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Issue: Fuel Adjustment Clause
Witness: Tim M. Rush
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Sponsoring Party: KCP&L Greater Missouri Operations Company
Case No.: EO-2011-0390
Date Testimony Prepared: April 30, 2012

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: EO-2011-0390

SURREBUTTAL TESTIMONY

OF

TIM M. RUSH

ON BEHALF OF

KCP&L GREATER MISSOURI OPERATIONS COMPANY

Kansas City, Missouri
April 2012

"[redacted]**" Designates "Highly Confidential" Information Has Been Removed.**
Certain Schedules Attached To This Testimony Designated "Highly Confidential" Have Been Removed Pursuant To 4 CSR 240-2.135.

SURREBUTTAL TESTIMONY

OF

TIM M. RUSH

Case No. EO-2011-0390

Q: Please state your name and business address.

A: My name is Tim M. Rush. My business address is 1200 Main Street, Kansas City, Missouri 64105.

Q: Are you the same Tim M. Rush who pre-filed Direct Testimony in this matter on behalf of KCP&L Greater Missouri Operations Company ("GMO")?

A: Yes.

Q: What is the purpose of your Surrebuttal Testimony?

A: The purpose of this Surrebuttal Testimony is to rebut statements made by Staff witnesses Chuck Hyneman, Lena Mantle and Dana Eaves in their Direct/Rebuttal Testimony. I'll also discuss an item as clarification from the depositions taken of Staff witnesses on April 10-12, 2012.

Q: What specific items are you rebutting?

A: There are a number of issues:

- Within Mr. Hyneman's testimony he states that the Company witnesses in this case were not involved in the cases prior to Great Plains Energy Incorporated's ("GPE") acquisition of Aquila, Inc. ("Aquila") and thus do not have knowledge of the implications of the outcomes of those cases.

- Mr. Hyneman testifies that the Commission Staff was unaware of the Company's continuation to hedge its purchased power price risk after the change in hedging strategies.
- Mr. Hyneman has voiced concern that the costs associated with the hedging settlements have not been properly recorded on the Company's books and records.
- Ms. Mantle and Mr. Eaves have incorrectly identified the tariff sheets that were in effect during the period under review and thus draw incorrect conclusions based upon that error.
- Ms. Mantle purports that hedging costs were never intended to be included in the GMO Fuel Adjustment Clause ("FAC") when the order establishing the FAC clearly states that they are.
- Ms. Mantle takes exception to my testimony that Staff has not recommended refunds to customers in its prior FAC prudence reviews.
- Mr. Eaves and Ms. Mantle have misinterpreted the costs allowable under the tariffs cited.
- Mr. Eaves commented in his deposition taken on April 10, 2012, relating to this case, that if there had been no loss there would have been no customer harm, that the size of the loss was what caused him to take notice of the costs, and that barring those two items, there would not have been a recommended disallowance.

Q: Please explain your concern with Mr. Hyneman's testimony.

A: Mr. Hyneman's testimony misinterprets the historical discussion in both Mr. Heidtbrink and Mr. Blunk's Direct Testimony. These discussions were intended to present a timeline of information that was available to Staff and the Company at the time decisions were made regarding the hedge costs under question in this review.

Q: Can you summarize the information that Mr. Hyneman purports to address?

A: Yes. Attached to my testimony in Schedule TMR-3, I have included a summary timeline based not upon memory but upon documentation available within the rate cases or through documented interaction with the Commission Staff.

Q: Where will your discussion of this timeline begin?

A: I will briefly review portions of Company witness Mr. Clemens' discussion in his Surrebuttal Testimony in this case then pick up where he left off. In his discussion of the timeline relating to the GMO (formerly Aquila) hedging program and the FAC, Mr. Clemens takes us from the time Aquila began to hedge in 2004 (commonly referred to as the "1/3" program) until GPE's acquisition of Aquila in 2008. As you will note from Mr. Clemens' testimony in this case, whether in testimony (Company, Staff, and Interveners), stipulation and agreements, orders, or other documentation provided, information about the GMO hedging program has been available to the parties involved in this current case since 2005. It has been very well documented that GMO hedged price volatility risk for both its peak generation as well as its peak purchased power with natural gas futures and options.

Q: In Mr. Clemens' testimony, he discusses the change from Aquila's original hedging program to the program designed by Kase and Company, Inc. ("Kase"). Why did Aquila decide to move from the 1/3 hedging program to the Kase hedging program?

A: As Mr. Hyneman pointed out in his testimony, it became apparent that if the Company continued with the 1/3 hedging program Staff would recommend a disallowance of all associated costs.

Q: Did the Company have reason to believe that the Commission intended for it to continue to hedge price risk to protect its consumers?

A: Yes. The Company had many reasons to believe that the Commission intended for it to continue to hedge price risk to protect its customers.

- Over the course of Aquila's rate cases beginning with Case No. ER-2005-0436 ("2005 Case"), various Staff members and intervenors have promoted the use of hedging to mitigate risk as well as the importance of the inclusion of these costs in rates.
    - Mr. Featherstone promoted the inclusion of the hedging impact in an Interim Energy Charge ("IEC") if one were to be approved in Case No. ER-2005-0436 (an IEC was not approved in that case).[1]
    - Intervenor witness Maurice Brubaker also indicated that hedge settlements should be recorded above-the-line.[2](pages 4 and 5, Direct Testimony ER-2005-0436)

[1] *In the Matter of Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P, for Authority to file Tariffs Increasing Electric Rates for the Service Provided to Customers in the Aquila Networks-MPS and Aquila Networks-L&P Area*, Case No. ER-2005-0436, Direct Testimony Cary G. Featherstone, p. 32 (Oct. 14, 2005).
[2] *Id.*, Direct Testimony of Maurice Brubaker, pp. 4-5 (Oct. 14, 2005).

- In Mr. Featherstone's Direct Testimony in Case No. ER-2007-0004 he again indicated that Aquila should include hedge settlements in any fuel clause authorized by the Commission.[3]
- Mr. Hyneman acknowledged in his deposition in this case, taken on April 12, 2012, that during the Case No. ER-2007-0004, he recommended that Aquila continue hedging. His concern was with the rigidity of the program in place at that time.[4]

- In the Concurring Opinion of Chairman Jeff Davis in Case No. ER-2007-0004,[5] Commissioner Davis states, "Aquila should be very mindful that the majority of this commission took a bold step in awarding Aquila a fuel adjustment mechanism. This commission and the General Assembly will be watching. If Aquila fails to adopt a proper hedging strategy, fails to follow its hedging strategy or abuses the discretion given to it by this commission in any other way, this commissioner will not hesitate to modify or reject Aquila's FAC application in a future proceeding."

Q: Mr. Clemens' testimony took us from July 2004 through October 2007 on your timeline, when Aquila implemented the Kase hedging program. Please review the interaction of the hedging program and the Company's FAC.

A: As Mr. Clemens indicates in his testimony, the original Aquila FAC began with the conclusion of Rate Case No. ER-2007-0004. The original tariff sheets are attached to this testimony as Schedule TMR-4. As noted on tariff Sheet No. 125, the following costs were included in the FAC:

[3] *In the Matter of Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P, for Authority to File Tariffs Increasing Electric Rates for the Service provided to Customers in the Aquila Networks-MPS and Aquila Networks-L&P Service Area*, Case No. ER-2007-0004, Direct Testimony of Cary G. Featherstone, p. 33 (Jan. 18, 2007).
[4] Deposition of Charles Hyneman, p. 26 (April 12, 2012).

F = Actual variable cost of fuel in FERC Accounts 501 & 547
P = Actual cost of purchased energy in FERC Account 555
E = Actual emission allowance cost in FERC Account 509

Q: Were hedging costs considered to be included in the above identified costs to flow through the FAC?

A: Yes. The Order Clarifying Report and Order for Rate Case No. ER-2007-0004 explicitly states per the Stipulation and Agreement,[6] "...prudently incurred hedging costs will flow through the fuel adjustment clause, but Aquila's 2006 hedge settlement losses of $11.5 million were expressly excluded. The Stipulation and Agreement further provides that the ultimate settlement values of Aquila's hedge contracts in place on March 27, 2007, will not be subject to prudence review. Any hedge position taken after March 27, 2007, however, is subject to a prudence review and potential disallowance."

Q: What does this mean to the recovery of hedge costs?

