

**THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

Before Commissioners:                    Shari Feist Albrecht, Chair  
   Jay Scott Emler  
   Pat Apple

In the Matter of the Application of Kansas                    )  
City Power & Light Company to Make                    )                    Docket No. 15-KCPE-116-RTS  
Certain Changes in Its Charges for Electric                    )  
Service.                    )

**ORDER ON KCP&L'S APPLICATION FOR RATE CHANGE**

This matter comes before the State Corporation Commission of the State of Kansas (Commission) for consideration and decision. Having reviewed the files and records, and being duly advised, the Commission finds:

1.        On January 2, 2015, Kansas City Power & Light Company (KCP&L) filed its Application to make certain changes in its charges for electric service to recover the remaining investments associated with the construction of environmental upgrades at the La Cygne Generating Station made since its last abbreviated rate case<sup>1</sup> and significant capital expenditures at the Wolf Creek Generating Station; reset cost of service based upon the test year for this case; and establish certain alternative regulatory mechanisms to allow the Company a reasonable opportunity to earn its Commission-authorized return.<sup>2</sup>

2.        KCP&L claims a rate increase is necessary to address a gross revenue requirement deficiency of \$67.3 million.<sup>3</sup> The proposed overall rate increase of approximately 12.53% would cover the rising costs of providing electric service, including the impacts of mandatory compliance with Federal Environmental Protection Agency (EPA) regulations, investment in plant and infrastructure to support safe, reliable service to its customers, other

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<sup>1</sup> Docket No. 14-KCPE-272-RTS.

<sup>2</sup> Direct Testimony of Darrin R. Ives, Jan. 2, 2015, pp. 3-4.

<sup>3</sup> Application, Jan. 2, 2015, ¶ 3.

accounting treatment issues, and rate design changes.<sup>4</sup>

3. The Commission has jurisdiction to supervise and control electric public utilities, as defined in K.S.A. 66-101a, doing business in Kansas.<sup>5</sup> The Commission has the power to require all electric utilities governed by the Electric Public Utilities Act to establish and maintain just and reasonable rates.<sup>6</sup>

4. Notice of the proposed rate increase, public hearings, and evidentiary hearing was provided by an insert with the monthly billing statement for each customer in KCP&L's service territory as well as by publishing notice in the major newspapers in the region. The Commission received comments from the public at the May 18, 2015 public hearing in Overland Park, where a record was made. The Commission also received 681 public comments through its Office of Public Affairs and Consumer Protection.<sup>7</sup> The Commission issues this Order with due consideration of those comments.

5. The Citizens' Utility Ratepayer Board (CURB); Wal-Mart Stores, Inc. (Wal-Mart); Midwest Division - OPRMC, LLC d/b/a Overland Park Regional Medical Center (OPRMC); Shawnee Mission Medical Center, Inc. (SMMC); and East Kansas Agri-Energy, L.L.C. (EKAE),<sup>8</sup> Atmos Energy (Atmos), and Kansas Gas Service were granted intervention. Brightergy, LLC and Climate Energy Project were granted limited intervention, but not permitted to participate in the evidentiary hearing or file testimony.

6. On May 11, 2015, the parties filed their direct testimony. In its direct testimony,

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<sup>4</sup> *Id.*, ¶¶ 2-3.

<sup>5</sup> K.S.A. 66-101.

<sup>6</sup> K.S.A. 66-101b.

<sup>7</sup> The public comments were entered into the record by the Prehearing Officer filing Notice of Filing of Public Comments on May 5, 2015, and June 18, 2015.

<sup>8</sup> Wal-Mart, OPRMC, SMMC, and EKAE joined together as the Midwest Energy Consumers' Group (MECG).

Staff recommended a rate increase of approximately \$44 million; CURB recommended roughly \$16.9 million.<sup>9</sup> Wal-Mart and Kansas Gas Service also filed testimony on May 11, 2015, with Wal-Mart's testimony being limited to return on equity (ROE) and the rate structure for KCP&L's Large General Service (LGS) customers, and Kansas Gas Service's testimony being limited to rate design for KCP&L's residential customer class.<sup>10</sup> Atmos, Brightergy, EKAE, SMMC, and OPRMC did not file any direct testimony.<sup>11</sup> On May 26, 2015, Staff, CURB, Kansas Gas Service, and Atmos each filed cross-answering testimony.<sup>12</sup>

7. On June 17, 2015, KCP&L, Staff, CURB, and MECG filed a Joint Motion for Approval of Unanimous Partial Settlement Agreement on Revenue Requirement (Revenue Requirement Settlement), which is attached as Attachment A and incorporated by reference. Kansas Gas Service, Atmos, Climate Energy Project and Brightergy, are not signatories to the Revenue Requirement Settlement, but have indicated no objection to the Settlement.<sup>13</sup> Therefore, pursuant to K.A.R. 82-1-230a, the Revenue Requirement Settlement is considered a "unanimous settlement agreement".

8. The Signatory Parties agreed to settle all rate base items in this case other than Unrecovered Reserve – AMR Meter and Fossil Fuel Inventory at a Company Kansas jurisdictional rate base determination of \$2,114,033,286.<sup>14</sup> This rate base calculation reflects

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<sup>9</sup> Joint Motion for Approval of Unanimous Partial Settlement Agreement on Revenue Requirement, June 17, 2015, ¶¶ 6, 7.

<sup>10</sup> *Id.*, ¶ 8.

<sup>11</sup> On May 11, 2015, Ashok Gupta filed Testimony on Behalf of The Climate and Energy Project, opposing KCP&L's proposal to increase the customer charge for residential customers, and arguing making regular adjustments in volumetric rates is preferable to increased customer charges. But on June 11, 2015, the Commission issued its Order Granting KCP&L's Motion to Strike Testimony of Climate Energy Project Witness Ashok Gupta.

<sup>12</sup> Joint Motion for Approval of Unanimous Partial Settlement Agreement on Revenue Requirement, ¶ 9.

<sup>13</sup> *Id.*, ¶ 13.

<sup>14</sup> Partial Settlement Agreement on Revenue Requirement, July 17, 2015, ¶ 7.

Staff's positions on the Unrecovered Reserve – AMR Meter and Fossil Fuel Inventory issues.<sup>15</sup> Therefore, the rate base amount will be adjusted to reflect the Commission's final determination on these issues.<sup>16</sup>

9. Also on June 17, 2015, KCP&L, Staff, CURB, and Atmos filed a Joint Motion for Approval of Non-Unanimous Rate Design Settlement Agreement (Rate Design Settlement), which is attached as Attachment B and incorporated by reference. MECG, Climate Energy Project, Kansas Gas Service, and Brightergy are not signatories to the Rate Design Settlement.<sup>17</sup> Neither Brightergy nor Kansas Gas Service oppose the Agreement.<sup>18</sup> The Rate Design Settlement resolves all matters between the Signatories related to rate design with the exception of the all-electric rate differential reinstatement issue.<sup>19</sup> If the Commission rejects CURB's proposal to reinstate the all-electric rate discounts, the Signatories agree the rate design settlement agreement resolves all rate design disputes among the Signatories.<sup>20</sup> The Signatories agree reinstating the all-electric rate discounts will not constitute material changes to the Rate Design Settlement that would nullify the overall Agreement.<sup>21</sup>

10. The following issues remained in dispute after the two Settlement Agreements:

- Return on Equity (KCP&L, Staff, CURB, and Wal-Mart)
- Fossil Fuel Inventory (KCP&L, Staff, and CURB)
- AMR Meters (KCP&L, Staff and CURB)
- Class Cost of Service (KCP&L, Staff, CURB, Wal-Mart, and Kansas Gas Service)

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<sup>15</sup> *Id.*

<sup>16</sup> *Id.*

<sup>17</sup> Joint Motion for Approval of Non-Unanimous Rate Design Settlement Agreement, June 17, 2015, ¶ 12.

<sup>18</sup> *Id.*

<sup>19</sup> Non-Unanimous Rate Design Settlement Agreement, June 17, 2015, ¶ 6.

<sup>20</sup> *Id.*, ¶ 6.

<sup>21</sup> *Id.*, ¶ 17.

- Rate Design (KCP&L, Staff, CURB, Wal-Mart, Atmos, and Kansas Gas Service)

11. An evidentiary hearing was held from June 22 through June 24, 2015. KCP&L, Staff, CURB, Wal-Mart, Atmos, and Kansas Gas Service appeared by counsel and each party submitted prefiled testimony.<sup>22</sup> The Commission heard live testimony from a total of 18 witnesses, including six on behalf of KCP&L, five on behalf of Staff, four on behalf of CURB, and one each on behalf of Wal-Mart, Atmos, and Kansas Gas Service. At the June 17, 2015 prehearing conference, the parties agreed to waive cross-examination of several witnesses. The parties had the opportunity to cross-examine the remaining witnesses at the evidentiary hearing as well as the opportunity to redirect their own witnesses. Following the evidentiary hearing, all of the parties submitted posthearing briefs.

12. In determining rates, the Commission first establishes a revenue requirement and then designs a rate structure.<sup>23</sup> The revenue requirement includes rate base, operating expenses, and rate of return.<sup>24</sup> The rate of return is simply an opportunity to earn that rate, not a guarantee. Rate design includes allocating costs among and within the customer classes.

13. In setting rates, the Commission's goal is to balance the interests of all concerned parties and develop a rate within the "zone of reasonableness."<sup>25</sup> The parties whose interests must be considered and balanced include: (1) the utility's investors vs. the ratepayers; (2) present vs. future ratepayers; and (3) the public interest.<sup>26</sup>

14. In allocating the revenue requirement among the customer classes, the

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<sup>22</sup> Both KCP&L and Staff submitted prefiled testimony for five witnesses who did not appear live at the evidentiary hearing. The Commission received and reviewed testimony from a total of 34 witnesses.

<sup>23</sup> *Kansas Gas & Elec. Co. v. Kansas Corp. Comm'n*, 239 Kan. 483, 500 (1986).

<sup>24</sup> *Id.* at 500-01.

<sup>25</sup> *Id.* at 488-89.

<sup>26</sup> *Id.* at 488, 1070.

Commission follows cost causation principles,<sup>27</sup> so “that one class of consumers shall not be burdened with costs created by another class.”<sup>28</sup>

## **I. ISSUES**

### **A. Revenue Requirement**

#### **Unanimous Partial Settlement Agreement on Revenue Requirement**

15. The law generally favors compromise and settlement of disputes between parties when they enter into an agreement knowingly and in good faith to settle the dispute.<sup>29</sup> When approving a settlement, the Commission must make an independent finding that the settlement is supported by substantial competent evidence in the record as a whole, establishes just and reasonable rates, and is in the public interest.<sup>30</sup>

16. The Revenue Requirement Settlement is a unanimous settlement agreement as defined by K.A.R. 82-1-230a. Therefore, there is no need to apply the five-factor test.<sup>31</sup>

17. Substantial competent evidence possesses something of substance and relevant consequence, which furnishes a substantial basis of fact to reasonably resolve the issues.<sup>32</sup> Whether another trier of fact could have reached a different conclusion given the same facts is irrelevant; a court can only find that a Commission decision is not supported by substantial competent evidence when the evidence shows “the [Commission's] determination is so wide of

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<sup>27</sup> See Order on Petitions for Reconsideration and Clarification, ¶¶ 14-15, Docket No. 05-WSEE-981-RTS (Feb. 13, 2006).

<sup>28</sup> *Jones v. Kansas Gas & Elec. Co.*, 222 Kan. 390, 401 (1977).

<sup>29</sup> *Krantz v. Univ. of Kansas*, 271 Kan. 234, 241-42 (2001).

<sup>30</sup> *Citizens' Util. Ratepayer Bd. v. Kansas Corp. Comm'n*, 28 Kan. App. 2d 313, 316 (2000), *rev denied* March 20, 2001.

<sup>31</sup> See Order Approving Contested Settlement Agreement, ¶¶ 9-10 (280 Order), Docket No. 08-ATMG-280-RTS (May 12, 2008).

<sup>32</sup> *Farmland Indus., Inc. v. Kansas Corp. Comm'n*, 25 Kan.App.2d 849, 852 (1999).

the mark as to be outside the realm of fair debate.”<sup>33</sup> The Commission reviewed a record that consisted of prefiled testimony from a total of 34 witnesses, including 13 on behalf of KCP&L, live testimony of 18 witnesses, and the Joint Motion for Approval of Unanimous Partial Settlement Agreement on Revenue Requirement.

18. Having reviewed the record as a whole, the Commission finds and concludes that substantial competent evidence supports approval of the Revenue Requirement Settlement in its entirety. Every electric public utility in Kansas is required to provide reasonably efficient and sufficient service and establish just and reasonable rates.<sup>34</sup> Under Kansas Supreme Court precedent, rates must fall within a “zone of reasonableness” which balances the interests of investors versus ratepayers, present versus future ratepayers, and the public interest.<sup>35</sup> The Signatories agree the Revenue Requirement Settlement results in reasonable rates.<sup>36</sup> Accordingly, we find the Revenue Requirement Settlement fairly represents a balance of their interests and reaches a reasonable result that is supported by the evidence.

19. The requirement of just and reasonable rates incorporates the “zone of reasonableness” test, and is used to determine whether the rate is within an elusive range of reasonableness in calculating a fair rate of return.<sup>37</sup> The Commission acts within its discretion in finding an “in-between point, where the rate is most fair to the utility and its customers.”<sup>38</sup> The Commission considered the competing interests it must take into account in setting rates, and finds the agreed upon revenue requirement falls within the “zone of reasonableness.” There is

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<sup>33</sup>*Id.* at 851.

<sup>34</sup>K.S.A. 66-101b.

<sup>35</sup>*Kansas Gas*, 239 Kan. 483, 488 (1986).

<sup>36</sup> Joint Motion for Approval of Unanimous Partial Settlement Agreement on Revenue Requirement, June 17, 2015, ¶ 20.

<sup>37</sup>*Kansas Gas*, 239 Kan. at 490.

<sup>38</sup>*Id.*

substantial evidence in the record that the agreed-upon rate will provide KCP&L sufficient revenues and cash flows to meet its financial obligations, yet will keep rates as low as possible while maintaining reliable service for its customers. The Commission finds and concludes approval of the Revenue Requirement Settlement will result in just and reasonable rates for KCP&L and its customers.

