

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

STATE CORPORATION COMMISSION

Before Commissioners: Thomas E. Wright, Chairman  
Joseph F. Harkins  
Ward Loyd

MAY 19 2010



In the Matter of the Application of Kansas City )  
Power & Light Company for Approval of its 2010 )  
Energy Efficiency Rider for Program Costs Incurred ) Docket No. 10-KCPE-636-TAR  
January 1, 2009 Through December 31, 2009. )

**NOTICE OF FILING OF STAFF MEMORANDUM**

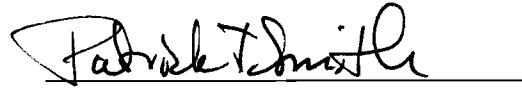
COMES NOW the Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectfully), and for its Notice of Filing of Staff Memorandum states as follow:

1. Staff hereby files the attached Staff Memorandum indicating that the Commission approve KCPL's revised EER amount of \$9,091,522 with the following conditions:

- A. KCPL shall file its next EER on or before March 31, 2011, to include costs incurred for Commission-approved programs from January 1, 2010 through December 31, 2010. In this filing KCPL shall include a true-up calculation to true-up amounts collected in 2009 versus the amounts intended to be collected in 2009.
- B. KCPL shall file revised tariff's reflecting the rates and charges presented in Staff Exhibit SAC-3 prior to the revised EER becoming effective on July 1, 2010.

WHEREFORE, Staff requests the Commission consider its memorandum and for such other and further relief as the Commission deems just and proper.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Patrick T. Smith", is written over a horizontal line.

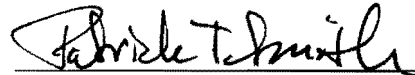
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For Commission Staff

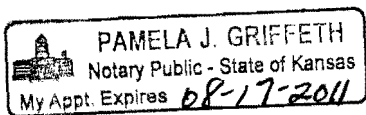
**VERIFICATION**

STATE OF KANSAS                    )  
  ) ss.  
COUNTY OF SHAWNEE            )

Patrick T. Smith, of lawful age, being duly sworn upon his oath deposes and states that he is Litigation Counsel for the Kansas Corporation Commission of the State of Kansas; that he has read and is familiar with the foregoing *Notice of Filing of Staff Memorandum* and believes that the statements therein are true to the best of his knowledge, information and belief.

  
\_\_\_\_\_  
Patrick T. Smith # 18275  
Litigation Counsel  
The State Corporation Commission  
of the State of Kansas

SUBSCRIBED AND SWORN to before me this 19th day of May, 2010.



  
\_\_\_\_\_  
Notary Public

My Appointment Expires: August 17, 2011

MEMORANDUM

MEMORANDUM

**To:** Chair Wright  
Commissioner Harkins  
Commissioner Loyd

**From:** Justin Grady *JG*  
Sonya Cushinberry *SC*

**Date:** May 19, 2010

**Re:** 10-KCPE-636-TAR—In the Matter of Kansas City Power & Light Company for Approval of its 2010 Energy Efficiency Rider for Program Costs Incurred January 1, 2009 Through December 31, 2009.

Date Filed to Legal: 5/19/2010

Date Filed to the Commissioners: 5/19/2010

**BACKGROUND**

On March 31, 2010, Kansas City Power & Light Company (KCPL) filed an application for approval of its 2010 Energy Efficiency Cost Recovery Rider (EER). KCPL requests a Commission order by June 21, 2010, in order to facilitate a July 1, 2010 effective date for the EER. Accordingly, Staff submits this Memorandum for the Commission's consideration.

KCPL's application seeks recovery of costs it has incurred related to Commission-approved demand response, energy efficiency, and affordability programs from the period January 1, 2009 through December 31, 2009. This filing was anticipated by the Stipulation and Agreement filed in a previous KCPL rate case, Docket No. 07-KCPE-905-RTS, and is consistent with the Commission's policy directives on cost recovery established in the Order on Docket No. 08-GIMX-441-GIV. The current filing is KCPL's third application for an EER. The first two

filings (Docket No. 08-KCPE-802-TAR, and 09-KCPE-770-TAR) were approved in full by the Commission after Staff review.

