FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

In Reply Refer To:
Office of Enforcement
Docket No. PA06-6-000
November 27, 2007

Kansas City Power & Light Company
Attention: Curtis D. Blanc
Managing Attorney – Regulatory
1201 Walnut – 20th Floor
Kansas City, MO 64106

Dear Mr. Blanc:

1. The Division of Audits within the Office of Enforcement (OE) has completed the audit of Kansas City Power & Light (KCPL) for the period from January 1, 2004 through December 31, 2006. The enclosed audit report explains our findings and recommendations.

2. On November 8, 2007, you notified us that KCPL will not contest our audit findings and recommendations. A copy of your verbatim response is included as an appendix to this report. I hereby approve the recommended corrective actions. Within 30 days of the date of this letter order, KCPL should submit the appropriate correcting journal entries and refund reports and describe how it plans to comply with the remainder of the corrective actions. KCPL should make quarterly filings describing how it complied with the corrective actions, including dates it completed each corrective action. The filings should be made no later than 30 days after the end of each calendar quarter, beginning with the first quarter after this audit report is issued, and continuing until all the corrective actions are completed.

3. The Commission delegated authority to act on this matter to the Director of OE under 18 C.F.R. § 375.314 (2007). This letter order constitutes final agency action. KCPL may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713 (2007).

4. This letter order is without prejudice to the Commission's right to require hereafter any adjustments it may consider proper from additional information that may come to its attention. In addition, any instance of non-compliance not addressed herein or that may occur in the future may also be subject to investigation and appropriate remedies.

5. I appreciate the courtesies extended to the auditors. If you have any questions, please contact Mr. Bryan K. Craig, Director, Division of Audits at (202) 502-8471.

Sincerely,

Susan J. Court
Director
Office of Enforcement

Enclosure

Federal Energy Regulatory Commission

Audit of Interlocking Directorates, Records Retention, Wholesale Fuel Adjustment Clause, Open Access Transmission Tariff, Standards of Conduct, Procedures for Shortages of Electric Energy and Capacity, Standard Large Generator Interconnection Procedures, and Compliance with Selected FERC Form No. 1 Accounts at Kansas City Power & Light Company

Docket No. PA06-6-000
November 27, 2007

Office of Enforcement
Division of Audits

Table of Contents

I. Executive Summary

A. Overview

The Division of Audits within the Office of Enforcement has completed an audit of Kansas City Power & Light Company (KCPL) to determine whether KCPL complied with the Commission's regulations regarding (1) Interlocking Directorates at 18 C.F.R. Part 45; (2) Record Retention requirements at 18 C.F.R. Part 125; (3) Wholesale Fuel Adjustment Clause at 18 C.F.R. § 35.14; (4) KCPL's Open Access Transmission Tariff; (5) Standards of Conduct at 18 C.F.R. Part 358; (6) Procedures for Shortages of Electric Energy and Capacity under Section 206 of the Public Utility Regulatory Policies Act of 1978 at 18 C.F.R. Part 294 (Part 294); (7) §3.4 of the Standard Large Generator Interconnection Procedures (LGIP §3.4); and (8) the Uniform System of Accounts at 18 C.F.R. Part 101 for selected FERC Form No. 1 accounts. KCPL's compliance with Commission regulations was evaluated against the criteria existing during the period under audit. The audit covers the period from January 1, 2004 through December 31, 2006.

B. Company Background

Great Plains Energy Incorporated (Great Plains) is the holding company for two business units: KCPL, a regulated provider of electricity in the Midwest, and Strategic Energy, LLC, an energy management company providing load aggregation and power supply coordination. Established on October 1, 2001, Great Plains' headquarters is in Kansas City, Missouri.[1]

KCPL, also headquartered in Kansas City, Missouri, was founded in 1882, incorporated in 1922, and is currently a wholly owned subsidiary of Great Plains. KCPL engages in the generation, transmission, distribution, and sale of electricity to nearly 500,000 customers in western Missouri and eastern Kansas.

KCPL operates eight stations with 25 generating units providing power to its customers, and selling into the wholesale market. KCPL also has over 4,000 megawatts of generation assets in operation or under construction.

[1] *See* Great Plains Energy, http://www.greatplainsenergy.com/aboutgpe.html (last visited on July 17, 2007).

C. Summary of Compliance Findings

Below is a summary of audit staff's compliance findings. Audit staff based the compliance findings on materials provided by KCPL in response to data requests, interviews with KCPL staff members, site visits, and review of publicly available documents. A more detailed discussion of audit staff's compliance findings is included in Sections III, IV, and V. Audit staff found eight areas of noncompliance related to the Wholesale Fuel Adjustment Clause, Uniform System of Accounts, and Standards of Conduct.

Tariff Billings:

- *Replacement Power Insurance Proceeds Related to Plant Damages:* KCPL did not credit fuel adjustment clause (FAC) billings to wholesale customers for insurance settlement proceeds received for replacement power in 1999 because of damages caused by an explosion in the boiler at the Hawthorn 5 coal-fired generating facility. Audit staff's conclusion is consistent with the Commission's policy enunciated in *Union Electric Company*, 35 FERC ¶63,076, at p. 65,273 (1986).

- *Accounting and Billing of Transportation Costs for Parked Gas:* KCPL, through FAC billings to wholesale customers, improperly recovered transportation costs associated with natural gas that it parked on a pipeline in the wrong periods. Additionally, it inappropriately classified fees related to parked gas in Account 165, Prepayments. KCPL did not comply with its wholesale FAC tariff when it billed wholesale customers for the transportation costs in the wrong period. In addition, KCPL's accounting for this transaction did not comply with the instructions in 18 C.F.R. Part 101, for Account 174, Miscellaneous Current and Accrued Assets.

Accounting:

- *Accounting for Accumulated Depreciation Related to Combustion Turbines and Related Property and Equipment:* KCPL did not properly record accumulated depreciation associated with five combustion turbines and related property and equipment. KCPL's accounting for the transfer of the combustion turbines was inconsistent with the instructions outlined in 18 C.F.R. Part 101, Account 108, Accumulated Provision for Depreciation of Electric Utility Plant.

- *Accounting and Billing of Nuclear Fuel Expenses:* KCPL improperly recorded certain labor and overhead expenses in Account 120.1, Nuclear Fuel in Process of Refinement, Conversion, Enrichment and Fabrication. KCPL's accounting for

these transactions did not comply with the instructions in 18 C.F.R. Part 101, for Account 120.1; Account 520, Steam Expense; Account 426.4, Expenditures for Certain Civic, Political and Related Activities, and Electric Plant Instruction No. 3 (17), Allowance for Funds Used During Construction, Components of Construction Costs.

- *Accounting for Uranium Held for Future Use:* KCPL incorrectly classified the cost of nuclear materials held for future use in Account 120.1, Nuclear Fuel in Process of Refinement, Conversion, Enrichment and Fabrication. In addition, it improperly accrued an allowance for funds used during construction on the cost of nuclear fuel materials prior to the start of active processing. KCPL's accounting did not comply with the instructions in 18 C.F.R. Part 101, Account 120.1, Nuclear Fuel in Process of Refinement, Conversion, Enrichment and Fabrication, and Electric Plant Instruction No. 3 (17), Allowance for Funds Used During Construction.