A: This means that with the implementation of the FAC, prudently incurred hedge costs were intended to be collected through Aquila's fuel clause. In addition, this means that the settlement amounts related to hedge contracts already in place on March 27, 2007, were protected from disallowance due to prudence issues. These settlement costs have not been removed by the Staff from the amount proposed for disallowance in this case.

Q: Did GMO adopt the Kase program at the time of the Aquila acquisition by GPE?

A: Yes. When Aquila (now GMO) was acquired by GPE, GMO continued to use the Kase program to hedge its natural gas and peak purchased power price volatility risk. *See* Schedule TMR–7 and Schedule TMR–8 to review the Risk Management Strategy and the Aquila Administrative Procedures in place under the Kase program at the time of the

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[5] *Id.*, Concurring Opinion of Chairman Jeff Davis, p. 7 (July 10, 2007).
[6] *Id.*, Order Clarifying Report and Order, pp. 1-2 (May 22, 2007).

acquisition. GMO recognized the need to continue to protect its customers from price volatility and continued the program. The purpose of the hedging program, as continued, was explained in the Direct Testimony of Company witness H. Davis Rooney in Rate Case No. ER-2009-0090 ("2009 Case") that was filed less than two months after the acquisition (pages 15-16). In Mr. Rooney's testimony, he asks and answers the following question.

> "Q. What is the purpose of the hedging program?
>
> A. The purpose of the hedging program is to reduce the impact of gas and purchased power price volatility. Reducing volatility does not necessarily mean reducing cost. When prices are rising, the hedge program will reduce costs by producing offsetting gains. When prices are falling, the hedge program will produce offsetting costs."

In addition, the Non-Unanimous Stipulation and Agreement from Rate Case No. ER-2009-0090, Section 18.c.[7] states the following:

> c. **<u>To aid in FAC tariff, prudence and true-up reviews</u>**, GMO shall submit to Staff the following:
>
> - As part of the information GMO submits when it files a tariff modification to change its cost adjustment factor ("CAF"), GMO's calculation of the interest included in the proposed CAF;
> - In addition to the monthly reports required by 4 CSR 240-3.161(5), GMO's Southwest Power Pool ("SPP") Energy Imbalance Service ("EIS") market settlements and revenue neutrality uplift charges;
> - At GMO's corporate headquarters or at some other mutually agreed upon place within a mutually agreed upon time for review, a copy of each and every coal and transportation contract GMO has that is in effect;

[7] *In the Matter of the Tariff Filing of KCP&L Greater Missouri Operations Company, to Implement a General Rate Increase for Retail Electric Service Provided to Customers in its Missouri Service Areas it formerly served as Aquila Networks—MPS and Aquila Networks— L&P*, Case No. ER-2009-0090, Non-Unanimous Stipulation and Agreement, pp. 10-11 (May 22, 2009).

- Within 30 days of the effective date of each and every coal and transportation contract GMO enters into, both notice to the Staff of the contract and, at GMO's corporate headquarters or at some other mutually agreed upon place, the contracts for review;

- At GMO's corporate headquarters or at some other mutually agreed upon place within a mutually agreed upon time, a copy for review of each and every natural gas contract GMO has that is in effect;

- Within 30 days of the effective date of each and every natural gas contract GMO enters into, both notice to the Staff of the contract and at GMO's corporate headquarters or at some other mutually agreed upon place a copy of the contract for review;

- **A copy of each and every GMO hedging policy that is in effect for Staff to retain;**

- **Within 30 days of any change in a GMO hedging policy, a copy of the changed hedging policy for Staff to retain;**

- A copy of GMO's internal policy for participating in the SPP EIS market, including any GMO sales/purchases from that market for Staff to retain;

- If GMO revises any internal policy for participating in the SPP EIS market, within 30 days of that revision, a copy of the revised policy with the revisions identified for Staff to retain; and

- In addition to supplying the information required by 4 CSR 240-3.190(3) for any accidents occurring at a power plant involving serious physical injury or death or property damage in excess of $100,000, the information for every incident at a power plant in which GMO has any ownership interest that involves serious physical injury or death or property damage in excess of $100,000 in the aggregate. **(Emphasis added)**

GMO files the changes associated with the hedging program in EFIS (among other items listed above). Following the conclusion of ER-2009-0090, one update has been made to the GMO hedging program and was provided to Staff in EFIS on January 25, 2011. The intent to hedge the risk of purchased power price volatility with natural gas futures and options has not changed throughout. Schedule TMR–9, page 5, section titled Hedge Volume, third paragraph, states "GMO uses natural gas derivatives to hedge natural gas price risk and "on peak" purchased power price risk."

Q: Did changing from the 1/3 program to the Kase program change the commodities to be hedged?

A: No. Staff had voiced very strongly a concern about the rigidity of the 1/3 program, not the fact that Aquila hedged its natural gas generation as well as its peak purchased power price volatility risk with natural gas futures and options. The Kase program continued to hedge the same risk just with a different method.

Q: Why would wording such as the above emphasized captions be included in the stipulation and agreement?

A: The obvious conclusion is that the FAC would continue to include settlement costs associated with its hedging efforts, and the Commission Staff therefore had an interest in monitoring any changes to that program.

Q: Please discuss Mr. Hyneman's concern about the recording of the hedge settlement costs.

A: On page 23 of Mr. Hyneman's testimony, he quotes wording from the 2005 Case Non-Unanimous Stipulation and Agreement.[8] That portion of the stipulation and agreement is repeated here:

> The signatory Parties agree, for **accounting and ratemaking purposes**, that hedge settlements, both positive and negative, and related costs (e.g. option premiums, interest on margin accounts, and carrying cost on option premiums) directly related to natural gas generation and on-peak purchased power transactions under a formal Aquila Networks-MPS

[8] *In the Matter of Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P, for Authority to file Tariffs Increasing Electric Rates for the Service Provided to Customers in the Aquila Networks-MPS and Aquila Networks-L&P Area*, Case No. ER-2005-0436, Non-Unanimous Stipulation and Agreement, p. 10 (Jan. 31, 2006).

> hedging plan will be considered part of the fuel cost and purchased power costs recorded in FERC Account 547 **<u>or</u>** Account 555 when the hedge arrangement is **<u>settled</u>**...Aquila agrees to maintain **<u>separate accounting in Accounts 547 and 555</u>** to track the hedging transaction expenditures recorded under this agreement. **<u>(Emphasis added)</u>**

Q: **Please explain the reasons for the emphasis you specified above.**

A: At page 15 and 16 of Mr. Hyneman's testimony he highlights that the agreement in Case No. ER-2005-0436 only addressed the accounting of the hedging gains and losses, not how they would be treated for ratemaking purposes in the future.

Q: **How are costs that are recorded below-the-line typically treated for ratemaking purposes?**

A: Baring a few exceptions where costs recorded below-the-line for accounting purposes are adjusted to above-the-line for ratemaking purposes (i.e. customer deposit interest), costs recorded below-the-line have no impact on rates as set by the regulatory process.

Q: **What about costs which are recorded above-the-line?**

A: Those costs are considered part of the regulatory ratemaking arena and are included in rates at a level deemed appropriate by the ratemaking process. Therefore, unless deemed excessive, imprudent or non-recurring, costs recorded above-the-line are considered recoverable through rates charged to customers. The first underlined passage shows that the costs were moved above-the-line for both accounting and ratemaking purposes. Although those costs are open for review in a rate case, the assumption is that they are recoverable in rates unless specifically excluded.

Q: **Please discuss the remaining passages emphasized above.**

A: The stipulation and agreement as quoted above required Aquila to record the settlement costs in Accounts 547 or 555 when the hedges were settled and required that Aquila maintain separate accounts for those costs. My understanding of the process is that when the hedges actually settle, the determination of whether or not the company will generate versus purchase power has not yet been made (based upon the least cost option). Therefore, all hedge settlement costs are actually natural gas settlement costs and are recorded to 547. These costs are recorded in a separate FERC sub-account, Account 547105. Every rate case and FAC semi-annual filing has had those costs included as a separate line item in Account 547105. Please see the Surrebuttal Testimony of Company witness Ryan Bresette for a more detailed explanation of the accounting associated with these hedging settlements.

Q: What other items on the timeline would you like to point out?

