

**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 Implement its Regulatory)
Plan.)

Case No. ER-2007-0291

STAFF’S STATEMENTS OF POSITION

COMES NOW the Staff of the Missouri Public Service Commission (“Staff”) and states:

1. On February 1, 2007, Kansas City Power & Light Company filed with the Commission tariff sheets designed to implement a general electric rate increase for service it provides to its Missouri customers in and about Kansas City, Missouri. The Commission opened Case No. ER-2007-0291 to address that filing.

2. On April 5, 2007, the Commission issued an *Order Setting Procedural Schedule* in which it stated the parties are to agree on a list of issues to be filed by the Staff and that “[a]ny issue not included in the issues list will be presumed to not require determination by the Commission.” In its order the Commission also stated that each party is to file a list of witnesses to appear on each day of the hearing, the order in which they are called, and that the parties are to file a joint pleading proposing the order in which witnesses are to be cross-examined. As ordered by the Commission, after the Commission granted the Staff’s request for an extension of time to file them, the Staff, on September 21, 2007, filed a list of issues, order of witnesses and order of cross-examination for this case.

3. In its April 5, 2007, *Order Setting Procedural Schedule* the Commission ordered the parties to file statements of position by September 25 2007. Further, at the parties’ request,

the Commission granted a variance from the requirements of Commission Rule 4 CSR 240-2.080(21) regarding the format of the list of issues.

4. With the listing of issues the Staff filed it represented that the parties agree the listing of issues was not an agreement by any party that any particular listed issue is, in fact, a valid or relevant issue, and that, in their position statements, some parties may state that they consider a particular listed issue to not be a valid issue. Further, the Staff stated, “This ‘non-binding’ listing of issues is not to be construed as impairing any party’s ability to argue about any of these issues or related matters, or to restrict the scope of its response to arguments made by other parties.”

5. Following each listed issue below from the list of issues the Staff assembled for this case, the Staff sets out its position on that issue. The Staff believes the list of issues includes all contested issues and properly identifies them.

STAFF’S STATEMENTS OF POSITION

Rate of Return

1. Return on Common Equity: What return on common equity should be used for determining KCPL’s rate of return?

Staff recommends a cost of common equity in the range of 9.14% to 10.30%, with a mid-point of 9.72%, resulting in a fair and reasonable rate of return of 7.97% to 8.73% for KCPL’s Missouri jurisdictional electric utility rate base. Staff used the comparable company approach to determine the cost of common equity for KCP&L and the Capital Asset Pricing Model as a check of reasonableness.

- a. Is KCPL’s decreased risk due to the Kansas City Power & Light Company Experimental Regulatory Plan the Commission approved in Case No. EO-2005-0329 a factor that reduces the return on common equity otherwise appropriate for KCPL?

It is Staff’s position that the purpose of the Experimental Regulatory Plan approved by the Commission in Case No. EO-2005-0329 was to mitigate the risk to KCPL during construction. KCP&L’s credit

rating has remained unchanged during the construction phase. Therefore; Staff believes that an adjustment to return on equity is not necessary.

- b. Is KCPL's increased risk due to its large construction undertakings a factor that increases the return on common equity otherwise appropriate for KCPL?

Staff does not believe KCP&L's increased risk due to its large construction undertakings is a factor that increases the return on common equity for the Company.

- c. If so, what is the impact of these factors?

- 2. Capital Structure: What capital structure should be used for determining KCPL's rate of return?

Great Plains Energy capital structure as of March 31, 2007, which had a consolidated capital structure that consisted of 66.01 percent common equity, 1.67 percent preferred stock, and 32.32 percent long-term debt. Staff's capital structure for KCPL was based on March 31, 2007, actual known and measurable data that did not include consolidated group's debt issuances in May and September. Staff noted in Direct Testimony that it would update the capital structure through September 30, 2007, once data is known and measurable. Staff has not traditionally used projected data to determine the rate-of-return for a company. Staff will update the capital structure in True-up Direct that is to be filed November 2, 2007.

Expense Issues

- 3. Hawthorn 5 Subrogation Proceeds: Should subrogation proceeds KCPL received in 2006 concerning the 1999 Hawthorn 5 boiler explosion litigation be included in cost of service for setting KCPL's rates?