- *Accounting for Maintenance Costs:* KCPL improperly deferred maintenance costs in Account 186 instead of immediately charging the costs to Account 108, Accumulated Provision for Depreciation of Electric Utility Plant or the appropriate maintenance expense accounts. KCPL's use of Account 186 to defer plant maintenance costs was not consistent with the instructions in 18 C.F.R. Part 101, Account 108 or Account 402.

- *Preservation of Records:* KCPL discovered that it lost a record containing construction budget information and failed to make an informational filing with the Commission about the document. The failure to make the informational filing with the Commission about this record is contrary to the requirements outlined in 18 C.F.R. § 125.2(f).

<u>Standards of Conduct</u>

- *Market Affiliate Employees' Access to Non-Public Transmission Information:* KCPL's marketing affiliate employees in Power Sales and Services had access to non-public transmission information through a shared folder on KCPL's local area network (LAN) and links to intranet websites that contained non-public transmission information. The market affiliate employees' access to non-public transmission information did not comply with 18 C.F.R. § 358.5(a)(1) and § 358.5(a)(2).

- *Organizational Chart Postings:* KCPL had the following deficiencies related to its organizational charts posted on its Open Access Same-Time Information System:

  - It did not post job descriptions for the Fuels Department;

  - It did not post the organizational chart for the Distribution Engineering Department;

  - It used generic job descriptions for transmission and market affiliate employees instead of job descriptions that actually reflected the employees' duties and responsibilities; and

  - Organizational charts for individual business units did not indicate when KCPL last updated the organizational charts or job descriptions.

These deficiencies in the posting of KCPL's organizational charts caused KCPL to be out of compliance with 18 C.F.R. § 358.4(b)(3)(ii) and 18 C.F.R. § 358.4(b)(3)(iv).

D. Summary of Recommendations

Detailed recommendations are included in Sections III, IV, and V of the Audit Report that describe the compliance findings. The following is a brief summary of those recommendations. We recommend that KCPL:

<u>Tariff Billings:</u>

- Recalculate the FAC billings to wholesale customers for the insurance settlement proceeds received and transportation costs billed in the wrong periods and refund the wholesale component of the $5,000,000 settlement amount, with interest computed in accordance with Section 35.19a of the Commission's regulations to wholesale customers.

- Submit a refund report to the Division of Audits, Office of Enforcement, documenting the refund paid to wholesale customers, showing the underlying supporting calculations, within 30 days from the date of issuance of the final audit report in this docket.

Accounting:

- Revise procedures to ensure that:
  - Insurance settlement proceeds received for replacement power costs reduce wholesale FAC billings.
  - Accounting for accumulated depreciation is in accordance with the Uniform System of Accounts and the instructions in Account 108.
  - Labor and overhead costs not includable in Account 120.1 are accounted for in Account 520 and 426.4 as appropriate when incurred, and limit the accrual of allowance for funds used during construction to nuclear fuel expenses properly recordable in Account 120.1; and
  - Costs associated with deferred maintenance costs are charged to Account 108 or Account 402 as appropriate.
- Record correcting entries to:
  - Re-establish the accumulated depreciation removed from Account 108 without Commission authorization.
  - Reclassify the cost related to parked gas from Account 165 to Account 174;
  - Reverse allowance for funds used during construction improperly accrued on certain operating expenses and the cost of unused uranium improperly included in Account 120.1;
- Submit all correcting journal entries to the Division of Audits, Office of Enforcement, within 30 days of the issuance of the final audit report in this docket.

Standards of Conduct:

- Conduct periodic sweeps of the local area network by IT personnel to ensure that transmission and market affiliate employees cannot access shared folders, and use these folders to pass non-public transmission information.
- Provide specialized training to all KCPL webmasters in the Standards of Conduct and instruct these employees on how to recognize non-public transmission information.

- Review its organizational charts and job descriptions once a quarter to ensure that the postings are accurate, complete, and timely.

- Post on its OASIS website the type of information that was available to Power Sales and Services employees from both the shared folder and the slide show, include the length of time this non-public information was available to the Power Sales and Services employees, and the results of the employee affidavits.

II. Introduction

A. Objective

The objective of the audit was to determine if Kansas KCPL complied with the Commission's regulations regarding:

- Interlocking Directorates at 18 C.F.R. Part 45;
- Record Retention requirements at 18 C.F.R. Part 125;
- Wholesale FAC at 18 C.F.R. § 35.14;
- KCPL's Open Access Transmission Tariff (OATT);
- Standards of Conduct at 18 C.F.R. Part 358;
- Procedures for Shortages of Electric Energy and Capacity under Section 206 of the Public Utility Regulatory Policies Act of 1978 at 18 C.F.R. Part 294;
- LGIP §3.4; and
- The Uniform System of Accounts at 18 C.F.R. Part 101 for selected FERC Form 1 accounts.

Audit staff evaluated KCPL's compliance against the Commission's rules and regulations existing during the course of the audit.

B. Scope and Methodology

The audit period covers January 1, 2004 through December 31, 2006. The methodology to determine KCPL's compliance with the Commission's regulations included, but was not limited to, reviewing and analyzing publicly available and non-public information, (e.g., KCPL's 10-Q, U5S, and 8-K filed with the Securities and Exchange Commission (SEC); documents filed with the Commission and posted on eLibrary; previous audits conducted by the Commission, etc.); the FERC Form No. 1's for the period under audit, and information gleaned from the internet. Audit staff reviewed, tested, analyzed, and verified data received from KCPL in response to data requests sent by audit staff. In addition, audit staff conducted site visits to interview KCPL personnel and collect supporting documentation. Audit staff conducted several

conference calls to further interview KCPL employees and discuss the merits of KCPL's positions on numerous issues and to discuss other audit matters.

