

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
Case No. EU-2011-0034, KCP&L Greater Missouri Operations Company

FROM: Cary G. Featherstone – Project Coordinator, Auditing Department

/s/ Cary G. Featherstone 09/09/2010  
Project Coordinator/Date

/s/ Nathan Williams 09/09/2010  
Office of General Counsel/Date

SUBJECT: Staff's Recommendation for KCP&L Greater Missouri Operations Company  
Accounting Authority Order

DATE: September 9, 2010

1. On August 5, 2010, KCP&L Greater Missouri Operations Company (GMO) filed an application for an accounting authority order (AAO) that would allow GMO to treat the Iatan 2 project under "Construction Accounting" until the effective date of the rates approved in GMO's rate case in which Iatan 2 costs are proposed to be included in rate base for GMO rates.

On June 4, 2010, GMO filed a rate case designated as File No. ER-2010-0356 seeking an increase in rates in part to recover costs associated with Iatan 2.

2. The Commission issued an Order on September 3, 2010 directing Staff to file a recommendation in this case by September 10, 2010.

3. GMO specifically requested in its August 5, 2010 application authority from the Commission as follows:

This application requests a Commission order which authorizes GMO to utilize construction accounting in connection with its investments in Iatan 2 and related common plant in accordance with the terms of a Non-Unanimous Stipulation and Agreement (the "Agreement") which was filed in File No. ER-2010-0356 on July 29, 2010 and is pending Commission approval.

4. The Commission approved the Agreement on August 18, 2010.

5. GMO is an owner of 153 megawatts (18% ownership share) of the Iatan 2 Generation Unit presently being built adjacent to the existing Iatan 1 Generation Unit located near Weston, Missouri. Along with GMO, Iatan 2 is co-owned by Kansas City Power & Light Company (KCPL) (54.7% ownership share), Empire District Electric Company (Empire) (12% ownership share), Kansas Electric Power Cooperative (KEPCO) (3.5% ownership share) and the Missouri Joint Municipal Electrical Utility Commission (MJMEUC) (11.8% ownership share). When GMO filed its application on August 5, 2010, Iatan 2 had essentially completed

construction and was in its start-up and testing phase with a projected in-service date sometime in late 2010. KCPL and GMO subsequently declared Iatan 2 in-service on August 26, 2010. Staff is in the process of evaluating Iatan 2 to see if the unit meets the in-service criteria.

6. In the Agreement starting at page 1 under the Definitions section the term “Construction Accounting” is defined as:

As used in this Agreement, the following terms shall have the meanings indicated:

**Construction Accounting** – The Signatory Parties agree that GMO should be allowed to treat the Iatan 2 project under “Construction Accounting” to the effective date of new rates in the 2010-11 Rate Case. Construction Accounting will be the same treatment for expenditures and credits consistent with the treatment for Iatan 2 prior to Iatan 2’s commercial in service operation date. Construction Accounting will include treatment for test power and its valuation consistent with the treatment of such power prior to Iatan 2’s commercial in service operation date with the exception that such power valuation will include off-system sales. The AFUDC rate that will be used during this period will be consistent with the AFUDC rate calculation in Paragraph III.B.1.g. of the KCPL Experimental Alternative Regulatory Plan, as amended by the July 26, 2005 Response To Order Directing Filing of the Signatory Parties in Case No. EO-2005-0329, [i.e., a 2.5% or 250 basis point reduction in the equity portion of the AFUDC rate (or a construction accounting equity cost rate of 7.7%)]. *See* July 28, 2005 *Report And Order* in Case No. EO-2005-0329, page 18. The amortization of the amounts deferred under this Construction Accounting method will be determined by the Commission in the 2010-11 Rate Case. The non-GMO Signatory Parties reserve the right to contest amounts deferred under this Paragraph, not Construction Accounting itself, in the event that any non-GMO Signatory Party contends imprudence, unreasonableness, or no benefit to customers of costs relating to the construction of Iatan 2. Such challenge would be limited to the amount of cost deferred related to the quantification of imprudence, unreasonableness, or no benefit to customers claimed by the challenging party.

7. GMO’s application at paragraphs 4 and 8 defines construction accounting consistently with the above excerpt and the Agreement starting at page 1.

8. Both paragraph 5 of the application and page 2 of the Agreement define Fully Operational and Used for Service as:

full compliance with criteria which must be met respecting any facility or property in order for any electrical corporation to make or demand any charge for service, or in connection therewith, which is based on (a) the costs of construction in progress upon any existing or new facility of the electrical corporation, or (b) any other cost associated with owning, operating, maintaining, or financing any property; Section 393.135 RSMo. 2000. *See, e.g.,* KCP&L’s Experimental Regulatory Plan, Appendix H In-Service Test Criteria, Case No. EO-2005-0329.

