increases in KCPL complaints is sufficient evidence to conclude that it is more likely than not that the Talent Assessment Program has not produced any tangible customer benefit over this period. Based on this conclusion, and the conclusion reached in Case No. ER-2009-0089, the Staff does not believe KCPL should continue to recover the cost of the Talent Assessment Program in rates.

Is it common for the Staff to assess the value of the assets on a utility's balance sheet, especially intangible assets such as regulatory assets, to ensure the costs that formed the basis of the assets have in fact created actual benefits to the utility and its customers.

This procedure is referred to as an asset impairment test. During its rate audit, the Staff performs functions and has responsibilities similar to KCPL's external auditors as certified public accountants (CPAs). The auditors in the auditing firm that KCPL engages to audit its external financial statements have a specific responsibility to review the carrying amount of assets to make sure that the value of the assets carried on the financial statements are at least equal to be benefits expected to be realized by the use of the assets. If these auditors find that the cost of an asset recorded on KCPL's books and records are overstated compared to the expected future benefits of the asset, the auditors are required to make KCPL's management aware of this fact and insist on an appropriate write-down of this asset. If these auditors, after reaching this conclusion, fail to take the appropriate action, they may be subject to disciplinary actions based on unethical conduct and/or failing to exercise due professional care in the performance of the audit, one of the generally accepted auditing standards (GAAS).

The Staff also has this responsibility in developing its revenue requirement recommendation to the Commission in this rate case. The Staff has a responsibility to recommend to the Commission a revenue requirement that it believes will result in just and reasonable rates based upon a Company's actual cost of providing service to its customers. Including in its revenue requirement proposal the cost of assets that it believes have not and are not producing benefits to customers would be inappropriate and a potential violation of GAAS.

It is common for utility company accountants to assess the carrying value of assets based on current and expected future benefits and to write-down or reduce the carrying amount of assets that do not continue to produce real economic benefits. In fact, this type of asset evaluation is required by generally accepted accounting principles (GAAP) and is an action that is performed routinely by KCPL's accountants.

A significant amount of these costs have already been recovered in rates. As ordered by the Commission Order in Case No. ER-2007-0291, KCPL deferred Talent Assessment Severance Program expenses (severance, outplacement, payroll taxes, etc.) as a regulatory "asset" and began to amortize this asset to expense over five (5) years starting in January 2008, when rates from the 2007 rate case went into effect. By the time new rates from this case are anticipated to be in effect May 2011, KCPL will have directly recovered through rates approximately sixty-seven (67) percent of the $4.8 million deferral or $3.2 million. KCPL's regulated customers will have directly paid two-thirds (2/3) of the total costs of the Talent Assessment Program when there is significant doubt whether or not any of the customer benefits promised by KCPL ever existed.

The Staff recommends that the Commission find, based on the above described evidence, that KCPL's cost of severing the 119 employees, referred to as the cost of the Talent Assessment Program, did not result in the expected customer benefit and, therefore, not include the $968,000 annual amortization of the 5-year deferral as an adjustment to increase KCPL's revenue requirement in this case. In Staff's view, KCPL's rate recovery of approximately two-third (2/3) of the cost of the talent assessment program is more than adequate recovery of any actual benefits customers may have obtained from KCPL's Talent Assessment Program during the period evaluated by the Commission in its ER-2007-0291 Report and Order.

Staff Expert/Witness: Charles R. Hyneman

11. Short Term Annual Incentive Compensation

KCPL has three separate, short-term annual incentive compensation programs for executive, management, and union employees. These programs are designed to grant cash awards of various amounts calculated based upon designated annual metrics. The timing of the payout for amounts accrued under the terms of each program during the year is during the first quarter of the following calendar year. The three incentive compensation programs are: 1) The Rewards program, reserved for bargaining (union) employees; 2) The Value-link program, reserved for management-level KCPL employees; and 3) The Annual Executive Incentive Plan, reserved for senior KCPL management employees.

In prior plan years KCPL's program was designed with a "trigger", an Earnings Per Share "EPS" threshold that was to be met before any employee received any funds under the plans. However, if the "trigger" was not met, the plans dictated that no payouts were to be made, regardless of any achievement of goals, financial or otherwise. This mechanism has been removed for all plans beginning during the 2009 plan year and consequently reduces the volatility of payouts from year to year. This contrasts the two prior years when the threshold EPS was not met and no funds were available for payout under the incentive plans.

The incentive plans all have benchmarks that identify targets that KCPL employees are expected to achieve before any cash payouts are awarded. These targets are established each year of the incentive plan and communicated to the employees early enough so that the employees have sufficient opportunity to reasonably achieve the benchmarks.

The Rewards program covers bargaining unit employees from IBEW Local 1464 (approximately 691 employees), IBEW Local 412 (approximately 834 employees), and IBEW Local 1613 Unions (approximately 417 part/full time employees). ** __________ **

** __________ **

The Value-link program covers non-executive management-level KCPL employees, such as Plant Manager or Insurance Manager. ** __________

**

** **

** **

** **

**

**

The third short term annual incentive plan is the Annual Executive Incentive Plan ("the Executive Plan"), designed for the top 22 officers of the Company. **

**

In its direct case, KCPL did not include the 40% based on Earnings Per Share and 20% discretionary portion of the Annual Executive Incentive Plan in the cost of service as the result of KCPL Adjustment CS-51. Remaining in the cost of service are the projected payouts at the target level for salaries as of June 30, 2010 as updated by the Company. Staff has proposed to remove the amounts the Company did not include in the cost of service in its direct filing in prior cases, namely ER-2006-0314 and ER-2007-0291. In those cases, the Commission adopted Staff's position. Staff would have proposed a similar adjustment to incentive compensation if the full amount were included in the cost of service.

While Staff agrees with the adjustments KCPL has made in this case, it continues to evaluate the Company's philosophy on compensation and benefits. Incentive compensation is but one factor in KCPL's total pay and benefits package, in addition to deferred compensation, pension, and health and welfare benefits. Adjustment E-172.21 to the Income Statement is to remove costs relating to the short term incentive compensation for the test year 2009. The adjustment amount in File No. ER-2010-0355 is ($1,747,489) Adjustment E-172.13

Staff Expert/Witness: Bret G. Prenger

12. Long-Term Incentive Compensation

The Long Term Incentive Compensation Plan for the 2009-2011 calendar years was based on two goals each weighted at 50%. The two goals were FFO to Total Adjusted Debt and Earnings Per Share (EPS). The purpose of the plan was to encourage executive and other key KCPL employees to acquire a vested interest in the growth of and performance of Great Plains Energy. Eligible employees include executives and other employees of GPE and KCPL as approved by the Compensation and Development Committee of the Board of Directors. The awards generally given are 50% restricted stock with the number of shares determined at the date of grant based upon the GPE stock price. The other 50% of the awards will be performance shares with that number granted to be determined by the Fair Market Value at date of grant. Time-based restricted awards and performance shares will be payable in GPE common stock. As part of KCPL Adjustment CS-11, the Company removed all costs associated with long-term officer incentives stating "the costs are ordinary and reasonable business expenses; however, we do not believe such costs should be borne by ratepayers." Staff agrees with the adjustment and has included it in the cost of service. The adjustment amount in File No. ER-2010-0355 is ($4,367,779) Adjustment E-158.4

Staff Expert/Witness: Bret G. Prenger

C. Maintenance Normalization Adjustments

Maintenance expense is the cost of maintenance chargeable to the various operating expenses and clearing accounts. It includes labor, materials, overheads, and any other expenses incurred in maintaining the Company's assets - including power plants, transmission and distribution network of the electric system, and the general plant. Specific types of maintenance work tied to specific classes of plant are listed in functional maintenance expense accounts in the FERC Uniform System of Accounts ("USOA") for the various types of utilities. Maintenance expense normally consists of the costs of the following activities:

- Direct field supervision of maintenance;
- Inspecting, testing and reporting on condition of plant, specifically to determine the need for repairs and replacements;
- Work performed with the intent to prevent failure, restore serviceability or maintain the expected life of the plant;
- Testing for, locating, and clearing trouble;
- Installing, maintaining, and removing temporary facilities to prevent interruptions; and
- Replacing or adding minor items of plant, which do not constitute a retirement unit.

Staff analyzed maintenance costs from 1999 through 2009 through June 30, 2010, by functional area for production, transmission, distribution, and general plant by FERC account. Staff separated maintenance between labor and non-labor costs. Since labor costs are specifically addressed as a component in the cost of service analysis, labor costs were segregated from the non-labor costs to perform the review of maintenance costs. Staff annualized reflecting the price increases for labor that generally occurs each year. A detailed staff position related to payroll is located under the heading *Payroll, Payroll Related Benefits* in this report. The maintenance analysis was done only on non-wage maintenance and operating costs.

Several steps were taken to analyze the maintenance data. They included examining the non-labor maintenance amounts to identify any characteristics of the maintenance dollars such as trends or fluctuations from one period to another. Another approach used by the Staff, was to compare functional averages which included using a two (2) year average through a seven (7) year average to determine if there were fluctuations with each functional area. Each of the costs by year and averages for maintenance were also compared to the 2009 Test Year. Staff reviewed the data as detailed above to establish a maintenance level that will result in an annual level of the Company's future maintenance costs. Staff's results are presented in the following table;

Results of Staff's Non-Labor Maintenance Analysis	
Steam Production Maintenance	2-Year Average (2008-2009)
Nuclear Production Maintenance	2009 Test Year
Other Production Maintenance	2009 Test Year
Transmission Maintenance	2009 Test Year
Distribution Maintenance	2009 Test Year

As identified in the table above, Staff made a decision to use the 2009 test year account balances to represent future maintenance costs for Nuclear, Other Production, Transmission, Distribution and General Maintenance. Staff used the 2009 test year to reflect a level of normalized maintenance for these plant investments based on actual information provided by the Company for a period of several years. This historical information was analyzed to determine the proper level of maintenance which should be included in this case.

For Wolf Creek, there are two types of O&M costs – 1. O&M for general plant and 2. O&M relating to the refueling outages that occurs every 18 months. Staff performs a separate analysis for nuclear refueling outages. A discussion for Wolf Creek's refueling is located under the heading *Wolf Creek Nuclear Refueling Outage* in this report. The adjustments for Production Maintenance are E-22.2, E-23.3, E-24.1, E-25.2, and E-26.2.

Staff Expert/Witness: Karen Lyons

<u>1. Wolf Creek Nuclear Refueling Outage</u>

Staff reviewed information for the last five nuclear refueling outages. As a result, Staff included an annualized amount based on the most current refueling outage #17 that occurred in 2009. Staff found during its review, refueling costs have increased over the last two refuelings—refueling outage #16 and #17. Staff has requested additional documentation to determine the reasons for the increased costs. Once this information is received, Staff will examine the reasons for the increased Wolf Creek O&M costs for refueling outages. Staff may propose any additional adjustments to normalize the refueling outages if necessary to determine an appropriate level of O&M expense for the Wolf Creek refueling outage.

In addition, Staff made an adjustment for the refueling amortization established in the Stipulation Agreement in Case No. ER-2009-0089. KCPL deferred and amortized the actual cost incurred during the Wolf Creek refueling outage over 18 months (the time period between refueling outages). The outage periods for 2003 refueling #13 was 45 days; the outage period for 2005 refueling #14 was 40 days and the outage period for 2006 refueling #15 was 34 days. In contrast, the outage period for the 2008 refueling #16 was 55 days and the 2009 refueling #17 was 59 days. The average outage period for the three refueling periods occurring in 2003, 2005, and 2006 was 40 days. The 2009 refueling that lasted 59 days represented an increase of 48 percent above the average refueling outage days [average 40 days compared to 59 days]. Because of this abnormal event, the refueling costs of the outage increased significantly. KCPL and other signatory parties agreed through a Stipulation and Agreement in Case ER-2009-0089 to defer the cost of Outage #16 O&M refueling over a five year period. In the Stipulation and Agreement issued in Case No. ER-2009-0089 the Commission stated the following:

> The Signatory Parties agree that $1,570,581 (Missouri jurisdictional) of Outage #16 O & M refueling costs will be deferred in a regulatory asset account and amortized over five years beginning with the date new rates become effective in this case, with one-fifth of this cost included in cost of service in this case. The unamortized balance will not be included in rate base.

The deferral of the amortized refueling amount began on September 1, 2009 and will end September 1, 2014. As a result of the Stipulation and Agreement, Staff made an adjustment for one-fifth of the total costs of Wolf Creek Refueling Outage #16. Adjustments E-37.3 and E-46.2 are for Wolf Creeks refueling outage #16 per agreement in Case No. ER-2009-0089. Adjustments E 37.4 and E-46.3 are for Wolf Creek refueling outage #17 occurring in the 2009 test year.

Staff Expert/Witness: Karen Lyons

2. Nuclear Decommissioning

In its Report and Order in Case No. ER-2006-0314, the Commission ordered the following:

> 1) KCPL's annual Missouri retail jurisdictional decommissioning cost accrual shall be $1,281,264, commencing January 2007 and KCPL's decommissioning trust fund payments shall be at that annual level;
>
> 2) Decommissioning cost accruals, as a consequence of "1)," will continue to be included in KCPL's cost of service and will continue to be included in KCPL's rates for ratemaking purposes;

After reviewing the Company work papers, Staff found the test year reflected an amount less then what was ordered by the Commission. The Company made an adjustment to reflect the difference of what was ordered in Case No. ER-2006-0314. Staff issued an adjustment to mirror the Company adjustment issued in this case. Adjustment E-38.1.

Staff Expert/Witness: Karen Lyons

3. Nuclear Decommissioning Trust Fund Contributions

Staff recommends no change to the Company's current level of Nuclear Decommissioning Trust Fund ("Trust Fund") contributions. KCPL's current annual contribution level of $1,281,264 was established in KCPL's 2006 general rate case, Case No. ER-2006-0314. This contribution level was premised on an expected return of 6.48 percent for the Trust Fund portfolio. GPE currently has a lower expected return for its pension assets than it did in 2006. If these same lower return expectations were factored into contribution requirements for the Trust Fund, this would provide support for an increase in the annual level of Trust Fund contributions. However, because there are other uncertainties regarding other Trust Fund assumptions (e.g. cost to decommission and the proper cost inflation rate) Staff believes it is acceptable to maintain the current contribution level.

Staff Expert/Witness: David Murray

4. Iatan 2 O&M Expenses

Iatan 2 met its in–service criteria on August 26, 2010. Iatan 2 has been included in the Estimated True-up Case through the December 31, 2010. Staff will include KCPL's estimated amounts for KCPL's share of Iatan 2 O&M expenses in its true-up filing, for the true-up period ending December 31, 2010.

Staff recommends the Commission authorize a tracker for Iatan 2 O&M expense, so the actual cost of the O&M expense related to Iatan 2 will be recovered through rates for both the rate payer and Company in future rate cases. Given KCPL's very limited operation experience with Iatan 2 at this time, a tracker protects both KCPL and its customers from including projected costs in rates that will in all likelihood vary from the actual costs associated with Iatan 2's O&M expense.

Staff Expert/Witness: Karen Lyons

D. Depreciation - Clearing

During the test year, the Company included depreciation for transportation equipment that was charged to expense through a clearing account. Staff made an adjustment to remove the depreciation amount booked to the clearing account. Adjustment E-191.2

Staff Expert/Witness: Karen Lyons

E. Other Non-Labor Adjustments

1. Hawthorn 5 SCR Impairment adjustment

After the February 1999 explosion, which entirely destroyed the boiler, Babcock & Wilcox (B&W) and KCPL entered into an engineering, procurement, and construction agreement with KCPL for the construction of Hawthorn Unit 5 boiler island (B&W Agreement). The Agreement required B&W to install a selective catalytic reduction system (SCR) at Hawthorn Unit 5. This environmental equipment was installed to reduce pollution associated with operating a coal-fired generating unit. Under the Agreement, B&W guaranteed specific performance standards, including an ammonia slip test. After the SCR was placed in service in 2001, the boiler failed the ammonia slip test. The guaranteed performance standards were part of the contractual agreement between B&W and KCPL that required KCPL to pay for the SCR equipment.

In 2002, KCPL and B&W tried to resolve the issues by B&W doing additional work. Problems with the equipment still existed in 2004. After that point, B&W and KCPL entered in to a Memorandum of Understanding (MOU), and revised the requirements of the ammonia slip test standards. This revision lowered B&W standards regarding the ammonia slip test. Subsequently, B&W failed to meet these revised lowered standards. Because of B&W's failure to meet the ammonia slip test standards, KCPL experienced increased replacements of catalysts, increased usage of ammonia, plus additional cleaning and maintenance expense all resulting in significantly higher than expected costs to run and maintain the SCR equipment. After the revised standards could not be met, KCPL requested liquidated damages from B&W based on the difference between the costs KCPL would incur if the standards were met and what costs KCPL incurred because the standards were not met.

In 2007, KCPL received a settlement from B&W as recognition of the higher costs to operate this generating unit. The performance standards were never met. The settlement in essence recognized a lower performing piece of equipment which would require higher operating and maintenance costs over the life of the unit. This resulted in higher rates for the customers.

KCPL paid for higher plant costs for the higher performance standards that were never met—the higher plant costs are reflected in rates. All litigation and settlement discussions were handled in-house by KCPL attorneys, thus the labor costs were paid for by the customers. The increased costs for the ammonia slip tests, more frequent replacements of catalysts, and increased cleaning and maintenance expense continue to exist today resulting in higher costs which the customers are required to pay. KCPL has and continues to experience higher operating and maintenance costs at Hawthorn 5 as the direct result of the performance failure of the SCR. All the higher operating and maintenance costs are included in rates paid by KCPL's customers. The settlement amount paid by B&W was retained by KCPL to be passed on to Great Plains Energy shareholders.

The Staff's position is that KCPL's customers should receive the benefit of the settlement with B&W since they paid the costs KCPL incurred because of the substandard performance of the plant. All the increased costs to KCPL were and are currently being paid by KCPL customers in utility rates. These costs include the salaries and benefits, office space, and all employee-related costs of KCPL's attorneys and employees who worked on this dispute between KCPL and B&W.

One position is to reflect the settlement as an increase to depreciation reserve. Using this approach causes plant to be overstated which in turn causes depreciation to be overstated. Therefore, an adjustment to reduce depreciation expense is also necessary. Staff made an adjustment to increase depreciation reserve by the settlement amount and made an adjustment to decrease depreciation expense. Adjustment R-21 and P-160.1.

Although increasing depreciation reserve is one method of accounting for receipt of settlements, Staff believes an alternative accounting method – that is preferred – should be considered. As mentioned above, making an adjustment to depreciation reserve does not correct the overstated plant. The overstated plant results in higher depreciation expense. Staff believes an adjustment to reduce plant and a corresponding adjustment to correct the depreciation reserve to reflect the settlement with B&W is necessary to properly reflect the true value of the plant investment which has lower performance standards for the operation of the SCR. The lower performance standard would have resulted in a lower price for the plant, therefore the plant investment reflected in rate base would not be overstated as it currently exists. By reducing the plant amount for the settlement, no other adjustment is necessary to reduce depreciation expense since plant will be properly accounted. Under the plant method, depreciation has occurred since the time of the settlements resulting in an increase to depreciation reserve. If an adjustment to reduce plant is made then it would be appropriate to adjust depreciation and deferred income taxes. Making these adjustments to "correct" the plant, depreciation reserve and deferred income reserve balances will result in no further adjustments being necessary in the future.

On the other hand, the accepted method of increasing depreciation reserve for the settlement amount does not correct the overstated plant and therefore; future adjustments to reduce depreciation expense will be required.

Staff Expert/Witness: Karen Lyons

2. Hawthorn 5 Transformer Settlement

In August 2005, the generator step-up transformer (step-up transformer) on KCPL's Hawthorn 5 failed. In September 2005, a backup step-up transformer was installed. During June 2006, a new step-up transformer was installed. KCPL sued the contractors and subcontractors claiming they were responsible for the step-up transformer failure. The case settled at the end of 2007, and was finalized in 2008. KCPL received a dollar settlement for the transformer failure. KCPL has made no adjustment in its books and records to provide any benefit of this settlement to its customers. It is Staff's position that KCPL's customers should receive the benefit of the settlement since they are the ones who paid higher costs for the substandard plant performance.

All the increased costs to KCPL of the operation of Hawthorn 5 resulting from the step-up transformer failure were paid by KCPL customers in its utility rates. These costs include the salaries and benefits, office space, and all employee-related costs of KCPL's attorneys and employees who worked on KCPL's dispute with the contractors and subcontractors, increased maintenance, fuel and purchased power expense, and increased expenses that were capitalized to the new plant.

