

**Attachment A**  
**(Explanatory Statement)**

**UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION**

|   |   |                          |
|---|---|--------------------------|
| Kansas City Power & Light Company         | ) |                          |
|   | ) | Docket Nos. ER10-230-000 |
|   | ) | and ER10-230-001         |
| KCP&L Greater Missouri Operations Company | ) |                          |

**EXPLANATORY STATEMENT IN SUPPORT OF  
SETTLEMENT AGREEMENT**

Pursuant to Rule 602 of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission (the “Commission”), 18 C.F.R. § 385.602 (2010), Kansas City Power & Light Company (“KCP&L”) and KCP&L Greater Missouri Operations Company (“GMO”), both subsidiaries of Great Plains Energy Incorporated (collectively, “KCP&L/GMO”); Kansas Electric Power Cooperative, Inc. (“KEPCo”); Kansas Municipal Energy Agency (“KMEA”); the Kansas Corporation Commission (“KCC”); and the Missouri Joint Municipal Electric Utility Commission (“MJMEUC”) (each a “Settling Party” and all collectively, the “Settling Parties”) hereby submit this Explanatory Statement in support of the concurrently filed Settlement Agreement, which, upon approval, will resolve all issues set for hearing in the above-captioned proceeding. The Settling Parties have been authorized by the Southwest Power Pool, Inc. (“SPP”) to state that SPP does not oppose this Settlement.

This Explanatory Statement is provided solely to comply with Rule 602(c)(1)(ii) of the Commission’s Rules of Practice and Procedure, 18 C.F.R. § 385.602(c)(1)(ii). Except as otherwise defined herein, the capitalized terms used in this Explanatory Statement have the meaning set forth in the Settlement Agreement. This Explanatory Statement is not intended to, and does not, alter any of the provisions of the Settlement

Agreement. In the event of an inconsistency between the Explanatory Statement and the Settlement Agreement, the Settlement Agreement shall control.

## **I. DESCRIPTION OF PROCEEDING**

KCP&L, headquartered in Kansas City, Missouri, is a vertically-integrated utility that generates, transmits, distributes, and sells electricity, and operates under franchise agreements with an obligation to serve all loads within its franchised territory. KCP&L's franchised territory is located in Missouri and Kansas. KCP&L is a direct, wholly-owned subsidiary of Great Plains Energy Incorporated ("Great Plains"), a public utility holding company that is headquartered in Kansas City, Missouri. Great Plains also is the parent company of GMO, a vertically-integrated utility serving wholesale and retail customers in Missouri.

KCP&L is regulated by the Public Service Commission of the State of Missouri ("MPSC") and the KCC. KCP&L serves over 500,000 customers and owns and maintains a transmission system located in western Missouri and eastern Kansas. KCP&L's transmission system includes approximately 296 miles of 345 kV lines, 908 miles of 161 kV lines, 79 miles of 69 kV lines, and 494 miles of 34 kV lines. KCP&L is a member of, and has transferred control over its transmission facilities to, SPP, a Commission-approved Regional Transmission Organization ("RTO"). With the exception of certain grandfathered agreements, transmission service over KCP&L's transmission facilities is provided pursuant to the SPP Open Access Transmission Tariff ("OATT"). SPP exercises functional control over all of KCP&L's transmission assets, and offers point-to-point and network integration transmission services and generator

interconnections on the KCP&L transmission system pursuant to the terms of the SPP OATT.

GMO's electric operations in Missouri were acquired by Great Plains in July 2008 as part of a transaction under which Aquila Inc.'s other affiliates were divested to third-parties. GMO is a direct, wholly-owned subsidiary of Great Plains. The assets owned by GMO include the former Missouri Public Service and St. Joseph Light & Power divisions of Aquila, whose service areas are located in the western portion of Missouri. GMO's combined electric operations serve over 300,000 customers in Missouri and are subject to regulation by the MPSC. GMO's transmission system includes approximately 152 miles of 345 kV lines, 544 miles of 161 kV lines, 612 miles of 69 kV lines, and 284 miles of 34 kV lines. With the exception of certain grandfathered agreements, transmission service over GMO's transmission facilities is provided pursuant to the SPP OATT.