Audit staff also conducted more extensive audit fieldwork in the following areas:

a. Interlocking Directorates at 18 C.F.R. Part 45: Audit staff compiled a listing of the Company's officers and directors who held a position as director or officer in an outside company. Audit staff then reviewed Commission filings to determine whether individuals with interlocking positions had properly filed and received Commission approval to hold the positions;

b. Record Retention requirements at 18 C.F.R. Part 125: Audit staff viewed the company's records facilities, reviewed the company's storage and retrieval processes, and interviewed employees of the Record Management department. From company indices of records for each business unit, audit staff selected a sample of records to test to ensure the company retained the records for the requisite retention period;

c. Wholesale FAC at 18 C.F.R. § 35.14: Audit staff reviewed the types of charges related to fossil fuel, purchased power, and nuclear fuel that the company passed through the wholesale FAC to verify that the costs were eligible for recovery under the company's wholesale FAC tariff. Audit staff checked the company's calculations for compliance with KCPL's FAC tariff and ensured the amounts reflected in the calculations traced to KCPL's books and records for several sample months;

d. KCPL's Open Access Transmission Tariff (OATT): Audit staff reviewed contracts for purchased power to determine if they qualified as designated network resources. Audit staff tested transactional information to determine if KCPL was using network service solely to serve native load. Audit staff conducted limited testing of other aspects of the OATT;

e. Standards of Conduct at 18 C.F.R. Part 358: Audit staff reviewed the company's websites to verify the Company had posted the required information. Audit staff also conducted on-site computer testing on several of the market affiliate employee's computer terminals to determine if these employees had improper access to non-public transmission information through the Company's local area network; and

f. The Uniform System of Accounts at 18 C.F.R. Part 101 for selected FERC Form No. 1 accounts: From the review of the FERC Form No. 1 and the audit

of the Company's wholesale FAC, audit staff discovered account balances within the FERC Form No. 1 that warranted further review. During this more focused review on these selected FERC Form No. 1 accounts, audit staff conducted multiple interviews and discussions with senior Company personnel during site visits and through teleconferences, submitted data requests concerning transactions of interest, and verified the Company's responses against its books and records.

III. Tariff Billings Findings and Recommendations

1. Replacement Power Insurance Proceeds Related to Plant Damages

KCPL did not credit fuel adjustment clause (FAC) billings to wholesale customers for insurance settlement proceeds received for replacement power in 1999 because of damages caused by an explosion in the boiler at the Hawthorn 5 coal-fired generating facility.

Pertinent Guidance

KCP&L should have applied the insurance settlement proceeds to reduce the fuel cost in calculating wholesale FAC billings in 1999. Audit staff's conclusion is consistent with the following Commission policy enunciated in *Union Electric Company*, 35 FERC ¶63,076, at p. 65,273 (1986) which states in part:

> "With regard to the recovery for the extra cost of replacement power, UE is required to account for the *pro rata* share attributable to the wholesale customers. UE does not dispute that the wholesale ratepayers have paid their pro rata share of insurance premiums. It then appears equitable that these customers should share in the proceeds received from such insurance coverage. Moreover, Commission precedent appears to favor this result. In *Kansas City Power & Light Company*, 24 FERC ¶61,172, at p. 61,410 (1983), the Commission, in declining to issue an order to that effect, noted:
>
> In view of KCPL's voluntary commitment to pass on an allocated share of insurance proceeds to its wholesale customers as soon as they are received, we do not believe that it is necessary to address the interveners' requests for an order directing such refunds to be made. Accordingly, the requests will be denied without prejudice to renewed motions in the event that a controversy later arises.
>
> In *Carolina Power and Light Company*, 17 FERC ¶63,040, at p. 65,139 (1981), the Presiding Judge, in ruling on an issue of inclusion of insurance premiums in the utility's cost-of-service, said:
>
> In sum, the Company agrees with the principle that any proceeds received under this insurance policy should be immediately flowed through to the ratepayers by means of the fuel adjustment clause."

Background

On February 17, 1999, KCPL's Hawthorn No. 5 coal-fired generation plant (Hawthorn Plant) suffered a boiler explosion that forced the plant out of service. The explosion occurred when a gas valve that was stuck in the open position caused the plant's boiler to fill with gas and the boiler exploded when the gas ignited. KCPL retired the original cost of the plant damaged in the explosion and charged the associated cost of removal to Account 108, Accumulated Provision for Depreciation of Electric Utility Plant (Major only), for $90,404,754. The Hawthorn plant was out of service for approximately 28 months until it returned to service in June 2001. KCPL capitalized $335,177,893 in Account 101, Electric Plant in Service (Major only), to bring the Hawthorn Plant back in service.

KCPL had primary insurance policies in effect with three insurance carriers[2] to cover the property damages. KCPL charged the cost of the insurance premiums to Account 924, Property Insurance. The cost of the insurance premiums is included in KCPL's cost-of-service and recovered from its retail and wholesale ratepayers.

While the Hawthorn Plant was out of service, KCPL bought replacement power and paid increased fuel costs due to generating capacity requirements at less efficient generation stations to meet system demand. KCPL included the replacement power costs and increased fuel costs as a component of fuel expense in the FAC billings to wholesale customers.

KCPL received in two payments insurance settlement proceeds for replacement power totaling $5,000,000 in May and June 1999. KCPL credited the $5,000,000 to Account 555, Purchased Power. KCPL appropriately reduced purchased power expense by the $5,000,000 insurance settlement proceeds. However, KCPL should have applied all of the insurance settlement proceeds to reduce the costs previously incurred for replacement power. Moreover, KCPL should have included the insurance settlement proceeds as a reduction of the power costs for the wholesale FAC in May and June 1999.

[2] The three insurance carriers were National Union Fire Insurance Co., Reliance National Insurance Co., and Travelers Indemnity Co. of Illinois.

Recommendations

We recommend KCPL:

1. Revise procedures to ensure that insurance settlement proceeds received for replacement power costs reduce wholesale FAC billings.

2. Recalculate the FAC billings to wholesale customers for May and June 1999 (the date KCPL received the insurance settlement proceeds) and refund the wholesale component of the $5,000,000 settlement amount, with interest computed in accordance with Section 35.19a of the Commission's regulations to wholesale customers.

3. Submit a refund report to the Division of Audits, Office of Enforcement, documenting the refund paid to wholesale customers, showing the underlying supporting calculations, within 30 days from the date of issuance of the final audit report in this docket.

2. Accounting and Billing of Transportation Costs for Parked Gas

KCPL, through FAC billings to wholesale customers, improperly recovered transportation costs associated with natural gas that it parked on a pipeline in the wrong periods. Additionally, it inappropriately classified fees related to parked natural gas in Account 165, Prepayments.

Pertinent Guidance

A. Discussion of Accounting Requirements

KCPL's accounting classifications for parked natural gas and fees paid to park the natural gas for periods longer than one month were not consistent with the Uniform System of Accounts.

Account 165, Prepayments, states:

> This account shall include amounts representing prepayments of insurance, rents, taxes, interest and miscellaneous items, and shall be kept or supported in such manner as to disclose the amount of each class of prepayment.

Account 174, Miscellaneous Current and Accrued Assets, states:

> This account shall include the book cost of all other current and accrued assets, appropriately designated and supported so as to show the nature of each asset included herein.

B. Discussion of Rate Requirements

KCPL's wholesale FAC tariff, states in part:

> The fossil (meaning coal, gas or oil) and nuclear fuel consumed in KCPL's own generating facilities for the production of electric energy and KCPL's share of fossil and nuclear fuel consumed in jointly-owned or leased generating facilities as properly includable in Accounts 151 and 518 of the Federal Energy Regulatory Commission's Uniform System of Accounts. . . . [emphasis added]

Background

KCPL parked natural gas used in generating electricity under five park and loan service (PLS) contracts that lasted longer than a month, but less than 11 months. When

KCPL parked natural gas under these contracts, it parked the natural gas on Southern Star Central Gas Pipeline Inc.'s pipeline system. KCPL took title to the natural gas at the point of receipt. The costs associated with the natural gas under the PLS contracts involved the purchased gas costs, costs for transportation to the pooling point on the pipeline for parking[3], costs for parking the natural gas on the pipeline, and costs for transportation to the generating facilities from the pooling point when KCPL used the natural gas in producing electricity.

