Case Description: Missouri Rate Case-Filing 2/1/06
Case: ER-2006-0314

Response to Smith Ralph– Set OPC_20060428
Date of Response:
Information Provided By:

Question No. :5005
Explain fully the rationale used by KCPL to arrive at the choice of the 25th percentile of Mr. Schnitzer's probability distribution for off-system sales margin, as the value to use for ratemaking purposes, in particular as compared to the median value. Provide all supporting analyses for this choice.

RESPONSE:

A 50 percent probability exists that KCPL's off-system sales margin in 2007 would be below the median value and a 50 percent probability exists that it would be above the median. During the time period KCPL is completing its comprehensive energy plan it is critical that sufficient cash flow is achieved to maintain its investment grade credit rating. In addition, it is critical that KCPL meet its authorized rate of return to maintain its stock price as it issues equity and debt to finance its construction program. Including off-system sales margins at the median level means KCPL has only a 50/50 chance of earning its authorized rate of return and only a 50/50 chance of meeting its cash flow requirements. KCPL needs better than a 50/50 chance of meeting its off-system sales margins if these margins are going to be included in computing the revenue required from retail customers. Off-system sales margins are not the same as retail revenue and cannot be attributed the same probability of achieving those levels of sales. Thus, it is imperative that off-system sales margins, to the extent they are included in determining revenue required from retail customers, are set at a probability level that gives more assurance to investors and creditors that KCPL has better than a 50/50 chance of success. Thus KCPL selected 25% as a more reasonable probability for off-system sales margins.

Attachments: None