

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

In the Matter of the Application of Kansas City)
Power & Light Company for Approval to)
Make Certain Changes in its Charges for) **File No. ER-2012-0174**
Electric Service to Implement its Regulatory) Tariff No YE-2012-0404
Plan.)

In the Matter of the Application of KCP&L)
Greater Missouri Operations Company for) **File No. ER-2012-0175**
Approval to Make Certain Changes in its) Tariff No. YE-2012-0405
Charges for Electric Service.)

STAFF’S POSITIONS ON ISSUES

COMES NOW the Staff of the Missouri Public Service Commission (“Staff”)
and provides its positions on the issues as follows:

I. KCPL Only Issues

1. Deferral of 2011 Missouri River Flood Costs and Losses: (KCPL: Rush, Blunk & Bresette; KCPL Industrials: Meyer; OPC: Robertson; Staff: Maloney, Oligschlaeger & Majors; FEA: Etheridge)

a. Should KCPL’s increased fuel and purchased power costs caused by the flood be deferred and amortized over 5 years?

No. The Commission should deny KCPL’s request to defer estimated incremental increases to fuel and purchased power costs.

i. If so, what amount of increased fuel and purchased power costs should be deferred and amortized?

None.

b. Should the off-system sales margins shortfall associated with the 2011 flood be deferred and amortized over five years?

No. Deferrals of revenues, including off-system sales margins, are primarily intended to attempt to guarantee a certain level of earnings or profit to a utility, and should not be allowed.

- i. If so, what amount of off-system sales margins should be deferred and amortized?

None.

2. Off-System Sales: (KCPL: Schnitzer, Crawford; Staff: Harris & Featherstone; KCPL Industrials: Phillips & Meyer; FEA: Etheridge)

- a. Should KCPL's off-system sales margins be calculated based upon forecasted assumptions or normalized test year assumptions?

Off-system sales margins should be calculated based on normalized test year assumptions.

- b. What amount should be included in KCPL's revenue requirement for off-system sales?

Consistent with prior KCPL rate filings, Staff will continue to analyze OSS margins and make a determination of the appropriate levels of OSS margins for this proceeding in the true-up case.

- c. Should the Commission continue the off-system sales tracker?

No, Staff recommends returning to traditional ratemaking for off-system sales that was in place prior to the 2005 Regulatory Plan.

- d. Should the amount of off-system sales included in KCPL revenue requirement include adjustments for purchases for resale, SPP line losses and revenue neutrality uplift charges?

Yes. Staff recommends that the OSS revenues and purchased power costs be included in KCPL's annualized fuel expense, but not as adjustments to Mr. Schnitzer's projected level of OSS margins.

3. Hawthorn Selective Catalytic Reduction System (SCR): (KCPL: Hensley & Crawford; Staff: Lyons & Featherstone) (KCPL descriptions of these issues are in the appendix.)

- a. Should KCPL's rate base and expense be adjusted to reflect underperformance of the Hawthorn SCR as Staff proposes?

Yes. KCPL customers are still paying for increased capital, O&M, and fuel costs due to the underperformance of the SCR, all while continuing to pay KCPL for a part of the SCR that the Company did not pay for. Since customers pay for the original contract price of the SCR, customers should

only pay the costs associated with the original performance standards. Thus, Staff adjusted KCPL's cost of service to remove the capital costs for increased replacement of catalysts and the increased expense associated with the increased usage of ammonia and additional cleaning and maintenance of the SCR.

- b. Should KCPL's ongoing fuel expense be adjusted to reflect Staff's outage adjustment based on underperformance of the Hawthorn SCR?

Yes. KCPL customers have paid for higher fuel costs due to the underperformance of the SCR. Due to the increased need for maintenance of the SCR, Hawthorn 5 experienced increased outages. Increased outages resulted in increased fuel and purchased power expense as Hawthorn 5 is one of the least cost power sources for KCPL. Staff removed unplanned or forced outages, as well as outages identified as a derate, from 2005 through 2011 to develop the outage rate used in the fuel model.

4. Income Tax: (KCPL: Hardesty; Staff: Hyneman) (KCPL's description of this issue is in the appendix.) Should the amount included in revenue requirement for Iatan 2 Advanced Coal Tax Credit be based on the amount utilized for federal income tax purposes on a separate income tax return basis or on a consolidated tax return basis?

The calculation of KCPL's income tax in this case, including the Iatan 2 Advanced Coal Tax Credit, should be determined on the stand-alone basis, as has been done in the past. If KCPL proposes to calculate its income tax expense on a consolidated or hybrid (part stand alone and part consolidated) basis, then its customers must be held harmless and not pay more than they would based on the traditional stand alone income tax calculation. The Commission should hold KCPL to the commitment it made in Case No. EM-2001-464 not to increase KCPL's customer rates as a result of its holding company corporate structure.

5. Kansas City Missouri Earnings Tax: (KCPL: Hardesty; Staff: Hyneman) (KCPL descriptions of these issues are in the appendix.)

- a. What amount should be included in KCPL's revenue requirement for earnings tax?

No amount should be included in KCPL's revenue requirement for Kansas City earnings tax.

- i. If an amount for earnings tax is included in KCPL's revenue requirement should that amount be determined after allocation of a portion of KCPL's Kansas City earnings tax to GMO and to KCPL's Kansas jurisdiction?

Yes. The KCMO earnings tax is a tax on doing business in Kansas City, Missouri, which benefits all of KCPL and GMO operations and should not be charged only to KCPL's Missouri customers.

- ii. Should KCMO earnings tax be included in revenue requirement as an income tax applied to adjusted Missouri jurisdictional taxable income consistent with taxable income calculated for ratemaking?

No. The KCMO earnings tax should be treated as a general corporate tax subject to the typical normalization adjustments as other utility expenses. Staff believes that KCPL's method of calculating the KCMO earning tax is flawed and consistently overcharges its customers compared to actual amounts incurred. If KCPL is allowed to treat the KCMO earnings tax as an income tax, it should be required to create deferred income taxes on this tax just as it does for its other federal and state income taxes.

- b. Should the effective income tax rate used to gross up the authorized revenue requirement include a component for the KCMO earnings tax as well as federal and state income taxes?

No. The KCMO earnings tax should be treated as a general corporate tax subject to the typical normalization adjustments as other utility expenses. Staff believes that KCPL's method of calculating the KCMO earning tax is flawed and consistently overcharges its customers compared to actual amounts incurred. If KCPL is allowed to treat the KCMO earnings tax as an income tax, it should be required to create deferred income taxes on this tax just as it does for its other federal and state income taxes.

6. Rate Design/Class Cost Of Service Study: (KCPL: Rush & Normand; Staff: Scheperle; KCPL Industrials: Brubaker; MGE: Cummings; OPC: Meisenheimer; MEUA: Don Johnstone; FEA: Goins)

- a. How should the class cost of service studies be relied on for determining shifts in customer class revenue responsibilities that are revenue neutral on an overall company basis?