A: In addition to the above:

- Aquila/GMO has filed seven FAC rate tariff changes since the inception of the FAC through the end of the audit period. Each of these rate adjustments were reviewed by the Commission Staff.
- Two prudence reviews were conducted with no disallowances proposed.
- Staff witness Michael Proctor discussed at length the relationship between natural gas prices and spot purchased power prices in his Surrebuttal Testimony in Rate Case No. ER-2009-0090 filed on April 9, 2009. In this testimony on page 5, Mr. Proctor states, "In SPP there is little doubt that natural gas prices drive electricity prices for most hours of the year." The specific question and answer is as follows:

> **Q. Do higher natural gas prices result in higher spot-market electricity prices in the SPP electricity markets?**
>
> **A.** I believe so for the reasons that follow. First, the SPP found in the first year of operations of its energy imbalance market that for over 82% of the hours, generation at the margin that sets the energy imbalance price is determined by generation fired by natural gas (see Table iii.10; ***2007 State for the Market Report: Southwest Power Pool Inc.***; Boston Pacific

Company, Inc., External Market Advisor, April 24, 2008, p. 60, available on the SPP website). Second, the chart on Schedule MP-1.1 attached to the highly confidential version of my surrebuttal testimony shows the strong relationship of Henry Hub natural gas prices to SPP North electricity prices. Specifically, regressing SPP North monthly average electricity prices against average monthly natural gas prices at the Henry Hub for the sixty months included in the years from 2003 through 2008 yields a regression coefficient of 71.8%. This means that of the total variation in electricity prices that occurred in each month throughout a five year period, 71.8% of that monthly variation is explained by the monthly variation in natural gas prices. Third, the charts and analysis on Schedule MP-1.2 attached to the highly confidential version of my surrebuttal testimony shows the strong relationship of SPP North annual average electricity prices to the annual average natural gas prices at the Henry Hub. Specifically, regressing SPP North around the clock (ATC) annual prices against average annual natural gas price at the Henry Hub for the years 2003 through 2008 yields a regression coefficient of 87.23%. This means that of the total variation in electricity prices occurring over these five years, 87.23% of that variation is explained by the variation in natural gas prices. In SPP there is little doubt that natural gas prices drive electricity prices for most hours of the year. Finally, in KCPL's modeling of forecasted electricity prices, it uses natural gas prices as one of the primary inputs that drive the levels for electricity prices.

- In negotiations, in which I participated, in Rate Case No. ER-2009-0090, at the request of Staff, the account descriptions for the costs recoverable through the FAC were expanded to include a detailed listing of includable costs

Q: **You have indicated that Ms. Mantle and Mr. Eaves have incorrectly identified the tariff sheets effective during the audit period and that Ms. Mantle states that hedging costs were never intended to be included in the GMO FAC. What information are you presenting to rebut these claims?**

A: The audit period under review is June 1, 2009 through November 30, 2010. The original FAC tariffs, Original Sheet Nos. 124, 125, 126, and 127 became effective July 5, 2007. Original Sheet Nos. 127.1, 127.2, 127.3, 127.4, and 127.5 became effective September 1, 2009. This means that the tariff sheets as attached in Schedule TMR-4 were in effect for

June, July and August 2009 of the prudence period. The tariff sheets as attached in Schedule TMR–5 were in effect for the remainder of the audit period.

Q: Please explain the significance of this information.

A: By reviewing the wrong tariff sheets, Ms. Mantle and Mr. Eaves have overlooked the change in tariff language from the original FAC tariffs to the more detailed tariffs adopted in September 2009. As Ms. Mantle states in her testimony, Aquila was granted the first FAC in the state. At that time, each of the parties were working through the intricacies of how the FAC would work. In the case following the original granting of the fuel clause, the Commission Staff insisted that the tariffs be expanded to include detailed listings of the costs that were to flow through the FAC. I, among others in the Company, worked with Staff to develop these tariffs.

Q: Please show how the tariff wording changed beginning September 1, 2009.

A: Attached to this testimony in Schedule TMR–4, I've included a copy of the original FAC tariff sheets in their entirety. Schedule TMR–5 contains the second set of tariff sheets that became effective September 1, 2009, in their entirety. I will point out the changes of particular importance to this case below:

Original Tariff Language – Cost description:

<u>Sheet 125:</u>

F = Actual variable cost of fuel in FERC Accounts 501 & 547
P = Actual cost of purchased energy in FERC Account 555
E = Actual emission allowance cost in FERC Account 509

New Tariff Language – Cost description:

<u>Sheet No. 127.2 and 127.3:</u>

FC = Fuel Costs Incurred to Support Sales:

- The following costs reflected in Federal Energy Regulatory Commission (FERC) Account Numbers 501 & 502: coal commodity and railroad transportation, switching and demurrage charges, applicable taxes, natural gas costs, alternative fuel (i.e. tires and bio-fuel), fuel additives, quality adjustments assessed by coal suppliers, **fuel hedging cost** (hedging is defined as realized losses and cost minus realized gains associated with mitigating volatility in the Company's cost of fuel, including but not limited to, the Company's use of futures, options and over-the-counter derivatives including, without limitation, futures contracts, puts, calls, caps, floors, collars, and swaps), fuel oil adjustments included in commodity and transportation costs, broker commissions and fees associated with price hedges, oil costs, ash disposal revenues and expenses, fuel used for fuel handling, and settlement proceeds, insurance recoveries, subrogation recoveries for increased fuel expenses in Account 501.

- The following costs reflected in FERC Account Number 547: natural gas generation costs related to commodity, oil, transportation, storage, fuel losses, **hedging costs**, fuel additives, fuel used for fuel handling, and settlement proceeds, insurance recoveries, subrogation recoveries for increased fuel expenses, broker commissions and fees in Account 547.

EC = Net Emissions Costs:

- The following costs reflected in FERC Account Number 509 or any other account FERC may designate for emissions expenses in the future: Emission allowances costs and revenues from the sale of SO2 emission allowances.

PP = Purchased Power Costs:

- Purchased power costs reflected in FERC Account Numbers 555, 565, and 575: Purchased power costs, **settlement proceeds**, insurance recoveries, and subrogation recoveries for increased purchased power expenses in Account 555, excluding SPP and MISO administrative fees and excluding capacity charges for purchased power contracts with terms in excess of one (1) year.

OSSR = Revenues from Off-System Sales:

- Revenues from Off-system Sales shall exclude long-term full & partial requirements sales associated with GMO.
(Emphasis added)

In Ms. Mantle's testimony on page 11 and in Mr. Eaves' testimony pages 6-11, they compare tariff sheets 127.2 and 3 to tariff sheets 127.7 and 8 instead of to tariff sheet 125 to tariff sheets 127.2 and 3. As explained above, the comparison is in error because the tariff sheets reviewed by staff are for a time period after the period under audit.

Q: What is the significance of these changes?

A: When the FAC was newly implemented, the descriptions of includable costs were very basic. At the time of the first rate case to be filed after the implementation of the FAC, Staff insisted that the definitions become more defined. The parties to the case worked together to develop the more detailed descriptions resulting in the tariff sheets adopted September 1, 2009.

Q: Please explain the mistake made in Ms. Mantle's testimony relating to the tariff sheets.

A: Ms. Mantle identified the second set of FAC tariff sheets as the first and then compared those sheets to the tariff sheets adopted in GMO's most recent rate case, Case No. ER-2010-0356. Ms. Mantle is correct in stating that very little changed in the tariff wording between the most recent two cases, but the most recent two cases are not the time period under audit in this review. Additionally, once the detailed change was made and no issues were raised concerning the inclusion of hedging costs in the FAC during semi-annual cost adjustment factor updates, there was no reason to make further changes to the tariff wording.

Q: Did the change in the descriptions of the tariffs change what was included in the FAC calculation be either increasing what items were to be included or what items were to be excluded?

A: During all of the discussions with Staff, never was it discussed that this would somehow change what was to be included or excluded. It was explained that Staff simply wanted a more detailed description of the items in the accounts. In fact, in the Staff Report Class Cost of Service and Rate Design, filed on February 27, 2009, on page 3, Staff witness John Rogers states the following, "Staff recommends that the GMO FAC tariff explicitly state the cost and revenue components that will be included in calculating the cost adjustment factor (CAF),..." In addition, John Rogers' Surrebuttal Testimony in that same case on page 2 provides the following question and answer:

> Q. Has Staff been talking with other parties regarding the FAC tariff and the costs and revenues that should be included?
>
> A. Yes, Staff, GMO, the Office of the Public Counsel, AG Processing, Sedalia Industrial Energy Users' Association, Midwest Energy Users' Association, and Federal Executive Agencies (collective "parties") have exchanged documents and conducted a number of conference calls to discuss ways to revise the GMO FAC tariff. These conference calls have been very productive and have allowed the parties to move very close to agreement on a revised FAC tariff. However, the attached Schedule JR-1 and Schedule JR-2 represent only Staff's recommendations on how GMO's FAC tariff should be changed.

