BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Second Prudence Review of Kansas City Power & Light Company Implementation of Energy Efficiency Programs in Furtherance of the Missouri Energy Efficiency Investment Act (MEEIA).	)))))	**File No. EO-2017-0209**

STAFF'S REPORT OF MEEIA PRUDENCE REVIEW

COMES NOW the Staff of the Missouri Public Service Commission, by and through counsel, and for its *Prudence Review Of Cycle 1 Costs Related To The Missouri Energy Efficiency Investment Act For The Electric Operations Of Kansas City Power And Light Company* ("Report" or "Report of MEEIA Prudence Review"), respectfully states to the Missouri Public Service Commission ("Commission"):

Background

1. Kansas City Power & Light Company's ("KCP&L" or "Company") tariff provides that "Commission staff shall perform prudence reviews no less frequently than at twenty-four (24) month intervals in accordance with 4 CSR 240-20.093(10)…"[1] This tracks the language of Commission Rule 4 CSR 240-20.093(10) as authorized under § 393.1075.3 and § 393.1075.11 RSMo as supplemented.

2. The Staff's prudence review also complies with KCP&L's Demand Side Investment Mechanism Rider ("DSIM Rider") P.S.C. MO. No. 7, Original Sheet No. 49D Prudence Reviews paragraph which states in part "A prudence review shall be conducted no less frequently than at twenty-four (24) month intervals in accordance with 4 CSR 240-20.093(10)…"

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[1] Kansas City Power & Light Company, P.S.C. MO. No. 7, Original Sheet No. 49D, "Prudence Reviews", Demand Side Investment Mechanism Rider, Schedule DSIM.

3. Rule 4 CSR 240-20.093(10), in part, sets a timeline for certain activities related to the prudence review. It also established the following schedule by which certain events are to take place based on the date the Staff started its prudence review. The Staff filed its notice and began its prudence review of the costs associated with KCP&L's Demand-Side Programs Investment Mechanisms ("DSIM") on February 1, 2017.

Friday, June 30, 2017	Submission of Staff Recommendation
Monday, July 10, 2017	Request for hearing
Wednesday, August 30, 2017	Commission Order, if no hearing requested

Results of MEEIA Prudence Review and Recommendation

4. In accordance with 4 CSR 240-20.093(10)(B), Staff files its Report, including its recommendation, with the Commission regarding the results of its examination and analyses in this case.[2] The Staff's Energy Resources Department is responsible for conducting the prudence review. Staff's Report is attached as *Appendix A*.

5. Staff reviewed and examined a variety of items including the prudence of KCP&L's DSIM program costs, the Company TD-NSB Share, performance incentive award, and interest for the review period of January 1, 2016 through December 31, 2016. This review period includes the costs for the carry-over period of January 1, 2016 through June 30, 2016 that allowed for the completion of projects in the Cycle 1 C&I Rebate Custom program. Staff also reviewed costs for the period

[2] 4 CSR 240-20.093(10)(B) "The staff shall submit a recommendation regarding its examination and analysis to the commission…."

July 1, 2016 through December 31, 2016 because some costs, related energy and demand savings and TD-NSB Share were incurred after the end of the carry-over period.

6. Based on its review, Staff did not identify any instances of imprudence on the part of KCP&L during the review period. However, Staff recommends that the Commission order an adjustment to flow back to ratepayers in the amount of $4,723 in KCP&L's next Rider DSIM rate adjustment filing to correct errors made in the calculation of KCP&L's performance incentive award amount for the Cycle 1. (See Report Section V. Program Costs Review for EM&V and Performance Incentive, paragraph B. for a detailed explanation of the proposed $4,723 adjustment.)

7. In conclusion, for this review period Staff has verified the reported 57,897,554 kWh of energy savings, 11,689 kW of demand savings and $7,256,533 of actual throughput disincentive for the MEEIA Cycle 1 Programs. During this review period KCP&L incurred program costs of $21,619,538.

WHEREFORE, in accordance with the Commission's Rules, the Staff recommends that the Commission approve an adjustment of $4,723 plus interest to be returned to KCP&L's customers in the Company's next DSIM Rider filing and prays the Commission accept its Report of MEEIA Prudence Review.

Respectfully submitted,

***/s/* Robert S. Berlin**

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 30th day of June, 2017.

/s/ Robert S. Berlin

PRUDENCE REVIEW OF CYCLE 1

COSTS RELATED TO THE

MISSOURI ENERGY EFFICIENCY INVESTMENT ACT

FOR THE ELECTRIC OPERATIONS

OF

KANSAS CITY POWER AND LIGHT COMPANY

January 1, 2016 through December 31, 2016

MISSOURI PUBLIC SERVICE COMMISSION

STAFF REPORT

FILE NO. EO-2017-0209

Jefferson City, Missouri
June 30, 2017

Appendix A

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MEEIA Prudence Review of Costs Report

I. Executive Summary

The Missouri Public Service Commission ("Commission") Staff ("Staff") reviewed and analyzed a variety of items in examining whether Kansas City Power & Light ("KCP&L" or "Company") reasonably and prudently incurred costs associated with it demand-side programs and demand-side programs investment mechanism ("DSIM") which were approved by the Commission's *Order Approving Stipulation and Agreement Resolving KCP&L's MEEIA Filing* in Case No. EO-2014-0095 ("Cycle 1 Plan). Initially, the Cycle 1 Plan was approved for a period of January 26, 2013 through December 31, 2015. One of the approved Cycle 1 demand-side programs (the C&I Rebate Custom program) was extended to allow customers to submit project completion paperwork from January 1, 2016 through June 30, 2016 ("Carry-over Period") as a result of paragraph 12 of the *Non-Unanimous Stipulation and Agreement Resolving MEEIA Filings* which was approved by the Commission on April 6, 2016 in File Nos. EO-2015-0240 and EO-2015-0241("2016 Stipulation").