Because they are not precise class cost of service studies should be one of a number of factors that guides the Commission when it designs rates. Another factor the Commission should consider is bill impacts.

- i. What methodology should be used to allocate demand-related (fixed) production costs in KCPL's class cost-of-service study?

Staff used the class Base-Intermediate-Peak ("BIP") allocation factors to allocate KCPL's investment in fixed production plant and expenses. The costs and investments of these assets and expenses are apportioned to the rate classes on the basis of the production-capacity allocator or BIP methodology. With the BIP method, the utility company's required investments, and the outgoing expenses of providing services are allocated on:

- *A base component consisting of the annual energy attributable to a given customer class;*
- *An intermediate component consisting of the average 12 Non-Coincident Peaks ("NCP") of demand for electricity for a given class minus the base component previously allocated; and*
- *A peaking component consisting of the average 4 NCP component of demand for electricity less the base and intermediate components previously allocated.*

The approach of using the same allocators for allocating investments and costs to each class is referred to as "expenses follow plant." Production plant expenses, less fuel, are associated with maintaining and operating the production plant, therefore, it is appropriate to use the same allocator for allocating both plant investment and plant expense less the fuel component.

- ii. What methodology should be used in the CCOS to allocate OSS margins?

Annual kWh at generation.

- b. How should any rate increase be allocated among the various customer classes?

Staff recommends adjustments to class revenue responsibilities be made first on a company-wide revenue neutral basis to all classes of customers except the lighting class. The KCPL residential class should receive a positive 1% adjustment, the lighting class should receive the system average increase, and the remaining classes of customers (Small General Service group, Medium General Service group, Large General Service group, and the Large Power Service group) should all receive a negative adjustment of approximately 0.6%.

After having made the recommended revenue neutral adjustments, above, any overall change in revenues the Commission orders should be applied on an equal percentage basis to all classes. Staff further recommends that an additional constraint (revenue requirement after true-up) be placed on which class revenues are moved towards class cost-of-service to ensure that no class receives an overall reduction in its rate revenues while another customer class receives an overall increase in its rate revenues.

- c. How should rates be designed?

Class revenue responsibility

- *Staff recommends adjustments to class revenue responsibilities be made first on a company-wide revenue neutral basis to all classes of customers except the lighting class. The KCPL residential class should receive a positive 1% adjustment, the lighting class should receive the system average increase, and the remaining classes of customers (Small General Service group, Medium General Service group, Large General Service group, and the Large Power Service group) should all receive a negative adjustment of approximately 0.6%.*
- *After having made the recommended revenue neutral adjustments, above, any overall change in revenues the Commission orders should be applied on an equal percentage basis to all classes. Staff further recommends that an additional constraint (revenue requirement after true-up) be placed on which class revenues are moved towards class cost-of-service to ensure that no class receives an overall reduction in its rate revenues while another customer class receives an overall increase in its rate revenues.*

Intra-class rate elements

- *Staff recommends the first energy block rate of the winter All-Electric General Service rates (Small, Medium, and Large) be increased by an additional 5%. The Commission has restricted the availability of the All-Electric and Separately-Metered space heating rates to customers currently served on one of those rate schedules, but only for so long as the customer continuously remains on that rate schedule. These rates are being adjusted to bring the winter season rates closer to its class cost of service for the winter season.*
- *Staff recommends the first winter block of RESB (residential general use and space heat – one meter) and a the winter season separately metered space heat rate of RESC (residential general use and space heat – two meters each be increased by an additional 5%. These rates are being adjusted to bring residential rate classes RESB and RESC closer to the class costs of service for these customers in the winter season.*

- d. Should the Commission adopt Staff’s proposal to increase by 5% the first energy block rate of the winter All-Electric General Services rates?

Yes.

- e. Should the Commission adopt Mr. Brubaker’s LGS / LP rate design methodology?

The Staff believes that Mr. Brubaker’s proposal does not provide the information necessary to support these changes, even though the difference per customer on the LPS rate structure class is within a narrow band (percentage-wise). Staff is concerned that the LGS All Electric rate schedule would not give the proper price signal for the winter season.

- f. Residential rate adjustments:

- i. Should current residential rates be adjusted to reflect a revenue-neutral shift seasonally and among residential rate schedules in the winter based on KCPL’s class cost of service study?

No.

- ii. How should any residential rate increase be assigned to rate elements?

See 7.c. above.

g. Residential Space Heat services:

- i. Should KCPL's Residential Space Heat services be eliminated?

No.

- ii. In the alternative, should KCPL's Residential Space Heat services be scheduled for elimination in a subsequent rate case by freezing their availability in this case?

No.

- iii. Should the Commission adopt Staff's proposal to increase by 5% the first block of the residential space heating rates?

Yes.

7. Fuel and Purchased Power Expense: (KCPL: Crawford; Staff: Harris & Lange; KCPL Industrials: Phillips)

- a. What is the proper treatment of firm contract sales?

All firm OSS sales contracts, including Kansas Municipal Energy Agency (KMEA), that are in effect as of the August 31, 2012 true-up date should be included in KCPL's cost of service determination for setting rates in this case.

- b. What is the proper treatment of new wind resources?

Staff will put these new wind resource contracts into its true-up case.

- c. Should margins from non-asset based wholesale transaction, also referred to as "Q" sales, be excluded from KCPL's cost service?

No. These wholesale transactions should be included in KCPL's cost of service.

- d. What is the equivalent forced outage rate for Iatan 2?

The equivalent forced outage rate for Iatan 2 Staff used in its direct case, which will be adjusted for true-up.

- e. What is the proper treatment of equivalent forced outage rate at Hawthorn Unit 5?

Staff's adjustment to the outage rate for the 2005-2011 period is the proper treatment for this issue as it removes outages related to the transformer failure and reduces the level of fuel expense included in Staff's determination of KCPL's revenue requirement. The failure of the Hawthorn 5 transformer resulted in increased purchased power costs and other fuel expenses during the forced outages. KCPL customers continue to pay for the increased expense associated with the transformer failure, as well as increased capital costs included in KCPL's rate base. Staff's adjustment removes such fuel expense.

8. Interim Energy Charge (IEC) proposal by KCPL: (KCPL: Ives, Rush; Staff: Mantle & Featherstone; KCPL Industrials: Meyer; DOE: Etheridge) (KCPL descriptions of these issues are in the appendix.)

- a. What is the IEC KCPL is proposing?

Staff is unclear how exactly the mechanism KCPL has labeled an "IEC" would work.

- i. Should it be adopted?

No.

- b. Is KCPL's proposed sharing of off-system sales revenues, within the context of its proposed IEC, prohibited by the KCPL Regulatory Plan?

