PRUDENCE REVIEW OF
COSTS RELATED TO THE
MISSOURI ENERGY EFFICIENCY INVESTMENT ACT
FOR THE ELECTRIC OPERATIONS OF
KANSAS CITY POWER AND LIGHT COMPANY

June 6, 2014 through December 31, 2015

MISSOURI PUBLIC SERVICE COMMISSION

STAFF REPORT

FILE NO. EO-2016-0183

Jefferson City, Missouri
June 13, 2016

**** <u>Denotes Highly Confidential Information</u> ****

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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") prudently incurred costs associated with its demand-side programs and demand-side programs investment mechanism ("DSIM") which were approved by the Commission in Case No. EO-2014-0095. Based on its review, Staff identified the improper inclusion of non-Missouri Energy Efficiency Investment Act ("MEEIA") [1] costs discussed in detail in this Staff Prudence Review of Costs Report ("Report"). As a result of its review and analyses as explained below, Staff identified an imprudent expense made by KCP&L's decision makers during the period of June 6, 2014, through December 31, 2015 ("Review Period" or "Cycle 1"). As a result, Staff proposes a disallowance of $6,000 plus interest for non-MEEIA costs that were improperly billed to KCP&L customers.

In addition to the above imprudent expense, Staff identifies two concerns related to KCP&L management of its DSIM during the Review Period. Staff identified an error in how KCP&L calculated its Throughput Disincentive-Net Shared Benefits ("TD-NSB") which resulted in the Company under-billing its customers by an amount estimated by Staff to be $624,023 for the Review Period. The Report also addresses a concern related to the carry-over amounts associated with KCP&L's Commercial and Industrial Custom program.

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[4] Stipulation And Agreement Resolving Kansas City Power & Light Company's MEEIA Filing* ("2014 Stipulation").

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[1] Section 393.1075, RSMo, Supp. 2013.

[2] KCP&L 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

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. ER-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.

KCP&L DSIM Rider also allows KCP&L to earn a performance incentive award based on measured and verified kWh and kW savings and net shared benefits for the plan period. Because any performance incentive resulting from the 2014 Stipulation will not be determined until 2016, Staff will review KCP&L's prudency related to any performance incentive for Cycle 1 as a part of Staff's next prudency review.

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 on customers' bills titled "DSIM Charge."

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agreement. The other non-signatory parties have not acted to oppose the stipulation and agreement within 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%."

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 mostly due to the high level of customer incentives offered in the Business Custom Rebate 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. This Report documents Staff's first review of the prudence of KCP&L's MEEIA Programs' costs, Company TD-NSB Share and interest for the period July 6, 2014, through December 31, 2015. To complete its review of Company TD-NSB Share, Staff must also review and verify the deemed annual energy (kWh) savings and deemed annual demand (kW) savings, the avoided costs resulting from deemed annual energy and demand savings, and the monthly calculations of annual net shared benefits.

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 Report including status of the MEEIA Programs and DSIM, Page 6 is not highly confidential, costs for the quarter ended, 12-months ended and cumulative total ended December 31, 2015. Table 1 identifies the line items and 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

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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 in Section IV Prudence Review Standard of this Report.

II. MEEIA Programs

KCP&L used various request for proposal ("RFP") processes to procure by contract: 1) implementers for its individual MEEIA Programs, 2) an EM&V contractor for its residential and business MEEIA Programs, 3) demand-side management cost effectiveness software (DSMore®

software by Integral Analytics), and 4) comprehensive demand-side programs' data management system (Applied Energy Group's VisionDSM® Tracker and Reporting System ("VisionDSM®"). Table 2 summarizes the following for each of the twelve (12) MEEIA Programs: the Commission-approved cumulative annual energy and demand savings targets for the Review Period, program implementers and program EM&V contractor:

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The individual program implementers record individual items of programs' costs and individual energy efficiency measures into the VisionDSM® system as they incur programs' costs and deliver programs' services to customers and retail partners. KCP&L downloads files from VisionDSM® model for input to the DSMore® model in order to calculate programs' benefits and then to calculate programs' net benefits[11] in compliance with KCP&L's Annual Report required by 4 CSR 240-20.093(8) and 4 CSR 240-3.163(5)(A). Table 3 is a summary of each MEEIA Program's deemed annual energy savings, deemed annual demand savings, benefits, costs and net benefits for the Review Period. Costs for each program include program design/implementation and customer incentives costs and portfolio overhead costs including EM&V, general, education, marketing, data tracking, and communication.