This prudence review report ("Report") reflects Staff's second prudence[1] review for KCP&L's Missouri Energy Efficiency Act ("MEEIA") DSIM Cycle 1 program costs ("Program Costs"), annual energy and demand savings, through-put disincentive - net shared benefits ("TD-NSB"), TD-NSB Share and performance incentive award ("PI") for the period of January 1, 2016 through December 31, 2016 ("Review Period"). The total amount of program costs for the Review Period was $21,619,538 and the actual TD-NSB Share was $7,256,533.

Based on its review, Staff has not identified any imprudence by KCP&L's management during the Review Period. However, Staff is recommending an ordered adjustment ("OA") in the amount of $4,723 in KCP&L's next Rider DSIM rate adjustment filing to correct errors made in the calculation of KCP&L's performance incentive award amount for Cycle 1. The recommended OA amount is explained in detail later in this report.

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[1] Staff performed its first MEEIA Prudence Review for Kansas City Power in File No. EO-2016-0183 which included the review period of July 6, 2014 through December 31, 2015.

II. BACKGROUND

On January 7, 2014, KCP&L filed, in Case No. EO-2014-0095, its second application[2] under the MEEIA and the Commission's MEEIA rules.[3] On May 27, 2014, Staff, KCP&L, KCP&L Grater Missouri Operations Company ("GMO"), the Division of Energy, Natural Resources Defense Council, Sierra Club, Earth Island Institute d/b/a Renew Missouri, filed a *Non-Unanimous Stipulation And Agreement Resolving Kansas City Power & Light Company's MEEIA Filing*[4] ("2014 Stipulation").

In its June 5, 2014 *Order Approving Stipulation And Agreement Resolving KCP&L's MEEIA Filing* in Case Nos. EO-2014-0095, the Commission authorized KCP&L to implement its eighteen month[5] "Plan" including: 1) twelve (12) demand-side programs ("MEEIA Programs") described in KCP&L's January 7, 2014 MEEIA Application and modified to reflect the terms and conditions contained in the 2014 Stipulation, and 2) a DSIM. In its July 2, 2014 *Order Approving Tariffs*, the Commission approved rates[6] for the MEEIA "DSIM Charge" on customers' bills in Case No. EO-2014-0095 to recover: 1) estimated annual programs' costs and 2) estimated TD-NSB Share.

KCP&L's Cycle 1 DSIM Rider[7] tracks, with carrying costs, in a regulatory asset or regulatory liability, the differences between 1) the estimated programs' costs billed monthly to customers through rates and the actual monthly programs' costs and 2) KCP&L's estimated TD-NSB[8] Share[9] billed to customers for a given month and the actual monthly TD-NSB Share.

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[2] KCP&L's filed its first MEEIA application on December 22, 2011 in File No. EO-2012-0008. On February 17, 2012, KCP&L filed its Notice of Dismissal of its Application for Approval of Demand-Side Programs and for Authority to Establish a Demand-Side Programs Investment Mechanism.

[3] 4 CSR 240-3.163, 4 CSR 240-3.164, 4 CSR 240-20.093 and 4 CSR 240-20.094

[4] The Commission's order approving the 2014 Stipulation included: "Empire, Ameren Missouri, MECG, MIEC, MC Power, Brightergy, and Public Counsel are also parties to this case and did not sign the stipulation and agreement. Public Counsel filed a statement on May 28, 2014 indicating it supports the stipulation and agreement. The other non-signatory parties have not acted to oppose the stipulation and agreement with seven days of its filing. Therefore, pursuant to Commission Rule 4 CSR 240-2.115, the Commission will treat the stipulation and agreement as unanimous."

[5] Starting July 6, 2014 and ending December 31, 2015.

[6] The residential and non-residential rates for the MEEIA DSIM Charge approved in Case No. EO-2014-0095 are $0.00398 per kWh and $0.00215 per kWh, respectively.

[7] Kansas City Power & Light Company, P.S.C. MO. No. 7, Third Revised Sheet No. 49, First Revised Sheet No. 49A., Original Sheet No. 49B., Original Sheet No. 49C., Original Sheet No. 49D., and Fourth Revised Sheet No. 49E.

[8] 2014 Stipulation, page 7: "The monthly TD-NSB is the 2014 net present value of the gross benefits of all measures installed in that month, less the 2014 net present value of all programs' costs in that month.

[9] 2014 Stipulation, page 4:"The TD-NSB Share is the sum of the net shared benefits over the MEEIA Plan period multiplied by 26.36%."

Page 6 of the 2014 Stipulation provides the process for the DSIM Rider to return to customers or recover from customers the over- or under-recovery of MEEIA Programs' costs, TD-NSB Share and performance incentive award, including interest by means of a separate line item "DSIM Charge" on customers' bills.

The Commission's December 2, 2015 *Order Approving Application For Approval of Modifications Of Demand-Side Programs* in File No. EO-2014-0095 approved KCP&L's request for permission to increase the budget for its approved MEEIA programs. KCP&L stated in its request that actual expenditures for those programs would exceed 120 percent of the original budget primarily due to the high level of customer incentives offered in the C&I program. On March 8, 2016, KCP&L filed with the Commission a second application for modifications to its approved MEEIA budget.[10] In its application KCP&L estimated the total expenditures would be approximately 260% of the original budget. The Commission issued an order on April 6, 2016 approving KCP&L's second application for modification to its demand-side programs.

Commission Rule 4 CSR 240-20.093(10) requires that the Staff conduct prudence reviews of an electric utility's costs for its DSIM no less frequently than every twenty-four (24) months approved DSIM Cycle 1.

