, as tenants in common, subject to the provisions of this Agreement and subject to any necessary regulatory and lender approval and release of any applicable mortgage indenture (provided, however, that any Owner whose ownership interest in the Existing Common Facilities is the same percentage as the Owner's Common Facilities Ownership Share shall not be required to transfer title to Existing Common Facilities under this Section of the Agreement).....

In response to Staff Data Request No. 1, KCPL provided the following pro forma journal entries that it asserts it will make to record the sale of Existing Common Plant in its books and records. These pro forma journal entries are consistent with KCPL's assertion that, consistent with the Common Plant Agreement it will sell these assets to MJMEUC and KEPCo at net book value. While the dollar amounts will change as the depreciation reserve for these assets continues to increase until the transaction is recorded, KCPL proposes to record the sale of the Existing Common Plant as follows:

Journal Entry Number	FERC Account	Account Title	Debit	Credit
1	To record proceeds from sale			
	146/131	Accounts Receivable for MJMEUC/Cash	1,199,045	
	146/131	Accounts Receivable for KEPCO/Cash	358,985	
	102	Electric Plant Purchased or Sold		1,558,030
2	To retire book cost of assets sold			
	102	Electric Plant Purchased or Sold	5,842,120	
	101	Electric Plant In-Service		5,842,120
3	To credit 102 with depreciation reserve			
	108	Accumulated Depreciation for Electric Plant	4,284,090	
	102	Electric Plant Purchased or Sold		4,284,090

As noted above, the Iatan 2 generating unit and the Iatan 2 common plant was placed in service on August 26, 2010. Both the cost of the Iatan 2 generating facility and its associated common plant were included in rates in KCPL's 2010 rate case, File No. ER-2010-0355, and GMO's 2010 rate case, File No. ER-2010-0356. In those rate cases KCPL proposed adjustments to its plant in service to remove the plant costs associated with the portion of Existing Common Plant that it is proposing to sell to MJMEUC and KEPCo in this proposed transaction. The Staff accepted these adjustments and the cost of this plant was not included in KCPL's rate base in its 2010 rate case.

As KCPL was the owner charged with the construction of Unit 2, it was necessary that prior to and during the course of the Iatan 2 construction project KCPL acquire and make payment for various permits as listed in Exhibit C to KCPL's Application. In its Application KCPL asserts that all Unit 2 owners have paid their proportionate share of the costs of acquiring these permits and that the Common Plant Agreement requires KCPL to convey the proportionate interests in these permits to the other Unit 2 owners.

In its Application KCPL describes that its Unit 2 accounting manual contemplates that there would be three separate materials and supplies inventories: one for Unit 1, one for Unit 2 and one for Common Facilities. However, KCPL has found that maintaining three separate inventories is more expensive and in some cases, difficult to administer. KCPL states that in practice it has combined the three separate inventories into one combined inventory and when inventory items are issued, they are charged to the owners in accordance with their ownership interests in the applicable destination – Unit 1, Unit 2 or Common Facilities. Because KCPL is concerned that the transactions resulting from this inventory consolidation may be deemed to be a sale of an interest in utility property by KCPL to MJMEUC and KEPCo, it requests Commission authorization for such transactions to the extent that the Commission deems such transactions to be within its jurisdiction.

STAFF RECOMMENDATION

In KCPL's Application it requests that the Commission approve a transaction that will transfer existing common facilities located at the Iatan Generating Station to MJMEUC and KEPCo, approval of the transfer of interests in permits to certain other owners of the new Iatan Unit 2 electric generating facility, and approval for what may be considered a sale of an interest in utility materials and supplies inventory to MJMEUC and KEPCo. Based on the Staff's review, it has determined that these transactions, as proposed by KCPL in its Application, should not be detrimental to the public interest.

The Staff bases its finding on the fact that this transaction, as proposed by KCPL, should not result in an increase in costs to KCPL's customers and is consistent with a proper allocation of common plant at the Iatan Station. In addition, these transactions should have no impact on the ability of KCPL to provide safe and adequate electric service to customers in its electric utility service territory.

The Staff does not find that, for this transaction, the sale at net book value of the existing common plant to MJMEUC and KEPCo, and the consolidation of the materials and supplies inventories at the Iatan Station to be unreasonable given the nature and purpose of the transactions. Also, the allocation of interest in construction permits is reasonable considering that the other owners have paid their proportionate share of the cost of these permits. The ratemaking effect of the proportionate allocation of common plant to the individual owners as proposed by KCPL in this Application was proposed by KCPL and accepted by the Staff in KCPL's last rate case, File No. ER-2010-0355 and GMO's last rate case, File No. ER-2010-0356.

Therefore, the Staff recommends that the Commission grant KCPL the authority to sell the existing common plant assets along with the interest in materials and supplies inventory to MJMEUC and KEPCo at net book value as more fully described in KCPL's Application. The Staff also recommends the Commission approve the transfer of interests in permits to other owners of the Iatan Unit 2 electric generating facility.

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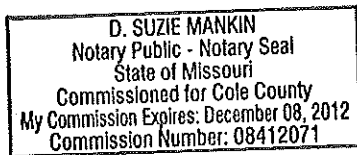
AFFIDAVIT OF CHARLES R. HYNEMAN

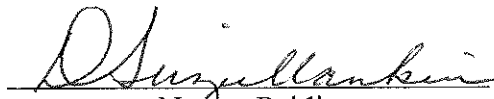
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Charles R. Hyneman, 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.


Charles R. Hyneman

Subscribed and sworn to before me this 4th day of June, 2012.




Notary Public