Yes. During the 2006 test year ordered by the Commission in this case KCPL received \$23.1 million in insurance subrogation proceeds from litigation arising out of the 1999 explosion of the boiler KCPL used at its Hawthorn 5 unit for generating electricity. Although the boiler explosion was a nonrecurring atypical, even extraordinary, event, KCPL did not seek an accounting authority order or file a rate case based on a test year that included the expenses KCPL incurred due to the boiler explosion; therefore, the Commission should presume KCPL recovered those expenses from ratepayers in the rates it was charging ratepayers when it incurred those expenses. Since the cost of the Hawthorn V plant was included in KCPL's electric rates and KCPL's customers were paying the depreciation and return on this plant while it was out of service after the

explosion, they have an investment interest in the insurance subrogation proceeds. As a result, in the rates set in this case based on a 2006 test year, ratepayers should receive a benefit from the Hawthorn 5 boiler explosion insurance subrogation proceeds KCPL received in the 2006 test year by including them in KCPL's cost of service in this case. (Staff witness Hyneman).

- a. If so, should the five-year amortization period proposed by Staff be adopted?

Yes. Rather than totally excluding the \$23.1 million of Hawthorn 5 boiler explosion insurance subrogation proceeds from cost of service as proposed by KCPL or including the full \$23.1 million in cost of service, the Staff, proposes a sharing of the benefits of the proceeds between ratepayers and shareholders by means of using a five-year amortization of the \$23.1 million so that only \$4.6 million total company (\$2.5 million Missouri jurisdictional) is included in KCPL's cost of service for purposes of setting rates in this case. KCPL's shareholders receive the benefit of the cost-free use of these funds over these five years by not including these funds as an offset to rate base. (Staff witness Hyneman).

4. Long-term Incentive Compensation: Should the costs of KCPL's and GPE's long-term incentive compensation plans be included in cost of service for setting KCPL's rates?

GPE's Long Term Incentive Compensation Plan provides stock based compensation driven primarily by Earnings per Share (EPS) and Return on Total Capital. Achievement of these goals benefits the shareholders of GPE, not ratepayers. Equity compensation does not require a cash outlay by KCPL but KCPL is seeking a cash recovery in rates from ratepayers. The cost of Long Term Incentive Compensation should be assigned to GPE's shareholders. Staff position is consistent with its position on this issue in KCPL's last rate case, Case No. ER-2006-0314 and the Commission's *Report and Order* on this issue in Case No. ER-2006-0314. (Staff witness Traxler).

5. Short-term Executive Compensation: Should part of the costs of KCPL's and GPE's short-term executive compensation plans be excluded from cost of service for setting KCPL's rates?

Half of GPE's and KCPL's Short Term Executive Incentive Compensation Plans include goals tied to Earnings Per Share (EPS) for GPE. The shareholders of GPE, not KCPL's ratepayers are the beneficiaries of achieving goals tied to EPS. The Staff has eliminated from its determination of KCPL's revenue requirement the cost of the GPE and KCPL Short Term Incentive Executive Compensation Plans related to

achievement of the EPS goal. 20% of GPE's and KCPL's short term executive incentive compensation represents discretionary bonuses. Staff has disallowed recovery because of this compensation because it is not tied to any well-defined goals which would demonstrate a benefit to KCPL's ratepayers. Staff position is consistent with its position on this issue in KCPL's last rate case, Case No. ER-2006-0314 and the Commission's *Report and Order* on this issue in Case No. ER-2006-0314. (Staff witness Traxler).

6. Talent Assessment Program Employee Severance Cost: Should the severance and other associated costs of KCPL employees terminated under KCPL's talent assessment program be included in cost of service for setting KCPL's rates?

No. KCPL has shown no benefit to ratepayers from the \$8.9 million in severance and associated costs it incurred with its talent assessment program and the Staff is aware of none. KCPL's only attempt to show a benefit from the talent assessment program, the results of a J.D. Powers' customer service survey, actually shows a decline in customer satisfaction since KCPL undertook its talent assessment program.

KCPL did not include its severance and associated costs incurred with its talent assessment program in calculating earnings per share for executive compensation purposes. In its *Report and Order* in Case No. ER-2006-0314, the Commission stated the following regarding severance costs KCPL incurred in 2005: "The Commission sees no equity in allowing KCPL to recover these costs from ratepayers when its own management excludes those same costs from its EPS calculation, to the enrichment of its executives via the incentive compensation plan." (Staff witness Hyneman).

