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

In the Matter of the Application of Kansas City Power & Light Company for Approval to Modify the Original Budget for its Energy Optimizer Program.	))))	Docket No. 14-KCPE-098-TAR

NOTICE OF FILING OF STAFF'S AMENDED REPORT & RECOMMENDATION – PUBLIC VERSION

The Staff of the State Corporation Commission of the State of Kansas (Staff and Commission, respectively) files the attached Amended Report and Recommendation and states as follows:

1. On March 10, 2013, Staff filed a Report and Recommendation in this matter.

2. To more clearly identify the confidential data contained therein, Staff hereby files the attached Amended Report and Recommendation dated March 12, 2014.

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

Respectfully submitted,

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AMENDED REPORT AND RECOMMENDATION
UTILITIES DIVISION
[PUBLIC VERSION]

TO: Chair Shari Feist Albrecht
Commissioner Thomas E. Wright
Commissioner Jay Scott Emler

FROM: Scott Unekis, Senior Research Economist
Lana Ellis, Deputy Chief, Economics and Rates
Justin Grady, Chief Auditor
Bob Glass, Chief, Economics and Rates
Jeff McClanahan, Director of Utilities

DATE: March 12, 2014

DATE SUBMITTED TO LEGAL: ______________________

DATE SUBMITTED TO COMMISSIONERS: ______________________

SUBJECT: *Docket No. 14-KCPE-098-TAR: In the Matter of the Application of Kansas City Power & Light Company for Approval To Modify the Original Budget for its Energy Optimizer Program.*

EXECUTIVE SUMMARY:

The Kansas City Power and Light Company (KCP&L) is requesting approval to modify its two year budget for one of its Demand-Side Management pilot programs, Energy Optimizer, because the program is more than 10 percent over budget. KCP&L is required by Order in Docket 08-GIMX-442-GIV to seek approval of budget overages of more than 10 percent. KCP&L submitted all documents requested by Staff, and after analyzing the documents, Staff finds the expenses incurred are reasonable. Therefore, Staff recommends the Commission approve KCP&L's budget overage request.

BACKGROUND:

On August 12, 2013, KCP&L requested approval to modify its two year Energy Efficiency (EE) budget approved in Docket 11-KCPE-780-TAR (780 Docket). Pursuant to the Commission's

April 13, 2009, Order in Docket No. 08-GIMX-442-GIV[1], Commission approval is required for any budget overage of more than 10 percent. KCP&L's budget went above the 10 percent threshold because of price increases in the contract of a third party vendor, Honeywell, and a backlog of customers who had signed up before the program freeze date in May 2011. On February 13, 2014, KCP&L filed an Amended Application that increased the amount KCP&L was requesting to modify its budget. In the Amended Application, KCP&L added higher than expected thermostat replacement costs to the reasons for the budget overage.

ANALYSIS:

In the Commission Order Following Collaborative on Benefit-Cost Testing and Evaluation, Measurement, and Verification in Docket 08-GIMX-442-GIV, the Commission stated utilities could adjust their demand-side management program budgets by up to 10% without required Commission approval.[2] However, when the program budget is in excess of 10%, the utility is required to request Commission approval of the budget change. Staff will discuss the approved 2012-2013 budget, explain the reasons for the overages, and describe how the cost overages affect the budget.

I. Approved 2012 - 2013 Budget: $***/yr.

In the 780 Docket, KCP&L's yearly budget was approved at **$*** ** for 2012 and 2013, as shown in Table 1 below.[3] The yearly totals in the table were calculated based on each service territory's allocated installed base, which for Kansas was 39%. KCP&L's budget includes an amount for service calls, and the 499 calls (468 + 31 after hours) budgeted for Kansas represent 39% of total anticipated service calls.[4] Of the anticipated service calls, KCP&L estimated that 25% of service calls would require a new thermostat, and of those, 25% would be outside of the warranty window and billable to KCP&L.[5] There were no new customer installations budgeted for.

[1] See Order Following Collaborative on Benefit Cost Testing and Evaluation, Measurement and Verification, Docket No. 08-GIMX-442-GIV, issued April 13, 2009.
[2] Ibid., Paragraphs 181 and 182.
[3] Source: DR1 attachment labeled " Q1_CONFIDENTIAL_533-1-1st_amendment_to_SOW_533-Titled_3rd".
[4] KCP&L anticipated 1,600 annual service calls in its territory, of which 1,200 (75%) were during business hours; 80 (5%) were after hours. Applying the 39% results in 468 service calls and 31 after hour service calls (499 total site visits) budgeted for annually.
[5] KCP&L's budget for service calls also assumes 1% require wire modules.

Table 1: Original Budget

		May 2011 Pricing	units	2012 Budget	2013 Budget
Monthly Admin/Management Fee	mo	***	12	***	***
Monthly Paging/Hosting Fee	mo	***	12	***	***
Phone Center Charges	mo	***	12	***	***
Thermostat	each	***	39	***	***
Installation	each	***	0	***	***
Wire Module	each	***	6	***	***
Service Call	each	***	468	***	***
Service Call (After Hours)	each	***	31	***	***
Marketing				***	***
Total				***	***

II. Budget Overages: $***

KCP&L requested an increase in the two year approved budget of approximately **$*****. A detailed comparison of the approved budget to the actual amounts spent is provided in Appendix A. The overages occurred in four main accounting categories: Monthly Paging/Hosting Fee, Thermostats, Single Family Installations, and Taxes on Materials and Labor. The overages have four major causes: 1) contract pricing changes; 2) a backlog of new customers; 3) more thermostats replaced at a higher labor expense than planned; and 4) miscalculation of taxes.