20. The Commission finds that approval of the Revenue Requirement Settlement is in the public interest. The Signatories agree the terms of the Revenue Requirement Settlement are in the public interest and should be approved by the Commission.<sup>39</sup> The Signatories explain the terms of the Revenue Requirement Settlement represent an equitable balancing of the interests of all parties.<sup>40</sup> The public interest is served by minimizing the cost of litigation that would be passed on to ratepayers.<sup>41</sup>

21. The Commission finds the agreed-upon rate will provide KCP&L sufficient revenue to meet its financial obligations and provide safe and reliable service at just and reasonable rates to its customers. After considering all of the terms of the Revenue Requirement Settlement, the Commission finds it is in the public interest. The Revenue Requirement Settlement is a balanced agreement that is fair to all of the parties. Therefore, the Commission finds the proposed rate design is fair and reasonable, and is in the public interest.

22. After a careful review and consideration of the evidence in the record, the Commission finds that the attached Revenue Requirement Settlement is supported by substantial competent evidence in the record as a whole, will result in just and reasonable rates, and is in the

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<sup>39</sup>Joint Motion for Approval of Unanimous Partial Settlement Agreement on Revenue Requirement, ¶ 21.

<sup>40</sup>*Id.*

<sup>41</sup>*Id.*



public interest. The Commission approves the unanimous Revenue Requirement Settlement in its entirety.

### **Return on Equity**

23. KCP&L proposes an ROE of 10.3%.<sup>42</sup> Its witness, Robert Hevert testified the appropriate range for KCP&L's ROE is 10.0% to 10.6%.<sup>43</sup> Hevert based his ROE recommendation on the Discounted Cash Flow (DCF) model, including the Constant Growth, and Multi-Stage forms, the Capital Asset Pricing Model (CAPM), and the Bond Yield Plus Risk Premium approach.<sup>44</sup> He applied the DCF model to a group of investment grade electric utilities selected from those followed by the Value Line Investment Survey.<sup>45</sup> His criteria for selecting the group excluded companies which: (1) do not consistently pay quarterly cash dividends; (2) were not covered by at least two utility industry equity analysts; (3) do not have investment grade senior unsecured bond and/or corporate credit ratings from S&P; (4) have regulated operating income over the three most recently reported fiscal years comprising less than 60% of the respective totals for that company; (5) have regulated electric operating income over the three most recently reported fiscal years representing less than 90% of total regulated operating income; and (6) are currently known to be party to a merger, or other significant transaction.<sup>46</sup> Hevert selected and analyzed 13 companies for his proxy group.<sup>47</sup> To calculate the dividend yield in his Constant Growth DCF model, Hevert used the proxy companies' current annualized dividend, and average closing stock prices over the 30-, 90-, and 180-trading day periods ending

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<sup>42</sup> Initial Post-Hearing Brief of Kansas City Power & Light Company (KCP&L Brief), July 17, 2015, ¶ 55.

<sup>43</sup> *Id.*

<sup>44</sup> Direct Testimony of Robert B. Hevert (Hevert Direct), Jan. 2, 2015, p. 2.

<sup>45</sup> *Id.* p. 11.

<sup>46</sup> *Id.*, pp. 11-12.

<sup>47</sup> *Id.*, p. 14.

November 28, 2014, making adjustments to the dividend yield to account for periodic growth in dividends.<sup>48</sup> Hevert adjusted his DCF analysis by 0.12% or 12 basis points to account for floatation costs.<sup>49</sup> Applying his Constant Growth DCF model resulted in a range of 8.32% to 10.6%.<sup>50</sup> Hevert calculated the long-term GDP growth rate of 5.61% based on the real GDP growth rate of 3.27% from 1929-2013 and an inflation rate of 2.27%.<sup>51</sup> In his rebuttal testimony, Hevert lowered his long-term GDP growth rate to 5.37%.<sup>52</sup> After applying floatation costs, Hevert's Multi-Stage DCF model produced a range of 9.53% to 10.36%.<sup>53</sup>

24. Hevert's CAPM analysis resulted in an ROE ranging from 10.77% to 11.97%.<sup>54</sup> Factoring in Bond Yield Plus Risk Premium analysis, created an implied ROE range of 10.24% to 10.92%.<sup>55</sup> In light of the risks facing KCP&L, Hevert believes an ROE of 10.3% is reasonable.<sup>56</sup> Hevert explains the 30-year Treasury yield increased by 46 basis points from December 2012, when the Commission set KCP&L's ROE at 9.5% to November 2014.<sup>57</sup> Accordingly, Hevert claims his 10.3% ROE recommendation reflects the general increase in interest rates since KCP&L's last rate case, and the uncertainty surrounding the timing and means by which the Federal Reserve may unwind its significant position in long-term Treasury securities.<sup>58</sup>

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<sup>48</sup> *Id.*, p. 17.

<sup>49</sup> *Id.*, pp. 21, 24.

<sup>50</sup> *Id.*, p. 25.

<sup>51</sup> *Id.*, p. 28.

<sup>52</sup> Rebuttal Testimony of Robert B. Hevert, June 1, 2015, p. 51; Tr. Vol. 1, 84 (Hevert).

<sup>53</sup> Hevert Direct, p. 30.

<sup>54</sup> *Id.*, p. 33.

<sup>55</sup> *Id.*, p. 36.

<sup>56</sup> *Id.*, p. 43.

<sup>57</sup> *Id.*, p. 48.

<sup>58</sup> *Id.*, p. 49.

25. Staff recommends an ROE of 9.25%, with a range of 9.0% to 9.5%.<sup>59</sup> Staff witness Adam Gatewood's ROE of 9.25% results in an overall rate of return of 7.41%.<sup>60</sup> Unlike Hevert, Gatewood does not believe floatation costs should be included in ROE based on KCP&L's failure to quantify the amount, if any, of unrecovered costs associated with issuing common equity.<sup>61</sup> Gatewood applied gradualism in using a 50 basis point range, as opposed to his typical 100 basis point range based on his belief that 9.00% is appropriate as the low-end of his ROE range.<sup>62</sup> Gatewood admits this is the first time that he has applied gradualism to his ROE recommendation explaining that authorized ROEs below 10.0% are a fairly recent development and therefore, he prefers to wait a little while longer to see if the current capital market conditions continue before recommending an ROE below 9.0%.<sup>63</sup> Another reason Gatewood offers for gradualism is 9.1% represents the lowest current ROE in the nation.<sup>64</sup>

26. Gatewood performed DCF, Internal Rate of Return (IRR), and CAPM analyses on a proxy group of twenty-two similarly situated electric utility companies meeting the following criteria: (1) listed as an electric utility by Value Line; (2) having similar credit ratings to KCP&L; (3) no pending mergers or acquisitions; (4) stable dividends policy; and (5) deriving at least 70% of their revenue through electric utility business.<sup>65</sup> He relied on a DCF model using both short-term and long-term growth rate forecasts to arrive at a midpoint ROE of 8.41%.<sup>66</sup> Gatewood's IRR analysis results in a mean ROE of 8.25% and a median ROE of 8.29%.<sup>67</sup> In his

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<sup>59</sup> Direct Testimony of Adam Gatewood, May 11, 2015, p. 3.

<sup>60</sup> *Id.*

<sup>61</sup> *Id.*, p. 52.

<sup>62</sup> *Id.*

<sup>63</sup> *Id.*, pp. 3-4.

<sup>64</sup> *Id.*, p. 5.

<sup>65</sup> *Id.* pp. 17-20.

<sup>66</sup> *Id.*, p. 29.

<sup>67</sup> *Id.*, p. 34.

CAPM analysis, Gatewood used both historic measures of returns from the stock and bond markets and forecasted returns.<sup>68</sup> The historic returns analysis produced significantly higher returns (9.20%) than the forecasted returns analysis (6.96%).<sup>69</sup> Based on his models, Gatewood recommends 9.5% as the upper limit of ROE.<sup>70</sup>

27. CURB proposes an ROE of 8.55% and an overall rate of return of 7.06%.<sup>71</sup> To estimate KCP&L's ROE, CURB witness Dr. J. Randall Woolridge applied a DCF and CAPM model to a proxy group of electric utility companies.<sup>72</sup> Woolridge also applies both models to the proxy group developed by Hevert.<sup>73</sup>

28. CURB witness Dr. Woolridge analyzed a proxy group of 29 electric utilities using a DCF model and CAPM to conclude 8.55% is the proper ROE.<sup>74</sup> In selecting his proxy group, Woolridge sought companies: (1) deriving at least 50% of revenues from regulated electric operations; (2) listed as electric utilities by Value Line and listed as an Electric Utility or Combination Electric & Gas Utility in *AUS Utilities Report*; (3) having an investment grade bond rating; (4) paying cash dividends for the past six months, without any dividend cuts; (5) not being involved in any mergers or being targeted in an acquisition in the past six months; and (6) having long-term earnings per sharing (EPS) growth rate forecasts available from Yahoo, Reuters, and Zack's.<sup>75</sup> Applying Woolridge's DCF model to his own proxy group results in an ROE of 8.4%.<sup>76</sup> Applying Woolridge's DCF model to Hevert's proxy group of eleven electric

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<sup>68</sup> *Id.*, p. 36.

<sup>69</sup> *Id.*

<sup>70</sup> *Id.*, p. 5.

<sup>71</sup> Direct Testimony of J. Randall Woolridge, Ph.D., May 11, 2015, p. 2.

<sup>72</sup> *Id.*

<sup>73</sup> *Id.*

<sup>74</sup> *Id.*, pp. 2, 19.

<sup>75</sup> *Id.*, p. 19.

<sup>76</sup> *Id.*, p. 43.

utilities results in an ROE of 8.55%.<sup>77</sup> Woolridge's CAPM analysis produces an ROE of 8.1% for both his own proxy group and Hevert's proxy group.<sup>78</sup> Since he relies primarily on the DCF model, Woolridge elects to use the upper end of the range to conclude 8.55% is an appropriate ROE.<sup>79</sup>

29. Wal-Mart recommends the Commission approve an ROE of no higher than the 9.5% authorized in Docket No. 12-KCPE-764-RTS (12-764 Docket).<sup>80</sup> But Wal-Mart did not perform any financial modeling to arrive at its ROE recommendation. The remaining parties took no position on the ROE issue.

30. In determining the appropriate ROE, the Commission is guided by *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 591 (1944) and *Bluefield Waterworks & Improvement Company v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923) which find returns granted to regulated public utilities should be: (1) commensurate with returns on investment of similar risk; (2) sufficient to ensure the utility's financial integrity under proper management; and (3) adjusted to reflect changes in the money market and business conditions.<sup>81</sup> *Hope* and *Bluefield* have been adopted by the Kansas Supreme Court<sup>82</sup> and recognized by the Commission in Docket No. 10-KCPE-415-RTS (10-415 Docket).<sup>83</sup> While the Commission has

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<sup>77</sup> *Id.*, pp. 20, 43.

<sup>78</sup> *Id.*, pp. 52-53.

<sup>79</sup> *Id.*, pp. 53-54.

<sup>80</sup> Direct Testimony of Steve W. Chriss (Chriss Direct), May 11, 2015, p. 4.

<sup>81</sup> *Federal Power Comm'n v. Hope Natural Gas Co.*, 320 U.S. 591, 603, 64 S.Ct. 281, 288 (1944); *Bluefield Waterworks & Improvement Co. v. Public Service Comm'n of West Virginia*, 262 U.S. 679, 692-93, 43 S.Ct. 675, 679 (1923).

<sup>82</sup> *Kansas Gas*, 239 Kan. at 489-90.

<sup>83</sup> Order: 1) Addressing Prudence; 2) Approving Application, In Part; and 3) Ruling on Pending Requests (10-415 Order), pp. 40-41, Docket No. 10-KCPE-415-RTS (Nov. 22, 2010).

substantial discretion in setting a fair rate of return, it must not be so unreasonably high or low as to be unlawful.<sup>84</sup>

31. KCP&L's proposed 10.3% ROE represents an increase of 80 basis points from its currently approved ROE of 9.5%.<sup>85</sup> Both Gatewood and Woolridge testified KCPL's capital costs have declined since that Order was issued in December of 2012.<sup>86</sup> Wal-Mart's witness, Steve Chriss testified the national average authorized ROE for vertically integrated utilities in 2014 was 9.91%, and as of June 2015 it is 9.71%.<sup>87</sup> KCP&L is the only party advocating an increase to its 9.5% ROE. Despite both Staff and CURB recommending ROEs that are five basis points higher than what they recommended in the 12-764 Docket, there is no support for an ROE above 10%. KCP&L's proposed ROE runs counter to the trends in Kansas and nationwide towards lower ROEs in recognition of historically low costs of capital.

32. Despite lowering his projected growth rate from 5.61% to 5.37%, Hevert does not lower his recommended ROE range. The failure to adjust his recommended ROE range to account for a lower projected growth rate causes the Commission to question the validity of Hevert's ROE recommendation. To reach KCP&L's requested ROE, the economy must grow at a similar pace to the growth experienced over the previous eighty years.<sup>88</sup> KCP&L presumes the U.S. economy will grow at an annual rate of 5.37%. This prediction is in sharp contrast to the estimates of the Federal Reserve Board, Social Security Administration, Energy Information Administration, and major corporations such as ExxonMobil, each of whom produce their own

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<sup>84</sup> *Southwestern Bell Tel. Co. v. Kansas Corp. Comm'n*, 192 Kan. 39, 85-86 (1963).

<sup>85</sup> Chriss Direct, p. 8.

<sup>86</sup> *Id.*, p. 6; Tr. Vol. 1, 139 (Woolridge).

<sup>87</sup> Chriss Direct, p. 10.

<sup>88</sup> Gatewood Direct, p. 41.

economic growth forecasts.<sup>89</sup> Based on the current economic climate, the Commission believes a projected annual growth rate of 5.37% is unreasonably optimistic. The current economic conditions do not support the 10.3% ROE advanced by Hevert.

33. At the same time, CURB's recommended ROE of 8.55% strikes the Commission as too low. Woolridge's recommended ROE is well below the average rates of return being allowed to electric utilities similar to KCP&L. As explained above, Chriss testified the national average authorized ROE for vertically integrated utilities in 2014 was 9.91%, and as of June 2015 it is 9.71%.<sup>90</sup> Similarly, Gatewood testified 9.1% represents the lowest current ROE in the nation.<sup>91</sup> In Docket No. 14-ATMG-320-RTS, the Commission approved an ROE of 9.1% for Atmos.<sup>92</sup> Atmos is a natural gas public utility. In setting Atmos's ROE, the Commission recognized natural gas distribution companies are generally considered less risky than electric utilities, and therefore Atmos's ROE should be lower than that of KCP&L.<sup>93</sup> Consistent with Commission policy, CURB's recommended ROE below 9.1% must be rejected.

