

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

In the Matter of Kansas City Power & Light)
Company Seeking Commission Approval to)
Implement Changes in their Transmission) Docket No. 18-KCPE-403-TAR
Delivery Charges Rate Schedules.)

NOTICE OF FILING OF STAFF'S REPORT AND RECOMMENDATION

COMES NOW, the Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively), and files its Report and Recommendation regarding Kansas City Power & Light Company's (KCP&L's) request to implement changes in its Transmission Delivery Charges (TDC) rate schedules. Staff recommends the Commission allow KCP&L's amended TDC rate schedules to be collected, thereby resulting in the collection of \$48,977,103, an increase of \$7,853,648.

WHEREFORE, Staff submits its Report and Recommendation for Commission review and consideration and for such other relief as the Commission deems just and reasonable.

Respectfully submitted,

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GOVERNOR JEFF COLYER, M.D.

SHARI FEIST ALBRECHT, CHAIR | JAY SCOTT EMLER, COMMISSIONER | DWIGHT D. KEEN, COMMISSIONER

REPORT AND RECOMMENDATION UTILITIES DIVISION

TO: Chair Shari Feist Albrecht
Commissioner Jay Scott Emler
Commissioner Dwight D. Keen

FROM: Andria Jackson, Managing Auditor
Justin Grady, Chief of Accounting and Finance
Jeff McClanahan, Director

DATE: June 18, 2018

SUBJECT: Docket No. 18-KCPE-403-TAR: In the Matter of Kansas City Power & Light Company Seeking Commission Approval to Implement Changes in their Transmission Delivery Charges Rate Schedules.

EXECUTIVE SUMMARY:

Kansas City Power & Light Company (KCP&L) initially made a request for \$50,385,744 in Transmission Delivery Charge (TDC) revenues under the Application, which represents a \$9,262,289 increase since its last TDC filing. On May 1, 2018, KCP&L began billing the updated TDC rates to its retail customers on a subject-to-refund basis pursuant to K.S.A. 66-1237(c), pending the conclusion of Staff's investigation and the Commission's final determination. KCP&L has since filed a revised TDC calculation reflecting the reduction in revenue requirement that occurred as a result of the Tax Cuts and Jobs Act (TCJA), which reduced the federal income tax rate from 35% to 21%. The reduction in income taxes resulted in a revised TDC request of \$48,977,103, or a revised increase of \$7,853,648. Staff has performed an audit of KCP&L's revised TDC tariff filing and recommends the Commission approve the amended tariff as filed. The effective date of the amended tariff is July 1, 2018. If approved, KCP&L's revised TDC would increase an average residential monthly customer bill by \$1.60, or 1.2%.¹

¹ The increase in the average residential monthly customer bill reflects the combined effect of the current TDC rates effective May 1, 2018, which results in an increase of \$1.88, and the revised TDC rates, which results in a decrease of \$0.28.

BACKGROUND:

On March 20, 2018, KCP&L submitted an Application seeking Commission approval to implement changes in its TDC rate schedules. KCP&L's filing represents an update to the prior TDC approved in Docket No. 17-KCPE-440-TAR (17-440 Docket). Supplemental to its filed request, KCP&L included clean and red-line versions of its proposed TDC tariffs, as well as workpapers supporting the calculations. In accordance with K.S.A. 66-1237(c), KCP&L sought implementation of the new TDC tariffs within 30 business days, requesting May 1, 2018, as the desired effective date.²

KCP&L is a transmission-owning member (TO) of Southwest Power Pool (SPP), a non-profit Regional Transmission Organization (RTO) that serves the function of a Transmission Provider (TP) to its member-entities. In its role as a TP, SPP acts as an agent for and on behalf of its TOs. One of SPP's functions as a TP is administering the billing for the wholesale transmission service provided over member-owned transmission facilities under its Open Access Transmission Tariff (OATT). Accordingly, SPP will collect for the transmission service from the wholesale transmission customers requesting such service over KCP&L's transmission facilities. SPP will then remit these charges back to the Company.

KCP&L's retail customers also utilize KCP&L's transmission system to receive required energy. In order to gain approval from the Missouri Public Service Commission to transfer functional control of its transmission facilities to SPP, KCP&L signed an Agreement for the Provision of Transmission Service to Missouri Bundled Retail Load (Missouri Service Agreement). Under the terms of the Missouri Service Agreement, KCP&L, as a Network Integrated Transmission Service (NITS) customer, is not charged Schedule 9 charges for the use of its legacy transmission facilities.³ KCP&L does, however, pay Schedule 9 NITS charges for the use of other transmission owners' facilities where applicable and, thus, incurs these charges from SPP.