KCPL engaged in several transactions where it parked natural gas on the pipeline for several months. The pipeline has a production area and a market area. When parking natural gas, a shipper must first transport the natural gas to a pooling point on the pipeline in the market area from the receipt point. When unparking the natural gas, the pipeline delivers the natural gas to the pooling point in the market area for ultimate delivery. KCPL classified the transportation costs to deliver the natural gas to the market area pooling point for parking on the pipeline in Account 151, Fuel Stock. Then it expensed these transportation costs immediately to Account 501, Fuel, and included the costs in wholesale FAC billings to wholesale customers in the same month. In addition, KCPL classified the purchased gas costs and parking fees in Account 165, Prepayments. When KCPL used the natural gas to produce electricity, it transferred the costs from Account 165 to Account 151, Fuel Stock.

The instructions to Account 165 do not list parked natural gas among the items includable in this account. Therefore, KCPL should have classified the purchased gas costs and related parking fees associated with the parked natural gas that it deferred in Account 165 in Account 174. Although KCPL correctly billed wholesale customers for the purchased gas costs and related parking fees as it used the natural gas in producing electricity, it did not follow the same practice for recovering the transportation costs mentioned above from wholesale customers. Therefore, KCPL should have billed wholesale customers for the cost of transporting the natural gas to the pooling point at the time it used the parked natural gas at the generating facilities.

Recommendations

We recommend KCPL:

4. Revise procedures to ensure that it classifies the costs associated with parking natural gas in accordance with the Uniform System of Accounts;

[3] In some instances, KCPL incurred no transportation costs to get the natural gas to the pooling point since it purchased the natural gas from a producer at the pooling point.

5. Reclassify the costs related to parked natural gas from Account 165 to Account 174;

6. Make appropriate refunds to wholesale customers, including interest computed according to section 35.19a of the Commission's regulations, for transportation costs it improperly recovered in the wrong billing periods;

7. Submit all correcting journal entries to the Division of Audits, Office of Enforcement, within 30 days of the issuance of the final audit report in this docket; and

8. Submit a refund report to the Division of Audits, Office of Enforcement, documenting the refund paid to wholesale customers, showing the underlying supporting calculations, within 30 days from the date of issuance of the final audit report in this docket.

IV. Accounting Findings and Recommendations

3. Accounting for Accumulated Depreciation Related to Combustion Turbines and Related Property and Equipment

KCPL did not properly record accumulated depreciation associated with five combustion turbines (CTs) and related property and equipment.

Pertinent Guidance

KCPL's accounting for the accumulated depreciation related to the five CTs and related property and equipment was not consistent with the instructions to 18 C.F.R. Part 101, Account 108, Accumulated Provision for Depreciation of Electric Utility Plant, which states in part:

> E. The utility is restricted in its use of the accumulated provision for depreciation….It shall not transfer any portion of this account to retained earnings or make any other use thereof without authorization by the Commission. [emphasis added.]

Background

In October 2001, KCPL entered into a synthetic lease[4] with Wells Fargo Bank to finance the purchase, installation, and assembly of the five CTs and related property and equipment (utility plant). KCPL was the agent for the construction and responsible for the design and operation of the utility plant. KCPL accounted for the synthetic lease as an off-balance sheet transaction in accordance with generally accepted accounting principles in effect at the time of the execution of this transaction. Therefore, no utility plant costs were recorded on KCPL's books and records from October 2001 to October 2003.

In June 2003, KCPL placed the utility plant in service and began receiving 100 percent of the output from the utility plant. KCPL paid all of the costs (e.g., taxes, insurance, and plant maintenance costs) associated with operating the utility plant and

[4] Definition of Synthetic Lease: When a company creates a special-purpose entity to arrange for a loan to purchase property, and then leases the property from the entity. The synthetic lease therefore keeps the loan off the company's balance sheet, while the company provides enough income to the special-purpose entity to cover the interest rate on the loan. MoneyGlossary.com, http://www.moneyglossary.com/?w=Synthetic+Lease (last visited on July 17, 2007).

accounted for these costs in its operating expense accounts. In the fourth quarter of 2003, KCPL adopted Financial Accounting Standards Board Interpretation Number 46 (FIN 46). Accordingly, KCPL accounted for the synthetic lease in its consolidated books and records in October 2003. KCPL recorded the original cost of the utility plant and the related debt by debiting Account 101, Electric Plant in Service, and crediting Account 224, Other Long-Term Debt, for $153,967,587 on its consolidated balance sheet. From October 2003 to May 15, 2005, KCPL had recorded $9,701,528 of accumulated depreciation in Account 108 on its consolidated balance sheet.

On May 16, 2005, KCPL exercised the early termination option under the synthetic lease arrangement, and transferred the cost of these facilities to its regulated books and records. When it transferred the cost of the facilities, KCPL removed $8,693,190 of accumulated depreciation to eliminate a minority interest liability and KCPL only recorded $1,008,338 of the $9,701,528 of accumulated depreciation in Account 108.

KCPL's accounting for the transfer of the CTs and related equipment was not consistent with the requirements of the Commission's Uniform System of Accounts. KCPL should not have removed $8,693,190 from Account 108 without first seeking Commission approval.

Recommendations

We recommend KCPL:

9. Revise procedures so that accounting for accumulated depreciation is in accordance with the Uniform System of Accounts and the instructions in Account 108; and

10. Record a correcting entry to re-establish the accumulated depreciation removed from Account 108 without Commission authorization; and

11. Submit all correcting journal entries to the Division of Audits, Office of Enforcement, within 30 days of the issuance of the final audit report in this docket.

4. Accounting and Billing of Nuclear Fuel Expenses

KCPL improperly recorded certain labor and overhead expenses in Account 120.1, Nuclear Fuel in Process of Refinement, Conversion, Enrichment and Fabrication.

Pertinent Guidance

KCPL's accounting for nuclear fuel expenses was not consistent with the following instructions in 18 C.F.R. Part 101:

Account 120.1, Nuclear Fuel in Process of Refinement, Conversion, Enrichment and Fabrication, states in part:

> A. This account shall include the original cost to the utility of nuclear fuel materials while in process of refinement, conversion, enrichment, and fabrication into nuclear fuel assemblies and components, including processing, fabrication, and necessary shipping costs. . . .

Account 520, Steam Expenses, states in part:

> This account shall include the cost of labor, materials used and expenses incurred in production of steam through nuclear processes. . . .

Account 426.4, Expenditures for Certain Civic, Political and Related Activities, states in part:

> This account shall include expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials….

