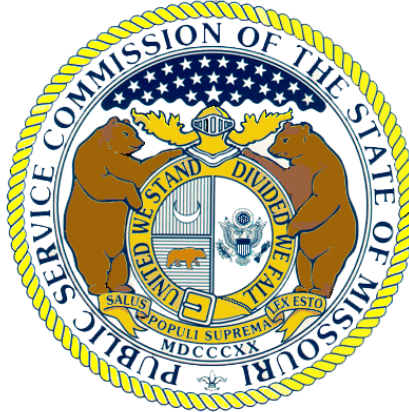


# BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI



In the Matter of the Application of Kansas City )  
Power & Light Company and KCP&L Greater )  
Missouri Operations Company for the Issuance )  
of an Accounting Authority Order relating to their )  
Electrical Operations and for a Contingent Wavier )  
of the Notice Requirement of 4 CSR 240-4.020(2) )

**File No. EU-2014-0077**

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## REPORT AND ORDER

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**Issue Date:**

**July 30, 2014**

**Effective Date:**

**August 29, 2014**

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**REPORT AND ORDER**

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**REGULATORY LAW JUDGE:**      Kim S. Burton

## **Procedural History**

On September 20, 2013, Kansas City Power & Light Company (“KCP&L”) and KCP&L Greater Missouri Operations Company (“GMO”) (jointly referred to as “Companies”) filed an *Application for Accounting Authority Order*. Companies requested an Accounting Authority Order which would permit them to use a special accounting method to track transmissions costs associated with membership in the Southwest Power Pool and other transmission providers. The Commission granted applications to intervene filed by: The Empire District Electric Company, Missouri Industrial Energy Consumers Midwest Energy Consumers Group, and Union Electric Company d/b/a Ameren Missouri.

Companies carry the burden of proof. They must show by a preponderance of the evidence that they are entitled to the requested AAO.<sup>1</sup>

## **Findings of Fact**

1. KCP&L and GMO are corporations organized under the laws of the State of Missouri and the State of Delaware. Companies provide services in Missouri as electric utilities.

2. Companies are both members of the Southwest Power Pool (“SPP”), a Federal Energy Regulatory Commission approved regional transmission organization (“RTO”). SPP administers Open Access Transmission Service (“OATS”) over approximately 48,930 miles of transmission lines, covering portions of Arkansas, Kansas, Louisiana, Nebraska, New Mexico, Oklahoma, Texas, and Missouri.<sup>2</sup>

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<sup>1</sup> *State ex rel. Tel-Central of Jefferson City, Inc. v. Public Serv. Commiss’n of Missouri*, 806 S.W.2d 432, 435 (Mo. App.W.D. 1991).

<sup>2</sup> Addo Rebuttal, pg. 9, ln. 1-4.

3. As members of SPP, Companies transferred functional control over their transmission facilities to SPP which provides transmission service pursuant to the OATS Tariff.<sup>3</sup>

4. Although SPP is a not-for-profit entity that remains revenue neutral, it must recover its costs from transmission customers, such as Companies.<sup>4</sup> The SPP OATS Tariff authorizes SPP to collect from transmission service customers, like Companies, an administrative charge for the performance of its RTO functions.<sup>5</sup> SPP's administrative charge is assessed to transmission customers on a money per MegaWatt Hour basis (\$/MWh) basis.<sup>6</sup> SPP bills Companies a load ratio share (the ratio of a transmission customer's network load to the total SPP load) of regionally allocated costs, in addition to zonally allocated costs for SPP- approved projects.<sup>7</sup>

5. SPP is in the process of a multi-year build out of construction projects to expand the SPP transmission footprint.<sup>8</sup> Due to a change in focus on regional reliability, and the construction of high voltage transmission projects planned to reduce system congestion and improve integration, SPP's administrative charges to its transmission customers are increasing.<sup>9</sup>

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<sup>3</sup> The transfer to SPP excludes certain grandfathered agreements. Direct Testimony of John Carlson, ln. 3-9.

<sup>4</sup> Carlson Direct Testimony pg. 3, ln 3-15 and Addo Rebuttal HC, pg. 8, ln 28-29.

<sup>5</sup> Oligschlaeger Rebuttal Testimony, p. 8, ln. 10-17.

<sup>6</sup> Carlson Direct testimony pg. 11 , ln. 15- pg. 12, ln. 1-19.

<sup>7</sup> Carlson Direct Testimony, pg 6, ln 12-22).