- a. If so, should the costs be recognized in cost of service using KCPL's proposed deferral and amortization to expense over five years?

7. Employee Severance Cost: Should the severance costs of KCPL employees terminated for reasons other than KCPL's talent assessment program be included in cost of service for setting KCPL's rates?

No. KCPL incurred these severance costs to protect shareholders and they did not have the effect of decreasing payroll; therefore, these costs should not be included in cost of service. KCPL made this same proposal in its 2006 rate case, Case No. ER-2006-314, and the Commission rejected it. KCPL has not provided anything new to persuade the Commission to change a position it took less than 12 months ago. In the 2006 rate case, the Commission found that the competent and substantial evidence supported Staff's position, and decided this issue in

favor of Staff. The Commission found that KCPL's severance costs were designed to protect KCPL against such issues as sexual harassment or age discrimination, and that such costs are not recoverable in rates. The Commission contrasted KCPL's severance payments, made only to protect shareholders, with severance payments made to decrease payroll, which could be included in cost of service because of the benefit to ratepayers. KCPL has presented nothing in this case to justify why the Commission should overturn a decision it made just a few months ago. (Staff witness Hyneman).

If so, is it appropriate to include a three-year average of those costs?

8. Cost of Removal Income Tax: Should the tax timing difference for cost of removal be reflected under normalization accounting or flow-through accounting for pre-1981 vintage property for purposes of determining income tax expense in KCPL's cost of service for this case?
 - a. If normalization accounting is occurring or adopted, is an amortization required for prior benefits resulting from the use of flow-through accounting subsequent to 1979?
 - i. If so, what time period should be used for the amortization?

The Staff is recommending normalization accounting for the tax timing difference related to Cost of Removal. The Staff maintains that KCPL's existing rates established in Case No. ER-2006-0314 are based upon normalization accounting for Cost of Removal. KCPL is proposing normalization accounting for post-1980 vintage property and flow-through accounting for pre-1981 vintage property. Cost of Removal is recovered in rates over the life of the asset used in developing the book depreciation rate. Normalization accounting matches the *tax deduction* for cost of removal with the recovery of the cost included in book depreciation expense. Under flow-through accounting, the ratepayer pays for Cost of Removal over the estimated life of the asset, but does not receive the related tax deduction until the end of the life of the asset. There is no valid reason, in Staff's view, for using normalization accounting for certain vintage assets and flow-through accounting for other vintage assets respecting Cost of Removal. If the Commission orders normalization, KCPL proposes that the Commission amortize a purported Deferred Tax Liability over five years related to pre-1981 vintage property. The Staff position is that a Deferred Tax Liability did not occur under prior flow-through treatment and, therefore, no such amortization is necessary or appropriate.

(Staff witness Traxler).

9. Organization Membership Dues: What level of membership dues KCPL paid to organizations should be included in cost of service for setting KCPL's rates?

Staff believes that limits should be placed on membership dues paid to organizations such as the Chamber of Commerce and the Kansas City Area Development Council. Whereas the Company has paid dues to many such organizations, Staff continues to hold to the position that it is reasonable to charge customers only for dues paid to one such organization. Staff has continued the practice of selecting the Chamber of Commerce, as being the most widely recognized organization dedicated to furthering business interests. (Staff witness Vesely).

10. Advertising Costs: What level of KCPL's advertising costs should be included in KCPL's cost of service for setting KCPL's rates?

Costs incurred in the test year to inform the customer base of the projects and programs included in the Stipulation and Agreement that was part of EO-2005-0329 should be amortized over a two-year period. This is the amortization period ordered by the Commission for all rate case related expenses in the *Report and Order* in Case No. ER-2006-0314. (Staff witness Vesely).

11. Washington Employee Costs: Should any level of costs associated with KCPL's Washington, D.C. employee who represents KCPL in federal matters be included in KCPL's cost of service for setting KCPL's rates?

No. As shown by his job description and responsibilities, KCPL's Washington, D.C. employee is a lobbyist engaged only in lobbying activities on behalf of KCPL that provide no benefit to KCPL's ratepayers. KCPL has provided nothing to support its assertion that this employee engages in activities other than lobbying. All costs associated with this employee should be excluded from KCPL's cost of service. (Staff witness Hyneman).

- a. If not, what level of costs should be excluded in addition to those currently recorded by that employee as excluded lobbying costs.