Electric Plant Instruction (EPI) No. 3, states in part:

> (17) *Allowance for funds used during construction* (Major and Nonmajor Utilities) includes the net cost for the period of construction of borrowed funds used for construction purposes. . . .

Background

KCPL owns a 47 percent interest in the Wolf Creek Nuclear Generation Station (Wolf Creek) located near Burlington, Kansas. Kansas Gas and Electric Co. (Westar) owns another 47 percent interest and Kansas Electric Power Coop owns the remaining 6 percent. All three companies are members of the Southwest Power Pool. The Wolf Creek Nuclear Operating Corporation (Wolf Creek Operating) operates Wolf Creek.

Beginning in May 2006, Wolf Creek improperly capitalized 100 percent of the salary for the Administrator of the Fuel Supply department in Account 120.1, accrued related allowance for funds used during construction (AFUDC) on the capitalized salary, and allocated these salary costs to Wolf Creek's owners. Audit staff believes that some of the salary costs associated with the duties of the Administrator of Fuel Supply was related to operating as opposed to capitalized activities. The operating portion of the salary costs should not have been capitalized, but expensed as incurred. These costs include:

- Expenses for providing input to the nuclear fuel budget's operating activities, 10K and 10Q financial reporting, and compliance with Sarbanes-Oxley requirements;

- Costs associated with participation in the Nuclear Energy Institute's (NEI) annual survey, representing Wolf Creek Operating at the NEI Utility Fuel Committee and World Nuclear Fuel Market management oversight; and

- Lobbying activities involving fuel supply.

KCPL assigned these costs and related AFUDC to Fuel Cycle 16 that is currently in process. Therefore, KCPL did not bill these costs to customers through retail or wholesale FAC billings.

KCPL should not have recorded the labor and overhead expenses listed above to Account 120.1 because these expenses do not fall within the definition of the types of capitalized costs includable in Account 120.1. KCPL should have recorded these operating expenses to Accounts 520 and 426.4 as appropriate. Moreover, since these expenses were properly chargeable to Accounts 520 and 426.4, they were ineligible for the accrual of AFUDC.

Recommendations

We recommend KCPL:

12. Revise procedures to ensure that:

    a. Labor and overhead costs not includable in Account 120.1 are accounted for in Accounts 520 and 426.4 as appropriate when incurred; and

    b. The accrual of AFUDC is limited to nuclear fuel expenses properly recordable in Account 120.1;

13. Record the appropriate journal entries to correct the accounts for the previously mentioned labor and overhead costs and the related AFUDC; and

14. Submit all correcting journal entries to the Division of Audits, Office of Enforcement, within 30 days of the issuance of the final audit report in this docket; and

5. Accounting for Uranium Held for Future Use

KCPL incorrectly classified the cost of nuclear materials held for future use in Account 120.1, Nuclear Fuel in Process of Refinement, Conversion, Enrichment and Fabrication (Major only). In addition, it improperly accrued AFUDC on the cost of nuclear fuel materials prior to the start of active processing.

Pertinent Guidance

KCPL's accounting for raw nuclear fuel material was deficient as follows:

1. KCPL's practice of classifying the cost of nuclear fuel materials purchased in advance of use in Account 120.1 was not consistent with the following instructions in 18 C.F.R. Part 101.

The instructions to Account 120.1, Nuclear Fuel in Process of Refinement, Conversion, Enrichment and Fabrication, states in part:

> A. This account shall include the original cost to the utility of nuclear fuel materials while in process of refinement, conversion, enrichment, and fabrication, . . . and necessary shipping costs . . . [emphasis added].

Account 120.2, Nuclear Fuel Materials and Assemblies – Stock Account, states in part:

> C. This account shall also include the cost of nuclear materials and byproduct materials being held for future use and not actually in process in Account 120.1, Nuclear Fuel in Process of Refinement, Conversion, Enrichment, and Fabrication.

2. KCPL's practice of accruing AFUDC on unused uranium concentrate before the refinement, conversion, enrichment, or fabrication process began was not consistent with the requirements of the Uniform System of Accounts.

Electric Plant Instruction (EPI) No. 3, states in part:

> (17) *Allowance for funds used during construction* (Major and Nonmajor Utilities) includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used . . . [emphasis added].

As mentioned previously, KCPL owns a 47 percent interest in the Wolf Creek. Wolf Creek Operating operates Wolf Creek. Wolf Creek Operating allocates the costs associated with its nuclear operations to KCPL based on its ownership percentage.

In January 2006, Wolf Creek Operating purchased uranium concentrate and split the uranium between refueling cycles 16 and 17. Wolf Creek used a portion of the uranium concentrate for refueling cycle 16. KCPL expects to use the remaining uranium concentrate around May 2008 when refueling cycle 17 commences. KCPL classified the unused uranium concentrate in Account 120.1 and commenced accrual of AFUDC from the date it purchased the uranium concentrate.

Since KCPL purchased the nuclear fuel materials in advance of use in processing reloads, it should have classified the cost of the materials to Account 120.2. Moreover, it should transfer the cost to Account 120.1 at the time processing commences. Furthermore, under the Commission's requirements, a utility may accrue AFUDC only on the cost of nuclear fuel undergoing construction and properly recordable in Account 120.1. KCPL should record the cost of nuclear fuel materials not currently used in the nuclear fuel process in Account 120.2. Therefore, KCPL should not have accrued AFUDC on the related costs until the process of refinement, conversion, enrichment, and fabrication for the future fuel cycle begins.

Recommendations

We recommend KCPL:

15. Classify the cost of unused uranium concentrate for future refueling cycles in Account 120.2;

16. Commence the accrual of AFUDC when such materials enter the construction process; and

17. Record a correcting entry to reverse AFUDC improperly accrued on the cost of unused uranium concentrate prior to the start of processing future fuel cycles.

6. Accounting for Maintenance Costs

KCPL improperly deferred maintenance costs in Account 186 instead of immediately charging the costs to Account 108, Accumulated Provision for Depreciation of Electric Utility Plant or the appropriate maintenance expense accounts.

Pertinent Guidance

KCPL used Account 186, Miscellaneous Deferred Debits, to defer costs associated with plant removal after the Hawthorn 5 Plant explosion, then offset these charges against insurance settlement payments received for plant damages, which did not comply with the following instructions in 18 C.F.R. Part 101.

Account 108, Accumulated Provision for Depreciation of Electric Utility Plant, states in part:

> B. At the time of retirement of depreciable electric utility plant, this account shall be charged with the book cost of the property retired and the cost of removal and shall be credited with the salvage value and any other amounts recovered, such as insurance. . . .

Account 402, Maintenance Expense, states:

> There shall be shown under this caption the total amount included in the electric maintenance expense accounts provided herein.