No, because the 2005 Regulatory Plan requires KCPL to include all off-system sales in the determination of its rates as long as its investment in Iatan 2 is included in KCPL's regulated rate base.

- c. Does KCPL's proposal qualify as an IEC within the provisions of the KCPL Regulatory Plan?

No.

9. Resource Planning—La Cygne and Montrose: (GMO: Rush, Crawford; Sierra Club: Biewald) Should the Sierra Club's recommendations regarding the La Cygne and Montrose investments be adopted?

No position.

10. Charles B. Wheeler Airport and Kansas City Water Department: (KCPL: Wolf; Kansas City: Roper & Klender)

No position.

- a. What actions has KCPL taken, or what actions should KCPL be taking, to address the quality and reliability of service at Charles B. Wheeler Airport (Downtown Airport)?
- i. Should the Commission order KCPL to conduct an investigation into the cause of power fluctuations and interruptions at Downtown Airport. (Kansas City: Roper)
- b. What actions has KCPL taken, or what actions should KCPL be taking, to address the quality and reliability of service at pumping stations and other installations operated and managed by the Kansas City Water Department? (Kansas City: Klender)

11. Arbitration Expenses and Settlement: (KCPL: Weisensee, Staff: Majors)

- a. Should the expenses KCPL incurred in arbitrating with Empire over access to Schiff-Hardin legal invoices be included in revenue requirement?

No. All expenses KCPL incurred in arbitrating with Empire access to Schiff Hardin legal invoices charged to the Iatan project should not be included in KPCL's revenue requirement because these expenses were incurred due of KCPL's reluctance to provide Empire, MJMEUC, and KEPCO access to invoices that had been properly charged to the Iatan project.

- b. Should the settlement of the arbitration with Empire over access to Schiff-Hardin legal invoices charged to plant-in-service be included in rate base?

No. Since they should not be included in KCPL's revenue requirement, they should not be included in rate base. The co-owners of the Iatan project were properly charged their portions of Schiff Hardin expenses.

II. KCPL – GMO Common Issues

1. Regulatory Policy and Economic Considerations: (KCPL: Rush; Staff: Featherstone & Kliethermes; OPC: Meisenheimer)

Although included in the list of issues, this is not a contested issue for Commission determination.

2. Economic Relief Pilot Program (“ERPP”): (KCPL/GMO: Heidtbrink: Staff: Poole-King & Lyons)

- a. Should the Economic Relied Pilot Program be expanded as a permanent ratepayer funded program or should it remain a pilot program, maintaining current program terms including participation levels, and program funding remain 50% ratepayer/50% company?

The Economic Relief Pilot Program (“ERPP”) should be continued as a pilot program, maintaining current program terms including participation levels, and program funding remain 50% ratepayer/50% company. Additional assessment of the ERPP is needed before expanding it or making it a permanent program with full recovery of all program costs from ratepayers.

- b. Should a separate advisory group who is familiar with low-income customers, issues and rate programs be developed for all future collaborative discussions regarding the ERPP?

Yes.

- c. Should KCPL and GMO be ordered to provide an ERPP report to the advisory group described above on a monthly basis?

Yes.

3. Cost of Capital: (KCPL/GMO: Hadaway, Bryant; Staff: Murray; OPC: Gorman; FEA: Kahal) (KCPL/GMO descriptions of these issues are in the appendix.)

- a. Return on Common Equity: What return on common equity should be used for determining rate of return?

Staff has determined, based upon its expert analysis of market-driven data using traditional analytical tools, that Ameren Missouri's cost of common equity is within the range of 8.00% to 9.00%, mid-point 8.50%, resulting in an overall Rate of Return (“ROR”) of 7.13% to 7.65%, mid-point 7.39%. Staff recommends that the Commission authorize a return on common equity (“ROE”) of 9.00% based on a consideration of all relevant factors.

- b. Capital Structure: What capital structure should be used for determining rate of return?

The appropriate capital structure for determining the allowed rate of return is GPE's consolidated capital structure, exclusive of short-term debt, as of the true-up date, August 31, 2012.

- c. Cost of Debt:

- i. Should GPE's consolidated cost of debt be assigned to KCPL and GMO or should the cost of debt be subsidiary specific?

GPE's consolidated cost of debt should be assigned to KCPL and GMO.

- ii. In either case, should adjustments be made to holding company debt issued subsequent to GPE's acquisition of GMO?

Yes.

- iii. Should any adjustments be made to certain debt issuances? Should the cost of debt be a consolidated cost of debt of 6.425%?

Yes. The following GPE debt issuances should be adjusted downward anywhere within the ranges supported in Staff's testimony with Staff recommending point adjustments in its surrebuttal testimony:

- *GPE's \$250 million, 3-year, 2.75% Note: 60 to 75 basis points; point estimate of 65 basis points*
- *GPE's \$350 million, 10-year, 4.85% Note: 60 to 85 basis points; point estimate of 65 basis points*
- *GPE's \$287.5 million, 10-year, 5.292% Note: 110 to 120 basis points; point estimate 115 basis points*

No. After the aforementioned adjustments are made, the appropriate consolidated cost of debt should be 6.187%.

4. Payroll: (KCPL/GMO: Weisensee; Staff: Majors; KCPL Industrials GMO Industrials: Meyer).

- a. What amount should be included in cost of service for overtime?

KCPL

For KCPL Staff calculated overtime payroll using a 4-year average, except overtime payroll billed to KCPL by the Wolf Creek Nuclear

Operating Company for the Wolf Creek generating facility was calculated using a 3- year average. The 4-year average is composed of both hours worked and hourly wage rates from 2008 through 2011. Staff did not use an escalation factor. The average hourly KCPL overtime wage rate has fluctuated with no visible trend from 2005 through 2011. KCPL has recently implemented measures to reduce its overtime expense.

Staff has calculated a total KCPL company, i.e., Missouri, Kansas, and FERC jurisdictional, amount of overtime expense of \$21,603,268. Staff will provide a Missouri jurisdictional only calculation of overtime expense.

GMO

For GMO Staff calculated overtime payroll using a 3-year average reflective of the 3 full calendar years since Great Plains Energy acquired Aquila, Inc. in 2008. The amounts are specific to the MPS and L&P rate districts. The 3-year average is composed of both hours worked and hourly wage rates from 2009 through 2011. Staff did not use an escalation factor. Since GMO has no employees, KCPL employees allocate labor, including overtime, to GMO. The average hourly KCPL overtime wage rate has fluctuated with no visible trend from 2005 through 2011. KCPL has recently implemented measures to reduce its overtime expense.

Staff has calculated an MPS Missouri and FERC jurisdictional overtime amount of \$6,322,067. Staff will provide a Missouri jurisdictional only calculation of overtime expense.

Staff has calculated an L&P Missouri electric and steam and FERC jurisdictional overtime amount of \$3,046,441. Staff will provide a Missouri electric jurisdictional only calculation of overtime expense.