1) Contract Pricing: $***

Prior to 2011, the contract billing was on a per installed unit basis. Therefore, the program budgets were a function of estimated customer participation. In the 780 Docket, KCP&L indicated that it intended to limit the program to customers already participating, thereby possibly limiting the total cost of the pilot-program.[6] In May 2011, the program was officially frozen and pricing in the contract with Honeywell was restructured to a flat fee to reflect the change in status of the program.[7] Materials and labor would continue to be billed out on a per unit basis.

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The budget in the 780 Docket was developed based on the contract signed on the freeze date in May 2011, which priced the Kansas portion of the Monthly Paging/Hosting Fee at **$*****/month. When the contract was revised in January 2012, Honeywell indicated that the third party vendor it uses to administer the paging/hosting duties had increased its fees, and in turn, increased the fee charged to KCP&L to **$*****/month. In May of 2013, another contract was signed, and the fee

[6] Testimony of Jason D. Jones, 11-KCPE-780-TAR p.10.
[7] DR2.

was increased again, this time to $***/month. The difference in contract pricing of the fee in total amounted to $*** over the two years.

2) Customer Backlog: $***

When the program was frozen to new customers in May 2011, there were 720 participants signed up that were not yet installed. 534 of them were installed in 2011, and the excess charges for their installation counted against the 2011 budget. This left a backlog of 186 remaining customers, of which 81 were installed in 2012 and 11 were installed in 2013. The rest were not installed due to various reasons, including not qualifying for the program, inability to contact the customer, etc. When a new customer is added to the program, there is a charge for the thermostat, as well as installation labor. Therefore, the backlog of customers contributed $*** to the overage in the thermostat account, as well as $*** to the installation labor account. In total, the backlog contributed $*** to the overall budget overage.

3) Increased Thermostat Replacements and Labor: $***

Even with the backlog of customers accounted for, there was still a significant amount of thermostats replaced and installation labor charged than budgeted for. KCP&L attributes this to the majority (over 70%) of the KS participant thermostats being out of the warranty period and over three years old as of the beginning of the budget period.[8] Any customer site visit, whether for service or new installation, is billed out at one of four ways as described in Table 2 below.

Table 2: Site Visit Pricing Schedule

Scenario	Status	Thermostat charge?	Cost	Type of Labor Charge	Amount	Total
A	New Customer	Yes	***	Installation	***	***
(Thermostat charge plus installation labor due to HVAC inspection.)						
B	Thermostat under warranty (<1 yr)	No	***	Service Call	***	***
(Service call labor only, no materials charges.)						
C	Thermostat out of warranty but <3 yrs old	Yes	***	Service Call	***	***
(Thermostat charge plus service call labor.)						
D	Thermostat out of warranty and >3 yrs old	Yes	***	Installation	***	***
(HVAC inspection required as in new installation. Thermostat charge plus installation labor.)						

KCP&L budgeted for 998 site visits over the two year period; the majority of them billed out according to scenario B in Table 2, with a small percentage (6.25%) under scenario C. The actual number of site visits only totaled 913, but with the majority of the thermostats over three years old, the site visits required a full HVAC system inspection and ended up being billed out under scenario D, in which there is a charge for the thermostat and installation labor (instead of service call labor). Staff notes the inadequacy of KCP&L's budget planning for service calls, but

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[8] Source: KCP&L response to KCC Informal Data Request Item 1IR "Q1IR Budget vs. Actual Explanation 1/31/2014".

also acknowledges that proper budgeting likely would not have significantly altered the approval process for the entire program. The difference in classification contributed **$*** ** to the overage in the thermostat account and **$*** ** to the installation labor account. On the other hand, since a large number of visits required installation labor and not service call labor, the service call labor account ended **$*** ** under budget. The net result of the thermostat replacement classification difference is a contribution of ******* to the total budget overage.

4) Taxes on Materials and Labor: $***

There was no amount budgeted for taxes on labor and materials in the original approved budget. However, the amount of taxes charged to KCP&L over the two year period totaled **$*****. As in the budget for service calls, Staff recognizes the mistake in budgeting for taxes likely would not have affected the approval of the program.

Offsets: *($*)***

Since the program is frozen, KCP&L only spent **$*** ** of the budgeted **$*** ** on marketing. It also received **$*** ** in thermostat removal credits from Honeywell. These savings, as well as the minor contract price differences in the Monthly Admin/Management Fee and Phone Center Charges, sum to a net savings of ***($***)***.

Summary:

The difference in contract pricing contributed **$*** ** to the total overage, while the customer backlog contributed **$*****. The increase in thermostats replaced at higher labor costs added **$*****, and the taxes on labor and materials totaled **$*****. The total of the four causes is **$*****. After subtracting the **$*** ** in offsets, the total budget overage explained by KCP&L is **$*****. This means that KCP&L was almost 30% over its two year budget. While Staff acknowledges the large deviation from budget, the charges detailed in this analysis were incurred in order to continue administration of a Commission approved program, and Staff found that the charges did not fall outside the scope of the Energy Optimizer program. This analysis should provide a better insight into the true cost of the program for EM&V analysis and lead to more realistic budgeting in future dockets.

RECOMMENDATION:

Staff reviewed the charges incurred over the two year period and found them to be not unreasonable. Therefore, Staff recommends that the Commission approve the requested increase in the 2012-2013 budget to reflect the impact of backlogged customer installations, increased thermostat replacement rate, and contract pricing changes.

Appendix A

<u>*CONFIDENTIAL*</u>

CERTIFICATE OF SERVICE

14-KCPE-098-TAR

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing Notice of Filing of Staff's Amended Report & Recommendation - Public Version was served via electronic notice this 14th day of March, 2014, to the following:

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CERTIFICATE OF SERVICE

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