<sup>8</sup> Ives Direct Testimony, pg 3, ln 22-pg 4, ln 1.

<sup>9</sup> Carlson Direct testimony pg. 12, ln. 19.

6. SPP's Base Plan Transmission Costs allocated to KCP&L were approximately \$10.5 million for calendar year 2012 and are projected to increase by approximately 16% per year through 2022.<sup>10</sup>

7. SPP's Base Plan Transmission Costs allocated to GMO were \$5.1 million for calendar year 2012 and are projected to increase by approximately 16% per year through 2022.<sup>11</sup>

8. Companies filed an application for an Accounting Authority Order ("AAO") for transmission costs associated with SPP projects and other providers of transmission services, such as utilities, municipalities, and cooperatives from which Companies obtains transmission services.<sup>12</sup> The majority of transmission costs for which Companies seek deferral are projected to be charges from SPP.<sup>13</sup>

9. An AAO allows the "deferral" in the booking of a current expense to a utility's balance sheet as an asset.<sup>14</sup> The cost is booked by a utility based upon the possibility that a regulatory authority will agree to allow recovery of the cost in a future rate case.<sup>15</sup> This allows costs to be recorded in a period other than that in which they were actually incurred.<sup>16</sup> An AAO gives a utility the opportunity to obtain future rate recovery of

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<sup>10</sup> Carlson Direct Testimony, pg. 9, ln. 11-21.

<sup>11</sup> Carlson Direct Testimony, pg. 10, ln. 1-10.

<sup>12</sup> Oligschlaeger Rebuttal Testimony, p. 7, ln. 16-19.

<sup>13</sup> Id.

<sup>14</sup> Oligschlaeger Rebuttal Testimony, pg. 5, ln. 3-10.

<sup>15</sup> Tr. pg. 262 ln. 23 – pg. 263, ln. 8.

<sup>16</sup> Tr. pg. 179 , ln. 10- pg. 180. Ln. 3.

extraordinary costs, even if those costs were not actually incurred within an ordered test year for a general rate proceeding.<sup>17</sup>

10. Companies' external auditors and public accounting firms require explicit authorization by the Commission for an AAO before recognizing deferrals in published financial reports.<sup>18</sup> Companies cannot obtain many of the intended benefits of an AAO without the reporting of a deferral in published financial reports prepared by auditors and public accounting firms.<sup>19</sup>

11. Transmission expenses are part of the ordinary and normal costs of providing electric service by a utility and are ongoing.<sup>20</sup> Transmission costs fluctuate due to load variations, but are escalating on an annual basis.<sup>21</sup> The expansion of SPP's regional projects and the potential funding required by SPP's members has been known for some time.<sup>22</sup> The transmission cost environment faced by Companies is the norm for electric utilities within SPP and in other regions.<sup>23</sup> Companies' transmission expenses are not extraordinary.<sup>24</sup>

12. The transmission expenses for which Companies seek an AAO are the type of expenses which may be collected through a Commission approved Fuel Adjustment Charge ("FAC") authorized during a general rate case proceeding.<sup>25</sup> GMO currently has

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<sup>17</sup> Oligschlaeger Rebuttal Testimony, pg. 5, ln. 11-18.

<sup>18</sup> Tr. pg. 257, ln. 5-13.

<sup>19</sup> Tr. pg. 257, ln. 5-13.

<sup>20</sup> Oligschlaeger Rebuttal Testimony, p. 12, ln. 17 to pg. 13. Ln. 2.

<sup>21</sup> Ives Direct Testimony, pg. 3, ln. 19-20.

<sup>22</sup> Oligschlaeger Rebuttal Testimony, p. 12, ln. 8-18.

<sup>23</sup> Oligschlaeger Rebuttal Testimony, p. 12, ln. 10-16.

<sup>24</sup> Oligschlaeger Rebuttal Testimony, p. 10, ln. 14-19.

