

BEFORE THE BOARD OF PUBLIC UTILITIES

In the Matter of the 2010	)	Hearing Date of
Electric Revenue Changes	)	May 3 and 4, 2010
And Water Revenue Changes	)	

ORDER

With the approval of the governing body (the "Board") of the Board of Public Utilities (the "BPU"), the staff of the BPU (the "BPU Staff") caused a Notice of Public Hearing to be published in The Kansas City Star on February 1, 2010, for a public hearing to be held on May 3 and 4, 2010 relating to the proposed electric revenue changes, water revenue changes and environmental surcharge.

Black & Veatch ("B&V"), the BPU's engineering consultants, prepared a Report on Electric Utility Revenues, Revenue Requirements, Cost of Service, And Rates (the "Electric Report") in connection with the proposed electric revenue changes and environmental surcharge and a Report on Revenue Requirements, Costs of Service and Rates for Water Service (the "Water Report" and with the Electric Report, the "Reports") in connection with the proposed water revenue changes.

Petitions to Intervene were filed by General Motors, Griffin Wheel, Kansas University Medical Center, Owens-Corning, WaterOne and CertainTeed (the "BPU Large Customer Group"), by Suburban Water Company, a wholesale water customer, and by Rick Yarnell, an individual customer.

Pursuant to the Charter Ordinance governing the BPU, a public hearing in this proceeding was held before the Board of Public Utilities on May 3, 2010 and May 4, 2010. In addition to recognized interveners, a number of individual customers appeared to provide their input in the public comment portion of the rate hearing. At the

conclusion of the public hearing on May 4, 2010, the technical portion of the proceedings commenced. Written testimony was filed, and presentations were made to the Board during the technical portion of the hearing, which was held on May 4, 2010, and continued on June 16, 2010, August 4, 2010, September 30, 2010 and October 6, 2010.

Oral and written evidence, testimony and rebuttal testimony was presented during the public hearing sessions and the technical portion of the hearing by the BPU staff and B&V. Mr. Yarnell presented written testimony. Written testimony was filed by the BPU Large Customer Group, and representatives of such Group also made presentations to the Board. Comments were filed by Suburban Water Company, and a representative of such Company also made a presentation to the Board. The Board has reviewed all of such evidence and testimony as well as the public comments provided by interested customers.

On June 16, 2010, the joint recommendation of the BPU Staff and the BPU Large Customer Group for rate increases in 2010 was presented to the Board. At such meeting, the Board approved the implementation of rate increases in 2010, effective July 1, 2010, as recommended, with a 7% increase in revenues from electric base rates and an 8% increase in revenues from water base rates. The Board directed that the 2010 electric rate increase be on an across-the-board basis and that the 2010 water rate increase be as set out in the Water Report, as recommended. The Board further approved provisional increases for 2011, 2012 and 2013 in the percentages indicated in the Reports, those being 7% for electric each year, and 8%, 7.5% and 7.5% for water each year. The Board approved the recommendation of the BPU Staff wherein BPU

Staff withdrew staff's initial recommendation that certain known fixed contract demand costs be moved from base rates to the Energy Rate Component (ERC) Rider. The Board recognized that moving these demand costs to the ERC as BPU staff initially proposed would have resulted in a higher ERC, and that as these costs will now continue to be recovered in base rates instead of being moved to the ERC, this has the impact of lowering the requested rate increase because the ERC will now not go up to reflect these costs. The Board further recognized that because \$2.6 million annually in known fixed contract demand costs will continue to be recovered in base rates, that budget reductions will be necessary to accommodate the loss of such annual revenues which will not be recovered through the ERC as originally proposed.

On June 16, the Board set deadlines for the filing of additional testimony related to the issues of the revenue requirements for the 2011-2013 period along with the cost allocation study and rate design issues. Following the receipt of such additional testimony, the Board heard oral presentations on September 30, 2010 related to the testimony filed by the interveners and the BPU Staff and B&V consultants. At its meeting on October 6, 2010, the Board made decisions on the rate increases, and directed the preparation of this Order setting out the decisions, evidentiary basis for the decisions and directions made by the Board.

