

**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)
Waiver of the Notice Requirement of 4 CSR 240-4.020(2).)

File No. EU-2014-0077

STAFF'S STATEMENT OF POSITIONS

COMES NOW the Missouri Public Service Commission Staff ("Staff"), by and through Staff Counsel's Office, and pursuant to the *Order Adopting Procedural Schedule* issued on October 22, 2013, hereby files *Staff's Statement Of Positions* and states as follows:

1. On October 22, 2013, the Missouri Public Service Commission ("Commission") issued its *Order Adopting Procedural Schedule* ("Order") which, *inter alia*, ordered the Parties to file *Statements Of Positions*, by January 14, 2014. In response to the Commission's *Order*, the Staff hereby files its *Statement of Positions* following the format of the *Joint List Of Issues* in the *Joint List Of Issues, List Of Witnesses, Order Of Cross-Examination, And Order Of Opening Statements* filed on January 7, 2014.

2. In preparing the *Joint List Of Issues, List Of Witnesses, Order Of Cross-Examination, And Order Of Opening Statements*, an effort was made by the Parties to list all of the issues and obtain consensus in the description of the issues. It was a best effort to list and describe all the issues in this case.

I. ISSUES

Issue 1: What standards and/or factors should be considered in granting or denying an AAO in this proceeding?

Staff's Response: The Commission has adopted criteria for granting an accounting authority order ("AAO"). The Commission set out those criteria in *Re Missouri Public Service (Mo.Pub.)*, Case Nos. EO-91-358¹ and EO-91-360,² 1 Mo.P.S.C.3d 200 (1991) ("1991 Mo.Pub. AAOs Report & Order"). The Commission stated in its 1991 Mo.Pub. AAOs Report & Order events that are extraordinary, unusual and unique, and not recurring are proper for consideration for possible AAO treatments. The Commission noted events of material / significant / substantial effect are important, but the Commission stated that it is not reasonable to defer costs to insulate shareholders from any risks. The Western District Court of Appeals affirmed the Commission's approach in *State ex rel. Public Counsel v. Public Serv. Comm'n*, 858 S.W.2d 806 (Mo.App. W.D. 1993).

Issue 2: Should KCP&L and GMO be authorized an AAO to defer and record in Account 182 of the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts ("USOA") certain incremental transmission costs charged to them by the Southwest Power Pool ("SPP") and other providers of transmission service above the level included in current base rates or defer and record in USOA Account 254 said transmission costs below the amount included in current base rates, with the calculation of the deferrals beginning with the effective date of rates in the Companies' last general rate case proceedings, which was January 26, 2013, as proposed by KCP&L and GMO?

Staff's Response: No. KCP&L and GMO are seeking to defer all transmission expenses above the level included in current base rates, excluding costs already recovered through the GMO fuel adjustment clause ("FAC") and transmission expenses associated with the Crossroads generating station in Mississippi. (KCP&L does not have an FAC, but GMO does.³) Staff does not agree that the transmission costs that KCP&L and GMO are and will be encountering due to SPP transmission projects meet the Commission's standards of extraordinary, unusual and unique, and not recurring which are necessary for granting an AAO. The Commission has indicated that materiality / significance / substantiality is of

¹ In the matter of the application of Missouri Public Service for the issuance of an accounting order relating to its electric operations.

² In the matter of the application of Missouri Public Service for the issuance of an accounting order relating to its purchase power commitments.

³ As part of the Stipulation And Agreement respecting the KCP&L Alternative Regulation Plan in Case No. EO-2005-0329, which addressed the environmental retrofit of the Iatan 1 generating unit and the construction of the Iatan 2 generating unit, KCP&L agreed, *inter alia*, not to seek an FAC prior to June 1, 2015.

concern. Staff does not view the size of the costs that KCP&L and GMO is referring to as justifying deferral treatment absent a finding that the costs are extraordinary in nature. Also transmission costs are not out of the Companies' control in the manner that wind storms, tornados, ice storms, floods and similar events of nature are out of the Companies' control.

2.a. Are there mitigating factors affecting the current operations and earnings levels of KCP&L and GMO that are relevant to the KCP&L and GMO request for AAOs?

Staff's Response: In its analysis, Staff does not arrive at the mitigating factors which MIEC-MECG identify as factors for not granting KCP&L and GMO AAOs in determining that KCP&L and GMO do not warrant AAOs. In Staff's analysis, KCP&L and GMO do not meet the standard that Staff believes the Commission has adopted for granting AAOs. The mitigating factors which MIEC-MECG identify as factors for not granting KCP&L and GMO AAOs are addressed in two of the Staff's seven conditions⁴ which the Staff recommends that the Commission should impose if the Commission grants KCP&L and/or GMO an AAO(s).

Issue 3: Should KCP&L and GMO be authorized to include carrying costs based on the Companies' latest approved weighted average cost of capital on the balances in this regulatory asset or regulatory liability of transmission costs as proposed by KCPL and GMO?

Staff's Response: No. Authorization to include carrying costs in a deferral would provide KCP&L and GMO an opportunity to avoid specific negative financial impact from incurrence of the costs being deferred. The Commission has chosen to not completely shield utilities from all "regulatory lag" associated with the costs of natural disasters deferred through AAOs, and the Commission should follow the same policy in this instance if the Commission grants KCP&L and/or GMO an AAO(s).

Issue 4: Should KCP&L and GMO be authorized to defer such amounts in a separate regulatory asset or regulatory liability with the disposition to be determined in each Company's next general rate case?