34. The Commission finds the nGDP growth estimates of 4.38% advocated by Gatewood, and consistent with the nominal forecast by the Social Security Administration and Energy Information Administration,<sup>94</sup> to be more credible than the 5.37% suggested by Hevert. Gatewood testified that any ROE within his recommended range of 9.0% to 9.5% is reasonable.<sup>95</sup> On cross-examination, Gatewood acknowledged that the yield on KCP&L's bonds

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<sup>89</sup> *Id.*

<sup>90</sup> Chriss Direct, p. 10.

<sup>91</sup> Gatewood Direct, p. 5.

<sup>92</sup> Order Approving Partial Stipulated Settlement Agreement; Order on Contested Issues, Docket No. 14-ATMG-320-RTS, Sept. 4, 2014, ¶ 50.

<sup>93</sup> *Id.*, ¶ 49; Tr. Vol. 1, 157 (Gatewood).

<sup>94</sup> Gatewood Direct, pp. 31-32.

<sup>95</sup> Tr. Vol. 1, 158-159 (Gatewood).

is an important consideration in determining an authorized ROE.<sup>96</sup> In his prefiled testimony, Gatewood explained:

[b]ased on the current market derived cost of debt for KCPL of about 4.00%, Staff's recommendation for an allowed return on equity provides stockholders with a 525 basis point premium of the return accepted by KCPL bond holders, which is slightly higher than the premium provided by the Commission's Order in December of 2012. The decline in the yield of KCPL's long-term debt is consistent with the decline we observed in utility debt generally as measured by the yield on Baa rated utility bonds in 2012, the time period when market data was gathered for testimony in the 764 Docket, compared to the yield during the first three months of 2015.<sup>97</sup>

While Gatewood observed a 4.049% bond yield, in his prefiled testimony he rounded that figure down to 4.0%.<sup>98</sup> At the evidentiary hearing, KCP&L noted that distinction and explained that using the actual 4.049% figure, rather than a rounded 4.0% figure resulted in an ROE of 9.299%.<sup>99</sup> Correcting for the rounding discrepancy in the bond yield, and using the same 525 basis point premium calculated by Gatewood produces an ROE of 9.3%. The Commission adopts an ROE of 9.3%.

35. An ROE of 9.3% is below that requested by KCP&L, above that recommended by CURB, and consistent with the midpoint of the range suggested by Staff. Having reviewed the evidence provided by Hevert, Woolridge, and Gatewood, the Commission believes an ROE of 9.3% strikes the proper balance of allowing KCP&L to access capital markets while acknowledging the economic impact on ratepayers.

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<sup>96</sup> Tr. Vol. 1, 159 (Gatewood).

<sup>97</sup> Gatewood Direct, p. 6.

<sup>98</sup> Tr. Vol. 1, 159-160 (Gatewood).

<sup>99</sup> Tr. Vol. 1, 160.



36. The Commission denies KCP&L's request for floatation costs based on the KCPL's failure to identify the amount, if any, of unrecovered costs associated with the issuance of common equity.<sup>100</sup> Furthermore, the Commission finds making a pro forma adjustment to the test year operations to include actual costs as an expense in the rate case is a more sensible way to recover any costs associated with the issuance of common equity.<sup>101</sup>

### **Fossil Fuel Inventory**

37. The issue before the Commission is the appropriate level of fossil fuel inventory to include in working capital in KCP&L's rate base.<sup>102</sup> KCP&L and Staff agree the coal inventory level included in rate base should "reflect[s] ongoing normalized operations."<sup>103</sup> In managing its fuel inventory levels, KCP&L maintains a level of fuel inventory to guard against the uncertainty in both the amount of fuel the Company expects to use and receive in deliveries.<sup>104</sup> Both fuel usage and deliveries can be affected by weather, unit availability, or breakdowns at a mine or in the transportation system.<sup>105</sup> Fuel inventory serves as insurance against an interruption of the delivery of fuel or an unexpected increase in the demand for fuel.<sup>106</sup> KCP&L uses the Electric Power Research Institute's Utility Fuel Inventory Model (UFIM) to determine fuel inventory levels with the lowest expected total cost.<sup>107</sup> The UFIM develops an inventory target that balances the cost of holding inventory with the cost of running out of fuel.<sup>108</sup> In doing so, the UFIM factors in holding costs, fuel supply cost curves, costs of running

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<sup>100</sup> Gatewood Direct, p. 52.

<sup>101</sup> *Id.*

<sup>102</sup> KCP&L Brief, ¶ 23.

<sup>103</sup> *Id.*, ¶ 28; Tr. Vol. 2, 341 (Fry).

<sup>104</sup> Direct Testimony of Wm. Edward Blunk, Jan. 2, 2015, p. 5.

<sup>105</sup> *Id.*

<sup>106</sup> *Id.*

<sup>107</sup> *Id.*, p. 6.

<sup>108</sup> *Id.*, p. 8.

out of fuel, fuel requirement distributions, “normal” supply uncertainty distributions, and disruption characteristics.<sup>109</sup> While KCP&L uses the UFIM to determine its coal inventory level, the Company calculates inventory values for oil, ammonia, lime, limestone, and Power Activated Carbon as the average month-end quantity on hand for the 13-month period from September 2013 through September 2014 multiplied by the projected March 2015 per unit value.<sup>110</sup>

38. CURB recommends adjusting KCP&L’s proposed level of coal inventory, claiming it is based on a theoretical model, not on actual results from the Test Year.<sup>111</sup> CURB witness Andrea Crane testified that KCP&L’s actual inventory levels at the end of 2014 were significantly lower than the targeted inventory levels included in the Company’s claim.<sup>112</sup> Therefore, CURB recommends adopting the coal inventory level proposed by KCP&L the 12-764 Docket because it was the Company’s last base rate case prior to the significant supply disruptions; the proposed level closely mirrored actual historic inventory balances; and the level of inventory claimed in the 12-764 Docket was very close to the actual coal inventory during calendar year 2013.<sup>113</sup>

39. Staff recommended four changes to the KCP&L’s calculation of fuel inventory value: (1) reduce the volume of coal from the KCP&L’s UFIM target levels, based on the average balance for the 25 months from March 2013 through March 2015; (2) update the coal unit costs to March 31, 2015 values; (3) update fuel oil, lime/ limestone, ammonia, and powder-activated carbon unit costs to March 31, 2015; and (4) use the more current 13-month average of

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<sup>109</sup> *Id.*

<sup>110</sup> *Id.*, p. 15.

<sup>111</sup> Direct Testimony of Andrea Crane, May 11, 2015, p. 21.

<sup>112</sup> *Id.*

<sup>113</sup> *Id.*, p. 22.

March 2014 through March 2015 for the fuel oil, lime/limestone, ammonia, and powder activated carbon volumes.<sup>114</sup>

40. Staff believes the target values proposed by KCP&L do not accurately represent the coal inventories from the time period between the most recent rate case in January 2012, and March 31, 2015.<sup>115</sup> Based on his review of KCPL's historical coal inventories from January 2012 to March 2015, Staff witness Andy Fry considers a 25-month average to be a more accurate reflection of the coal inventory maintained by KCP&L.<sup>116</sup> While 13-month averages are commonly used, Fry selected a 25-month average in an attempt to account for disruptions in supply caused by railroad strikes.<sup>117</sup> The only Staff adjustment that KCP&L disputes is the volume of coal inventory. Therefore, the Commission limits its review to determining the level of coal inventory.

41. The Commission finds over the long term, KCP&L has maintained a fuel inventory level that approximates the recommended UFIM model level.<sup>118</sup> Staff acknowledges there were supply issues that kept KCP&L from maintaining its coal inventory targets.<sup>119</sup> Yet, the 25-month average proposed by Staff includes 23 months affected by a railroad disruption.<sup>120</sup> Therefore, the Commission has some concerns that Staff's recommended actual fuel inventory levels would not produce an ongoing, normalized level of fuel inventory. The Commission accepted the UFIM levels in both the 12-764 and the 09-KCPE-246-RTS Dockets, but did not

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<sup>114</sup> Rebuttal Testimony of Wm. Edward Blunk (Blunk Rebuttal), June 1, 2015, p. 2.

<sup>115</sup> Direct Testimony of Andy Fry, May 11, 2015, p. 3.

<sup>116</sup> *Id.*

<sup>117</sup> *Id.*, p. 3.

<sup>118</sup> Post-Hearing Reply Brief of Kansas City Power & Light Company, Aug. 5, 2015, ¶ 6; Blunk Rebuttal, p. 5.

<sup>119</sup> Tr. Vol. 344 (Fry).

<sup>120</sup> Blunk Rebuttal, p. 4.

adopt the model itself.<sup>121</sup> As was the case in those prior dockets, the Commission stops short of endorsing the UFIM model in finding the inventory levels resulting from the UFIM model to be appropriate.

42. Based on historical evidence that KCP&L maintains its coal inventory in accordance with its UFIM target levels, and the absence of any compelling reason to reject the coal inventory levels proposed by KCP&L, the Commission approves the fossil fuel inventory proposed by KCP&L.

#### **AMR Unrecovered Reserve**

43. Beginning in February 2014, KCP&L began upgrading its existing automated meter reading infrastructure by replacing its AMR meters deployed in the mid-1990s with Advanced Metering Infrastructure technology.<sup>122</sup> The upgrade involves replacing approximately 500,000 meters by early 2015.<sup>123</sup> Since not all of the AMR meters being replaced are fully depreciated at the time of their retirement, KCP&L is facing an unrecovered investment of approximately \$11 million on its AMR meters.<sup>124</sup>

44. KCP&L seeks to recoup the unrecovered portion of its investment in the AMR meters by: (1) allowing it to remain in rate base and (2) amortizing the unrecovered reserve over a ten-year period.<sup>125</sup> While Staff agrees with KCP&L's request to reclassify the unrecovered reserve into a regulatory asset, Staff recommends that the Commission allow KCP&L to recover the AMR unrecovered reserve regulatory asset over a twenty-year period, without rate base

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<sup>121</sup> Tr. Vol. 2, 347 (Fry).

<sup>122</sup> Direct Testimony of Scott H. Heidtbrink, Jan. 2, 2015, pp. 11-12.

<sup>123</sup> *Id.*, p. 12.

<sup>124</sup> KCP&L Brief, ¶ 36; Commission Staff's Post-Hearing Legal Brief (Staff Brief), July 28, 2015, ¶ 51.

<sup>125</sup> KCP&L Brief, ¶ 36; Direct Testimony of Ronald A. Klote, Jan. 2, 2015, p. 13.

treatment.<sup>126</sup> Like Staff, CURB believes KCP&L is entitled to earn a return of the unrecovered balance, but not a return on the unrecovered balance.<sup>127</sup> CURB differs from Staff in advocating for a ten-year amortization period, explaining it corresponds to the ten-year timeframe for unrecovered general plant adopted in the 10-415 Docket.<sup>128</sup> The other parties to the docket take no position on the AMR issue.

45. KCP&L advances two main arguments in support of giving the unrecovered portion of the investment rate base treatment: (1) under standard accounting practice, retiring an asset before it is fully depreciated does not remove the unrecovered portion from rate base;<sup>129</sup> and (2) a prudent investment decision should not be disallowed.<sup>130</sup> Staff and CURB contend that once the AMR meters are retired, they can no longer be considered “used and required to be used” and under K.S.A. 66-128, the Commission is charged with determining the reasonable value of a public utility’s property which is “used and required to be used” in serving the public.<sup>131</sup> In other words, the Commission has discretion on whether to include the AMR meters in rate base.

46. The standard accounting practice KCP&L refers to is not codified in the statutes. While standard accounting practices provide guidance to the parties, they do not carry the same legal weight as K.S.A. 66-128. KCP&L argues K.S.A. 66-128a, K.S.A. 66-128c, K.S.A. 66-128d, K.S.A. 66-128e, K.S.A. 66-128g, K.S.A. 66-128h, K.S.A. 66-128i, and K.S.A. 66-128j all rely on inefficiency and imprudence as bases for disallowance of rate base investments. Notably

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<sup>126</sup> Direct Testimony of Justin T. Grady, May 11, 2015, pp. 25-26.

<sup>127</sup> CURB Post-Hearing Brief (CURB Brief), July 28, 2015, ¶ 55.

<sup>128</sup> *Id.*, ¶ 61

<sup>129</sup> Rebuttal Testimony of Ronald A. Klote, June 1, 2015, pp. 6-7.

<sup>130</sup> KCP&L Brief, ¶ 42.

<sup>131</sup> CURB Brief, ¶ 55.

absent from that list is K.S.A. 66-128, which does not reference prudence.

47. K.S.A. 66-128 requires the Commission determine the reasonable value of property that is “used and required to be used” in setting reasonable rates. While the Commission accepts the decision to retire the AMR meters as prudent, it does not follow that KCP&L is entitled to a return *on* its investment when the investment is no longer used in the provision of public utility service. Since the AMR meters are no longer “used and required to be used”, KCP&L is not entitled to a return *on* its investment. As a prudent business decision, KCP&L will receive a return *of* its investment, but not a return *on* its investment.

48. Allowing KCP&L to amortize the retirement of its AMR meters over ten years is consistent with the unrecovered meter reserve approved in the 10-415 Docket.<sup>132</sup> By allowing a ten-year amortization, the Commission is effectively giving some return on investment because the approved lives of the AMR meters are longer than the amortization period.<sup>133</sup> In other words, shortening the time period in which KCP&L gets the return of investment serves as a return on investment.<sup>134</sup> Accordingly, the Commission believes allowing KCP&L to amortize the retirement of its AMR meters over a ten-year period strikes a fair and reasonable balance between the investment expectations of KCP&L’s shareholders and the cost concerns of KCP&L’s customers. The Commission approves a ten-year amortization period for the retirement of KCP&L’s AMR meters.

49. Based on the Commission’s findings, the Commission approves a base revenue

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<sup>132</sup> Tr. Vol. 1, 232 (Klote).

<sup>133</sup> Tr. Vol. 2, 286 (Grady).

<sup>134</sup> *Id.*

requirement increase of \$40,125,928 for KCP&L for a total revenue increase of \$48,672,230.<sup>135</sup> The final revenue requirement includes a total rate case expense of \$1,150,952, amortized over three years.