12. KCPL Supplemental Executive Retirement Pension (SERP) costs: What level of SERP costs should be included in KCPL's cost of service for setting KCPL's rates?

Only KCPL's normal recurring level of SERP costs should be included in KCPL's cost of service. Irregular one-time SERP lump sum payments should not be included in KCPL's cost of service because they are not known and measurable. These one-time SERP payments are made

on an irregular basis and at irregular amounts, and are incapable of being quantified on any reasonable basis. (Staff witness Hyneman).

13. Meal Expenses: What level of local meal expense should be included in KCPL's cost of service for setting KCPL's rates?

None. The Staff believes that there is a general presumption that KCPL's management should pay for its own meals while in the Kansas City area. The Staff has found numerous instances of questionable charges for meals by KCPL officers and other problems with KCPL's expense account process. The Staff's finding is supported the finding's of KCPL's internal auditing department. (Staff witness Hyneman).

14. Off-system sales margin:

- a. Should KCPL's rates continue to be set at the 25th percentile of non-firm off-system sales margin as projected in this case for 2008 as proposed by KCPL, and accepted by the Staff, or at the 40th percentile as proposed by Public Counsel?
- b. Should interest be calculated and flowed to ratepayers on the off-system sales margin that exceeds the off-system sales margin level the Commission approved to be recovered in rates in Case No. EO-2006-0314?

The Commission decided the issue on the method to be used to determine the appropriate level of Off-System Sales Margin in Case No. ER-2006-0314 by adopting the margin at the 25th percentile as determined by the analysis of KCPL witness Michael M. Schnitzer in that case. The Staff's position is to follow the Commission's *Report and Order* in Case No. ER 2006-0314 by reflecting Mr. Schnitzer's current recommendation for margin at the 25th percentile in his analysis. Any excess margin as of September 30, 2007, above the 25th percentile adopted for ratemaking purposes in Case No. ER-2006-0314 should be flowed back to customers as a reduction to cost of service established in this case. The Staff does not support the Office of Public Counsel's position of accruing interest on the excess of actual margin respecting the levels established in KCPL's last case, Case No. ER-2006-0314, and in this case, Case No. ER-2007-0291, and the levels actually achieved. (Staff witness Traxler).

15. Department of Energy Nuclear Fuel Overcharge Refund: Should the Department of Energy Nuclear Fuel Overcharge Refunds for 1986 through 1993 KCPL received during the test year in this case be included in KCPL's cost of service for setting KCPL's rates?

Yes. During the 2006 test year ordered by the Commission in this case KCPL received refunds of overpayments it made to the Department

of Energy for nuclear fuel it purchased from 1986 to 1993. The Commission should presume KCPL recovered those overpayments from ratepayers in the rates it was charging ratepayers from 1986 to 1993. As a result, in the rates set in this case based on a 2006 test year, ratepayers should receive a benefit from the Department of Energy Nuclear Fuel Overcharge Refunds for 1986 to 1993 KCPL received in the 2006 test year by including the refunds in KCPL's cost of service in this case. (Staff witness Hyneman).

- a. If so, should the five-year amortization period proposed by Staff be adopted?

Yes. Rather than totally excluding the \$427,000 of refunds from cost of service as proposed by KCPL or including the full amount in cost of service, the Staff proposes a sharing of the benefits of the refunds between ratepayers and shareholders by means of using a five-year amortization of the \$427,000 so that only \$85,000 total company (\$46,000 Missouri jurisdictional) is included in KCPL's cost of service for purposes of setting rates in this case. KCPL's shareholders receive the benefit of the cost-free use of these funds over these five years by not including these funds as an offset to rate base. (Staff witness Hyneman).

16. Research and Development Tax Credits: Should research and development tax credits related to amended income tax returns for years 2000 to 2004 be deferred and amortized in KCPL's cost of service for setting KCPL's rates, if received in the future?

Yes.

- a. If so, at what level?
- b. Should costs KCPL incurred to obtain the tax credits be included in KCPL's cost of service? If so, at what level?

