KCPL GMO
Case Name: 2017 FAC (8th)
Case Number: EO-2019-0067

Response to Mastrogiannis Brooke Interrogatories - MPSC_20190124
Date of Response: 2/14/2019

Question:0062

Please provide the Company's description and explanation of, and position concerning, the Lake Road Auxiliary Power issue that was first addressed in Case No. ER-2018-0400, then in the most recent GMO rate case, ER-2018-0146, followed by the most recent FAR filing, ER-2019-0198. Please also provide any other guidance/details supplementary to the Company's position on this issue, including but not limited to the procedure used to allocate auxiliary power to steam and electric ratepayers. Requested by Brooke Mastrogiannis (Brooke.Mastrogiannis@psc.mo.gov)

Response:

Please see the attached explanation regarding the Company's position on the Lake Road Auxiliary Power issue.

Response provided by:
Linda Nunn, Regulatory Affairs
Lisa Starkebaum, Regulatory Affairs

Attachment:
Q0062_Steam Auxiliary Power.docx
Q0062_Verification.pdf

LAKE ROAD STEAM AUXILIARY POWER

HISTORY:

Prior to the St. Joseph Light & Power Company (SJLP) acquisition by UtiliCorp United (later called "Aquila"), SJLP kept two separate sets of books and records for its electric and steam businesses. SJLP also operated a natural gas business and separate books and records were maintained by that business, as well. During this time, SJLP utilized the direct assignment procedures that were updated in August 1994 in Case No. EO-94-36, and later revised in December 1994.

In 2001, SJLP was acquired by Aquila, Inc. As a result of the acquisition, Aquila no longer maintained the separate sets of books and records for electric, steam and natural gas business that SJLP had kept in the general ledger. Subsequent to the merger, an allocation methodology was established to cover the costs previously directly assigned on the SJLP books. These allocations have been used for every electric and steam rate case since, both dating back to 2004. The 1994 electric/steam allocation manual was no longer utilized as Aquila modified it allocation procedures for purposes of rate cases in an attempt to simplify the process by using allocators. Other than the direct assignment of fuel costs, the Company has not directly assigned charges after that time. The allocation factors and process for determining those factors have been consistently used in rate cases. Spreadsheets calculating the allocators are provided to the parties as workpapers supporting the direct filing of each case and have been approved by the Commission as the outcome of the cases.

Case No. ER-2016-0156:

Because the allocation factors used in rate cases were predominately allocated based on coal use at the Lake Road plant and because the primary generating unit at Lake Road (unit 4/6) ceased burning coal, the Company proposed changes to the allocation methodology by looking back at the 1994 allocation methodology and proposing changes to the currently used allocation factors and method using parts from that study. During that case, it was agreed that not enough time for review and not enough information was provided to formally approve a new allocation method. The Company used the allocation factors proposed by the PSC Staff in that case.

Case No. ER-2018-0146:

In GMO rate case ER-2018-0146, the Company again proposed an allocation methodology generally consistent with what had been provided in the 0156 case. The Company started with the 1994 manual and made a proposal in the direct filing of ER-2018-0146 to begin using an updated version of the manual going forward. During the review and update of the manual, specifically related to auxiliary power, internal discussions were held and it was proposed by the Company to begin to record a monthly amount for auxiliary power in the general ledger, consistent with the MWh's consumption methodology described in the 1994 manual. The Company modified the pricing determinates as they 1994 Study methodology was no longer applicable to the current operations. The Company worked with Staff during the case in providing clarification to the proposed allocation method the Company had recommended in that case.

- Using the methodology for determining the quantification of energy outlined in the proposed manual and reflecting the Company's current proposal for determining the cost of the energy, the Company calculated an amount for steam auxiliary power for the months of January-May 2018 and recorded it in the general ledger in May 2018. This adjustment amounted to $229,812 and was included in the May 2018 FAC accrual and subsequently included in the 22nd Accumulation Period FAC semi-annual rider filing as a reduction to electric fuel costs (Case No. ER-2018-0401). The purpose of this was to establish the Company's proposed allocation methodology for its auxiliary power with the intent that the Company's overall outcome in the case would result in a new allocation method for electric/steam.

Once it became clear that the updated method was not going to be accepted in the rate case, the Company held a meeting on September 6, 2018 at the Governors' Office Building in Jefferson City, MO. Those in attendance from the Company were Tim Rush, Ron Klote, and Linda Nunn. Lisa Starkebaum participated by phone. Several members of MPSC Staff attended this meeting in addition to Lena Mantle with OPC. The discussion included the Company's view that since the Commission Staff wanted to go back to the allocation factors utilized in Case No. ER-2016-0156, the electric/steam jurisdictional allocators as determined in that prior rate case and used to determine the costs included in base rates appropriately handled the Lake Road allocation of auxiliary power and that no additional adjustments or entries were necessary. For further discussion, see the responses to OPC DR's 1, 8000, 8001, and 8002 in Case No. EO-2019-0067.

As the Company continued rate case discussions & negotiations with MPSC Staff and other parties, the Company agreed to go with Staff's proposal to continue to use the electric/steam jurisdictional factors derived from Case No. ER-2016-0156 until the next electric rate case and agreed to work with all parties going forward to update these factors. Due to this agreement GMO discontinued the monthly entry and reversed the entries previously made on the books in August 2018. This reversal was included in the 23rd accumulation period semi-annual FAC filing of June-November 2018 that was filed in December 2018 in Case No. ER-2019-0198.

- The factors from Case No. ER-2016-0156 take into consideration the impact of coal usage that changed when GMO ceased burning coal at unit 4/6
- Allocation 3,13 Demand / O&M was 92.5306% electric and 7.4694% wholesale/steam. The 3,13 combination of 7.4694% to wholesale/steam was the allocator used to move a portion of the non-fuel steam production costs out of the electric revenue requirement in Case No. ER-2018-0146.
- The accounts that this steam allocation % is applied to include: 500, 502, 505-507 and 510-514
- The costs allocated within these accounts include many costs, including a representative amount for auxiliary power. These costs are being allocated, rather than directly assigned.
- There is no one specific account within those listed above that would be directly associated with auxiliary power. The overall allocation process covers auxiliary power along with all other non-fuel production costs associated with producing steam.

Summary:

GMO does not specifically charge costs other than fuel to Lake Road steam; all other costs are allocated. Through these electric/steam allocation factors, there is a representative amount not specifically identified as auxiliary power but that covers that expense and reduces the amount included in electric base rates. Account 501700 for Steam Fuel Costs are analyzed and a direct assignment of fuel costs are made when steam is produced based upon the same fuel allocation process implemented within the original cost allocation manual.

- In practice, GMO does not price out auxiliary power; therefore, it does not get charged to a specific account in the general ledger. Auxiliary power is netted, and there is no dollar assignment for it.
- In the electric rate case, an amount of costs is allocated for auxiliary power; therefore, to make an additional adjustment would be double-dipping.
- It is not specifically known whether the representative amount allocated out of the electric business is exactly the level of auxiliary power used by Lake Road to produce Steam. It could be higher or lower. Therefore, as costs change in the fuel clause, these changes have no impact on the fact that we've already allocated costs out of the electric revenue requirement to cover the cost of aux power.
- Regarding power from the grid, or assignment from the SPP market, all power is purchased from the SPP market. Based upon the netting as required by FERC Order 668, these costs will end up in account 555 or 447 depending on the netting process. Allocations have been made in the setting of base rates so that non-fuel production costs have been allocated out of the electric revenue requirement to represent/cover auxiliary power.