[11] Net benefits means the present value of the lifetime avoided costs (i.e., avoided energy, capacity, transmission and distribution) for the Plan using the deemed values, less the 2014 present value of programs' costs.

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III. Prudence Review Process

On January 15, 2016, Staff initiated this first 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, Supp. 2015. 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 and used face-to-face meetings, 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 July 6, 2014, through December 31, 2015. 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 (factor OA) for the Cycle 1 DSIM Rider.[12]

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

IV. 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.

V. Program Costs

A. Total Program Costs

1. Description

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. All costs for Strategic Initiative have been allocated to the MEEIA programs on a weighted basis of dollars per program. Strategic Initiative costs associated with marketing are only allocated to residential programs, also on a weighted basis of dollars per program.

Staff reviewed all actual MEEIA program costs KCP&L recovered through the DSIM Charge to insure only prudent costs are recovered through the DSIM Rider. In addition, Staff reviewed KCPL's adherence to contractual obligations, resolutions of problems, adequacy of controls, and compliance with approved DSIM Rider and Cycle 1 program tariff sheets.

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.

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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 Charge.

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. Staff points out that during the Review Period KCP&L filed a motion for approval to modify the budget for the demand-side programs due to the high level of customer participation in the Business Custom Rebate program. The Commission approved the motion on December 12, 2015. The modification allowed the MEEIA programs to continue operations even though they had surpassed the approved MEEIA budget allowed in the 2014 Stipulation.

KCP&L has developed internal controls to review and approve its energy efficiency programs' costs. KCP&L currently uses the same internal control system as GMO. KCP&L provided a copy of its internal controls to Staff as part of a response to DR #0024. KCP&L's internal controls provide program managers and other reviewers a detailed method for reviewing and approving program costs.

During its review Staff identified a ** ________ ** charge for a solar-based training seminar. The MEEIA statute defines a demand-side program as "any program conducted by the utility to modify the net consumption of electricity on the retail customer's side of the electric meter, including but not limited to energy efficiency measures, load management, demand response, and interruptible or curtailable load."[13] MEEIA goes on to define energy efficiency as "measures that reduce the amount of electricity required to achieve a given end use."[14] Because solar measures do not reduce the demand for or the amount of electricity required for a household or business on the customer's side of the electric meter, it is Staff's position that this cost does not qualify as an energy efficiency measure and should not be recovered through KCP&L's DSIM Rider. Furthermore, the solar-based seminar was not a part of KCP&L's approved MEEIA plan.

[13] Sect. 393.1075.2(3)
[14] Sect. 393.1075.2(4)

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 proposes an adjustment of ** _____ ** plus interest for the next DSIM Rider rate adjustment case to remove the solar-based seminar costs because these costs are not associated with KCP&L's approved MEEIA plan and do not qualify under the MEEIA statute.

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: 0001-0004, 0014, 0018, 0021-0023, 0030-0037, and 0039-0040

Staff Expert: Patrick Mahon

B. Implementation Contractors

1. Description

KCP&L hired business partners for design, implementation, and deliverance of its portfolio of residential and business efficiency programs to customers. Contracting with competent, experienced, and reliable program implementers is a good business practice to ensure success of KCP&L's energy efficiency programs and to ensure customers receive the most benefits from the programs.

Staff reviewed the Requests for Proposals ("RFP") that KCP&L initiated during Cycle 1 to evaluate whether the Company acted prudently in the selection of its program implementers. All of the implementers KCP&L selected are nationally recognized contractors in the field of energy efficiency program delivery. At the start of Cycle 1, KCP&L's vendors and contractors were the incumbent vendors used for KCP&L's MEEIA programs. During the period of Cycle 1, KCP&L had two vendor changes: CLEAResult replaced Applied Energy Group (AEG), and OPower replaced Aclara. AEG and Aclara were replaced due to unsatisfactory performance.

Staff also examined the contracts between KCP&L and the implementers to understand whether or not the terms of the contract were followed during implementation of MEEIA programs. Program implementers are identified in Table 2. Table 5 provides the actual achieved deemed annual energy and demand savings for each Cycle 1 program and the corresponding planned annual energy and demand savings and variances.