50. Updating the rate case expense to include the Commission's expenses, KCP&L's claimed rate base expense is \$1,150,952. Based on KCP&L's \$1,579,503 projection for rate case expense in its Application, the Commission finds \$1,150,952 to be prudent, just and reasonable. Therefore, the Commission approves \$1,150,952 in rate case expense. Consistent with the 10-415 and 12-764 Dockets, the Commission adopts a three-year amortization period for KCP&L's rate case expense.

## **B. Rate Design**

### **Non-Unanimous Partial Settlement Agreement on Rate Design**

51. On June 17, 2015, KCP&L, Staff, CURB, and Atmos filed a Joint Motion for Approval of Non-Unanimous Rate Design Settlement Agreement. On June 18, 2015, MEEG filed its Objection to the Non-Unanimous Stipulation, based on the Agreement shifting \$2 million in additional revenue to the Large General Service class.<sup>136</sup> On June 19, 2015, Climate Energy Project filed its Objection to the Settlement Agreement, alleging the increased customer charges in the Agreement would negatively impact ratepayers' ability to invest in efficiency and conservation measures.<sup>137</sup> While CURB is a signatory to the Rate Design Settlement, it sought to reinstate the all-electric discount to the level that existed prior to the 10-415 Order. Despite its position on the all-electric discounts, as part of the Rate Design Settlement, CURB remains a

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<sup>135</sup> The total revenue figure accounts for the additional revenue KCP&L will recover pursuant to its new Transmission Delivery Charge previously recovered in KCP&L's base rates and reflects the rebasing of property tax amounts previously collected in KCP&L's property tax surcharge.

<sup>136</sup> Objection to Non-Unanimous Stipulation, June 18, 2015, ¶ 1.

<sup>137</sup> Intervenor Climate and Energy Project's Objection to Settlement Agreement, June 19, 2015, ¶ 2.

party to the Agreement even if the Commission rejects CURB's proposal to reinstate the all-electric rate discounts.<sup>138</sup>

52. As discussed above, the law generally favors settlements entered into knowingly and in good faith.<sup>139</sup> When approving a settlement, the Commission must make an independent finding that the settlement is supported by substantial competent evidence in the record as a whole, will establish just and reasonable rates, and is in the public interest. Since the settlement is non-unanimous, the Commission will apply the five-factor test to determine the reasonableness of proposed settlement agreement. These factors are:

- a. Whether each party had an opportunity to be heard on reasons for opposing the settlement;
- b. Whether the settlement is supported by substantial competent evidence in the record as a whole;
- c. Whether the settlement conforms to applicable law;
- d. Whether the settlement will result in just and reasonable rates;
- e. Whether the results of the settlement are in the public interest.<sup>140</sup>

#### **Evaluation of the Partial Settlement Agreement on Rate Design**

##### **1. Each party had an opportunity to be heard on its reasons for opposing the Rate Design Settlement**

53. Both parties opposing the Rate Design Settlement were given the opportunity to be heard. The Commission found Climate Energy Project is not directly impacted by this Docket, and therefore, limited its intervention by not allowing it to participate in the evidentiary

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<sup>138</sup> *Id.*, ¶ 6.

<sup>139</sup> *Krantz*, 271 Kan. at 241-42.

<sup>140</sup> *See* 280 Order, ¶¶ 9-10.



hearing.<sup>141</sup> Despite not being allowed to participate in the evidentiary hearing, Climate Energy Project filed its Objection to the Settlement Agreement. The Commission reviewed and considered Climate Energy Project's Objections. MECG was granted full intervention and participated in the evidentiary hearing, including presenting its own testimony on rate design and cross-examining the other parties' rate design witnesses. Thus, all parties were given sufficient opportunity to be heard on any reasons they may have had for opposing the Rate Design Settlement.

**2. The Rate Design Settlement is supported by substantial competent evidence in the record as a whole**

54. All items agreed to and included in the Rate Design Settlement are supported by substantial competent evidence in the record as a whole. Specifically, testimony in support of the Rate Design Settlement was filed by Brad Lutz on behalf of KCP&L, Robert H. Glass, Ph.D. on behalf of Staff, and by Stacey Harden on behalf of CURB. While Harden testifies all-electric customers did not receive fair notice of the extent of the rate increases they would experience in the 10-415 Docket, and based on the unfair treatment, the Commission should reinstitute the all-electric heating discount levels to their pre-10-415 levels, she acknowledges that if the Commission declines to adopt her recommendation to reinstitute the all-electric heating discounts, CURB supports the terms of the Rate Design Settlement.<sup>142</sup>

55. As CURB's policy witness on rate design, Harden testified, "the Rate Design S&A provides a reasonable resolution to a number of highly contested issues. There are a number of compromises included in the agreement. Each signatory party achieved some of its

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<sup>141</sup> Order Granting Limited Intervention to Climate Energy Project, May 5, 2015, ¶ 5.

<sup>142</sup> Stacey Harden's Testimony in Support of Rate Design Stipulation and Agreement on Behalf of CURB, June 17, 2015, p. 3.

objectives and compromised on others. As such, I believe the overall result is reasonable. This agreement should also significantly reduce the parties' litigation costs."<sup>143</sup>

56. Since CURB signed off on rate design despite its position on the all-electric discount issue, it is appropriate for the Commission to address CURB's proposal in its discussion of the substantial competent evidence prong used to evaluate non-unanimous settlements.

57. At the evidentiary hearing, Kansas Gas Service conducted a voir dire of Harden, and made a Daubert objection challenging her ability to offer testimony on rate design.<sup>144</sup> Specifically, Kansas Gas Service asserts that fairness is a subjective standard, which does not provide a reliable standard for expert testimony.<sup>145</sup> Based on CURB's representation that Harden is not offering a Class Cost of Service Study nor is she "purporting to do a rate design", and that her testimony is limited to the simple question of fairness,<sup>146</sup> the Commission need not examine whether Harden is qualified to offer expert testimony on Class Cost of Service or rate design. During the hearing, the Commission recognized Harden is not an expert on rate design and stated it would review her testimony, giving it the appropriate weight that it is due.<sup>147</sup>

58. In determining what if any weight to give Harden's testimony, the Commission will address whether Harden is qualified to offer expert testimony on the issue of fairness. The Commission finds Harden's testimony on fairness should be given no weight for the following reasons: (1) fairness is not an appropriate subject for expert testimony; (2) Harden is not qualified to offer expert testimony on fairness; and (3) even if Harden were qualified to offer

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<sup>143</sup> *Id.*, p. 4.

<sup>144</sup> Tr. Vol. 3, 561, 565 (Harden).

<sup>145</sup> Tr. Vol. 3, 565 (Harden).

<sup>146</sup> *Id.*

<sup>147</sup> *Id.*, p. 567-568.

expert testimony on fairness, her testimony relies on the direction of the CURB Board, rather than her own opinions.

59. Expert testimony is admissible if it aids the factfinder with unfamiliar subjects, interpreting technical facts, or assists in arriving at a reasonable factual conclusion.<sup>148</sup> If the factfinder's normal experience and qualifications allow it to reach proper conclusion from the facts and circumstances, expert opinions on that subject are inadmissible.<sup>149</sup> On cross-examination, Harden admits that her testimony is not based on legal notice, but on the belief that the all-electric customers did not receive fair notice.<sup>150</sup> She also testified, "I absolutely believe fairness is a relative standard" and explained that each of her three children understand the relativity of fairness.<sup>151</sup> In doing so, Harden acknowledges that fairness is a simple concept that does not require expert testimony. Since her testimony on fairness does not assist the Commission with unfamiliar subjects or in interpreting technical facts, and the Commissioners are qualified to reach conclusions as to fairness based on their normal experience and qualifications, her testimony does not meet the criteria for expert testimony.

60. Expert testimony must be based on the witness's special knowledge, skill, experience or training.<sup>152</sup> While Harden earned an MBA, and teaches business and accounting courses at some area universities,<sup>153</sup> none of those qualifications demonstrate she has any special knowledge, skill or training on the subject of fairness. In finding factfinders possess normal experience to determine whether an agreement is fair, the Kansas Court of Appeals concluded it

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<sup>148</sup> *Cimarron Feeders v. Bolle*, 28 Kan. App. 2d 439, 449 (2001).

<sup>149</sup> *Id.*

<sup>150</sup> Tr. Vol. 3, 562 (Harden).

<sup>151</sup> *Id.*

<sup>152</sup> K.S.A. 60-456(b)(2).

<sup>153</sup> Direct Testimony of Stacey Harden, May 11, 2015, p. 2.

was error to permit an accountant to give expert testimony on whether an agreement was fair.<sup>154</sup> Likewise, the Commissioners are capable of determining the fairness of the notice given to all-electric customers. Even specialized knowledge and training possessed by an accountant does not aid a factfinder in assessing fairness. Accordingly, Harden does not possess special knowledge, skill, experience or training that would assist the Commission in determining whether notice was fair. Since her testimony does not assist the Commission in dealing with unfamiliar subjects or in interpreting technical facts, it has no evidentiary value.

61. Even if Harden was qualified as an expert on the subject of fairness, she is not relying on her own specialized knowledge and training to reach her opinion on fairness. Instead, she is following the instructions of the CURB Board. CURB acknowledges Harden was not exercising independent judgment in testifying on fairness:

The CURB Board which is a five member Board made a decision and instructed that they wanted this question brought...that decision has been made and so, you know, Ms. Harden doesn't necessarily have to justify the determination of the five member Board.<sup>155</sup>

I was advised by Consumer Counsel that this was a direction the Board wanted us to go [sic] and that that was my job for CURB in this proceeding.<sup>156</sup>

Since Harden is not exercising independent judgment and is substituting the wishes of the CURB Board for her own knowledge and training, she does not satisfy the criteria for expert testimony. By serving as no more than an instrument for the CURB Board, Harden's testimony is not based on her own specialized knowledge and training and thus offers no probative value and carries no evidentiary weight.

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<sup>154</sup> *Cimarron Feeders*, 28 Kan. App. 2d at 449.

<sup>155</sup> Tr. Vol. 3, 590-91 (Harden).

<sup>156</sup> *Id.*, p. 593.

62. The Commission finds there is substantial competent evidence to approve the Rate Design Settlement which maintains the current post-10-415 all-electric discount level. There is no substantial competent evidence to support CURB's proposal to reinstate the pre-10-415 all-electric discount.

### 3. The Rate Design Settlement conforms to applicable law

63. "An Order is 'lawful' if it is within the statutory authority of the commission, and if the prescribed statutory and procedural rules are followed in making the Order."<sup>157</sup> The Rate Design Settlement resolves rate design issues the Commission must approve before KCP&L can implement its rate increase.<sup>158</sup> Thus, the subject matter of the Rate Design Settlement is within the Commission's authority. Additionally, the Signatories to the Rate Design Settlement agree that applicable statutory and procedural rules have been followed.<sup>159</sup> The Rate Design Settlement is the result of negotiations among the parties to this proceeding. Therefore, Commission approval of the Rate Design Settlement complies with applicable law.<sup>160</sup>

64. Kansas law favors and encourages settlements.<sup>161</sup> By stating, "no settlement proposal, unanimous or contested; black-box or transparent, relieves the three-member Commission of its responsibility to make an independent judgment as to whether the settlement constitutes a reasonable remedy or resolution of the issues",<sup>162</sup> the Commission acknowledges the settlement standards set forth in *Farmland*<sup>163</sup> and *CURB*<sup>164</sup> regarding non-unanimous

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<sup>157</sup> *Central Kansas Power Co. v. Kansas Corp. Comm'n*, 221 Kan. 505, 511 (1977).

<sup>158</sup> Joint Motion for Approval of Non-Unanimous Rate Design Settlement Agreement, June 17, 2015, ¶ 17.

<sup>159</sup> *Id.*

<sup>160</sup> *Id.*

<sup>161</sup> *Bright v. LSI Corp.*, 254 Kan. 853, 858 (1994).

<sup>162</sup> See 280 Order, ¶ 11.

<sup>163</sup> *Farmland*, 24 Kan. App. 2d at 186-88.

<sup>164</sup> *Citizens' Util.*, 28 Kan. App. 2d at 316-17.

settlements apply equally to all settlement agreements before it for consideration. Therefore, the applicable legal standard for reviewing the reasonableness of settlement agreements requires a finding, supported by substantial competent evidence from a review of the record as a whole, that the Rate Design Settlement will establish just and reasonable rates. The Rate Design Settlement provides just and reasonable rates, thereby meeting this legal standard.

#### **4. The Rate Design Settlement results in just and reasonable rates**

65. Pursuant to K.S.A. 66-101b, every electric public utility is required to furnish reasonably efficient and sufficient service at just and reasonable rates. Case law suggests the “just and reasonable” standard coincides with the “zone of reasonableness” test adopted by Kansas courts. The “just and reasonable” standard was first outlined by the Supreme Court of the United States.<sup>165</sup> The Court emphasized that the focus of inquiry when evaluating whether rates are just and reasonable, is properly on the end result or “total effect” of the rate order, rather than on the specific rate-setting method employed. Following *Hope*, *Permian Basin*<sup>166</sup> found the Natural Gas Act’s articulated “just and reasonable” standard coincides with the applicable constitutional standards and that any rate selected by a regulatory commission within the “broad zone of reasonableness” cannot properly be attacked as confiscatory.

66. Applying *Hope* and *Permian Basin* to the Rate Design Settlement, the terms represent a compromise between the positions proposed by the Signatory Parties. While not conclusive evidence of the reasonableness of the Rate Design Settlement’s provisions, Kansas law indicates the Commission’s goal in a ratemaking case should be to determine a rate that falls within a “zone of reasonableness” after applying a balancing test in which the interests of all

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<sup>165</sup>*Federal Power Comm’n v. Hope Natural Gas Co.*, 320 U.S. 591, 64 S.Ct.281, 88 L.Ed 333 (1944).