Commission Rules 4 CSR 240-20.093(9) and 4 CSR 240-2.163(6) require that KCP&L file quarterly a Surveillance Monitoring Report. Addendum A to this Report is Page 6 of KCP&L's highly confidential Surveillance Monitoring Reports including status of the MEEIA Programs and DSIM cost and savings for the quarter ended, 12-months ended and cumulative total ended December 31, 2015 and December 31, 2016, respectively.

Table 1 identifies the line items and Review Period amounts from Addendum A which are the subject of Staff's prudence review.

[10] *Kansas City Power & Light Company's Application For Approval of Demand-Side Programs Budget Modifications*, File No. EO-2014-0095

Table 1		
Cumulative Totals for January 1, 2016 through December 31, 2016		
Category	**Descriptor**	**Total for Carry-over Period**
Total Programs' Costs ($)	Billed	$ 23,013,643
Total Programs' Costs ($)	Actual	$ 21,619,538
Total Programs' Costs ($)	Vanriance	$ 1,394,105
Total Programs' Costs ($)	Interest	$ (181,842)
Energy Savings (kWh)	Actual	57,897,554
Demand Savings (kW)	Actual	11,689
Net Benefits ($)	Actual	$ 27,528,579
90% Company TD-NSB Share ($)	Billed	$ 7,360,214
Compay TD-NSB Share ($) (1)	Disincentive	$ 7,256,533
Compay TD-NSB Share ($)	Variance	$ 103,681
Compay TD-NSB Share ($) cumulative	Interest	$ (72,615)

In evaluating prudence, Staff reviews whether a reasonable person making the same decision would find both the information the decision-maker relied on and the process the decision-maker employed to be reasonable based on the circumstances at the time the decision was made, *i.e.*, without the benefit of hindsight. The decision actually made is disregarded; instead, the review evaluates the reasonableness of the information the decision-maker relied on and the decision-making process the decision-maker employed. If either the information relied upon or the decision-making process employed was imprudent, then Staff examines whether the imprudent decision caused any harm to ratepayers. Only if an imprudent decision resulted in harm to ratepayers, will Staff propose an adjustment. A more detailed discussion of the legal foundation for Staff's definition of imprudence is presented in the next section.

III. Prudence Review Standard

In *State ex rel. Associated Natural Gas Co. v. Public Service Com'n of State of Mo*., the Western District Court of Appeals stated the Commission defined its prudence standard as follows:

> [A] utility's costs are presumed to be prudently incurred.... However, the presumption does not survive “a showing of inefficiency or improvidence... [W]here some other participant in the proceeding creates a serious doubt as to the prudence of expenditure, then the applicant has the burden of dispelling these doubts and proving the questioned expenditure to have been prudent.
>
> In the same case, the PSC noted that this test of prudence should not be based upon hindsight, but upon a reasonableness standard: [T]he company's conduct should be judged by asking whether the conduct was reasonable at the time, under all the circumstances, considering that the company had to solve its problem prospectively rather than in reliance on hindsight. In effect, our responsibility is to determine how reasonable people would have performed the tasks that confronted the company.
>
> 954 S.W.2d 520, 528-29 (Mo. App. W.D., 1997) (citations omitted).

In reversing the Commission in that case, the Court did not criticize the Commission’s definition of prudence, but held, in part, that to disallow a utility's recovery of costs from its ratepayers based on imprudence; the Commission must determine the detrimental impact of that imprudence on the utility’s ratepayers. *Id*. at 529-30. This is the prudence standard Staff has followed in this review. Accordingly, Staff reviewed for prudence the areas identified and discussed below for KCP&L’s DSIM.

IV. <u>Prudence Review Process</u>

On February 1, 2016, Staff initiated this second prudence review of costs of KCP&L’s DSIM in compliance with 4 CSR 240-20.093(10) as authorized under Sections 393.1075. 3. and 393.1075.1, RSMo 2016. This prudence review was performed by members of the Energy Resource Department of the Staff. Staff obtained and analyzed a variety of documents, records, reports, data request responses and work papers emails, WebEx presentations and phone calls with KCP&L personnel to complete its prudence review of costs for the DSIM Rider for the Review Period of January 1, 2016 through December 31, 2016. In compliance with 4 CSR 240-20.093(10), this prudence review was completed within one-hundred-fifty (150) days of its initiation.

If the Commission were to order any disallowance of costs as a result of prudence reviews and/or corrections, such a disallowance amount shall be returned to customers through an ordered adjustment (OA) in a Cycle 2 DSIM Rider rate adjustment filing.[11]

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[11] Kansas City Power & Light Company, P.S.C. MO. No. 7, Original Sheet No. 49D: OA = Ordered Adjustment is the amount of any adjustment to the DSIM ordered by the Commission as a result of prudence reviews and/or

V. **Program Costs Review for EM&V and Performance Incentive**

A. Program Costs Review for EM&V

1. Description

Staff compared actual KCP&L MEEIA Cycle 1 program costs to the program costs used by KCP&L's third-party independent EM&V contractor, Navigant, in their EM&V analysis. In 2014, the actual KCP&L MEEIA Cycle 1 program costs equaled the program costs used by Navigant. However, in 2015, the actual KCP&L MEEIA Cycle 1 program costs were $510,493.17 higher than the program costs used by Navigant. This was determined to be a direct result of the EM&V schedule in which KCP&L supplied Navigant with program costs at a "point in time" but continued to incur costs after the final EM&V report was filed. Staff is concerned with the practice of having EM&V performed for a program year or an entire cycle without including all program costs. Staff determined there to be no ratepayer harm from the EM&V report not including all program costs in this instance, but points out that there is potential for ratepayer harm in other instances. One of the significant outputs of EM&V is cost/benefit ratios at the program and portfolio level. A program and/or portfolio are considered to be cost effective if their cost/benefit ratio is above 1.0. If, for example, a program or portfolio is found to have a cost/benefit ratio slightly above 1.0 based on final EM&V and that program or portfolio is relied upon for future planning purposes and is either continued as it is or approved to be a part of a new MEEIA Cycle only to discover at a later date that costs incurred after EM&V drove that cost/benefit ratio below 1.0, ratepayers would ultimately be paying for a non-cost-effective program or portfolio for some amount of time until discovered and remedied. Staff is not making a recommendation to address its concern with this issue in this Report, but notes that this is an issue that will need to be revisited in the near future.