KCPL filed amended tax returns for the years 2000-2004 in order to capture Research and Development Tax Credits available for these years. A tax refund was first expected to be received by KCPL within the test year and true-up period but is now expected to be received by KCPL in 2008. The Staff is recommending that the tax refund be deferred and amortized to cost of service over five years in KCPL's next rate case scheduled to be filed by KCPL by April 2008. Deferred accounting treatment and amortization is consistent with the Commission's prior approval of for example extraordinary ice storm costs incurred by KCPL in 2002. KCPL's recommended treatment is to exclude the tax refund as a prior period event which will allow the proceeds of the tax refund to accrue to the GPE shareholders. This recommended treatment is inconsistent with KCPL's prior requests and Commission approval for

deferred accounting and amortization of extraordinary events such as ice storm costs in 2002. Just and reasonable rates require consistent treatment for *both* extraordinary costs and revenues. (Staff witness Traxler).

17. Bad Debt Expense: What bad debt expense factor should be applied to both adjusted and pro-forma revenues to determine the level of bad debt expense to be included in cost of service?

The Staff believes this is not a contested issue at this time, but the Staff reserves the right to conduct cross-examination and brief this issue should it be contested.

18. Wolf Creek Refueling Outage Costs: Should the Commission order KCPL to reflect Wolf Creek refueling outage costs under the defer-and-amortize method adopted by KCPL in 2006 in accordance with a new accounting pronouncement or order KCPL to maintain its accounting for regulatory purposes under the prior accrue-in advance method?

The Commission should order KCPL to maintain its accounting for Wolf Creek refueling outage costs under the accrue-in-advance method for purposes of the cost to include in KCPL's cost of service and not allow KCPL to reflect those costs under the defer-and-amortize method because the defer-and-amortize method significantly increases KCPL's cash working capital requirement solely due to the change in accounting method. A regulated utility should not of its own volition change its method of accounting for a cost from a method that has been approved by a regulatory body when the substance of the underlying event has not changed. Allowing KCPL to switch accounting methods under these circumstances would set bad precedent. If KCPL can show that the change in accounting method can be done on a revenue neutral basis, the Staff would not oppose the change. (Staff witness Hyneman).

- a. If the accrue-in-advance method is ordered, what projected cost level should be established for purposes of both the accrual allowed in cost of service and for the tracking mechanism proposed by Staff?

The cost level should be \$16 million amortized over the 18-month interval between refuelings, which is about \$2 million more than KCPL's Spring 2005 Wolf Creek refueling outage costs. (Staff witness Hyneman).

Rate Base Issues

19. Rate Case Expense: Should KCPL's rate case expense deferred for future amortization in accordance with the Commission's order in Case No. ER-2006-0314 be included in KCPL's rate base?

No. Rate case expense should not be included in rate base because it is not an asset, and only assets are included in rate base. As the Commission stated in the *Report and Order* it issued in Case No. ER-2006-0314,

Assets are defined by the Financial Accounting Standards Board (FASB) as ‘probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events’ (FASB Concept Statement No. 6, Elements of Financial Statements). Once an item meets the test of being an asset, it must also meet the ratemaking principle of being ‘used and useful’ in the provision of utility service. Used and useful means that the asset is actually being used to provide service and that it is actually needed to provide utility service. This is the standard adopted by many regulatory jurisdictions, including the Missouri Public Service Commission. . . .” The Commission finds that the competent and substantial evidence supports the position of Staff, and finds this issue in Staff’s favor. While KCPL’s projects appear to be prudent, KCPL produced insufficient evidence for the Commission to find that these projects rise to the level of an asset, on which the company could earn a rate of return. What is at issue is not whether a project⁹⁶ is a “probable future economic benefit”, as KCPL asserts in its brief; what is at issue is the remainder of the FASB definition Mr. Hyneman quoted, which is “obtained or controlled by an particular entity as a result of past transactions or events.” In other words, an asset is some sort of possession or belonging worth something. KCPL obtains or controls assets, such as generation facilities and transmission lines. To attempt to turn an otherwise legitimate management expense, such as a training expense, into an asset by dubbing it a “project” makes a mockery of what an asset really is, which is some type of property. Using KCPL’s argument, any expense is potentially an asset by simply calling it a “project”, and thus could be included in rate base. KCPL’s projects do not rise to the level of rate base.

Rate case expense is not “some type of property” or “some sort of possession or belonging worth something.” Since rate case expense is not an asset it should not be included in rate base. (Staff witness Hyneman).

20. Surface Transportation Board (STB) Litigation Expenses: Should KCPL’s surface transportation board litigation expenses deferred for future amortization in accordance with the Commission’s order in Case No. ER-2006-0314 be included in KCPL’s rate base?