The Board approves the goals of this rate proceeding as presented by the BPU Staff and B&V, including the following as summarized by BPU Staff and B&V: (1) Adjust rates to equitably recover revenue from customers based on their share of the cost of service over the Rate Plan Period; (2) Offer innovative rate options to meet the needs and requests of customers; (3) Improve operating reserves to meet financial

policies by 2014 (Electric - 60 days of O&M, 1.6 times debt coverage, Water – 45 days of O&M, 1.4 times debt coverage); (4) Improve cash flow to remove negative outlook on current credit rating to retain the ability to issue debt affordably; and (5) Support needed capital improvements and replace aging infrastructure.

The BPU Staff and B&V have recommended a 4 year multi-year approach to meet overall goals and financial targets. The Board finds that sufficient evidence has been presented in this proceeding to warrant a determination that a 4 year multi-year approach is appropriate and that rate increases should be approved for 2011, 2012 and 2013. The Board further finds that such a Rate Plan is consistent with the requirements of the ratemaking provisions of the Charter Ordinance governing the rates of the BPU specifically as follows:

The Board shall fix reasonable rates for Utility services and products furnished to its consumers which: (1) will secure an income sufficient to pay all salaries and wages of all officers and employees of any Utility; (2) will cover the cost of all materials and supplies used in the operation of any Utility; (3) will cover the cost of all repairs of any Utility; (4) will cover all miscellaneous expenses of any Utility; (5) will pay contractual and other financial obligations of the Board or the Unified Government incurred for the purpose of purchasing, improving or extending any Utility, including multi-year obligations directly or indirectly related to the payment of the principal of and interest upon revenue bonds, and will provide a sinking fund sufficient to pay the principal of and interest on such indebtedness at maturity; and (6) will cover the cost of all repairs and renewals of any Utility and all material used, together with a reasonable allowance for emergency and unforeseen expenses.

As the evidence indicates, the rate increases which were effective July 1, 2010, are only the first step in the multi-year process, and electric and water revenue increases are needed in each of the following three years in order to meet the goals and financial targets as required by the rating agencies to meet the minimum financial metrics to retain the current favorable bond rating. In the absence of a multi-year process the 2010 rate increase or the 2011 increase would need to have been significantly greater to restore financial stability. As the evidence indicated, if the BPU

did not have the ability to get approval for a multi-year rate increase and its only option was to restore its electric operating reserve to 60 days and maintain electric debt service coverage of 1.60 times in one increase, a 19% electric rate increase would have been needed in January 2011 in addition to the 7% 2010 electric rate increase. The Board finds that it would have been inappropriate for the Board to have implemented such a substantial single year increase rather than to adopt a multi-year approach.

The Board has considered whether or not to approve increases which are less than those recommended in the Reports. The BPU Staff provided the Board with potential considerations and cost reductions which might have warranted consideration of a reduction in the 2011 electric base rate increase and in the 2011, 2012 and 2013 water base rate increases. The Board recognizes that the BPU is already recovering less in electric revenues than would have been achieved based on the recommendations in the Reports, in that fixed capacity costs of \$2.6 million annually have been moved from the ERC back into base rates, and that the BPU must compensate for this loss of revenue. The Board has evaluated the risks of such a lowering of the electric and water base rate increases, which include but are not limited to the following: (1) Inadequate cash reserves for unexpected costs such as ice storms; (2) Inadequate facilities to serve economic growth and development from a more rapid economic recovery; (3) Limited flexibility to manage higher employee costs; (4) Inadequate capital for infrastructure replacement; and (5) Potential Bond rating downgrade if the results of the increases do not meet projected financial metrics. The Board determines that it is preferable to reduce rates at the end of the study period, if possible, rather than at the beginning of the study period, because if rates are lowered

at the beginning of the study period it will not be possible to increase rates at the end of the study period without commencing another rate proceeding. In the event that such potential considerations and cost reductions are in fact realized during the study period, to the extent that financial metrics are satisfied, future increases may be lowered. Accordingly, the Board has determined that it is in the best interests of the BPU to approve the level of rate increases recommended in the Reports, and to provide for the possibility of a rate reduction from the approved increase(s) in future years if financial metrics have been satisfied.