Background

As stated earlier, on February 17, 1999, KCPL's Hawthorn Plant suffered a boiler explosion that forced the plant out of service. KCPL retired the original cost of the plant damaged in the explosion and charged the associated cost of removal to Account 108, Accumulated Provision for Depreciation of Electric Utility Plant (Major only). KCPL also deferred $2,219,030 of maintenance costs to Account 186, Miscellaneous Deferred Debits. KCPL informed audit staff in responses to data requests that the costs deferred in Account 186 represent maintenance costs associated with the damaged plant. However, KCPL could not find the appropriate documentation supporting its assertion that the costs deferred in Account 186 were maintenance costs. Audit staff requested and KCPL provided sworn affidavits saying that the costs deferred in Account 186 were maintenance costs associated with the plant damage.

KCPL received insurance settlement payments from its insurance carriers for property damages amounting to $204,750,000. KCPL properly accounted for the majority of the insurance settlement payments by crediting Account 108 for $202,530,970. However, KCPL inappropriately accounted for the remaining portion of the insurance proceeds by using $2,219,030 to offset the improperly deferred maintenance costs in Account 186.

It was not appropriate for KCPL to defer the maintenance costs associated with the damaged plant in Account 186. KCPL should have immediately charged the maintenance costs to Account 108 or expensed the costs to Account 402 to the extent such costs were not related to the damaged plant.

Recommendations

We recommend KCPL:

18. Revise its accounting procedures to ensure that maintenance costs associated with plant damages are not accounted for in Account 186; and

19. Revise its procedures to ensure that KCPL accounts for maintenance costs in accordance with the instructions to Account 108 or Account 402 as appropriate.

7. Preservation of Records

KCPL discovered that it lost a record containing construction budget information and failed to make an informational filing with the Commission about the document.

Pertinent Guidance

18 C.F.R. § 125.2(f) requires that:

> When records are destroyed or lost before the expiration of the prescribed period of retention, a certified statement listing, as far as may be determined, the records destroyed and describing the circumstances of accidental or other premature destruction or loss must be filed with the Commission within ninety (90) days from the date of discovery of the destruction.

Background

KCPL had one instance where a record was misplaced or destroyed before the end of the retention period but it made no filing informing the Commission of the circumstances of the missing record. The record missing was a binder labeled "Budget Construction 1998-2002" and had a retention period of 3 years. KCPL discovered the record was missing in 2003 but made no informational filing to the Commission to report that the record was prematurely destroyed or lost.

Recommendations

We recommend KCPL:

20. Strengthen its existing procedures to ensure that it follows the Commission's requirements for the preservation and proper destruction of records and for the reporting of lost or prematurely destroyed records.

V. Standards of Conduct Findings and Recommendations

8. Marketing Affiliate Employees' Access to Non-Public Transmission Information

KCPL's marketing affiliate employees in Power Sales and Services (PSS) had access to non-public transmission information through a shared folder on KCPL's Local Area Network (LAN) and links to intranet websites that contained non-public transmission information.

Pertinent Guidance

18 C.F.R. § 358.5(a)(1) requires that:

> The Transmission Provider must ensure that any employee of its Marketing or Energy Affiliate may only have access to that information available to the Transmission Provider's transmission customers (*i.e.*, the information posted on the OASIS or Internet website, as applicable), and must not have access to any information about the Transmission Provider's transmission system that is not available to all users of an OASIS or Internet website, as applicable.

18 C.F.R. § 358.5(a)(2) requires that:

> The Transmission Provider must ensure that any employee of its Marketing or Energy Affiliate is prohibited from obtaining information about the Transmission Provider's transmission system (including, but not limited to, information about available transmission capability, price, curtailments, storage, ancillary services, balancing, maintenance activity, capacity expansion plans or similar information) through access to information not posted on the OASIS or Internet website or that is not otherwise also available to the general public without restriction.

Background

While conducting computer testing onsite for KCPL's compliance with the Commission's Standards of Conduct, audit staff discovered a slide show on the "Company's Customer Operations" and "Delivery" intranet websites containing non-public transmission information which audit staff confirmed all KCPL employees, including Power Sales and Services (PSS) trading employees, could access. The slide show contained non-public transmission reliability and outage information that was not available to all customers. The non-public information included System Average Interruption Duration Index (SAIDI), Transmission SAIDI, Reliability SAIDI,

Transmission Line Contribution to SAIDI, Transmission Line Contribution to System Average Interruption Frequency Index (SAIFI), Reliability Performance Trends, Recordable Incident Rate – Transmission Lines, and Transmission Capital Budget 2000 – 2009. KCPL was not sure how this slide show got posted on the intranet.

The Transmission Services (TS) and PSS functions are located in separate buildings approximately two miles away from each other. PSS accounting employees use shared folders on KCPL's LAN to receive aggregated load information from TS accounting employees to calculate monthly Municipal billings. KCPL identifies all PSS employees, including the accounting employees providing back office support, as marketing affiliate employees who should not have access to non-public transmission information. However, a TS supervisor placed non-public transmission information in a shared folder that was accessible by PSS accounting employees. The non-public transmission information included operating letters containing megawatt values for transmission service schedules; information regarding transformers, transmission lines and breakers; and other non-public transmission information in which KCPL posted to the folder so that all transmission system operators could access the letters and receive the system's status at the beginning of their shift. It was the TS supervisor's understanding that the drive the folder was on was used solely by transmission employees, and PSS employees could not access the drive or the folder.

After audit staff discovered the shared folder and slideshow, they interviewed PSS employees and inquired if the PSS employees had knowledge of the shared folder or slide show and if they accessed either. The employees interviewed said they did not know they had access to the folder or slide show, nor did they know either contained non-public transmission information. KCPL decided to submit affidavits signed by all PSS employees stating they were not aware of the shared folder or slide show and their contents, and that they did not access transmission related data contained in the shared folder or slideshow.

Recommendations

We recommend KCPL:

21. Block PSS employee access to the folder(s) in question;

22. Revise written policy involving security controls over shared folders between the accounting departments of TS and PSS, or eliminate the use of shared folders by exchanging the aggregated load information in attachments to emails between the TS and PSS accounting departments;

23. Conduct periodic sweeps of the LAN by IT personnel to ensure that transmission and market affiliate employees cannot access shared folders, and use these folders to pass non-public transmission information;

24. Provide specialized training to all KCPL webmasters in the Standards of Conduct and instruct these employees on how to recognize non-public transmission information;

25. Require all intranet webmasters to review and confirm once a quarter that there is no non-public transmission information and/or links on any of KCPL's intranet web pages, and if inappropriate transmission information or links are found, to take immediate and appropriate action; and

26. Create or update written policy to ensure that KCPL's intranet webmasters are adequately reviewing the web pages for improper transmission content and are making necessary corrections.

27. Post on its OASIS website the type of information that was available to PSS employees from both the shared folder and the slide show, include the length of time this non-public information was available to the PSS employees, and the results of the employee affidavits.

9. Organizational Chart Postings

KCPL had the following deficiencies related its organizational charts posted on its OASIS:

- It did not post job descriptions for the Fuels Department;
- It did not post the organizational chart for the Distribution Engineering Department;
- It used generic job descriptions for transmission and market affiliate employees instead of job descriptions that actually reflected the employees' duties and responsibilities; and
- Organizational charts for individual business units did not indicate when KCPL last updated the organizational charts or job descriptions.

