DATA REQUEST– Set OPC_20060626
Case: ER-2006-0314
Date of Response: 07/14/2006
Information Provided By: Tim Rush
Requested by: Smith Ralph

Question No. : 5013
(a) Please confirm that it is not KCPL's intent to retain any portion of the off-system sales margin for shareholders. (b) Please confirm that KCPL, in the current case, is concerned about the risk of not actually attaining the level of off-system sales margin that would be used to develop rates in this case during the rate-effective period. (c) Please confirm that KCPL would endorse and support a mechanism to provide ratepayers with 100% of its realized off-system sales margins allocable to the Missouri jurisdiction, as long as such a mechanism would not cause substantial risks that KCPL may not be able to achieve certain minimum credit ratios (such as funds from operation to debt) during the rate effective period. (d) To the extent that a, b, or c, cannot be fully confirmed without qualification or reservation, please explain fully. (e) Please identify, quantify and explain what is the minimum FFO/Debt ratio KCPL believes it needs during the rate effective period. (f) Provide all support relied upon for your answer to part e.

Response:

(a) Yes, that is correct.
(b) Yes, that is correct.
(c) Yes, that is partially correct. In our Stipulation and Agreement in Case No.EO-2005-0329, KCPL agrees that as long as the plant assets are in rate base, asset based off-system energy and capacity sales revenues and related costs will continue to be treated above the line for ratemaking purposes.

    It is KCPL's position that the treatment of off-system sales cannot be evaluated as a single issue. Rather, it must be evaluated in concert with the authorized rate of return, credit ratios, and risk. Additionally, while the setting of rates has its basis in history, KCPL's immediate future, the period in which the rates are in effect, will not mirror its recent past.

    KCPL is concerned that it has a realistic opportunity during the rate effective period to earn the return on equity authorized in the case. An amortization amount will be determined based upon authorized rate of return. Should this return be set without regard to looking forward to the rate effective period it is not likely KCPL would be able to earn the authorized return, thus cash available from the combination of earnings and amortization would cause an inability to meet the credit ratios. It was also KCPL's intent to provide some upside to cash earnings by using the off-system sales (margin), in case the authorized rate of return was set without consideration of a forward look. Taking a forward look in setting the authorized return can also alleviate the concern. The rate of return, opportunity to earn the rate of return during the rate effective period, and the amount of off-system sales margin included in computing the current rate of return compared with the level expected in the rate effective period are critical in whether KCPL can demonstrate to S&P that it has a reasonable opportunity to meet the credit ratios during the rate effective period. KCPL will need to demonstrate that it can meet the ratios as soon as the order is issued in this case. Absent this assurance to S&P KCPL will be down graded. Meeting this assurance will likely result in a lowering of KCPL's business risk profile from a 6 to a 5 which in turn will result in much less stringent requirements of FFO/Debit in future rate effective periods.

(d) N/A

(e) The minimum FFO/Debt ratio as defined in the Regulatory Plan Stipulation & Agreement (Case # EO-2005-0329) is 25%.

(f) The minimum FFO/Debt ratio is defined in Appendix E of the Regulatory Plan Stipulation & Agreement.

Attachments: None