Q: On page 11 of Ms. Mantle's testimony and on pages 6-11 of Mr. Eaves' testimony, they claim that hedging costs for purchased power price mitigation were non-recoverable under the GMO FAC tariffs. Do you agree with this assessment?

A: No. I do not. I'll summarize the reasons provided both in my Direct Testimony as well as GMO Surrebuttal Testimony to support my conclusion:

- The Non-Unanimous Stipulation and Agreement from Case No. ER-2005-0436 authorizes an Accounting Authority Order ("AAO") for hedge settlement costs. These costs were to be considered part of the fuel and purchased power costs recorded in FERC Account 547 or Account 555 when the hedge arrangement settled.
- Staff has known since Case No. ER-2005-0436 that gas covering the need for generation as well as the equivalent need for peak purchased power has been hedged under the Aquila/GMO hedging programs.
- The Company has been recording the settlements of those hedges in Account 547 since the 2005 Case. Company witnesses Ryan Bresette and Ed Blunk explain the appropriateness of this accounting practice.
- The Order Clarifying Report and Order from Case No. ER-2007-0004 determined the disposition of the costs deferred in the AAO. The order confirmed that the Stipulation and Agreement allowed prudently incurred hedging costs to flow through the FAC, it disallowed $11.5 million of past hedge losses, and it determined that the ultimate settlement values of hedge contracts in place on March 27, 2007, were not to be subject to prudence review. The impact of these protected hedges will be analyzed later in my testimony.
- The tariff sheets from this order gave a very short description of the costs includable in the FAC.
- The Commission Staff encouraged Aquila to continue hedging its risk but to change the way it placed those hedges.

- Aquila invited the Commission Staff to participate in the discussions leading up to its change to a new hedging program. (*See* Schedule TMR-6).
- The Company provided the original documentation associated with the Kase program adopted in October 2007 to the Commission Staff. This documentation states specifically that the Company was using the new Kase program to hedge both natural gas needs as well as purchased power needs using natural gas futures and options. (*See* Schedules TMR-7 and 8)
- In the deposition of Mr. Hyneman, he agrees that Staff was aware in the 2005 Case that GMO was hedging its Purchased Power with natural gas hedges.
- The Company and Staff worked together in re-writing the FAC tariff sheets in Case No. ER-2009-0090 with no expectation of changing what was either included or excluded from the FAC other than the agreed to inclusion of revenues and expenses associated with off system sales.
- The tariffs developed in ER-2009-0090 apply to the majority of the timeframe under audit (15 months from September 1, 2009 – November 30, 2010).
- At no time during the 2009 Case were the hedging practices addressed by the Staff other than to request the information described in the next bullet which indicates that Staff knew the hedging costs were included in the FAC.
- The Non-Unanimous Stipulation and Agreement approved in Case No. ER-2009-0090 includes a reporting requirement relating to GMO's hedging program documentation. These requirements were added as specified in the Stipulation and Agreement, "**To aid in FAC tariff, prudence and true-up reviews**" (p. 10). The hedging program documentation has consistently included information about

GMO's hedging of natural gas to mitigate the purchased power price volatility risk. **(Emphasis added)**

- The documentation as required under the above reporting requirement has been met by filing any changes in the hedging program in EFIS. (*See* Schedule TMR-9)
- The more detailed tariffs adopted in ER-2009-0090 do include wording to cover hedge settlement costs in 501, 547 as well as 555.
- GMO has remained consistent in its recording of hedge settlement costs throughout the FAC process.
- The Staff of the Commission has reviewed four prior adjustment periods in two prudence audits and found no imprudence. In all adjustment periods, hedge costs were included in Account 547.
- The Company has completed four rate cases since the inception of its hedging practice.
- Until this most recent audit, GMO has had no indication from Staff that it disagreed with the inclusion of hedge settlement costs in the FAC.

Q: What steps did the Company take to ensure the costs it believed should be included were included during the expansion of the tariff wording in Case No. ER-2009-0090?

A: Personnel in Regulatory Affairs prepared a draft based upon review of other tariffs in the state in effect at that time and its knowledge of the costs to be recovered within GMO. The draft was then circulated through the Accounting and Supply Resources departments in the hope that no legitimate costs would be overlooked nor any costs not intended to be recovered would be included. Through discussion it was determined that hedge cost language should be specifically included in the 501 account even though GMO did not hedge for coal. Supply Resources, specifically Ed Blunk, explained that although GMO did not currently have a need to hedge its coal supply, the practice of hedging for coal was necessary for KCP&L and should be included in case the time came where there was a need within GMO. In addition, the group recognized the need to include the specific hedge wording in account 547 since the settlements for its derivatives hedging program for gas purchased to generate as well as to mitigate purchased power price risk were recorded to 547 as they have been since the costs were moved above the line at the conclusion of the ER-2005-0436 rate case. The words settlement proceeds were included in the PP description to cover any yet unknown changes to the way purchased power price volatility is mitigated.

Q: **What does the above discussion mean to this case?**

A: Since the Company has been recording the settlement gains or losses associated with its hedging program to Account 547 since the 2005 Case, and since these costs were expressly included in the FAC in Case No. ER-2007-0004 as detailed in the Order Clarifying Report and Order, the original tariffs obviously included the recovery of hedging costs associated with the hedging of natural gas for both generation and purchased power price volatility mitigation. In addition, the Commission encouraged the Company to continue to hedge these risks and its Staff encouraged the Company to continue to hedge these risks with a less rigidly implemented program. The Company made changes to alleviate the concerns surrounding the original program. The tariff changes made were not made to eliminate costs already flowing through the FAC, but to add definition, and each of the tariff cost categories include the potential for hedge settlement costs to be included.

Q: What conclusion do you derive from this information?

A: Prudently incurred hedge settlement costs were intended to flow through the FAC. There was no reason for the Company to suspect that the Staff would consider these costs as imprudent or unrecoverable.

Q: Please discuss the third issue associated with Ms. Mantle's testimony.

A: This is really just a clarification for better understanding of my position. When I said that the Staff had never recommended refunds to customers in its prior FAC prudence reviews, I was speaking specifically of GMO. The point of my statement was that we have made no changes to the way we implement or record for the hedging program since the movement to Kase prior to the merger. Many reviews of GMO's detailed data have been made, and no costs or activities have been deemed imprudent until this case.

Q: Do you have any other thoughts on this portion of Ms. Mantle's testimony?

A: Yes, as the GMO personnel who prepare the various FAC filings works very closely with the audit staff at the MPSC, it was quite a surprise to have heard nothing of any issue until the Staff report was filed. A number of times, errors have been detected by GMO personnel, calculations of the corrections made and reported to the FAC audit Staff so they could include those corrections in their filings. We have made every attempt to ensure the inclusion of only appropriately incurred costs, the accuracy of each of the filings as well as the integrity of the information provided.

Q: Do you have additional comments regarding Mr. Hyneman's rebuttal testimony?

A: Yes. As explained in Mr. Hyneman's testimony, Staff was aware that the Company was cross-hedging since the 2005 Case. He wrote testimony discrediting the Company's prior hedging strategy as being too systematic and too rigid. On the other hand, he often referred to KCP&L's hedging strategy as a better plan and approach to hedging strategies than GMO's plan. GMO investigated alternative hedging strategies and concluded that the Kase and Company hedging strategy would be a good fit with GMO. KCP&L used the Kase and Company hedging strategy. The Company invited Staff to participate in its introduction and plan. Only Mr. Hyneman participated, but he did not provide any input or suggest changes to the plan. Staff did not make suggestions prior to the implementation of the hedging plan, even though they were encouraged to participate. Yet, after the plan was formulated and implemented, the Staff is now suggesting that the entire cross-hedging strategy is imprudent on its face.

Q: Do you have additional comments regarding Ms. Mantle's rebuttal testimony?