<sup>166</sup>*Permian Basin Area Rate Cases*, 390 U.S. 747, 770, 88 S. Ct. 1344, 20 L.Ed 2d 312, *reh. denied* 392 U.S. 917, 88 S.Ct 2050 (1968).

concerned parties are considered.<sup>167</sup> In addition, the Kansas Supreme Court has described the “zone of reasonableness” as it applies to the Commission’s ratemaking function as follows:

There is an elusive range of reasonableness in calculating a fair rate of return. A court can only concern itself with the question as to whether a rate is so unreasonably low or so unreasonably high as to be unlawful. The in-between point, where the rate is most fair to the utility and its customers, is a matter for the State Corporation Commission’s determination.<sup>168</sup>

The Rate Design Settlement falls within the zone of reasonableness by taking into account the interests of all parties involved, even those non-signatory parties. Further, the Rate Design Settlement terms represent a compromise of the parties’ filed positions. The Rate Design Settlement also satisfies the balancing test aspect of the zone of reasonableness evaluation because it necessarily represents the parties’ recognition of the litigation risk that a party will not prevail on every element of its prefiled case.

67. The parties represent a variety of interests, including investors, large commercial customers, small commercial customers, residential customers and the public generally. The terms of the Rate Design Settlement are fair and reasonable, and were fully and fairly negotiated by the parties in conjunction with the acknowledgement that it is unlikely the Commission would accept wholesale any party’s prefiled position. The evidence in the record demonstrates the Rate Design Settlement will result in just and reasonable rates.

**5. The results of the Rate Design Settlement are in the public interest**

68. Each party has a duty to protect the interests it represents. KCP&L and Atmos have a duty to both their customers and shareholders. CURB represents the interests of

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<sup>167</sup>*Kansas Gas*, 239 Kan. at 488-92.  
<sup>168</sup>*Southwestern Bell*, 192 Kan. at 41.

residential and small commercial customers. MECG represents the interests of various large commercial customers. Staff represents the public interest generally, placing Staff in the unique position of being required to weigh and balance the interests of the Company, all classes of the Company's customers, and any other interests impacted by the Commission's Order that may not be party to the proceeding. Consistent with the Court's statements in *Kansas Gas*, "the focus of the inquiry (in setting "just and reasonable rates") is properly on the end result or "total effect" of the rate order, rather than upon the rate-setting method employed."<sup>169</sup> In exercising its duty to balance all the interests before it, those of the regulated utility, the consumers both present and future, and special interest groups such as industrial or ratepayer commercial groups, the Commission acknowledges that rate increases may be unfavorable to consumers, but necessary to provide adequate compensation to the regulated entity in exchange for the public use of its resources. The Commission finds the Rate Design Settlement will result in just and reasonable rates and represents an equitable balancing of the interests of all parties. Therefore, the Commission finds the Rate Design Settlement is in the public interest.

69. Wal-Mart opposes the Rate Design Settlement arguing: (1) the allocation methodology is flawed, outside the mainstream, and produces the highest industrial rate of any utility operating in ten Midwest states;<sup>170</sup> and (2) it requires high-load factor LGS customers to subsidize low-load factor LGS customers.<sup>171</sup> Wal-Mart argues in favor of allocating production

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<sup>169</sup> *Kansas Gas*, 239 Kan. at 489.

<sup>170</sup> Posthearing Brief of Midwest Energy Consumers Group (MECG Brief), July 28, 2015, p. 4.

<sup>171</sup> *Id.*



capacity costs on an Average & Excess 4CP basis (A&E 4CP)<sup>172</sup> and shifting 25% of the revenue responsibility from the LGS customer class to the residential customer class.<sup>173</sup>

70. The Commission rejects Wal-Mart's proposal to allocate production capacity costs on an A&E 4CP basis. There is very little difference between Wal-Mart's proposed A&E 4CP allocation and 4CP allocation.<sup>174</sup> The A&E 4CP approach is essentially a demand-based allocation methodology that assigns no weight to energy use when assigning production.<sup>175</sup> KCP&L filed two class cost of service model (BIP and Average & Peak 4CP (A&P 4CP)); Staff filed an Average & Peak 4CP class cost of service model. Both the BIP and A&P 4CP use energy and demand bases to allocate baseload generation, which are preferable to the A&E 4CP model since baseload generation is built for both energy and demand.

71. Wal-Mart is a relatively high-load factor customer.<sup>176</sup> Chriss admits his proposal would result in shifting approximately \$2.7 million from the LGS class to the residential customer class.<sup>177</sup> The cost of service studies produced by KCP&L and Staff suggest the LGS class is under-contributing compared to other classes.<sup>178</sup> By assigning cost of the baseload plants on a demand component only, Wal-Mart concludes the residential class is under-contributing.<sup>179</sup> But factoring in demand and energy components results in the LGS class under-contributing.<sup>180</sup> Under the principle of cost causation adopted by the Kansas courts, one class of customers

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<sup>172</sup> Chriss Direct, p. 4.

<sup>173</sup> *Id.*, p. 5.

<sup>174</sup> Cross-Answering Testimony of Brian Kalcic re: Class Cost of Service, May 26, 2015, pp. 2-3.

<sup>175</sup> *Id.*, p. 3.

<sup>176</sup> Tr. Vol. 3, 508 (Chriss).

<sup>177</sup> *Id.*, p. 534.

<sup>178</sup> KCP&L Brief, ¶ 106.

<sup>179</sup> *Id.*, ¶ 107.

<sup>180</sup> *Id.*

should not bear the costs created by another class.<sup>181</sup> Absent a reasonable basis, the Commission may not order a discriminatory rate design.<sup>182</sup> Adopting the A&E 4CP model would further exacerbate the problem of the residential class bearing a disproportionate share of the costs. The A&E model would significantly shift cost of service to the residential class. The Commission believes it is not in the public interest to shift costs away from LGS customers at the expense of residential customers.

72. Wal-Mart alleges KCP&L's own cost of service study demonstrates the majority of costs incurred to serve LGS customers are demand-related, not energy related.<sup>183</sup> Accordingly, Wal-Mart argues collecting demand-related costs through energy charges violates cost causation principles.<sup>184</sup> As a remedy, Wal-Mart advocates increasing the demand charges by 250% throughout the LGS class, increasing the customer, reactive demand, and facilities charges by the sub-class increase, and applying any remaining increase equally to the energy charges.<sup>185</sup> KCP&L raised concerns that Wal-Mart's proposal would expose KCP&L to customer migration and lost revenues.<sup>186</sup> Chriss acknowledged that he has not performed a migration study to determine the impact his proposal would have on the LGS class.<sup>187</sup> He testified that he did not know whether his proposal would cause other LGS customers to migrate to other classes.<sup>188</sup> There are more than 1,000 customers in the LGS class,<sup>189</sup> so migration could result in significant lost revenue, forcing KCP&L to recover those losses from other customers

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<sup>181</sup> *Jones*, 222 Kan. at 401.

<sup>182</sup> See Order on Petitions for Reconsideration and Clarification, ¶¶ 14-15, Docket No. 05-WSEE-981-RTS (Feb. 13, 2006).

<sup>183</sup> Chriss Direct, p. 32.

<sup>184</sup> *Id.*, p. 33.

<sup>185</sup> *Id.*, p. 5.

<sup>186</sup> Rebuttal Testimony of Bradley D. Lutz, (Lutz Rebuttal), June 1, 2015, p. 33.

<sup>187</sup> Tr. Vol. 3, 522 (Chriss).

<sup>188</sup> *Id.*

<sup>189</sup> Lutz Rebuttal, p. 34.

through a revenue adjustment factor.<sup>190</sup> The Commission finds KCP&L's concerns of customer migration compelling. Wal-Mart's proposal is unduly preferential to Wal-Mart and unduly discriminatory to other members of the LGS with low-load factors. Accordingly, the Commission rejects Wal-Mart's proposed changes to LGS rate design.

73. While the Commission rejected Wal-Mart's challenges to the Rate Design Settlement, the Commission finds Wal-Mart's argument that KCP&L's Kansas industrial customers are paying 38.5% higher rates than similarly situated Missouri customers<sup>191</sup> troubling and worthy of additional study.

**THEREFORE, THE COMMISSION ORDERS:**

A. The foregoing statements, discussion, and analysis are adopted as findings and conclusions of the Commission. These rulings are based on the specific facts of this case and on the record available. Unless otherwise specified, the findings made here should not necessarily be considered as precedent for other rate cases.

B. The Commission approves the Unanimous Partial Settlement Agreement on Revenue Requirement in its entirety. The terms of the attached Partial Settlement Agreement are incorporated into this Order.

C. KCP&L's base revenue requirement is set based on an operating income of \$133,135,320, a rate base of \$2,115,959,865, a return on equity of 9.3%, and an overall rate of return of 7.4383%. The Commission approves a base revenue requirement increase of \$40,125,928 from KCP&L's current revenue requirement. After accounting for revenue that will be recovered through KCP&L's Transmission Delivery Charge and rebasing amounts previously

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<sup>190</sup> Tr. Vol. 3, 522-23 (Chriss).

<sup>191</sup> MEGC Brief, July 28, 2015, p. 35.

recovered through KCP&L's Property Tax Surcharge, the Commission approves a total revenue increase of \$48,672,230.

D. The corresponding rate increases shall be set in accordance with the Commission's Final Revenue Requirement Calculation, attached as Attachment C. The Commission's Final Revenue Requirement Calculation is based on Staff's filed schedules and revised in accordance with the Commission's decisions on the contested issues.

E. The Commission approves the Non-Unanimous Partial Settlement Agreement on Rate Design in its entirety. The terms of the attached Non-Unanimous Partial Settlement Agreement are incorporated into this Order.

F. The Commission rejects CURB's proposal to reinstate the all-electric rate discounts in effect before the Commission's Order in the 10-415 Docket. The Commission also rejects Wal-Mart's proposals to allocate production capacity using an Average & Excess 4CP methodology and to increase demand charge for the LGS class.

G. The parties have 15 days from the date of electronic service of this Order to petition for reconsideration.<sup>192</sup>

H. The Commission retains jurisdiction over the subject matter and the parties for the purpose of entering such further orders as it deems necessary.

I. Commissioner Apple does not join in this Order based on concerns over the fixed monthly residential charge, ROE, and treatment of all-electric customers. A full explanation of his vote may be found in the minutes of the Commission's September 10, 2015 business meeting.

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<sup>192</sup> K.S.A. 66-118b; K.S.A. 77-529(a)(1).

**BY THE COMMISSION IT IS SO ORDERED.**

Albrecht, Chair; Emler, Commissioner; Apple, Commissioner (dissenting)

Dated: SEP 10 2015

*Amy L. Gilbert*

Amy L. Gilbert  
Secretary to the Commission

BGF

**EMAILED**

SEP 10 2015

# ATTACHMENT A

## BEFORE THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS

In the Matter of the Application of )  
Kansas City Power & Light )  
Company to Make Certain )  
Changes in Its Charges for Electric )  
Service )

Docket No. 15-KCPE-116-RTS

### PARTIAL SETTLEMENT AGREEMENT ON REVENUE REQUIREMENT

As a result of discussions between the parties to this docket, the Staff of the State Corporation Commission of the State of Kansas (“Staff” and “Commission,” respectively) (“Staff”), Kansas City Power & Light Company (“KCP&L” or “Company”), the Citizens’ Utility Ratepayer Board (“CURB”), and the Midwest Energy Consumers’ Group (“MECG”) comprised of Wal-Mart Stores, Inc., East Kansas Agri-Energy, L.L.C., Shawnee Mission Medical Center, Inc., Midwest Division - OPRMC, LLC d/b/a Overland Park Regional Medical Center, (collectively referred to as the “Signatories” or “Signatory Parties”) hereby submit to the Commission for its consideration and approval the following Partial Settlement Agreement on Revenue Requirement (“Partial Settlement”).

#### **I. KCP&L’s APPLICATION**

1. On January 2, 2015, KCP&L filed an Application with the Commission to make certain changes in its rates and charges for electric service, which was docketed as the above-captioned proceeding. Pursuant to a Commission Order, the effective date of this Application was suspended until September 10, 2015.<sup>1</sup>

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<sup>1</sup> Suspension Order, issued Jan. 13, 2015.

## ATTACHMENT A

2. The schedules filed with KCP&L's Application indicated a gross revenue deficiency of \$67.3 million, based upon normalized operating results for the 12 months ending June 30, 2014, adjusted for known and measurable changes in revenues, operating and maintenance expenses, cost of capital and taxes, and other adjustments through March 31, 2015. The Company's Application also included recommendations for application of the revenue requirement increase to the various customer classes and for rate design for the subclasses within each customer class. Rate Design issues are being addressed in a separate document entitled "Rate Design Settlement Agreement" being filed concurrently in this docket.

### II. STAFF AND OTHER PARTIES' PRE-FILED POSITIONS

3. On May 11, 2015, Staff filed its direct testimony in the above docket, wherein it recommended a rate increase for KCP&L of approximately \$44 million. In its testimony, Staff made recommendations regarding return on equity ("ROE"), adjustments to the income statement and rate base, and depreciation rates, among other items. In addition, Staff made recommendations on the various alternative ratemaking mechanisms proposed by KCP&L. Finally, Staff's testimony included a class cost of service ("CCOS") study and a proposed rate design.

4. CURB recommended a rate increase for KCP&L of \$16,889,734, based on the Test Year ending June 30, 2014, as filed by the Company. CURB's recommendation was based on a cost of equity of 8.55% as recommended by CURB witness Dr. J. Randall Woolridge. In addition, CURB recommended that the Commission approve KCP&L's request to implement a Transmission Delivery Charge ("TDC") rider, with modifications. CURB also recommended that the Commission reject KCP&L's requests to implement a

## ATTACHMENT A

Vegetation Management Cost tracker and a tracker for cybersecurity costs. Finally, CURB recommended that the Commission approve the Company's request to file an abbreviated rate case within twelve months of an Order in this case.

### III. TERMS OF THE PARTIAL SETTLEMENT

5. The Signatory Parties have settled certain revenue requirement issues, with such settlement provisions providing no precedent for future cases, as outlined below. In the event the Commission either does not approve this Partial Settlement Agreement in total, or materially changes the Partial Settlement Agreement terms, then the Agreement shall be voidable by any Signatory negatively affected by such modification. If the Commission accepts the Partial Settlement Agreement in its entirety and incorporates the same into a final order without material modification, the Signatories shall be bound by its terms and the Commission's order incorporating its terms as to all issues addressed herein and, in accordance with the terms hereof, will not appeal the Commission's order on these issues.