No. Surface transportation board litigation expenses should not be included in rate base because they are not assets, and only assets are

included in rate base. As the Commission stated in the *Report and Order* it issued in Case No. ER-2006-0314,

Assets are defined by the Financial Accounting Standards Board (FASB) as ‘probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events’ (FASB Concept Statement No. 6, Elements of Financial Statements). Once an item meets the test of being an asset, it must also meet the ratemaking principle of being ‘used and useful’ in the provision of utility service. Used and useful means that the asset is actually being used to provide service and that it is actually needed to provide utility service. This is the standard adopted by many regulatory jurisdictions, including the Missouri Public Service Commission. . . .” The Commission finds that the competent and substantial evidence supports the position of Staff, and finds this issue in Staff’s favor. While KCPL’s projects appear to be prudent, KCPL produced insufficient evidence for the Commission to find that these projects rise to the level of an asset, on which the company could earn a rate of return. What is at issue is not whether a project⁹⁶ is a “probable future economic benefit”, as KCPL asserts in its brief; what is at issue is the remainder of the FASB definition Mr. Hyneman quoted, which is “obtained or controlled by an particular entity as a result of past transactions or events.” In other words, an asset is some sort of possession or belonging worth something. KCPL obtains or controls assets, such as generation facilities and transmission lines. To attempt to turn an otherwise legitimate management expense, such as a training expense, into an asset by dubbing it a “project” makes a mockery of what an asset really is, which is some type of property. Using KCPL’s argument, any expense is potentially an asset by simply calling it a “project”, and thus could be included in rate base. KCPL’s projects do not rise to the level of rate base.

Surface transportation board litigation expenses are not “some type of property” or “some sort of possession or belonging worth something.” Since surface transportation board litigation expenses are not assets they should not be included in rate base. (Staff witness Hyneman).

CLASS COST OF SERVICE / RATE DESIGN

21. Effect of Case No. EO-2005-0329 Stipulation and Agreement on Inter-class Shifts: Does the Stipulation and Agreement incorporating the KCPL Experimental Regulatory Plan that the Commission approved in Case No. EO-2005-0329 allow the signatories to the Stipulation and Agreement to propose inter-class revenue shifts in this case?

Yes. (Staff witness Pyatte).

- a. If so, should any inter-class revenue shifts be implemented in this case?

Yes. The Staff recommends increasing the revenue responsibility of the Residential class by approximately 1.8% and reducing the revenue responsibility of the Medium General Service class by approximately 5% to shift precisely \$3,536,542 from the Medium General Service class to the Residential class. This revenue-neutral shift should be accomplished by reducing the medium general service (MGS) class rates by applying an equal percentage reduction to each demand charge and energy charge rate component, and increasing the residential class rates by applying an equal percentage increase to every residential class rate component. Any overall rate increase should be implemented thereafter as an equal percentage increase to each rate component of each rate schedule. (Staff witness Watkins).

22. Large Power Service Rate Design:

- a. Does the Stipulation and Agreement incorporating the KCPL Experimental Regulatory Plan that the Commission approved in Case No. EO-2005-0329 allow the signatories to the Stipulation and Agreement to make rate design modifications within the Large Power Service rate schedule?

Yes. (Staff witness Pyatte).

- b. If so, what are the appropriate demand and energy charges for the Large Power Service rate schedule?

The Staff recommends that the Commission reject any proposal to reduce energy rate values below KCPL's incremental energy cost.

Any reduction to existing energy rate values should be accomplished on a proportional or equal-percentage basis.

Any offsetting increases to the demand rate values that result from reducing energy rate values should be applied so as to reduce or eliminate the declining block feature of the existing LPS demand charge.

Any revenues "lost" due to existing Large Power Service (LPS) customers switching to the Large General Service rate schedule should be recovered by the remaining LPS customers by proportionately increasing the demand and energy charges on the Large Power Rate.

(Staff witness Watkins).

23. General Service All-electric tariffs and general service separately-metered space-heating tariff provisions:

- a. Should KCPL's general service all-electric tariff rates and separately-metered space heating rates be increased more (i.e., by a greater percentage) than KCPL's corresponding standard general application rates and if so, by how much more?

Yes. The Staff agrees with Trigen that the All-Electric and separately-metered space heating rates should be increased in this case by more than the general application rates.

