

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

In the Matter of the Application of KCP&L)	<u>File No. ER-2010-0356</u> T
Greater Missouri Operations Company for)	
Approval to Make Certain Changes in its)	
Charges for Electric Service.)	

**STAFF SUGGESTIONS REGARDING
ORDER OF CLARIFICATION AND MODIFICATION**

COMES NOW the Staff of the Missouri Public Service Commission (“Staff”) and suggests to the Commission as follows:

1. In its May 27, 2011, *Order of Clarification and Modification* the Commission directed in ordered paragraphs 10 and 11 the following:

10. The fuel adjustment clause (FAC) tariff sheets, Tariff No. YE-2011-0577, are rejected, and KCP&L Greater Missouri Operations Company is authorized to refile those tariff sheets in compliance with this order including an effective date of July 1, 2011.

11. The remaining compliance tariff sheets, Tariff No. YE-2011-0567, are rejected and KCP&L Greater Missouri Operations Company is authorized to refile those tariff sheets in compliance with this order and may file those tariff sheets with an effective date of June 4, 2011, without the need for filing an additional motion for expedited treatment.

2. Recognizing the importance of matching the net base fuel costs in KCP&L Greater Missouri Operations Company’s (“GMO’s”) fuel adjustment clause with the base energy costs in the revenue requirements used for setting rates, in its May 4, 2011, the Commission stated the following:

Findings of Fact – FAC Rebasing

562. The Commission agrees with Staff that customers in each general rate case should be assured that they receive the correct price signals through fixed rates as soon as possible.⁷⁸⁷ GMO’s proposal does not send the correct price signal to the customers.

563. The Commission will adopt Staff's recommendation to match the base energy costs in the FAC to the base energy cost in the test year total revenue requirement used for setting the general rates because doing so ensures that retail customers get the correct price signal through fixed rates for the utility's cost to serve them as soon as possible. In addition, the utility's retail customers will avoid paying interest on fuel and purchased power costs that may be collected later through its fuel adjustment clause.

564. As Staff demonstrated three examples to support rebasing that the Commission found persuasive:

Case 1 illustrates that if the Base Energy Cost in the FAC is equal to the Base Energy Cost in the test year revenue requirement, the utility does not benefit nor is it penalized as a result of the level of actual energy costs.

Case 2 illustrates that if the Base Energy Cost in the FAC is less than the Base Energy Cost in the test year revenue requirement, the utility is expected to benefit and customers are expected to be penalized regardless of the level of actual of [sic] energy costs.

Case 3 illustrated that if the Base Energy Cost in the FAC is greater than the Base Energy Cost in the test year revenue requirement, the utility is expected to be penalized and customers are expected to benefit regardless of the level of actual energy costs.

These three cases illustrate the importance of setting the Base Energy Cost in the FAC correctly, i.e. equal to the Base Energy Cost in the test year true-up revenue requirement.

565. To accomplish the purpose of a FAC—to protect utilities and their customers from delay in recognizing changes in the costs of fuel and purchased power—the net base fuel cost in GMO's fuel adjustment clause should match with the base energy cost in the test year total revenue requirement used for setting rates in this case. GMO's Fuel Adjustment Clause should be modified to require the base energy cost in the Fuel Adjustment Clause equal the base energy cost in the test year total revenue requirement used for setting rates in the rate case.

* * *

Conclusions of Law – FAC Rebasing

69. The Commission concludes, however, that the purpose of a fuel adjustment clause is to protect utilities and their customers from delay in recognizing changes in the costs of fuel and purchased power.

70. To accomplish that purpose the net base fuel cost in GMO's fuel adjustment clause should match with the base energy cost in the test year total revenue requirement used for setting rates in this case.

Decision – FAC Rebasing

Even though not required by the FAC laws to rebase, the Commission determines that it is consistent with the purpose of those laws and in the public interest to rebase the FAC Base Energy Cost. To fail to do so sends the wrong signal to the customers that the base rate they are paying includes the complete fuel costs and subjects those customers to the potential for paying interest charges. The Commission determines that the FAC shall be rebased.

May 4, 2011 *Report and Order*, pp. 205-209.

3. In its *Order of Clarification and Modification*, at ordered paragraphs 10 and 11, the Commission ordered the following:

10. The fuel adjustment clause (FAC) tariff sheets, Tariff No. YE-2011-0577, are rejected, and KCP&L Greater Missouri Operations Company is authorized to refile those tariff sheets in compliance with this order including an effective date of July 1, 2011.

11. The remaining compliance tariff sheets, Tariff No. YE-2011-0567, are rejected and KCP&L Greater Missouri Operations Company is authorized to refile those tariff sheets in compliance with this order and may file those tariff sheets with an effective date of June 4, 2011, without the need for filing an additional motion for expedited treatment.

4. By this nearly month difference in the dates when GMO's general rate increase tariff sheets take effect and when GMO's fuel adjustment clause tariff sheets take effect the Commission is unintentionally creating the very mismatch it recognized should be avoided when it made its decision to require GMO to rebase its fuel adjustment clause.

5. Staff has calculated the impact of this mismatch in the base energy costs in GMO's fuel adjustment clause and the base energy costs in the revenue requirements used for setting its new general rates for MPS and L&P is that during the period of June 4, 2011, through July 1, 2011, customers in GMO's L&P rate district will overpay approximately \$874,052 and the customers in its MPS rate district will underpay approximately \$419,713 relative to what they would pay if the base energy costs in GMO's fuel adjustment clause matched the base energy

costs used for setting the new general rates.

6. Staff notes the Commission has made fuel adjustment tariff sheets effective on dates other than the first of the month which resulted in the base energy cost rates in the fuel adjustment clause changing within an accumulation period, in at least the cases that follow: Union Electric Company, File No. ER-2010-0036 (June 21, 2010) and The Empire District Electric Company, File No. ER-2010-0130 (September 10, 2010).

WHEREFORE, the Staff suggests the Commission consider the foregoing information.

Respectfully submitted,

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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 31st day of May, 2011.

/s/ Nathan Williams