It is Staff's initial position to reflect the settlement as an increase to depreciation reserve. However, similar to the Hawthorn SCR settlement, increasing depreciation reserve does not correct the overstated plant and depreciation expense. Staff made an adjustment to reduce depreciation expense. Adjustment R-25 and P-160.1.

Although increasing depreciation reserve is one method of accounting for this type of issue, Staff believes an alternative accounting method should be considered. As mentioned above, making an adjustment to depreciation reserve does not correct the overstated plant. The overstated plant results in higher depreciation expense. Staff believes an adjustment to reduce plant and a corresponding adjustment to depreciation reserve to reflect the settlement with B&W is necessary to properly reflect the true value of the plant investment which has lower performance standards for the operation of the SCR. The lower performance standard would have resulted in a lower price of the plant, therefore the plant investment reflected in rate base is overstated as it currently exists. Using this approach, no other adjustment is necessary to reduce depreciation expense since plant will be properly accounted. Making both of these adjustments to plant and reserve will result in no further adjustments being necessary in the future.

On the other hand, the accepted method of increasing depreciation reserve for the settlement amount does not correct the overstated plant and therefore; future adjustments to reduce depreciation expense will be required.

Staff Expert/Witness: Karen Lyons

<u>3. Leases—Adjustments E-190.1 and E-190.2</u>

Lease costs are those costs incurred by KCPL for the leasing of its corporate headquarters. Staff examined these costs for test year 2009 and updated them through June 30, 2010. KCPL moved its corporate headquarters to One Kansas City Place, 1200 Main Street, Kansas City MO. (During the fourth quarter of 2009)

Staff recognized the monthly base rent for the headquarters and multiplied that by 12 months to reflect an annualized rent amount. In addition to the lease rent amount, the Company has to pay other costs for customer and employee parking, as well as the annual cost for the building's electricity. KCPL currently rents four classifications of parking spaces: Visitor, Reserved, High Profile Vehicles, and Unreserved. To calculate an annualized amount for parking, Staff took the number of spaces provided in each category times the monthly rate, then applied that total times 12 months. Also, Staff picked up the adjustments of the Company to back out amounts that were associated with other standard parking accounts, so as to avoid double-counting this expense. KCPL pays electricity at a rate per square foot leased for the building. Once the three portions of the lease expenses are totaled (base rent, parking, and electricity) those amounts are then allocated out between KCPL, GMO, and GPE.

When the Company relocated to the new location, it was allowed 270 days (9 months) of rent free time, called an abatement period. Staff calculated an adjustment to reflect the "free rent" over a 5 year timeframe, and adjusted it out of the test year lease expense. The calculation of this adjustment was handled in a very similar manner to the corporate headquarters lease adjustment. Staff took the base rent and parking expenses and instead of annualizing them for a full 12 months, did the multiplication times a 9 month period.

The Staff adjusted the Company's test year amount for lease rent during the substantial period of time KCPL was paying the final months of its lease at its previous headquarters and paying leasing payments on its new corporate headquarters while it was being renovated. The leasehold adjustment results in a decrease of ($1,669,286) in Total Company lease expense that is identified as Adjustment E-190.1. An additional adjustment is being made to reflect the decrease of ($586,390) for the abatement period—this is identified as Adjustment E-190.2

Staff Expert/Witness: Bret G. Prenger

4. Property Tax Expense

Each year KCPL is billed by each of the taxing authorities that have jurisdiction over the Company's property. Tax bills for the year are based (assessed) on the property KCPL owns exclusively on January 1st of that calendar year. The property taxes assessed on January 1 of each year are typically not due to the taxing authorities until December 31 of that same year, and in the state of Kansas, part of the year's property taxes are not due until late in the first quarter of the following year. The test year used in this case is the 12-month period ending December 31, 2009, updated through June 2010. Since the update period in this case is June 30, 2010, Staff determined the annualized property taxes based on the property KCPL had in-service on January 1, 2010. Staff applied a property tax ratio based on actual 2009 property tax payments to January 1, 2009 plant. This ratio of property taxes when applied to the January 1, 2010 plant provides the amount of property taxes expected to be paid for 2010. Since the actual 2010 property taxes owed by the Company have not been paid as of the update period, June 30, 2010, Staff plans on updating KCPL's property taxes for the true-up which will be through December 31, 2010. Because the update in this case is June 30, property tax expenses for 2010 were annualized as of the January 1, 2010 date. This calculation is an estimate of the total 2010 property tax expense. Both Staff and the Company typically accomplished this by looking to the tax rate paid for the previous year, and then applying it to the property owned at the start of the current year. For the current rate case, Staff obtained from KCPL the total amount of taxable property owned on January 1, 2010, and then applied to it the tax rate assessed to the Company in 2009. The property tax rate assessed in 2009 is calculated by dividing the total amount of property tax paid by the Company by the total cost of the taxable property owned on January 1, 2009. Any required payments in lieu of taxes ("PILOTs") applicable to non-taxable property were added to the total estimated tax for 2010. Staff believes that the property tax expense arrived in this manner is the best available information, since it relies on the actual January 1, 2010 balance of KCPL's property, and uses the most recent, known tax rate (2009), without attempting to estimate any change in the rate of taxation for 2010 that is not known as of the update period June 30, 2010. The property taxes will be trued-up during that phase of the case.

During the true-up Staff will examined the actual amount paid for property taxes for 2010 as that amount will be known at the end of the year.

Staff adjusted test year property tax expense in order to include in rates the annualized level of 2010 property taxes. Staff's approach is consistent with that taken previously and received several favorable rulings from the Commission in prior cases, most recently in KCPL 2006 rate case. In its Report and Order issued in Case No. ER-2006-0314 the Commission stated the following:

> Staff recommends that the Commission calculate property tax expense by multiplying the January 1, 2006 plant-in-service balance by the ratio of the January 1, 2005 plant-in-service balance to the amount of property taxes paid in 2005. KCPL wants the property tax cost of service updated to include 2006 assessments and levies. The Commission finds that the competent and substantial evidence supports Staff's position, and finds this issue in favor of Staff.

Based on the methodology addressed earlier, Staff made an adjustment to include an annualized amount for property taxes. Adjustment E-120.1 reflects the annualized levels.

Staff Expert/Witness: Karen Lyons

5. Bad Debt Expense

Bad debt expense is the portion of retail revenues KCPL is unable to collect from retail customers by reason of bill non-payment. After a certain amount of time has passed, delinquent customer accounts are written off and turned over to a third party collection agency for recovery. If KCPL is subsequently able to successfully collect some portion of previously written off delinquent amounts owed, then those amounts collected reduce the actual write-offs. This results in the net write-off which is used to determine the annualized level of bad debt expense.

Staff calculated the annualized bad debt expense by examining the billed revenues, net of gross receipt taxes for the twelve months period ending December 31, 2009, and actual 12-month history of billed revenues that were never collected (actual net write-offs) for the twelve months ending June 30, 2010. From this information a bad debt ratio was derived, which was then applied to Staff's annualized level of retail revenues to obtain the annualized level of bad debt expense. The apparent lag time between the net retail sales and actual net write-offs in Staff's calculation is consistent with KCPL's position on how bad debt write-offs are accounted.

The Company asserts that it takes approximately six months for a customer's unpaid bill to be written off after the customer receives service. Staff's adjustment for bad debt expense adjusts the test year results to reflect a level of bad debt expense that is consistent with Staff's annualized level of retail revenue. This is Adjustment E-136.1.

Staff Expert/Witness: Amanda C McMellen

<u>6. Advertising Expense</u>

In forming its recommendation of the allowable level of advertising expense, Staff relied on the principles the Commission followed as a result of the 1986 Kansas City Power & Light rate case, (Case No. EO-2005-0329 beginning with the 2006 rate case, Case No. ER-2006-0314). In <u>Re: Kansas City Power and Light Company</u>, 28 MO P.S.C. (N.S.) 228 (1986) (KCPL), the Commission adopted an approach that classifies advertisements into five categories and provides separate rate treatment for each category. The five categories of advertisements recognized by the Commission are:

1. <u>General</u>: advertising that is useful in the provision of adequate service;
2. <u>Safety</u>: advertising which conveys the ways to safely use electricity and to avoid accidents;
3. <u>Promotional</u>: advertising used to encourage or promote the use of electricity;

4. Institutional: advertising used to improve the company's public image;

5. Political: advertising associated with political issues.

The Commission adopted these categories of advertisements because it believed that a utility's revenue requirement should: "1) always include the reasonable and necessary cost of general and safety advertisements; 2) never include the cost of institutional or political advertisements; and 3) include the cost of promotional advertisements only to the extent that the utility can provide cost-justification for the advertisement." (Report and Order in KCPL Case No. EO-85-185, 28 Mo.P.S.C. (N.S.) 228, 269-271 (April 23, 1986)).

In response to data requests, KCPL provided a list of all costs associated with advertising and a brief description of those costs. Staff held multiple meetings and phone discussions with KCPL to review these costs and ask questions regarding the Company's implementation of its new "Connections" program. The purpose of Staff's review of KCPL's advertising costs was to ensure that only advertising costs for programs necessary for the provision of safe and adequate utility service are included in KCPL's cost of service. For example, all costs for safety advertising and indirectly related to safety advertising were included as well as other costs necessary for KCPL to communicate with its customers on utility matters. Staff removed test year expenses incurred by KCPL for advertising programs that are appropriately classified as institutional image in nature.

Following the Company/Staff meetings, Staff has come to the conclusion to make adjustments to account 908.000 and 909.000, as well as pick up the Company adjustments to accounts 913.000 and 930.100. The 908 account represents The KCPL Connections program, and while certain aspects of the program are beneficial, Staff believes a significant portion of the program represents costs pertaining to CEP/Energy Efficiency and DSM. Staff choose to expense 50% of the costs and then capitalize the other 50% of the costs dealing with this program. (Adjustment E-142.3) Account 909 deals with general advertising costs in which after review, Staff found several costs also associated with CEP and Energy Efficiency. Based on the handling of these costs in case ER-2009-0089, Staff believes they should also be capitalized. (Adjustment E-146.3) Finally, Staff chose to pick up two Company adjustments for accounts 913 and 930.1 that simply reflect the change between test year and known and measureable. (Adjustments E-153.1 and E-187.1)

Staff focused on campaigns, not individual advertisements, which is consistent with the Commission's discussion on the topic as stated in its most recent rate case order, the AmerenUE Report and Order in ER-2008-0318. Adjustments E-142.3, E-146.1, E-146.2, E-153.1, E-187.1 and E-187.2

Staff Expert/Witness: Bret G. Prenger

7. Dues and Donations

Staff reviewed the list of membership dues paid and donations made to various organizations, that KCPL charged to its' utility accounts during the test year. Consistent with Staff policy for many years, Staff included all dues payments made by KCPL to each area's Chamber of Commerce, and removed the other dues as costs not necessary in the provision of utility service. This adjustment was made to KCPL account 930.2. In addition to this adjustment, Staff removed costs in which it considers the expenses to be personal or of no benefit to the ratepayer and thus, not included in a utility's cost of service. Staff also removed costs associated with Dollar-Aide contributions, E-189.5. Adjustments E-189.2 and E-189.5

Staff Expert/Witness: Bret G. Prenger

8. Removal of Gross Receipts Taxes from Test Year Revenues

The amounts received from customer payments and recorded as revenues during the test year include gross receipt taxes (GRTs), GRTs are imposed by a taxing authority for which KCPL is obligated to charge customers on their utility bills. After KCPL collects these taxes from its customers, the Company periodically remits these amounts to the appropriate taxing authorities. In this regard, to accurately account for the Company's actual test year retail revenues – it is necessary to remove GRTs from the amounts recorded as 2009 revenues – while at the same time removing the corresponding remittances to the taxing authority as a charge to expense. In effect, GRTs will have no impact on the Company's final revenue requirement amount. Staff's adjustments remove GRTs from test year revenues and expenses. The adjustments are Rev-3.1, Rev-18.2 and E-213.1.

Staff Expert/Witness: Amanda C McMellen

9. Debit/Credit Card Acceptance Program

In February 2007, KCPL implemented a Credit/Debit Card payment program designed to offer utility ratepayers a simplified, quick, convenient way to pay their bills, and to manage their accounts electronically. The program is offered by KCPL in an agreement with Western Union through its SpeedPay service, which acts as a third party facilitator for the processing of payments to KCPL. When payment is made by a customer through the credit or debit card system, KCPL will receive payment from Western Union. Payment options available to customers through the program include the Interactive Voice Response System ("IVR") and or by registering on KCPL's website. Payment through the website offers two options one time payments or what the Company terms the, "recurring card payment option," which is available through registration on its website. The cost for providing this service is absorbed by KCPL and later built into rates; therefore, customers who use this payment option are not charged any direct transaction fees. Since the introduction of the program in February 2007, customer participation has been gradually increasing. Participation is projected to increase into the future as more customers become aware of the program. As customer participation increases, the per unit transaction cost to KCPL for providing the debit/credit payment service will decline.

Staff has included in its cost of service an annualized amount associated with the credit and debit card program based upon the total card level and per unit transaction cost as of the six months ending June 30, 2010 multiplied by two, which represents an ongoing level of costs. This adjustment is represented in Staff's Accounting Schedules as E-135.3.

Staff Expert/Witness: Amanda C McMellen

10. KCPL Receivables Bank Fees

KCPL sells its accounts receivable; as described on page 3, lines 1-15, of the Direct Testimony of KCPL witness Michael W. Cline. The process is as follows:

- KCPL sells all of its receivables daily at a discount and on a non-recourse basis to Kansas City Receivables Corporation ("KCREC")
- KCREC gives a promissory note to KCPL for the amount of the discounted receivables purchased
- KCREC sells an undivided interest in the receivables to a bank conduit – Victory Receivables Corp.
- The bank conduit issues A-1/P-1 Commercial Paper to fund the purchase of the receivables from KCPL
- The bank conduit advances funds to KCREC, which uses the funds to reduce the promissory note given to KCPL
- KCREC pays KCPL a collection fee to collect the receivables monthly
- KCREC pays Victory the Commercial Paper fees plus a monthly program fee
- KCREC pays KCPL interest due on the promissory note monthly

In June 2009, KCPL renegotiated its contract with KCREC which resulted in an increase in the purchase limit of receivables. As a result, the percentage of receivables sold increased resulting in decrease in the collection lag. Staff reflected the benefit of selling accounts receivables as a reduction in the revenue lag, in the cash working capital amount determined in this case. The selling of accounts receivables results in the Company collecting revenues on an accelerated basis from lending institution. The benefit to the Company is that it receives enhancement to its cash management. For rate making purposes, this enhancement is reflected in the acceleration of the collection process identified through a shorter revenue lag in the CWC schedule than otherwise would have occurred absence the sell of the accounts receivables. The adjustment for bank fees relates to the cost of this program. Staff included an annualized level of bank fees paid by KCPL to KCREC in Adjustment E-133.2, Schedule 9.

Staff Expert/Witness: Karen Lyons

11. Miscellaneous Test Year Adjustments

In its direct filing, KCPL proposed Adjustment CS-11 which includes several miscellaneous adjustments. Among the miscellaneous adjustments were the test-year wind termination payment of $7.5 million paid to a vendor to terminate a wind construction project, executive expense reports, and other items that are non-recurring or that should be booked below the line. Additionally, KCPL identified the effects of an error in the Massachusetts formula. The Massachusetts formula is used to allocate expenses between operating units and the holding company, namely KCPL, GMO, and GPE, respectively. Staff has included the effects of KCPL's change in the Massachusetts formula with the exclusion of labor. Staff's payroll adjustment sufficiently captures the correct allocation of costs between KCPL, GMO, and GPE. Adjustments E-14.3, E-37-2, E-63.2, E-79.2, E-84.2, E-114.2, E-133.4, E-1141.1, E-142.2, E-146.2, E-161.3, E-163.2, E-168.1, E-172.11, E-179.1, E-180.2, E-181.2, E-189.3, and E-189.4 to the Income Statement account for the above miscellaneous expenses in the cost of service.

Staff Expert/Witness: Keith A. Majors

12. Advanced Coal Credit Arbitration Costs

In 2009, KCPL was served a notice to arbitrate by The Empire District Electric Company (Empire) and the remaining joint owners of Iatan Unit 2, Kansas Electric Cooperative, Inc. (KEPCO) and Missouri Joint Municipal Electric Utility Commission (MJMEUC). The joint owners contended that they were entitled to receive proportionate shares (or the monetary equivalent) of the $125 million advance coal project credit for Iatan Unit 2. In November 2009 this matter was heard by a three person arbitration panel. On December 30, 2009, the arbitration panel, convened pursuant to Article XII of the Iatan Unit 2 And Common Facilities Ownership Agreement, unanimously issued a decision ordering KCPL and Empire to jointly seek a reallocation of the tax credit giving Empire its representative share of the total tax credit worth approximately $17.7 million to Empire. The following are excerpts from the arbitration decision:

**

[redacted] **

(Emphasis added).

It would appear that KCPL violated the Fair Dealing section, page 6, of the October 30, 2007 GPE Code of Ethical Business Conduct. The Fair Dealing section, page 6, of the October 30, 2007 GPE Code of Ethical Business Conduct provides as follows:

> <u>Business Conduct:</u> **Fair Dealing**
>
> We will deal fairly with the Company's customers, suppliers, competitors and other persons. We will not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair-dealing practice.

According to KCPL's response to Staff Data Request No. 720, Case No. ER-2009-0089, the total amount of costs KCPL incurred for the aforementioned arbitration through August 2009 is $41,764. Staff has discovery pending to update this amount through 2009. Staff proposes to remove this amount from the cost of service as Adjustment Number E-167.1. Staff will update this amount in the true-up for all costs incurred through 2009.

Staff Expert/Witness: Keith A. Majors

13. Iatan Unit 1 Turbine Trip Additional AFUDC removed in Staff's Construction Audit and Prudence Review

In Staff's "Construction Audit and Prudence Review" of the Iatan Construction Project dated November 3, 2010, Staff captured the additional Allowance for Funds used During Construction ("AFUDC") due to the Iatan Unit 1 turbine start-up failure.

For regulated utility companies the AFUDC is the non-cash cost of financing particular construction projects. During construction and prior to the plant providing utility service, this finance cost is capitalized to the construction work order in the same manner as other construction costs such as labor and materials. The Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA) identifies under Electric Plant Instructions, paragraph 17, that AFUDC:

> includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used, not to exceed, without prior approval of the Commission, allowances computed in accordance with the formula prescribed in paragraph (a) of this subparagraph. No allowance for funds used during construction charges shall be included in these accounts upon expenditures for construction projects which have been abandoned.

The Commission's rule on the USOA for electric utilities states, in part, as follows:

> 4 CSR 240-20.030 Uniform System of Accounts-Electrical Corporations Purpose: This rule directs electrical corporations within the commission's jurisdiction to use the uniform system of accounts prescribed by the Federal Energy Regulatory Commission for major electric utilities and licensees, as modified herein. . . .
>
> (4) In prescribing this system of accounts, the commission does not commit itself to the approval or acceptance of any item set out in any account for the purpose of fixing rates or in determining other matters before the commission. This rule shall not be construed as waiving any recordkeeping requirement in effect prior to 1994.
>
> (5) The commission may waive or grant a variance from the provisions of this rule, in whole or in part, for good cause shown, upon a utility's written application.

On February 4, 2009, the Iatan Unit 1 turbine tripped during start-up activities due to vibration in the turbine that was beyond its operating parameters. This event occurred following the replacement of the high pressure turbine by KCPL's contractor General Electric ("GE"). The turbine replacement and costs associated with the turbine incident were not within the scope of the Iatan Unit 1 AQCS project and are similar to other capitalized maintenance costs. The unit was repaired and returned to availability for in-service testing on March 9, 2009. The 33 day delay of the unit's ability to perform in-service testing increased the amount of AFUDC accrued on the balance of Iatan Unit 1 plant in construction as the Iatan Unit 1 AQCS could not be declared in-service until April 19, 2009. Staff proposed to remove the incremental AFUDC accrued from the Iatan Unit 1 AQCS project and charge it to the work order that captured the costs for the turbine trip.

On July 7, 2009, Staff filed its "Motion to Open Incident Investigation Case" requesting the Commission to open a case for the purpose of receiving an Incident Report pertaining to Staff's investigation of the February 4, 2009 incident at Unit 1 of the Iatan Generating Station. In "Staff's Incident Report" dated January 29, 2010 in Case No. ES-2010-0009, Staff states that:

> It is not the purpose of this report to make any determination regarding the prudence or imprudence of the actions of KCPL or GE with respect to this incident.