A: Yes. Ms. Mantle's testimony discusses how GMO should have built additional generation, and if the Company had done so, then GMO would not need to cross-hedge its spot purchased power costs. She goes on to say that Staff never intended for the FAC clause to allow recovery of cross-hedging costs. In her deposition, she further states that she feels that GMO should stop cross-hedging. The Company has received mixed signals from the regulatory process. When the Company reviewed past Orders in the Aquila and GMO cases, the Company concluded that Commission has been interested in a sound hedging strategy and plan. Commission reports and statements in orders and a concurring opinion have discussed the desirability of a hedging plan for purchased power and natural gas. Yet, Staff now suggests that we should never have been hedging for spot purchased power costs.

Q: Do you have additional comments regarding the testimony of Mr. Eaves?

A: Yes. Mr. Eaves has not been an auditor of our FAC Prudence review until this case. In his pre-filed testimony, Mr. Eaves seems to imply that he is unfamiliar with cross-hedging techniques, and that these techniques are imprudent, per se. However, from his deposition and Staff's response to Data Request No. 0083, it is clear that he has attended one webinar that addressed hedging in the electric and natural gas industries. The first half of the seminar discussed the basics of hedging, and the second half discussed cross-hedging of electric price risk using natural gas futures contracts, the technique that the Company is using in this case.

Q: If the Commission were to determine that a refund is necessary, do you agree with the amount proposed by the Staff in its report?

A: No. Mr. Eaves did not take into consideration a couple of items which would impact the refund.

- Staff, in its audit report, recommends a disallowance of **[redacted]** which is the total hedge losses recorded during the audit period as allocated to Aquila's peak purchased power needs.
- A certain amount of this loss was protected under the Stipulation and Agreement As To Certain Issues from Case No. ER-2007-0004. Hedges placed as of March 27, 2007 were to be protected from disallowance based upon prudence. This would bring the total hedge amount to **[redacted]** per Schedule WEB-5 in Company witness Wm.

HIGHLY CONFIDENTIAL

Edward Blunk's direct testimony in this case (as corrected and filed in EFIS on March 7, 2012).

- Additionally, as explained in both my Direct and this Surrebuttal Testimony, the original FAC tariffs as ordered in Case No. ER-2007-0004 were effective through August 31, 2009. Therefore, the hedge settlements for the months June, July and August of 2009 would also be excluded from any refund amount. That brings the total level of Staff's claim to **[redacted]**. 95% of this would be the customer portion of **[redacted]**.

Q: Do you believe this amount that should be refunded to customers through the FAC?

A: No, absolutely not. Supported by the facts presented in this case, no refund is due. It is important, however, to clarify the amount that is truly in question in this case. Having limited knowledge about the calculation of hedge settlements, Mr. Eaves misinterpreted the information he received in response to a data request. I am correcting for that mistake here.

Q: Do you have concluding thoughts on the Staff's position in this case?

A: Yes. Unfortunately, the Company feels surprised and disappointed by Staff's effort to discredit the Company's cross-hedging strategy and contention that the cross-hedging plan is imprudent per se.

Staff Reviews

The Company has participated in two FAC Prudence audits reviewed by Staff, and the Staff has, until this case, found the Company's practices to be prudent and recommended to the Commission no disallowances. The Company has had its practices reviewed in two rate cases since GMO was acquired by GPE. The Staff never raised cross-hedging of electric price risk using natural gas futures contracts as any type of concern. In fact, the Staff had requested and the Company provided its risk management policy, which contains the description of its cross-hedging program. It is my understanding that the Company had previously provided its hedging plan to the Staff in previous Aquila rate cases, and the hedging plan was attached to Staff testimony in those cases. The Company felt confident that when it changed its hedging strategy, as recommended by Staff, that it was addressing Staff's concerns.

The Company also tried to keep Staff apprised of each step in the process of developing its hedging strategy by inviting Staff's participation in the overview of the program. For Staff to take the position that the cross-hedging costs were never intended to be included in the FAC is another surprising and disappointing position. Again, the Company has gone through two FAC reviews and two rate cases with the cross-hedging costs contained in the adjustment mechanism. The Company went through a prior case where the hedging costs had been "below the line" and the Staff and other parties wanted these cost placed "above the line' and reflected in the Company's cost of service. By placing these costs in cost of service implies to me that they will be reflected in rates to customers, unless found to be imprudent.

Correlation of Natural Gas and Purchased Power

For Staff to argue in this case that the use of natural gas hedges is not correlated to purchased power demonstrates a fundamental misunderstanding of the electric and natural gas markets. It is well accepted in the electric industry by marketers, energy buyers and strategic planners that the best indication of what electric prices will be in the future is reflected in the future natural gas prices. Since natural gas is the predominant fuel used for peaking capacity in our region, the natural gas prices and spot purchased power prices are very closely associated and move in tandem. As presented in the Surrebuttal Testimony of Staff witness Michael Proctor in the GMO Rate Case No. ER-2009-0090 filed on April 9, 2009, Mr. Proctor states, "In SPP there is little doubt that natural gas prices drive electricity prices for most hours of the year." In addition, the hedging plan utilized by the Company meets all regulatory and accounting criteria to be classified as "highly effective."

Accounting Treatment of Natural Gas Hedges

Staff has argued that the Company did not place the hedge costs in the correct FERC account "555", which is an account for purchased power costs. Staff goes on to say that not placing these costs in this account is a misstatement. Staff also states that Staff never intended hedging costs placed in account 555 to be a part of the FAC. Therefore, any hedging costs in Account 555 would not be recoverable for this reason. Again, the Company is shocked and disappointed by this unprecedented position.

The Company has been audited by Staff for two previous FAC periods and had its rates and operations reviewed in several rate cases. The Company also has external auditors who have given us unqualified statements related to its books and records. Yet Staff now has decided that certain hedging costs were placed in the wrong account, and therefore, they should not be allowed for recovery from the customers that the hedging programs were designed to protect.

Summary

The bottom line is that if the Commission or the Staff does not want GMO to cross-hedge its purchased power, then GMO will stop this program immediately. If the hedging costs should be in a different account, we can rebook those costs into the Commission Staff's preferred account, if given the proper authority. The GMO hedging plan is not designed to benefit the Company, but to benefit the Customers by protecting the Customers from large swings in both purchased power and natural gas costs. It is not designed to make money for the shareholders, but to act as an insurance policy and protect against the volatility in the purchased power and natural gas markets. **Again, if the Commission, based upon Staff's recommendations, wants the Company to stop cross-hedging, then we will stop, but we should not be penalized for doing something that both the Commission, Staff, and Company wanted to do to protect customers from the volatility of the spot market.**

Q: Does that conclude your testimony?

A: Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Third Prudence Review of Costs Subject to the Commission-Approved Fuel Adjustment Clause of KCP&L Greater Missouri Operations Company	))))	Case No. EO-2011-0390

AFFIDAVIT OF TIM M. RUSH

STATE OF MISSOURI)
) **ss**
COUNTY OF JACKSON)

Tim M. Rush, being first duly sworn on his oath, states:

1. My name is Tim M. Rush. I work in Kansas City, Missouri, and I am employed by Kansas City Power & Light Company as Director, Regulatory Affairs.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of KC&PL Greater Missouri Operations Company consisting of twenty-Seven (27) pages, having been prepared in written form for introduction into evidence in the above-captioned docket.

3. I have knowledge of the matters set forth therein. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded, including any attachments thereto, are true and accurate to the best of my knowledge, information and belief.

Tim M. Rush
Tim M. Rush

Subscribed and sworn before me this 30th day of April, 2012.