The separately-metered space heating rates should be increased by 10%, on a revenue-neutral basis (i.e., prior to any shifts in class revenue responsibility), to eliminate a significant portion of the discount that is being provided to customers with low load factors. None of the Staff-proposed reduction in revenue responsibility for the Medium General Service (MGS) rate class should be applied to the MGS separately-metered space heating rate.

The initial winter energy block of the All-Electric rates should be increased by ten percent (10%) and the second winter block of the All-Electric rates should be increased by five percent (5%) to move these rate values closer to the corresponding general application rate values.

(Staff witness Watkins).

- b. Should KCPL's general service all-electric tariffs and separately-metered space heating rates be phased-out, and if so, over what period?

The Staff proposes that a step towards phasing out the General Service All-Electric rate schedules and the separately-metered space heating rate values be taken in this case. (Staff witness Watkins).

- c. Should the availability of KCPL's general service all-electric tariffs and separately-metered space heating rates be restricted to those qualifying customers commercial and industrial physical locations being served under such all-electric tariffs or separately-metered space heating rates as of the date used for the billing determinants used in this case (or as an alternative, the operation of law date of this case) and should such rates only be available to such customers for so long as they continuously remain on that rate schedule (i.e., the all-electric or separately-metered space heating rate schedule they are on as of such date)?

The Staff supports restricting the availability of the General Service All-Electric rate schedule and the separately-metered space heating rates to customers currently served on one of those rate schedules, but only for so long as they continuously remain on that rate schedule. (Staff witness Watkins).

d.

- i. Should the Commission require KCPL, as soon as possible but not later than its next rate case, to present complete cost of service and/or cost-effectiveness studies and analyses of KCPL's general service all-electric tariffs and separately-metered space heating rates and, consistent with the findings of such studies and analyses, allow KCPL the opportunity at that time to present its preferred phase-out plan for the remaining commercial and industrial customers served under the all-electric tariffs and separately-metered space heating rates?

The Staff supports providing KCPL an opportunity to present a complete cost-of-service study and/or cost-effectiveness study and analysis in its next rate case to justify any rate discounts for space heating and, if not justified, to allow KCPL the opportunity to present its preferred phase-out plan. (Staff witness Watkins).

- ii. In the event that KCPL does not file such cost of service and/or cost-effectiveness studies before or as part of its next rate case, should the Commission require KCPL to impute the revenues associated with the discounted rates in the all-electric general service tariffs and separately-metered space heating provisions of its tariffs and impute revenues equal to KCPL's cost of administering these discounted rates as part of its next rate case?

KCPL should not be required to file a study of the all electric and separately-metered space heating rates in its next case. And if it does not, revenues should not be imputed for all separately-metered space heating and all electric customers. (Staff witness Watkins).

- e. Should the Commission require KCPL to (a) investigate and determine whether the commercial and industrial customers currently served under the general service all-electric tariffs and the separately-metered space heating provisions of the standard general service tariffs continue to meet the eligibility requirements for those discounted rates; (b) remove from the discounted rates those customers which KCPL's investigation determines are no longer eligible for such discounted rates; and (c) monitor and police the eligibility

requirements of those customers receiving such discounted rates for reporting in KCPL's direct testimony in its next rate case filing?

KCPL should not be required to investigate and determine whether customers served under these rate schedules remain eligible for these rates. This would be a very awkward (from a customer service standpoint), time consuming and costly venture to embark on when the rates are being phased out anyway. (Staff witness Watkins).

- f. Should the Commission approve KCPL's proposal to rename its general service "All-Electric" tariffs as "Space Heating" tariffs?

No. (Staff witness Watkins).

KCPL Experimental Regulatory Plan Additional Amortization

- 24. KCPL Experimental Regulatory Plan Additional Amortization: What, if any, additional amortization is required by KCPL's Experimental Regulatory Plan approved by the Commission in Case No. EO-2005-0329?

The Staff calculates the Additional Amortization for the Staff's case through March 31, 2007 as zero. This will be reflected in the Reconciliation/Reconciliation that the Staff will file on Friday, September 28, 2007. (Staff witness Traxler).

WHEREFORE, the Staff submits the foregoing statements of position in response to the Commission's April 5, 2007, *Order Setting Procedural Schedule* .

Respectfully submitted,

/s/ Nathan Williams

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 25th day of September 2007.

/s/ Nathan Williams