5. Pensions, OPEBs, SERP Costs: (KCPL/GMO: Foltz; Staff: Hyneman)
(KCPL/GMO descriptions of these issues are in the appendix.)
 - a. What amount should be included in cost of service for pension, OPEB and SERP costs?

The annualized and normalized levels of these costs as proposed by Staff in this case should be included in cost of service.

- b. Should the Company's salary assumption of 4.0% for management and 4.25% for bargaining unit employees based on Company-specific historical data be used to determine pension cost or should Staff's salary assumption of 3.5% based on a current Missouri utility average be used?

KCPL's salary assumption is excessive compared to the exact same assumption used by all other major utilities operating in the state of Missouri. The 3.5% Missouri average is the appropriate assumption on which to include in KCPL and GMO's pension expense calculation for inclusion in rates in this case.

- c. Should, in addition to annuity payments, Supplemental Executive Retirement Plan ("SERP") pension costs paid by KCPL as a lump-sum be included in revenue requirement based on a multi-year average of actual amounts paid or should SERP costs be based only on annual annuity payments to former KCPL executives?

No. Lump sum payments are neither known with any degree of certainty nor are they measurable. Therefore they do not meet the basic requirements for inclusion in utility rates. In addition, lump sum payments are payments designed to cover the executives remaining life and not an annual expense.

- d. Should SERP pension costs paid by the Wolf Creek Nuclear Operating Company ("WCNOC") for the Wolf Creek Generating Station as monthly annuities be included in revenue requirement based on actual amounts paid or should these amounts be subject to the Staff's reasonableness tests?

WCNOC SERP payments should be subject to Staff's reasonableness tests just as any other utility expense. Because SERPs are executive compensation, they require even greater scrutiny than normal employee compensation costs.

- e. Should GMO SERP costs be included in revenue requirement at the amount proposed in the Company's rebuttal testimony without recognition of a \$50,000 reasonableness test as proposed by Staff?

No. Retirement benefits provided to certain employees in addition to regular pension benefits should be subject to even greater scrutiny than normal employee compensation costs. Staff's proposed \$50,000 limit on individual employee SERP payments is reasonable.

- f. Should SERP costs attributable to past non-regulated GMO (Aquila) operations be included in deriving the allocation factor used to assign SERP costs to GMO?

Yes. The allocation of SERP costs to Missouri regulated utility customers should be matched with the level of service provided to these customers from the executives who receive the SERP payments.

- g. Should WCNOG OPEB expense be based on the actual dollar amount of OPEB expense paid by KCPL to WCNOG or a FAS 106 accrual amount?

KCPL does not contribute FAS 106 costs for WCNOG OPEBs benefits in a WCNOG fund but instead to a fund reserved for KCPL employees. The Staff believes this is inappropriate and therefore recommends that WCNOG OPEB costs should be recovered in rates on the same cash basis as KCPL pays these OPEB benefits to WCNOG.

- h. If it is appropriate to include FAS106, including WCNOG, in revenue requirement, then should KCPL be required to contribute amounts collected in rates for WCNOG employees to a segregated WCNOG OPEB fund or should amounts in excess of amounts paid by KCPL to WCNOG be deposited in a KCP&L OPEB fund?

If the Commission allows KCPL to recover WCNOG OPEB costs on a FAS 106 accrual basis, then it should order KCPL to contribute the amount collected in rates into a fund reserved for WCNOG employees, not KCPL employees.

6. Fuel & Purchased Power Expense: (KCPL/GMO: Crawford, Blunk; Staff: Maloney; MEIC/MECG: Phillips)

- a. How should spot market purchased power prices be determined?

Staff recommends spot market purchased power prices be determined by applying Staff's calculation to the historical test year ended August 31, 2012. Staff's method of calculation was developed by the engineering section of the Commission's energy department to calculate representative prices for purchased power in the spot market. This method is attached to Staff's Cost of Service Report as Schedule ELM-1.

7. Acquisition Transition Costs: (KCPL/GMO: Ives; Staff: Majors)

- a. Should recovery of the amortized acquisition transition costs end?

Yes, the test year amortized transition costs related to GPE's acquisition of Aquila should be removed from the KCPL and GMO revenue requirements because KCPL/GMO has not maintained the Commission Ordered Synergy Savings Tracking Model to demonstrate that annual synergies exceed amortized transition costs.

- i. If not, what amount should be included in revenue requirement for the acquisition transition cost amortization?

While Staff opposes the inclusion of any amount in revenue requirement for the acquisition transition cost amortization, if the Commission orders that an amortized transition costs amount be included in revenue requirement, then Staff recommends the Commission offset that amount by the net savings realized from the Company's 2011 employee reductions ("ORVS") and that the Commission set the beginning date of the amortization of transition costs at September 1, 2009, to better match costs of the acquisition with customer benefits of the acquisition.

8. Depreciation: (KCPL/GMO: Spanos, Weisensee & Ives; Staff: Rice)

- a. Have KCPL and GMO complied with the provisions of the 2010 Depreciation Stipulation entered into in the last rate cases?

No. The KCPL and GMO did not complete their study defined in Paragraph 10 of the stipulation. Staff recommends the Commission accept the study that Staff provided to explain of the causes of the General Plant accumulated depreciation reserve deficiency.

- b. Should KCPL and GMO continue to utilize the General Plant Amortization method?

No. KCPL and GMO did not present justification for permanently implementing the General Plant Amortization Method in Direct testimony. KCPL and GMO have not attempted to address under-recoveries of plant in the General Plant accounts, which is necessary to properly implement the General Plant Amortization Method. Parties have not agreed on a method to address the under-recovery in the amortized accounts.

If the Commission does not accept the Staff position to discontinue the use of General Plant amortization then, alternatively, Staff recommends the Commission address the under-recovery in the amortized accounts by ordering a transfer of reserves from over-recovered accounts as follows:

KCPL

Transfer excess reserves of \$2,000,000 from General Plant structures account 390, and transfer excess reserves of \$8,863,678 from Transmission account 353 (Station equipment) to cover a deficiency of \$10,863,678 in the amortized General Plant accounts.

GMO

Transfer excess reserves from MPS and L&P Transmission accounts and MPS Structures account 311 to cover \$18,339,068 of a \$22,260,246 deficiency in the amortized General Plant accounts. Use GMO Company funds, (see Position Statement d. below) to cover the remaining \$4,221,178. The \$22,260,246 deficiency reflects an under-recovery of \$996,562 for L&P, an over-recovery of \$994,677 for MPS, and an under-recovery of \$22,258.361 for ECORP.

- c. Should KCPL and GMO conduct an inventory of property in the General Plant Accounts?

Yes, if the Commission accepts the Staff recommendation to discontinue the use of General Plant Amortization.

- d. Should Staff's depreciation adjustments be adopted?

