PUBLIC VERSION

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of Kansas City Power & Light Company for Approval of Its 2014 Energy Efficiency Rider for Program Costs Incurred January 1 Through December 31, 2013	)))))	Docket No. 14-KCPE-442-TAR

RESPONSE OF KANSAS CITY POWER & LIGHT COMPANY TO CITIZENS' UTILITY RATEPAYER BOARD REPLY TO STAFF REPORT & RECOMMENDATION

COMES NOW Kansas City Power & Light Company ("KCP&L" or "Company") and submits for consideration of the State Corporation Commission of the State of Kansas ("Commission") the following response ("Response") to the Reply to Staff's Report and Recommendation filed by the Citizens' Utility Ratepayer Board ("CURB") on May 23, 2014 ("Reply") regarding the Company's request for approval to recover its demand-side management ("DSM") program costs for 2013.

I. BACKGROUND

1. On March 31, 2014, KCP&L filed its request to update its Energy Efficiency Rider ("EE Rider") tariff (Schedule 15) for recovery of its DSM program costs for 2013.

2. On May 13, 2014, the Staff of the Commission ("Staff") filed its Report & Recommendation on KCP&L's request and recommended the Commission approve the request as filed.

3. On May 23, 2014, CURB filed its Reply and recommended the Commission approve a reduced amount, $28,956.95 less than requested, for recovery under KCP&L's EE Rider based upon a different methodology than has been used historically for the EE Rider.

4. KCP&L hereby submits its Response to CURB's Reply and recommendation.

II. EE RIDER RECOVERY HISTORY AND PROCESS

5. In accordance with the Commission's Order in Docket No. 07-KCPE-905-RTS, KCP&L first began to recover its costs associated with its Commission-approved DSM programs under the EE Rider tariff in July 2008 for costs incurred from July 1, 2006 through December 31, 2007. Thereafter, KCP&L has filed to update the EE Rider annually each March. The EE Rider is designed to recover KCP&L's DSM program costs for the prior calendar year over a 12-month period beginning July 1 of the year following the calendar year in question. Any over- or under-recovery for a given EE Rider recovery period (July 1 – June 30) is included in the EE Rider request (March) following completion of the recovery period in question.

6. Since the inception of the recovery process six years ago, KCP&L has based its request on its General Ledger ("GL") balance for its Kansas DSM programs as of the end of the calendar year under consideration for recovery.[1] In the current filing, the request is based upon the GL balance as of December 31, 2013 (**[redacted]**). It also includes 2011 DSM program costs included in KCP&L's March 2012 EE Rider request that were not recovered during the recovery period July 1, 2012 through June 30, 2013 (**[redacted]**). The recovery period for the current request will be July 1, 2014 through June 30, 2015.

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[1] KCP&L's annual request also includes the over- / under-recovery associated with the EE Rider recovery period two years prior.

7. As Staff notes in its Report & Recommendation, each year Staff requests the "general ledger query support for these costs"[2] from KCP&L on the DSM programs as part of Staff's review and audit of the program costs.[3] The use of the GL balance as the basis for the costs appropriate for recovery under KCP&L's EE Rider has not been questioned in prior dockets. To understand why the use of the GL balance is appropriate and fair and does not result in over-recovery of costs by KCP&L, an understanding of what the GL balance entails and how it relates to the EE Rider mechanism is important.

III. GENERAL LEDGER (GL) BALANCE AND ACCRUAL ACCOUNTING

8. Accounting standards require accounting on an accrual basis and not a cash basis. Accrual accounting is based on the fact that business transactions are recorded in the period when they actually occur and not when the related payments are made. The GL balance is an accounting of the invoices and costs accrued and paid within a defined period – in the case of the EE Rider, within a calendar year. As such, an invoice for the month of December in any given calendar year is not typically received until the following January. Therefore, payment of the invoice for costs incurred in the month of December is typically not made until January or February of the next calendar year. Accrual accounting is designed to "accrue" for the expected payment of an invoice in a later period. When an invoice amount is known or an invoice is received but not yet paid for a given period, then prior to the end of the period, the Company will accrue for the invoice amount. For example, if an invoice is received at the end of December but

[2] Staff Report & Recommendation, Docket No. 14-KCPE-442-TAR, filed May 13, 2014, p. 2, first paragraph under the Section titled "Accounting".