B. Program Costs Review for Performance Incentive

1. Description

Similarly, Staff compared actual KCP&L MEEIA Cycle 1 Plan program costs to the program costs used to calculate KCP&L's performance incentive ("PI"). In MEEIA Cycle 1, KCP&L's PI was based on a percentage of net benefits. Net benefits are equal to the net present value of net benefits determined through full EM&V less the net present value of program

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corrections under this DSIM Rider. Such amounts shall include monthly interest at the Company's monthly Short-Term Borrowing Rate.

costs.[12] This cost-benefit relationship works as follows: the lower the program costs the higher the net benefits and the higher the program costs the lower the net benefits. Consequently, if program costs are understated then net benefits and PI are overstated. This would lead to KCP&L over-collecting from its customers which would be a detriment to those customers. Conversely, if program costs are overstated then net benefits and PI are understated. This would lead to KCP&L under-collecting from its customers and would be a detriment to KCP&L.

The actual KCP&L MEEIA Cycle 1 net present value of program costs for the carry-over period in 2016 is $1,708,094 higher than the net present value of the program costs for the carry-over period used in the calculation of KCP&L's PI. However, the actual KCP&L MEEIA Cycle 1 net present value of program costs for 2014 and 2015 were $174,577 and $1,499,005, respectively, lower than the net present value of program costs used to calculate KCP&L's PI. The net total variance of 2014 – 2016 actual KCP&L MEEIA Cycle 1 program costs and the net present value of program costs used to calculate KCP&L's PI is $34,512.

Since KCP&L's PI is based on a percentage of net benefits, in order to determine the over- or under-statement of the PI that same percentage can be applied to the over- or under-statement of program costs as illustrated in Table 2:

TABLE 2

	2014	2015	2016	Total Cycle 1
NPV of GL Costs to 2014 $	$ 6,313,962	$ 19,190,309	$ 20,212,511	$ 45,716,782
Costs used in calculation of PI in 2014 $	$ 6,488,539	$ 20,689,314	$ 18,504,417	$ 45,682,270
Variance of Costs not reflected in PI calculation	$ (174,577)	$ (1,499,005)	$ 1,708,094	$ 34,512
Performance Incentive percentage	11.51%	11.51%	11.51%	11.51%
Total Overstatement of PI (excluding interest)	$ (20,094)	$ (172,535)	$ 196,602	$ 3,972

The variance of costs not reflected in the PI calculation for 2014 was due to a 2016 marketing adjustment attributed to 2014 (when it was incurred). The amount of $174,577 was not included in KCP&L'S 2014 General Ledger but was included in the 2014 costs used in calculating the PI. However, the amount of $174,577 was included in KCP&L's 2016 General Ledger ("2016 GL") but was not included in the 2016 costs used in calculating the PI. The

[12] KCP&L Cycle 1 programs' costs for 2015 are discounted to 2014 dollars using a discount rate of 7.06%. Paragraph 12. d. of the 2016 Stipulation specifies that all Cycle 1 costs which occur in 2016 will be treated as if they are 2015 costs when discounting to 2014 dollars.

$174,577 is accounted for in 2016, but if it is taken out of 2016 and added back into 2014, the total overstatement of PI of ($20,094) for 2014 becomes $0 and the total overstatement of PI of $196,602 for 2016 becomes $177,816.[13] The variance of costs not reflected in the PI calculation for 2015 was due to some 2016 costs being included in the 2015 net benefit calculation and some of those costs being discounted at the wrong rate. $1,644,280 was not included in KCP&L's 2015 General Ledger but was included in the 2015 costs used in calculating the PI. However, the $1,644,280 was included in the 2016 GL but was not included in the 2016 costs used in calculating the PI. The $1,644,280 is accounted for in 2016, but if it is taken out of 2016[14] and added back into 2015, the total overstatement of PI of ($172,535) for 2015 becomes $4,404 and the total overstatement of PI of $177,816 for 2016 becomes $86. The total overstatement of PI of $4,404 for 2015 is due to $612,808 of 2016 costs included in the 2015 net benefit calculation being discounted at the wrong rate. Those 2016 costs were discounted two years instead of one year[15] which causes a $4,404 overstatement of PI in 2015. The total overstatement of PI of $86 for 2016 is due to $796 of October, 2016 program costs not being included in the PI calculation.

The total KCP&L MEEIA Cycle 1 overstatement of PI (excluding interest) is $4,489.69 as illustrated in Table 3:

[13] The Total Overstatement of PI (excluding interest) for 2016 is reduced by $18,786 instead of $20,094 due to discounting back to 2014 dollars.

[14] An additional $7,345 is taken out of KCP&L in 2016 to correct for an income-eligible weatherization entry that should have been accounted for in GMO.

[15] 2016 carry-over projects were modeled in DSMore with a completion date of December 31, 2015. Program costs for the 2016 carry-over projects were treated as if they had occurred in 2015 and discounted back to 2014 dollars.