The Board notes that the BPU Large Customer Group urged the Board to defer or delay capital improvement projects which have been recommended by the BPU Staff, solely to permit a reduction in rate increases. No evidence was presented that the capital improvement projects which BPU Staff included within the study period are imprudent or wasteful. The Board has a responsibility to operate the Utility in a manner that does not compromise safety and reliability. The Board determines that it is not in the best interests of the Utility to impose arbitrary limits on capital expenditures.

The Board has been asked to consider adoption of different rate design and cost allocation methodologies than those recommended in the Reports. The Board finds and determines that the evidence supports the rate design and cost allocation methodologies as recommended by B&V in the Reports, and approves such methodologies.

The Board orders as follows:

1. The Board determines that it is in the best interests of the Utility to approve, and does approve, a multi-year plan, approving rate increases for 2012 and

2013 as well as 2011.

2. The Board finds that it is in the best interests of the Utility to approve, and does approve, the cost of service and cost allocation methodologies recommended by Black & Veatch in the Reports, as modified by the final recommendations for class electric rate increases approved in this Order.

3. The BPU Board orders that electric base rates will increase by the following percentages as of the following dates:

- a. 7.0% as of January 1, 2011
- b. 7.0% as of January 1, 2012
- c. 7.0% as of January 1, 2013

4. The BPU Board orders that the electric base rate increases for customer classes in 2011, 2012 and 2013 shall be as set forth on Exhibit A attached hereto.

5. The BPU Board orders that water base rates will increase by the following percentages as of the following dates:

- a. 8.0% as of January 1, 2011
- b. 7.5% as of January 1, 2012
- c. 7.5% as of January 1, 2013

6. The BPU Board orders that the water base rate increases for customer classes in 2011, 2012 and 2013 shall be as set forth in the Water Report.

7. The BPU Board approves the Energy Rate Component Rider substantially in the form set forth on Exhibit B attached hereto.

8. The BPU Board approves the Environmental Surcharge Rider substantially in the form set forth on Exhibit C attached hereto.

9. The BPU Board orders that no change be made at this time to the on-peak period for the Billing Demand measurement time, and that such on-peak period continue in its current timeframe, 10 a.m. to 8 p.m. until additional study of this issue can be undertaken. The BPU Board holds open, in this rate proceeding, the issue of the on-peak period for the Billing Demand measurement time, which remains subject to further action by the Board following such study.

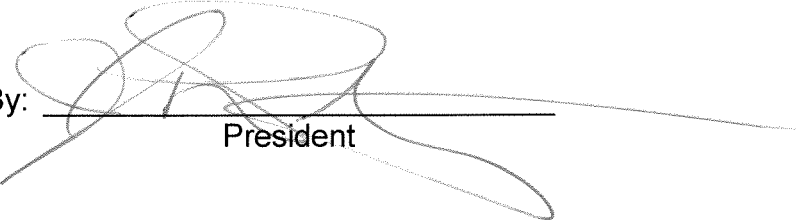
10. The BPU Board orders that a 70% ratchet continue to be used for winter demand billing.

11. The BPU Board orders the BPU staff, as a part of the ongoing review and evaluation of collection of revenues under the approved rates and of operating and capital expenditures, to provide to the Board an annual analysis, at or prior to the presentation of the budget for the following fiscal year, of whether the financial metrics in the rate plan have been met or exceeded, to provide a basis for the Board to consider whether a downward adjustment to rates may be made a future year. The BPU Board further orders that if such analysis indicates that the BPU meets or exceeds the financial metrics set out in the rate plan, BPU staff shall recommend for the Board's consideration, a downward adjustment to the future year's proposed rate increase.