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2. Summary of Cost Implications

If KCP&L was imprudent in its decisions relating to the selection and supervision of its program implementers, then ratepayer harm could result due to an increase in future rates.

3. Conclusion

Staff observed no indication that KCP&L has acted imprudently regarding the selection and supervision of its program implementers.

4. Documents Reviewed

a. 2014 Stipulation;
b. Approved MEEIA Energy Efficiency and Demand Side Management Programs Tariff Sheets; and
c. Staff Data Requests: 0001, 0004, 0008, 0008.1, 0025, and 0041

Staff Expert: Patrick Mahon

C. Marketing

1. Description

KCP&L provided Staff with its General Ledger of all MEEIA related program costs for the Review Period. Staff sorted costs and isolated all marketing costs for review. During the Review Period, KCP&L spent ** __________ ** on marketing related to its MEEIA programs. Staff utilized the KCP&L advertising standard adopted by the Commission in Case No. EO-85-185 as precedent for reviewing costs. Staff recognizes that marketing can be a reasonable and necessary cost of implementing the MEEIA programs, as long as certain criteria are met. Staff reviewed the marketing costs on a "campaign basis," though specific costs were inspected more closely for allowableness.

2. Summary of Cost Implications

If KCP&L was imprudent in its decisions relating to the supervision of its program implementers related to program marketing, then ratepayer harm could result due to an increase in future rates.

3. Conclusion

Staff found no indication that KCP&L has acted imprudently regarding marketing for the MEEIA programs.

4. Documents Reviewed

a. General Ledger July 2014 – December 2015;

b. Various KCP&L MEEIA Advertisements and Related Invoices; and

c. Staff Data Requests 0002, 0003, and 0022.

Staff Expert: Patrick Mahon

D. Evaluation and Measurement and Verification Contractors

1. Description

KCP&L is required to hire independent contractor(s) to perform and report EM&V of each of the approved demand-side programs. Commission rules allow up to 5% of utilities' total budgets for EM&V for all approved demand-side program costs.[15] The Navigant Consulting, Inc. ("Navigant") was contracted to conduct and report the EM&V results for KCP&L's

[15] 4CSR 240-20.94(7)(A) Each utility's EM&V budget shall not exceed five percent (5%) of the utility's total budget for all approved demand-side program costs.

demand-side programs. At the time of the Prudence Review, KCP&L's Cycle 1 EM&V report was only in draft form. The report should be finalized by September 11, 2016**.**

During the Review Period, KCP&L expended ** _______ ** for EM&V, which represents ** _____ ** of the ** __________ ** of total program costs. This is within the 5% allowable EM&V cost established by the Commission. However, final EM&V charges for Cycle 1 will not be available until after this Report is filed, the final Cycle 1 EM&V report is filed, and all Navigant invoices are processed for payment.

2. Summary of Cost Implications

If KCP&L was imprudent in its decisions relating to the EM&V, then ratepayer harm could result due to an increase in 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

a. 2014 Stipulation;

b. Approved MEEIA Energy Efficiency and Demand Side Management Programs Tariff Sheets; and

c. Staff Data Requests; 0003, 0007, and 0009

Staff Expert: Patrick Mahon

E. Potential Study Contractors

1. Description

Prior to the initiation of its MEEIA programs, KCP&L contracted with ** _______ ** to perform a demand-side management market potential study to aid KCP&L in assessing the various categories of energy efficiency, demand response, and distributed generation and combined heat and power potentials in the residential and commercial and industrial sectors for KCP&L and GMO service areas. The cost of the entire potential study was ** _________ **, with ** _____ ** being allocated to KCP&L. The remainder of the cost was allocated to GMO. KCP&L's portion of the study's cost was ** _______ **, of which none was charged to KCP&L's Cycle 1 MEEIA budget, nor was any of the cost recovered through the DSIM Rider. KCP&L has recovered the potential study costs as part of its Pre-MEEIA costs.

2. Summary of Cost Implications

If KCP&L was imprudent in its decisions relating to the selection and supervision of its potential study contractor, then ratepayer harm could result due to an increase in future rates.

3. Conclusion

KCP&L did not attempt to recover the potential study costs through the DSIM rider mechanism, but instead collected the costs as part of Pre-MEEIA costs.