[3] "To ensure that the incurred expenses are actually related to energy efficiency programs, Staff selected a sample portion of expenses from the full list of incurred expenses in the general ledger query. For each expense in the sample, Staff requested supporting invoices and expense descriptions." *Id.*

will not be paid until January, the Company will accrue the invoice amount in December. Such accrual is then reversed at the point the actual invoice is received and paid. However, in accordance with Generally Accepted Accounting Principles ("GAAP"), when an invoice amount is not known exactly or an invoice is not received prior to the end of the period, KCP&L may estimate and accrue an amount reasonably expected to be close to the invoice amount. As with the accrual of a known invoice amount, such accrual is then reversed at the point the actual invoice is received and paid. This process is designed to account for costs in the month incurred. It will not be an exact match; however, the process trues-up prior periods over time.

9. The GL balance for December 31, 2013 contains several items that were not directly incurred in 2013. For example, the invoices for November and December 2012 contract work for the Energy Optimizer program were not received or paid in 2012. They were received and paid in 2013. These invoice costs therefore show up as part of the GL balance for December 31, 2013. There were, however, accruals made for November and December 2012 invoices that were included in the December 31, 2012 GL balance totaling **[redacted]**. These accruals were part of the recovery request under the EE Rider last year. These accruals were reversed in 2013 and the resulting difference between the accruals made for November and December 2012 costs and the actual invoices for November and December 2012 costs, or, said another way, the net amount remaining for November and December 2012 program costs of **[redacted]**, is all that is included in the December 31, 2013 GL balance. Therefore, KCP&L's customers paid the accrued amount for the November and December 2012 Energy Optimizer program costs as part of the last EE Rider recovery and will pay the remaining balance for those November and December 2012 Energy Optimizer program costs (total invoice amount less accrued amount recovered) as part of this current EE Rider recovery.

10. This process using the year-end GL balance for the EE Rider recovery amount determination has been in place since the inception of the tariff in 2008. Accrual accounting ensures a matching of the period the services were provided to the period for which recovery of costs are requested. In addition, the process ensures consistency year-over-year, and provides for appropriate true-up of recovery amounts.

IV. COMPARISON OF BUDGET TO GL BALANCE – ENERGY OPTIMIZER PROGRAM

11. On August 8, 2013, in accordance with the Commission's Order regarding DSM budgets in Docket No. 08-GIMX-442-GIV, KCP&L filed to modify its approved two-year budget for 2012/2013 for its Energy Optimizer program in Docket No. 14-KCPE-098-TAR.[4] KCP&L's request was approved by the Commission earlier this year. As CURB points out, this filing on one of KCP&L's DSM programs put the parties to the EE Rider docket in the unique position of having just reviewed the 2012/2013 program budget for KCP&L's Energy Optimizer program. As a result, CURB compared KCP&L's recent two-year budget for the Energy Optimizer program to the GL balance and has now proposed to reduce KCP&L's EE Rider request by the difference.

12. CURB's recommended reduction is inappropriate as budget development and accrual accounting are not synonymous and will not generally result in the same exact amount for a given period of time. Budgets are typically based upon costs expected to be incurred in a given calendar year. The approved Energy Optimizer budget was based upon costs "incurred" in

[4] Contrary to statements in CURB's filing, KCP&L filed to modify its approved two-year budget prior to actual costs exceeding the approved budget.

2013.[5] That is, costs are associated with the month in which the work is actually completed. This is standard practice for budget development. The GL balance, on the other hand, is based upon the costs that the Company has booked for accounting purposes in a given period. As invoices tend to follow the month in which the costs are incurred, and as the exact costs are often not known until the invoice is received and reviewed, accruals are made based upon best available information to make the books as representative of actual costs incurred as possible. This is standard accounting practice, and it is expected that the GL balance will not match the incurred costs exactly for any given time period. However, the accounting process provides for true-up each month.

13. CURB is correct that the need to modify the approved budget for the Energy Optimizer program provided a unique opportunity to view actual incurred costs and the booked accounting costs for the program at the same time. This opportunity has also created confusion due to CURB's erroneous comparison of two different calculations. Both calculations, the actual costs incurred in 2013 for the Energy Optimizer program based upon work performed during each month of the year, **[redacted]**, and the GL balance for the Energy Optimizer program at December 31, 2013 based upon the GAAP accrued accounting methods, **[redacted]**, are correct. They are simply different calculations with different underlying methodologies that serve different purposes.

[5] It should be noted that having a budget developed using actual costs is an unusual situation resulting from the 14-098 Docket. Typically, budgets are developed in advance of the year in question based upon projected levels of work and associated costs.