9. The need for this accounting authority order is to address the time period between when Iatan 2 goes into service, commonly referred to as its commercial in-service date, and when rates in File No. ER-2010-0356 go into effect. GMO is required by the Federal Energy Regulatory Commission (FERC) and this Commission to account for this generating asset in a very specific way under the accounting for construction prescribed by the Uniform System of Accounts (USOA). Once Iatan 2 goes into service, GMO will have to transfer the generating asset from Account 107-- Construction Work in Progress to Account 101-- Plant in Service (18 Code of Federal Regulations part 101). When Iatan 2 is declared in-service and is transferred to Plant in Service, the deferred carrying charge known as allowance for funds used during construction (AFDC) ceases and GMO is required to start making monthly charges to Account 403 - Depreciation Expense. AFDC is allowed to accumulate during the time Iatan 2 is under construction and serves to provide GMO a "deferred return" on its invested capital while the generating unit is being built. This accumulation of deferred return is booked in Accounts 419.1 - Allowance for other funds used during construction and 432 - Allowance for borrowed funds used during construction - credit. Without rate relief timed to when Iatan 2 is included in Plant and depreciation starts, GMO will experience earnings decline. In order to address this issue, construction accounting has been used on occasion for major plant additions, typically power plants. The first time the Commission used construction accounting was in the 1985 KCPL Wolf Creek and 1984 AmerenUE (Union Electric) Callaway rate cases. Specifically, construction accounting for Iatan 2 construction costs was agreed to be used as part of the Experimental Regulatory Plans for KCPL in Case No. EO-2005-0329 and Empire in Case No. EO-2005-0263. There was no Experimental Regulatory Plan for Aquila, Inc. for its ownership share of Iatan 2 because of its financial condition at the time. Consistent with the treatment given to KCPL and Empire and as part of the Agreement that was reached by the Signatory Parties, GMO is seeking similar treatment for its investment share of the Iatan 2 generating plant.

10. At paragraph 10 of the application GMO states it is requesting the following:

GMO respectfully requests that it be allowed to utilize "construction accounting", as defined herein and in the Non-Unanimous Stipulation and Agreement approved in File No. ER-2010-0356, for GMO's investment in Iatan 2-related costs from the in-service date of Iatan 2 until the effective date of the rates in the GMO rate case in which its share of the Iatan 2 costs will be proposed to be included in its rate base (i.e. File No. ER-2010-0356). Such accounting treatment would be consistent with the treatment already approved by the Commission for KCP&L and Empire, and would mitigate the adverse financial consequences on GMO if AFUDC on the Iatan 2 plant is terminated and depreciation were to start on the in-service date of Iatan 2, prior to the inclusion of Iatan 2 costs in rates. In addition, such "construction accounting" would allow GMO's share of the power from Iatan 2 to continue to be treated as "test power," and would be used as an offset against the rate base associated with Iatan 2. The depreciation expense would not begin to accrue on the Applicant's books until the effective date of the rates approved in the 2010-11 GMO rate case in which it proposes to include Iatan 2 in rate base.

11. Based on the terms of the Stipulation agreed to by the parties on July 29, 2010 and approved by the Commission on August 18, 2010, Staff recommends the Commission authorize the use of construction accounting as defined above and allow GMO the use of construction accounting for its investment share of Iatan 2.

12. Staff believes the Commission should authorize the use of construction accounting for GMO's share of Iatan 2 construction costs. Staff notes that the Signatory Parties to the Agreement have reserved for the rate case the matter of the components comprising construction accounting. As such, Staff or any other Signatory Party to the Agreement is not prohibited from proposing adjustments in the 2010 GMO rate case for costs deemed to be improper part of the construction accounting calculation.

13. The Staff has verified that GMO has filed its annual report and is not delinquent on any assessment. The Staff is not aware of any other matter before the Commission that affects or is affected by this filing.

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

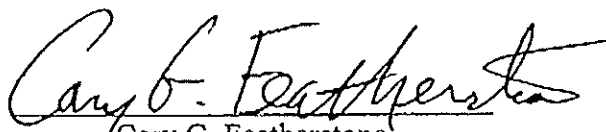
In the Matter of the Application of KCP&L     )  
Greater Missouri Operations Company for     )  
Approval of An Accounting Authority Order     )  
   )  
   )

Case No. EU-2011-0034

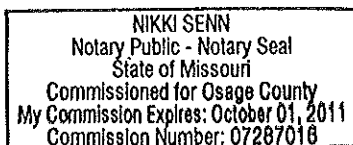
**AFFIDAVIT OF CARY G. FEATHERSTONE**

STATE OF MISSOURI     )  
   )  
COUNTY OF   Cole       )     ss.

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   9<sup>th</sup>   day of September, 2010.



  
Notary Public