Although Staff made no determination of the prudence of KCPL's actions concerning the February 4, 2009 incident in Case No. ES-2010-0009, KCPL's response to Staff Data Request No. 721 in Case No. ER-2009-0089 suggests that both KCPL and GE had some responsibility for the incident:

> ** ____
> ____
> ____
> ____
> ____

**

To Staff's knowledge, KCPL did not pursue recovery from GE of the additional financing costs incurred because of the turbine trip. Based on the excerpt from KCPL's response to Staff Data Request No. 721 above, it appears KCPL accepted approximately 50% of the responsibility for the rotor incident. The total amount of additional AFUDC accrued on KCPL's portion of the Iatan Unit 1 AQCS project due to the delay caused by the rotor incident was ** ________ **. GE took responsibility for half the costs of the turbine trip, yet KCPL did not pursue GE for the additional AFUDC costs incurred due to the rotor incident.

Staff has made no adjustment to the actual costs of the turbine incident or the consequent repair and return to service of the turbine. However, given the apparent responsibility of both KCPL and GE, Staff sees no reason to include in the Iatan Unit 1 plant balance the proposed transferred amount of AFUDC proposed in Staff's "Construction Audit and Prudence Review" in the work order capturing the costs of the turbine incident. The AFUDC represents KCPL's carrying cost and profit directly attributable to the turbine trip. KCPL will make a recovery of and on the capitalized costs of the turbine incident but should not also receive the incremental AFUDC caused by the turbine incident.

Staff Expert/Witness: Keith A. Majors

14. Demand-Side Management Cost Recovery

From 2005 to 2008, the Company implemented a series of demand-side programs as part of its Experimental Regulatory Plan (Regulatory Plan) approved on July 28, 2005, in File No. EO-2005-0329. The Regulatory Plan established a Customer Programs Advisory Group (CPAG) to include Staff, Public Counsel, Missouri Department of Natural Resources and other interested parties to serve as an advisory group to the Company in the development, implementation, monitoring and evaluation of the Company's demand response, energy efficiency and affordability programs. On September 15, 2010, Staff provided to the Commission a Status Report concerning all of the Missouri investor-owned natural gas and electric utilities' demand-side programs advisory groups and collaboratives (File No. AO-2011-0035). Attached to this Staff Report as Appendix 3, Schedule JAR-1 are pages from the Status Report, which highlight the CPAG process and the challenges and successes to date of the Company's demand-side programs.

The Company's overall spending levels for demand-side programs have met and exceeded the expectations established in the Regulatory Plan. As reported by the Company, through June 30, 2010 the budget for all Company demand-side programs is $24,001,009 and the actual total expenditures through this period are $27,442,517, or 14% greater than budget. The energy and capacity impacts and the overall delivery processes of the programs are still being evaluated, measured and verified by a third-party contractor of the Company and will be provided to CPAG members along with copies of completed program evaluation reports. The results of future evaluation reports are not expected to impact this case (also see the **Demand-Side Management** section and the **Demand-Side Management Prudence** section of this Staff Report).

However, the Company formally advised the Commission on February 3, 2010 (File No. EE-2008-0034) that it has determined that "it is appropriate to scale back its demand-side programs in the earlier years of its adopted preferred resource plan due to a reduction in the Company's load forecast, primarily attributable to the unprecedented economic recession that has affected both customer growth and energy and demand growth in the Company's service territory." This "scale back" applies only to the new demand-side programs that were chosen as resources in the Company's most recent Chapter 22 Electric Utility Resource Planning compliance filing, but does not impact the current energy efficiency and demand response programs established in the Regulatory Plan. It is Staff's understanding that KCPL is not accepting new applications for its large customer MPower demand-response program. It is Staff's understanding that KCPL intends to continue offering services of the energy efficiency Regulatory Plan programs to meet customer demand for these programs. Staff and other parties continue to be engaged with the Company as part of the CPAG process to provide advice on the Company's demand-side programs and as a stakeholder to monitor the progress of the Company's Chapter 22 Electric Utility Resource Planning process.

The Regulatory Plan on page 49 also specifies:

> KCPL will accumulate the Demand Response, Efficiency and Affordability Program cost in regulatory asset accounts as the costs are incurred. Beginning with the 2006 Rate Filing, KCPL will begin amortizing the accumulated costs over a ten (10) year period. KCPL will continue to place the Demand Response, Efficiency and Affordability Program costs in the regulatory asset account, and cost for each vintage subsequent to the 2006 Rate Filing will be amortized over a ten (10) year period. Signatories Parties reserve the right to establish a fixed amortization amount in any KCPL rate case prior to June 1, 2010. The amount accumulated in these regulatory asset accounts shall be allowed to earn a return not greater than KCPL's AFUDC rate. The class allocation of costs will be determined when the amortizations are approved.

The direct testimony of Company witness Tim M. Rush in this general rate proceeding includes a request for continuation of the current regulatory asset accounts and amortization over ten years of costs related to the Company's demand response, energy efficiency and affordability programs. Staff is in support of this request (see the **Demand-Side Management** section of this Staff Report).

The "Missouri Energy Efficiency Investment Act" (MEEIA) was established in Senate Bill 376 and became law on August 28, 2009. During 2009 and 2010, Staff organized a stakeholder process including a series of workshops to obtain stakeholder input and to promulgate rules in compliance with MEEIA (File No. EW-2010-0265). Staff subsequently filed proposed MEEIA rules with the Commission in File No. EX-2010-0368. On October 4, 2010, the Commission sent the proposed MEEIA rules to the Office of the Secretary of State. It is anticipated that the proposed MEEIA rules will be published in the *Missouri Register* on November 15, 2010, and the Commission has scheduled a hearing regarding the proposed MEEIA rules for December 20, 2010.

Staff has evaluated the typical timeline for rulemakings established in Chapter 536, RSMo, and concludes that a final order of rulemaking for the MEEIA rules can be reasonably expected so that MEEIA rules will first be effective near June 2011, which is after the May 4, 2011 requested effective date of the Company's new tariffs in this general rate proceeding. It is highly unlikely that MEEIA rules will be effective prior to the effective date of new tariffs in this general rate proceeding. Staff, therefore, believes effective MEEIA rules can have no direct impact on the outcome of this general rate proceeding.

However, with the passage of Senate Bill 376 and the enactment of MEEIA, the State of Missouri has declared and directed the following:

> 3. It shall be the policy of the state to value demand-side investments equal to traditional investments in supply and delivery infrastructure and allow recovery of all reasonable and prudent costs of delivering cost-effective demand-side programs. In support of this policy, the commission shall:
>
> (1) Provide timely cost recovery for utilities;
>
> (2) Ensure that utility financial incentives are aligned with helping customers use energy more efficiently and in a manner that

> sustains or enhances utility customers' incentives to use energy more efficiently; and
>
> (3) Provide timely earnings opportunities associated with cost-effective measurable and verifiable efficiency savings.
>
> 4. The commission shall permit electric corporations to implement commission-approved demand-side programs proposed pursuant to this section with a goal of achieving all cost-effective demand-side savings. Recovery for such programs shall not be permitted unless the programs are approved by the commission, result in energy or demand savings and are beneficial to all customers in the customer class in which the programs are proposed, regardless of whether the programs are utilized by all customers. The commission shall consider the total resource cost test a preferred cost-effectiveness test. Programs targeted to low-income customers or general education campaigns do not need to meet a cost-effectiveness test, so long as the commission determines that the program or campaign is in the public interest. Nothing herein shall preclude the approval of demand-side programs that do not meet the test if the costs of the program above the level determined to be cost-effective are funded by the customers participating in the program or through tax or other governmental credits or incentives specifically designed for that purpose. *Subsections 393.1075.3 and 4, RSMo. Supp. 2009.*

While Staff does not view the Company's existing demand-side programs presently to be demand-side programs proposed pursuant to section 393.1075.4 RSMo. Supp. 2009, the current regulatory asset treatment of the Company's demand-side costs as discussed in this section and in the **Demand-Side Programs** section of this Staff Report should be continued until the Commission has rules in effect to implement MEEIA.

Staff Expert/Witness: John A. Rogers

15. Demand-Side Management Prudence

The Demand-Side Management (DSM) Account 182440 contains costs that have been incurred for fourteen (14) DSM programs[36] that are in various stages of development and implementation, along with (1) costs not directly assignable to any individual program, and

[36] DSM programs consist of demand response, energy efficiency and affordability programs, including the low income weatherization programs.

(2) DSM market research costs. At this time, Staff has no recommended disallowances to the levels of costs charged to KCPL's DSM Account.

As part of the KCPL Experimental Regulatory Plan (Case No. EO-2005-0329), the Customer Program Advisory Group (CPAG) was ordered to include Staff, Public Counsel, Department of Natural Resources and other interested parties to advise KCPL on the development, implementation, monitoring and evaluation of demand response, energy efficiency and affordability programs. Based on Staff's participation in the CPAG and Staff's review of the costs in Account 182440, Staff discovered no evidence of imprudence regarding the level of costs charged to the DSM programs.

The DSM program costs include the payments to KCPL's customers that participate in the MPower Program. The MPower Program is a commercial and industrial load curtailment program. This program allows KCPL to call for curtailment for emergency and for economic reasons. Staff is allowing the level of costs charged to this program to be included in the DSM account because the revenues from such sales on the wholesale market will be returned to the retail customers through a mechanism established by the Commission in a previous KCPL rate case, File No. ER-2006-0314.

Staff Expert/Witness: Hojong Kang

16. DSM Costs

The DSM Account 182.440 contains costs that have been incurred for fourteen (14) DSM programs[37] that are in various stages of development and implementation, along with (1) costs not directly assignable to any individual program, and (2) DSM market research costs. At this time, Staff has no adjustments to the DSM Account.

[37] DSM programs include demand response and energy efficiency programs, including the low income weatherization programs.

Based on Staff's participation in the Customer Program Advisory Group, established to advise KCPL in the development of DSM programs, and Staff's review of the costs in Account 182.440, Staff has treated the previously mentioned amounts according to the amortization process agreed to in the KCPL Regulatory Plan Stipulation and Agreement, entered into in Case No. EO-2005-0329. The Stipulation and Agreement allows KCPL to capitalize a financial return on the project expenses deferred in the DSM regulatory asset account. The Stipulation and Agreement prohibits this return from being higher that KCPL's Allowance For Funds Used During Construction (AFUDC) rate.

In its direct filing the Staff removed KCPL's test year DSM amortizations (Adjustments E-144.2 through E-144.4) and included its recommended level calculated in a manner consistent with its treatment in Case No. ER-2009-0089.

In Case No. ER-2009-0089, the balance of Vintage 3 DSM deferral was adjusted to reflect the Missouri jurisdictional portion of the Surface Transportation Board complaint case refunds, the amount of KCPL's 2007 and 2008 off-system sales margin in excess of the amount directly included in rates in the ER-2007-0291 case, and the transfer of certain DSM related advertising costs charged to KCPL's income statement advertising accounts. These DSM deferral adjustments were agreed to as to amount and were reflected in the Non-Unanimous Stipulation and Agreement to Case No. ER-2009-0089 as reflected below:

> <u>Off-System Sales ("OSS") Margins—Excess Over 25th Percentile for 2007 and 2008</u>
> The Signatory Parties agree that the $1,082,974 (Missouri jurisdictional) excess of 2007 OSS margins over the amount included in rates in Case No. ER-2006-0314 and the $2,947,332 (Missouri jurisdictional) excess of 2008 OSS margins over the amount included in rates in Case No. ER-2007-0291, together with interest (Missouri jurisdictional), will be deferred in a regulatory liability account and amortized over ten years beginning with the date new rates become effective in this rate case, with one year's amortization included in cost of service in this case. The unamortized balance will not be included in rate base.

Surface Transportation Board ("STB") Litigation

The Signatory Parties agree that the Missouri jurisdictional excess of STB litigation proceeds over un-recovered STB litigation costs of $1,017,593 will be deferred in a regulatory liability account and amortized over ten years beginning with the date new rates become effective in this case, with one year's amortization included in cost of service in this case. The unamortized balance will not be included in rate base.

Deferred DSM Advertising Costs

The Signatory Parties agree that $279,521 (Missouri jurisdictional) of 2007 advertising costs will be deferred in a regulatory asset account and amortized over ten years beginning with the date new rates become effective in this rate case, with one-tenth of this cost included in cost of service in this case. The unamortized balance will not be Included in rate base as agreed to in the 2005 Stipulation.

On October 12, 2005, KCPL filed a rate complaint case with the Surface Transportation Board ("STB") against Union Pacific Railroad ("UPRR") alleging UPRR's charges to transport coal from Wyoming's Powder River Basin (PRB) to KCPL's Montrose plant in Missouri were excessive. On May 15, 2008, the STB ruled in favor of KCPL, and ordered UPRR to reduce its rates to KCPL and pay KCPL reparations for prior overcharges. The STB estimated the value of the rate reductions and reparations to be $30 million. The Staff and KCPL agreed that KCPL should defer all costs of prosecuting this case against UPRR and that if KCPL won the case, the settlement and refunds would be returned to KCPL's ratepayers who paid the overcharges. In KCPL's last rate case, Case No. ER-2009-0089, the Staff and KCPL agreed that at the time of that rate case, the appropriate Missouri jurisdictional refunds were $1,017,593. In discussions with KCPL in this case, KCPL has indicated that no additional refunds have been received from UPRR.

In its direct filing in this case, File No. ER-2010-0355, the Staff netted KCPL's ER-2009-0089 off-system sales margin in excess of the amount directly included in rates in the ER-2009-0089 case in DSM Vintage 4, the level of KCPL's DSM deferrals from October 2008 through June 30, 2010.

In Staff Adjustments E-144.5 through E-144.8 Staff included annual amortizations (10-year deferral period) for the following DSM vintage deferrals:

DSM deferral	Case No.	Amount
Vintage 1	ER-2006-0314	$ 239,666
Vintage 2	ER-2007-0291	$ 448,624
Vintage 3	ER-2009-0089	$ 193,663
Vintage 4	ER-2010-0355	$1,136,996

In addition to the approximately $2 million of DSM amortizations, in Adjustments E-144.9 through E-144.12, to KCPL account 908, Amortization of Deferred DSM 100% MO, the Staff included the AFUDC return on the unamortized DSM balances. At June 30, 2010, the total unamortized balances of DSM Vintage 1 through 4 was $17.9 million. The AFUDC rate Staff applied to this unamortized DSM balance was 6.63% and is KCPL's June 2010 AFUDC rate as reflected in KCPL's response to Staff Data Request No. 623 in Case No. EO-2010-0259. The AFUDC return amount totals approximately $1.2 million for a total increase in revenue requirement from DSM deferrals of approximately $3.2 million.

Staff Experts/Witnesses: Hojong Kang and Charles R. Hyneman

17. Interest On Off-System Sales Margin

In Case No. EO-2005-0329, the Commission approved a Stipulation and Agreement that contemplated an Experimental Alternative Regulatory Plan. Under the terms of the Stipulation and Agreement, KCPL agreed that off-system energy and capacity sales revenues, and related costs, will continue to be treated "above the line" for ratemaking purposes. KCPL also agreed that it would not propose any adjustment that would remove any portion of its off-system sales from its revenue requirement determination in any rate case during the life of the Regulatory Plan.

In its first rate case after the Còmmission approved the Regulatory Plan, Case No. ER-2006-0314, the Commission determined that in setting KCPL's rates, the amount included in KCPL's revenue requirement for off-system sales should be the 25th percentile of non-firm off-system sales margin, that KCPL book all amounts above the 25th percentile as a regulatory liability, but no corresponding regulatory asset would be booked should sales fail to meet the 25th percentile. This Order established the 2006 rate case tracker. The Commission ordered a continuation of this method of accounting for off-system sales in KCPL's two subsequent general rate cases, Case Nos. ER-2007-0291 and ER-2009-0089.

In KCPL's last rate case, Case No. ER-2009-0089, instead of setting up a separate deferral and amortization tracker for the deferral and amortization of this cost of service item, Staff netted the annual Missouri jurisdictional excess off-system sales margins for ER-2006-0314 ($1,082,974) and ER-2007-0291 ($2,947,332) against KCPL's DSM regulatory asset deferral. Staff is proposing to continue this rate treatment in this case. In its direct revenue requirement filing in this case, the Staff has offset (reduced) KCPL's most recent DSM deferral (Vintage 4 deferral October 2008 through June 2010) by the excess off-system sales margins for Case No. ER-2009-0089. The Staff will update the ER-2009-0089 excess off-system sales margin tracker in its true-up filing in this rate case. The Case No. ER-2009-0089 tracker amount of $3,165,549 was calculated based on the off-system sales data provided by KCPL in response to Staff Data Request No. 464. As noted in the Stipulation and Agreement language below, the calculation of the monthly excess off-system sales margins will be based on the off-systems sales results from 2008. Due to the test-year update month ending in June 2010, only ten months of actual excess off-system sales margins are included in the Staff's direct filing. This Staff's calculation is as follows:

**

**

In the Non-Unanimous Stipulation and Agreement the Commission approved in Case No. ER-2009-0089, the parties agreed to the final dollar amount for the 2006 and 2007 rate case trackers. The parties also agreed to set the 2009 rate case tracker off-system sales baseline at $30,000,000.

> Off-System Sales ("OSS") Margins—Excess Over 25th Percentile for 2007 and 2008
>
> The Signatory Parties agree that the $1,082,974 (Missouri jurisdictional) excess of 2007 OSS margins over the amount included in rates in Case No. ER-2006-0314 and the $2,947,332 (Missouri jurisdictional) excess of 2008 OSS margins over the amount included in rates in Case No. ER-2007-0291, together with interest (Missouri jurisdictional), will be deferred in a regulatory liability account and amortized over ten years beginning with the date new rates become effective in this rate case, with one year's amortization included in cost of service in this case. The unamortized balance will not be included in rate base.
>
> Off-System Sales Tracker
>
> KCP&L's OSS margins at the 25th percentile shall be set at $30 million, and shall be used for tracking purposes. Such tracker will reflect a pro-ration, on a monthly basis, of this amount for any partial years consistent with the percent of actual OSS realized in each month of 2008. All OSS margins will be tracked against the $30 million baseline.

The Signatory Parties reserve the right to assert a position regarding the appropriate definition of OSS in the Company's next general rate case.

Staff Expert/Witness: Charles R. Hyneman

18. Low Income Programs

a. Economic Relief Pilot Program

Kansas City Power and Light Company's (KCP&L or Company) Economic Relief Pilot Program (ERPP) began September 1, 2009. It was approved by the Commission in ER-2009-0089 as a three (3) year pilot program. It is designed to study the ability to create an energy credit benefit to KCPL's qualifying low-income residential customers. The ERPP was designed to pay up to fifty dollars per month to low-income customer's in the form of a "fixed credit" that would appear on the participants current bill. The purpose of the "fixed credit" applied monthly would be an attempt to make the bill more affordable for the customer with the hope that the customer would remain current on their electric utility bill. The tariff also stated that an evaluation of ERPP may be in any Company rate or complaint case and that the evaluation shall be by an independent third party evaluator under contract with the company that would be acceptable to the Company, Commission Staff and the Public Counsel. In addition, the ERPP pilot Agreement allowed KCPL to defer fifty percent of the cost of the program until KCPL's next rate case.

Staff Expert/Witness: Carol Gay Fred

1. Recommendation

Based on Staff's review of KCPL's witness Jimmy Alberts testimony and the data responses received by OPC, Staff would recommend the continuation of the ERPP program for the life of the pilot program but strongly recommends that the company acquire an independent third party evaluator of the program. Until this task is accomplished, the Staff recommends not allowing the company to recover fifty percent of the cost of the program at this time. Staff bases this recommendation on three points:

1. In the initial design of ERPP, was to include one thousand customers from KCPL territory and one thousand from GMO territory. However, as of June 2010 KCPL had enrolled only five hundred and twenty-six (526) KCPL customers and four hundred and seventy-four (474) GMO customers. Staff recognizes that the program only began September 1, 2009, however, nine months later or three quarters of the year from the start-up of the pilot program KCPL and GMO collectively, have only one thousand out of the anticipated two thousand participants enrolled in the program. This does not appear to be sufficient to request cost recovery of deferred cost created by the customers enrolled.

2. The company has not acquired a third party evaluation study on the program to verify the information or calculation used in this case.