On November 6, 2009, in Docket No. ER10-230-000, KCP&L/GMO filed under section 205 of the Federal Power Act ("FPA") revised tariff sheets for the GMO OATT, revised tariff sheets for Schedule 1 of the KCP&L OATT, and proposed tariff revisions for transmission service over the KCP&L and GMO transmission facilities under the SPP OATT. The revised tariff sheets provided for recovery of an updated revenue requirement for each company's transmission investment through a cost-of-service formula rate for service over the KCP&L and GMO transmission facilities. KCP&L/GMO requested an effective date of January 1, 2010 for the proposed tariff changes.

Timely motions to intervene in this proceeding were filed by SPP and the City of Independence, Missouri. Also, timely motions to intervene and protest were filed by

KEPCo, KMEA, KCC, and MJMEUC. KCP&L/GMO filed an answer to the protests on December 15, 2009.

On January 5, 2010, the Commission issued an order conditionally accepting the proposed tariff revisions, suspending them for a nominal period to become effective on January 6, 2010, and establishing hearing and Settlement Judge procedures. *See Kansas City Power & Light Co.*, 130 FERC ¶ 61,009 (2010) (“Hearing Order”). KCP&L/GMO requested rehearing of the Hearing Order on February 4, 2010. On March 5, 2010, the Commission granted rehearing of the Hearing Order for further consideration.

On January 13, 2010, at the unanimous request of the Settling Parties, the Chief Administrative Law Judge (“ALJ”) appointed ALJ Michael J. Cianci, Jr. as the Settlement Judge.

On March 3, 2010, in Docket No. ER10-833-000, SPP made a filing under FPA section 205 to incorporate conforming changes to the SPP OATT to incorporate the formula rate filed by KCP&L/GMO in Docket No. ER10-230-000. On April 28, 2010, the Commission issued a letter order conditionally accepting SPP’s filing with an effective date of January 6, 2010, subject to refund and to the outcome of Docket No. ER10-230.

Settlement Judge Cianci held several settlement conferences among the Settling Parties, SPP and Trial Staff between March and August 2010. The Settling Parties reached an agreement-in-principle to settle all issues in this proceeding during the settlement conference held on August 10, 2010. The agreement-in-principle resulted in the Settlement Agreement that is being filed today.

## **II. SUMMARY OF THE SETTLEMENT TERMS**

The settlement among the Settling Parties is contained in the Settlement Agreement and Attachments 1 through 11 to the Settlement Agreement. Attachment 1 to the Settlement Agreement is the Settlement Term Sheet, which contains the substantive terms of the agreement reached by the Settling Parties with respect to the issues set for hearing in this proceeding. Attachments 2 through 5 of the Settlement Agreement are clean and redlined versions of the transmission cost-of-service formula rate templates (“Formula Rate Templates”) for KCP&L and GMO. Attachments 6 through 9 of the Settlement Agreement are clean and redlined versions of the formula rate implementation protocols (“Formula Rate Protocols”) for KCP&L and GMO. The revised Formula Rate Templates and Formula Rate Protocols were prepared in accordance with the Settlement Term Sheet. Attachments 10 and 11 of the Settlement Agreement are the revised populated Formula Rate Templates for KCP&L and GMO, using 2008 cost data (*i.e.*, the same data that was included in the filed populated versions of the Formula Rate Templates).

The Settlement Agreement resolves all issues between the Settling Parties involving the matters raised in Docket No. ER10-230. Under the Settlement Agreement, KCP&L/GMO have agreed to revise the versions of the Formula Rate Templates and Formula Rate Protocols for KCP&L and GMO that were accepted, subject to hearing, in the Hearing Order to comply with the Settlement Term Sheet. Attachments 2 through 9 of the Settlement Agreement are clean and redlined versions of the Formula Rate Templates and Formula Rate Protocols for KCP&L and GMO that have been prepared in accordance with the Settlement Term Sheet. In addition, following the Commission’s approval of the Settlement Agreement, KCP&L/GMO have agreed to make a compliance

filing to incorporate the revised GMO Formula Rate Template and GMO Formula Rate Protocols into the GMO OATT. In addition, it is the Settling Parties' intent and understanding that SPP will submit a compliance filing with the Commission to make conforming changes to incorporate the revised KCP&L and GMO Formula Rate Templates and Formula Rate Protocols into the SPP OATT.

