

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service
Commission held at its office in
Jefferson City on the 28th day
of September, 2010.

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

File No. EU-2011-0034

ORDER GRANTING ACCOUNTING AUTHORITY ORDER

Issue Date: September 28, 2010

Effective Date: October 8, 2010

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 is proposed to be included in rates. That case is File No. ER-2010-0356.

The Staff of the Commission filed a recommendation on September 9, 2010, in which it recommended approval of the AAO. Staff noted that the Commission has previously approved in File No. ER-2010-0356 the components that comprise “construction accounting” as it relates to the Iatan 2 project.

The Staff also explained in paragraph 9 of its September 9 Memorandum:

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 Unit 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 Unit 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 Unit 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 Unit 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 Unit 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 Unit 2 generating plant.

No other responses were received to the application.

The Commission has the authority to issue an AAO under Section 393.140(8), RSMo 2000. That section authorizes the Commission to "examine the accounts, books, contracts, records, documents and papers of . . . [a] corporation . . . and . . . after hearing, to prescribe by order the accounts in which particular outlays and receipts shall be entered, charged or credited." Where the opportunity for a hearing is given and none is requested,

the Commission may rely on the verified application and staff recommendation for its determination.¹

The Commission has reviewed the verified application and Staff's recommendation and determines that the requested AAO is reasonable and shall be granted.

THE COMMISSION ORDERS THAT:

1. KCP&L Greater Missouri Operations Company is granted the authority to utilize "construction accounting," as described in the Non-Unanimous Stipulation and Agreement filed in File No. ER-2010-0356 on July 29, 2010, from the in-service date of latan 2 until the effective date of the rates in File No. ER-2010-0356.
2. This order shall become effective on October 8, 2010.

BY THE COMMISSION



Steven C. Reed
Secretary

(S E A L)

Clayton, Chm., Davis, Jarrett,
Gunn, and Kenney, CC., concur.

Dippell, Deputy Chief Regulatory Law Judge

¹ *Rex Deffenderfer Ent., Inc. v. Public Serv. Com'n*, 776 S.W.2d 494 (Mo. App., W.D. 1989).