3. In addition, in prior Staff witness Anne E. Ross' Rebuttal Testimony in Case No. ER-2009-0089, she stated, "Staff believes that a third party evaluation studying the effect of the program on the Company's bad debt level should be a condition of the Company recovering any program funds in future rate or complaint case proceedings. Due to the necessity of collecting adequate pre-and post-program usage information on participants, it may not be possible to evaluate the program in the next rate or complaint proceeding, in which case the decision as to whether the Company would be allowed to recover these deferred expenses should be delayed until a program evaluation is performed."

The Commission should allow the continuation of the ERPP for the full three (3) year life of the program; however, Staff makes the following additional recommendations:

- Acquire an independent third party evaluator for the program to track all aspects of the program for weaknesses, strengths and improvement opportunities.
- Work more extensively with Salvation Army to ensure capacity enrollment of ERPP.
- Improve on education and providing awareness of ERPP with other Energy Assistance Agencies of the availability of ERPP, i.e., United Services Community Action Agency, 211, St. Vincent de Paul, etc.
- Provide SA field staff availability to AgencyLink, the web based interface that allows registered social service agencies access to restricted and highly limited view of customer information in order to assess account status and only the information required to make a determination to qualify customers for ERPP and other agency payments.
- Continue to conduct as many as feasible Connections campaign Energy Resource Fairs on an annual basis.

Staff Expert/Witness: Carol Gay Fred

2. Qualifying Criteria

The program was designed to help residential low-income customers whose annual household income is no more than 185% Federal Poverty Level (FPL) as established by the poverty guidelines updated periodically in the Federal Register by the U.S. Department of Health and Human Services under the authority of 42 U.S.C. 9902 (2).

- Participants account must be current or those who have an outstanding arrearage must enter into a special payment arrangement as mutually agreed to by both Participant and Company.

- Participants must have not current or historical mishandling of their account, i.e., tampering, non-payment or diversion.

- Participants must complete an interview or questionnaire, of information related to their energy use and program participation.

- Participants will not be subject to late payment penalties while participating in the program.

- Participants must apply for Low-Income Energy Assistance Program (LIHEAP) grant and any other energy assistance programs identified by the Company.

Staff Expert/Witness: Carol Gay Fred

3. Credits

Participants shall receive the available ERPP credit as long as the participant continues to meet the ERPP eligibility requirement and reapplies to the program annually.

The credit amount is not to exceed $50 per month. The credit amount will be determined by the Company the time of enrollment.

Staff Expert/Witness: Carol Gay Fred

4. Arrearages

Participant will enter special pay agreements as mutually agreed to by both the Participant and the Company.

Staff Expert/Witness: Carol Gay Fred

5. Billing Periods

The credit will appear on each monthly bill, enabling the Participant can see the savings to his account and any arrearage elimination once accomplished.

Staff Expert/Witness: Carol Gay Fred

6. Education

Education for the ERPP program as well as other options available to the consumers is part of an education and outreach campaign called "Connections". It appears the "Connections" program was designed to be an education outreach program to provide customers a local presence in the communities where they live as a one-stop-shop, direct face-to-face interaction, allowing an opportunity to discuss account specific questions and solutions. It was also seen as a way to partner with other community organizations, i.e, Salvation Army, United Way 2-1-1, and KCMO Weatherization initiative. Through this program, KCP&L also hosts Connections Energy Resource Fairs, Back to School Fairs, etc. There is also an exclusive 800-number during the Connections campaign to support customers unable to attend a local program.

Staff Expert/Witness: Carol Gay Fred

7. Program Administration

KCPL contracted with the Salvation Army as their partnering agency who has an established presence in the community, to act as the gatekeeper. The Salvation Army processes the ERPP applications, however, KCPL reviews the applications submitted by the Salvation Army to determine if the applicant meets all criteria to be a program participant. It appears there are two primary barriers to the initial participation; 1) marketing to customers and 2) communications methodology with SA, specifically to SA outlying field offices.

Staff Expert/Witness: Carol Gay Fred

b. Low-income Weatherizaton

There are specific programs designed to help low-income customers with energy conservation. Low-income consumers often live in housing that is energy inefficient with substandard insulation and other deficiencies. These customers would benefit from building shell energy conservation measures such as weatherization or more energy-efficient appliances. The Low Income Weatherization Assistance Program (Weatherization Program) is administered by the Missouri Department of Natural Resources (MDNR) using federal, state, and utility funding. The Weatherization Program is administered locally by Community Action Agencies or other local agencies (Weatherization Agencies). In the KCPL service area the Weatherization Program is administered by the Kansas City Housing and Community Development Department (KCHCDD), the Missouri Valley Community Action Agency (MVCAA), and the Central Missouri Community Action (CMCA).

The federal government, through the American Recovery and Reinvestment Act (ARRA) is providing special funding of $128 million for the Missouri Weatherization Program for the period of April 2009 – March 2012 (ARRA Period). The ARRA provides an average of $6,500 of weatherization for households with income at 200% or less of the Federal Policy Guidelines. In the previous three year period (2006 2008), prior to the ARRA Period, federal funding for the Missouri Weatherization Program was approximately $18 million and the average amount of weatherization per household was $3,000. The amount of weatherization has increased has increased from about $3,000 to $6,500 per household. The Weatherization Agencies are making a concerted effort to utilize the ARRA funding before the March 2012 deadline.

The Commission Order authorized the KCPL Regulatory Plan (Regulatory Plan) in the Stipulation and Agreement in Case No. EO 2005 0329. In this Plan, KCPL agreed to contribute $573,888 in 2010 to weatherization agencies for the weatherization of qualifying customers ($550,000 for KCHCDD, and $23,888 for MVCAA and CMCA). The last year of funding in the Regulatory Plan is 2010. According to an August 31, 2010, Regulatory Plan, Customer Program Expenditures spreadsheet furnished to the Customer Program Advisory Group (CPAG), attached as Appendix 4, Schedule 1, KCHCDD, MVCAA, and CMCA have used ** ____ ** of the Regulatory Plan budgeted funds for weatherization. This under-utilization of funds is primarily because of the agencies' focus on using the ARRA funding and restrictions on ARRA funds being combined with utility funds. At the end of the ARRA period the Weatherization Agencies anticipate using any surplus utility funds to maintain their level of weatherization activity.

The Missouri State Environmental Improvement and Energy Resources Authority (EIERA) was established to manage and disburse federal and other weatherization funds for MDNR to the Weatherization Agencies according to MDNR guidelines. Currently four other Missouri jurisdictional utilities utilize the EIERA to manage their weatherization funds. The funds at the EIERA are invested to earn a return until they are distributed so the value of the funds is enhanced.

Staff recommends that the unutilized low-income weatherization funds from the Regulatory Plan be placed in an account with EIERA. In addition, in order have some additional KCPL funds for weatherization when the ARRA funds are no longer available, Staff recommends that KCPL continue to provide annual funding of $573,888 for low income weatherization, as currently allocated between KCHCDD, MVCAA, and CMCA. Staff also recommends that KCPL change its distribution method for the weatherization funds from monthly direct reimbursement to the Weatherization Agencies to an annual deposit of the funds to an EIERA account.

Staff Expert/Witness: Henry E. Warren

19. Insurance Expense

Insurance expense is the cost of protection obtained from third parties by utilities against the risk of financial loss associated with unanticipated events or occurrences. Utilities, like non-regulated entities, routinely incur insurance expense in order to minimize their liability associated with unanticipated losses for property assets and personal injury from accidents. Certain forms of insurance reduce ratepayer's exposure to risk. Premiums for insurance are normally pre-paid by utilities; i.e., payment is made by the utility to the insurance vendor in advance of the policy going into effect. These insurance payments are normally treated as prepayments, with the amount of the premium being booked as an asset and amortized to expense ratably over the life of the period the insurance is in force. The unamortized balance of the prepaid insurance account (either the period-ending balance or a 13-month average balance) is included in rate base, with an annualized level of insurance expense included in rates.

During the audit, Staff reviewed the Company's insurance policies for the following forms of insurance:

- Crime
- Fiduciary Liability
- Directors and Officers
- General Liability/Umbrella
- Excess Directors & Officers
- Excess Liability
- Excess fiduciary
- Workman's Compensation

- Excess Workman's Compensation
- Property
- Labor Management Trust Fiduciary
- Auto Liability
- Bonds

Staff reviewed the policies and verified the current insurance premiums for each insurance type. An annualized amount was determined and allocated to the GMO entities and reflected in those entities cost of service (File No. ER-2010-0356). Adjustments E-171.1 and E-170.1 reflects the annualized levels for KCPL's portion of the insurance costs.

Staff Expert/Witness: Karen Lyons

20. Injuries and Damages

Injuries and damages relate to insurance claims that are not covered by insurance policies. Injuries and damages usually consist of claims associated with general liability, workman's compensation, and auto liability. The Commission ruled in Case No. ER-2006-0314, that the accrual method of accounting should be used when calculating the costs associated with injuries and damages. Staff believes the accrual method is not an accurate method to use to determine the appropriate costs associated with injuries and damages. The accrual method is an estimate of what the Company may pay for future claims, but these claims are not actually known. As such, the estimates do not meet the criteria of known and measurable costs used in the ratemaking process. Staff analyzed five years of data and determined a three-year average, including the period of 2007 through 2009, using the actual cash payments to normalize the Company's costs associated with injuries and damages. The actual cash payments are those paid to individuals who had an injury and claim. As a result of these injuries, KCPL made cash settlements. A three year average was used based on the data received from the Company. Adjustment E-171.3 reflects a normalized level of costs for injuries and damages.

Staff Expert/Witness: Karen Lyons

21. Rate Case Expense

Rate case expenses are costs incurred by a utility in preparation and performance of its filing for a rate case. In the instant case, KCPL has incurred expenses in conjunction with legal counsel, regulatory consulting and outside consultants.

Staff usually treats rate case expense as a normalized expense necessary to provide utility service. This treatment involves determining the cost to process a rate case on a normalized level and reflecting that cost in the cost of service over the period of time between rate cases. However, because of KCPL's Regulatory Plan developed as a result of its Comprehensive Energy Plan (CEP), and the resulting recurring rate case filings, Staff has not taken issue with KCPL's proposed ratemaking treatment of rate case expense. Starting with Case No. ER-2006-0314, Staff has agreed to use a "defer and amortize" or "vintage accounting" approach for KCPL's rate case expense, in contrast with Staff's traditional normalized cost approach.

Under this special defer and amortize approach to rate case expense, KCPL defers the rate case expenses for each rate case as a separate vintage deferral and amortizes each of those vintage deferrals over a two year period. The rate case KCPL incurred after the end of the true-up period in one case is transferred to the next rate case to be recovered in the rates established in that case. Staff is proposing to continue with the defer and amortize method for rate case expense in this last of KCPL's Regulatory Plan rate cases. The Staff expects to return to the expense normalization approach in future KCPL rate cases.

In the "Non-Unanimous Stipulation and Agreement" approved by the Commission in Case No. ER-2009-0089, the Signatory Parties agreed that any over-recovery of the amortization of the Company's rate case expense in Case No. ER-2006-0314 will be used to offset the amount of rate case expenses incurred and deferred in Case No. ER-2009-0089. This application of over recovered expenses, while not an approach that would be used under normal ratemaking circumstances, is consistent with the defer and amortize or rate case tracker accounting used in KCPL's Regulatory Plan rate cases. Staff has continued with this rate case tracker approach and applied the over recovery of rate case expense from Case No. ER-2007-0291 against KCPL's rate case expense deferral in this rate case.

Staff reviewed the Company response to the request for invoices for rate case expenses incurred for the current case. Staff accumulated the amount of invoices paid by KCPL to vendors related to the Iatan Project prudence review and construction audit. In examination of the invoices, significant amounts of invoices for legal expenses and consulting expenses did not include hours billed, the nature of the services provided, and any expenses billed. These invoices only included the front sheet of the invoice listing the total billed and an expense distribution. Staff cannot determine the reasonableness and prudence of the expenses paid on the invoices. Staff currently has a pending data request to receive the complete copies of the invoices with receipts for expenses. Staff has removed these invoices in the rate case expense amortization calculation and proposes that the prudent and reasonable expenses related to the Iatan Project prudence review and construction audit be capitalized to the applicable Iatan 1 and 2 plant balances. Staff will include the prudent and reasonable costs in its true-up of Iatan Project costs through October 31, 2010. In addition, Staff will include all prudent and reasonable costs incurred and paid through the true-up of the current rate case, File No. ER-2010-0355.

Staff Adjustment E-179.5 reflects an amount for rate case expense to be recovered over a two-year period for Case No. ER-2009-0089, net of the adjustment for the over-recovery from the amortization of rate case expense from Case No. ER-2006-0314. The total amount of this adjustment is $276,031.

Staff Adjustment E-179.6 reflects an amount for rate case expense to be recovered over a two-year period for the prudent and reasonable costs incurred by KCPL to process the current rate case, File No. ER-2010-0355 before the Commission and, as noted above, applied the over recovery of rate case expense in Case No. ER-2007-0291 against this deferral. The total amount of this adjustment is $539,605.

Staff Expert/Witness: Keith A. Majors

22. Public Service Assessment Fee/FERC Assessment Fee

The Public Service Commission assessments (PSC Assessment) over an amount billed to all regulated utilities operating under the jurisdiction of the Commission as an allocation of the Commission's operating costs for regulating those utilities. The PSC Assessment is charged to regulated utilities operating in Missouri. KCPL's PSC Assessment was annualized using the latest assessment available for the current fiscal year (FY-2011) on information obtained from the Commission's records. The updated KCPL PSC Assessment was compared to the PSC Assessment amount included in KCPL's test year to form the basis for the adjustment in Staff's cost of service run. Staff also chose to update the Company FERC Assessment paid to represent 12 months ending June 30, 2010. FERC is the Federal Energy Regulatory Commission, and they have a separate assessment to be paid by all regulated utilities, handled in similar fashion to the aforementioned PSC Assessment. Adjustment E-178.1 and FERC-E-175.1

Staff Expert/Witness: Bret G. Prenger

23. Transmission Expenses Tracker

The full transfer of control of the Company's transmission system to participate in all functions of the Southwest Power Pool (SPP) regional transmission organization was finalized on October 1, 2006. On this date, the Federal Energy Regulatory Commission's (FERC) order accepting the "Agreement for the Provision of Transmission Service to Missouri Bundled Retail Load" was effective, allowing the Company to exercise the authority granted to it by the Missouri Public Service Commission (Commission) in Case No. EO-2006-0142.

The Company's historic transmission expenses are provided on Schedule TMR2010-5 of Company witness Tim M. Rush. Schedule TMR2010-5 also includes the Company's estimated amount of its 12-month ending December 31, 2010 transmission expenses that it included in its filing that initiated this case. That estimated transmission expenses amount includes estimated transmission expenses for July through December 2010 and three adjustments described in the testimony of Company witness John P. Weisensee from line 16 on page 50 to line 19 on page 51 and from line 2 on page 62 to line 19 on page 63. Staff has summarized those Company adjustments as follows:

- Adjustment CS-45: Annualized expected transmission costs in FERC account 565 based on: 1) expected increased transmission expenses primarily due to increased off-system sales made possible by Iatan Unit 2, and 2) projected costs related to SPP base plan upgrades to meet the mandatory North American Electric Reliability Corporation and SPP reliability standards, which call for one-third of each base plan project to be shared by all SPP members and the remaining two-thirds of the project cost to be allocated among the members that directly benefit from the project.

- Adjustment CS-85: Annualized Missouri regulatory assessments and FERC Schedule 12 fees based on assessment levels projected to be in effect in December 2010. Under this new procedure, FERC will begin to base its assessment on all load under SPP rates including retail load served by member companies and will bill SPP for the assessment. SPP will then pass a share of this cost through to all point-to-point and network service customers it serves.

- Adjustment CS-86: Annualized SPP Schedule 1-A fees based on the annual funding levels expected to be in effect on December 31, 2010 and on the Company's share of load at the time of the twelve monthly system peaks. The Schedule 1-A fees are for SPP activities related to regional transmission planning, processing and studying transmission and generation interconnection service requests, managing congestion across the transmission system, administering the SPP transmission tariff, serving as a reliability coordinator, managing the power reserve sharing system and operating the regional energy imbalance market.

The annual amounts of the Company's historic and estimated test year transmission expenses the Company provides in its filing that opened this case are:

Transmission Expenses [38]

($000)

2005	2006	2007	2008	2009	Est. 2010
$3,100	$7,864	$15,001	$17,343	$18,518	$25,054

Staff has completed its review of the Company's transmission expenses and recommends the Commission authorize the Company to use a transmission expense and revenue tracker. Staff recommends the Company be authorized to use a transmission expense tracker due to the historical growth in and current high level of the Company's transmission expenses, the uncertainty in the levels of its future transmission expenses, and because the Company has less control over the level of transmission expenses the SPP assigns to it than the Company has over most of its other expenses. Staff does assert that the Company has control over the transmission expenses it incurs related to transmission it, or its affiliates, directly constructs.

The uncertainty of the Company's future transmission expenses is increased by the recently FERC approved "Highway Byway" cost allocation tariff filing, which will increase the percentage of costs of newly planned transmission throughout the SPP region that will be

[38] Including FERC Account Numbers 561400, 561800, 565000, 565020, 565021, 565027, 565030, 575000 and 928003. Note that Staff has proposed a different transmission tracker amount.

allocated to the Company. For example, the Company will be allocated approximately 7.5% of all transmission planned in the SPP footprint above 300 kilo-Volt (kV).

SPP has also approved a higher level of transmissions expenses than normal in the recent past, and Staff expects this trend to continue. For example, in April 2010, SPP approved $1.4 billion of transmission expenses in its "Priority Projects." Staff does expect additional transmission valued at over $1 billion to be planned by SPP in its new Integrated Transmission Planning Year 20 ("ITP20"), consisting of transmission at, or possibly about, 345 kV, which is most likely to be voted on for approval by the SPP Board in January 2011. Approval of ITP20 would lead to an increase in expected future transmission expenses for the Company, although the exact amount of those expenses are unknown at this time. Transmission project cost estimates may also differ significantly from the final cost of these projects built, increasing the uncertainty of the future level of the Company's transmission expenses.

While KCPL may have less control over expenses assigned to it by SPP than other expenses it incurs, Staff expects and encourages KCPL to work within the SPP stakeholder process to advocate for transmission improvements that benefit KCPL stockholders and KCPL ratepayers, and to advocate for a proper allocation of transmission expenses. Staff notes that KCPL does currently have a voice on the Members Committee of SPP through its representative, Michael L. Deggendorf, KCPL's Senior Vice President-Delivery.

In those situations where the Company has direct control over the transmission expenses it incurs, Staff recommends the Commission require KCPL to file with the Commission the information shown in Appendix 5, Schedule DIB - 1, and provide that same information to SPP, when KCPL proposes a transmission project at a voltage greater than 100 kV, and that KCPL be required to update that filing each time the project cost estimate changes by more than 10% from the last cost estimate KCPL filed with the Commission within seven days of when the project cost estimate is changed. In addition, Staff recommends the Commission order the Company to file quarterly updates of the costs incurred and progress made towards completion of all transmission projects.

If off-system sales change in this instant case, then there should be a corresponding adjustment to KCPL's transmission expenses included in any transmission expense and revenue tracker related to off-system sales. In prior KCPL rate cases, during the case, the levels of off-system sales proposed have changed dramatically. In the current economic conditions Staff believes this is very likely to happen again in this rate proceeding. Staff will continue to review transmission expenses and proposed off-system sale levels, and propose any appropriate adjustment to transmission expenses based on changes in off-system sales levels.

Staff recommends a transmission expense and revenue tracker include two FERC Accounts included as "revenue credits" in the Company's FERC Transmission formula rate filing in the transmission tracker: FERC account 454.0001 "Rent From Electric Property" (to the extent derived from transmission); and FERC account 456.1 "Revenues from Transmission of Electricity for Others", listed in the FERC Formula Filing as "New 456.1 Account Activity".. Staff recommends that the revenues from these accounts be used to negatively adjust the amount in FERC Account 565.000.

Worksheet "A-1 Revenue Credits" from the Company's FERC Formula Rate Spreadsheet[39] is attached as Appendix 5, Schedule DIB-2. The relevant account names and totals have been highlighted.

[39] The inclusion of information from the Company's formula rate spreadsheet does not constitute Staff taking a position on the Company's formula rate.

Appendix 5, Schedule DIB-3 lists the differences between the transmission tracker proposed by KCPL in its direct testimony and the proposed amount of Staff's transmission expense and revenue tracker. The proposed amount of Staff's transmission expense and revenue tracker is $17,468,285. The amount of FERC account 456.1 "Revenues from Transmission of Electricity for Others", listed in the FERC Formula Filing as "New 456.1 Account Activity", is listed as Staff Adjustment 1. The amount of FERC Account 454.0001 "Rent From Electric Property" (to the extent derived from transmission) is listed as Staff Adjustment 2.