6. This Partial Settlement Agreement resolves all matters of, and related to, the revenue requirement items at issue in this docket with the exception of the following issues which will be presented to the Commission at evidentiary hearing for determination:

- Return on Equity
- Unrecovered Reserve – AMR Meters
- Fossil Fuel Inventory



## ATTACHMENT A

### A. Rate Base Items:

7. The Signatory Parties agree that all rate base items in this case except for Unrecovered Reserve – AMR Meter and Fossil Fuel Inventory are settled for a Company Kansas jurisdictional rate base determination of \$2,114,033,286. This rate base calculation reflects Staff's positions on the Unrecovered Reserve – AMR Meter and Fossil Fuel Inventory issues. Therefore, such rate base amount shall be adjusted, if necessary, as a result of the Commission's final determination on these issues.. Adjustments to the rate base amount and revenue requirement associated with these rate base items, such as amortization of AMR unrecovered reserve , as well as any impact of the update items listed in this Partial Settlement Agreement, will be addressed in the final revenue requirement calculations.

### B. Cost of Service ("COS") Items:

8. The Signatory Parties have resolved all contested revenue, expense and tax issues in this case, excluding Amortization of the Unrecovered AMR Meters, for an increase to Staff's filed revenue requirement recommendation of \$3,793,453. The following items currently reflect the amounts filed in Staff's Schedules but will be updated based on the final revenue requirement determined by the Commission.

- Cash Working Capital – as necessary to account for the impact of changes in total revenue requirement calculations associated with the remaining disputed issues.<sup>2</sup>

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<sup>2</sup> Unreserved Reserve – AMR Meters, Fossil Fuel Inventory, and Return on Equity are the remaining issues that will affect the final cash working capital amount.

## ATTACHMENT A

- Bad Debt Expense
- Rate Case Expense

### C. Capital Structure, Cost of Debt:

9. The Signatory Parties agree to a capital structure of 50.48 percent common equity, 48.97 percent long-term debt, and 0.55 percent preferred stock. The Signatory Parties agree to a cost of debt of 5.55 percent and to a cost of preferred stock of 4.29 percent.

### D. Depreciation:

10. KCP&L agrees to the depreciation rates in effect as of January 1, 2015, with the updates as shown in Schedule DAW-1 attached to the Direct Testimony of KCP&L witness Dane Watson, to be effective as of the effective date of retail rates approved in this case (October 1, 2015). An Attachment showing all such depreciation rates is attached hereto as **Exhibit A**.

### E. Decommissioning Accruals for Wolf Creek:

11. The Signatory Parties request Commission approval of the schedule of decommissioning cost accruals included in Schedule GNC-1 from Direct Testimony of Gregg Clizer, attached hereto as **Exhibit B**, Commission affirmation that the decommissioning cost accruals are included in KCP&L's cost of service and are included in rates for ratemaking purposes, and Commission affirmation that the earnings rate assumed for the trust takes into consideration the tax rate change and the removal of the investment restrictions resulting from the Energy Policy Act of 1992.

## ATTACHMENT A

### F. Amortization Items:

12. The Signatory Parties agree to the following resolution of the contested and/or new amortization items in the case:

	<u>Amortization Period</u>	<u>Total Amortization Amount</u>
▪ Flood Reimbursement	3 years	(\$ 1,650,911)
▪ Transource Account Review	3 years	(\$ 64,360)
▪ La Cygne Deferred Depreciation	25 years	\$ 3,043,261
▪ Rate Case Expense (116 Docket)	3 years	TBD**

\*\*Partial settlement only – evidentiary hearing and briefs required. See Section H below.

All amortizations scheduled to be removed as of the effective date of new rates in the abbreviated rate case as noted under Section I below have adjusted amortization periods of 1.5 years.

### G. Pension and OPEB Trackers:

13. The pension and Other Post-Retirement Employee Benefit (OPEB) tracker balances on a total KCP&L basis as of March 31, 2015 shall be identified in the Commission's final order in this docket as follows:

OPEB	Tracker 1	(\$3,565,341)
	Tracker 2	\$ 0
Pension	Tracker 1	\$18,018,306
	Tracker 2	(\$31,639,914)

Such tracker balances will be amortized using a three-year amortization period.

## ATTACHMENT A

### H. Rate Case Expense:

14. The Signatory Parties agree that the amortization period for the rate case expense amount for this Docket No. 15-KCPE-116-RTS will be as provided above under Section F, Amortization Items. The Parties agree that the rate case expense amount to be amortized will be determined in accordance with the process discussed in the rebuttal testimony of KCP&L witness Darrin Ives, including KCP&L-only expenses to be determined from the Final Rate Case Expense Update submitted by KCP&L on or before August 15, 2015, with Staff and CURB expenses to be provided by Staff through the date of the order in this docket, provided that total rate case expense does not exceed the \$1.83 million projected in the Application. Consistent with the policy position in the Direct Testimony of Staff witness Justin Grady in this docket, Staff reserves the right to recommend the Commission disallow recovery of any unamortized 15-116 Docket rate case expense balance in KCP&L's next full general rate proceeding. In that proceeding, any other party may assert any position regarding recovery of unamortized portions of 15-116 Docket rate case expense.

### I. Abbreviated Rate Proceeding:

15. In Docket No. 15-GIME-025-MIS, the Commission approved KCP&L's filing of an abbreviated rate proceeding in accordance with K.A.R. 82-1-231(b)(3). The Signatory Parties hereby request the Commission waive the twelve-month period for filing such abbreviated rate case under the regulation, and allow KCP&L to file such abbreviated rate case no later than 14 months after the Commission's order in this instant docket. Items for consideration in such an abbreviated proceeding include:

## ATTACHMENT A

- True-up La Cygne Environmental Project costs to actual with all affected components of KCP&L's revenue requirement, including deferred taxes, trued-up consistently. Allowance for Funds Used During Construction (AFUDC) amounts recorded on the Project will also be trued-up;
- True-up La Cygne deferred depreciation total amortization amount, including deferred taxes, as well as annual amortization amount;
- True-up to Wolf Creek capital additions costs to actual with all affected components of KCP&L's revenue requirement, including deferred taxes, trued-up consistently. AFUDC amounts recorded on the Wolf Creek Additions will also be trued-up;
- Update the amortization of Wolf Creek refueling outage costs included in base rates to refueling outage 20 actual expenditures; and
- Termination of the following regulatory asset items:
  - Removal of amortization of pre-existing FAS 87 regulatory asset;
  - Removal of amortization of the regulatory assets associated with rate case expense for all rate cases prior to this 15-116 Docket;
  - Removal of amortization of the regulatory asset associated with the Kansas Merger Transition Costs;
  - Removal of the amortization of the regulatory asset associated with the talent assessment expenses; and
  - Removal of amortization of the regulatory liability of a legal fee reimbursement.

## ATTACHMENT A

- Electric Vehicle Charging Station costs and tariff to be included in abbreviated rate case pursuant to Section N below.

The Parties agree that the revenue requirement increase/decrease resulting from the abbreviated rate case shall be applied to rates within the classes on an equal percentage basis, maintaining the rate and class relationships ultimately approved by the Commission in this 15-116 Docket except as otherwise noted in the separate Rate Design Settlement Agreement, filed in this case.<sup>3</sup>

### **J. Ad Valorem Base Identification:**

16. The base ad valorem tax expense assumed to be collected in base rates as a result of this proceeding are \$86,795,166 on a total KCP&L basis and \$39,775,094 on a Kansas jurisdictional basis. This is necessary for KCP&L's Property Tax Surcharge tariff.

### **K. Transmission Delivery Charge ("TDC") Rider/Energy Cost Adjustment ("ECA") Rider:**

17. The Signatory Parties agree to KCP&L's proposed TDC Rider as modified in the Rebuttal Testimony of KCP&L witness Darrin Ives, including the true-up mechanism with additional modifications to change the recovery mechanism to a \$/kW basis for all non-residential rates, except for those lacking a Demand Charge where recovery will then be based on a \$/kWh charge. The TDC Rider annual value used to calculate rates effective October 1, 2015, resulting from this rate case will be \$33,506,796 and will be applicable to Retail sales at the \$/kW and \$/kWh rates shown in

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<sup>3</sup> For purposes of clarity the parties will file an addendum to this Agreement identifying each of the necessary components of La Cygne and Wolf Creek costs included in the settled rate base amount identified in Paragraph 7 above. This will aid the Commission in accurately truing up these items in the abbreviated proceeding contemplated herein.

## ATTACHMENT A

the tariff attached hereto as **Exhibit C**. Signatory Parties also agree to the associated changes to KCP&L's ECA Rider as proposed by the Company in its Application which remove the transmission-related costs associated with Retail sales from the ECA calculation but maintain the transmission-related costs associated with off-system sales within the ECA calculation.

**L. Critical Infrastructure Protection (CIP)/Cybersecurity Tracker:**

18. The Signatory Parties agree that a CIP/Cybersecurity Tracker, limited to non-labor costs specific to the CIP/Cybersecurity efforts of the Company, is appropriate and should be approved by the Commission. The Tracker process is set forth in **Exhibit D** to this Agreement. The base amount for the CIP/Cybersecurity Tracker shall be set at the March 31, 2015 CIP value of \$4,592,958 (Total KCP&L Share) plus the twelve months ended March 31, 2015 Cybersecurity value of \$933,304 (Total KCP&L Share). The CIP/Cybersecurity Tracker will terminate upon completion of the first KCP&L full general rate proceeding filed on or after January 1, 2020. If KCP&L wishes to continue the CIP/Cybersecurity Tracker beyond that time, KCP&L must propose such action to the Commission. In that future proceeding, KCP&L may request the CIP/Cybersecurity Tracker mechanism be re-authorized and continued. KCP&L will bear the burden of showing that the extension of the CIP/Cybersecurity Tracker is in the public interest and will result in just and reasonable rates. All other Signatory Parties retain the right to object to extending the CIP/Cybersecurity Tracker in that future proceeding.

**M. Vegetation Management Tracker:**

19. The Signatory Parties agree that no Vegetation Management Tracker will be implemented at this time.

## ATTACHMENT A

### N. Electric Vehicle Charging Stations:

20. Without providing precedent for any party's position or hindering any party's future position on the issue of electric vehicle (EV) charging stations and KCP&L's Clean Charge Network, KCP&L, Staff and CURB agree to jointly petition the Commission to open a generic docket to work collaboratively with the Company to investigate and evaluate the issue of EV charging stations. Such petition filing shall be filed as soon as possible, but no later than October 1, 2015, and will include a proposed procedural schedule that, if approved, would ensure completion of the docket within one year so that KCP&L will have sufficient time to address the issue of EV charging stations in the abbreviated rate proceeding in accordance with the resulting final order of the Commission in the generic docket. The Signatory Parties further agree that KCP&L may request revenue requirement and tariffs related to the EV charging stations in the abbreviated rate case in accordance with the Commission's final order in the generic docket.

### O. In-Service Criteria Compliance:

21. The Signatory Parties agree that KCP&L has complied with and met the in-service criteria set for La Cygne Unit 1, Unit 2 and Common environmental control equipment as set forth in the *Joint Filing of Kansas City Power & Light Company, Westar Energy, Inc. Kansas Gas and Electric Company, and Commission Staff Regarding In-Service Criteria for La Cygne Environmental Project* filed October 30, 2014 in Docket No. 15-GIME-025-MIS as supported by the Company's In-Service Confirmation Filing made on June 16, 2015.



## ATTACHMENT A

**P. Cross-Examination Waiver and Supportive Testimony:**

22. All Signatory Parties to this Partial Settlement Agreement waive cross-examination of all other Signatory Parties' witnesses on the settled items listed above for purposes of the evidentiary hearing, except for questions in response to Commissioner questions. All Signatory Parties also agree to provide testimony in support of the Partial Settlement Agreement or agree to be listed as not opposed to the Partial Settlement Agreement. The Signatory Parties agree that all pre-filed testimony of their witnesses related to the settled revenue requirement issues may be incorporated into the record without objection.

**Q. Miscellaneous Provisions**

**(1) The Commission's Rights**

23. Nothing in this Partial Settlement Agreement is intended to impinge or restrict, in any manner, the exercise by the Commission of any statutory right, including the right of access to information, and any statutory obligation, including the obligation to ensure that KCP&L is providing efficient and sufficient service at just and reasonable rates.

**(2) Signatory Parties' Rights**

24. The Signatory Parties shall have the right to present pre-filed testimony in support of this Partial Settlement Agreement. Such testimony shall be filed formally in the docket and presented by witnesses at a hearing on this Agreement. Testimony is being filed in conjunction with this Agreement by the following witnesses: (1) KCP&L: Mr. Darrin Ives; (2) Staff: Mr. Justin Grady; and (3) CURB: Ms. Andrea Crane.

## **ATTACHMENT A**

### **(3) Negotiated Settlement/Interdependent Provisions**

25. This Partial Settlement Agreement represents a negotiated settlement that fully resolves the settled issues in this docket among the Signatory Parties. The Parties represent that the terms of this Agreement constitute a fair and reasonable resolution of the settled issues addressed herein. Except as specified herein, the Signatory Parties shall not be prejudiced, bound by, or in any way affected by the terms of this Partial Settlement Agreement (a) in any future proceeding; (b) in any proceeding currently pending under a separate docket; and/or (c) in this proceeding should the Commission decide not to approve this Partial Settlement Agreement in the instant proceeding. The provisions of this Agreement have resulted from negotiations among the Signatory Parties and are interdependent. If the Commission accepts this Partial Settlement Agreement in its entirety and incorporates the same into a final order without material modification, the Signatory Parties shall be bound by its terms and the Commission's order incorporating its terms as to all settled issues addressed herein and in accordance with the terms hereof, and will not appeal the Commission's order as it relates to the settled issues contained herein.

### **(4) Termination or Modification**

26. In the event the Commission either does not approve this Partial Settlement Agreement in total, or materially changes the Settlement Agreement terms, then such Agreement shall be voidable by any Signatory Party negatively affected by such modification. Further, in such event, this Partial Settlement Agreement shall be considered privileged and not admissible in evidence or made a part of the record in any proceeding. In the event of a termination pursuant to this Section, this Partial Settlement

## ATTACHMENT A

Agreement shall be null and void and of no further effect, with all rights, duties, and obligations of the Signatory Parties thereafter restored as if this Partial Settlement Agreement had never been executed; provided, that the Signatory Parties may, in the sole discretion of each Party, agree to attempt to modify this Partial Settlement Agreement in a manner that would resolve the adverse effect of the material change or condition.

**(5) Submission of Documents to the Commission or Staff**

27. To the extent this Partial Settlement Agreement provides for information, documents or other data to be furnished to the Commission or Staff, such information, documents or data shall be filed with the Commission and a copy served upon the Commission's Director of Utilities. Such information, documents or data shall be marked and identified with the docket number of this proceeding.

