

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

In the Matter of a Management Audit of
Kansas City Power & Light Company

File No. EO-2016-0124

STAFF'S PROPOSED AUDIT SCOPE

COMES NOW the Staff of the Missouri Public Service Commission and files its accompanying proposed audit scope for the management audit ordered by the Missouri Public Service Commission (“Commission”) of Kansas City Power & Light Company (“KCPL”). In support thereof, the Staff states as follows:

1. On December 2, 2015, the Commission issued its *Order Requiring a Management Audit of Kansas City Power & Light Company* wherein the Commission directed the Staff to conduct a management audit of KCPL administrative and general costs (“A&G”), including potential cost savings related to a merger between KCPL and KCP&L Greater Missouri Operations Company (“GMO”). Among other things, the Commission also ordered that no later than December 16, 2015, the Staff shall file a pleading stating when it anticipates filing its final report in this in this matter.

2. On December 16, 2015, the Staff filed *Staff's Anticipated Final Report Date* in which the Staff advised that it anticipated filing its final report no later than December 31, 2016. The Staff also proposed to file its audit scope with the Commission by February 1, 2016 for approval by the Commission. The Staff indicated that it planned by February 1, 2016 to have submitted to KCPL and the Office of the Public Counsel ("Public Counsel") Staff's audit scope (reflecting answers to several Staff data requests to KCPL) and to have received back comments from KCPL and Public Counsel, if either

or both offered any. Unfortunately, these plans did not stay on track as indicated in the accompanying Staff Proposed Audit Scope. The Staff deems it more important to proceed forward and make the February 1 audit scope filing that it has set for itself. Nonetheless, the Staff welcomes any comments KCPL and/or Public Counsel may offer regarding the Staff's Proposed Audit Scope and would suggest that any such comments be filed in File No. EO-2016-0124.

WHEREFORE, the Staff files Staff's Proposed Audit Scope and requests Commission approval of said proposal.

Respectfully submitted,

/s/ Steven Dottheim

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 1st day of February, 2016.

/s/ Steven Dottheim

Management Audit of Kansas City Power & Light Company
Staff's Proposed Audit Scope
Case No. EO-2016-0124

Audit Objective

On December 2, 2015, the Missouri Public Service Commission ("Commission") ordered Staff to conduct a management audit of Kansas City Power & Light Company's ("KCPL") administrative and general costs, including potential cost savings related to a merger between KCPL and KCP&L Greater Missouri Operations Company ("GMO"). Staff's objective is to complete an audit that satisfies the final Staff scope and file a report on or before December 31, 2016.

Audit Scope

The catalyst for this audit is an issue raised in KCPL's most recent general rate increase case, In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service, Report and Order, File No. ER-2014-0370 et al., September 2, 2015. One of the disputed issues in that case was whether KCPL should be required to undergo a management audit to identify possible cost savings and efficiencies. The evidence in that case showed that KCPL has higher Administrative and General ("A&G") costs than other utilities in this region and that a management audit of those costs would benefit both customers and shareholders.¹ The Commission concluded that the Staff should conduct an audit of KCPL's A&G costs in a separate proceeding, which should include identifying any potential cost savings related to a merger between KCPL and GMO.

The scope of this audit is to determine whether KCPL's management processes are sufficient to demonstrate reasonable assurance that KCPL effectively manages its A&G costs and in a manner that identifies, examines, and implements measures toward operational efficiency which may result in cost savings. In addition, this audit will determine whether there are any potential cost savings related to a merger of KCPL and GMO.

Audit Plan

On December 18, 2015, the Staff submitted three (3) data requests to acquire information to facilitate a management audit regarding KCPL's A&G costs and potential cost savings from a merger between KCPL and GMO. These data requests were as follows:

¹ *Order Requiring A Management Audit Of Kansas City Power & Light Company*, File No. EO-2016-0124, December 2, 2015, page 1.

Data Request No. 1. Please provide all studies and related documentation regarding any consideration of merger between KCPL and GMO.

Data Request No. 2. Please provide all studies and documentation related to the management of KCPL's Administrative & General (A&G) costs for the period January 1, 2008 through December 31, 2017. This request is expected to include current budget information related to the future portion of the time period.

Data Request No. 3. Please provide all KCPL studies and documentation showing the reasonableness of its current levels of Administrative and General (A&G) costs, total costs to provide electrical service, and customer electrical rates to evaluate whether costs issues exist at KCPL and the amount of these costs issues if any are identified.

Counsel for KCPL responded on December 18, 2015, that he had "received the first three data requests this afternoon. The Company requests an extension until January 22, 2016 to answer these data requests due to the upcoming holidays and absence from the office of those responsible for answering the data requests."

Staff counsel responded on December 18, 2015, that "if KCPL takes until 1/22/16 that may cause issues with Staff providing an audit scope to the Commission by 2/1/16 as it stated in its filing it anticipates doing."

Staff did not receive any KCPL responses on or before January 22, 2016. KCPL did submit responses to Staff's data requests on Monday, January 25, 2016 and Staff is currently reviewing the material submitted in KCPL's responses. Staff had initially anticipated using the information requested in its first three (3) data requests to KCPL in developing its audit plan, but that has not proved practical. Staff did not want to delay its February 1, 2016, filing, a date Staff set for itself. Staff believes the better approach is to proceed forward and if Staff believes at any time that it is advisable to substantially change the audit parameters it would first inform the Commission and seek authorization to do so by making a filing in File No. EO-2016-0124.

Staff's audit will include an analysis of KCPL's and GMO's A&G costs as defined by the Uniform System of Accounts (USOA) using 2007 as a base period. This period was selected because it was the last year KCPL and GMO operated as separate entities. The year 2008 is a hybrid year as KCPL and GMO were jointly operated as separate entities and one entity respectively for portions of 2008. The year 2009 is the first calendar year that KCPL and GMO operated as one entity with KCPL employees operating both utilities.

Staff understands that pension expense was raised as an area causing unfavorable KCPL A&G costs comparisons in KCPL's most recent general rate increase case, ER-2014-0370. The audit will examine this area of costs. The following specific matters are currently planned for Staff's audit of A&G costs and the potential cost benefits of a KCPL and GMO merger, but they may be supplemented as the Staff audit progresses:

Administrative and General Expenses:

1. Review and determination of current and historical KCPL Administrative and General (A&G) Expenses including components that encompass those costs such as Pension Expense.
2. Review and determination of pertinent cost drivers resulting in higher or lower KCPL A&G Expense.
3. Review and determination of KCPL's internal and external control processes it uses to manage its A&G Expenses.
4. Review and determination of KCPL's A&G Expenses in comparison to other Missouri-regulated utilities including identification of such factors that should be considered in making such industry comparisons.
5. Review and determination of KCPL's current and historical customer rates including adjustments made in A&G Expenses.
6. Review and determination of KCPL's current and historical total costs.

Potential Savings Resulting From Merger of KCPL and GMO:

1. Review and determination of KCPL's and GMO's current and historical total costs.
2. Review and determination of prior costs savings resulting from acquisition of GMO property.
3. Review and determination of KCPL management actions to identify cost savings including both realized and unrealized savings to date.

Audit Report

The final stage of the audit will include providing a draft audit report, which will include Staff's findings, conclusions and recommendations to KCPL for its comments, with enough time for Staff to consider those comments, finalize its report to the Commission with KCPL's comments attached and file with the Commission its report on or before December 31, 2016.