Nicole A. Wehry
Notary Public

My commission expires: Feb. 4, 2015

NICOLE A. WEHRY
Notary Public - Notary Seal
State of Missouri
Commissioned for Jackson County
My Commission Expires: February 04, 2015
Commission Number: 11391200

KCP&L Greater Missouri Operations Company/Aquila		
Time-line Information		
Hedging & FAC		
Jul-04	Aquila began hedging	Recorded below-the-line
Feb-05	Began "1/3" Strategy	
Oct-05	ER-2005-0436 Staff/Intervener Direct	Staff witness Chuck Hyneman outlined Aquila's "1/3" Strategy and attached its three-page strategy document clearly describing how on-peak purchased power would be hedged with natural gas derivatives. Mr. Hyneman questioned Aquila's rigid hedge approach. Plan to monitor. No concern with hedging NG to mitigate on-peak PP risk. Staff witness Cary Featherstone states that PP costs are tied to NG costs. Proposes an IEC because of the volatility of NG and PP costs. Mr. Featherstone states the importance of including hedging impact impacts in the IEC. Intervener witness Maurice Brubaker states that the Company hedges for both NG and PP risk and the settlements should be above the line.
Mar-06	ER-2005-0436 Order	Order issued in ER-2005-0436 - Aquila authorized for accounting and ratemaking purposes to record in FERC Account 547 Account 555, as part of fuel cost and purchased power cost, hedge settlements, both positive and negative, and related costs...directly related to natural gas generation and on-peak purchases power transactions made under a formal Aquila Networks - MPS hedging plan when the hedge arrangement is settled. Aquila agrees to maintain separate accounting for these costs which it did with a separate 547 account specifically for hedge costs (both positive and negative).
Jan-07	ER-2007-0004 Staff Direct Testimony	(Featherstone) Co should include settlements in any fuel clause authorized by the Commission.
Feb-07	Rebuttal Testimony	Hyneman criticizes the rigidity of the hedging plan. No complaint about hedging purchased power risk with NG futures.
Mar-07	Surrebuttal Testimony	Hyneman describes that the hedging plan hedges risk for both NG and on-peak PP with NG futures. Hyneman criticizes the rigidity of the hedging plan. No complaint about hedging purchased power risk with NG futures.
Apr-07	Invited Staff to Kase overview as well as training.	Invited Schallenberg, Featherstone and Hyneman. Hyneman attended but did not comment.
May-07	Stip & Agreement	No recovery of 2006 hedge settlement costs. Agreement that ultimate settlement of hedges in place 3/27/07 (including those associated with peak pp NG hedges included in FAC and not subject to prudence disallowances in the future.
May-07	ER-2007-0004 Report & Order	First FAC in the state implemented. Tariff description of costs included very brief. Concurring Opinion of Chairman Davis tells Aquila to continue hedging.
May-07	Clarifying R&O ER-2007-0004	Specifically included hedge costs in the FAC
Oct-07	Implemented Kase Hedging Program	Program determines how hedges are made, not what is hedged. Hedging for both natural gas and natural gas for purchased power.
Dec-07	Filed first FAC Tariff change request	EO-2008-0216
Mar-08	FAC approval order effective	EO-2008-0216
Jun-08	Filed second FAC Tariff change request	EO-2008-0415
Jul-08	Merger Complete	GMO Kase hedge program unchanged.
Aug-08	FAC approval order effective	EO-2008-0415
Sep-08	Direct Testimony ER-2009-0090	Company states the purpose of the hedging program is to reduce impact of price volatility for NG and on-peak PP. Expected gains for electric hedges for 2009 included in Schedule HDR-4 of Rooney testimony.
Dec-08	Filed third FAC tariff change request	EO-2009-0254

KCP&L Greater Missouri Operations Company/Aquila		
Time-line Information		
Hedging & FAC		
Dec-08	Staff recommendation on first FAC Audit	Period under audit 6/1/07-5/31/08. No finding of imprudence. EO-2009-0115
Mar-09	FAC approval order effective	EO-2009-0254
Apr-09	Staff Surrebuttal on how gas prices and PP prices are related	Proctor - extended discussion of the relationship (ER-2009-0090)
May-09	Commission Approves audit recommendation	EO-2009-0115
Jun-09	Stip & Agreement ER-2009-0090	Required hedge program updates
Jun-09	New FAC Tariffs	At request of Staff, detail added to account descriptions. Hedge language added to 501 (potential to hedge coal as KCP&L does) and 547 (for current GMO program which always included NG and NG for PP. New tariffs became effective September 1, 2009.
Jul-09	Filed fourth FAC tariff change request	EO-2010-0002
Aug-09	FAC approval order effective	EO-2010-0002
Dec-09	Filed fifth FAC tariff change request	EO-2010-0191
Jan-10	Hedge Documentation Filed in EFIS	Based upon the requirements in ER-2009-0090, the first change made to the GMO hedge plan since the merger was filed in EFIS. Includes discussion of on-peak purchased power.
Mar-10	FAC approval order effective	EO-2010-0191
May-10	Staff recommendation on second FAC Audit	Period under audit 6/1/08-5/31/09. No finding of imprudence. EO-2010-0167.
Jul-10	Commission Approves audit recommendation	EO-2010-0167

STATE OF MISSOURI, PUBLIC SERVICE COMMISSION

P.S.C. MO. No. 1 Original Sheet No. 124

Canceling P.S.C. MO. No. Sheet No.

Aquila, Inc., dba
AQUILA NETWORKS For All Territory Served by Aquila Networks – L&P and Aquila Networks – MPS
KANSAS CITY, MO 64138

FUEL ADJUSTMENT CLAUSE
ELECTRIC

DEFINITIONS

ACCUMULATION PERIOD:

The two six-month accumulation periods each year through May 31, 2011, the two corresponding twelve-month recovery periods and filing dates will be as follows:

Accumulation Period	**Filing Date**	**Recovery Period**
June – November	By January 1	March – February
December – May	By July 1	September – August

RECOVERY PERIOD:

The billing months during which the Cost Adjustment Factor (CAF) for each of the respective accumulation periods are applied to retail customer billings on a per kilowatt-hour (kWh) basis.

COSTS:

Costs eligible for Fuel Adjustment Clause (FAC) will be the Company's allocated variable Missouri Jurisdictional costs for the fuel component of the Company's generating units, purchased power energy charges, and emission allowance costs. Eligible costs do not include the purchased power demand costs associated with purchased power contracts.

APPLICATION

The price per kWh of electricity sold will be adjusted subject to application of the FAC mechanism and approval by the Missouri Public Service Commission. The price will reflect accumulation period Missouri Jurisdictional costs above or below base costs for:

1. variable fuel components related to the Company's electric generating plants;
2. purchased power energy charges;
3. emission allowance costs;
4. an adjustment for recovery period sales variation. This is based on the difference between the values of the FAC as adjusted minus actual FAC revenue during the recovery period. This amount will be collected or refunded during a succeeding recovery period;
5. interest on deferred electric energy costs, which shall be determined monthly. Interest shall be calculated at a rate equal to the weighted average interest rate paid on short-term debt, applied to the month-end balance of deferred electric energy costs. The accumulated interest shall be included in the determination of the CAF.

The FAC will be the aggregation of (1), (2), (3), minus the base cost of fuel, all times 95%, plus or minus (4), plus (5), above.

The Cost Adjustment Factor is the result of dividing the FAC by estimated kWh sales during the recovery period, rounded to the nearest $.0001, and aggregating over two accumulation periods. The formula and components are displayed below.

CANCELED BY RATE ~~ER-2009-0090~~ ER-2010-0036.

FILED 7-8-09. EFFECTIVE 9-1-09.

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Issued by: Gary Clemens, Regulatory Services

Effective: ~~July 18, 2007~~

FILED July5, 2007
Missouri Public
Service Commision ER-2007-0004

Schedule TMR-4

FUEL ADJUSTMENT CLAUSE (CONTINUED)
ELECTRIC

$$FAC_{Sec} = \{[95\% * (F + P + E - B)] * \{(S_{ASec} * L_{Sec}) / [(S_{ASec} * L_{Sec}) + (S_{APrim} * L_{Prim})]\}\} + C_{Sec}$$

$$FAC_{Prim} = \{[95\% * (F + P + E - B)] * \{(S_{APrim} * L_{Prim}) / [(S_{ASec} * L_{Sec}) + (S_{APrim} * L_{Prim})]\}\} + C_{Prim}$$

The Cost Adjustment Factor (CAF) is as follows:

Single Accumulation Period Secondary Voltage CAF = FAC_{Sec} / S_{RSec}

Single Accumulation Period Primary Voltage CAF = FAC_{Prim} / S_{RPrim}

Annual Secondary Voltage CAF =
Aggregation of the Single Accumulation Period Secondary Voltage CAFs still to be recovered

Annual Primary Voltage CAF =
Aggregation of the Single Accumulation Period Primary Voltage CAFs still to be recovered

Where:
- FAC_{Sec} = Secondary Voltage FAC
- FAC_{Prim} = Primary Voltage FAC
- 95% = Customer responsibility for fuel variance from base level
- F = Actual variable cost of fuel in FERC Accounts 501 & 547
- P = Actual cost of purchased energy in FERC Account 555
- E = Actual emission allowance cost in FERC Account 509
- B = Base variable fuel costs, purchased energy, and emission allowances are calculated as shown below:
  Aquila Networks – L&P S_A x \$0.01799
  Aquila Networks – MPS S_A x \$0.02538
- C = Under / Over recovery determined in the true-up of prior recovery period cost, including accumulated interest, and modifications due to prudence reviews
  - C_{Sec} = Lower than Primary Voltage Customers
  - C_{Prim} = Primary and Higher Voltage Customers
- S_A = Actual sales (kWh) for the accumulation period
  - S_{ASec} = Lower than Primary Voltage Customers
  - S_{APrim} = Primary and Higher Voltage Customers
- S_R = Estimated sales (kWh) for the recovery period
  - S_{RSec} = Lower than Primary Voltage Customers
  - S_{RPrim} = Primary and Higher Voltage Customers
- L = Loss factor by voltage level
  - L_{Sec} = Lower than Primary Customers
  - L_{Prim} = Primary and Higher Customers

ER-2009-0090
CANCELED BY RATE YE-2010-0016.
FILED 7-8-09. EFFECTIVE 9-1-09.