KCPL's application includes unrecovered expenses for calendar year 2009 of \$9,114,011, and under recovered expenses from calendar year 2008 of \$98,653 for a total requested EER surcharge amount of \$9,212,664. This expense is to be collected according to a revised tariff sheet entitled "Schedule EE" which reflects the new EER rates to each class resulting from the new charges. If approved, KCPL's new EER will be in effect from the period July 1, 2010 to June 30, 2011.

### ANALYSIS

Staff performed an audit of KCPL's EER application, as discussed in the two sections below. Staff finds that the Commission should approve a revised EER amount of \$9,091,522 for KCPL, after accounting for Staff's recommendation that internal labor expenses included in KCPL's EER amount be removed from this application and placed in KCPL's base rates.

### ACCOUNTING

Staff requested and received workpapers in support of KCPL's application. Attached as Exhibit JTG-1 is a breakdown of the costs, including internal labor expense incurred by KCPL, for each Commission-approved program during calendar year 2009. Staff requested the general ledger/journal entry support for these costs and has confirmed that these costs indeed were incurred by KCPL for these programs during calendar year 2009.

Exhibit JTG-2 presents KCPL's calculation of a true-up applicable to surcharge amounts collected pursuant to KCPL's 2008 EER during the period July 1, 2008 through June 30, 2009. This calculation results in an under-recovery of \$98,653, and Staff agrees with this calculation. According to workpapers provided to Staff, KCPL appears to be on track to under recover its 2009 EER amount by \$350,957, but that true-up calculation will be reflected in KCPL's 2011 EER filing when actual revenue collections can be used.

Staff Exhibit JTG-3 presents Staff's recommended EER amount of \$9,091,522. This amount excludes the cost of KCPL internal labor that was allocated to Commission-approved energy efficiency programs during calendar year 2009. Staff recommends that these internal

labor expenses be recovered via KCPL's base rates<sup>1</sup>, and that internal labor expenses to be included in future EER's be limited to those expenses that meet Staff's conditions for inclusion.

Staff's primary concern about the inclusion of internal labor expenses in an EER is the possibility of over-recovery of these expenses over time. Secondly, Staff feels that when possible these expenses should be recovered via base rates. The adjustment of internal labor expenses in a base rate proceeding is often complex and comprehensive, accounting for multiple variables (capitalization percentages, overtime, FICA taxes, benefits loadings, etc.) that eventually affect the ultimate level of expense to be included in base rates. The recovery of these expenses outside of a base rate proceeding (through a rider or a surcharge) overlooks these complexities, and simply allows for pass-through of costs.

With regard to the over-recovery of internal labor expenses, this situation can present itself when one component of an expense is recovered through base rates and one component through a rider or surcharge. For example, consider a KCPL employee that makes \$60,000 a year and spends 40% of their time working on energy efficiency programs during the year 2009. If the Commission allows KCPL to recover this expense through the EER, \$24,000 will be collected through the rider, and \$36,000 through base rates. The problem arises if, with the passage of time, the KCPL employee in question starts to apportion more of their time to energy efficiency. This occurs because the amount of this individual's salary collected through the rider changes every year, yet the salary recovered through base rates stays constant. For example, if in the next year the KCPL employee begins to work on energy efficiency 60% of the time, \$36,000 would be collected from customers through the EER, while KCPL continues to collect \$36,000 through base rates. Thus, KCPL would over-recover its internal labor expenses by \$12,000 (20%). Of course, this problem only arises in years that KCPL doesn't file a base rate case. This is the primary reason Staff has not raised this concern in KCPL's two previous EER filings. Because KCPL was in the middle of a regulatory plan<sup>2</sup> that called for multiple rate cases over a four-year period, the risk of over-recovery was lessened.

With the above concerns in mind, Staff recommends the Commission limit the inclusion of internal labor expenses in energy efficiency cost recovery riders to employees whose sole job-

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<sup>1</sup> KCPL currently has a base-rate proceeding before the Commission, Docket No. 10-KCPE-415-RTS.

<sup>2</sup> See Docket No. 04-KCPE-1025-GIE

function is energy efficiency related activities, and whose salary, (or someone they replaced), was not included in base rates during the Utility's last base rate proceeding.