12. The Board directs Black & Veatch to prepare a final rate manual for 2011 electric and water rates and with recommendations for 2012 and 2013 electric and water rate manuals based on the rate increase decisions made by the Board and decisions on the Black & Veatch proposed rate design.

Dated this 20<sup>th</sup> day of October, 2010.

BOARD OF PUBLIC UTILITIES

By:   
\_\_\_\_\_  
President

ATTEST:

  
\_\_\_\_\_  
Secretary

EXHIBIT A

Recommended Electric Base Rate Adjustment by Class

Rate Class	2010 (1)	2011	2012	2013
Rate 100 - Residential	7.00%	7.50%	7.50%	7.50%
Rate 200 - Small General Serv	7.00%	6.58%	6.66%	6.39%
Rate 250 - Medium General Serv	7.00%	6.58%	6.66%	6.39%
Rate 300 - Large General Serv	7.00%	6.58%	6.66%	6.39%
Rate 400 - Large Power Service	7.00%	8.75%	8.50%	8.50%
Rate 500 - USD500 Schools	7.00%	0.00%	0.00%	3.00%
Rate 700 - Lighting	7.00%	0.00%	0.00%	3.00%
System Average	7.00%	7.00%	7.00%	7.00%

(1) Rate Increase implemented July 1, 2010

## EXHIBIT B

<b>Electric Rate Rider</b>		
<b>ENERGY RATE COMPONENT</b> <b>RIDER E1</b>	<b>BOARD OF PUBLIC UTILITIES</b> <b>KANSAS CITY, KANSAS</b>	<b>Page</b> <b>1</b> <b>of</b> <b>3</b>

### **PURPOSE:**

The purpose of this rider is to provide for recovery of the Utility's power supply costs not recovered in the Base Monthly Charges, with a reconciliation adjustment that provides for the treatment of over/under recoveries for each quarter period.

### **APPLICABILITY:**

Applicable to all electricity billed under any of the Board's electric rate schedules whether metered or unmetered.

### **ENERGY RATE COMPONENT:**

The Utility shall recover its power supply costs by multiplying the Customer's electricity use for billing purposes under the Board's electric rate schedules in a billing period, by the Energy Rate Component (ERC) for the billing period, expressed in dollars per kilowatt hour, as calculated below by calendar quarter periods.

#### **1. Calculation: The formula for calculating the energy rate component (ERC) is:**

$$\text{ERC} = \frac{\text{PPC} + \text{RA}}{\text{S}}$$

Where:

PPC = Projected power supply costs by calendar quarter period as defined below, expressed in dollars.

RA = Reconciliation adjustment by calendar quarter period as defined below, expressed in dollars.

S = Projected sales of electricity by calendar quarter period as defined below, expressed in kilowatt-hours (kWh).

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**2. Definitions:**

PC = Power supply costs, by calendar quarter period, which is

(a) the sum of:

- (i) all fossil fuel costs including all energy-related costs incurred by reason of using fossil fuel and expensed to the BPU account which is the equivalent to FERC Account 501,
- (ii) all purchased power energy costs expensed in the BPU account which is the equivalent to FERC Account 555 and BPU's charges or credits incurred due to participation in markets associated with the Regional Transmission Organizations (RTOs),
- (iii) that portion of purchased power demand costs expensed in the BPU account which is the equivalent to FERC Account 555 and BPU's charges or credits incurred due to participation in markets associated with the RTOs which does not constitute the Base Rate Purchase Capacity (BRPC), as defined below, allocable to such calendar quarter period,
- (iv) all transmission costs payable to others for the transmission of the utility's electricity over transmission facilities owned by others, expensed in the BPU account which is the equivalent to FERC Account 565 and the RTO, FERC, NERC and other third party costs expensed in the BPU account which is the equivalent to FERC Accounts 560, 561.4, 561.8, 575.7 and Account 928,
- (v) the cost of emission allowances and Renewable Energy Certificates (RECs) required to meet BPU's retail requirements and expensed in the BPU account which is the equivalent to FERC Account 509, and
- (vi) all demand response costs which give the Utility dispatchable control of customer load for peak shaving, not otherwise recovered in the rates,