4. Documents Reviewed

a. 2014 Stipulation;

b. Approved MEEIA Energy Efficiency and Demand Side Management Programs Tariff Sheets; and

c. Staff Data Requests: 0003 and 0027

Staff Expert: Patrick Mahon

F. Carry Over Costs

1. Description

Carry-over costs Staff is addressing in this section of this Report are only costs associated with KCP&L's Business Energy Efficiency Rebates - Custom program. Even though this current MEEIA prudence review is for the 18 months ending December 31, 2015, these carry-over costs represent costs associated with large commercial projects that were planned and approved during the Review Period but will not be completed until sometime in the January – June 2016 time period with final rebates paid to customers up to July 31, 2016. In KCP&L's semi-annual DSIM Rider rate adjustment, Case No. ER-2016-0325, filed on June 1, 2016, KCP&L reported the carry-over costs. In the context of this review Staff will not be reviewing these carry-over costs for prudence. Staff will conduct a separate prudence review in the fall of 2016 to review prudence of these carry-over costs. During KCP&L's MEEIA Cycle 2, Case No. EO-2015-0240, a stipulation and agreement[16] was entered into among the parties that resolved how KCP&L would recover the carry-over costs.

[16] Non-Unanimous Stipulation and Agreement Resolving MEEIA Filings, November 23, 2015.

2. Summary of Cost Implications

If KCP&L was imprudent in its decisions relating to the costs associated with its Business Energy Efficiency Rebates – Custom program, then ratepayer harm could result due to an increase in future rates.

3. Conclusion

Staff did not review any of the carry-over costs for prudence in this case because to do so is premature. Therefore, Staff offers no conclusion as to their prudence in this review. The review of these costs will be reviewed in connection with KCP&L's Case No. ER-2016-0325[17].

4. Documents Reviewed

a. 2014 Stipulation;

b. KCP&L's Semi-Annual MEEIA Rate Adjustment, ER-2016-0325.

c. Approved MEEIA Energy Efficiency and Demand Side Management Programs Tariff Sheets; and

d. Staff Data Requests: 0002, 0003, 0004, 0014 and 0027

Staff Expert: Dana Eaves

VI. Recovery of Costs

A. Recovery of Program Costs

1. Description

For the Review Period, KCP&L billed customers through a separate line item on customers' bills titled "DSIM Charge" to recover estimated energy efficiency programs' costs and the Company TD-NSB Share[18]. The DSIM Charge is based on the customer's monthly consumption and the applicable energy efficiency investment rates initially approved by the Commission in Case No. EO-2014-0095 and in subsequent DSIM Rider rate adjustments. Table 6 describes the original approved rates and rate adjustments that occurred during the Review Period.

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[17] In the Matter of Kansas City Power & Light Company's Demand Side Investment Rider Rate Adjustment and True-Up Required by 4 CSR 240-3.163(8)

[18] The Company's TD-NSB throughput disincentive is a 26.36% share applied to 100% of Net Benefits. Actual net benefits $40,056,366 * 26.36% = $10,558,858 TD-NSB throughput disincentive.

Table 6

July 6, 2014 through December 31, 2015

Date	File and Tariff No	Rate Schedule	NPC/PE ($/kWh)	NTD/PE ($/kWh)	NPI/PE ($/kWh)	NOA/PE ($/kWh)	Total DSIM ($/kWh)
Effective Date July 6, 2014	EO-2014-0095 YE-2014-0533	Residential Service	$0.00248	$ 0.00150	$ -	$ -	$0.00398
Effective Date July 6, 2014	EO-2014-0095 YE-2014-0533	**Non-Residential Service**	$0.00140	$ 0.00075	$ -	$ -	$0.00215
Effective Date December 1, 2014	ER-2015-0141 JE-2015-0213	Residential Service	$0.00237	$ 0.00115	$ -	$ -	$0.00352
Effective Date December 1, 2014	ER-2015-0141 JE-2015-0213	**Non-Residential Service**	$0.00165	$ 0.00082	$ -	$ -	$0.00247
Effective Date August 1, 2015	ER-2015-0318 JE-2015-0349	Residential Service	$0.00258	$(0.00126)	$ -	$ -	$0.00132
Effective Date August 1, 2015	ER-2015-0318 JE-2015-0349	**Non-Residential Service**	$0.00295	$ 0.00155	$ -	$ -	$0.00450

During the Review Period of June 6, 2014 through December 31, 2015, KCP&L billed customers $21,275,253 to recover its estimated energy efficiency programs' costs. For the same period, KCP&L actually spent $26,840,140 on its energy efficiency programs. Thus, KCP&L under-collected $5,564,887 from its customers for programs' costs during the Review Period. The monthly program costs amounts that are either over- or under-collected from customers are tracked in a regulatory asset or a regulatory liability, along with monthly interest, until KCP&L files for DSIM Rider rate adjustments and new rates for the DSIM Charge are approved by the Commission.

