

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of)
KCP&L Greater Missouri Operations Company's) File No. ER-2012-0175
Request for Authority to Implement) Tracking No. YE-2012-0405
General Rate Increase for Electric Service)

ORDER DIRECTING FILING

Issue Date: August 24, 2012

Effective Date: August 24, 2012

The Missouri Public Service Commission is directing the filing of additional testimony on a possible rate stabilization mechanism as follows.

Among the relief possible in this action is an order to file a new tariff.¹ Any tariff must support safe and adequate service at just and reasonable rates.² Just and reasonable rates must include a fair rate of return, which include a fair return on equity ("RoE"), which lies within a zone of reasonableness ("ZoR").³ The ZoR is a range of amounts from which any choice has support in law and fact and constitutes a sound exercise of discretion.⁴

Sound discretion means carefully considering justice, equity, and the logic of the circumstances.⁵ The circumstances of any general rate action include the expense to the utility, the Commission, and the public, of litigating general rate actions with increasing frequency in recent years. To alleviate the resulting expense, the Commission will consider the use of rate stabilization mechanism. The rate stabilization

¹ Section 393.140(11), RSMo 2000.

² Section 393.130.1, RSMo Supp. 2010.

³ *State ex rel. Office of Pub. Counsel v. Pub. Serv. Comm'n*, 367 S.W.3d 91, 111 (Mo. App., S.D. 2012).

⁴ *State ex rel. Praxair, Inc. v. Pub. Serv. Comm'n of the State of Missouri*, 328 S.W.3d 329, 341 (Mo. App., W.D. 2010).

⁵ *Peters v. ContiGroup*, 292 S.W.3d 380, 392 (Mo. App., W.D. 2009).

mechanism would see the Commission authorize a range of ROE's as "just and reasonable" in the ZoR. The Commission would then award an RoE that comes from the higher end of the range in exchange for the utility not filing any changes to rates for a period of years ("stabilization period"). However, upon the filing of a rate action within the "stabilization period", the ROE would automatically revert to the lower end of the "just and reasonable" range as set out in a tariff filed, approved, and in effect. A rate stabilization mechanism may also include other terms.⁶

Such tariff is subject to a determination of propriety, including just and reasonable rates,⁷ for the stabilization period. A conclusion of propriety, in a contested case, must stand on a record of substantial and competent evidence. Such evidence includes, without limitation, testimony on RoEs in the last five years for:

- The applicant as set by the Commission in the applicant's last five general rate actions;
- Utilities in proxy groups in the applicant's last five general rate actions;
- Retail electric suppliers nationally;

as well as, evidence on Treasury securities of differing maturities⁸ ("additional testimony"). Additional testimony may also address other evidentiary and policy matters relevant to the use of a rate stabilization mechanism.

⁶ See, e.g., *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Orange and Rockland Utilities, Inc. for Electric Service*, ___ P.U.R.4th ___, Case 11-E-0408, 2012 WL 2499860, 5-8 (N.Y.P.S.C. June 15, 2012).

⁷ Section 393.150.1, RSMo 2000.

⁸ See *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation for Electric Service.; Comprehensive Management Audit of Niagara Mohawk Power Corporation d/b/a National Grid's Electric Business*, 286 P.U.R.4th 401, 443-444 (N.Y.P.S.C. 2011).

Therefore, the Commission will order the filing of a proposed schedule for the pre-filing of additional testimony.

THE COMMISSION ORDERS THAT:

1. No later than August 31, 2012, the applicant shall, and any other party may jointly or separately, file a proposed schedule for the pre-filing of additional testimony as described in the body of this order.

2. Any such schedule shall propose a deadline for pre-filing direct testimony from the applicant and may include deadlines for pre-filing direct testimony from other parties.

3. This order is effective immediately upon issuance.

BY THE COMMISSION



Steven C. Reed
Secretary

(S E A L)

Daniel Jordan, Senior Regulatory Law Judge,
by delegation of authority pursuant
to Section 386.240, RSMo 2000.

Dated at Jefferson City, Missouri,
on this 24th day of August, 2012.