Yes. Whether the Commission does or does not allow implementation of the General Plant Amortization Method, an adjustment is necessary for GMO only, to address a deficiency in General Plant reserves created in 2006 through 2008 by GMO failing to accrue depreciation expense for plant still in service. Staff recommends an adjustment to the GMO ECORP reserves of \$4,221,178 using GMO Company provided funds. In addition to this adjustment, the adjustments described under part b above are appropriate if the Commission allows permanent implementation of the General Plant Amortization Method.

9. Bad Debt Expense/Forfeited Discount Revenue: (KCPL/GMO: Weisensee; Staff: Lyons; KCPL Industrials & GMO Industrials: Meyer) (KCPL/GMO descriptions of these issues are in the appendix.)

- a. Should bad debt expense and forfeited discount revenue included in rates in this case include a provision for the respective impacts resulting from the revenue increase in this case?

No. Staff recommends that the Commission deny KCPL's request to adopt KCPL's proposed "factor up" for bad debts. However, if the Commission grants KCPL's request to "factor up" bad debt expense proportionate with an increase in revenue requirement, then Staff recommends it also reflect in the bad debt "factor-up" additional forfeited discounts (late payment fees) that will increase as result of the rate increase.

- b. How should normalized bad debt expense be determined?

Staff's recommended treatment of bad debt expense is to calculate the ratio of KCPL's net write-offs to annualized retail revenue to determine an appropriate level of bad debt expense.

10. Rate Case Expense: (KCPL/GMO: Weisensee, Rush; Staff: Majors; OPC: Robertson)

- a. What amount should be included in revenue requirement for rate case expense?

Staff is recommending a normalized amount of rate case expense in the amount of \$1,429,083 to be recovered over three years or \$476,361 per year for KCPL. For MPS Staff recommends a normalized level of rate case expense in the amount of \$444,849 to be recovered over a period of three years or \$148,283 per year. For L&P, Staff recommends a normalized level of rate case expense in the amount of \$228,388 to be recovered over a period of three years or \$76,129 per year.

Staff Witness, Keith Majors – see Staff’s Cost of Service Report, pages 166-167 (KCPL) and 180 (GMO).

- i. Should it be based on deferring and amortizing rate case expenses or on normalizing them?

Rate case expense should be normalized and recovered over a period of three years, using a three year average of rate case expense from GMO’s 2005, 2007, and 2009 rate cases for GMO, and KCPL’s 2006, 2007, and 2009 rate cases for KCPL.

Staff Witness Keith Majors – see Staff’s Cost of Service Report, pages 180 (GMO) and 166-167 (KCPL).

- b. Should certain Schiff Hardin fees be excluded from post true-up rate case expenses?

Yes, Staff is recommending a disallowance of \$392,727 for KCPL, \$385,577 for MPS, and \$102,451 for L&P.

Staff Witness Keith Majors – see Staff’s Cost of Service Report, pages 159 (GMO) and 148 (KCPL).

11. Transmission Tracker: (KCPL/GMO: Ives, Carlson; Staff: Beck & Oligschlaeger; KCPL Industrials & GMO Industrials: Dauphinais) (KCPL/GMO’s, and MECG’s, descriptions of this issue are in the appendix.) Should the Commission authorize KCPL and GMO to compare their actual transmission expenses with the levels used for setting permanent rates in these cases, and to accrue and defer the difference for potential recovery in future rate cases, i.e., to employ a “tracker”?

No. Adoption of this tracker would unjustifiably shift risk to ratepayers.

12. Property Tax Tracker: (KCPL/GMO: Ives; Staff: Lyons; KCPL Industrials & GMO Industrials: Meyer) (KCPL/GMO's, and MECG's, descriptions of this issue are in the appendix.) Should the Commission authorize KCPL and GMO to compare their actual property taxes with the levels used for setting permanent rates in these cases, and to accrue and defer the difference for potential recovery in future rate cases, i.e., to employ a "tracker"?

No. Staff recommends the Commission deny GMO's request for a property tax tracker for each of its rate districts, MPS and L&P. Property taxes are known and measurable costs for which Staff and GMO have used the same methodology to calculate an annualized level of property tax expense to include in GMO's cost of service for each of its rate districts, MPS and L&P. Adoption of this tracker would unjustifiably shift risk to ratepayers.

13. RES and RES Tracker: (KCPL/GMO: Ives, Rush, Weisensee; Staff: Beck & Lyons; KCPL Industrials & GMO Industrials: Meyer) (KCPL/GMO's, and MECG's, descriptions of these issues are in the appendix.)

- a. Should RES costs be included in KCPL's and GMO's revenue requirements?

Yes, the Commission should order KCPL and GMO to include a base level of RES costs in permanent rates with the base level netted against any future deferred expenditures that occur beyond the August 31, 2012 true up date.

- i. If so, what is the amount?

At the time of surrebuttal testimony, the August balance for RES expense was unknown. Staff will continue to examine the RES costs and recommend an amount for the True-Up.

- b. Should RES costs KCPL and GMO incurred from 2010 through 2012 that exceed the level of RES costs included in cost of service be given rate base treatment, i.e., should they not only get a return of those costs, but also a return on them?

No. Rate base treatment generally implies that a cost is an asset that a company should earn a return on. However, all the costs KCPL and GMO are requesting in its RES adjustments are expenses and not capital costs in nature. Further, the Commission allowed through its Order in EU-2012-0131 both KCPL and GMO to recover carrying costs of RES expenses based on their respective short term debt rates.

- c. What amortization period should be used to determine the annual level to include in KCPL's and GMO's revenue requirements for recovery of the RES costs KCPL and GMO incurred from 2010 through 2012 that exceed the level of RES costs used in the revenue requirements upon which their current permanent rates are based?

Staff recommends that the deferred costs be amortized over a three (3) year period. Should the Commission determine that rate base treatment of RES costs is appropriate, then the Staff recommends amortization of the deferred costs over a six (6) year period.

- d. Should KCPL and GMO be allowed to compare their actual RES costs with the levels used for setting permanent rates in these cases, and to accrue and defer the difference for potential recovery in future rate cases, i.e., to employ a "tracker"?

Yes, in part. The Commission should order KCPL and GMO to net any base level of RES expense included in permanent rates against any future deferred expenditures that occur beyond the August 31, 2012 true up date. However, a tracker is not necessary because the RES rule allows as one

option for recovery an accounting authority order for KCPL and GMO to defer any additional RES costs for potential recovery in a future rate case.

14. Low Income Weatherization: (KCPL/GMO: Rush; Staff: Warren; Kansas City: Bossert; MDNR: Bickford)

- a. At what level should low-income weatherization be funded and included in revenue requirement?