TABLE 3				
	2014	2015	2016	Total
NPV of GL Costs to 2014 $	$6,313,963	$19,190,309	$20,212,511	$45,716,782
Costs used in calculation of PI in 2014 $	$6,488,540	$20,689,314	$18,504,417	$45,682,270
Variance of Costs not reflected in PI calculation	($174,577)	($1,499,005)	$1,708,094	$34,512
Performance Incentive percentage	11.51%	11.51%	11.51%	11.51%
Total Overstatement of PI (excluding interest)	($20,094)	($172,535)	$196,602	$3,972
Expalanation for Differences in GL Costs and PI Calculation Costs				
2016 Marketing Adjustment Attributed to 2014 (when incurred) for Discounting Purposes	174,577		(174,577)	
Discounted	174,577		(163,215)	
Performance Incentive percentage	11.51%		11.51%	
Impact on PI (excluding interest)	$ 20,094		$ (18,786)	$ 1,308
2016 Costs Included in 2015 NSB		1,644,280	(1,651,625)	
Discounted		1,537,268	(1,544,135)	
Performance Incentive percentage		11.51%	11.51%	
Impact on PI (excluding interest)		$ 176,940	$ (177,730)	$ (790)
Net Overstatement of PI	($0)	$4,404	$86	$4,489.69
Explanation for Net Overstatement of PI				
KCP&L 2016 Costs Discounted at Wrong Rate		612,808		
Discounted in PI calculation		534,662		
Should have been discounted		572,925		
Difference		38,263		
Performance Incentive percentage		11.51%		
Impact on PI (excluding interest)		$ 4,404		
Late 2016 Program Costs (October) Not included in PI Calculation			796	
Discounted			744	
Performance Incentive percentage			11.51%	
Impact on PI (excluding interest)			$ 86	

The PI adjustment will be made based on an 18 month annuity at the weighted average cost of capital[16] including carrying costs at the short-term borrowing rate through August 1, 2017, and any additional carrying costs accumulated after August 1, 2017 but prior to an order in this case. The PI annuity value is $224.12 and the carrying costs through August 1, 2017 are $8.84 for a total PI adjustment amount of $4,722.65.

Staff initially discovered the issue in its review of the actual 2016 KCP&L MEEIA Cycle 1 program costs for the carry-over period compared to the 2016 program costs used to calculate KCP&L's PI. Staff corresponded with KCP&L in an attempt to understand the difference in the

[16] 6.961%

various filings. KCP&L reviewed the issue and explained the variances to be directly related to the circumstances explained above.

2. Summary of Cost Implications

If KCP&L was imprudent in its decisions relating to calculation of its performance incentive award amount ratepayers could be harmed by possible increased future rates.

3. Conclusion

Staff found no indication that KCP&L acted imprudently regarding the selection and supervision of its EM&V contractors.

4. Documents Reviewed

1. KCP&L's Cycle 1 Plan;
2. Approved MEEIA Energy Efficiency and Demand Side Management Programs Tariff Sheets;
3. KCP&L's Prudence Review work papers; and
4. Staff Data Requests; 0001, 0002, 0004, 0005, 0006, 0007, and 0008.

Staff Expert: Brad Fortson

VI. <u>Program Costs</u>

A. Total Program Costs

1. Description

Staff examined KCP&L's general ledger ("GL") for costs related to the carry-over of projects for the C&I Rebate Custom program. The six-month carry-over period of January 1, 2016 to June 30, 2016 allowed completion of customer projects and submission of paperwork. Final rebate payments to customers for all Cycle 1 projects were due July 31, 2016. Staff observed costs outside of the carry-over period and past the final payment date of July 31, 2016. However, these costs were small ($99,799) in comparison to the total carry-over costs of $21,619,538. This will be discussed further in a later section.

KCP&L's program costs include incentive payments; program administration costs for residential and business programs; and Strategic Initiative costs for general, accounting, regulatory, administrative, implementation, and marketing costs.

KCP&L provided Staff with accounting records for all MEEIA costs incurred during the Review Period. Staff first separated the costs by program, then by customer incentives and administrative costs for each program. Staff uses the term "administrative" to mean all costs other than customer incentives. The results are depicted in Table 4.

Table 4 Actual Incentive and Program Cost Totals Highly Confidential Programs' Costs January 1, 2016 through December 31, 2016			
	Total Costs	**Incentives**	**Program Administration**
Energy Optimizer	$ 260,719	$ -	$ 260,719
Home Lighting Rebate	$ 153,084	$ 17,214	$ 135,870
Air Conditioning Upgrade Rebate	$ 94,703	$ -	$ 94,703
Home Energy Analyzer	$ 42,235	$ -	$ 42,235
Home Energy Report Program	$ 35,042	$ -	$ 35,042
Income-Eligible Weatherization	$ 24,189	$ 6,500	$ 17,689
Home Energy Report Income-Eligible	$ 21,773	$ -	$ 21,773
Appliance Recycling Rebate	$ 19,359	$ 2,080	$ 17,279
Subtotal Residential Programs	**$ 651,104**	**$ 25,794**	**$ 625,310**
Business Energy Efficiency Rebates-Custom	$ 20,361,435	$ 18,687,037	$ 1,674,398
Business Energy Efficiency Rebates-Standard	$ 581,287	$ 388,927	$ 192,359
Building Operator Certification	$ 18,123	$ -	$ 18,123
Business Energy Analyzer	$ 7,591	$ -	$ 7,591
Subtotal Business Programs	**$ 20,968,435**	**$ 19,075,965**	**$ 1,892,470**
Total Program Costs	**$ 21,619,538**	**$ 19,101,759**	**$ 2,517,779**
Costs by Subaccounts			
Customer Rebates	$ 19,101,759		
Program Delivery	$ 1,666,694		
Evaluation	$ 442,887		
Marketing	$ 237,899		
Administrative	$ 151,108		
Accounting/Regulatory	$ 11,288		
Implementation	$ 7,904		
Total Program Costs	**$ 21,619,538**		

KCP&L incurs administrative costs that are directly related to the implementation of its approved energy efficiency programs. Staff reviewed all costs for each MEEIA program for reasonableness and to assure each cost being recovered was directly related to energy efficiency programs and allowable through the DSIM Rider.