STATE OF MISSOURI, PUBLIC SERVICE COMMISSION
P.S.C. MO. No. 1 ______ Original Sheet No. 126
Canceling P.S.C. MO. No. ______ ______ Sheet No. ______
Aquila, Inc., dba
AQUILA NETWORKS For All Territory Served by Aquila Networks – L&P and Aquila Networks – MPS
KANSAS CITY, MO 64138

FUEL ADJUSTMENT CLAUSE (CONTINUED)
ELECTRIC

The FAC will be calculated separately for Aquila Networks – L&P and Aquila Networks – MPS and by voltage level, and the resultant CAF's will be applied to customers in the respective divisions and voltage levels.

APPLICABLE BASE ENERGY COST

Company base energy cost per kWh sold, \$0.01799 for Aquila Networks – L&P, and \$0.02538 for Aquila Networks – MPS.

TRUE-UPS AND PRUDENCE REVIEWS

There shall be prudence reviews of costs and the true-up of revenues collected with costs intended for collection. FAC costs collected in rates will be refundable based on true-up results and findings in regard to prudence. Adjustments, if any, necessary by Commission order pursuant to any prudence review shall also be placed in the FAC for collection unless a separate refund is ordered by the Commission. True-ups occur at the end of each recovery period. Prudence reviews shall occur no less frequently than at 18 month intervals.

ER-2009-0090
CANCELED BY RATE ~~YE-2010-0026~~
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Service Commision ER-2007-0004

Schedule TMR-4

STATE OF MISSOURI, PUBLIC SERVICE COMMISSION
P.S.C. MO. No. 1 Original Sheet No. 127
Canceling P.S.C. MO. No. Sheet No.
Aquila, Inc., dba
AQUILA NETWORKS For All Territory Served by Aquila Networks – L&P and Aquila Networks – MPS
KANSAS CITY, MO 64138

FUEL ADJUSTMENT CLAUSE (CONTINUED)
ELECTRIC

COST ADJUSTMENT FACTOR

Aquila Networks – L&P		Total		Secondary		Primary
Accumulation Period Ending		mm/dd/yy				
1 Total energy cost (F, P, and E)		$0				
2 Base energy cost (B)	-	$0				
3 First Interim Total		$0				
4 Base energy (S_A) by voltage level				0		0
4.1 Loss factors (L)			*	108.443%	*	106.231%
4.2 S_A adjusted for losses				0		0
4.3 Loss factor weights			*	00.000%	*	00.000%
5 Customer Responsibility	*	95%				
6 Second Interim Total by voltage level		$0		$0		$0
7 Adjustment for Under / Over recovery for prior periods (C)			±	$0	±	$0
8 Fuel Adjustment Clause				$0		$0
9 Estimated recovery period sales kWh (S_R)			÷	0	÷	0
10 Current period cost adjustment factor				$0.0000		$0.0000
11 Previous period cost adjustment factor			+	$0.0000	+	$0.0000
12 Current annual cost adjustment factor				$0.0000		$0.0000

Aquila Networks – MPS		Total		Secondary		Primary
Accumulation Period Ending		mm/dd/yy				
1 Total energy cost (F, P, and E)		$0				
2 Base energy cost (B)	-	$0				
3 First Interim Total		$0				
4 Base energy (S_A) by voltage level				0		0
4.1 Loss factors (L)			*	107.433%	*	104.187%
4.2 S_A adjusted for losses				0		0
4.3 Loss factor weights			*	00.000%	*	00.000%
5 Customer Responsibility	*	95%				
6 Second Interim Total by voltage level		$0		$0		$0
7 Adjustment for Under / Over recovery for prior periods (C)			±	$0	±	$0
8 Fuel Adjustment Clause				$0		$0
9 Estimated recovery period sales kWh (S_R)			÷	0	÷	0
10 Current period cost adjustment factor				$0.0000		$0.0000
11 Previous period cost adjustment factor			+	$0.0000	+	$0.0000
12 Current annual cost adjustment factor				$0.0000		$0.0000

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Issued by: Gary Clemens, Regulatory Services

FILED July5, 2007
Missouri Public
Service Commision ER-2007-0004

Schedule TMR-4

FUEL ADJUSTMENT CLAUSE ELECTRIC
(Applicable to Service Provided September 1, 2009 and Thereafter)

DEFINITIONS

ACCUMULATION PERIODS, FILING DATES AND RECOVERY PERIODS:

The two six-month accumulation periods each year through August 5, 2013, the two corresponding twelve-month recovery periods and the filing dates will be as shown below. Each filing shall include detailed work papers in electronic format to support the filing.

Accumulation Periods	Filing Dates	Recovery Periods
June – November	By January 1	March – February
December – May	By July 1	September – August

A recovery period consists of the billing months during which the Cost Adjustment Factor (CAF) for each of the respective accumulation periods are applied to retail customer billings on a per kilowatt-hour (kWh) basis.

COSTS AND REVENUES:

Costs eligible for the Fuel Adjustment Clause (FAC) will be the Company's allocated Jurisdictional costs for the fuel component of the Company's generating units, including costs associated with the Company's fuel hedging program; purchased power energy charges, including applicable transmission fees; applicable Southwest Power Pool (SPP) costs, and emission allowance costs - all as incurred during the accumulation period. These costs will be offset by off-system sales revenues, applicable net SPP revenues, and any emission allowance revenues collected during the accumulation period. Eligible costs do not include the purchased power demand costs associated with purchased power contacts in excess of one year.

APPLICABILITY

The price per kWh of electricity sold to retail customers will be adjusted (up or down) periodically subject to application of the FAC mechanism and approval by the Missouri Public Service Commission.

The CAF is the result of dividing the Fuel and Purchased Power Adjustment (FPA) by forecasted retail net system input (RNSI) during the recovery period, rounded to the nearest $.0001, and aggregating over two accumulation periods. A CAF will appear on a separate line on retail customers' bills and represents the rate charged to customers to recover the FPA.

CANCELED BY RATE ER-2010-0356
FILED 5-31-11 EFFECTIVE 6-25-11

FILED
Missouri Public
Service Commission
ER-2009-0090; YE-2010-0016

Schedule TMR-5

FUEL ADJUSTMENT CLAUSE (CONTINUED)
ELECTRIC
(Applicable to Service Provided September 1, 2009 and Thereafter)

FORMULAS AND DEFINITIONS OF COMPONENTS

FPA = 95% * ((TEC – B) * J) + C + I

CAF = FPA/RNSI

Single Accumulation Period Secondary Voltage CAF_{Sec} = CAF * XF_{Sec}

Single Accumulation Period Primary Voltage CAF_{Prim} = CAF * XF_{Prim}

Annual Secondary Voltage CAF =
Aggregation of the Single Accumulation Period Secondary Voltage CAFs still to be recovered

Annual Primary Voltage CAF =
Aggregation of the Single Accumulation Period Primary Voltage CAFs still to be recovered

Where:

FPA = Fuel and Purchased Power Adjustment

CAF = Cost Adjustment Factor

95% = Customer responsibility for fuel variance from base level.