Staff chose to make this recommendation to remove internal labor expenses from the EER at this time because KCPL's regulatory plan ends with the base rate case currently before the Commission, after-which there is no guarantee of when or how-often KCPL will file a base rate case. Staff will make an adjustment to include these energy efficiency related internal labor expenses in KCPL's base rates when it files its Direct Testimony on June 8<sup>th</sup>, 2010.

#### RATE DESIGN

The EER rates presented on the tariff sheet "Schedule EE" were calculated by the Company utilizing the demand allocator and kWh consumption data from its Class Cost of Service Study filed in Docket 10-KCPE-416-RTS. A rate was developed for each customer class with the exception of the off-peak and other lighting classes. Attachment SAC-3 provides the supporting calculations for the development of the rates resulting from Staff's recommended EER amount.

Staff has reviewed the rates and found them to be accurate. Therefore, Staff recommends the Commission approve Staff's revised Energy Efficiency Rider as proposed in this docket.

#### RECOMMENDATION

Staff recommends the Commission approve KCPL's revised EER amount of \$9,091,522 with the following conditions:

1. KCPL shall file its next EER on or before March 31, 2011, to include costs incurred for Commission-approved programs from January 1, 2010 through December 31, 2010. In this filing KCPL shall include a true-up calculation to true-up amounts collected in 2009 versus the amounts intended to be collected in 2009.
2. KCPL shall file revised tariff's reflecting the rates and charges presented in Staff Exhibit SAC-3 prior to the revised EER becoming effective on July 1, 2010.

	A	B	C	D	E	F
1					Staff Exhibit JTG-1 (Summary)	
2	<b>Kansas City Power &amp; Light Company</b>					
3	<b>Kansas Energy Efficiency Program Costs (Account 182441)</b>					
4	<b>January 1, 2009 through December 31, 2009</b>					
5						
6						
7			<b>Actual Cost (EEC)</b>		<b>2009</b>	
8			Company Labor			
9			Company Non-Labor		5,328,421	
10			Contractor Costs		3,664,448	
11				<b>Total</b>	\$ 8,992,869.22	
12						
13			<b>Annual True Up (TRUE)</b>			
14			Undercollected/Overcollected per JTG-2		\$ 98,652.74	
15						
16			<b>Total Cost to be Recovered</b>		<b>\$ 9,091,521.96</b>	



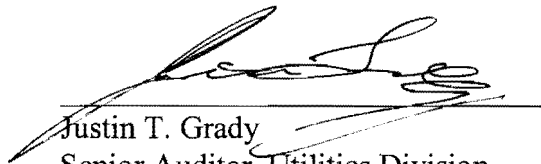
	A	B	C	D	E	F	
1				Exhibit JTG-2			
2	<b>Kansas City Power &amp; Light Company</b>						
3	<b>Kansas Actual Energy Efficiency Rider Collections (Account 182441)</b>						
4	<b>July 1, 2006 through December 31, 2007 Expenditures</b>						
5							
6	Per EER filing	\$ 4,096,185.29					
7	Per Corp. Trial Balance at 12/31/2007 <sup>1</sup>	\$ 4,093,504.52					
8							
9							
10	Recovered through EER:						
11	July 2008	\$ (232,437.72)					
12	August 2008	\$ (433,193.13)					
13	September 2008	\$ (366,642.60)					
14	October 2008	\$ (314,386.47)					
15	November 2008	\$ (294,998.31)					
16	December 2008	\$ (375,538.85)					
17	January 2009	\$ (387,626.52)					
18	February 2009	\$ (351,745.20)					
19	March 2009	\$ (298,112.12)					
20	April 2009	\$ (288,490.84)					
21	May 2009	\$ (289,488.24)					
22	June 2009	\$ (362,191.78)					
23		\$ (3,994,851.78)					
24							
25	Total unrecovered	\$ 98,652.74	2.41%				
26							
27							
28	NOTES						
29	1	2008 EER filing did not include a \$2,681 adjustment. For the purposes of this True-up we will use the amount that ties to the Company trial balance.					