<sup>25</sup> Ives Direct Testimony, pg. 13, ln. 6-13.



an FAC; however, it does not include the transmission costs requested in the Application.<sup>26</sup>

13. As part of a previous settlement agreement (“Settlement Agreement”) KCP&L agreed that, prior to June 1, 2015, it would not seek to utilize any mechanism authorized in Senate Bill 179, such as an FAC, that might allow KCP&L to implement riders, surcharges or changes in rates outside of a general rate case based upon a consideration of less than all relevant factors.<sup>27</sup> The Settlement Agreement was approved by the Commission in a July 28, 2005 order.<sup>28</sup>

### **Conclusions of Law**

Companies are electrical corporations and public utilities, as those terms are defined in Section 383.020<sup>29</sup> and therefore subject to the Commission’s jurisdiction. The Commission’s statutory authority extends to prescribing the uniform methods by which Companies must keep accounts, records and books.<sup>30</sup> Through its rules, the Commission instructed electric utilities to comply with the Uniform System of Accounts (“USoA”).<sup>31</sup> The USoA, in its General Instruction No. 7, specifically states:

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<sup>26</sup> Tr. pg. 217, ln. 6-11. GMO’s FAC, as set in ER-2012-0175, permits GMO to measure its fuel and purchased power expenses and pass fluctuations in those costs through to customers between general rate cases.

<sup>27</sup> Senate Bill 179 enacted § 386.266, which authorizes an electrical corporation, with Commission approval, to seek periodic rate adjustments outside of a general rate proceeding to reflect increases and decreases in prudently incurred purchased-power costs, including transportation.

<sup>28</sup> In Case No. EO-2005-0329, the Commission’s order approving the Settlement Agreement went into effect on August 7, 2005.

<sup>29</sup> All statutory references are to the 2000 Revised Statutes of Missouri, as cumulatively supplemented.

<sup>30</sup> § 393.140(4).

<sup>31</sup> 4 CSR 240-20.030(1).

It is the intent that net income shall reflect all items of profit and loss during the period with the exception of prior period adjustments....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 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 not reasonably be expected to recur in the foreseeable future.

In Missouri, rates are normally established based off of a historic test year. The courts have stated that an AAO allows the deferral of a final decision on current *extraordinary* costs until a rate case and therefore is not retroactive ratemaking.<sup>32</sup> Consistent with the language in General Instruction No. 7, the Commission has evaluated the transmission costs for which Companies seek an AAO to determine if they are an unusual and infrequent occurrence. The Commission concludes they are not.

Companies began incurring transmission expenses when they began providing retail electric service. Transmission costs are part of the ordinary and normal costs of providing electric service and are expected to continue in the foreseeable future. Furthermore, while the transmission costs at issue may have a significant effect on Companies, they are not “abnormal and significantly different from the ordinary and typical activities” of the Companies. The increase in transmission costs was anticipated and is indeed the norm for all electric utility members of SPP. Therefore, the transmission costs are not extraordinary.

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<sup>32</sup> *State ex rel. Mo. Gas Energy v. Pub. Serv. Comm’n*, 301 S.W.3d 556 at 569-570 (Mo.App.2009)(internal citations omitted).

At hearing, Companies' witness Mr. Ives acknowledged that the transmission costs at issue are the type of expense that may be included in an FAC, similar to Ameren's FAC. Creating or adjusting an FAC to include transmission costs would require a general rate case under § 386.266.4. As part of a general rate case, KCP&L may seek an FAC to include transmission costs in June of 2015.

The Commission recognizes that its approval of an AAO is necessary in order for Companies to receive its intended benefits from the reporting of a deferral in published financial reports. Companies carry the burden of proof. They failed to show by a preponderance of the evidence that they are entitled to the requested AAO.<sup>33</sup> Based upon the competent and substantial evidence in the record, the Commission finds and concludes that KCP&L's and GMO's application for an AAO, or in the alternative a tracker, should be denied.

**THE COMMISSION ORDERS THAT:**

1. The Application for an Accounting Authority Order by KCP&L and GMO is denied.
2. All objections not ruled on are overruled and all pending motions not otherwise disposed of herein, or by separate order are hereby denied.

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<sup>33</sup> *State ex rel. Tel-Central of Jefferson City, Inc. v. Public Serv. Commiss'n of Missouri*, 806 S.W.2d 432, 435 (Mo. App.W.D. 1991).

3. This order shall become effective on August 29, 2014.



**BY THE COMMISSION**

A handwritten signature in cursive script that reads "Morris L. Woodruff".

Morris L. Woodruff  
Secretary

R. Kenney, Chm., Stoll, W. Kenney,  
Hall, and Rupp, CC., concur;  
and certify compliance with the  
provisions of Section 536.080, RSMo.

Dated at Jefferson City, Missouri  
on this 30<sup>th</sup> day of July, 2014.

Kim S. Burton, Regulatory Law Judge,