For fiscal year 2009, FERC account 454.0001 "Rent From Electric Property" (to the extent derived from transmission) is $155,908. For Fiscal Year 2009, the "Net 456.1 Account Activity" is listed at $7,430,144. These totals are for the KCPL total company.

Staff recommends that the transmission expense and credit amounts included in KCPL's revenue requirement for setting rates for this rate proceeding be based on the true-up amount for the 12-months ending December 31, 2010 for (1) the expenses in the accounts listed on Company witness Tim M. Rush's Schedule TMR2010-5; and (2) the revenues in FERC Account 454.0001 (to the extent derived from transmission) and FERC account 456.1 that would be listed in the FERC Formula Filing as "New 456.1 Account Activity".

Like KCPL, Staff proposes KCPL should track its actual transmission expenses on an annual basis. Staff further recommends the revenues from the two Staff Adjustments listed above also be tracked on an annual basis. Also, Staff recommends these expenses and revenues include only Missouri jurisdictional revenues and expenses. Like KCPL, Staff agrees proposes that KCPL record any annual excess amount above the transmission expenses amount included in the revenue requirement used in setting rates in this rate proceeding as a regulatory asset (account 182) and any annual shortfall below the transmission expenses amount in rates in this rate proceeding as a regulatory liability (account 254). Staff recommends the regulatory asset or regulatory liability be amortized over five years in the Company's next rate proceeding, with the unamortized balance included in rate base.

Staff Expert/Witness: Daniel I. Beck

24. Smart Grid Demonstration Project

The KCPL SmartGrid demonstration project (Project) is included in the Department of Energy (DOE) and Electric Power Research Institute (EPRI) demonstration programs[40] and is physically located in an economically challenged area of Kansas City, Missouri. The Project's expectations are that the Project will deliver benefits to the immediate Project's end-users and provide valuable experience and lessons learned for future applications. It is being promoted as an end-to-end SmartGrid that will include advanced metering infrastructure (AMI), renewable generation, energy storage resources, leading edge substation and distribution automation and control, energy management interfaces, and innovative customer programs to include time of use (TOU) rate structures. Project funding consists of approximately $48.1 million to be spent from 2010 through 2014, of which $13.8 million (29%) is KCPL funded, $10.2 million (21%) is partners/vendors funded and $24.1 million (50%) is federally funded. [41] Teaming with KCPL as vendor partners are Siemens Energy Inc., Open Access Technology, Inc. (OATI), Landis&Gyr AG, Emeter/Siemens, Exergonix, Tendrill, EPRI and Intergraph.[42]

The Project will focus on the area served by KCPL's Midtown Substation across two square miles, impacting about 14,000 commercial and residential customers across ten circuits with total electrical demand of 69.5 MVA. The SmartGrid project includes over 25 stakeholder

[40] Smart Grid Demonstration Project presentation to EEI Strategic Issues Roundtable, October 20, 2010.
[41] KCP&L Green Impact Zone SmartGrid Demonstration submitted to the DOE, August 26, 2009.
[42] KCP&L Green Impact Zone SmartGrid Demonstration Project Management Plan ,submitted to the DOE, October 29, 2010.

groups including, Mid-America Regional Council (MARC), Metropolitan Energy Center (MEC), Missouri Gas Energy (MGE), University of Missouri at Kansas City (UMKC), Kansas and Missouri Regulatory Agencies, City of Kansas City, Missouri and several local neighborhood groups.[43]

Within the SmartGrid demonstration project boundaries lies the Green Impact Zone project, a 150 square block area of inner-city neighborhoods in Kansas City, with the primary goal of transforming distressed urban neighborhoods into a sustainable community.[44]

The Project will be based upon the guidance found in the proposed National Institute of Standards (NIST) interim Smart Grid Interoperability Standards Roadmap, the EPRI IntelliGrid Achitecture and the GridWise Architectural Council recommendations.[45]

The primary, overall focus for the Project will be to implement next-generation, end-to-end SmartGrid components that will include Distributed Energy Resources (DER), enhanced customer facing technologies, and a distributed-hierarchical grid control system that includes the following key elements:[46]

- Upgrade the Midtown Substation to create a next generation "SmartSubstation;"
- Upgrade multiple distribution circuits with a variety of feeder based instrumentation and control devices for monitoring and control;
- Grid management infrastructure to support the upgraded grid, back office and substation requirements;
- SmartMeters with AMI installed at all customer sites to provide consumers with enhanced information on energy use and the opportunity to utilize residential TOU rate structures with an expected participation level of 426 residential customers; and
- Integration of distributed generation that includes a large battery storage system and distributed roof-top solar photovoltaic systems.

[43] Smart Grid Demonstration Project presentation to EEI Strategic Issues Roundtable, October 20, 2010.
[44] KCP&L Green Impact Zone SmartGrid Demonstration Abstract
[45] KCP&L Green Impact Zone SmartGrid Demonstration submitted to the DOE, August 26, 2009.
[46] KCP&L Green Impact Zone SmartGrid Demonstration submitted to the DOE, August 26, 2009.

Consumers will be offered a wide range of products and services with the following expected level of participation:[47]

- Customer's with internet will have access to real time energy usage;
- 1,600 residential and commercial are expected to have in home/business energy displays and demand response thermostats;
- 400 residential users are expected to utilize a Energy Management System (EMS);
- 2 commercial users are expected to utilize a EMS;
- 10 LED area lights will be installed at UMKC;
- 64 residential users are expected to utilize hyper efficient appliances;
- 5 commercial and 10 residential users are expected to utilize roof-top solar; and
- 10 distributed vehicle charging stations to accommodate Plug in Hybrid Electrical Vehicles (PHEV).

KCPL is proposing to implement this demonstration project in the five following project phases.[48&49]

1. Project Definition and Compliance to refine project scope, definition and ongoing project management; years 2010-2014.
2. Project Design and Performance Baseline compile and/or collect baseline grid and end-use data for the demonstration area; year 2010.
3. Smart Grid Infrastructure Deployment to implement the SmartSubstation, Data Management System (DMS) and Advanced Distribution Automation (ADA) components; years 2011 & 2012.
4. Distributed Energy Resource Deployment to implement the SmartEnd-Use, SmartGeneration (Solar, Battery, PHEV), DER/DR Management components, introduce TOU pilots; Years 2011-2012.
5. Data Collection, Reporting & Project Conclusion operate the integrated SmartGrid demonstration systems, collect 24 months of grid, evaluate system and analyze performance; Years 2013-2014.

In summary, this is an important project for Missouri, since it is the only large scale SmartGrid demonstration project currently planned for Missouri. In addition, because this is an

[47] Smart Grid Demonstration Project presentation to EEI Strategic Issues Roundtable, October 20, 2010.
[48] KCP&L Green Impact Zone SmartGrid Demonstration submitted to the DOE, August 26, 2009
[49] Smart Grid Demonstration Project presentation to EEI Strategic Issues Roundtable, October 20, 2010

EPRI and DOE demonstration project, Missouri will receive much exposure. Staff activities to date have consisted of attending presentations, meetings, physical project site reviews, reviewing documentation and proposed tariffs. All Missouri utilities will also benefit from the project data, lessons learned and evaluation of project performance after project completion.

Staff Expert/Witness: Randy S. Gross

VIII. Depreciation

A. Recommendation

Staff recommends that the Commission order KCPL to:

1. Use the depreciation rates described in Schedule AR-1,
2. Charge current cost of removal and salvage expenses (net salvage) to the accumulated additional amortizations, and
3. Record all plant cost of removal and salvage by FERC account, date, and location unit code in a permanent continuous record, including cost of removal and salvage for production units previously removed from service. Include in this record a differentiation between interim and final retirements and net salvage.

Staff's recommendation results in annual depreciation expense of approximately $85,000,000. Staff recommends reducing the excess accumulated depreciation reserves by approximately $14,000,000 annually. The accumulated depreciation reserve is estimated to have accrued $438,000,000 more than the appropriate reserve balance, as shown in Appendix 6, Schedule AR-2.

Staff's recommended depreciation rates shown in Appendix 6, Schedule AR-1 are based on the following:

1. Treatment of all non-nuclear Steam and Other production, Transmission, and Distribution accounts as living accounts[50], with mass property[51] analysis and whole life[52] depreciation rates.

2. Life span[53] analysis with remaining life[54] depreciation rates for the Nuclear and Hawthorn [5] Rebuild accounts.

3. General plant accounts 391, 393, 394, 395, 397, and 398[55] have been left at the current ordered rates, pending identification by KCPL of retirements associated with recent office consolidations and relocations.

4. Net Salvage[56] has been set to zero for all plant accounts. Accounting for current net salvage has been transferred to a separate regulatory account. Collection of future cost of removal has been temporarily suspended to compensate for an estimated 52% over accrual in total plant depreciation reserves. The estimation of over accrual in reserves is shown in Appendix 6, Schedule AR-2

B. Regulatory Depreciation

Staff's recommended rates are based on KCPL's past plant retirement history, with influence from retirement histories of similar utility companies and future plant operation expectations. Staff's objective in recommending rates is to match (1) the rate of money collection from ratepayers with (2) a straight line estimate of the life time cost of the plant utilized to provide the service.[57]

---

[50] **Living Accounts**: Groups of property which may experience interim retirements, but for which retired property is expected to be replaced by comparable property, with or without improvements in technology.
[51] **Mass Property**: Continuous living group of property where routine replacements occur.
[52] **Whole Life**: Straight line depreciation over composite life without any correction for existing accumulated reserve imbalances.
[53] **Life Span**: Depreciation analysis method using a fixed life for a specific unit of property.
[54] **Remaining life**: Straight line depreciation over composite remaining life with corrections for existing accumulated reserves imbalances.
[55] **General plant accounts 391, 393, 394, 395, 397, and 398**: General Office, computers, communication equipment , small tools, and lab equipment.
[56] **Net Salvage**: Salvage value minus the cost of removal.
[57] 1. The book keeping associated with regulatory depreciation expense is to:

a) Allocate and record the money collected from ratepayers for depreciation purposes to specific plant accounts,

b) Account for the consumption of the invested capital as plant equipment is retired from service,

c) Account for the cost of removal, salvage value received, and any third party payments such as insurance proceeds,

d) Provide a continuous and consistent method of recording of the above listed costs as a historical record for use in future depreciation analysis.

Basic Formulas for Depreciation of Living Accounts:

Depreciation expense = (Depreciation Rate) * (Total Original Cost of Plant in Service)

$$\text{Rate \%} = \frac{100 - (\text{net salvage \%})}{\text{ASL}} = \frac{100}{\text{ASL}} - \frac{\text{Net Salvage \%}}{\text{ASL}}$$

Average Service Life (ASL) is the average number of years the property in the account is expected to remain in service. ASL is equal to the area under the survivor curve.[58] When working with living accounts, the survivor curve is not truncated, as it is expected that additional property will be placed into the account to replace property as it is retired.

NET SALVAGE = GROSS SALVAGE - COST OF REMOVAL

$$\text{Net Salvage \%} = \frac{\text{Net Salvage \$}}{\text{Retirement \$}} * 100 \quad \text{Averaged}$$

When it is expected that the terminal net salvage rate will be equal to the interim net salvage rate, it is sufficient to use the single (Net Salvage % / ASL) term, as shown above.

---

2. The cost of plant in service is recorded as the original installed cost. The installed cost of plant includes costs other than just labor and materials, it also includes costs such as project planning, engineering, sales taxes, transportation, insurance and cost of funds provided during construction, supervision, and all associated overhead costs. This original cost of plant in service stays with the equipment until it is retired from utility service. A transfer of ownership by the Company to another company or set of investors does not alter this cost, regardless of the amount of money paid by the new owners to attain ownership.

3. Only by order of the Commission may the cost of plant in service, the accumulated depreciation reserve, the depreciation rates, or the recording of depreciation expense be modified. Depreciation expense continues to be recorded and accumulated per Commission order until altered by a subsequent Commission order, even if the plant account in question is considered to be fully depreciated.

4. Depreciation expense is calculated as a percent of total plant in service for each plant account.

5. The cost of installed plant is recorded as plant in service on the date the equipment in question is used to provide the utility service.

6. The recorded cost of plant in service is independent of the source of funds used to pay for the installed plant. The source of funds may be from investors, loans, insurance proceeds, ratepayer or third party contributors, or simply still be accounts payable. The regulatory accounting system outside of the plant in service and depreciation section is used to address these issues.

[58] The survivor curve is forecasted using Iowa curves. The Iowa curves are widely accepted models of the life characteristics of utility property. The system of Iowa curves is a family of 176 survivor curves representing different types of utility and industrial property. The curves were developed at the Iowa Engineering Experiment Station at what is presently known as Iowa State University. The Iowa curves were first published in 1935 and reconfirmed in 1980. The original survivor curve is mathematically and visually matched with various Iowa curves to determine which has the most appropriate fit, either for a significant portion of the curve or just a specified portion of the curve.

C. Depreciation Definitions

Cost of Removal: The cost associated with disposing of a retired unit of property, net of its salvage value.

Life Span: Depreciation analysis method using a fixed life for a specific unit of property.

Living Accounts: Groups of property which may experience interim retirements, but for which retired property is expected to be replaced by comparable property, with or without improvements in technology.

Mass Property: Continuous living group of property where routine replacements occur.

Net Salvage: Salvage value minus the cost of removal.

Remaining life: Straight line depreciation over composite remaining life with corrections for existing accumulated reserves imbalances.

Whole Life: Straight line depreciation over composite life without any correction for existing accumulated reserve imbalances.

D. Staff's Analysis

Staff performed several depreciation analyses in developing its depreciation recommendation for KCPL.[59] The methods and components of each are discussed below, and a summary of the results of each is presented in Appendix 6, Schedule AR-3, as well as the Commission's currently-ordered rates for KCPL (Case No. EO-2005-0329).

<u>**Staff Case A**</u>

Staff recommends the Commission order KCPL to adopt the depreciation rates derived in its Case A study. Staff addresses three issues related to accumulated depreciation reserves and depreciation expense with this recommendation:

1. KCPL accumulated depreciation reserve has accrued $438,000,000 more than the appropriate reserve balance, as shown in Appendix 6, Schedule AR-2. This excess reserve is approximately 52% over accrued.60
2. KCPL will have collected approximately $169,000,000 from its ratepayers through December 31, 2010 for use against plant depreciation reserves.[61]

[59] For all Staff cases the treatment of separate accounts assigned to the Hawthorn unit 5 rebuild use a life span remaining life method to adjust for the large depreciation reserve associated with the reimbursements received from insurance payments, as is currently ordered.

[60] This is in addition to the reserves held for Hawthorn unit 5 due to insurance reimbursements and in addition to reserves held for future cost of removal.

3. The addition of Iatan 2 to plant in service results in a large step increase in depreciation expense.

This proposal (1) suspends collection for estimated cost of removal until the excess reserves are reduced, and (2) provides for current cost of removal and salvage to be netted against the money collected from rate payers during the regulatory plan as additional amortization.[62] Staff's recommended depreciation expense of $85,177,000,[63] is approximately $14,000,000 annually less than KCPL's request, and does not include current cost of removal assigned to the additional amortizations.

For Case A, Staff used the following methods and assumptions:

1. Treatment of all non-nuclear Steam and Other production, Transmission, and Distribution accounts as living accounts, with mass property analysis and whole life depreciation rates,

2. Use of the life span method with remaining life rates for nuclear and Hawthorn 5 rebuild steam production accounts,

3. General plant accounts 391, 393, 394, 395, 397, and 398[64] have been left at the current ordered rates, pending identification by KCPL of retirements associated with recent office consolidations and relocations and clarification on the accuracy of historical retirement data.

4. Net Salvage[65] has been set to Zero for all plant accounts considering the amounts paid by customers for the additional amortizations,

5. Depreciation rates were estimated from analysis of Company retirement history, and review of data request responses regarding final retirements and descriptions of assets in specific accounts

---

[61] In addition to the $132,221,058 based on December 31, 2010 of additional amortizations accrued pursuant to the Experimental Regulatory Plan, KCPL has accrued additional amortizations in the amount of $36,674,731 pursuant to Case No. EO-94-199.

[62] Staff recommends consolidating the additional amortizations accrued pursuant to Case No. EO-94-199, with the additional amortizations accrued pursuant to the Experimental Regulatory Plan. The recommended accounting treatment is discussed in the Direct Testimony of Staff Witness Cary Featherstone.

[63] This $85,177,000 is an estimate based on depreciable plant studied for end of 2008 plant balances and updated for Iatan additions in 2010.

[64] **General plant accounts 391, 393, 394, 395, 397, and 398**: General Office computers, communication equipment ,small tools, and lab equipment

[65] **Net Salvage**: Salvage value minus the cost of removal.

Staff Case B

While Staff recommends the Commission authorize KCPL's depreciation rates identified in Staff Case A discussed above, Staff has developed Staff "Case B" depreciation rates which are derived consistent with the methods used for AmerenUE's requested depreciation rates adopted by the Commission in File No. ER-2010-0036. In Case B, Staff used a life span analysis with remaining life rates for all Steam production accounts, including Nuclear. Consistent with the approach adopted by the Commission in File No. ER-2010-0036, all other accounts, including Combustion turbines, were treated as living accounts, with mass property analysis and remaining life rates. Use of life span enabled Staff to distinguish interim and final (terminal) retirements, and to separate net salvage into interim and final net salvage. Staff set the rate of terminal net salvage to 0 % consistent with the approach adopted by the Commission in File No. ER-2010-0036.

For purposes of calculating the depreciation rates associated with KCPL's Steam production accounts, Staff performed modest adjustments to the retirement dates KCPL presented in its request.[66] The removal of terminal net salvage from the life span analysis for the Steam Production accounts and the adjusted retirement dates results in annual depreciation expense of approximately $8,000,000 less than the KCPL's request, including the Staff use of the mass property method for combustion turbines. The overall depreciation expense derived from Case B is $91,750,000, as provided in Appendix 6, Schedule AR-3. Staff does not recommend Case B, but does recommend that if the Commission adopts KCPL's requested life span method of analysis for certain accounts that the Commission order the following:

[66] Retirements dates proposed by KCPL are found in KCPL Spanos Direct testimony Schedule JJS2010-1 at page II-27, and for Iatan 2 in the table shown as Schedule JJS2010-2. For depreciation purposes, Staff increased the life span for Iatan 2 from 50 to 60 years, and increased all life span assigned retirement dates by three months to revise retirement dates from June (peak load month) to Sept for each planned retirement year.

1. The proposed retirement date for Iatan 2 be extended by 10 years, from the Company requested 50 years to a life span of 60 years,

2. All proposed retirement dates for production equipment be extended at least 3 months from June to September of the retirement year.

For Case B, Staff used the following methods and assumptions:

1 The life span method was used for steam and nuclear production plant accounts, with retirements and net salvage broken into interim and final components, with terminal net salvage at 0%,

2 Remaining life depreciation rates used for all accounts to compensate for past over or under accruals,

3 Mass property analysis, with remaining life rates, was used for all other accounts, including Combustion turbines,

4 Depreciation rates were estimated from analysis of Company retirement history, and review of data request responses regarding final retirements and descriptions of assets in specific accounts.

Staff Case C

While Staff recommends the Commission authorize KCPL's depreciation rates identified in Staff Case A discussed above, Staff has developed Staff "Case C" depreciation rates which generally uses the same methods for the same accounts that were used to establish the current depreciation rates. Those treatments include:

1. All non-nuclear Steam and Other production, Transmission, and Distribution accounts as living accounts, with mass property analysis and whole life depreciation rates,

2. Use of the life span method with remaining life rates for nuclear and Hawthorn 5 steam production accounts,

3. One variation in Case C from current established rates is that for the nuclear plant accounts in Case C, net salvage was differentiated into interim and final net salvage components, with final net salvage set to zero.[67]

[67] The nuclear plant has a separate decommissioning fund.

Staff Case D

While Staff recommends the Commission authorize KCPL's depreciation rates identified in Staff Case A discussed above, Staff has developed Staff "Case D" depreciation rates which is identical to Case C, except depreciation rates were computed using a remaining life basis which reduced overall accruals due to the significant over accrual of accumulated depreciation reserves (52 % excess).

E. Treatment of Steam Production Plant Accounts:

Modeling for depreciation analysis studies the mortality characteristics of plant in service. The mortality characteristics for various plant accounts may differ. Selection for treatment as Living accounts versus Dying accounts addresses one of the main differences in observed mortality characteristics. The Mass Property depreciation model is applied to plant accounts where each addition to the account as years go by (each vintage) is expected to have the same average service life - living accounts. The Life Span depreciation model is applied to plant accounts where each addition to the account as years go by (each vintage) is not expected to have the same average service life - dying accounts.