Pertinent Guidance

18 C.F.R. § 358.4(b)(3)(ii) requires that Transmission Providers post comprehensive organizational charts showing:

> For the Transmission Provider, the business units, job titles and descriptions, and chain of command for all positions, including officers and directors, with the exception of clerical, maintenance, and field positions. The job titles and descriptions must include the employee's title, the employee's duties, whether the employee is involved in transmission or sales, and the name of the supervisory employees who manage non-clerical employees involved in transmission or sales.

18 C.F.R. § 358.4(b)(3)(iv) provides that:

> The Transmission Provider must update the information on its OASIS or Internet website, as applicable, required by §§ 358.4(b)(1), (2) and (3) within seven business days of any change, and post the date on which the information was updated.

Background

Prior to the commencement of the audit, audit staff examined KCPL's OASIS for compliance with the Commission's posting requirements. Audit staff's review of the

OASIS revealed that KCPL's postings were inconsistent with Commission requirements with respect to:

Fuels Department – KCPL posted the organizational chart for this business unit but failed to include the job descriptions.

Distribution Engineering Department – When audit staff attempted to access the organizational chart via a link on the KCPL OASIS site, the title of the organizational chart appeared with no information.

Generic Job Descriptions – KCPL used the same generic job descriptions for employees working as Transmission System Operators located in the transmission function and the Power Systems Operators located in the market affiliate. The job descriptions did not adequately portray their duties and responsibilities.

Organizational Chart Dates – Audit staff discovered that KCPL's individual business unit organizational charts did not indicate when KCPL last updated the organizational charts or job descriptions.

KCPL corrected the abovementioned deficiencies by posting the job descriptions for the Fuel Department, repairing the link to the Distribution Engineering Department organizational chart, and posting revised job descriptions for employees working as Transmission System Operators located in the transmission function and the Power Systems Operators located in the market affiliate. However, KCPL failed to post the date on which the information was updated.

Recommendations

We recommend KCPL:

28. Revise and update its written policy and procedures to ensure that the job descriptions and organizational charts are posted, dated, and updated on its OASIS in an accurate and timely manner; and

29. Review its organizational charts and job descriptions once a quarter to ensure that the postings are accurate, complete, and timely.

Attachment A

Company Response

Kansas City Power & Light
ENERGIZING LIFE

LEGAL AND ENVIRONMENTAL AFFAIRS

Curtis D. Blanc
Managing Attorney - Regulatory

LAW DEPARTMENT
WRITER'S DIRECT DIAL:
☎ (816) 556-2483
Facsimile: (816) 556-2787

November 8, 2007

Bryan K. Craig, Director
Division of Audits
Federal Energy Regulatory Commission
888 First Street NE, RM 51-37
Washington, DC 20426

Re: FERC Compliance Audit of Kansas City Power & Light Company
Docket No. PA06-6-000

Dear Mr. Craig:

This letter is in response to the draft *Audit of Interlocking Directorates, Records Retention, Wholesale Fuel Adjustment Clause, Open Access Transmission Tariff, Standards of Conduct, Procedures for Shortages of Electric Energy and Capacity, Standard Large Generator Interconnection Procedures, and Compliance with Selected FERC Form 1 Accounts at Kansas City Power & Light Company* ("Draft Report"), dated October 24, 2007.[1]

Kansas City Power & Light Company ("KCPL") appreciates this opportunity to comment on the Draft Report. KCPL accepts the findings proposed by audit staff. Further, KCPL accepts audit staff's recommendations.

TARIFF BILLINGS FINDINGS AND RECOMMENDATIONS

1. Replacement Power Insurance Proceeds Related to Plant Damages

Finding No. 1: The Draft Report concludes that "KCPL did not credit fuel adjustment clause (FAC) billings to wholesale customers for insurance settlement proceeds received for replacement power in 1999 because of damages caused by an explosion in the boiler at the Hawthorn 5 coal-fired generating facility." *Draft Report*, at p. 10.

KCPL accepts this finding.

[1] For convenience, this response is organized using the same headings and numbering as the Draft Report.

Recommendation Nos. 1-3: KCPL accepts Recommendation Nos. 1 through 3. KCPL commits to revise its procedures to ensure that insurance settlement proceeds received for replacement power costs reduce wholesale FAC billings. KCPL also commits to recalculate the FAC billings to wholesale customers for May and June 1999 and refund to those customers the wholesale component of the $5,000,000 settlement amount, with interest in accordance with Section 35.19a of the Commission's regulations. KCPL will submit a refund report to the Division of Audits within 30 days from the date of issuance of the final audit report.

2. Accounting and Billing of Transportation Costs for Parked Gas

Finding No. 2: The Draft Report concludes that "KCPL, through FAC billings to wholesale customers, improperly recovered transportation costs associated with natural gas that it parked on a pipeline in the wrong periods. Additionally, it inappropriately classified fees related to parked gas in Account 165, Prepayments." *Draft Report*, at p. 13.

KCPL accepts this finding.

Recommendation Nos. 4-8: KCPL accepts Recommendation Nos. 4 through 8. KCPL commits to revise its procedures to ensure that it classifies the costs associated with parking gas in accordance with the Uniform System of Accounts. KCPL commits to reclassify the costs related to parked gas from Account 165 to Account 174 and to file those corrected entries with the Division of Audits within 30 days of the issuance of the final audit report.

KCPL also commits to re-compute its FAC billings to wholesale customers to correct for the timing issues created by KCPL's inclusion of transportation costs in the FAC before the gas was used to generate power, to make any such refunds with interest computed according to Section 35.19a of the Commission's regulations, and to submit a refund report to the Division of Audits within 30 days from the date of issuance of the final audit report.

ACCOUNTING FINDINGS AND RECOMMENDATIONS

3. Accounting for Accumulated Depreciation Related to Combustion Turbines and Related Property and Equipment

Finding No. 3: The Draft Report concludes that "KCPL did not properly record accumulated depreciation associated with five combustion turbines (CTs) and related property and equipment." *Draft Report*, at p. 16.

The synthetic lease transaction by which KCPL came to own the five CTs at issue was complex. The accounting for the transaction was perhaps even more complex. KCPL has extensively discussed its accounting for the transaction with its outside auditing firm. KCPL is confident that it accounted for the transaction correctly in its financial statements under the Generally Accepted Accounting Principles ("GAAP"). Having said that, KCPL accepts audit staff's finding that KCPL did not account for the transaction correctly under the Commission's Uniform System of Accounts.

Recommendation Nos. 9-11: KCPL accepts Recommendation Nos. 9 through 11. KCPL commits to revise its procedures so that accounting for accumulated depreciation is in accordance with the Uniform System of Accounts and the instructions in Account 108. KCPL commits to record a correcting entry in its FERC-regulated books to re-establish the accumulated depreciation removed from Account 108 and to file those corrected entries with the Division of Audits within 30 days of the issuance of the final audit report.