Staff's Response: No, AAOs should not be granted. However, if the Commission grants KCP&L and/or GMO an AAO(s), rate recovery, i.e., ratemaking treatment, should not be determined until the particular utility's next general rate case.

⁴ Mitigating factors identified by MIEC-MECG witness Greg R. Meyer in his prefiled Rebuttal Testimony are addressed by Staff Conditions 3 and 7.

Issue 5: Should KCP&L and GMO be authorized trackers for their transmission costs in this proceeding rather than AAOs?

Staff's Response: No. Although trackers are similar in concept to AAOs, trackers are usually (a) established in general rate proceedings for costs that are not extraordinary in nature, and generally (b) involve costs that (i) do show significant fluctuation/volatility, (ii) are not subject to accurate estimation, and (iii) are imposed by a regulatory authority. The transmission costs for which KCP&L and GMO seek deferral in EU-2014-0077 do not meet these criteria.

Issue 6: If the Commission grants KCP&L and/or GMO AAOs or trackers, should it also adopt all or any of the following conditions proposed by Staff and addressed by one or more of the other Parties?

Conditions

1. That the deferral reflects both transmission revenues and expenses, and thereby be based upon the level of net transmission costs experienced by KCP&L and GMO.

Staff's Response: Yes. To prevent a skewed and inappropriate approach to transmission accounting and ratemaking, this condition requires KCP&L and GMO to defer the transmission revenues which are associated with the transmission costs being deferred, for the purpose of netting the two.

2. That KCP&L and GMO provide to all parties in this case on a monthly basis copies of billings from SPP for all SPP rate schedules that contain charges and revenues that will be included in the deferral and report, per its general ledger, all expenses and revenues included in the deferral by month by FERC USOA account and KCP&L/GMO subaccount or minor account. KCP&L and GMO shall also provide, on no less than a quarterly basis, the internally generated reports it relies upon for management of its ongoing levels of transmission expenses and revenues. KCP&L and GMO shall also notify the Parties of any changes to its existing reporting or additional internal reporting instituted to manage its transmission revenues and expenses.

Staff's Response: Yes. The purpose of this reporting condition is it identifies information that KCP&L and GMO should provide to enable Staff to monitor ongoing levels of costs being deferred to be able to investigate any unusual trends and expedite Staff's review in subsequent rate cases.

3. That KCP&L and GMO maintain an ongoing analysis and quantification of all benefits and savings associated with participation in SPP not otherwise passed on to retail customers between general rate proceedings.

Staff's Response: Yes. The purpose of this condition is it requires KCP&L and GMO to maintain documentation quantifying ongoing benefits and savings related to membership in SPP for offset against deferred transmission costs in future rate proceedings.

4. That KCP&L and GMO maintain documentation of its efforts to minimize the level of costs deferred under any AAOs or trackers authorized for it.

Staff's Response: Yes. The purpose of this condition is to require KCP&L and GMO to maintain documentation regarding each utility's efforts to minimize transmission costs to be considered in future rate proceedings when each seeks rate recovery of transmission cost deferrals.

5. That all ratemaking considerations regarding transmission revenue and expense amounts deferred by the Company pursuant to Commission authorization be reserved to the next KCP&L and GMO rate proceedings, including examination of the prudence of the revenues and expenses.

Staff's Response: Yes. The purpose of this condition is to preclude any argument that any ratemaking determination is being made by the Commission about these particular costs in any non-ratemaking proceeding.

6. That an amortization to expense over a 60-month period of the amounts accumulated in any deferral commence on KCP&L's and GMO's books in the first full calendar month following Commission approval of the AAOs or trackers.

Staff's Response: Yes. The purpose of this condition is to prevent a utility from indefinitely delaying recognition on its financial statements of incurred costs for a prolonged period of time, especially at the time the benefits related to the expenditures are recognized in the utility's income, simply to preserve the utility's ability to recover the entirety of the cost.

7. That deferrals addressed by the AAOs or trackers cease when KCP&L or GMO report it is earning at or in excess of its authorized ROE on a twelve-month rolling forward average basis in quarterly earnings "surveillance" reporting on an overall basis. Deferrals addressed by the AAOs or trackers begin again when KCP&L or GMO report it is below its authorized ROE on a twelve-month rolling forward average basis in quarterly earnings "surveillance" reporting on an overall basis.

Staff's Response: Yes. KCP&L and GMO, individually, should be permitted to defer the effect of underrecovery in rates of transmission costs so long as KCP&L or GMO, individually, is not earning in excess of its, individual, authorized return on equity ("ROE") on a twelve-month rolling forward average overall basis using quarterly earnings surveillance reporting. Deferrals of undercollection of net transmission costs should only occur when quarterly earnings surveillance reporting shows KCP&L or GMO is earning below its ROE on an overall basis on a twelve-month rolling forward average basis. KCP&L which submits an enhanced annual surveillance report yearly would have to be ordered by the Commission to submit quarterly annual surveillance reports in the same format as Staff currently receives from GMO.

WHEREFORE, the Staff hereby submits for consideration by the Commission *Staff's Statement Of Positions*, pursuant to the *Order Adopting Procedural Schedule* issued by the Commission on October 22, 2013.

Respectfully submitted,

/s/ Steven Dottheim

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing *Staff's Statement Of Positions* have been transmitted electronically to all counsel of record this 14th day of January, 2014.

/s/ Steven Dottheim