For electric plant equipment such as transmission or distribution systems, and power generation fleets, the Mass Property model is appropriate since all vintages are assumed to have the same average service life. With these types of accounts, it is assumed that all retirements will be recorded and retired property is expected to be replaced by comparable property, with or without improvements in technology. Treatment as a living account assumes the account as a whole will continue to live indefinitely[68]. If a specific termination date where all property of all

[68] The FERC and Commission rules prescribe accounts in a Uniform System of Accounts. The USOA prescribes that assets are accounted for by function. The FERC and Commission definition of DEPRECIATION states "...from causes which are **known** to be in current operation..." not implied, thought, believed, conjectured, assumed, etc. The

vintages will be retired at the same time becomes known, the treatment of the account should shift to a dying account.

For dying accounts, such as a large **single** electric generating plant or unit, the Life Span model is appropriate since a specific termination date where all property of all vintages will be retired is known or can be accurately estimated. Recent additions and replacements (recent vintages) will have shorter average service lives than the original installed vintage property which survived over the whole life span. Simple modeling of interim retirements for a single large production unit will not give a representative average service life estimate. This introduces two types of survivor curves used to determine the ASL (average service life).

The curves generated for these two methods are from two different historical data sets and are not interchangeable.

Staff's recommended Case A treats KCPL's production plant as a generation fleet. The retirement history provided by the Company includes sufficient final retirements from units previously removed from service to represent a fleet of production units. These final retirements represent the retirement of short lived property which occurs when a production unit is shutdown. It is up to the discretion of the analyst to determine which is the better representation of the future, the future projected retirement dates for individual units (dying account - life span), or the final retirement history of previous production units (living account - mass property). Staff's recommended Case A treats KCPL's production plant as a generation fleet using the living account Mass Property method.

Commission has usually prescribed depreciation rates only by the main USOA functional accounts. It is Staffs opinion that the great majority of electricity produced in Missouri in the foreseeable future will continue to be generated by the spinning of a shaft (rotor & armature), powered by flowing water, steam, or combustion gases. Replacement of these facilities with wind turbines, solar, fuel cells, or capturing solar winds is not within the current depreciable lives of these facilities. Consequently the USOA functional accounts remain relevant as living accounts. While it is known that generation units will retire, it is also known from the Company's history that these facilities typically evolve piecemeal by replacement with similar functional units.

a. Mass Property Type Survivor Curves

The ASL for an account is represented by the area under a survivor curve. A survivor curve is constructed which shows the percent of the account dollars which survive past a given age. The survivor (Iowa) curve used in the determination of the ASL is dependent on the model chosen. The Iowa curve derived for use with the Mass Property method is derived from analysis of a historical data set which includes all non reimbursed retirements, including all final retirements from any production units which have been removed from service. See Figure 1. The entire area under the curve represents the average service life. The survivor curve in Figure 1 has an Iowa curve designator of 47-R2. For the Mass Property type curve this designator indicates the average service life for this model is 47 years. Figure 1 is representative of a typical steam production boilers account for a fleet of production units where the retirement history studied includes all retirements from individual units which have been removed from service. Staff Case A used this method.

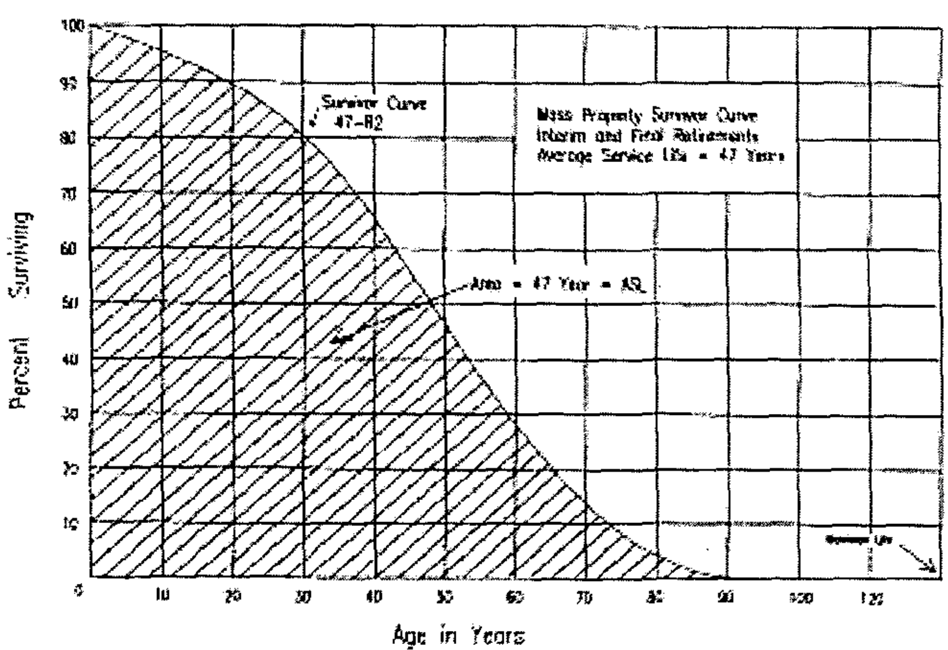

Figure 1 Mass Property Type Survivor Curve

KCPL has provided sufficient final retirement history including terminal retirements to allow reasonable estimation of average service lives for the Company's steam production accounts. The final retirement descriptions provided were used to identify the final retirement entries in the Company-provided historical data file.

Staff does not generally have a means of accurately predicting a retirement date and conducting life span analysis on each production unit, unless there is a specific issue with that unit, such as for Hawthorn 5.[69] The Commission has previously approved depreciation rates recommended by Staff that assigns depreciation rates to a fleet of similar production units.[70] Staff continues to support this assignment of depreciation rates to KCPL's fleet of generating units.

b. Life Span Type Survivor Curve

The Iowa curve derived for use with the Life Span method is from analysis of a historical data set consisting of only the interim retirements. See Figure 2. Note the survivor curve in Figure 2 has an Iowa curve designator of 57-R1. For the Life Span method this 57-R1 curve designation does **not** indicate the average service life. Final retirements are represented in Figure 2 with the vertical line drawn at the retirement or life span date. The area under the curve to the left of the life span date represents the average service life. In this figure the average service life is 47 years, the same as shown in Figure 1. The survivor curve by itself in Figure 2 is representative of interim retirements for a typical steam production boilers account. For a specific steam production unit the final retirements are represented by the truncation of the curve at the life span. The Company proposal used this method for each production unit. Both Figure 1 and Figure 2 show the same average service life of 47 years because, for this example,

[69] Hawthorn unit 5 is a special situation caused by the large reimbursed retirement received by the Company for that unit resulting from the re-building of that unit in June 2001 after a February 1999 explosion. Staff recommends tracking these funds separately.

[70] Typically all production units have main accounts (i.e. 311, 314, 322, 344) ordered at the same depreciation rate.

the life span for Figure 2 was specifically chosen at 60 years to produce a 47 year average service life.[71]

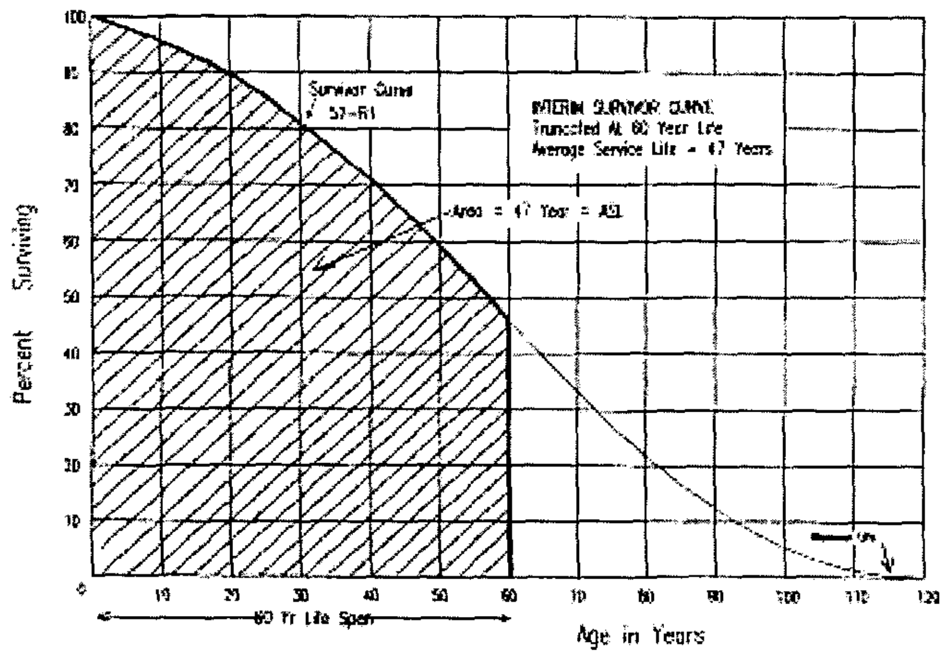

Figure 2 Life Span Type Survivor Curve

---

[71] **Life Span Property Depreciation Rate Equation:**

The depreciation rate equation for Life Span property should be viewed as having four components, 1) interim retirements, 2) final retirements, 3) interim net salvage, and 4) final net salvage.

The Life Span Depreciation Rate Equation::

$$\text{Rate \%} = \frac{100}{\text{ASLs}} - \frac{\text{Interim Net Salvage \%}}{\text{ASLs}} - \frac{\text{Terminal Net Salvage \%}}{\text{ASLs}}$$

ASLs = average service life in years, from *interim* survivor curve truncated at life span.

Final retirements are represented by the vertical truncation line of the interim curve at the retirement date.

Net Salvage = gross salvage - cost of removal

$$\text{Interim Net Salvage \%} = \frac{\text{Net Salvage \$}}{\text{Interim Retirement \$}} * 100 * (1 - \text{fraction surviving at life span})$$

The term (1 – fraction surviving at life span) simply corrects this depreciation rate component to represent only the net salvage portion of current plant in service which is expected to retire as interim retirements.

$$\text{Terminal Net Salvage \%} = \frac{\text{Terminal Net Salvage \$}}{\text{Terminal Retirement \$}} * 100$$

For Terminal Net Salvage there is no correction for fraction surviving because at the terminal retirement date it is the current plant which is expected to survive plus the interim additions which are also retired.

F. Treatment of Combustion Turbine Accounts

Staff recommends depreciation analysis treating the Other Production Plant accounts containing predominantly combustion turbine generators and associated facility equipment as a living fleet, using the mass property method. Prior rate case treatment for KCPL and all other recent electric company rates cases in Missouri have depreciation rates set for combustion turbine accounts using the Mass Property method.[72] Staff does not recommend adoption of KCPL's request to separately account for each combustion turbine and forecast retirement dates for each combustion turbine.

Mass Property treatment of all combustion turbine production units at all the Company facilities as one large continuous production system is an appropriate representation of the retirement and cost of removal which occurs. Even if one whole combustion turbine unit is replaced, much of the auxiliary and other site support equipment is expected to continue in use to provide service. Assuming the retirement activity is properly recorded, these retirements will be captured by using a living account mass property depreciation analysis.

G. General Accounts Left at Prior Ordered Depreciation Rates

During Staff's review of the General accounts that KCPL has requested be switched to an Amortization or Square Curve method, Staff was unable to reconcile differences found between the Company provided historical data and prior case account balances in audit Staff work papers. The accounts involved are accounts 391, 391.01, 391.02, 393, 394, 395, 397, and 398.[73] This raised questions regarding recent office moves and retirements associated with the acquisition, and the possible effect on any depreciation analysis which used this historical data.

[72] This is consistent with the Commission's Report and Order in AmerenMissouri's File No. ER-2010-0036.
[73] **General plant accounts 391, 393, 394, 395, 397, and 398:** General Office computers, communication equipment ,small tools, and lab equipment

At the time of this direct testimony, Staff recommends keeping the depreciation rates for these accounts at the prior case ordered depreciation rates, not switching to an Amortization Method, and not revising rates.

H. Whole Life and Remaining Life

Whole Life depreciation rates may be viewed as the current rate of consumption of plant in service, with no correction in the assigned depreciation rate to adjust for any over or under accrued depreciation reserves. The current ordered depreciation rates, Staff Cases A, and Staff Case C use the Whole Life method of depreciation rate calculation. When Whole Life rates are used, an additional depreciation amortization may be assigned to correct reserve imbalances. For the Staff recommended Case A, an indirect amortization to correct for an over accrued reserve is proposed by setting the net salvage rate to zero for this rate case.

Remaining Life depreciation rates may be viewed as Whole Life rates which have been modified to account for over or under accrued depreciation reserves. This is accomplished by calculating the total depreciation accruals needed over the expected remaining life of the current plant in service, and dividing by the number of years remaining. Staff Case B and Staff Case D used remaining life rates to compute depreciation accruals.

Staff recommends the use of Whole Life depreciation rates for the following reasons:

a) Whole Life rates show the current consumption of capital and provide a direct comparison for review with prior rate case or other company depreciation rates,

b) Whole life rates provide a more consistent depreciation accrual in accounts where large changes in balances may occur due to unforeseen (at the time of a rate case) additions or retirements,

c) Amortization assigned in conjunction with Whole Life rates allow setting a fixed time to apply the amortization, and

d) Fixed amortization associated with Whole Life rates do not fluctuate as plant balances change over time.

I. Interim versus Final (terminal) Retirements and Net Salvage

For Staff's Case A, the survivor curve in the Mass Property method is projected to zero survivors. There is no distinction between interim and final retirements or net salvage. All retirements and net salvage for the current total installed plant in service is included in the depreciation rate assigned. The mass property type depreciation rate includes the collection of net salvage on 100% of the plant in service, not just what is expected to be retired as interim retirements.

Retired units which still physically exist have ongoing cost of removal and salvage which may continue for up to 20 plus year.[74] These net salvage costs should continue to be recorded and reflected in the depreciation rate analysis for all plant units as a fleet of production units. The representation of true historical cost for production units will not be reflected in the estimation of depreciation rates if only individual units currently in service are incorporated into the depreciation analysis, with the final retirement and terminal net salvage history ignored.[75]

In Staff's Case B, Staff treated the steam production plant as Life span property, and was able to distinguish between interim and final retirements. Interim retirements result in interim net salvage. Final (or terminal) retirements are associated with the removal or dismantling of the retired unit. For Staff's Case B, terminal net salvage was modeled at zero % to be consistent with the Life Span model the Commission approved in AmerenUE File No. ER-2010-0036.

For KCPL and its affiliated entities MPS and L&P, Staff has knowledge of five steam production facilities where approximately 15 boiler/turbine units have been shut down and removed from service. Four of these five steam production facilities, consisting of 11 of the

[74] The Ralph Green Steam units were retired in 1982 and disposed of in 2010, 28 years later.
[75] Typically all production units have main accounts (i.e. 311, 314, 322, 344) ordered at the same depreciation rate.

approximate 15 units, have been dismantled and disposed of from the plant sites. KCPL reports the total amount retired for these four steam production facilities as $33,141,318, with the associated cost of removal and salvage at $4,196,600 and $216,812, respectively. The resultant overall composite terminal net salvage rate from this historical steam production plant data is a negative 12%.

Four other steam production units, Hawthorn 1, 2, 3, and 4, were removed from service in 1984 and have not been dissembled and disposed of from the Hawthorn plant site. To date, 26 years later, the net salvage for these four units is a positive $1,189,010. The total retirement for these four units is $68,608,341, which results in a positive 1.7% net salvage at this time. At the end of 2008, there was $46,073,988 of net salvage contained in book reserves. This appears sufficient to cover the removal cost estimate of $7,066,650.[76]

Staff Expert/Witness: Arthur W. Rice

IX. Current and Deferred Income Tax

A. Current Income Tax

Current income tax for this case has been calculated by Staff consistent with the methodology used in KCPL's last rate case, Case No. ER-2009-0089. A tax timing difference occurs when the timing used in reflecting a cost (or revenue) for financial reporting purposes is different from the timing required by the Internal Revenue Service (IRS) in determining taxable income.

Current income tax reflects timing differences consistent with the timing required by the tax regulations. The tax timing differences used in calculating taxable income for computing current income tax for KCPL are as follows:

[76] 12% minus 1.7%, or 10.3% of the $68,608,431 retired.

<u>Add Back to Operating Income Before Taxes:</u>

- Book Depreciation Expense
- 50% Meals and Entertainment Disallowance
- Book Nuclear Fuel Amortization
- Book Amortization Expense

<u>Subtractions from Operating Income:</u>

- <u>Interest Expense – Weighted</u> Cost of Debt X Rate Base
- IRS Accelerated Tax Depreciation
- Deduction for Electric Utility Production Income
- IRS Nuclear Fuel Amortization
- IRS Other Amortization Deduction

<u>Subtractions Federal Income Tax Credit:</u>

- <u>Wind Production Tax Credit</u>
- <u>Research and Development Tax Credit</u>

The tax credit for research and development expenditures was reflected for setting rates by Staff in the calculation of current income tax in KCPL's rate case, Case No. ER-2007-0291. In that case, in response to U.S. Department of Energy (DOE) Data Request No. 55, KCPL indicated that it intended to file amended tax returns for years 2001-2005 for the purpose of reflecting allowable tax credits and current year tax deductions for research and experimental expenditures under Internal Revenue Code (IRC) Sections 41 and 174. It is Staff's position that the additional cash flow from a tax reduction from an amended tax return should be deferred and amortized for ratemaking purposes. This increase in cash flow to KCPL should be used to mitigate the Regulatory Plan Additional Amortization that KCPL's ratepayers are paying in current rates and will continue to pay until rates become effective in 2010 to recognize the "fully operational and used for service" date for KCPL's new coal burning generating facility, Iatan 2.

The occurrence of an extraordinary income event should be viewed in the same manner as an extraordinary cost event like KCPL's ice storm. Deferred accounting and amortization for ratemaking purposes should apply equally to both extraordinary costs and extraordinary income. KCPL's failure to take advantage of all available tax credits in prior years should not result in a cash windfall for its shareholders, but instead should be used to reduce the additional cash requirement collected from ratepayers in the Regulatory Plan Additional Amortization. The amount of additional cash flow provided by ratepayers through the Regulatory Plan Additional Amortization should be limited to funds unavailable from other sources.

Wind Credits used to reduce current income taxes relate to credits the Company is allowed from its ownership of the Spearville Wind Farm located in western Kansas and "fully operational and used for service" in September 2006. The Wind Credits were also taken as a reduction to current income taxes by Staff and reflected in rates as a result of KCPL's last rate case.

Staff Expert/Witness: Paul R. Harrison

B. Kansas City Earnings Tax

Additionally, Staff normalized the Kansas City, Missouri earnings tax (KCET) in this rate case. This is included in the revenue requirement calculation as Adjustment E-214.1. This amount was treated as part of the tax calculation in KCPL's last rate case, Case No. ER-2009-0089 and included in the Staff's Schedule 11, Income Tax calculation. The adjustment to normalize the earnings tax is necessary to properly reflect an amount for the local Kansas City tax in current rates. During the review of KCPL costs, Staff discovered when this tax was made part of the tax calculation in KCPL's last rate case, it overstated costs. When the earnings tax was included in the tax calculation on Staff Accounting Schedule 11 and factored up for income taxes, it was creating a significant difference between the amount of earnings taxes actually paid and the level that was determined in the tax calculation. For example, in KCPL's last rate case, Staff included $887,104 for earnings taxes computed as part of the tax when ultimately the Company **actually** only paid $74,443 for 2009.

The actual earnings tax for KCPL, as determined by the city of Kansas City, is calculated by dividing the amount of gross receipts tax paid to Kansas City, and KCPL's payroll and plant identified within the Kansas City area by the amount of total company gross receipts, payroll and plant. This ratio is then multiplied by KCPL's total company net income to calculate the earnings taxes.

Because the Kansas City earnings are required as a right to conduct business in the city of Kansas City, Staff believes that 25% of the earnings taxes should be allocated to Kansas and GMO customers. The KCPL corporate office building and a predominate number of KCPL employees are located inside the Kansas City, Missouri area which result in a higher payment being made to the city of Kansas City for the earnings tax. As a result of the location of the office building and the number of employees that work out of it, two of the three amounts (payroll and plant) that are used to calculate the ratio that is used to determine the amount of the earnings taxes are increased significantly. Additionally, this ratio is multiplied by KCPL's total company net income (which includes Kansas and GMO net income. This causes the earnings taxes to be significantly higher than if the building and employees were located outside of the Kansas City Area.