The TDC tariff is established to recover KCP&L's revenue requirement associated with providing transmission service to its retail load. In other words, the approved TDC tariffs are designed to recover KCP&L's retail transmission service cost. The approved TDC rates under the current tariff are based on KCP&L's annual transmission revenue requirement (ATTR), which is derived from KCP&L's annual Transmission Formula Rate (TFR), which has been approved by the Federal Energy Regulatory Commission (FERC). In addition to the retail portion of that amount, the current TDC tariff recovers the retail-allocated portion of other SPP charges associated with transmission service. In its initial Application, KCP&L's TDC rates

² Statute K.S.A. 66-1237(c) states that "[a]ll transmission-related costs incurred by an electric utility and resulting from any order of a regulatory authority having legal jurisdiction over transmission matters, including orders setting rates on a subject-to-refund basis, shall be conclusively presumed prudent for purposes of the transmission delivery charge and an electric utility may change its transmission delivery charge whenever there is a change in transmission-related costs resulting from such an order. The commission may also order such a change if the utility fails to do so. An electric utility shall submit a report to the commission at least 30 business days before changing the utility's transmission delivery charge. If the commission subsequently determines that all or part of such charge did not result from an order described by the subsection, the commission may require changes in the transmission delivery charge and impose appropriate remedies, including refunds."

³ Likewise, KCP&L, as a transmission owner, does not receive the corresponding Schedule 9 revenues from the use of its own legacy transmission facilities, and the revenue requirement associated with these facilities is not included in KCP&L's base rates, thus the continued need for a TDC rate to collect the revenue requirement associated with KCP&L's transmission facilities.

were calculated to recover \$50,385,744 from retail customers, which represented a \$9,262,289 increase since the Company's prior TDC filing in the 17-440 Docket. On April 5, 2018, the Commission issued an Order pursuant to K.S.A. 66-1237 that permitted KCP&L to implement the requested changes in its TDC rates on a subject-to-refund basis.

On December 22, 2017, the TCJA was signed into law, which, amongst other changes, reduced the federal corporate income tax rate from 35% to 21% beginning on January 1, 2018.⁴ After the effective date of the initially proposed TDC rates, KCP&L received a waiver from FERC enabling KCP&L to make a mid-year update to its ATRR. KCP&L also requested and received approval from FERC that this updated ATRR be effective retroactive to January 1, 2018, when the reduced tax rate went into effect.

On May 17, 2018, KCP&L filed an update to its original TDC filing to reflect more expeditiously in the TDC the reduction in its 2018 ATRR resulting from the implementation of the TCJA. Absent this updated filing, KCP&L's reduced 2018 ATRR would not be reflected in the TDC until the 2018 TDC true-up is incorporated into the 2019 TDC update. As such, KCP&L's TDC has been revised to \$48,977,103, a reduction of \$1,408,641 compared to its initial Application.

ANALYSIS:

To facilitate its review for KCP&L's TDC filing, Staff solicited from KCP&L various information requests including recent copies of SPP billing statements, billing determinants and usage data used to determine the amount of the TDC KCP&L is responsible for, residential bill impact analysis, etc. Staff also had several discussions with KCP&L about the charges and TDC calculations.

Calculation of the ATRR for use in the TDC calculation:

The tariff KCP&L included in the Application contains transmission charges for the following cost elements of the OATT from SPP:

- Schedule 1A – Tariff Administration Service
- Schedule 2 – Point-to-Point (PtP) charges (as assignable to Retail sales)
- Schedule 7 – Firm PtP charges (as assignable to Retail sales)
- Schedule 8 – Non-Firm PtP charges (as assignable to Retail sales)
- Schedule 9 – Network Integration Transmission Service⁵
- Schedule 10 – Wholesale Distribution Service
- Schedule 11 – Base Plan Charge
- Schedule 12 – FERC Assessment Charge
- Other costs associated with Schedule 1 fees for transmission service provided on foreign wires
- SPP Direct Assigned or Sponsored Upgrade Transmission Fees for Customer Upgrades

In addition, other non-SPP transmission-related charges recorded in FERC Account 565 (Transmission of Electricity by Others), fees charged to the Company by the North American

⁴ *Tax Cuts and Jobs Act*, Public Law No. 115-97; Statute 131 Stat. 2054 (Dec. 22, 2017).