2. Summary of Cost Implications

If KCP&L was imprudent in its decisions relating to the determination of program costs for the DSIM Charge for customers' bills, ratepayer harm could result in an increase in billed amounts.

3. Conclusion

Staff found no indication that KCP&L has acted imprudently regarding the determination of the cost portion of the DSIM Charge for customers' bills with the exception of Staff's proposed disallowance of $6,000 plus interest as describe earlier in this report.

4. Documents Reviewed

a. KCP&L's Approved *2014 - 2015 MEEIA Plan*;

b. Approved MEEIA Energy Efficiency and Demand Side Management Programs Tariff Sheets;

c. KCP&L's Quarterly Surveillance Monitoring Reports, Page 6;
d. Staff Data Requests; 0001, 0002, 0003, and 0008; and
e. April 21, 2016 phone conference with KCP&L personnel Tim Nelson and Mark Leonard

Staff Expert: Dana Eaves

B. Recovery of TD-NSB Costs

1. Description

For a utility that operates under a traditional regulated utility model a "throughput incentive" is created when a utility's increase in revenues is linked directly to its increase in sales. This relationship between revenues and sales creates a financial disincentive for the utility to engage in any activity that would decrease sales, such as utility sponsored energy efficiency programs. Annual net shared benefits are a determination of benefits that are expected to result from energy efficiency programs through net present value ("NPV") of benefits (avoidance of costs of energy, capacity, and transmission and distribution costs) less the NPV of costs for approved energy efficiency programs.

The sharing of annual net shared benefits between the customers and the utility is needed to offset the throughput disincentive KCP&L is expected to incur as a result of its approved Plan. A sharing percentage of 26.36% was agreed to in the 2014 Stipulation.

For the period June 6, 2014 through December 31, 2015, KCP&L reported on its Surveillance Monitoring Report, Page 6, that it billed customers $8,940,357 of the estimated Company TD-NSB Share. KCP&L's actual TD-NSB Share as reported for the period was $10,558,858. Thus, KCP&L under-collected $1,618,501 from its customers for Company TD-NSB Share during the Review Period.

Staff has verified each component of the TD-NSB calculation that was provided by KCP&L in the Quarterly Surveillance Report, Page 6. Staff determined that KCP&L failed to discount actual program costs back to 2014 dollars as provided for in the 2014 stipulation on page 7 which states, "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." KCP&L failed to discount 2015 actual programs' cost at the discount rate of 6.961%. By <u>**not**</u> discounting the actual 2015 programs' costs KCP&L effectively under-stated the

TD-NSB calculation, and therefore, KCP&L under-billed customers on a monthly basis beginning in August 1, 2015 due to understated NTD/PE rates. See Table 7 of this Report.

Staff discovered this error based upon KCP&L's response to Staff's Data Request No. 0029 in which Staff asked

> "6) Please confirm that the programs monthly cost information (administration, implementation/participation, incentives and other miscellaneous costs, including EM&V) came from KCP&L's general ledger accounting system and was adjusted using the Weighted Average Cost of Capital to reflect the 2014 net present value."

KCP&L supplied the following answer in its response to Staff's Data Request No. 0029,

> "6) The program costs were <u>not</u> discounted or adjusted to 2014 net present value for the calculation of the TD-NSB".

KCP&L has provided corrected calculations in its semi-annual DSIM Rider rate adjustment filing on June 1, 2016, Case No. ER-2016-0325, which reflects the appropriate discounting of programs' costs used in KCP&L's TD-NSB calculation. These corrections are reflected in Table 7.

In its filing, KCP&L proposes to collect additional interest from its customers associated with the under-collection from its customers because of KCP&L's error.