The substantive terms of the Settling Parties' agreement are contained in the Settlement Term Sheet, which is incorporated by reference into the Settlement Agreement. Part I of the Settlement Term Sheet addresses revisions to the Formula Rate Templates filed by KCP&L/GMO in this proceeding. Part I of the Settlement Term Sheet is divided into seven subparts, Subparts A through G.

Subpart A of Part I of the Settlement Term Sheet addresses changes to rate base provisions of the Formula Rate Templates. This subpart addresses rate base changes that apply only to KCP&L or GMO and also changes that apply to both KCP&L and GMO. The revisions addressed in this subpart include the deletion of the Common Plant placeholders; the requirement that several formula rate placeholders will not be populated with data absent an order accepting or approving such action issued by the FERC; changes to the Formula Rate Templates regarding transmission lease costs; a requirement that gross plant investments and the associated accumulated depreciation reserves shall, for purposes of the annual true-up, be based upon 13-monthly average balances; a requirement that accumulated depreciation reserve to be assigned to transmission plant excluded from transmission plant rate base shall be based on the depreciation reserve identified in Worksheet A-4 rather than being allocated a share of the total transmission accumulated depreciation reserve based on the TP allocator; a requirement that total

materials and supplies be based on a functional breakdown of the inventories; and revisions to provisions of the Formula Rate Templates involving accumulated deferred income taxes.

Subpart B addresses changes to expense provisions of the Formula Rate Templates. The changes addressed in this subpart include clarification on recovery of costs related to the acquisition of GMO by Great Plains; exclusion of various expenses (*e.g.*, industry association dues, experimental and general research expenditures not related to transmission, and advertising expenses not related to transmission or safety) from recovery under the Formula Rate Templates; and revisions to the PBOP expenses.

Subpart C provides that KCP&L/GMO may only change the amount included in the Formula Rate Templates for amortization of transmission-related storm damage costs if KCP&L/GMO makes a limited section 205 filing that requests such cost recovery from the FERC. A request for amortization of storm damage costs will be filed with the FERC if the incremental (*i.e.*, above standard payroll costs) annual transmission expense resulting from storm damage exceeds the greater of \$2 million or 5 percent of the gross transmission revenue requirement from the annual update for the year in which the storm occurred. If such expense is \$20 million or less, the requested amortization period will be three years. If such expense is greater than \$20 million, the amortization period will be specified and determined in the FERC docket addressing the request for amortization.

Subpart D provides that the determination of the composite state income tax rate shall exclude the Kansas City Earnings tax and Texas state income (*i.e.*, margin) tax and that the payments in lieu of taxes placeholder shall be deleted from the Formula Rate Templates.

Subpart E provides that the base return on equity (“ROE”) shall be 10.6% and the total ROE shall be 11.1% to reflect the 50 basis point adder for RTO participation. Subpart E also provides that the cost of long-term debt shall be calculated based on total outstanding long-term debt, including current maturities of such debt.

Subpart F identifies several miscellaneous corrections and revisions to the Formula Rate Templates.

Subpart G identifies several corrections and revisions to the Notes in the Formula Rate Templates.

Part II of the Settlement Term Sheet provides that KCP&L/GMO will revise the Formula Rate Protocols to conform to the version of the Formula Rate Protocols that is attached to the Settlement Term Sheet.