	A	B	C	D	E	F	G
1	<b>Kansas Energy Efficiency Rider Calculation and Impact Workpaper</b>						Staff Exhibit SAC-3
2	<b>March 31, 2010</b>						
3							
4	<b>Inputs</b>						
5	Kansas DSM Expense	\$ 9,091,521.96					
6							
7	<b>Demand Allocation of DSM Expenses and Calculation of Class EER Rate</b>						
8		<b>Residential</b>	<b>Small General</b>	<b>Medium General</b>	<b>Large General</b>	<b>Large Power</b>	<b>Total</b>
9	Demand Allocator (BIP Method) <sup>1</sup>	55.4325%	4.6205%	10.7205%	27.4488%	1.7777%	100.0000%
10	Allocated DSM Expense	\$ 5,039,657.63	\$ 420,074.13	\$ 974,654.19	\$ 2,495,515.39	\$ 161,620.62	\$ 9,091,521.96
11							
12	Total KWH <sup>2</sup>	2,877,753,310	323,681,785	744,095,325	2,340,268,016	170,796,811	6,456,595,247
13							
14	<b>EER Rate</b>	<b>\$ 0.00175</b>	<b>\$ 0.00130</b>	<b>\$ 0.00131</b>	<b>\$ 0.00107</b>	<b>\$ 0.00095</b>	
15							
16	<b>Typical Monthly Charge</b>						
17		<b>Residential</b>	<b>Small General</b>	<b>Medium General</b>	<b>Large General</b>	<b>Large Power</b>	
18	Typical Usage (kWh) <sup>3</sup>	1,149	1,288	15,594	175,314	4,879,909	
19	Typical Monthly EER Charge	\$ 2.01	\$ 1.67	\$ 20.43	\$ 187.59	\$ 4,635.91	
20							
21	<b>Typical Monthly Bill Impact</b>						
22		<b>Residential</b>	<b>Small General</b>	<b>Medium General</b>	<b>Large General</b>	<b>Large Power</b>	
23	Typical Monthly Bill before ECA and EER <sup>4</sup>	\$ 96.86	\$ 130.41	\$ 1,200.67	\$ 9,969.96	\$ 228,974.63	
24	Typical Monthly EER Charge	\$ 2.01	\$ 1.67	\$ 20.43	\$ 187.59	\$ 4,635.91	
25	% of Base Usage Charge	2.08%	1.28%	1.70%	1.88%	2.02%	
26							
27	<b>Notes:</b>						
28	1 Base-Intermediate-Peak Demand allocator utilized by KCP&L for its Class Cost of Service Study (10-KCPE-415-RTS), recalculated to remove lighting classes.						
29	2 Class Base MWH - KCP&L Revenue Summary MFR Section 2 (10-KCPE-415-RTS) (Converted to KWH)						
30	3 Average Monthly kWh Usage per Customer - KCP&L Revenue Summary MFR Section 2 (10-KCPE-415-RTS)						
31	4 Total class revenue divided by number of customers divided by 12 - KCP&L Revenue Summary MFR Section 2 (10-KCPE-415-RTS)						

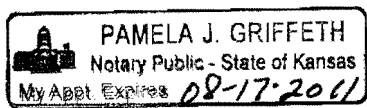
STATE OF KANSAS                    )  
  ) ss.  
COUNTY OF SHAWNEE            )

**VERIFICATION**

Justin T. Grady, being duly sworn upon his oath deposes and says that he is the Senior Auditor in the Utilities Division of the State Corporation Commission of the State of Kansas, that he has read and is familiar with the foregoing *Memorandum*, and that the statements contained therein are true and correct to the best of his knowledge, information and belief.

  
Justin T. Grady  
Senior Auditor, Utilities Division  
State Corporation Commission of the  
State of Kansas

Subscribed and sworn to before me this 19th day of May, 2010.



  
Notary Public

My Appointment Expires: August 17, 2011

**CERTIFICATE OF SERVICE**

10-KCPE-636-TAR

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Notice of Filing of Staff Memorandum was placed in the United States mail, postage prepaid, or hand-delivered this 19th day of May, 2010, to the following:

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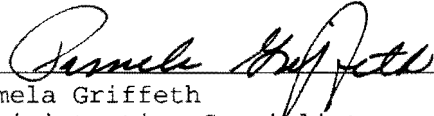
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Administrative Specialist