** THIS TABLE HAS BEEN DEEMED **CONFIDENTIAL** IN ITS ENTIRETY **

2. Summary of Cost Implications

If KCP&L was imprudent in its reporting and/or calculating the Company TD-NSB Share, ratepayer harm could result in an increase rate in future DSIM Rider rate adjustments.

3. Conclusion

Staff determined that KCP&L did not perform the TD-NSB calculations correctly which resulted in an under-billing of TD-NSB Share from its customers. No rate-payer harm exists as a result of KCP&L correcting for the under-billing with the exception of the Company including additional interest expense for the amount that it under-billed due to its miscalculation of TD-NSB. This is explained below in the interest section of this report.

4. Documents Reviewed

a. KCP&L's 2014 – 2015 Approved Energy Efficiency Plan;
b. Approved MEEIA Energy Efficiency and Demand Side Management Programs Tariff Sheets;
c. Staff Data Requests;0002, 0014, 0016, 0017 and 0029; and
d. April 13, 2016 WebEx and various phone conferences with KCP&L (Tim Nelson, Brian File, Mark Leonard, Mark Foltz and Tim Rush.)

Staff Expert: Dana Eaves and Brad Fortson

C. Gross Deemed Annual Energy and Demand Savings and Gross Program Benefits

1. Description

Staff reviewed the monthly calculation of NPV of the benefits from KCP&L's MEEIA programs calculated with DSMore® software.[19] KCP&L provided Staff its DSMore® software program files to show how the NPV of the programs' benefits were calculated during the Review Period. Staff was able to follow KCP&L's calculation procedures for several sample months to verify that KCP&L used the same values for avoided costs, deemed energy and demand savings for measures, discount rate, and version of DSMore® software required by paragraph 7.a. of the 2014 Stipulation:

> …KCP&L will use DSMore® XLS Version 6.0.1, GCG Version 6.0.6 and the applicable DSMore® electronic spreadsheets, provided as electronic workpapers (4 CDs labeled, "KCPL-MEEIA Disc [1-4] of 4 05/14/2014") to calculate the gross benefits of all measures installed in a month…

To begin its review of KCP&L's calculations of its monthly Company TD-NSB Share for the Review Period, Staff reviewed the version of DSMore® software that KCP&L used to calculate the monthly NPV of benefits from its programs during the Review Period to verify that it is the same version of DSMore® specified in 2014 Stipulation. The version of DSMore® that

[19] DSMore® software is a financial analysis tool designed to evaluate the costs, benefits, and risks of demand side management (DSM) programs and services. This tool, built by Integral Analytics, is the industry-leading DSM cost-effectiveness model and is used in more than 27 states for DSM program planning. The power of DSMore lies in its ability to process millions of calculations resulting in thousands of cost-effectiveness results that vary with weather and/or market prices.

KCP&L used to calculate the monthly Company TD-NSB is XLS Version 6.0.1, GCG Version 6.0.6 which is the version agreed to in the 2014 Stipulation.

To review the usage of the same values for avoided costs and discount rate, Staff compared the “Utility Input” tabs in DSMore® program’s Batch files located in the CD provided for the 2014 Stipulation to those in DSMore® program’s Batch files for this prudence review. Staff did not find any different values for avoided costs and discount rate used to calculate the NPV of benefits from the programs.

Then, Staff sampled and tested KCP&L’s monthly programs’ benefits calculations using DSMore® software. Staff was provided the information that contained monthly measures delivered with descriptions to start the calculation procedure. Staff was also able to independently verify this information at a measure level with access provided by KCP&L to VisionDSM®.

Staff has verified the reported 126,126,686 kWh of energy savings and 42,657 kW of demand savings and $10,558,858 of TD-NSB share from the savings for the MEEIA Programs during the Review Period.

2. Summary of Cost Implications

If KCP&L was imprudent in its decisions relating to calculating the NPV of the program benefits, ratepayer harm could result in an increase in rates in future DSIM Rider rate adjustments.

3. Conclusion

Staff found no indication that KCP&L has acted imprudently regarding the calculation of the NPV of the program benefits when using the DSMore® software.

4. Documents Reviewed

a. 2014 Stipulation;
b. Approved MEEIA Energy Efficiency and Demand Side Management Programs Tariff Sheets;
c. Staff Data Requests: 0002, 0012, 0013, and 0029; and
d. Numerous phone conferences with KCP&L.