TEC = Total Energy Cost = (FC + EC + PP - OSSR):

FC = Fuel Costs Incurred to Support Sales:

- The following costs reflected in Federal Energy Regulatory Commission (FERC) Account Numbers 501 & 502: coal commodity and railroad transportation, switching and demurrage charges, applicable taxes, natural gas costs, alternative fuel (i.e. tires and bio-fuel), fuel additives, quality adjustments assessed by coal suppliers, fuel hedging cost (hedging is defined as realized losses and cost minus realized gains associated with mitigating volatility in the Company's cost of fuel, including but not limited to, the Company's use of futures, options and over-the-counter derivatives including, without limitation, futures contracts, puts, calls, caps, floors, collars, and swaps), fuel oil adjustments included in commodity and transportation costs, broker commissions and fees associated with price hedges, oil costs, ash disposal revenues and expenses, fuel used for fuel handling, and settlement proceeds, insurance recoveries, subrogation recoveries for increased fuel expenses in Account 501.

FUEL ADJUSTMENT CLAUSE (CONTINUED)
ELECTRIC
(Applicable to Service Provided September 1, 2009 and Thereafter)

- The following costs reflected in FERC Account Number 547: natural gas generation costs related to commodity, oil, transportation, storage, fuel losses, hedging costs, fuel additives, fuel used for fuel handling, and settlement proceeds, insurance recoveries, subrogation recoveries for increased fuel expenses, broker commissions and fees in Account 547.

EC = Net Emissions Costs:
- The following costs reflected in FERC Account Number 509 or any other account FERC may designate for emissions expenses in the future: Emission allowances costs and revenues from the sale of SO2 emission allowances.

PP = Purchased Power Costs:
- Purchased power costs reflected in FERC Account Numbers 555, 565, and 575: Purchased power costs, settlement proceeds, insurance recoveries, and subrogation recoveries for increased purchased power expenses in Account 555, excluding SPP and MISO administrative fees and excluding capacity charges for purchased power contracts with terms in excess of one (1) year.

OSSR = Revenues from Off-System Sales:
- Revenues from Off-system Sales shall exclude long-term full & partial requirements sales associated with GMO.

B = Base energy costs are costs as defined in the description of TEC (Total Energy Cost). Base Energy costs will be calculated as shown below:
L&P NSI x Applicable Base Energy Cost
MPS NSI x Applicable Base Energy Cost

J = Energy retail ratio = Retail kWh sales/total system kWh
Where: total system kWh equals retail and full and partial requirements sales associated with GMO.

C = Under / Over recovery determined in the true-up of prior recovery period cost, including accumulated interest, and modifications due to prudence reviews

I = Interest on deferred electric energy costs calculated at a rate equal to the weighted average interest paid on short-term debt applied to the month-end balance of deferred electric energy costs

CANCELED BY RATE ER-2010-0356
FILED 5-31-11 EFFECTIVE 6-25-11

Schedule TMR-5

FUEL ADJUSTMENT CLAUSE (CONTINUED)
ELECTRIC
(Applicable to Service Provided September 1, 2009 and Thereafter)

RNSI = Forecasted retail net system input in kWh for the Recovery Period

XF = Expansion factor by voltage level
XF_{Sec} = Expansion factor for lower than primary voltage customers
XF_{Prim} = Expansion factor for primary and higher voltage customers

NSI = Net system input (kWh) for the accumulation period

The FPA will be calculated separately for L&P and MPS, and by voltage level, and the resultant CAF's will be applied to customers in the respective divisions and voltage levels.

APPLICABLE BASE ENERGY COST

Company base energy costs per kWh:
$0.01642 for L&P.
$0.02348 for MPS

TRUE-UPS AND PRUDENCE REVIEWS

There shall be prudence reviews of costs and the true-up of revenues collected with costs intended for collection. FAC costs collected in rates will be refundable based on true-up results and findings in regard to prudence. Adjustments, if any, necessary by Commission order pursuant to any prudence review shall also be placed in the FAC for collection unless a separate refund is ordered by the Commission. True-ups occur at the end of each recovery period. Prudence reviews shall occur no less frequently than at 18 month intervals.

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FILED 5-31-11 EFFECTIVE 6-25-11

FILED
Missouri Public
Service Commission
ER-2009-0090; YE-2010-0016

Schedule TMR-5

FUEL ADJUSTMENT CLAUSE (CONTINUED)
ELECTRIC
(Applicable to Service Provided September 1, 2009 and Thereafter)

COST ADJUSTMENT FACTOR

		MPS	L&P
Accumulation Period Ending			
1 Total Energy Cost (TEC)			
2 Base energy cost (B)	-		
3 First Interim Total			
4 Jurisdictional Factor (J)	*		
5 Second Interim Total			
6 Customer Responsibility	*	95%	95%
7 Third Interim Total			
8 Adjustment for Under / Over recovery for prior periods and Modifications due to prudence reviews (C)	+		
9 Interest (I)	+		
10 Fuel and Purchased Power Adjustment (FPA)			
11 RNSI	÷		
12 Fourth Interim Total			
13 Current period CAF_{Prim} (= Line 12 * XF_{Prim})			
14 Previous period CAF_{Prim}	+		
15 Current annual CAF_{Prim}			
16 Current period CAF_{Sec} (= Line 12 * XF_{Sec})			
17 Previous period CAF_{Sec}	+		
18 Current annual CAF_{Sec}			

Expansion Factors (XF):

Network:	Primary	Secondary
MPS	1.0444	1.0679
L&P	1.0444	1.0700

CANCELED BY RATE EO-2010-091.
FILED 12-23-09. EFFECTIVE 3-1-10.

FILED
Missouri Public
Service Commission
ER-2009-0090; YE-2010-0016

Schedule TMR-5

Nunn Linda

From: Heidtbrink Scott
Sent: Saturday, January 28, 2012 5:17 PM
To: Nunn Linda
Subject: Fwd: Aquila Hedging Strategy

Sent from my iPhone

Begin forwarded message:

From: Heidtbrink Scott <Scott.Heidtbrink@kcpl.com>
Date: January 12, 2012 9:34:05 AM CST
To: Heidtbrink Scott <Scott.Heidtbrink@kcpl.com>
Subject: FW: Aquila Hedging Strategy

From: Williams, Denny
Sent: Thursday, April 26, 2007 11:56 AM
To: Heidtbrink, Scott; Empson, Jon; Clemens, Gary
Subject: FW: Aquila Hedging Strategy

Forgot to copy you on this.

From: Williams, Denny
Sent: Thursday, April 26, 2007 11:55 AM
To: 'bob.schallenberg@psc.mo.gov'; Featherstone, Cary; 'chuck.hyneman@psc.mo.gov'
Subject: Aquila Hedging Strategy

As promised, Aquila began an effort several weeks ago to re-visit its hedging strategy. We researched products that were available from a number of vendors and ultimately made a decision for a number of reasons to enter into a contract with Kase & Co. On May 7th and 8th we will have a Strategic Planning Session with Kase & Co. in order to lay the strategic foundation and tactics for our hedging program. Decisions to be made, among others, will include the risk profile strategy, forward curve shape decisions, periods to hedge, percentage of volumes to hedge, weighting of hedges, hedge maturities, intra day versus end of day trigger authority, cumulative and reversal limits, trend percentage limitation rules, etc. Aquila would like to invite you to attend these sessions. We would appreciate not only your input, but also believe that the insight Kase & Co. brings may provide valuable information and insight for all of us.

Prior to the Strategic Planning Session, Kase & Co. is putting on a series of three training sessions to introduce us to various hedging concepts, their approach and modeling capabilities. I attended the first training session this morning, along with nine other Aquila employees, and believe that it would be valuable for you to attend these training sessions as well. There are a number of concepts being discussed that will impact the ultimate strategic and tactical decisions that are ultimately made. I know this is late notice but a repeat of this morning's training session will be held at 2 p.m. this afternoon for other Aquila employees. If you can attend, please give me a call and we will make sure you have a seat at the table.

If you cannot attend this afternoon's training, the following two training sessions appear that they will be even more important and beneficial in gaining an understanding of appropriate hedging options and techniques. I invite and encourage you to attend those sessions. The second session will be held on Monday, April 30th and the third session will be held on Thursday, May 3rd. The sessions will be held at 9 a.m. each day, with a repeat at 2 p.m. for those unable to attend the morning training. Again, I encourage your active participation and look forward to hearing from you.

SCHEDULES TMR-7 and TMR-9

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