⁵ Schedule 9 costs exclude the revenue requirement for all Company-owned transmission facilities classified by SPP as Base Plan Upgrades.

Electric Reliability Council (NERC), and other transmission revenue requirements that are not otherwise reflected in and recoverable through base rates or other Commission authorized rider mechanisms are also included.

In addition to verifying the total input costs, Staff also examined a few supplementary processes performed by the Company to arrive at the individual retail transmission delivery charges. Staff reviewed data in the Revenue Requirements and Rates (RRR) file on the SPP website and workpapers detailing the load data provided by KCP&L, which included KCP&L's native system load (Kansas retail, Missouri retail, and full requirement cities), third party load in the KCP&L transmission pricing zone (i.e. KMEA and KEPCo), and load associated with Grandfathered Agreements, to verify the Company's Load Ratio Share (LRS) calculations.⁶

Staff has reviewed the data provided by KCP&L through the information requests issued, including the SPP invoices and the load and usage data submitted by KCP&L in support of its revised TDC calculation. Additionally, Staff has verified the information provided by reviewing the published data on the SPP website. Staff finds that KCP&L's TDC filing accurately reflects the nature of the costs it incurs for providing transmission service to its retail customers and that its TDC charges were calculated correctly in its amended filing.

As stated above, after initially filing its 2018 TDC update, KCP&L received a waiver from FERC to make a mid-year update to its ATRR in order to reflect the reduced tax rate resulting from the implementation of the TCJA. After discussion with Staff, KCP&L revised its TDC filing to reflect the reduction in its ATRR more expeditiously rather than waiting to reflect the reduction in the TDC until the 2019 TDC update filing. Staff has reviewed the correction and verified the revised TDC calculation.

Calculation of the TDC Rate for each retail rate schedule:

The ATRR is collected by applying a TDC rate, developed for each rate schedule permitting such cost recovery, to each applicable customer's bill. The allocation of the ATRR to the respective rate schedules is based on the 12 coincident-peak (12-CP) allocation method, similar to the method used by SPP to assess transmission charges. KCP&L's TDC tariff is currently based on the 12 months of the test year ended June 30, 2014. KCP&L's 12-CP allocation is adjusted for each customer class using the updated 12-CP allocation ratio from its most recent rate case and remains unchanged until the next general rate case or, at a minimum, once every five years, to limit cost shifting among retail classes.

Staff reviewed KCP&L's demand allocation of the TDC expense and verified the final TDC rates computed for each rate schedule.

RECOMMENDATION:

Staff recommends the Commission allow KCP&L's amended TDC rate schedules to be collected, resulting in the collection of \$48,977,103, or an increase of \$7,853,648.

⁶ KCP&L's transmission settlement group provides the Schedule 11 LRS data for the KCP&L transmission pricing zone to SPP, except for the Independence Power & Light (IPL) load data in the KCP&L transmission pricing, which is provided to SPP by IPL.

STATE OF KANSAS)
) ss.
COUNTY OF SHAWNEE)

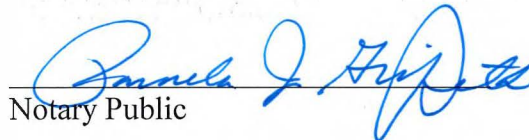
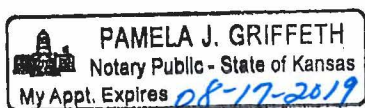
VERIFICATION

Robert E. Vincent, being duly sworn upon his oath deposes and states that he is Litigation Counsel for the State Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing *Notice of Filing of Staff's Report and Recommendation* and that the statements contained therein are true and correct to the best of his knowledge, information and belief.



Robert E. Vincent, Litigation Counsel # 26028
Kansas Corporation Commission of the
State of Kansas

Subscribed and sworn to before me this 19th day of June, 2018.


Notary Public

My Appointment Expires: August 17, 2019

CERTIFICATE OF SERVICE

18-KCPE-403-TAR

I, the undersigned, certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's Report and Recommendation was served by electronic service on this 20th day of June, 2018, to the following:

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