Staff Expert: Dana Eaves and Brad Fortson

VII. Interest Costs

1. Description

The 2014 Stipulation provides that for programs' costs and for KCP&L's TD-NSB Share: "The monthly interest rate will be KCP&L's monthly short-term borrowing rate at that particular time". During the Review Period KCP&L reported the interest amount accrued for the Company's program costs as reported on Page 6 of KCP&L's December 31, 2015 Quarterly Surveillance Monitoring Report was $48,937 on the under-billing of programs' costs and $11,299 for the under-billing of TD-NSB Share. However, in KCP&L's June 1, 2016 semi-annual DSIM Rider rate adjustment filing in File No. ER-2016-0325, KCP&L is seeking to recover an additional $2,280 of interest cost associated with the correction to the TD-NSB and its subsequent under-billing of customers, which is discussed in section **B. Recovery of TD-NSB Costs** of this Report.

2. Summary of Cost Implications

KCP&L was imprudent in its failure to properly discount programs' cost in calculating its TD-NSB and the TD-NSB Share which resulted in KCP&L under-billing the appropriate TD-NSB Share costs from its customers. Ratepayer harm could result in an increase in future rates if KCP&L is allowed to recover the interest costs attributed to its miscalculation of its TD-NSB – a miscalculation that should not have occurred had KCP&L followed the terms of the 2014 Stipulation. On page 9 of that stipulation KCP&L agreed:

> b. Programs monthly cost information (administration, implementation/participation. Incentives and other miscellaneous costs, including EM&V) will come from KCP&L"s general ledger accounting system and be adjusted using the Weighted Average Cost of Capital to reflect the 2014 net present value.

KCP&L should not be permitted to benefit from its failure to properly calculate its TD-NSB.

3. Conclusion

Staff is not proposing a disallowance of interest cost associated with the under-billing of TD-NSB in this review because these costs are not being sought for recovery during the period of this review. However, Staff is concerned with the recovery of these interest costs by KCP&L in any future proceedings and will address this issue in appropriate proceedings, which may be File No. ER-2016-0325, Staff's next prudence review of costs in KCP&L's DSIM Rider, or another proceeding.

4. Documents Reviewed

a. KCP&L's 2014 – 2015 Approved Energy Efficiency Plan;

b. 2014 Stipulation;

c. Approved MEEIA Energy Efficiency and Demand Side Management Programs Tariff Sheets;

d. KCP&L's Quarterly Surveillance Monitoring Reports;

e. Staff Data Requests 0002, 0003, 0006 and 0029; and

f. April 21, and May 10, 2016 phone conference with KCP&L Staff.

Staff Expert: Dana Eaves and Brad Fortson

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**

Addendum A

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the First Prudence Review of Kansas City Power and Light Company Implementation of Energy Efficiency Programs in Furtherance of the Missouri Energy Efficiency Investment Act (MEEIA)	)))))	**Case No. EO-2016-0183**

AFFIDAVIT

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 the attached *Staff Report*; 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 13th day of June, 2016.

JESSICA LUEBBERT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: February 19, 2019
Commission Number: 15633434

Jessica Luebbert

NOTARY PUBLIC

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the First Prudence Review of Kansas City Power and Light Company Implementation of Energy Efficiency Programs in Furtherance of the Missouri Energy Efficiency Investment Act (MEEIA)	)))))	**Case No. EO-2016-0183**

AFFIDAVIT

State of Missouri)
) ss.
County of Cole)

COMES NOW Brad J. Fortson and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached *Staff Report*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Brad J Fortson

Brad J. 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 13th day of June, 2016.

JESSICA LUEBBERT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: February 19, 2019
Commission Number: 15633434

Jessica Luebbert

NOTARY PUBLIC

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of the First Prudence Review of Kansas City Power and Light Company Implementation of Energy Efficiency Programs in Furtherance of the Missouri Energy Efficiency Investment Act (MEEIA)	)))))	**Case No. EO-2016-0183**

AFFIDAVIT

State of Missouri)
) ss.
County of Cole)

COMES NOW Patrick Mahon and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached *Staff Report*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Patrick Mahon
Patrick Mahon

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 13th day of June, 2016.

JESSICA LUEBBERT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: February 19, 2019
Commission Number: 15633434

Jessica Luebbert
NOTARY PUBLIC