V. CURB's ARGUMENTS

CURB's Claim that KCP&L is Over-Recovering is Inaccurate

14. CURB argues that the actual costs incurred for KCP&L's Energy Optimizer program and the amount recovered under the EE Rider for KCP&L's booked costs should be the same.[6] CURB further argues that by recovering more under the EE Rider for 2013 booked costs than the actual costs incurred for 2013 programs KCP&L is over-recovering.[7] CURB also argues that "KCP&L was allowed to over-recover program expenses for 2012."[8] These CURB allegations are simply not true. The 2013 budget approved by the Commission in the 14-098 Docket for the Energy Optimizer program was based upon actual costs incurred as supported by invoices from the program vendor. They reflect the actual costs to KCP&L of providing the program to its customers for calendar year 2013. The accrual accounting methodology and EE Rider process employed since the inception of the EE Rider will provide KCP&L recovery of just that amount. Similarly, KCP&L's 2012 EE Rider request differed from the actual incurred costs for 2012 as a result of an accrual for December 2011 with the invoice actually paid in 2012, the accrual of November and December 2012 invoices actually paid in 2013.

15. The fact that the EE Rider recovery amount for 2013 Energy Optimizer program costs is more than the actual costs incurred for 2013 is primarily due to the fact that not all costs incurred in a given year are invoiced and paid in the same year. Hence the GAAP standard practice of accrual accounting. Accrual accounting is designed to account for costs as much as possible in the month incurred even when invoices have not been received. It will not match perfectly as not all actual costs incurred are known during the month-end close process each

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6 CURB Reply, filed May 23, 2014, p. 2.

7 CURB Reply, filed May 23, 2014, p. 3.

8 CURB Reply, filed May 23, 2014, p. 3.

month. The EE Rider seeks to recover what KCP&L booked or accounted for in a given year which, based on accrual accounting, is designed to be close to actual incurred costs.

16. The costs KCP&L seeks to recover in the current EE Rider application include actual costs incurred for 2013 plus several accrual differences and corrections. For example, it includes the net difference between (1) the accrued amounts for November and December 2012, and (2) the actual amounts invoiced for November and December 2012 for the Energy Optimizer program. The invoices for these months were received and paid during 2013. Only a portion of these invoices, the amount accrued by KCP&L, was included in last year's EE Rider recovery request. The net difference, $6,582, should be recovered in the current EE Rider recovery request. A similar situation exists for December 2013 costs. This current EE Rider recovery request includes only a portion of that month's actual costs based upon the accrual KCP&L made for December 2013. The actual invoice was higher than the accrual with the net difference being $3,298, which will be requested for recovery in KCP&L's next EE Rider application in March 2015. The fact that the amount of the recovery request does not match the actual incurred costs for 2013 is not an indication of over-recovery; it is simply the result of accounting processes which can be reviewed and audited just as any of KCP&L's other costs.

CURB's Methodology is Applied Inconsistently

17. CURB applied its methodology change to only one of KCP&L's DSM programs – the A/C Cycling or Energy Optimizer program.[9] KCP&L had six DSM programs in place in 2013. CURB makes no arguments against the EE Rider recovery amounts for any of KCP&L's other DSM programs. CURB's methodology is not only inconsistent with the process used since the inception of the EE Rider, it is also inconsistent across KCP&L programs.

[9] CURB Reply, filed May 23, 2014, pp. 4-5.

18. Each year as accruals are reversed and invoices are received and paid, any differences in actual costs incurred and the GL balance are corrected, so customers do not pay any more or any less overall than the costs actually incurred. However, there are always new invoices and accruals at year-end that will be corrected in the following year, so a consistent approach to the recovery process is necessary to ensure appropriate cost recovery. In the past, the Staff and the Commission's consistent approach, use of the year-end GL balances for the various approved DSM programs, has resulted in appropriate cost recovery. This GL balance approach has worked appropriately in the past and KCP&L recommends that the Commission continue to use this time-tested methodology.

19. CURB is recommending a change to this historically accepted approach. If the Commission were to decide to accept CURB's recommendation to move to an actual incurred basis for recovery of KCP&L's DSM program costs, then adjustments would need to be made to the 2013 program cost recovery amount to allow KCP&L complete recovery of its November and December 2012 Energy Optimizer program incurred costs. As it stands now, the accruals included in last year's EE Rider filing for recovery of 2012 DSM program costs included accrual amounts that were less than the actual invoices received and paid in 2013 for those months. As a result, a portion of the November and December 2012 Energy Optimizer program costs were not included in last year's EE Rider recovery and are now included with KCP&L's current EE Rider recovery request. Additionally, any accruals and accrual reversals would need to be addressed to adjust the 2013 recovery amount as appropriate. Without such an adjustment, KCP&L would not recover the full Energy Optimizer program costs incurred in 2012.