KCP&L provides incentive payments to its customers as part of its approved energy efficiency programs. Incentive payments are an important instrument for encouraging investment in energy efficient technologies and products by lowering higher upfront costs for energy efficiency measures.

2. Summary of Cost Implications

If KCP&L was imprudent in its decisions relating to the administration and implementation of the residential and business energy efficiency programs, ratepayers could be harmed due to potential increased future rates.

3. Conclusion

Staff did not find any instances where KCP&L was imprudent in its actions associated with the MEEIA program costs for Cycle 1.

4. Documents Reviewed

a. 2014 Stipulation;
b. DSIM Rider;
c. Approved MEEIA Energy Efficiency and Demand Side Management Programs Tariff Sheets; and
d. Staff Data Requests: 0001 and 0002.

Staff Expert: Ron Irving

VII. Rebates after July 31, 2016

1. Description

KCP&L and other signatories agreed in the *Non-Unanimous Stipulation and Agreement Resolving MEEIA Cycle 1 Transition period* that "The final payment by KCP&L of rebates for all Cycle 1 projects is July 31, 2016.", however one (1) customer chose to receive its rebates in the form of a bill credit. These bill credits were not issued to the customer in full until the customer's usage was sufficient to off-set the bill credits which occurred after July 31, 2016 .[17]

2. Summary of Cost Implications

If KCP&L did not follow the terms of the Cycle 1 transition stipulation and agreement, ratepayer harm could result in an increase rate in future general electric rate cases.

[17] Paragraph 12. a. of the 2016 Stipulation

3. Conclusion

Staff found that KCP&L substantially complied with the terms of paragraph 12 of the 2016 Stipulation, as it used accrual accounting when it booked these cost, although credits were issued past the July 31, 2016 date. Staff also could not identify any rate payer harm as a result of the issuance of these bill credits past the date of July 31, 2016 for final rebate payments.

4. Documents Reviewed

a. KCP&L's Cycle 1 Plan;

b. Cycle 1 Plan transition stipulation and agreement; and

c. Staff Data Requests; 0002, 0003, and 0008.

Staff Expert: Dana Eaves

VIII. <u>Interest Costs</u>

1. Description

During the Review Period KCP&L reported the interest amount accrued for the Company's Cycle 1 program costs and TD-NSD Share as reported on Page 6 of KCP&L's December 31, 2016 Quarterly Surveillance Monitoring Report had a cumulative balance of $(181,842) and $(72,615) respectively. Because KCP&L over-recovered program and TD-NSB Share costs from customers, the cumulative interest amount as of December 31, 2016 would be included in DSIM Rider.

It was agreed to in the 2014 Stipulation that;

> Monthly interest will be calculated for the monthly cumulative over- and under- monthly balances for MEEIA Programs' costs, KCP&L TD-NSB Share and any earned Performance Incentive Award. The monthly interest rate will be KCP&L's monthly short-term borrowing rate at that particular time.

2. Summary of Cost Implications

If KCP&L was imprudent in its reporting and/or calculating of the interest associated to over- or under-recovery of energy efficiency programs' costs and/ or Company TD-NSB Share ratepayer harm could result in an increase in future rates.

3. Conclusion

Staff has verified that KCP&L interest calculations and interest amounts for inclusion in its Surveillance Monitoring Reports are correct for the review period.

4. Documents Reviewed

a. KCP&L's Cycle 1 Plan;

b. KCP&L's Annual DSM Report;

c. KCP&L's Quarterly Surveillance Monitoring Report; and

d. Staff Data Requests 0003, and 0006.

Staff Expert: Dana Eaves

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Second Prudence Review of Kansas City Power & Light Company's Implementation of Energy Efficiency Programs in Furtherance of the Missouri Energy Efficiency Investment Act (MEEIA)	)))))	File No. EO-2017-0209

AFFIDAVIT OF DANA E. EAVES

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW DANA E. EAVES and on his oath declares that he is of sound mind and lawful age; that he contributed to Staff's foregoing *MEEIA Prudence Review of Costs Report* for this case; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Dana E. Eaves

DANA E. EAVES

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 30th day of June, 2017.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2020
Commission Number: 12412070

D Suzie Mankin

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Second Prudence Review of Kansas City Power & Light Company's Implementation of Energy Efficiency Programs in Furtherance of the Missouri Energy Efficiency Investment Act (MEEIA)	)))))	File No. EO-2017-0209

AFFIDAVIT OF BRAD FORTSON

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

COMES NOW BRAD FORTSON and on his oath declares that he is of sound mind and lawful age; that he contributed to Staff's foregoing *MEEIA Prudence Review of Costs Report* for this case; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Brad Fortson

BRAD FORTSON

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 29th day of June, 2017.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2020
Commission Number: 12412070

D Suzie Mankin

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Second Prudence Review of Kansas City Power & Light Company's Implementation of Energy Efficiency Programs in Furtherance of the Missouri Energy Efficiency Investment Act (MEEIA)	)))))	File No. EO-2017-0209

AFFIDAVIT OF RON IRVING

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW RON IRVING and on his oath declares that he is of sound mind and lawful age; that he contributed to Staff's foregoing *MEEIA Prudence Review of Costs Report* for this case; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

RON IRVING

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 29th day of June, 2017.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2020
Commission Number: 12412070

D Suzie Mankin
Notary Public

Kansas City Power & Light Company
Quarter Ended, Year to Date and Cumulative Total Ended December 31, 2015
SURVEILLANCE MONITORING REPORT
Missouri Energy Efficiency Investment Act of 2009 (MEEIA)
Status of Demand-Side Programs and Demand-Side Programs Investment Mechanism