In addition, the Settlement Agreement also provides that, contemporaneously with the filing with the Commission of the Settlement Agreement, and pursuant to 18 C.F.R. § 375.307(a)(1)(iv), KCP&L/GMO and SPP shall file with the Chief Administrative Law Judge a joint motion for authority to implement the Formula Rate Templates and Formula Rate Protocols on an interim basis. The joint motion will request approval to develop the Annual Update (as defined in the Formula Rate Protocols) for the 2011 rate year in accordance with the revised Formula Rate Templates and Formula Rate Protocols attached to the Settlement Agreement and to post the Annual Update for the 2011 rate year by October 15, 2010. The joint motion will also ask for the rates in the Annual Update for the 2011 rate year to take effect on an interim basis beginning on January 1, 2011, subject to refund if the Settlement Agreement is not accepted in full by the Commission. The Settling Parties have agreed that they will not oppose this joint motion.

The Settlement Agreement also provides that it is the Settling Parties' intent that, for the rate year 2010, KCP&L/GMO shall develop and collect rates as if the revised Formula Rate Templates attached to the Settlement Agreement had taken effect on January 6, 2010. Therefore, any overpayments in the rate year 2010 due to the difference between the rates actually paid under the prior versions of the Formula Rate Templates that were accepted, subject to refund, in the Hearing Order and the rates that would have been paid under the revised Formula Rate Templates attached to this Settlement Agreement will be reflected in the True-Up Adjustment (as defined in the Formula Rate Protocols). As provided in the Formula Rate Protocols, this True-Up Adjustment will be posted by June 1, 2011, included in the Annual Update that is posted on September 24, 2011, and included in KCP&L/GMO's rates that take effect on January 1, 2012.

### **III. RESPONSES TO REQUIRED SETTLEMENT QUESTIONS**

The Settling Parties provide the following responses to the five questions that must be answered as part of every Explanatory Statement submitted in support of a proposed settlement agreement:

- (1) *What are the issues underlying the settlement and what are the major implications?*

The Settlement resolves all disputed issues in Docket No. ER10-230. The Settling Parties have agreed to revised Formula Rate Templates and revised Formula Rate Protocols that are attached to the Settlement Agreement.

(2) *Do any of the issues raise policy implications?*

The Settlement Agreement and resolution of the underlying issues do not raise any policy implications because the Commission routinely accepts formula rates for transmission service.

(3) *Are there other pending cases that may be affected?*

The Settlement Agreement addresses the specific transmission service formula rates at issue in this proceeding and the conforming changes to the SPP OATT made by SPP in Docket No. ER10-833-000. No other pending proceedings are affected by the Settlement Agreement.

(4) *Does the settlement involve issues of first impression, or are there any previous reversals on the issues involved?*

The Settlement Agreement does not involve matters of first impression. The Settling Parties are not aware of any reversals of the issues involved.

(5) *Is the proceeding subject to the just and reasonable standard or is there Mobile-Sierra language making it the standard, i.e., the applicable standard of review?*

The applicable standard of review is the just and reasonable standard. Changes to the Settlement Agreement proposed by a Settling Party, a non-settling third party or by the Commission acting *sua sponte* shall be subject to the just and reasonable standard under sections 205 and 206 of the FPA.

#### **IV. COMMENTS**

Comments on the Settlement Agreement should be filed in the above-captioned proceedings. All parties are hereby notified, in accordance with Rule 602(f)(2), 18 C.F.R. § 385.602(f)(2), that comments on the Settlement should be filed with the Secretary. As noted above, the Settling Parties request expedited approval of the Settlement. To

facilitate such review and approval, the Settling Parties request that the Presiding Settlement Judge shorten the comment period for initial comments to five business days after the submission of the Settlement (October 6, 2010), and to waive the receipt of reply comments if no initial comments are filed opposing or seeking to modify the Settlement.

## **V. CONCLUSION**

The Settlement Agreement provides certainty for KCP&L/GMO and the other Settling Parties and promotes administrative efficiency for the Commission. The Settlement Agreement sets forth the mutual covenants and releases of the Settling Parties to this proceeding. The Settlement Agreement, therefore, is in the public interest and the Commission should approve it. The Settling Parties in this proceeding have authorized counsel for KCP&L/GMO to make this filing on their behalf. As discussed above and in the Settlement Agreement, KCP&L/GMO and the other Settling Parties urge the Commission to approve the uncontested Settlement without condition or modification.

Dated: September 29, 2010