(b) less the sum of:

- (i) fossil fuel and purchased power costs recovered through all inter-system sales of energy, and
- (ii) the value of emission allowances and RECs net of any brokerage fees sold in the market and entered as a negative expense in the BPU account which is the equivalent to FERC Account 509, expressed in dollars.

PPC = Projected PC, by calendar quarter period, for the projection period.

APC = Actual PC, by calendar quarter period, for the calendar quarter period which ended 3 months previously.

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BRPC = Base Rate Purchase Capacity is that annualized amount of demand and capacity charges included in the Base Monthly Charges, of which annualized amount, one fourth shall be allocable to each calendar quarter period for purposes of this Rider. The annualized amount is the annual sum of long-term purchase power demand or capacity charges under agreements that have a term greater than one year in length and that are known at the time of the most recent base rate case. The annualized amount of such charges as of the effective date set forth below is \$2.6 million.

S = Projected sales of electricity, by calendar quarter period, under all of the Board's retail rate schedules, whether metered or unmetered, for the projection period, expressed in kilowatt-hours (kWh).

RA = APC, plus the historical over/under collection from previous quarter periods, less the revenue collected from the ERC applied during the calendar quarter period which ended 3 months previously

The calendar quarter periods shall be:

- First Quarter – January through March
- Second Quarter – April through June
- Third Quarter – July through September
- Fourth Quarter – October through December

Renewable Energy Certificate (REC), is a tradable, intangible energy commodity in the United States that represents proof that one (1) megawatt-hour (MWh) of electricity was generated from an eligible renewable energy resource (renewable energy).

The Utility shall review the ERC calculation and reconciliation adjustment and make projections for each calendar quarter period. Based on each calendar quarter period review and projections the Utility may make adjustments to the ERC to be applied during the ensuing quarter period. The Utility may also make adjustments to the ERC to be applied during the ensuing quarter period to accomplish other purposes including but not limited to minimizing ERC volatility.

**Effective: 01/01/2011**  
**Supersedes Rider E1 Effective: 11/01/2003**

**Electric Rate Rider**

EXHIBIT C

<b>Electric Rate Rider</b>		
<b>ENVIRONMENTAL SURCHARGE RIDER  RIDER E17</b>	<b>BOARD OF PUBLIC UTILITIES KANSAS CITY, KANSAS</b>	<b>Page 1 of 4</b>

**PURPOSE:**

The purpose of this Rider is to provide for the annual recovery of the Utility's capital investment in projects that are required to meet Federal, State or Local environmental regulations. All such costs shall be accounted for separately and shall be the basis for the rider discussed below.

**APPLICABILITY:**

Applicable to all retail electric customers billed under any of the Board's electric rate schedules whether metered or unmetered.

**BILLING:**

Billing for this surcharge shall be included with the regular billings for electric service as a separate line item on the bill in an amount sufficient to compensate the BPU for any dollar amount expended on required environmental capital projects for retail customers.

**AMOUNT:**

The amount of Environmental Surcharge Rider (ESC) to be paid by retail customers shall be calculated pursuant to the following formula:

Total Cost = ECC +/- RA for the current year where

ECC = Environmental Capital Costs for the projected 12 month period starting October 1 and ending September 30, expressed in dollars, as recorded in the accounts of the BPU and not recovered through the application of a rate schedule or rider or through other means such as reimbursement through government assistance. Environmental capital costs shall be the sum of: (i) debt service payments (principal plus interest) in the projected 12 month period on material environmental capital projects which have been or are projected to be debt financed in the projected 12 month period, plus (ii) that portion of cash expenditures associated with material environmental capital projects which has been or is projected to be debt financed which are to be recovered in the projected 12 month period as described herein, to the extent that such cash expenditures associated with such projects will not be debt financed, less (iii) debt service payments or cash expenditures on such material environmental capital projects that are projected to be recovered from