DSM Program Name	Start Date	Planned End Date	Actual End Date
Air Conditioning Upgrade Rebate	07/06/2014	12/31/2015	12/31/2015
Building Operator Certification	07/06/2014	12/31/2015	12/31/2015
Business Energy Analyzer	07/06/2014	12/31/2015	12/31/2015 (9)
Business Energy Efficiency Rebates - Custom	07/06/2014	12/31/2015	
Business Energy Efficiency Rebates - Standard	07/06/2014	12/31/2015	12/31/2015
Home Lighting Rebate	07/06/2014	12/31/2015	12/31/2015
Home Appliance Recycling Rebate	07/06/2014	12/31/2015	12/31/2015
Home Energy Analyzer	07/06/2014	12/31/2015	12/31/2015 (9)
Home Energy Report	07/06/2014	12/31/2015	12/31/2015 (9)
Home Energy Report Income Eligible	07/06/2014	12/31/2015	12/31/2015 (9)
Income-Eligible Weatherization	07/06/2014	12/31/2015	12/31/2015
Programmable Thermostat	07/06/2014	12/31/2015	12/31/2015 (9)

Category	Descriptor		Quarter Ended December 31, 2015	YTD December 31, 2015	Cumulative Total Ended
Total Programs' Costs ($)	Planned	(1)	$ 2,979,033	$ 12,102,701	$ 19,175,843
Total Programs' Costs ($)	Actual	(6)	$ 7,755,803	$ 20,526,178	$ 26,840,140
Total Programs' Costs ($)	Variance		$ (4,776,770)	$ (8,423,477)	$ (7,664,297)
Total Programs' Costs ($)	Billed		$ 4,795,851	$ 16,440,492	$ 21,275,253
Total Programs' Costs ($)	Actual	(6)	$ 7,755,803	$ 20,526,178	$ 26,840,140
Total Programs' Costs ($)	Variance		$ (2,959,952)	$ (4,085,686)	$ (5,564,887)
Total Programs' Costs ($)	Interest		$ (19,501)	$ (43,375)	$ (48,937)
Energy Savings (kWh)	Planned	(2)	29,173,524	68,716,971	102,588,995
Energy Savings (kWh)	Actual	(7)	46,848,443	84,586,657	126,126,686
Energy Savings (kWh)	Variance		(17,674,919)	(15,869,686)	(23,537,691)
Demand Savings (kW)	Planned	(3)	8,330	18,752	43,094
Demand Savings (kW)	Actual	(7)	10,962	19,444	42,657
Demand Savings (kW)	Variance		(2,632)	(692)	436
Net Benefits ($)	Planned	(4)	$ 6,822,243	$ 23,919,804	$ 33,702,693
Net Benefits ($)	Estimated		$ 15,967,232	$ 29,151,819	$ 40,056,366
Net Benefits ($)	Variance		$ (9,144,989)	$ (5,232,015)	$ (6,353,672)
Company TD-NSB Share ($)	Planned	(5)	$ 1,452,219	$ 5,825,056	$ 9,833,456
Company TD-NSB Share ($)	Disincentive	(8)	$ 4,208,962	$ 7,684,419	$ 10,558,858
Company TD-NSB Share ($)	Variance		$ (2,756,743)	$ (1,859,363)	$ (725,402)
Company TD-NSB Share ($)	Billed		$ 1,173,215	$ 6,202,401	$ 8,940,357
Company TD-NSB Share ($)	Disincentive	(8)	$ 4,208,962	$ 7,684,419	$ 10,558,858
Company TD-NSB Share ($)	Variance		$ (3,035,748)	$ (1,482,019)	$ (1,618,501)
Company TD-NSB Share ($)	Interest		$ (1,255)	$ 11,416	$ 11,299

Footnotes:

(1) Total planned program costs reflect $7,073,141 for 2014 and $12,102,701 for 2015.

(2) Total planned energy savings (kWh) are based on 33,872,024 annual 2014 kWh savings and 68,716,971 annual 2015 kWh savings.

(3) Total planned demand savings (kW) are based on 24,342 annual 2014 kW savings and 18,752 annual 2015 kW savings.

(4) Total 2014 planned net benefits of $9,782,889 allocated to the third and fourth quarters based on kWh savings and total 2015 planned net benefits of $23,819,804 allocated to the quarters based on kWh savings.

(5) Total 2014 Company TD-NSB Share ($) of $4,008,399 allocated to the third and fourth quarters based on kWh savings and total 2015 Company TD-NSB Share ($) of $5,825,056 allocated to the quarters based on kWh savings.

(7) Actual demand and energy savings are reported at the meter.

(8) Disincentive amounts reflect the 26.36% share applied to the Net Shared Benefits @ 100%.

(9) Program ended 12/31/15 except for maintenance program costs to sustain the program until MEEIA Cycle 2 programs become effective April 1, 2016.