In order to ensure a proper allocation of the earnings tax costs to various KCPL entities which benefit from the Company's corporate office function, the costs of the offices located in Kansas City and included in the earnings taxes should be assigned to each of these entities. Staff recommends that the Company perform a cost study with the goal of determining a reasonable and proper allocation of the earnings tax.

Staff Expert/Witness: Paul R. Harrison

C. Deferred Income Tax Expense

When a tax timing difference is reflected for ratemaking purposes consistent with the timing used in determining taxable income for current income tax as the result of the Internal Revenue Code (IRC), the timing difference is given "flow-through" treatment. When a current year timing difference is deferred and recognized for ratemaking purposes consistent with the timing used in calculating pre-tax operating income in the financial statements, then that timing difference is given "normalization" treatment for ratemaking purposes. Deferred income tax expense for a regulated utility reflects the tax impact of "normalizing" tax timing differences for ratemaking purposes. IRS rules for regulated utilities require normalization treatment for the timing difference related to accelerated tax depreciation.

Staff Expert/Witness: Paul R. Harrison

D. Accumulated Deferred Income Tax

KCPL's deferred income tax reserve represents, in effect, a prepayment of income taxes by KCPL's customers. As an example, because KCPL is allowed to deduct depreciation expense on an accelerated basis for income tax purposes, depreciation expense used for income taxes is significantly higher than depreciation expense used for financial reporting (book purposes) and for ratemaking purposes. This results in what is referred to as book-tax timing difference, and creates a deferral, or future liability of income taxes, to the future. The net credit balance in the deferred tax reserve represents a source of cost-free funds to KCPL. Therefore, KCPL's rate base is reduced by the deferred tax reserve balance to avoid having customers pay a return on funds that are provided cost-free to the Company. Generally, deferred income taxes associated with all book-tax timing differences which are created through the ratemaking process should be reflected in rate base. Besides accelerated depreciation, Staff has also included deferred taxes specifically associated with the rate base inclusion of the pension liability.

Prior to the 1986 Tax Reform Act, flow-through treatment (current year deduction) was used for Missouri utilities unless the utility could demonstrate the need for additional cash flow to meet interest coverage ratios. It is Staff's understanding that KCPL received normalization treatment in rate cases prior to 1986 based upon a need for additional cash flow during significant construction activity related to new generation facilities.

Timing differences which were reflected as a tax deduction in the current year, for current income tax to the IRS, were deferred (normalized) for ratemaking purposes. The tax deduction is reflected in rates by amortizing the deferred tax balance over the depreciable life of the property. Staff's income tax calculation for KCPL, in this current case, reflects the amortization of prior timing differences which were normalized in prior rate cases. Adjustment E-222.1 reflects an annual amortization of deferred taxes resulting from normalization treatment in prior cases.

The 1986 Tax Reform Act reduced the federal tax rate for corporations from 46% to 34%. As a result all deferred taxes, previously reflected in rates, based upon an assumed 46% tax rate, were overstated. The IRS allowed a regulated utility to flow back (amortize) to ratepayers the excess deferred taxes over the approximate depreciable book life of the property. Staff's income tax calculation for KCPL in this case reflects an amortization of excess deferred taxes resulting from the reduction in the federal tax rate in 1986. Adjustment E-223.1 reflects an annual amortization of the excess deferred taxes resulting from the reduction in the federal tax rate.

Prior to the 1986 Tax Reform Act, a utility received a permanent tax credit for investing in new capital additions. For ratemaking purposes, the IRS allowed the utility to amortize (flow back to ratepayers) the investment tax credit over the approximate depreciable book life of the related property. Adjustment E-224.1 reflects an annual amortization of the deferred investment tax credit.

Staff Expert/Witness: Paul R. Harrison

E. Iatan No. 2 Advanced Coal Credit

In April 2008, KCPL was notified that its application filed in 2007 for $125.0 million in advanced coal investment tax credits (ITC) was approved by the IRS. The credit is based on the amount of expenses incurred on the construction of Iatan 2. Additionally, in order to meet the advanced clean coal standards and avoid forfeiture and/or the recapture of tax credits in the future, KCPL must meet or exceed certain environmental performance standards for at least five years once the plant is placed in service.

In February 2009, KCPL was served a notice to arbitrate by Empire District Electric Company (Empire), Kansas Electric Cooperative, Inc. (KEPCO) and Missouri Joint Municipal Electric Utility Commission (MJMEUC), joint owners of Iatan 2. The joint owners asserted that they are entitled to receive proportionate shares (or the monetary equivalent) of approximately $125 million of qualifying advance coal project credit for Iatan 2. As independent entities, the joint owners are taxed separately and the joint owners do not dispute that they did not, in fact, apply for the credits themselves. Notwithstanding this, the joint owners contend that they should receive proportional shares of the credit. This matter was heard by an arbitration panel in November 2009.

On December 30, 2009, the arbitration panel issued its order denying the KEPCO and MJMEUC claims but ordering KCPL and Empire to jointly seek a reallocation of the tax credit from the IRS giving Empire its representative percentage of the total tax credit, worth approximately $17.7 million for its twelve percent ownership. The order further specifies that if the IRS denies the parties' reallocation request or if Empire is allocated less than its proportionate share of the tax credits, KCPL will be responsible for paying Empire the full value of its representative percentage of the tax credits (less the amount of tax credits, if any, Empire ultimately receives) in cash. KCPL has recorded a $17.7 million liability in other current liabilities for this matter

GMO owns eighteen percent of the Iatan 2 power plant. Staff asserts that since GMO owns eighteen percent of Iatan 2, it is entitled to receive a proportionate share (or monetary equivalent) of the approximately $125 million of qualifying advance coal project credit for Iatan 2. Even though GMO is not taxed separately for book purposes, it is taxed separately for rate making purposes. For rate making purposes, GMO's cost of service is based upon its own rate base, revenues, expenses and income tax liability. Therefore, the Staff has made an adjustment to allocate eighteen percent of the advanced coal credit that KCPL received from the IRS to GMO. This allocation allows the GMO ratepayers to receive their portion of the advanced coal credit. This equates to approximately $26.5 million.

Because Iatan 2 is allocated between MPS and L&P, it is necessary to assign an appropriate amount for the advance coal credit to both of these entities. Staff has allocated the GMO share of the advance coal credit based on the allocation of Iatan 2 costs between MPS and L&P.

Staff Expert/Witness: Paul R. Harrison

X. Jurisdictional Allocations

The Missouri Public Service Commission sets cost-of-service based rates only for the Missouri retail customers; however, not all the costs a utility incurs are to provide service to its Missouri retail customers. KCPL has both retail and wholesale customers in both Missouri and Kansas. Wholesale sales, as well as the retail sales in each state, are considered to be in separate "jurisdictions." Some costs to serve a particular jurisdiction may be directly assigned; however, other costs are not directly assignable to a particular jurisdiction and must therefore be allocated among the various jurisdictions. Costs that correlate with energy-generally costs that vary with energy consumption-are denoted as "energy-related" costs. Costs that correlate with demand-generally costs that do not vary with energy consumption, i.e. "fixed costs"-are denoted as "demand-related" costs. Different allocation factors are developed and utilized for each.

Jurisdictional allocation refers to the process by which demand-related and energy-related costs are allocated to the applicable jurisdictions. Fixed costs, such as the capital costs associated with generation and transmission plant, are allocated on the basis of demand. Variable costs, such as fuel, are more appropriate to allocate on the basis of energy consumption. In this case, jurisdictional allocation factors for demand and energy are calculated to assist in allocating demand-related (fixed) costs and energy-related (variable) costs between three applicable jurisdictions: Missouri and Kansas retail and wholesale operations. The application of a particular jurisdictional allocation factor is dependent upon the type of cost being allocated.

Staff Expert/Witness: Alan J. Bax

A. Methodology

1. Demand Allocation Factor

Demand refers to the rate at which electric energy is delivered to a system to match the energy requirements of its customers, generally expressed in kilowatts (kWs) or megawatts (MWs), either at an instant in time or averaged over a designated interval of time. System peak demand is the largest electric requirement occurring within a specified period of time (e.g., hour, day, month, season, and year) on a utility's system. In addition, for planning purposes, an amount of kWs or MWs in excess of anticipated system peak demand must be included for meeting required contingency reserves. Since generation units and transmission lines are planned, designed, and constructed to meet a utility's anticipated system peak demands plus required reserves, the contribution of each of the three individual jurisdictions coincident to these system peak demands is the appropriate basis on which to allocate the costs of these facilities.

Thus, the term coincident peak (CP) refers to the load, generally in kWs or MWs, in each of the jurisdictions that coincide with KCPL's overall system peak recorded for the time period used in the corresponding analyses.

Staff utilized a 4CP method - based on the monthly seasonal coincident peaks of the four summer months in the test period - to determine the demand allocation factors, the same method that the Commission ordered in Case No. ER-2006-0314, and which both KCPL and PSC Staff used in each subsequent KCPL rate case (Case Nos. ER-2007-0291 and ER-2009-0089). The 4CP method is appropriate for a utility such as KCPL that experiences dominant demands in the four summer months (June through September) in relation to the demands in the other eight months of a year. A utility that experiences a needle peek in a particular month may utilize the 1 CP method, or a utility that experiences comparatively similar hourly peaks in both winter and summer months may employ the 12 CP method. In analyzing the monthly demands in calendar year 2009, the test year of the current rate case, these demands are consistent with the monthly demands in the test periods associated with these three aforementioned rate cases.

Staff determined the demand allocation factor for each jurisdiction using the following process:

1. Identify KCPL's peak hourly load in each month for the four - month period June 2009 through September 2009 and sum the hourly peak loads.

2. Sum the particular jurisdiction's corresponding loads for the hours identified in a. above.

3. Divide b. above by a. above.

The result is the allocation factor for each jurisdiction:

• Missouri Retail Jurisdiction:	0.5350
• Kansas Retail Jurisdiction:	0.4588
• Wholesale Jurisdiction:	0.0062
• Total:	1.0000

Staff Expert/Witness: Alan J. Bax

2. Energy Allocation Factor

Variable expenses, such as fuel, are allocated to the jurisdictions based on energy consumption. The energy allocation factor for each jurisdiction is the ratio of the total kilowatt-hours (kWh) used by the particular jurisdiction in the test year, calendar year 2009, to KCPL's total system kWh usage during the test year. Staff applied adjustments to these kilowatt hours to account for losses, for annualizations and for customer growth. Staff has calculated the following energy allocation factors for each jurisdiction:

• Missouri Retail Operations:	0.5694
• Kansas Retail Operations:	0.4235
• Wholesale Operations:	0.0075
• Total:	1.0000

These jurisdictional demand and energy allocation factors were provided to Staff witness Cary G. Featherstone, who used them to allocate related costs to the Missouri retail jurisdiction.

Staff Expert/Witness: Alan J. Bax

B. Application

As stated above, KCPL operates within two state jurisdictions, Missouri and Kansas, and in the wholesale jurisdiction regulated by FERC. Therefore, it is necessary to specifically identify, then allocate and/or assign, KCPL's investment and expenses between these three jurisdictions. In order to develop a fully comprehensive cost of service analysis to identify the revenue requirements for KCPL, all of KCPL's costs for plant investment and the costs appearing on its income statement, must be appropriately placed in each of the jurisdictions it serves (Missouri Retail, Kansas Retail and Wholesale).

In developing KCPL's cost of service for the Missouri retail jurisdiction, Staff began with KCPL's records that it keeps in accordance with FERC accounting requirements. Where these records reflected costs or investments that KCPL incurred solely to serve the Missouri retail jurisdiction, Staff directly assigned those costs or investments to the Missouri retail jurisdiction cost of service. However, when costs or investments were not directly assigned to the Missouri retail jurisdiction, Staff used the demand or energy allocation factor in apportioning an applicable share of an appropriate cost or investment to the Missouri retail jurisdiction.

KCPL's generation and transmission facilities, used to produce and transport electricity to KCPL retail customers in Missouri and Kansas as well as the FERC wholesale customers, are predominantly considered fixed assets. The costs and investments of these assets, as well as the related depreciation reserve accounts, are apportioned to the three jurisdictions on the basis of demand. As stated above, Staff applied the demand factor it developed for the Missouri retail jurisdiction, based on the 4 CP methodology, to allocate the appropriate portion of these aforementioned assets in its determination of KCPL's cost of service to the Missouri retail jurisdiction. Staff has consistently used the 4CP method since KCPL's 1985 Wolf Creek rate case. In each of the three rate cases filed by KCPL as part of the Regulatory Plan, Staff has used the 4 CP method.

KCPL allocates its identified distribution plant assets to the respective jurisdiction in which the respective assets are located. Plant identified in this way is referred to as site specific or *situs* plant. Staff used the actual amounts of distribution plant investment at June 30, 2010 to develop allocation factors for distribution plant and reserve to quantify only the distribution plant specific to Missouri operations.

The amounts in the FERC expense accounts found in KCPL's income statement (Schedule 9 of the EMS model) include costs broadly categorized as "production," "transmission," "distribution," and "general." Staff used the same allocation factors to identify costs to the Missouri retail jurisdiction that it used to allocate KCPL's investment in fixed production plant and transmission network assets. Therefore, Staff allocated production and transmission costs in KCPL's income statement to the Missouri retail jurisdiction by using the same demand allocation factor used to allocate the production plant and transmission network accounts to the Missouri retail jurisdiction. The approach of using the same allocators for allocating investments and costs to a jurisdiction is referred to as "expenses follow plant." Production plant expenses are associated with maintaining and operating the production plant; therefore, it is appropriate to use the same allocator for allocating both plant investment and plant expense. Similarly, transmission expenses are associated with maintaining and operating the transmission network, therefore, it is also appropriate to use the same demand factor to allocate transmission expenses found in KCPL's income statement.

Staff allocated KCPL's investment in common facilities, or general plant, based on a composite of the demand allocation factors Staff used to quantify the Missouri jurisdictional share of KCPL's production and transmission costs and the state site specific distribution costs. Once the plant and depreciation reserve amounts are allocated to Missouri based on the demand allocators for production and transmission plant and site specific allocation factors for distribution plant costs, these state specific costs form the basis for the general plant allocated to Missouri. Thus, the state jurisdictions allocation factors for general plant are based on the composite for the production, transmission and distribution plant costs. This composite general plant allocation factor is used to allocate general costs in the income statement.

For administrative and general costs, commonly referred to as the A&G costs, a variety of allocation factors were used to allocate these costs to the various expense accounts found in the income statement. Staff relied on the Company to identify and determine these allocation factors. The various allocation factors used were based on customers found in each jurisdiction in some cases. Other times, the factors used were based on numbers of KCPL employees in each jurisdiction. Each specific account had its own allocation factor that was used to allocate costs to Missouri, Kansas and/or FERC operations.

The energy allocation factor was used to allocate costs that are considered variable in nature. Variable costs fluctuate directly with increased or decreased electricity output. For example, the costs related to the variable component of fuel and purchased power expenses vary with increased or decreased loads. As more or less megawatts are generated or purchased, increased or decreased fuel and purchased power costs are directly affected. The fixed capacity, or demand charge, of capacity purchased power and capacity sales are allocated using the demand allocator, the same one used to allocate the fixed production and transmission costs. Fixed costs do not vary with electricity output.

The demand component of a capacity purchase or sale is to recover fixed charge costs of the facilities used to generate these transactions. As an example, the capacity sale requires the commitment on the part of KCPL to have dedicated generating capacity in place to meet the load requirements of the capacity sale customer. KCPL must have adequate generation in place to meet the load requirements of the capacity sale customer in much the same way it has to have fixed capacity to meet the system load requirements of its residential, commercial and industrial customers-referred to as its native load customers. Since the generating capacity is dedicated to meet the firm capacity sale requirements, the Company charges as part of the capacity contract a fixed charge amount to compensate it for reserving those assets to meet the capacity sale. The fixed charge can be thought of as a rate of return on, and of, the asset dedicated to making the capacity sale. When KCPL has a capacity purchase for energy, it also will have to pay a fixed charge amount to the seller of power to the Company. The fixed charge of the capacity sale or purchase is assigned or allocated to the jurisdictions on a demand allocation basis. At the same time, the energy component-the actual sale or purchase of energy is considered variable based and is appropriately allocated using the energy allocation factor.

The same infrastructure used to meet the system load requirements of KCPL's customers is also used to generate and transport electricity to firm and non-firm customers in the bulk power markets (off-system sales). The energy allocation factor was also used to allocate the revenues from these off-system sales between the jurisdictions. Since the non-firm, off-system sales market is made up of sales on a short term basis, no dedicated capacity is reserved for these sales. Traditionally, off-system sales have been allocated using the energy allocation factor since these costs of making these sales are generally variable in nature, primarily fuel costs. The more megawatts sold, the more fuel consumed and the more costs incurred to generate the electricity, or the more purchased power needed to make the sales, resulting in higher costs. These costs are directly variable to the sale or purchase, and thus the reason the energy allocation factor is properly used. The energy allocation factor has been used to allocate off-system sales in each of the last three KCPL rate cases by Staff. It has been used to allocate off-system sales revenues for The Empire District Electric Company and Aquila's MPS electric operations for many rate cases dating back to at least the 1990s.

Staff Expert/Witness: Cary G. Featherstone

XI. Transition Cost Recovery Mechanism

On April 4, 2007, GPE, KCPL and Aquila filed an application with the Commission seeking authority for a series of transactions whereby Aquila would become a direct, wholly-owned subsidiary of GPE. On July 1, 2008, in Case No. EM-2007-0374, the Commission approved the series of transactions authorizing GPE to acquire Aquila. On July 14, 2008 GPE closed the acquisition.

In its Report and Order in Case No. EM-2007-0374, at page 282, in ordered paragraph 6(C), the Commission included the following condition to its authorizations:

> c. Great Plains Energy, Incorporated, Kansas City Power & Light Company and Aquila, Inc., shall, upon closure of the authorized transactions, implement a synergy savings tracking mechanism as described by the Applicants, and in the body of this order, utilizing a base year of 2006;

The Commission found that there was potential for significant savings as a result of the acquisition, and was supportive of the Applicants recovering the costs they incurred in combining the operations of KCPL and Aquila. These costs are referred to as transition costs. In the section of its Report and Order where it presented its "Final Conclusions Regarding Transaction and Transition Cost Recovery," on page 241, the Commission stated:

> Substantial and competent evidence in the record as a whole supports the conclusions that: (1) the Applicants' calculation of transaction and transition costs are accurate and reasonable; (2) in this instance, establishing a mechanism to allow recovery of the transaction costs of the merger would have the same effect of artificially inflating rate base in the same way as allowing recovery of an acquisition premium; and (3) the uncontested recovery of transition costs is appropriate and justified. The Commission further concludes that it is not a detriment to the public interest to deny recovery of the transaction costs associated with the merger and not a detriment to the public interest to allow recovery of transition costs of the merger.
>
> If the Commission determines that it will approve the merger when it performs its balancing test ..., the Commission will authorize KCPL and Aquila to defer transition costs to be amortized over five years. (Footnote omitted.)

In the footnote 930 omitted above, the Commission stated:

> The Commission will give consideration to their [transition costs] recovery in future rate cases making an evaluation as to their reasonableness and prudence. At that time, the Commission will expect that KCPL and Aquila demonstrate that the synergy savings exceed the level of the amortized transition costs included in the test year cost of service expenses in future rate cases.

The table below shows the total acquisition transition costs as of June 30, 2010:

Jurisdiction	**Total**	**%**
KCPL-MO	**19,291,888**	**33.29%**
KCPL- KS	15,591,495	26.90%
KCPL-Wholesale	137,352	0.24%
MPS-Retail	**17,679,595**	**30.51%**
MPS-Wholesale	69,545	0.12%
SJLP Electric	**4,440,472**	**7.66%**
SJLP Steam	243,409	0.42%
Corporate Retained - Merchant	500,727	0.86%
Total Transition Costs		
At June 30, 2010	$57,954,483	100.00%

KCPL and the Kansas Commission Staff agreed to an amount of transition costs recovered from the Kansas customers in the merger application filed with the Kansas Commission. This amount of recovery in Kansas is $10 million over five years [Kansas Commission Docket No. 07-KCPE-1064-ACQ]

While the Commission supported KCPL's and GMO's opportunity to present evidence for recovery of the transition costs in future rate cases in the statement above, the Commission did not specify the method with which this recovery is to be accomplished. The Commission made clear that KCPL and GMO would have to demonstrate the "reasonableness and prudence" of any transition costs [page 41, Footnote 930 of Commission Order in Case No. EM-2007-0374]

To demonstrate to the Commission the merits of the recovery of transition costs, the Company's synergy savings tracking model, as ordered by the Commission, compares the adjusted base year of non-fuel operations and maintenance (non-fuel O&M) of standalone KCPL and Aquila operations in 2006 to the combined KCPL and GMO operations of 2009. The KCPL synergy model shows that the annual synergies realized comparing 2006 to 2009 periods of time amount to $48.5 million. The cumulative transition costs at June 30, 2010, less the amount retained by GPE corporate and the amount assigned to Kansas based on its agreed to maximum amount of $10 million results in over $51.8 million.