(1) In regard to GMO, if the Commission approves a MEEIA low-income weatherization program for GMO, then that MEEIA program should be funded and included in revenue requirement to the extent the Commission determines under MEEIA it is appropriate to do so. Otherwise, GMO's low-income weatherization program should be funded at \$150,000 annually. (2) In regard to KCPL, KCPL's low-income weatherization program should be funded at \$573,888 annually; however, this low-income weatherization program should not be funded in rates at the same time KCPL's retail customers are funding a low-income weatherization program the Commission approves under the MEEIA, if any.

- b. Are the Companies distributing to agencies the weatherization funds collected from their ratepayers?

It does not appear that the Companies have been distributing to the weatherization agencies the full amount the Companies are authorized to fund for low-income weatherization. However, it also does not appear that the Companies have included for recovery in rates the full amounts the Commission has authorized them to fund, and have not included recovery of low-income weatherization funds through rates, unless such funds have been distributed to the weatherization agencies; therefore, the unfunded/undistributed amounts do not represent funds accruing to/being collected by the Companies.

- i. If not, why not?

It does not appear that the Companies were notifying the weatherization agencies of the amount of funds available.

- c. Should any weatherization funds which are collected during a year (plus any interest or return earned thereon) which are not distributed be available for distribution in subsequent years?

On a going-forward basis, "Yes," if the funds are included in the Companies' rates.

- d. Should the Companies consult the DSM Advisory Group (“DSMAG”) on the allocation and distribution of funds?

Yes. The DSMAG needs to be actively involved in the process of determining the allocation of funds to the weatherization agencies and determining how the agencies can use all of the funds each year.

- e. Should the Companies provide quarterly reports to the DSMAG on the allocation and distribution of funds?

Yes. This is important to be sure that the funds are being properly distributed by the Companies and used by the weatherization agencies.

- f. Should the Companies file revised tariff sheets regarding their low-income weatherization program?

Yes, the Companies should be ordered to file revised low-income weatherization program tariff sheets that comply with the Order in this case. However, if a MEEIA low-income weatherization program is approved by the Commission for GMO, then the MEEIA program tariff sheets will be the low-income weatherization program tariff sheets (for GMO) addressed under this issue.

15. Joint Resource Planning: (KCPL/GMO: Rush; Staff: Mantle; MDNR: Bickford)

- a. Should KCPL and GMO be allowed to conduct joint resource planning?

Not in this case. Staff believes that the Commission should not decide this issue in these cases and that the record in these cases is inadequate for the Commission to make a fully-informed decision on the issue. Rather, it is Staff’s position that this should be done in the Companies’ resource planning cases, Case Nos. EO-2012-0323 and EO-2012-0324.

- i. If yes, should the Commission require KCPL and GMO to file with the Commission for approval a detailed proposal for allocating capacity and energy between them?

Before KCPL and GMO are allowed to conduct joint resource planning (rather than after the decision has been made), the Commission should require KCPL and GMO to file with the Commission for approval a detailed proposal for allocating capacity and energy between them.

- ii. If yes, should the Commission require KCPL and GMO to file a definitive plan for merging KCPL and GMO into one electrical corporation?

Before KCPL and GMO are allowed to conduct joint resource planning (rather than after the decision has been made), the Commission should require KCPL and GMO to file a definitive plan for merging KCPL and GMO into one electrical corporation.

16. Organizational Realignment and Voluntary Separation Program (“ORVS”): (KCPL/GMO: Ives, Murphy; Staff: Hyneman; KCPL Industrials & GMO Industrials: Meyer) (KCPL/GMO h descriptions of these issues are in the appendix.)

- a. Have KCPL and GMO recovered in rates at a minimum the dollar amount severance costs related to the ORVS Program employees who left the employ of KCPL in March 2011?

Yes. KCPL and GMO have recovered directly in rates savings from ORVS in an amount greater than the amount of severance payments made to departing employees.

- b. Should the annual amount based on a five-year amortization of the severance and related costs associated with KCPL’s ORVS Program be included in revenue requirement?

No. Staff believes it is inappropriate for KCPL and GMO to charge customers for costs that have already been directly recovered from customers in rates, especially, as is the case in this issue, when KCPL and GMO have over-recovered this cost by millions of dollars.

17. Advanced Coal Tax Credit: (KCPL/GMO: Hardesty & Montalbano; Staff: Featherstone) (KCPL/GMO descriptions of these issues are in the appendix.)

- a. Should KCPL's advanced coal investment federal income tax credit for Iatan 2 be reduced to reflect a redistribution of a portion of that credit to GMO based on GMO's ownership interest in Iatan 2 and, concurrently, should GMO be treated as getting the benefit of that credit redistribution?

Great Plains Energy (the parent company of KCPL and GMO), KCPL, and GMO (named Aquila, Inc. prior to the acquisition of Aquila by Great Plains Energy) engaged in improper conduct and imprudent decision-making with regard to the Qualifying Advanced Coal Project Credit for the Iatan 2 Generating Unit. Because of this improper conduct and imprudent decision-making, Staff recommends that the Commission order the reallocation of the Iatan 2 Qualifying Advanced Coal Project Credit between KCPL and GMO based on the respective ownership share of each company in Iatan 2.

- i. Should the Commission order KCPL, GMO, and Great Plains Energy jointly to seek IRS agreement to reallocate a portion of the credit to GMO based on GMO's ownership interest in Iatan 2?

In addition to the recommendation above, Staff further recommends that the Commission order Great Plains Energy (as the parent of both KCPL and GMO), KCPL, and GMO to initiate a formal application process with the IRS for the reallocation of Coal Credits to GMO based on GMO's ownership interest in Iatan 2. Further, Staff recommends that the Commission order Staff to actively participate in the reallocation application process to ensure GMO is properly represented and order the Companies to include Staff in the process and in all communications with the IRS on this matter.

1. If the IRS does not agree to reallocate these Iatan 2 coal credits to GMO based on its ownership share of Iatan 2, then should the Commission order KCPL to pay the monetary equivalent to GMO of the value of the coal credits that should be allocated to GMO, or alternatively, should the Commission impute the value of the coal credits to GMO based on its ownership share of Iatan 2?

If the IRS does not agree to reallocate the Iatan 2 coal credits to GMO based on its ownership share of Iatan 2 the Commission should consider all alternatives, including these, in order to provide GMO and its ratepayers their rightful claim to a share of the Iatan 2 credits or the equivalent thereof.

- ii. In the alternative, should the Commission disallow certain Great Plains Energy and KCPL officers' salaries and benefits allocated to GMO?

If the Commission does not agree with allocating a proportional share of the coal credits to GMO, the Commission should consider all alternatives, including disallowing certain officers' salaries and benefits. The Staff's recommended amount of disallowed officers' salaries and benefits are \$618,857 for GMO-MPS and \$269,445 for GMO-L&P; these amounts have to be allocated to the appropriate jurisdiction in the case of MPS and electric-only for L&P. The disallowance amounts shown should be excluded from cost of service each year over the life of Iatan 2.