IN WITNESS WHEREOF, the Signatory Parties have executed and approved this Partial Settlement Agreement on Revenue Requirement, effective as of the 16<sup>th</sup> day of June 2015, by subscribing their signatures below.

*/s/Andrew French*

By:

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**ATTACHMENT A**

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CONSUMERS' GROUP**

**Kansas City Power & Light  
15-KCPE-116-RTS**

**EXHIBIT A**

**KCP&L DEPRECIATION RATES - Stipulation Agreement**

ACCOUNT	ACCOUNT DESCRIPTION	DEPRECIATION RATE	
<b>STEAM PRODUCTION PLANT - ALL UNITS EXCEPT IATAN 2 AND HAWTHORN UNIT 5 REBUILD</b>			
311	STRUCTURES & IMPROVEMENTS	1.78%	
312	BOILER PLANT EQUIPMENT	3.19%	** New Rate
312.01	BOILER PLANT EQUIPMENT - UNIT TRAINS	2.90%	
312.02	BOILER PLANT EQUIPMENT - AQC	0.00%	
314	TURBOGENERATOR UNITS	2.36%	
315	ACCESSORY ELECTRICAL EQUIPMENT	2.75%	** New Rate
315.02	ACCESSORY ELECTRICAL EQUIPMENT - COMPUTERS	0.00%	
316	MISCELLANEOUS EQUIPMENT	2.45%	
<b>IATAN 2 STEAM PRODUCTION PLANT</b>			
311	STRUCTURES & IMPROVEMENTS	1.76%	
312	BOILER PLANT EQUIPMENT	2.10%	
314	TURBOGENERATOR UNITS	1.84%	
315	ACCESSORY ELECTRICAL EQUIPMENT	1.88%	
316	MISCELLANEOUS EQUIPMENT	1.13%	
<b>STEAM PRODUCTION PLANT - H5 REBUILD</b>			
311.02	STRUCTURES & IMPROVEMENTS	0.49%	
312.03	BOILER PLANT EQUIPMENT	0.70%	
315.01	ACCESSORY ELECTRICAL EQUIPMENT	0.83%	
316.01	MISCELLANEOUS EQUIPMENT	0.55%	
<b>NUCLEAR PRODUCTION PLANT</b>			
321	STRUCTURES & IMPROVEMENTS	1.42%	
322	REACTOR PLANT EQUIPMENT	1.97%	
323	TURBOGENERATOR UNITS	2.10%	
324	ACCESSORY ELECTRICAL EQUIPMENT	1.91%	
325	MISCELLANEOUS EQUIPMENT	2.20%	
328	REGULATORY DISALLOWANCES	1.97%	
<b>OTHER PRODUCTION PLANT</b>			
341	STRUCTURES & IMPROVEMENTS	2.49%	
342	FUEL HOLDERS, PRODUCERS & ACCESSORIES	2.60%	
344	GENERATORS	2.95%	
344.01	SOLAR	2.95%	
345	ACCESSORY ELECTRICAL EQUIPMENT	2.06%	
346	OTHER PROD-MISC PWR PLT EQUIP	3.41%	
<b>WIND PRODUCTION PLANT</b>			
341.02	STRUCTURES & IMPROVEMENTS	5.17%	
344.02	GENERATORS	4.81%	
345.02	ACCESSORY ELECTRICAL EQUIPMENT	5.53%	
346.02	OTHER PROD-MISC PWR PLT EQUIP	4.81%	** New Rate
<b>TRANSMISSION PLANT</b>			
352	STRUCTURES & IMPROVEMENTS	1.41%	
353	STATION EQUIPMENT	1.16%	
353.03	STATION EQUIPMENT - COMMUNICATION EQUIPMENT	24.06%	
354	TOWERS & FIXTURES	0.43%	
355	POLES & FIXTURES	2.00%	
356	OVERHEAD CONDUCTORS & DEVICES	0.30%	
357	UNDERGROUND CONDUIT	0.84%	
358	UNDERGROUND CONDUCTORS & DEVICES	2.00%	
<b>DISTRIBUTION PLANT</b>			
361	STRUCTURES & IMPROVEMENTS	1.85%	
362	STATION EQUIPMENT	1.66%	
362.03	STATION EQUIPMENT - COMMUNICATION EQUIPMENT	21.62%	
363	ENERGY STORAGE EQUIPMENT	0.00%	** New Rate
364	POLES & FIXTURES	2.54%	
365	OVERHEAD CONDUCTORS & DEVICES	2.26%	
366	UNDERGROUND CONDUIT	0.76%	
367	UNDERGROUND CONDUCTORS & DEVICES	0.98%	

368	TRANSFORMERS	1.47%	
369	SERVICES	5.21%	
370	METERS	1.88%	
370.02	AMI METERS	5.02%	
371	INSTALLATIONS ON CUSTOMERS' PREMISES	0.00%	** New Rate
373	STREET LIGHTING & SIGNAL SYSTEMS	4.99%	

**GENERAL PLANT**

390	STRUCTURES & IMPROVEMENTS	2.85%	
391	OFFICE FURNITURE & EQUIPMENT	5.00%	
391.01	OFFICE FURNITURE & EQUIPMENT - WOLF CREEK	5.00%	
391.02	COMPUTER EQUIPMENT	20.00%	
392	AUTOS	11.50%	
392.01	LIGHT TRUCKS	11.60%	
392.02	HEAVY TRUCKS	8.83%	
392.03	TRACTORS	6.91%	
392.04	TRAILERS	2.98%	
393	STORES EQUIPMENT	4.00%	
394	TOOLS, SHOP & GARAGE EQUIPMENT	5.00%	
395	LABORATORY EQUIPMENT	5.00%	
396	POWER OPERATED EQUIPMENT	8.91%	
397	COMMUNICATIONS EQUIPMENT	6.67%	
398	MISCELLANEOUS EQUIPMENT	5.00%	

## ATTACHMENT B

### BEFORE THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS

In the Matter of the Application of )  
Kansas City Power & Light )  
Company to Make Certain )  
Changes in Its Charges for Electric )  
Service )

Docket No. 15-KCPE-116-RTS

#### **NON-UNANIMOUS RATE DESIGN SETTLEMENT AGREEMENT**

As a result of discussions between the parties to this docket, the Staff of the State Corporation Commission of the State of Kansas (“Staff” and “Commission,” respectively), Kansas City Power & Light Company (“KCP&L” or “Company”), the Citizens’ Utility Ratepayer Board (“CURB”), and Atmos Energy (“Atmos”), (referred to collectively as the “Signatories” or the “Signatory Parties) hereby submit to the Commission for its consideration and approval the following non-unanimous Rate Design Settlement Agreement.

#### **I. KCP&L’s APPLICATION**

1. On January 2, 2015, KCP&L filed an Application with the Commission to make certain changes in its rates and charges for electric service, which was docketed as the above-captioned proceeding. Pursuant to a Commission Order, the effective date of this Application was suspended until October 1, 2015.

2. The schedules filed with KCP&L’s Application indicated a gross revenue deficiency of \$67.3 million, based upon normalized operating results for the 12 months ending June 30, 2014, adjusted for known and measurable changes in revenues, operating and maintenance expenses, cost of capital and taxes, and other adjustments through March 31, 2015. The Company’s Application also included recommendations for

## ATTACHMENT B

application of the revenue requirement increase to the various customer classes and for rate design for the subclasses within each customer class.

3. In support of its Application, KCP&L submitted the testimony of twelve witnesses and the schedules required by K.A.R.82-1-231.

### **II. STAFF AND OTHER SIGNATORY PARTIES' PRE-FILED POSITIONS**

4. On May 11, 2015, Staff filed its direct testimony in the above docket, wherein it recommended a rate increase for KCP&L of approximately \$44 million. In its testimony, Staff made recommendations regarding return on equity, adjustments to the income statement and rate base, and depreciation rates, among other items. In addition, Staff made recommendations on the various alternative ratemaking mechanisms proposed by KCP&L. Finally, Staff's testimony included a class cost of service study and a proposed rate design.

5. On May 11, 2015, CURB filed the direct testimony of Andrea Crane in the above docket, wherein it recommended a rate increase for KCP&L of \$16,889,734, based on the Test Year ending June 30, 2014 as filed by the Company. CURB's recommendation was based on a cost of equity of 8.55% as supported by CURB witness Dr. J. Randall Woolridge. CURB recommended that the Commission approve KCP&L's request to implement a Transmission Delivery Charge ("TDC") rider, with modifications and reject KCP&L's requests to implement a Vegetation Management Cost tracker and a tracker for cyber-security costs. CURB recommended continued use of the Base Intermediate and Peak (BIP) model to allocate costs among rate classes and recommended rate design structure for residential and small commercial customers as supported by CURB witness Brian Kalcic. Finally, CURB recommended the Commission



## ATTACHMENT B

revisit and reinstate certain discounts historically applied to KCP&L's all-electric customers and institute an increasing block rate structure during the summer as supported by CURB witness Stacey Harden.

### III. TERMS OF THE RATE DESIGN SETTLEMENT

6. This rate design settlement agreement resolves all matters between the Signatory Parties of, and related to, rate design in this docket except the All-Electric Rate Differential Reinstatement issue. KCP&L, Staff and all other non-CURB parties continue to oppose CURB's proposal to reinstate the all-electric rate differentials effective prior to the rates resulting from the Company's 10-415 Docket. This all-electric issue will be litigated before the Commission. This rate design settlement agreement sets forth a complete rate design settlement applicable in the event the Commission rejects CURB's proposal for reinstatement of the all-electric rate differentials.

7. Settled Rate Design Items: The Signatory Parties agree to settle the following contested rate design issues as set forth below.

- TDC Rider – The Signatory Parties agree that KCP&L's proposed TDC Rider as modified in its rebuttal testimony is accepted with the additional modification of changing the recovery mechanism to a \$/kW basis for all non-residential rates, except for those lacking a demand charge where recovery will then be based on a \$/kWh charge.
- Billing Determinants – The Signatory Parties agree to split the difference on billing determinants between the Company's and Staff's results for purposes of revenue application and associated rate design.

## ATTACHMENT B

- Revenue Requirement Allocation – The Signatory Parties agree that the final revenue requirement increase determined by the Commission in this docket will be allocated on the following basis to the customer classes assuming a final revenue requirement increase of X%:
  - Residential class increase: X%
  - Small General Service class increase: X% less \$1,000,000
  - Medium General Service class increase: X% less \$1,000,000
  - Large General Service class increase: X% plus \$2,000,000
  - Lighting and Traffic Signals increase: X%
- Residential Customer Charge – The Signatory Parties agree to set the Residential Customer Charge as follows for the Residential sub-classes:
  - RESA, RESC, RESD and ROU: \$14.00 per month.
  - TOU: \$20.00 per month
  - The Signatory Parties agree that the Residential Customer Charges as noted above will remain fixed in the rate design resulting from the abbreviated rate case and any revenue requirement adjustments resulting from the abbreviated rate case will be applied to the other components of customer rates.
- Correction – The Signatory Parties agree that KCP&L will correct the heating rates set higher than the similar general use rates.
- Inclining Block Rates – The Signatory Parties agree that KCP&L will not implement an inclining block structure.

## ATTACHMENT B

- Hours-Use – The Signatory Parties agree that KCP&L will maintain its hours-use structure for non-residential customers in this case. Parties retain the right to advocate for any rate design structure for KCP&L’s non-residential customers in the Company’s future full general rate proceedings.
- Workshop – The Signatory Parties agree that KCP&L will not be required to host a workshop concerning non-residential pricing reform.
- Section 5.10 – The Signatory Parties agree to initiate a generic investigation before the Commission to address the potential conflict on a company’s right to immediately disconnect a customer for tampering under the Billing Standards.

8. **Uncontested Rate Design Items:** The Signatory Parties agree that the following tariff, rules and regulations, and rate design issues are uncontested and will be implemented as proposed by KCP&L as set forth below.

### **Tariff Clean-Up**

- Table of Contents – The new Table of Contents proposed by KCP&L is accepted.
- Residential Other Use rate – Alignment of the rate between the Residential and Small General Service rate as proposed by the Company is accepted.
- Remove references to unused programs – Removal of references to AC Load Control program and Residential Conservation Service Program as proposed by the Company is accepted.
- Update of Adjustments and Surcharge Listing on Rate Tariffs – Update of the listing of adjustments and surcharges on KCP&L’s rate tariffs to include the new TDC Rider as proposed by the Company is accepted.

## ATTACHMENT B

- ECA Rider – The revisions to the ECA Rider proposed by KCP&L to address changes necessitated by the new TDC Rider, which remove the transmission-related costs associated with Retail sales from the ECA calculation but maintain the transmission-related costs associated with off-system sales within the ECA calculation, are accepted.
- Reference to Rural Service – Removal of references to rural customers as a specific sub-group of customers as proposed by KCP&L is accepted.
- Rate Codes – Addition of rate codes to the respective rate tariffs as proposed by the Company is accepted.
- Listing of Communities Served – Update of the listing of Kansas communities served by KCP&L using Company taxing records as proposed by the Company is accepted.
- Peak Load Curtailment Credit (PLCC) References – Change of references in the Voluntary Load Reduction Rider, Real-Time Pricing, and Real-Time Pricing-Plus tariffs from the obsolete program PLCC tariff to the current Demand Response Incentive Rider tariff as proposed by KCP&L is accepted.
- Large Power Service Rate Reference – Removal of the references to Large Power Service rates in the Economic Development Rider and Thermal Storage tariffs as proposed by the Company is accepted.

### Tariff Revisions

- General Rules and Regulations Tariffs – Uncontested changes to KCP&L's Rules and Regulations Tariffs as proposed in Schedule BDL-2 attached to the Direct Testimony of Brad Lutz are accepted.

## ATTACHMENT B

- Thermal Storage Holidays – Removal of the phrase “or any day celebrated as such” from the Thermal Storage tariff as proposed by the Company is accepted.
- Special Rates – Freeze on or elimination of special rates no longer used or not functional as proposed by KCP&L is accepted.
- Lighting – Removal of obsolete rates and the addition of kWh data to the lighting rates as proposed by KCP&L is accepted.
- Facility Connections Standard (“FCS”) – Removal of the FCS from KCP&L’s General Rules and Regulations Tariffs as proposed by the Company is accepted with agreement to collaborate on the language suitable to achieve Staff’s recommended addition.