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Participation or other non-retail customers in the projected 12 month period. Cash expenditures associated with material environmental capital projects included in an application of this rider may include projected cash expenditures for the projected 12 month period, subject to reconciliation of projected to actual expenditures at the end of the 12 month period, and may also include cash expenditures incurred in connection with such material environmental capital projects which have not been recovered under this rider or otherwise. Recovery of cash expenditures may be amortized over more than one year. No more than 25% of the total cost of a material environmental capital project or projects will be recovered under this Rider to pay cash expenditures associated with such project. An environmental capital project or projects will be considered material if (a) the cost of such project equals or exceeds \$10,000,000, (b) the utility is required to make similar capital investments for environmental projects to more than one plant or generating unit to satisfy an environmental regulation and the aggregate cost of such environmental capital investments to such plants or generating units equals or exceeds \$10,000,000, or (c) the utility is required to make capital investments for related environmental projects to one or more plant or generating units, to satisfy related environmental regulations, and the aggregate costs of such environmental capital investments equals or exceed \$10,000,000.

RA = Reconciliation Adjustment expressed in dollars. The actual ECC for the most recent prior 12 month period starting October 1 and ending September 30, less the actual ESC revenue billed for the same period, plus or minus the historical over/under collection from previous years.

The charge applicable to each rate schedule shall be calculated by multiplying the Total Cost times the rate schedule production capacity allocation formula percentage as determined in the most recent rate setting procedure and set forth in the following table:

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**Table of Production Capacity Allocation Formula Percentages**

Rate Schedule	Allocation Percentage
Rate Code 100-109	27.70%
Rate Code 200- 222	12.60%
Rate Code 250- 262	21.30%
Rate Code 300- 322	8.60%
Rate Code 400- 446	26.70%
Rate Code 500	2.90%
Rate Code 700	0.20%

The charge applicable to each rate schedule shall equal the Total Cost times the production capacity allocation formula percentage divided by the twelve months billing units ending three months prior to the effective date of the new adjustment which shall be expressed in kWh for Rate Codes 100, 101, 200- 222 and 700. For all other Rate Codes the billing units shall be expressed in kW of billing demand.

**BASIS OF ADJUSTMENT:**

The calculation of the actual ESC shall be determined in the fourth quarter of each calendar year and applied to customer bills rendered beginning January 1 of the following calendar year.

The Utility shall give notice to the Board of the ESC amount for the following calendar year, and shall provide annual reports to the Board of its collections including a calculation of the total revenue collected and expenditures made under this Rider.

**IMPLEMENTATION OF RIDER**

This Rider shall initially be applied to recover the costs of the installation of Low Nox Burners with Overfire Air, as required by regulatory mandates for the reduction of Ozone in the Kansas City Metropolitan area. For any future application of the Rider, the Utility shall cause notice of a proposed application of this Rider to a material environmental capital project(s) to be published no less than 120 days prior to the date on which the recommendation will be presented to the Board for approval, and shall

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further cause notice to be provided to any Utility customer which has intervened in a rate proceeding within the past three years. Such notice shall include a description of the material environmental capital project(s), the estimated cost of the material environmental capital project(s) and anticipated amount thereof to be debt financed, and the anticipated amortization period for collection of revenues to pay or recover the cost of the material environmental capital project(s). Any affected Utility customer may provide comments to the Utility and/or the Board relating to the proposed application of the Rider. The Rider shall be applied to a material environmental capital project(s) upon approval by the Board. No additional notice or approval shall be required following the initial Board determination that the Rider shall be applied to recover the costs of a material environmental capital project(s).

**Effective: 01/01/2011**