The comparison of the 5-year proposed amortization of the transition costs of $10,372,452 (total transition costs less the amount over Kansas limit and corporate retained) to the annual non-fuel O&M synergies described in KCPL's tracking model of $48.5 million shows that in its analysis KCPL believes that synergy savings exceed the level of amortized transition costs.

While the Company's demonstration that annual synergy savings exceed amortized transition costs would suggest that ratepayers have sufficiently realized those savings, the contrary is true. KCPL has benefited significantly from regulatory lag in flowing savings from the acquisition to GPE shareholders. Staff believes GPE has greatly benefited from the retention of the any savings that have existed from the Aquila acquisition - both from the time prior to the closing of the acquisition and since the July 14, 2008 closing of the acquisition.

Regulatory lag is the difference between when lower or higher costs are measured in one time period and when the lower or higher costs are reflected in rates in a subsequent time period. In the case of the acquisition savings, KCPL and GMO have received the benefits of any costs savings arising from the acquisition well in advance of those savings being passed on to the customers of those entities. To the extent savings are retained by KCPL and GMO, GPE will directly benefit with higher earnings rewarding shareholders for the retained savings.

Staff believes the Commission, in its order regarding the acquisition of Aquila, set out a standard that must be met to allow a recovery of the transition costs. This standard was to require KCPL to not only make a showing that savings existed in excess of the transition costs before any recovery in rates would be permitted but a demonstration that the Company has not already benefited from those savings sufficiently to already recover the transition costs. As an example, it would not be reasonable to recover the transition costs if GPE, KCPL and GMO have already recovered those costs through savings retained for the Company. Therefore, Staff believes that KCPL must demonstrate that it has not sufficiently recovered the transition costs from retained savings before customers should be required to pay higher rates for the transition costs. To put it another way, to the extent any transition costs that have already been recovered through savings from the acquisition, thereby directly benefiting the GPE entities, the Company should not request recovery of that portion of the transition costs. And certainly, if all transition costs have been recovered through acquisition savings, then no transition costs should be reflected in rates. The fundamental question that must be answered in any kind of synergy analysis is: "when did the savings occur and, more importantly, when did customers receive the benefits from such savings?"

The key element to demonstrating that KCPL has either already recovered all transition costs or a portion of those costs from regulatory lag is in establishing when the savings occurred and when, if ever, those savings were reflected in rates. Thus, the development of a timeline of when synergy savings occurred and when they began to appear in rates is critical. Without such an analysis the request for rate recovery of any transition costs is premature. It is Staff's belief that neither KCPL nor GMO has attempted to analyze the impacts of when the acquisition savings occurred; the extent savings have been retained by the GPE entities; the extent the transition costs have been either fully or partially recovered from acquisition savings and the extent it is even necessary for customers to pay any amount for any of the acquisition costs. Until that analysis is performed by KCPL and GMO, then no transition costs should be placed in rates. Once that type of analysis is performed by the Company then would it even be appropriate to consider what if any of the transition costs should be in rates.

Clearly, to the extent KCPL and GMO have recovered any amounts of the transition costs there should be no recovery from customers. However, if such recovery is necessary then there must be a showing that either no amount of transition costs have been recovered or that only a portion of the amount of acquisition costs have been recovered. Once this has been done then it would be appropriate to determine the proper cost recovery.

As a start to this analysis, it is critical to identify the time when acquisition savings started and when those savings were either retained by KCPL and GMO and when they were passed on to customers. The following table identifies critical dates relating to rate case activity of KCPL and Aquila prior to the acquisition and after its completion. This table identifies when those rate cases occurred, what the established known and measurable dates were used in those cases and when rates went into effect.

Company Name	Case No.	Test Year	Update Cutoff	True-Up Cutoff	Effective Date of Rates
Aquila	ER-2007-0004	Calendar 2005	June 30, 2006	December 31, 2006	June 3, 2007
KCPL	ER-2007-0291	Calendar 2006	March 31, 2007	September 30, 2007	January 1, 2008
KCPL	ER-2009-0089	Calendar 2007	September 30, 2008	No True-Up	September 1, 2009
KCPL GMO	ER-2009-0090	Calendar 2007	September 30, 2008	No True-Up	September 1, 2009
KCPL	ER-2010-0355	Calendar 2009	June 30, 2010	December 31, 2010	May 4, 2011
KCP&L GMO	ER-2010-0356	Calendar 2009	June 30, 2010	December 31, 2010	June 4, 2011

The first two rate cases are the last Missouri KCPL and Aquila rate cases before the GPE-Aquila acquisition case, where KCPL and Aquila were still standalone entities. As can be seen, because no documented synergy savings occurred prior to July 14, 2008, no synergies were flowed to ratepayers in either of those rate cases. The true-up period for the 2006 Aquila case was December 31, 2006 while the true-up period for the 2007 KCPL case was September 30, 2007 with rates effective January 1, 2008. Certainly no amounts of savings from the acquisition were given to customers.

The next two rate cases are KCPL and GMO's first electric rate cases following the acquisition. The test years utilized were calendar year 2007, which would not have included any documented synergy savings. The next data point in this analysis is September 30, 2008, the test year update used in Staff's direct case. The purpose of a test year update is to update and utilize cost data closer to when Staff files its direct filing. In Staff's cost of service model, the test year data remains unchanged when utilizing updated numbers. The test year update includes only selected data, such as rate base, payroll, and insurance, among other known and measurable items commonly included in a test year update. It does not move all costs of service to the update cutoff period, and, therefore, Staff did not capture all of the merger synergies through September 30, 2008. The next key date listed is September 1, 2009, the effective date of rates in Case Nos. ER-2009-0089 and ER-2009-0090. This is the very first date that KCPL and Aquila ratepayers could realize any savings from the GPE acquisition of Aquila. The savings realized would have only been any adjustments made to the cost of service using September 30, 2008 updated numbers, such as payroll and insurance. Any savings occurring prior to September 1, 2009 were retained by both KCPL and GMO.

The last two entries are KCPL's and GMO's pending rate cases, including this one. In looking at regulatory lag for synergy savings, presently the final known date is the effective date of rates of the instant case, File No. ER-2010-0355, May 4, 2011, and GMO's pending case, File No. ER-2010-0356, June 4, 2011. This is the first date KCPL ratepayers will realize the synergy savings that occur after September 30, 2008, and most of the synergy savings that occur after July 14, 2008. The table below identifies how long GPE shareholders have retained the synergy savings due to regulatory lag based on the dates of test year updates and the effective dates of rates:

Type of Savings	Beginning Date Of Savings	Date Flowed Through to Rates	Lag (In Months)
Updated In Test Year Update	July 14, 2008	September 1, 2009	13.6
Post Update Savings, KCPL	October 1, 2008	May 4, 2011	31.1
Post Update Savings, GMO	October 1, 2008	June 4, 2011	32.1
Savings Not in Test Year Update, KCPL	July 14, 2008	May 4, 2011	33.7
Savings Not in Test Year Update, GMO	July 14, 2008	June 4, 2011	34.7
Savings Not in Current Test Year Update	January 1, 2010	Unknown	Unknown
Post Update Savings, KCPL and GMO	July 1, 2010	Unknown	Unknown
Post True-up Savings, KCPL and GMO	January 1, 2011	Unknown	Unknown

Based on this table, it is apparent KCPL ratepayers could not have realized any synergy savings for at least 13 months after the acquisition and that it might take them as long as 33 months to realize savings from the acquisition. As demonstrated above, GPE shareholders have reaped the benefits of regulatory lag and have retained significant savings while customers have waited over at least one year for the benefit of those savings to flow to them through rates. The last three lines of the table are dates of costs from the current rate case. For savings not reflected in Staff's test year, test year update, and true-up, customers will wait an indefinite amount of time to receive the synergy savings while shareholders enjoy the benefits of them.

To understand KCPL's true savings from the acquisition, one must examine the synergies from the Company's perspective. In addition to creating and maintaining a tracking model to compare the adjusted 2006 base year to 2009 as ordered by the Commission, KCPL prepared and maintains specific synergy charters to track specific synergy savings, including those included in and beyond the savings identified in the tracking model. KCPL has a cumulative database of these synergy charters by the quarter in which they occurred, total by year, and by individual charter. The table below summarizes the cumulative synergy savings as they appear in the charter database in the response to Data Request No. 146, File No. ER-2010-0355:

	Category	
Period	**Regulated-Savings**	**Corporate-Savings**
Q3	$7,049,467	17,927,511
Q4	13,565,146	31,022,978
2008 Total	**20,614,613**	**48,950,489**
Q1	11,267,258	19,189,044
Q2	14,296,977	19,062,379
Q3	19,711,085	19,427,888
Q4	19,286,671	20,322,463
2009 Total	**64,561,991**	**78,001,774**
Q1	15,875,340	20,518,886
Q2	19,753,175	20,570,612
2010 Total	**35,628,515**	**41,089,498**
Total		
Cumulative	$120,805,119	$168,041,761

The column labeled "Corporate" are corporate retained synergies that KCPL has identified that are not included in the synergy savings tracking model the Commission ordered, and are not and will not be flowed to ratepayers. These savings include reduced interest expense from the upgrade of Aquila's debt post-acquisition, line of credit fees, and corporate redundant expenditures. Although KCPL has reaped $168,041,761 of benefits through June 30, 2010 from the acquisition, referencing the previous table of transition costs, it has retained a mere $500,727 of transition costs (see Corporate Retained – Merchant line).

In examining the Company's documented regulated synergy savings in relation to the table of relevant dates previously provided, KCPL retained all synergy savings realized from July 14, 2008 to September 1, 2009. Assuming the savings in Quarter 3 of 2009 occurred ratably over the quarter, KCPL retained over $52.7 million of synergy savings before any benefits flowed to ratepayers. KCPL has identified total regulated transition costs of $51.9 million. Comparing the transition costs to the savings identified in the table above KCPL has already recovered the entire amount plus an additional $886,948 [$52,749,210 through September 1, 2009 savings less $51,862,262 of transition costs].

Even more important in considering the level of actual savings KCPL and GMO have retained from the acquisition is the amount of savings identified for 2009 of $64.5 million and through the 6 months ending June 30, 2010 of $35.6 million, which total $100.1 million. Considering the $168 million of acquisition savings retained by GPE, GPE and its KCPL and GMO entities have received over $268 million of benefits from the Aquila acquisition. Those amounts more than offset the transition costs. Customers have seen a fraction of those savings. To provide KCPL and GMO recovery of transition costs would provide a double recovery of those costs.

In its Report and Order in Case No. EM-2007-0374 where the Commission authorized KCPL, Aquila and GPE to perform the transactions for GPE to acquire Aquila, the Commission, as quoted earlier, stated on page 241, "The Commission further concludes that it is not a detriment to the public interest to deny recovery of the transaction costs associated with the merger . . . ." If one assumes KCPL intended the corporate retained benefits to offset any of the transaction costs for which the Commission denied recovery, then KCPL has recovered far more costs than expended. In response to Data Request No. 461 in this case, KCPL stated that the total transaction costs related to the acquisition of Aquila is over $40.2 million. The corporate retained synergies that exceed the transaction costs net of the transition costs the companies have retained totals $127.3 million of cash flow to shareholders.

The remaining "bucket" of synergy savings is the savings that took place before GPE acquired Aquila. In its response to Data Request No. 460 in this case, File No. ER-2010-0355, KCPL stated, "[We] have not tracked or evaluated synergy savings for any period prior to the completion of the acquisition on July 14, 2008." If there were any synergy savings before GPE acquired Aquila, the companies would have retained the additional synergies in 2008, before flowing them through rates. It is typical for companies to lose employees, thus reduction of payroll costs, during course of a merger. Many employees, fearing loss of jobs, will leave the merging companies to seek employment elsewhere.

It is important to note that KCPL has not begun to amortize the deferred transition costs. In footnote 930 of its Report and Order in Case No. EM-2007-0374 quoted earlier, the Commission stated:

> The Commission will give consideration to their [transition costs] recovery in future rate cases making an evaluation as to their reasonableness and prudence. At that time, the Commission will expect that KCPL and Aquila demonstrate that the synergy savings exceed the level of the amortized transition costs **included in the test year cost of service expenses** in future rate cases. (Emphasis added.)

In its finding of fact number 327 appearing on page 122 of its Report and Order the Commission found:

> 327. Applicants request that the Commission allow the surviving entities to defer both transaction and transition costs and to amortize them over a five-year period beginning with the first rate cases post-transaction for Aquila and KCPL subject to "true up" of actual transition and transaction costs in those future cases. (Footnote omitted.)

And, in its Conclusions of Law section of that same Report and Order, on page 239, the Commission stated:

> The Applicants have requested that the Commission authorize the recovery of the transaction and transition costs associated with the merger by amortizing them over a five-year period. This period would begin with the first rate cases post-transaction for Aquila and KCPL subject to "true up" of actual transition and transaction costs in future cases.

Based on these statements in its Report and Order in Case No. EM-2007-0374, Staff believes the Commission expected KCPL to begin amortizing the transition costs beginning with the first rate cases post GPE's acquisition of Aquila. The first rate cases after the acquisition were filed by KCPL and GMO on September 5, 2008 as Case Nos. ER-2009-0090 and ER-2009-0089, respectively. The effective date of new rates in both cases was September 1, 2009. The test year for the instant case is calendar year 2009, therefore, had KCPL begun amortizing transition costs on September 1, 2009, four months of the amortization would have already been expensed in the test year—September, October, November and December.

Staff believes both KCPL and GMO should have started any amortization of the transition costs starting with the effective date of the last rate cases, September 1, 2009. The Commission authorized a general rate increase which should have triggered the starting of the amortizations for the transition costs.

Based on the foregoing, KCPL and GMO have already recovered all of the transition costs of GPE's acquisition of Aquila through regulatory lag. Therefore, Staff has not included any amount of amortized transition costs in its cost of service for KCPL.

Staff Expert/Witness: Keith A. Majors

Appendices

Appendix 1 - Staff Credentials

Appendix 2 - Support for Staff Cost of Capital Recommendation
-David Murray

Appendix 3 - Relevant Pages of Energy Efficiency Advisory Groups Status Report
- John A. Rogers

Appendix 4 - KCPL Customer Program Expenditures - Henry E. Warren

Appendix 5 - Support for Transmission Tracker Testimony - Daniel I. Beck

Appendix 6 - Staff Recommended Depreciation Rates - Arthur W. Rice

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	Case No. ER-2010-0355

AFFIDAVIT OF ALAN J. BAX

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Alan J. Bax, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 80-81, 180-183; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Alan J Bax

Alan J. Bax

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	Case No. ER-2010-0355

AFFIDAVIT OF DANIEL I. BECK

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Daniel I. Beck, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 149-154; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Daniel I Beck

Daniel I. Beck

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	Case No. ER-2010-0355

AFFIDAVIT OF WALT CECIL

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Walt Cecil, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 58-59, 60-61, 78-80; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Walt Cecil

Walt Cecil

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	File No. ER-2010-0355

AFFIDAVIT OF CARY G. FEATHERSTONE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Cary G. Featherstone, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 1-10, 183-187; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief and that he conducted his audit activities in accordance with Generally Accepted Auditing Standards (GAAS).

Cary G Featherstone
Cary G. Featherstone

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)	Case No. ER-2010-0355

AFFIDAVIT OF CAROL GAY FRED

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Carol Gay Fred, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report in pages 137-141; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief.

Carol Gay Fred

Carol Gay Fred

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	Case No. ER-2010-0355

AFFIDAVIT OF RANDY S. GROSS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Randy S. Gross, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 154-157; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Randy S. Gross

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	File No. ER-2010-0355

AFFIDAVIT OF V. WILLIAM HARRIS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

V. William Harris, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 49-51, 66-70, 72-74, 76-77; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief and that he conducted his audit activities in accordance with Generally Accepted Auditing Standards (GAAS).

V. William Harris

V. William Harris

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	File No. ER-2010-0355

AFFIDAVIT OF PAUL R. HARRISON

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Paul R. Harrison, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 51-52, 86-90, 172-180; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief and that he conducted his audit activities in accordance with Generally Accepted Auditing Standards (GAAS).

Paul R. Harrison

Paul R. Harrison

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	File No. ER-2010-0355

AFFIDAVIT OF CHARLES R. HYNEMAN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Charles R. Hyneman, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 90-98, 134-137; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief and that he conducted his audit activities in accordance with Generally Accepted Auditing Standards (GAAS).

Ch R. Hy
Charles R. Hyneman

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	Case No. ER-2010-0355

AFFIDAVIT OF HOJONG KANG

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Hojong Kang, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 130 - 134; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Hojong Kang

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	Case No. ER-2010-0355

AFFIDAVIT OF MANISHA LAKHANPAL

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Manisha Lakhanpal, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report in pages 59-60, 61, 63-64, 65-66; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief.

Manisha Lakhanpal.
Manisha Lakhanpal

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	Case No. ER-2010-0355

AFFIDAVIT OF SHAWN E. LANGE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Shawn E. Lange, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 74-75, 78, 81 ; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Shawn E. Lange
Shawn E. Lange

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	File No. ER-2010-0355

AFFIDAVIT OF KAREN LYONS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Karen Lyons, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report in pages 39-46, 102-106, 107-112, 113-115, 120-121, 144-146; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief and that he conducted his audit activities in accordance with Generally Accepted Auditing Standards (GAAS).

Karen Lyons
Karen Lyons

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	File No. ER-2010-0355

AFFIDAVIT OF KEITH A. MAJORS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Keith A. Majors, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 53, 121-126, 146-148, 187-199; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief and that he conducted his audit activities in accordance with Generally Accepted Auditing Standards (GAAS).

Keith A. Majors
Keith A. Majors

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	Case No. ER-2010-0355

AFFIDAVIT OF ERIN L. MALONEY

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Erin L. Maloney, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report in pages 77-78; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief.

Erin L. Maloney
Erin L. Maloney

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)	File No. ER-2010-0355

AFFIDAVIT OF AMANDA C. MCMELLEN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Amanda C. McMellen, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report in pages 62-63, 70-71, 115-116, 119-120 ; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief and that he conducted his audit activities in accordance with Generally Accepted Auditing Standards (GAAS).

Amanda C McMellen
Amanda C. McMellen

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	))))))	Case No. ER-2010-0355

AFFIDAVIT OF DAVID MURRAY

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David Murray, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 10-39, 106-107; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

David Murray

David Murray

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	File No. ER-2010-0355

AFFIDAVIT OF BRET G. PRENGER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Bret G. Prenger, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 47-49, 51, 81-86, 98-102, 112-113, 116-118, 148; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief and that he conducted his audit activities in accordance with Generally Accepted Auditing Standards (GAAS).

Bret G. Prenger
Bret G. Prenger

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	Case No. ER-2010-0355

AFFIDAVIT OF ARTHUR W. RICE, PE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Arthur W. Rice, PE, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 158-172; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Arthur W Rice PE
Arthur W. Rice, PE

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	Case No. ER-2010-0355

AFFIDAVIT OF JOHN A. ROGERS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

John A. Rogers, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 126-130; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

John A Rogers
John A. Rogers

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	Case No. ER-2010-0355

AFFIDAVIT OF HENRY E. WARREN, PHD

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Henry E. Warren, PhD, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 142-144; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Henry E Warren

Henry E. Warren, PhD

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	File No. ER-2010-0355

AFFIDAVIT OF CURT WELLS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Curt Wells, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 54 and 55; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Curt Wells

Curt Wells

Subscribed and sworn to before me this 12th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Kansas City Power & Light Company for Approval to Make Certain Changes in its Charges for Electric Service to Continue the Implementation of Its Regulatory Plan	)))))	Case No. ER-2010-0355

AFFIDAVIT OF SEOUNG JOUN WON

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Seoung Joun Won, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 56-57, 61-62, 64-66; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Seoung Joun Won

Seoung Joun Won

Subscribed and sworn to before me this 10th day of November, 2010.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 08, 2012
Commission Number: 08412071

D Suzie Mankin

Notary Public