**BEFORE THE PUBLIC SERVICE COMMISSION**
**OF THE STATE OF MISSOURI**

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| 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 |

## UNITED STATES DEPARTMENT OF ENERGY AND UNITED STATES NATIONAL NUCLEAR SECURITY ADMINISTRATION POSITION ON ISSUES

### REVENUE REQUIREMENT

**Rate of Return**

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

Response: DOE/NNSA proffered no testimony on this issue. However, DOE/NNSA supports the position of Staff on this issue.

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?

Response: DOE/NNSA proffered no testimony on this issue. However, DOE/NNSA supports the position of Staff on this issue.

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?

Response: DOE/NNSA takes no position on this issue.

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

Response: DOE/NNSA proffered no testimony on this issue. However, DOE/NNSA supports the position of Staff on this issue.

**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?

Response: Yes.

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

Response: Yes.

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?

Response: No. KCPL's Long-Term Incentive Compensation Program is based on earnings per share and is of no benefit to ratepayers.

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?

Response: Yes. It is DOE/NNSA's position that the parts of the plan that are either discretionary and therefore the criteria is not sufficiently defines or related to earnings per share and of not benefit to ratepayers should be disallowed.

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?

Response: DOE/NNSA supports staff's position on this issue.

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

Response: DOE/NNSA supports staff's position on this issue.

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?

Response: DOE/NNSA supports staff's position on this issue.

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

Response: DOE/NNSA supports staff's position on this issue.

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?

Response: DOE/NNSA supports staff's position on this issue.

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?

Response: DOE/NNSA supports staff's position on this issue.

i) If so, what time period should be used for the amortization?

Response: DOE/NNSA supports staff's position on this issue.

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?

Response: DOE/NNSA supports staff on this issue.

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

Response: DOE/NNSA supports staff's position on this issue.

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?

Response: DOE/NNSA supports staff's position on this issue.

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

Response: DOE/NNSA supports staff's position on this issue.

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?

Response: DOE/NNSA supports staff's position on this issue.

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

Response: DOE/NNSA supports staff's position on this issue

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?

Response: DOE/NNSA supports the Office of Public Counsel's position on this issue

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?

Response: DOE/NNSA supports staff's position on this issue

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?

Response: DOE/NNSA supports staff's position on this issue.

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

Response: DOE/NNSA supports staff's position on this issue.

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?

Response: Yes

a) If so, at what level?

Response: Based upon information about expected refunds provided to date by KCPL, DOE/NNSA believes that the Missouri jurisdictional revenue requirement impact of a five-year amortization of expected R&D tax credits is $490,000. However, DOE/NNSA would not oppose a true up of this cost of service component.

b) Should costs KCPL incurred to obtain the tax credits be included in

KCPL's cost of service? If so, at what level?

Response: The total cost of obtaining the tax credits should be amortized over five-years consistent with the amortization of the expected tax credits. During the test year $700,000 was incurred to facilitate such tax refunds, This amount, amortized over five years, and allocated to the Missouri retail jurisdiction results in amortization expense for Missouri retail cost of service of $79,704.

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?

DOE/NNSA supports staff's position on this issue.

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?

Response: DOE/NNSA supports staff's position on this issue.

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?

Response: DOE/NNSA supports staff's position on this issue.

**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?

Response: DOE/NNSA supports staff's position on this issue.

20)Surface Transportation Board 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-2006-03 14 be included in KCPL's rate base?

Response: DOE/NNSA supports staff's position on this issue.

**CLASS COST OF SERVICE / RATE DESIGN**

21)Effect of Case No. EO-2005-0329 Stipulation and Agreement on Inter-class revenue shifts:

a) Does the Stipulation and Agreement incorporating the KCPL Experimental Regulatory Plan that the Commission approved in Case No. EO2005-0329 allow the signatories to the Stipulation and Agreement to propose inter-class revenue shifts in this case?

Response: DOE/NNSA does not take a position on whether signatories to the Stipulation & Agreement in Case EO-2005-0329 are precluded from proposing inter-class revenue shifts in this case. DOE/NNSA however, takes the position that not being a signatory to the Stipulation & Agreement it is not precluded from proposing inter-class revenue shifts in this case.

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

Response: It is DOE/NNSA's position that since some classes of customers are paying less than it costs KCPL to serve them that an inter-class shift in revenues should be ordered in this case.

**Positions on Additional Issues Presented by DOE/NNSA to Staff but not Included**

**<u>in Staff's Issues Presented to Commission.</u>**

22)To what extent, if any, are current rates for each customer class generating revenues that are greater or less than the cost of serving for that customer class?

<u>Response:</u> The relative rates of return for each class are as set out in Gary Price's Direct Testimony, Table 1. The adjustment proposed to be made in the relative rates of return for the various classes of customers is as set out in Gary Price's Direct Testimony, Table 2. DOE/NNSA's proposed "gradualism" revenue adjustments for each class is as set out in Gary Price's Direct Testimony, Table 3.

23)Should revenue adjustments among classes be implemented in order to better align class revenues to class cost-of-service? If so, what percentage increase or decrease should be assigned to each customer class?

<u>Response:</u> Yes, the percentage increases or decreases are set out in the tables referenced in the DOE/NNSA response in paragraph 22) above.

24)Should class revenue adjustments be implemented even if no increase or decrease in revenue requirement is granted?

<u>Response:</u> Yes

25) Should revenue adjustments be phased-in over multiple years?

<u>Response:</u> Yes in the manner proposed in Table 2 in the Direct Testimony of Gary Price.

26)Should revenue adjustments among the non-residential classes be applied uniformly or be based on the amount over or under the cost of serving the class?

<u>Response:</u> Revenue adjustments among non-residential classes should not be applied uniformly but as recommended in Tables 1, 2 and 3 of the Direct Testimony of Gary Price.

27) <u>Large Power Service Rate Design:</u>

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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 26th day of September 2007.

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