4. Accounting and Billing of Nuclear Fuel Expenses

The Draft Report concludes that "KCPL improperly recorded certain labor and overhead expenses in Account 120.1, Nuclear Fuel in Process of Refinement, Conversion, Enrichment and Fabrication." *Draft Report*, at p. 18.

KCPL accepts this finding.

Recommendation Nos. 12-14: KCPL accepts Recommendation Nos. 12 through 14. KCPL commits to work with Wolf Creek to develop procedures to ensure (i) that labor and overhead costs not includable in Account 120.1 are correctly accounted for in Accounts 520 and 426.4; and (ii) that the accrual of AFUDC is limited to nuclear fuel expenses properly recordable in Account 120.1.

KCPL commits to record the appropriate journal entries to correct the accounts for the labor and overhead costs and the related AFUDC and to file those corrected entries with the Division of Audits within 30 days of the issuance of the final audit report.

5. Accounting for Uranium Held for Future Use

Finding No. 5: The Draft Report concludes that "KCPL incorrectly classified the cost of nuclear materials held for future use in Account 120.1, Nuclear Fuel in Process of Refinement, Conversion, Enrichment and Fabrication (Major only). In addition, it improperly accrued an allowance for funds used during construction (AFUDC) on the cost of nuclear fuel materials prior to the start of active processing." *Draft Report*, at p. 21.

KCPL accepts this finding.

Recommendation Nos. 15-17: KCPL accepts Recommendation Nos. 15 through 17. KCPL commits to classify the cost of unused uranium concentrate for future refueling cycles in Account 120.2. In fact, in response to this finding, KCPL classified recent uranium purchases by Wolf Creek in Account 120.2. KCPL commits not to commence accruing AFUDC until unused uranium concentrate for future refueling cycles enters the construction process. KCPL also commits to record a correcting entry to reverse AFUDC improperly accrued on the cost of unused uranium concentrate prior to the start of processing future fuel cycles.

6. Accounting for Maintenance Costs

Finding No. 6: The Draft Report concludes that "KCPL improperly deferred maintenance costs in Account 186 instead of immediately charging the costs to Account 108, Accumulated Provision for Depreciation of Electric Utility Plant or the appropriate maintenance expense accounts." *Draft Report*, at p. 23.

KCPL accepts this finding.

Recommendation Nos. 18-19: KCPL accepts Recommendation Nos. 18 and 19. KCPL commits to revise its accounting procedures to ensure that maintenance costs associated with plant damages are not accounted for in Account 186. KCPL also commits to revise its procedures to ensure that KCPL accounts for maintenance costs in accordance with the instructions to Account 108 or Account 402 as appropriate.

7. Preservation of Records

Finding No. 7: The Draft Report concludes that "KCPL discovered that it lost a record containing construction budget information and failed to make an informational filing with the Commission about the document being lost or prematurely destroyed." *Draft Report*, at p. 25.

KCPL accepts this finding.

Recommendation No. 20: KCPL accepts Recommendation No. 20. KCPL will strengthen its existing procedures to ensure that it follows the Commission's requirements for the preservation and proper destruction of records and for the reporting of lost or prematurely destroyed records.

STANDARDS OF CONDUCT FINDINGS AND RECOMMENDATIONS

8. Market Affiliate Employees' Access to Non-Public Transmission Information

Finding No. 8: The Draft Report concludes that "KCPL's marketing affiliate employees in PSS had access to non-public transmission information through a shared folder on KCPL's LAN and links to intranet websites that contained non-public transmission information." *Draft Report*, at p. 26.

KCPL accepts this finding, but informs audit staff that effective February 1, 2007, KCPL's internal Missouri Municipal customers (*i.e.*, City of Carrollton, City of Higginsville, City of Marshall, City of Salisbury) transferred from KCPL's control area to Westar's control area. As a result, KCPL's power sales and services ("PSS") accounting employees no longer need aggregated load information from its transmission services accounting employees to calculate monthly billings. That process no longer occurs.

KCPL also informs audit staff that in response to their concerns, KCPL removed the slide show from its intranet websites and took steps to deny its PSS accounting employees access to

the previously shared folder. During a subsequent site visit, audit staff conducted a computer audit to confirm KCPL's assertion that it had taken these steps.

Recommendation Nos. 21-27: KCPL accepts audit staff Recommendation Nos. 21 through 27. KCPL notes that it has already implemented Recommendation Nos. 21 and 22. KCPL provided verified statements that none of the relevant PSS employees accessed the shared folders described in the Draft Report. KCPL has also eliminated use of shared folders by its PSS accounting employees.

KCPL commits to having its IT personnel conduct periodic sweeps of the LAN to ensure that transmission and market affiliate employees cannot access shared folders or use these folders to exchange or transfer non-public transmission information. KCPL commits to provide specialized training to all of its webmasters in the Standards of Conduct and instruct these employees on how to recognize non-public transmission information. KCPL commits to require all intranet webmasters to review and confirm each calendar quarter that there is no non-public transmission information and/or links on any of KCPL's intranet web pages, and if inappropriate transmission information or links are found, to take immediate and appropriate action. KCPL commits to create and implement written policies to ensure that its intranet webmasters are adequately reviewing the web pages for improper transmission content and are taking necessary corrective action in the event any inappropriate information is identified. Lastly, KCPL commits to post on its OASIS website a description of the type of information that was available to PSS employees from both the shared folder and the slide show, including the length of time this non-public information was available to the PSS employees, and the results of the employee affidavits.

9. Organizational Chart Postings

Finding No. 9: The Draft Report concludes that "KCPL had the following deficiencies related its organizational charts posted on its Open Access Same-Time Information System (OASIS):

- It did not post job descriptions for the Fuels Department;
- It did not post the organizational chart for the Distribution Engineering Department;
- It used generic job descriptions for transmission and market affiliate employees instead of job descriptions that actually reflected the employees' duties and responsibilities; and
- Organizational charts for individual business units did not indicate when KCPL last updated the organizational charts or job descriptions."

Draft Report, at p. 29.

KCPL accepts this finding. As noted in the Draft Report, KCPL corrected most of these deficiencies "by posting the job descriptions for the Fuel Department, repairing the link to the

Distribution Engineering Department organizational chart, and posting revised job descriptions for employees working as Transmission System Operators located in the transmission function and the Power Systems Operators located in the market affiliate." *Draft Report*, at p. 30.

Recommendation Nos. 28-29: KCPL accepts Recommendation Nos. 28 and 29. KCPL commits to updating its written policies and procedures to ensure that the job descriptions and organizational charts are posted, dated, and updated on its OASIS in an accurate and timely manner. KCPL also commits to review its organizational charts and job descriptions each calendar quarter to ensure that the postings are accurate, complete, and timely.

Please contact the undersigned with any comments or concerns regarding KCPL's response to the Draft Report.

Respectfully submitted,

Curtis D. Blanc
Counsel for Kansas City Power & Light Company

CDB/djs