Notes for Descriptors:

1. **Planned = amounts which are consistent with and included in the Company's Commission-approved MEEIA Plan**
2. **Billed = amounts billed to customers for recovery of Programs' Costs or Company TD-NSB Share**
3. **Actual = amounts (prior to evaluation, measurement and verification (EM&V)) used to determine Estimated Net Benefits**
4. **Estimated = net benefits amounts calculated monthly using DSMore model and prior to EM&V**
5. **Disincentive = Commission-approved percentage of pre-tax Estimated Net Benefits calculated using a combined federal/state tax rate specified in the utility's Commission-approved DSIM**
6. **Variance = Planned less Actual, Billed less Actual, Planned less Estimated, Planned less Disincentive, or Billed less Disincentive**
7. **Interest = amounts of interest determined through the methodology specified in the utility's Commission-approved DSIM**

Kansas City Power & Light Company
Quarter Ended, Year to Date and Cumulative Total Ended December 31, 2016
SURVEILLANCE MONITORING REPORT
Missouri Energy Efficiency Investment Act of 2009 (MEEIA)
Status of Demand-Side Programs and Demand-Side Programs Investment Mechanism

DSM Program Name	Start Date	Planned End Date	Actual End Date
Air Conditioning Upgrade Rebate	07/06/2014	12/31/2015	12/31/2015
Building Operator Certification	07/06/2014	12/31/2015	12/31/2015
Business Energy Analyzer	07/06/2014	12/31/2015	12/31/2015 (9)
Business Energy Efficiency Rebates - Custom	07/06/2014	12/31/2015	06/30/2016
Business Energy Efficiency Rebates - Standard	07/06/2014	12/31/2015	12/31/2015
Home Lighting Rebate	07/06/2014	12/31/2015	12/31/2015
Home Appliance Recycling Rebate	07/06/2014	12/31/2015	12/31/2015
Home Energy Analyzer	07/06/2014	12/31/2015	12/31/2015 (9)
Home Energy Report	07/06/2014	12/31/2015	12/31/2015 (9)
Home Energy Report Income Eligible	07/06/2014	12/31/2015	12/31/2015 (9)
Income-Eligible Weatherization	07/06/2014	12/31/2015	12/31/2015
Programmable Thermostat	07/06/2014	12/31/2015	12/31/2015 (9)

Category	Descriptor		Quarter Ended December 31, 2016	YTD December 31, 2016	Cumulative Total Ended
Total Programs' Costs ($)	Planned	(1)	$ -	$ -	$ 19,175,843
Total Programs' Costs ($)	Actual	(6)	$ 796	$ 21,619,538	$ 48,459,678
Total Programs' Costs ($)	Variance		$ (796)	$ (21,619,538)	$ (29,283,835)
Total Programs' Costs ($)	Billed		$ 7,396,773	$ 23,013,643	$ 44,288,895
Total Programs' Costs ($)	Actual	(6)	$ 796	$ 21,619,538	$ 48,459,678
Total Programs' Costs ($)	Variance		$ 7,395,977	$ 1,394,104	$ (4,170,783)
Total Programs' Costs ($)	Interest		$ (37,027)	$ (181,842)	$ (230,779)
Energy Savings (kWh)	Planned	(2)	0	0	102,588,995
Energy Savings (kWh)	Actual	(7)	0	57,897,554	184,024,240
Energy Savings (kWh)	Variance		0	(57,897,554)	(81,435,245)
Demand Savings (kW)	Planned	(3)	0	0	43,094
Demand Savings (kW)	Actual	(7)	0	11,689	54,346
Demand Savings (kW)	Variance		0	(11,689)	(11,253)
Net Benefits ($)	Planned	(4)	$ -	$ -	$ 33,702,693
Net Benefits ($)	Estimated	(10)	$ -	$ 27,528,579	$ 67,584,945
Net Benefits ($)	Variance		$ -	$ (27,528,579)	$ (33,882,251)
Company TD-NSB Share ($)	Planned	(5)	$ -	$ -	$ 9,833,456
Company TD-NSB Share ($)	Disincentive	(8)(10)	$ -	$ 7,256,533	$ 17,815,391
Company TD-NSB Share ($)	Variance		$ -	$ (7,256,533)	$ (7,981,936)
Company TD-NSB Share ($)	Billed		$ 2,749,057	$ 7,360,214	$ 16,300,572
Company TD-NSB Share ($)	Disincentive	(8)	$ -	$ 7,256,533	$ 17,815,391
Company TD-NSB Share ($)	Variance		$ 2,749,057	$ 103,681	$ (1,514,820)
Company TD-NSB Share ($)	Interest	(10)	$ (13,498)	$ (72,615)	$ (61,316)

Footnotes:

(1) Total planned program costs.
(2) Total planned energy savings (kWh).
(3) Total planned demand savings (kW).
(4) Total planned net benefits.
(5) Total Company TD-NSB Share ($).
(7) Actual demand and energy savings are reported at the meter.
(8) Disincentive amounts reflect the 26.36% share applied to the Net Shared Benefits @ 100%.
(9) Program ended 12/31/15 except for maintenance program costs to sustain the program until MEEIA Cycle 2 programs become effective April 1, 2016.

(10) In connection with the MPSC Staff 2016 MEEIA Prudence Audit, Case No. EO-2016-0183, it was determined that the Company had not discounted program costs to 2014 in the calculation of Net Benefits and TD-NSB Share as required in the Non-Unanimous Stipulation and Agreement approved by the Commission in Case No. EO-2014-0095. The effect of correcting this error was an increase in Net Benefits of $1,402,998.93, TD-NSB Share of $369,830.54 and Interest of $2,280.26. This correction is reflected in the quarter ended March 31, 2016.

Notes for Descriptors:

1. **Planned = amounts which are consistent with and included in the Company's Commission-approved MEEIA Plan**
2. **Billed = amounts billed to customers for recovery of Programs' Costs or Company TD-NSB Share**
3. **Actual = amounts (prior to evaluation, measurement and verification (EM&V)) used to determine Estimated Net Benefits**
4. **Estimated = net benefits amounts calculated monthly using DSMore model and prior to EM&V**
5. **Disincentive = Commission-approved percentage of pre-tax Estimated Net Benefits calculated using a combined federal/state tax rate specified in the utility's Commission-approved DSIM**
6. **Variance = Planned less Actual, Billed less Actual, Planned less Estimated, Planned less Disincentive, or Billed less Disincentive**
7. **Interest = amounts of interest determined through the methodology specified in the utility's Commission-approved DSIM**