- iii. Or, in the alternative, should the Commission consider the Coal Credit issue when it determines the proper rate of return to use in the KCPL and GMO rate cases?

If the Commission does not agree with allocating a proportional share of the coal credits to GMO or with removing officers' salaries and benefits from GMO's cost of service, the Commission should consider all other alternatives, including considering the imprudence of Great Plains Energy, KCPL and GMO regarding the Qualifying Advanced Coal Project Credit when it determines what return on equity would be reasonable in these rate cases.

- 18. Inventory Management: (KCPL/GMO: Wolf;) Should Great Plains Energy Services be permitted to purchase KCPL's and GMO's current material and supply inventories and then become their source of materials and supplies?

No position.

- 19. Distribution Field Intelligence Tech Support ("DFITS"): (KCPL/GMO: Ives, Wolf; Staff: Hyneman) Should the cost of establishing, training and sustaining the Distribution Field Intelligence and Tech Support group be included in rate base in this proceeding? Should the estimated future employee and plant costs of a future projected addition to KCPL and GMO's Distribution maintenance program, referred to as Distribution Field Intelligence and Tech Support group, be included in cost of service in this proceeding?

While Staff rejects any proposal to include in rate base any estimated future costs that do not currently exist, Staff will consider actual incurred costs if they occur in the current test year or true up period.

20. Revenue Normalization: (KCPL/GMO: McCollister; Staff: Lange)

- a. Should the LPS class be weather normalized?

No. The LPS class should not be weather normalized because it is more sensitive to the seasonal changes in weather and business or economic cycles than it is to daily fluctuations in weather.

21. Revenues: (KCPL/GMO: Rush; Staff: Lyons, Won (KCPL case), Wells (GMO case), Scheperle) (KCPL/GMO descriptions of these issues are in the appendix.)

- a. Should company revenues be tied to the company General Ledger?

Yes. Without a tie-in to the General Ledger, rate revenue that does not match the billing documentation would not be included in the revenue requirement.

- b. Should the difference in the General Ledger and the recalculation of revenues (i.e., tie amount used to verify the recalculation process) be carried forward and included in the normalized and annualized test year revenues?

Yes. Normalization and Annualization adjustments are applied to the General Ledger's Electric Rate Revenue amount. The difference in the General Ledger and the recalculation of revenues is an actual revenue which is not explained. The General Ledger amount with these adjustments should be the adjusted revenue used to determine the revenue requirement.

22. Mutual Assistance Revenues: Should KCPL's revenue requirement reflect a normalized level of mutual assistance revenues? (KCPL Industrials: Meyer)

No position.

III. GMO Only Issues

1. Crossroads: (GMO: Crawford, Hardesty, Ives, Rush & Blunk; Staff: Mantle & Featherstone; GMO Industrials: Meyer)

- a. What should be the value of Crossroads included in rate base?
- b. What amount of accumulated deferred taxes associated with Crossroads should offset the value of Crossroads in rate base?

- c. Should depreciation expense be based upon the authorized gross plant value for Crossroads?
- d. What transmission costs for energy from Crossroads should be included in revenue requirement?

The Crossroads issues are interrelated. The value of Crossroads in GMO's rate base for MPS should continue to be based on the July 14, 2008, \$61.8 million that the Commission found in GMO's most recent electric rate case, Case No. ER-2010-0356, updated for additions and retirements through the March 31, 2012, update and August 31, 2012, true-up. July 14, 2008, is the date Great Plains Energy acquired all the stock of Aquila, which it renamed GMO. At that time, Great Plains Energy, because it acquired Aquila through a stock transaction, not only acquired the beneficial assets of Aquila, it also acquired all of the liabilities and impacts of decisions the management of Aquila and its unregulated affiliates had made before July 14, 2008. One of the impacts of those prior management decisions is Crossroads.

The amount of deferred income taxes associated with Crossroads that are used as a rate base offset should coincide with the amount of plant value the Commission decides for Crossroads in this case. No annual transmission costs should be included in rates consistent with the Commission's Report and Order in GMO's last general electric rate case, Case No. ER-2010-0356. If the Commission believes some level of transmission costs should be included in GMO's revenue requirement for its MPS rate district, then the net book value of Crossroads should be further reduced when valuing it for rate base to take into account the further distressed value of this plant because of those transmission costs because it is located in Mississippi.

- 2. Capacity allocation (MPS vs. L&P): (GMO: Crawford; Staff: Mantle) For determining revenue requirement, including fuel costs, how should GMO's Ralph Green generating facility and short-term purchased power agreements be assigned between MPS and L&P?

The natural gas-fired 71 MW Ralph Green combustion turbine that was owned by UtiliCorp United, Inc. ("UtiliCorp") when it was a stand-alone utility should be assigned to the L&P rate district.

- 3. Off Systems Sales Margins: (GMO: Crawford; Staff: Harris; GMO Industrials: Phillips) How should Purchases for Resale (including issues related to negative margins) be treated?

Consistent with prior GMO and KCPL rate filings, Staff will continue to analyze OSS margins and make a determination of the appropriate levels of OSS margins for this proceeding in the true-up case. Staff is concerned with emerging data regarding negative margins, and will be analyzing it throughout this proceeding and into the future.

4. St. Joseph Infrastructure Program: (GMO: Weisensee, Wolf; Staff: Majors; GMO Industrials: Meyer; OPC: Robertson) Should the Commission authorize construction accounting for GMO's proposed St. Joseph infrastructure program?

No. There are many distinctions between GMO's planned distribution system investments in the St. Joseph area and the sort of capital investments that have received Construction Accounting treatment in the past that undercut the reasons the Commission has authorized Construction Accounting in the past. For example, the St. Joseph area project is not of a scale to threaten GMO's access to capital and there is minimal risk associated with delays to the completion of the total project as GMO can begin earning rate recovery on discrete components of the project well in advance of completion of its total investment in the project. Finally, the St. Joseph area project has potential for offsetting costs and revenue growth that mitigate cash flow concerns.

5. L&P Ice Storm AAO: (GMO: Weisensee; Staff: Lyons; OPC: Robertson)
a. Should the amortization level of the L&P Ice Storm be reduced?

Yes, Staff recommends the Commission limit the over recovery of the L&P rate district ice storm costs by accepting Staff's recommendation to reduce the annual amortization expense.

- b. Should recovery of that amortization be tracked, and any over-recovery addressed in GMO's next rate case?

Yes. Staff recommends the Commission require GMO to track any over recovery associated with the L&P rate district ice storm, to potentially be used to offset any future GMO requests for AAOs.

6. Sibley AAO: (GMO: Weisensee Staff: Lyons; OPC: Robertson)

- a. Should the Sibley AAO be discontinued?

No.

- b. Should the Sibley AAO be rebased?

No.

- c. Should the recovery of the Sibley AAO be tracked and any over-recovery addressed in GMO's next rate case?