9. **Residential Rate Design Parameters:** The Signatory Parties agree that the following residential rate design parameters will be followed.

- The increase will be allocated as noted in Paragraph 12 above to each customer class.
- The increase applicable to the Residential customer class will be assigned first to the increase in the customer charge.
- The remaining increase amount will be applied as follows:
  - RESA, RESC, RESD: Volumetric rates between subclasses and seasons will remain proportionately the same as in KCP&L’s current rate design for these classes.
  - ROU and RTOD: Volumetric rates between subclasses will be determined by the proportions in KCP&L’s proposed rate design.

## ATTACHMENT B

10. **Application of Rate Design:** The Signatory Parties agree that allocation of the revenue requirement increase will be calculated following determination of final revenue requirement by the Commission. The Signatory Parties will prepare rate design schedules showing such allocation agreement inclusive of changes required to offset any revenue impact resulting from customer migration in the non-residential classes as determined using KCP&L's UI Planner modeling.

### IV. **MISCELLANEOUS PROVISIONS**

#### A. **The Commission's Rights**

11. Nothing in this Rate Design Settlement Agreement is intended to impinge or restrict, in any manner, the exercise by the Commission of any statutory right, including the right of access to information, and any statutory obligation, including the obligation to ensure that KCP&L is providing efficient and sufficient service at just and reasonable rates.

#### B. **Signatory Parties' Rights**

12. The Signatory Parties shall have the right to present pre-filed testimony in support of this Agreement. Such testimony shall be filed formally in the docket and presented by witnesses at a hearing on this Agreement.

#### C. **Waiver of Cross-Examination of Some Witnesses; Witnesses Who Will Testify at Evidentiary Hearing**

13. Testimony in support of the Rate Design Settlement is being filed in support of, and in conjunction with this Agreement by the following witnesses: (1) KCP&L: Mr. Brad Lutz; (2) Staff: Mr. Robert Glass; and (3) CURB: Ms. Stacy Harden. The Signatory Parties waive cross-examination on all witness testimony of Signatory Parties filed prior to the filing of this Rate Design Settlement Agreement

## ATTACHMENT B

relating to the settled rate design issues, except for questions in response to Commissioner questions. The Signatory Parties agree that all pre-filed testimony of their witnesses related to the settled rate design issues may be incorporated into the record without objection.

14. As indicated above, the only non-settled rate design issue among the Signatory Parties is reinstatement of the all-electric rate differentials as proposed by CURB, the allocation of revenues if the all-electric rate differentials are reinstated and the rate design parameters for the affected customer classes in the event the all-electric rate differentials are reinstated. The witnesses presented by each party on the non-settled issue will be as follows:<sup>1</sup>

- a. Staff: Mr. Robert Glass
- b. KCP&L: Mr. Bradley Lutz
- c. CURB: Ms. Stacey Harden
- d. Atmos: Mr. Ken Fogle
- e. KGS: Mr. Paul Raab
- f. MECG: Mr. Steve Chriss

The Signatory Parties specifically reserve their rights to cross-examine the above-mentioned witnesses with respect to the non-settled issue. Staff, KCP&L and Atmos reserve their rights to cross-examine Mr. Brian Kalcic, subject to CURB's right to object at the time of hearing.

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<sup>1</sup> CURB is not "presenting" Brian Kalcic as a witness on the all-electric differential issue, however, other parties, including signatories to this Settlement, may seek to cross-examine Mr. Kalcic at hearing on the issue. CURB disagrees with Mr. Kalcic being cross-examined on the all-electric rate differentials as he did not provide testimony on that issue in this docket. Mr. Kalcic will be present at the hearing since Class Cost of Service is a contested issue and CURB reserves the right to make objections at that time to any cross-examination of Mr. Kalcic that CURB believes to be inappropriate.

## **ATTACHMENT B**

### **D. Negotiated Settlement/Interdependent Provisions**

15. This Rate Design Settlement Agreement represents a negotiated settlement that fully resolves the settled issues in this docket among the Signatory Parties. The Parties represent that the terms of this Rate Design Agreement constitute a fair and reasonable resolution of the settled issues addressed herein. Except as specified herein, the Signatory Parties shall not be prejudiced, bound by, or in any way affected by the terms of this Rate Design Settlement Agreement (a) in any future proceeding; (b) in any proceeding currently pending under a separate docket; and/or (c) in this proceeding should the Commission decide not to approve this Rate Design Settlement Agreement in the instant proceeding. The provisions of this Rate Design Agreement have resulted from negotiations among the Signatory Parties and are interdependent. If the Commission accepts this Rate Design Settlement Agreement in its entirety and incorporates the same into a final order without material modification, the Signatory Parties shall be bound by its terms and the Commission's order incorporating its terms as to all settled issues addressed herein and in accordance with the terms hereof, and will not appeal the Commission's order as it relates to the settled issues contained herein.

### **E. Termination or Modification**

16. In the event the Commission either does not approve this Rate Design Settlement Agreement in total, or materially changes the Rate Design Settlement Agreement terms, then such Agreement shall be voidable by any Signatory Party negatively affected by such modification. Further, in such event, this Rate Design Settlement Agreement shall be considered privileged and not admissible in evidence or made a part of the record in any proceeding. In the event of a termination pursuant to this



## ATTACHMENT B

Section, this Rate Design Settlement Agreement shall be null and void and of no further effect, with all rights, duties, and obligations of the Signatory Parties thereafter restored as if this Rate Design Settlement Agreement had never been executed; provided, that the Signatory Parties may, in the sole discretion of each Party, agree to attempt to modify this Rate Design Settlement Agreement in a manner that would resolve the adverse effect of the material change or condition.

17. As noted above, KCP&L, Staff, and all other non-CURB parties oppose CURB's proposal to reinstate the all-electric rate differentials effective prior to the rates resulting from the 10-415 Docket. However, if the Commission chooses to reinstate the all-electric rate differentials, and the Commission changes the revenue requirement allocations as shown in paragraph 6 and/or the Residential rate design parameters in paragraph 8 to accommodate its decision, the Parties agree neither of these changes will constitute material changes to the Rate Design Settlement Agreement for purposes of paragraph 15 of the Agreement, or any other paragraph that would nullify the overall Agreement. The parties retain their rights, however, to request judicial review of the Commission's determination accepting the proposal to reinstate the all-electric rate differentials.

### **F. Submission of Documents to the Commission or Staff**

18. To the extent this Rate Design Settlement Agreement provides for information, documents or other data to be furnished to the Commission or Staff, such information, documents or data shall be filed with the Commission and a copy served upon the Commission's Director of Utilities. Such information, documents or data shall be marked and identified with the docket number of this proceeding.

**ATTACHMENT B**

IN WITNESS WHEREOF, the Signatory Parties have executed and approved this Rate Design Settlement Agreement, effective as of the 16<sup>th</sup> day of June 2015, by subscribing their signatures below.

*/s/ Andrew French*

By: \_\_\_\_\_  
ANDREW FRENCH (#24680)  
Litigation Counsel  
Telephone: (785) 271-3361  
SAMUEL FEATHER (#25475)  
Litigation Counsel  
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Kansas Corporation Commission  
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[s.feather@kcc.ks.gov](mailto:s.feather@kcc.ks.gov)

**ATTORNEYS FOR COMMISSION STAFF**

*/s/ Darrin R. Ives*

By: \_\_\_\_\_  
DARRIN R. IVES  
Vice President – Regulatory Affairs  
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**KANSAS CITY POWER & LIGHT COMPANY**

**ATTACHMENT B**

*/s/ David Springe*

By: \_\_\_\_\_  
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[n.christopher@curb.kansas.gov](mailto:n.christopher@curb.kansas.gov)

**ATTORNEYS FOR CURB**

*/s/ James G. Flaherty*

By: \_\_\_\_\_  
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**ATTORNEY FOR ATMOS ENERGY**

# ATTACHMENT C

## KCP&L COMMISSION ORDER SUMMARY OF ADJUSTMENTS TO RATE BASE FOR THE TEST YEAR ENDED JUNE 30, 2014

LINE NO.	DESCRIPTION	AMOUNT
1	COMMISSION APPROVED RATE BASE	\$2,115,959,865
2	RATE OF RETURN ON RATE BASE AS ADOPTED (1)	<u>7.4383%</u>
3	NET OPERATING INCOME REQUIRED	157,391,443
4	COMMISSION APPROVED OPERATING INCOME	<u>133,135,320</u>
5	OPERATING INCOME DEFICIENCY	24,256,123
6	INCOME TAX FACTOR	<u>0.604500</u>
7	COMMISSION APPROVED BASE REVENUE INCREASE	<u>\$ 40,125,928</u>
8	ADD: REVENUE RECOVERED THROUGH TDC INSTEAD OF BASE RATES	\$14,924,412
9	LESS: PROPERTY TAX SURCHARGE REBASING	\$6,378,110
10	EQUALS: TOTAL COMMISSION APPROVED REVENUE REQUIREMENT INCREASE	<u>\$ 48,672,230</u>

(1) COMMISSION APPROVED CAPITAL STRUCTURE:

DESCRIPTION	CAPITALIZATION RATIO	COST OF CAPITAL	WEIGHTED COST OF CAPITAL
*****	*****	*****	*****
LONG TERM DEBT	48.9703%	5.5543%	2.7200%
PREFERRED STOCK	0.5476%	4.2913%	0.0235%
COMMON EQUITY	<u>50.4822%</u>	<u>9.3000%</u>	<u>4.6948%</u>
TOTALS	<u>100.0000%</u>		<u>7.4383%</u>

PLEASE FORWARD THE ATTACHED DOCUMENT (S) ISSUED IN THE ABOVE-REFERENCED DOCKET TO THE FOLLOWING:

NAME AND ADDRESS	NO. CERT. COPIES	NO. PLAIN COPIES
JAMES G. FLAHERTY, ATTORNEY ANDERSON & BYRD, L.L.P. 216 S HICKORY PO BOX 17 OTTAWA, KS 66067		
ANDREW J ZELLERS, GEN COUNSEL/VP REGULATORY AFFAIRS BRIGHTERGY, LLC 1617 MAIN ST 3RD FLR KANSAS CITY, MO 64108		
GLENDIA CAFER, ATTORNEY CAFER PEMBERTON LLC 3321 SW 6TH ST TOPEKA, KS 66606		
TERRI PEMBERTON, ATTORNEY CAFER PEMBERTON LLC 3321 SW 6TH ST TOPEKA, KS 66606		
NIKI CHRISTOPHER, ATTORNEY CITIZENS' UTILITY RATEPAYER BOARD 1500 SW ARROWHEAD RD TOPEKA, KS 66604		
DELLA SMITH CITIZENS' UTILITY RATEPAYER BOARD 1500 SW ARROWHEAD RD TOPEKA, KS 66604		
SHONDA SMITH CITIZENS' UTILITY RATEPAYER BOARD 1500 SW ARROWHEAD RD TOPEKA, KS 66604		
DAVID SPRINGE, CONSUMER COUNSEL CITIZENS' UTILITY RATEPAYER BOARD 1500 SW ARROWHEAD RD TOPEKA, KS 66604		

**EMAILED**

SEP 10 2015

The Docket Room hereby certified that on this 10<sup>th</sup> day of September, 2015, it caused a true and correct copy of the attached ORDER to be electronically served to the above persons.

PLEASE FORWARD THE ATTACHED DOCUMENT (S) ISSUED IN THE ABOVE-REFERENCED DOCKET TO THE FOLLOWING:

NAME AND ADDRESS	NO. CERT. COPIES	NO. PLAIN COPIES
ROBERT J. HACK, LEAD REGULATORY COUNSEL KANSAS CITY POWER & LIGHT COMPANY ONE KANSAS CITY PL, 1200 MAIN ST (64105) PO BOX 418679 KANSAS CITY, MO 64141-9679		
DARRIN R. IVES, SENIOR DIRECTOR, REGULATORY AFFAIRS KANSAS CITY POWER & LIGHT COMPANY ONE KANSAS CITY PL, 1200 MAIN ST (64105) PO BOX 418679 KANSAS CITY, MO 64141-9679		
ROGER W. STEINER, CORPORATE COUNSEL KANSAS CITY POWER & LIGHT COMPANY ONE KANSAS CITY PL, 1200 MAIN ST (64105) PO BOX 418679 KANSAS CITY, MO 64141-9679		
MARY TURNER, MANAGER REGULATORY AFFAIRS KANSAS CITY POWER & LIGHT COMPANY ONE KANSAS CITY PL 1200 MAIN ST (64105) PO BOX 418679 KANSAS CITY, MO 64141-9679		
SAMUEL FEATHER, LITIGATION COUNSEL KANSAS CORPORATION COMMISSION 1500 SW ARROWHEAD RD TOPEKA, KS 66604-4027		
BRIAN G. FEDOTIN, DEPUTY GENERAL COUNSEL KANSAS CORPORATION COMMISSION 1500 SW ARROWHEAD RD TOPEKA, KS 66604-4027		
ANDREW FRENCH, LITIGATION COUNSEL KANSAS CORPORATION COMMISSION 1500 SW ARROWHEAD RD TOPEKA, KS 66604-4027		
WALKER HENDRIX, MANAGING ATTORNEY KANSAS GAS SERVICE, A DIVISION OF ONE GAS, INC. 7421 W 129TH ST OVERLAND PARK, KS 66213-2634		

**EMAILED**

SEP 10 2015

The Docket Room hereby certified that on this 10<sup>th</sup> day of September, 2015, it caused a true and correct copy of the attached ORDER to be electronically served to the above persons.

PLEASE FORWARD THE ATTACHED DOCUMENT (S) ISSUED IN THE ABOVE-REFERENCED DOCKET TO THE FOLLOWING:

NAME AND ADDRESS	NO. CERT. COPIES	NO. PLAIN COPIES
ROBERT V. EYE, ATTORNEY AT LAW KAUFFMAN & EYE 123 SE 6TH AVE STE 200 THE DIBBLE BUILDING TOPEKA, KS 66603		
DAVID L. WOODSMALL WOODSMALL LAW OFFICE 308 E HIGH ST STE 204 JEFFERSON CITY, MO 65101		

**EMAILED**

SEP 10 2015

The Docket Room hereby certified that on this 10<sup>th</sup> day of September, 2015, it caused a true and correct copy of the attached ORDER to be electronically served to the above persons.