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

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| In the Matter of the Application of KCP&L Greater Missouri Operations Company for Approval to Make Certain Changes in its Charges for Electric Service. | ) ) ) ) | **File No. ER-2010-0356** |

# STAFF RESPONSE TO ORDER SUSPENDING TARIFF SHEETS AND DIRECTING FILING

**COMES NOW** the Staff of the Missouri Public Service Commission ("Staff") and, for its response to the Commission's *Order Suspending Tariff Sheets and Directing Filing*, states:

1. In ordered paragraph 3 of its *Order Suspending Tariff Sheets and Directing Filing*, the Commission ordered the following:

> No later than June 8, 2011, the parties shall file a pleading stating KCP&L Greater Missouri Operations Company's short-term debt and any arguments why the "carrying costs" for the phased-in tariffs should not be equal to the short-term debt cost.

2. GMO's short-term cost of debt varies monthly with the LIBOR (London Interbank Offered Rate). Stated as an annual rate, GMO's cost of short-term debt in May 2011 was 3.00 percent (%). Historically, from January 2010 to May 2011 it has varied as follows:

| Jan-10 | Feb-10 | Mar-10 | Apr-10 | May-10 | Jun-10 | Jul-10 | Aug-10 | Sep-10 |
|---|---|---|---|---|---|---|---|---|
| 2.00% | 1.90% | 2.00% | 1.90% | 2.00% | 2.00% | 2.10% | 3.83% | 2.95% |
| **Oct-10** | **Nov-10** | **Dec-10** | **Jan-11** | **Feb-11** | **Mar-11** | **Apr-11** | **May-11** | |
| 2.95% | 2.95% | 3.60% | 3.60% | 3.72% | 3.60% | 3.24% | 3.00% | |

3. As GMO indicated in a footnote to the worksheet included with its cover letter to its May 31, 2011, filing of tariff sheets, GMO calculated carrying costs for the phase-in of rates using its authorized rate of return, consistent with the Commission's ordering

Kansas City Power & Light Company to use its use of its authorized rate of return for calculating carrying costs in Case Nos. ER-85—128 and EO-85-185 (28 Mo.P.S.C. (N.S.) 228 (1986)). That reported case is where the Commission first included the Wolf Creek nuclear generating facility in KCPL's rate base, and it is the second case of only two cases where the Commission has ordered rates to be phased-in under Section 393.155, RSMo. The table following compares some salient factual differences between this case and that one:

| | KCPL (1986) | GMO (2011) | |
|---|---|---|---|
| Duration of Phase-in | Seven years[5] | Two years | |
| Rate of Return | 11.75%[6] | 8.414% | |
| Return on Equity | 15.0%[7] | 10.0% | |
| Rate District | | MPS | L&P |
| Ordered revenue requirement increase | $78,245,000 (about 21%) | $35,721,372 (about 7.15%)[8] | $29,772,796 (about 21.3%)[9] |

In the KCPL case the Commission stated the following regarding carrying costs during the phase-in:

> The Commission determines that the carrying costs on the deferrals under the phase-in should be calculated at the overall rate of return rather than the return on equity. The Commission is persuaded by the Industrial Intervenors' argument that the deferred revenues should be fina*nc*ed with the same combination of debt and equity used to finance all of KCPL's capital expenditures. The Commission has determined the appropriate overall cost of capital in this case is 11.75 percent. Therefore, the Commission finds that carrying costs of 11.75 percent will produce a just and reasonable adjustment to reflect the fact that recovery of a part of the revenue requirement found appropriate is deferred to future years.

*Id*. at 419-420. In that case the Commission's, and presumably the parties', primary focus was

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[5] *In the Matter of Kansas City Power & Light Company of Kansas City, Missouri, for authority to file tariffs increasing rates for electric service provided to customers in the Missouri service area of the Company, and the determination of in-service criteria for Kansas City Power & Light Company's Wolf Creek Generating Station and Wolf Creek rate base and related issues* and *In the Matter of Kansas City Power & Light Company, a Missouri corporation, for determination of certain rates of depreciation*, 28 Mo.P.S.C. (N.S.) 228, 419, 422 and 423 (1986).
[6] *Id*. at 419-20.
[7] *Id*. at 247.
[8] Staff Recommendation to Approve Tariff Sheets, *In the Matter of the Application of KCP&L Greater Missouri Operations Company for Approval to Make Certain Changes in its Charges for Electric Service*, File No. ER-2010-0356, Appendix A, p. 3 (June 2, 2011).
[9] *Id*.

on how much of an increase would take place with each phase of the phase-in. *Id*. at 415-421. There is no indication in its *Report and Order* that short-term rates were even considered for carrying costs, which is unsurprising given the seven-year duration of the phase-in.

4. By allowing GMO to recover during the phase-in the difference between what GMO would have recovered if the full increase was immediately implemented, the Commission is already making GMO whole for the rate of return on its full revenue requirement. The question to be considered is simply, "What is the time value of the deferral of the revenues during the phase-in?"

5. Given the short duration of the phase-in—over two years as compared to the seven year phase in of the Wolf Creek generation plant—and that the deferred amount is relatively small in comparison to GMO's operating costs, GMO is likely to either finance the deferred amount itself or use short-term financing. Therefore Staff suggests the Commission is correct to focus on and should use GMO's cost of short-term debt for determining the carrying costs for the phase-in of rates the Commission has designed in this case for the L&P rate district.

**WHEREFORE**, Staff submits the foregoing in response to the Commission's *Order Suspending Tariff Sheets and Directing Filing*.

Respectfully submitted,

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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 7th day of June 2011.

**/s/ Nathan Williams**