

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

In the Matter of the Compliance of Kansas City)
Power & Light Company with Certain)
Requirements related to SB 564 and Related)
Matters) **Case No. EO-2019-0047**

CERTAIN LETTERS RECEIVED BY STAFF

COMES NOW the Staff of the Missouri Public Service Commission and hereby deposits in this docket a letter received by Staff from Kansas City Power & Light Company concerning the application of various provisions of SB 564, to-wit:

- Letter of April 10, 2018.

WHEREFORE, Staff prays that the Commission will receive the attached letter; and grant such other and further relief as is just in the circumstances.

Respectfully submitted,

/s/ Kevin A. Thompson

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing and all attachments was served electronically upon all parties to this docket, or their representatives, according to the Service List maintained by the Data Center of the Missouri Public Service Commission *on this 31st day of August, 2018.*

/s/ Kevin A. Thompson



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April 10, 2018

Ms. Natelle Dietrich
Office of the Staff for the
Missouri Public Service Commission
200 Madison Street
Jefferson City, MO 65101

**Re: SB 564 & HB 2265 FAC, RESRAM and ECRM Deferral Provision
Operation**

Dear Natelle:

In the Senate Commerce hearing on HB 2265 last week you were asked a question on the operation of the deferral provisions in the bill as they relate to the FAC, RESRAM and ECRM. KCP&L and GMO believe the language in SB 564 and HB 2265 in this area is clear and will operate as described below. In summary, there is no mechanism to recover amounts disallowed in rate cases for exceeding the hard cap in a "balloon payment" after the expiration of the rate caps or otherwise.

Section 393.1655.3 expressly provides that an electrical corporation's overall average rate cannot increase by a CAGR of more than 3% (measured in the case of KCP&L and GMO from December 29, 2018, the expected effective date of rates in their currently pending general rate cases). Moreover, that subsection expressly provides that amounts in excess of that percentage cannot be recovered; they are a "performance penalty."

"Average overall rate" is the sum of the electrical corporation's average base rate and average rider rate. Section 393.1655.7(2). Note that the average rider rate includes rider rates except the MEEIA rider. Section 386.1655.7(3).

Application of Section 393.1655.5 Between General Rate Cases

Section 393.1655.5 provides that if the "change in rates" under either 386.266 (FAC, ECRM) or section 393.1030 (RESRAM) would cause the average overall rate to exceed the 3% CAGR the FAC/ECRM/RESRAM rate(s) is reduced so that the average overall rate increase meets the 3% CAGR limit. Reducing the FAC/ECRM/RESRAM rate(s) will, mechanically, create a pool of dollars that cannot be reflected in that rider rate and that pool of dollars is then "deferred to and included in the regulatory asset arising under section 393.1400 . . ." [the PISA regulatory asset]. Section 393.1655.5 has no application during general rate cases; it only applies where a change in the FAC, ECRM or RESRAM rate would cause the CAGR to be

exceeded, in the absence of the adjustment required by Section 393.1655.5. This could only occur as a result of an increase in one or more of those rider rates between general rate cases.

Compliance with the Rate Caps During a General Rate Case

Section 393.1400.2(1) then prescribes what happens to the PISA regulatory asset which, by operation of Section 393.1655.5 would now *include* deferrals that occurred under Section 393.1655.5. Neither Section 393.1655 nor Section 393.1400 create two different PISA regulatory assets nor do they create some kind of "sub-account" within the PISA regulatory asset. Instead, by the very nature of the PISA regulatory asset all dollars deferred to it are fungible and lose their identity like a cup of water poured into a bucket. When a general rate case occurs, the cost of capital on the balance of that regulatory asset together with 1/20th of the regulatory asset balance, along with all of the other components of the revenue requirement, are then spread over the billing units to set base rates for each rate class and from those an average base rate will be calculated. Section 393.1400.2(1), (3).

Which brings us back to Section 393.1655.3 and the 3% CAGR. If that average base rate plus the average rider rate prevailing during a rate case causes an exceedance of the CAGR, the average base rate has to be reduced so that the electrical corporation "shall not recover any amount in excess of such 3% as a performance penalty." Section 393.1655.3. If that happens, the revenue requirement upon which base rates are to be set must be reduced by an amount sufficient to reduce the average *overall* rate so that "any amount in excess of such 3%" is not recovered. Consequently, that reduction in revenue requirement is permanently lost (the performance penalty) and it can never be recovered. Section 393.1655.4. There is no mechanism to recover these amounts in a "balloon payment" after the expiration of the rate caps or otherwise. And this would be true even if the PISA regulatory asset had a zero balance because the revenue requirement always has to be low enough so that the average overall rate does not breach the CAGR cap.

The bottom line is that it is clear to KCP&L and GMO how Senate Bill 564 and House Bill 2265 operate: (a) between general rate cases any rate increases due to the application of rate adjustment mechanisms (other than the MEEIA rider) are limited by the applicable rate cap, with any exceedance deferred into the PISA regulatory asset; (b) in a general rate case, any exceedance of the rate cap is permanently lost to the electric utility as a "performance penalty" and can never be recovered in the future, and (c) there is no "balloon payment" after the rate caps expire that would allow the electric utility to recover costs previously forfeited as a performance penalty. If either bill is enacted, KCP&L and GMO will implement it consistent with that understanding.

If you would like to discuss these issues, or any other issues related to SB 564 or HB 2265 further, please don't hesitate to contact me.

Sincerely,



Darrin R. Ives

cc: Sen. Ed Emery
Rep. T.J. Berry