20. Additionally, as CURB's recommendation changes the methodology only for the Energy Optimizer program costs, an evaluation of each of KCP&L's other DSM programs would

also need to be performed to put recovery for all programs on a consistent recovery basis. CURB's recommendation addresses only the comparison of budget to GL balance for the Energy Optimizer program and does not include a similar comparison for the other DSM programs included in KCP&L's current EE Rider request. If a change in accounting methodology is to be adopted (which KCP&L does not believe is appropriate or necessary), then it should be adopted across the board for all DSM programs for consistency.

CURB's Assertion that Accrual Accounting is Difficult to Follow and Audit is Unfounded

21. CURB argues that the accrual accounting method is difficult to follow and audit.[10] The accrual accounting method used by KCP&L is standard accounting practice. It is the same accounting method used across KCP&L's entire organization and has been used historically not only for KCP&L's DSM programs but for all KCP&L's costs and accounting. CURB has never brought up this perceived difficulty in following and auditing the accrual accounting method in prior EE Rider dockets or in any of KCP&L's rate cases which require the audit of numerous Company costs. KCP&L's accounting practices are in line with standard GAAP accounting. Contrary to CURB's allegations, KCP&L's numbers are not "constantly changing" nor are they "being moved back and forth from one year to the next, making them uneasy to track or extrapolate,' which makes it nearly impossible to determine what the original accruals were intended to represent."[11] The requested EE Rider recovery amounts can be reconciled and audited against actual invoices. Staff has requested and reviewed KCP&L's GL support for KCP&L's EE Rider recovery requests each year.

[10] CURB Reply, filed May 23, 2014, p. 4.

[11] CURB Reply, filed May 23, 2014, p. 4.

VI. CONCLUSION

22. In conclusion, KCP&L requests that the Commission approve KCP&L's EE Rider request as filed and as supported by Staff's Report & Recommendation. This would continue the methodology used consistently for determination of recovery amounts under KCP&L's EE Rider since the inception of the Rider. This methodology is consistent, auditable and appropriate and does not result in over-recovery of costs.

Respectfully submitted,

Roger W. Steiner (KS #26159)
Corporate Counsel
Kansas City Power & Light Company
One Kansas City Place
1200 Main Street – 16th Floor
Kansas City, Missouri 64105
Telephone: (816) 556-2314
Facsimile: (816) 556-2787
roger.steiner@kcpl.com

Glenda Cafer (KS #13342)
Telephone: (785) 271-9991
Terri Pemberton (KS #23297)
Telephone: (785) 232-2123
CAFER PEMBERTON LLC
3321 SW 6th Avenue
Topeka, Kansas 66606
Facsimile: (785) 233-3040
glenda@caferlaw.com
terri@caferlaw.com

COUNSEL FOR KANSAS CITY POWER & LIGHT COMPANY

VERIFICATION

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

The undersigned, Mary Britt Turner, upon oath first duly sworn, states that she is the Director, Regulatory Affairs of Kansas City Power & Light Company, that she has reviewed the foregoing Response, that she is familiar with the contents thereof, and that the statements contained therein are true and correct to the best of her knowledge and belief.

Mary Britt Turner
Mary Britt Turner
Director, Regulatory Affairs
Kansas City Power & Light Company

Subscribed and sworn to before me this 2nd day of June, 2014.

Karen M. Smith
Notary public

My commission expires:

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI
KAREN M. SMITH
My Commission Expires
April 18, 2016
Jackson County
Commission #12446957

CERTIFICATE OF SERVICE

I, the undersigned, do hereby certify that on this 2nd day of June, 2014, a true and correct copy of the above and foregoing *Response of Kansas City Power & Light Company to Citizens' Utility Ratepayer Board Reply to Staff Report & Recommendation* was electronically served, hand-delivered or mailed, postage prepaid, to the below-named individuals.

DAVID SPRINGE
NIKI CHRISTOPHER
DELLA SMITH
SHONDA SMITH
CITIZENS' UTILITY RATEPAYER BOARD
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604

ANDREW FRENCH, LITIGATION COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604-4027

JAY VAN BLARICUM, ADVISORY COUNSEL
KANSAS CORPORATION COMMISSION
1500 SW ARROWHEAD ROAD
TOPEKA, KS 66604-4027

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, DIRECTOR, REGULATORY AFFAIRS
KANSAS CITY POWER & LIGHT COMPANY
ONE KANSAS CITY PL, 1200 MAIN ST (64105)
PO BOX 418679
KANSAS CITY, MO 64141-9679

NICOLE A. WEHRY, SENIOR PARALEGAL
KANSAS CITY POWER & LIGHT COMPANY
ONE KANSAS CITY PL, 1200 MAIN ST (64105)
PO BOX 418679
KANSAS CITY, MO 64141-9679

Glenda Cafer