Yes. Staff recommends the Commission require GMO to track any over recovery associated with MPS Sibley AAO, to potentially be used to offset any future GMO requests for AAOs.

7. Rate Design/Class Cost of Service Study: (GMO: Rush, Normand; Staff: Scheperle; GMO Industrials: Brubaker; OPC: Meisenheimer; DOE: Goins; MGE: Cummings)

- a. How should the class cost of service studies be relied on for determining shifts in customer class revenue responsibilities that are revenue neutral on an overall company basis?

Because they are not precise class cost of service studies should be one of a number of factors that guides the Commission when it designs rates. Another factor the Commission should consider is bill impacts.

- b. How should any rate increase be allocated among the various customer classes?

See 7.c. below.

- c. How should rates be designed?

For the MPS Rate District

- *Any overall change in revenue requirement the Commission orders should be applied on an equal percentage basis to all classes.*

For the L&P Rate District

- *Any overall change in revenue requirement the Commission orders should be applied an equal percentage basis to all classes, then*
- *An additional 6% increase should be imposed on the two winter energy block rates of the MO 920 rate schedule (residential service with space heating). This adjustment will bring the winter season rates closer to the class cost of service for that class in the winter season.*
- *An additional 6% increase should be imposed on the winter energy rate of the MO 922 Frozen rate schedule (residential space heating / water heating – separate meter). The MO 922 rate schedule is not available for new installations as of June 15, 1995. This adjustment*

will bring the winter season rates closer to the class costs of service for these classes in the winter season.

- *An additional 6% increase should be imposed on the winter energy rate of the MO 941 Frozen rate schedule (non-residential space heating/water heating – separate meter). The MO 941 rate schedule is not available for new installations as of June 15, 1995. This adjustment will bring the winter season rate closer to the class cost of service for this class in the winter season.*

d. Residential rate adjustments:

- i. Should current Residential rates be adjusted to reflect a revenue-neutral shift seasonally and among Residential rate schedules in the winter based on GMO's class cost of service study?

No.

- ii. How should any Residential rate increase be assigned to rate elements?

See 7.c. above.

e. Residential Space Heating services:

- i. Should GMO's Residential Space Heating services be eliminated?

No.

- ii. In the alternative, should GMO's Residential Space Heating services be scheduled for elimination in a subsequent rate case by freezing their availability in this case?

No.

- iii. Should the Commission adopt Staff's proposal to increase the residential space heating rates?

Yes.

- e. Should the Commission adopt the Staff's proposal to increase the non-residential space heating rates?

Yes.

- f. Should GMO be required to conduct a comprehensive study on the impacts of its retail customers of eliminating the MPS and L&P rate districts and implementing company-wide uniform rate classes?

Yes. In particular, Staff recommends:

- *That the Commission order GMO to prepare and file in its next general electric rate increase case a comprehensive study on the impacts on its retail customers of eliminating the MPS and L&P rate districts and implementing company-wide uniform rate classes, and rates and rate elements for each rate class; and*
- *That the Commission order GMO to perform a comprehensive class cost-of-service study to determine the differences in its cost of serving each class in its MPS and L&P rate districts.*

- g. Should GMO be required to conduct a class cost of service study to determine the differences in its cost of service for each of the classes of MPS and L&P customers?

Yes. See 7.f. above.

8. L&P Phase In: (GMO: Rush; Staff: Wells & Lyons) Should the rate changes addressed in the Commission's Report and Order in GMO's last rate case to phase-in rates in the L&P district be ended early and, instead, should the annual amount of a three-year amortization of the unrecovered phase-in amount be included in the L&P revenue requirement?

Yes, Staff recommends that the phase-in of the L&P rate district rates from GMO's last rate case, Case No. ER-2010-0356 be cancelled (be ended early) because eliminating the phase-in will provide ratepayers lower rates starting with this case, rather than waiting 18 months for the phase-in's significant rate reduction in June 2014, and also should result in fewer rate adjustments versus continuing the rate phase-in.

In addition to recommending the L&P rate district rate phase-in be cancelled, Staff recommends the unrecovered revenue of approximately \$5.6 million related to the phase-in be amortized over a three (3) year period, and GMO establish a tracker that will be trued-up at the end of the three year amortization period.

9. ADIT – FAC: (GMO: Hardesty; Staff: Hyneman) Should GMO's rate base be reduced by the accumulated deferred income taxes related to GMO's Fuel Adjustment Clause ("FAC")?

Yes. GMO's FAC is a directly related to GMO's regulated operations and the deferred income tax impact of GMO's FAC should be reflected in GMO's cost of service in this case, since it is not reflected in the FAC itself.

10. GMO's MEEIA Application: (GMO: Rush; Staff: Rogers & Scheperle)
Should the costs of any programs, shared benefits or lost revenues under MEEIA be recovered from retail customers? If so, what is the amount, and the associated per kWh rate?

No. Resolution of GMO's MEEIA Application is still pending in File No. EO-2012-0009. Any amounts for program costs, shared benefits or lost revenues would be derived from a Commission order in that case and would then be added to GMO's revenue requirement in this case. Staff will continue to monitor File No. EO-2012-0009. Should a resolution be reached at least one full working day prior to the submission of true-up testimony in this case, Staff will update its position as necessary in its true-up testimony.

11. FAC (GMO: Rush; Staff: Barnes; CCM&AAP)

- a. Should the Commission approve, modify, or reject GMO's request for a Fuel Adjustment Clause?

GMO's FAC should be modified as set forth below.

- b. What should GMO's FAC sharing be?

GMO's FAC sharing mechanism should be changed from 95%/5% to 85%/15% to provide the Company greater incentive to reduce its fuel and purchased power costs net of off-system sales revenues.

- c. Should both the revenues and the costs associated with Renewable Energy Certificates flow through GMO's FAC? (GMO Industrials: Meyer)

In regard to revenues, if there are any, "yes." In regard to costs, Staff does not believe there should be any costs which are not already being collected, so "no."

- d. Should GMO's FAC tariff be clarified to specify that the only transmission costs included in it are those that GMO incurs for purchased power and off-system sales, excluding the transmission costs related to the Crossroads Energy Center?

Yes.

- e. Should GMO be ordered to provide or make available the additional information and documents requested by Staff to aid Staff in performing FAC tariff, prudence, and true-up reviews?

Yes. These are set forth at length beginning on page 280 of Staff's Cost of Service Report.

- 12. Kansas City International Airport: (GMO: ?; Kansas City: Redhead)

No position.

- a. What actions has GMO taken to date to address quality and reliability of service at Kansas City International Airport (KCI)?

No position.

- b. What actions should GMO be taking to address the quality and reliability of service at KCI in anticipation of changes in the layout of the airport terminals?

No position.

Respectfully submitted,

/s/ Nathan Williams

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 12th day of October 2012.